

September 30, 2019

FINANCIAL STATEMENTS OF  
NCM MARKET NEUTRAL  
INCOME FUND





KPMG LLP  
205 5th Avenue SW  
Suite 3100  
Calgary AB  
T2P 4B9  
Telephone (403) 691-8000  
Fax (403) 691-8008  
www.kpmg.ca

## INDEPENDENT AUDITORS' REPORT

To the Unitholders of NCM Market Neutral Income Fund:

### *Opinion*

We have audited the accompanying financial statements of NCM Market Neutral Income Fund, which comprise:

- the statements of financial position as at September 30, 2019 and September 30, 2018
- the statements of comprehensive income (loss) for the year ended September 30, 2019 and nine months ended September 30, 2018
- the statements of changes in net assets attributable to holders of redeemable units for the year ended September 30, 2019 and nine months ended September 30, 2018
- the statements of cash flows for the year ended September 30, 2019 and nine months ended 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 Market Neutral Income Fund as at September 30, 2019 and September 30, 2018, and its financial performance and its cash flows for the year ended September 30, 2019 and nine months ended 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 Market Neutral Income 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.

*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 Market Neutral Income 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 NCM Market Neutral Income Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing NCM Market Neutral Income Fund'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 the NCM Market Neutral Income 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 NCM Market Neutral Income 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 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 Market Neutral Income 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.
- 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 MARKET NEUTRAL INCOME FUND

## Statements of Financial Position

*(in Canadian dollars, except units outstanding)*

As at	September 30 2019	September 30 2018
<b>Assets</b>		
Cash and cash equivalents	346,047	2,443,136
Dividends receivable	42,634	81,482
Interest receivable	161,796	323,569
Due from Manager (note 8)	41,505	17,500
Portfolio assets sold	1,349,524	2,281,060
Investments, at fair value through profit or loss	36,256,954	58,787,734
Total assets	38,198,460	63,934,481
<b>Liabilities</b>		
Accrued expenses (note 8)	66,105	81,700
Distributions payable	106,010	171,114
Dividends payable on investments sold short	66,526	65,823
Portfolio assets purchased	1,221,282	1,602,611
Units redeemed	391,422	3,227,120
Investments - short, at fair value through profit or loss	18,024,706	29,257,852
Total liabilities (excluding net assets attributable to holders of redeemable units)	19,876,051	34,406,220
Net assets attributable to holders of redeemable units	18,322,409	29,528,261
Net assets attributable to holders of redeemable units:		
Class A	4,404,725	6,379,101
Class F	13,917,684	23,149,160
Redeemable units outstanding (note 6):		
Class A	522,563	706,672
Class F	1,500,483	2,356,901
Net assets attributable to holders of redeemable units per unit:		
Class A	8.43	9.03
Class F	9.28	9.82

See accompanying notes to financial statements.

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

  
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 Keith Leslie

  
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 Alex Sasso

# NCM MARKET NEUTRAL INCOME FUND

Statements of Comprehensive Income (Loss)

For the year ended September 30, 2019 and nine months ended September 30, 2018

*(in Canadian dollars)*

	2019	2018
Dividend income	529,223	578,720
Interest for distribution purposes	956,071	1,240,225
Net gain (loss) on investments at fair value through profit or loss		
Net realized gain (loss) on investments	(1,863,933)	(475,870)
Net change in unrealized appreciation (depreciation) in fair value of investments	933,981	(88,948)
Total investment revenue (loss)	555,342	1,254,127
Dividend expense on investments sold short	578,964	527,828
Management fees (note 8)	251,247	295,865
Transaction costs	164,654	140,424
Risk management fees	144,452	166,674
Custodian and record keeping fees	38,819	32,484
Administrative fees (note 8)	36,867	34,177
Performance fee (recovery) (note 8)	24,521	—
HST/GST	24,047	24,259
Other	11,042	14,043
Audit fees	10,700	11,040
Computer services	9,344	9,579
Legal and filing fees	6,255	2,885
Independent review committee	3,275	1,819
Tax and other professional fees	2,486	3,970
Operating expense (recovery) (note 8)	(41,505)	(17,500)
Total operating expenses	1,265,168	1,247,547
Increase (decrease) in net assets attributable to holders of redeemable units before taxes	(709,826)	6,580
Withholding tax expense	913	384
Increase (decrease) in net assets attributable to holders of redeemable units	(710,739)	6,196
Change in net assets attributable to holders of redeemable units (note 6):		
Class A	(189,047)	(35,168)
Class F	(521,692)	41,364
Change in net assets attributable to holders of redeemable units per unit (note 6):		
Class A	(0.32)	(0.04)
Class F	(0.28)	0.01

See accompanying notes to financial statements.

