



# U.S. Financials Income Fund

March 31, 2015

**Letter to Unitholders**

We are pleased to present the interim report for the period ended March 31, 2015 containing the management report of fund performance and the audited statements for U.S. Financials Income Fund (the "Fund").

The Fund completed its initial public offering on February 24, 2015 raising total gross proceeds of C\$37.2 million from the issuance of 3,200,000 Class A units at a price of C\$10.00 per unit and 412,600 Class U units at a price of US\$10.00 per unit. On March 9, 2015, the Fund closed the over-allotment option raising additional gross proceeds of C\$1.8 million from the issuance of 175,000 Class A units. The Class A units are listed on the Toronto Stock Exchange under the ticker symbol USF.UN and closed on March 31, 2015 at C\$10.00. The Class U units are denominated in U.S. dollar currency and do not trade on an exchange. The Fund intends to pay equal quarterly cash distributions of 5.0 percent per annum of each units respective currency based upon the \$10.00 per unit issue price in each units respective currency. The Fund paid cash distributions of C\$0.05 per Class A unit and US\$0.05 per Class U unit on March 31, 2015 to unitholders of record on March 16, 2015. The first distribution was prorated to reflect the period from the closing date to March 31, 2015. For a more detailed review of the operations of the Fund, please see the Results of Operations and the Portfolio Manager Report sections.

We thank all unitholders for their continued support and encourage unitholders to review the more detailed information contained within the report.



John P. Mulvihill  
Chairman & CEO  
Strathbridge Asset Management Inc.

## **U.S. Financials Income Fund [USF.UN]**

### **The Fund**

The Fund is a closed-end investment trust designed to provide quarterly cash distributions and to maximize total return through capital appreciation and distributions. The Class A units are listed on the Toronto Stock Exchange under the ticker symbol USF.UN. From time to time, between 0 percent and 100 percent of the value of the Class A units' U.S. dollar exposure may be hedged back to the Canadian dollar. The Class U units are denominated in U.S. dollar currency and do not trade on an exchange. To accomplish its investment objectives, the Fund invests in an actively managed portfolio of U.S. financial issuers selected from the S&P 500 Index that are classified as "Financials" by Standard & Poor's Global Industry Classification Standard and which have a market capitalization of at least US\$10 billion and a credit rating issued by Standard & Poor's Rating Services of at least A- at the time of purchase. The portfolio will also include U.S. publicly listed alternative asset management issuers which have a market capitalization of at least US\$5 billion at the time of purchase. The Fund may invest up to 25 percent of the net asset value in other U.S. financial or alternative asset management issuers that do not meet the rating or market capitalization requirements noted above.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting ("SSO"), to enhance the income generated by the portfolio and to reduce volatility. The Fund intends to strategically write covered call options from time to time, in respect of all or a portion of the securities in its portfolio. In addition, the Fund may write cash covered put options and may invest up to 10 percent of net assets to purchase call options both in respect of securities in which the Fund is permitted to invest.

The Manager may short securities from time to time. Short exposure in the portfolio, for purposes other than hedging (as defined in NI 81-102), will not exceed 10 percent of the net asset value of the Fund determined on a daily marked-to-market basis.

The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to writing continuously and rolling options every thirty days. This proprietary process has been developed over many years through various market cycles. The Manager believes the primary benefit to investors is to maximize the total return of the particular portfolio while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

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**Management Report of Fund Performance**

This interim management report of fund performance contains the financial highlights for the period ended March 31, 2015 of U.S. Financials Income Fund (the "Fund"). The audited financial statements of the Fund are attached.

Copies of the Fund's proxy voting policies and procedures, proxy voting disclosure record and quarterly portfolio disclosure may be obtained by calling 1-800-725-7172 toll free, by writing to the Fund at Investor Relations, 121 King Street West, Suite 2600, Standard Life Centre, P.O. Box 113, Toronto, Ontario, M5H 3T9, by email at [info@strathbridge.com](mailto:info@strathbridge.com) or by visiting our website at [www.strathbridge.com](http://www.strathbridge.com). You can also request an interim report at no cost using one of the above methods.

**Investment Objectives and Strategies**

The Fund's investment objectives are to:

- (1) provide unitholders with quarterly cash distributions; and
- (2) maximize total return through capital appreciation and distributions.

To achieve its investment objectives, the Fund invests in an actively managed portfolio of U.S. financial issuers selected from the S&P 500 Index that are classified as "Financials" by Standard & Poor's Global Industry Classification Standard and which have a market capitalization of at least US\$10 billion and a credit rating issued by Standard & Poor's Rating Services of at least A- at the time of purchase. The portfolio will also include U.S. publicly listed alternative asset management issuers which have a market capitalization of at least US\$5 billion at the time of purchase. U.S. financial issuers may include, but are not limited to, issuers operating in the following financial industry sub-sectors: retail and commercial banking, investment banking, wealth management, insurance and real estate. Alternative Asset Manager issuers may include, but are not limited to, managers or investment advisors who structure, promote, sponsor or operate investment and other funds focused on non-traditional asset classes such as private equity, real estate, commodities and alternative investment strategies. The Fund may invest up to 25 percent of the net asset value in other U.S. financial or alternative asset management issuers that do not meet the rating or market capitalization requirements noted above.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting ("SSO"), to enhance the income generated by the portfolio and to reduce volatility. The Fund strategically writes covered call options from time to time, in respect of all or a portion of the securities in its portfolio. In addition, the Fund may write cash covered put options and may invest up to 10 percent of net assets to purchase call options both in respect of securities in which the Fund is permitted to invest.

The Manager may short securities from time to time. Short exposure in the portfolio, for purposes other than hedging (as defined in NI 81-102), will not exceed 10 percent of the net asset value of the Fund determined on a daily marked-to-market basis.

The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to writing continuously and rolling options every thirty days. This proprietary process has been developed over many years through various market cycles. The Manager believes the primary benefit to investors is to maximize the total return of the particular portfolio while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

**Risk**

Risks associated with an investment in the securities of the Fund are discussed in the Fund's Annual Information Form, which is available on the Fund's website at [www.strathbridge.com](http://www.strathbridge.com) or on SEDAR at [www.sedar.com](http://www.sedar.com). There were no changes to the Fund over the period that materially affected the risks associated with an investment in the securities of the Fund.

**Results of Operations****Distributions**

For the period ended March 31, 2015, the Fund paid cash distributions of C\$0.05 per Class A unit and US\$0.05 per Class U unit.

Distributions to Class A unitholders are denominated in Canadian dollars while distributions to Class U unitholders are U.S. dollar denominated.

**Revenue and Expenses**

For the period ended March 31, 2015, the Fund's total revenue were C\$0.01 per Class A unit and US\$0.01 per Class U unit and  
March 31, 2015

total expenses were C\$0.02 per Class A unit and US\$0.02 per Class U unit. The Fund had a net realized and unrealized loss of C\$0.01 per Class A unit and US\$0.07 per Class U unit during the period.

