

September 30, 2018

FINANCIAL STATEMENTS OF  
NCM SHORT TERM INCOME  
FUND





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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of NCM Short Term Income Fund:

We have audited the accompanying financial statements of NCM Short Term Income Fund, which comprise the statement of financial position as at September 30, 2018 and December 31, 2017, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units, and cash flows for the nine months ended September 30, 2018 and the year ended December 31, 2017, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of NCM Short Term Income Fund as at September 30, 2018 and December 31, 2017, and its financial performance and its cash flows for the nine months ended September 30, 2018 and the year ended December 31, 2017, in accordance with International Financial Reporting Standards.

*KPMG LLP*

Chartered Professional Accountants  
December 13, 2018  
Calgary, Canada

# NCM SHORT TERM INCOME FUND

## Statements of Financial Position

(in Canadian dollars, except units outstanding)

As at	September 30 2018	December 31 2017
<b>Assets</b>		
Cash and cash equivalents	20,037,923	28,994,027
Dividends and interest receivable	857,472	695,862
Portfolio assets sold	1,665,287	–
Units issued	983	965
Unrealized gain on derivative instruments	385,122	912,236
Investments, at fair value through profit or loss	103,736,544	82,417,979
<b>Total assets</b>	<b>126,683,331</b>	<b>113,021,069</b>
<b>Liabilities</b>		
Accrued expenses (note 7)	132,500	109,500
Portfolio assets purchased	4,527,331	–
Units redeemed	20,122	780
<b>Total liabilities (excluding net assets attributable to holders of redeemable units)</b>	<b>4,679,953</b>	<b>110,280</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>122,003,378</b>	<b>112,910,789</b>
Net assets attributable to holders of redeemable units:		
Series A	21,508,713	16,782,110
Series F	21,086,733	18,943,072
Series I	69,579,853	70,419,212
Series A (H)	991,332	989,520
Series F (H)	8,836,747	5,776,875
Redeemable units outstanding (note 6):		
Series A	2,416,913	1,849,374
Series F	2,279,903	2,016,476
Series I	7,168,127	7,190,725
Series A (H)	94,291	95,271
Series F (H)	805,864	535,399
Net assets attributable to holders of redeemable units per unit:		
Series A	8.90	9.07
Series F	9.25	9.39
Series I	9.71	9.79
Series A (H)	10.51	10.39
Series F (H)	10.97	10.79
Series A (H) USD	8.13	8.29
Series F (H) USD	8.49	8.61

See accompanying notes to financial statements

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



Keith Leslie



Alex Sasso

# NCM SHORT TERM INCOME FUND

## Statements of Comprehensive Income

Nine months ended September 30, 2018 and year ended December 31, 2017

*(in Canadian dollars)*

	2018	2017
Dividend income	226,465	362,503
Interest for distribution purposes	4,057,508	4,593,546
Net gain (loss) on investments at fair value through profit or loss		
Net realized gain (loss) on investments	228,021	861,980
Net realized gain (loss) on derivative instruments	(1,905,470)	1,365,414
Net change in unrealized appreciation (depreciation) in fair value of investments	968,030	(6,161,081)
Net change in unrealized appreciation (depreciation) on derivative instruments	(527,114)	2,293,275
Total investment revenue (loss)	3,047,440	3,315,637
Management fees (note 7)	349,294	394,253
Administrative fees (note 7)	115,885	129,982
Custodian and record keeping fees	46,470	60,056
Legal and filing fees	41,806	29,607
HST/GST	38,112	53,584
Computer services	32,372	31,387
Other	27,687	26,554
Audit and tax fees	26,466	39,094
Transaction costs	21,414	32,174
Independent review committee	7,790	13,740
Total operating expenses	707,296	810,431
Increase (decrease) in net assets attributable to holders of redeemable units before tax	2,340,144	2,505,206
Withholding tax expense	4,703	12,568
Increase (decrease) in net assets attributable to holders of redeemable units	2,335,441	2,492,638
Change in net assets attributable to holders of redeemable units (note 6):		
Series A	200,745	373,008
Series F	295,698	483,426
Series I	1,471,645	1,953,936
Series A (H)	41,709	(49,380)
Series F (H)	325,644	(268,352)
Change in net assets attributable to holders of redeemable units per unit (note 6):		
Series A	0.09	0.20
Series F	0.13	0.26
Series I	0.20	0.33
Series A (H)	0.44	(0.48)
Series F (H)	0.50	(0.63)

