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# U.S. Financials Income Fund

Semi-Annual Report 2019

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## U.S. Financials Income Fund

### Letter to Unitholders

We are pleased to present the 2019 semi-annual report containing the management report of fund performance and the unaudited statements for U.S. Financials Income Fund (the “Fund”).

Stock markets around the world advanced in the first half of 2019 recouping losses from the volatile markets at the end of 2018. The S&P 500 Index rose to new all-time highs as investors looked past the potential consequences of a global trade war and focused on the pivot in central bank policy from tighter conditions to anticipating looser monetary policy in the future. For the first six months of 2019, the S&P 500 Index and S&P/TSX Composite Index advanced 18.5 percent and 16.2 percent, respectively. Global markets followed the positive tone set by U.S. stocks with the MSCI EAFE Index up 14.5 percent and the MSCI Emerging Markets Index up 10.7 percent. The Federal Reserve Open Market Committee (“FOMC”), which appeared to be on the most aggressive path of tightening after raising the overnight interest rate four times in 2018, paused in the first six months of 2019 leaving the target rate at 2.5 percent. The short-end of the yield curve in the United States reacted by pricing in the probability of several rate cuts by the FOMC as 2-year yields plummeted from 2.49 percent at year end to 1.75 percent at the end of June 2019. Long-term interest rates also reacted ending the second quarter at 2.00 percent versus 2.68 percent to start the year. This dynamic has caused the yield curve (10-2 Year) to steepen slightly but remains just 25 basis points from being inverted, a condition often associated with an imminent recession. Oil prices recovered in the first half of 2019 with the Bloomberg WTI Cushing Crude Oil Spot price rising to US\$58.47 per barrel on June 28, 2019, up 28.8 percent from US\$45.41 at the end of 2018. Meanwhile, other commodities did not fare as well with copper prices rising 2.1 percent, aluminum down 12.3 percent and natural gas off 24.1 percent year-to-date. Volatility, as measured by the Chicago Board Options Exchange Volatility Index (“VIX”), declined in the first half of 2019 falling from 25.4 at the end of 2018 to 15.1 at the end of June. Given the uncertainty surrounding the global political landscape, trade war rhetoric, The United States-Mexico-Canada Agreement renegotiations, declining economic data, along with the Federal Reserve continuing to pivot monetary policy, we remain cautiously optimistic on global stock markets with the view that volatility is likely to remain elevated compared to the low levels witnessed over the past few years.

The Fund paid cash distributions of C\$0.25 per Class A unit and US\$0.25 per Class U unit during the six months ended June 30, 2019. The net asset value (“NAV”) per Class A unit increased from C\$7.16 at December 31, 2018 to C\$7.43 at June 30, 2019 and the NAV per Class U unit increased from US\$7.19 on December 31, 2018 to US\$7.68 at June 30, 2019. The total return of the Fund, including reinvestment of distributions, for the six months ended June 30, 2019 was 7.4 percent for the Class A units and 10.3 percent for the Class U units. The net realized gain on options attributable to Strathbridge Selective Overwriting strategy (see “The Fund”) amounted to C\$0.17 per unit as compared to a net realized gain on options of C\$0.04 per unit a year ago. 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 detailed information contained within the report.



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

### 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" or "Real Estate" 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 may 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 also 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, public investment funds including exchange-traded funds and other Strathbridge funds (provided that no more than 15 percent of the net asset value of the Fund may be invested in securities of other Strathbridge funds) that provide exposure to such securities.

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 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.

## U.S. Financials Income Fund

### Management Report of Fund Performance

#### Management Report of Fund Performance

This semi-annual management report of fund performance contains the financial highlights for the six months ended June 30, 2019 of U.S. Financials Income Fund (the “Fund”). The unaudited semi-annual 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, 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 semi-annual or annual reports at no cost by using one of the above methods.

#### Results of Operations

##### Distributions

For the six months ended June 30, 2019, the Fund paid cash distributions of C\$0.25 per Class A unit and US\$0.25 per Class U unit unchanged from the prior year.

Since the inception of the Fund in February 2015, the Fund has paid total cash distributions of C\$2.18 per Class A unit and US\$2.18 per Class U unit.

##### Revenue and Expenses

For the six months ended June 30, 2019, the Fund’s total revenue were C\$0.09 per Class A unit and US\$0.09 per Class U unit and total expenses were C\$0.19 per Class A unit and US\$0.19 per Class U unit as compared to total revenue of C\$0.08 per Class A unit and US\$0.08 per Class U unit and total expenses of C\$0.15 per Class A unit and US\$0.15 per Class U unit in the prior year. The Fund had a net realized and unrealized gain of C\$0.61 per Class A unit and US\$0.85 per Class U unit during the period as compared to a net realized and unrealized loss of C\$0.23 per Class A unit and US\$0.28 per Class U unit over the same period last year.

