



# Low Volatility U.S. Equity Income Fund

Annual Report 2014

## Letter to Unitholders

We are pleased to present the 2014 annual report containing the management report of fund performance and the audited financial statements for Low Volatility U.S. Equity Income Fund (the “Fund”).

After a very strong 2013, 2014 was another positive year for most Global equity markets. Many indices reached all-time highs in the third quarter of 2014 as the Global economy continued to improve and corporate earnings were reported better than expected. With the U.S. Federal Reserve ending quantitative easing in October 2014, many Global equity markets corrected in November but rebounded strongly into the end of the year as U.S. payrolls continued to strengthen and third quarter GDP in the U.S. came in well above expectations at 5 percent. For 2014, the S&P/TSX Composite Index generated a total return of 10.6 percent while the S&P 500 Index had a total return of 13.7 percent, outperforming its Canadian counterpart for the fourth year in a row. The Canadian economy showed small signs of improvement during the year but it was not enough to compel the Bank of Canada to tighten rates. After moving higher in 2013 to the start of 2014, interest rates have resumed their descent, falling again to test the 2012 lows. The Canadian dollar started the year around 94 cents versus the U.S. dollar but ended 2014 at 86 cents, its lowest level since the spring of 2009. Most of the decline came in the fourth quarter of 2014 as crude oil weakened significantly during the period, ending the year below US\$50 per barrel.

For the fiscal period ended December 31, 2014, the total return of the Fund, including the reinvestment of distributions, was 13.3 percent compared to 12.7 percent for the S&P 100 Index. The Fund paid cash distributions of \$1.02 per unit (including special distributions of \$0.45 per unit) during the year. The net asset value per unit increased 3.3 percent from \$10.97 per unit at December 31, 2013 to \$11.33 per unit at December 31, 2014. The net realized gain on options attributable to Strathbridge Selective Overwriting strategy (see “The Fund”) was \$0.06 per unit over the same period. For a more detailed review of the operations of the Fund, please see the Results of Operations and the Portfolio Manager Report sections.

On January 2, 2015, Strathbridge Asset Management Inc. (the “Manager”) announced that unitholders had approved a proposal to change the investment restrictions and investment strategy of the Fund. Please refer to the Recent Developments section for details of the proposal.

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



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

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## The Fund

The Fund is a closed-end investment trust designed to maximize risk adjusted returns for unitholders and to pay unitholders monthly cash distributions in an amount targeted to be 5.0 percent per annum on the net asset value per unit. The units are listed on the Toronto Stock Exchange under the ticker symbol LVU.UN. To accomplish its objectives, the Fund invests in a conservative portfolio consisting of large capitalization equity securities selected from the S&P 100 Index with a beta of less than 1.0, combined with selective covered call option writing designed to enhance portfolio income and mitigate downside risk. Beta is a financial term used as a measure of a security’s or a portfolio’s return in relation to the market. A beta of less than 1.0 indicates that the price of a security will generally vary to a lesser extent than the movement of the market and a beta of greater than 1.0 indicates that the price of a security will generally vary to a greater extent than the movement of the market. The investment universe will be reconstituted annually.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting (“SSO”), to enhance the income generated by the portfolio and to reduce volatility. In addition, the Fund may write cash covered put options in respect of securities in which it 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 Fund while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

## TABLE OF CONTENTS

### Management Report of Fund Performance

• Investment Objectives and Strategies .....	2
• Risk .....	2
• Results of Operations .....	2
• Recent Developments .....	3
• Related Party Transactions .....	3
• Financial Highlights .....	4
• Summary of Investment Portfolio .....	7

Management’s Responsibility for Financial Reporting .....	8
---	---

Independent Auditor’s Report .....	9
------------------------------------	---

Financial Statements .....	10
----------------------------	----

Notes to Financial Statements .....	14
-------------------------------------	----

Board of Advisors .....	20
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## Management Report of Fund Performance

This annual management report of fund performance contains the financial highlights for the year ended December 31, 2014 of Low Volatility U.S. Equity Income Fund (the “Fund”). The 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, Standard Life Centre, P.O. Box 113, Toronto, Ontario, M5H 3T9, or by visiting our website at [www.strathbridge.com](http://www.strathbridge.com). You can also request semi-annual and annual reports at no cost using one of the above methods.

## Investment Objectives and Strategies

The Fund’s investment objectives are to:

- (1) maximize risk adjusted returns for unitholders; and
- (2) pay unitholders monthly cash distributions in an amount targeted to be 5.0 percent per annum on the net asset value (“NAV”) per unit.

To achieve the Fund’s investment objectives, the Fund will invest in securities of U.S. issuers included in the S&P 100 Index that have a Beta of less than 1.0 relative to the S&P 100 Index. It is expected that distributions over the life of the Fund will be derived primarily from net realized capital gains and dividend income.

The portfolio will generally consist of 20 to 30 securities of issuers selected from the Investment Universe. The Investment Universe will consist of issuers included in the S&P 100 Index, the 100 largest issuers by market capitalization in the S&P 500 Index, and will be screened for those equities with a trailing 12 month Beta of less than 1.0 relative to the S&P 100 Index. Beta is a financial term used as a measure of the return of a security or a portfolio in relation to the market. A beta of less than 1.0 indicates that the price of a security will generally vary to a lesser extent than the movement of the market and a beta of greater than 1.0 indicates that the price of a security will generally vary to a greater extent than the movement of the market. The investment universe will be reconstituted annually.

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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 Fund while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

## Risk

Risks associated with an investment in the securities of the Fund are discussed in the Fund’s 2014 Annual Information Form, which is available on the Fund’s website at [www.strathbridge.com](http://www.strathbridge.com) or on SEDAR at [www.sedar.com](http://www.sedar.com). There were no changes to the Fund over the year that materially affected the risks associated with an investment in the securities of the Fund.

## Results of Operations

### Distributions

Since inception on March 13, 2013, cash distributions of \$1.39 per unit were paid to the unitholders of the Fund of which \$0.45 per unit were special distributions.

### Revenue and Expenses

For the year ended December 31, 2014, the Fund’s total revenue was \$0.28 per unit while total expenses were \$0.38 per unit compared to total revenue of \$0.16 per unit and total expenses of \$0.25 per unit for the period March 13, 2013 to December 31, 2013. The Fund had a net realized and unrealized gain of \$1.34 per unit in 2014 as compared a net realized and unrealized gain of \$2.12 per unit for the period March 13, 2013 to December 31, 2013.

### Net Asset Value

The net asset value per unit of the Fund increased 3.3 percent from \$10.97 per unit at December 31, 2013, 2013 to \$11.33 per unit at December 31, 2014. The total net asset value of the Fund decreased \$8.8 million, from \$23.4 million at December 31, 2013 to \$14.6 million at December 31, 2014 reflecting cash distributions of \$1.8 million and redemptions of \$9.3 million, partially offset by an increase in net assets attributable to equity holders of \$2.3 million.

