

Financial Statements of

# **HEWARD EQUITY FUND**

For the six-month period ended June 30, 2020 (Unaudited)

# HEWARD EQUITY FUND

## Table of Contents

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	<b>Page</b>
Statements of Financial Position	1
Statements of Comprehensive Income	2
Statements of Changes in Net Assets Attributable to Holders of Redeemable Units	3
Statements of Cash Flows	4
Schedule of Investment Portfolio	5 - 6
Notes to Financial Statements	7 - 20

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim financial statements have been prepared by Majestic Asset Management LLC, in its capacity as the Manager of the Fund. The Fund's Manager is responsible for the information and representations contained in these financial statements.

The Manager is responsible for managing the business and affairs of the Fund. Heward Investment Management Inc. is the investment advisor of the Fund (the "Investment Advisor") and is responsible for the management of the Fund's investment portfolios. The Investment Advisor retains ownership of the Fund at all times.

The Manager maintains appropriate processes to ensure that relevant and reliable financial information is produced. The unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgements made by the Manager. The significant accounting policies which the Manager believes are appropriate for the Fund are described in Note 3 to the unaudited interim financial statements.

**On behalf of the Manager**



**August 24, 2020**

## NOTICE TO UNITHOLDERS

**The Auditors of the Fund have not reviewed these financial statements.**

Majestic Asset Management LLC, the Manager of the Fund, appoints an independent auditor to audit the Fund's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the Fund's interim financial statements, this must be disclosed in an accompanying notice.

# Heward Equity Fund

## Statements of Financial Position As at June 30, 2020 (Unaudited)

	June 30, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,382,247	\$ 2,290,047
Investments	18,339,896	20,991,988
Interest and dividends receivable	49,721	61,150
Prepaid expenses	1,911	4,785
Subscriptions receivable	61,750	228,000
	<u>20,835,525</u>	<u>23,575,970</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accrued liabilities	22,439	35,992
Distributions payable	119,869	117,105
Redemptions payable	1,500	84,985
Management and advisory fees payable (note 6)	2,003	2,404
	<u>145,811</u>	<u>240,486</u>
<b>Net Assets Attributable to Holders of Redeemable Units</b>	<u>\$ 20,689,714</u>	<u>\$ 23,335,484</u>
<b>Net Assets Attributable to Holders of Redeemable Units per Series</b>		
Series A	\$ 14	\$ 3,117
Series F	362,357	334,190
Series O	20,327,343	22,998,177
	<u>\$ 20,689,714</u>	<u>\$ 23,335,484</u>
<b>Number of Redeemable Units Outstanding (note 5)</b>		
Series A	1	240
Series F	31,004	25,860
Series O	1,493,212	1,523,848
<b>Net Assets Attributable to Holders of Redeemable Units per Unit (note 9)</b>		
Series A	\$ 14.00	\$ 12.99
Series F	11.69	12.92
Series O	13.61	15.09

Approved on behalf of the Manager



\_\_\_\_\_  
Majestic Asset Management LLC ("Manager")



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Majestic Asset Management LLC ("Manager")

# Heward Equity Fund

## Statements of Comprehensive Income

For the six-months ended June 30, 2020 (Unaudited)

	2020	2019
<b>Income</b>		
Net realized (loss) gain on sales of investments	\$ (322,698)	\$ 963,502
Dividends	279,368	333,455
Net realized gain on foreign exchange	82,109	3,239
Interest available for distribution	10,094	15,289
Other income	2,007	8,295
Net change in unrealized (depreciation) appreciation in value of investments	<u>(2,127,593)</u>	<u>1,428,215</u>
	<u>(2,076,713)</u>	<u>2,751,995</u>
<b>Expenses</b>		
Accounting and recordkeeping fees	27,268	31,252
Management and advisory fees (note 6)	14,152	14,331
Interest, bank charges and other	13,955	23,657
Audit	4,907	4,880
Custodian fee	4,345	3,708
Operating costs	3,821	6,426
Fund transaction processing fees	<u>771</u>	<u>892</u>
	<u>69,219</u>	<u>85,146</u>
<b>(Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units</b>	<u>\$ (2,145,932)</u>	<u>\$ 2,666,849</u>
<b>(Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units per Series</b>		
Series A	\$ (510)	\$ 336
Series F	(40,083)	40,766
Series O	<u>(2,105,339)</u>	<u>2,625,747</u>
	<u>\$ (2,145,932)</u>	<u>\$ 2,666,849</u>
<b>Weighted Average of Redeemable Units Outstanding During the Period</b>		
Series A	97	240
Series F	31,550	27,233
Series O	1,506,179	1,490,864
<b>(Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Series A	\$ (5.26)	\$ 1.40
Series F	(1.27)	1.50
Series O	(1.40)	1.76

