# U.S. Financials Income Fund

## Annual Report 2018

strathbridge
ASSET MANAGEMENT

## Letter to Unitholders

We are pleased to present the 2018 annual report containing the management report of fund performance and the audited statements for U.S. Financials Income Fund (the "Fund").

2018 was a challenging year across asset classes as investors weighed the implications of tighter global monetary policy, trade wars, soaring valuations along with heightened geopolitical risks involving such countries as Saudi Arabia, Iran, Korea and Russia. In the end, the bears ultimately prevailed as the S&P 500 Index had its first annual decline since the financial crisis returning negative 4.4 percent. Closer to home, the S&P/TSX Composite Index lagged its U.S. counterpart returning negative 8.9 percent. Bonds offered little in the way of protection returning negative 1.2 percent, as measured by the Bloomberg Barclays Global-Aggregate Total Return Index while the Bloomberg Commodities Index sank 11.3 percent. Cyclical sectors led the declines in the S&P 500 Index with Energy, Materials and Industrial sectors off 18.1 percent, 14.7 percent and 13.3 percent respectively. Health Care, Utilities and Consumer Discretionary were the only sectors with positive returns in 2018, according to GICS classification. In Canada, Technology was the best performing sector, up 13.0 percent, while Energy, Consumer Discretionary and Health Care declined sharply. The Bank of Canada continued to raise the overnight lending rate in 2018, hiking three times to 1.75 percent, while the U.S. Federal Reserve raised the Federal Funds rate 25 basis points on four separate occasions to now sit at 2.5 percent. The Canadian dollar declined 8.0 percent versus the U.S. dollar, partly weighed down by oil prices which declined nearly 25 percent for the year.

The Fund paid cash distributions of C$0.50 per Class A unit and US$0.50 per Class U unit during the year ended December 31, 2018. The net asset value ("NAV") per Class A unit decreased 15.9 percent from C$8.51 at December 31, 2017 to C$7.16 at December 31, 2018 and the NAV per Class U unit decreased 17.0 percent from US$8.67 on December 31, 2017 to US$7.19 at December 31, 2018. The total return of the Fund, including reinvestment of distributions, for the year ended December 31, 2018 was negative 10.4 percent for the Class A units and negative 11.6 percent for the Class U units. The net realized and unrealized gain on options attributable to Strathbridge Selective Overwriting strategy (see "The Fund") amounted to C$0.09 per unit in 2018 as compared to a net realized gain on options of C$0.07 per unit in 2017. For a more detailed review of the operations of the Fund, please see the Results of Operations and the Portfolio Manager Report sections.

We thank all unitholders for their continued support and encourage unitholders to review the detailed information contained within the annual report.

John P. Mulvihill
Chairman & CEO
Strathbridge Asset Management Inc.

## The Fund

The Fund is a closed-end investment trust designed to provide quarterly cash distributions and to maximize total return through capital appreciation and distributions. The Class A units are listed on the TSX under the ticker symbol USF.UN. From time to time, between 0 percent and 100 percent of the value of the Class A units' U.S. dollar exposure may be hedged back to the Canadian dollar. The Class U units are denominated in U.S. dollar currency and do not trade on an exchange.

To accomplish its investment objectives, the Fund invests in an actively managed portfolio of U.S. financial issuers selected from the S&P 500 Index that are classified as "Financials" or "Real Estate" by Standard & Poor's Global Industry Classification Standard and which have a market capitalization of at least US$10 billion and a credit rating issued by Standard & Poor's Rating Services of at least A- at the time of purchase. The portfolio may include U.S. publicly listed alterative asset management issuers which have a market capitalization of at least US$5 billion at the time of purchase. The Fund may also invest up to 25 percent of the net asset value in other U.S. financial or alternative asset management issuers that do not meet the rating or market capitalization requirements noted above, public investment funds including exchange-traded funds and other Strathbridge funds (provided that no more than 15 percent of the net asset value of the Fund may be invested in securities of other Strathbridge funds) that provide exposure to such securities.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting ("SSO"), to enhance the income generated by the portfolio and to reduce volatility. The Fund intends to strategically write covered call options from time to time, in respect of all or a portion of the securities in its portfolio. In addition, the Fund may write cash covered put options and may invest up to 10 percent of net assets to purchase call options both in respect of securities in which the Fund is permitted to invest.

The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to writing continuously and rolling options every thirty days. This proprietary process has been developed over many years through various market cycles. The Manager believes the primary benefit to investors is to maximize the total return of the particular portfolio while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

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## Management Report of Fund Performance

The management report of fund performance contains the financial highlights for the year ended December 31, 2018 of U.S. Financials Income Fund (the "Fund"). The audited financial statements of the Fund are attached.

Copies of the Fund's proxy voting policies and procedures, proxy voting disclosure record and quarterly portfolio disclosure may be obtained by calling 1-800-725-7172 toll free, by writing to the Fund at Investor Relations, 121 King Street West, Suite 2600, P.O. Box 113, Toronto, Ontario, M5H 3T9, by email at info@strathbridge.com or by visiting our website at www.strathbridge.com. You can also request semi-annual or annual reports at no cost using one of the above methods.

## Investment Objectives and Strategies

The Fund's investment objectives are to:

(1) provide unitholders with quarterly cash distributions; and

(2) maximize total return through capital appreciation and distributions.

To achieve its investment objectives, the Fund will invest in an actively managed portfolio of U.S. financial issuers selected from the S&P 500 Index that are classified as "Financials" or "Real Estate" by Standard & Poor's Global Industry Classification Standard and which have a market capitalization of at least US$10 billion and a credit rating issued by Standard & Poor's Rating Services of at least A- at the time of purchase. The portfolio may include U.S. publicly listed alterative asset management issuers which have a market capitalization of at least US$5 billion at the time of purchase. The Fund may also invest up to 25 percent of the net asset value in other U.S. financial or alternative asset management issuers that do not meet the rating or market capitalization requirements noted above, public investment funds including exchange-traded funds and other Strathbridge funds (provided that no more than 15 percent of the net asset value of the Fund may be invested in securities of other Strathbridge funds) that provide exposure to such securities.

The Manager will select the constituent issuers to be included in the Portfolio utilizing its proprietary quantitative model supplemented by fundamental analysis including, among other things, its view as to (i) the sustainability of the dividends on the securities held in the Portfolio, (ii) the potential for price appreciation, and (iii) the attractiveness of the shares for generating premiums from writing covered call options including liquidity and volatility considerations.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting ("SSO"), to enhance the income generated by the portfolio and to reduce volatility. The Fund strategically writes covered call options from time to time, in respect of all or a portion of the securities in its portfolio. In addition, the Fund may write cash covered put options and may invest up to 10 percent of net assets to purchase call options both in respect of securities in which the Fund is permitted to invest.

The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to writing continuously and rolling options every thirty days. This proprietary process has been developed over many years through various market cycles. The Manager believes the primary benefit to investors is to maximize the total return of the particular portfolio while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

## Risk

Risks associated with an investment in the securities of the Fund are discussed in the Fund's 2018 Annual Information Form, which is available on the Fund's website at www.strathbridge.com or on SEDAR at www.sedar.com. There were no changes to the Fund over the year that materially affected the risks associated with an investment in the securities of the Fund.

## Results of Operations

### Distributions

For the year ended December 31, 2018, the Fund paid cash distributions of C$0.50 per Class A unit and US$0.50 per Class U unit.

Since the inception of the Fund in February 2015, the Fund has paid total cash distributions of C$1.93 per Class A unit and US$1.93 per Class U unit..

### Revenue and Expenses

For the year ended December 31, 2018, the Fund's total revenue were C$0.17 per Class A unit and US$0.18 per Class U unit and total expenses were C$0.28 per Class A unit and US$0.29 per Class U unit, as compared to total revenue of C$0.23 per Class A unit and US$0.23 per Class U unit and total expenses of C$0.26 per Class A unit and US$0.26 per Class U unit in the prior year. The Fund had net realized and unrealized losses of C$0.57 per Class A unit and US$0.72 per Class U unit during the year as compared to net realized and unrealized gains of C$0.71 per Class A unit and US$0.80 per Class U unit in 2017.