## Recent Developments

On July 23, 2014, the Fund announced a 10 percent increase in the annual distribution rate to 5.5 percent on the net asset value per unit, effective for the August distribution. In addition, the Fund paid special distributions of \$0.10 per unit for the September and October distribution dates. The increase in the distribution rate and the special distributions are due to the continued strong performance of the Fund along with realized capital gains which are expected to exceed the regular monthly distributions for 2014. These distributions are in addition to the special distribution of \$0.25 per unit paid in April 2014.

On October 17, 2014, the Fund announced it filed a Notice of Intention to make a normal course issuer bid to purchase up to 128,829 units representing approximately 10 percent of the Fund's public float of 1,288,297 units as of September 30, 2014. The Fund may purchase up to 25,790 units in any 30 day period which is 2 percent of the 1,289,533 units issued and outstanding as at September 30, 2014. The units may be purchased for cancellation from October 22, 2014 to October 21, 2015 through the facilities of the Toronto Stock Exchange ("TSX") or other eligible alternative market and may only be purchased at a price per unit not exceeding the last published net asset value per unit. The Board of Advisors of the Fund believe that such purchases are in the best interest of the Fund and are a desirable use of its available funds. As at December 31, 2014, nil units have been purchased by the Fund.

On November 12, 2014, the Board of Advisors approved a proposal to: (i) change the investment restrictions of the Fund so that (a) at least 75 percent (previously 100 percent) of the value of the Fund's securities is invested in securities of an issuer included in the S&P 100 Index that has a trailing 12 month Beta relative to the S&P 100 Index of less than 1.0 on the date the Investment Universe is established or reconstituted; and (b) no more than 25 percent (currently no basket) of the value of the Fund is invested in securities of other issuers included in the S&P 100 Index as well as to permit the Fund to invest in 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 in accordance with applicable laws; to enable the Fund to invest up to 10 percent of its net assets to purchase call options in respect of securities in which the Fund is permitted to invest; (ii) enable the Manager to invest the Fund's portfolio entirely in cash or cash equivalents, denominated in Canadian or U.S. dollars, in its discretion; and (iii) change the Fund's investment strategy to permit the Manager to hedge foreign currency exposure in its discretion when considered appropriate. A joint management information circular was mailed to unitholders of record on November 21, 2014 and a special meeting of unitholders of the Fund was held on December 23, 2014 to consider and vote upon the proposal.

## Transition to International Financial Reporting Standards Accounting Policies

The Fund has adopted International Financial Reporting Standards ("IFRS") accounting policies for the year beginning January 1, 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with Chartered Professional Accountants of Canada Handbook Section 3855, Financial Instruments - Recognition and Measurement, which is determined by the closing bid price for long positions and by the closing ask price for short positions from the recognized stock exchange on which the securities are listed or principally traded. Under IFRS 13: Fair Value Measurement, the fair value of investments is to be based on a price within the bid-ask spread. It also allows the use of certain pricing conventions such as last traded prices as a practical expedient for fair value measurements within a bid-ask spread. Note 5 to the financial statements for the year ended December 31, 2014 discloses the impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the period ended December 31, 2013 prepared under Canadian GAAP.

## Related Party Transactions

Strathbridge Asset Management Inc. ("Strathbridge"), as the Investment Manager of the Fund, manages the Fund's investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an Investment Management Agreement made between the Fund and Strathbridge dated February 26, 2013.

Strathbridge is the Manager of the Fund pursuant to a Trust Agreement made between the Fund and Strathbridge dated February 26, 2013. 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 year, no recommendations or approvals were required to be sought from the Independent Review Committee ("IRC") concerning related party transactions.

## Independent Review Committee

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

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

**Financial Highlights**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund’s financial performance from its inception on March 13, 2013. This information is derived from the Fund’s audited annual financial statements.

As a result of the adoption of IFRS, for December 31, 2014 and 2013, the net assets per unit presented in the financial statements and the net asset value per unit calculated weekly are both valued at closing prices.

Periods ended December 31	2014	2013 <sup>(4)</sup>
<b>THE FUND’S NET ASSETS PER UNIT</b>		
Net Assets, beginning of period <sup>(1)</sup>	\$ 10.97	\$ 9.33 <sup>(5)</sup>
INCREASE (DECREASE) FROM OPERATIONS		
Total revenue	0.28	0.16
Total expenses	(0.38)	(0.25)
Realized gain (loss) for the period	1.92	0.61
Unrealized gain (loss) for the period	(0.58)	1.51
<b>Total Increase (Decrease) from Operations<sup>(2)</sup></b>	<b>1.24</b>	<b>2.03</b>
DISTRIBUTIONS		
From capital gains	(0.67)	(0.23)
Non-taxable Distributions	(0.35)	(0.14)
<b>Total Annual Distributions<sup>(3)</sup></b>	<b>(1.02)</b>	<b>(0.37)</b>
<b>Net Assets, as at December 31<sup>(1)</sup></b>	<b>\$ 11.33</b>	<b>\$ 10.97</b>

- (1) All per unit figures presented are referenced to net assets determined in accordance with IFRS and are derived from the Fund’s audited financial statements for the year ended December 31, 2014. Net assets per unit is the difference between the aggregate value of the assets (including the valuation of securities at closing prices) and the aggregate value of the liabilities, divided by the number of units then outstanding.
- (2) Total 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.
- (3) Distributions to unitholders are based on the number of units outstanding on the record date for each distribution.
- (4) For the period from inception on March 13, 2013 to December 31, 2013.
- (5) Initial issue price, net of agent fees and initial issue costs.

Periods ended December 31	2014	2013 <sup>(7)</sup>
<b>RATIOS/SUPPLEMENTAL DATA</b>		
Net Asset Value (\$millions) <sup>(1)</sup>	\$ 14.62	\$ 23.43
Number of units outstanding <sup>(1)</sup>	1,289,533	2,135,000
Management expense ratio <sup>(2)</sup>	3.10%	2.54% <sup>(5)</sup>
Portfolio turnover rate <sup>(3)</sup>	473.12%	223.06%
Trading expense ratio <sup>(4)</sup>	0.35%	0.33% <sup>(5)</sup>
Net Asset Value per unit <sup>(6)</sup>	\$ 11.33	\$ 10.97
Closing market price	\$ 11.00	\$ 10.45

- (1) This information is provided as at December 31.
- (2) The management expense ratio (“MER”) is the sum of all fees and expenses for the stated period, including harmonized sales taxes but excluding transaction fees, divided by the average net asset value. Generally, the MER increases when the Fund becomes smaller in size due to redemptions. The MER for 2014 includes the special resolution expense. The MER for 2014 excluding the special resolution expense is 3.06%.
- (3) 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.
- (4) Trading expense ratio represents total commissions expressed as a percentage of the daily average net asset value during the period.
- (5) Annualized.
- (6) 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.
- (7) For the period from inception on March 13, 2013 to December 31, 2013.