### **Net Asset Value**

The net asset value per Class A unit of the Fund decreased 0.9 percent from C\$9.33 at inception to C\$9.25 at March 31, 2015. The net asset value per Class U unit of the Fund decreased 1.5 percent from US\$9.33 at inception to US\$9.19 at March 31, 2015. The total net asset value of the Fund increased C\$1.3 million from C\$34.7 million at February 24, 2015 to C\$36.0 million at March 31, 2015, reflecting the net proceeds from the over-allotment option on Class A units of C\$1.6 million, partially offset by cash distributions of C\$0.2 million and a decrease in net assets attributable to holders of Class A and Class U units of C\$0.1 million.

### **Recent Developments**

On February 24, 2015, the Fund completed its initial public offering of 3,200,000 Class A units at a price of C\$10.00 per unit and 412,600 Class U units at a price of US\$10.00 per unit, for gross proceeds of approximately C\$37 million. The Class A units are listed on the Toronto Stock Exchange ("TSX") under the ticker symbol USF.UN. The Fund intends to pay equal quarterly distributions of 5.0 percent per annum of each units respective currency based upon the \$10.00 per unit issue price in each units respective currency. The initial cash distribution was paid on March 31, 2015 and was prorated to reflect the period from the closing date to March 31, 2015.

On March 9, 2015, the Fund closed the over-allotment option raising additional gross proceeds of C\$1.8 million from the issuance of 175,000 Class A units.

### **Related Party Transactions**

Strathbridge Asset Management Inc. ("Strathbridge"), as the Investment Manager of the Fund, manages the Fund's investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an Investment Management Agreement made between the Fund and Strathbridge dated January 29, 2015.

Strathbridge is the Manager of the Fund pursuant to a Trust Agreement made between the Fund and Strathbridge dated January 29, 2015. As such, Strathbridge is responsible for providing or arranging for required administrative services to the Fund.

Strathbridge is paid the fees described under the Management Fees section of this report.

During the period, no recommendations or approvals were required to be sought from the Independent Review Committee ("IRC") concerning related party transactions.

### **Independent Review Committee**

National Instrument 81-107 - Independent Review Committee for Investment Funds ("NI 81-107") requires all publicly offered investment funds to establish an IRC to whom the Manager must refer conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, maintaining records in respect of these matters and providing assistance to the IRC in carrying out its functions. The Chief Compliance Officer, designated by the Manager, is in charge of facilitating the fulfillment of these obligations.

The IRC will prepare, for each financial year, a report to securityholders that describes the IRC and its activities during such financial year and includes, if known, a description of each instance when the Manager acted in a conflict of interest matter for which the IRC did not give a positive recommendation or for which a condition, imposed by the IRC, was not met in its recommendation or approval. Members of the IRC are Robert W. Korthals, Michael M. Koerner and Robert G. Bertram.

**Financial Highlights**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance from its inception on February 24, 2015. This information is derived from the Fund's audited interim financial statements.

	2015 <sup>(3)</sup>	
	CLASS A (C\$)	CLASS U (US\$)
Period ended March 31		
<b>THE FUND'S NET ASSETS PER UNIT</b>		
<b>Net Assets, beginning of period<sup>(1)</sup></b>	<b>\$9.33<sup>(4)</sup></b>	<b>\$9.33<sup>(4)</sup></b>
DECREASE FROM OPERATIONS		
Total revenue	0.01	0.01
Total expenses	(0.02)	(0.02)
Realized loss for the period	(0.01)	(0.01)
Unrealized loss for the period	-	(0.06)
<b>Total Decrease from Operations<sup>(2)</sup></b>	<b>(0.02)</b>	<b>(0.08)</b>
DISTRIBUTIONS		
Non-taxable distributions	(0.05)	(0.05)
<b>Total Distributions</b>	<b>(0.05)</b>	<b>(0.05)</b>
<b>Net Assets, as at March 31<sup>(1)</sup></b>	<b>\$9.25</b>	<b>\$9.19</b>

- (1) Net Assets per unit is the difference between the aggregate value of the assets (including the valuation of securities at closing prices) and the aggregate value of the liabilities, divided by the number of units then outstanding.
- (2) Total decrease from operations consists of interest and dividend revenue, realized and unrealized loss, less expenses and is calculated based on the weighted average number of units outstanding during the period. The schedule is not intended to total to the ending net assets as calculations are based on the weighted average number of units outstanding during the period.
- (3) For the period from inception on February 24, 2015 to March 31, 2015.
- (4) Initial issue price, net of agents' fees and initial issue costs.

	2015 <sup>(6)</sup>	
	CLASS A	CLASS U
Period ended March 31		
<b>RATIOS/SUPPLEMENTAL DATA</b>		
Net Asset Value (\$millions)	<b>C\$31.23</b>	<b>US\$3.77</b>
Number of units outstanding	<b>3,377,516</b>	<b>410,600</b>
Management expense ratio <sup>(1)</sup>	<b>1.81%<sup>(4)</sup></b>	<b>1.77%<sup>(4)</sup></b>
Portfolio turnover rate <sup>(2)</sup>	<b>18.02%</b>	<b>18.02%</b>
Trading expense ratio <sup>(3)</sup>	<b>0.74%<sup>(4)</sup></b>	<b>0.68%<sup>(4)</sup></b>
Net Asset Value per unit <sup>(5)</sup>	<b>C\$9.25</b>	<b>US\$9.19</b>
Closing market price	<b>C\$10.00</b>	

- (1) The management expense ratio ("MER") is the sum of all fees and expenses for the stated period, including harmonized sales taxes but excluding transaction fees, divided by the average net asset value. Generally, the MER increases when the Fund becomes smaller in size due to redemptions.
- (2) Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments, excluding short-term investments, divided by the average value of the portfolio securities. The Fund employs an option overlay strategy which can result in higher portfolio turnover by virtue of option exercises, when compared to a conventional equity mutual fund.
- (3) Trading expense ratio represents total commissions expressed as a percentage of the daily average net asset value during the period.
- (4) Annualized.
- (5) Net Asset Value per unit is the difference between the aggregate value of the assets including the valuation of securities at closing prices and the aggregate value of the liabilities divided by the number of units then outstanding.
- (6) For the period from inception on February 24, 2015 to March 31, 2015.

**Management Fees**

Strathbridge, as the Investment Manager and Manager of the Fund, is entitled to fees under the Investment Management Agreement and Trust Agreement calculated monthly as 1/12 of 1.25 percent of the net asset value of the Fund at each month end. Services received under the Investment Management Agreement include the making of all investment decisions and writing of covered call options in accordance with the investment objectives, strategy and criteria of the Fund. Strathbridge also makes all decisions as to the purchase and sale of securities in the Fund's portfolio and as to the execution of all portfolio and other transactions. Services received under the Trust Agreement include providing or arranging for required administrative services to the Fund.