### Net Asset Value

The net asset value per Class A unit of the Fund decreased 15.9 percent from C$8.51 at December 31, 2017 to C$7.16 at December 31, 2018. The net asset value per Class U unit of the Fund decreased 17.0 percent from US$8.67 at December 31, 2017 to US$7.19 at December 31, 2018. The total net asset value of the Fund decreased C$8.32 million from C$16.16 million at December 31, 2017 to C$7.84 million at December 31, 2018, reflecting a decrease in net assets attributable to holders of Class A and Class U units of C$1.13 million, cash distributions of C$0.85 million and unit redemptions of C$6.34 million.

## Recent Developments

There were no recent developments pertaining to the Fund during the year ended December 31, 2018.

## Related Party Transactions

Strathbridge Asset Management Inc. ("Strathbridge"), as the Investment Manager of the Fund, manages the Fund's investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an Investment Management Agreement made between the Fund and Strathbridge dated January 29, 2015.

Strathbridge is the Manager of the Fund pursuant to a Trust Agreement made between the Fund and Strathbridge dated January 29, 2015. As such, Strathbridge is responsible for providing or arranging for required administrative services to the Fund.

Strathbridge is paid the fees described under the Management Fees section of this report.

During the year, no recommendations or approvals were required to be sought from the Independent Review Committee ("IRC") concerning related party transactions.

## Independent Review Committee

National Instrument 81-107 - Independent Review Committee for Investment Funds ("NI 81-107") requires all publicly offered investment funds to establish an IRC to whom the Manager must refer conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, maintaining records in respect of these matters and providing assistance to the IRC in carrying out its functions. The Chief Compliance Officer, designated by the Manager, is in charge of facilitating the fulfillment of these obligations.

The IRC will prepare, for each financial year, a report to securityholders that describes the IRC and its activities during such financial year and includes, if known, a description of each instance when the Manager acted in a conflict of interest matter for which the IRC did not give a positive recommendation or for which a condition, imposed by the IRC, was not met in its recommendation or approval. Members of the IRC are Robert W. Korthals, Michael M. Koerner and Robert G. Bertram.

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance from its inception on February 24, 2015. This information is derived from the Fund's audited annual financial statements.

| | 2018 | | 2017 | | 2016 | | 2015[3] | |
|---|---|---|---|---|---|---|---|---|
| Periods ended December 31 | **Class A** | **Class U** | Class A | Class U | Class A | Class U | Class A | Class U |
| **NET ASSETS PER UNIT** | | | | | | | | |
| **Net Assets, beginning of period[1]** | **C$ 8.51** | **US$ 8.67** | C$ 8.32 | US$ 8.28 | C$ 8.45 | US$ 8.27 | C$ 9.33[4] | US$ 9.33[4] |
| INCREASE (DECREASE) FROM OPERATIONS | | | | | | | | |
| Total revenue | **0.17** | **0.18** | 0.23 | 0.23 | 0.15 | 0.15 | 0.18 | 0.16 |
| Total expenses | **(0.28)** | **(0.29)** | (0.26) | (0.26) | (0.22) | (0.22) | (0.23) | (0.22) |
| Realized gain (loss) for the period | **0.34** | **0.60** | 1.30 | 0.96 | (0.66) | (0.78) | (0.70) | (0.11) |
| Unrealized gain (loss) for the period | **(0.91)** | **(1.32)** | (0.59) | (0.16) | 0.52 | 0.75 | 0.26 | (0.51) |
| **Total Increase (Decrease) from Operations[2]** | **(0.68)** | **(0.83)** | 0.68 | 0.77 | (0.21) | (0.10) | (0.49) | (0.68) |
| DISTRIBUTIONS | | | | | | | | |
| Non-taxable distributions | **(0.50)** | **(0.50)** | (0.50) | (0.50) | (0.50) | (0.50) | (0.43) | (0.43) |
| **Total Distributions[5]** | **(0.50)** | **(0.50)** | (0.50) | (0.50) | (0.50) | (0.50) | (0.43) | (0.43) |
| **Net Assets, end of period[1]** | **C$ 7.16** | **US$ 7.19** | C$ 8.51 | US$ 8.67 | C$ 8.32 | US$ 8.28 | C$ 8.45 | US$ 8.27 |

(1) Net Assets per unit is the difference between the aggregate value of the assets (including the valuation of securities at closing prices) and the aggregate value of the liabilities, divided by the number of units then outstanding.
(2) Total increase (decrease) from operations consists of interest and dividend revenue, realized and unrealized loss, less expenses and is calculated based on the weighted average number of units outstanding during the period. The schedule is not intended to total to the ending net assets as calculations are based on the weighted average number of units outstanding during the period.
(3) For the period from inception on February 24, 2015 to December 31, 2015.
(4) Initial issue price, net of agents' fees and issue costs.
(5) Distributions to unitholders are based on the number of units outstanding on the record date for each distribution. All distributions are paid in cash.

| | 2018 | | 2017 | | 2016 | | 2015[7] | |
|---|---|---|---|---|---|---|---|---|
| Periods ended December 31 | **Class A** | **Class U** | Class A | Class U | Class A | Class U | Class A | Class U |
| **RATIOS/SUPPLEMENTAL DATA** | | | | | | | | |
| Net Asset Value ($millions)[1] | **C$ 7.12** | **US$ 0.52** | C$ 15.07 | US$ 0.87 | C$ 15.76 | US$ 1.52 | C$ 29.07 | US$ 3.00 |
| Number of units outstanding[1] | **994,887** | **72,900** | 1,771,006 | 100,500 | 1,893,833 | 183,400 | 3,439,188 | 363,300 |
| Management expense ratio[2] | **3.14%** | **3.20%** | 2.78% | 2.76% | 2.48% | 2.44% | 2.68%[5] | 2.50%[5] |
| Portfolio turnover rate[3] | **179.80%** | **179.80%** | 270.74% | 270.74% | 314.12% | 314.12% | 255.32% | 255.32% |
| Trading expense ratio[4] | **0.31%** | **0.32%** | 0.36% | 0.35% | 0.41% | 0.41% | 0.39%[5] | 0.34%[5] |
| Net Asset Value per unit[6] | **C$ 7.16** | **US$ 7.19** | C$ 8.51 | US$ 8.67 | C$ 8.32 | US$ 8.28 | C$ 8.45 | US$ 8.27 |
| Closing market price | **C$ 6.81** | | C$ 8.39 | | C$ 8.08 | | C$ 8.07 | |

(1) This information is provided as at December 31.
(2) The management expense ratio ("MER") is the sum of all fees and expenses for the stated period, including harmonized sales tax and withholding taxes but excluding transaction fees, divided by the average net asset value. Generally, the MER increases when the Fund becomes smaller in size due to redemptions. The MER for 2018, 2017, 2016 and 2015, excluding withholding taxes, is 2.88%, 2.49%, 2.22% and 2.36% for Class A and 2.93%, 2.47%, 2.17% and 2.22% for Class U for 2018, 2017, 2016 and 2015 respectively.
(3) Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments, excluding short-term investments, divided by the average value of the portfolio securities. The Fund employs an option overlay strategy which can result in higher portfolio turnover by virtue of option exercises, when compared to a conventional equity mutual fund.
(4) Trading expense ratio represents total commissions expressed as a percentage of the daily average net asset value during the period.
(5) Annualized.
(6) Net Asset Value per unit is the difference between the aggregate value of the assets including the valuation of securities at closing prices and the aggregate value of the liabilities divided by the number of units then outstanding.
(7) For the period from inception on February 24, 2015 to December 31, 2015.

## Management Fees

Strathbridge, as the Investment Manager and Manager of the Fund, is entitled to fees under the Investment Management Agreement and Trust Agreement calculated monthly as 1/12 of 1.25 percent of the net asset value of the Fund at each month end. Services received under the Investment Management Agreement include the making of all investment decisions and writing of covered call options in accordance with the investment objectives, strategy and criteria of the Fund. Strathbridge also makes all decisions as to the purchase and sale of securities in the Fund's portfolio and as to the execution of all portfolio and other transactions. Services received under the Trust Agreement include providing or arranging for required administrative services to the Fund.

