



# **VPI INCOME POOL**

## **INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018

### **MANAGER**

VALUE PARTNERS INVESTMENTS INC.

### **PORTFOLIO MANAGERS**

PATIENT CAPITAL MANAGEMENT INC. & CANSO INVESTMENT COUNSEL LTD.

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#### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Value Partners Investments Inc., the Manager of the Pools, appoints independent auditors to audit the Pool's Annual Financial Statements. Under Canadian securities laws (National Instrument 81-106), if an auditor has not reviewed the Interim Financial Statements, this must be disclosed in an accompanying notice.

The Pool's independent auditors have not performed a review of these Interim Financial Statements in accordance with standards established by the Chartered Professional Accountants Canada.

# VPI INCOME POOL

## Statements of Financial Position

(In thousands of dollars and units, except for per unit amounts)

| As at | June 30,<br>2019 | December 31,<br>2018 |
|-------|------------------|----------------------|
|-------|------------------|----------------------|

## Assets

|   |                   |                   |
|---|-------------------|-------------------|
| Financial assets at fair value through profit or loss | \$ 804,310        | \$ 775,948        |
| Cash and cash equivalents                             | 7,751             | 6,830             |
| Forward currency contracts                            | 2,842             | —                 |
| Accrued dividends receivable                          | 3,798             | 2,656             |
| Accrued interest receivable for distribution purposes | 2,968             | 2,606             |
| Subscriptions receivable                              | 1,643             | 1,008             |
| Due from brokers                                      | 1,082             | —                 |
|   | <b>\$ 824,394</b> | <b>\$ 789,048</b> |

## Liabilities

|  |              |              |
|--|--------------|--------------|
| Forward currency contracts               | \$ —         | \$ 1,870     |
| Accounts payable and accrued liabilities | 122          | 179          |
| Redemptions payable                      | 896          | 129          |
| Management fees payable (notes 4 and 5)  | 1,101        | 1,173        |
|  | <b>2,119</b> | <b>3,351</b> |

## Net assets attributable to holders of redeemable units

**\$ 822,275      \$ 785,697**

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

|          |            |            |
|----------|------------|------------|
| Series A | \$ 677,134 | \$ 649,756 |
| Series B | 19,188     | 21,022     |
| Series F | 113,587    | 105,616    |
| Series O | 12,366     | 9,303      |

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

|          |          |          |
|----------|----------|----------|
| Series A | \$ 11.37 | \$ 11.04 |
| Series B | 10.32    | 10.04    |
| Series F | 11.17    | 10.80    |
| Series O | 10.14    | 9.75     |

### Number of redeemable units outstanding:

|          |        |        |
|----------|--------|--------|
| Series A | 59,568 | 58,857 |
| Series B | 1,859  | 2,094  |
| Series F | 10,168 | 9,781  |
| Series O | 1,220  | 954    |

The accompanying notes form an integral part of these financial statements.

# VPI INCOME POOL

Statements of Comprehensive Income (Loss)  
(In thousands of dollars, except for per unit amounts)

Six-month periods ended June 30 (unaudited)

|   | 2019      | 2018      |
|---|-----------|-----------|
| Investment income:  |           |           |
| Interest income for distribution purposes   | \$ 8,565  | \$ 7,340  |
| Dividend income   | 6,949     | 4,545     |
| Foreign exchange loss on cash   | (23)      | (56)      |
| Other changes in fair value on financial assets and financial liabilities at fair value through profit or loss: |           |           |
| Net realized gain on sale of investments  | 7,534     | 11,359    |
| Net realized loss on forward currency contracts   | (792)     | (1,038)   |
| Change in unrealized appreciation in value of investments   | 10,783    | 6,031     |
| Change in unrealized appreciation (depreciation) in forward currency contracts                                  | 4,712     | (1,304)   |
|   | 37,728    | 26,877    |
| Expenses:   |           |           |
| Administration  | 100       | 95        |
| Audit fees  | 6         | 7         |
| Independent review committee fees   | 5         | 6         |
| Security holder reporting costs   | 154       | 176       |
| Custodian fees  | 15        | 16        |
| Filing fees   | 17        | 18        |
| Legal fees  | —         | 2         |
| Management fees (notes 4 and 5)   | 7,007     | 6,826     |
| Registered plan fees  | 5         | 6         |
| Trustee fees  | 2         | 3         |
| Withholding taxes   | 393       | 366       |
| Transaction costs   | 28        | 31        |
|   | 7,732     | 7,552     |
| Absorbed expenses (notes 4 and 5)   | (4)       | (3)       |
|   | 7,728     | 7,549     |
| Increase in net assets attributable to holders of redeemable units  | \$ 30,000 | \$ 19,328 |
| Increase in net assets attributable to holders of redeemable units per series:                                  |           |           |
| Series A  | \$ 24,391 | \$ 15,627 |
| Series B  | 759       | 609       |
| Series F  | 4,438     | 2,872     |
| Series O  | 412       | 220       |
| Increase in net assets attributable to holders of redeemable units per unit:                                    |           |           |
| Series A  | \$ 0.41   | \$ 0.28   |
| Series B  | 0.38      | 0.24      |
| Series F  | 0.45      | 0.32      |
| Series O  | 0.42      | 0.32      |

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# VPI INCOME POOL

## Statements of Changes in Financial Position (In thousands of dollars and units)

Six-month periods ended June 30 (unaudited)

