

# Counsel High Yield Fixed Income

INTERIM UNAUDITED FINANCIAL STATEMENTS

For the period ended September 30, 2021

These Financial Statements do not contain the Management Report of Fund Performance ("MRFP") of the investment fund.

A copy of the Fund's current Simplified Prospectus, Annual Information Form, Management Report of Fund Performance, Fund Fact Sheets, quarterly portfolio disclosures and proxy voting policies and disclosures will be provided, without charge, by: calling toll-free 1-877-625-9885, writing to Counsel Portfolio Services Inc., 5015 Spectrum Way, Suite 300, Mississauga, ON, L4W 0E4, by visiting our website at [www.counsel-services.com](http://www.counsel-services.com) or by visiting [www.sedar.com](http://www.sedar.com).

**STATEMENTS OF FINANCIAL POSITION**

at September 30, 2021 (unaudited) with comparative figures at March 31, 2021 (audited)  
(in \$ 000 except per security amounts)

	Sep. 30 2021	Mar. 31 2021
<b>Assets</b>		
<b>Current assets:</b>		
Investments at fair value	46,665	47,393
Cash and cash equivalents	238	234
Accrued interest receivable	—	—
Dividends receivable	—	—
Accounts receivable for investments sold	40	20
Accounts receivable for securities issued	34	143
Accounts receivable from the Manager	—	1
Margin on derivative contracts	—	—
Derivative assets	—	—
Other assets	—	—
	46,977	47,791
<b>Non-current assets:</b>		
Taxes recoverable	—	—
Other assets	—	—
	—	—
<b>Total assets</b>	46,977	47,791
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Bank indebtedness	—	—
Accounts payable for investments purchased	94	46
Accounts payable for securities redeemed	100	88
Distributions payable	—	—
Accrued expenses and miscellaneous payables	1	1
Dividends payable on investments sold short	—	—
Derivative liabilities	39	28
Taxes payable	—	—
Other liabilities	—	—
<b>Total liabilities</b>	234	163
<b>Net assets attributable to securityholders</b>	46,743	47,628

**STATEMENTS OF COMPREHENSIVE INCOME**

for the periods ended September 30 (unaudited)  
(in \$ 000 except per security amounts)

	2021	2020
<b>Income:</b>		
Dividends	—	—
Interest and other income	1,164	1,322
Net realized gain (loss)	(167)	(631)
Net unrealized gain (loss)	560	3,397
Income (loss) from derivatives	—	—
Income (loss) from short selling	—	—
Securities lending income	—	—
Trust income	—	—
<b>Total income</b>	1,557	4,088
<b>Expenses:</b>		
Management fees	64	73
Management fee rebates	(2)	—
Administration fees	42	44
Commissions and other portfolio transaction costs	—	—
Independent Review Committee costs	—	1
Interest and other charges	—	—
<b>Expenses before amounts absorbed by Manager</b>	104	118
Expenses absorbed by Manager	(8)	(8)
<b>Net expenses</b>	96	110
<b>Increase (decrease) in net assets attributable to securityholders from operations before tax</b>		
	1,461	3,978
Foreign withholding tax expense (recovery)	—	—
Foreign income tax expense (recovery)	—	—
Income tax expense (recovery)	—	—
<b>Increase (decrease) in net assets attributable to securityholders from operations</b>	1,461	3,978

	Net assets attributable to securityholders			
	per security		per series	
	Sep. 30 2021	Mar. 31 2021	Sep. 30 2021	Mar. 31 2021
Series A	9.18	9.11	6,181	5,895
Series F	9.32	9.25	1,409	1,487
Series I	8.37	8.30	786	774
Series Private Wealth	9.34	9.27	38,367	39,472
			46,743	47,628

	Increase (decrease) in net assets attributable to securityholders from operations			
	per security		per series	
	2021	2020	2021	2020
Series A	0.19	0.72	119	487
Series F	0.24	0.78	33	200
Series I	0.28	0.75	26	67
Series Private Wealth	0.31	0.84	1,283	3,224
			1,461	3,978

**STATEMENTS OF CHANGES IN FINANCIAL POSITION**

for the periods ended September 30 (unaudited)  
(in \$ 000 except when stated)

