

# FORTIFIED INCOME 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 Income 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 INCOME 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*	338,999,640	323,019,405
Cash	62,088,855	53,816,157
Options purchased	903,767	1,307,623
Unrealized gain on foreign exchange forward contracts at fair value	6,624,766	242,079
Deposits with brokers for securities sold short	4,524,052	12,899,755
Subscriptions receivable	740,722	90,762
Receivable for investments sold	2,484,887	1,388,566
Dividends receivable	2,600	3,375
Interest and other receivable	4,827,884	4,676,041
	<b>421,197,173</b>	<b>397,443,763</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Short positions at fair value**	25,381,552	27,623,809
Options written	260,941	416,080
Unrealized loss on foreign exchange forward contracts at fair value	-	8,527,096
Credit default swap agreements at fair value	1,011,604	-
Management fee payable	1,165,583	272,169
Redemptions payable	1,106,705	168,838
Accrued liabilities	260,366	264,335
Payable for investments purchased	3,027,485	4,822,650
Interest payable	491,834	574,588
Distributions payable	3,598	1,585
	<b>32,709,668</b>	<b>42,671,150</b>
<b>Net Assets Attributable to Holders of Redeemable Units</b>	<b>388,487,505</b>	<b>354,772,613</b>
<b>Net Assets Attributable to Holders of Redeemable Units per Class</b>		
Class A	60,220,542	40,560,824
Class F	273,644,028	255,495,300
Class FT	25,733,267	26,074,599
Class T	1,695,515	1,846,871
Class I	27,194,153	30,795,019
<b>Number of Redeemable Units Outstanding</b>		
Class A	5,712,343	3,889,228
Class F	25,108,478	23,838,720
Class FT	2,730,474	2,759,230
Class T	187,432	202,353
Class I	2,328,941	2,699,650
<b>Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Class A	10.54	10.43
Class F	10.90	10.72
Class FT	9.42	9.45
Class T	9.05	9.13
Class I	11.68	11.41
	<b>340,163,887</b>	<b>324,274,441</b>
	<b>(26,045,523)</b>	<b>(28,767,038)</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	10,350,684	7,646,628
Dividends	11,735	7,082
Net realized gain (loss) on investments and options	50,338	4,635,838
Net realized gain (loss) on foreign exchange forward contracts	(4,932,775)	(5,921,602)
Change in unrealized appreciation (depreciation) on investments, options and foreign exchange forward contracts	14,035,133	(4,219,406)
Interest and borrowing expense	(1,089,820)	(746,600)
Dividend expense	-	(7,031)
Net gains (losses) on investments and derivatives	<b>18,425,295</b>	<b>1,394,909</b>
<b>Other income</b>		
Securities lending income	13,274	9,022
Foreign currency gain (loss) on cash and other assets and liabilities	(2,192,649)	221,945
Total Income	<b>16,245,920</b>	<b>1,625,876</b>
<b>Expenses</b>		
Management fees	2,003,155	1,498,997
Transaction costs	355,450	299,478
Harmonized sales tax	260,876	271,109
Securityholder reporting fees	185,208	90,958
Administrative fees	72,171	26,014
Audit fees	33,115	24,598
Legal fees	27,903	30,175
Custody fees	14,957	13,420
Independent Review Committee Expense	3,878	7,147
Withholding taxes	79	2,113
Performance fees	-	839,345
Total Expense before Manager Absorption	<b>2,956,792</b>	<b>3,103,354</b>
Less: Expenses Absorbed by Manager	-	-
Total Expense after Manager Absorption	<b>2,956,792</b>	<b>3,103,354</b>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>	<b>13,289,128</b>	<b>(1,477,478)</b>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Class</b>		
Class A	1,570,719	(269,503)
Class F	9,490,556	(1,268,941)
Class FT	894,947	(66,360)
Class T	53,772	(11,579)
Class I	1,279,134	138,905
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Class A	0.30	(0.09)
Class F	0.38	(0.07)
Class FT	0.34	(0.05)
Class T	0.28	(0.07)
Class I	0.49	0.06

# PICTON MAHONEY FORTIFIED INCOME FUND

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

For the six month periods ended June 30 (unaudited)

	2019 \$	2018 \$		2019 \$	2018 \$
<b>Net Assets Attributable to Holders of Redeemable Units at Beginning of Period</b>			<b>Distributions to Holders of Redeemable Units</b>		
Class A	40,560,824	25,640,513	Net investment income		
Class F	255,495,300	145,868,309	Class A	(1,141,231)	(658,149)
Class FT	26,074,599	10,492,359	Class F	(5,088,136)	(4,241,893)
Class T	1,846,871	1,232,182	Class FT	(969,457)	(515,056)
Class I	30,795,019	21,722,204	Class T	(67,920)	(59,957)
	<u>354,772,613</u>	<u>204,955,567</u>	Class I	(529,152)	(459,319)
				<u>(7,795,896)</u>	<u>(5,934,374)</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>			<b>Net Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>		
Class A	1,570,719	(269,503)		<u>33,714,892</u>	<u>149,805,544</u>
Class F	9,490,556	(1,268,941)	<b>Net Assets Attributable to Holders of Redeemable Units at End of Period</b>		
Class FT	894,947	(66,360)	Class A	60,220,542	39,323,551
Class T	53,772	(11,579)	Class F	273,644,028	264,185,713
Class I	1,279,134	138,905	Class FT	25,733,267	18,246,756
	<u>13,289,128</u>	<u>(1,477,478)</u>	Class T	1,695,515	1,843,982
			Class I	27,194,153	31,161,109
<b>Redeemable Unit Transactions</b>			<b>Net Assets Attributable to Holders of Redeemable Units at End of Period</b>		
Proceeds from redeemable units issued				<u>388,487,505</u>	<u>354,761,111</u>
Class A	26,071,634	17,226,488	<i>The accompanying notes are an integral part of the financial statements.</i>		
Class F	55,127,150	137,439,760			
Class FT	3,264,630	9,071,278			
Class T	124,916	837,833			
Class I	-	9,300,000			
	<u>84,588,330</u>	<u>173,875,359</u>			
Reinvestments of distributions to holders of redeemable units					
Class A	656,697	534,362			
Class F	2,660,991	2,496,934			
Class FT	-	-			
Class T	-	-			
Class I	529,152	459,319			
	<u>3,846,840</u>	<u>3,490,615</u>			
Redemption of redeemable units					
Class A	(7,498,101)	(3,150,160)			
Class F	(44,041,833)	(16,108,456)			
Class FT	(3,531,452)	(735,465)			
Class T	(262,124)	(154,497)			
Class I	(4,880,000)	-			
	<u>(60,213,510)</u>	<u>(20,148,578)</u>			
<b>Net Increase (Decrease) from Redeemable Unit Transactions</b>	<u>28,221,660</u>	<u>157,217,396</u>			