|   | Series A   |            | Series B  |           | Series F   |            | Series O  |          | Total      |            |
|---|------------|------------|-----------|-----------|------------|------------|-----------|----------|------------|------------|
|   | 2019       | 2018       | 2019      | 2018      | 2019       | 2018       | 2019      | 2018     | 2019       | 2018       |
| Net assets attributable to holders of redeemable units, beginning of period       | \$ 649,756 | \$ 636,699 | \$ 21,022 | \$ 28,358 | \$ 105,616 | \$ 100,341 | \$ 9,303  | \$ 2,176 | \$ 785,697 | \$ 767,574 |
| Increase in net assets attributable to holders of redeemable units                | 24,391     | 15,627     | 759       | 609       | 4,438      | 2,872      | 412       | 220      | 30,000     | 19,328     |
| Redeemable unit transactions:   |            |            |           |           |            |            |           |          |            |            |
| Proceeds from redeemable units issued   | 51,791     | 59,321     | 796       | 1,300     | 14,533     | 18,023     | 5,016     | 9,183    | 72,136     | 87,827     |
| Reinvestment of distributions to holders of redeemable units                      | 6,087      | 4,348      | 152       | 110       | 696        | 774        | 71        | 113      | 7,006      | 5,345      |
| Redemption of redeemable units  | (49,745)   | (56,091)   | (3,383)   | (4,626)   | (10,858)   | (18,852)   | (2,365)   | (2,281)  | (66,351)   | (81,850)   |
|   | 8,133      | 7,578      | (2,435)   | (3,216)   | 4,371      | (55)       | 2,722     | 7,015    | 12,791     | 11,322     |
| Distributions to holders of redeemable units:                                     |            |            |           |           |            |            |           |          |            |            |
| Net investment loss   | (5,146)    | (3,503)    | (158)     | (118)     | (838)      | (1,023)    | (71)      | (113)    | (6,213)    | (4,757)    |
| Net realized gains (loss) on investments  | <u>—</u>   | <u>—</u>   | <u>—</u>  | <u>—</u>  | <u>—</u>   | <u>—</u>   | <u>—</u>  | <u>—</u> | <u>—</u>   | <u>—</u>   |
| Total distributions paid to holders of redeemable units                           | (5,146)    | (3,503)    | (158)     | (118)     | (838)      | (1,023)    | (71)      | (113)    | (6,213)    | (4,757)    |
| Net increase (decrease) in net assets attributable to holders of redeemable units | 27,378     | 19,702     | (1,834)   | (2,725)   | 7,971      | 1,794      | 3,063     | 7,122    | 36,578     | 25,893     |
| Net assets attributable to holders of redeemable units, end of period             | \$ 677,134 | \$ 656,401 | \$ 19,188 | \$ 25,633 | \$ 113,587 | \$ 102,135 | \$ 12,366 | \$ 9,298 | \$ 822,275 | \$ 793,467 |
| Increase (decrease) in redeemable units outstanding:                              |            |            |           |           |            |            |           |          |            |            |
| Beginning of period   | 58,857     | 54,941     | 2,094     | 2,686     | 9,781      | 8,885      | 954       | 214      | 71,686     | 66,726     |
| Issued  | 4,540      | 5,102      | 77        | 123       | 1,298      | 1,590      | 497       | 895      | 6,412      | 7,710      |
| Issued on reinvestment of distributions   | 530        | 374        | 15        | 10        | 62         | 68         | 7         | 11       | 614        | 463        |
| Redeemed  | (4,359)    | (4,820)    | (327)     | (435)     | (973)      | (1,665)    | (238)     | (221)    | (5,897)    | (7,141)    |
| Redeemable units outstanding, end of period                                       | 59,568     | 55,597     | 1,859     | 2,384     | 10,168     | 8,878      | 1,220     | 899      | 72,815     | 67,758     |
| Weighted average units outstanding, during the period                             | 59,264     | 55,307     | 1,991     | 2,541     | 9,862      | 8,863      | 973       | 687      |            |            |

The accompanying notes form an integral part of these financial statements.

# VPI INCOME POOL

Statements of Cash Flows  
(In thousands of dollars)

Six-month periods ended June 30 (unaudited)

|  | 2019      | 2018      |
|--|-----------|-----------|
| Cash flows from operating activities:  |           |           |
| Increase in net assets attributable to holders of redeemable units                 | \$ 30,000 | \$ 19,328 |
| Adjustments for:   |           |           |
| Foreign exchange loss on cash  | 23        | 56        |
| Net realized gain on sale of investments   | (7,534)   | (11,359)  |
| Transaction costs  | 28        | 31        |
| Change in unrealized appreciation in value of investments                          | (10,783)  | (6,031)   |
| Change in unrealized depreciation (appreciation) in forward currency contracts     | (4,712)   | 1,304     |
| Purchase of investments  | (287,401) | (414,655) |
| Proceeds from sale of investments  | 277,328   | 391,674   |
| Dividends receivable   | (1,142)   | (374)     |
| Interest receivable for distribution purposes                                      | (362)     | 164       |
| Management fees payable  | (72)      | 19,897    |
| Other payables and accrued expenses  | (1,139)   | 22        |
| Due to manager   | —         | (4)       |
| Net cash from operating activities   | (5,766)   | 53        |
| Cash flows from financing activities:  |           |           |
| Distributions paid to holders of redeemable units, net of reinvested distributions | 793       | 926       |
| Proceeds from redeemable units issued  | 66,606    | 69,348    |
| Redemption of redeemable units   | (60,689)  | (65,256)  |
| Net cash from financing activities   | 6,710     | 5,018     |
| Foreign exchange loss on cash  | (23)      | (56)      |
| Net increase in cash and cash equivalents  | 921       | 5,015     |
| Cash and cash equivalents, beginning of period                                     | 6,830     | 4,201     |
| Cash and cash equivalents, end of period   | \$ 7,751  | \$ 9,216  |
| Supplementary information:   |           |           |
| Dividend received, net of withholding tax  | \$ 5,414  | \$ 3,813  |
| Interest received, net of withholding tax  | 8,203     | 7,496     |

The accompanying notes form an integral part of these financial statements.

# VPI INCOME POOL

## Schedule of Investments

(In thousands of dollars, except for unit amounts)

June 30, 2019 (unaudited)