##### Net Asset Value

The net asset value per Class A unit of the Fund increased 3.8 percent from C\$7.16 at December 31, 2018 to C\$7.43 at June 30, 2019. The net asset value per Class U unit of the Fund increased 6.8 percent from US\$7.19 at December 31, 2018 to US\$7.68 at June 30, 2019. The total net asset value of the Fund increased C\$0.3 million from C\$7.8 million at December 31, 2018 to C\$8.1 million at June 30, 2019, reflecting an increase in net assets attributable to holders of Class A and Class U units of C\$0.6 million partially offset by cash distributions of C\$0.3 million during the period.

### Management Report of Fund Performance

#### Recent Developments

There were no recent developments pertaining to the Fund during the six months ended June 30, 2019.

#### Related Party Transactions

Strathbridge Asset Management Inc. (“Strathbridge”), as the Investment Manager of the Fund, manages the 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.

## U.S. Financials Income Fund

### Management Report of Fund Performance

#### 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.

Information for the period ended June 30, 2019 is derived from the Fund's unaudited semi-annual financial statements.

	Six months ended June 30, 2019		2018	
	Class A	Class U	Class A	Class U
<b>NET ASSETS PER UNIT</b>				
<b>Net Assets, beginning of period<sup>(1)</sup></b>	<b>C\$ 7.16</b>	<b>US\$ 7.19</b>	C\$ 8.51	US\$ 8.67
INCREASE (DECREASE) FROM OPERATIONS				
Total revenue	0.09	0.09	0.17	0.18
Total expenses	(0.19)	(0.19)	(0.28)	(0.29)
Realized gain (loss) for the period	0.27	0.26	0.34	0.60
Unrealized gain (loss) for the period	0.34	0.59	(0.91)	(1.32)
<b>Total Increase (Decrease) from Operations<sup>(2)</sup></b>	<b>0.51</b>	<b>0.75</b>	(0.68)	(0.83)
DISTRIBUTIONS				
Non-taxable distributions	(0.25)	(0.25)	(0.50)	(0.50)
<b>Total Distributions<sup>(5)</sup></b>	<b>(0.25)</b>	<b>(0.25)</b>	(0.50)	(0.50)
<b>Net Assets, end of period<sup>(1)</sup></b>	<b>C\$ 7.43</b>	<b>US\$ 7.68</b>	C\$ 7.16	US\$ 7.19

(1) All per unit figures are derived from the Fund's unaudited financial statements for the six months ended June 30, 2019 and audited financial statements for the periods ended December 31. Net assets per unit is the difference between the aggregate value of the assets and the aggregate value of the liabilities divided by the number of units then outstanding.

(2) Total increase (decrease) from operations consists of interest and dividend revenue, realized and unrealized gain (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.

	Six months ended June 30, 2019		2018	
	Class A	Class U	Class A	Class U
<b>RATIOS/SUPPLEMENTAL DATA</b>				
Net Asset Value (\$millions)	<b>C\$ 7.49</b>	<b>US\$ 0.49</b>	C\$ 7.12	US\$ 0.52
Number of units outstanding	<b>1,008,058</b>	<b>63,200</b>	994,887	72,900
Management expense ratio <sup>(1)</sup>	<b>4.58%<sup>(4)</sup></b>	<b>4.59%<sup>(4)</sup></b>	3.14%	3.20%
Portfolio turnover rate <sup>(2)</sup>	<b>105.25%</b>	<b>105.25%</b>	179.80%	179.80%
Trading expense ratio <sup>(3)</sup>	<b>0.43%<sup>(4)</sup></b>	<b>0.43%<sup>(4)</sup></b>	0.31%	0.32%
Net Asset Value per unit <sup>(5)</sup>	<b>C\$ 7.43</b>	<b>US\$ 7.68</b>	C\$ 7.16	US\$ 7.19
Closing market price	<b>C\$ 7.27</b>		C\$ 6.81	

(1) The management expense ratio ("MER") is the sum of all fees and expenses for the stated period, including harmonized sales tax and withholding 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. The MER for 2019, 2018, 2017, 2016 and 2015 and for Class A units, excluding withholding taxes, is 4.29%, 2.88%, 2.49%, 2.22% and 2.36% respectively. The MER for 2019, 2018, 2017, 2016, and 2015 for Class U units, excluding withholding taxes, is 4.30%, 2.93%, 2.47%, 2.17% and 2.22% respectively.

Management Report of Fund Performance

The information for the years ended December 31 is derived from the Fund's audited annual financial statements.

2017		Periods ended December 31				2015 <sup>(3)</sup>	
Class A	Class U	Class A	Class U	Class A	Class U	Class A	Class U
C\$ 8.32	US\$ 8.28	C\$ 8.45	US\$ 8.27	C\$ 9.33 <sup>(4)</sup>	US\$ 9.33 <sup>(4)</sup>		
0.23	0.23	0.15	0.15	0.18	0.16		
(0.26)	(0.26)	(0.22)	(0.22)	(0.23)	(0.22)		
1.30	0.96	(0.66)	(0.78)	(0.70)	(0.11)		
(0.59)	(0.16)	0.52	0.75	0.26	(0.51)		
0.68	0.77	(0.21)	(0.10)	(0.49)	(0.68)		
(0.50)	(0.50)	(0.50)	(0.50)	(0.43)	(0.43)		
(0.50)	(0.50)	(0.50)	(0.50)	(0.43)	(0.43)		
C\$ 8.51	US\$ 8.67	C\$ 8.32	US\$ 8.28	C\$ 8.45	US\$ 8.27		

(3) For the period from inception on February 24, 2015 to December 31, 2015.