# NCM MARKET NEUTRAL INCOME FUND

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

Year ended September 30, 2019 and nine months ended September 30, 2018

*(in Canadian dollars)*

	All Series		Class A		Class F	
	2019	2018	2019	2018	2019	2018
Net assets attributable to holders of redeemable units, beginning of year	29,528,261	34,955,687	6,379,101	8,515,919	23,149,160	26,439,768
Increase (decrease) in net assets, attributable to holders of redeemable units	(710,739)	6,196	(189,047)	(35,168)	(521,692)	41,364
Transactions attributable to holders of redeemable units:						
Issuance of units	3,623,013	3,712,604	–	–	3,623,013	3,712,604
Reinvestment of distributions	365,091	614,848	167,732	187,571	197,359	427,277
Amounts paid on redemptions	(13,609,151)	(8,630,700)	(1,753,338)	(2,059,813)	(11,855,813)	(6,570,887)
	(9,621,047)	(4,303,248)	(1,585,606)	(1,872,242)	(8,035,441)	(2,431,006)
Distributions declared	(874,066)	(1,130,374)	(199,723)	(229,408)	(674,343)	(900,966)
	(874,066)	(1,130,374)	(199,723)	(229,408)	(674,343)	(900,966)
Net assets attributable to holders of redeemable units, end of year	18,322,409	29,528,261	4,404,725	6,379,101	13,917,684	23,149,160
Distributions per unit to holders of redeemable units			0.35	0.30	0.38	0.32

See accompanying notes to financial statements.

# NCM MARKET NEUTRAL INCOME FUND

## Statements of Cash Flows

For the years ended September 30, 2019 and nine months ended September 30, 2018

*(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	(710,739)	6,196
Adjustments for:		
Net realized (gain) loss on sale of investments at fair value through profit or loss	1,863,933	475,870
Net change in unrealized (appreciation) depreciation of investments at fair value through profit or loss	(933,981)	88,948
Purchase of investments	(209,277,424)	(182,210,371)
Proceeds from the sale and maturity of investments	220,195,689	186,977,472
Dividends receivable	38,848	43,016
Interest receivable	161,773	(138,738)
Due from Manager	(24,005)	(2,900)
Accrued expenses	(15,595)	(18,900)
Dividends payable on investments sold short	703	(9,099)
<b>Net cash from (used in) operating activities</b>	<b>11,299,202</b>	<b>5,211,494</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from the issuance of redeemable units	3,623,013	3,712,604
Amounts paid on redemption of redeemable units	(16,444,849)	(6,980,081)
Distributions to holders of redeemable units, net of reinvestments	(574,079)	(497,387)
<b>Net cash from (used in) financing activities</b>	<b>(13,395,915)</b>	<b>(3,764,864)</b>
Net increase (decrease) in cash and cash equivalents	(2,096,713)	1,446,630
Effect of exchange rates on cash and cash equivalents	(376)	(524)
Cash and cash equivalents at beginning of period	2,443,136	997,030
<b>Cash and cash equivalents at end of period</b>	<b>346,047</b>	<b>2,443,136</b>
Dividends received, net of withholding tax paid	567,158	621,352
Interest received	1,117,844	1,101,487
Dividend expenses on investments sold short	578,261	536,927

See accompanying notes to financial statements.

# NCM MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio

As at September 30, 2019

(in Canadian dollars)

Description	Number of Shares / Par Value	Cost (\$)	Fair Value (\$)	% of Net Assets
<b>CANADIAN EQUITIES - Long</b>				
<b>Communication Services</b>				
BCE Inc.	7,100	444,144	454,968	
Rogers Communications Inc., Class 'B'	9,000	626,696	580,770	
		1,070,840	1,035,738	5.7%
<b>Consumer Discretionary</b>				
A&W Revenue Royalties Income Fund	9,300	382,607	357,585	
Boston Pizza Royalties Income Fund	23,900	417,989	412,275	
BRP Inc.	3,900	169,216	201,045	
Gildan Activewear Inc.	4,700	229,511	220,994	
Pizza Pizza Royalty Corp.	26,100	258,068	268,047	
		1,457,391	1,459,946	8.1%
<b>Consumer Staples</b>				
Alimentation Couche-Tard Inc., Class 'B'	6,400	247,452	259,840	
Premium Brands Holdings Corp.	2,400	225,215	223,512	
		472,667	483,352	2.6%
<b>Energy</b>				
Birchcliff Energy Ltd.	298,900	791,523	639,646	
Enerplus Corp.	38,100	414,879	376,047	
North American Construction Group Ltd.	23,400	358,255	357,318	
Parex Resources Inc.	30,100	618,230	611,030	
Parkland Fuel Corp.	4,600	199,342	195,454	
Questor Technology Inc.	97,000	450,662	422,920	
TC Energy Corp.	5,400	339,688	370,440	
		3,172,579	2,972,855	16.2%
<b>Financials</b>				
ECN Capital Corp.	60,900	267,165	278,313	
goeasy Ltd.	2,900	141,279	172,724	
Manulife Financial Corp.	16,300	380,364	396,090	
Toronto-Dominion Bank (The)	7,500	564,655	579,375	
		1,353,463	1,426,502	7.8%
<b>Health Care</b>				
Bausch Health Cos. Inc.	9,400	296,055	271,660	
		296,055	271,660	1.5%
<b>Industrials</b>				
Aecon Group Inc.	17,000	319,722	310,080	
Air Canada	8,800	380,608	380,248	
Canadian National Railway Co.	2,500	306,772	297,400	
Héroux-Devtek Inc.	23,700	410,227	407,640	
IBI Group Inc.	33,900	171,409	166,110	
Magellan Aerospace Corp.	10,100	171,376	150,389	
Westshore Terminals Investment Corp.	19,500	420,538	398,775	
WSP Global Inc.	2,400	171,952	185,832	
		2,352,604	2,296,474	12.5%