	TOTAL		SERIES A		SERIES F		SERIES I	
	2021	2020	2021	2020	2021	2020	2021	2020
<b>Net assets attributable to securityholders, beginning of period</b>	47,628	38,624	5,895	6,002	1,487	2,457	774	709
Increase (decrease) in net assets attributable to securityholders resulting from:								
<b>Operations</b>	1,461	3,978	119	487	33	200	26	67
<b>Distributions:</b>								
Income	(1,125)	(1,205)	(85)	(102)	(26)	(48)	(20)	(20)
Capital gains	–	–	–	–	–	–	–	–
Return of capital	–	–	–	–	–	–	–	–
Management fee rebates	(2)	–	(2)	–	–	–	–	–
<b>Total distributions</b>	(1,127)	(1,205)	(87)	(102)	(26)	(48)	(20)	(20)
<b>Security transactions:</b>								
Proceeds from sale of securities	3,290	17,489	849	127	349	417	64	3
Proceeds from securities issued on merger	–	–	–	–	–	–	–	–
Reinvested from distributions	1,123	1,195	87	101	26	43	19	19
Payment on redemption of securities	(5,632)	(18,732)	(682)	(484)	(460)	(879)	(77)	(23)
<b>Total security transactions</b>	(1,219)	(48)	254	(256)	(85)	(419)	6	(1)
<b>Increase (decrease) in assets attributable to securityholders</b>	(885)	2,725	286	129	(78)	(267)	12	46
<b>Net assets attributable to securityholders, end of period</b>	46,743	41,349	6,181	6,131	1,409	2,190	786	755
<b>Increase (decrease) in securities</b> (in thousands):								
<b>Securities outstanding, beginning of period</b>			647	693	161	279	93	90
Add (deduct):								
Securities sold			93	14	37	44	8	–
Securities issued on merger			–	–	–	–	–	–
Reinvested from distributions			9	11	3	5	2	3
Securities redeemed			(75)	(54)	(50)	(95)	(9)	(3)
<b>Securities outstanding, end of period</b>			674	664	151	233	94	90

	SERIES PRIVATE WEALTH	
	2021	2020
<b>Net assets attributable to securityholders, beginning of period</b>	39,472	29,456
Increase (decrease) in net assets attributable to securityholders resulting from:		
<b>Operations</b>	1,283	3,224
<b>Distributions:</b>		
Income	(994)	(1,035)
Capital gains	–	–
Return of capital	–	–
Management fee rebates	–	–
<b>Total distributions</b>	(994)	(1,035)
<b>Security transactions:</b>		
Proceeds from sale of securities	2,028	16,942
Proceeds from securities issued on merger	–	–
Reinvested from distributions	991	1,032
Payment on redemption of securities	(4,413)	(17,346)
<b>Total security transactions</b>	(1,394)	628
<b>Increase (decrease) in assets attributable to securityholders</b>	(1,105)	2,817
<b>Net assets attributable to securityholders, end of period</b>	38,367	32,273
<b>Increase (decrease) in securities</b> (in thousands):		
<b>Securities outstanding, beginning of period</b>	4,260	3,340
Add (deduct):		
Securities sold	219	1,828
Securities issued on merger	–	–
Reinvested from distributions	107	111
Securities redeemed	(476)	(1,844)
<b>Securities outstanding, end of period</b>	4,110	3,435

The accompanying notes are an integral part of these financial statements.

**STATEMENTS OF CASH FLOWS**

for the periods ended September 30 (unaudited)  
(in \$ 000)

	2021	2020
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets attributable to securityholders from operations	1,461	3,978
<b>Less non-cash impact of:</b>		
Net realized loss (gain) on investments	167	631
Change in net unrealized loss (gain) on investments	(560)	(3,397)
Distributions received from Underlying Funds	(1,204)	(1,309)
<b>Adjustments for:</b>		
Proceeds from sale and maturity of investments	4,024	18,051
Purchases of investments	(1,660)	(16,626)
(Increase) decrease in accounts receivable and other assets	1	–
Increase (decrease) in accounts payable and other liabilities	–	–
<b>Net cash provided by (used in) operating activities</b>	<b>2,229</b>	<b>1,328</b>
<b>Cash flows from financing activities:</b>		
Proceeds from securities issued	3,399	17,488
Proceeds from securities issued on merger	–	–
Payments on redemption of securities	(5,620)	(18,839)
Distributions paid net of reinvestments	(4)	(10)
<b>Net cash provided by (used in) financing activities</b>	<b>(2,225)</b>	<b>(1,361)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>4</b>	<b>(33)</b>
Cash and cash equivalents at beginning of period	234	207
Effect of exchange rate fluctuations on cash and cash equivalents	–	–
<b>Cash and cash equivalents, end of period</b>	<b>238</b>	<b>174</b>
Cash	238	174
Cash equivalents	–	–
Bank indebtedness	–	–
	238	174
<b>Supplementary disclosures on cash flow from operating activities:</b>		
Dividends received net of withholding taxes	–	–
Interest received net of withholding taxes	–	1
Interest paid	–	–
Income taxes paid (recovered)	–	–