**Year-By-Year Returns, Annual Total Return and Annual Compound Return**

The Fund has been operational for less than one year. No year-by-year returns, annual total return or annual compound return have been calculated.

**Portfolio Manager Report**

Since the inception date of the Fund on February 24, 2015 to March 31, 2015, the S&P 500 Financials Index delivered a total return of negative 0.1 percent in Canadian dollars and negative 0.7 percent in U.S. dollars. Results during the period were fairly downbeat as most U.S. economic statistics reported in the first quarter were weaker than expected. The economic soft patch experienced in the first quarter has pushed out consensus expectations for the first rate hike by the U.S. Federal Reserve from June to September causing net interest margins for the banks to remain low for the time being.

For the period ended March 31, 2015, the net asset value per Class A unit was C\$9.25 and the net asset value per Class U unit was US\$9.19. This compares to C\$9.33 per Class A unit (net of agents' fees and issue expenses of C\$0.67) and US\$9.33 per Class U unit (net of agents' fees and issue expenses of US\$0.67) at February 24, 2015, the inception date of the Fund. The Fund paid cash distributions of C\$0.05 per Class A unit and US\$0.05 per Class U unit on March 31, 2015 to unitholders of record on March 16, 2015. The first distribution was prorated to reflect the period from the closing date to March 31, 2015.

The Fund's Class A units listed on the TSX as USF.UN closed on March 31, 2015 at C\$10.00, which represents an 8.1 percent premium to the net asset value. The Fund's Class U units are not listed on any exchange.

The total return of the Class A unit and Class U unit, including reinvestment of distributions, from the inception date on February 24, 2015 to March 31, 2015 was negative 0.3 percent and negative 0.9 percent respectively.

The Fund's portfolio ended the period with a cash position of approximately 13 percent. None of the Fund's U.S. dollar exposure was hedged back into Canadian dollars during the period.

**Summary of Investment Portfolio**

The composition of the portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly portfolio summary, which includes the percentage of net asset value for each holding, and a monthly portfolio list are available on our website at [www.strathbridge.com](http://www.strathbridge.com).

**Asset Mix**

March 31, 2015

	<b>% OF NET ASSET VALUE</b>
Diversified Financials	35.8 %
Banks	29.7 %
Insurance	14.3 %
Cash	13.4 %
Real Estate	6.0 %
Alternative Asset Management	4.0 %
Other Assets (Liabilities)	(3.2)%
	100.0%

March 31, 2015

## Top 25 Holdings

March 31, 2015

	% OF NET ASSET VALUE
Cash	13.4%
Northern Trust Corporation	4.1%
The Blackstone Group L.P.	4.0%
JPMorgan Chase & Co.	3.9%
The Charles Schwab Corporation	3.9%
Wells Fargo & Company	3.9%
The PNC Financial Services Group, Inc.	3.9%
CME Group Inc.	3.6%
BB&T Corporation	3.6%
Aflac Inc.	3.2%
M&T Bank Corporation	3.1%
E*Trade Financial Corporation	3.1%
Huntington Bancshares Incorporated	3.0%
Intercontinental Exchange, Inc.	3.0%
Lincoln National Corporation	3.0%
American International Group, Inc.	3.0%
The Bank of New York Mellon Corporation	3.0%
U.S. Bancorp	3.0%
Invesco Ltd.	2.9%
Ameriprise Financial Inc.	2.9%
Citigroup Inc.	2.9%
CBRE Group, Inc.	2.8%
McGraw Hill Financial, Inc.	2.5%
SunTrust Banks, Inc.	2.5%
BlackRock, Inc.	2.4%

## Forward-Looking Statements

This report may contain forward-looking statements about the Fund. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” or negative variations thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also forward-looking. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to any divergence between what is anticipated and what actually occurs, including, but not limited to, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technology change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

The above-mentioned list of important factors is not exhaustive. You should consider these and other factors carefully before making any investment decisions and you should avoid placing undue reliance on forward-looking statements. While the Fund currently anticipates that subsequent events and developments may cause the Fund’s views to change, the Fund does not undertake to update any forward-looking statements.

## Management's Responsibility for Financial Reporting

The accompanying financial statements of U.S. Financials Income Fund (the "Fund") and all the information in this report are the responsibility of the management of Strathbridge Asset Management Inc. (the "Manager"), and have been approved by the Fund's Board of Advisors (the "Board").

The financial statements have been prepared by management in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this report is consistent with the financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 3 of the financial statements.

The Manager is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board meets periodically with management and the independent auditor to discuss internal controls, the financial reporting process, various auditing and financial reporting matters, and to review the annual report, the financial statements and the independent auditor's report. Deloitte LLP, the Fund's independent auditor, has full and unrestricted access to the Board.



John P. Mulvihill  
Director  
Strathbridge Asset Management Inc.  
May 27, 2015



John D. Germain  
Director  
Strathbridge Asset Management Inc.

March 31, 2015

**Independent Auditor's Report  
To the Unitholders of U.S. Financials Income Fund**

We have audited the accompanying financial statements of U.S. Financials Income Fund, which comprise the statement of financial position as at March 31, 2015 and the statement of comprehensive loss, changes in net assets attributable to holders of Class A and Class U units and cash flows for the period from February 24, 2015 to March 31, 2015, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of U.S. Financials Income Fund as at March 31, 2015 and its financial performance, its changes in net assets attributable to holders of Class A and Class U units and its cash flows for the period from February 24, 2015 to March 31, 2015 in accordance with International Financial Reporting Standards.

The logo for Deloitte LLP, featuring the company name in a stylized, cursive script.

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants  
May 27, 2015  
Toronto, Ontario

## Statement of Financial Position

As at March 31, 2015

(In Canadian dollars unless otherwise noted)

	Note	2015
<b>ASSETS</b>		
Financial assets at fair value through profit or loss	3,7	\$ 32,337,105
Cash	7	4,823,457
Dividends receivable	7	15,997
<b>TOTAL ASSETS</b>		<b>37,176,559</b>
<b>LIABILITIES</b>		
Issue expenses payable		512,624
Due to brokers - investments		335,979
Derivative liabilities	3	269,533
Accrued management fees	9	36,739
Accrued liabilities		13,346
<b>TOTAL LIABILITIES</b>		<b>1,168,221</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A AND CLASS U UNITS</b>		<b>\$ 36,008,338</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A UNITS</b>		<b>\$ 31,230,331</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS U UNITS</b>	<b>(US\$3,772,619)</b>	<b>\$ 4,778,007</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A UNITS PER UNIT</b>		<b>\$ 9.2465</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS U UNITS PER UNIT</b>	<b>(US\$9.1880)</b>	<b>\$ 11.6366</b>

The notes are an integral part of the Financial Statements.