See accompanying notes to financial statements

# NCM SHORT TERM INCOME FUND

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

Nine months ended September 30, 2018 and year ended December 31, 2017

(in Canadian dollars)

	All Series		Series A		Series F		Series I		Series A (H)		Series F (H)	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net assets attributable to holders of redeemable units, beginning of period	112,910,789	95,268,612	16,782,110	17,553,725	18,943,072	18,979,943	70,419,212	50,941,647	989,520	1,247,717	5,776,875	6,545,580
Increase (decrease) in net assets, attributable to holders of redeemable units	2,335,441	2,492,638	200,745	373,008	295,698	483,426	1,471,645	1,953,936	41,709	(49,380)	325,644	(268,352)
Transactions attributable to holders of redeemable units:												
Issuance of units	21,846,384	43,751,733	9,114,818	6,578,075	5,943,165	8,950,321	2,150,000	24,050,228	21,534	101,552	4,616,867	4,071,557
Reinvestment of distributions	2,761,029	3,173,976	495,107	574,543	382,365	515,296	1,693,114	1,900,049	28,468	42,635	161,975	141,453
Amounts paid on redemptions	(14,291,698)	(27,624,204)	(4,494,793)	(7,594,379)	(3,851,414)	(9,249,700)	(4,055,814)	(5,958,932)	(60,386)	(307,607)	(1,829,291)	(4,513,586)
	10,315,715	19,301,505	5,115,132	(441,761)	2,474,116	215,917	(212,700)	19,991,345	(10,384)	(163,420)	2,949,551	(300,576)
Distributions declared	(3,558,567)	(4,151,966)	(589,274)	(702,862)	(626,153)	(736,214)	(2,098,304)	(2,467,716)	(29,513)	(45,397)	(215,323)	(199,777)
	(3,558,567)	(4,151,966)	(589,274)	(702,862)	(626,153)	(736,214)	(2,098,304)	(2,467,716)	(29,513)	(45,397)	(215,323)	(199,777)
Net assets attributable to holders of redeemable units, end of period	122,003,378	112,910,789	21,508,713	16,782,110	21,086,733	18,943,072	69,579,853	70,419,212	991,332	989,520	8,836,747	5,776,875
Distributions per unit to holders of redeemable units			0.27	0.38	0.28	0.40	0.29	0.41	0.31	0.45	0.32	0.47

See accompanying notes to financial statements

# NCM SHORT TERM INCOME FUND

## Statements of Cash Flows

Nine months ended September 30, 2018 and year ended December 31, 2017

*(in Canadian dollars)*

	2018	2017
<b>Cash flows from (used in) operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	2,335,441	2,492,638
Adjustments for:		
Net realized (gain) loss on sale of investments at fair value through profit or loss	(228,021)	(861,980)
Net change in unrealized (appreciation) depreciation of investments at fair value through profit or loss	(968,030)	6,161,081
Net change in unrealized (appreciation) depreciation on derivative instruments	527,114	(2,293,275)
Purchase of investments	(60,968,147)	(72,782,080)
Proceeds from the sale and maturity of investments	43,392,190	71,152,065
Dividends and interest receivable	(161,610)	373,778
Accrued expenses	23,000	8,700
<b>Net cash from (used in) operating activities</b>	<b>(16,048,063)</b>	<b>4,250,927</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from the issuance of redeemable units	21,846,366	43,790,312
Amounts paid on redemption of redeemable units	(14,272,356)	(27,623,424)
Distributions to holders of redeemable units, net of reinvestments	(797,538)	(1,367,852)
<b>Net cash from (used in) financing activities</b>	<b>6,776,472</b>	<b>14,799,036</b>
Net increase (decrease) in cash and cash equivalents	(9,271,591)	19,049,963
Effect of exchange rates on cash and cash equivalents	315,487	(278,675)
Cash and cash equivalents at beginning of period	28,994,027	10,222,739
<b>Cash and cash equivalents at end of period</b>	<b>20,037,923</b>	<b>28,994,027</b>
Dividends received, net of withholding tax paid	221,762	357,775
Interest received	3,895,898	4,959,484