**SCHEDULE OF INVESTMENTS**

as at September 30, 2021 (unaudited)

	No. of Units	Average Cost (\$'000)	Fair Value (\$'000)	Indirect Exposure to Financial Instrument Risks (note 8):			
				Currency Risk	Interest Rate Risk	Other Price Risk	Credit Risk
<b>MUTUAL FUNDS</b>							
Bluebay Emerging Markets Corporate Bond Fund Series 0	1,337,884	14,182	13,811	✓	✓		✓
Counsel North American High Yield Bond Series 0	3,435,857	33,430	32,854	✓	✓	✓	✓
<b>TOTAL INVESTMENTS</b>		<u>47,612</u>	<u>46,665</u>				
<b>Net Assets</b>							
Total investments			46,665				
Derivative liabilities (see schedule of derivative instruments)			(39)				
Cash			238				
Other net assets (liabilities)			(121)				
			<u>46,743</u>				

**Schedule of Asset Composition**

The effective allocation shows the regional or sector exposure of the Fund calculated by including the Fund's proportionate share of its holdings in Underlying Funds.

at September 30, 2021 (unaudited)

at March 31, 2021

at September 30, 2021 (unaudited)		at March 31, 2021	
	% of net assets		% of net assets
<b>EFFECTIVE ASSET TYPE</b>		<b>EFFECTIVE ASSET TYPE</b>	
Corporate Bonds	92.6	Corporate Bonds	92.8
Equities	1.2	Equities	1.2
Government Bonds	1.1	Government Bonds	0.6
Cash	0.5	Cash	0.5
Other	4.6	Other	4.9
	<u>100.0</u>		<u>100.0</u>
<b>EFFECTIVE REGIONAL ALLOCATION</b>		<b>EFFECTIVE REGIONAL ALLOCATION</b>	
United States	60.2	United States	60.0
Pacific ex Japan	12.1	Latin America	9.4
Middle East and Africa	8.4	Pacific ex Japan	8.8
Latin America	6.9	Middle East and Africa	8.4
Canada	5.8	Canada	7.5
Europe ex U.K.	5.0	Europe ex U.K.	4.6
United Kingdom	1.1	United Kingdom	0.8
Cash	0.5	Cash	0.5
	<u>100.0</u>		<u>100.0</u>

**Schedule of Derivative Instruments**

as at September 30, 2021 (unaudited)

**Schedule of Forward Currency Contracts**

Counterparty credit rating	Settlement date	Currency to be received (000)	Contract cost (CAD\$ 000)	Currency to be delivered (000)	Current fair value (CAD\$ 000)	Unrealized gains (CAD\$ 000)	Unrealized losses (CAD\$ 000)
AA	12/17/21	1,741 CAD	1,741	1,381 USD	1,750	–	(9)
AA	12/17/21	1,740 CAD	1,740	1,381 USD	1,750	–	(10)
AA	12/17/21	1,740 CAD	1,740	1,381 USD	1,750	–	(9)
AA	12/17/21	1,739 CAD	1,739	1,381 USD	1,750	–	(11)
						–	(39)
<b>TOTAL DERIVATIVE ASSETS</b>							–
<b>TOTAL DERIVATIVE LIABILITIES</b>							(39)

**Note:**

The following abbreviations have been used:

CAD – Canadian dollars

USD – United States dollars

**NOTES TO INTERIM UNAUDITED FINANCIAL STATEMENTS****1. FISCAL PERIODS AND GENERAL INFORMATION**

The information provided in these financial statements and notes thereto is for the six-month period ended or as at September 30, 2021 and 2020, except for the comparative information presented in the Statements of Financial Position and notes thereto, which is as at March 31, 2021, as applicable. In the year a series is established, 'period' represents the period from inception to the period end of that fiscal period. Refer to Note 9 (a) for series inception dates.

The Fund is organized as an open-ended mutual fund trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust as amended and restated from time to time. The address of the Fund's registered office is 5015 Spectrum Way, Suite 300, Mississauga, Ontario, Canada. The Fund is authorized to issue an unlimited number of units (referred to as "security" or "securities") of multiple series. Series of the Fund are available for sale under Simplified Prospectus and/or exempt distribution options.

Counsel Portfolio Services Inc. (the "Manager" or "Counsel") acts as the Fund's manager and trustee.

**2. BASIS OF PREPARATION AND PRESENTATION**

These unaudited interim financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including international Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These financial statements were prepared using the same accounting policies, critical accounting judgements and estimates as applied in the Fund's most recent audited annual financial statements for the year ended March 31, 2021. A summary of the Fund's significant accounting policies under IFRS is presented in Note 3.