# PICTON MAHONEY FORTIFIED INCOME FUND

## STATEMENTS OF CASH FLOWS

For the six month periods ended June 30 (unaudited)

	2019 \$	2018 \$		2019 \$	2018 \$
<b>Cash Flows from Operating Activities</b>			<b>Cash Flows from Financing Activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	13,289,128	(1,477,478)	Distributions to holders of redeemable units, net of reinvested distributions	(3,947,043)	(2,439,730)
Adjustments for:			Proceeds from redeemable units issued	82,775,340	170,547,155
Unrealized foreign exchange (gain) loss on cash	2,940,314	(1,824,529)	Amount paid on redemption of redeemable units	(58,112,613)	(17,616,671)
Net realized (gain) loss on investments and options	(50,338)	(4,635,838)	<b>Net Cash Generated (Used) by Financing Activities</b>	<u>20,715,684</u>	<u>150,490,754</u>
Change in unrealized (appreciation) depreciation on investments, options and foreign exchange forward contracts	(14,035,133)	4,219,406	Unrealized foreign exchange gain (loss) on cash	(2,940,314)	1,824,529
(Increase) decrease in interest and other receivables	(151,843)	(1,950,280)	Net increase (decrease) in cash	11,213,012	23,474,333
(Increase) decrease in dividends receivable	775	6,068	Cash, beginning of period	53,816,157	12,105,102
(Increase) decrease in deposits with brokers for securities sold short	8,375,703	(37,518,080)	<b>Cash, End of Period</b>	<u>62,088,855</u>	<u>37,403,964</u>
Increase (decrease) in interest payable	(82,754)	343,083	Cash	62,088,855	37,403,964
Increase (decrease) in other payables and accrued liabilities	889,445	880,906	Cash overdraft	-	-
Purchase of long positions and repurchases of investments sold short	(434,090,715)	(469,429,562)	<b>Net Cash (Overdraft)</b>	<u>62,088,855</u>	<u>37,403,964</u>
Proceeds from sales of long positions and on investments sold short	413,412,746	384,369,883	<b>Items classified as operating activities:</b>		
<b>Net Cash Generated (Used) by Operating Activities</b>	<u>(9,502,672)</u>	<u>(127,016,421)</u>	Interest received, net of withholding tax	10,198,841	5,696,348
			Dividends received, net of withholding tax	12,431	11,037
			Interest and borrowing expense paid	(1,172,574)	(403,517)
			Dividends paid	-	(7,031)



