

**Interim Financial Statements (Unaudited)** 

June 30, 2012

The accompanying unaudited interim financial statements have not been reviewed by the external auditors of the Fund. The external auditors will be auditing the annual financial statements of the Fund as at December 31, 2012, in accordance with Canadian generally accepted auditing standards.



# STATEMENTS OF FINANCIAL POSITION (Unaudited)

As at	June 30, 2012	Decen	nber 31, 2011
Assets			
Investments, at fair value (cost \$24,952,215; 2011 - \$25,884,225)	\$ 28,104,388	\$	26,192,814
Cash and cash equivalents	471,496		588,813
Dividends and interest receivable	38,871		42,648
Unrealized appreciation on foreign currency			
forward contracts (Note 6)	255,110		464,172
	 28,869,865		27,288,447
Liabilities			
Payable for units cancelled	5,290		10,030
Distributions payable	166,561		167,679
Payable for options contracts written (cost \$ 126,960; 2011 - \$176,251)	192,528		242,374
	364,379		420,083
Net assets representing unitholders' equity	\$ 28,505,486	\$	26,868,364
Unitholders' equity (Note 3)			
Unitholders' capital	\$ 28,608,584	\$	28,785,010
Contributed surplus	37,880		35,048
Deficit	 (140,978)		(1,951,700)
Unitholders' equity	\$ 28,505,486	\$	26,868,364
Number of units outstanding (Note 3)	2,561,978		2,577,778
Net assets per unit (Note 10)	\$ 11.13	\$	10.42



# **STATEMENT OF OPERATIONS (Unaudited)**

For the period ended June 30,	2012
Investment income	
Dividends	\$ 375,527
Less: foreign withholding taxes	(50,640)
	324,887
Expenses	
Management fees (Note 4)	144,453
Service fees (Note 4)	64,080
Unitholder reporting costs (Note 4)	61,108
Audit fees	8,286
Transfer agency fees	6,390
Custodian fees and bank charges	31,154
Filing fees	15,516
Legal fees	1,919
Independent review committee fees	4,848
	337,754
Net investment loss	(12,867)
Realized and unrealized gain / (loss) on investments and foreign currencies	
Realized loss on sale of investments	(4,814)
Transaction costs	(15,608)
Net realized gain on foreign exchange	202,404
Change in unrealized depreciation of foreign exchange	(201,242)
Change in unrealized appreciation of investments	2,844,139
Net gain on investments	2,824,879
Increase in net assets from operations	\$ 2,812,012
Increase in net assets from operations per unit	\$ 1.09



# STATEMENT OF CHANGES IN FINANCIAL POSITION (Unaudited)

For the period ended June 30,	2012
Net assets, beginning of the period	\$ 26,868,364
Increase in net assets from operations	2,812,012
Unitholders' transactions Payments on cancellation of units	(173,600)
Net unitholders' transactions	(173,600)
Distributions to unitholders  Net investment income	(1,001,290)
Total distributions to unitholders	(1,001,290)
Net assets, end of the period	\$ 28,505,486
Deficit, beginning of the period	\$ (1,951,700)
Increase in net assets from operations Distributions to unitholders	2,812,012 (1,001,290)
Deficit, end of the period	\$ (140,978)
Contributed surplus, beginning of the period	\$ 35,048
Cost of shares repurchased at less than par value	2,832
Contributed surplus, end of the period	\$ 37,880