These financial statements are presented in Canadian dollars, which is the Fund's functional currency, and are rounded to the nearest thousand unless otherwise indicated. These financial statements are prepared on a going concern basis using the historical cost basis, except for financial assets and liabilities that have been measured at fair value.

These financial statements were authorized for issue by Counsel's Board of Directors on November 11, 2021.

**3. SIGNIFICANT ACCOUNTING POLICIES****(a) Financial Instruments**

Financial instruments include financial assets and liabilities investment funds and derivatives. The Fund classifies and measures financial instruments in accordance with IFRS 9 Financial Instruments. Upon initial recognition, financial instruments are classified as fair value through profit or loss ("FVTPL"). All financial instruments are recognized in the Statements of Financial Position when the Fund becomes a party to the contractual requirements of the instrument. Financial instruments are derecognized when the right to receive cash flows from the instrument has expired or the Fund has transferred substantially all risks and rewards of ownership. As such, investment purchase and sale transactions are recorded as of the trade date.

Financial instruments are designated on initial recognition as FVTPL with changes in fair value recognized in the Statement of Comprehensive Income – Net unrealized gain (loss).

Realized and unrealized gains and losses on investments are calculated based on average cost of investments and exclude commissions and other portfolio transaction costs, which are separately reported in the Statement of Comprehensive Income – Commissions and other portfolio transaction costs.

Gains and losses arising from changes in the fair value of the investments are included in the Statement of Comprehensive Income for the period in which they arise.

The Fund accounts for its holdings in underlying mutual funds and exchange traded funds at FVTPL. Counsel has concluded that the investment funds in which the Fund invests, do not meet the definition of structured entities.

The Fund's redeemable securities entitle securityholders the right to redeem their interest in the Fund for cash equal to their proportionate share of the net asset value of the Fund, amongst other contractual rights. The Fund's redeemable securities meet the criteria for classification as financial liabilities under IAS 32, *Financial Instruments: Presentation*. The Fund's obligation for net assets attributable to securityholders is presented at the redemption amount.

IAS 7, *Statement of Cash Flows*, requires disclosures related to changes in liabilities and assets, such as the securities of the Fund, arising from financing activities. Changes in securities of the Fund, including both changes from cash flows and non-cash changes, are included in the Statement of Changes in Financial Position. Any changes in the securities not settled in cash as at the end of the period are presented as either Accounts receivable for securities issued or Accounts payable for securities redeemed in the Statement of Financial Position. These accounts receivable and accounts payable amounts typically settle shortly after period-end.

**(b) Fair Value Measurement**

Fair value is defined as 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.

Mutual fund securities of an underlying fund are valued on a business day at the price calculated by the manager of such underlying fund in accordance with the constating documents of such underlying fund. Investments, including exchange traded funds ("ETFs"), listed on a public securities exchange or traded on an over-the-counter market are valued on the basis of the last traded market price where this price falls within the quoted bid-ask spread for the investment. In 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 based on the specific facts and circumstances. Mutual fund securities of an underlying fund are valued on a business day at the price calculated by the manager of such underlying fund in accordance with the constating documents of such underlying fund. The cost of investments is determined on a weighted average cost basis.

The Fund may use forward contracts to hedge against losses caused by changes in exchange rates. Valuations of derivative instruments are carried out daily, using normal exchange reporting sources for exchange-traded derivatives and specific broker enquiry for over-the-counter derivatives.

The value of forward contracts is the gain or loss that would be realized if, on the valuation date, the positions were to be closed out. The change in value of forward contracts is included in the Statements of Comprehensive Income Net unrealized gain (loss).

The Fund categorizes the fair value of its assets and liabilities into three categories, which are differentiated based on the observable nature of the inputs and extent of estimation required.

**Level 1** – Unadjusted quoted prices in active markets for identical assets or liabilities;

**Level 2** – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly including quoted prices on inactive markets and from recognized investment dealers; and

**Level 3** – Inputs that are not based on observable market data.

As at September 30, 2021 and March 31, 2021, all investments were classified as Level 1. All derivative assets or liabilities, if any, are classified as Level 2. There were no transfers between Level 1 and Level 2 during the periods.

**(c) Income recognition**

Interest income from interest bearing investments is recognized using the effective interest method. Dividends are accrued as of the ex-dividend date. Distributions from underlying mutual funds are recorded on the declaration date. Distributions of Canadian dividends are included in dividend income. Capital gains distributions from underlying funds are included in Net realized gains (losses). Other distributions are included in Interest and other income. Realized gains or losses on the sale of investments, including foreign exchange gains or losses on such investments, are calculated on an average cost basis.