| Number of<br>units, shares<br>or par value | Description                           | Maturity<br>date | Coupon<br>rate<br>% | Average<br>cost | Fair<br>value | % of<br>net assets |
|--|---------------------------------------|------------------|---------------------|-----------------|---------------|--------------------|
| <b>Short-term investments:</b>             |                                       |                  |                     |                 |               |                    |
| 21,540,000                                 | Canada Treasury Bill                  | 11-Jul-19        | 1.661               | \$ 21,444       | \$ 21,444     |                    |
| 19,000,000                                 | Canada Treasury Bill                  | 19-Sep-19        | 1.655               | 18,929          | 18,929        |                    |
|  |                                       |                  |                     | 40,373          | 40,373        | 4.91               |
| <b>Bonds:</b>                              |                                       |                  |                     |                 |               |                    |
| <b>Corporate bonds:</b>                    |                                       |                  |                     |                 |               |                    |
| 1,852,000                                  | Apple Inc.                            | 19-Aug-24        | 2.513               | 1,866           | 1,884         |                    |
| 22,083,000                                 | AT&T Inc.                             | 12-Jun-24        | 3.616               | 28,799          | 29,240        |                    |
| 35,835,000                                 | Bank of Montreal                      | 1-Feb-23         | 2.203               | 35,771          | 35,898        |                    |
| 2,640,000                                  | Bank of Nova Scotia                   | 31-Aug-85        | 2.812               | 2,214           | 2,834         |                    |
| 3,287,000                                  | Black Press Group Ltd. ^              | 31-Mar-24        | 12.000              | 3,287           | 3,226         |                    |
| 1,765,000                                  | Bombardier Inc.                       | 15-Mar-25        | 7.500               | 2,248           | 2,322         |                    |
| 9,833,000                                  | Bombardier Inc.                       | 15-Apr-27        | 7.875               | 13,272          | 12,897        |                    |
| 1,509,000                                  | BZ Holdings Inc. ^                    | 22-May-22        | 3.000               | 1,857           | 1,972         |                    |
| 610,000                                    | Canadian Imperial Bank of Commerce    | 31-Aug-85        | 2.813               | 487             | 609           |                    |
| 166,166                                    | Canadian Pacific Railway Co.          | 1-Oct-24         | 6.910               | 202             | 188           |                    |
| 3,930,000                                  | ClearStream Energy Services Inc. ^    | 23-Mar-26        | 8.000               | 3,930           | 3,537         |                    |
| 330,000                                    | Cogeco Cable Inc.                     | 16-Nov-20        | 5.150               | 351             | 342           |                    |
| 5,255,000                                  | Cogeco Cable Inc.                     | 14-Feb-22        | 4.925               | 5,670           | 5,563         |                    |
| 6,386,000                                  | Cogeco Cable Inc.                     | 26-May-23        | 4.175               | 6,616           | 6,687         |                    |
| 3,405,000                                  | Element Fleet Management Corp.        | 30-Jun-20        | 4.250               | 3,295           | 3,417         |                    |
| 480,000                                    | Element Fleet Management Corp.        | 30-Jun-24        | 4.250               | 480             | 518           |                    |
| 7,609,000                                  | Ford Credit Canada Co.                | 10-Jan-22        | 5.048               | 7,609           | 7,833         |                    |
| 13,946,000                                 | Ford Credit Canada Co.                | 21-Mar-24        | 5.115               | 13,946          | 14,394        |                    |
| 6,809,000                                  | Ford Motor Credit Co. LLC.            | 7-Jan-22         | 5.729               | 9,068           | 9,178         |                    |
| 15,464,000                                 | GE Capital Canada Funding Co.         | 26-Jan-22        | 4.600               | 15,791          | 16,177        |                    |
| 436,000                                    | GE Capital Canada Funding Co.         | 15-Feb-22        | 2.365               | 425             | 426           |                    |
| 4,225,000                                  | GE Capital Canada Funding Co.         | 6-Feb-23         | 3.215               | 4,425           | 4,247         |                    |
| 325,000                                    | General Electric Co.                  | 15-Apr-20        | 3.397               | 421             | 426           |                    |
| 1,897,000                                  | General Electric Co.                  | 15-Mar-23        | 3.410               | 2,369           | 2,450         |                    |
| 469,000                                    | General Electric Co.                  | 15-Apr-23        | 3.597               | 608             | 603           |                    |
| 2,774,000                                  | General Electric Co.                  | 5-May-26         | 2.945               | 3,214           | 3,300         |                    |
| 343,000                                    | Heathrow Funding Ltd.                 | 17-Jun-23        | 3.000               | 351             | 349           |                    |
| 3,576,000                                  | Honda Canada Finance Inc.             | 17-Apr-20        | 2.538               | 3,581           | 3,588         |                    |
| 2,071,000                                  | Honda Canada Finance Inc.             | 28-Aug-20        | 2.390               | 2,082           | 2,077         |                    |
| 12,167,000                                 | Honda Canada Finance Inc.             | 18-Dec-20        | 2.261               | 12,191          | 12,184        |                    |
| 3,367,000                                  | Kraft Canada Inc.                     | 6-Jul-20         | 2.700               | 3,428           | 3,372         |                    |
| 8,990,000                                  | Kraft Canada Inc.                     | 6-Jul-20         | 3.068               | 8,990           | 9,046         |                    |
| 1,261,000                                  | Lloyds Bank PLC                       | 7-May-21         | 3.055               | 1,636           | 1,648         |                    |
| 22,882,000                                 | Lloyds Bank PLC                       | 11-Jul-23        | 2.568               | 22,882          | 22,722        |                    |
| 1,581,000                                  | Manufacturers Life Insurance Co.      | 1-Jun-25         | 2.100               | 1,564           | 1,580         |                    |
| 3,326,000                                  | Manufacturers Life Insurance Co.      | 5-Jan-26         | 2.389               | 3,313           | 3,331         |                    |
| 3,200,000                                  | Manufacturers Life Insurance Co.      | 22-Nov-27        | 3.181               | 3,304           | 3,302         |                    |
| 4,992,424                                  | Maxar Technologies Ltd., Term Loan    | 5-Oct-24         | 2.750               | 5,367           | 5,910         |                    |
| 2,075,000                                  | Metropolitan Life Global Funding I    | 16-Apr-20        | 1.875               | 2,069           | 2,071         |                    |
| 2,714,000                                  | Navient Corp.                         | 1-Aug-33         | 5.625               | 3,056           | 2,970         |                    |
| 3,160,243                                  | Postmedia Network Inc.                | 15-Jul-21        | 8.250               | 3,207           | 3,176         |                    |
| 10,263,000                                 | Royal Bank of Canada                  | 27-Jun-22        | 2.113               | 10,263          | 10,272        |                    |
| 930,000                                    | Royal Bank of Canada                  | 29-Jun-85        | 2.813               | 749             | 959           |                    |
| 1,310,000                                  | Royal Bank of Scotland Group          | 28-May-24        | 5.125               | 1,419           | 1,818         |                    |
| 2,634,000                                  | SNC-Lavalin Group Inc.                | 24-Nov-20        | 2.689               | 2,621           | 2,627         |                    |
| 2,430,000                                  | SNC-Lavalin Group Inc.                | 2-Mar-21         | 2.540               | 2,401           | 2,385         |                    |
| 375,000                                    | SNC-Lavalin Group Inc.                | 2-Mar-23         | 3.235               | 364             | 375           |                    |
| 4,494,000                                  | Sobey's                               | 8-Aug-23         | 4.700               | 4,584           | 4,756         |                    |
| 2,381,000                                  | Sobey's                               | 29-Oct-35        | 6.060               | 2,411           | 2,763         |                    |
| 2,590,000                                  | Sobey's                               | 6-Oct-36         | 5.790               | 2,543           | 2,941         |                    |
| 1,160,000                                  | Sobey's                               | 7-Jun-40         | 6.640               | 1,211           | 1,458         |                    |
| 4,345,000                                  | Teva Pharmaceutical Finance NL III BV | 1-Oct-26         | 3.150               | 4,562           | 4,414         |                    |
| 3,830,000                                  | Teva Pharmaceutical Finance NL III BV | 1-Mar-28         | 6.750               | 4,967           | 4,620         |                    |
| 8,764,000                                  | Toronto-Dominion Bank                 | 8-Jun-21         | 1.680               | 8,662           | 8,740         |                    |
| 17,748,000                                 | Toronto-Dominion Bank                 | 28-Jun-23        | 2.319               | 17,770          | 17,843        |                    |
| 7,821,000                                  | TransCanada PipeLines Ltd.            | 15-May-67        | 4.728               | 9,203           | 7,898         |                    |
| 6,310,000                                  | UniCredit SpA                         | 14-Jan-22        | 6.497               | 8,389           | 8,580         |                    |

# VPI INCOME POOL

Schedule of Investments (continued)  
(In thousands of dollars, except for unit amounts)