(4) Initial issue price, net of agent fees and issue costs.

(5) Distributions to unitholders are based on the number of units outstanding on the record date for each distribution.

2017		Periods ended December 31				2015 <sup>(6)</sup>	
Class A	Class U	Class A	Class U	Class A	Class U	Class A	Class U
C\$ 15.07	US\$ 0.87	C\$ 15.76	US\$ 1.52	C\$ 29.07	US\$ 3.00		
1,771,006	100,500	1,893,833	183,400	3,439,188	363,300		
2.78%	2.76%	2.48%	2.44%	2.68% <sup>(4)</sup>	2.50% <sup>(4)</sup>		
270.74%	270.74%	314.12%	314.12%	255.32%	255.32%		
0.36%	0.35%	0.41%	0.41%	0.39% <sup>(4)</sup>	0.34% <sup>(4)</sup>		
C\$ 8.51	US\$ 8.67	C\$ 8.32	US\$ 8.28	C\$ 8.45	US\$ 8.27		
C\$ 8.39		C\$ 8.08		C\$ 8.07			

(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 December 31, 2015.

# U.S. Financials Income Fund

## Management Report of Fund Performance

### 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.

### Past Performance

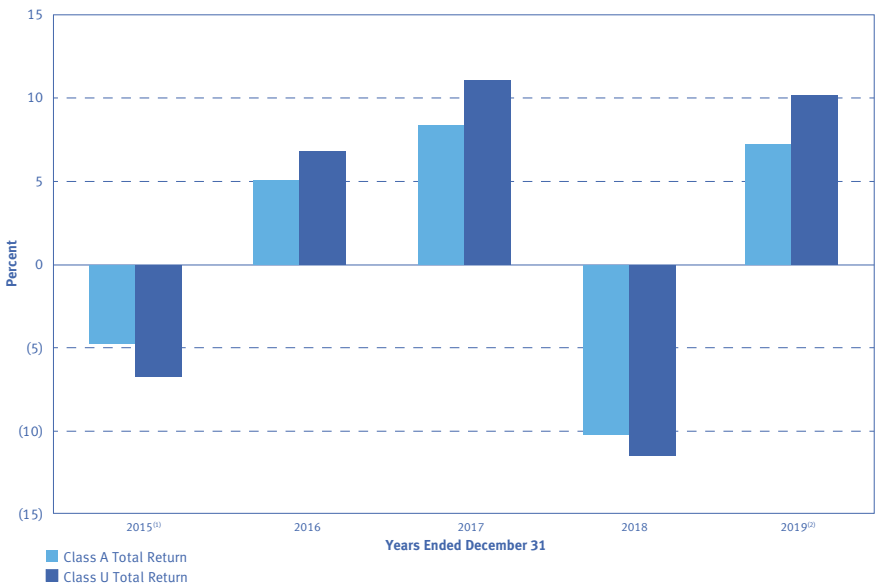
The following chart sets out the Fund's year-by-year past performance. It is important to note that the:

- (1) information shown assumes that all distributions made by the Fund during these periods were reinvested in Class A units or Class U units of the Fund,
- (2) information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and
- (3) past performance of the Fund does not necessarily indicate how it will perform in the future.

### Year-By-Year Returns

The following bar chart illustrates how the Fund's total return varied from year to year for each of the past four years and for the six months ended June 30, 2019. The chart also shows, in percentage terms, how much an investment made on January 1 or the date of inception on February 24, 2015 would have increased or decreased by the end of the fiscal year or June 30, 2019 for the six months ended.

### Total Return



<sup>(1)</sup> For the period from February 24, 2015, the inception of the Fund, to December 31, 2015.

<sup>(2)</sup> For the six months ended June 30, 2019.