Income, realized gains (losses) and unrealized gains (losses) are allocated daily among the series on a pro-rata basis.

**(d) Commissions and other portfolio transaction costs**

Commissions and other portfolio transaction costs are costs incurred to acquire, issue or dispose of financial assets or liabilities. They include fees and commissions paid to agents, exchanges, brokers, dealers and other intermediaries. The total brokerage commissions incurred by the Fund in connection with portfolio transactions for the periods, together with other transaction charges, is disclosed in the Statements of Comprehensive Income. Brokerage business is allocated to brokers based on the best net result for the Fund. Subject to this criteria, commissions may be paid to brokerage firms which provide (or pay for) certain services, other than order execution, which may include investment research, analysis and reports, and databases or software in support of these services. The value of certain proprietary services provided by brokers cannot be reasonably estimated.

**NOTES TO INTERIM UNAUDITED FINANCIAL STATEMENTS****3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(e) Securities lending, repurchase and reverse repurchase transactions**

The Fund is permitted to enter into securities lending, repurchase and reverse repurchase transactions as set out in the Fund's Simplified Prospectus. These transactions involve the temporary exchange of securities for collateral with a commitment to redeliver the same securities on a future date. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on cash or securities held as collateral. Income earned from these transactions is included in the Statements of Comprehensive Income and recognized when earned. Securities lending transactions are administered by the Canadian Imperial Bank of Commerce (the "Securities Lending Agent"). The value of cash or securities held as collateral must be at least 102% of the fair value of the securities loaned, sold or purchased. Note 9 summarizes the details of securities loaned and collateral received, as well as a reconciliation of securities lending income, if applicable. Collateral received is comprised of debt obligations of the Government of Canada and other countries, Canadian provincial and municipal governments, and financial institutions.

**(f) Foreign currency**

The functional and presentation currency of the Fund is Canadian dollars. Foreign currency purchases and sales of investments and foreign currency dividend and interest income and expenses are translated to Canadian dollars at the rate of exchange prevailing at the time of the transactions.

Foreign exchange gains (losses) on purchases and sales of foreign currencies are included in the Statements of Comprehensive Income – Net realized gain (loss).

The fair value of investments and other assets and liabilities, denominated in foreign currencies, are translated to Canadian dollars at the rate of exchange prevailing on each business day.

**(g) Offsetting**

The Fund only offsets financial assets and liabilities in the Statement of Financial Position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In the normal course of business, the Fund enters into various master netting agreements or similar agreements that do not meet the criteria for offsetting in the Statements of Financial Position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts. Note 9 summarizes the details of such offsetting, if applicable, subject to master netting arrangements or other similar agreements and the net impact to the Statements of Financial Position if all such rights were exercised.

Income and expenses are not offset in the statement of comprehensive income unless required or permitted to by an accounting standard, as specifically disclosed in the IFRS policies of the Fund.

**(h) Net assets attributable to securityholders per security**

Net assets attributable to securityholders per security is computed by dividing the net assets attributable to securityholders of a series of securities on a business day by the total number of securities of the series outstanding on that day.

**(i) Net asset value per security**

Net asset value per security is determined for the purchase and redemption of securities in accordance with the methods disclosed in the Fund's Simplified Prospectus and Annual Information Form. These methods may vary from valuation principles under IFRS. As at September 30, 2021 and March 31, 2021, there were no such differences.

**(j) Increase (decrease) in net assets attributable to securityholders from operations per security**

Increase (decrease) in net assets attributable to securityholders from operations per security in the Statement of Comprehensive Income represents the increase (decrease) in net assets attributable to securityholders from operations for the period, divided by the weighted average number of securities outstanding during the period.

**(k) Future Accounting Changes**

Counsel has determined there are no material implications to the Fund's financial statements arising from IFRS issued but not yet effective.

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of these financial statements requires management to make estimates and assumptions that primarily affect the valuation of investments. Estimates and assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates.

Ongoing uncertainty regarding the duration and long-term impact of the COVID-19 pandemic and the implementation of vaccination programs, as well as the efficacy of government and central bank monetary and fiscal interventions, may continue to affect the Fund's performance in future periods.

**Use of Judgments****Classification and measurement of investments and application of the fair value option**

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments in order to determine the most appropriate classification in accordance with IFRS 9. The Manager has considered the Fund's business model, commitments to securityholders, and the manner in which investments are managed and evaluated as a group and has determined that irrevocable designation of financial instruments as financial assets or financial liabilities at fair value through profit or loss provides the most appropriate measurement and presentation of the Fund's investments and financial instruments.

