

# PEMBROKE

PRIVATE WEALTH MANAGEMENT

## PEMBROKE CANADIAN GROWTH FUND

### ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE DECEMBER 31, 2023

INCEPTION DATE  
NOVEMBER 30, 1988

THE PORTFOLIO MANAGEMENT TEAM  
PEMBROKE MANAGEMENT LTD.

This annual Management Report of Fund Performance contains financial highlights, but does not contain either interim or annual financial statements of the investment fund. You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling 1-800-668-7383, by writing to us at 150 King Street West, Suite 1210, Toronto, Ontario M5H 1J9 or by visiting our website at [www.pml.ca](http://www.pml.ca) or SEDAR at [www.sedar.com](http://www.sedar.com). Unitholders may also contact us using one of these methods (except on the SEDAR website) to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

# P E M B R O K E

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### **Investment Objective and Strategies**

Pembroke Canadian Growth Fund (the "Fund") seeks to provide investors with long-term growth through capital appreciation by investing primarily in small to mid-sized Canadian companies. To achieve the Fund's investment objective, we invest primarily in companies that have sustainable growth opportunities, a solid financial position, and a capable management team.

### **Risk**

The overall risk of the Fund is as described in the Simplified Prospectus. There were no material changes to the Fund over the financial year that affected the overall level of risk associated with an investment in the Fund. The Fund is suitable for investors who have a medium tolerance for risk and are seeking long-term capital growth.

### **Results of Operations**

For the year ended December 31, 2023, the Fund posted a return of 11.40%. In comparison, the Fund's benchmark index, the S&P/TSX Composite posted a return of 11.75%. For the year ended December 31, 2022, the Fund posted a return of -20.00% compared to the Fund's benchmark which posted a -5.84% return.

In the first half of 2023, the Fund's returns trailed those of the TSX Composite Index as a result of a relative underweight position in energy companies, widespread weakness in growth-oriented investments, and underperformance of smaller-cap equities. This reversed in the second half of the year, such that our full year returns were similar to those of the index.

The Fund rebounded from a challenging market in 2022, with returns inflecting sharply in the fourth quarter. Inflation levels remained higher than targeted by central banks, which led to continued interest rate increases throughout the year. However, the prospect of moderating inflation and an end to hawkish monetary policy fueled investor optimism and an expansion of valuation multiples late in 2023. Moreover, despite pressure from macroeconomic headwinds, corporate earnings have shown impressive resilience through a difficult part of the cycle. While the rally in the year benefited Canadian issuers of all sizes, larger cap names outperformed their smaller counterparts.

From an industry group perspective, the market recovery was fairly broadly based. All sectors save for the communications services, consumer staples, and materials sectors were in positive territory for the year, reflecting the widespread breadth of the rally. Industrial, technology, financial, and consumer discretionary holdings generated the majority of the upside for the period.

Several stocks were significant contributors to performance in 2023. Shares in EQB Inc. ("EQB"), a financial services company offering Canadian individuals and businesses a diverse suite of residential lending, commercial lending and deposit solutions, performed well in the year. The company delivered strong financial results that exceeded market expectations and stood out against its banking peers, propelled by a combination of robust loan growth, strong net interest margin performance, modest credit losses, and impressive capital efficiency. Furthermore, given the strength in operating performance, management took the opportunity to meaningfully bolster the company's quarterly dividend. Pembroke believes EQB is poised to continue compounding growth by leveraging its modern digital banking offering to capture incremental markets share from less agile competition.

Shares in Pollard Banknote ("PBL"), a leading supplier of instant scratch tickets and iLottery services to North American lotteries, performed well in 2023 after experiencing a difficult year in 2022. The company had faced margin pressures in the previous year as inflationary pressures in key raw material inputs, namely paper and ink, could not be passed on to customers in a timely manner. However, Pollard made substantial progress on this front during the past twelve months, re-pricing a number of important contracts with sizable customers and thereby providing visibility to future volumes and margins. Additionally, the company's digital lottery business has been posting record results and new jurisdiction wins could sustain earnings growth over the long-term. Despite the rally in Pollard's shares, valuation parameters remain attractive given the quality of the business.