## Management Report of Fund Performance

**Portfolio Manager Report**

Stock markets around the world advanced in the first half of 2019 recouping losses from the volatile markets at the end of 2018. The S&P 500 Index rose to new all-time highs as investors looked past the potential consequences of a global trade war and focused on the pivot in central bank policy from tighter conditions to anticipating looser monetary policy in the future. For the first six months of 2019, the S&P 500 Index and S&P/TSX Composite Index advanced 18.5 percent and 16.2 percent, respectively. Global markets followed the positive tone set by U.S. stocks with the MSCI EAFE Index up 14.5 percent and the MSCI Emerging Markets Index up 10.7 percent. The Federal Reserve Open Market Committee (“FOMC”), which appeared to be on the most aggressive path of tightening after raising the overnight interest rate four times in 2018, paused in the first six months of 2019 leaving the target rate at 2.5 percent. The short-end of the yield curve in the United States reacted by pricing in the probability of several rate cuts by the FOMC as 2-year yields plummeted from 2.49 percent at year end to 1.75 percent at the end of June 2019. Long-term interest rates also reacted ending the second quarter at 2.00 percent versus 2.68 percent to start the year. This dynamic has caused the yield curve (10-2 Year) to steepen slightly but remains just 25 basis points from being inverted, a condition often associated with an imminent recession. Oil prices recovered in the first half of 2019 with the Bloomberg WTI Cushing Crude Oil Spot price rising to US\$58.47 per barrel on June 28, 2019, up 28.8 percent from US\$45.41 at the end of 2018. Meanwhile, other commodities did not fare as well with copper prices rising 2.1 percent, aluminum down 12.3 percent and natural gas off 24.1 percent year-to-date. Volatility, as measured by the Chicago Board Options Exchange Volatility Index (“VIX”), declined in the first half of 2019 falling from 25.4 at the end of 2018 to 15.1 at the end of June. Given the uncertainty surrounding the global political landscape, trade war rhetoric, The United States-Mexico-Canada Agreement renegotiations, declining economic data, along with the Federal Reserve continuing to pivot monetary policy, we remain cautiously optimistic on global stock markets with the view that volatility is likely to remain elevated compared to the low levels witnessed over the past few years.

For the six months ended June 30, 2019, the net asset value (“NAV”) per Class A unit was C\$7.43 and the NAV per Class U unit was US\$7.68 as compared to C\$7.16 per Class A unit and US\$7.19 per Class U unit at December 31, 2018. Unitholders received cash distributions of C\$0.25 per Class A unit and US\$0.25 per Class U unit during the period. The Fund’s Class A units listed on the Toronto Stock Exchange as USF.UN closed on June 28, 2019 at C\$7.27, which represents a 2.2 percent discount to the Class A unit NAV. The Fund’s Class U units are not listed on any exchange.

The total return of the Fund, including reinvestment of distributions, for the six months ended June 30, 2019 was 7.4 percent per Class A unit and 10.3 percent per Class U unit. The best performing stock within the portfolio was The Blackstone Group L.P., up 53.0 percent, while, Franklin Resources, Inc. was the worst performing holding during the period, down 7.3 percent while held within the Fund.

Volatility for U.S. Financial Services companies was generally lower in the first half of 2019 after starting the year at an elevated level. The covered call writing activity was opportunistic over the period and took advantage of signals generated by the Strathbridge Selective Overwriting (“SSO”) strategy. The Fund ended June 30, 2019 with 33.5 percent of the portfolio subject to covered calls and a cash position of 4.7 percent. The U.S. dollar exposure was actively hedged back into Canadian dollars throughout the period and ended June with approximately 50 percent of the U.S. dollar exposure hedged.

## U.S. Financials Income Fund

### Management Report of Fund Performance

#### 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

June 30, 2019

	% of Net Asset Value
Insurance	31.7 %
Diversified Financials	28.4 %
Banks	20.5 %
Real Estate	8.7 %
Alternative Asset Management	6.3 %
Cash	4.7 %
Other Assets/(Liabilities)	(0.3)%
	100.0%

#### Portfolio Holdings

June 30, 2019

	% of Net Asset Value
The Blackstone Group L.P.	6.3 %
Public Storage	6.1 %
JPMorgan Chase & Co.	6.1 %
Marsh & McLennan Companies, Inc.	6.1 %
The Travelers Companies, Inc.	6.0 %
CME Group Inc.	5.9 %
Ameriprise Financial, Inc.	5.8 %
Intercontinental Exchange, Inc.	5.4 %
The Allstate Corporation	5.2 %
Loews Corporation	5.2 %
American Express Company	5.2 %
The PNC Financial Services Group, Inc.	5.1 %
Bank of America Corporation	4.8 %
Cash	4.7 %
Capital One Financial Corporation	3.7 %
Aon PLC	3.4 %
The Progressive Corporation	3.4 %
Citigroup Inc.	3.3 %
Kimco Realty Corporation	2.6 %
Berkshire Hathaway Inc.	2.4 %
Chubb Limited	2.4 %
U.S. Bancorp	1.2 %

#### 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 versions 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 condensed financial statements of U.S. Financials Income Fund (the "Fund") and all the information in this semi-annual 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 condensed 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 semi-annual report is consistent with the condensed financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 3 of the annual financial statements for the year ended December 31, 2018.

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.



John D. Germain  
Director  
Strathbridge Asset Management Inc.

August 7, 2019

## U.S. Financials Income Fund

### Notice to Unitholders

The accompanying unaudited Condensed Financial Statements for the six months ended June 30, 2019 have been prepared by management and have not been reviewed by the independent auditor of the Fund.