## Past Performance

The following chart sets out the Fund's year-by-year past performance. It is important to note that the:

(1) information shown assumes that all distributions made by the Fund during these periods were reinvested in Class A units or Class U units of the Fund,

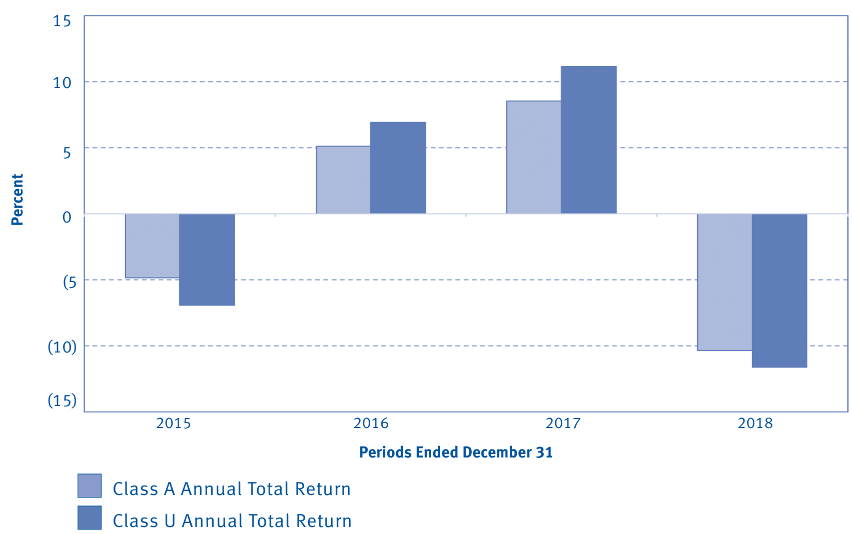
(2) information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and

(3) past performance of the Fund does not necessarily indicate how it will perform in the future.

### Year-By-Year Returns

The following bar chart illustrates how the Fund's total return varied from year to year for each of the past four years. The chart also shows, in percentage terms, how much an investment made on January 1 or the date of inception on February 24, 2015 would have increased or decreased by the end of the fiscal year.

### Annual Total Return




### Annual Compound Returns

The following table shows the Fund's historical annual compound return (net of expenses) for the periods ended December 31, 2018 as compared to the performance of the S&P 500 Financials Index, S&P 500 Real Estate Sector and S&P Listed Private Equity Index.

| (In U.S. dollars unless otherwise noted) | One Year | Three Years | Since Inception[1] |
|---|---|---|---|
| U.S. Financials Income Fund - Class A (C$) | (10.37)% | 0.75% | (0.71)% |
| U.S. Financials Income Fund - Class U | (11.64)% | 1.64% | (0.59)% |
| S&P 500 Financials Index[2] | (13.03)% | 9.28% | 6.96 % |
| S&P 500 Real Estate Sector[3] | (2.22)% | 3.87% | 3.52 % |
| S&P Listed Private Equity Index[4] | (12.73)% | 8.29% | 4.44 % |

[1] From date of inception on February 24, 2015.
[2] The S&P 500 Financials Index comprises those companies included in the S&P 500 that are classified as members of the GICS financials sector
[3] The S&P 500 Real Estate Sector comprises of stocks included in the S&P 500 that are classified as members of the GICS real estate sector.
[4] The S&P Listed Private Equity Index comprises the leading listed private equity companies that meet specific size, liquidity, exposure and activity requirements. The Index is designed to provide tradable exposure to leading publicly-listed companies that are active in the private equity space.

Commencing in 2016, the S&P 500 Real Estate Sector and the S&P Listed Private Equity Index were included as benchmarks for the Fund. The inclusion of S&P 500 Real Estate Sector was to reflect the change to the GICS effective September 1, 2016 and the creation of the new Real Estate Sector which was previously included in the Financials Sector. The inclusion of S&P Listed Private Equity Index was due to its design to provide proxy exposure to the leading public issuers in the Alternative Asset Management Sector.

The equity performance benchmarks shown here provide an approximate indication of how the Fund's returns compare to a public market index for similar securities. It is important to note that the Fund is not managed in order to match or exceed these indices; rather, its objectives are to pay out quarterly distributions and return the original invested amount at the termination date. As a result, the Fund has, from time to time, maintained cash balances in an effort to provide greater net asset value stability and employs a covered option writing strategy to enhance the income generated by the portfolio and reduce volatility.

The Manager believes that in a flat or downward trending market, a portfolio that is subject to covered call option writing will generally provide higher relative returns and lower volatility than one on which no options are written. However, in a rising market, the use of options may have the effect of limiting or reducing the total returns of the Fund since the premiums associated with writing covered call options may be outweighed by the foregone opportunity of remaining fully invested in the securities comprising the portfolio.

## Portfolio Manager Report

2018 was a challenging year across asset classes as investors weighed the implications of tighter global monetary policy, trade wars, soaring valuations along with heightened geopolitical risks involving such countries as Saudi Arabia, Iran, Korea and Russia. In the end, the bears ultimately prevailed as the S&P 500 Index had its first annual decline since the financial crisis returning negative 4.4 percent. Closer to home, the S&P/TSX Composite Index lagged its U.S. counterpart returning negative 8.9 percent. Bonds offered little in the way of protection returning negative 1.2 percent, as measured by the Bloomberg Barclays Global-Aggregate Total Return Index while the Bloomberg Commodities Index sank 11.3 percent. Cyclical sectors led the declines in the S&P 500 Index with Energy, Materials and Industrial sectors off 18.1 percent, 14.7 percent and 13.3 percent respectively. Health Care, Utilities and Consumer Discretionary were the only sectors with positive returns in 2018, according to GICS classification. In Canada, Technology was the best performing sector, up 13.0 percent, while Energy, Consumer Discretionary and Health Care declined sharply. The Bank of Canada continued to raise the overnight lending rate in 2018, hiking three times to 1.75 percent, while the U.S. Federal Reserve raised the Federal Funds rate 25 basis points on four separate occasions to now sit at 2.5 percent. The Canadian dollar declined 8.0 percent versus the U.S. dollar, partly weighed down by oil prices which declined nearly 25 percent for the year.

The net asset value ("NAV") of the Fund on December 31, 2018 was C$7.16 per Class A unit and US$7.19 per Class U unit. This compares to C$8.51 per Class A unit and US$8.67 per Class U unit at December 31, 2017. Unitholders received cash distributions of C$0.50 per Class A unit and US$0.50 per Class U unit during 2018. The closing price of the Fund's Class A units, listed on the Toronto Stock Exchange as USF.UN, on December 31, 2018 was at C$6.81, representing a 4.9 percent discount to the NAV of the Class A unit. The Fund's Class U units are not listed on any exchange.

The annual total return, including reinvestment of distributions, was negative 10.4 percent for the Class A units and negative 11.6 percent for the Class U units. The best performing stock in the Fund in 2018 was CME Group Inc. which rose 32.1 percent while held within the portfolio. Meanwhile, Ameriprise Financial, Inc., the best performing stock within the Fund the previous year, lagged the group in 2018, declining 28.6 percent while being held by the Fund.

After one of the least volatile years on record in 2017, volatility in the equity market returned in 2018. The Chicago Board Options Exchange Volatility Index ("VIX"), peaked in February at a reading of over 50 before declining back towards 10 in August. The VIX reaccelerated into year-end closing above 25. The rise in volatility has created more opportunities to utilize the Strathbridge Selective Overwriting ("SSO") strategy. The Fund had on average 13.2 percent of the portfolio subject to covered calls over the year. The net realized gain on options attributable to the SSO strategy was C$0.09 per unit compared to C$0.07 per unit in 2017.

The Fund's U.S. dollar exposure was actively hedged back into Canadian dollars throughout the year and ended 2018 with 50 percent of the U.S. dollar exposure hedged.

## Summary of Investment Portfolio

The composition of the portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly portfolio summary, which includes the percentage of net asset value for each holding, and a monthly portfolio list are available on our website at www.strathbridge.com.

