

# FORTIFIED EQUITY FUND



**THINK AHEAD.  
STAY AHEAD.**



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## MANAGEMENT'S RESPONSIBILITY STATEMENT

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The accompanying financial statements have been prepared by Picton Mahoney Asset Management, the Manager of the Picton Mahoney Fortified Equity Fund (the "Fund"). The Manager is responsible for all of the information and representations contained in these financial statements.

The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgements. Management maintains appropriate processes to ensure that relevant and reliable financial information is produced.

### **Picton Mahoney Asset Management**

Toronto, Ontario

August 28, 2019

## NOTICE TO UNITHOLDERS

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The auditor of the Fund has not reviewed these financial statements.

Picton Mahoney Asset Management, the Manager of the Fund, appoints an independent auditor to audit the Fund's annual financial statements.

Applicable securities laws require that if an auditor has not reviewed the Fund's interim financial statements, this must be disclosed in an accompanying notice.

# PICTON MAHONEY FORTIFIED EQUITY FUND

## STATEMENTS OF FINANCIAL POSITION

As at June 30, 2019 (unaudited) and December 31, 2018

	June 30, 2019 \$	December 31, 2018 \$
<b>Assets</b>		
<b>Current assets</b>		
Long positions at fair value*	56,577,009	61,119,337
Cash	6,693,598	10,370,193
Options purchased	102,738	1,262,312
Deposits with brokers for securities sold short	-	1,005,134
Distributions receivable from underlying funds	-	8,221
Due from Manager	28,150	154,155
Subscriptions receivable	-	3,500
Receivable for investments sold	28,258	-
Dividends receivable	98,555	57,061
	<b>63,528,308</b>	<b>73,979,913</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Short positions at fair value**	4,531,890	6,244,245
Options written	34,258	435,269
Management fee payable	47,324	20,998
Redemptions payable	255,010	34,721
Accrued liabilities	60,464	63,456
Payable for investments purchased	18,480	7,697
Dividends payable	10,022	17,220
	<b>4,957,448</b>	<b>6,823,606</b>
<b>Net Assets Attributable to Holders of Redeemable Units</b>	<b>58,570,860</b>	<b>67,156,307</b>
<b>Net Assets Attributable to Holders of Redeemable Units per Class</b>		
Class A	3,224,898	3,335,954
Class F	7,337,927	18,712,697
Class FT	499,621	2,154,769
Class T	349,972	327,351
Class I	47,158,442	42,625,536
<b>Number of Redeemable Units Outstanding</b>		
Class A	279,542	316,494
Class F	610,920	1,714,139
Class FT	50,036	231,872
Class T	36,579	36,579
Class I	3,766,049	3,766,049
<b>Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Class A	11.54	10.54
Class F	12.01	10.92
Class FT	9.99	9.29
Class T	9.57	8.95
Class I	12.52	11.32
	<b>50,854,534</b>	<b>63,294,258</b>
	<b>(5,003,772)</b>	<b>(7,323,830)</b>

\* Long positions, at cost

\*\* Short positions, at cost

The accompanying notes are an integral part of the financial statements.

Approved on behalf of the Manager

David Picton

Arthur Galloway




President

CFO

## STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the six month periods ended June 30 (unaudited)

	2019 \$	2018 \$
<b>Income</b>		
Net gains (losses) on investments and derivatives		
Interest for distribution purposes	66,158	23,163
Dividends	680,142	571,622
Distributions from underlying funds	336	-
Net realized gain (loss) on investments and options	(515,789)	558,324
Change in unrealized appreciation (depreciation) on investments, options and foreign exchange forward contracts	6,554,107	900,845
Interest and borrowing expense	(15,892)	(17,901)
Dividend expense	(63,048)	(78,331)
Net gains (losses) on investments and derivatives	<b>6,706,014</b>	<b>1,957,722</b>
Other income		
Securities lending income	6,925	6,557
Foreign currency gain (loss) on cash and other assets and liabilities	(348,051)	(73,747)
Total Income	<b>6,364,888</b>	<b>1,890,532</b>
<b>Expenses</b>		
Management fees	93,975	80,728
Withholding taxes	83,897	114,155
Transaction costs	72,604	87,377
Administrative fees	21,078	17,616
Harmonized sales tax	19,648	19,350
Securityholder reporting fees	15,037	9,795
Custody fees	14,538	30,988
Legal fees	13,583	14,234
Audit fees	5,259	3,918
Independent Review Committee Expense	3,878	7,147
Total Expense before Manager Absorption	<b>343,497</b>	<b>385,308</b>
Less: Expenses Absorbed by Manager	(28,150)	(20,545)
Total Expense after Manager Absorption	<b>315,347</b>	<b>364,763</b>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>	<b>6,049,541</b>	<b>1,525,769</b>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Class</b>		
Class A	314,418	92,250
Class F	978,861	75,098
Class FT	192,549	118,411
Class T	30,807	8,376
Class I	4,532,906	1,231,634
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Class A	1.03	0.29
Class F	1.16	0.19
Class FT	1.03	0.35
Class T	0.84	0.23
Class I	1.20	0.39

# PICTON MAHONEY FORTIFIED EQUITY FUND

## STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

For the six month periods ended June 30 (unaudited)

	2019 \$	2018 \$
<b>Net Assets Attributable to Holders of Redeemable Units at Beginning of Period</b>		
Class A	3,335,954	3,040,636
Class F	18,712,697	3,667,721
Class FT	2,154,769	3,801,587
Class T	327,351	222,301
Class I	42,625,536	33,324,201
	<u>67,156,307</u>	<u>44,056,446</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>		
Class A	314,418	92,250
Class F	978,861	75,098
Class FT	192,549	118,411
Class T	30,807	8,376
Class I	4,532,906	1,231,634
	<u>6,049,541</u>	<u>1,525,769</u>
<b>Redeemable Unit Transactions</b>		
Proceeds from redeemable units issued		
Class A	83,118	873,898
Class F	858,928	5,401,216
Class FT	-	45,572
Class T	-	145,000
Class I	-	9,650,000
	<u>942,046</u>	<u>16,115,686</u>
Redemption of redeemable units		
Class A	(508,592)	(282,265)
Class F	(13,212,559)	(328,387)
Class FT	(1,808,506)	(662,144)
Class T	-	-
Class I	-	-
	<u>(15,529,657)</u>	<u>(1,272,796)</u>
<b>Net Increase (Decrease) from Redeemable Unit Transactions</b>	<u>(14,587,611)</u>	14,842,890
<b>Distributions to Holders of Redeemable Units</b>		
Net investment income		
Class A	-	-
Class F	-	-
Class FT	(39,191)	(85,909)
Class T	(8,186)	(9,152)
Class I	-	-
	<u>(47,377)</u>	<u>(95,061)</u>
<b>Net Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>	<u>(8,585,447)</u>	16,273,598
<b>Net Assets Attributable to Holders of Redeemable Units at End of Period</b>		
Class A	3,224,898	3,724,519
Class F	7,337,927	8,815,648
Class FT	499,621	3,217,517
Class T	349,972	366,525
Class I	47,158,442	44,205,835
	<u>58,570,860</u>	<u>60,330,044</u>

## STATEMENTS OF CASH FLOWS

For the six month periods ended June 30 (unaudited)