## Condensed Financial Statements

## Statements of Financial Position

As at June 30, 2019 (Unaudited) and December 31, 2018 (Audited)  
(In Canadian dollars unless otherwise noted)

	Note	June 30, 2019		Dec. 31, 2018
<b>ASSETS</b>				
Financial assets at fair value through profit or loss	2	\$ 7,763,479		\$ 6,202,032
Derivative assets	2	82,024		–
Dividends receivable		5,327		10,544
Cash		379,459		1,738,789
<b>TOTAL ASSETS</b>		<b>8,230,289</b>		<b>7,951,365</b>
<b>LIABILITIES</b>				
Derivative liabilities	2	73,522		62,629
Accrued liabilities		26,720		43,862
Accrued management fees	4	7,864		8,431
<b>TOTAL LIABILITIES</b>		<b>108,106</b>		<b>114,922</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A AND CLASS U UNITS</b>				
		\$ 8,122,183		\$ 7,836,443
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A UNITS</b>				
		\$ 7,488,068		\$ 7,120,068
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS U UNITS</b>				
	(US\$485,263)	\$ 634,115	(US\$524,508)	\$ 716,375
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A UNITS PER CLASS A UNIT</b>				
		\$ 7.4282		\$ 7.1567
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS U UNITS PER CLASS U UNIT</b>				
	(US\$7.6782)	\$ 10.0335	(US\$7.1949)	\$ 9.8268

The notes are an integral part of the Condensed Financial Statements.

## U.S. Financials Income Fund

### Condensed Financial Statements

#### Statements of Comprehensive Income

Six months ended June 30 (Unaudited)  
(In Canadian dollars unless otherwise noted)

	Note	2019	2018
<b>INCOME</b>			
Dividend income		\$ 89,470	\$ 139,608
Interest income		10,350	4,466
Net realized gain on investments at fair value through profit or loss		91,399	614,925
Net realized gain on options at fair value through profit or loss		183,768	93,600
Net realized gain/(loss) on forward exchange contracts at fair value through profit or loss		21,043	(213,017)
Net change in unrealized gain/loss on investments at fair value through profit or loss		366,179	(885,723)
<b>TOTAL INCOME/(LOSS), NET</b>		<b>762,209</b>	<b>(246,141)</b>
<b>EXPENSES</b>			
Management fees	4	49,799	100,878
Administrative and other expenses		48,869	60,718
Transaction fees	5	17,565	19,537
Custodian fees		28,307	27,348
Audit fees		13,983	14,214
Advisory board fees	4	9,600	10,200
Independent review committee fees	4	3,750	3,750
Legal fees		1,344	596
Unitholder reporting costs		6,374	6,959
Harmonized sales tax		12,052	18,980
Withholding taxes		11,793	17,359
<b>TOTAL EXPENSES</b>		<b>203,436</b>	<b>280,539</b>
<b>INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A AND CLASS U UNITS</b>	6	<b>\$ 558,773</b>	<b>\$ (526,680)</b>
<b>INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A UNITS PER CLASS A UNIT</b>	6	<b>\$ 0.5203</b>	<b>\$ (0.2990)</b>
<b>INCREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS U UNITS PER CLASS U UNIT</b>	6	<b>\$ 0.5592</b>	<b>\$ 0.0618</b>

The notes are an integral part of the Condensed Financial Statements.

## Condensed Financial Statements

## Statements of Changes in Net Assets Attributable to Holders of Class A and Class U Units

Six months ended June 30 (Unaudited)  
(In Canadian dollars unless otherwise noted)

	2019	2018
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A AND CLASS U UNITS,</b>		
<b>BEGINNING OF YEAR</b>		
Class A	<b>\$ 7,120,068</b>	\$ 15,068,091
Class U	<b>716,375</b>	1,091,910
	<b>7,836,443</b>	16,160,001
<b>Increase/(Decrease) in Net Assets Attributable to Holders of Class A and Class U Units</b>		
Class A	<b>519,454</b>	(532,359)
Class U	<b>39,319</b>	5,679
	<b>558,773</b>	(526,680)
<b>Unit Transactions</b>		
<b>Conversions</b>		
Class A	<b>99,336</b>	97,472
Class U	<b>(99,336)</b>	(97,472)
	-	-
<b>Value for Units Redeemed</b>		
Class U	-	(21,312)
<b>Distributions</b>		
Class A		
Non-taxable distributions	<b>(250,790)</b>	(445,439)
Class U		
Non-taxable distributions	<b>(22,243)</b>	(29,233)
	<b>(273,033)</b>	(474,672)
<b>Changes in Net Assets Attributable to Holders of Class A and Class U Units during the Period</b>		
Class A	<b>368,000</b>	(880,326)
Class U	<b>(82,260)</b>	(142,338)
	<b>285,740</b>	(1,022,664)
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A AND CLASS U UNITS,</b>		
<b>END OF PERIOD</b>		
Class A	<b>\$ 7,488,068</b>	\$ 14,187,765
Class U	<b>634,115</b>	949,572
	<b>\$ 8,122,183</b>	\$ 15,137,337

The notes are an integral part of the Condensed Financial Statements.