# **STATEMENT OF INVESTMENTS (Unaudited)**

Number of Shares	Security	Average Cost (\$)	Fair Value (\$)	% of Net
oi Shares	EQUITIES	(3)	(3)	Assets
	Banking and Other Financial Issuers			_
32,600	American Express Company	1,587,178	1,934,223	6.
38,900	HSBC Holdings PLC SPONS ADR	1,769,832	1,749,649	6.
		3,357,010	3,683,872	12.
	Consumer Discretionary Issuers			
45,300	The Walt Disney Company	1,694,811	2,239,321	7
		1,694,811	2,239,321	7.
	Consumer Staples Issuers			
27,000	Anheuser-Busch InBev SPN ADR	1,444,700	2,189,626	7
34,100	Kellogg Company	1,789,904	1,714,523	6
25,700	The Coca-Cola Company	1,693,870	2,048,305	7
25,700	The Cook Company	4,928,474	5,952,454	20
	Energy Issuers			
25,200	Royal Dutch Shell PLC ADR, Class A	1,737,947	1,733,057	6
20,200	10,412,401,214,1201,014,014,014	1,737,947	1,733,057	6
	T. 1. 4.1. T			
19,300	Industrials Issuers	1 711 555	1 760 501	6
,	3M Company	1,714,555	1,762,521	
18,000	Caterpillar Inc. Siemens AG SPONS ADR	1,858,228	1,557,923	5
16,900 24,300	United Parcel Services, Inc. Class B	1,951,421 1,690,368	1,447,384 1,950,845	5
24,300	United Parcel Services, Inc. Class B	7,214,572	6,718,673	23
		.,	-, -, -, -, -, -, -, -, -, -, -, -, -, -	
	Information Technology Issuers			
3,800	Apple Inc.	1,357,942	2,262,325	7
63,900	Intel Corporation	1,388,760	1,735,406	6
9,000	International Business Machines Corporation	1,560,294	1,793,447	6
63,700	Microsoft Corporation	1,712,405	1,985,833	7
		6,019,401	7,777,011	27
	Total equities	24,952,215	28,104,388	98



# STATEMENT OF INVESTMENTS, (Unaudited)(continued)

	OPTIONS Banking and Other Financial Issuers			
(7,800)	American Express Company - Jul 2012 @ USD \$55	(13,674)	(27,831)	(0.1)
(9,300)	HSBC Holdings PLC SPONS ADR - Jul 2012 @ USD \$43	(11,631)	(16,402)	(0.1) $(0.1)$
(9,300)	TISDE Holdings I Le Si ONS ADR - Jul 2012 (a) OSD \$45	(25,305)	(44,233)	(0.1)
		(23,003)	(11,200)	(0.2)
	Consumer Discretionary Issuers			
(9,700)	The Walt Disney Company - Jul 2012 @ USD \$48	(7,458)	(11,076)	-
(1,100)	The Walt Disney Company - Jul 2012 @ USD \$49	(473)	(639)	-
		(7,931)	(11,715)	-
	Consumer Staples Issuers			
(6,400)	Anheuser-Busch InBev SPN NV - July 2012 @ USD \$73	(8,591)	(48,281)	(0.2)
(6,100)	The Coca-Cola Company - July 2012 @ USD \$78	(3,439)	(9,017)	-
(8,100)	Kellogg Company - July 2012 @ USD \$50	(2,491)	(2,064)	-
		(14,521)	(59,362)	(0.2)
	Energy Issuers			
(6,000)	Royal Dutch Shell PLC ADR, Class A - July 2012 @ USD \$65	(11,113)	(18,962)	(0.1)
	Ψ03	(11,113)	(18,962)	(0.1)
		( ) - /	( - ) )	(2.7)
	Industrials Issuers			
(700)	3M Company - July 2012 @ USD \$90	(589)	(735)	-
(3,900)	3M Company - July 2012 @ USD \$88	(7,436)	(10,655)	(0.1)
(2,400)	Caterpillar Inc July 2012 @ USD \$88	(7,504)	(2,324)	-
(1,900)	Caterpillar Inc July 2012 @ USD \$90	(3,896)	(717)	-
(4,000)	Siemens AG SPONS ADR - July 2012 @ USD \$85	(6,971)	(6,525)	-
(5,800)	United Parcel Services, Inc. Class B - July 2012 @ USD \$80	(2,616)	(2,483)	=
		(29,012)	(23,439)	(0.1)
	Information Technology Issuers			
(900)	Apple Inc July 2012 @ USD \$590	(11,025)	(8,716)	_
(15,300)	Intel Corporation - July 2012 @ USD \$27	(12,391)	(7,175)	_
(2,100)	International Business Machines Corporation - July 2012 @ USD \$200	(6,179)	(3,682)	-
(2,300)	Microsoft Corporation - July 2012 @ USD \$31	(755)	(1,172)	=
(12,900)	Microsoft Corporation - July 2012 @ USD \$30	(8,728)	(14,072)	(0.1)
		(39,078)	(34,817)	(0.1)
	Total options	(126,960)	(192,528)	(0.7)
	Total investments	24,825,255	27,911,860	97.9
	Foreign currency forward contracts (Note 6)		255,110	0.9
	Other assets less liabilities		338,516	1.2
			,	
	Net Assets		28,505,486	100.0



#### NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

June 30, 2012

#### 1. ORGANIZATION

Brand Leaders Income Fund (the "Fund") is an investment fund established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated June 29, 2011, being the inception date. There was no significant activity in the Fund from the date of Inception, June 29, 2011 to commencement of operations on July 19, 2011.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of presentation**

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions. Such estimates and assumptions affect reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

#### Valuation of investments

The fair value of investments as at the financial reporting date is as follows:

- a) Investments are categorized as held for trading in accordance with CICA Handbook Section 3855 Financial Instruments Recognition and Measurement. Investments held that are traded on an active market are valued at their bid prices through recognized public stock exchanges or through recognized investment dealers on the valuation date. Investments held include equities, listed warrants, short-term notes, treasury bills, bonds and other debt instruments. Investments held with no available bid prices are valued at their closing sale price.
- b) Investments held that are not traded on an active market are valued using valuation techniques, on such basis and in such a manner established by the Manager. The value of any security for which, in the opinion of the Manager, the published market quotations are not readily available shall be the fair value as determined by the Manager in accordance with CICA Handbook Section 3855 methodologies. The fair values of certain securities are determined using valuation models that are based, in part, on assumptions that are not supported by observable market inputs. These methods and procedures may include, but are not limited to, performing comparisons with prices of comparable or similar securities, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indication of value. These values are independently assessed internally to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may be materially different from the values that would be used had a ready market for the security existed. The fair values of such securities are affected by the perceived credit risks of the issuer, predictability of cash flows and length of time to maturity. At June 30, 2012, there were no securities that required pricing using assumptions.

National Instrument 81-106 – "Investment Fund Continuous Disclosure" ("NI 81-106") requires all investment funds to calculate net asset value for all purposes other than for financial statements in accordance with part 14.2, which differs in some respects from the requirements of Section 3855 of Canadian GAAP. Canadian GAAP includes the requirement that the fair value of financial instruments listed on a recognized public stock exchange be valued at their last bid price for securities held in a long position and at their last ask price for securities held in a short position, instead of their close price or the last sale price of the security for the day as required by NI 81-106. This results in differences between net asset value ("NAV") calculated based on NI 81-106 and on net assets calculated

based on Canadian GAAP ("Net assets"). A reconciliation between NAV per unit and Net assets per unit at the period end is provided in Note 10.

#### Cash and cash equivalents

Cash is comprised of cash on deposit. Cash equivalents are comprised of highly liquid investments having terms to maturity of 90 days or less.



#### NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

June 30, 2012

#### Other assets and liabilities

For the purposes of categorization in accordance with CICA Handbook Section 3862, accrued interest and dividends, prepaid interest, receivable for securities issued, amounts due from brokers, the Manager, and other Funds, and other assets are designated as loans and receivables and recorded at cost or amortized cost. Similarly, amounts due to brokers, accrued expenses and other liabilities are designated as other financial liabilities and reported at cost or amortized cost, which approximates fair value for these assets and liabilities

#### **Transaction costs**

Transaction costs, such as brokerage commissions, incurred on the purchase and sale of securities by the Fund are expensed in accordance with Section 3855 and are recognized in the Statement of Operations in the period in which they are incurred.