## 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 1.00 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

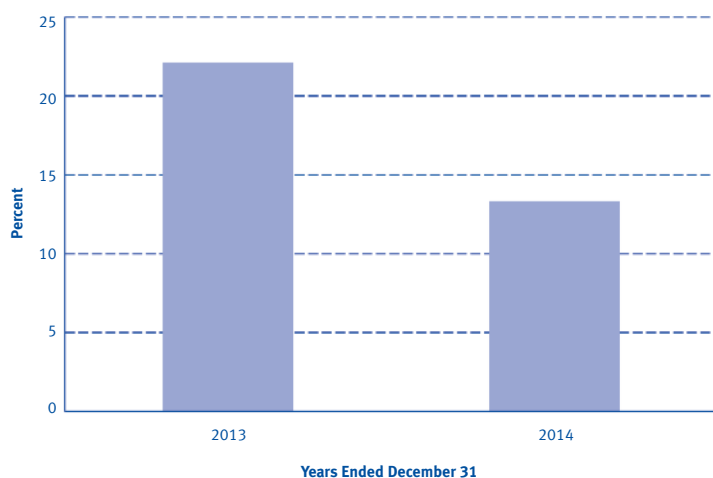
The following chart sets out the Fund's year-by-year past performance. It is important to note that the:

- (1) information shown assumes that all distributions made by the Fund during these periods were reinvested in 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 for the period since inception and for the year ended December 31, 2014. The chart also shows, in percentage terms, how much an investment made on January 1, 2014 or the date of inception on March 13, 2013 would have increased or decreased by the end of the fiscal year.

## Annual Total Return



## Annual Compound Returns

The following table shows the Fund's historical annual compound return (net of expenses) for the periods ended December 31, 2014 as compared to the performance of the S&P 100 Index.

	One Year	Since Inception <sup>(1)</sup>
Low Volatility U.S. Equity Income Fund	13.33 %	19.71 %
S&P 100 Index <sup>(2)</sup>	12.74 %	18.30 %

<sup>(1)</sup> From date of inception on March 13, 2013.

<sup>(2)</sup> The S&P 100 Index measures the performance of 100 U.S. large-cap companies. The constituents are among the larger and more stable companies in the S&P 500 Index, and must have listed options.

The equity performance benchmarks shown here provide an approximate indication of how the Fund's returns compare to a public market index for similar securities. It is important to note that the Fund is not managed in order to match or exceed these indices; rather, its objectives are to pay out quarterly distributions and return the original invested amount at the termination date. As a result, the Fund has, from time to time, maintained cash balances in an effort to provide greater net asset value stability and employs a covered option writing strategy to enhance the income generated by the portfolio and reduce volatility.

The Manager believes that in a flat or downward trending market, a portfolio that is subject to covered call option writing will generally provide higher relative returns and lower volatility than one on which no options are written. However, in a rising market, the use of options may have the effect of limiting or reducing the total returns of the Fund since the premiums associated with writing covered call options may be outweighed by the foregone opportunity of remaining fully invested in the securities comprising the portfolio.

### Portfolio Manager Report

After a very strong 2013, 2014 was another positive year for most Global equity markets with many indices making new all-time highs. The year began with geopolitical tensions between Ukraine and Russia after it was reported Russian troops were occupying Crimea, an autonomous Ukraine republic. Also, the harsh “Polar Vortex” winter experienced in North America held back aggregate demand and resulted in negative GDP growth in the U.S. during the first quarter of 2014. Economic data started to rebound in the second and third quarter of 2014 while Europe’s economy also looked to be improving as indicated by the regional purchasing manager’s indices. Many Global equity markets reached all-time highs in the third quarter of 2014 as the Global economy continued to improve and corporate earnings were reported better than expected. With the U.S. Federal Reserve ending quantitative easing in October 2014, many Global equity markets corrected in November but rebounded strongly into the end of the year as U.S. payrolls continued to strengthen and third quarter GDP in the U.S. came in well above expectations at 5 percent. For 2014, the S&P/TSX Composite Index generated a total return of 10.6 percent while the S&P 500 Index had a total return of 13.7 percent, outperforming its Canadian counterpart for the fourth year in a row. The Canadian economy showed small signs of improvement during the year but it was not enough to compel the Bank of Canada to tighten rates. Interest rates in Canada and Globally have been declining for many years with all-time lows in 2012. After moving higher in 2013 to the start of 2014, interest rates have resumed their descent, falling again to test the 2012 lows. The Canadian dollar started the year around 94 cents versus the U.S. dollar but ended 2014 at 86 cents, its lowest level since the spring of 2009. Most of the decline came in the fourth quarter of 2014 as crude oil weakened significantly during the period, ending the year below US\$50 per barrel.

For the year ended December 31, 2014, the net asset value of the Fund was \$11.33 per unit compared to \$10.97 per unit on December 31, 2013. Unitholders received regular cash distributions of \$0.57 per unit and special distributions of \$0.45 per unit during the period. The Fund’s units, listed on the TSX as LVU.UN, closed on December 31, 2014 at \$11.00 per unit, which represents a 2.9 percent discount to the net asset value.

The annual total return of the Fund for 2014, including reinvestment of distributions, was 13.3 percent compared to 12.7 percent for the S&P 100 Index over the same period. The Fund was led by the strong performance of General Dynamics Corporation and Intel Corporation, which had a total return of 47.2 percent and 44.3 percent respectively during the year. Meanwhile, the Fund’s underweight exposure to the Energy sector also provided a benefit as four of the five worst performing companies within the Investment Universe were from the Energy sector. This includes Apache Corporation which was down 26.3 percent for the year.

Volatility levels for U.S. equities remained at the lower end of their historical range during the period but trended up in November on concerns surrounding the effect that the U.S. Federal Reserve ending its quantitative easing program in October would have on the overall market. The covered call writing activity was opportunistic over the year while taking advantage of signals generated by the Strathbridge Selective Overwriting (“SSO”) strategy. The Fund ended 2014 with no covered calls written. During the year, the net realized gain on options attributable to the SSO strategy was \$0.06 per unit.

The Fund’s portfolio ended 2014 with a cash position of 1.4 percent compared to 2.3 percent at the end of 2013. The Manager remains very positive on companies within the Investment Universe due to their leverage to an improving U.S. economy, strong corporate balance sheets and earnings as well as continued attractive valuations on both an absolute and relative basis, and all of this while at same time providing superior diversification and lower volatility.