Several stocks were significant detractors to performance in 2023. Shares in Aritzia ("ATZ"), a vertically integrated design house for everyday luxury apparel, declined in 2023 as the company was challenged with a deteriorating consumer spending environment, elevated inventory levels, and greater use of promotional activities to drive sales. While the headwinds and share price correction have been painful, Pembroke believes their long-term thesis regarding ATZ's prospects remains intact. Specifically, they believe the company is poised to capitalize on its brand momentum in the U.S. through new store openings, increasing e-commerce penetration, and rebounding same store sales. Pembroke added to their position in ATZ throughout the year as shares declined on short-term considerations, and are encouraged by the progress that they saw at the end of 2023 pertaining to growth, margin evolution, and working capital management.

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### **Results of Operations (Cont'd)**

Shares in Trisura Group ("TSU"), a specialty insurance provider operating in the surety, risk solutions, corporate insurance and fronting segments in Canada and the U.S., declined in 2023 as the company took a write-down of reinsurance recoverables in its U.S. fronting business. The write-down was related to an isolated disagreement with one of its reinsurance partners over contractual obligations and was not due to elevated insurance underwriting losses. While Pembroke believes this was a one-time event, the growth of the U.S. business may see a moderate temporary slowdown. Despite this impact, they still see TSU producing high-teens annual earnings per share growth in the future. This growth profile paired with a valuation pullback makes TSU an attractive long-term opportunity.

At December 31, 2023, the total net asset value of the Fund was \$278.3 million compared with \$276.8 million as at December 31, 2022. The cash position was 1.68% of net asset value. The number of units outstanding in the Fund as at December 31, 2023 was 3.7 million compared with 3.9 million as at December 31, 2022.

Unrealized appreciation on investments at December 31, 2023 was \$61.5 million as compared to \$51.2 million at December 31, 2022 resulting in an increase in unrealized appreciation on investments of \$10.3 million. The Fund had net realized gains on investments sold during the year of \$13.9 million.

### **Fees and Expenses**

During the year, the Fund paid a total of \$0.5 million in operating expenses. The management expense ratio ("MER") for unitholders was 0.08%. There are no management fees charged to the Fund since January 1, 2018 as the management fees are charged directly to the unitholders outside the Fund. Refer to the Management Fees section for further details on this.

### **Unitholder Activity**

Throughout the year, \$12 million flowed into the Fund by way of subscriptions and \$28.8 million flowed out of the Fund as a result of redemptions.

### **Related Party Transactions**

Pembroke Private Wealth Management Ltd. ("PPW") is the Fund's Manager. The Fund Manager provides the day-to-day management of the business and operations of the Fund. The fees paid to the Fund Manager are shown in the Management Fees section of this report. Pembroke is the portfolio manager of the Fund. Pembroke is the parent company of the Fund Manager, PPW. Pembroke's fees are paid by the Fund Manager, for services including investment, management, administration, advisory and accounting. The related party transactions take place in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### **Recent Developments**

#### **Outlook**

2023 offered a welcome rally to Canadian equity market investors following a challenging 2022. While macroeconomic headwinds such as inflation, subdued consumer spending, and pressure on corporate earnings may persist for some time, Pembroke believes that investors with longer-term horizons will ultimately be rewarded with rebounding earnings growth and an expansion in valuation multiples. They continue to invest capital into attractive risk/reward situations with growth trajectories unaffected by near-term economic fluctuations.

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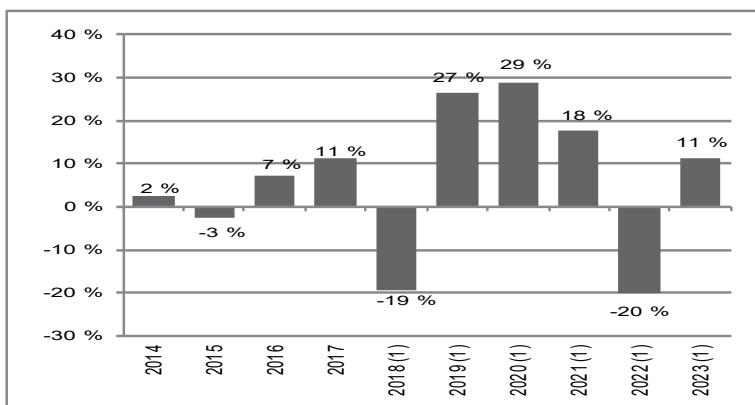
### **Past Performance**

The indicated rates of return are the historical annual compounded total return changes in unit values and reinvestment of all distributions and do not take into account sales, redemptions, distributions or other optional charges that would have reduced returns. Mutual funds are not guaranteed, their values may increase or decrease and past performance may not be repeated.

