

September 30, 2019

FINANCIAL STATEMENTS OF  
NCM CONSERVATIVE  
INCOME PORTFOLIO





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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of NCM Conservative Income Portfolio:

### *Opinion*

We have audited the accompanying financial statements of NCM Conservative Income Portfolio, which comprise:

- the statements of financial position as at September 30, 2019 and September 30, 2018
- the statement of comprehensive income for the year ended September 30, 2019
- the statements of changes in net assets attributable to holders of redeemable units for the year ended September 30, 2019 and the period from August 27, 2018 to September 30, 2018
- the statements of cash flows for the year ended September 30, 2019 and the period from August 27, 2018 to September 30, 2018
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”)

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of NCM Conservative Income Portfolio as at September 30, 2019 and September 30, 2018, and its financial performance for the year ended September 30, 2019 and its cash flows for the year ended September 30, 2019 and the period from August 27, 2018 to September 30, 2018 in accordance with International Financial Reporting Standards (IFRS).

### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “*Auditors’ Responsibilities for the Audit of the Financial Statements*” section of our auditors’ report.

We are independent of NCM Conservative Income Portfolio 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. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the Management Report of Fund Performance.

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 and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in Management Report of Fund Performance as at the date of this auditors' 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 the auditors' 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 these financial statements in accordance with International Financial Reporting Standards (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 NCM Conservative Income Portfolio'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 NCM Conservative Income Portfolio or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing NCM Conservative Income Portfolio's financial reporting process.

*Auditors' 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 auditors' 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 generally accepted auditing standards 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 the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, 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 NCM Conservative Income Portfolio'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 NCM Conservative Income Portfolio's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause NCM Conservative Income Portfolio 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.



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

*KPMG LLP*

Chartered Professional Accountants  
December 12, 2019  
Calgary, Canada

# NCM CONSERVATIVE INCOME PORTFOLIO

Statements of Financial Position

(in Canadian dollars, except units outstanding)

As at September 30  
2019 September 30  
2018

## Assets

|   |                   |                |
|---|-------------------|----------------|
| Cash and cash equivalents                         | 275,184           | 150,000        |
| Dividends receivable                              | 24,832            | -              |
| Due from Manager (note 8)                         | 108,610           | -              |
| Units issued                                      | 95,364            | -              |
| Investments, at fair value through profit or loss | 14,108,963        | -              |
| <b>Total assets</b>                               | <b>14,612,953</b> | <b>150,000</b> |

## Liabilities

|   |                   |                |
|---|-------------------|----------------|
| Accrued expenses (note 8)   | 47,510            | -              |
| Distributions payable   | 1,507             | -              |
| Portfolio assets purchased  | 122,517           | -              |
| Units redeemed  | 42,765            | -              |
| <b>Total liabilities (excluding net assets attributable to holders of redeemable units)</b> | <b>214,299</b>    | <b>-</b>       |
| <b>Net assets attributable to holders of redeemable units</b>                               | <b>14,398,654</b> | <b>150,000</b> |

### Net assets attributable to holders of redeemable units:

|           |           |        |
|-----------|-----------|--------|
| Series A  | 5,320,968 | 75,000 |
| Series F  | 7,321,299 | 75,000 |
| Series I  | 1,433,373 | -      |
| Series T6 | 173,347   | -      |
| Series F6 | 148,678   | -      |
| Series M  | 989       | -      |

### Redeemable units outstanding (note 7):

|           |         |       |
|-----------|---------|-------|
| Series A  | 203,704 | 3,000 |
| Series F  | 277,235 | 3,000 |
| Series I  | 52,366  | -     |
| Series T6 | 6,956   | -     |
| Series F6 | 5,876   | -     |
| Series M  | 36      | -     |

### Net assets attributable to holders of redeemable units per unit:

|           |       |       |
|-----------|-------|-------|
| Series A  | 26.12 | 25.00 |
| Series F  | 26.41 | 25.00 |
| Series I  | 27.37 | -     |
| Series T6 | 24.92 | -     |
| Series F6 | 25.30 | -     |
| Series M* | 27.37 | -     |

\*Due to rounding, the NAV/unit presented may not calculate precisely and reflect the absolute figure.

See accompanying notes to financial statements.

On behalf of the Board of Directors of NCM Asset Management Ltd.:



Alex Sasso



Keith Leslie

# NCM CONSERVATIVE INCOME PORTFOLIO

## Statement of Comprehensive Income

For the year ended September 30, 2019

*(in Canadian dollars)*

|  | 2019      |
|--|-----------|
| Dividend income  | 372,501   |
| Interest for distribution purposes   | 2,320     |
| Net gain (loss) on investments at fair value through profit or loss                      |           |
| Net realized gain (loss) on investments  | 81,341    |
| Net change in unrealized appreciation (depreciation) in fair value of investments        | 818,782   |
| Total investment revenue (loss)  | 1,274,944 |
| Management fees (note 8)   | 133,291   |
| Custodian and record keeping fees  | 42,651    |
| Legal and filing fees  | 25,420    |
| HST/GST  | 17,702    |
| Audit fees   | 16,460    |
| Transaction costs  | 11,389    |
| Other  | 11,380    |
| Tax and other professional fees  | 8,977     |
| Operating expense recovery (note 8)  | (108,610) |
| Total operating expenses   | 158,660   |
| Increase (decrease) in net assets attributable to holders of redeemable units before tax | 1,116,284 |
| Withholding tax recovery   | (4,020)   |
| Increase (decrease) in net assets attributable to holders of redeemable units            | 1,120,304 |
| Change in net assets attributable to holders of redeemable units (note 7):               |           |
| Series A   | 435,466   |
| Series F   | 555,079   |
| Series I   | 107,420   |
| Series T6  | 12,857    |
| Series F6  | 9,477     |
| Series M   | 5         |
| Change in net assets attributable to holders of redeemable units per unit (note 7):      |           |
| Series A   | 2.20      |
| Series F   | 2.41      |
| Series I   | 2.78      |
| Series T6  | 1.85      |
| Series F6  | 2.84      |
| Series M   | 0.15      |