# PICTON MAHONEY FORTIFIED INCOME FUND

## SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2019 (unaudited)

LONG POSITIONS (87.5%)					LONG POSITIONS (87.5%)				
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>Canadian Equities (0.3%)</b>					CAD	12,500,000	Quebecor Media Inc. 6.625%, 2023-01-15	13,468,115	13,520,833
<b>Communication Services (0.2%)</b>					CAD	2,050,000	Russel Metals Inc. 6.000%, 2022-04-19	2,078,188	2,080,750
	215,103	MDC Partners Inc.	665,793	708,334	CAD	2,832,000	Source Energy Services Canada LP 10.500%, 2021-12-15	3,092,203	2,513,400
<b>Materials (0.1%)</b>					CAD	9,110,000	Superior Plus LP 5.250%, 2024-02-27	8,748,848	9,051,165
	38,800	Champion Iron Ltd.	116,788	109,028	CAD	4,400,000	Superior Plus LP 5.125%, 2025-08-27	4,110,408	4,331,250
	13,500	Chemtrade Logistics Income Fund	121,239	126,495	CAD	6,575,000	Telesat Canada / Telesat LLC 8.875%, 2024-11-15	9,320,216	9,322,158
			238,027	235,523	CAD	4,300,000	Vesta Energy Corp. 8.125%, 2023-07-24	4,298,475	3,945,250
		<b>Total Canadian Equities - Long</b>	<b>903,820</b>	<b>943,857</b>	CAD	2,470,000	Videotron Ltd. 5.625%, 2025-06-15	2,642,275	2,641,356
<b>Canadian Debt (40.4%)</b>					<b>Total Canadian Debt - Long</b>				
<b>Corporate Bonds (40.4%)</b>								<b>154,717,797</b>	<b>157,106,318</b>
USD	4,000,000	1011778 BC ULC / New Red Finance Inc. 5.000%, 2025-10-15	5,047,674	5,280,820					
CAD	7,850,000	Air Canada 4.750%, 2023-10-06	8,007,477	8,134,563					
CAD	825,000	Canexus Corp. 6.500%, 2021-12-31	823,438	821,906					
CAD	1,800,000	Chemtrade Logistics Income Fund 5.000%, 2023-08-31	1,572,505	1,626,786					
CAD	2,538,000	Chemtrade Logistics Income Fund 4.750%, 2024-05-31	2,098,333	2,210,674					
CAD	1,000,000	Clarity Trust 7.978%, 2021-04-15	1,000,000	1,000,000					
CAD	11,900,000	Element Fleet Management Corp. 4.250%, 2020-06-30	11,413,936	11,941,174					
CAD	1,388,000	Element Fleet Management Corp. 4.250%, 2024-06-30	1,388,000	1,498,152					
CAD	1,000,000	Fusion Trust 7.978%, 2021-04-15	1,000,000	1,000,000					
USD	3,850,000	GFL Environmental Inc. 5.625%, 2022-05-01	4,928,446	5,093,857					
USD	2,889,000	GFL Environmental Inc. 8.500%, 2027-05-01	4,083,159	4,072,484					
CAD	8,500,000	Gibson Energy Inc. 5.250%, 2024-07-15	8,544,525	8,887,813					
USD	5,134,000	Intertape Polymer Group Inc. 7.000%, 2026-10-15	7,084,352	6,952,026					
CAD	8,450,000	Iron Mountain Canada Operations ULC 5.375%, 2023-09-15	8,638,670	8,692,938					
CAD	7,275,000	Keyera Corp. 6.875%, 2079-06-13	7,275,000	7,363,094					
CAD	5,000,000	Mattamy Group Corp. 6.500%, 2025-10-01	4,865,960	5,212,500					
USD	6,350,000	MDC Partners Inc. 6.500%, 2024-05-01	7,401,448	7,666,866					
CAD	2,575,000	NuVista Energy Ltd. 6.500%, 2023-03-02	2,579,165	2,515,453					
CAD	1,760,000	Parkland Fuel Corp. 6.000%, 2022-11-21	1,801,800	1,808,033					
CAD	4,375,000	Parkland Fuel Corp. 5.750%, 2024-09-16	4,398,519	4,481,641					
CAD	4,650,000	Parkland Fuel Corp. 5.625%, 2025-05-09	4,660,613	4,744,938					
CAD	8,350,000	Parkland Fuel Corp. 6.500%, 2027-01-21	8,346,049	8,694,438					
					<b>Global Debt (46.6%)</b>				
					<b>United States Corporate and Government Bonds (32.5%)</b>				
					USD	2,000,000	Allison Transmission Inc. 5.000%, 2024-10-01	2,600,868	2,675,561
					USD	2,500,000	Berry Global Inc. 5.500%, 2022-05-15	3,375,230	3,315,867
					USD	4,300,000	Consolidated Communications Inc. 6.500%, 2022-10-01	5,499,959	5,266,076
					USD	2,650,000	Calpine Corp. 6.000%, 2022-01-15	3,611,739	3,493,176
					USD	4,800,000	Carriage Services Inc. 6.625%, 2026-06-01	6,624,262	6,460,549
					USD	5,900,000	CSC Holdings LLC 10.875%, 2025-10-15	9,057,460	8,851,812
					USD	4,000,000	CSC Holdings LLC. 7.750%, 2025-07-15	5,549,598	5,668,139
					USD	2,550,000	CSC Holdings LLC 7.500%, 2028-04-01	3,697,083	3,674,751
					USD	3,749,000	Freeport Minerals Corp. 9.500%, 2031-06-01	6,107,736	6,074,746
					USD	1,825,000	GCI LLC 6.875%, 2025-04-15	2,498,299	2,498,089
					USD	1,825,000	GCI LLC 6.625%, 2024-06-15	2,492,349	2,504,766
					USD	5,525,000	Great Lakes Dredge & Dock Corp. 8.000%, 2022-05-15	7,552,014	7,661,979
					USD	800,000	Harland Clarke Holdings Corp. 6.875%, 2020-03-01	1,068,016	1,033,636
					USD	6,415,000	HCA Inc. 7.500%, 2023-12-15	9,249,375	9,430,618
					USD	2,375,000	Hongkong & Shanghai Banking Corp Ltd. 2.813%, 2049-12-31	2,249,535	2,187,330
					USD	4,680,000	Horizon Pharma USA Inc. 8.750%, 2024-11-01	6,524,768	6,591,360
					USD	3,000,000	HSBC Bank PLC 2.938%, 2049-12-31	2,881,075	2,759,239
					USD	4,870,000	HSBC Bank PLC 3.038%, 2049-12-31	4,631,511	4,510,379