	2019 \$	2018 \$
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	6,049,541	1,525,769
Adjustments for:		
Unrealized foreign exchange (gain) loss on cash	252,927	(79,277)
Net realized (gain) loss on investments and options	515,789	(558,324)
Change in unrealized (appreciation) depreciation on investments, options and foreign exchange forward contracts	(6,554,107)	(900,845)
(Increase) decrease in due from manager	126,005	(20,545)
(Increase) decrease in dividends receivable	(41,494)	-
(Increase) decrease in deposits with brokers for securities sold short	1,005,134	(28,779)
(Increase) decrease in distributions receivable from underlying funds	8,221	(2,350,067)
Increase (decrease) in dividends payable	(7,198)	(357)
Increase (decrease) in other payables and accrued liabilities	23,334	62,208
Purchase of long positions and repurchases of investments sold short	(41,475,402)	(47,131,110)
Proceeds from sales of long positions and on investments sold short	51,084,781	38,375,853
<b>Net Cash Generated (Used) by Operating Activities</b>	<u>10,987,531</u>	<u>(11,105,474)</u>
<b>Cash Flows from Financing Activities</b>		
Distributions to holders of redeemable units, net of reinvested distributions	(47,377)	(95,073)
Proceeds from redeemable units issued	945,546	15,901,170
Amount paid on redemption of redeemable units	(15,309,368)	(1,151,820)
<b>Net Cash Generated (Used) by Financing Activities</b>	<u>(14,411,199)</u>	<u>14,654,277</u>
Unrealized foreign exchange gain (loss) on cash	(252,927)	79,277
Net increase (decrease) in cash	(3,423,668)	3,548,803
Cash, beginning of period	10,370,193	657,483
<b>Cash, End of Period</b>	<u>6,693,598</u>	<u>4,285,563</u>
Cash	6,693,598	4,285,563
Cash overdraft	-	-
<b>Net Cash (Overdraft)</b>	<u>6,693,598</u>	<u>4,285,563</u>
<b>Items classified as operating activities:</b>		
Interest received, net of withholding tax	66,158	23,163
Dividends received, net of withholding tax	554,751	428,688
Interest and borrowing expense paid	(15,892)	(17,901)
Dividends paid	(70,246)	(78,688)

# PICTON MAHONEY FORTIFIED EQUITY FUND

## SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2019 (unaudited)

CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)	CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)
<b>LONG POSITIONS (97.0%)</b>					<b>Global Equities (85.0%)</b>				
<b>Canadian Equities (11.8%)</b>					<b>United States (57.0%)</b>				
<b>Consumer Discretionary (1.0%)</b>									
	4,300	Great Canadian Gaming Corp.	136,931	190,920	8,800	Abbott Laboratories	705,939	967,096	
	2,400	Royal Caribbean Cruises Ltd.	368,144	380,137	1,000	Adobe Inc.	303,227	385,033	
			505,075	571,057	2,100	Advance Auto Parts Inc.	439,773	422,986	
<b>Consumer Staples (1.8%)</b>									
	3,800	Alimentation Couche-Tard Inc.	254,684	313,158	6,200	Advanced Micro Devices Inc.	188,043	246,052	
	10,300	Empire Co Ltd.	255,615	339,694	1,500	Air Products & Chemicals Inc.	314,705	443,712	
	4,000	Royal Unibrew A/S	392,845	382,015	220	Alphabet Inc., Class A	326,580	311,288	
			903,144	1,034,867	470	Amazon.com Inc.	899,764	1,163,011	
<b>Energy (0.8%)</b>									
	8,800	Cameco Corp.	131,995	123,552	6,800	Americold Realty Trust	222,461	288,080	
	15,100	Cenovus Energy Inc.	192,514	174,405	4,000	Apple Inc.	923,998	1,034,524	
	4,100	Pembina Pipeline Corp.	175,743	199,875	21,600	Bank of America Corp.	789,651	818,545	
			500,252	497,832	5,900	Blackstone Group LP	307,633	342,469	
<b>Financials (3.7%)</b>									
	7,200	Brookfield Asset Management Inc.	356,711	451,080	600	Boeing Co.	261,106	285,401	
	57,500	Element Fleet Management Corp.	510,157	549,700	1,300	Burlington Stores Inc.	240,456	289,046	
	2,600	Intact Financial Corp.	275,451	314,652	4,100	Camden Property Trust	484,317	559,286	
	2,400	Royal Bank of Canada	223,888	249,768	1,900	CareDx Inc.	61,588	89,357	
	3,800	TMX Group Ltd.	324,700	346,180	400	Chipotle Mexican Grill Inc.	260,411	383,075	
	3,200	Toronto-Dominion Bank	214,018	244,864	4,900	Ciena Corp.	209,989	263,358	
			1,904,925	2,156,244	2,000	CME Group Inc.	434,513	507,305	
<b>Industrials (2.5%)</b>									
	11,700	Air Canada	221,409	464,373	800	CoStar Group Inc.	360,208	579,212	
	1,130	Canadian Pacific Railway Ltd.	261,228	348,526	6,700	Devon Energy Corp.	256,772	249,698	
	83,000	Drone Delivery Canada Corp.	152,964	94,620	2,100	Dover Corp.	257,761	274,965	
	3,669	Thomson Reuters Corp.	215,413	309,957	3,500	DR Horton Inc.	208,063	197,260	
	2,100	Waste Connections Inc.	170,444	262,710	2,600	Electronic Arts Inc.	330,671	344,035	
			1,021,458	1,480,186	2,400	Etsy Inc.	167,142	192,468	
<b>Materials (0.6%)</b>									
	11,300	First Quantum Minerals Ltd.	195,618	140,572	4,600	FirstEnergy Corp.	268,972	257,332	
	6,500	Teck Resources Ltd.	221,674	196,430	3,200	Facebook Inc.	738,806	807,046	
			417,292	337,002	2,400	First Republic Bank	262,853	306,249	
<b>Canadian Mutual and Pooled Funds (1.4%)</b>									
	80,529	Picton Mahoney Fortified Active Extension Alternative Fund, Class I Units	804,640	839,457	700	Five Below Inc.	120,759	109,785	
			6,056,786	6,916,645	2,500	Haemonetics Corp.	276,854	393,134	
					2,400	HEICO Corp.	221,634	419,653	
					2,800	Honeywell International Inc.	535,106	638,805	
					900	IAC/InterActiveCorp.	224,439	255,831	
					1,400	IDEXX Laboratories Inc.	362,467	503,701	
					900	Intuitive Surgical Inc.	477,389	616,908	
					2,700	IQVIA Holdings Inc.	500,652	567,689	
					2,800	ITT Inc.	231,907	239,584	
					6,400	JPMorgan Chase & Co.	852,510	935,002	
					1,700	Kinsale Capital Group Inc.	196,638	203,220	
					8,200	Masco Corp.	436,702	420,469	
					2,900	Mastercard Inc.	602,730	1,002,453	
					8,800	Microsoft Corporation	1,034,150	1,540,454	
					10,000	Mondelez International Inc.	540,820	704,336	
					1,900	Motorola Solutions Inc.	385,720	413,960	
					1,000	MSCI Inc.	219,752	312,038	
					3,400	NextEra Energy Inc.	698,745	910,180	
					2,700	Norfolk Southern Corporation	491,467	703,279	
					1,400	Northrop Grumman Corporation	508,878	591,112	
					5,600	PayPal Holdings Inc.	589,917	837,592	
					9,300	Progressive Corp.	724,044	971,368	
					2,100	QUALCOMM Inc.	220,900	208,749	
					800	Roper Technologies Inc.	301,028	382,887	