See accompanying notes to financial statements.

# NCM CONSERVATIVE INCOME PORTFOLIO

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units

For the year ended September 30, 2019 and period from August 27, 2018 to September 30, 2018

(in Canadian dollars)

|  | All Series  |         | Series A    |        | Series F    |        | Series I  |      | Series T6 |      | Series F6 |      | Series M |      |
|--|-------------|---------|-------------|--------|-------------|--------|-----------|------|-----------|------|-----------|------|----------|------|
|  | 2019        | 2018    | 2019        | 2018   | 2019        | 2018   | 2019      | 2018 | 2019      | 2018 | 2019      | 2018 | 2019     | 2018 |
| Net assets attributable to holders of redeemable units, beginning of year      | 150,000     | -       | 75,000      | -      | 75,000      | -      | -         | -    | -         | -    | -         | -    | -        | -    |
| Increase (decrease) in net assets, attributable to holders of redeemable units | 1,120,304   | -       | 435,466     | -      | 555,079     | -      | 107,420   | -    | 12,857    | -    | 9,477     | -    | 5        | -    |
| Transactions attributable to holders of redeemable units:                      |             |         |             |        |             |        |           |      |           |      |           |      |          |      |
| Issuance of units  | 16,863,382  | 150,000 | 6,780,594   | 75,000 | 8,024,992   | 75,000 | 1,725,543 | -    | 169,669   | -    | 161,600   | -    | 984      | -    |
| Reinvestment of distributions  | 38,781      | -       | 20,284      | -      | 17,686      | -      | 811       | -    | -         | -    | -         | -    | -        | -    |
| Amounts paid on redemptions  | (3,690,454) | -       | (1,957,179) | -      | (1,316,280) | -      | (399,095) | -    | -         | -    | (17,900)  | -    | -        | -    |
|  | 13,211,709  | 150,000 | 4,843,699   | 75,000 | 6,726,398   | 75,000 | 1,327,259 | -    | 169,669   | -    | 143,700   | -    | 984      | -    |
| Distributions declared   | (83,359)    | -       | (33,197)    | -      | (35,178)    | -      | (1,306)   | -    | (9,179)   | -    | (4,499)   | -    | -        | -    |
|  | (83,359)    | -       | (33,197)    | -      | (35,178)    | -      | (1,306)   | -    | (9,179)   | -    | (4,499)   | -    | -        | -    |
| Net assets attributable to holders of redeemable units, end of year            | 14,398,654  | 150,000 | 5,320,968   | 75,000 | 7,321,299   | 75,000 | 1,433,373 | -    | 173,347   | -    | 148,678   | -    | 989      | -    |
| Distributions per unit to holders of redeemable units                          |             |         | 0.15        | -      | 0.15        | -      | 0.15      | -    | 1.32      | -    | 1.21      | -    | -        | -    |

See accompanying notes to financial statements.

# NCM CONSERVATIVE INCOME PORTFOLIO

## Statements of Cash Flows

For the year ended September 30, 2019

(in Canadian dollars)

|  | 2019                | 2018           |
|--|---------------------|----------------|
| <b>Cash flows from (used in) operating activities</b>  |                     |                |
| Increase (decrease) in net assets attributable to holders of redeemable units                            | 1,120,304           | -              |
| Adjustments for:   |                     |                |
| Net realized (gain) loss on sale of investments at fair value through profit or loss                     | (81,341)            | -              |
| Net change in unrealized (appreciation) depreciation of investments at fair value through profit or loss | (818,782)           | -              |
| Purchase of investments  | (14,915,058)        | -              |
| Proceeds from the sale of investments  | 1,828,741           | -              |
| Dividends receivable   | (24,832)            | -              |
| Due from Manager   | (108,610)           | -              |
| Accrued expenses   | 47,510              | -              |
| <b>Net cash from (used in) operating activities</b>  | <b>(12,952,068)</b> | <b>-</b>       |
| <b>Cash flows from (used in) financing activities</b>  |                     |                |
| Proceeds from the issuance of redeemable units   | 16,768,018          | 150,000        |
| Amounts paid on redemption of redeemable units   | (3,647,689)         | -              |
| Distributions to holders of redeemable units, net of reinvestments                                       | (43,071)            | -              |
| <b>Net cash from (used in) financing activities</b>  | <b>13,077,258</b>   | <b>150,000</b> |
| Net increase (decrease) in cash and cash equivalents   | 125,190             | 150,000        |
| Effect of exchange rates on cash and cash equivalents  | (6)                 | -              |
| Cash and cash equivalents at beginning of year   | 150,000             | -              |
| <b>Cash and cash equivalents at end of year</b>  | <b>275,184</b>      | <b>150,000</b> |
| Dividends received, net of withholding tax paid  | 351,689             | -              |
| Interest received  | 2,241               | -              |

See accompanying notes to financial statements.