## Heward Equity Fund

### Statements of Changes in Net Assets Attributable to Holders of Redeemable Units For the six-months ended June 30, 2020 (Unaudited)

	Net assets attributable to holders of redeemable units, beginning of period	Proceeds from redeemable units issued (Including Switch-ins) <sup>(1)</sup>	Redemption of redeemable units (Including Switch-outs) <sup>(1)</sup>	Decrease in net assets attributable to holders of redeemable units	Distribution to unitholders of redeemable units	Reinvestments of distributions to holders of redeemable units	Net assets attributable to holders of redeemable units, end of period
<b>June 30, 2020</b>							
Series A	\$ 3,117	\$ –	\$ (2,593)	\$ (510)	\$ –	\$ –	14
Series F	334,190	115,144	(45,000)	(40,083)	(1,894)	–	362,357
Series O	22,998,177	1,136,900	(1,468,401)	(2,105,339)	(233,994)	–	20,327,343
	<u>\$ 23,335,484</u>	<u>\$ 1,252,044</u>	<u>\$ (1,515,994)</u>	<u>\$ (2,145,932)</u>	<u>\$ (235,888)</u>	<u>\$ –</u>	<u>20,689,714</u>

<sup>(1)</sup> Total proceeds from redeemable units relating to switch-in and redemptions of redeemable units relating to switch-out for the period ended June 30, 2020 were \$90,144 and \$(90,144), respectively.

	Net assets attributable to holders of redeemable units, beginning of period	Proceeds from redeemable units issued (Including Switch-ins) <sup>(1)</sup>	Redemption of redeemable units (Including Switch-outs) <sup>(1)</sup>	Increase in net assets attributable to holders of redeemable units	Distribution to unitholders of redeemable units	Reinvestments of distributions to holders of redeemable units	Net assets attributable to holders of redeemable units, end of period
<b>June 30, 2019</b>							
Class A	\$ 2,757	\$ –	\$ –	\$ 336	\$ (12)	\$ –	3,081
Class F	315,250	34,814	(25,000)	40,766	(2,220)	–	363,610
Class O	19,483,748	1,789,104	(1,578,999)	2,625,747	(264,096)	195	22,055,699
	<u>\$ 19,801,755</u>	<u>\$ 1,823,918</u>	<u>\$ (1,603,999)</u>	<u>\$ 2,666,849</u>	<u>\$ (266,328)</u>	<u>\$ 195</u>	<u>22,422,390</u>

<sup>(1)</sup> Total proceeds from redeemable units relating to switch-in and redemptions of redeemable units relating to switch-out for the period ended June 30, 2019 were \$34,813 and \$(34,813), respectively.

# Heward Equity Fund

## Statements of Cash Flows

For the six-months ended June 30, 2020 (Unaudited)