### Asset Mix

December 31, 2018

| | % OF NET ASSET VALUE |
|---|---|
| Diversified Financials | 26.4 % |
| Cash | 22.2 % |
| Insurance | 21.8 % |
| Real Estate | 14.8 % |
| Banks | 9.2 % |
| Alternative Asset Management | 6.9 % |
| Other Assets/(Liabilities) | (1.3)% |
| | 100.0 % |

### Portfolio Holdings

December 31, 2018

| | % OF NET ASSET VALUE |
|---|---|
| Cash | 22.2 % |
| The Blackstone Group L.P. | 6.9 % |
| Berkshire Hathaway Inc. | 6.8 % |
| Public Storage | 6.7 % |
| Aon PLC | 6.6 % |
| CME Group Inc. | 6.5 % |
| American Express Company | 6.3 % |
| Marsh & McLennan Companies, Inc. | 6.2 % |
| Simon Property Group, Inc. | 5.8 % |
| Loews Corp. | 5.4 % |
| JPMorgan Chase & Co. | 5.1 % |
| Bank of America Corporation | 4.1 % |
| Aflac Incorporated | 3.6 % |
| Intercontinental Exchange, Inc. | 3.3 % |
| Kimco Realty Corporation | 2.3 % |
| Morgan Stanley | 2.1 % |
| The Charles Schwab Corporation | 1.4 % |

**Forward-Looking Statements**

This report may contain forward-looking statements about the Fund. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also forward-looking. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to any divergence between what is anticipated and what actually occurs, including, but not limited to, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technology change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

The above-mentioned list of important factors is not exhaustive. You should consider these and other factors carefully before making any investment decisions and you should avoid placing undue reliance on forward-looking statements. While the Fund currently anticipates that subsequent events and developments may cause the Fund’s views to change, the Fund does not undertake to update any forward-looking statements.

## Management's Responsibility for Financial Reporting

The accompanying financial statements of U.S. Financials Income Fund (the "Fund") and all the information in this annual report are the responsibility of the management of Strathbridge Asset Management Inc. (the "Manager"), and have been approved by the Fund's Board of Advisors (the "Board").

The financial statements have been prepared by management in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this report is consistent with the financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 3 of the financial statements.

The Manager is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board meets periodically with management and the independent auditor to discuss internal controls, the financial reporting process, various auditing and financial reporting matters, and to review the annual report, the financial statements and the independent auditor's report. Deloitte LLP, the Fund's independent auditor, has full and unrestricted access to the Board.

John P. Mulvihill
Director
Strathbridge Asset Management Inc.
March 5, 2019

John D. Germain
Director
Strathbridge Asset Management Inc.

## To the Unitholders of U.S. Financials Income Fund (the "Fund")

### Opinion

We have audited the financial statements of the Fund, which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises:

- Management Report of Fund Performance; and
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management Report of Fund Performance and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Michael Darroch.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
March 5, 2019

## Statements of Financial Position

As at December 31
(In Canadian dollars unless otherwise noted)

| | Note | | **2018** | | 2017 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Financial assets at fair value through profit or loss | 6 | | **$ 6,202,032** | | $ 15,332,563 |
| Derivative assets | | | – | | 286,873 |
| Dividends receivable | | | **10,544** | | 25,445 |
| Cash | | | **1,738,789** | | 566,403 |
| TOTAL ASSETS | | | **7,951,365** | | 16,211,284 |
| LIABILITIES | | | | | |
| Derivative liabilities | | | **62,629** | | – |
| Accrued liabilities | | | **43,862** | | 35,059 |
| Accrued management fees | 8 | | **8,431** | | 16,224 |
| TOTAL LIABILITIES | | | **114,922** | | 51,283 |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A AND CLASS U UNITS | | | **$ 7,836,443** | | $ 16,160,001 |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A UNITS | | | **$ 7,120,068** | | $ 15,068,091 |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS U UNITS | | **(US$524,508)** | **$ 716,375** | (US$871,474) | $ 1,091,910 |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A UNITS PER CLASS A UNIT | | | **$ 7.1567** | | $ 8.5082 |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS U UNITS PER CLASS U UNIT | | **(US$7.1949)** | **$ 9.8268** | (US$8.6714) | $ 10.8648 |

On behalf of the Manager,
Strathbridge Asset Management Inc.

John P. Mulvihill, Director

John D. Germain, Director

The notes are an integral part of the Financial Statements.

## Statements of Comprehensive Income

For the years ended December 31
(In Canadian dollars unless otherwise noted)

| | Note | | 2018 | | 2017 |
|---|---|---|---|---|---|
| INCOME | | | | | |
| Dividend income | | $ | **275,984** | $ | 475,183 |
| Interest Income | | | **14,294** | | 2,501 |
| Net realized gain on investments at fair value through profit or loss | | | **827,103** | | 2,139,717 |
| Net realized gain on options at fair value through profit or loss | | | **160,755** | | 151,187 |
| Net realized gain/(loss) on forward exchange contracts at fair value through profit or loss | | | **(372,944)** | | 334,742 |
| Net change in unrealized gain/(loss) on investments at fair value through profit or loss | | | **(1,541,450)** | | (1,273,958) |
| TOTAL INCOME/(LOSS), NET | | | **(636,258)** | | 1,829,372 |
| EXPENSES | | | | | |
| Management fees | 8 | | **175,013** | | 214,701 |
| Administrative and other expenses | | | **82,332** | | 66,514 |
| Transaction fees | 9 | | **43,718** | | 61,449 |
| Custodian fees | | | **54,804** | | 47,036 |
| Audit fees | | | **28,666** | | 28,439 |
| Advisory board fees | 8 | | **19,500** | | 19,500 |
| Independent review committee fees | 8 | | **7,500** | | 7,500 |
| Legal fees | | | **596** | | 2,038 |
| Unitholder reporting costs | | | **11,235** | | 11,567 |
| Harmonized sales tax | | | **32,075** | | 30,186 |
| Withholding taxes | | | **37,281** | | 50,279 |
| TOTAL EXPENSES | | | **492,720** | | 539,209 |
| INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A AND CLASS U UNITS | 10 | $ | **(1,128,978)** | $ | 1,290,163 |
| INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A UNITS PER CLASS A UNIT | 10 | $ | **(0.6849)** | $ | 0.6704 |
| INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS U UNITS PER CLASS U UNIT | 10 | $ | **(0.2788)** | $ | 0.1907 |

## Statements of Changes in Net Assets Attributable to Holders of Class A and Class U Units

For the years ended December 31
(In Canadian dollars unless otherwise noted)

| | 2018 | 2017 |
|---|---|---|
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A AND CLASS U UNITS, BEGINNING OF YEAR | | |
| Class A | $ 15,068,091 | $ 15,761,744 |
| Class U | 1,091,910 | 2,035,901 |
| | 16,160,001 | 17,797,645 |
| **Increase/(Decrease) in Net Assets Attributable to Holders of Class A and Class U Units** | | |
| Class A | (1,104,629) | 1,261,195 |
| Class U | (24,349) | 28,968 |
| | (1,128,978) | 1,290,163 |
| **Unit Transactions** | | |
| **Conversions** | | |
| Class A | 117,982 | 533,496 |
| Class U | (117,982) | (533,496) |
| | – | – |
| **Value for Units Redeemed** | | |
| Class A | (6,168,857) | (1,545,884) |
| Class U | (177,162) | (344,602) |
| | (6,346,019) | (1,890,486) |
| **Distributions** | | |
| Class A | | |
| Non-taxable distributions | (792,519) | (942,460) |
| Class U | | |
| Non-taxable distributions | (56,042) | (94,861) |
| | (848,561) | (1,037,321) |
| **Changes in Net Assets Attributable to Holders of Class A and Class U Units during the Year** | | |
| Class A | (7,948,023) | (693,653) |
| Class U | (375,535) | (943,991) |
| | (8,323,558) | (1,637,644) |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A AND CLASS U UNITS, END OF YEAR | | |
| Class A | $ 7,120,068 | $ 15,068,091 |
| Class U | 716,375 | 1,091,910 |
| | $ 7,836,443 | $ 16,160,001 |

The notes are an integral part of the Financial Statements.