The Fund's performance numbers assume that all distributions are reinvested in additional units of the Fund. If you hold this Fund outside of a registered plan, income and capital gains distributions that are paid to you increase your income for tax purposes, whether paid to you in cash or reinvested in additional units. The amount of the reinvested taxable distributions is added to the adjusted cost base of the units that you own. This would decrease your capital gains or increase your capital losses when you later redeem from the Fund, thereby ensuring that you are not taxed on this amount again. Please consult your tax advisor regarding your personal tax situation.

#### **Year-by-year returns**

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year. The percentage figures indicated have been rounded to the nearest whole number due to space constraints.



(1) Since January 1, 2018, management fees are charged directly to unitholders based on their assets under management and Fund performance is reported net of transaction costs and all other expenses, **excluding** management fees and applicable taxes. Prior to January 1, 2018, Fund performance was reported net of transaction costs and all other expenses, **including** management fees and applicable taxes. Refer to the Management Fees section for further details on this.

#### **Annual compound returns**

The following table shows the Fund's annual compound total return for the periods shown ending on December 31, 2023. The annual compound total return is also compared to the S&P/TSX Composite Total Return Index and the S&P/TSX Small Cap Total Return Index on the same compound basis.

All index returns are calculated in Canadian dollars on a total return basis.

December 31, 2023	1 yr <sup>(3)</sup>	3 yr	5 yr	10 yr	Since inception
Pembroke Canadian Growth Fund	11.40%	1.59%	11.29%	5.05%	10.39%
S&P/TSX Composite Total Return Index <sup>(1)</sup>	11.75%	9.59%	11.30%	7.62%	8.22%
S&P/TSX Small Cap Total Return Index <sup>(2)</sup>	4.79%	4.57%	8.37%	3.95%	N/A

(1) S&P/TSX Composite Total Return Index is a capitalization-weighted index that represents some of the largest float-adjusted stocks trading on the Toronto Stock Exchange. Company size and liquidity are the chief attributes determining membership.

(2) S&P/TSX Small Cap Total Return Index is an index of smaller Canadian companies.

(3) Since January 1, 2018, management fees are charged directly to unitholders based on their assets under management and Fund performance is reported net of transaction costs and all other expenses, excluding management fees and applicable taxes. Prior to January 1, 2018, Fund performance was reported net of transaction costs and all other expenses, including management fees and applicable taxes. Refer to the Management Fees section for further details on this change.

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**Summary of Investment Portfolio**

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The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. Updates are available quarterly.

<b>Industry Sector</b>	<b>% of Net Asset Value</b>
Industrials	22.43%
Consumer Discretionary	17.91%
Information Technology	17.00%
Financials	15.41%
Real Estate	8.37%
Energy	7.01%
Materials	5.05%
Consumer Staples	3.60%
Health Care	0.77%
Communication Services	0.69%
Cash	1.68%
Other Net Current Assets	0.08%
<b>Total</b>	<b>100.00%</b>