# NCM CONSERVATIVE INCOME PORTFOLIO

Schedule of Investment Portfolio

As at September 30, 2019

(in Canadian dollars)

| Description  | Number of Shares | Cost (\$)         | Fair Value (\$)   | % of Net Assets |
|--|------------------|-------------------|-------------------|-----------------|
| <b>MUTUAL FUND SHARES</b>  |                  |                   |                   |                 |
| Mutual Fund Trusts   |                  |                   |                   |                 |
| NCM Norrep Fund, Series 'R'  | 8,166            | 283,841           | 282,734           |                 |
| NCM Short Term Income Fund, Series 'R'                                     | 291,806          | 2,809,252         | 2,792,614         |                 |
|  |                  | 3,093,093         | 3,075,348         | 21.4%           |
| NCM Core Portfolios Ltd.   |                  |                   |                   |                 |
| NCM Core Canadian, Series 'R'  | 52,380           | 1,634,789         | 1,741,353         |                 |
| NCM Core Global, Series 'R'  | 59,024           | 1,877,280         | 2,118,465         |                 |
|  |                  | 3,512,069         | 3,859,818         | 26.8%           |
| <b>TOTAL MUTUAL FUND SHARES</b>  |                  | <b>6,605,162</b>  | <b>6,935,166</b>  | <b>48.2%</b>    |
| <b>CANADIAN EQUITY ETFs</b>  |                  |                   |                   |                 |
| BMO Global Infrastructure Index ETF  | 11,500           | 407,454           | 466,555           |                 |
| iShares Global Real Estate Index ETF                                       | 6,900            | 195,834           | 221,007           |                 |
| iShares S&P Global Water Index Fund  | 6,000            | 205,322           | 225,360           |                 |
| Vanguard FTSE Developed All Cap ex North America Index ETF<br>(CAD Hedged) | 20,000           | 557,182           | 569,800           |                 |
|  |                  | 1,365,792         | 1,482,722         | 10.3%           |
| <b>TOTAL CANADIAN EQUITY ETFs</b>  |                  | <b>1,365,792</b>  | <b>1,482,722</b>  | <b>10.3%</b>    |
| <b>CANADIAN BOND ETFs</b>  |                  |                   |                   |                 |
| BMO High Yield US Corporate Bond Hedged to CAD ETF                         | 70,000           | 946,647           | 959,000           |                 |
| BMO Mid-Term US IG Corporate Bond Hedged to CAD Index ETF                  | 310,300          | 4,376,820         | 4,732,075         |                 |
| <b>TOTAL CANADIAN BOND ETFs</b>  |                  | <b>5,323,467</b>  | <b>5,691,075</b>  | <b>39.5%</b>    |
| <b>TOTAL EXCHANGE TRADED FUNDS</b>   |                  | <b>6,689,259</b>  | <b>7,173,797</b>  | <b>49.8%</b>    |
| Less: Transaction costs included in average cost                           |                  | (4,240)           |                   |                 |
| <b>TOTAL INVESTMENTS</b>   |                  | <b>13,290,181</b> | <b>14,108,963</b> | <b>98.0%</b>    |
| Other assets, less liabilities   |                  |                   | 289,691           | 2.0%            |
| <b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>        |                  |                   | <b>14,398,654</b> | <b>100.0%</b>   |

# NCM CONSERVATIVE INCOME PORTFOLIO

## Notes to Financial Statements

Year ended September 30, 2019 and period from August 27, 2018 to September 30, 2018

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### 1. Reporting Entity:

NCM Conservative Income Portfolio (the “**Fund**”) is an open-ended mutual fund trust established under the laws of Alberta pursuant to a Declaration of Trust dated August 27, 2018. The Fund’s principal place of business is Suite 1850, 333 - 7<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 2Z1.

The Fund may issue an unlimited number of units. Each unit represents an equal undivided interest in the net assets of the Fund; however, the value of a Trust Unit in one Class may differ from the value of a Trust Unit in another Class, depending on the Net Asset Value of that particular Class.

NCM Asset Management Ltd. is the investment fund manager and the portfolio manager (the “**Manager**”) of the Fund. Computershare Trust Company of Canada is the trustee of the Fund. CIBC Mellon Trust Company (“CIBC Mellon”) is the custodian of the Fund.

The Fund commenced operations on October 1, 2018, as such, there are no comparative numbers in the notes to financial statements for the period ended September 30, 2018, with the exception of note 7. At September 30, 2018, the Fund had issued units for initial seed money and held it in cash. The Fund (in this context, the “Top Fund”) may invest in securities of other funds within the NCM Group of funds (in this context, each an Underlying Fund).

### 2. Basis of preparation:

#### (a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Fund’s significant accounting principles under IFRS are presented in note 3. These policies have been applied consistently to all periods presented.

The financial statements of the Fund were approved and were authorized for issue by the Manager’s Board of Directors on December 12, 2019.

#### (b) Basis of measurement:

The financial statements have been prepared on the historical cost basis, except for investments at fair value through profit or loss which are measured at fair value.