# PICTON MAHONEY FORTIFIED EQUITY FUND

## SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2019 (unaudited)

CCY*	No. of shares/units/ Face value	Security Description	Average cost (\$)	Fair value (\$)	CCY*	No. of shares/units/ Face value	Security Description	Average cost (\$)	Fair value (\$)
	3,530	Salesforce.com Inc.	592,494	699,902					
	12,600	Santander Consumer USA Holdings Inc.	307,074	394,501					
	3,900	ServiceMaster Global Holdings Inc.	193,171	265,467					
	4,300	Sun Communities Inc.	528,007	720,300					
	1,300	Synopsis Inc.	158,457	218,615					
	1,500	Tableau Software Inc.	191,955	325,419					
	2,500	Tempur Sealy International Inc.	213,379	239,690					
	1,000	Thermo Fisher Scientific Inc.	361,943	383,765					
	5,000	Tradeweb Markets Inc.	180,245	286,243					
	2,600	Tyson Foods Inc.	246,691	274,317					
	2,700	UnitedHealth Group Inc.	800,179	860,919					
	2,100	Vertex Pharmaceuticals Inc.	447,694	503,225					
	16,700	Viavi Solutions Inc.	229,546	290,023					
	1,500	Vulcan Materials Co.	234,088	269,144					
	2,700	Walt Disney Co.	465,195	492,680					
	15,900	WPX Energy Inc.	367,835	239,146					
	6,500	Zoetis Inc.	662,398	963,967					
			27,160,961	33,317,401					
		<b>Australia (0.7%)</b>							
	7,000	Appen Ltd.	178,129	179,670					
	1,300	CSL Ltd.	246,520	256,304					
			424,649	435,974					
		<b>Belgium (0.3%)</b>							
	2,900	KBC Ancora	191,172	169,601					
		<b>Bermuda (1.1%)</b>							
	7,500	Axalta Coating Systems Ltd.	276,102	291,764					
	5,800	Brookfield Infrastructure Partners LP	286,393	325,554					
			562,495	617,318					
		<b>British Virgin Islands (1.0%)</b>							
	20,000	Nomad Foods Ltd.	523,500	558,242					
		<b>Cayman Islands (1.3%)</b>							
	1,000	Alibaba Group Holding Ltd.	236,968	221,428					
	175,000	China Resources Cement Holdings Ltd.	216,310	221,582					
	300,000	Fu Shou Yuan International Group Ltd.	338,207	343,727					
			791,485	786,737					
		<b>Finland (0.7%)</b>							
	10,000	Terveystalo Oyj	145,001	136,163					
	7,500	UPM-Kymmene OYJ	282,125	260,830					
			427,126	396,993					
		<b>France (2.6%)</b>							
	14,000	AXA SA	489,436	481,257					
	9,000	Korian SA	459,342	448,132					
	4,500	Vinci SA	551,238	603,089					
			1,500,016	1,532,478					
		<b>Germany (1.2%)</b>							
	1,300	Allianz SE	362,153	410,125					
	1,200	Volkswagen AG	297,820	264,683					
			659,973	674,808					
		<b>Hong Kong (1.6%)</b>							
	20,000	AIA Group Ltd.	272,559	281,839					
	693,600	Citic Telecom International Holdings Ltd.	337,880	359,643					
	220,000	Xinyi Glass Holdings Ltd.	347,317	301,743					
			957,756	943,225					
		<b>Ireland (1.2%)</b>							
	50,000	Glenveagh Properties PLC	79,271	54,465					
	3,900	Ingersoll-Rand PLC	500,353	645,549					
			579,624	700,014					
		<b>Israel (0.2%)</b>							
	800	CyberArk Software Ltd.	131,619	133,643					
		<b>Italy (1.9%)</b>							
	20,000	ENI SpA	491,730	434,709					
	160,000	Iren SpA	534,492	544,294					
	20,000	Unipol Gruppo SpA	128,429	127,472					
			1,154,651	1,106,475					
		<b>Japan (5.9%)</b>							
	1,500	Kose Corporation	343,854	328,748					
	5,000	Kumagai Gumi Co Ltd.	198,257	193,149					
	13,000	Mitsubishi Corporation	447,056	447,791					
	8,500	Nippon Carbon Co Ltd.	641,330	425,778					
	15,000	Pressance Corp.	292,769	269,075					
	5,600	SoftBank Group Corp.	321,568	350,810					
	12,000	Sony Corp.	805,428	822,032					
	5,000	Tamron Co Ltd.	134,434	133,719					
	21,000	Takeuchi Manufacturing Co Ltd.	528,655	490,302					
			3,713,351	3,461,404					
		<b>Korea (0.3%)</b>							
	150	Samsung Electronics Company Limited	219,131	199,344					
		<b>Luxembourg (1.4%)</b>							
	40,000	Aroundtown SA	413,817	431,316					
	70,000	B&M European Value Retail SA	429,474	388,016					
			843,291	819,332					
		<b>Netherlands (0.8%)</b>							
	8,000	Koninklijke Philips NV	425,794	454,590					
		<b>Norway (1.0%)</b>							
	20,000	Austevoll Seafood ASA	343,929	274,497					
	13,000	Equinor ASA	441,595	335,627					
			785,524	610,124					

# PICTON MAHONEY FORTIFIED EQUITY FUND

## SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2019 (unaudited)

CCY*	No. of shares/units/ Face value	Security Description	Average cost (\$)	Fair value (\$)	CCY*	No. of shares/units/ Face value	Security Description	Average cost (\$)	Fair value (\$)
<b>Spain (0.3%)</b>						(1,700)	Comerica Inc.	(181,754)	(161,367)
	25,000	Faes Farma SA	134,979	154,206		(4,400)	Eaton Vance Corp.	(209,664)	(247,984)
<b>Switzerland (1.4%)</b>						(11,000)	GreenSky Inc.	(159,832)	(176,659)
	2,000	Novartis AG	255,845	239,100		(4,000)	Harley-Davidson Inc.	(209,607)	(187,283)
	100	Partners Group Holding AG	94,665	102,797		(500)	MarketAxess Holdings Inc.	(130,810)	(210,007)
	400	Siegfried Holding AG	179,975	182,274		(970)	MongoDB Inc.	(177,449)	(192,781)
	800	Tecan Group AG	255,417	271,481		(1,900)	MSC Industrial Direct Co Inc.	(192,728)	(184,374)
			785,902	795,652		(4,900)	Myriad Genetics Inc.	(178,779)	(177,877)
<b>United Kingdom (3.1%)</b>						(3,000)	Oracle Corp.	(188,278)	(223,336)
	10,000	3i Group PLC	171,861	185,185		(2,500)	Robert Half International Inc.	(243,708)	(186,244)
	5,100	Coca-Cola European Partners PLC	256,374	376,539		(2,800)	Shake Shack Inc.	(178,567)	(264,172)
	4,000	Fevertree Drinks PLC	186,093	154,202		(3,900)	Teradyne Inc.	(226,974)	(244,164)
	30,000	OneSavings Bank PLC	207,845	180,911		(3,000)	Uber Technologies Inc.	(158,820)	(181,821)
	5,000	Rio Tinto PLC	371,227	405,836				(2,787,395)	(2,969,351)
	130,000	Tesco PLC	523,879	490,130					
			1,717,279	1,792,803	<b>Belgium (-0.2%)</b>				
			43,690,278	49,660,364		(1,500)	Colruyt SA	(104,518)	(113,841)
<b>Total Global Equities - Long</b>					<b>Germany (-0.3%)</b>				
						(15,000)	Deutsche Bank AG	(170,202)	(149,557)
<b>Options (0.2%)</b>					<b>France (-0.3%)</b>				
						(1,200)	Sodexo SA	(173,035)	(183,574)
		<b>Total Purchased Options -</b>			<b>United Kingdom (-0.9%)</b>				
		<b>Refer to Appendix A</b>	<b>1,107,470</b>	<b>102,738</b>		(54,000)	Marks & Spencer Group PLC	(250,582)	(189,223)
		<b>Transaction Costs</b>	<b>(50,893)</b>	<b>-</b>		(15,000)	Pearson PLC	(200,786)	(204,409)
		<b>Total Long Positions</b>	<b>50,854,534</b>	<b>56,679,747</b>		(710,000)	Rolls-Royce Holdings PLC	(1,237)	(1,181)
<b>SHORT POSITIONS (-8.0%)</b>						(10,000)	Rolls-Royce Holdings PLC	(148,361)	(139,766)
<b>Canadian Equities (-1.1%)</b>								(600,966)	(534,579)
<b>Consumer Discretionary (-0.2%)</b>					<b>Total Global Equities - Short</b>				
	(4,700)	Sleep Country Canada Holdings Inc.	(130,364)	(89,300)				<b>(3,836,116)</b>	<b>(3,950,902)</b>
<b>Financials (-0.4%)</b>					<b>Options (-0.1%)</b>				
	(4,700)	Laurentian Bank of Canada	(232,741)	(211,406)			<b>Total Written Options -</b>		
<b>Industrials (-0.2%)</b>							<b>Refer to Appendix A</b>	<b>(549,163)</b>	<b>(34,258)</b>
	(6,000)	Richelieu Hardware Ltd.	(152,959)	(132,420)			<b>Transaction Costs</b>	<b>(2,626)</b>	<b>-</b>
<b>Materials (-0.3%)</b>							<b>Total Short Positions</b>	<b>(5,003,772)</b>	<b>(4,566,148)</b>
	(14,300)	First Majestic Silver Corp.	(102,429)	(147,862)	<b>TOTAL INVESTMENT PORTFOLIO (89.0%)</b>				
								<b>45,850,762</b>	<b>52,113,599</b>
<b>Total Canadian Equities - Short</b>									Other Assets Net of Liabilities (11.0%)
			<b>(618,493)</b>	<b>(580,988)</b>					6,457,261
<b>Global Equities (-6.8%)</b>					<b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (100.0%)</b>				
<b>United States (-5.1%)</b>									<b>58,570,860</b>
	(300)	BlackRock Inc.	(181,074)	(183,977)	<i>*CCY denotes local currency of security</i>				
	(1,900)	Cimarex Energy Co.	(169,351)	(147,305)					