	2020	2019
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
(Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units	\$ (2,145,932)	\$ 2,666,849
Adjustments for non-cash items		
Net realized loss (gain) on sale of investments	322,698	(963,502)
Net realized gain on foreign exchange	(82,109)	(3,239)
Net change in unrealized depreciation (appreciation) in value of investments	2,127,593	(1,428,215)
Change in non-cash balances		
Decrease (increase) in interest and dividends receivable	11,429	(11,304)
Decrease in prepaid expenses	2,874	2,859
Decrease in accrued liabilities	(13,553)	(6,822)
Decrease in management and advisory fees payable	(401)	(2,141)
Proceeds from sale of investments	9,990,909	6,280,292
Purchase of investments	(9,789,108)	(5,642,451)
Cash provided by operating activities	<u>424,400</u>	<u>892,326</u>
<b>Financing Activities</b>		
Proceeds from redeemable units issued	1,328,150	1,789,105
Redemption of redeemable units	(1,509,335)	(1,569,186)
Distribution paid to holders of redeemable units, net of reinvested distributions	<u>(233,124)</u>	<u>(208,828)</u>
Cash (used in) provided by financing activities	<u>(414,309)</u>	<u>11,091</u>
Increase in cash and cash equivalents during the period	10,091	903,417
Foreign exchange gain on cash	82,109	3,239
Cash and cash equivalents, beginning of period	<u>2,290,047</u>	<u>1,954,446</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 2,382,247</u>	<u>\$ 2,861,102</u>
<b>Supplemental information*</b>		
Interest paid	\$ 255	\$ —
Interest received	11,954	13,923
Dividends received, net of withholding taxes	280,997	313,236

\*Included as a part of cash flows from operating activities

# Heward Equity Fund

## Schedule of Investment Portfolio As at June 30, 2020 (Unaudited)

Number of shares/units	Investments owned	Local currency	Average cost	Fair value	% of net asset value
<b>EQUITIES</b>					
<b>Canada</b>					
14,000	Algonquin Power & Utilities Corp.	CAD	\$ 268,078	\$ 245,700	1.19
4,500	BCE Inc.	CAD	247,833	254,790	1.23
6,000	Brookfield Asset Management Inc.	CAD	292,738	268,080	1.30
5,000	Canadian Apartment Properties REIT	CAD	230,196	242,950	1.17
4,800	Canadian Tire Corp Ltd.	CAD	594,851	564,672	2.73
19,500	Canadian Western Bank	CAD	517,224	461,175	2.23
45,000	Chartwell Retirement Residences	CAD	323,960	421,650	2.04
13,000	Dollarama Inc.	CAD	337,302	587,080	2.84
5,000	Emera Inc.	CAD	267,291	267,100	1.29
11,000	Gibson Energy Inc.	CAD	203,587	232,430	1.12
4,000	Intact Financial Corp.	CAD	529,946	516,840	2.50
5,000	Nutrien Ltd.	CAD	325,878	218,100	1.05
11,000	Open Text Corp.	CAD	447,820	634,150	3.07
8,000	Pembina Pipeline Corp.	CAD	215,983	271,520	1.31
23,675	Power Corp of Canada	CAD	634,595	565,359	2.73
4,500	Restaurant Brands International Inc.	CAD	387,783	332,505	1.61
5,500	Royal Bank of Canada	CAD	442,583	506,605	2.45
17,000	Suncor Energy Inc.	CAD	638,860	389,130	1.88
7,000	TC Energy Corp.	CAD	385,490	406,000	1.96
26,000	TELUS Corp.	CAD	604,465	592,020	2.86
12,000	The Bank of Nova Scotia	CAD	769,389	674,160	3.26
8,500	The Toronto-Dominion Bank	CAD	445,539	515,015	2.49
50,000	Tricon Capital Group Inc.	CAD	445,499	457,500	2.21
		CAD	<u>9,556,890</u>	<u>9,624,531</u>	<u>46.52</u>
<b>Germany</b>					
13,000	Deutsche Post AG	USD	<u>520,297</u>	<u>646,676</u>	<u>3.13</u>
<b>Ireland</b>					
925	Accenture PLC	USD	<u>250,343</u>	<u>269,651</u>	<u>1.30</u>
<b>Netherlands</b>					
10,000	Koninklijke DSM NV	USD	<u>254,819</u>	<u>469,204</u>	<u>2.27</u>
<b>United States</b>					
3,500	Abbott Laboratories	USD	318,229	434,455	2.10
2,000	Akamai Technologies Inc.	USD	228,774	290,781	1.41
300	Alphabet Inc.	USD	374,750	575,756	2.78
75	Amazon.com Inc.	USD	265,471	280,913	1.36
13,000	AT&T Inc.	USD	566,616	533,543	2.58
3,700	Baxter International Inc.	USD	416,297	432,507	2.09
4,300	Cisco Systems Inc.	USD	262,201	272,279	1.32
5,500	CVS Health Corp.	USD	459,622	485,136	2.34
5,500	Dollar Tree Inc.	USD	645,891	692,049	3.34
2,700	International Business Machines Corp.	USD	456,802	442,701	2.14