### Investment transactions and income recognition

Investment transactions are accounted for on the trade date. The cost of investments represent the amount paid for each security and is determined on an average cost basis excluding transaction costs. Realized gains/ (losses) from the sale of investments and unrealized appreciation/ (depreciation) of investments are calculated on an average cost basis.

Investment income is recorded on an accrual basis. Interest income is recorded on an accrual basis and dividend income is recorded on the ex-dividend date.

Distributions received from income trusts are recorded as income, capital gains or a return of capital, based on the best information available to the Manager. Due to the nature of these investments, actual allocations could vary from this information. Distributions from investment trusts treated as a return of capital reduce the average cost of the underlying investment trust. Distributions received from mutual funds are recognized in the same form in which they are received from the underlying funds.

#### Foreign currency translation

Purchases and sales of investments denominated in foreign currencies and foreign currency dividend and interest income are translated into Canadian dollars at the rate of exchange prevailing at the time of the transactions. Realized and unrealized foreign currency gains or (losses) on investments are included in the Statement of Operations in "Realized gain (loss) on sale of investments" and "Unrealized appreciation (depreciation) of investments", respectively. Realized and unrealized foreign currency gains or losses on assets, liabilities, and income, other than investments denominated in foreign currencies, are included in the Statement of Operations in "Net realized foreign exchange gain/ (loss)" and "Unrealized foreign exchange gain (loss)".

Assets and liabilities in the Statement of Financial Position are translated into Canadian dollars on the statement date.

#### **Securities valuation**

The NAV on a particular date will be equal to the aggregate value of the assets of the Fund less the aggregate value of the liabilities of the Fund, expressed in Canadian dollars at the applicable exchange rate on such date. The NAV and NAV per Trust Unit will be calculated on each Thursday during the year (or, if a Thursday is not a Business Day, the Business Day following such Thursday) and on the last Business Day of each month, and any other time as may be determined by the Manager from time to time. "Business Day" means any day on which the TSX is open for trading.

#### Increase / (decrease) in net assets from operations per unit

"Increase / (decrease) in net assets from operations per unit" in the Statement of Operations represents the increase / (decrease) in net assets from operations, divided by the weighted average units outstanding for the financial period.



#### NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

June 30, 2012

#### Fair value of financial instruments

There was no significant change in the composition of the Fund's financial instruments levels as at June 30, 2012 compared to the classification as at December 31, 2011. Please refer to the December 31, 2011 audited annual financial statements disclosure of the Fund's financial assets and liabilities into the fair value levels classification

There were no Level 3 securities held by the Fund as at June 30, 2012 and December 31, 2011, and there were no transfers between Level 1 and Level 2 for the periods ended June 30, 2012 and December 31, 2011.

### Transition to International Financial Reporting Standards ("IFRS")

As previously confirmed by the Canadian Accounting Standards Board ("AcSB"), most Canadian publicly accountable entities adopted all IFRS, as published by the International Accounting Standards Board ("IASB"), on January 1, 2011. However, the AcSB had initially allowed most investment funds to defer adoption of IFRS until fiscal years beginning on or after January 1, 2013. At its December 12, 2011 meeting, the AcSB decided to extend the deferral of mandatory adoption of IFRS for Investment Companies and Segregated Accounts of Life Insurance Enterprises to 2014. Accordingly, the Fund will adopt IFRS for the fiscal period beginning January 1, 2014 and will issue its initial financial statements in accordance with IFRS, including comparative financial information, for the interim period ending June 30, 2014. Management has been monitoring developments in the IFRS conversion program and has been assessing the likely impacts on implementation decisions, internal controls, information systems and training.

In May 2011, the 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 IFRSs 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 elimination of the differences between the net assets per series unit and NAV per series unit at the financial statements reporting dates.