# PICTON MAHONEY FORTIFIED INCOME 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 (\$)
USD	3,304,000	Icahn Enterprises LP / Icahn Enterprises Finance Corp. 6.250%, 2022-02-01	4,575,022	4,430,821	<b>SHORT POSITIONS (-6.6%)</b>				
USD	7,300,000	Iridium Communications Inc. 10.250%, 2023-04-15	10,440,173	10,397,773	<b>Canadian Debt (-0.8%)</b>				
USD	4,100,000	Level 3 Financing Inc. 5.375%, 2022-08-15	5,551,250	5,377,747	<b>Corporate Bonds (-0.8%)</b>				
USD	1,800,000	Louisiana-Pacific Corp. 4.875%, 2024-09-15	2,362,102	2,396,244	USD	(700,000)	Bausch Health Cos Inc. 9.000%, 2025-12-15	(999,154)	(1,025,449)
USD	4,025,000	RBS Capital Trust II 6.425%, 2049-01-03	6,360,522	6,719,203	USD	(500,000)	Bausch Health Cos Inc. 7.250%, 2029-05-30	(676,352)	(681,141)
USD	1,938,215	Reynolds Group Issuer Inc / Reynolds Group Issuer LLC / 5.750%, 2020-10-15	2,617,529	2,542,252	USD	(1,200,000)	Ensign Drilling Inc. 9.250%, 2024-04-15	<u>(1,567,851)</u>	<u>(1,548,493)</u>
USD	350,000	Sealed Air Corp. 4.875%, 2022-12-01	470,813	481,372				<u>(3,243,357)</u>	<u>(3,255,083)</u>
USD	2,850,000	TransDigm Inc. 6.000%, 2022-07-15	3,768,203	3,770,777	<b>Total Canadian Debt - Short</b>				
USD	2,525,000	TransDigm Inc. 6.250%, 2026-03-15	3,532,714	3,481,006				<b>(3,243,357)</b>	<b>(3,255,083)</b>
USD	1,513,000	Zekelman Industries Inc. 9.875%, 2023-06-15	<u>2,116,602</u>	<u>2,088,318</u>	<b>Global Debt (-5.7%)</b>				
			<u>127,065,807</u>	<u>126,343,586</u>	<b>United States Corporate and Government Bonds (-5.4%)</b>				
<b>International Corporate Bonds (14.1%)</b>					USD	(1,900,000)	CD&R Waterworks Merger Sub LLC 6.125%, 2025-08-15	(2,434,790)	(2,520,059)
USD	3,796,000	Altice France SA/France 6.250%, 2024-05-15	5,033,776	5,127,819	USD	(1,950,000)	CenturyLink Inc. 7.500%, 2024-04-01	(2,745,189)	(2,825,265)
USD	1,800,000	Bank of Scotland PLC 3.012%, 2049-11-29	1,997,792	1,866,189	USD	(1,200,000)	Cornerstone Building Brands Inc. 8.000%, 2026-04-15	(1,518,948)	(1,532,812)
USD	6,460,000	Lloyds Bank PLC 2.628%, 2049-12-31	7,001,651	6,731,734	USD	(1,250,000)	Energizer Holdings Inc. 6.375%, 2026-07-15	(1,722,669)	(1,682,435)
USD	4,700,000	Lloyds Bank PLC 2.875%, 2049-12-31	5,379,075	4,932,402	USD	(1,200,000)	Freeport-McMoRan Inc. 5.400%, 2034-11-14	(1,487,742)	(1,509,291)
USD	7,440,000	Royal Bank of Scotland Group PLC 3.058%, 2049-12-31	8,017,111	7,729,138	USD	(1,250,000)	Gray Television Inc. 5.875%, 2026-07-15	(1,729,867)	(1,698,769)
GBP	1,500,000	Standard Chartered PLC 1.063%, 2049-12-31	2,191,249	1,970,763	USD	(100,000)	Laredo Petroleum Inc. 6.250%, 2023-03-15	(125,717)	(122,220)
USD	6,950,000	Standard Chartered PLC 1.650%, 2049-12-31	7,705,211	7,401,733	USD	(699,000)	Prestige Brands Inc. 6.375%, 2024-03-01	(915,795)	(960,228)
USD	3,380,000	Standard Chartered PLC 2.625%, 2049-12-31	3,794,920	3,577,608	USD	(2,400,000)	Range Resources Corp. 5.000%, 2023-03-15	(3,128,704)	(2,967,619)
USD	1,250,000	Standard Chartered PLC 2.713%, 2049-12-31	1,456,703	1,344,151	USD	(1,000,000)	Sinclair Television Group Inc. 5.125%, 2027-02-15	(1,279,904)	(1,287,144)
USD	8,460,000	Standard Chartered PLC 3.125%, 2049-12-31	8,858,916	9,086,158	USD	(1,450,000)	Team Health Holdings Inc. 6.375%, 2025-02-01	(1,627,944)	(1,458,981)
USD	3,650,000	Zekelman Industries Inc. 6.875%, 2026-05-15	<u>4,849,055</u>	<u>4,838,184</u>	USD	(450,000)	Valeant Pharmaceuticals International 9.250%, 2026-04-01	(644,580)	(659,364)
			<u>56,285,459</u>	<u>54,605,879</u>	USD	(1,200,000)	Whiting Petroleum Corp. 5.750%, 2021-03-15	<u>(1,598,825)</u>	<u>(1,585,736)</u>
								<u>(20,960,674)</u>	<u>(20,809,923)</u>
					<b>International Corporate Debt (-0.3%)</b>				
					USD	(1,000,000)	Ziggo Bond Finance BV 6.000%, 2027-01-15	(1,310,317)	(1,316,546)
					<b>Total Global Debt - Short</b>				
								<b>(22,270,991)</b>	<b>(22,126,469)</b>
					<b>Options (-0.1%)</b>				
					<b>Total Written Options - Refer to Appendix A</b>				
								<b>(528,582)</b>	<b>(260,941)</b>
					<b>Transaction Costs</b>				
								<b>(2,593)</b>	<b>-</b>
					<b>Total Short Positions</b>				
								<b>(26,045,523)</b>	<b>(25,642,493)</b>
					<b>Total Purchased Options - Refer to Appendix A</b>				
								<b>1,224,486</b>	<b>903,767</b>
					<b>Transaction Costs</b>				
								<b>(33,482)</b>	<b>-</b>
					<b>Total Long Positions</b>				
								<b>340,163,887</b>	<b>339,903,407</b>