June 30, 2019 (unaudited)

| Number of<br>units, shares<br>or par value | Description  | Maturity<br>date | Coupon<br>rate<br>% | Average<br>cost | Fair<br>value | % of<br>net assets |
|--|--|------------------|---------------------|-----------------|---------------|--------------------|
| <b>Corporate bonds (continued):</b>        |  |                  |                     |                 |               |                    |
| 5,106,000                                  | UniCredit SpA  | 12-Apr-22        | 3.750               | \$ 6,322        | \$ 6,753      |                    |
| 3,182,000                                  | Videotron Ltd.   | 15-Jun-25        | 5.625               | 3,189           | 3,403         |                    |
| 2,155,000                                  | Videotron Ltd.   | 15-Jan-26        | 5.750               | 2,269           | 2,278         |                    |
| 4,733,000                                  | VW Credit Canada Inc.                                    | 30-Mar-20        | 2.515               | 4,737           | 4,739         |                    |
| 581,000                                    | VW Credit Canada Inc.                                    | 13-Nov-20        | 2.645               | 581             | 582           |                    |
| 2,025,000                                  | WTH Car Rental ULC                                       | 20-Jul-24        | 2.781               | 2,032           | 2,049         |                    |
| 1,316,000                                  | Yellow Pages Digital & Media Solutions Ltd.              | 1-Nov-22         | 10.000              | 1,307           | 1,344         |                    |
| 3,911,000                                  | Yellow Pages Digital & Media Solutions Ltd.              | 30-Nov-22        | 8.000               | 3,745           | 3,940         |                    |
|  |  |                  |                     | 351,543         | 355,031       | 43.18              |
| <b>Mortgage-backed securities:</b>         |  |                  |                     |                 |               |                    |
| 8,756,000                                  | First National Financial                                 | 1-Feb-22         | 1.700               | 7,030           | 7,033         |                    |
| 2,289,000                                  | MCAP Service   | 1-Apr-21         | 2.458               | 1,211           | 1,219         |                    |
| 1,091,000                                  | MCAP Service   | 1-Sep-21         | 2.328               | 595             | 600           |                    |
| 7,341,000                                  | MCAP Service   | 1-Oct-21         | 2.228               | 4,752           | 4,768         |                    |
| 3,657,000                                  | MCAP Service   | 1-May-24         | 2.064               | 3,638           | 3,643         |                    |
| 1,683,000                                  | Merrill Lynch Financial Assets Inc.                      | 1-Jun-21         | 2.328               | 937             | 942           |                    |
| 9,665,000                                  | Merrill Lynch Financial Assets Inc.                      | 1-May-22         | 2.178               | 6,396           | 6,436         |                    |
| 6,370,000                                  | Merrill Lynch Financial Assets Inc.                      | 1-Jun-22         | 2.178               | 4,451           | 4,473         |                    |
| 1,457,000                                  | Merrill Lynch Financial Assets Inc.                      | 1-Mar-23         | 2.190               | 1,314           | 1,324         |                    |
| 1,792,000                                  | Merrill Lynch Financial Assets Inc.                      | 1-Jul-23         | 1.928               | 1,657           | 1,660         |                    |
| 943,000                                    | Merrill Lynch Financial Assets Inc.                      | 1-Jan-24         | 2.050               | 930             | 938           |                    |
| 1,382,000                                  | Merrill Lynch Financial Assets Inc.                      | 7-May-21         | 6.673               | 249             | 237           |                    |
|  |  |                  |                     | 33,160          | 33,273        | 4.05               |
| <b>Equities:</b>                           |  |                  |                     |                 |               |                    |
| <b>Automobiles &amp; Components:</b>       |  |                  |                     |                 |               |                    |
| 444,730                                    | Honda Motor Co Ltd.                                      |                  |                     | 15,560          | 15,017        |                    |
| 959,085                                    | Linamar Corp.  |                  |                     | 46,941          | 46,880        |                    |
|  |  |                  |                     | 62,501          | 61,897        | 7.53               |
| <b>Banks:</b>                              |  |                  |                     |                 |               |                    |
| 658,200                                    | Bank of Nova Scotia                                      |                  |                     | 39,748          | 46,298        |                    |
| 428,075                                    | Canadian Imperial Bank of Commerce                       |                  |                     | 41,640          | 44,083        |                    |
| 187,000                                    | Wells Fargo & Co.  |                  |                     | 10,930          | 11,563        |                    |
|  |  |                  |                     | 92,318          | 101,944       | 12.40              |
| <b>Diversified financials:</b>             |  |                  |                     |                 |               |                    |
| 888,366                                    | Kimco Realty Corp.                                       |                  |                     | 15,729          | 21,453        | 2.61               |
| <b>Energy:</b>                             |  |                  |                     |                 |               |                    |
| 1,962,159                                  | Cenovus Energy Inc.                                      |                  |                     | 31,956          | 22,663        |                    |
| 4,360                                      | ClearStream Energy Services Inc., Preferred <sup>A</sup> |                  |                     | 4,360           | 4,360         |                    |
| 500,000                                    | Canadian Natural Resources Ltd.                          |                  |                     | 18,417          | 17,655        |                    |
| 25,909                                     | ClearStream Energy Services Inc.                         |                  |                     | 15              | 1             |                    |
| 3,472,376                                  | Ensign Energy Services Inc.                              |                  |                     | 26,280          | 14,896        |                    |
| 242,034                                    | Total SA   |                  |                     | 16,547          | 17,645        |                    |
|  |  |                  |                     | 97,575          | 77,220        | 9.39               |
| <b>Healthcare Equipment:</b>               |  |                  |                     |                 |               |                    |
| 337,500                                    | CVS Health Corp.   |                  |                     | 24,134          | 24,032        | 2.92               |
| <b>Media:</b>                              |  |                  |                     |                 |               |                    |
| 450,649                                    | WPP PLC  |                  |                     | 38,876          | 37,047        | 4.51               |

# VPI INCOME POOL

Schedule of Investments (continued)  
(In thousands of dollars, except for unit amounts)