See accompanying notes to financial statements

# NCM SHORT TERM INCOME FUND

Schedule of Investment Portfolio

As at September 30, 2018

<i>(in Canadian dollars)</i>	Par Value	Cost (\$)	Fair Value (\$)	% of Net Assets
<b>CANADIAN BONDS - Long (Par Value in CAD except as otherwise stated)</b>				
<b>Canada Other Corporate</b>				
AGT Food and Ingredients Inc., Callable, 5.875%, 2021/12/21	1,000,000	1,013,750	994,167	
Bell Canada, 2.000%, 2021/10/01	2,000,000	1,970,960	1,938,647	
Brookfield Residential Properties Inc., Callable, 6.125%, 2023/05/15	1,400,000	1,400,000	1,435,700	
Bruce Power L.P., 2.844%, 2021/06/23	2,000,000	2,026,440	1,984,767	
Canadian National Railway Co., Callable, 2.750%, 2021/02/18	2,000,000	2,036,820	1,999,600	
Canbriam Energy Inc., Callable, 9.750%, 2019/11/15 (Par Value in USD)	2,000,000	2,771,801	2,617,101	
Great Canadian Gaming Corp., Callable, 6.625%, 2022/07/25	3,000,000	3,127,000	3,078,390	
Hydro One Inc., Callable, Series '37', 1.480%, 2019/11/18	2,000,000	1,985,300	1,976,569	
Kruger Products L.P., Callable, 6.000%, 2025/04/24	2,000,000	2,011,250	2,013,276	
Laurentian Bank of Canada, 2.810%, 2019/06/13	2,000,000	2,012,380	2,002,859	
Mattamy Group Corp., Callable, 6.500%, 2025/10/01 (Par Value in USD)	500,000	612,575	629,186	
Mattamy Group Corp., Callable, 6.500%, 2025/10/01	1,000,000	1,000,000	993,437	
Nuvista Energy Ltd., Callable, 6.500%, 2023/03/02	2,500,000	2,500,000	2,526,302	
Parkland Fuel Corp., Callable, 5.500%, 2021/05/28	2,000,000	2,085,000	2,047,500	
Russel Metals Inc., Callable, 6.000%, 2022/04/19	2,000,000	2,042,500	2,034,583	
WestJet Airlines Ltd., Callable, 3.287%, 2019/07/23	1,750,000	1,774,270	1,755,344	
		30,370,046	30,027,428	24.6%
<b>TOTAL CANADIAN BONDS</b>		<b>30,370,046</b>	<b>30,027,428</b>	<b>24.6%</b>
<b>UNITED STATES BONDS - Long (Par Value in USD)</b>				
Acadia Healthcare Co. Ltd., Callable, 5.625%, 2023/02/15	1,000,000	1,295,706	1,305,526	
Capital One NA, Callable, 2.250%, 2021/09/13	2,000,000	2,529,190	2,489,615	
Delta Air Lines Inc., 3.400%, 2021/04/19	2,000,000	2,617,181	2,570,823	
First Data Corp., Callable, 5.375%, 2023/08/15	2,000,000	2,597,763	2,631,087	
Freeport-McMoRan Inc., Callable, 3.550%, 2022/03/01	200,000	250,437	250,765	
NCR Corp., Callable, 6.375%, 2023/12/15	1,300,000	1,757,538	1,716,088	
T-Mobile USA Inc., 4.000%, 2022/04/15	2,000,000	2,588,161	2,580,353	
Unisys Corp., Callable, 10.750%, 2022/04/15	1,990,000	2,891,513	2,903,454	
USB Realty Corp., Variable Rate, Perpetual, 3.535%, 2022/01/15	2,000,000	2,376,914	2,326,680	
		18,904,403	18,774,391	15.4%
<b>Exchange Traded Funds</b>				
iShares iBoxx High Yield Corporate Bond ETF	13,200	1,501,254	1,474,867	
SPDR Bloomberg Barclays Short Term High Yield Bond ETF	33,500	1,235,614	1,194,705	
		2,736,868	2,669,572	2.2%
<b>TOTAL UNITED STATES BONDS</b>		<b>21,641,271</b>	<b>21,443,963</b>	<b>17.6%</b>
<b>INTERNATIONAL BONDS - Long</b>				
<b>United Kingdom (Par Value in USD)</b>				
Barclays PLC, Variable Rate, Perpetual, 8.250%, 2018/12/15	2,000,000	2,658,381	2,606,140	
		2,658,381	2,606,140	2.1%
<b>TOTAL INTERNATIONAL BONDS</b>		<b>2,658,381</b>	<b>2,606,140</b>	<b>2.1%</b>
<b>TOTAL BONDS</b>		<b>54,669,698</b>	<b>54,077,531</b>	<b>44.3%</b>