# PICTON MAHONEY FORTIFIED INCOME FUND

## SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2019 (unaudited)

No. of shares/ units/ CCY*	Face value	Security Description	Average cost (\$)	Fair value (\$)
<b>FOREIGN EXCHANGE FORWARD CURRENCY CONTRACTS (1.7%)</b>				
		<b>Total Forward Currency Contracts - Refer to Appendix B</b>		<u>6,624,766</u>
<b>CREDIT DEFAULT SWAPS (-0.3%)</b>				
		<b>Credit Default Swap Fair Value - Refer to Appendix C</b>		<u>(1,011,604)</u>
		<b>TOTAL INVESTMENT PORTFOLIO (82.3%)</b>	<b>314,118,364</b>	<b>319,874,076</b>
		Other Assets Net of Liabilities (17.7%)		<u>68,613,429</u>
		<b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (100.0%)</b>		<u><b>388,487,505</b></u>

\*CCY denotes local currency of security

# PICTON MAHONEY FORTIFIED INCOME FUND

## APPENDIX A

### OPTIONS (0.1%)

Issuer	Option Type	Number of Options	Strike \$	Expiry	Average Cost \$	Fair Value \$
Chemtrade Logistics Income	Call Option	3,503	\$11	October, 2019	105,090	52,545
Gold Future OPT(CMX)	Call Option	99	\$1,450	August, 2019	78,915	278,142
Gold Future OPT(CMX)	Call Option	99	\$1,475	July, 2019	80,208	93,145
					<u>264,213</u>	<u>423,832</u>
CBT US Treasury Long-Term Bond	Put Option	200	\$151	July, 2019	69,421	28,585
iShares iBoxx High Yield	Put Option	2,026	\$84	July, 2019	76,776	18,532
iShares iBoxx High Yield	Put Option	3,029	\$85	July, 2019	158,326	35,623
iShares iBoxx High Yield	Put Option	1,997	\$86	August, 2019	120,041	117,431
iShares iBoxx High Yield	Put Option	4,038	\$86	July, 2019	139,832	116,087
S&P 500 E-Mini	Put Option	201	\$2,700	July, 2019	156,937	47,278
S&P E-Mini 1st Week	Put Option	202	\$2,825	July, 2019	128,682	42,894
US Bond Futures	Put Option	200	\$152	July, 2019	53,087	49,003
US Long Bond W1	Put Option	400	\$153	July, 2019	57,171	24,502
					<u>960,273</u>	<u>479,935</u>
<b>Total Purchased Options</b>					<b><u>1,224,486</u></b>	<b><u>903,767</u></b>
Chemtrade Logistics Income	Written Call Option	(4,553)	\$13	October, 2019	(22,765)	(11,834)
Gold Future OPT(CMX)	Written Call Option	(99)	\$1,550	August, 2019	(16,818)	(76,327)
Gold Future OPT(CMX)	Written Call Option	(99)	\$1,525	July, 2019	(29,754)	(34,929)
					<u>(69,337)</u>	<u>(123,090)</u>
CBT US Treasury Long-Term Bond	Written Put Option	(202)	\$145	July, 2019	(24,747)	(8,249)
iShares iBoxx High Yield	Written Put Option	(6,064)	\$75	July, 2019	(63,393)	(30,854)
iShares iBoxx High Yield	Written Put Option	(3,029)	\$83	July, 2019	(71,247)	(19,081)
iShares iBoxx High Yield	Written Put Option	(1,997)	\$84	August, 2019	(49,582)	(46,972)
S&P 500 E-Mini	Written Put Option	(201)	\$2,500	July, 2019	(157,594)	(11,163)
S&P E-Mini 1st Week	Written Put Option	(202)	\$2,650	July, 2019	(56,092)	(5,279)
US Bond Futures	Written Put Option	(198)	\$146	July, 2019	(16,172)	(8,086)
US Long Bond W1	Written Put Option	(400)	\$152	July, 2019	(20,418)	(8,167)
					<u>(459,245)</u>	<u>(137,851)</u>
<b>Total Written Options</b>					<b><u>(528,582)</u></b>	<b><u>(260,941)</u></b>

## APPENDIX B

### FOREIGN EXCHANGE FORWARD CONTRACTS (1.7%)

Purchased Currency	Sold Currency	Forward Rate	Maturity Date	Fair Value (\$)	Counterparty	Credit Rating
CAD \$226,249,424	USD \$168,312,168	1.34423	2019-08-15	6,513,080	Canadian Imperial Bank of Commerce	A-1
CAD \$3,717,569	USD \$2,762,000	1.34597	2019-08-15	111,686	Canadian Imperial Bank of Commerce	A-1
				<u>6,624,766</u>		
<b>Unrealized loss on foreign exchange forward contracts at fair value</b>				<b>6,624,766</b>		
<b>Net unrealized gain (loss) on foreign exchange forward contracts at fair value</b>				<b>6,624,766</b>		

## APPENDIX C

### CREDIT DEFAULT SWAPS (-0.3%)

Buy / Sell	Referenced Entity	Fixed Rate	Expiry Date	Effective date	Counterparty	Counterparty Credit Rating	Notional Amount	Fair Value
Buy	Markit CDX North America High Yield Index	5.00%	20-Jun-24	20-Mar-19	Goldman Sachs International	A-1	CAD 800,000	(79,733)
Buy	Markit CDX North America High Yield Index	5.00%	20-Jun-24	20-Mar-19	Goldman Sachs International	A-1	CAD 9,350,000	(931,871)
<b>Total Credit Default Swaps Contracts at Fair Value</b>								<b><u>(1,011,604)</u></b>

# PICTON MAHONEY FORTIFIED INCOME 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	943,857	-	-	943,857
Bonds - Long	-	308,261,146	29,794,637	338,055,783
Options - Long	903,767	-	-	903,767
Bonds - Short	-	(25,381,552)	-	(25,381,552)
Options - Short	(260,941)	-	-	(260,941)
Forward Contracts, net	-	6,624,766	-	6,624,766
Credit Default Swaps	-	(1,011,604)	-	(1,011,604)
<b>Total</b>	<b>1,586,683</b>	<b>288,492,756</b>	<b>29,794,637</b>	<b>319,874,076</b>