## Statements of Cash Flows

For the years ended December 31
(In Canadian dollars unless otherwise noted)

| | 2018 | 2017 |
|---|---|---|
| CASH, BEGINNING OF YEAR | $ 566,403 | $ 611,456 |
| **Cash Flows Provided by/(Used In) Operating Activities** | | |
| **Increase/(Decrease) in Net Assets Attributable to Holders of Class A and Class U Units** | (1,128,978) | 1,290,163 |
| **Adjustments to Reconcile Net Cash Provided by (Used in) Operating Activities** | | |
| Net realized gain on investments at fair value through profit or loss | (827,103) | (2,139,717) |
| Net realized gain on options at fair value through profit or loss | (160,755) | (151,187) |
| Net realized (gain)/loss on forward exchange contracts at fair value through profit or loss | 372,944 | (334,742) |
| Net change in unrealized (gain)/loss on investments at fair value through profit or loss | 1,541,450 | 1,273,958 |
| Net change in unrealized (gain)/loss on foreign cash | 52,169 | (11,370) |
| (Increase)/decrease in dividends receivable | 14,901 | (12,358) |
| Increase in accrued liabilities and accrued management fees | 1,010 | 16,682 |
| Purchase of investment securities | (25,672,545) | (46,598,685) |
| Proceeds from disposition of investment securities | 34,173,873 | 49,550,010 |
| | 9,495,944 | 1,592,591 |
| **Cash Flows Used in Financing Activities** | | |
| Class A unit distributions | (792,519) | (942,460) |
| Class U unit distributions | (56,042) | (94,861) |
| Class A unit redemptions | (6,168,857) | (1,545,884) |
| Class U unit redemptions | (177,162) | (344,602) |
| | (7,194,580) | (2,927,807) |
| **Net Increase/(Decrease) in Cash during the Year** | 1,172,386 | (45,053) |
| CASH, END OF YEAR | $ 1,738,789 | $ 566,403 |

| | 2018 | 2017 |
|---|---|---|
| Dividends received, net of withholding taxes | $ 257,159 | $ 412,546 |
| Interest received | $ 14,294 | $ 2,501 |

## Schedule of Investments

As at December 31, 2018
(In Canadian dollars unless otherwise noted)

| | Number of Shares/ (Contracts) | Average Cost/ (Proceeds) | Fair Value | % of Net Assets Attributable to Holders of Class A and Class U Units |
|---|---|---|---|---|
| **INVESTMENTS** | | | | |
| **United States Common Shares** | | | | |
| **Banks** | | | | |
| Bank of America Corporation | 9,500 | $ 340,267 | $ 319,707 | |
| JPMorgan Chase & Co. | 3,000 | 372,929 | 399,989 | |
| **Total Banks** | | 713,196 | 719,696 | 9.2 % |
| **Diversified Financials** | | | | |
| American Express Company | 3,800 | 485,505 | 494,716 | |
| Berkshire Hathaway Inc. | 1,900 | 502,044 | 529,852 | |
| CME Group Inc. | 2,000 | 422,142 | 513,870 | |
| Intercontinental Exchange, Inc. | 2,500 | 257,971 | 257,215 | |
| Morgan Stanley | 3,000 | 186,292 | 162,462 | |
| The Charles Schwab Corporation | 2,000 | 124,494 | 113,444 | |
| **Total Diversified Financials** | | 1,978,448 | 2,071,559 | 26.4 % |
| **Insurance** | | | | |
| Aflac Incorporated | 4,500 | 269,040 | 280,017 | |
| Aon PLC | 2,600 | 490,836 | 516,186 | |
| Loews Corp. | 6,800 | 458,240 | 422,765 | |
| Marsh & McLennan Companies, Inc. | 4,500 | 508,987 | 490,153 | |
| **Total Insurance** | | 1,727,103 | 1,709,121 | 21.8 % |
| **Alternative Asset Management** | | | | |
| The Blackstone Group L.P. | 13,200 | 612,084 | 537,433 | 6.9 % |
| **Real Estate** | | | | |
| Kimco Realty Corporation | 9,000 | 197,627 | 180,081 | |
| Public Storage | 1,900 | 527,061 | 525,259 | |
| Simon Property Group, Inc. | 2,000 | 470,007 | 458,883 | |
| **Total Real Estate** | | 1,194,695 | 1,164,223 | 14.8 % |
| **Total United States Common Shares** | | $ 6,225,526 | $ 6,202,032 | 79.1 % |
| **Forward Exchange Contracts** | | | | |
| Sold USD $325,000, Bought CAD $433,326 @ 0.75001 - January 9, 2019 | | | $ (10,444) | |
| Sold USD $2,360,000, Bought CAD $3,171,132 @ 0.74421 - January 30, 2019 | | | (49,440) | |
| **Total Forward Exchange Contracts** | | | $ (59,884) | (0.8)% |
| **Options** | | | | |
| **Written Covered Call Options (100 shares per contract)** | | | | |
| Morgan Stanley - January 2019 @ $43 | (30) | $ (5,558) | $ (1,434) | |
| Public Storage - January 2019 @ $210 | (8) | (3,088) | (1,311) | |
| **Total Written Covered Call Options** | | (8,646) | (2,745) | 0.0 % |
| **Total Options** | | $ (8,646) | $ (2,745) | 0.0 % |
| Adjustment for transaction fees | | (3,744) | | |
| TOTAL INVESTMENTS | | $ 6,213,136 | $ 6,139,403 | 78.3 % |
| OTHER NET ASSETS | | | 1,697,040 | 21.7 % |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A AND CLASS U UNITS | | | $ 7,836,443 | 100.0 % |

## 1. Fund Information

U.S. Financials Income Fund (the "Fund") is an investment trust established under the laws of the Province of Ontario on January 29, 2015. The Fund began operations on February 24, 2015. The address of the Fund's registered office is 121 King Street West, Suite 2600, P.O. Box 113, Toronto, Ontario.

Strathbridge Asset Management Inc. ("Strathbridge") is the Manager as well as the Investment Manager of the Fund. RBC Investor Services Trust is the Custodian of the Fund.

The Fund is a closed-end investment trust designed to provide quarterly cash distributions and to maximize total return through capital appreciation and distributions. The Class A units are listed on the Toronto Stock Exchange under the ticker symbol USF.UN. From time to time, between 0 percent and 100 percent of the value of the Class A units' U.S. dollar exposure may be hedged back to the Canadian dollar. The Class U units are denominated in U.S. dollar currency and do not trade on an exchange.

To accomplish its objectives, the Fund invests in an actively managed portfolio of U.S. financial issuers selected from the S&P 500 Index that are classified as "Financials" or "Real Estate" by Standard & Poor's Global Industry Classification Standard and which have a market capitalization of at least US$10 billion and a credit rating issued by Standard & Poor's Rating Services of at least A- at the time of purchase. The portfolio may include U.S. publicly listed alterative asset management issuers which have a market capitalization of at least US$5 billion at the time of purchase. The Fund may also invest up to 25 percent of the net asset value in other U.S. financial or alternative asset management issuers that do not meet the rating or market capitalization requirements noted above.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting ("SSO"), to enhance the income generated by the portfolio and to reduce volatility. The Fund strategically writes covered call options from time to time, in respect of all or a portion of the securities in its portfolio. In addition, the Fund may write cash covered put options and may invest up to 10 percent of net assets to purchase call options both in respect of securities in which the Fund is permitted to invest.

The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to writing continuously and rolling options every thirty days. This proprietary process has been developed over many years through various market cycles. The Manager believes the primary benefit to investors is to maximize the total return of the particular portfolio while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

These financial statements were approved by the Board of Advisors on March 5, 2018.

## 2. Basis of Presentation

The annual financial statements for the Fund have been prepared in compliance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board.

All financial numbers contained in the notes to the financial statements are in Canadian dollars unless otherwise noted.

## 3. Summary of Significant Accounting Policies

### Functional and Presentation Currency

Items included in the financial statements of the Fund are measured in the currency of the primary economic environment in which the Fund operates (the "functional currency"). Despite investments and related income being primarily in U.S. currency, the Manager has determined that the Canadian dollar is the functional currency as the Fund incurs its expenses, measures its performance and issues and redeems units primarily in Canadian dollars. The financial statements of the Fund are presented in Canadian dollars which is the Fund's presentation currency.

### Standards, Amendments and Interpretations Effective for the Current Year

The Fund has adopted IFRS 9: Financial Instruments ("IFRS 9 (2014)") for the first time for the period beginning on January 1, 2018.