## Statement of Comprehensive Loss

For the period from February 24, 2015, the inception of the Fund, to March 31, 2015

(In Canadian dollars unless otherwise noted)

	Note	2015
<b>INCOME</b>		
Dividend income		\$ 35,429
Interest Income		4,025
Net realized loss on investments at fair value through profit or loss	7	(51,486)
Net realized gain on options at fair value through profit or loss	7	5,577
Net unrealized gain/loss on investments at fair value through profit or loss	7	(14,952)
<b>TOTAL INCOME</b>		<b>(21,407)</b>
<b>EXPENSES</b>		
Management fees	9	42,651
Administrative and other expenses		705
Transaction fees	10	25,816
Custodian fees		5,333
Audit fees		2,251
Unitholder reporting costs		576
Harmonized sales tax		6,606
Withholding taxes	3	5,314
<b>TOTAL EXPENSES</b>		<b>89,252</b>
<b>DECREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A AND CLASS U UNITS</b>	11	<b>\$ (110,659)</b>
<b>DECREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A UNITS PER UNIT</b>	11	<b>\$ (0.0291)</b>
<b>DECREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS U UNITS PER UNIT</b>	11	<b>\$ (0.0347)</b>

The notes are an integral part of the Financial Statements.

Statement of Changes in Net Assets Attributable to Holders of Class A and Class U Units  
 For the period from February 24, 2015, the inception of the Fund, to March 31, 2015  
 (In Canadian dollars unless otherwise noted)

	Note	2015
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A AND CLASS U UNITS, BEGINNING OF PERIOD</b>		
Class A	\$	-
Class U		-
		<u>-</u>
<b>Net Decrease in Net Assets Attributable to Holders of Class A and Class U Units</b>		
Class A		(96,340)
Class U		(14,319)
		<u>(110,659)</u>
<b>Unit Transactions</b>		
<b>Proceeds from issue of units, net of issue costs</b>		
Class A		31,471,875
Class U		4,842,053
		<u>36,313,928</u>
<b>Conversions</b>		
Class A		23,546
Class U		(23,546)
		<u>-</u>
<b>Distributions</b>		
Class A		(168,750)
Class U		(26,181)
		<u>(194,931)</u>
<b>Changes in Net Assets Attributable to Holders of Class A and Class U Units</b>		
Class A		31,230,331
Class U		4,778,007
		<u>36,008,338</u>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A AND CLASS U UNITS, END OF PERIOD</b>		
Class A	\$	31,230,331
Class U		4,778,007
	\$	<u>36,008,338</u>

The notes are an integral part of the Financial Statements.

Statement of Cash Flows  
 For the period from February 24, 2015, the inception of the Fund, to March 31, 2015  
 (In Canadian dollars unless otherwise noted)

	Note	2015
CASH, BEGINNING OF PERIOD		\$ -
<b>Cash Flows Provided by (Used In) Operating Activities</b>		
<b>Decrease in Net Assets Attributable to Holders of Class A and Class U Units</b>		<b>(110,659)</b>
<b>Adjustments to Reconcile Increase/Decrease in Net Cash Provided by (Used in) Operating Activities</b>		
Purchase of investment securities		(36,439,787)
Proceeds from disposition of investment securities		4,303,149
Net realized (gain)/loss on investments at fair value through profit or loss		51,486
Net realized (gain)/loss on options at fair value through profit or loss		(5,577)
Net change in unrealized gain/loss on investments at fair value through profit or loss		14,952
Net change in unrealized gain/loss on cash		8,205
(Increase)/ decrease in dividends receivable		(15,997)
Increase/(decrease) in issue expenses payable, due to brokers - investments, accrued management fees and liabilities		<u>898,688</u>
		<b>(31,184,881)</b>
<b>Cash Flows Provided by (Used in) Financing Activities</b>		
Class A unit distributions		(168,750)
Class U unit distributions		(26,181)
Proceeds from issue of Class A units, net of issue costs		31,471,875
Proceeds from issue of Class U units, net of issue costs		<u>4,842,053</u>
		<b>36,118,997</b>
<b>Net Increase/(Decrease) in Cash During the Period</b>		<b>4,823,457</b>
CASH, END OF PERIOD		<u>\$ 4,823,457</u>
Dividends received		\$ 19,432
Interest received		<u>\$ 4,025</u>

The notes are an integral part of the Financial Statements.

Schedule of Investments  
As at March 31, 2015  
(In Canadian dollars unless otherwise noted)