ASSETS (LIABILITIES) AT FAIR VALUE AS AT DECEMBER 31, 2018				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Bonds - Long	-	293,984,217	29,035,188	323,019,405
Options - Long	1,307,623	-	-	1,307,623
Bonds - Short	-	(27,623,809)	-	(27,623,809)
Options - Short	(416,080)	-	-	(416,080)
Forward Contracts, net	-	(8,285,017)	-	(8,285,017)
<b>Total</b>	<b>891,543</b>	<b>258,075,391</b>	<b>29,035,188</b>	<b>288,002,122</b>

### 2. RECONCILIATION OF LEVEL 3 FAIR VALUE MEASUREMENTS

The following tables reconcile the Fund's Level 3 fair value measurements for the period ended June 30, 2019 and December 31, 2018.

June 30, 2019	Debt Instruments - Long \$	Debt Instruments - Short \$	Total \$
<b>Balance at Beginning of Period</b>	29,035,188	-	29,035,188
Investment purchases during the period	3,776,726	-	3,776,726
Proceeds from sales during the period	(550,000)	-	(550,000)
Transfers in during the period	-	-	-
Transfers out during the period	-	-	-
Net realized gain (loss) on sale of investments	-	-	-
Change in unrealized appreciation (depreciation) in value of investments	(2,467,277)	-	(2,467,277)
<b>Balance at End of Period</b>	<b>29,794,637</b>	<b>-</b>	<b>29,794,637</b>
<b>Total change in unrealized appreciation (depreciation) for assets held as at June 30, 2019</b>			<b>(2,467,277)</b>

December 31, 2018	Debt Instruments - Long \$	Debt Instruments - Short \$	Total \$
<b>Balance at Beginning of Period</b>	-	-	-
Investment purchases during the period	550,000	-	550,000
Proceeds from sales during the period	-	-	-
Transfers in during the period	28,485,188	-	28,485,188
Transfers out during the period	-	-	-
Net realized gain (loss) on sale of investments	-	-	-
Change in unrealized appreciation (depreciation) in value of investments	-	-	-
<b>Balance at End of Period</b>	<b>29,035,188</b>	<b>-</b>	<b>29,035,188</b>
<b>Total change in unrealized appreciation (depreciation) for assets held as at December 31, 2018</b>			<b>-</b>

## PICTON MAHONEY FORTIFIED INCOME FUND

### FUND SPECIFIC NOTES (CONTINUED)

During the period ended June 30, 2019 and the year ended December 31, 2018, certain securities held long were classified as Level 3. The Fund's long Level 3 securities consist of debt instruments which were measured at the transaction price as determined at the time of purchase. If there was a 5% increase or decrease in the price of level 3 securities, with all other variables held constant, net assets attributable to holders of redeemable units would have increased or decreased, respectively, by approximately \$1,489,732 as at June 30, 2019 (December 31, 2018 - \$1,451,760).

June 30, 2019							
Security Name	Fair Value	Valuation Technique	Unobservable Inputs	Reasonable Shift (+)	Reasonable Shift (-)	Change in Valuation (+)	Change in Valuation (-)
Clarity Trust Series D Medium Term Note 7.978%, 2021-04-15	1,000,000	Private valuation	Broker quote	5%	5%	\$50,000	\$(50,000)
Fusion Trust Series D Medium Term Note 7.978%, 2021-04-15	1,000,000	Private valuation	Broker quote	5%	5%	\$50,000	\$(50,000)
Royal Bank of Scotland Group PLC 3.058%, 2049-12-31	7,729,138	Private valuation	Broker quote	5%	5%	\$386,457	\$(386,457)
Standard Chartered PLC 2.625%, 2049-12-31	3,577,608	Private valuation	Broker quote	5%	5%	\$178,880	\$(178,880)
Standard Chartered PLC 3.125%, 2049-12-31	9,086,158	Private valuation	Broker quote	5%	5%	\$454,308	\$(454,308)
Standard Chartered PLC 1.650%, 2049-12-31	7,401,733	Private valuation	Broker quote	5%	5%	\$370,087	\$(370,087)

  

December 31, 2018							
Security Name	Fair Value	Valuation Technique	Unobservable Inputs	Reasonable Shift (+)	Reasonable Shift (-)	Change in Valuation (+)	Change in Valuation (-)
Clarity Trust Series D Medium Term Note 6.889%, 2021-04-15	275,000	Private valuation	Broker quote	5%	5%	\$13,750	\$(13,750)
Fusion Trust Series D Medium Term Note 7.978%, 2021-04-15	275,000	Private valuation	Broker quote	5%	5%	\$13,750	\$(13,750)
Royal Bank of Scotland Group PLC 3.058%, 2049-12-31	7,824,412	Private valuation	Broker quote	5%	5%	\$391,221	\$(391,221)
Standard Chartered PLC 2.625%, 2049-12-31	3,942,254	Private valuation	Broker quote	5%	5%	\$197,113	\$(197,113)
Standard Chartered PLC 3.125%, 2049-12-31	9,567,177	Private valuation	Broker quote	5%	5%	\$478,359	\$(478,359)
Standard Chartered PLC 1.650%, 2049-12-31	7,151,345	Private valuation	Broker quote	5%	5%	\$357,567	\$(357,567)

### 3. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

As at June 30, 2019 and December 31, 2018

The following table shows the net impact of the Fund's statement of financial position if all set-off rights were exercised.