**APPENDIX A**  
**OPTIONS (0.1%)**

Issuer	Option Type	Number of Options	Strike	Expiry	Average Cost \$	Fair Value \$
iShares MSCI EAFE ETF	Put Option	2,000	\$61	July, 2019	198,626	13,814
iShares MSCI EAFE ETF	Put Option	1,500	\$62	July, 2019	235,215	32,342
S&P 500 Index	Put Option	110	\$2,650	July, 2019	406,072	26,592
S&P 500 Index	Put Option	45	\$2,700	July, 2019	267,557	29,990
					<u>1,107,470</u>	<u>102,738</u>
<b>Total Purchased Options</b>					<b>1,107,470</b>	<b>102,738</b>
iShares MSCI EAFE ETF	Written Put Option	(2,000)	\$57	July, 2019	(52,270)	(6,813)
iShares MSCI EAFE ETF	Written Put Option	(1,500)	\$59	July, 2019	(115,648)	(6,145)
S&P 500 Index	Written Put Option	(110)	\$2,550	July, 2019	(204,834)	(13,656)
S&P 500 Index	Written Put Option	(45)	\$2,600	June, 2019	(176,411)	(7,644)
					<u>(549,163)</u>	<u>(34,258)</u>
<b>Total Written Options</b>					<b>(549,163)</b>	<b>(34,258)</b>

# PICTON MAHONEY FORTIFIED EQUITY FUND

## FUND SPECIFIC NOTES

As at June 30, 2019 (unaudited)

### 1. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The following tables illustrate the classifications of the Fund's financial instruments within the fair value hierarchy as at June 30, 2019 and December 31, 2018.

ASSETS (LIABILITIES) AT FAIR VALUE AS AT JUNE 30, 2019				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Equities - Long	56,156,237	420,772	-	56,577,009
Options - Long	102,738	-	-	102,738
Equities - Short	(4,531,890)	-	-	(4,531,890)
Options - Short	(34,258)	-	-	(34,258)
<b>Total</b>	<b>51,692,827</b>	<b>420,772</b>	<b>-</b>	<b>52,113,599</b>

ASSETS (LIABILITIES) AT FAIR VALUE AS AT DECEMBER 31, 2018				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Equities - Long	61,112,967	6,370	-	61,119,337
Options - Long	1,262,312	-	-	1,262,312
Equities - Short	(6,244,245)	-	-	(6,244,245)
Options - Short	(435,269)	-	-	(435,269)
<b>Total</b>	<b>55,695,765</b>	<b>6,370</b>	<b>-</b>	<b>55,702,135</b>

### 2. SECURITIES LENDING TRANSACTIONS

The Fund has entered into a securities lending program with its custodian, RBC Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral consists primarily of fixed income securities. As at June 30, 2019, there was \$3,186,362 (Collateral - \$3,250,097) of securities on loan (December 31, 2018 - \$4,833,379 (Collateral - \$4,930,055) of securities on loan).

Securities lending income reported in the Statements of Comprehensive Income is net of a securities lending charge which the Fund's custodian is entitled to receive. For the six month periods ended June 30, securities lending income were as follows:

	June 30, 2019 (\$)	June 30, 2018 (\$)
Gross securities lending income	10,654	10,088
Securities lending charges	(3,729)	(3,531)
<b>Net securities lending income</b>	<b>6,925</b>	<b>6,557</b>
Withholding taxes on securities lending income	(230)	(187)
<b>Net securities lending income received by the Fund</b>	<b>6,695</b>	<b>6,370</b>
Security lending charges percentage of gross securities lending income	35%	35%

### 3. OTHER PRICE RISK

Using Beta as a measure of the relationship of the Fund's performance versus its index, if the blended index consisting of 25% S&P/TSX Composite Total Return Index; 50% MSCI World Index; and 25% FTSE TMX Canada 30-Day T-Bill Index were to increase or decrease by 10%, net assets would have increased or decreased by approximately \$4,746,868 (December 31, 2018 - \$3,731,590). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

# PICTON MAHONEY FORTIFIED EQUITY FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 4. CURRENCY RISK

Foreign currencies to which the Fund had exposure as at June 30, 2019 and December 31, 2018 were as follows:

FINANCIAL INSTRUMENTS				
June 30, 2019 Currency	Monetary \$	Non-Monetary \$	Total \$	Percentage of Net Assets %
United States Dollar	5,810,145	33,005,136	38,815,281	66.3%
European Euro	293,927	4,677,516	4,971,443	8.5%
Japanese Yen	2,555	3,461,408	3,463,963	5.9%
British Pound	562,099	1,269,698	1,831,797	3.1%
Hong Kong Dollar	9,935	1,508,535	1,518,470	2.6%
Swiss Franc	65,170	795,652	860,822	1.5%
Norwegian Krone	-	610,125	610,125	1.0%
Australian Dollar	6,317	435,974	442,291	0.8%
Danish Krone	1,034	382,015	383,049	0.7%
Swedish Krona	54,761	-	54,761	0.1%
Mexican Peso	(3,550)	-	(3,550)	0.0%
South African Rand	11,511	-	11,511	0.0%
<b>Net Exposure</b>	<b>6,813,904</b>	<b>46,146,059</b>	<b>52,959,963</b>	<b>90.5%</b>