# NCM MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (continued)

As at September 30, 2019

(in Canadian dollars)

Description	Number of Shares / Par Value	Cost (\$)	Fair Value (\$)	% of Net Assets
<b>Information Technology</b>				
Enghouse Systems Ltd.	8,300	321,051	302,950	
Firan Technology Group Corp.	84,100	307,621	282,576	
		628,672	585,526	3.2%
<b>Materials</b>				
Centerra Gold Inc.	22,900	225,502	257,854	
Champion Iron Ltd.	144,900	376,737	315,882	
ERO Copper Corp.	23,300	518,635	450,855	
K92 Mining Inc.	210,900	469,222	449,217	
Kirkland Lake Gold Ltd.	5,500	264,108	326,425	
North American Palladium Ltd.	39,900	559,317	708,225	
Pretium Resources Inc.	35,200	479,350	537,504	
Silvercorp Metals Inc.	63,900	243,386	328,446	
SSR Mining Inc.	20,900	398,455	401,489	
		3,534,712	3,775,897	20.6%
<b>Real Estate</b>				
Artis REIT	36,300	434,528	456,654	
Morguard North American Residential REIT	20,900	405,723	414,865	
NorthWest Healthcare Properties REIT	38,100	444,026	448,437	
Plaza Retail REIT	107,900	454,743	480,155	
RioCan REIT	16,900	446,302	445,822	
Slate Retail REIT, Class 'U'	35,900	400,308	463,110	
		2,585,630	2,709,043	14.8%
<b>Utilities</b>				
Capital Power Corp.	7,400	228,001	227,032	
Northland Power Inc.	11,100	272,636	282,162	
Superior Plus Corp.	21,700	260,247	260,834	
TransAlta Renewables Inc.	17,800	243,283	242,614	
		1,004,167	1,012,642	5.5%
<b>TOTAL CANADIAN EQUITIES - Long</b>		<b>17,928,780</b>	<b>18,029,635</b>	<b>98.4%</b>
<b>TOTAL EQUITIES - Long</b>		<b>17,928,780</b>	<b>18,029,635</b>	<b>98.4%</b>
<b>CANADIAN BONDS - LONG (Par Value in CAD except as otherwise stated)</b>				
<b>Canada Other Corporate</b>				
Artis REIT, Series 'C', 3.674%, 2021/02/22	600,000	608,451	606,501	
British Columbia Telephone Co., Series '51', 9.650%, 2022/04/08	100,000	119,266	117,291	
Brookfield Infrastructure Finance ULC, Callable, 3.452%, 2022/03/11	900,000	919,934	921,249	
Brookfield Property Finance ULC, Series 2, 4.115%, 2021/10/19	1,200,000	1,239,083	1,239,036	
Co-operators Financial Services Ltd., Callable, 5.778%, 2020/03/10	1,200,000	1,266,716	1,217,316	
Dream Office REIT, Series 'C', 4.074%, 2020/01/21	1,600,000	1,615,661	1,607,752	
Fairfax Financial Holdings Ltd., Callable, 5.840%, 2022/10/14	1,500,000	1,647,331	1,644,465	
First National Financial Corp., Callable, 4.010%, 2020/04/09	1,000,000	1,006,843	1,005,971	

# NCM MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (continued)

As at September 30, 2019

(in Canadian dollars)

Description	Number of Shares / Par Value	Cost (\$)	Fair Value (\$)	% of Net Assets
<b>Canada Other Corporate (continued)</b>				
Ford Credit Canada Co., Callable, 2.923%, 2020/09/16	1,600,000	1,592,828	1,600,240	
GE Capital Canada Funding Co., Floating Rate, 2.312%, 2022/02/15	1,900,000	1,868,331	1,856,585	
Genworth MI Canada Inc., Callable, 5.680%, 2020/06/15	900,000	944,956	920,389	
Reliance L.P., Callable, 3.813%, 2020/09/15	700,000	709,923	709,317	
Teranet Holdings L.P., Callable, 4.807%, 2020/12/16	1,700,000	1,786,126	1,745,453	
		15,325,449	15,191,565	82.9%
<b>MUTUAL FUND SHARES</b>				
NCM Short Term Income Fund, Series 'I'	317,120	3,247,314	3,035,754	
		3,247,314	3,035,754	16.6%
<b>TOTAL CANADIAN BONDS - Long</b>		<b>18,572,763</b>	<b>18,227,319</b>	<b>99.5%</b>
<b>TOTAL INVESTMENTS - Long</b>		<b>36,501,543</b>	<b>36,256,954</b>	<b>197.9%</b>