Financial Assets and Liabilities	Amounts Eligible for Offset			Net \$
	Gross Assets / (Liabilities) \$	Financial Instruments \$	Collateral received/paid \$	
<b>June 30, 2019</b>				
Derivative assets - Foreign exchange forward contracts	6,624,766	-	-	6,624,766
Derivative liabilities - Credit default swaps	(1,011,604)	-	-	(1,011,604)
Derivative liabilities - Foreign exchange forward contracts	-	-	-	-
<b>December 31, 2018</b>				
Derivative assets - Foreign exchange forward contracts	242,079	(242,079)	-	-
Derivative liabilities - Forward exchange forward contracts	(8,527,096)	242,079	-	(8,285,017)

# PICTON MAHONEY FORTIFIED INCOME FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 4. 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 \$4,664,170 (Collateral - \$4,757,456) of securities on loan (December 31, 2018 - \$15,378,629 (Collateral - \$15,686,202) 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	20,421	13,880
Securities lending charges	(7,147)	(4,858)
<b>Net securities lending income</b>	<b>13,274</b>	<b>9,022</b>
Withholding taxes on securities lending income	(79)	(2,113)
<b>Net securities lending income received by the Fund</b>	<b>13,195</b>	<b>6,909</b>
Security lending charges percentage of gross securities lending income	35%	35%

### 5. 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 75% BofA Merrill Lynch Global High Yield Index (hedged to Canadian dollars) and 25% BofA Merrill Lynch Global Corporate Index (hedged to Canadian dollars) were to increase or decrease by 10%, net assets would have increased or decreased by approximately \$37,291,614 (December 31, 2018 - \$38,443,160). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### 6. 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 \$	Forward Currency Contracts \$	Total \$	Percentage of Net Assets %
United States Dollar	226,337,348	708,333	(223,551,169)	3,494,512	0.9%
Euro	101	-	-	101	0.0%
British Pound	1,735,584	-	-	1,735,584	0.4%
<b>Net Exposure</b>	<b>228,073,033</b>	<b>708,333</b>	<b>(223,551,169)</b>	<b>5,230,197</b>	<b>1.3%</b>

FINANCIAL INSTRUMENTS					
December 31, 2018 Currency	Monetary \$	Non-Monetary \$	Forwards Currency Contracts \$	Total \$	Percentage of Net Assets %
United States Dollar	270,319,872	-	(266,215,136)	4,104,736	1.2%
European Euro	(7,889)	-	-	(7,889)	0.0%
British Pound	(195,795)	-	-	(195,795)	-0.1%
<b>Net Exposure</b>	<b>270,116,188</b>	<b>-</b>	<b>(266,215,136)</b>	<b>3,901,052</b>	<b>1.1%</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 \$261,510 (December 31, 2018 - \$195,053). 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.

# PICTON MAHONEY FORTIFIED INCOME FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 7. INTEREST RATE RISK

If the yield curve had shifted in parallel by 1%, with all other variables held constant, net assets will increase or decrease by \$6,924,611 (December 31, 2018 - \$10,588,740). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

As at June 30, 2019 and December 31, 2018, the Fund's exposure to debt instruments by maturity were as follows:

Debt Instruments by Maturity Date	June 30, 2019 (\$)		
	Long Positions	Short Positions	Total
Less than 1 year	12,974,810	-	12,974,810
1-3 years	33,954,007	(1,585,736)	32,368,271
3-5 years	105,115,980	(8,423,825)	96,692,155
Greater than 5 years	186,010,986	(15,371,991)	170,638,995
<b>Total</b>	<b>338,055,783</b>	<b>(25,381,552)</b>	<b>312,674,231</b>

Debt Instruments by Maturity Date	December 31, 2018 (\$)		
	Long Positions	Short Positions	Total
Less than 1 year	10,906,528	(2,688,774)	8,217,754
1-3 years	21,615,150	(1,864,321)	19,750,829
3-5 years	96,583,204	(8,270,947)	88,312,257
Greater than 5 years	193,914,523	(14,799,767)	179,114,756
<b>Total</b>	<b>323,019,405</b>	<b>(27,623,809)</b>	<b>295,395,596</b>

### 8. CREDIT RISK

The following table below shows debt as a percentage of net assets attributable to holders of redeemable units held under each credit rating. All counterparties to derivative contracts had a credit rating of A-1 or higher as at June 30, 2019 and December 31, 2018.

Overall (S&P)	June 30, 2019			Bond Ratings	December 31, 2018		
	Net	Long	Short		Net	Long	Short
A	0.57%	0.57%	0.00%	A-	0.90%	0.90%	0.00%
BBB	5.38%	5.38%	0.00%	BBB+	5.83%	5.83%	0.00%
BBB-	7.61%	7.61%	0.00%	BBB	3.05%	3.71%	-0.66%
BB+	5.87%	6.26%	-0.39%	BBB-	1.55%	1.55%	0.00%
BB	17.40%	18.16%	-0.76%	BB+	5.60%	5.95%	-0.35%
BB-	9.68%	9.68%	0.00%	BB	15.29%	15.58%	-0.29%
B+	3.55%	5.42%	-1.87%	BB-	5.12%	5.12%	0.00%
B	3.99%	4.90%	-0.91%	B+	9.85%	10.19%	-0.34%
B-	12.63%	17.52%	-4.89%	B	8.56%	10.57%	-2.01%
CCC+	0.31%	1.36%	-1.05%	B-	16.32%	18.68%	-2.36%
CCC	4.91%	5.29%	-0.38%	CCC+	0.12%	1.13%	-1.01%
NR	5.16%	5.16%	0.00%	CCC	4.34%	5.08%	-0.74%
				NR	5.94%	5.94%	0.00%

The above credit ratings are obtained and disclosed from the rating services in the following hierarchical order: 1) Moody's; 2) Standard & Poor's; 3) Fitch; 4) Dominion Bond Rating Service, using first available. All cash is held with a financial institution with a minimum of credit rating A++1.



