

# Interim Management Report of Fund Performance



As at June 30, 2018

This interim Management Report of Fund Performance contains financial highlights, but does not contain either interim or annual financial statements of the investment fund ("Fund"). You may obtain a copy of the interim or annual financial statements at your request, and at no cost, by calling 1 866 764 3863, by writing to us at 43 Front Street East, Suite 301, Toronto, Ontario M5E 1B3 or by visiting our website at [www.roicapital.ca](http://www.roicapital.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Every effort has been made to ensure that the information contained in this report is accurate as of June 30, 2018; however, the Fund cannot guarantee the accuracy or the completeness of this material. Please refer to the Fund's Prospectus, interim and audited annual financial statements for more information.



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### Results of Operations

The portfolio advisor of the Fund is Return On Innovation Advisors Ltd. The commentary that follows provides a summary of the results of operations for the period ended June 30, 2018.

#### *Financial Performance*

Total net assets at June 30, 2018 were \$28,351,866, down from \$41,889,212 at the prior year end.

During the period, the Fund had redemptions of \$13,164,794 and a decrease in net asset value from operations of \$372,552. The Fund is currently not accepting new subscriptions.

Redemptions continued to be high, but not unexpected. Investors cannot redeem units without penalty for eight years. Once the eight year hold period is finished, they may redeem units without penalty. The high levels of redemptions reflect the end of the holding periods and consequent redemptions. The Fund continues to hold ample liquid portfolio to manage the liquidity requirements relating to these redemptions.

The decrease in net assets from operations was composed of a \$98,191 loss from operations and \$274,361 in realized and unrealized depreciation on investments. The realized and unrealized depreciation on investments are made up of \$34,030 in net realized gains on investments and \$308,391 net change in unrealized depreciation on investments.

The realized and unrealized losses are all related to the debentures in the liquid portfolio. These can be attributed to the fact that the debentures are frequently purchased at a premium to par or the market price of the security is greater than the par value. Said differently, the yield to maturity is lower than the coupon payment on the

debenture. As the debenture approaches the maturity date the price declines until it reaches par value at the maturity date. The reverse can materialize if the debenture is trading at a discount to par. This triggers the realized and unrealized losses in the debenture liquid portfolio. The Fund also collects a higher than anticipated coupon or income from the debenture investment that offsets this anticipated loss on the investment as the market price gravitates towards par. The overall impact is that Fund receives an anticipated net rate of return equal to the yield to maturity on the portfolio. The current weighted average yield to maturity for the liquid portfolio is 5.02%. The market for the debenture portfolio is currently stable with all the majority of the debentures trading at or close to par with a small risk premium over Government of Canada bonds.

The biggest impact on the portfolio involved the Fund's second largest investment – Element Fleet Management Corp. debentures, a relatively new investment for the Fund. Element Fleet Management Corp. operates as a fleet management company in Canada, the United States, and internationally. The company offers fleet management services, including acquisition, financing and program management for cars and light duty vehicles, medium and heavy-duty trucks, material handling equipment, automobiles, and specialty vehicles and equipment, as well as corporate, municipal, and industrial fleets. The stock price declined by 36% during the period in turn, the debentures declined in value by 5.02% and the yield-to-maturity increased to 7.11%.

Year-to-date the Bank of Canada has continued to raise interest rates. Higher interest rates tend to translate into lower debenture values although,

higher interest rates tend to reduce the risk premium for riskier debentures since overall economic activity is strong. The two factors tend to be negatively correlated and provide some price stability.

### *Investment Activity*

At June 30, 2018, the Fund held no venture investments, unchanged from the prior year end. The securities portfolio represented 85.33%, short-term investments represented 13.42% and liabilities, net of other assets of represented 1.25%. The securities portfolio consists of convertible unsecured subordinated debentures of varying maturities totaling \$24,192,226. Return On Innovation Advisors Ltd. manages the liquid securities portfolio.

The liquid portfolio continues to be invested in Canadian real estate debentures and other debentures. The Fund and has sold several debentures during the period. Generally, available cash will be invested in cash or publicly traded debentures, which will provide flexibility and liquidity for the Fund in order to fulfill potential redemption requests in the future.