Description	Number of Shares	Proceeds (\$)	Fair Value (\$)	% of Net Assets
<b>CANADIAN EQUITIES - Short</b>				
<b>Communication Services</b>				
Shaw Communications Inc., Class 'B'	(17,500)	(449,063)	(455,525)	
TELUS Corp.	(12,300)	(590,330)	(579,945)	
		(1,039,393)	(1,035,470)	-5.7%
<b>Consumer Discretionary</b>				
Great Canadian Gaming Corp.	(8,900)	(351,706)	(367,926)	
Park Lawn Corp.	(12,800)	(332,942)	(330,752)	
Sleep Country Canada Holdings Inc.	(10,900)	(196,711)	(224,649)	
Spin Master Corp.	(8,100)	(331,646)	(327,888)	
Uni-Select Inc.	(18,600)	(240,558)	(205,344)	
		(1,453,563)	(1,456,559)	-7.9%
<b>Consumer Staples</b>				
Alcanna Inc.	(27,000)	(150,399)	(140,400)	
Cott Corp.	(11,100)	(193,155)	(183,372)	
Rogers Sugar Inc.	(30,600)	(179,790)	(164,934)	
		(523,344)	(488,706)	-2.7%
<b>Energy</b>				
Bonterra Energy Corp.	(49,900)	(235,561)	(205,588)	
Computer Modelling Group Ltd.	(22,000)	(135,898)	(134,420)	
Freehold Royalties Ltd.	(27,700)	(250,716)	(208,304)	
Imperial Oil Ltd.	(6,600)	(245,035)	(227,700)	
Keyera Corp.	(5,100)	(175,527)	(164,067)	
Pembina Pipeline Corp.	(4,000)	(197,977)	(196,440)	
Pinnacle Renewable Energy Inc.	(19,800)	(209,057)	(212,850)	
PrairieSky Royalty Ltd.	(10,900)	(199,130)	(201,432)	
Seven Generations Energy Ltd., Class 'A'	(47,600)	(340,370)	(400,792)	
ShawCor Ltd.	(10,900)	(210,504)	(166,334)	
Tervita Corp.	(42,700)	(284,938)	(320,250)	
TORC Oil & Gas Ltd.	(61,900)	(228,254)	(237,077)	
Total Energy Services Inc.	(19,400)	(172,995)	(132,890)	
Tourmaline Oil Corp.	(11,900)	(186,784)	(156,009)	
		(3,072,746)	(2,964,153)	-16.2%

# NCM MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (continued)

As at September 30, 2019

(in Canadian dollars)

Description	Number of Shares	Proceeds (\$)	Fair Value (\$)	% of Net Assets
<b>Financials</b>				
Fiera Capital Corp.	(17,200)	(194,479)	(177,160)	
IGM Financial Inc.	(6,900)	(255,776)	(259,578)	
Intact Financial Corp.	(3,100)	(386,378)	(413,354)	
Laurentian Bank of Canada	(12,900)	(571,121)	(580,887)	
		(1,407,754)	(1,430,979)	-7.8%
<b>Health Care</b>				
Chartwell Retirement Residences	(9,100)	(136,193)	(133,952)	
Sienna Senior Living Inc.	(6,900)	(125,069)	(131,445)	
		(261,262)	(265,397)	-1.4%
<b>Industrials</b>				
AG Growth International Inc.	(2,100)	(111,896)	(93,492)	
Bird Construction Inc.	(40,500)	(220,123)	(230,040)	
CanWel Building Materials Group Ltd.	(19,400)	(97,816)	(89,434)	
Dirtt Environmental Solutions Ltd.	(53,200)	(359,532)	(318,668)	
Exco Technologies Ltd.	(31,200)	(248,107)	(229,320)	
Richelieu Hardware Ltd.	(8,900)	(217,086)	(227,484)	
Rocky Mountain Dealerships Inc.	(35,100)	(237,565)	(252,018)	
Savaria Corp.	(23,300)	(276,586)	(280,299)	
SNC-Lavalin Group Inc.	(15,600)	(262,338)	(291,096)	
Stantec Inc.	(4,400)	(128,147)	(129,008)	
Stuart Olson Inc.	(56,700)	(223,623)	(157,059)	
		(2,382,819)	(2,297,918)	-12.5%
<b>Information Technology</b>				
Celestica Inc.	(36,900)	(343,249)	(350,550)	
Sierra Wireless Inc.	(16,600)	(249,820)	(234,890)	
		(593,069)	(585,440)	-3.2%
<b>Materials</b>				
AirBoss of America Corp.	(34,300)	(295,149)	(267,540)	
Altius Minerals Corp.	(28,600)	(346,738)	(315,744)	
Barrick Gold Corp.	(13,700)	(278,069)	(314,004)	
Continental Gold Inc.	(59,900)	(245,830)	(220,432)	
Endeavour Mining Corp.	(10,200)	(228,769)	(258,264)	
IAMGOLD Corp.	(39,900)	(179,263)	(180,348)	
MAG Silver Corp.	(11,900)	(180,994)	(167,552)	
Methanex Corp.	(3,900)	(189,746)	(183,339)	
Newmont Goldcorp Corp.	(6,400)	(323,680)	(320,640)	
NovaGold Resources Inc.	(27,300)	(184,877)	(219,765)	
Pan American Silver Corp.	(7,900)	(155,640)	(163,925)	
Sandstorm Gold Ltd.	(29,700)	(243,555)	(222,453)	
Stelco Holdings Inc.	(9,400)	(105,177)	(87,044)	
Stella-Jones Inc.	(5,900)	(239,709)	(228,389)	
West Fraser Timber Co. Ltd.	(5,100)	(268,614)	(270,300)	
Wheaton Precious Metals Corp.	(5,200)	(169,145)	(180,648)	
Winpak Ltd.	(4,200)	(184,101)	(184,338)	
		(3,819,056)	(3,784,725)	-20.7%