# Heward Equity Fund

## Schedule of Investment Portfolio (continued)

As at June 30, 2020 (Unaudited)

Number of shares/units	Investments owned (continued)	Local currency	Average cost	Fair value	% of net asset value
<b>EQUITIES (continued)</b>					
<b>United States (continued)</b>					
4,500	Jacobs Engineering Group Inc.	USD	\$ 479,159	\$ 518,079	2.50
1,000	McDonald's Corp.	USD	248,677	250,446	1.21
1,000	Microsoft Corp.	USD	248,873	276,295	1.34
7,200	Oracle Corp.	USD	457,896	540,269	2.61
850	UnitedHealth Group Inc.	USD	306,613	340,373	1.65
9,000	ViacomCBS Inc.	USD	388,215	284,944	1.38
7,000	Walgreens Boots Alliance Inc.	USD	541,431	402,855	1.95
1,700	Wal-Mart Stores Inc.	USD	282,804	276,453	1.34
			<u>6,948,321</u>	<u>7,329,834</u>	<u>35.44</u>
	<b>Total Equities</b>		\$ 17,530,670	\$ 18,339,896	88.66
	<b>Total investments owned</b>		\$ <u>17,530,670</u>	\$ 18,339,896	88.66
	<b>Other assets, net</b>			<u>2,349,818</u>	<u>11.34</u>
	<b>Net Assets Attributable to Holders of Redeemable Units</b>			<u>\$ 20,689,714</u>	<u>100.00</u>

# HEWARD EQUITY FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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## 1. General Information:

The Heward Equity Fund (the "Fund"), is an open-ended investment trust created on December 8, 2004 under the Laws of the province of Québec. The initial trust indenture was amended in 2007, 2012, 2013 and 2015. Prior to November 1, 2016, the Fund's investment fund manager was Heward Investment Management Inc., the Trustee was Computershare Trust Company of Canada and the Custodian was National Bank Correspondent Network. As of November 1, 2016, the services of the former Trustee (Computershare Trust Company of Canada) were terminated and TSX Trust Company was appointed as the new trustee of the Fund (the "Trustee"). At that date, Majestic Asset Management LLC became the new investment Fund manager of the Fund (the "Manager" or "Majestic") and entered into an amended and restated trust agreement with the Trustee, which amended and restated the Indentures (the "Trust Agreement"). The Manager is registered with the Autorité des marchés financiers ("AMF") as an exempt market dealer, portfolio manager and investment fund manager. The Manager is also registered as a commodity trading manager, portfolio manager, exempt market dealer and investment fund manager with the Ontario Securities Commission ("OSC"). The Manager is responsible for managing the business and affairs of the Fund, including the appointment and removal of the Trustee and other service providers.

Heward Investment Management Inc. (the "Investment Advisor") acts as the Investment Advisor of the Fund and is responsible for the management of the Fund's investment portfolio. The Investment Advisor is registered as a portfolio manager in the provinces of Alberta, British Columbia, New Brunswick, Ontario, and Quebec. The Investment Advisor retains ownership of the Fund at all times. SGGG Fund Services Inc. (the "Administrator") acts as the administrator and registrar of the Fund. National Bank Independent Network acts as the custodian (the "Custodian") and prime broker (the "Prime Broker") of the Fund.

The address of the Fund's registered office is 5005 Lapinière Blvd., Suite 2010, Brossard (Québec) Canada, J4Z 0N5.

The Heward Equity Fund seeks to achieve a superior long-term rate of return and safety of capital. This will be achieved via an investment in equity vehicles derived from the global marketplace.