**Functional Currency**

The Fund's functional and presentation currency is the Canadian dollar, which is the currency considered to best represent the economic effects of the Fund's underlying transactions, events and conditions taking into consideration the manner in which securities are issued and redeemed and how returns and performance by the Fund are measured.

**Structured entities and associates**

In determining whether an unlisted open-ended investment fund or an exchange-traded fund in which the Fund invests, but that it does not consolidate, meets the definitions of either a structured entity or of an associate, Counsel is required to make significant judgments about whether these underlying funds have the typical characteristics of a structured entity or of an associate. Counsel has assessed the characteristics of these underlying funds and has concluded that they do not meet the definition of either a structured entity or of an associate because the Fund does not have contracts or financing arrangements with these underlying funds and the Fund does not have an ability to influence the activities of these underlying funds or the returns it receives from investing in these underlying funds.

**5. INCOME TAXES**

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and, accordingly, is subject to tax on its income including net realized capital gains in the taxation year, which is not paid or payable to its securityholders as at the end of the taxation year. It is the intention of the Fund to distribute all of its net income and sufficient net realized capital gains so that the Fund will not be subject to income taxes other than foreign withholding taxes, if applicable. The Fund's taxation year end is December 15.

Losses of the Fund cannot be allocated to securityholders and are retained in the Fund for use in future years. Non-capital losses incurred may be carried forward up to 20 years to reduce taxable income and realized capital gains of future years. Net capital losses may be carried forward indefinitely to reduce future realized capital gains.

Refer to Note 9 (d) for a summary of the Fund's loss carryforwards.

**6. MANAGEMENT FEES AND OPERATING EXPENSES**

Counsel is paid a management fee for arranging for the management of the investment portfolio, providing investment analysis and recommendations, making investment decisions, making brokerage arrangements relating to the purchase and sale of the investment portfolio and making arrangements with registered dealers for the purchase and sale of securities of the Fund by securityholders.

Each series of the Fund is charged a fixed rate annual administration fee ("Administration Fee"), as applicable, and in return, Counsel bears all of the operating expenses of the Fund, other than certain specified fund costs.

Other fund costs include taxes (including, but not limited to GST/HST and income tax), interest and borrowing costs, all fees and expenses of the Counsel Funds' Independent Review Committee, costs of complying with the regulatory requirement to produce Fund Facts, and any new fees related to external services that were not commonly charged in the Canadian mutual fund industry after the date of the Fund's most recently filed Simplified Prospectus.

Counsel may waive or absorb management fees and/or Administration Fees at its discretion and stop waiving or absorbing such fees at any time without notice. Refer to Note 9 (a) for the management fee and Administration Fee rates charged to each series of securities.

**NOTES TO INTERIM UNAUDITED FINANCIAL STATEMENTS****7. FUND'S CAPITAL**

The capital of the Fund is divided into different series with each series having an unlimited number of securities. The securities outstanding for the Fund as at September 30, 2021 and 2020 (as applicable) and securities issued, reinvested and redeemed for the period are presented in the Statements of Changes in Financial Position. Counsel manages the capital of the Fund in accordance with the investment objectives and strategies as discussed in Note 8 (a).

**8. FINANCIAL INSTRUMENTS RISK****(a) Risk exposure and management**

The Fund's investment activities expose it to a variety of financial risks, as defined in IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7"). The Fund's exposure to financial risks is concentrated in its investments, which are presented in the Schedule of Investments, grouped by asset type, with geographic and sector information.

The Manager seeks to minimize potential adverse effects of financial risks on the Fund's performance by employing professional, experienced portfolio advisors, by monitoring the Fund's positions and market events daily, by diversifying the investment portfolio within the constraints of the Fund's investment objectives and strategies, as disclosed in Note 9 (b), and where applicable, by using derivatives to hedge certain risk exposures. To assist in managing risks, Counsel also maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy, internal guidelines, and securities regulations.

The Fund employs a passive investment strategy whereby investments in securities of underlying investment funds are based on target asset weightings. Left unchecked, market fluctuations can cause the investments to diverge from these target weightings. Counsel monitors these divergences and, if they become significant, the Fund's investments are rebalanced back towards target weightings. The target weightings allocated to each underlying investment fund and their selection are based on several factors, including impact to the Fund's volatility and asset class diversification and may be subject to change based on Counsel's assessment of current market conditions.

