



## **Brand Leaders Income Fund**

### **Annual Management Report of Fund Performance**

**December 31, 2012**

The Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure, can be obtained at your request, and at no cost, by calling us at 866 998 8298; by writing to us at Harvest Portfolios Group, 710 Dorval Drive, Suite 209, Oakville, Ontario, L6K 3V7; by visiting our website at [www.harvestportfolios.com](http://www.harvestportfolios.com); or on SEDAR at [www.sedar.com](http://www.sedar.com).

# Brand Leaders Income Fund

## CORPORATE OVERVIEW

Harvest Portfolios Group Inc. (“Harvest”) is a Canadian Investment Manager focused on unique income generating investment products. Harvest was founded by long term members of the investment management industry and is focused on developing investment products that follow the investment philosophy of:

1. Clear investment objectives
2. Transparency
3. Income generation

Harvest’s mandate is to develop investment products that are clear in their mandate and easy for our investors to understand. We strive to be transparent, so that our investors can open their financial reports and know exactly what they own. Our funds are also invested to provide investors with consistent monthly or quarterly income; therefore, we seek to invest our fund portfolios in well managed companies that have a history of steady cash flow and pay dividends or distributions.

## INVESTMENT PRODUCT

The Brand Leaders Income Fund (the “Fund”) has been created to invest in an equally-weighted underlying portfolio of fifteen of the world’s top one hundred rated brand companies, each with a market capitalization of at least US\$10 billion. As the US and global economy generally expands, Harvest believes that a diversified portfolio invested in the blue chip companies will provide investors with an attractive yield and strong capital appreciation potential.

# Brand Leaders Income Fund

## PRESIDENT'S MESSAGE

Brand Leaders Income Fund

Unitholder letter March 2013

Dear Valued Unitholder,

We will remember 2012 as another year of volatile financial markets and political indecision. In the final quarter of 2012 the stalemate in Washington over the Fiscal Cliff decision overshadowed most other global concerns. Though in the end, a last minute deal led to tax cuts for 90% of Americans as signs of a sustainable housing recovery in the US were taking hold. Meanwhile at home, the Bank of Canada's attempts to dampen the housing market through tighter mortgage policy have proven to be effective at cooling the housing market in some of the country's larger centers. Regardless, Canada's low interest rate environment will likely prevent the housing market from sustaining any real damage and according to the Bank of Canada's recent language; low interest rates will remain for the foreseeable future.

Outside of North America we are encouraged to see what looks like positive signs that European governments and citizens have begun to accept that austerity measures are a necessary part of the future. To the East, China's economic outlook shows signs of modest improvement with growth expected to rise from 7% to 8.5% by 2013-2014. Rising income and increased job creation accompanied by lower inflation are allowing for improved domestic demand.

For Harvest Fund Unitholders, 2012 saw the continued steady flow of distributions on a monthly basis across all of our funds coupled with solid performance of the North American portfolios. It is the investment philosophy of Harvest to develop funds that are clear in their mandate, have fully transparent portfolios that are representative of their mandates and generate steady income. We have confidence in the companies that populate our funds and their ability to withstand turbulent markets. We believe we are making the right decisions for investors in our funds; decisions that are based on long term objectives that reward those investors who have placed their capital with us.

As we look towards the future we are encouraged by the prospects of an improving global economy, we are encouraged as to how these improving economics will positively impact the companies within the Harvest group of funds. Conservatively optimistic, we embrace the upside opportunity that an improving economic scenario can bring but remain true to our philosophy to invest in businesses that are well positioned and have the ability to generate steady cash flow today and increase earnings tomorrow.

We are appreciative of your investment and support of Harvest Funds.

Sincerely,



Michael Kovacs  
President and Chief Executive Officer

# Brand Leaders Income Fund

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

The management report of fund performance contains financial highlights for the Fund. For your reference, the annual financial statements of the Fund are attached to the annual management report of fund performance. You may obtain additional copies of these documents at your request, and at no cost, by calling toll free at 1(866) 998-8298; by writing to us at Harvest Portfolios Group Inc., 710 Dorval Drive, Suite 209, Oakville, Ontario, L6K 3V7; or by visiting our website at [www.harvestportfolios.com](http://www.harvestportfolios.com); or on SEDAR at [www.sedar.com](http://www.sedar.com).

Unitholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## INVESTMENT OBJECTIVES AND STRATEGY

The Fund has been created to provide investors with a unique exposure to a portfolio of assets ("Portfolio") of equity securities of issuers selected from the world's top 100 rated brand companies, as recognized by Interbrand in its annual study of the best global brands (the "**Brand Leaders**"), from the Brand Leaders Investable Universe. "**Brand Leaders Investable Universe**" means those Brand Leaders that are eligible to have options written on their Equity Securities and where such Equity Securities and options are traded on a North American stock exchange.

The Fund's investment objectives are to provide Unitholders with:

- (i) monthly cash distributions;
- (ii) the opportunity for capital appreciation; and
- (iii) lower overall volatility of Portfolio returns than would otherwise be experienced by owning equity securities of the Brand Leaders directly.

The Fund's manager, Harvest Portfolios Group Inc. ("Harvest") has retained Highstreet Asset Management Inc. ("Highstreet" or "Investment manager") to provide investment management services to the Fund.

To achieve its investment objectives, the Fund will invest in an equally-weighted portfolio of equity securities of 15 Brand Leaders from the Brand Leaders Investable Universe that have a market capitalization of at least US\$10 billion at the time of investment and meet the investment characteristics described below. In order to seek to generate additional returns, Highstreet will sell "at-the-money" call options each month on equity securities held in the Portfolio. The Investment Manager will not sell call options on more than 25% of the equity securities of each Brand Leader held in the Fund.

## INVESTMENT STRATEGY

Highstreet will select the Fund's initial equity securities for the Fund and will annually rebalance the Portfolio such that, at the time of the initial investment and immediately following each annual rebalancing, the Portfolio will have the following investment characteristics:

- Growth** – An average 5-year Annual Compound Earnings per Share growth rate greater than the average for the Brand Leaders Investable Universe;
- Value** – An average Price-to-Earnings ratio lower than the average for the Brand Leaders Investable Universe;
- Quality** – An average 5-year Return On Equity growth greater than the average for the Brand Leaders Investable Universe; and
- Yield** – An average Yield greater than the average for the Brand Leaders Investable Universe.

## RISK

The risks associated with investing in the Fund are as described in the prospectus. There were no material changes to the Fund over the year that affected the overall level of risk of the Fund.

# **Brand Leaders Income Fund**

## **RESULTS OF OPERATIONS**

During the period ended December 31, 2012 the Brand Leaders Income Fund returned a positive 12.06%. This compares with a return of 11.92% in Canadian currency for the Standard & Poors 100 Index.

Results for 2012 started very strong with the market volatility increasing during the summer months in anticipation of the outcome of the US presidential election resulted in markets selling off on fears of the so called “fiscal cliff.” However, improvements in underlying US economic fundamentals, car sales, and housing prices, plus ‘green shoots’ in China that appeared to confirm a soft landing, helped improve investor confidence later in the year. With the world watching a protracted political negotiation, US fiscal cliff concerns continued to dominate headlines and impact markets. Late in December markets rallied on a combination of positive industrial activity reports from China and, more importantly, the expectation that US lawmakers would be able to come to some sort of agreement to address the pending tax increases and spending cuts. Macroeconomic events continue to be the driving force behind market performance and we may continue to see political maneuvering in the US as lawmakers wrestle with the inevitable debt ceiling posturing, among other issues, and 11th hour settlements.

The Fund remains invested in the original 15 brand leaders. In the fourth quarter of 2012, call options expiring in each of October, November and December were sold on the Fund’s underlying holdings. The percentage written was approximately 23% on average for the three writes with an average strike price for the calls being 103%. Volatility levels steadily increased from their summer lows and reached their fourth quarter peak at the end of November. Strong equity market performance in December resulted in a dramatic decline in volatility levels into year-end. The average level of volatility for the portfolio holdings at the end of 2012 was approximately 15.1%.

## **CHANGES IN FINANCIAL POSITION**

The net asset value of the Fund increased by 3.2% or \$861,387 during the year, from \$26,874,375 at December 31, 2011 to \$27,735,762 at December 31, 2012. The change in net assets is attributed to investment operations gains of \$3,202,467, which included net investment loss of \$60,407 realized investment and foreign exchange gains of \$1,889,718, and unrealized appreciation of market and foreign exchange depreciation of \$1,373,156, offset by distributions paid and repurchased units of the Fund.

Distributions of \$1,997,173 or \$0.78 per unit (2011 - \$0.33) or \$0.065 per unit per month were declared during the period.