The adoption of IFRS 9 (2014) has been applied retrospectively with the Fund utilizing the provisions allowed in the standard to not restate prior period comparative information. IFRS 9 (2014) requires assets to be carried at amortized cost or fair value, with changes in fair value recognized in profit and loss or other comprehensive income, based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Upon adoption of IFRS 9 (2014), the Fund's financial assets and liabilities previously classified as at fair value through profit or loss ("FVTPL") and amortized cost under IAS 39 "Financial Instruments: Recognition and Measurement", continued to be classified at FVTPL and amortized cost.

### Financial Assets and Financial Liabilities at Fair Value Through Profit or Loss

### Classification

### Financial Assets

The Fund classifies its investments in equity securities based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets.

These financial assets are managed and their performance is evaluated on a fair value basis. The Fund also manages these financial assets with the objective of realizing cash flows through sales. Further, an option to irrevocably designate any equity securities at fair value through other comprehensive income ("FVOCI") has not been taken.

Consequently, these financial assets are mandatorily measured at FVTPL.

### Held for Trading

Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purpose of selling or repurchasing in the near future or on initial recognition they are a part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short term profit-taking.

All derivatives are included in this category and mandatorily measured at FVTPL.

The Fund does not apply general hedge accounting to any of its derivatives positions.

### Financial Assets and Financial Liabilities at Amortized Cost

The financial assets and liabilities measured at amortized cost may include cash, dividends receivable, due from brokers - investments, due to brokers - investments, accrued liabilities, accrued management fees, redemptions payable and the Fund's obligation for net assets attributable to holders of Class A and Class U units.

IFRS 9 (2014) replaced the incurred loss model in IAS 39 with the expected credit loss model ("ECL"), as the new impairment model for financial assets carried at amortized cost. At each reporting date, the Fund measures the loss allowance on cash collateral held, amounts due from broker, accrued income and other short-term receivables 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 Fund measures the loss allowance at an amount equal to the 12 month expected credit losses. Given the short-term nature of the receivables and the high credit quality, the Fund has determined that the expected credit loss allowances are not material.

### Fair Value Measurement

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 are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price as its valuation input for financial assets and liabilities if the last traded price falls within the bid-ask spread. In other 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 for financial reporting purposes.

The fair value of financial assets and liabilities that are not traded in an active market is determined by valuation techniques as described in Note 4.

### Investment Transactions and Income

Investment transactions are accounted for on a trade date basis. Net realized gain/(loss) on investments at fair value through profit or loss and net change in unrealized gain/(loss) on investments at fair value through profit or loss are determined on an average cost basis. Realized gains and losses related to options are included in net realized gain/(loss) on options at fair value through profit or loss. Realized gains and losses relating to written options may arise from:

(i) Expiration of written options whereby realized gains are equivalent to the premium received,

(ii) Exercise of written covered call options whereby realized gains or losses are equivalent to the premium received in addition to the realized gain or loss from disposition of the related investments at the exercise price of the option, and

(iii) Closing of written options whereby realized gains or losses are equivalent to the cost of purchasing options to close the positions, net of any premium received.

Realized gains and losses relating to purchased put options may arise from:

(i) Expiration of purchased put options whereby realized losses are equivalent to the premium paid,

(ii) Exercise of purchased put options whereby realized gains or losses are equivalent to the realized gain or loss from disposition of the related investments at the exercise price of the option less the premium paid, and

(iii) Sale of purchased put options whereby realized gains or losses are equivalent to the sale proceeds, net of any premium paid.

Option premiums received are reflected as deferred credits in investments so long as the options are outstanding. Any difference resulting from revaluation is included in the net change in unrealized gain/(loss) on investments at fair value through profit or loss. The premiums received on written put options that are exercised are included in the cost of the security purchased.

Dividend income is recorded on the ex-dividend date.

Interest income is measured using the effective interest method and recorded on a daily basis.

### Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing rate of exchange on each valuation date. Purchases and sales of investments, and income derived from investments are translated at the rate of exchange prevailing on the respective dates of such transactions.

Foreign exchange gains (losses) on short-term investments are reflected as interest income. Realized gains (losses) relating to forward exchange contracts are included in net realized gain/(loss) on forward exchange contracts at fair value through profit or loss. Other foreign exchange gains (losses) are recorded as net realized or unrealized gain/(loss) on investments at fair value through profit or loss, as appropriate.

### Short-Term Investments

Short-term investments are held for investment purposes and consist primarily of money market instruments with original maturities of 90 days or less.

### Class A and Class U Units

IAS 32, Financial Instruments: Presentation ("IAS 32"), requires that the Class A and Class U units (the "units") (which are puttable instruments) be classified as financial liabilities unless all the criteria outlined in IAS 32 paragraph 16A are met. The Fund's units do not meet the definition of IAS 32 paragraph 16A to be classified as equity.

### Increase/(Decrease) in Net Assets Attributable to Holders of Class A and Class U Units per Unit

The increase/(decrease) in net assets attributable to holders of Class A and Class U units per unit is calculated by dividing the increase/(decrease) in net assets attributable to holders Class A and Class U units by the weighted average number of Class A and Class U units outstanding during the period. Please refer to Note 10 for the calculation.

### Taxation

The Fund is a "mutual fund trust" as defined in the Income Tax Act (Canada) (the "Act"). The Fund is 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. Income tax paid by the Fund on any net realized capital gains not paid or payable to unitholders is recoverable by the Fund to the extent and in the circumstances provided in the Act.

Given the investment and distribution policies of the Fund and taking into account expenses, the Fund does not expect to bear any non-refundable income tax.

The Fund currently incurs withholding taxes imposed by certain foreign countries on investment income. Such foreign income is recorded gross of withholding taxes, and the withholding taxes are presented as an expense line item in the Statement of Comprehensive Income.

### IAS 7 Statement of Cash Flows

IAS 7 Statement of Cash Flows ("IAS 7") requires disclosures related to changes in liabilities arising from financing activities for annual periods beginning on or after January 1, 2017. Class A and Class U units issued by the Fund are classified as financial liabilities in accordance with IAS 32, as they do not meet the definition of puttable instruments to be classified as equity in accordance with IAS 32 for financial reporting purposes.

A reconciliation between the opening and closing balances of the Class A and Class U units of the Fund is presented in the Statement of Changes in Net Assets Attributable to Holders of Class A and Class U Units, including changes from cash flows and non-cash changes.

## 4. Critical Accounting Estimates and Judgments

The preparation of financial statements requires the Manager to use judgment in applying accounting policies and to make estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements.

The Manager considers the currency of the primary economic environment in which the Fund operates to be Canadian dollars as this is the currency which in the Manager's opinion most faithfully represents the economic effects of underlying transactions, events and conditions. The financial statements of the Fund are presented in Canadian dollars as the Fund's presentation currency.

The Fund may, from time to time, hold financial instruments that are not quoted in active markets. Fair values of such instruments are determined by using valuation models and techniques generally recognized as standard within the investment industry. These valuation methods use observable data as practicable as possible. Observable market data are readily available and supplied by independent sources actively involved in the relevant market. However, areas such as credit risk (both own and counterparty) and its correlations require the Manager to make estimates. Significant changes in assumptions about these factors could adversely affect the reported fair values of financial instruments. Please refer to Note 6 for a further analysis of risks associated with financial instruments.

## 5. Capital Disclosures

IAS 1, Presentation of Financial Statements ("IAS 1"), requires the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data and qualitative information about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Fund's objectives, policies and processes are described in Note 1, information on the Fund's units is described in Note 7 and the Fund does not have any externally imposed capital requirements.

## 6. Risks Associated with Financial Instruments

The Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which the Fund invests. The most important risks include credit risk, liquidity risk, market risk (including currency risk, interest rate risk and price risk), concentration risk and capital risk management.

### Credit Risk

The Fund is subject to the credit risk that its counterparty (whether a clearing corporation, in the case of exchange-traded instruments, or other third party, in the case of over-the-counter instruments) may be unable to meet its obligations. The Fund manages these risks through the use of various risk limits and trading strategies.

The Fund measures credit risk and lifetime ECLs related to the receivables using historical analysis and forward-looking information in determining the ECL.