## U.S. Financials Income Fund

### Condensed Financial Statements

#### Statements of Cash Flows

Six months ended June 30 (Unaudited)  
(In Canadian dollars unless otherwise noted)

	2019	2018
CASH, BEGINNING OF YEAR	\$ 1,738,789	\$ 566,403
<b>Cash Flows Provided by (Used In) Operating Activities</b>		
<b>Increase/(Decrease) in Net Assets Attributable to Holders of Class A and Class U Units</b>	<b>558,773</b>	<b>(526,680)</b>
<b>Adjustments to Reconcile Net Cash Provided by (Used In) Operating Activities</b>		
Net realized gain on investments at fair value through profit or loss	(91,399)	(614,925)
Net realized gain on options at fair value through profit or loss	(183,768)	(93,600)
Net realized (gain)/loss on forward exchange contracts at fair value through profit or loss	(21,043)	213,017
Net change in unrealized gain/loss on investments at fair value through profit or loss	(366,179)	885,723
Net change in unrealized gain/loss on foreign cash	(44,224)	(1,952)
Decrease in dividends receivable	5,217	16,092
Decrease in accrued management fees and accrued liabilities	(17,709)	(5,940)
Purchase of investment securities	(9,466,835)	(11,920,244)
Proceeds from disposition of investment securities	8,540,870	14,183,302
	<b>(1,645,070)</b>	<b>2,661,473</b>
<b>Cash Flows Used In Financing Activities</b>		
Class A unit distributions	(250,790)	(445,439)
Class U unit distributions	(22,243)	(29,233)
Class U unit redemptions	-	(21,312)
	<b>(273,033)</b>	<b>(495,984)</b>
<b>Net Increase/(Decrease) in Cash during the Period</b>	<b>(1,359,330)</b>	<b>1,638,809</b>
CASH, END OF PERIOD	\$ 379,459	\$ 2,205,212
Dividends received	\$ 82,894	\$ 138,341
Interest received	\$ 10,350	\$ 4,466

The notes are an integral part of the Condensed Financial Statements.



## Schedule of Investments

As at June 30, 2019 (Unaudited)  
(In Canadian dollars unless otherwise noted)

	Number of Shares	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>Banks</b>				
Bank of America Corporation	10,300	\$ 396,964	\$ 390,326	
Citigroup Inc.	2,900	269,524	265,383	
JPMorgan Chase & Co.	3,400	486,117	496,720	
The PNC Financial Services Group, Inc.	2,300	411,655	412,597	
U.S. Bancorp	1,500	107,251	102,710	
<b>Total Banks</b>		1,671,511	1,667,736	20.5%
<b>Diversified Financials</b>				
American Express Company	2,600	409,393	419,392	
Ameriprise Financial, Inc.	2,500	485,342	474,218	
Berkshire Hathaway Inc.	700	191,987	194,991	
Capital One Financial Corporation	2,500	308,035	296,435	
CME Group Inc.	1,900	480,489	481,939	
Intercontinental Exchange, Inc.	3,900	402,604	437,977	
<b>Total Diversified Financials</b>		2,277,850	2,304,952	28.4%
<b>Insurance</b>				
Aon PLC	1,100	227,801	277,393	
Chubb Limited	1,000	194,401	192,471	
Loews Corporation	5,900	411,903	421,495	
Marsh & McLennan Companies, Inc.	3,800	442,015	495,322	
The Allstate Corporation	3,200	403,822	425,225	
The Progressive Corporation	2,600	253,578	271,565	
The Travelers Companies, Inc.	2,500	488,312	488,461	
<b>Total Insurance</b>		2,421,832	2,571,932	31.7%
<b>Alternative Asset Management</b>				
The Blackstone Group L.P.	8,800	441,225	510,802	6.3%
<b>Real Estate</b>				
Kimco Realty Corporation	8,700	194,389	210,093	
Public Storage	1,600	458,288	497,964	
<b>Total Real Estate</b>		652,677	708,057	8.7%
<b>Total United States Common Shares</b>		\$ 7,465,095	\$ 7,763,479	95.6%
<b>Forward Exchange Contracts</b>				
Sold USD \$235,000, Bought CAD \$316,453 @ 0.74261 – July 10, 2019			\$ 9,450	
Sold USD \$2,585,000, Bought CAD \$3,429,015 @ 0.75386 – July 31, 2019			53,605	
<b>Total Forward Exchange Contracts</b>			\$ 63,055	0.8%

## U.S. Financials Income Fund

### Schedule of Investments

As at June 30, 2019 (Unaudited)  
(In Canadian dollars unless otherwise noted)