#### (c) Functional and presentation currency:

The financial statements are presented in Canadian dollars, which is the Fund’s functional currency, and all values are rounded to the nearest dollar except where otherwise indicated.

#### (d) Use of judgements and estimates:

These financial statements include estimates and assumptions made by management that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, and gains and losses during the reporting period. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Significant areas requiring the use of management estimates include the fair value of investments and the unrealized gains/losses from investments.

# NCM CONSERVATIVE INCOME PORTFOLIO

Notes to Financial Statements

Year ended September 30, 2019 and period from August 27, 2018 to September 30, 2018

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### 3. Significant accounting policies:

The Fund has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Financial assets and financial liabilities:

(i) Recognition and initial measurement

Financial assets and financial liabilities at fair value through profit or loss are initially recognized on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated.

Financial assets and financial liabilities at fair value through profit or loss are initially recognized at fair value, with transaction costs recognized in profit or loss. Financial assets or financial liabilities not at FVTPL are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue

(ii) Derecognition:

Financial assets are derecognized only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Fund derecognizes financial liabilities when, and only when, the Fund's obligations are discharged, cancelled or they expire.

(iii) Classification

The Fund follows IFRS 9 Financial Instruments. The standard requires assets to be carried at amortized cost or fair value, with changes in fair value recognized in profit and loss ("FVTPL") or fair value through other comprehensive income ("FVOCI") based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Assessment and decision on the business model approach used is an accounting judgement.

Under IFRS 9, derivatives are classified as FVTPL like other financial assets and liabilities, so there is no requirement to present separately the different component amounts on the Statement of Comprehensive Income as they fall within the same classification.

However, Canadian Security Administrators ("CSA") regulatory requirements under NI 81-106 prescribe the individual line items that are required to be disclosed which includes separate disclosure for derivatives.

The Fund classifies financial assets and financial liabilities into the following categories.

Financial assets at fair value through profit or loss:

- All investments, including derivatives

Financial assets at amortized cost:

- Cash and cash equivalents and receivables

# NCM CONSERVATIVE INCOME PORTFOLIO

Notes to Financial Statements

Year ended September 30, 2019 and period from August 27, 2018 to September 30, 2018

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### 3. Significant accounting policies (continued):

(a) Financial assets and financial liabilities (continued):

(iii) Classification (continued)

Financial liabilities at amortized cost:

- All liabilities other than redeemable units

The Fund designates all financial assets and liabilities at fair value through profit or loss on initial recognition because it manages securities on a fair value basis in accordance with its documented investment strategy. Internal reporting and performance measurement of these securities and the Fund as a whole is on a fair value basis. The Manager also receives management fees which are based on the overall fair value of the Fund.

(iv) 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 in the principal or, in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Fund measures fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Fund measures instruments quoted in an active market at last traded price.

For securities where market quotes are not available, the Fund values the initial investment at the amount paid. After initial investment, the Fund uses estimation techniques to determine fair value including observable market data, discounted cash flows and internal models that compare the investments to its peer group.

Fair value of investments in restricted units is determined using an economic model taking into account various factors including risk free rate of interest, volatility, market value and length of restriction.

Fair value of investments in bonds, asset-backed securities and secured loans represents a price that may fall between the last bid and ask price provided by an independent security pricing service, depending on which service provider is used.

There is no difference between pricing Net Asset Value ("NAV") and accounting NAV.

(v) Amortized cost measurement

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at recognition, minus principal repayments (if applicable), plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount (if applicable), minus any reduction for impairment (if applicable).

# NCM CONSERVATIVE INCOME PORTFOLIO

Notes to Financial Statements

Year ended September 30, 2019 and period from August 27, 2018 to September 30, 2018

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## 3. Significant accounting policies (continued):

### (a) Financial assets and financial liabilities (continued):

#### (vi) Specific instruments

##### Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Fund in the management of short-term commitments, other than cash collateral provided in respect of derivatives and securities borrowing transactions.

##### Redeemable units

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Fund has multiple classes of redeemable units that do not have identical features and therefore, do not qualify as equity under IAS 32, Financial Instruments: Presentation. The redeemable units, which are classified as financial liabilities and measured at redemption amount, provide investors with the right to require redemption, subject to available liquidity, for cash at a unit price based on the Fund's valuation policies at each redemption date. The units represent the residual interest in the Fund.

### (b) Interest for distribution purposes:

The interest for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis and is recognized through profit or loss. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities.

### (c) Dividend income:

Dividend income is recognized in profit or loss on the date on which the right to receive payment is established. This is usually the ex-dividend date.

### (d) Distributions to holders of redeemable units:

Any distribution made will be in proportion to the number of units held by each unitholder.

Distributions per unit are calculated as the total amount of distributions divided by the number of units on the record date.

### (e) Net gain (loss) from financial instruments at fair value through profit or loss:

Net unrealized/realized gain/loss from financial instruments at fair value through profit or loss is calculated using the average cost method.

Average cost does not include amortization of premiums or discounts on fixed income securities.

# NCM CONSERVATIVE INCOME PORTFOLIO

Notes to Financial Statements

Year ended September 30, 2019 and period from August 27, 2018 to September 30, 2018

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## 3. Significant accounting policies (continued):

### (f) Income tax:

As at September 30, 2019 the Fund was a “mutual fund trust” under the Income Tax Act (Canada) and, accordingly, is not taxed on that portion of its taxable income that is paid or allocated to unitholders. The Fund pays out sufficient net income and net realized capital gains so that it will not be subject to income taxes. Accordingly, no provision for income taxes has been made in these financial statements.