## 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

December 31, 2014

	% OF NET ASSET VALUE
Consumer Staples	20.7 %
Industrials	20.1 %
Information Technology	19.2 %
Health Care	14.8 %
Consumer Discretionary	13.8 %
Utilities	6.8 %
Financials	5.1 %
Cash	1.4 %
Other Assets (Liabilities)	(1.9)%
	100.0 %

### Top 25 Holdings

December 31, 2014

	% OF NET ASSET VALUE
UnitedHealth Group Incorporated	6.9 %
The Home Depot, Inc.	6.2 %
Eli Lilly and Company	5.8 %
United Parcel Service, Inc.	5.8 %
CVS Health Corporation	5.7 %
Costco Wholesale Corporation	5.6 %
Apple Inc.	5.6 %
NIKE, Inc. - Class B	5.3 %
Altria Group, Inc.	5.0 %
The Procter & Gamble Company	4.4 %
Intel Corporation	4.1 %
Lockheed Martin Corporation	4.1 %
Raytheon Company	4.1 %
Microsoft Corporation	4.1 %
General Dynamics Corporation	3.9 %
Facebook, Inc.	3.3 %
Simon Property Group, Inc.	3.0 %
The Southern Company	2.5 %
Target Corporation	2.3 %
3M Company	2.2 %
Exelon Corporation	2.2 %
American Electric Power Company, Inc.	2.1 %
Medtronic, Inc.	2.1 %
U.S. Bancorp	2.1 %
Cisco Systems, Inc.	2.1 %

#### 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 financial statements of Low Volatility U.S. Equity Income Fund (the “Fund”) and all the information in this 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 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 annual report is consistent with the financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 3 of the annual financial statements.

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

The Board meets periodically with management and the independent auditor to discuss internal controls, the financial reporting process, various auditing and financial reporting issues, 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.  
March 4, 2015



John D. Germain  
Director  
Strathbridge Asset Management Inc.

## To the Unitholders of Low Volatility U.S. Equity Income Fund

We have audited the accompanying financial statements of Low Volatility U.S. Equity Income Fund, which comprise the statements of financial position as at December 31, 2014, December 31, 2013 and March 13, 2013 and the statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2014 and for the period from March 13, 2013 to December 31, 2013, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Low Volatility U.S. Equity Income Fund as at December 31, 2014, December 31, 2013 and March 13, 2013 and its financial performance, its changes in equity and its cash flows for the year ended December 31, 2014 and for the period from March 13, 2013 to December 31, 2013 in accordance with International Financial Reporting Standards.

*Deloitte LLP*

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants  
March 4, 2015  
Toronto, Ontario

## Statements of Financial Position

As at December 31, 2014, December 31, 2013 and March 13, 2013

	Note	Dec. 31, 2014	Dec. 31, 2013	March 13, 2013
<b>ASSETS</b>				
Financial assets at fair value through profit or loss	3,5	\$ 14,687,563	\$ 23,206,462	\$ -
Derivative assets		22,494	11,785	-
Dividends receivable		11,265	28,992	-
Cash		200,648	539,756	-
<b>TOTAL ASSETS</b>		<b>14,921,970</b>	<b>23,786,995</b>	<b>-</b>
<b>LIABILITIES</b>				
Derivative liabilities		224,111	276,192	-
Accrued liabilities		68,328	63,336	-
Accrued management fees		13,274	20,099	-
<b>TOTAL LIABILITIES</b>		<b>305,713</b>	<b>359,627</b>	<b>-</b>
<b>NET ASSETS ATTRIBUTABLE TO EQUITY HOLDERS</b>	5	<b>\$ 14,616,257</b>	<b>\$ 23,427,368</b>	<b>\$ -</b>
<b>NET ASSETS ATTRIBUTABLE TO EQUITY HOLDERS PER UNIT</b>		<b>\$ 11.3345</b>	<b>\$ 10.9730</b>	<b>\$ -</b>

On behalf of the Manager,  
Strathbridge Asset Management Inc.



John P. Mulvihill, Director



John D. Germain, Director

## Statements of Comprehensive Income

For the year ended December 31, 2014 and the period from March 13, 2013, the inception of the Fund, to December 31, 2013

	Note	2014	2013
<b>INCOME</b>			
Dividend income		\$ 516,583	\$ 326,783
Interest income		–	3,898
Net realized gain on investments at fair value through profit or loss	8	4,991,271	1,516,231
Net realized gain on options at fair value through profit or loss	8	118,906	242,070
Net realized loss on forward exchange contracts through profit and loss	8	(1,505,812)	(452,390)
Net change in unrealized gain/loss on investments at fair value through profit or loss	5,8	(1,093,484)	3,219,431
<b>TOTAL INCOME</b>		<b>3,027,464</b>	<b>4,856,023</b>
<b>EXPENSES</b>			
Management fees	10	203,077	173,359
Service fees		75,204	68,892
Administrative and other expenses		66,196	51,630
Transaction fees	11	71,293	56,524
Custodian fees		63,300	59,942
Audit fees		29,250	21,400
Advisory board fees	10	23,100	13,950
Independent review committee fees	10	6,900	5,625
Legal fees		21,403	4,212
Unitholder reporting costs		20,242	6,122
Harmonized sales tax		38,845	30,839
Withholding taxes	5	76,777	49,022
<b>Subtotal Expenses</b>		<b>695,587</b>	<b>541,517</b>
Special resolution expense	15	8,883	–
<b>TOTAL EXPENSES</b>		<b>704,470</b>	<b>541,517</b>
<b>INCREASE IN NET ASSETS ATTRIBUTABLE TO EQUITY HOLDERS</b>	5,12	<b>\$ 2,322,994</b>	<b>\$ 4,314,506</b>
<b>INCREASE IN NET ASSETS ATTRIBUTABLE TO EQUITY HOLDERS PER UNIT</b>	12	<b>\$ 1.2370</b>	<b>\$ 2.0250</b>

## Statements of Changes in Equity

For the year ended December 31, 2014 and for the period from March 13, 2013, the inception of the Fund, to December 31, 2013

	Note	Unit Capital	Retained Earnings	Total
BALANCE AT MARCH 13, 2013		\$ –	\$ –	\$ –
Increase in Net Assets Attributable to Equity Holders	5	–	4,314,506	4,314,506
Distributions		–	(796,013)	(796,013)
Proceeds from units issued, net of issue costs		19,908,875	–	19,908,875
BALANCE AT DECEMBER 31, 2013	5	\$ 19,908,875	\$ 3,518,493	\$ 23,427,368
Increase in Net Assets Attributable to Equity Holders		–	2,322,994	2,322,994
Distributions		–	(1,829,656)	(1,829,656)
Value for units redeemed		(7,883,980)	(1,420,469)	(9,304,449)
BALANCE AT DECEMBER 31, 2014		\$ 12,024,895	\$ 2,591,362	\$ 14,616,257