FINANCIAL INSTRUMENTS				
December 31, 2018 Currency	Monetary \$	Non-Monetary \$	Total \$	Percentage of Net Assets %
United States Dollar	6,984,335	32,308,676	39,293,011	58.5%
European Euro	739,119	6,595,955	7,335,074	10.9%
Japanese Yen	(17,120)	4,841,356	4,824,236	7.2%
British Pound	831,100	1,347,451	2,178,551	3.2%
Australian Dollar	6,624	457,490	464,114	0.7%
Hong Kong Dollar	-	1,366,788	1,366,788	2.0%
Swiss Franc	67,369	186,209	253,578	0.4%
Norwegian Krone	-	665,871	665,871	1.0%
Swedish Krona	276,374	(212,007)	64,367	0.1%
Mexican Peso	(3,449)	-	(3,449)	0.0%
South African Rand	153,210	(26,292)	126,918	0.2%
<b>Net Exposure</b>	<b>9,037,562</b>	<b>47,531,497</b>	<b>56,569,059</b>	<b>84.2%</b>

If the Canadian dollar had strengthened or weakened by 5% in relation to all other currencies held in the investment portfolio, net assets would have decreased or increased by approximately \$2,647,998 (December 31, 2018 - \$2,828,453). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

The Fund may enter into forward currency contracts to manage currency risk.

### 5. INTEREST RATE RISK

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds. As at June 30, 2019 and December 31, 2018, the interest rate risk is minimal given that the majority of the financial instruments held by the Fund are non-interest bearing.

### 6. CREDIT RISK

Credit risk arises from investments in debt instruments. As of June 30, 2019 and December 31, 2018, the Fund had no direct investments in debt instruments. All cash is held with a financial institution with a minimum credit rating of A-1+.

# PICTON MAHONEY FORTIFIED EQUITY FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 7. UNDERLYING FUND EXPOSURE TO OTHER PRICE RISK, CURRENCY RISK, INTEREST RATE RISK, CREDIT RISK

The Fund may also be exposed to indirect other price risk, currency risk, interest rate risk, and credit risk through its investment in the underlying funds.

The table below summarizes the impact on the Fund's net assets, of reasonable possible changes in the returns of each of the strategies to which the Fund is exposed through the 2 underlying funds in which it invests at year-end. The impact on net assets is calculated by applying a 5% possible movement determined for each strategy as a percentage of the net assets of the Fund. The analysis is based on the assumption that the returns on each strategy have increased or decreased as disclosed with all other variables held constant. The underlying risk disclosures represent the market risks to which the various strategies are exposed; C,F,I,P representing Credit, Foreign Currency, Interest Rate, and Other Price Risks, respectively.

June 30, 2019			Impact on net assets based on 5% increase or decrease
Strategy	Underlying risk exposures	Number of Funds	\$
Canadian Equity	P	1	36,740
US Equity	P	1	3,843
International Equity	P	1	1,390
<b>Total</b>			<b>41,973</b>

  

December 31, 2018			Impact on net assets based on 5% increase or decrease
Strategy	Underlying risk exposures	Number of Funds	\$
Canadian Equity	P	2	53,311
US Equity	P	2	(3,436)
International Equity	P	2	2,728
<b>Total</b>			<b>52,603</b>

### 8. CONCENTRATION RISK

The table below summarizes the Fund's concentration risk as a percentage of net assets attributable to holders of redeemable units as at June 30, 2019 and December 31, 2018.

Jurisdiction	% of Net Assets	
	June 30, 2019	December 31, 2018
<b>Equities</b>		
Canada	10.7%	10.4%
United States	51.9%	45.0%
International	26.3%	26.2%
<b>Derivatives</b>	0.1%	1.3%

### 9. LIQUIDITY RISK

The tables below categorize the Fund's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date.

The amounts in the tables are the contractual undiscounted cash flows. Amounts due to holders of redeemable units are disclosed as net assets attributable to holders of redeemable units on the statement of financial position and are due on demand.

June 30, 2019	On Demand	< 3 months	> 3 months	Total
Financial Liabilities	\$	\$	\$	\$
Short positions	4,531,890	-	-	4,531,890
Redemptions payable	255,010	-	-	255,010
Accrued liabilities and other payables	-	136,290	-	136,290
Derivative liabilities	34,258	-	-	34,258

  

December 31, 2018	On Demand	< 3 months	> 3 months	Total
Financial Liabilities	\$	\$	\$	\$
Short positions	6,244,245	-	-	6,244,245
Redemptions payable	34,721	-	-	34,721
Accrued liabilities and other payables	-	109,371	-	109,371
Derivative liabilities	435,269	-	-	435,269

# PICTON MAHONEY FORTIFIED EQUITY FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 10. FUND UNIT TRANSACTIONS

For the six month periods ended June 30 (unaudited)

	2019					2018				
	Class A	Class F	Class FT	Class T	Class I	Class A	Class F	Class FT	Class T	Class I
Units issued and outstanding, beginning of period	316,494	1,714,139	231,872	36,579	3,766,049	271,866	320,231	370,093	22,221	2,838,018
Units issued	7,684	76,995	-	-	-	77,050	453,153	4,388	14,358	788,573
Units redeemed	(44,636)	(1,180,214)	(181,836)	-	-	(24,608)	(27,871)	(63,414)	-	-
<b>Units issued and outstanding, end of period</b>	<b>279,542</b>	<b>610,920</b>	<b>50,036</b>	<b>36,579</b>	<b>3,766,049</b>	<b>324,308</b>	<b>745,513</b>	<b>311,067</b>	<b>36,579</b>	<b>3,626,591</b>
<b>Weighted average number of units held during the period</b>	<b>305,079</b>	<b>844,568</b>	<b>186,227</b>	<b>36,579</b>	<b>3,766,049</b>	<b>316,147</b>	<b>402,403</b>	<b>340,530</b>	<b>35,790</b>	<b>3,172,216</b>

### 11. COMMISSIONS

For the six month periods ended June 30 (unaudited) (in \$000)

	2019	2018
Brokerage commissions	73	50
Soft Dollar commissions	10	13

### 12. TAX LOSS CARRY FORWARDS

As at December 31 (in \$000)

	2018
Net capital losses carry forward	812
Non-capital losses carry forward	-

### 13. STRUCTURED ENTITIES

The table below illustrates the Fund's investment in the underlying funds as at June 30, 2019 and December 31, 2018.

Underlying Funds	Fair Value of Fund's Investment (in \$000s)	Underlying Fund's Net Assets (in \$000s)	% of Net Assets of the Underlying Fund
<b>As at June 30, 2019</b>			
Picton Mahoney Fortified Active Extension Alternative Fund	839	10,657	7.9%
<b>As at December 31, 2018</b>			
Picton Mahoney Fortified Active Extension Alternative Fund	706	2,640	26.7%
Picton Mahoney Fortified Market Neutral Alternative Fund	346	11,887	2.9%

# PICTON MAHONEY FORTIFIED EQUITY FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2019 (unaudited)

### 1. GENERAL INFORMATION

Picton Mahoney Fortified Equity Fund (the "Fund") is an open-ended mutual trust established under the laws of the Province of Ontario pursuant to a trust agreement dated October 21, 2015 (the "Trust Declaration"). The Fund commenced operations on October 29, 2015. Picton Mahoney Asset Management acts as manager (the "Manager"), portfolio advisor (the "Portfolio Advisor"), and trustee (the "Trustee") for the Fund pursuant to the Trust Declaration. The Manager is responsible for the day-to-day business of the Fund, including the management of the Fund's investment portfolio. The address of the Fund's registered office is 33 Yonge Street, Suite 830, Toronto, Ontario, M5E 1G4. The financial statements are presented in Canadian dollars (CAD). These financial statements were authorized for issue by the Manager on August 28, 2019.