June 30, 2019 (unaudited)

| Number of<br>units, shares<br>or par value | Description  | Maturity<br>date | Coupon<br>rate<br>% | Average<br>cost | Fair<br>value | % of<br>net assets |
|--|--|------------------|---------------------|-----------------|---------------|--------------------|
| <b>Real estate:</b>                        |  |                  |                     |                 |               |                    |
| 510,000                                    | Firm Capital American Realty Partners Corp.                  |                  |                     | 4,912           | 4,572         |                    |
| 1,550,322                                  | Firm Capital Property Trust                                  |                  |                     | 6,508           | 9,565         |                    |
| 953,125                                    | Firm Capital Property Trust (R25AUG19)^                      |                  |                     | 6,100           | 6,100         |                    |
|  |  |                  |                     | 17,520          | 20,237        | 2.46               |
| <b>Retailing:</b>                          |  |                  |                     |                 |               |                    |
| 632,000                                    | Bed Bath & Beyond Inc.                                       |                  |                     | 28,326          | 9,597         |                    |
| 443,000                                    | Macy's Inc   |                  |                     | 16,449          | 12,423        |                    |
|  |  |                  |                     | 44,775          | 22,020        | 2.68               |
| <b>Utilities:</b>                          |  |                  |                     |                 |               |                    |
| 193,640                                    | Canadian Utilities Ltd.                                      |                  |                     | 5,855           | 7,157         | 0.87               |
| <b>Warrants:</b>                           |  |                  |                     |                 |               |                    |
| 3,349                                      | Xplornet Communications Inc.^                                | 30-Sep-20        |                     | —               | 127           |                    |
| 776  | Xplornet Communications Inc.^                                | 30-Sep-20        |                     | —               | 74            |                    |
| 4,783                                      | Xplornet Communications Inc.^                                | 25-Oct-23        |                     | —               | 2,425         |                    |
|  |  |                  |                     | —               | 2,626         | 0.32               |
| <b>Summary:</b>                            |  |                  |                     |                 |               |                    |
|  | Short-term investments                                       |                  |                     | 40,373          | 40,373        | 4.91               |
|  | Corporate bonds  |                  |                     | 351,543         | 355,031       | 43.18              |
|  | Mortgage-backed securities                                   |                  |                     | 33,160          | 33,273        | 4.05               |
|  | Equities   |                  |                     | 399,283         | 375,633       | 45.69              |
|  |  |                  |                     | 824,359         | 804,310       | 97.83              |
|  | Transaction costs  |                  |                     | (195)           |               |                    |
|  | Total financial assets at FVTPL                              |                  |                     | 824,164         | 804,310       | 97.83              |
| <b>Cash:</b>                               |  |                  |                     |                 |               |                    |
|  | Domestic   |                  |                     | 7,751           | 7,751         |                    |
|  | Foreign  |                  |                     | —               | —             |                    |
|  | Total cash   |                  |                     | 7,751           | 7,751         | 0.94               |
|  | Forward currency   |                  |                     |                 | 2,842         | 0.35               |
|  | Other assets less liabilities                                |                  |                     |                 | 7,372         | 0.88               |
|  | Total net assets attributable to holders of redeemable units |                  |                     |                 | \$ 822,275    | 100.00             |

^ Level 3 Securities

The accompanying notes form an integral part of these financial statements.



# VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

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## 1. Reporting entity:

- (a) VPI Income Pool (the Pool) is an open-ended mutual fund trust, established on September 26, 2005 by declaration of trust under the laws of the Province of Ontario. As of March 2017, the registered office of the Pool is located at 300-175 Hargrave St., Winnipeg, Manitoba. The trustee of the Pool is RBC Investor Services Trust and the Manager of the Pool is Value Partners Investments Inc. (VPI or the Manager).

The Pool commenced operations on October 20, 2005 with one series of units: Series A. On July 3, 2007, the Pool began offering Series B and Series F units. On July 5, 2017, the Pool began offering Series O units.

The Pool's objective is to place a strong emphasis on avoiding material or long-term capital losses while investing in securities that provide a reasonable level of income and the potential for long-term capital growth. The Pool invests primarily in fixed income and equity securities that pay income.

- (b) Redeemable units issued and outstanding are considered to be capital of the Pool. The Pool's authorized capital consists of an unlimited number of units and series without par value. The number of outstanding units of each series is disclosed in the statements of financial position.

Series A units are subject to a negotiated sales commission payable by the investor at the time of purchase. Series B units are subject to a fixed sales commission payable by the Manager at the time of purchase. The investor is subject to a redemption fee if units are redeemed within three years of purchase. Series F units are only available to investors that have a fee-based account with a dealer that has signed a Series F agreement with the Manager. Series O units are available for investors who have, or whose dealer has, entered into an agreement directly with the Manager to purchase Series O units or if investors open discretionary investment management accounts with the Manager. Series O units have no sales charge.

Except for Series O units, each series of units pays its proportionate share of common expenses of the Pool, in addition to expenses that are unique to that series. Proportionate fund expenses for Series O, both common fund expenses, as well as expenses unique to Series O, are paid by the Manager. Distributions of each series may vary due to the differences in expenses between the series.

# VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

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## 1. Reporting entity (continued):

- (c) Unitholders may redeem all or part of their units by delivering a written request to do so to the Manager or Trustee or to an investment dealer, securities dealer or mutual fund dealer for delivery to the Manager or Trustee. Units will be redeemed at the net asset value per unit as determined on the next valuation date. Requests for redemption received after 4:00 p.m., Toronto time, on any day are deemed to be received on the first business day following the date of the actual receipt.

## 2. Basis of preparation:

These financial statements have been prepared in compliance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34"), as published by the International Accounting Standards Board ("IASB") and as required by Canadian securities legislation and the Canadian Accounting Standards Board.

The financial statements were authorized for issue by the Manager on behalf of the board of directors on August 20<sup>th</sup>, 2019.

### (a) Basis of measurement:

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

### (b) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Pool's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

# VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

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## 2. Basis of preparation (continued):

### (c) Use of estimates and judgments:

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The most significant judgments made by the Manager in preparing these financial statements is in determining the fair value of financial instruments not traded in an active market, if any, under IFRS 13 - *Fair Value Measurement* (IFRS 13).

## 3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### (a) Financial instruments:

#### (i) Classification and measurement:

Financial assets are required to be classified into one of the following categories: fair value through profit or loss (FVTPL), amortized cost 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. Financial liabilities are measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is derivative or it is designated as such on initial recognition

# VPI INCOME POOL

Notes to Financial Statements (continued)  
(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

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## 3. Significant accounting policies (continued):

### (i) Classification and measurement (continued):

All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as FVTPL, in which case transaction costs are expensed as incurred.

Financial instruments at FVTPL are recognized initially on the trade date, which is the date on which the Pool 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. The Pool derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statements of financial position only when the Pool has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. At June 30, 2019 and 2018, no amounts have been offset in the statements of financial position.

### (ii) FVTPL:

Financial instruments classified as FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the statements of comprehensive loss in the period in which they occur. The Pool has classified its investments in securities, derivative financial assets and derivative financial liabilities as FVTPL.

# VPI INCOME POOL

Notes to Financial Statements (continued)  
(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

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## 3. Significant accounting policies (continued):

### (ii) FVTPL (continued):

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Pool uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Pool's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

The fair value of financial assets and liabilities that are not traded in an active market, including derivative instruments, is determined using valuation techniques. Valuation techniques also include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and others commonly used by market participants and which make the maximum use of observable inputs. Should the value of the financial asset or liability, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value is estimated on the basis of the most recently reported information of a similar financial asset or liability.

The Pool's accounting policies for measuring the fair value of investments are consistent with those used for measuring its net asset value for transactions with unitholders.