	Number of Shares/(Contracts)	Average Cost/(Proceeds)	Fair Value	% of Net Assets Attributable to Class A and Class U Units
<b>Options</b>				
<b>Purchased Put Options</b>				
(100 shares per contract)				
Financial Select Sector SPDR Fund – November 2019 @ \$26	190	\$ 29,249	\$ 18,969	0.2 %
<b>Written Covered Call Options</b>				
(100 shares per contract)				
Ameriprise Financial, Inc. – July 2019 @ \$145	(12)	(7,688)	(5,567)	
Aon PLC – August 2019 @ \$195	(11)	(4,588)	(5,965)	
Bank of America Corporation – August 2019 @ \$29	(51)	(5,150)	(8,164)	
Capital One Financial Corporation – July 2019 @ \$90	(17)	(6,048)	(6,509)	
Chubb Limited – August 2019 @ \$150	(10)	(3,253)	(3,136)	
Intercontinental Exchange, Inc. – August 2019 @ \$88	(20)	(3,751)	(3,920)	
JPMorgan Chase & Co. – July 2019 @ \$111	(17)	(3,412)	(5,687)	
Kimco Realty Corporation – July 2019 @ \$18	(43)	(2,260)	(5,479)	
Marsh & McLennan Companies, Inc. – July 2019 @ \$95	(13)	(3,921)	(8,324)	
Public Storage – July 2019 @ \$240	(16)	(5,148)	(6,586)	
The Allstate Corporation – July 2019 @ \$98	(13)	(3,060)	(7,814)	
The Travelers Companies, Inc. – August 2019 @ \$150	(13)	(5,956)	(6,371)	
<b>Total Written Covered Call Options</b>		(54,235)	(73,522)	(0.9)%
<b>Total Options</b>		\$ (24,986)	\$ (54,553)	(0.7)%
Adjustment for transaction fees		(4,798)		
<b>TOTAL INVESTMENTS</b>		\$ 7,435,311	\$ 7,771,981	95.7 %
<b>OTHER NET ASSETS</b>			350,202	4.3 %
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A AND CLASS U UNITS</b>			\$ 8,122,183	100.0 %

Notes to Condensed Financial Statements

June 30, 2019 (Unaudited)

1. Basis of Presentation

The condensed semi-annual financial statements for U.S. Financials Income Fund (the “Fund”) have been prepared in compliance with International Financial Reporting Standards (“IFRS”), specifically the International Accounting Standard (“IAS”) 34 Interim Financial Reporting. However, not all disclosures required by IFRS for annual financial statements have been presented and, accordingly, these condensed semi-annual financial statements should be read in conjunction with the most recently prepared annual financial statements for the year ended December 31, 2018.

These condensed semi-annual financial statements follow the same accounting policies and method of application as the most recent audited financial statements for the year ended December 31, 2018.

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

These condensed financial statements were approved by the Board of Advisors on August 7, 2019.

2. Risks Associated with Financial Instruments

The various types of risks associated with its investment strategies, financial instruments and markets in which the Fund invests remain unchanged from the prior year and are described in Note 6 of the audited financial statements for the year ended December 31, 2018.

Credit Risk

As at June 30, 2019 and December 31, 2018, the counterparties to the Fund’s derivative financial instruments had a credit rating of A-1 or higher from Standard & Poor’s Ratings Services.

Liquidity Risk

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

	As at June 30, 2019			Total
	Financial Liabilities			
	On Demand	< 3 months		
Derivative liabilities	\$ –	\$ 73,522	\$	73,522
Accrued liabilities	–	26,720		26,720
Accrued management fees	–	7,864		7,864
Class A units	7,488,068	–		7,488,068
Class U units	634,115	–		634,115
	\$ 8,122,183	\$ 108,106	\$	8,230,289

## U.S. Financials Income Fund

### Notes to Condensed Financial Statements

June 30, 2019 (Unaudited)

	As at December 31, 2018		
	Financial Liabilities		Total
	On Demand	< 3 months	
Derivative liabilities	\$ –	\$ 62,629	\$ 62,629
Accrued liabilities	–	43,862	43,862
Accrued management fees	–	8,431	8,431
Class A units	7,120,068	–	7,120,068
Class U units	716,375	–	716,375
	\$ 7,836,443	\$ 114,922	\$ 7,951,365

### Market Risk

#### (a) Currency Risk

The table below indicates the foreign currencies to which the Fund had significant exposure to as at June 30, 2019 and December 31, 2018 in Canadian dollar terms, and the notional amounts of forward exchange contracts. The table also illustrates the potential impact on the net assets attributable to holders of 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 June 30, 2019					
	U.S. Currency Exposure			Impact on Net Assets Attributable to Holders of Class A and Class U Units		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
	\$ (3,379,877)	\$ 7,689,957	\$ 4,310,080	\$ (168,994)	\$ 384,498	\$ 215,504
% of Net Assets Attributable to Holders of Class A and Class U Units	(42)%	95%	53%	(2)%	5%	3%

	As at December 31, 2018					
	U.S. Currency Exposure			Impact on Net Assets Attributable to Holders of Class A and Class U Units		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
	\$ (1,923,269)	\$ 6,199,287	\$ 4,276,018	\$ (96,163)	\$ 309,964	\$ 213,801
% of Net Assets Attributable to Holders of Class A and Class U Units	(25)%	79%	54%	(1)%	4%	3%

#### (b) Price Risk

Approximately 96 percent (December 31, 2018 – 79 percent) of the Fund's net assets attributable to holders of Class A and Class U units held at June 30, 2019 were publicly traded equities. If equity prices on the exchange increased or decreased by 5 percent as at June 30, 2019, the net assets attributable to holders of Class A and Class U units would have increased or decreased by \$0.4 million (December 31, 2018 – \$0.3 million) or 4.8 percent (December 31, 2018 – 4.0 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.