On October 29, 2015, 15,001 Class A units of the Fund were issued to the Manager of the Fund, for cash consideration of CAD \$10.00 per unit.

The Fund may issue an unlimited number of classes or series and may issue an unlimited number of units of each class or series. The Fund has created Class A, Class F, Class FT, Class T and Class I units.

Class A units are available to all investors. Class F units are available to investors who are enrolled in a dealer sponsored fee for service or wrap program and who are subject to an annual asset based fee rather than commissions on each transaction or, at the discretion of the Manager, any other investor for whom the Manager does not incur distribution costs. Class FT units are available to investors who are enrolled in a dealer sponsored fee for service or wrap program and who are subject to an annual asset based fee rather than commissions on each transaction or, at the discretion of the Manager, any other investor for whom the Manager does not incur distribution costs. Class FT units are also designed to provide cash flow to investors by making monthly distributions of cash. Class T units are available to all investors and are designed to provide cash flow to investors by making monthly distributions of cash. Class I units are available to institutional investors or to other investors on a case-by-case basis, all at the discretion of the Manager.

As at June 30, 2019, the Fund currently has 5 Classes of Units: Class A, Class F, Class FT, Class T, and Class I.

The investment objective of the Fund is to achieve long-term capital appreciation by investing primarily in global equity securities while mitigating capital loss by engaging in hedging strategies for downside risk protection.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Fund.

#### (a) Basis of Preparation

These financial statements have been prepared in accordance with those requirements of International Financial Reporting Standards. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

#### (b) Classification

##### (i) Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets'

performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss.

##### (ii) Liabilities

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are held for trading and are consequently classified as financial liabilities at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss. As such, the Fund classifies all of its investment portfolio as financial assets or liabilities as fair value through profit or loss. The Fund's policy requires the Manager to evaluate the information about these financial assets and liabilities on a fair value basis together with other related financial information.

#### (c) Fair Value Measurements

The Fund utilizes a three tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair values are classified as Level 1 when the related security or derivative is actually traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

#### (d) Valuation of Investments and Derivatives

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets, which include equities, bonds, options, and warrants are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

Securities not listed on any recognized public securities exchange are valued in the same manner based on available public quotations from recognized dealers in such securities. If market quotations are not readily available, securities will be valued at fair value as determined in good faith by or under the supervision of the Manager. The cost of investments represents the amount paid for each security and is determined on an average cost basis.



# PICTON MAHONEY FORTIFIED EQUITY FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2019 (unaudited)

The fair value of financial assets and liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Investment fund units held as investments are valued at their respective Net Asset Values on the relevant valuation dates as reported by the investment fund manager, as these values are the most readily and regularly available.

Warrants, options, and futures that are not listed on any recognized public securities exchange are valued using the Black-Scholes model and based on observable market inputs.

Foreign exchange forward contracts are valued on each valuation day based on the difference between the value of the contract on the date the contract originated and the value of the contract on the valuation day.

The difference between fair value and the average cost is shown as the change in unrealized appreciation (depreciation) on investments, options and foreign exchange forward contracts.

Other financial assets (held for collection) and other financial liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, where appropriate at the contract's effective interest rate. Due to their short-term nature, the fair value of other financial assets and financial liabilities carried at amortized cost approximates their carrying amount.

### *Receivable for investments sold and payable for investments purchased*

Receivable for investments sold and payable for investments purchased represent trades that have been contracted for but not yet settled or delivered on the statements of financial position dates. These amounts are recognized initially at fair value and subsequently measured at amortized cost. At each reporting date, the Funds measure the loss allowance on receivable for investments sold and payable for investments purchased at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Funds measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganization, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by the Manager as any contractual payment which is more than 30 days past due or a significant deterioration in a counterparty credit quality. Any contractual payment which is more than 90 days past due is considered credit impaired.

### **(e) Cash**

Cash is comprised of cash on demand deposit with a Canadian financial institution and is stated at fair value.

### **(f) Investment Transactions and Income Recognition**

Investment transactions are accounted for as of the trade date. Expenses are recorded on an accrual basis. Dividend income is recorded on the ex-dividend date. The interest for distribution purposes shown on the statement of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized on a straight line basis. Realized gains and losses on sale of investments and unrealized appreciation and depreciation in investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds. Income, common expenses and gains (losses) are allocated to each Class of the Fund based on the Class' prorated share of total Net Asset Value.

Distributions received from investment fund holdings are recognized by the Fund in the same form in which they were received from the underlying funds and are recognized on the distribution date.

### **(g) Valuation of Fund Units**

The Fund's net asset value is calculated at the close of regular trading, normally 4:00pm (Eastern Time), on a day the Toronto Stock Exchange ("TSX") is open (a "Valuation Day"). The net asset value of the Fund will be calculated in Canadian dollars and the units of the Fund are denominated in Canadian dollars.

The Fund's units are divided into the Class A, Class F, Class FT, Class T and Class I units. Each class is divided into units of equal value. When you invest in the Fund, you are purchasing units of a specific class of the Fund.

A separate net asset value per unit is calculated for each class of units (the "Unit Price"). The Unit Price is the price used for all purchases, switches, reclassifications and redemptions of units of that class (including purchases made on the reinvestment of distributions). The price at which units are issued or redeemed is based on the next applicable Unit Price determined after the receipt of the purchase or redemption order.

The Unit Price of each class of the Fund is calculated by taking the fair value of all the investments and other assets allocated to the class and subtracting the liabilities allocated to that class. This gives us the net asset value for the class. The Unit Price for the class is obtained by dividing the net asset value for the class by the total number of units of the class that investors in a Fund are holding.

Although the purchases and redemptions of units are recorded on a class basis, the assets attributable to all of the class of a Fund are pooled to create one fund for investment purposes. Each class pays its proportionate share of fund costs in addition to its management fee and performance fee. The difference in fund costs, management fees and performance fees between each class means that each class has a different Unit Price.

Any purchase, switch, reclassification or redemption instruction received after 4:00pm (Eastern Time) on Valuation Day will be processed on the next Valuation Day.

# PICTON MAHONEY FORTIFIED EQUITY FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2019 (unaudited)

### (h) Foreign Currency Translation

The Fund's functional and presentation currency is Canadian dollars. The fair value of foreign investments and other assets and liabilities are translated into Canadian dollars at the exchange rates prevailing at the close of each valuation day. Purchases and sales of foreign securities and the related income and expenses are translated into Canadian dollars at rates of exchange prevailing on the respective dates of such transactions.

Foreign exchange gains and losses relating to cash and other assets and liabilities are presented as 'Foreign currency gain (loss) on cash and other assets and liabilities' and those relating to other financial assets and liabilities are presented within 'Net realized gain (loss) on investments, options, and foreign exchange forward contracts and 'Change in unrealized appreciation (depreciation) on investments, options, and foreign exchange forward contracts.

### (i) Increase (decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit

Increase (decrease) in net assets attributable to holders of redeemable units per unit of each Class of the Fund is determined by dividing the net increase in net assets attributable to holders of redeemable units from each Class of Units by the weighted average number of Units outstanding of that Class during the year.

### (j) Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchange, and transfer taxes and duties. Such costs are expensed and included in "Transaction costs" in the Statement of Comprehensive Income.