## Statements of Cash Flows

For the year ended December 31, 2014 and for the period from March 13, 2013, the inception of the Fund, to December 31, 2013

	Note	2014	2013
CASH, BEGINNING OF PERIOD		\$ 539,756	\$ –
<b>Cash Flows Provided by (Used In) Operating Activities</b>			
Increase in Net Assets Attributable to Equity Holders		2,322,994	4,314,506
<b>Adjustments to Reconcile Increase/Decrease in Net Assets Attributable to Equity Holders to Net Cash Provided by (Used in) Operating Activities</b>			
Purchase of investment securities		(94,498,602)	(63,492,159)
Proceeds from disposition of investment securities		105,465,186	45,076,534
Net realized gain on investments at fair value through profit or loss		(4,991,271)	(1,516,231)
Net realized gain on options at fair value through profit or loss		(118,906)	(242,070)
Net realized loss on forward exchange contracts through profit and loss		1,505,812	452,390
Net change in unrealized gain/loss on investments at fair value through profit or loss	5	1,093,484	(3,219,431)
Net change in unrealized gain/loss on cash		406	(1,088)
(Increase)/decrease in dividends receivable		17,727	(28,992)
Increase/(decrease) in accrued liabilities and accrued management fees		(1,833)	83,435
		<b>8,472,003</b>	<b>(22,887,612)</b>
<b>Cash Flows Provided by (Used In) Financing Activities</b>			
Unitholder distributions		(1,829,656)	(796,013)
Unitholder redemptions		(9,304,449)	–
Proceeds from units issued, net of issue costs		–	19,908,875
		<b>(11,134,105)</b>	<b>19,112,862</b>
<b>Net Increase/(Decrease) in Cash During the Period</b>		<b>(339,108)</b>	<b>539,756</b>
CASH, END OF PERIOD		\$ 200,648	\$ 539,756
Dividends received		\$ 534,310	\$ 297,791
Interest received		\$ –	\$ 3,898



## Schedules of Investments

As at December 31, 2014

	Number of Shares/ (Contracts)	Average Cost/ (Proceeds)	Fair Value	% of Net Assets Attributable to Equity Holders
<b>INVESTMENTS</b>				
<b>United States Common Shares</b>				
<b>Consumer Discretionary</b>				
NIKE, Inc. - Class B	6,900	\$ 582,151	\$ 768,425	
Target Corporation	3,800	289,196	334,107	
The Home Depot, Inc.	7,400	723,820	899,705	
<b>Total Consumer Discretionary</b>		1,595,167	2,002,237	13.7 %
<b>Consumer Staples</b>				
Altria Group, Inc.	12,800	661,152	730,458	
Costco Wholesale Corporation	5,000	636,372	820,911	
CVS Health Corporation	7,500	640,814	836,634	
The Procter & Gamble Company	6,100	567,579	643,582	
<b>Total Consumer Staples</b>		2,505,917	3,031,585	20.7 %
<b>Financials</b>				
Simon Property Group, Inc.	2,100	402,545	442,951	
U.S. Bancorp	5,900	292,626	307,174	
<b>Total Financials</b>		695,171	750,125	5.1 %
<b>Health Care</b>				
Eli Lilly and Company	10,600	710,763	847,023	
Medtronic, Inc.	3,700	276,437	309,415	
UnitedHealth Group Incorporated	8,600	759,543	1,006,954	
<b>Total Health Care</b>		1,746,743	2,163,392	14.8 %
<b>Industrials</b>				
3M Company	1,700	283,752	323,551	
General Dynamics Corporation	3,600	507,451	573,835	
Lockheed Martin Corporation	2,700	504,972	602,220	
Raytheon Company	4,800	520,351	601,383	
United Parcel Service, Inc.	6,500	766,825	836,959	
<b>Total Industrials</b>		2,583,351	2,937,948	20.1 %
<b>Information Technology</b>				
Apple Inc.	6,400	603,010	818,226	
Cisco Systems, Inc.	9,400	294,201	302,838	
Facebook, Inc.	5,300	415,517	478,944	
Intel Corporation	14,500	478,638	609,478	
Microsoft Corporation	11,100	520,824	597,189	
<b>Total Information Technology</b>		2,312,190	2,806,675	19.2 %
<b>Utilities</b>				
American Electric Power Company, Inc.	4,400	272,234	309,448	
Exelon Corporation	7,500	300,547	322,110	
The Southern Company	6,400	356,132	364,043	
<b>Total Utilities</b>		928,913	995,601	6.8 %
<b>Total United States Common Shares</b>		\$ 12,367,452	\$ 14,687,563	100.4 %
<b>Forward Exchange Contracts</b>				
Sold USD \$3,000,000, Bought CAD \$3,409,140 @ 0.87999 - January 14, 2015			\$ (66,647)	
Sold USD \$600,000, Bought CAD \$697,680 @ 0.85999 - January 14, 2015			2,513	
Sold USD \$5,800,000, Bought CAD \$6,573,720 @ 0.88230 - February 18, 2015			(151,050)	
Sold USD \$3,700,000, Bought CAD \$4,312,868 @ 0.85790 - March 18, 2015			19,981	
<b>Total Forward Exchange Contracts</b>			\$ (195,203)	(1.3)%
<b>Options</b>				
<b>Written Covered Call Options (100 shares per contract)</b>				
United Parcel Service, Inc. - January 2015 @ \$110	(25)	\$ (4,693)	\$ (6,414)	
<b>Total Options</b>		\$ (4,693)	\$ (6,414)	0.0 %
Adjustment for transaction fees		(3,442)		
<b>TOTAL INVESTMENTS</b>		\$ 12,359,317	\$ 14,485,946	99.1 %
<b>OTHER NET ASSETS</b>			130,311	0.9 %
<b>NET ASSETS ATTRIBUTABLE TO EQUITY HOLDERS</b>			\$ 14,616,257	100.0 %

The notes are an integral part of the Financial Statements.

Annual Report 2014

## 1. Fund Information

Low Volatility U.S. Equity Income Fund (the “Fund”) is an investment trust established under the laws of the Province of Ontario on February 26, 2013 and began operations on March 13, 2013. The address of the Fund’s registered office is 121 King Street West, Suite 2600, Toronto, Ontario.