# PICTON MAHONEY FORTIFIED INCOME FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 9. 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	0.3%	0.0%
<b>Debt</b>		
Canada	39.6%	40.4%
United States	27.1%	25.8%
International	13.8%	17.0%
<b>Derivatives</b>	1.5%	-2.0%

### 10. 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 amount 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 Financial Liabilities	On Demand \$	< 3 months \$	> 3 months \$	Total \$
Short positions	25,381,552	-	-	25,381,552
Distributions payable	3,598	-	-	3,598
Redemptions payable	1,106,705	-	-	1,106,705
Accrued liabilities and other payables	-	4,945,268	-	4,945,268
Derivative liabilities	1,272,545	-	-	1,272,545

December 31, 2018 Financial Liabilities	On Demand \$	< 3 months \$	> 3 months \$	Total \$
Short positions	27,623,809	-	-	27,623,809
Distributions payable	1,585	-	-	1,585
Redemptions payable	168,838	-	-	168,838
Accrued liabilities and other payables	-	5,933,742	-	5,933,742
Derivative liabilities	8,943,176	-	-	8,943,176

### 11. 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	3,889,228	23,838,720	2,759,230	202,353	2,699,650	2,311,429	12,909,550	1,009,003	121,518	1,838,343
Units issued	2,468,887	5,066,550	342,763	13,686	-	1,549,889	12,143,815	885,301	83,708	782,524
Units reinvested	62,500	245,477	-	-	45,677	48,809	223,670	-	-	38,990
Units redeemed	(708,272)	(4,042,269)	(371,519)	(28,607)	(416,386)	(284,552)	(1,432,171)	(70,908)	(15,630)	-
<b>Units issued and outstanding, end of period</b>	<b>5,712,343</b>	<b>25,108,478</b>	<b>2,730,474</b>	<b>187,432</b>	<b>2,328,941</b>	<b>3,625,575</b>	<b>23,844,864</b>	<b>1,823,396</b>	<b>189,596</b>	<b>2,659,857</b>
<b>Weighted average number of units held during the period</b>	<b>5,218,190</b>	<b>24,732,969</b>	<b>2,668,341</b>	<b>190,898</b>	<b>2,624,380</b>	<b>3,089,819</b>	<b>19,191,583</b>	<b>1,317,555</b>	<b>157,650</b>	<b>2,160,438</b>

FUND SPECIFIC NOTES (CONTINUED)

**12. COMMISSIONS**

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

	2019	2018
Brokerage commissions	355	299
Soft Dollar commissions	29	-
	<u>          </u>	<u>          </u>

**13. TAX LOSS CARRY FORWARDS**

As at December 31 (in \$000)

	2018
Net capital losses carry forward	8,070
Non-capital losses carry forward	-
	<u>          </u>

# PICTON MAHONEY FORTIFIED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2019 (unaudited)

### 1. GENERAL INFORMATION

Picton Mahoney Fortified Income 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 maximize total return to unitholders through income and capital appreciation by investing primarily in global income 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, warrants, and exchanged traded funds 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, securi-

# PICTON MAHONEY FORTIFIED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2019 (unaudited)

ties 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.

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, re-classifications 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 INCOME FUND

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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. The Manager has determined that all of the underlying funds in which the Funds invest are unconsolidated structured entities. In making this determination, the Manager evaluated the fact that decision making about the underlying funds' activities is not governed by voting or similar rights held by the Funds and other investors in any underlying funds. The Fund invests in mortgage-related and other asset-backed securities. These securities include mortgage pass-through securities, collateralized mortgage obligations, commercial mortgage-backed securities, asset-backed securities, collateralized debt obligations and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. The Manager has determined that such securities are also unconsolidated structured entities. The debt and equity securities issued by these securities may include tranches with varying levels of subordination. These securities may provide a monthly payment which consists of both interest and principal payments.

Mortgage-related securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans.

The carrying value of mortgage related and other asset-backed securities are disclosed in the Schedule of Investment Portfolio. The fair value of such securities as at June 30, 2019 and December 31, 2018 represents the maximum exposure in losses at that date. The change in fair value of mortgage related and other asset backed securities are included in the Statement of Comprehensive Income and Change in unrealized appreciation (depreciation) on investments, options, and foreign exchange forward contracts.

### (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 INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 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. Refer to Note 7 within the fund specific notes for the fund exposure.

#### 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, interest and other receivable, 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.

The Fund primarily invests in fixed income securities and is therefore exposed to the credit risk of the underlying fixed income portfolio. Refer to Note 8 within the fund specific notes for the fund exposure.



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## 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 with the exception of bonds sold short. At the Manager's discretion, bonds sold short can be repurchased to settle the liability immediately. 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 has elected 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, are 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 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.

# PICTON MAHONEY FORTIFIED INCOME FUND

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As at June 30, 2019 (unaudited)

### 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 75% BofA Merrill Lynch Global High Yield Index (hedged to Canadian dollars) and 25% BofA Merrill Lynch Global Corporate Index (hedged to Canadian dollars) (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**

### **Corporate Address**

#### **Picton Mahoney Asset Management**

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### **Fund Administration & Transfer Agent**

#### **Picton Mahoney Funds**

C/O RBC Investor Services Trust,  
Shareholder Services  
155 Wellington Street West, 3<sup>rd</sup> Floor  
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#### **PricewaterhouseCoopers LLP**

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Canada M5J 0B2

### **Legal Counsel**

#### **McMillan LLP**

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