# VPI INCOME POOL

Notes to Financial Statements (continued)  
(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

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## 3. Significant accounting policies (continued):

### (iii) Amortized cost:

Financial instruments classified under amortized cost include financial assets that are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest and financial liabilities not classified as FVTPL. Such financial assets and liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement of these financial assets and financial liabilities is at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized by applying the effective interest rate. The Pool classifies cash, accrued dividends receivable, accrued interest receivable for distribution purposes, subscriptions receivable, due from broker, accounts payable and accrued liabilities, redemptions payable, management fees payable, distributions payable, due to Manager and due to brokers as amortized cost. Cash includes cash on deposit with the custodian.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

### (iv) Impairment:

For financial assets measured at amortized cost, the Pool uses an expected credit loss (ECL) impairment model. The ECL model uses an allowance for expected credit losses being recorded regardless of whether or not there has been an actual loss event.

The Pool measures the loss allowance at an amount equal to lifetime ECL for trade and other receivables. Lifetime ECL's are the ECL's that result from all possible default events over the expected life of the trade and other receivables. ECL's are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (that being the difference between the cash flows due to the Pool in accordance with the contract and the cash flows that the Pool expects to receive). ECL's are discounted at the effective interest rate of the financial asset.

# VPI INCOME POOL

Notes to Financial Statements (continued)  
(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

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## 3. Significant accounting policies (continued):

### (v) Forward currency contracts:

The value of a forward currency contract is the gain or loss that would be realized if, on the date that valuation is made, the positions were closed out. It is reflected in the statements of financial position as part of “forward currency contracts” and the change in value over the period is reflected in the statements of comprehensive loss as part of “change in unrealized appreciation (depreciation) in forward currency contracts”. When the forward currency contracts are closed out, gains and losses are realized and are included in the “net realized gain (loss) on forward currency contracts” in the statements of comprehensive loss.

### (b) Redeemable units:

The Pool classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Pool has multiple classes of redeemable units that do not have identical features and therefore, does not qualify as equity under International Accounting Standard (IAS) 32, *Financial Instruments - presentation* (IAS 32). The redeemable units, which are measured at the redemption amounts and are considered a residual amount of the net assets attributable to holders of redeemable units, provide investors with the right to require redemption, subject to available liquidity, for cash at a unit price based on the Pool’s valuation policies at each redemption date.

### (c) Foreign currency:

The Pool’s subscriptions and redemptions are denominated in Canadian dollars, which is also its functional and presentation currency. Foreign denominated investments and other foreign denominated assets and liabilities are translated into Canadian dollars using the exchange rates prevailing on each valuation date. Purchases and sales of investments, as well as income and expense transactions denominated in foreign currencies, are translated using exchange rates prevailing on the date of the transaction. Foreign exchange gains and losses relating to cash are presented as ‘Foreign exchange gain (loss) on cash’ and those relating to other financial assets and liabilities are presented within ‘Net realized gain’ and ‘Change in unrealized appreciation (depreciation)’ in the statements of comprehensive loss.

# VPI INCOME POOL

Notes to Financial Statements (continued)  
(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

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## 3. Significant accounting policies (continued):

### (d) Investment transactions and revenue recognition:

Interest income for distribution purposes from investments in bonds and short-term investments represents the coupon interest received by the Pool accounted for on an accrual basis. The Pool does not use the effective interest method to amortize premiums paid or discounts received on the purchase of fixed-income securities. Dividend income is recognized on the date that the right to receive payment is established, which for quoted equity securities is usually the ex-dividend date. Portfolio transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments are determined on the average cost basis of the respective investments.

### (e) Increase (decrease) in net assets attributable to holders of redeemable units, per unit:

Increase (decrease) in net assets attributable to holders of redeemable units, per unit in the statements of comprehensive loss represents the net increase (decrease) in the net assets from operations for each series for the period divided by the weighted average units outstanding for each series for the period.

### (f) Income taxes:

The Pool qualifies as a Mutual Fund Trust as defined in the *Income Tax Act* (Canada). Pursuant to the terms of the Declaration of Trust establishing the Pool, it is considered to distribute annually to the unitholders all of the net taxable income, including net realized gains on sale of investments, and such distributions are immediately reinvested in units of the Pool.

In general, the Pool is subject to income tax, however no income tax is payable on net income and/or net realized capital gains which are distributed to unitholders. In addition, income taxes payable on net realized capital gains is refundable on a formula basis when units of the Pool are redeemed.

Capital losses are available to be carried forward indefinitely and applied against future capital gains. Any non-capital losses that are realized in the taxation year 2006 and after may be carried forward for 20 years and applied against future income and capital gains.



# VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

## 4. Management fees and expenses:

Except for Series O units, the Manager of each series of units is entitled to a monthly management fee from the Pool based on a percentage of the net asset value of each series of units as of the close of business on each business day calculated at the following annual rates:

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|          |       |
|----------|-------|
| Series A | 1.80% |
| Series B | 2.00% |
| Series F | 0.90% |

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No management fee is charged to the Pool with respect to Series O units. Instead, each investor negotiates a separate fee that is paid directly to the Manager.

Except for Series O units, in addition to the management fee, each series of units pays its proportionate share of common operating expenses of the Pool, in addition to expenses that are unique to that series. These expenses include, but are not limited to audit, legal and filing fees, custodial, recordkeeping and trustee fees, transfer agent fees, investor servicing costs, taxes, compensation and expenses of the Independent Review Committee, and costs of unitholder reports, financial reporting, prospectuses, regulatory filings, and other communications. Brokerage commissions and transaction costs for buying and selling investments for the Pool's portfolio are also paid by the Pool, as well as the costs and expenses related to holding any meeting convened by unitholders.

Proportionate fund expenses for Series O units, both common fund expenses, as well as expenses unique to Series O, are paid by the Manager.

The Manager absorbed a portion of the operating expenses (note 5) of the Pool during the six-month periods ended June 30, 2019 and 2018.

## 5. Related party transactions:

Related party balances of the Pool as at June 30, 2019 and December 31, 2018 are as follows:

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|                         | 2019     | 2018     |
|-------------------------|----------|----------|
| Management fees payable | \$ 1,101 | \$ 1,173 |

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# VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

## 5. Related party transactions (continued):

Related party transactions of the Pool for the years ended June 30, 2019 and 2018 are as follows:

|                   | 2019     | 2018     |
|-------------------|----------|----------|
| Management fees   | \$ 7,007 | \$ 6,826 |
| Absorbed expenses | (4)      | (3)      |

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

As of June 30, 2019 and December 31, 2018, the parent company of the Manager held the following number of units in the Pool:

|          | 2019   | 2018   |
|----------|--------|--------|
| Series F | 94,887 | 75,622 |

## 6. Brokerage commissions:

Commissions paid to brokers for portfolio transactions for the six-month periods ended June 30, 2019 and 2018 are disclosed in the statements of comprehensive loss.

There were no soft dollar commissions paid during the six-month periods ended June 30, 2019 and 2018.

## 7. Income taxes:

As of December 31, 2018 and 2017, there were no capital or non-capital losses available for carry forward.

# VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

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## 8. Financial risk management:

The investment activities of the Pool expose the Pool to various types of financial risks. The Manager seeks to minimize potential adverse effects of these risks on the Pool by contracting professional, experienced portfolio managers, by monitoring the Pool and market events on a daily basis, and by diversifying the investment portfolio within the parameters of the investment objective and strategy. The most significant risks include market risk (other price risk, interest rate risk and currency risk), credit risk and liquidity risk. These risks and related risk management practices employed by the Pool are discussed below:

(i) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. The maximum risk resulting from financial instruments held by the Pool is determined by the fair value of the financial instruments. The portfolio manager moderates this risk through a careful selection of securities within specified parameters established for the Pool.

For the Pool, the most significant exposure to other price risk arises from investments in equity securities. The following table shows the exposure of the Pool to equity securities and indicates the impact on net assets if the prices of the equity securities on the respective stock exchanges increased or decreased by 5 percent, with all other variables held constant.

|                         | Fair value<br>of equities | % of net<br>assets | Impact on net<br>assets (\$) | Impact on net<br>assets (%) |
|-------------------------|---------------------------|--------------------|------------------------------|-----------------------------|
| As at June 30, 2019     | \$ 375,633                | 45.69%             | \$ 18,782                    | 2.28%                       |
| As at December 31, 2018 | 321,852                   | 40.96%             | 16,093                       | 2.05%                       |

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# VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

## 8. Financial risk management (continued):

### (ii) Interest rate risk:

Interest rate risk arises on interest-bearing financial instruments such as bonds. The Pool is exposed to this risk to the extent that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates.

The tables below summarize the Pool's exposure to interest rate risk. They include the Pool's assets and trading liabilities at fair values, categorized by the earlier of contractual repricing or maturity dates.

| As at June 30, 2019        | Less than<br>1 year | 1 - 3<br>years | 3 - 5<br>years | Greater<br>than<br>5 years | Non-<br>interest<br>bearing | Total      |
|----------------------------|---------------------|----------------|----------------|----------------------------|-----------------------------|------------|
| Financial assets at FVTPL  | \$ 54,614           | \$ 138,642     | \$ 157,975     | \$ 77,446                  | \$ 375,633                  | \$ 804,310 |
| Forward currency contracts | —                   | —              | —              | —                          | 2,842                       | 2,842      |

| As at December 31, 2018    | Less than<br>1 year | 1 - 3<br>years | 3 - 5<br>years | Greater<br>than<br>5 years | Non-<br>interest<br>bearing | Total      |
|----------------------------|---------------------|----------------|----------------|----------------------------|-----------------------------|------------|
| Financial assets at FVTPL  | \$ 68,165           | \$ 113,610     | \$ 162,182     | \$ 110,139                 | \$ 321,852                  | \$ 775,948 |
| Forward currency contracts | —                   | —              | —              | —                          | (1,870)                     | (1,870)    |

# VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

## 8. Financial risk management (continued):

At June 30, 2019 and December 31, 2018, should interest rates have increased or decreased by 25 basis points, excluding cash and treasury bills and assuming a parallel shift in the yield curve, with all other variables held constant, net assets for each Pool would have approximately increased or decreased as indicated in the following table. The Pool's sensitivity to interest rates was estimated using the weighted average duration of the bond portfolio.

|                         | Impact on<br>net assets (\$) | Impact on<br>net assets (%) |
|-------------------------|------------------------------|-----------------------------|
| As at June 30, 2019     | \$ 1,815                     | 0.22%                       |
| As at December 31, 2018 | 1,571                        | 0.20%                       |

### (iii) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pool. The Pool's greatest concentration of credit risk is in debt securities such as bonds. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of investments represents the maximum credit risk exposure as at June 30, 2019 and December 31, 2018.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker.

The Pool may enter into forward currency contracts to buy and sell currencies for the purpose of settling foreign securities transactions. These are short-term spot settlements carried out with counterparties with a credit rating of at least "A." The exposure to credit risk on these contracts is considered minimal as there are few contracts outstanding at any one time and the transactions are settled and paid for upon delivery.

# VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

## 8. Financial risk management (continued):

### (iii) Credit risk (continued):

Debt securities in the Pool by credit rating are as follows:

| As at June 30, 2019 | % of debt securities | % of net assets |
|---------------------|----------------------|-----------------|
| AAA                 | 34.36%               | 18.02%          |
| AA                  | 1.67%                | 0.88%           |
| A                   | 13.14%               | 6.90%           |
| BBB                 | 33.76%               | 17.72%          |
| BB                  | 6.59%                | 3.46%           |
| B                   | 6.63%                | 3.48%           |
| CCC                 | 0.91%                | 0.48%           |
| N/R                 | 2.94%                | 1.54%           |
|                     | 100.00%              | 52.48%          |

| As at December 31, 2018 | % of debt securities | % of net assets |
|-------------------------|----------------------|-----------------|
| AAA                     | 37.45%               | 21.64%          |
| AA                      | 1.97%                | 1.14%           |
| A                       | 19.27%               | 11.14%          |
| BBB                     | 26.72%               | 15.44%          |
| BB                      | 7.47%                | 4.32%           |
| B                       | 3.27%                | 1.89%           |
| CCC                     | 1.15%                | 0.66%           |
| N/R                     | 2.70%                | 1.56%           |
|                         | 100.00%              | 57.79%          |

### (iv) Liquidity risk:

The Pool is exposed to liquidity risk to the extent that it is subject to daily cash redemptions of redeemable units. Therefore, the Pool invests the majority of their assets in investments that are traded in an active market and can be readily disposed. In addition, the Pool retains sufficient cash positions to maintain liquidity.

# VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

## 8. Financial risk management (continued):

### (v) Currency risk:

The Pool uses the Canadian dollar as its functional and reporting currency. Currency risk is the risk that financial instruments which are denominated or exchanged in a currency other than the Canadian dollar, the Pool's reporting currency, will fluctuate due to changes in exchange rates. The Pool may enter into forward currency contracts to reduce its foreign currency exposure.