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

The Fund is a closed-end investment trust designed to maximize risk adjusted returns for unitholders and to pay unitholders monthly cash distributions in an amount targeted to be 5.0 percent per annum on the net asset value per unit. The units are listed on the Toronto Stock Exchange (“TSX”) under the ticker symbol LVU.UN. To accomplish its objectives, the Fund invests in a conservative portfolio consisting of large capitalization equity securities selected from the S&P 100 Index with a beta of less than 1.0, combined with selective covered call option writing designed to enhance portfolio income and mitigate downside risk. Beta is a financial term used as a measure of a security’s or a portfolio’s return in relation to the market. A beta of less than 1.0 indicates that the price of a security will generally vary to a lesser extent than the movement of the market and a beta of greater than 1.0 indicates that the price of a security will generally vary to a greater extent than the movement of the market.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting (“SSO”), to enhance the income generated by the portfolio and to reduce volatility. In addition, the Fund may write cash covered put options in respect of securities in which it 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.

These financial statements were approved by the Board of Advisors on March 4, 2015.

## 2. Basis of Presentation and Adoption of International Financial Reporting Standards

The annual financial statements for the Fund have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board (“IASB”).

The Fund has adopted IFRS accounting policies for the year beginning January 1, 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these accounting policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Fund’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund’s financial statements for the period ended December 31, 2013 prepared under Canadian GAAP.

## 3. Summary of Significant Accounting Policies

### Functional and Presentation Currency

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

### Financial Instruments

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

### Fair Value Measurement

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

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

### Investment Transactions and Income

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

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

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

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

(iii) Sale of purchased put options whereby realized gains or losses are equivalent to the sale proceeds, net of any premium paid.

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

Dividend income is recorded on the ex-dividend date.

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

### Foreign Currency Translation

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

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

### Short-Term Investments

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

### Increase/(Decrease) in Net Assets Attributable to Equity Holders per Unit

The increase/(decrease) in net assets attributable to equity holders per unit is calculated by dividing the increase/(decrease) in net assets attributable to equity holders by the weighted average number of units outstanding during the period. Please refer to Note 12 for the calculation.

### Units

IAS 32, Financial Instruments: Presentation, requires that if all the criteria under paragraph 16A are met, the units (which are puttable instruments) should be classified as equity but if they do not meet all the conditions, they should be classified as financial liabilities. The Fund's units meet all the criteria outlined in IAS 32 paragraph 16A for classification as equity and therefore have been classified as equity on transition to IFRS.

### Taxation

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

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

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

## 4. Critical Accounting Estimates and Judgments

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

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

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

The Fund may, from time to time, hold financial instruments that are not quoted in active markets. Fair values of such instruments are determined by using valuation models and techniques generally recognized as standard within the investment industry. These valuation methods use observable data as practicable as possible. Observable market data are readily available and supplied by independent sources actively involved in the relevant market. However, areas such as credit risk (both own and counterparty) and its correlations require the Manager to make estimates. Significant changes in assumptions about these factors could adversely affect the reported fair values of financial instruments. Please refer to Note 7 for a further analysis of risks associated with financial instruments.

## 5. Transition to IFRS

The effect of the Fund's transition to IFRS is summarized as follows:

### Transition Elections

Based on the investment strategies of the Fund, equity investments in the portfolio have been designated at FVTPL through the adoption of voluntary exemption upon transition. Equity investments designated at FVTPL at inception were previously carried at fair value under Canadian GAAP as required by Accounting Guideline 18 - Investment Companies.

### Statement of Cash Flows

Under Canadian GAAP, the Fund was exempt from providing a statement of cash flows. IAS 1, Presentation of Financial Statements, requires that a complete set of financial statements include a statement of cash flows for the current and comparative periods, without exception.

### Reconciliation of Net Assets and Comprehensive Income as previously reported under Canadian GAAP to IFRS

	Dec. 31, 2013	March 13, 2013
Net Assets		
Net Assets as reported under Canadian GAAP	\$ 23,424,448	\$ -
Revaluation of investments at FVTPL	2,920	-
Net Assets Attributable to Equity Holders	\$ 23,427,368	\$ -

	Dec. 31, 2013
Comprehensive Income	
Comprehensive Income reported under Canadian GAAP	\$ 4,311,586
Revaluation of investments at FVTPL	2,920
Increase in Net Assets Attributable to Equity Holders	\$ 4,314,506

Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with Chartered Professional Accountants of Canada Handbook Section 3855, Financial Instruments - Recognition and Measurement, which is determined by the closing bid price for long positions and by the closing ask price for short positions from the recognized stock exchange on which the securities are listed or principally traded. If no bid or ask prices are available, the securities are valued at the closing sale price or the Manager may estimate fair value using appropriate and accepted industry valuation techniques including valuation models. Under IFRS 13: Fair Value Measurement, the fair value of investments is to be based on a price within the bid-ask spread. It also allows the use of certain pricing conventions such as last traded prices as a practical expedient for fair value measurements within a bid-ask spread. As a result of the use of last traded prices upon IFRS transition, adjustments were recognized to increase the carrying amount of the Fund's investments by \$2,920 as at December 31, 2013. Another impact of fair value adjustments was to increase the Fund's increase/(decrease) in net assets attributable to equity holders by \$2,920 for the period ended December 31, 2013.

### Reclassification Adjustments

The Fund reclassified withholding taxes from the total revenue section to the total expenses section in the Statement of Comprehensive Income upon transition in order to conform to the financial statement presentation under IFRS.

### Classification of Units

Under Canadian GAAP, the Fund classified units as equity. Under IFRS, IAS 32, Financial Instruments: Presentation, requires that if all the criteria under paragraph 16A are met, the units (which are puttable instruments) should be classified as equity but if they do not meet all the conditions, they should be classified as financial liabilities. The Fund's units meet all the criteria outlined in IAS 32 paragraph 16A for classification as equity and therefore have been classified as equity on transition to IFRS.

## 6. Capital Disclosures

IAS 1, Presentation of Financial Statements, requires the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data and qualitative information about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Fund's objectives, policies and processes are described in Note 1, information on the Fund's units is described in Note 9 and the trust indenture does not have any externally imposed capital requirements.

## 7. Risks Associated with Financial Instruments

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

Tables are based on restatements of values of financial instruments at fair value through profit and loss and unrealized gain/(loss) on investments as at December 31, 2013 to comply with IFRS. Note 5 discloses the transition adjustments.

### Credit Risk

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

The Fund is also exposed to counterparty credit risk on derivative financial instruments. The counterparty credit risk for derivative financial instruments is managed by dealing with counterparties that have a credit rating that is not below the level of approved credit ratings as set out in National Instrument 81-102. During the year ended December 31, 2014 and period ended December 31, 2013, the counterparties to the Fund's derivative financial instruments had a credit rating of A-1 or higher from Standard & Poor's Ratings Services.