**(b) Liquidity risk**

Liquidity risk arises when the Fund encounters difficulty in meeting its financial obligations as they come due. The Fund is exposed to liquidity risk due to potential daily cash redemptions of redeemable securities. In order to monitor the liquidity of its assets, the Fund utilizes a liquidity risk management program that calculates the number of days to convert the investments held by the Fund into cash using a multi-day liquidation approach. This liquidity risk analysis assesses the Fund's liquidity against pre-determined minimum liquidity percentages, established for different time periods. In addition, the Fund has the ability to borrow up to 5% of its net assets for the purposes of funding redemptions. In order to comply with securities regulations, the Fund must maintain at least 85% of its assets in liquid investments (i.e. investments that can be readily sold).

**(c) Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment into which it has entered with the Fund.

All transactions in listed securities are executed with approved brokers. To minimize the possibility of settlement default, securities are exchanged for payment simultaneously, where market practices permit, through the facilities of a central depository and/or clearing agency where customary.

The carrying amount of investments and other assets represents the maximum credit risk exposure as at the dates of the Statements of Financial Position. The Fund may enter into securities lending transactions with counterparties and it may also be exposed to credit risk from the counterparties to the derivative instruments it may use. Credit risk associated with these transactions is considered minimal as all counterparties have an approved credit rating equivalent to a Standard & Poor's credit rating of not less than A-1 (low) on their short-term debt and of A on their long-term debt, as applicable.

The Fund's greatest indirect concentration of credit risk is to securities and derivatives held by underlying funds. For more information regarding the credit risk of underlying funds, refer to the Underlying Funds' financial statements available on the SEDAR website at [www.sedar.com](http://www.sedar.com) or at [www.counselservices.com](http://www.counselservices.com).

**(d) Currency risk**

Currency risk is the risk that financial instruments which are denominated or exchanged in a currency other than the Canadian dollar, which is the Fund's functional currency, will fluctuate due to changes in exchange rates. Generally, foreign denominated investments increase in value when the value of the Canadian dollar (relative to foreign currencies) falls. Conversely, when the value of the Canadian dollar rises relative to foreign currencies, the values of foreign denominated investments fall.

The Fund follows a dynamic hedging strategy where it targets a hedge against foreign currencies, based on the Counsel's expectation of future exchange rates at that time. As of September 30, 2021, the Fund was targeting a hedge of 50.0% (March 31, 2021 – 37.5%) against the U.S. Dollar, 50.0% (March 31, 2021 – 50.0%) against the Euro, and 25.0% (March 31, 2021 – 25.0%) against the British pound. These hedging positions were closed in October 2021.

Note 9 (c) indicates the Fund's sensitivity to currency risk including potential indirect impacts from underlying investment funds in which the Fund invests, and/or derivative contracts including forward currency contracts. In practice, the actual trading results may differ and the difference could be material. Other financial assets and liabilities (including dividends and interest receivable, and receivables/payables for investments sold/purchased) that are denominated in foreign currencies do not expose the Fund to significant currency risk.

**(e) Interest rate risk**

Interest rate risk arises on interest-bearing financial instruments. The Fund is exposed to the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. Generally, these securities increase in value when interest rates fall and decrease in value when interest rates rise.

Note 9 (c) summarizes the Fund's exposure to interest rate risk had prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, all other variables held constant. In practice, the actual trading results may differ and the difference could be material. The Fund's sensitivity to interest rate risk illustrated includes potential indirect impacts from underlying investment funds.

**(f) Other price risk**

Other 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 risk 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 market segment. All investments present a risk of loss of capital. This risk is managed through a careful selection of investments and other financial instruments within the parameters of the investment strategy.

Other price risk typically arises from exposure to equity securities. Note 9 (c) illustrates the potential increase or decrease in the Fund's net assets, through underlying investment funds, had the prices on the respective exchanges for these securities increased or decreased by 10%, all other variables held constant. In practice, the actual trading results may differ and the difference could be material.



**NOTES TO INTERIM UNAUDITED FINANCIAL STATEMENTS**

All figures stated in \$000s of Canadian dollars, except for Note 9(a), unless otherwise noted

**9. FUND SPECIFIC INFORMATION****(a) Series information**

Series	Date of Inception	Minimum Investment (\$)	Management Fee <sup>5</sup> (%)	Administration Fee <sup>5</sup> (%)
Series A <sup>1</sup>	July 13, 2012	1,000	1.80	0.25
Series F <sup>2</sup>	July 13, 2012	1,000	1.05	0.15
Series I <sup>2,3,5</sup>	July 13, 2012	1,000	–	0.15
Series Private Wealth <sup>4</sup>	July 24, 2012	–	–	0.15

<sup>1</sup> Series A is the only series subject to sales or redemption charges; these charges are based on purchase options chosen. Securities purchased under the sales charge option may be subject to a negotiated fee of up to 5% at time of initial purchase. Securities previously purchased under the redemption charge or low-load options may be subject to a redemption fee of up to 5% or 2% respectively (based on date of initial purchase); new securities are not available under these options but may be acquired through switching from other Counsel funds.