	Number of Shares or Contracts	Average Cost	Fair Value	% of Net Assets Attributable to Class A and Class U Units
<b>INVESTMENTS</b>				
<b>United States Common Shares</b>				
<b>Alternative Asset Management</b>				
The Blackstone Group LP.	29,600	\$ 1,412,122	\$ 1,457,919	4.0%
<b>Banks</b>				
BB&T Corporation	25,900	1,268,885	1,278,959	
Citigroup Inc.	15,800	1,063,605	1,030,948	
Huntington Bancshares Incorporated	78,300	1,073,682	1,095,791	
JPMorgan Chase & Co.	18,500	1,432,795	1,419,400	
M&T Bank Corporation	6,900	1,089,835	1,109,831	
SunTrust Banks, Inc.	17,000	908,097	884,686	
The PNC Financial Services Group, Inc.	11,800	1,415,990	1,393,440	
U.S. Bancorp	19,300	1,087,176	1,067,442	
Wells Fargo & Company	20,500	1,427,830	1,412,396	
<b>Total Banks</b>		10,767,895	10,692,893	29.7%
<b>Diversified Financials</b>				
Affiliated Managers Group, Inc.	3,200	874,378	870,458	
Ameriprise Financial Inc.	6,400	1,096,531	1,060,533	
BlackRock, Inc.	1,900	897,405	880,336	
CME Group Inc.	10,700	1,298,234	1,283,463	
E*Trade Financial Corporation	30,400	1,010,917	1,099,410	
Intercontinental Exchange, Inc.	3,700	1,098,914	1,093,112	
Invesco Ltd.	21,100	1,072,196	1,060,639	
McGraw Hill Financial, Inc.	6,800	899,575	890,499	
Northern Trust Corporation	16,600	1,483,409	1,464,310	
The Bank of New York Mellon Corporation	21,200	1,105,776	1,080,433	
The Charles Schwab Corporation	36,800	1,429,082	1,418,719	
The NASDAQ OMX Group, Inc.	10,700	679,213	690,314	
<b>Total Diversified Financials</b>		12,945,680	12,892,226	35.8%
<b>Insurance</b>				
Aflac Inc.	14,300	1,116,902	1,159,278	
American International Group, Inc.	15,600	1,089,128	1,082,505	
Aon PLC	2,700	342,247	328,686	
Lincoln National Corporation	14,900	1,107,543	1,084,316	
Marsh & McLennan Companies, Inc.	9,600	690,429	681,963	
The Travelers Companies, Inc.	5,900	806,649	807,983	
<b>Total Insurance</b>		5,152,898	5,144,731	14.3%
<b>Real Estate</b>				
Boston Properties, Inc.	4,500	813,292	800,628	
CBRE Group, Inc.	20,900	910,101	1,024,645	
Crown Castle International Corp.	3,100	337,508	324,063	
<b>Total Real Estate</b>		2,060,901	2,149,336	6.0%
<b>Total United States Common Shares</b>		\$ 32,339,446	\$ 32,337,105	89.8%
<b>Options</b>				
<b>Written Covered Call Options (100 shares per contract)</b>				
Affiliated Managers Group, Inc. - April 2015 @ \$220	(31)	\$ (15,792)	\$ (7,067)	
American International Group, Inc. - April 2015 @ \$55	(34)	(3,718)	(926)	
Ameriprise Financial Inc. - April 2015 @ \$135	(19)	(6,832)	(1,504)	
BB&T Corporation - April 2015 @ \$39	(258)	(23,165)	(28,792)	
BlackRock, Inc. - April 2015 @ \$370	(18)	(11,178)	(10,601)	
CBRE Group, Inc. - April 2015 @ \$35	(79)	(5,326)	(8,020)	
Citigroup Inc. - April 2015 @ \$52	(28)	(5,289)	(1,525)	
Crown Castle International Corp. - April 2015 @ \$85	(30)	(3,760)	(1,425)	
Huntington Bancshares Incorporated - April 2015 @ \$11	(782)	(18,041)	(26,239)	
Invesco Ltd. - April 2015 @ \$40	(105)	(10,344)	(6,981)	
M&T Bank Corporation - April 2015 @ \$125	(68)	(13,822)	(27,344)	
Marsh & McLennan Companies, Inc. - April 2015 @ \$55	(96)	(22,737)	(17,022)	
Northern Trust Corporation - April 2015 @ \$70	(55)	(5,600)	(6,443)	
SunTrust Banks, Inc. - April 2015 @ \$41	(57)	(5,230)	(5,234)	
The Bank of New York Mellon Corporation - April 2015 @ \$40	(211)	(27,586)	(35,809)	
The PNC Financial Services Group, Inc. - April 2015 @ \$93	(117)	(22,323)	(26,265)	
U.S. Bancorp - April 2015 @ \$44	(44)	(4,102)	(2,758)	
Wells Fargo & Company - April 2015 @ \$55	(204)	(26,711)	(25,578)	
<b>Total Written Covered Call Options</b>		(231,556)	(269,533)	(0.7)%
Adjustment for transaction fees		(17,161)		
<b>TOTAL INVESTMENTS</b>		\$ 32,090,729	\$ 32,067,572	89.1%
<b>OTHER NET ASSETS</b>				10.9%
<b>TOTAL NET ASSETS ATTRIBUTABLE TO CLASS A AND CLASS U UNITS</b>				100.0%

The notes are an integral part of the Financial Statements.

## **U.S. Financials Income Fund [USF.UN]**

### **Notes to Financial Statements**

**March 31, 2015**

#### **1. Fund Information**

U.S. Financials Income Fund (the "Fund") is an investment trust established under the laws of the Province of Ontario on January 29, 2015. The Fund began operations on February 24, 2015. The address of the Fund's registered office is 121 King Street West, Suite 2600, Standard Life Centre, P.O. Box 113, Toronto, Ontario.

Strathbridge Asset Management Inc. ("Strathbridge") is the Manager as well as the Investment Manager of the Fund. RBC Investor Services Trust is the Custodian of the Fund.

The Fund is a closed-end investment trust designed to provide quarterly cash distributions and to maximize total return through capital appreciation and distributions. The Class A units are listed on the Toronto Stock Exchange under the ticker symbol USF.UN. From time to time, between 0 percent and 100 percent of the value of the Class A units' U.S. dollar exposure may be hedged back to the Canadian dollar. The Class U units are denominated in U.S. dollar currency and do not trade on an exchange.

To accomplish its objectives, the Fund invests in an actively managed portfolio of U.S. financial issuers selected from the S&P 500 Index that are classified as "Financials" by Standard & Poor's Global Industry Classification Standard and which have a market capitalization of at least US\$10 billion and a credit rating issued by Standard & Poor's Rating Services of at least A- at the time of purchase. The portfolio will also include U.S. publicly listed alternative asset management issuers which have a market capitalization of at least US\$5 billion at the time of purchase. U.S. financial issuers may include, but are not limited to, issuers operating in the following financial industry sub-sectors: retail and commercial banking, investment banking, wealth management, insurance and real estate. Alternative Asset Manager issuers may include, but are not limited to, managers or investment advisors who structure, promote, sponsor or operate investment and other funds focused on non-traditional asset classes such as private equity, real estate, commodities and alternative investment strategies. The Fund may invest up to 25 percent of the net asset value in other U.S. financial or alternative asset management issuers that do not meet the rating or market capitalization requirements noted above.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting ("SSO"), to enhance the income generated by the portfolio and to reduce volatility. The Fund strategically writes covered call options from time to time, in respect of all or a portion of the securities in its portfolio. In addition, the Fund may write cash covered put options and may invest up to 10 percent of net assets to purchase call options both in respect of securities in which the Fund is permitted to invest.

The Manager may short securities from time to time. Short exposure in the portfolio, for purposes other than hedging (as defined in NI 81-102), will not exceed 10 percent of the net asset value of the Fund determined on a daily marked-to-market basis.

The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to writing continuously and rolling options every thirty days. This proprietary process has been developed over many years through various market cycles. The Manager believes the primary benefit to investors is to maximize the total return of the particular portfolio while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

These financial statements were approved by the Board of Advisors on May 27, 2015.

#### **2. Basis of Presentation**

The March 31, 2015 financial statements for the Fund have been prepared in compliance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB").

All financial numbers contained in the notes to the financial statements are in Canadian dollars unless otherwise noted.

### **3. Summary of Significant Accounting Policies**

#### **Functional and Presentation Currency**

Items included in the financial statements of the Fund are measured in the currency of the primary economic environment in which the Fund operates (the “functional currency”). Based on the guidance provided in International Accounting Standard (“IAS”) 21, The Effects of Changes in Foreign Exchange Rates, the Manager has determined that the functional currency is U.S. dollars. The financial statements of the Fund are presented in Canadian dollars which is the Fund’s presentation currency.

#### **Financial Instruments**

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets. Under IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”), the Fund’s equity investments are designated at fair value through profit or loss (“FVTPL”) and derivative investments are classified as held for trading and measured at FVTPL.

#### **Fair Value Measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price as its valuation input for financial assets and liabilities if the last traded price falls within the bid-ask spread. In other circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value for financial reporting purposes.

The fair value of financial assets and liabilities that are not traded in an active market is determined by valuation techniques as described in Note 4.