### (k) Securities Lending Transactions

The Fund may enter into securities lending transactions. These transactions involve the temporary exchange of securities as collateral with a commitment to deliver the same securities on a future date. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on securities held as collateral. Income earned from these transactions is recognized on an accrual basis and included in the Statements of Comprehensive Income.

The Fund has entered into a securities lending program with their custodian, RBC Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral will generally be comprised of cash and obligations of, or guaranteed by, the Government of Canada or a province thereof, or a permitted supranational agency as defined in National Instrument 81-102. Securities lending income reported in the Statements of Comprehensive Income is net of a securities lending charge which the Fund's custodian, RBC Investor Services Trust, is entitled to receive.

### (l) IFRS 9, Financial Instruments

IFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in IAS 39.

Classification and measurement of debt assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if the objective of the business model is to hold the financial

asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognized at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

IFRS 9 has been applied by the Fund and did not result in a change to the classification or measurement of financial instruments. The Fund's investment portfolio continues to be classified as fair value through profit or loss and other financial assets which are held for collection continue to be measured at amortized cost. There was no material impact on adoption from the application of the new impairment model.

### (m) Structured Entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Picton Mahoney has determined that all of the underlying funds in which the Fund invests are unconsolidated structured entities. In making this determination, Picton Mahoney evaluated the fact that decision making about the underlying funds' activities is not governed by voting or similar rights held by the Fund and other investors in any underlying funds.

The Fund may invest in underlying funds whose investment objectives range from achieving short- to long-term income and capital growth potential. Underlying funds may use leverage in a manner consistent with their respective investment objectives. Underlying funds finance their operations by issuing redeemable units which are puttable at the holder's option and entitle the holder to a proportionate stake in the respective fund's net assets. The Fund's interests in underlying funds as at June 30, 2019 and December 31, 2018, held in the form of redeemable units, are included at their fair value in the Statement of Financial Position, which represent the Fund's maximum exposure in these underlying funds. The Fund does not provide and has not committed to provide any additional significant financial or other support to the underlying funds. The change in fair value of each of the underlying funds during the periods is included in 'Change in unrealized appreciation (depreciation) of investments, options, and foreign exchange forward contracts' in the Statement of Comprehensive Income.

### (n) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

# PICTON MAHONEY FORTIFIED EQUITY FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2019 (unaudited)

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

These financial statements, include estimates and assumptions by management that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the period. Actual results could differ from these estimates. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements.

#### *Fair value measurement of derivatives and securities not quoted in an active market*

The Fund holds financial instruments that are not quoted in active markets, including derivatives. Fair values of such instruments are determined using recognized valuation techniques and may be determined using reputable pricing sources or indicative prices from market makers.

Where no market data is available, the Fund may value positions using its own models, which are based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by the Manager, independent of the party that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

### 4. FINANCIAL INSTRUMENTS RISKS

The Fund is exposed to various financial risks, including market risk (which includes currency risk, interest rate risk and price risk), credit risk and liquidity risk. The investment team reviews and rebalances the portfolio on a regular and ongoing basis to maintain the risk reward targets. Portfolios within each strategy are reviewed relative to each other and to their benchmark. Active industry and security allocations are analyzed. All investments may result in a risk of loss of capital.

Please refer to the Fund Specific Notes for details of the Fund's financial instruments risks.

#### **Price risk:**

The Fund trades in financial instruments, taking positions in traded and over-the-counter instruments which may include derivatives. As of June 30, 2019 and December 31, 2018, the Fund held or had exposure to long and short equity positions in publicly traded companies whose securities are actively traded on a recognized public exchange. Equities are susceptible to price risk arising from uncertainties about future prices of those instruments (other than those arising from interest rate risk or currency risk).

Short sales entail certain risks, including the risk that a short sale of a security may expose a Fund to losses if the value of the security increases. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Fund of buying those securities to cover the short position. In addition, a short sale by a Fund requires the Fund to borrow securities in order that the short sale may be transacted. There is no assurance that the lender of the securities will not require the security to be paid

back by a Fund before the Fund wants to do so, possibly requiring the Fund to borrow the security elsewhere or purchase the security on the market at an unattractive price. Moreover, the borrowing of securities entails the payment of a borrowing fee. The borrowing fee may increase during the borrowing period, adding to the expense of the short sale strategy. There is also no guarantee that the securities sold short can be repurchased by a Fund due to supply and demand constraints in the equity markets. Finally, in order to maintain the appropriate ratios between the long portfolio and the short portfolio of a Fund, the Manager may be required to buy or sell short securities at unattractive prices. The maximum risk resulting for financial instruments held long is determined by the fair value of the instrument.

#### **Currency risk:**

Currency risk is the risk that the cash and securities held by the Fund as well as due to and due from broker balances may be valued in or have exposure to currencies other than the Canadian dollar which is the functional currency of the Fund. The prices of the foreign securities are denominated in foreign currencies which are converted to the Fund's functional currency for determining fair value and, accordingly, each Class Net Asset Value will be affected by fluctuations in the value of such foreign currencies relative to the Canadian dollar.

#### **Interest rate risk:**

Interest rate risk arises when a fund invests in interest-bearing financial instruments and from the possibility that changes in the prevailing levels of market interest rates will affect future cash flows or fair values of such financial instruments. There is minimal fair value sensitivity to interest rate fluctuations on any cash and cash equivalents invested at short-term market interest rates. Market prices may also be affected by changes in market interest rates. Also, changes in the market interest rate may affect the borrowing expenses of the short positions held by the Fund.

#### **Credit risk:**

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation. However, there are risks involved in dealing with custodians or prime brokers who settle trades and in rare circumstances, the securities and other assets deposited with the custodian or broker may be exposed to credit risk with regard to such parties. In addition, there may be practical problems or time delays associated with enforcing the Fund's rights to its assets in the case of an insolvency of any such party.

The Fund is exposed to credit risk. For other financial assets at amortized cost, the Manager considers both historical analysis and forward looking information in determining any expected credit loss. At June 30, 2019 and December 31, 2018, all amounts receivable for investments sold, subscriptions receivable, dividends receivable, distributions receivable from underlying funds, due from manager, deposits with brokers for securities sold short, and cash are held with counterparties with a good credit quality and are due to be settled within one week. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognized based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

# PICTON MAHONEY FORTIFIED EQUITY FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2019 (unaudited)

### Liquidity risk:

Liquidity risk is the risk that a Fund will not be able to generate sufficient cash availability to execute its payment obligations. The Fund primarily invests in liquid securities that are readily realizable in an active market which is essential if the Fund is required to fund daily redemptions in the course of operations. The Fund from time to time may invest in restricted securities through private placements. However, this type of investment does not constitute a significant percentage of the Fund's Net Asset Value. The Fund may also maintain a cash reserve to accommodate normal-type redemptions. All liabilities of the Fund mature in one year or less. Redeemable units are redeemable on demand at the holder's option. However, the Manager does not expect that the contractual maturity will be representative of the actual cash outflows, as holders of these instruments typically retain them for a longer period.

### Concentration risk:

Concentration risk arises as a result of the concentration of financial instrument exposures within the same category, whether it is geographic region, asset type or industry sector.

## 5. CAPITAL MANAGEMENT

The capital of a Fund is represented by the issued and outstanding units and the net asset value attributable to participating unitholders. The Manager utilizes the capital of the Fund in accordance with the Fund's investment objectives, strategies and restrictions, as outlined in the Fund's prospectus, while maintaining sufficient liquidity to meet normal redemptions. The Fund does not have any externally imposed capital requirements.