# NCM MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (continued)

As at September 30, 2019

*(in Canadian dollars)*

Description	Number of Shares	Proceeds (\$)	Fair Value (\$)	% of Net Assets
<b>Real Estate</b>				
Canadian Apartment Properties REIT	(8,300)	(410,220)	(452,101)	
Crombie REIT	(11,300)	(156,266)	(178,540)	
Granite REIT	(7,400)	(461,133)	(474,710)	
H&R REIT	(19,700)	(449,530)	(455,661)	
InterRent REIT	(25,700)	(375,097)	(420,452)	
Minto Apartment REIT	(20,400)	(468,853)	(461,448)	
Tricon Capital Group Inc.	(25,400)	(257,229)	(258,064)	
		(2,578,328)	(2,700,976)	-14.7%
<b>Utilities</b>				
Algonquin Power & Utilities Corp.	(14,900)	(228,936)	(270,286)	
Boralex Inc., Class 'A'	(12,200)	(227,530)	(276,086)	
Innergex Renewable Energy Inc.	(15,500)	(226,461)	(236,995)	
TransAlta Corp.	(26,800)	(231,758)	(231,016)	
		(914,685)	(1,014,383)	-5.6%
<b>TOTAL CANADIAN EQUITIES - Short</b>		<b>(18,046,019)</b>	<b>(18,024,706)</b>	<b>-98.4%</b>
<b>TOTAL INVESTMENTS - Short</b>		<b>(18,046,019)</b>	<b>(18,024,706)</b>	<b>-98.4%</b>
Less: Transaction costs included in average cost		(21,688)		
<b>TOTAL INVESTMENTS</b>		<b>18,433,836</b>	<b>18,232,248</b>	<b>99.5%</b>
Other assets, less liabilities			90,161	0.5%
<b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			<b>18,322,409</b>	<b>100.0%</b>

# NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended September 30, 2019 and nine months ended September 30, 2018

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## 1. Reporting Entity:

On August 27, 2018, Norrep Market Neutral Income Fund changed its name to NCM Market Neutral Income Fund. NCM Market Neutral Income Fund (the "Fund") is an unincorporated open-ended mutual fund trust established under the laws of Ontario pursuant to a Declaration of Trust dated January 1, 2011 as amended and restated June 14, 2012, May 15, 2013, August 8, 2013 and March 24, 2017. The Fund's principal place of business is 99 Yorkville Avenue, Toronto, Ontario, M5R 3K5.

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. ("Manager and Portfolio Manager") provides investment management services and manages the day-to-day operation of the Fund. TSX Trust Company is the trustee, Scotia Capital Inc. is the Prime Broker, CIBC Mellon Global Securities Services Company is the custodian, transfer agent, administrator and registrar and Norrep Investment Management Group Inc. ("Norrep") is the Sponsor of the 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 year. Actual results could differ from those estimates.

# NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended September 30, 2019 and nine months ended September 30, 2018

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## 2. Basis of preparation (continued):

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Significant areas requiring the use of management estimates include the fair value of investments and the unrealized gains/losses from investments.

## 3. Significant accounting policies:

The Fund has consistently applied the following accounting policies to all years 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 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 assets 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

Effective January 1, 2018, the Fund adopted 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.

