

A large, light gray, stylized letter 'H' is centered on the page, serving as a watermark. It has a decorative, calligraphic style with curved lines and a drop shadow effect.

**Brand Leaders Income Fund**  
**Interim Management Report of Fund Performance**  
**June 30, 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

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

The management report of fund performance contains financial highlights for the Fund. For your reference, the unaudited interim financial statements of the Fund are attached to the interim 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 period that affected the overall level of risk of the Fund.

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## RESULTS OF OPERATIONS

During the period ended June 30, 2012, the Brand Leaders Income Fund outperformed the index, returning, 10.43%, versus 8.77% for the Standard & Poor's 100 index.

For the second quarter of 2012, monthly call options expired in April, May and June. These call options were written on approximately 24% of the underlying shares held in the portfolio. The average strike price was 102.5% over the period. The performance of the fifteen underlying stocks was mixed, with eight of the names delivering a negative return, and seven delivering a positive return. The best performing name was Anheuser-Busch with a return of 13.74%. The overall level of volatility for the Fund was 19.7% over the period and remains sufficient to generate the income objectives of the Fund. The Fund remains invested in the original fifteen brand leaders.

## CHANGES IN FINANCIAL POSITION

The net assets of the Fund increased by 6.1% or \$1,637,122 during the period, from \$26,868,364 at December 31, 2011 to \$28,505,486 at June 30, 2012. The change in net assets is attributed to investment operations gains of \$2,812,012, which included realized investment loss and foreign exchange gains of \$181,982, and unrealized appreciation of market and foreign exchange depreciation of \$2,642,897.

During the period, the Fund paid \$1,001,290 in distributions or \$0.39 per unit or \$0.065 per unit per month.

The Fund commenced a normal course issuer bid program for the period from August 15, 2011 to August 14, 2012, which allows the Fund to purchase up to 259,747 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 June 30, 2012, 15,800 units were purchased for cancellation for \$173,600.

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 period ended June 30, 2012, the Fund realized a gain on foreign exchange of \$202,404.

## 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.

## 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.

### 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.

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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; costs and; 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 in the Statement of Operations in the unaudited interim financial statements.

### **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.

### **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 period ended June 30, 2012.

# Brand Leaders Income Fund

## 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 periods ended June 30, 2012 and from July 19, 2011 (commencement of operations) to December 31, 2011. This information is derived from the Fund's unaudited interim and 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>	\$ 10.42	\$ 11.17
<b>Increase/(decrease) from operations</b>		
Total revenue	0.12	0.10
Total expenses	(0.14)	(0.14)
Realized gains (losses) for the period	0.08	(0.66)
Unrealized gains for the period	1.03	0.28
<b>Total increase from operations<sup>2</sup></b>	<b>1.09</b>	<b>(0.42)</b>
<b>Distributions<sup>4</sup></b>		
From income (excluding dividends)	(0.39)	-
From dividends	-	-
From capital gains	-	-
Return of capital	-	(0.33)
<b>Total annual distributions<sup>4</sup></b>	<b>(0.39)</b>	<b>(0.33)</b>
<b>Net assets - end of period<sup>2</sup></b>	<b>\$ 11.13</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>\$28,528,821</b>	<b>\$ 26,874,375</b>
Number of units outstanding <sup>1</sup>	2,561,978	2,577,778
Management expense ratio <sup>5</sup>	2.37%	11.06%
Management expense ratio before waivers or absorptions <sup>5</sup>	2.37%	11.06%
Trading expense ratio <sup>6</sup>	0.05%	0.32%
Portfolio turnover rate <sup>7</sup>	4.84%	9.25%
<b>Net asset value per unit<sup>1</sup></b>	<b>\$ 11.14</b>	<b>\$ 10.43</b>
<b>Closing market price (HBL.UN)</b>	<b>\$ 10.80</b>	<b>\$ 10.00</b>

### Explanatory Notes:

- 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.
- 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.
- Net assets, at the beginning of the period was \$11.17, net of agents' commissions and issuance costs of \$0.83 per unit.
- Distributions were paid in cash.
- 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.
- 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.
- 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

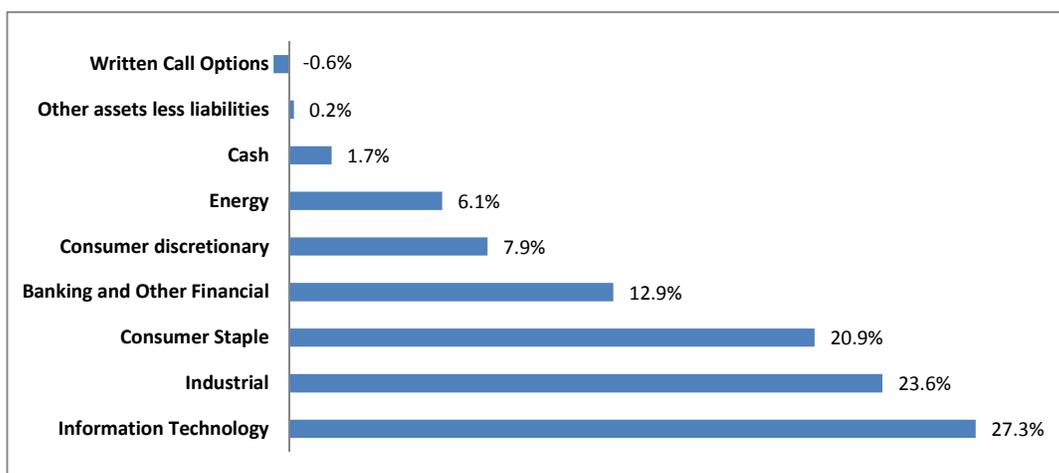
National Instrument 81-106, the regulatory guideline for Continuous Disclosure, does not permit reporting of performance for any investment fund that has been in existence less than one year.

## 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 unaudited interim financial statements.

## SECTOR ALLOCATION

As at June 30, 2012



Top 25 Holdings (%)	% of Net Asset Value
Apple Inc.	7.9
The Walt Disney Company	7.9
Anheuser-Busch InBev SPN ADR	7.7
The Coca-Cola Company	7.2
Microsoft Corporation	7.0
United Parcel Services, Inc., Class B	6.8
American Express Company	6.8
International Business Machines Corporation	6.3
3M Co.	6.2
HSBC Holdings PLC SPONS ADR	6.1
Intel Corporation	6.1
Royal Dutch Shell PLC ADR Class A	6.1
Kellogg Company	6.0
Caterpillar Inc.	5.5
Siemens AG SPONS ADR	5.1
Cash	1.7
<b>Total</b>	<b>100.4</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)