

A large, light grey, stylized 'H' watermark is centered on the page, serving as a background for the title text.

**Brand Leaders Income Fund**  
**Annual Management Report of Fund Performance**

**December 31, 2013**

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 in 2009 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”) invests 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 2014

Dear Valued Unitholder,

As 2013 appears in the rear-view mirror, it will be remembered as the year US Equities rebounded on the back of positive economic sentiment both in the US and abroad. It will also be remembered as the year the Euro zone emerged from recession driving additional positive sentiment into previously beaten down stock markets. Here at home, our heavily resource weighted markets turned out positive numbers but at lower levels than our US and European counterparts. All in though, a good year for developed Western markets producing returns beyond expectations at the outset of the year.

Leading into the fourth quarter economic data continued to strengthen led by strong US manufacturing and housing data coupled with strengthening employment statistics. In addition the US Federal Reserve announced that it would begin to taper bond-buying stimulus starting in January 2014 which was also positively viewed by market as a signal of confidence in the economy. Though some may argue that a strengthening economy may lead to higher interest rates we don't believe that over the balance of 2014, rates will climb much higher than they are today. We also believe that the markets have become more comfortable with a potential 3% 10 year US Treasury Yield.

When constructing Harvest products we want to ensure that the underlying securities can meet the tests of all economic conditions. Being invested in market traded securities will lead to volatility which is a reality we can endeavor to dampen but can't completely control. What we can control are the investments we make and the quality of the companies we buy. All of our Funds are built on the basic investment principals of i) simple and understandable mandates, ii) transparency and iii) income generation.

As we look towards 2014 and into the future we want to assure our investors that Harvest Portfolios will remain committed to quality products that generate consistent income over the long term.

We appreciate your investment and support of Harvest Funds.

Sincerely,

(Signed) "Michael Kovacs"

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 but does not contain the complete annual financial statements of the Fund. For your reference, the annual financial statements of the Fund are attached to the 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

The Fund returned 22.09% the year ending December 31, 2013 compared to the Benchmark Index, the S&P 100 Total Return Index in Canadian dollars return of 38.65%. A primary difference between the performance of the Fund and the Benchmark is due to the currency translation of the Index return into Canadian dollars which had a positive impact on the Benchmark return. As the Fund is required to substantially hedge the value of the Portfolio back to the Canadian dollar at all times, the Fund did not benefit from the currency translation. In addition, covered call strategies tend to drag on relative performance in strong markets.

Evidence of an improving economic backdrop through the year had a positive impact in the US markets during 2013. Economic data including improving employment numbers, low inflation, higher corporate earnings, and increasing house prices continued to gain momentum through the end of the year. Despite the announcement in December that the US Federal Reserve would begin tapering their current quantitative easing program, the language used in the various reports appeared generally accommodative. While the “tapering” announcement was earlier than many had expected, the resulting rally into year-end was a clear sign that the markets viewed the announcement as a signal of strong confidence in the economy. In other key markets, the Eurozone emerged out of its recession in the second half of the year and there are signs that the region is poised for further economic growth.

The Fund sold call options on underlying holdings held in the Portfolio during the year in order to meet its investment and income objectives. The Fund remained invested in the original 15 Brand Leaders.

## RECENT DEVELOPMENTS

The Fund renewed its normal course issuer bid program for the period from August 23, 2013 to August 22, 2014, which allows the Fund to purchase up to 239,804 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 year ended December, 2013, 5,900 units were purchased for cancellation for \$66,120 (2012 – 31,100 units for \$343,908).

## 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%, plus applicable taxes, 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 asset value. The Fund also pays service fees to registered dealers at the rate on 0.40 % of the NAV, plus applicable taxes, per annum of the Fund. Service fees are accrued daily and paid monthly to the Manager, who in turn pays the dealers.

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.

## Brand Leaders Income Fund

### 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 \$187,977 for the year ended December 31, 2013 (2012 - \$120,538) 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")

Investment entities in Canada that are publicly accountable enterprises are required to adopt IFRS for annual periods beginning on or after January 1, 2014. As a result, calendar year reporters need to prepare their comparative financial information on an IFRS basis as of January 1, 2013, the date of transition to IFRS.

The Fund will have to prepare annual financial statements for the first time as of December 31, 2014 with comparatives in accordance with IFRS and semi-annual financial statements for the first time as of June 30, 2014 with comparatives in accordance with IFRS.

The Manager has developed a plan to convert the Fund's financial statements to IFRS by establishing a cross-functional IFRS team represented by management and the Fund's service providers (accounting and transfer agent). The Fund does not anticipate any impact on its business arrangements.