## 2. Basis of presentation:

These interim financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") and International Accounting Standard 34, Interim Financial reporting (together "IFRS") as published by the International Accounting Standard Board ("IASB"). The Fund reports under this basis of accounting as required by Canadian Securities Legislation and Canadian Accounting Standards Board.

# HEWARD EQUITY FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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## 2. Basis of presentation (continued):

These interim financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit or loss which are presented at fair value. The policies applied in these financial statements are based on IFRS issued and outstanding as of August 24, 2020, which is the date on which the financial statements were authorized for issue by the Manager.

## 3. Significant accounting policies:

### (a) Translation of foreign currency:

The functional and presentation currency of the Fund is the Canadian dollar. The fair value of foreign investments and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at 4:00 pm Eastern Standard Time (the "closing rate") on each valuation day. Purchases and sales of foreign securities denominated in foreign currencies and the related income are translated into Canadian dollars at rates of exchange prevailing on the respective dates of such transactions.

### (b) Basis of measurement:

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### (c) Cash and cash equivalents:

Cash and cash equivalents is comprised of cash on deposit and deposit instruments with Canadian financial institutions that are readily convertible to cash.

### (d) Valuation of redeemable units:

The value of redeemable units is determined as at the last business day in each week and, in any event, December 31 of each year, or such other day as agreed from time to time by the Manager ("Valuation Day"). The value of redeemable units on a Valuation Day is obtained by dividing the net assets attributable to holders of a specific Series of redeemable units by the total number of units outstanding of the Series at the close of business on the Valuation Day.

Expenses directly attributable to a Series are charged to that Series while common Fund expenses are allocated to each Series in a reasonable manner as determined by the Manager. Other income, and realized and unrealized gains and losses are allocated to each Series of the Fund based on that Series' pro rata share of total net assets of the Fund.

# HEWARD EQUITY FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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### 3. Significant accounting policies (continued):

(e) Investment transactions and revenue recognition:

Investment transactions are accounted for on a trade date. Interest income is accrued daily and dividend income is recognized on the ex-dividend date.

The interest income for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized on a straight-line basis.

Realized gain (loss) on sale of investments and unrealized appreciation (depreciation) in investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds.

(f) Financial instruments:

(i) Classification and measurement:

Financial assets and financial liabilities are initially measured at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics.

*Financial assets*

Financial assets are classified into two categories:

- (i) Fair value through profit or loss ("FVTPL"); and
- (ii) Measured at amortized cost

*Financial assets at fair value through profit or loss*

The Fund classifies its investments at FVTPL based on the Fund's business model for managing those financial assets in accordance with the Fund's documented investment strategy. The portfolio of investments is managed and performance is evaluated on a fair value basis and the portfolio of investments is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions.

# HEWARD EQUITY FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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### 3. Significant accounting policies (continued):

(f) Financial Instruments (continued):

(i) Classification and measurement (continued):

#### *Measured at amortized cost*

Interest and dividends receivable, prepaid expenses and subscriptions receivable are classified as subsequently measured at amortized cost and recorded at cost or amortized cost. A financial asset is classified as subsequently measured at amortized cost only if both of the following criteria are met:

- (i) The asset is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- (ii) The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

#### *Financial liabilities*

Financial liabilities are classified into one of two categories:

- (i) Fair value through profit or loss; and
- (ii) Measured at amortized cost

The Fund has no fair value through profit or loss financial liabilities.

#### *Financial liabilities measured at amortized cost*

Financial liabilities are accounted for at amortized cost using the effective interest rate method. Distributions payable, redemptions payable, management and advisory fees payable and accrued liabilities are classified as financial liabilities measured at amortized cost. Transaction costs are included in the underlying balance.

The Fund's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount.

# HEWARD EQUITY FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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### 3. Significant accounting policies (continued):

(f) Financial instruments (continued):

(ii) Determination of fair value:

The fair value of a financial instrument 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 (such as publicly traded investments) is based on quoted market prices at the close of trading on the Valuation Day, being the last business day in each week, or such other day as agreed from time to time by the Manager. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. 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 circumstances. The Fund's policy is to recognize transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

The Fund currently holds no financial assets or liabilities that are not traded in active markets.