# NCM SHORT TERM INCOME FUND

Schedule of Investment Portfolio (continued)

As at September 30, 2018

<i>(in Canadian dollars)</i>	Par Value	Cost (\$)	Fair Value (\$)	% of Net Assets
<b>CANADIAN TERM LOANS (Par Value in USD)</b>				
9370-3817 Quebec Inc., Term Loans, 6.712%, 2023/01/31	1,703,616	2,140,114	2,207,599	
Canam Steel Corp. Term Loans, 7.075%, 2024/07/01	1,486,237	1,892,173	1,930,716	
Gateway Casinos & Entertainment Ltd., Term Loans, 5.473%, 2025/03/08	2,493,750	3,267,026	3,237,540	
		<u>7,299,313</u>	<u>7,375,855</u>	6.0%
<b>TOTAL CANADIAN TERM LOANS</b>		<b><u>7,299,313</u></b>	<b><u>7,375,855</u></b>	<b>6.0%</b>
<b>UNITED STATES TERM LOANS (Par Value in USD)</b>				
8th Avenue Food & Provisions Inc., Term Loans, 3.750%, 2025/09/19	2,000,000	2,603,106	2,606,218	
Atkins Nutritional Holdings Inc., Term Loans, 5.843%, 2024/07/07	990,000	1,293,630	1,290,871	
Avaya Inc., Term Loans, 6.408%, 2024/12/15	1,989,975	2,569,725	2,593,154	
Berlin Packaging LLC, Term Loans, 5.129%, 2025/10/31	2,493,750	3,228,628	3,221,906	
Blue Ribbon LLC, Term Loans, 6.136%, 2021/11/15	2,598,049	2,975,472	3,152,546	
Bob's Discount Furniture Inc., Term Loans, 7.326%, 2023/08/08	2,400,000	2,623,936	3,067,340	
CareCentrix Inc., Term Loans, 6.837%, 2025/04/02	1,481,250	1,876,994	1,905,090	
Consolidated Container Co. LLC, Term Loans, 4.826%, 2024/05/22	1,980,038	2,648,612	2,567,075	
Correct Care Solutions, Term Loans, 5.500%, 2025/09/25	1,000,000	1,282,001	1,292,600	
Helix Acquisition Holdings Inc., Term Loans, 5.834%, 2024/09/30	1,487,481	1,862,891	1,930,736	
McAfee LLC, Term Loans, 6.573%, 2024/09/30	1,485,000	1,818,282	1,934,253	
Mitel US Holdings Inc., Term Loans, 5.826%, 2023/09/25	935,499	1,148,913	1,208,719	
Restaurant Technologies Inc., Term Loans, 3.250%, 2025/10/01	500,000	645,856	650,339	
Shutterfly Inc., Term Loans, 4.830%, 2024/08/17	1,995,000	2,668,822	2,587,324	
SiteOne Landscape Supply Holding LLC, Term Loans, 4.890%, 2024/10/29	977,687	1,224,309	1,267,714	
Travel Leaders Group LLC, Term Loans, 6.158%, 2024/01/25	1,995,000	2,603,931	2,605,607	
Trident TPI Holdings Inc., Term Loans, 5.326%, 2024/10/17	997,487	1,301,522	1,283,447	
U.S. Silica Co., Term Loans, 6.125%, 2025/05/01	1,990,000	2,546,740	2,511,980	
		<u>36,923,370</u>	<u>37,676,919</u>	30.9%
<b>Exchange Traded Funds</b>				
Invesco Senior Loan ETF	153,800	4,760,158	4,606,239	
		<u>4,760,158</u>	<u>4,606,239</u>	3.8%
<b>TOTAL UNITED STATES TERM LOANS</b>		<b><u>41,683,528</u></b>	<b><u>42,283,158</u></b>	<b>34.7%</b>
<b>TOTAL TERM LOANS</b>		<b><u>48,982,841</u></b>	<b><u>49,659,013</u></b>	<b>40.7%</b>
Less: Transaction costs included in average cost		-		
<b>TOTAL INVESTMENTS</b>		<b><u>103,652,539</u></b>	<b><u>103,736,544</u></b>	<b>85.0%</b>
Derivative Assets			385,122	0.3%
Other assets, less liabilities			17,881,712	14.7%
<b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			<b><u>122,003,378</u></b>	<b>100.0%</b>