#### **Investment Transactions and Income**

Investment transactions are accounted for on a trade date basis. Net realized gain/(loss) on investments at fair value through profit or loss and net change in unrealized gain/loss on investments at fair value through profit or loss are determined on an average cost basis. Realized gains and losses related to options are included in net realized gain/(loss) on options at fair value through profit or loss. Realized gains and losses relating to written options may arise from:

- (i) Expiration of written options whereby realized gains are equivalent to the premium received,
- (ii) Exercise of written covered call options whereby realized gains or losses are equivalent to the premium received in addition to the realized gain or loss from disposition of the related investments at the exercise price of the option, and
- (iii) Closing of written options whereby realized gains or losses are equivalent to the cost of purchasing options to close the positions, net of any premium received.

Realized gains and losses relating to purchased put options may arise from:

- (i) Expiration of purchased put options whereby realized losses are equivalent to the premium paid,
- (ii) Exercise of purchased put options whereby realized gains or losses are equivalent to the realized gain or loss from disposition of the related investments at the exercise price of the option less the premium paid, and
- (iii) Sale of purchased put options whereby realized gains or losses are equivalent to the sale proceeds, net of any premium paid.

Option premiums received are reflected as deferred credits in investments so long as the options are outstanding. Any difference resulting from revaluation is included in the net change in unrealized gain/loss on investments at fair value through profit or loss. The premiums received on written put options that are exercised are included in the cost of the security purchased.

Dividend income is recorded on the ex-dividend date.

## **U.S. Financials Income Fund [USF.UN]**

### **Notes to Financial Statements**

**March 31, 2015**

Interest income is measured using the effective interest method and recorded on a daily basis.

#### **Foreign Currency Translation**

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing rate of exchange on each valuation date. Purchases and sales of investments, and income derived from investments are translated at the rate of exchange prevailing on the respective dates of such transactions.

Foreign exchange gains (losses) on short-term investments are reflected as interest income. Realized gains (losses) relating to forward exchange contracts are included in net realized gain/(loss) on forward exchange contracts at fair value through profit or loss. Other foreign exchange gains (losses) are recorded as net realized or unrealized gain/(loss) on investments at fair value through profit or loss, as appropriate.

#### **Short-Term Investments**

Short-term investments are held for investment purposes and consist primarily of money market instruments with original maturities of 90 days or less.

#### **Class A and Class U Units**

IAS 32, Financial Instruments: Presentation ("IAS 32"), requires that the Class A and Class U units (the "units") (which are puttable instruments) be classified as financial liabilities unless all the criteria outlined in IAS 32 paragraph 16A are met. The Fund's units do not meet all the criteria outlined in IAS 32 paragraph 16A which would require the units to be classified as equity by exception, and therefore, have been classified as financial liabilities.

#### **Decrease in Net Assets Attributable to Holders of Class A and Class U Units per Unit**

The decrease in net assets attributable to holders of Class A and Class U units per unit is calculated by dividing the decrease in net assets attributable to holders Class A and Class U units by the weighted average number of Class A and Class U units outstanding during the period. Please refer to Note 11 for the calculation.

#### **Taxation**

The Fund is a "mutual fund trust" as defined in the Income Tax Act (Canada) (the "Act"). The Fund is subject to tax in each taxation year under Part I of the Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to unitholders in the year. Income tax paid by the Fund on any net realized capital gains not paid or payable to unitholders is recoverable by the Fund to the extent and in the circumstances provided in the Act.

Given the investment and distribution policies of the Fund and taking into account expenses, the Fund does not expect to bear any appreciable non-refundable income tax.

The Fund currently incurs withholding taxes imposed by certain foreign countries on investment income. Such income, recorded gross of withholding taxes, and the withholding taxes are shown as a separate line item in the Statement of Comprehensive Income.

#### **4. Critical Accounting Estimates and Judgments**

The preparation of financial statements requires the Manager to use judgment in applying accounting policies and to make estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements.

The Manager considers the currency of the primary economic environment in which the Fund operates to be U.S. dollars as this is the currency which in the Manager's opinion most faithfully represents the economic effects of underlying transactions, events and conditions. The financial statements of the Fund are presented in Canadian dollars which is the Fund's presentation currency.

## **U.S. Financials Income Fund [USF.UN]**

### **Notes to Financial Statements**

**March 31, 2015**

In classifying and measuring the financial instruments held by the Fund, the Manager has applied the fair value option for financial assets and liabilities under IAS 39. As a result, the Fund's equity investments have been designated at FVTPL at inception and the derivative investments have been classified as held for trading by nature and valued at FVTPL.

The Fund may, from time to time, hold financial instruments that are not quoted in active markets. Fair values of such instruments are determined by using valuation models and techniques generally recognized as standard within the investment industry. These valuation methods use observable data as practicable as possible. Observable market data are readily available and supplied by independent sources actively involved in the relevant market. However, areas such as credit risk (both own and counterparty) and its correlations require the Manager to make estimates. Significant changes in assumptions about these factors could adversely affect the reported fair values of financial instruments. Please refer to Note 6 for a further analysis of risks associated with financial instruments.

### **5. Capital Disclosures**

IAS 1, Presentation of Financial Statements, requires the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data and qualitative information about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Fund's objectives, policies and processes are described in Note 1, information on the Fund's units is described in Note 8 and the trust indenture does not have any externally imposed capital requirements.

### **6. Risks Associated with Financial Instruments**

The Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The most important risks include credit risk, liquidity risk, market risk (including currency risk, interest rate risk and price risk), concentration risk and capital risk management.

#### **Credit Risk**

The Fund is subject to the credit risk that its counterparty (whether a clearing corporation, in the case of exchange traded instruments, or other third party, in the case of over-the-counter instruments) may be unable to meet its obligations. The Fund manages these risks through the use of various risk limits and trading strategies.

The Fund is also exposed to counterparty credit risk on derivative financial instruments. The counterparty credit risk for derivative financial instruments is managed by dealing with counterparties that have a credit rating that is not below the level of approved credit ratings as set out in National Instrument 81-102. During the period ended March 31, 2015, the counterparties to the Fund's derivative financial instruments had a credit rating of A-1 or higher by Standard & Poor's Ratings Services.

The Fund's derivatives are subject to offsetting, enforceable netting arrangements and similar agreements. The Fund and its counterparty have elected to settle all transactions on a gross basis; however, each party has the option to settle all open contracts on a net basis in the event of default of the other party. All outstanding derivatives have been presented on a gross basis on the Statement of Financial Position as derivative assets or derivative liabilities, as they do not meet the criteria for offsetting in IAS 32 paragraph 42.

#### **Liquidity Risk**

Liquidity risk is the possibility that investments in the Fund cannot be readily converted into cash when required. To manage this risk, the Fund invests the majority of its assets in investments that are traded in an active market and which can be easily disposed. In addition, the Fund aims to retain sufficient cash and short-term investments to maintain liquidity and to meet its obligations when due.