The Fund renewed its normal course issuer bid program for the period from August 23, 2012 to August 22, 2013, which allows the Fund to purchase up to 255,097 trust units of the Fund for cancellation by way of a normal course issuer bid through the facilities of the Toronto Stock Exchange. During the period ended December 31, 2012, 31,100 units were purchased for cancellation for \$343,908.

During the year ended December 31, 2012, 31,100 units were purchased for cancellation for \$343,908 (2011 – 23,600 units).

The Fund entered into foreign currency forward contracts to hedge assets and liabilities denominated in foreign currencies. Foreign currency forward contracts entered into by the Fund represent a firm commitment to buy or sell an underlying currency at a specified value and point in time based upon an agreed or contracted quantity. During the year ended December 31, 2012, the Fund realized a gain on foreign exchange of \$1,461,192 (2011 – Loss of \$2,226,685).

## **RECENT DEVELOPMENTS**

There are no recent developments to report.

## **RELATED PARTY TRANSACTIONS**

There were no related party transactions during the reporting period, except for management fees and other expense reimbursements paid to Harvest, as noted below in Management and Other Fees.

# **Brand Leaders Income Fund**

## **MANAGEMENT AND OTHER FEES**

The Fund pays its manager, Harvest, a management fee calculated based on the net asset value and paid monthly in arrears, based on an annual rate of 0.90% of the net asset value of the Fund. The Manager pays Highstreet, a fee for its portfolio advisory service, from the management fee received from the Fund, calculated on the basis of the Fund's net assets.

At its sole discretion, the Manager may waive management fees or absorb expenses of the Fund. The management expense ratios of the Fund with and without the waivers and absorptions are reported in the Ratios and Supplemental Data table below.

### **Operating expenses**

The Fund is responsible for operating expenses relating to the carrying on of its business, including custodial services, interest, taxes, legal, audit fees, transfer agency services relating to the issue and redemption of units, and the cost of financial and other reports, costs and expenses for the Fund's Independent Review Committee ("IRC"), including fees and expenses of the IRC members and compliance with applicable laws, regulations and policies.

### **Other expenses**

The Manager will be reimbursed by the Fund for all reasonable costs, expenses and liabilities incurred by the Manager for performance of services on behalf of the Fund in connection with the discharge by the Manager of its duties hereunder. Such costs and expenses may include, without limitation: mailing and printing expenses for reports to unitholders and other unitholder communications; a reasonable allocation of salaries, benefits and consulting fees; independent directors of the Manager and other administrative expenses and costs incurred in connection with the Fund's continuous public offering and other obligations. These expenses were \$120,538 for the year ended December 31, 2012 (2011 - \$40,955) and are included in the unitholder reporting costs on the Statements of Operations in the annual financial statements.

## **TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

On December 12, 2011, the Canadian Accounting Standards Board ("AcSB") extended the deferral of the mandatory International Financial Reporting Standards ("IFRS") changeover date for investment entities to fiscal year beginning on or after January 1, 2014.

In October 2012, the IASB issued Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), which provides an exception to consolidation for a class of entities that are defined as 'investment entities'. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss instead of consolidating those subsidiaries. The Fund expects to meet the proposed criteria to qualify as investment entities and would measure all controlled investments at fair value with changes in fair value recognized through profit or loss.

In addition, on May 12, 2011, the International Accounting Standards Board ("IASB") issued IFRS 13 – "Fair Value Measurement", which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. It only applies when other IFRS standards require or permit fair value measurement. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. This may result in eliminating the difference between the net asset value per units and net assets per units under current Canadian GAAP.

The Manager is currently assessing the Fund's Unitholder structure and investments to determine the impact of these standards. The Manager has determined that there will likely be no material impact to the net asset value per units of each series of the Funds due to the changeover to IFRS. The major qualitative impact noted as of December 31, 2012 would be the addition of a statement of cash flows, the classification of puttable instruments, the reporting of future income tax assets or liabilities, where applicable, and additional note disclosures. However, this present determination is subject to change resulting from the issuance of new standards or new interpretations of existing standards.

# Brand Leaders Income Fund

## RECOMMENDATIONS OR REPORTS BY THE INDEPENDENT REVIEW COMMITTEE

The Independent Review Committee tabled no special reports and made no extraordinary material recommendations to management of the Fund during the year ended December 31, 2012.

## FINANCIAL HIGHLIGHTS

The following tables present selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the year ended December 31, 2012 and from July 19, 2011 (commencement of operations) to December 31, 2011. This information is derived from the Fund's annual financial statements.