(g) Impairment of financial assets:

At each reporting date, the Fund assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. If such evidence exists, the Fund recognizes an impairment loss as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. Impairment losses on financial assets at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

(h) (Decrease) increase in net assets attributable to holders of redeemable units per series, per unit:

(Decrease) increase in net assets attributable to holders of redeemable units per series, per unit is based upon the (decrease) increase in net assets attributable to holders of redeemable units divided by the weighted average number of units outstanding during the period.

# HEWARD EQUITY FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

## 4. Critical accounting estimates and judgments:

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The most significant accounting judgments and estimates that the Fund has made in preparing the financial statements are related to valuation of investment. See Note 3 for more information on the fair value measurement of the Fund's financial statements.

## 5. Redeemable units:

The Fund is permitted to issue an unlimited number of units of Series A, F and O with no par value.

The number of units issued, redeemed and outstanding for the periods ended June 30, 2020 and 2019 is summarized as follows:

	Redeemable Units, beginning of period	Redeemable Units Issued	Redemption of Redeemable Units	Reinvestments of Units	Redeemable Units, end of period
<b>June 30, 2020</b>					
Series A	240	–	(239)	–	1
Series F	25,860	8,993	(3,849)	–	31,004
Series O	1,523,848	81,807	(112,443)	–	1,493,212
<b>June 30, 2019</b>					
Series A	240	–	–	–	240
Series F	27,882	2,827	(2,023)	–	28,686
Series O	1,478,720	125,774	(111,694)	15	1,492,816

# HEWARD EQUITY FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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## 6. Related party transactions:

### *Management and advisory fees*

The Manager is responsible to manage, supervise and administer the day-to-day investment operations of the Fund consistent with the investment objectives, strategy and policies of the Fund. For its services, the Manager receives a management fee determined as follows:

Series A: The unitholder is charged an annual advisory fee equal to 2% of the net asset value of the units held by the subscriber. The advisory fees are accrued weekly and are paid monthly at 1/12 of 2%. In addition, the Manager will charge the Fund an annual Management Fee of up to 0.10% of the net asset value of the Fund. The Management Fees are accrued weekly and are paid monthly at 1/12 of 0.10%.

Series F: The unitholder is charged an annual advisory fee of 1%. In addition, the Manager will charge the Fund an annual Management Fee of up to 0.10% of the net asset value of the Fund. The Management Fees are accrued weekly and are paid monthly at 1/12 of 0.10%.

Series O: The unitholder must enter into an agreement with the Manager which identifies the advisory fee negotiated with the subscriber and payable by the subscriber to the Manager. In addition, the Manager will charge the Fund an annual Management Fee of up to 0.10% of the net asset value of the Fund. The Management Fees are accrued weekly and are paid monthly at 1/12 of 0.10%.

### *Expenses*

The Fund is responsible for the payment of its expenses. The Fund may reimburse the Manager for incidental expenses incurred with respect to the operation of the Fund. The Trustee's fee for providing trustee services to the Fund is paid by the Fund and will be as agreed between the Trustee and the Manager.



# HEWARD EQUITY FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

## 7. Financial instruments:

Investments measured at fair value are classified into one of three fair value hierarchy levels, based on the lowest level input that is significant to the fair value measurement in its entirety. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The three fair value hierarchy levels are as follows:

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within 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: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### June 30, 2020

	Level 1	Level 2	Level 3	Total
<b>Investments:</b>				
Equities	\$ 18,339,896	\$ –	\$ –	\$ 18,339,896
	\$ 18,339,896	\$ –	\$ –	\$ 18,339,896

### December 31, 2019

	Level 1	Level 2	Level 3	Total
<b>Investments:</b>				
Equities	\$ 20,991,988	\$ –	\$ –	\$ 20,991,988
	\$ 20,991,988	\$ –	\$ –	\$ 20,991,988

There were no significant transfers between levels in either the current or corresponding period.