Cash is required to fund redemptions. Unitholders must surrender units at least 10 business days prior to the last day of the month and receive payment on or before 15 calendar days following the month end valuation date. Therefore the Fund has a maximum of 21 business days to generate sufficient cash to fund redemptions mitigating liquidity issues.

**U.S. Financials Income Fund [USF.UN]**  
**Notes to Financial Statements**  
**March 31, 2015**

The amounts in the table are the contractual undiscounted cash flows:

As at March 31, 2015			
Financial Liabilities			
	On Demand	< 3 months	Total
Issue expenses payable	\$ -	\$ 512,624	\$ 512,624
Due to brokers - investments	-	335,979	335,979
Derivative liabilities	-	269,533	269,533
Accrued management fees	-	36,739	36,739
Accrued liabilities	-	13,346	13,346
	\$ -	\$1,168,221	\$1,168,221

**Market Risk**

The Fund's investments are subject to market risk which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices. The following include sensitivity analyses that show how the net assets attributable to holders of Class A and Class U units would have been affected by a reasonably possible change in the relevant risk variable at each reporting date. In practice, the actual results may differ and the differences could be material.

**(a) Currency Risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The portfolio includes securities and options denominated in foreign currencies. The net asset value of the Fund and the value of the dividends and option premiums received by the Fund will be affected by fluctuations in the value of the foreign currencies relative to the Canadian dollar. The Fund may use foreign exchange contracts to hedge its foreign currency exposure.

The table below indicates the foreign currencies to which the Fund had significant exposure to as at March 31, 2015 in Canadian dollar terms, and, if any, the notional amounts of forward exchange contracts. The table also illustrates the potential impact on the net assets attributable to Class A and Class U units if the Canadian dollar had strengthened or weakened by 5 percent in relation to each of the other currencies, with all other variables held constant.

As at March 31, 2015						
United States Currency Exposure						
	Monetary	Non-Monetary	Total	Impact on Net Assets Attributable to Holders of Class A and Class U Units		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
	\$1,952,608	\$31,731,593	\$33,682,201	\$97,630	\$1,586,580	\$1,684,210
% of Net Assets Attributable to Holders of Class A and Class U Units	5%	88%	93%	0%	4%	4%

**(b) Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. The financial instruments which potentially expose the Fund to interest rate risk are the short-term fixed income securities. The Fund has minimal sensitivity to changes in rates since securities are usually held to maturity and are short-term in nature.

**(c) Price Risk**

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or segment. The Fund's most significant exposure to price risk arises from its investments in equity securities. Net assets per unit varies as the value of the securities in the Fund varies. The Fund has no control over the factors that affect the value of the securities in the Fund, including factors that affect all the companies in the U.S. financial services industry.

The Fund's price risk is managed by taking a long-term perspective and utilizing an option writing program, as well as by the use of purchased put options. Approximately 90 percent of the Fund's net assets attributable to holders of Class A and Class U units held at March 31, 2015 were publicly traded equities. If equity prices on the exchange increased or decreased by 5 percent as at March 31, 2015, the net assets attributable to holders of Class A and Class U units would have increased or decreased by \$1.6 million or 4.5

## U.S. Financials Income Fund [USF.UN]

### Notes to Financial Statements

March 31, 2015

percent of the net assets attributable to holders of Class A and Class U units with all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

#### Concentration Risk

Concentration risk arises as a result of the concentration of exposures with the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk:

	March 31, 2015
Diversified Financials	39.9%
Banks	33.1%
Insurance	15.9%
Alternative Asset Management	4.5%
Real Estate	6.6%
	<b>100.0%</b>

#### Capital Risk Management

Units may be surrendered at any time for redemption to Computershare Investor Services, the Fund's registrar and transfer agent, but will be redeemed only on a Redemption Date. Units surrendered for redemption on or before an Annual Redemption Deadline will be redeemed on the Annual Redemption Date corresponding to such Annual Redemption Deadline. Units surrendered for redemption on or before a Monthly Redemption Deadline will be redeemed on the Monthly Redemption Date corresponding to such Monthly Redemption Deadline. Unitholders will receive payment for the units on or before the Redemption Payment Date. If a unitholder surrenders units after 5:00 p.m. (Toronto time) on the applicable cut-off date, the units will be redeemed on the following Redemption Date. Redemption proceeds will be payable in Canadian dollars to holders of Class A units and in U.S. dollars to holders of Class U units.

#### Fair Value Measurement

The Fund classifies fair value of measurement within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs, other than quoted prices in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

Level 3: Inputs that are based on unobservable market data.

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur. The following table illustrates the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at March 31, 2015.

As at March 31, 2015				
	Level 1	Level 2	Level 3	Total
United States Common Shares	\$ 32,337,105	\$ -	\$ -	\$ 32,337,105
Options	(188,237)	(81,296)	-	(269,533)
	<b>\$32,148,868</b>	<b>\$ (81,296)</b>	<b>\$ -</b>	<b>\$ 32,067,572</b>

The carrying values of cash, dividends receivable, issue expenses payable, due to brokers - investments, accrued management fees, accrued liabilities, and the Fund's obligation for net assets attributable to holders of Class A and Class U units approximate their fair values due to their short-term nature.

#### (a) Equities

The Fund's equity positions are classified as Level 1 as equity securities are actively traded and a reliable quoted price is observable.

## U.S. Financials Income Fund [USF.UN]

### Notes to Financial Statements

March 31, 2015

#### (b) Short-Term Investments

Short-term investments are valued at cost plus accrued interest which approximates fair value. The inputs are generally observable and therefore short-term investments have been classified as Level 2.

#### (c) Derivative Assets and Liabilities

Derivative assets and liabilities consist of forward exchange contracts and listed and/or over-the-counter option contracts.

Listed options are classified as Level 1 as the security is traded in a recognized exchange and a reliable price is readily observable.

Fair value of over-the-counter options is determined using the Black-Scholes Model with observable market data as inputs. Forward exchange contracts are valued on the gain or loss that would be realized if, on the valuation date, the position in the forward exchange contract, as the case may be, was to be closed out. Over-the-counter option and forward exchange contracts, for which the credit risks are determined not to be significant to fair value, have been classified as Level 2.

## 7. Financial Instruments by Category

The following tables present the carrying amounts of the Fund's financial instruments by category as at March 31, 2015.

	As at March 31, 2015		Financial Instruments at Amortized Cost	Total
	Designated at Inception	Held for Trading		
<b>Assets</b>				
Non-derivative financial assets	\$ 32,337,105	\$ -	\$ -	\$ 32,337,105
Dividends receivable	-	-	15,997	15,997
Cash	-	-	4,823,457	4,823,457
	<b>\$ 32,337,105</b>	<b>\$ -</b>	<b>\$ 4,839,454</b>	<b>\$ 37,176,559</b>
<b>Liabilities</b>				
Issue expenses payable	\$ -	\$ -	\$ 512,624	\$ 512,624
Due to brokers - investments	-	-	335,979	335,979
Derivative liabilities	-	269,533	-	269,533
Accrued management fees	-	-	36,739	36,739
Accrued liabilities	-	-	13,346	13,346
	<b>\$ -</b>	<b>\$ 269,533</b>	<b>\$ 898,688</b>	<b>\$ 1,168,221</b>

The following table presents the net gain/(loss) on financial instruments at FVTPL by category for the period ended March 31, 2015.