However, certain dividend and interest income received by the Fund is subject to withholding tax imposed in certain countries of origin. Income that is subject to such tax is recognized gross of the taxes and the corresponding withholding tax is recognized as a tax expense. The Fund had a withholding tax recovery of \$4,020 for the year ended September 30, 2019.

### (g) Increase (decrease) in net assets attributable to holders of redeemable units:

The net assets attributable to holders of redeemable units per unit is calculated by dividing the net assets attributable to holders of redeemable units of a particular series of units by the total number of units of that particular series outstanding at the end of the period.

Change in net assets attributable to holders of redeemable units per unit is calculated as increase (decrease) in net assets attributable to holders of redeemable units, divided by the weighted average units outstanding during the period.

### (h) Translation of foreign currency:

Foreign currency amounts are expressed in Canadian dollars as follows:

- (i) fair value of investments and accrued receivables and payables and other assets and liabilities at the rate of exchange at the end of the period; and
- (ii) purchases and sales of investments and dividend and interest income at the rate of exchange prevailing on the respective dates of such transactions.

Foreign currency differences are recognized as a component of net gain/loss from financial instruments at fair value through profit or loss.

### (i) Derivative financial instruments:

The Fund may use derivative financial instruments with the Fund’s other instrument strategies. Derivative financial instruments are recorded at mark to market with changes in fair value recorded in the statement of comprehensive income.

## 4. Asset Transfers

On October 31, 2018, the Fund acquired substantially all of the net assets of NCM High Income Fund (“the terminating Fund”) and security holders of the terminating Fund became security holders of the Fund.

As a result, 226,852 Series A units of the Fund were issued, 234,083 Series F units of the Fund were issued and 8,641 Series I units were issued. The assets transferred were as follows:

# NCM CONSERVATIVE INCOME PORTFOLIO

## Notes to Financial Statements

Year ended September 30, 2019 and period from August 27, 2018 to September 30, 2018

### 4. Asset Transfers (continued)

|  | October 31, 2018  |
|--|-------------------|
| Cash and cash equivalents                        | 11,446,305        |
| Other assets – net of liabilities                | (35,400)          |
| <b>Value of assets received and units issued</b> | <b>11,410,905</b> |

### 5. Fair value measurement:

(a) Investments:

The fair values of financial assets and financial liabilities that are traded on active markets are based on quoted market prices. For all other financial instruments, the Fund determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

A three-tier hierarchy is used as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

- Inputs that are quoted prices (unadjusted) in active markets for identical instruments (Level 1);
- Valuation techniques for which the lowest level input that is significant to fair value measurement is directly or indirectly observable (Level 2);
- Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable (Level 3);

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The Fund recognizes transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change occurred.

The tables below analyze investments measured at fair value at the reporting dates by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

| <i>(in Canadian dollars)</i>             | <b>Level 1</b>   | <b>Level 2</b>   | <b>Level 3</b> | <b>Total</b>      |
|--|------------------|------------------|----------------|-------------------|
| September 30, 2019                       |                  |                  |                |                   |
| Public securities – Equity and Bond ETFs | 7,173,797        | -                | -              | 7,173,797         |
| Public securities - Underlying Funds     | -                | 6,935,166        | -              | 6,935,166         |
| <b>Total Investments</b>                 | <b>7,173,797</b> | <b>6,935,166</b> | <b>-</b>       | <b>14,108,963</b> |

# NCM CONSERVATIVE INCOME PORTFOLIO

Notes to Financial Statements

Year ended September 30, 2019 and period from August 27, 2018 to September 30, 2018

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## 5. Fair value measurement (continued):

(b) Fair value hierarchy – Financial instruments measured at fair value (continued):

There were no transfers into or out of Level 1, Level 2 and Level 3 during the periods ended September 30, 2019 and September 30, 2018 .

(c) Financial instruments not measured at fair value:

The carrying values of cash and cash equivalents, dividends receivable, interest receivable, accrued expenses, and other receivables and payables approximate their fair values due to their short term nature.

## 6. Financial instruments and associated risks:

The Fund's activities expose it to a variety of risks associated with financial instruments as follows: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk). The Fund's overall risk management program seeks to maximize the returns derived for the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's financial performance. All investments result in a risk of loss of capital.

### Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of bonds and secured loans in the Underlying Funds and ETFs represents the maximum credit risk exposure as at September 30, 2019. The carrying amount of cash and cash equivalents and receivables also represents their maximum credit risk.

A portion of the Underlying Funds and ETFs may consist of instruments that have a credit quality rated below investment grade by internationally recognized credit rating organizations or may be unrated. These securities involve significant risk exposure as there is uncertainty regarding the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations. Low rated and unrated debt instruments generally offer a higher current yield than that available from higher grade issuers, but typically involve greater risk.

Credit risk arising on transactions for units issued and portfolio assets sold relates to transactions awaiting settlement, also known as settlement risk.

'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. Credit risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used.

For the majority of the transactions, the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Also, legal entitlement will not pass until all monies have been received for the units purchased or the portfolio assets sold. If either party does not meet its obligation then the transaction will fail.