# HEWARD EQUITY FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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## 7. Financial instruments (continued):

### **Risk management**

The Fund is exposed to a variety of risks arising from financial instruments as a result of its activities. The Fund applies a risk management approach seeking to minimize potential adverse effects on the Fund's performance while maximizing returns in the context of tolerable risk levels. The Fund's main risks are described hereafter:

#### *Credit risk*

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The Fund's credit risk arises principally from cash held with custodians and from investments in debt securities. The Fund limits its exposure to credit loss by lodging its cash with an approved, reputable custodian and by holding high quality investments. The Fund's manager performs ongoing credit evaluations based upon factors surrounding the credit risk of issuers, historical trends and other information. There have been no significant changes in the Fund's exposure to credit risk and how they are managed since the previous period.

As at June 30, 2020 and December 31, 2019, the Fund had no significant investments in debt instruments and/or derivatives.

All transactions in listed securities are settled upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

#### *Liquidity risk*

The Fund is exposed daily to redemptions of units for cash. The units of the Fund are redeemed on demand at the current net asset value per unit at the option of the unitholder. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily disposed of. In addition, the Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity. The Fund's liabilities are short-term in nature and investments are considered readily realizable and highly liquid, therefore the Fund's liquidity risk is considered minimal. There have been no significant changes to the Fund's exposure to liquidity risks and how they arise or how they are managed since the previous period.

# HEWARD EQUITY FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

## 7. Financial instruments (continued):

### Risk management (continued)

#### Liquidity risk (continued)

The table hereunder categorizes the Fund's liabilities based on their contractual maturities, based on undiscounted cash flows:

	Carrying Value	June 30, 2020	
		Within 3 months	More than 3 months
Distributions payable	\$ 119,869	\$ 119,869	\$ -
Redemptions payable	1,500	1,500	-
Accrued liabilities	22,439	22,439	-
Management and advisory fees payable	2,003	2,003	-
	\$ 145,811	\$ 145,811	\$ -

	Carrying Value	December 31, 2019	
		Within 3 months	More than 3 months
Distributions payable	\$ 117,105	\$ 117,105	\$ -
Redemptions payable	84,985	84,985	-
Accrued liabilities	35,992	35,992	-
Management and advisory fees payable	2,404	2,404	-
	\$ 240,486	\$ 240,486	\$ -

Redeemable units are redeemable on demand at the holder's option. However, the Manager does not expect that the contractual maturity disclosed above will be representative of the actual cash outflows, as holders of these instruments typically retain them for a longer period.

#### Market risk

The Fund's investments are exposed to market risk comprised of interest rate risk, foreign currency risk and other price risk, as explained hereafter:

# HEWARD EQUITY FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

## 7. Financial instruments (continued):

### Risk management (continued)

#### *Interest rate risk*

The value of fixed income securities will generally rise if interest rates fall and fall if interest rates rise. Changes in interest rates may also affect the value of equity securities. Effective duration, a commonly used measure of interest rate risk, incorporates a security's yield, coupon, final maturity, call features and other embedded options into one number expressed in years that indicates how price-sensitive a security or portfolio of securities is to changes in interest rates. The effective duration of a security or portfolio of securities indicates the approximate percentage change in fair value expected for a one percent change in interest rates. The longer the duration, the more sensitive the security portfolio is to changes in interest rates. The Manager of the Fund manages the effective duration and level of investment in fixed income securities.

As at June 30, 2020 and December 31, 2019, the Fund does not have significant high yield exposure, and so this risk is immaterial.

#### *Foreign currency risk*

The Fund is exposed to foreign currency risk arising from holding investments and cash denominated in U.S. dollars. The table below summarizes the Fund's exposure to foreign currency risks. The amounts shown are the Canadian dollar equivalent of the foreign denominated balances carried by the Fund.

	June 30, 2020	December 31, 2019
US Dollar:		
Investments	\$ 8,715,365	\$ 8,173,097
Cash and cash equivalents	9,311	46,692
	8,724,676	8,219,789

The Fund does not enter into arrangements to hedge its foreign currency risk. There have been no significant changes to the Fund's exposure to foreign currency risks and how they arise or how they are managed since the previous period.