<b>THE FUND'S NET ASSETS PER UNIT<sup>1</sup></b>	<b>2012</b>		<b>2011</b>	
Net assets - beginning of period <sup>3</sup>	\$	<b>10.42</b>	\$	<b>11.17</b>
<b>Increase /(decrease) from operations</b>				
Total revenue		0.25		0.10
Total expenses		(0.27)		(0.14)
Realized gains/ (losses) for the period		0.74		(0.66)
Unrealized gains for the period		0.53		0.27
<b>Total increase/ (decrease) from operations<sup>2</sup></b>	<b>\$</b>	<b>1.25</b>	<b>\$</b>	<b>(0.43)</b>
<b>Distributions<sup>4</sup></b>				
Return of capital		(0.78)		(0.33)
<b>Total annual distributions<sup>4</sup></b>	<b>\$</b>	<b>(0.78)</b>	<b>\$</b>	<b>(0.33)</b>
<b>Net assets - end of period<sup>2</sup></b>	<b>\$</b>	<b>10.89</b>	<b>\$</b>	<b>10.42</b>

<b>RATIOS AND SUPPLEMENTAL DATA</b>	<b>2012</b>		<b>2011</b>	
<b>Total net asset value<sup>1</sup></b>	<b>\$</b>	<b>27,735,762</b>	<b>\$</b>	<b>26,874,375</b>
Number of units outstanding <sup>1</sup>		2,546,678		2,577,778
Management expense ratio <sup>5</sup>		2.35%		11.06%
Management expense ratio before waivers or absorptions <sup>5</sup>		2.35%		11.06%
Trading expense ratio <sup>6</sup>		0.11%		0.32%
Portfolio turnover rate <sup>7</sup>		16.33%		9.25%
<b>Net asset value per unit<sup>1</sup></b>	<b>\$</b>	<b>10.89</b>	<b>\$</b>	<b>10.43</b>
<b>Closing market price (HBL.UN)</b>	<b>\$</b>	<b>10.79</b>	<b>\$</b>	<b>10.00</b>

### Explanatory Notes:

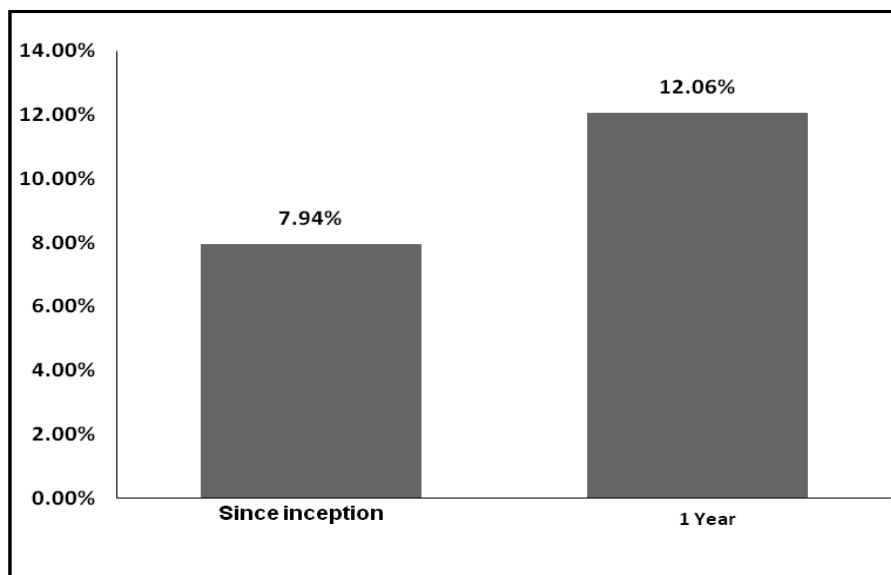
1. The Net Assets per unit presented in the financial statements differs from the Net Asset Value calculated for fund pricing purposes. The difference is primarily a result of investments being valued at bid prices for financial statement purposes and closing prices for fund pricing purposes. An explanation of these differences can be found in the Notes to Financial Statements.
2. Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/ (decrease) from operations is based on the weighted average number of units outstanding over the reporting period. It is not intended that the Fund's net assets per unit table act as a continuity of opening and closing net assets per unit.
3. Net assets, at the beginning of the period was \$11.17, net of agents' commissions and issuance costs of \$0.83 per unit.
4. Distributions were paid in cash.
5. Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) of the stated period and is expressed as an annualized percentage of daily average net asset value during the period. The MER for 2011 (the year of inception) included agents' fees and issue costs of \$2,167,988, which were treated as one-time expenses and therefore were not annualized.
6. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
7. The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a Fund's portfolio turnover rate, the greater the trading costs payable by the Fund and the greater the chance of an investor receiving taxable capital gains. There is not necessarily a relationship between a high turnover rate and the performance of a Fund. These ratios are annualized.