Upon transition to IFRS 9, the Fund's financial assets and financial liabilities that were classified as fair value through profit and loss (FVTPL) under IAS 39 continued to be categorized as fair value through profit and loss. There were no changes in the measurement attributes for any of the financial assets and financial liabilities upon transition to IFRS 9.

# NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended September 30, 2019 and nine months ended September 30, 2018

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## 3. Significant accounting policies (continued):

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

(iii) Classification (continued)

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; this is a change from the requirement under IAS 39 where derivatives were classified as Held for Trading. 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 Funds classify financial assets and financial liabilities into the following categories.

Financial assets and liabilities at fair value through profit or loss:

- All investments, including derivatives

Financial assets at amortized cost:

- Cash and cash equivalents and receivables

Financial liabilities at amortised cost:

- All liabilities other than redeemable units

The Funds designate 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.

# NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended September 30, 2019 and nine months ended September 30, 2018

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## 3. Significant accounting policies (continued):

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

#### (iv) Fair value measurement (continued)

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 the restriction.

Fair value of investments in share purchase warrants is determined using a recognized economic model taking into account various factors including risk free rate of interest, dividend rates, volatility, market value and trading volume of the underlying stock.

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).

#### (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*. 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.

# NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended September 30, 2019 and nine months ended September 30, 2018

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

(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 and dividend expense:

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.

The Fund incurs expenses on short positions in equity securities equal to the dividends due on these securities. Such dividend expense is recognized in profit or loss as operating expense when the shareholders' right to receive payment is established.

(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.

(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 incurred withholding tax expense of \$913 (2018 - \$384) for the year ended September 30, 2019.

# NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended September 30, 2019 and nine months ended September 30, 2018

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

- (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 year.

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 year.

- (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) Short selling:

The Fund may make short sales whereby a security that it does not own is sold in anticipation of a decline in the fair value of the security. Securities that are sold short are valued at the last traded price reported by the principal securities exchange on which the issue is traded on the financial statement date. To enter into a short sale, the Fund will need to borrow the security for delivery to the buyer. Also, while the transaction is open, the Fund will incur a liability for any paid dividends or interest that is due to the lender of the security. Should the security increase in value during the shorting year, the Fund will incur a loss. There is, in theory, no upper limit to how high the price of a security may go. Another risk involved in shorting is the loss of a borrow, a situation where the lender of the security requests its return. In cases like this, the Fund must either find securities to replace those borrowed or step into the market and repurchase the securities. Depending on the liquidity of the security shorted, if there are insufficient securities available at current market prices, the Fund may have to bid up the price of the security in order to cover the short, resulting in losses to the Fund.

### 4. 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.

# NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended September 30, 2019 and nine months ended September 30, 2018

## 4. Fair value measurement (continued):

### (a) Investments (continued):

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 the 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 year during which the change occurred.

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

The tables below analyze investments measured at fair value at the reporting dates by the fair value hierarchy into which the fair value measurement is categorized.

<i>(in Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
September 30, 2019				
Public securities - Equities - long	18,029,635	—	—	18,029,635
Public securities - Bonds/ETFs	—	18,227,319	—	18,227,319
	18,029,635	18,227,319	—	36,256,954
Public securities - Equities - short	(18,024,706)	—	—	(18,024,706)
Total Investments	4,929	18,227,319	—	18,232,248
<i>(in Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
September 30, 2018				
Public securities - Equities - long	29,253,348	—	—	29,253,348
Public securities - Bonds/ETFs	729,495	28,804,891	—	29,534,386
	29,982,843	28,804,891	—	58,787,734
Public securities - Equities - short	(29,257,852)	—	—	(29,257,852)
Total Investments	724,991	28,804,891	—	29,529,882

There were no transfers into or out of Level 1, 2 or 3 during the years.

# NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended September 30, 2019 and nine months ended September 30, 2018

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## 4. Fair value measurement (continued):

(c) Financial instruments not measured at fair value:

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

## 5. 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 investments as presented on the statement of investment portfolio represents the maximum credit risk exposure as at September 30, 2019. This also applies to cash and cash equivalents and receivables as they have a short-term settlement.

A portion of the Fund's portfolio 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.

As at September 30, 2019 and September 30, 2018, the Fund was invested in debt securities with the following credit rating:

Debt Security by Credit Rating	% of Assets Under Management in each category	
	September 30, 2019	September 30, 2018
A	5.0%	10.2%
BBB	77.9%	53.2%
BB	-	18.5%

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

# NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended September 30, 2019 and nine months ended September 30, 2018

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

### Credit risk (continued):

'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 year 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.

Substantially all of the assets of the Fund are held by Scotia Capital Inc., the Prime Broker. Bankruptcy or insolvency of the custodian and Prime Broker 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 holdings to another financial institution.

### 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 is exposed to monthly 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 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. 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 Manager. The Fund's redemption policy allows for redemptions on the last business day of any given month when at least 14 days' notice is given by the unitholder.