# NCM CONSERVATIVE INCOME PORTFOLIO

Notes to Financial Statements

Year ended September 30, 2019 and period from August 27, 2018 to September 30, 2018

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## 6. Financial instruments and associated risks (continued):

### Credit risk (continued):

Substantially all of the assets of the Fund are held by CIBC Mellon, the Custodian. Bankruptcy or insolvency of the Custodian may cause the Fund's rights with respect to securities held by the custodian to be delayed or limited. The Fund monitors its risk by monitoring the credit quality and credit rating and financial positions of the custodian. If the credit quality or the financial position deteriorates significantly then the Portfolio Manager will move the investment or cash holdings to another financial institution.

The Portfolio Manager analyses credit concentration based on the counterparty, industry and geographical location of the financial assets that the Fund holds.

Other than outlined above there were no significant concentrations of credit risk to counterparties at September 30, 2019 and September 30, 2018.

### Liquidity risk:

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets.

The Fund and its Underlying Funds are exposed to daily cash redemptions of redeemable units. Investments in small, mid-capitalization and micro-capitalization companies may involve greater risks than in larger, more established companies since such companies may have more limited markets and financial resources and their securities may be more sensitive to market changes. As well, the liquidity of the securities may be limited. Consequently, in order to fund redemptions, the Underlying Fund may have to liquidate shareholdings in the more liquid large and medium-sized companies.

To the extent that the liquidity is limited, the Fund's ability to realize profits and/or minimize losses may be limited, which could adversely affect the net asset value of the Fund. Also, the Underlying Fund's investments may include unlisted equity and debt instruments, which are not traded on an organized public market and which may be illiquid. As a result, the Underlying Fund may not be able to quickly liquidate some of its investments in these instruments at an amount close to their fair value in order to meet their liquidity requirements. The Fund believes it maintains sufficient cash and cash equivalent positions to maintain liquidity.

The Fund's liquidity risk is managed on a daily basis by the Portfolio Manager. The Fund's redemption policy allows for redemptions at any time during any given month.

The Fund is subject to regulatory requirements whereby the Fund shall not purchase an illiquid asset if, immediately after the purchase, more than ten percent of the net assets of each Fund, taken at market value at the time of purchase, would consist of illiquid assets. Residual contractual maturities of financial liabilities are all due on demand.

# NCM CONSERVATIVE INCOME PORTFOLIO

Notes to Financial Statements

Year ended September 30, 2019 and period from August 27, 2018 to September 30, 2018

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## 6. Financial instruments and associated risks (continued):

### Market risk:

Market risk embodies the potential for both losses and gains and includes currency risk, interest rate risk and price risk.

The Fund's strategy on the management of investment risk is driven by the Fund's investment objective. The Fund is designed to provide investors with current income and the potential for capital preservation by investing, directly or indirectly through investments in Underlying Funds, in a diversified portfolio consisting primarily of fixed-income securities and to a lesser extent equity securities from anywhere in the world.

It is expected that the Fund will invest primarily in Underlying Funds managed or advised by the Manager or its affiliates and ETFs.

The Fund may engage in a limited amount of short selling as well as in securities lending, repurchase and reverse repurchase transactions. The Fund may also invest in derivatives (including forward contracts, calls and puts) and in Horizon BetaPro ETFs. These transactions will be used to achieve the Fund's overall investment objectives and to enhance the Fund's returns.

No material change in the investment objectives, policies or restrictions of the Fund may be made without the approval of a two-thirds majority of the votes cast by unitholders at a meeting of the Fund duly called for that purpose.

The Fund's market risk is managed on a daily basis by the portfolio manager in accordance with the policies and procedures in place.

Details of the nature of the Fund's investment portfolio at September 30, 2019 are disclosed in the schedule of investment portfolio.

### (a) Currency risk:

The Fund may invest in financial instruments and enter into transactions denominated in currencies other than the Canadian dollar. In addition, some of the Underlying Funds and ETFs hold investments in global currencies. Consequently, the Fund is exposed to risks that the exchange rate of the Canadian dollar to other foreign currencies may fluctuate.

At the reporting date the Fund had none (September 30, 2018 – \$nil) of its net asset value in foreign currency.

# NCM CONSERVATIVE INCOME PORTFOLIO

Notes to Financial Statements

Year ended September 30, 2019 and period from August 27, 2018 to September 30, 2018

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## 6. Financial instruments and associated risks (continued):

### Market risk (continued):

#### (b) Interest rate risk:

Interest rate risk arises on interest-bearing financial instruments. A change in general interest rates is a main factor affecting the price of a fund that invests in fixed-income securities. Fixed-income securities, like bonds, pay interest based on interest rates when the bond is issued, when interest rates fall, the value of the bonds rise. This is because the interest rates of existing bonds will be higher than the rate on newer bonds. Conversely, when interest rates rise, the price of existing bonds drop because they pay less than newer bonds.

Some of the Underlying Funds and ETFs have interest-bearing assets and are exposed to the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing market interest rates.

High yield corporate bond prices are impacted by the credit metrics, liquidity and business fundamentals of the corporate entity, movements in underlying interest rates and inflows and outflows in and out of high yield space.

#### (c) Other price risk:

Other price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer, or factors affecting all instruments traded in the market. All securities present a risk of loss of capital.