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

### Liquidity Risk

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

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

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

	As at December 31 2014			Total
	Financial Liabilities			
	On Demand	< 3 months		
Accrued liabilities	\$ -	\$ 68,328		\$ 68,328
Accrued management fees	-	13,274		13,274
Derivative liabilities	-	224,111		224,111
	\$ -	\$ 305,713		\$ 305,713

	As at December 31, 2013			Total
	Financial Liabilities			
	On Demand	< 3 months		
Accrued liabilities	\$ -	\$ 63,336		\$ 63,336
Accrued management fees	-	20,099		20,099
Derivative liabilities	-	276,192		276,192
	\$ -	\$ 359,627		\$ 359,627

### Market Risk

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

**(a) Currency Risk**

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

The table below indicates the foreign currencies to which the Fund had significant exposure to as at December 31, 2014 and December 31, 2013 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 equity holders 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 December 31, 2014 United States Currency Exposure						
	Monetary			Non-Monetary		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
	\$ (14,795,623)	\$ 14,681,149	\$ (114,474)	\$ (739,781)	\$ 734,057	\$ (5,724)
% of Net Assets Attributable to Equity Holders	(101)%	100%	(1)%	(5)%	5%	0%

As at December 31, 2013 United States Currency Exposure						
	Monetary			Non-Monetary		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
	\$ (22,092,489)	\$ 23,206,462	\$ 1,113,973	\$ (1,104,624)	\$ 1,160,323	\$ 55,699
% of Net Assets Attributable to Equity Holders	(94)%	99%	5%	(5)%	5%	0%

**(b) Interest Rate Risk**

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

**(c) Price Risk**

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or segment. The Fund's most significant exposure to price risk arises from its investments in equity securities. Net assets per unit varies as the value of the securities in the Fund varies. The Fund has no control over the factors that affect the value of the securities in the Fund, including factors that affect all the issuers in the S&P 100 Index.

The Fund's price risk is managed by taking a long-term perspective and utilizing an option writing program, as well as by the use of purchased put options. Approximately 100 percent (2013 - 99 percent) of the Fund's net assets held attributable to equity holders at December 31, 2014 were publicly traded equities. If equity prices on the exchange increased or decreased by 5 percent as at December 31, 2014, the net assets attributable to equity holders would have increased or decreased by \$0.7M (2013 - \$1.2M) respectively or 5.0 percent (2013 - 5.0 percent) of the net assets attributable to equity holders with all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

**Concentration Risk**

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

	Dec. 31, 2014	Dec. 31, 2013
Consumer Staples	20.7%	16.0%
Industrials	20.0%	26.8%
Information Technology	19.1%	7.8%
Health Care	14.7%	16.9%
Consumer Discretionary	13.6%	17.9%
Utilities	6.8%	4.2%
Financials	5.1%	4.3%
Energy	-	6.1%
	100.0%	100.0%

**Capital Risk Management**

Unitholders whose units are redeemed on an Annual Redemption Date will be entitled to receive a redemption price per unit equal to the net asset per unit determined as of such date. For unitholders whose units are redeemed on a Monthly Redemption Date, the redemption price per unit will be equal to the lesser of: (i) 95 percent of the market price; and (ii) 100 percent of the closing market price of the units on the applicable Redemption Date, minus an amount equal to the aggregate of all brokerage fees, commissions and other costs incurred by the Fund in connection with such payment, including, but not limited to, costs incurred in liquidating securities held in the portfolio.

**Fair Value Measurement**

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

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

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

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

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur. The following table illustrates the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at December 31, 2014 and December 31, 2013.

	As at December 31, 2014			
	Level 1	Level 2	Level 3	Total
United States Common Shares	\$ 14,687,563	\$ -	\$ -	\$ 14,687,563
Forward Exchange Contracts	-	(195,203)	-	(195,203)
Options	(6,414)	-	-	(6,414)
	\$ 14,681,149	\$ (195,203)	\$ -	\$ 14,485,946

	As at December 31, 2013			
	Level 1	Level 2	Level 3	Total
United States Common Shares	\$ 23,206,462	\$ -	\$ -	\$ 23,206,462
Forward Exchange Contracts	-	(264,407)	-	(264,407)
	\$ 23,206,462	\$ (264,407)	\$ -	\$ 22,942,055



## Notes to Financial Statements

December 31, 2014 and 2013

The carrying values of cash, dividends receivable, interest receivable, due to brokers - investments, accrued liabilities, accrued management fees, due from brokers - investments and redemptions payable, and the Fund's obligation for net assets attributable to equity holders approximate their fair values due to their short-term nature.

### (a) Equities

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

### (b) Short-Term Investments

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

### (c) Derivative Assets and Liabilities

Derivative assets and liabilities consist of forward exchange contracts and option contracts.

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

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

There were no transfers between Level 1 and Level 2 during 2014 and 2013.

## 8. Financial Instruments by Category

The following tables present the carrying amounts of the Fund's financial instruments by category as at December 31, 2014 and December 31, 2013.

Tables are based on restatements of values of financial instruments at fair value through profit and loss and unrealized gain/(loss) on investments as at December 31, 2013 to comply with IFRS. Note 5 discloses the transition adjustments.

	As at December 31, 2014		Financial Instruments at Amortized Cost	Total
	Financial Instruments at FVTPL			
	Designated at Inception	Held for Trading		
<b>Assets</b>				
Non-derivative financial assets	\$ 14,687,563	\$ -	\$ -	\$ 14,687,563
Derivative assets	-	22,494	-	22,494
Cash	-	-	200,648	200,648
Dividends receivable	-	-	11,265	11,265
	\$ 14,687,563	\$ 22,494	\$ 211,913	\$ 14,921,970
<b>Liabilities</b>				
Accrued liabilities	\$ -	\$ -	\$ 68,328	\$ 68,328
Accrued management fees	-	-	13,274	13,274
Derivative liabilities	-	224,111	-	224,111
	\$ -	\$ 224,111	\$ 81,602	\$ 305,713

	As at December 31, 2013		Financial Instruments at Amortized Cost	Total
	Financial Instruments at FVTPL			
	Designated at Inception	Held for Trading		
<b>Assets</b>				
Non-derivative financial assets	\$ 23,206,462	\$ -	\$ -	\$ 23,206,462
Derivative assets	-	11,785	-	11,785
Cash	-	-	539,756	539,756
Dividends receivable	-	-	28,992	28,992
	\$ 23,206,462	\$ 11,785	\$ 568,748	\$ 23,786,995
<b>Liabilities</b>				
Accrued liabilities	\$ -	\$ -	\$ 63,336	\$ 63,336
Accrued management fees	-	-	20,099	20,099
Derivative liabilities	-	276,192	-	276,192
	\$ -	\$ 276,192	\$ 83,435	\$ 359,627

## Low Volatility U.S. Equity Income Fund [LVU.UN]

The following table presents the net gain/(loss) on financial instruments at FVTPL by category for the year ended December 31, 2014 and period ended December 31, 2013.