Based on management's current assessment of the differences between Canadian GAAP and IFRS, other than the impact due to IFRS 13 noted above, it is not expected that there would be any other impact on the Fund's NAV per unit or net assets per unit. Management has presently determined that the impact of IFRS to the financial statements would be otherwise limited to additional note disclosures and potential modifications to presentation including unitholders' equity. However, this determination is subject to change as we finalize our assessment of potential IFRS differences and as new standards are issued by the IASB prior to the Fund's adoption of IFRS.

# 3. UNITHOLDERS' EQUITY

The authorized capital of the Fund consists of an unlimited number of transferable, units of one class, each of which represents an equal, undivided interest in the net assets of the Fund. Except as provided in the Declaration of Trust, all units have equal rights and privileges. Each unit is entitled to one vote at all meetings of unitholders and is entitled to participate equally in any and all distributions made by the Fund.

The Fund entered into a normal course issuer bid programme for the period from August 15, 2011 to August 14, 2012, which allows the Fund to purchase up to 259,747 listed units of the Fund for cancellation by way of a normal course issuer bid through the facilities of the TSX. During the period ended June 30, 2012, 15,800 units were purchased for cancellation.

#### **Contributed surplus**

Contributed surplus is recorded when units of the Fund are redeemed or repurchased at prices per unit which are below the average cost per unit of unitholders' capital.



### NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

#### June 30, 2012

#### Redemptions

Units may be surrendered prior to 5:00 p.m. (Toronto time) on the 10<sup>th</sup> business day before the last business day of the applicable month by the holders thereof for monthly redemption. Upon receipt by the Fund of the redemption notice, in the manner described below, the holder of a unit shall be entitled to receive a price per unit equal to the lesser of:

- (a) 95% of the "market price" of the units on the principal market on which the units are quoted for trading during the 20 trading day period ending immediately before the monthly redemption date; and
- (b) 100% of the "closing market price" on the principal market on which the units are quoted for trading on the monthly redemption date.

In accordance with the Fund prospectus, in addition to the monthly redemption rights, on an annual basis, commencing in 2013, units may be surrendered for redemption at the Fund's NAV per unit, subject to the required redemption notice period, for the second last business day of January and the unitholder will receive payment on or before the 15<sup>th</sup> business day of the following month.

The following units were redeemed and/or cancelled during the period:

	Units outstanding
Initial issuance – July 19, 2011, including over-allotment on August 3, 2011	2,601,378
Units cancelled	(23,600)
Total outstanding as at December 31, 2011	2,577,778
Units cancelled	(15,800)
Total outstanding as at June 30, 2012	2,561,978

#### **Issue costs**

Certain offering expenses such as costs of creating the Fund, the cost of printing and preparing the prospectus, legal expenses of the Fund and other out-of pocket expenses incurred by the agents together with the agents' fees payable by the Fund are reflected as a reduction of unitholders' equity. The expenses paid are shown in the Statement of Changes in Financial Position.

#### **Distributions**

The Fund intends to make monthly cash distributions to unitholders of record on the last business day of each month and pay such cash distributions on or before the 15<sup>th</sup> day of the following month. Beginning in November 2011, the Fund will annually determine and annuance the indicative distribution amount for the following year based upon the prevailing market conditions. The indicative distribution amount was \$1,001,290 or \$0.065 per unit per month (\$0.39 in total) for the period ended June 30, 2012 (2011 - \$841,814 or \$0.325).

#### 4. EXPENSES

### Management and service fees

HARVEST Portfolios Group Inc. is the Manager of the Fund and is responsible for managing or arranging for managing the Fund's overall business and operations. The Manager has retained Highstreet Asset Management Inc. ("Highstreet" or the "Investment Manager") to provide investment management services to the Fund and 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.

The Manager is entitled to a fee of 0.90 per cent of the NAV plus HST per annum of the Fund. The Fund pays service fees to registered dealers at the rate on 0.40 per cent of the NAV plus HST per annum of the Fund. Service fees are accrued daily and paid monthly to the Manager, who in turn pays the dealers.



#### NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

June 30, 2012

#### Other expenses

The Fund is responsible for all expenses relating to the operation and the carrying on of its business, including legal fees and audit fees, interest, taxes and administrative costs as well as 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.

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; and other administrative expenses and costs incurred in connection with the Fund's continuous public filing and other obligations. These expenses were \$47,610 for the period ended June 30, 2012 and are included in the unitholder reporting costs on the Statement of Operations.

#### 5. OPTIONS

A written covered call options strategy may be used by the Fund, but only to the extent considered appropriate by the Manager. Option premiums received by the Fund are, so long as the options are outstanding, reflected in the Statement of Investments. Exchange traded options are valued at current fair value on each valuation day, based on the value that would be realized if the option was closed out in the valuation date.

Realized gains and losses relating to written options may arise from:

- i) Expiration of the written options realized gains will arise equal to the premium received;
- ii) Exercise of the written options realized gains or losses will arise equal to the sum of the premium received and the realized gain or loss from the disposition of the related portfolio investment at the exercise price of the option; or
- iii) Closing of the written options realized gains or losses will arise equal to the cost of purchasing options to close the position net of any premium received.

Realized gains and losses related to options are included in "realized gain (loss) on sale of investments" in the Statement of Operations.

### 6. FOREIGN CURRENCY FORWARD CONTRACTS

The Fund enters 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 a currency at a specified value and point in time based upon an agreed or contracted quantity. The value of the foreign currency forward contract is the gain or loss that would be realized if, on the valuation date, the position in the forward contract was closed out in accordance with its terms. The unrealized gains or losses on the forward contract are reported as part of the change in unrealized appreciation or depreciation of forward foreign currency contracts in the statement of operations until it is closed out or partially settled.

At June 30, 2012, the Fund had entered into the following foreign currency forward contract:

Counterparty	Settlement Date	Purchased currency	Sold currency	Unrealized gain
Royal Bank of Canada credit rating AA-	July 3, 2012	CAD \$27,788,670	US \$27,000,000	\$255,110



### NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

June 30, 2012

#### 7. FINANCIAL RISK MANAGEMENT

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 invests 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.

To generate additional returns, the Investment Manager sells "at-the-money" covered call options each month on the 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 Portfolio.

#### **Investment 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.

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, the Investment Manager will sell "at-the-money" call options each month on equity securities held in the Portfolio, and will not sell call options on more than 25% of the equity securities of each Brand Leader held in the Fund.

The Investment Manager selected the Fund's initial equity securities for the Portfolio 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.



#### NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

June 30, 2012

#### Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The value of securities in the Fund's portfolio may be affected by the stock market conditions rather than each company's performance. Developments in the market are affected by general economic and financial conditions. Political, social and environmental factors can also affect the value of any investment.

As at June 30, 2012, 98.6% (December 31, 2011, 97.50%) of the Fund's portfolio investments were traded on public stock exchanges. If equity prices on these exchanges had increased or decreased by 5%, as at period end, with all other factors remaining constant, net assets would have increased or decreased by approximately \$1,405,219 (December 31, 2011 – 1,309,641).

In practice, the actual trading results may differ and the difference could be material.

#### **Currency risk**

Currency risk is the risk that the value of investments denominated in currencies other than the financial currency of the Fund will fluctuate as a result of changes in foreign exchange rates. When the Fund buys an investment priced in a foreign currency and the exchange rate between the Canadian dollar and the foreign currency changes unfavorably, it could reduce the value of the Fund's investment.