The Fund is also exposed to counterparty credit risk on derivative financial instruments. The counterparty credit risk for derivative financial instruments is managed by dealing with counterparties that have a credit rating that is not below the level of approved credit ratings as set out in National Instrument 81-102. During the years ended December 31, 2018 and 2017, the counterparties to the Fund's derivative financial instruments had a credit rating of A-1 or higher by Standard & Poor's Ratings Services.

The Fund's derivative instruments are subject to offsetting, enforceable netting arrangements and similar agreements. The Fund and its counterparty have elected to settle all transactions on a gross basis; however, each party has the option to settle all open contracts on a net basis in the event of default of the other party. All outstanding derivatives have been presented on a gross basis on the Statement of Financial Position as derivative assets or derivative liabilities, as they do not meet the criteria for offsetting in IAS 32 paragraph 42.

### Liquidity Risk

Liquidity risk is the possibility that investments in the Fund cannot be readily converted into cash when required. To manage this risk, the Fund invests the majority of its assets in investments that are traded in an active market and which can be easily disposed. In addition, the Fund aims to retain sufficient cash and short-term investments to maintain liquidity and to meet its obligations when due.

Cash is required to fund redemptions. Unitholders must surrender units at least 10 business days prior to the last day of the month and receive payment on or before 15 calendar days following the month end valuation date. Therefore the Fund has a maximum of 21 business days to generate sufficient cash to fund redemptions mitigating liquidity issues.

The amounts in the table are the contractual undiscounted cash flows:

| As at December 31, 2018<br>Financial Liabilities | On Demand | < 3 months | Total |
|---|---|---|---|
| Derivative liabilities | $ – | $ 62,629 | $ 62,629 |
| Accrued liabilities | – | 43,862 | 43,862 |
| Accrued management fees | – | 8,431 | 8,431 |
| Class A units | 7,120,068 | – | 7,120,068 |
| Class U units | 716,375 | – | 716,375 |
| | $ 7,836,443 | $ 114,922 | $ 7,951,365 |

| As at December 31, 2017<br>Financial Liabilities | On Demand | < 3 months | Total |
|---|---|---|---|
| Accrued liabilities | $ – | $ 35,059 | $ 35,059 |
| Accrued management fees | – | 16,224 | 16,224 |
| Class A units | 15,068,091 | – | 15,068,091 |
| Class U units | 1,091,910 | – | 1,091,910 |
| | $ 16,160,001 | $ 51,283 | $ 16,211,284 |

### Market Risk

The Fund's investments are subject to market risk which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices. The following include sensitivity analyses that show how the net assets attributable to holders of Class A and Class U units would have been affected by a reasonably possible change in the relevant risk variable at each reporting date. In practice, the actual results may differ and the differences could be material.

### (a) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The portfolio includes securities and options denominated in foreign currencies. The net asset value of the Fund and the value of the dividends and option premiums received by the Fund will be affected by fluctuations in the value of the foreign currencies relative to the Canadian dollar. The Fund may use foreign exchange contracts, from time to time, to hedge all or part of its foreign currency exposure.

The table below indicates the foreign currencies to which the Fund had significant exposure to as at December 31, 2018 and 2017 in Canadian dollar terms, and, if any, the notional amounts of forward exchange contracts. The table also illustrates the potential impact on the net assets attributable to Class A and Class U units if the Canadian dollar had strengthened or weakened by 5 percent in relation to each of the other currencies, with all other variables held constant.

As at December 31, 2018
U.S. Currency Exposure

| | Monetary | Non-Monetary | Total | Impact on Net Assets Attributable to Holders of Class A and Class U Units — Monetary | Non-Monetary | Total |
|---|---|---|---|---|---|---|
| | $ (1,923,269) | $ 6,199,287 | $ 4,276,018 | $ (96,163) | $ 309,964 | $ 213,801 |
| % of Net Assets Attributable to Holders of Class A and Class U Units | (25)% | 79% | 54% | (1)% | 4% | 3% |

As at December 31, 2017
U.S. Currency Exposure

| | Monetary | Non-Monetary | Total | Impact on Net Assets Attributable to Holders of Class A and Class U Units — Monetary | Non-Monetary | Total |
|---|---|---|---|---|---|---|
| | $ (14,517,747) | $ 15,332,563 | $ 814,816 | $ (725,887) | $ 766,628 | $ 40,741 |
| % of Net Assets Attributable to Holders of Class A and Class U Units | (90)% | 95% | 5% | (4)% | 5% | 1% |

### (b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. The financial instruments which potentially expose the Fund to interest rate risk are the short-term fixed income securities. The Fund has minimal sensitivity to changes in rates since securities are usually held to maturity and are short-term in nature.

### (c) Price Risk

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or segment. The Fund's most significant exposure to price risk arises from its investments in equity securities. Net assets per unit varies as the value of the securities in the Fund varies. The Fund has no control over the factors that affect the value of the securities in the Fund, including factors that affect all the companies in the U.S. financial services industry.

The Fund's price risk is managed by taking a long-term perspective and utilizing an option writing program, as well as by the use of purchased put options. Approximately 79 percent (2017 - 95 percent) of the Fund's net assets attributable to holders of Class A and Class U units held at December 31, 2018 were publicly traded equities. If equity prices on the exchange increased or decreased by 5 percent as at December 31, 2018, the net assets attributable to holders of Class A and Class U units would have increased or decreased by $0.3 million (2017 - $0.8 million) or 4.0 percent (2017 - 4.7 percent) of the net assets attributable to holders of Class A and Class U units with all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

The Manager believes that a portfolio that is subject to covered call option writing or purchased put options should provide a degree of protection against falling share prices in a downward trending market.

## Concentration Risk

Concentration risk arises as a result of the concentration of exposures with the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk:

| | Dec. 31, 2018 | Dec. 31, 2017 |
|---|---|---|
| Diversified Financials | 33.4% | 54.0% |
| Insurance | 27.6% | 15.2% |
| Real Estate | 18.7% | – |
| Banks | 11.6% | 27.1% |
| Alternative Asset Management | 8.7% | – |
| Exchanged-Traded Funds | – | 3.7% |
| | 100.0% | 100.0% |

## Capital Risk Management

Units surrendered for redemption on or before the first business day of September of any year (the "Annual Redemption Deadline") will be redeemed on the Annual Redemption Date corresponding to such Annual Redemption Deadline. Units surrendered for redemption at least ten business days prior to a Monthly Redemption Date other than September (the "Monthly Redemption Deadline') will be redeemed on the Monthly Redemption Date corresponding to such Monthly Redemption Deadline.

Unitholders whose units are redeemed on an Annual Redemption Date will be entitled to receive a redemption price per unit of a class equal to the net asset value per unit of such class determined as of such date. For unitholders whose Class A units are redeemed on a Monthly Redemption Date, the redemption price per Class A unit (the "Class A Monthly Redemption Price") will be the Canadian dollar amount equal to the lesser of: (i) 95 percent of the Market Price; and (ii) 100 percent of the Closing Market Price of the Class A units on the applicable Redemption Date, and, in either case, minus an amount equal to the aggregate of all brokerage fees, commissions and other costs incurred by the Fund in connection with such payment, including, but not limited to, costs incurred in liquidating securities held in the Portfolio.

For such purposes, "Market Price" means the weighted average trading price of the Class A units on the stock exchange on which the Class A units are listed for the ten trading days immediately preceding the applicable Redemption Date, and "Closing Market Price" means the closing price of the Class A units on the stock exchange on which the Class A units are listed or, if there was no trade on the relevant date, the average of the last bid and the last asking prices of the Class A units on the stock exchange on which the Class A units are listed. Notwithstanding (i) and (ii) above, the Redemption Price shall not exceed the net asset value of the Fund on the Monthly Redemption Date.

For unitholders whose Class U units are redeemed on a Monthly Redemption Date, the Redemption Price per Class U unit will be the U.S. dollar amount calculated as the Class A Monthly Redemption Price (converted to U.S. dollars on the Monthly Redemption Date) multiplied by a fraction, the numerator of which is the net asset value per Class U unit and the denominator of which is the net asset value per Class A unit (converted to U.S. dollars on the Monthly Redemption Date).

## Fair Value Measurement

The Fund classifies fair value of measurement within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs, other than quoted prices in 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 that are based on unobservable market data.