# NCM SHORT TERM INCOME FUND

## Schedule of Derivative Investments - Forward Foreign Currency Contracts

As at September 30, 2018

Counterparty	Credit Rating	Settlement Date	Currency to be Delivered	Fair Value in Cdn Dollars	Currency to be Received	Contract Price	Unrealized Gain
Bank of Nova Scotia	A-1	October 15, 2018	56,370,292 USD	72,842,987	73,228,109 CAD	1.2991	385,122
Net Unrealized Gain							385,122

# NCM SHORT TERM INCOME FUND

## Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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### 1. Reporting Entity:

On August 27, 2018, Norrep Short Term Income Fund changed its name to NCM Short Term Income Fund. NCM Short Term Income Fund (the "Fund") is an open-ended mutual fund trust established under the laws of Alberta pursuant to a Declaration of Trust dated August 16, 2011, as amended April 14, 2014. 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.

Effective August 27, 2018, NCM Short Term Income Fund changed its year end from December 31 to September 30.

NCM Asset Management Ltd. (formerly, Norrep Capital Management Ltd.) ("Manager and Portfolio Manager") provides investment management services and manages the day-to-day operation of the Fund. TMX Group is the trustee, CIBC Mellon Trust Company ("CIBC Mellon") is the custodian of the Fund and Norrep Investment Management Group Inc. ("NCM") 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 financial statements of the Fund were approved and were authorized for issue by the Manager's Board of Directors on December 13, 2018.

#### (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 and derivative instruments 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 estimates include the valuation of investments and investment income accruals.

# NCM SHORT TERM INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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## 2. Basis of preparation (continued):

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

Functional currency is the currency of the primary economic environment in which the Fund operates and requires judgement. If indicators of the primary environment are mixed, then management uses its judgement to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. All of the Fund's operating expenses are denominated in Canadian dollars. Investments are a mixture of Canadian and United States securities. Investor subscriptions and redemptions for Series A (H) and Series F (H) are in U.S. dollars. Although Series A (H) and Series F (H) are denominated in U.S. dollars for investor subscriptions and redemptions, the Series are meant to replicate the Series A and Series F, respectively. The Fund's NAV is calculated in Canadian dollars with the NAV per unit for the Series A (H) and Series F (H) being converted to USD after the Canadian NAV per unit is calculated. Accordingly, management has determined that the functional currency of the Fund is Canadian dollars.