**Top 25 Holdings**

<b>Company</b>	<b>% of Net Asset Value</b>	<b>Industry Sector</b>
1 TECSYS Inc.	4.86%	Information Technology
2 Pollard Banknote	4.70%	Consumer Discretionary
3 goeasy	4.60%	Financials
4 EQB	4.57%	Financials
5 Guardian Capital Group	3.73%	Financials
6 Sleep Country Canada	3.62%	Consumer Discretionary
7 Black Diamond Group	3.61%	Industrials
8 Jamieson Wellness	3.60%	Consumer Staples
9 Richelieu Hardware	3.55%	Industrials
10 Evertz Technologies Ltd.	3.43%	Information Technology
11 Kinaxis Inc.	3.36%	Information Technology
12 Calian Group	3.36%	Industrials
13 Mainstreet Equity	3.28%	Real Estate
14 Parex Resources	3.07%	Energy
15 Hammond Power Solutions	3.06%	Industrials
16 Colliers International Group	3.04%	Real Estate
17 Aritzia	2.96%	Consumer Discretionary
18 Boyd Group Services	2.88%	Industrials
19 Cargojet	2.74%	Industrials
20 Bombardier Recreational Products	2.53%	Consumer Discretionary
21 Trisura Group	2.51%	Financials
22 GDI Integrated Facility Services	2.32%	Industrials
23 Pet Valu Holdings	2.20%	Consumer Discretionary
24 Computer Modelling Group	2.20%	Energy
25 Descartes Systems Group Inc.	2.16%	Information Technology
<b>Top 25 Holdings</b>	<b>81.94%</b>	

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### **Financial Highlights**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the financial years indicated. This information is derived from the Fund's audited annual financial statements. The information presented is based on prescribed regulations and, as a result, is not expected to sum due to the increase (decrease) in net assets attributable to holders of redeemable units being based on the average units outstanding during the year and all other numbers being based on the actual units outstanding at the relevant point in time.

<b>THE FUND'S NET ASSETS PER UNIT</b>					
	<b>December 31,</b>				
	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Net assets attributable to holders of redeemable units, beginning of year<sup>(1)</sup></b>	70.94	89.99	84.37	66.15	54.82
<b>Increase (decrease) in net assets attributable to holders of redeemable units:</b>					
Total revenue	1.42	1.01	1.42	0.75	0.97
Total expenses	(0.13)	(0.13)	(0.13)	(0.13)	(0.03)
Realized gains (losses) for the year	3.76	0.16	10.35	4.35	5.50
Unrealized gains (losses) for the year	2.78	(19.37)	3.35	12.65	8.39
<b>Total Increase (decrease) in net assets attributable to holders of redeemable units<sup>(2)</sup></b>	<b>7.83</b>	<b>(18.33)</b>	<b>14.99</b>	<b>17.62</b>	<b>14.83</b>
<b>Distributions to holders of redeemable units:</b>					
From income and excluding dividends	(1.26)	(1.02)	(1.06)	(0.76)	(0.99)
From dividends	-	-	-	-	-
From capital gains	(1.75)	-	(7.94)	-	(2.23)
Return on capital	-	-	-	-	-
<b>Total distributions to holders of redeemable units<sup>(3)</sup></b>	<b>(3.01)</b>	<b>(1.02)</b>	<b>(9.00)</b>	<b>(0.76)</b>	<b>(3.22)</b>
<b>Net assets attributable to holders of redeemable units, end of year<sup>(4)</sup></b>	<b>75.95</b>	<b>70.94</b>	<b>89.99</b>	<b>84.37</b>	<b>66.15</b>

(1) This information is derived from the Fund's audited annual financial statements.

(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) in net assets attributable to holder's of redeemable units is based on the weighted average number of units outstanding over the financial year.

(3) Distributions were paid in cash and/or reinvested in additional units of the Fund.

(4) This table is not intended to be a reconciliation of beginning to ending net assets per unit.

### **RATIOS AND SUPPLEMENTAL DATA (based on Trading NAV)**

	<b>December 31,</b>				
	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Total net asset value (\$) (000's)<sup>(1)</sup></b>	278,344	276,774	365,720	323,236	292,305
<b>Number of redeemable units outstanding (000's)<sup>(1)</sup></b>	3,665	3,902	4,064	3,831	4,419
<b>Management expense ratio (%)<sup>(2)</sup></b>	0.08	0.06	0.05	0.06	0.06
<b>Management expense ratio before waivers or absorptions (%)<sup>(2)</sup></b>	0.08	0.06	0.05	0.06	0.06
<b>Trading expense ratio (%)<sup>(3)</sup></b>	0.10	0.11	0.09	0.13	0.15
<b>Portfolio turnover rate (%)<sup>(4)</sup></b>	31.55	30.13	29.67	29.69	32.39
<b>Net asset value per unit (\$)</b>	<b>75.95</b>	<b>70.94</b>	<b>89.99</b>	<b>84.37</b>	<b>66.15</b>

(1) This information is provided as at December 31 of the year shown.