Price risk is managed by the Fund's Portfolio Manager through construction of diversified portfolios. The price of a security is affected by individual company developments and by general economic and financial conditions in those countries where the issuer of the security is located, does business or where the security is listed for trading. In addition, certain securities are not listed on any prescribed stock exchange and thus a liquid market for resale may not exist.

The Portfolio Manager will monitor these factors daily and make decisions regarding the portfolio based on its knowledge of the market conditions and diversify the portfolio of investments accordingly. The maximum price risk resulting from financial instruments is equivalent to their fair value.

#### Sensitivity analysis:

Management's estimate of the impact of a 1% increase or decrease on the following underlying indices and ETFs at September 30, 2019 and September 30, 2018, is an increase or decrease in the net assets attributable to holders of redeemable units of approximately:

# NCM CONSERVATIVE INCOME PORTFOLIO

Notes to Financial Statements

Year ended September 30, 2019 and period from August 27, 2018 to September 30, 2018

## 6. Financial instruments and associated risks (continued):

### Market risk (continued):

(c) Other price risk (continued):

| (In Canadian dollars)      | Total Return Index   | Change in<br>Net Assets<br>(\$)<br>2019 |
|----------------------------|--|---|
| Underlying Funds           |  |   |
| NCM Core Canadian          | S&P TSX Composite Total Return Index   | 17,414                                  |
| NCM Core Global            | MSCI World Net Total Return Index  | 21,185                                  |
| NCM Norrep Fund            | BMO Small Cap Equity Only Weighted Total Return Index  | 2,827                                   |
| NCM Short Term Income Fund | 50% FTSE TMX Short Term Bond Index;<br>30% Credit Suisse Leveraged Loan Index; 20% the<br>Merrill Lynch High Yield Canadian Issuer's Index | 27,926                                  |
| Total Underlying Funds     |  | 69,352                                  |
| Equity and Bond ETFs       |  | 71,738                                  |
| Total                      |  | 141,090                                 |

In practice, the actual trading results may differ from this estimate and the difference could be material. The Fund's financial assets exposed to other price risk were concentrated in the following industries as a percentage of total investments at September 30, 2019 and September 30, 2018:

|                         | 2019  |
|-------------------------|-------|
| Energy                  | 2.2%  |
| Materials               | 1.4%  |
| Industrials             | 3.7%  |
| Consumer Discretionary  | 3.2%  |
| Consumer Staples        | 4.4%  |
| Health Care             | 1.9%  |
| Financials              | 6.4%  |
| Communication Services  | 2.2%  |
| Information Technology  | 2.1%  |
| Utilities               | 0.8%  |
| Real Estate             | 1.3%  |
| Bonds and Secured Loans | 59.9% |
| Exchange Traded Funds   | 10.5% |
| Total                   | 100%  |

# NCM CONSERVATIVE INCOME PORTFOLIO

## Notes to Financial Statements

Year ended September 30, 2019 and period from August 27, 2018 to September 30, 2018

### 7. Net assets attributable to unitholders of redeemable units:

#### Redeemable units

The authorized capital of the Fund consists of an unlimited number of units, issuable in series. Currently, the Fund is offered in six series of units: Series A units, Series F units, Series I units, Series M units, Series T6 units and Series F6 units. Each series ranks equally with respect to distributions and return of capital in the event of liquidation, dissolution or winding up based on their respective series' net asset values. Each series pays its own fees and expenses. The general expenses that are not series specific are allocated in proportion to the annual weighted average units of each series. Series A and Series T6 are sold under the front end sales charge option. A commission ranging from 0% to 5% is paid by the investor to the dealer with a 2% redemption fee being charged if the units are redeemed in the first 30 days.

Series F and Series F6 are sold without commission provided the purchaser is enrolled in a fee-for-service or wrap program with the dealer. A 2% redemption fee is charged if the Series F or Series F6 is redeemed in the first 30 days.

Series I units are sold without commission and are available to certain investors at the Portfolio Manager's discretion. A 2% redemption fee is charged if the units are redeemed in the first 30 days.

Series M units are not available for general public purchase.

The units may be redeemed daily at the net asset value per unit of the respective series

The analysis of movements in the number of redeemable units and net assets attributable to holders of redeemable units during the periods ended September 30, 2019 and September 30, 2018 were as follows:

| <b>Series A</b>                    | <b>2019</b> | <b>2018</b> |
|------------------------------------|-------------|-------------|
| Balance, opening                   | 3,000       | –           |
| Issued on distributions reinvested | 861         | –           |
| Issued for cash                    | 277,738     | 3,000       |
| Redeemed for cash                  | (77,895)    | –           |
| Balance, September 30              | 203,704     | 3,000       |

| <b>Series F</b>                    | <b>2019</b> | <b>2018</b> |
|------------------------------------|-------------|-------------|
| Balance, opening                   | 3,000       | –           |
| Issued on distributions reinvested | 748         | –           |
| Issued for cash                    | 326,077     | 3,000       |
| Redeemed for cash                  | (52,590)    | –           |
| Balance, September 30              | 277,235     | 3,000       |

| <b>Series I</b>                    | <b>2019</b> | <b>2018</b> |
|------------------------------------|-------------|-------------|
| Balance, opening                   | –           | –           |
| Issued on distributions reinvested | 33          | –           |
| Issued for cash                    | 67,528      | –           |
| Redeemed for cash                  | (15,195)    | –           |
| Balance, September 30              | 52,366      | –           |