### *Revenue and Expenses*

Investment income consists of interest on the senior unsecured and convertible debentures in the liquid portfolio. The revenue from the liquid portfolio has declined slightly as the total size of the portfolio has declined with the repayment of certain investments.

Total expenses (net of the expense recoveries noted below) for the period were \$ 798,153. Total expenses excluding these expense recoveries were \$1,266,136.

The Fund's management expense ratio ("MER") was 4.77% (annualized) based on the net expense

and 7.57% (annualized) excluding the expense recoveries.

The comparable MER for the year ended December 31, 2017 was 8.15% as expenses included the unusual charges that were recovered in 2018. The MER for December 2017 excluding those charges was 7.43%.

The composition of the Fund's expenses does not change significantly year to year due to the fact that most of the expenses (management fees, advisor fees, sponsor fees, sales commission financing and trailer fees) are contractual arrangements that are based on a percentage of the NAV. However, the MER has increased due to the fixed expenses and the decline in the average NAV.

### **Recent Developments**

#### *Pacing Requirements*

The Fund is required to invest a prescribed portion of its assets in eligible venture investments as defined in the Community Small Business Investment Funds Act (Ontario) and the Income Tax Act (Canada). As at December 31, 2017 and 2016, the Fund was not in compliance with the investment pacing requirement. As a result, during 2017 net investment level taxes totaling \$318,949 were accrued by the Fund, net of prior year reversals. Investment level taxes relating to the 2016 fiscal year totaling \$110,858 were paid by the Fund. The Fund returned to compliance in February of 2018. As such, the investment level taxes paid relating to 2016 were rebated to the Fund by the Ministry of Finance. The amounts relating to 2016 and 2017 were recognized as an expense recovery in 2018 in the Statements of Comprehensive Income (Loss).

As at June 30, 2018 the Fund has met these requirements.

*Accounting standards issued but not yet adopted*

### **Related Party Transactions**

The Manager, Advisor and ACTRA Toronto Performers (the “Sponsor”) are deemed to be

related parties. Please refer to the section titled “Advisor, Sponsor and Management Fees” which outline fees paid to these related parties.

The following tables show selected key financial information about Series IV of the Fund and are intended to help you understand the series' financial performance.

<b>CLASS A SERIES IV</b>	<b>June 30 2018</b>	<b>Dec 31 2017</b>	<b>Dec 31 2016</b>	<b>Dec 31 2015</b>	<b>Dec 31 2014</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS PER UNIT<sup>1,2,3</sup></b>					
Net assets attributable to holders of redeemable units, beginning of period	<b>8.95</b>	9.48	9.91	10.08	10.57
<b>INCREASE (DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>					
Total Revenue	<b>0.18</b>	0.36	0.45	0.57	0.62
Total Expenses	<b>(0.21)</b>	(0.76)	(0.73)	(0.72)	(0.72)
Realized gains (losses) for the period	<b>0.01</b>	(0.31)	0.00	(0.12)	(0.02)
Unrealized gains (losses) for the period	<b>(0.08)</b>	0.19	(0.15)	0.09	(0.07)
Increase (decrease) in net assets attributable to holders of redeemable shares <sup>2</sup>	<b>(0.10)</b>	(0.52)	(0.43)	(0.18)	(0.19)
<b>DISTRIBUTIONS:</b>					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	—	—	—	—	—
Total Annual Distributions <sup>2</sup>	—	—	—	—	—
Net assets attributable to holders of redeemable units	<b>8.85</b>	8.95	9.48	9.91	10.08
<b>RATIOS AND SUPPLEMENTAL DATA</b>					
Total Net assets attributable to holders of redeemable units (000's) <sup>3</sup>	<b>28,352</b>	41,889	47,013	49,749	51,058
Number of units outstanding <sup>3</sup>	<b>3,204,478</b>	4,680,055	4,960,895	5,022,602	5,063,840
Management expense ratio <sup>4</sup>	<b>4.77%</b>	8.15%	7.53%	7.06%	7.05%
Management expense ratio before waivers or absorptions	<b>4.77%</b>	8.15%	7.53%	7.06%	7.05%
Trading expense ratio <sup>5</sup>	—	—	0.01%	0.01%	0.03%
Portfolio turnover rate <sup>6</sup>	<b>35.46%</b>	70.70%	50.92%	13.68%	19.08%
Net assets attributable to holders of redeemable units per unit	<b>8.85</b>	8.95	9.48	9.91	10.08