As at December 31, 2013, the Manager believes that the major areas of difference between the Fund's current accounting policies and those expected to apply under IFRS have been identified, including the:

- requirement to include a statement of cash flows,
- classification of redeemable instruments issued by the Fund,
- elimination of the differences between net asset value per unit and net asset per unit, and
- classification and measurement of the Fund's investments.

The table below summarizes the 2013 quantitative impact of the changeover from Canadian GAAP to IFRS.

Per Unit:	NAV	Net assets
As at December 31, 2013	\$12.43	\$12.42
As at January 1, 2013	\$10.89	\$10.89

### 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, 2013.

# 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 past periods. This information is derived from the Fund's annual financial statements at December 31, 2013 and past audited annual financial statements.

<b>THE FUND'S NET ASSETS PER UNIT<sup>1</sup></b>						
	<b>2013</b>		<b>2012</b>		<b>2011</b>	
<b>Net assets - beginning of the year<sup>3</sup></b>	\$	<b>10.89</b>	\$	<b>10.42</b>	\$	<b>11.17</b>
<b>Increase (decrease) from operations</b>						
Total revenue		0.30		0.25		0.10
Total expenses		(0.31)		(0.27)		(0.14)
Realized gains (losses) for the year		0.01		0.74		(0.66)
Unrealized gains (losses) for the year		2.33		0.53		0.27
<b>Total increase (decrease) from operations<sup>2</sup></b>	\$	<b>2.33</b>	\$	<b>1.25</b>	\$	<b>(0.43)</b>
<b>Distributions<sup>4</sup></b>						
Return of capital		(0.78)		(0.78)		(0.33)
<b>Total annual distributions<sup>4</sup></b>	\$	<b>(0.78)</b>	\$	<b>(0.78)</b>	\$	<b>(0.33)</b>
<b>Net assets - end of the year<sup>2</sup></b>	\$	<b>12.42</b>	\$	<b>10.89</b>	\$	<b>10.42</b>

<b>RATIOS AND SUPPLEMENTAL DATA</b>						
	<b>2013</b>		<b>2012</b>		<b>2011</b>	
<b>Total net asset value<sup>1</sup></b>	\$	<b>29,781,036</b>	\$	<b>27,735,762</b>	\$	<b>26,874,375</b>
Number of units outstanding <sup>1</sup>		2,396,448		2,546,678		2,577,778
Management expense ratio <sup>5</sup>		2.65%		2.35%		11.06%
Management expense ratio before waivers or absorptions <sup>5</sup>		2.65%		2.35%		11.06%
Trading expense ratio <sup>6</sup>		0.09%		0.11%		0.32%
Portfolio turnover rate <sup>7</sup>		14.35%		16.33%		9.25%
<b>Net asset value per unit<sup>1</sup></b>	\$	<b>12.43</b>	\$	<b>10.89</b>	\$	<b>10.43</b>
<b>Closing market price (HBL.UN)</b>	\$	<b>12.20</b>	\$	<b>10.79</b>	\$	<b>10.00</b>

### Explanatory Notes:

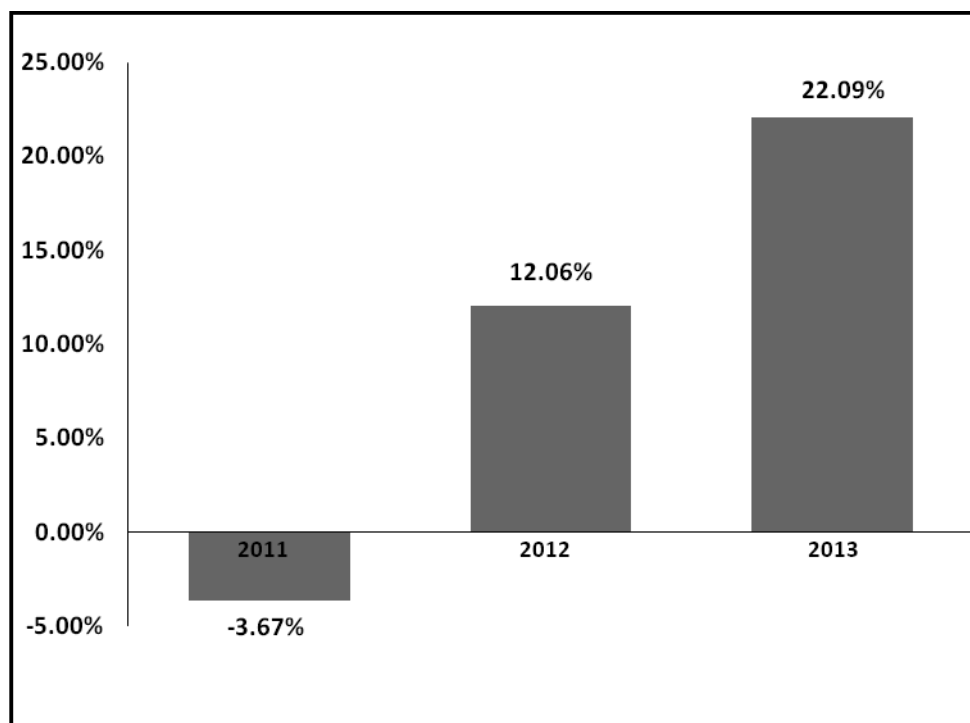
- The Net Assets per unit presented in the financial statements differs from the Net Asset Value calculated for fund pricing purposes. The difference is primarily a result of investments being valued at bid prices for financial statement purposes and closing prices for fund pricing purposes. An explanation 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 commencement of operations in 2011 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