Currency	Currency exposure *		As a % of	net assets
	June 30, 2012	<b>December 31, 2011</b>	June 30, 2012	<b>December 31, 2011</b>
U.S. Dollars	\$796,962	\$467,631	2.8%	1.7%

<sup>\*</sup>In Canadian dollars

As at June 30, 2012, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies, with all other variables held constant, the Fund's net assets would have increased or decreased, respectively, by approximately \$39,848 (2011- \$23,382) or 0.1% (2011 - 0.1%) of total net assets. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

As all of the securities in the portfolio investments will be denominated in U.S. dollars and expected dividends and premiums from call options received will be in U.S. dollars, the Fund has entered into a forward currency contract on substantially all of the value of the portfolio investments back to the Canadian dollar at all times.

#### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair value of financial instruments. Interest rate risk arises when the Fund invests in interest-bearing financial instruments. The Fund does not hold any bonds or money market instruments; therefore, the Fund's exposure to interest rate risk is insignificant.



#### NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

### June 30, 2012

# Liquidity risk

Liquidity risk is defined as the risk that a fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund primarily invests in securities that are actively traded in public markets and can be readily disposed of to raise liquidity.

The table below analyzes the Fund's financial liabilities into groupings based on the remaining period at the period end date to contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

As of June 30, 2012	Less than 1 month	1-3 months	No stated maturity
Payable for units cancelled	\$ 5,290	-	-
Distributions payable	\$166,561	-	-
Payable for options contract written	\$192,528	-	-
Total financial liabilities	\$364,379	-	-

As of December 31, 2011	Less than 1 month	1-3 months	No stated maturity
Payable for units cancelled	\$ 10,030	-	-
Distributions payable	\$167,679	-	-
Payable for options contract written	\$242,374	-	-
Total financial liabilities	\$420,083	-	-

#### Credit risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with a fund. The Fund has exposure to credit risk in its trading of listed securities, as it does not invest in fixed income securities. The Fund minimizes the concentration of credit risk by trading with a large number of brokers and counterparties on recognized and reputable exchanges. The risk of default is considered minimal as all transactions are settled and paid for upon delivery using approved brokers.

### 8. SOFT DOLLAR COMMISSIONS

Brokerage commissions paid to certain brokers may, in addition to paying for the cost of brokerage services in respect of security transactions, also provide for the cost of investment research services provided to the investment manager.

The value of such research services included in commissions paid to brokers for the periods ended June 30, 2012 and December 31, 2011 amounted to \$NIL.



#### NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

June 30, 2012

#### 9. INCOME TAXES

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada). The Fund is subject to tax on their income including net realized capital gains which are not paid or payable to unitholders. It is the intention of the Fund to distribute all of its net income and sufficient net realized capital gains so the Fund will not be subject to income taxes.

The amount of net realized taxable capital gains available for distribution is reduced by the amount of net capital gains to be retained in the Fund. This is done in order to enable the Fund to fully utilize any available tax credits due to application of the capital gain refund formula attributable to redemptions during the year. In certain circumstances, the fund may distribute a return of capital. A return of capital is taxable but will generally reduce the adjusted cost of the units.

Capital losses may be carried forward indefinitely to reduce future realized capital gains. Non-capital losses may be applied against future taxable income.

As at June 30, 2012, the Fund did not have any tax losses.

#### Harmonized sales tax

As the manager is a resident of Ontario, the expenses paid by the Fund include HST of 13%. HST is calculated using the residency of unitholders in the Fund as at specific times, rather than the physical location of the manager. A blended rate refund is filed with Revenue Canada on behalf of the Fund, in arrears, using each province's HST rate or GST rate in the case of non-participating provinces. Any refund received is applied against future HST payable.

#### 10. NET ASSET VALUE AND NET ASSETS

CICA Handbook Section 3855 requires that the fair value of financial instruments which are actively traded be measured based on the bid price for long positions held and the asking price for short positions held.

The NAV per unit for purposes of unitholder transactions (i.e. purchases, switches, redemptions) and net assets per unit calculated in accordance with CICA Handbook Section 3855 are shown below:

Per Unit (\$):	NAV	Net assets
June 30, 2012	\$11.14	\$11.13
December 31, 2011	\$10.43	\$10.42