1. This information is derived from the Fund's audited annual financial statements (except for the interim period ended June 30, 2018 which is unaudited) prepared in accordance with International Financial Reporting Standards ("IFRS").
2. The increase (decrease) from operations is based on the weighted average number of shares outstanding during the financial year. Distributions per share are based on the actual number of shares outstanding at the relevant time. This table is not intended to be a reconciliation of beginning to ending net assets per share. Distributions are paid in cash and either received in cash by the unitholder shareholder or reinvested in additional shares of the Fund.
3. This information is provided as at December 31 of the year shown except for the most recent which is the six-month period ended June 30, 2018.
4. The management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the year.
5. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
6. The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

The Manager has been retained by the Fund to manage the Fund's investment portfolio. As compensation for the services to be provided for and on behalf of the Fund by the Manager, the Fund has agreed to pay to the Manager an annual advisor fee of 1.0% of the NAV of the Fund.

ACTRA Toronto Performers has agreed to be Sponsor of the Fund. The Sponsor owns all of the Class B Shares of the capital of the Fund and is required under the Ontario Act to elect a majority of the Board of Directors. The Fund pays the Sponsor an annual fee of 0.25% of the NAV of the Fund, calculated and paid monthly in arrears.

The Manager has been retained by the Fund to develop and implement all aspects of the Fund's sales, marketing, distribution and communications strategies; organize the retention and supervision of service providers; develop and refine the investment strategy; and to manage the ongoing business and administrative affairs of the Fund. As compensation for the services, the Fund has agreed to pay to the Manager an annual management fee of 2.3% of the Series IV NAV of the Fund. The major services paid by the management fees by series expressed as an approximate percentage of the management fees are summarized as follows:

<b>Series</b>	<b>IV</b>
Dealer Costs	11.73%
Other Fees*	88.27%

\* Includes general and administration fees, marketing fees, and profit.

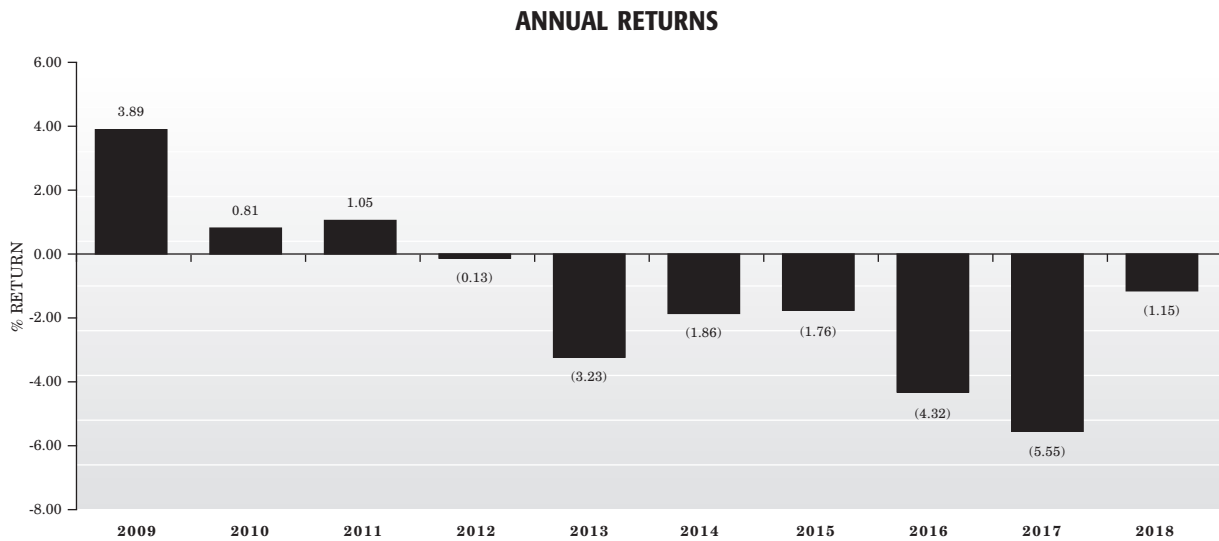
To the extent that management fees did not fully cover the cost of services provided to the Fund, the difference was funded directly by the Manager.