March 31, 2015	
<b>Net Realized Gain/(Loss) on Financial Instruments at FVTPL</b>	
Designated at Inception	\$ (51,486)
Held for Trading	5,577
	<b>(45,909)</b>
<b>Net Unrealized Gain/(Loss) on Financial Instruments at FVTPL</b>	
Designated at Inception	14,820
Held for Trading	(29,772)
	<b>(14,952)</b>
<b>Net Loss on Financial Instruments at FVTPL</b>	<b>\$ (60,861)</b>

## 8. Class A and Class U Units

The Fund's authorized capital includes an unlimited number of Class A units and an unlimited number of Class U units. On January 29, 2015, the Fund issued one Class A unit for \$10.00 cash.

On February 24, 2015, the Fund completed its initial public offering of 3,200,000 Class A units at a price of \$10.00 per unit and 412,600 Class U units at a price of US\$10.00 per unit, for gross proceeds of \$37.2 million. On March 9, 2015, the Fund closed the over-allotment option raising additional gross proceeds of \$1.8 million from the issuance of 175,000 Class A units.

**U.S. Financials Income Fund [USF.UN]  
Notes to Financial Statements  
March 31, 2015**

The Fund intends to pay equal quarterly cash distributions on the last business day of March, June, September and December in an amount targeted to be 5.0 percent per annum of the issue price of the Class A and Class U units in their respective currencies. The initial cash distribution was paid on March 31, 2015 and was prorated to reflect the period from the closing date to March 31, 2015.

During the period ended March 31, 2015, the unit transactions are as follows:

<b>March 31, 2015</b>	
<b>Class A Units</b>	
Units outstanding, beginning of period	-
Units issued	3,375,000
Conversions	2,516
Units outstanding, end of period	<b>3,377,516</b>
<b>Class U Units</b>	
Units outstanding, beginning of period	-
Units issued	412,600
Conversions	(2,000)
Units outstanding, end of period	<b>410,600</b>

**9. Related Party Transactions**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

**(a) Management Fees**

Strathbridge, as Investment Manager and Manager under the terms of the Investment Management Agreement and Trust Agreement, receives fees payable at annual rates of 1.25 percent of the Fund's net asset value of the Fund and calculated and payable monthly, plus applicable taxes. The Fund is responsible for all ongoing custodian, manager, legal, accounting and audit fees as well as all other expenses incurred by the Custodian and Manager in the ordinary course of business relating to the Fund's operations. Total management fees for the period ended March 31, 2015 were \$42,651.

**(b) Board of Advisors' Remuneration**

Total remuneration paid to the external members of the Board of Advisors for the period ended March 31, 2015 was nil.

**(c) Independent Review Committee Fees**

Total remuneration paid to the external members of the Independent Review Committee for the period ended March 31, 2015 was nil.

**10. Brokerage Commissions and Soft Dollars**

The Manager may select brokerages who charge a commission in soft dollars if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized. The ascertainable soft dollar value received as a percentage of total transaction fees paid during the period ended March 31, 2015 is disclosed below:

<b>March 31, 2015</b>	
Soft Dollars	\$25,666
Percentage of Total Transaction Fees	99.4%

**11. Decrease in Net Assets Attributable to Holders of Class A and Class U Units per Unit**

The Decrease in Net Assets Attributable to Holders of Class A and Class U units per unit for the period ended March 31, 2015 is calculated as follows:

	March 31, 2015	
	Class A Units	Class U Units
Decrease in Net Assets Attributable to Holders of Units	\$ (96,340)	\$(14,319)
Weighted Average Number of Units Outstanding during the Period	3,312,435	412,100
Decrease in Net Assets Attributable to Holders of Units per Unit	\$ (0.0291)	\$(0.0347)

**12. Future Accounting Policy Changes**

IFRS 9: Financial Instruments ("IFRS 9"), which is intended to replace IAS 39, sets forth new requirements for financial instrument classification and measurement, impairment and hedge accounting. The mandatory effective date of IFRS 9 has been tentatively set for January 1, 2018. Although entities may still choose to apply IFRS 9 immediately, the Fund has chosen not to early adopt IFRS 9. Based on the Manager's current understanding and analysis of IFRS 9, the transition to IFRS 9 will change the manner in which investments are disclosed with no impact to value.

**U.S. Financials Income Fund [USF.UN]**

**Board of Advisors**

John P. Mulvihill  
Chairman & CEO  
Strathbridge Asset Management Inc.

John D. Germain  
Senior Vice-President & Chief Financial  
Officer  
Strathbridge Asset Management Inc.

Michael M. Koerner<sup>(1)</sup>  
Corporate Director

Robert W. Korthals<sup>(1)</sup>  
Corporate Director

Robert G. Bertram<sup>(1)</sup>  
Corporate Director

<sup>(1)</sup> *Independent Review Committee Member*

**Information**

**Independent Auditor:**

Deloitte LLP Brookfield Place  
181 Bay Street, Suite 1400  
Toronto, Ontario  
M5J 2V1

**Transfer Agent:**

Computershare Investor Services Inc.  
100 University Avenue, 8th Floor  
Toronto, Ontario  
M5J 2Y1

**Units Listed:**

Toronto Stock Exchange trading under  
USF.UN

**Custodian:**

RBC Investor Services Trust  
RBC Centre  
155 Wellington Street West, 2nd Floor  
Toronto, Ontario  
M5V 3L3

**Investment Funds Managed by Strathbridge Asset  
Management Inc.**

**UNIT TRUSTS**

Canadian Utilities & Telecom Income Fund (UTE.UN)  
Core Canadian Dividend Trust (CDD.UN)  
Gold Participation and Income Fund (GPF.UN)  
Low Volatility U.S. Equity Income Fund (LVU.UN)  
NDX Growth & Income Fund (NGI.UN)  
Top 10 Canadian Financial Trust (TCT.UN)  
U.S. Financials Income Fund (USF.UN)

**SPLIT SHARES**

Premium Income Corporation (PIC.PR.A/PIC.A)  
S Split Corp. (SBN.PR.A/SBN)  
Top 10 Split Trust (TXT.PR.A/TXT.UN)  
World Financial Split Corp. (WFS.PR.A/WFS)

Visit our website at [www.strathbridge.com](http://www.strathbridge.com) for additional  
information on all Strathbridge Investment Funds.

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Contact your broker directly for address changes.