## 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.

#### (ii) Classification

Effective January 1, 2018 the Fund adopted IFRS 9 Financial Instruments. The new 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

# NCM SHORT TERM INCOME FUND

## Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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

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

(ii) Classification (continued)

categorized as fair value through profit or loss. There were no changes in the measurement attributes for any of the financial assets and financial liabilities upon transition to IFRS 9.

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 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 shares

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.

(iii) 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.

# NCM SHORT TERM INCOME FUND

## Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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

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

##### (iii) Fair value measurement (continued)

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 shares 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 NAV and accounting NAV.

##### (iv) 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).

##### (v) 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.

# NCM SHORT TERM INCOME FUND

## Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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

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

(v) Specific Instruments (continued)

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, does 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.

For U.S. dollar pricing, net asset values are calculated by converting the Canadian dollar net asset value per unit to the U.S. dollar equivalent using the then current rate of exchange.

(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.

(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 at the date of distribution.

(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, 2018 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

# NCM SHORT TERM INCOME FUND

## Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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

(f) Income tax (continued):

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 \$4,703 (December 31, 2017-\$12,568) for the nine months ended September 30, 2018.

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

Increase (decrease) in net assets attributable to unitholders per unit is calculated as increase (decrease) in net assets attributable to unitholders, 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 to reduce their exposure to fluctuations in foreign currency exchange rates. Derivative financial instruments are recorded at mark to market with changes in fair value recorded in the statement of comprehensive income.

### 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 SHORT TERM INCOME FUND

## Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

### 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);
- Inputs other than quoted prices included in Level 1 that are observable for instruments, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and
- Inputs for the instruments that are not based on observable market data (unobservable inputs) (Level 3). This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on the quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The Fund recognises transfers between levels of the fair value hierarchy as at the end of the reporting period 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 September 30, 2018 and December 31, 2017 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. All derivative fair values in the statement of financial position are classified as level 2.

<i>(in Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
September 30, 2018				
Public securities				
Bonds/Secured Loans/ETFs	7,275,811	96,460,733	—	103,736,544
Unrealized gain on derivative instruments	—	385,122	—	385,122
Total Investments	7,275,811	96,845,855	—	104,121,666

# NCM SHORT TERM INCOME FUND

## Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

### 4. Fair value measurement (continued):

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

<i>(in Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
December 31, 2017				
Public securities				
Bonds/Secured Loans/ETFs	7,039,880	75,378,099	—	82,417,979
Unrealized gain on derivative instruments	—	912,236	—	912,236
Total Investments	7,039,880	76,290,335	—	83,330,215

There were no transfers between the levels for the nine months ended September 30, 2018 and year ended December 31, 2017.

(c) Financial instruments not measured at fair value:

The carrying values of cash and cash equivalents, dividends and 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 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 as presented on the statement of investment portfolios represents the maximum credit risk exposure as at September 30, 2018. 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.

# NCM SHORT TERM INCOME FUND

## Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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

#### Credit risk (continued):

As at September 30, 2018 and December 31, 2017, 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, 2018	December 31, 2017
A	3.3%	3.5%
BBB	10.1%	6.9%
BB	23.7%	15.1%
B	40.1%	36.4%
Unrated	1.8%	4.9%
	79.0%	66.8%

Credit risk arising on transactions for units purchased 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.

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 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.