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



2011 represents the period from July 19 to December 31

## ANNUAL 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. The return of the Index is calculated without the deduction of management fees and fund expenses whereas the performance of the Fund is calculated after deducting such fees and expenses. 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	22.09	N/A	N/A	N/A	11.93
S&P 100 Index, in Canadian dollars	38.65	N/A	N/A	N/A	18.37



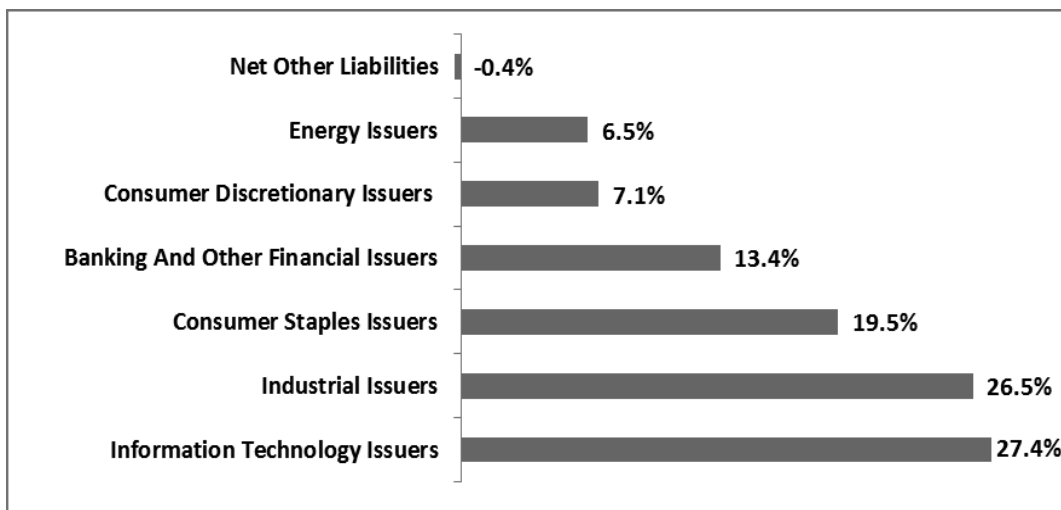
# Brand Leaders Income Fund

## 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
3M Company	7.3
The Walt Disney Company	7.2
Siemens AG SPONS ADR	7.1
American Express Company	7.1
International Business Machines Corporation	6.9
Intel Corporation	6.9
Microsoft Corporation	6.8
Apple Inc.	6.8
The Coca-Cola Company	6.8
Caterpillar Inc.	6.6
Anheuser-Busch Inbev SPN ADR	6.6
Royal Dutch Shell PLC ADR, Class A	6.5
HSBC Holdings PLC SPONS ADR	6.3
Kellogg Company	6.0
United Parcel Service, Inc., Class B	5.5
Net Other Liabilities	(0.4)
<b>Total</b>	<b>100.0</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)

**Head Office**

710 Dorval Drive, Suite 209  
Oakville, ON L6K 3V7  
Phone Number: 416.649.4541  
Toll Free: 866.998.8298  
Fax Number: 416.649.4542  
Email: [info@harvestportfolios.com](mailto:info@harvestportfolios.com)

**Western Canada Office**

1155 West Pender Street, Suite 708  
Vancouver, BC V6E 2P4

**Eastern Canada Office**

1250 René Lévesque Blvd. West, Suite 2200  
Montreal, Quebec H3B 4W8

**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.