<sup>2</sup> A negotiable advisory or asset-based fee (plus sales taxes) is payable by investors to their dealer(s) in connection with the securities held in this series. The fee may be collected by Counsel from the investor's account through redemption of securities and remitted to the dealer at the investor's request. Alternatively, the dealer may collect it directly from the investor.

<sup>3</sup> The management fee for this series is 1.05% and is payable directly to Counsel generally through the monthly redemption of securities.

<sup>4</sup> There are no management fees for Series Private Wealth. An investor must enter into an agreement to participate in a discretionary managed program offered by IPC Securities Corporation and agree to pay certain asset-based fees.

<sup>5</sup> Counsel may, at its discretion, waive or lower the management fee (either directly or indirectly) and/or administration fee payable by investors. Individual investors may be eligible for a management fee reduction subject to meeting certain requirements as discussed in the Fund's Simplified Prospectus.

**(b) Investment Objectives and Strategies**

The Fund seeks to achieve a high level of income by investing (indirectly via underlying funds) in a diversified portfolio of high-quality Canadian, U.S. and international fixed income securities, as well as mortgage-backed securities, equity and equity-like securities that are expected to produce income. Foreign investments will usually be foreign corporate and government bonds.

**(c) Risks Associated with Financial Instruments**

## i. Currency Risk

		Impact on net assets			
		Strengthened by 5%		Weakened by 5%	
		(\$)	(%)	(\$)	(%)
September 30, 2021	Currency rate sensitivity arising from Underlying Funds and currency forwards	(1,171)	(2.5)	1,171	2.5
March 31, 2021	Currency rate sensitivity arising from Underlying Funds and currency forwards	(1,474)	(3.1)	1,474	3.1

## ii. Interest Rate Risk

		Impact on net assets			
		Increase by 1%		Decrease by 1%	
		(\$)	(%)	(\$)	(%)
September 30, 2021	Interest sensitivity arising from other financial instruments	(2,235)	(4.8)	2,235	4.8
March 31, 2021	Interest sensitivity arising from other financial instruments	(2,178)	(4.6)	2,178	4.6

## iii. Other Price Risk

Impact on net assets	Increase by 10%		Decrease by 10%	
	(\$)	(%)	(\$)	(%)
September 30, 2021	65	0.1	(65)	(0.1)
March 31, 2021	74	0.2	(74)	(0.2)

## iv. Credit Risk

The table below indicates the Fund's indirect exposure to debt securities (through its holdings in Underlying Funds) by credit rating as a percentage of net assets:

Bond Rating	September 30, 2021	March 31, 2021
	% of Net Assets	% of Net Assets
AA	3.0	2.9
A	1.5	1.1
BBB	10.0	11.1
BB	34.3	34.4
B	29.7	29.8
Unrated	15.2	14.1
Total	93.7	93.4

Credit ratings are based on DBRS, Standard & Poor's or Moody's ratings

**NOTES TO INTERIM UNAUDITED FINANCIAL STATEMENTS**

All figures stated in \$000s of Canadian dollars, except for Note 9(a), unless otherwise noted

**9. FUND SPECIFIC INFORMATION (continued)****(d) Loss Carryforwards**

Non-Capital Losses carryforward	Net Capital Losses carryforward
\$Nil	\$1,351

**(e) Offsetting of financial assets and financial liabilities**

The tables below present the recognized financial assets and financial liabilities that are subject to master netting arrangements or other similar agreements and the net impact on the Fund's Statements of Financial Position if all set-off rights were exercised as part of future events such as bankruptcy or termination of contracts. No amounts were offset in the financial statements.

	September 30, 2021			
	Gross amount of assets/liabilities	Amount available for offset	Margin	Net amount
Unrealized gains on derivative contracts	–	–	–	–
Unrealized losses on derivative contracts	(39)	–	–	(39)
<b>Total</b>	<b>(39)</b>	<b>–</b>	<b>–</b>	<b>(39)</b>

  

	March 31, 2021			
	Gross amount of assets/liabilities	Amount available for offset	Margin	Net amount
Unrealized gains on derivative contracts	–	–	–	–
Unrealized losses on derivative contracts	(28)	–	–	(28)
<b>Total</b>	<b>(28)</b>	<b>–</b>	<b>–</b>	<b>(28)</b>

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