The Fund may borrow to make investments or maintain liquidity and may pledge its assets to secure the borrowings.

# NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended September 30, 2019 and nine months ended September 30, 2018

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## 5. 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 is an alternative investment fund that seeks to generate absolute returns with low volatility and minimal exposure and correlation to equity markets and other indices, while generating an annual distribution. To achieve its objective, the Fund employs a market neutral investment strategy and generally maintains long and short exposures of similar values. The Fund will also invest a large portion of its net assets in corporate investment grade bonds (BBB rated or greater). The Fund may, from time to time, invest a portion of its bond component in non-investment grade bonds or in fixed income mutual funds. The Fund will also maintain a passive corporate bond strategy, whereby bonds are shorter term in nature and are generally held to maturity, with the intention of generating at least a 3% annual distribution to Unitholders, payable quarterly.

The success of the Fund's activities may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of the Fund's investments. Unexpected volatility or illiquidity could reduce the Fund's profitability or result in losses.

The Fund may invest in bonds or other fixed income securities of U.S., Canadian and other issuers, including, without limitation, bonds, notes and debentures issued by corporations, debt securities issued or guaranteed by the federal, state or provincial government in the United States or Canada or a governmental agency and commercial paper. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which the Fund invests will change in response to fluctuations in interest rates. In addition, the value of certain fixed-income securities can fluctuate in response to perceptions of credit worthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk). If fixed income investments are not held to maturity, the Fund may suffer a loss at the time of sale of such securities.

No material change in the investment objectives, policies or restrictions of the Fund may be made without provision of at least 60 days prior written notice to unitholders.

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.

# NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended September 30, 2019 and nine months ended September 30, 2018

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

### Market risk (continued):

#### (a) Currency risk:

Investments in securities denominated in a currency other than Canadian dollars will be affected by the changes in the value of the Canadian dollar in relation to the value of the currency in which the security is denominated. Therefore the value of securities held by the Fund may be worth more or less depending on their susceptibility to foreign exchange rates. At September 30, 2019 and September 30, 2018 the Fund did not hold any foreign currency denominated investments.

#### (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 bonds rise. This is because the interest on 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. The Fund is 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. The table below summarizes the Fund's exposure to interest rate risks. It includes the Fund's assets at fair values, categorized by the maturity dates.

September 30, 2019	Less than 1 year	1 to 3 years	3 to 5 years	>5 years	Total
All amounts stated in Canadian dollars					

Corporate bonds/Secured loans	7,060,986	6,486,114	1,644,465	—	15,191,565
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September 30, 2018	Less than 1 year	1 to 3 years	3 to 5 years	>5 years	Total
All amounts stated in Canadian dollars					

Corporate bonds/Secured loans	8,915,288	13,901,384	1,384,390	—	24,201,062
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#### (c) Other price risk:

Other price risk is the risk that 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

# NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended September 30, 2019 and nine months ended September 30, 2018

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

### Market risk (continued):

#### (c) Other price risk (continued):

in the market. All securities present a risk of loss of capital. However, the Funds which hold short positions are subject to certain inherent risks. The ultimate cost to the Funds to acquire these securities may exceed the liability reflected in these financial statements.

Approximately 40% of the equity portion of the Fund will be managed with “pairs” trades, meaning the Fund will match a “long” position with a “short” position of two different stocks in the sub-sector of the market with the intention of eliminating market risk. The strategy looks to take advantage of profitable opportunities based on differences in valuation and market momentum (i.e. the perceived strength of a downward or upward movement in prices), of companies in the same line of business.

Approximately 60% of the equity portion will primarily be managed using our back tested quantitative models. Earnings surprises (i.e. actual company performance in comparison to analysts’ expectations) will have a significant influence on securities selection. Other factors of importance in the long positions include low valuations, high profitability, strong earnings and price momentum and low debt levels. The short positions tend to have the opposite characteristics. This portion of the portfolio will generally have zero sector exposure. The Portfolio is rebalanced daily to ensure that the Fund has close to zero net market exposure at all times.

Price risk is managed by the Fund’s Manager by constructing a diverse portfolio of securities. The price of a stock is affected by individual company developments and by general economic and financial conditions in those countries where the issuer of the stock is located, does business or where the stock is listed for trading. A portion of the bonds may not have a liquid market for resale.

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

The Fund will primarily invest in government and corporate debt securities of varying types. The following table details the breakdown of the investment assets and liabilities held by the Fund as at September 30, 2019 and September 30, 2018:

	% of Investments	
	2019	2018
Investments:		
Listed equities held long	98.9%	99.1%
Listed Equities held short	(98.9)%	(99.1)%
Over-the-counter debt instruments - long	100.0%	100.0%

# NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended September 30, 2019 and nine months ended September 30, 2018

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

### Market risk (continued):

(c) Other price risk (continued):

Sensitivity analysis:

There is no direction on any index at September 30, 2019 that would have impacted the net assets attributable to holders of redeemable units. The Fund relies on the ability of the Manager to actively manage the Fund.