# NCM SHORT TERM INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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

### Liquidity risk (continued):

The Fund is exposed to daily cash redemptions of redeemable units. The 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 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 its 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. Minimum cash balances will be required to be maintained in the Fund at the discretion of the Portfolio Manager to allow for monies to cover redemptions. At the September 30, 2018 Fund had a cash balance equal to 16% (December 31, 2017 - 26%) of the net assets. The Fund's redemption policy allows for redemptions at any time during any given month. In certain circumstances, the Fund is required to settle the transaction by trade day plus two days.

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 the 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.

### 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 holders of the units with capital preservation and a highly liquid portfolio comprised primarily of government and corporate debt securities targeting a level of income consistent with investments in short-term fixed income securities. The portfolio may consist of all types of debt obligations of issuers that may or may not be listed for trading upon the facilities of stock exchanges or other organized and regulated trading facilities. Assets of the Fund may also be invested in equity or equity-like securities or held in cash to the extent that economic, market or other conditions make it appropriate.

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, 2018 are disclosed in the schedule of investment portfolio.

# NCM SHORT TERM INCOME FUND

## Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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

#### Market risk (continued):

##### (a) Currency risk:

The Fund may invest in financial instruments and enter into transactions denominated in currencies other than the Canadian dollar. Consequently, the Funds are exposed to risks that the exchange rate of the Canadian dollar to other foreign currencies may fluctuate.

The Fund uses forward contracts to hedge a portion of the Fund's foreign exchange risk.

At the reporting date the Fund had 8.6% (December 31, 2017 – 6.1%) of its net asset value in U.S. currency.

##### Sensitivity Analysis:

At September 30, 2018, had the Canadian dollar strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets attributable to the holders of redeemable units and the change in net assets attributable to holders of redeemable units would have increased or decreased by \$105,312 (December 31, 2017 - \$69,133). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

##### (b) Interest rate risk:

Interest rate risk arises on interest-bearing financial instruments. 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 with a minimal correlation to interest rates. Thus, the high yield corporate bonds held in the Fund are empirically correlated with the related stock indices for those corporate investments. 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, 2018	Less than 1 year	1 to 3 years	3 to 5 years	>5 years	Total
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All amounts stated in Canadian dollars

Corporate bonds/Secured loans	6,364,343	15,685,975	33,641,858	40,768,557	96,460,733
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December 31, 2017	Less than 1 year	1 to 3 years	3 to 5 years	>5 years	Total
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All amounts stated in Canadian dollars

Corporate bonds/Secured loans	—	16,588,791	33,445,489	25,343,819	75,378,099
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# NCM SHORT TERM INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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

### Market risk (continued):

#### (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 by constructing a diverse portfolio of securities. The price of a security is affected by individual company developments and by general economic and financial conditions in those industries and countries where the issuer of the security is located, does business or where the security, if applicable, is listed for trading. 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 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, 2018 and December 31, 2017:

	% of Net Assets	
	2018	2017
Investments:		
Over-the-counter debt instruments	79.0%	66.8%
Exchange traded funds	6.0%	6.2%

#### Sensitivity analysis:

A 1% increase or decrease in the Blended Index: FTSE TMX Short Term Bond Index (50%), Credit Suisse Leveraged Loan Index (30%) and the Merrill Lynch High Yield Canadian Issuer's Index (20%) at September 30, 2018 would have impacted the net assets attributable to unitholders and the changes in net assets attributable to unitholders by approximately \$1,037,365 (December 31, 2017 - \$824,180).

The Fund's investments exposed to other price risk were concentrated in the following industries at September 30, 2018 and December 31, 2017:

	2018	2017
Bonds and Secured Loans	100.0%	100.0%
Total	100.0%	100.0%

# NCM SHORT TERM INCOME FUND

## Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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

#### Redeemable units

The authorized capital of the Fund consists of an unlimited number of units, each representing an equal undivided interest in the net assets of the Fund. Currently, there are five series outstanding, Series A, Series A (H), Series F, Series F (H), and Series I. Series O ceased operations on May 20, 2016. Each series ranks equally with respect to dividends 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 A (H) 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 F (H) 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 F (H) 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 A (H) and Series F (H) units are offered for purchase in U.S. dollars only.