(2) The management expense ratio ("MER") is calculated in accordance with National Instrument 81-106, based on expenses for the stated year (including Harmonized Sales Tax, Goods and Service Tax, income tax and interest) but excluding foreign withholding taxes, commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the year. PPW may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. The Fund did not have any expenses waived or absorbed in any of the years presented.

(3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor trades its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

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### **Financial Highlights (Cont'd)**

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#### **Management Fees**

Management fees are charged directly to unitholders. Subject to the maximum fees set forth below, unitholders are charged management fees based on the assets under management of their PPW relationship. Such management fees are payable directly to PPW by the redemption (without charge) of a sufficient number of units of the Fund held.

Name of the Fund	Assets under management under \$5 million	
	Assets under management	
	Under \$1 million	Between \$1 million and \$5 million
Pembroke Money Market Fund <sup>1</sup>	-	-
Pembroke Canadian Bond Fund	0.65%	0.50%
Pembroke Corporate Bond Fund	0.75%	0.60%
Pembroke Canadian Balanced Fund	1.30%	1.00%
Pembroke Global Balanced Fund	1.30%	1.00%
Pembroke Canadian All Cap Fund	1.50%	1.50%
Pembroke Canadian Growth Fund	1.70%	1.50%
Pembroke American Growth Fund Inc.	1.50%	1.50%
Pembroke International Growth Fund	1.50%	1.50%
Pembroke Concentrated Fund - Class A Units	1.50%	1.50%
Pembroke Dividend Growth Fund	1.50%	1.50%

<sup>1</sup> Management fee rate was reduced from 0.10% to nil as of November 1, 2020

Name of the Fund	Assets under management above \$5 million		
	First \$10 million	Next \$15 million	Above \$25 million
Pembroke Money Market Fund <sup>1</sup>	-	-	-
Pembroke Canadian Bond Fund	0.40%	0.40%	0.40%
Pembroke Corporate Bond Fund	0.50%	0.50%	0.50%
Pembroke Canadian Balanced Fund	0.75%	0.75%	0.65%
Pembroke Global Balanced Fund	0.75%	0.75%	0.65%
Pembroke Canadian All Cap Fund	1.00%	0.85%	0.75%
Pembroke Canadian Growth Fund	1.00%	0.85%	0.75%
Pembroke American Growth Fund Inc.	1.00%	0.85%	0.75%
Pembroke International Growth Fund	1.00%	0.85%	0.75%
Pembroke Concentrated Fund - Class A Units	1.00%	0.85%	0.75%
Pembroke Dividend Growth Fund	1.00%	0.85%	0.75%

<sup>1</sup> Management fee rate was reduced from 0.10% to nil as of November 1, 2020

Management fees paid directly by unitholders of the Fund to PPW through a redemption of units was \$3.8 million for the year ended December 31, 2023.

Under the Pembroke Family Advantage Program, the value of family holdings of all family members designated by the investor will be considered to determine the management fee applicable to all family members. In order to benefit from the Pembroke Family Advantage Program, family members must be designated by the investor using the form prepared by PPW and must be approved by PPW prior to any management fee reduction being applicable. Management fees are determined based on the amount of assets under management with PPW and Pembroke.

All management fees were used by the Manager to pay costs for managing the investment portfolio, providing investment analysis and recommendations, making investment decisions, and providing other services. For the year ended December 31, 2023, none of the management fees received by the Manager were used to fund commission payments and other dealer compensation (collectively "distribution-related costs") paid to registered dealers and brokers for units of the Fund bought and held by investors.

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**Caution Regarding Forward-looking Statements**

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including, but not limited to, market and general economic conditions, interest rates, regulatory and statutory developments and the effects of competition in the geographic and business areas in which the Fund may invest. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Further, it should be noted that the Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance.

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PRIVATE WEALTH MANAGEMENT

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Pembroke Private Wealth Management Ltd. is a mutual fund dealer and manager of the Pembroke Funds.  
Pembroke Management Ltd. is an investment adviser.

Custodial service provided by RBC Investor & Treasury Services  
Unitholder Recordkeeping provided by RBC Investor & Treasury Services  
Annual audit performed by Deloitte LLP.