## 6. REDEEMABLE UNIT TRANSACTIONS

The Fund is permitted to have an unlimited number of Classes of Units having such terms and conditions as the Manager may determine. Additional Classes may be offered in future on different terms, including having different fee and dealer compensation terms and different minimum subscription levels. Each Unit of a Class represents an undivided ownership interest in the Net Asset Value of the Fund attributable to that Class of Units.

Investors may be admitted to the Fund or may acquire additional Units on a daily basis. Units of the Fund are offered at the Class Net Asset Value per Unit calculated as of the applicable Valuation Date. The minimum initial investment in the Fund is \$2,000 for all Classes and the Manager has the discretion to accept a lesser initial subscription, provided, in each case, that the issuance of Units in respect of such subscription shall otherwise be exempt from the prospectus requirements of applicable securities legislation. Subsequent investments are subject to an additional minimum investment of CAD \$500 subject to applicable securities legislation.

The capital of the Fund is represented by issued redeemable Units with no par value. The Units are entitled to distributions, if any, and to payment of a proportionate share based on the Fund's Net Asset Value per Unit upon redemption. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of Units other than as described above. The relevant movements are shown on the Statement of Changes in Net Assets Attributable to Holders of Redeemable Units and in the Fund Specific Notes of each Fund.

IAS 32, Financial Instrument – Recognition and Measurement, requires that units of an entity that include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liability. The Fund's units have been classified as financial liabilities. The Fund has multiple series of units that carry different management fee

rates and therefore do not have identical features. As all units are equally subordinate, the units also would not meet the requirements of IAS 32 and therefore do not meet the conditions to be classified as equity.

## 7. DISTRIBUTIONS

The Fund intends to distribute net income and net realized capital gains, if any, to Unitholders at the end of each taxation year to ensure that the Fund is not liable for income tax under Part I of the Income Tax Act (Canada) (the "Act"), after taking into account any loss carry forwards and capital gains refunds.

All annual distributions paid on Class A, Class F and Class I units will be automatically reinvested in additional units. For Class FT and Class T units, unitholders will receive a target monthly distribution at an initial rate of 5% per annum. The target rate of monthly distribution will be reset at the beginning of each calendar year to provide a target yield based on the net asset value per Class FT unit or Class T unit as at December 31 of the prior year. Throughout the year, such monthly distributions to unitholders will be composed of net income, net capital gains and/or a return of capital. All distributions on Class FT and Class T units will be paid in cash.

## 8. TAXATION

The Fund qualifies as a "mutual fund trust" and will be subject to tax in each taxation year under Part I of the Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to Unitholders in the year. The Fund deducts, in computing its income in each taxation year, the full amount available for deduction in each year and, therefore, provided the Fund makes distributions in each year of its net income and net realized capital gains, it will generally not be liable in such year for any tax on its net income or profit under Part I of the Tax Act. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the Statement of Financial Position as a deferred tax asset.

Non-capital losses have expiry periods of up to 20 years and can be offset against future taxable income. Net capital losses can be carried forward indefinitely and offset against future taxable capital gains. For tax loss carry forward information, please refer to Note 13 in the Fund Specific Notes.

The Fund is required to include in income for each taxation year any dividends received by it in a taxation year and all interest that accrues to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year. In computing its income, the Fund will take into account any loss carry-forwards, any capital gains refund and all deductible expenses, including management fees.

Gains and losses realized by the Fund on the disposition of securities will generally be reported as capital gains and capital losses. The Fund will elect under section 39(4) of the Tax Act so that all gains or losses realized on the disposition of securities that are "Canadian securities" (as defined in the Tax Act), including Canadian securities acquired in connection with short sales, will be deemed to be capital gains or losses to the Fund. Generally, gains and losses realized by the Fund from derivative securities and in respect of short sales of securities (other than Canadian securities) will be treated as income and losses of the Fund, except where a derivative is used to hedge securities held on capital account provided there is sufficient linkage and subject to detailed rules in the Tax Act. Whether gains or losses realized by the Fund in respect of a particular security (other than a Canadian security) is on income or capital

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account will depend largely on factual considerations. Losses incurred by the Fund in a taxation year cannot be allocated to unitholders, but may be deducted by the Fund in future years in accordance with the Tax Act.

### 9. OPERATING EXPENSES

The Manager is responsible for the day-to-day operations of the Fund. The Fund pays its own operating expenses, other than advertising costs and costs of dealer compensation programs, which are paid by the Manager. Operating expenses include, but are not limited to, brokerage commissions and fees, taxes, audit and legal fees, fees of the members of the Independent Review Committee ("IRC"), costs and fees in connection with the operation of the IRC, safekeeping and custodial fees, interest expenses, operating, administrative and systems costs, investor servicing costs and costs of financial and other reports to investors, as well as prospectuses, annual information forms and fund facts.

With the exception of Class specific expenses, all other expenses are allocated to each Class of the Fund based on the Class' pro-rated share of total Net Asset Value of the Fund. The Manager may from time to time waive any portion of the fees and reimbursement of expenses otherwise payable to it, but no such waiver affects its right to received fees and reimbursement of expenses subsequently accruing to it.

### 10. RELATED PARTY TRANSACTIONS

#### (a) Management Fees

The Manager receives a management fee payable for providing its services to the Fund. The management fee varies for each class of units. The management fee is calculated and accrued daily based on a percentage of the net asset value of the class of units of the Fund, plus applicable taxes, and is payable on the last business day of each calendar quarter. This fee differs among the classes of units of the Fund. The annual management fee payable by the Fund to the Manager on Class A units is 2.00%, on Class F units is 1.00%, on Class FT units is 1.00%, and on Class T units is 2.00%. The management fee for Class I units of the Fund is negotiated by the investor and paid directly by the investor, and would not exceed the management fee payable on Class A units of the Fund.

Effective August 20, 2019, the annual management fee payable by the Fund to the Manager on Class A units is 1.90%, on Class F units is 0.90%, on Class FT units is 0.90%, and on Class T units is 1.90%.

#### Management Fee Distributions

The Manager may, in its discretion, agree to charge a reduced management fee as compared to the fee that the Manager otherwise would be entitled to receive from the Fund with respect to investments in the Fund by unitholders who hold a minimum amount of units during any period and/or meet other criteria as determined by the Manager from time to time. In such cases, an amount equal to the difference between the management fee otherwise chargeable and the reduced fee payable by the Fund will be distributed regularly by the Fund to those unitholders as "Management Fee Distributions". The Manager reserves the right, in its discretion, to discontinue or change Management Fee Distributions at any time. The tax consequences of a Management Fee Distribution will generally be borne by the unitholder who receives the distribution.

#### (b) Performance Fees

The Manager receives a performance fee payable in respect of each class of units of the Fund. The performance fee is equal to the daily net asset value of the class of units of the Fund during the calendar quarter multiplied by 20% of the amount by which the total return of the class of units exceeds the total percentage increase or decrease in the blended benchmark consisting of 25% S&P/TSX Composite Total Return Index; 50% MSCI World Index (net total return, in Canadian dollars); and 25% FTSE TMX Canada 30 Day T-Bill Index (the "Performance Fee Index") since the end of the period for which the last performance fee was paid. If at any time the total return of the class of units of the Fund is less than its Performance Fee Index, then no performance fee will be payable until the total return of the class of units of the Fund relative to its Performance Fee Index has exceeded the amount of the deficiency calculated on a percentage basis. Investors in Class I units may negotiate a different performance fee than the one described herein or no performance fee at all. Any performance fee for Class I units will be paid directly to the Manager.





**THINK AHEAD.  
STAY AHEAD.**



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## **PICTON MAHONEY ASSET MANAGEMENT CORPORATE INFORMATION**

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