BLUE RIBBON
INCOME FUND

BROMPTON
FUNDS

INVESTMENT MANAGER COMMENTARY - DECEMBER 31, 2017

As we noted previously (September 30, 2017 Commentary), the Canadian economy will likely lead the way in terms of real GDP growth for the G7 countries for 2017. However since the beginning of last year, the S&P/TSX has underperformed most developed country markets (and registered as the 72nd best performer out of 93 global indices tracked), particularly owing to Energy, as we have seen a significant disconnect between oil prices and the prices of Canadian oil-weighted equities, given the latter have largely failed to move upward along with the former over the past year. Furthermore going forward, while we look for another year of relatively healthy growth for global GDP in 2018, there are increasing signs that economic activity is pushing near full capacity in many regions. With tighter monetary policy and growth unlikely to produce another upside surprise, most Canadian equities will likely be challenged to repeat this past year's performance with minimal volatility.

The S&P/TSX Composite Total Return Index for the last quarter and year returned +4.5% and +9.1%, respectively, yet the index continues to trade at more than a two multiple point discount to the S&P 500 index, the largest such discount in nearly 15 years. While every sector other than Energy has become more expensive since the beginning of 2017, we would not be surprised to see the S&P/TSX earnings multiple continue to slowly rise. This is based on the assumption that liquidity continues to flow from lower-yielding bonds to the higher earnings yields available in the equity markets.

While Blue Ribbon Income Fund performed moderately well in 2017, it did underperform the broader market during the last quarter, and for the year owing to some relatively weak performers within the Energy sector that hold a larger weighting in our portfolios relative to the S&P TSX Composite Total Return Index. Further, the portfolio is underweight the large Financial sector (34.6% of the index) relative to that index. This is not unusual as we attempt to provide added value through our management by finding investments in other areas of the market which are quite often not in Financials or, for that matter, in the S&P/TSX Composite Total Return Index at all.

Positions in Labrador Iron Ore Royalty Corporation, Altus Group Limited, Boralex Inc., Intertape Polymer Group Inc. and Toronto Dominion Bank were the greatest contributors to performance last quarter. For the past year, the greatest contributors to performance were Premium Brands Holdings Corporation, Veresen Inc., Boralex Inc., Labrador Iron Ore Royalty Corporation and Altus Group Limited.

As valuations became further stretched in 2017 no new investments were made in the past quarter. With that said, we continue to be disciplined with our valuation approach maintaining a relatively wide spread between our buy and sell prices. We remain active on seeking additional new investments that are able to prosper in many economic environments while maintaining our patient investment approach.

Bloom Investment Counsel, Inc. January 4th, 2018

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There are ongoing fees and expenses associated with owning units of an investment fund. An investment fund must prepare disclosure documents that contain key information about the Fund. You can find more detailed information about the fund in the public filings available at www.sedar.com. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

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BROMPTON FUNDS

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Investor Relations
PHONE 416.642.6000
TOLL FREE 1.866.642.6001
FAX 416.642.6001
EMAIL info@bromptongroup.com

Website
www.blueribbonincomefund.com

Address
Bay Wellington Tower,
Brookfield Place
181 Bay Street
Suite 2930, Box 793
Toronto, Ontario M5J 2T3