At June 30, 2019 and December 31, 2018, the Pool was exposed to the U.S dollar. The following tables illustrate the potential impact to the Pool's net assets, all other variables held constant, as a result of a 5 percent change in these currencies relative to the Canadian dollar and include the underlying principal of forward currency contracts, if any.

| As at June 30, 2019           | Foreign currencies (\$) | Forward currency contract | Net exposure | Impact on net assets (\$) | Impact on net assets (%) |
|-------------------------------|-------------------------|---------------------------|--------------|---------------------------|--------------------------|
| Financial assets at FVTPL     | \$ 260,177              | \$ (116,545)              | \$ 143,632   | \$ 7,182                  | 0.87%                    |
| Cash                          | —                       | —                         | —            | —                         | 0.00%                    |
| Other assets less liabilities | 3,088                   | —                         | 3,088        | 154                       | 0.02%                    |
|                               | \$ 263,265              | \$ (116,545)              | \$ 146,720   | \$ 7,336                  | 0.89%                    |

| As at December 31, 2018       | Foreign currencies (\$) | Forward currency contract | Net exposure | Impact on net assets (\$) | Impact on net assets (%) |
|-------------------------------|-------------------------|---------------------------|--------------|---------------------------|--------------------------|
| Financial assets at FVTPL     | \$ 227,359              | \$ (95,166)               | \$ 132,193   | \$ 6,609                  | 0.84%                    |
| Cash                          | 78                      | —                         | 78           | 4                         | 0.00%                    |
| Other assets less liabilities | 1,936                   | —                         | 1,936        | 97                        | 0.01%                    |
|                               | \$ 229,373              | \$ (95,166)               | \$ 134,207   | \$ 6,710                  | 0.85%                    |

# VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

## 8. Financial risk management (continued):

(vi) Concentration risk:

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The market segments are represented as a percentage of financial assets at FVTPL. The following is a summary of the Pool's concentration risk:

| Market segment                     | June 30,<br>2019 | December 31,<br>2018 |
|------------------------------------|------------------|----------------------|
| Long                               | %                | %                    |
| Automobiles and Components         | 7.70             | 6.09                 |
| Banks                              | 12.66            | 10.39                |
| Corporate bonds                    | 44.13            | 50.67                |
| Diversified financials             | 2.67             | 2.29                 |
| Energy                             | 9.60             | 9.37                 |
| Healthcare, equipment and services | 2.99             | –                    |
| Media                              | 4.61             | 4.32                 |
| Mortgage-backed securities         | 4.14             | 5.02                 |
| Real estate                        | 2.52             | 1.79                 |
| Retailing                          | 2.74             | 2.82                 |
| Short-term investments             | 5.02             | 2.82                 |
| Telecommunication services         | –                | 3.30                 |
| Utilities                          | 0.89             | 0.78                 |
| Warrants                           | 0.33             | 0.34                 |
| Total                              | 100.00           | 100.00               |



# VPI INCOME POOL

Notes to Financial Statements

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## 9. Fair value disclosure:

### (i) Valuation models:

The Pool's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Pool's financial instruments are recorded at fair value or at amounts that approximate fair value in the financial statements. The Pool classifies fair value measurements within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Manager has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Changes in valuation methods may result in transfers into, or out of, a financial instrument's assigned level.

### (ii) Fair value hierarchy - financial instruments measured at fair value:

The following tables present information about the Pool's assets which are recorded at fair value on a recurring basis as of June 30, 2019 and December 31, 2018:

Financial assets and liabilities at fair value as at June 30, 2019:

| Financial assets           | Level 1    | Level 2    | Level 3   | Total      |
|----------------------------|------------|------------|-----------|------------|
| Equities - long            | \$ 357,975 | \$ 4,572   | \$ 10,460 | \$ 373,007 |
| Corporate bonds            | —          | 349,522    | 5,509     | 355,031    |
| Mortgage-backed securities | —          | 33,273     | —         | 33,273     |
| Short-term investments     | —          | 40,373     | —         | 40,373     |
| Warrants                   | —          | —          | 2,626     | 2,626      |
| Forward currency contracts | —          | 2,842      | —         | 2,842      |
|                            | \$ 357,975 | \$ 430,582 | \$ 18,595 | \$ 807,152 |

# VPI INCOME POOL

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(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

## 9. Fair value disclosure (continued):

(ii) Fair value hierarchy - financial instruments measured at fair value (continued):

Financial assets and liabilities at fair value as at December 31, 2018:

| Financial assets           | Level 1    | Level 2    | Level 3   | Total      |
|----------------------------|------------|------------|-----------|------------|
| Equities - long            | \$ 310,368 | \$ 4,498   | \$ 4,360  | \$ 319,226 |
| Corporate bonds            | —          | 383,715    | 9,529     | 393,244    |
| Mortgage-backed securities | —          | 38,975     | —         | 38,975     |
| Short-term investments     | —          | 21,877     | —         | 21,877     |
| Warrants                   | —          | —          | 2,626     | 2,626      |
| Forward currency contracts | —          | (1,870)    | —         | (1,870)    |
|                            | \$ 310,368 | \$ 447,195 | \$ 16,515 | \$ 774,078 |

During the six-month periods ended June 30, 2019, there were no transfers between levels. The financial instruments not measured at FVTPL are short-term financial assets and financial liabilities whose carrying amounts approximate fair value.

Level 3 securities have been valued based upon third party broker quotes provided without a range.

Reconciliation of Level 3:

For the year ended June 30, 2019:

|                 | Balance at<br>December 31,<br>2018 | Purchases | Sales      | Net<br>transfers<br>In (out) | Realized<br>gain<br>(loss) | Unrealized<br>gain<br>(loss) | Balance at<br>June 30,<br>2019 |
|-----------------|------------------------------------|-----------|------------|------------------------------|----------------------------|------------------------------|--------------------------------|
| Corporate bonds | \$ 9,529                           | \$ —      | \$ (6,420) | \$ —                         | \$ 156                     | \$ 2,244                     | \$ 5,509                       |
| Equities        | 4,360                              | 6,100     | —          | —                            | —                          | —                            | 10,460                         |
| Warrants        | 2,626                              | —         | —          | —                            | —                          | —                            | 2,626                          |
|                 | \$ 16,515                          | \$ 6,100  | \$ (6,420) | \$ —                         | \$ 156                     | \$ 2,244                     | \$ 18,595                      |

# VPI INCOME POOL

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(In thousands of dollars, except for unit amounts)

For the six-month periods ended June 30, 2019 and 2018 (unaudited)

## 9. Fair value disclosure (continued):

(ii) Fair value hierarchy - financial instruments measured at fair value (continued):

For the year ended December 31, 2018:

|                    | Balance at<br>December 31,<br>2017 | Purchases | Sales      | Net<br>transfers<br>In (out) | Realized<br>gain<br>(loss) | Unrealized<br>gain<br>(loss) | Balance at<br>December 31,<br>2018 |
|--------------------|------------------------------------|-----------|------------|------------------------------|----------------------------|------------------------------|------------------------------------|
| Corporate<br>bonds | \$ 15,821                          | \$ —      | \$ (6,943) | \$ —                         | \$ 238                     | \$ 413                       | \$ 9,529                           |
| Equities           | —                                  | 4,360     | —          | —                            | —                          | —                            | 4,360                              |
| Warrants           | 2,626                              | —         | —          | —                            | —                          | —                            | 2,626                              |
|                    | \$ 18,447                          | \$ 4,360  | \$ (6,943) | \$ —                         | \$ 238                     | \$ 413                       | \$ 16,515                          |

The change in unrealized gain related to Level 3 investments held at June 30, 2019 was \$89. (2018 - change in unrealized gain of \$2,095).