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur. The following table illustrates the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at December 31, 2018 and 2017.

| As at December 31, 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| United States Common Shares | $ 6,202,032 | $ – | $ – | $ 6,202,032 |
| Forward Exchange Contracts | – | (59,884) | – | (59,884) |
| Options | (2,745) | – | – | (2,745) |
| | $ 6,199,287 | $ (59,884) | $ – | $ 6,139,403 |

| As at December 31, 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| United States Common Shares | $ 14,766,302 | $ – | $ – | $ 14,766,302 |
| Exchange-Traded Funds | 566,261 | – | – | 566,261 |
| Forward Exchange Contracts | – | 286,873 | – | 286,873 |
| | $ 15,332,563 | $ 286,873 | $ – | $ 15,619,436 |

The carrying values of cash, dividends receivable, accrued management fees, accrued liabilities, and the Fund's obligation for net assets attributable to holders of Class A and Class U units approximate their fair values due to their short-term nature.

### (a) Equities

The Fund's equity positions are classified as Level 1 as equity securities are actively traded and a reliable quoted price is observable.

### (b) Short-Term Investments

Short-term investments are valued at cost plus accrued interest which approximates fair value. The inputs are observable and therefore short-term investments are classified as Level 2.

### (c) Derivative Assets and Liabilities

Derivative assets and liabilities consist of forward exchange contracts and listed and/or over-the-counter option contracts.

Listed options are classified as Level 1 as the security is traded in a recognized exchange and a reliable price is readily observable.

Fair value of over-the-counter options is determined using the Black-Scholes Model with observable market data as inputs. Forward exchange contracts are valued on the gain or loss that would be realized if, on the valuation date, the position in the forward exchange contract, as the case may be, was to be closed out. Over-the-counter option and forward exchange contracts, for which the credit risks are determined not to be significant to fair value, have been classified as Level 2.

There were no transfers between Level 1 and Level 2 and the Fund did not hold any financial instruments within Level 3 of the fair value hierarchy during 2018 and 2017.

## 7. Class A and Class U Units

The Fund's authorized capital includes an unlimited number of Class A units and an unlimited number of Class U units.

The Fund intends to pay equal quarterly cash distributions on the last business day of March, June, September and December in an amount targeted to be 5.0 percent per annum of the issue price of the Class A and Class U units in their respective currencies.

For the year ended December 31, 2018, cash distributions paid to Class A units were $792,519 (2017 - $942,460) representing a payment of $0.50 (2017 - $0.50) per Class A unit and cash distributions to Class U units were US$42,863 (2017 - US$73,075) representing a payment of US$0.50 (2017 - US$0.50 ) per Class U unit.

During the year ended December 31, 2018, 789,543 (2017 - 187,938) Class A units were redeemed with a total retraction value of $6,168,857 (2017 - $1,545,884) and 17,100 (2017 - 33,000) Class U units were redeemed with a total retraction value of US$136,383 (2017 - US$275,927).

During year ended December 31, 2018 and 2017, the unit transactions are as follows:

| | Dec. 31, 2018 | Dec. 31, 2017 |
|---|---|---|
| **Class A Units** | | |
| Units outstanding, beginning of year | 1,771,006 | 1,893,833 |
| Conversions from Class U | 13,424 | 65,111 |
| Units redeemed | (789,543) | (187,938) |
| Units outstanding, end of year | 994,887 | 1,771,006 |
| **Class U Units** | | |
| Units outstanding, beginning of year | 100,500 | 183,400 |
| Conversions to Class A | (10,500) | (49,900) |
| Units redeemed | (17,100) | (33,000) |
| Units outstanding, end of year | 72,900 | 100,500 |

## 8. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

### (a) Management Fees

Strathbridge, as Investment Manager and Manager under the terms of the Investment Management Agreement and Trust Agreement, receives fees payable at annual rates of 1.25 percent of the Fund's net asset value of the Fund and calculated and payable monthly, plus applicable taxes. The Fund is responsible for all ongoing custodian, manager, legal, accounting and audit fees as well as all other expenses incurred by the Custodian and Manager in the ordinary course of business relating to the Fund's operations. Total management fees for the year ended December 31, 2018 were $175,013 (2017 - $214,701) of which $8,431 (2017 - $16,224) was paid subsequent to year-end.

### (b) Advisory Board Fees

Total advisory board fees paid to the external members of the Board of Advisors for the year ended December 31, 2018 was $19,500 (2017 - $19,500).

### (c) Independent Review Committee Fees

Total remuneration paid to the external members of the Independent Review Committee for the year ended December 31, 2018 was $7,500 (2017 - $7,500).

## 9. Brokerage Commissions and Soft Dollars

The Manager may select brokerages who charge a commission in soft dollars if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized. The ascertainable soft dollar value received as a percentage of total transaction fees paid during the years ended December 31, 2018 and 2017 is disclosed below:

| | Dec. 31, 2018 | Dec. 31, 2017 |
|---|---|---|
| Soft Dollars | $19,553 | $24,686 |
| Percentage of Total Transaction Fees | 44.7% | 40.2% |

## 10. Increase/(Decrease) in Net Assets Attributable to Holders of Class A and Class U Units per Unit

The increase/(decrease) in net assets attributable to holders of Class A and Class U units per unit for the years ended December 31, 2018 and 2017 is calculated as follows:

| | Dec. 31, 2018 | | Dec. 31, 2017 | |
|---|---|---|---|---|
| | Class A | Class U | Class A | Class U |
| Increase/(Decrease) in Net Assets Attributable to Holders of Units | $ (1,104,629) | $ (24,349) | $ 1,261,195 | $ 28,968 |
| Weighted Average Number of Units Outstanding during the Year | 1,612,849 | 87,340 | 1,881,189 | 151,884 |
| Increase/(Decrease) in Net Assets Attributable to Holders of Units per Unit | $ (0.6849) | $ (0.2788) | $ 0.6704 | $ 0.1907 |

## 11. Income Taxes

No amount is payable on account of income taxes in 2018 and 2017.

Accumulated non-capital losses of approximately $1.5 million (2017 - $1.1 million) and accumulated capital losses of approximately $3.6 million (2017 - $3.6 million) are available for utilization against realized gains on sale of investments in future years. The capital losses can be carried forward indefinitely.

The non-capital losses expire as follows:

| Expiration Date | Amount (in $millions) |
|---|---|
| 2035 | $0.6 |
| 2036 | 0.6 |
| 2038 | 0.3 |
| Total | $1.5 |

Issue costs of approximately $0.6 million (2017 - $1.0 million) remain undeducted for tax purposes at year-end.

## Board of Advisors

### John P. Mulvihill
Chairman & CEO
Strathbridge Asset Management Inc.

### John D. Germain
Senior Vice-President & Chief Financial Officer
Strathbridge Asset Management Inc.

### Michael M. Koerner[1]
Corporate Director

### Robert W. Korthals[1]
Corporate Director

### Robert G. Bertram[1]
Corporate Director

[1] *Independent Review Committee Member*

## Information

### Independent Auditor:
Deloitte LLP
Bay Adelaide Centre, East Tower
8 Adelaide Street West, Suite 200
Toronto, Ontario
M5H 0A9

### Transfer Agent:
Computershare Investor Services Inc.
100 University Avenue, 8th Floor
Toronto, Ontario
M5J 2Y1

### Shares Listed:
Toronto Stock Exchange
trading under
USF.UN

### Custodian:
RBC Investor Services Trust
RBC Centre
155 Wellington Street West, 2nd Floor
Toronto, Ontario
M5V 3L3

Visit our website at www.strathbridge.com for additional information on all Strathbridge Investment Funds.

## Investment Funds Managed by Strathbridge Asset Management Inc.

### UNIT TRUSTS
Canadian Utilities & Telecom Income Fund (UTE.UN)
Core Canadian Dividend Trust (CDD.UN)
Low Volatility U.S. Equity Income Fund (LVU.UN)
NDX Growth & Income Fund (NGI.UN)
Top 10 Canadian Financial Trust (TCT.UN)
U.S. Financials Income Fund (USF.UN)

### SPLIT SHARES
Premium Income Corporation (PIC.PR.A/PIC.A)
S Split Corp. (SBN.PR.A/SBN)
Top 10 Split Trust (TXT.PR.A/TXT.UN)
World Financial Split Corp. (WFS.PR.A/WFS)

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