As at June 30, 2020, had the Canadian dollar strengthened or weakened by 5% relative to all foreign currencies held, with all other variables held constant, net assets would have increased or decreased by 2.11% (December 31, 2019 – 1.76%).

# HEWARD EQUITY FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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## 7. Financial instruments (continued):

### Risk management (continued)

#### *Other price risk*

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The investments of the Fund are subject to normal market fluctuations and the risks inherent in investment in financial markets. The maximum risk resulting from financial instruments held by the Fund is determined by the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities within specified limits and the Fund's market price risk is managed through balanced investments in various income and equity securities derived from the global marketplace. The Manager monitors the Fund's overall market positions on a daily basis and positions are maintained within established ranges.

The maximum market risk arising from financial instruments held is equivalent to the carrying value of those instruments. There have been no significant changes to the Fund's exposure to market risks and how they arise or how they are managed since the previous period.

If stock prices had increased (decreased) by 5% at June 30, 2020, with all other variables remaining constant, this would have increased (decreased) the portfolio and the change in unrealized appreciation (depreciation) by approximately 4.43% (December 31, 2019 - 4.50%).

#### *Concentration risk*

The Fund's concentration risk arises from concentrations of exposures of holdings within the same geographic sectors. The following table summarizes the Fund's concentration risk:

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	June 30, 2020	December 31, 2019
Geographic sector:		
Canada	47%	55%
United States	42%	35%

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# HEWARD EQUITY FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

## 8. Capital risk management:

Units issued and outstanding are considered to be the capital of the Fund. The Fund does not have any specific capital requirements on the subscription and redemption of units, other than certain minimum subscription requirements. Unitholders may require the Fund to redeem all or any part of such unitholder's units at a redemption amount equal to the series net asset value of a unit, next determined after receipt by the Trustee of a request for redemption in such form as the Trustee shall reasonably determine from time to time. The units are redeemable for cash equal to a pro rata share of the Fund's net asset value.

## 9. Comparison of Net Asset Value Trading NAV per unit and Net Assets attributable to holders of redeemable units IFRS:

The primary reason for the difference between "Trading NAV" per unit and the Net Assets attributable to holders of redeemable units, per unit IFRS is due to offering costs including the initial organization costs of the Fund which have been expensed for financial reporting purposes and amortized over five years for the purpose of calculating the trading NAV.

	Net Asset Value Per Unit (Trading)	Unamortized Offering Cost Adjustment Per Unit	Net Assets Per Unit (IFRS)
<b>June 30, 2020</b>			
Series A	\$ 14.00	\$ (0.00)	\$ 14.00
Series F	11.69	(0.00)	11.69
Series O	13.61	(0.00)	13.61
<b>December 31, 2019</b>			
Series A	\$ 12.99	\$ (0.00)	\$ 12.99
Series F	12.92	(0.00)	12.92
Series O	15.09	(0.00)	15.09

## 10. Income taxes:

The Fund qualifies as a Mutual Fund Trust under the provisions of the *Income Tax Act (Canada)* and accordingly, is not subject to tax on its net taxable income for the tax year, which ends in December, including net realized capital gains, which are paid or payable to its unitholders as at the end of the tax year. However, such part of the Fund's net income and net realized capital gains as is not so paid or payable is subject to income tax.

# HEWARD EQUITY FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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## **10. Income taxes (continued):**

Income tax on net realized capital gains not paid or payable is generally recoverable by virtue of refunding provisions contained in tax legislation, as redemptions occur. It is the intention of the Fund to distribute all of its income and sufficient net realized capital gains so that the Fund will not be subject to income tax.

Non-capital losses are available to be carried forward for twenty years and applied against future taxable income. Capital losses for income tax purposes may be carried forward indefinitely and applied against future capital gains.

As at the tax year ended December 31, 2019, the Fund has non capital losses of \$nil (December 31, 2018 - \$nil) available for carry-forward and net capital losses of \$116,237 (December 31, 2018 - \$324,536) available for carry forward.

## **11. Filing exemption:**

The Fund is relying on the exemption pursuant to Section 2.11 of “National Instrument 81-106” not to file its financial statements with the applicable Provincial Securities Commission.