	Dec. 31, 2014	Dec. 31, 2013
<b>Net Realized Gain/(Loss) on Financial Instruments at FVTPL</b>		
Designated at Inception	\$ 4,991,271	\$ 1,516,231
Held for Trading	(1,386,906)	(210,320)
	3,604,365	1,305,911
<b>Net Change in Unrealized Gain/Loss on Financial Instruments at FVTPL</b>		
Designated at Inception	(1,160,967)	3,483,838
Held for Trading	67,483	(264,407)
	(1,093,484)	3,219,431
<b>Net Gain on Financial Instruments at FVTPL</b>	<b>\$ 2,510,881</b>	<b>\$ 4,525,342</b>

## 9. Units

The Fund is authorized to issue an unlimited number of transferable, redeemable trust units of one class, each of which represents an equal, undivided interest in the net assets of the Fund. The Fund intends to pay monthly cash distributions on the last day of each month in an amount targeted to be 5.0 percent per annum on the net asset value of the Fund.

During the year ended December 31, 2014 and period ended December 31, 2013, unit transactions are as follows:

	Dec. 31, 2014	Dec. 31, 2013
Units outstanding, beginning of period	2,135,000	-
Units issued	-	2,135,000
Units redeemed	(845,467)	-
Units outstanding, end of period	1,289,533	2,135,000

On April 29, 2013, the Fund announced it filed a Notice of Intention to make a normal course issuer bid to purchase up to 213,485 units representing approximately 10 percent of the Fund's public float as of April 25, 2013. The normal course issuer bid remained in effect until April 30, 2014 and at such time nil units had been purchased by the Fund.

On October 17, 2014, the Fund announced it filed a Notice of Intention to make a normal course issuer bid to purchase up to 128,829 units representing approximately 10 percent of the Fund's public float of 1,288,297 units as of September 30, 2014. The Fund may purchase up to 25,790 units in any 30 day period which is 2 percent of the 1,289,533 units issued and outstanding as at September 30, 2014. The units may be purchased for cancellation from October 22, 2014 to October 21, 2015 through the facilities of the TSX or other eligible alternative market and may only be purchased at a price per unit not exceeding the last published net asset value per unit. As at December 31, 2014, nil units had been purchased by the Fund.

## 10. Related Party Transactions

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

### (a) Management Fees

Strathbridge, as the Investment Manager and Manager under the terms of the Investment Management Agreement and Trust Agreement, receives fees payable at annual rates of 1.00 percent of the net asset value of the Fund, calculated and payable monthly, plus applicable taxes. The Fund is responsible for all ongoing custodian, manager, legal, accounting and audit fees as well as all other expenses incurred by the Custodian and Manager in the ordinary course of business



relating to the Fund's operations. Total management fees for the year ended December 31, 2014 were \$203,077 (2013 - \$173,359).

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

Total remuneration paid to the external members of the Board of Advisors for the year ended December 31, 2014 were \$23,100 (2013 - \$13,950).

#### (c) Independent Review Committee Fees

Total remuneration paid to the external members of the Independent Review Committee for the year ended December 31, 2014 were \$6,900 (2013 - \$5,625).

### 11. Brokerage Commissions and Soft Dollars

The Manager may select brokerages who charge a commission in soft dollars if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized. The ascertainable soft dollar value received as a percentage of total transaction fees paid during the year ended December 31, 2014 and period ended December 31, 2013 is disclosed below:

	Dec. 31, 2014	Dec. 31, 2013
Soft Dollars	\$ 20,162	\$ 24,509
Percentage of Total Transaction Fees	28.3%	43.4%

### 12. Increase/(Decrease) in Net Assets Attributable to Equity Holders per Unit

The Increase/(Decrease) in Net Assets Attributable to Equity Holders per Unit for the year ended December 31, 2014 and period ended December 31, 2013 is calculated as follows:

	Dec. 31, 2014	Dec. 31, 2013
Increase in Net Assets Attributable to Equity Holders	\$ 2,322,994	\$ 4,314,506
Weighted Average Number of Units Outstanding during the Year	1,877,885	2,130,663
Increase in Net Assets Attributable to Equity Holders per Unit	\$ 1.2370	\$ 2.0250

### 13. Income Taxes

No amount is payable on account of income taxes in 2014 or 2013.

Issue costs of approximately \$0.9M (2013 - \$1.2M) remain undeducted for tax purposes at year-end.

### 14. Future Accounting Policy Changes

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

### 15. Subsequent Event

On November 12, 2014, the Board of Advisors approved a proposal to: (i) change the investment restrictions of the Fund so that (a) at least 75 percent (previously 100 percent) of the value of the Fund's securities is invested in securities of an issuer included in the S&P 100 Index that has a trailing 12 month Beta relative to the S&P 100 Index of less than 1.0 on the date the Investment Universe is established or reconstituted; and (b) no more than 25 percent (currently no basket) of the value of the Fund is invested in securities of other issuers included in the S&P 100 Index as well as to permit the Fund to invest in 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 in accordance with applicable laws; to enable the Fund to invest up to 10 percent of its net assets to purchase call options in respect of securities in which the Fund is permitted to invest; (ii) enable the Manager to invest the Fund's portfolio entirely in cash or cash equivalents, denominated in Canadian or U.S. dollars, in its discretion; and (iii) change the Fund's investment strategy to permit the Manager to hedge foreign currency exposure in its discretion when considered appropriate. A joint management information circular was mailed to unitholders of record on November 21, 2014 and a special meeting of unitholders of the Fund was held on December 23, 2014 to consider and vote upon the proposal. Pro-rata costs of \$8,883 were accrued in relation to this special resolution.

On January 2, 2015, the Manager announced that the proposal was approved by the unitholders to change the investment restrictions and investment strategy of the Fund.

## Board of Advisors

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

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

**Michael M. Koerner<sup>1</sup>**  
Corporate Director

**Robert W. Korthals<sup>1</sup>**  
Corporate Director

**Robert G. Bertram<sup>1</sup>**  
Corporate Director

<sup>1</sup>Independent Review Committee Member

## Information

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**Independent Auditor:**  
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Brookfield Place  
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Toronto, Ontario  
M5J 2V1

**Transfer Agent:**  
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Toronto, Ontario  
M5J 2Y1

**Units Listed:**  
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trading under  
LVU.UN

**Custodian:**  
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RBC Centre  
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M5V 3L3

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

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

### SPLIT SHARES

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

### Head Office:

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