The rights attached to the redeemable units are as follows:

- The units may be redeemed daily at the net asset value per unit of the respective series;
- Redeemable units carry a right to receive notice of, attend and vote at meetings called in accordance with the Declaration of Trust; and
- The holders of redeemable units are entitled to receive all distributions declared by the Fund. Each series will rank equally with respect to the distributions based on their respective series net asset values. Distributions paid in cash will be paid in the currency in which the investor bought the units.

The analysis of movements in the number of redeemable units and net assets attributable to holders of redeemable units at September 30, 2018 and December 31, 2017 was as follows:

# NCM SHORT TERM INCOME FUND

## Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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

Redeemable units (continued)

<b>Series A</b>	2018	2017
Balance, opening	1,849,374	1,896,276
Issued on distributions reinvested	55,211	62,449
Issued for cash	1,011,931	715,182
Redeemed for cash	(499,603)	(824,533)
Balance, September 30, 2018 and December 31, 2017	2,416,913	1,849,374

<b>Series F</b>	2018	2017
Balance, opening	2,016,476	1,991,113
Issued on distributions reinvested	41,050	54,224
Issued for cash	634,728	939,942
Redeemed for cash	(412,351)	(968,803)
Balance, September 30, 2018 and December 31, 2017	2,279,903	2,016,476

<b>Series I</b>	2018	2017
Balance, opening	7,190,725	5,169,988
Issued on distributions reinvested	173,725	192,603
Issued for cash	220,646	2,431,404
Redeemed for cash	(416,969)	(603,270)
Balance, September 30, 2018 and December 31, 2017	7,168,127	7,190,725

<b>Series A (H)</b>	2018	2017
Balance, opening	95,271	110,085
Issued on distributions reinvested	2,694	3,920
Issued for cash	2,025	9,166
Redeemed for cash	(5,699)	(27,900)
Balance, September 30, 2018 and December 31, 2017	94,291	95,271

<b>Series F (H)</b>	2018	2017
Balance, opening	535,399	558,574
Issued on distributions reinvested	14,722	12,568
Issued for cash	421,030	356,604
Redeemed for cash	(165,287)	(392,347)
Balance, September 30, 2018 and December 31, 2017	805,864	535,399



# NCM SHORT TERM INCOME FUND

## Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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

Increase (decrease) in net assets attributable to holders of redeemable units per unit is calculated as follows:

September 30, 2018	Series A	Series F	Series I	Series A (H)	Series F (H)
Increase (decrease) in net assets attributable to holders of redeemable units	\$200,745	\$295,698	\$1,471,645	\$41,709	\$325,644
Average units outstanding during the period	2,160,896	2,236,198	7,295,698	94,609	652,662
Increase (decrease) in net assets attributable to holders of redeemable units per unit	\$0.09	\$0.13	\$0.20	\$0.44	\$0.50
December 31, 2017	Series A	Series F	Series I	Series A (H)	Series F (H)
Increase (decrease) in net assets attributable to holders of redeemable units	\$373,008	\$483,426	\$1,953,936	\$(49,380)	\$(268,352)
Average units outstanding during the year	1,835,525	1,854,568	5,898,665	102,535	426,748
Increase (decrease) in net assets attributable to holders of redeemable units per unit	\$0.20	\$0.26	\$0.33	\$(0.48)	\$(0.63)

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

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

Series A and Series A (H) paid an annual management fee to the Manager of 1.25% of the net asset value of the series. Series F and Series F (H) 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. Included in accrued expenses at September 30, 2018 is \$42,195 (December 31, 2017 - \$32,625) related to these fees. 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.

#### (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. As at September 30, 2018 \$13,017 (December 31, 2017 - \$11,604) is included in accrued expenses.

# NCM SHORT TERM INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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

The Fund paid brokerage commissions amounting to \$nil (December 31, 2017 - \$4,336) in connection with portfolio transactions during the period.

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