# NCM CONSERVATIVE INCOME PORTFOLIO

## Notes to Financial Statements

Year ended September 30, 2019 and period from August 27, 2018 to September 30, 2018

### 7. Net assets attributable to unitholders of redeemable units (continued):

Redeemable units (continued)

| <b>Series T6</b>                   | 2019  | 2018 |
|------------------------------------|-------|------|
| Balance, opening                   | –     | –    |
| Issued on distributions reinvested | –     | –    |
| Issued for cash                    | 6,956 | –    |
| Redeemed for cash                  | –     | –    |
| Balance, September 30              | 6,956 | –    |

| <b>Series F6</b>                   | 2019  | 2018 |
|------------------------------------|-------|------|
| Balance, opening                   | –     | –    |
| Issued on distributions reinvested | –     | –    |
| Issued for cash                    | 6,587 | –    |
| Redeemed for cash                  | (711) | –    |
| Balance, September 30              | 5,876 | –    |

| <b>Series M</b>                    | 2019 | 2018 |
|------------------------------------|------|------|
| Balance, opening                   | –    | –    |
| Issued on distributions reinvested | –    | –    |
| Issued for cash                    | 36   | –    |
| Redeemed for cash                  | –    | –    |
| Balance, September 30              | 36   | –    |

The calculation of the increase (decrease) in net assets attributable to holders of redeemable units per unit is presented below. Due to rounding, numbers presented may not calculate precisely and not reflect the absolute figures.

| September 30, 2019   | Series A  | Series F  | Series I  |
|--|-----------|-----------|-----------|
| Increase (decrease) in net assets attributable to holders of redeemable units          | \$435,466 | \$555,079 | \$107,420 |
| Average units outstanding during the period  | 197,359   | 230,763   | 38,697    |
| Increase (decrease) in net assets attributable to holders of redeemable units per unit | \$2.20    | \$2.41    | \$2.78    |

| September 30, 2019   | Series T6 | Series F6 | Series M |
|--|-----------|-----------|----------|
| Increase (decrease) in net assets attributable to holders of redeemable units          | \$12,857  | \$9,477   | \$5      |
| Average units outstanding during the period  | 6,925     | 3,352     | 36       |
| Increase (decrease) in net assets attributable to holders of redeemable units per unit | \$1.85    | \$2.84    | \$0.15   |

# NCM CONSERVATIVE INCOME PORTFOLIO

Notes to Financial Statements

Year ended September 30, 2019 and period from August 27, 2018 to September 30, 2018

## 8. Management fees, expenses and key contracts:

### (a) Manager and management fees:

Series A and Series T6 paid an annual management fee to the Manager of 1.75% of the net asset value of the series. Series F and Series F6 paid an annual management fee to the Manager of 0.75% of the net asset value of the series. The management fee is calculated and paid monthly. No management fee is charged to the Series I. Instead, the investors pay a management fee directly to the Manager in an amount determined through negotiation with the Manager. Series M units are not available for general public purchase. The Manager and its affiliates offer wealth management services including fee-based and managed accounts under the Cumberland Private Wealth brand, and the Series M units are intended for such accounts. There is no management fee attached to series M. Included in accrued expenses at September 30, 2019 is \$12,474 (September 30, 2018- \$nil) related to these fees.

### (b) Operating expense recoveries:

The Manager has agreed to absorb certain expenses associated with some of the Funds, such absorptions may be terminated at any time without notice. Included in Due from Manager at September 30, 2019 is \$108,610 (September 30, 2018 - \$nil) related to these fees.

## 9. Involvement with unconsolidated structured entities:

The Fund holds interests in structured entities that it does not consolidate. The purpose of the investment is to manage assets on behalf of third party investors and generate fees for the investment manager. These vehicles are financed through the issue of units to investors.

The table below sets out interests held by the Fund in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the financial assets held.

|                            | Total net assets   | Carrying amount included in financial assets at fair value through profit or loss |
|----------------------------|--------------------|---|
| September 30, 2019         |                    |   |
| NCM Core Portfolios Ltd:   |                    |   |
| NCM Core Canadian          | 20,283,667         | 1,741,353   |
| NCM Core Global            | 38,563,741         | 2,118,465   |
| Mutual Fund Trust:         |                    |   |
| NCM Norrep Fund            | 46,284,661         | 282,734   |
| NCM Short Term Income Fund | 49,363,646         | 2,792,614   |
| <b>Total</b>               | <b>154,495,715</b> | <b>6,935,166</b>  |

# NCM CONSERVATIVE INCOME PORTFOLIO

Notes to Financial Statements

Year ended September 30, 2019 and period from August 27, 2018 to September 30, 2018

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**9. Involvement with unconsolidated structured entities (continued):**

During the periods ended September 30, 2019 and September 30, 2018 (where applicable), the Fund did not provide financial support to unconsolidated structured entities and had no intention of providing financial or other support.

The Fund can redeem units in the above investments Funds daily at the net asset value per unit of the respective series.

**10. Brokerage commissions on securities transactions:**

The Fund paid brokerage commissions amounting to \$5,347 (September 30, 2018 - \$nil) in connection with portfolio transactions during the period.

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