Notes to Condensed Financial Statements

June 30, 2019 (Unaudited)

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:

	June 30, 2019	Dec. 31, 2018
Insurance	33.1%	27.6%
Diversified Financials	29.7%	33.4%
Banks	21.5%	11.6%
Real Estate	9.1%	18.7%
Alternative Asset Management	6.6%	8.7%
	100.0%	100.0%

Fair Value Measurement

The following table illustrates the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at June 30, 2019 and December 31, 2018.

	As at June 30, 2019			
	Level 1	Level 2	Level 3	Total
United States Common Shares	\$ 7,763,479	\$ –	\$ –	\$ 7,763,479
Forward Exchange Contracts	–	63,055	–	63,055
Options	(54,553)	–	–	(54,553)
	\$ 7,708,926	\$ 63,055	\$ –	\$ 7,771,981

	As at December 31, 2018			
	Level 1	Level 2	Level 3	Total
United States Common Shares	\$ 6,202,032	\$ –	\$ –	\$ 6,202,032
Forward Exchange Contracts	–	(59,884)	–	(59,884)
Options	(2,745)	–	–	(2,745)
	\$ 6,199,287	\$ (59,884)	\$ –	\$ 6,139,403

There were no transfers between Level 1 and Level 2 and the Fund did not hold any financial instruments within Level 3 of the fair value hierarchy during the six months ended June 30, 2019 and during the year ended December 31, 2018.

3. Class A and Class U Units

For the six months ended June 30, 2019, cash distributions paid to Class A units were \$250,790 (June 30, 2018 – \$445,439) representing a payment of \$0.25 (June 30, 2018 – \$0.25) per Class A unit and cash distributions to Class U units were US\$16,700 (June 30, 2018 – US\$22,500) representing a payment of US\$0.25 (June 30, 2018 – US\$0.25) per Class U unit.

During the six months end June 30, 2019, nil (June 30, 2018 – nil) Class A units and nil (June 30, 2018 – 8,500) Class U units were redeemed with a retraction value of nil (June 30, 2018 – US\$16,322).

## U.S. Financials Income Fund

### Notes to Condensed Financial Statements

June 30, 2019 (Unaudited)

During the six months ended June 30, 2019 and year ended December 31, 2018, unit transactions are as follows:

	June 30, 2019	Dec. 31, 2018
<b>Class A Units</b>		
Units outstanding, beginning of year	994,887	1,771,006
Conversions from Class U	13,171	13,424
Units redeemed	–	(789,543)
Units outstanding, end of period	1,008,058	994,887
<b>Class U Units</b>		
Units outstanding, beginning of year	72,900	100,500
Conversions to Class A	(9,700)	(10,500)
Units redeemed	–	(17,100)
Units outstanding, end of period	63,200	72,900

#### 4. Related Party Transactions

##### (a) Management Fees

Total management fees for the six months ended June 30, 2019 were \$49,799 (June 30, 2018 – \$100,878) of which \$7,864 (June 30, 2018 – \$15,655) was unpaid.

##### (b) Advisory Board Fees

Total advisory board fees paid to the external members of the Board of Advisors for the six months ended June 30, 2019 were \$9,600 (June 30, 2018 – \$10,200).

##### (c) Independent Review Committee Fees

Total remuneration paid to the external members of the Independent Review Committee for the six months ended June 30, 2019 were \$3,750 (June 30, 2018 – \$3,750).

#### 5. Brokerage Commissions and Soft Dollars

The ascertainable soft dollar value received as a percentage of total transaction fees paid during the six months ended June 30, 2019 and 2018 is disclosed below:

	June 30, 2019	June 30, 2018
Soft Dollars	\$ 9,320	\$ 7,581
Percentage of Total Transaction Fees	53.1%	38.8%

Notes to Condensed Financial Statements

June 30, 2019 (Unaudited)

**6. Increase/(Decrease) in Net Assets Attributable to Holders of Class A and Class U Units per Unit**

The increase/(decrease) in net assets attributable to holders of Class A and Class U units per unit for the six months ended June 30, 2019 and 2018 is calculated as follows:

	June 30, 2019		June 30, 2018	
	Class A	Class U	Class A	Class U
Increase/(Decrease) in Net Assets Attributable to Holders of Units	\$ 519,454	\$ 39,319	\$ (532,359)	\$ 5,679
Weighted Average Number of Units Outstanding during the Period	998,381	70,318	1,780,331	91,939
Increase/(Decrease) in Net Assets Attributable to Holders of Units per Unit	\$ 0.5203	\$ 0.5592	\$ (0.2990)	\$ 0.0618

Investment Funds Managed by  
Strathbridge Asset Management Inc.

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UNIT TRUSTS

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

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