# Brand Leaders Income Fund

## YEAR-BY-YEAR RETURNS

The following charts present the Fund's performance for each of the periods shown and illustrate how the Fund's performance varied. The charts show, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.

### Fund Performance



## ANNUALIZED COMPOUND RETURNS

The following table shows the annual compound returns for the Fund. All returns are in Canadian dollars, on a total return basis, net of fees.

For comparison purposes the S&P 100 Index, in Canadian dollars (the "Index") is used. While the Fund uses this benchmark for long-term performance comparisons, it is not managed relative to the composition of the Index. As a result, the Fund may experience periods when its performance is not aligned with the Index, either positively or negatively. Please see the "Results of Operations" section of this report for a discussion on recent performance.

Investment Return %	1 Year	3 Years	5 Years	10 Years	Since Inception
Fund Performance	12.06	N/A	N/A	N/A	7.94
S&P 100 Index, in Canadian dollars	11.92	N/A	N/A	N/A	9.01



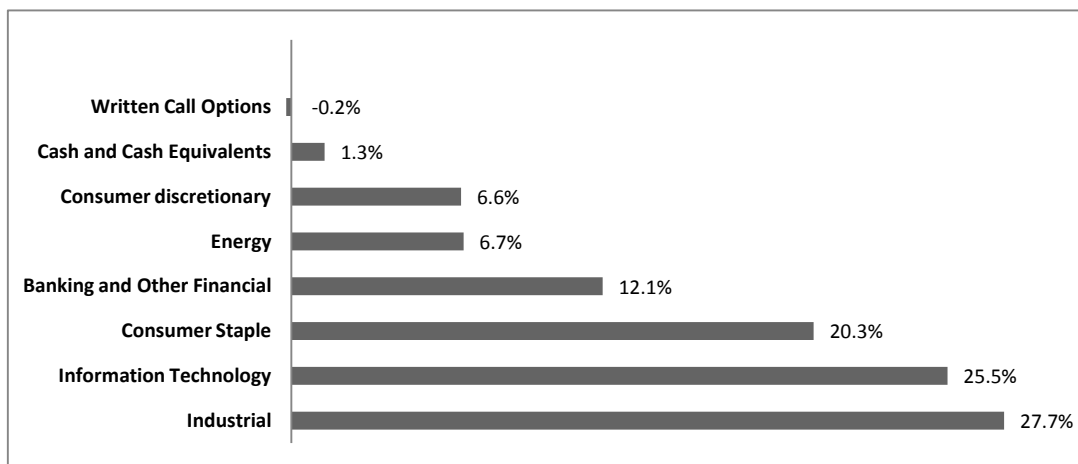
# Brand Leaders Income Fund

## SUMMARY OF INVESTMENT PORTFOLIO

The Portfolio by Sector chart below provides a portfolio breakdown based on the total transactional net asset value of the Fund's portfolio holdings. A detailed breakdown of the Fund's holdings is available in the "Statement of Investments" section of the Fund's annual financial statements.

## SECTOR ALLOCATION

Total Net Asset Value (100.0%)



Top 16 Holdings	% of Net Asset Value
Siemens AG SPONS ADR	7.3
HSBC Holdings PLC SPONS ADR	7.1
Anheuser-Busch Inbev SPN ADR	6.9
Kellogg Company	6.9
United Parcel Service, Inc., Class B	6.8
Caterpillar Inc.	6.8
International Business Machines Corporation	6.8
3M Company	6.8
Royal Dutch Shell PLC ADR, Class A	6.7
The Walt Disney Company	6.6
The Coca-Cola Company	6.5
Intel Corporation	6.5
Microsoft Corporation	6.2
Apple Inc.	5.9
American Express Company	5.1
Cash and cash equivalents	2.4
<b>Total</b>	<b>101.3</b>

This summary of investment portfolio may change due to the ongoing portfolio transactions of the Fund. Quarterly updates of the Fund's investment portfolio are available from Harvest Portfolios Group Inc. at [www.harvestportfolios.com](http://www.harvestportfolios.com)

## HARVEST Brand Leaders Income Fund

### Head Office

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### CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Fund may invest and the risks detailed from time to time in the Fund's simplified prospectus or offering memorandum. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Fund does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.