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

The authorized capital of the Fund consists of an unlimited number of units of each class, each representing an equal undivided interest in the net assets of the Fund. Currently there are two classes outstanding, Class A and Class F. Each Class ranks equally in the event of liquidation, dissolution or winding up based on their respective Class net asset values. Each Class 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. When purchasing Class A units, a commission ranging from 0 to 2% is paid to the dealer with a 3% redemption fee being charged if the units are redeemed in the first 180 days. Class F units are sold without commission provided the purchaser is enrolled in a fee-for-service or wrap program with the dealer. A 3% redemption fee is charged if the Class F units are redeemed in the first 180 days.

The units may be redeemed monthly 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 year was as follows:

<b>Class A</b>	2019	2018
Balance, opening	706,672	907,921
Issued on distributions reinvested	19,904	20,438
Redeemed for cash	(204,013)	(221,687)
Balance, September 30	522,563	706,672

  

<b>Class F</b>	2019	2018
Balance, opening	2,356,901	2,611,955
Issued on distributions reinvested	21,391	42,914
Issued for cash	384,897	364,375
Redeemed for cash	(1,262,706)	(662,343)
Balance, September 30	1,500,483	2,356,901

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 may not reflect the absolute figures.

# NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended September 30, 2019 and nine months ended September 30, 2018

## 6. Net assets attributable to holders of redeemable units (continued):

NCM Market Neutral Income Fund - September 30, 2019		
	Class A	Class F
Decrease in net assets attributable to holders of redeemable units	\$(189,047)	\$(521,692)
Average units outstanding during the year	581,921	1,839,633
Decrease in net assets attributable to holders of redeemable units per unit	\$(0.32)	\$(0.28)

  

NCM Market Neutral Income Fund - September 30, 2018		
	Class A	Class F
Increase (decrease) in net assets attributable to holders of redeemable units	\$(35,168)	\$41,364
Average units outstanding during the period	802,734	2,776,230
Increase (decrease) in net assets attributable to holders of redeemable units per unit	\$(0.04)	\$0.01

## 7. Net asset value per unit at end of period:

The net asset value per unit for the current year and previous 5 period ends:

	Class A	Class F
September 30, 2019	\$8.43	\$9.28
September 30, 2018	\$9.03	\$9.82
December 31, 2017	\$9.38	\$10.12
December 31, 2016	\$9.66	\$10.31
December 31, 2015	\$10.69	\$11.28

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

### (a) Manager and management fees:

The Class A units paid a monthly management fee to the Manager of 1/12 of 1.9% of the average net asset value of the Class. Class F units paid a monthly management fee to the Manager of 1/12 of 0.9% of the average net asset value of the Class. Included in accrued expenses is \$17,834 (2018 - \$30,295) related to these fees.

The Performance Fee shall be calculated over a "Performance Measurement Period", which is a calendar quarter, and is based on the Fund's ability to generate an annualized return in excess of 5.0% (approximately 1.2272% per quarter due to compounding). In each Performance Measurement Period, 20% of the difference in performance from 1.2272% will be multiplied by the average net assets in the Fund to give the quarterly, positive or negative, bonus amount (the "Accrual"). A positive accrual is paid to the Manager. The accrual will be reset annually to zero at December 31st of each year. For any Performance Measurement Period in which there is no Performance Fee payable, the previous quarterly Accruals shall be carried forward and added to the current quarterly Accrual until such time as the Performance Fee becomes payable, or until December 31st of each year.

# NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended September 30, 2019 and nine months ended September 30, 2018

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## **8. Management fees, expenses and key contracts (continued):**

### (a) Manager and management fees (continued):

No change in the Investment Manager's Performance Fee payment policy will be made without at least 60 days notice to the unitholders.

As at September 30, 2019, included in accounts payable is \$nil (2018 - \$nil) related to these fees.

### (b) Expenses:

All fees and expenses applicable to the administration and operation of the Fund, including recordkeeping and communication costs, custodian fees, legal and filing fees, audit, applicable taxes and bank charges are payable by the Fund. The Manager has charged the Fund for administration services. Included in accrued expenses is \$2,537 (2018 - \$3,706) related to these fees.

### (c) 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 \$41,505 (September 30, 2018 - \$17,500) related to these fees.

## **9. Brokerage commissions on securities transactions:**

The Fund paid brokerage commissions amounting to \$164,487 (2018 - \$140,365) in connection with portfolio transactions during the year.

## **10. Filing of financial statements:**

The Fund is relying on the exemption provided by Section 2.11 of National Instrument 81-106 and therefore does not file its financial statements with the Ontario Securities Commission.

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Suite 1850, 333 – 7 Avenue S.W.  
Calgary, Alberta T2P 2Z1

[ncminvestments.com](http://ncminvestments.com)

1.877.431.1407