The Manager has also been retained by the Fund to pay sales commissions on behalf of the Fund and provide services in connection therewith. As compensation for these services, the Fund has agreed to pay to the Manager an annual financing fee of 0.4% of the NAV of the Fund, as well as an annual base financing fee equal to the aggregate of 1.5% of the original purchase price of Class A Shares, Series IV that remain issued and unredeemed, provided that such fee ceases for any such shares retained for more than eight years).

The following performance presented is historical. The past performance information shown includes changes in security value; assumes the reinvestment of all dividends in the periods shown in additional shares of the Fund; and does not take into account sales, redemptions, dividend or optional charges, or income taxes payable by any investor, which would have reduced returns. It is important to note that past performance of the Fund does not represent how well the Fund will perform in the future.

*Year-By-Year Returns*

The following bar chart shows the Fund's annual performance for each of the years shown and illustrates how the Fund's performance changes year to year. The chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year. For 2018, the information presented is for the six-month period ended June 30, 2018.



## Summary of Investment Portfolio as at June 30, 2018

The summary of investment portfolio will change due to ongoing portfolio transactions of the Fund.

<b>ASSET MIX</b>	<b>% OF SERIES IV NET ASSET VALUE</b>
Other securities	85.33%
Short-term investments	13.42%
Other assets, net of liabilities	1.25%
<b>Total</b>	<b>100.00%</b>

<b>TOP 25 HOLDINGS</b> <b>(Note: Fund only has 10 holdings)</b>	<b>% OF SERIES IV NET ASSET VALUE</b>
Morguard REIT, 4.50%	31.07%
CIBC Mellon Trust Demand Deposit, variable rate	13.42%
Just Energy Group Inc., 6.75%	10.32%
Element Fleet Management Corp., 4.25%	10.03%
AG Growth International Inc., 4.50%	8.86%
Exchange Income Corp., 5.25%	8.86%
Chemtrade Logistics Income Fund, 5.25%	7.61%
Crombie REIT, Series 'E', 5.25%	5.61%
Northwest Healthcare Properties REIT, Series 'C', 7.25%	1.54%
Morguard North American Residential REIT, Convertible, 4.50%	1.43%
<b>Total holdings as a percentage of net asset attributable to holders of redeemable units</b>	<b>98.75%</b>
<b>TOTAL FUND NET ASSET VALUE</b>	<b>\$28,351,866</b>

The most recent interim report, annual report or quarterly portfolio disclosure is available at no cost by calling 1 866 764 3863, by writing to us at 43 Front Street East, Suite 301, Toronto, Ontario M5E 1B3 or by visiting our website at [www.roicapital.ca](http://www.roicapital.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).



### **Caution Regarding Forward-looking Statements**

This report may contain forward-looking statements about the Fund, including its strategy, expected performance and condition. 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. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also a forward-looking statement. 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 these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in government regulations, unexpected judicial or regulatory proceedings and catastrophic events. It should be noted that the above-mentioned list of important factors is not exhaustive. You are encouraged to consider these and other factors carefully before making any investment decisions and you are urged to avoid placing undue reliance on forward-looking statements. Furthermore, the Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance.



**Return On Innovation Advisors Ltd.**

43 Front Street, Suite 301, Toronto, Ontario M5E 1B3

Phone: 416 361-6162 Fax: 416 361-3013

**[roicapital.ca](http://roicapital.ca)**