



**Low Volatility U.S. Equity Income Fund**  
**Annual Report 2015**

## Letter to Unitholders

We are pleased to present the 2015 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 rising for three consecutive years from 2012 to 2014, many Global equity markets declined in 2015 with the S&P/TSX Composite Index in Canada generating one of the worst returns, down 8.3 percent. The year started off well for Canadian stocks but, after peaking in mid-April, all sectors except Health Care were in decline in the first half of the year due to negative Gross Domestic Product for the first two quarters of 2015 as well as the significant decline in energy prices. Equity markets continued to weaken over the summer culminating in a flash crash on August 24, when the Dow Jones Industrial Average dropped over 1,000 points intraday due to concerns surrounding global growth as well as the effects from the devaluation of the Chinese yuan. Equities did bounce back in October pushing many markets back into positive territory for the year only to end the year with a whimper as markets digested the U.S. Federal Reserve’s overnight rate increase for the first time since 2006. For 2015, the S&P 500 Index generated a return of 1.4 percent, outperforming its Canadian counterpart for the fifth year in a row.

For the year ended December 31, 2015, the total return of the Fund, including the reinvestment of distributions, was 2.4 percent compared to 2.6 percent for the S&P 100 Index. The Fund paid cash distributions of \$0.61 per unit during the year. The net asset value per unit decreased 3.0 percent from \$11.33 per unit at December 31, 2014 to \$10.99 per unit at December 31, 2015. The net realized gain on options attributable to Strathbridge Selective Overwriting strategy (see “The Fund”) was \$0.03 per unit over the same period as compared to a net realized gain on options of \$0.06 per unit in 2014. 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 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 at least 75 percent of the value of the Fund 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. In addition, up to 25 percent of the value of the Fund may be invested in securities of other issuers included in the S&P 100 Index. The Fund may also 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.

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.

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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, 2015 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, P.O. Box 113, Toronto, Ontario, M5H 3T9, by email at [info@strathbridge.com](mailto:info@strathbridge.com) or by visiting our website at [www.strathbridge.com](http://www.strathbridge.com). You can also request semi-annual 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 its objectives, the Fund invests at least 75 percent of the value of the Fund 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. In addition, up to 25 percent of the value of the Fund may be invested in securities of other issuers included in the S&P 100 Index. The Fund may also 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.

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.

## Risk

Risks associated with an investment in the securities of the Fund are discussed in the Fund’s 2015 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

For the year ended December 31, 2015, cash distributions were \$0.61 per unit compared to \$1.02 per unit a year ago of which \$0.45 per unit were special distributions.

Since inception on March 13, 2013, cash distributions of \$2.00 per unit were paid to the unitholders of the Fund.

### Revenue and Expenses

For the year ended December 31, 2015, the Fund’s total revenue was \$0.26 per unit compared to total revenue of \$0.28 per unit in the prior year. Total expenses were \$0.41 per unit up from \$0.38 per unit last year mainly due to a decreased number of units outstanding during the year. The Fund had a net realized and unrealized gain of \$0.20 per unit in 2015 as compared a net realized and unrealized gain of \$1.34 per unit in 2014.

### Net Asset Value

The net asset value per unit of the Fund decreased 3.0 percent from \$11.33 per unit at December 31, 2014 to \$10.99 per unit at December 31, 2015. The total net asset value of the Fund decreased \$5.1 million from \$14.6 million at December 31, 2014 to \$9.5 million at December 31, 2015, reflecting cash distributions of \$0.7 million and annual redemptions of \$4.4 million.

## Recent Developments

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

## 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 International Financial Reporting Standards ("IFRS"), for December 31, 2015, 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	2015	2014	2013 <sup>(4)</sup>
<b>THE FUND'S NET ASSETS PER UNIT</b>			
<b>Net Assets, beginning of period<sup>(1)</sup></b>	<b>\$ 11.33</b>	<b>\$ 10.97</b>	<b>\$ 9.33<sup>(5)</sup></b>
INCREASE (DECREASE) FROM OPERATIONS			
Total revenue	0.26	0.28	0.16
Total expenses	(0.41)	(0.38)	(0.25)
Realized gain (loss) for the period	1.43	1.92	0.61
Unrealized gain (loss) for the period	(1.23)	(0.58)	1.51
<b>Total Increase (Decrease) from Operations<sup>(2)</sup></b>	<b>0.05</b>	<b>1.24</b>	<b>2.03</b>
DISTRIBUTIONS			
From capital gains	(0.41)	(0.67)	(0.23)
Non-taxable distributions	(0.20)	(0.35)	(0.14)
<b>Total Annual Distributions<sup>(3)</sup></b>	<b>(0.61)</b>	<b>(1.02)</b>	<b>(0.37)</b>
<b>Net Assets, end of period<sup>(1)</sup></b>	<b>\$ 10.99</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 years ended December 31, 2015 and 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 issue costs.

## Financial Highlights

Periods ended December 31	2015	2014	2013 <sup>(7)</sup>
<b>RATIOS/SUPPLEMENTAL DATA</b>			
Net Asset Value (\$millions) <sup>(1)</sup>	\$ 9.53	\$ 14.62	\$ 23.43
Number of units outstanding <sup>(1)</sup>	867,508	1,289,533	2,135,000
Management expense ratio <sup>(2)</sup>	3.35%	3.10%	2.82% <sup>(5)</sup>
Portfolio turnover rate <sup>(3)</sup>	369.11%	473.12%	223.06%
Trading expense ratio <sup>(4)</sup>	0.36%	0.35%	0.33% <sup>(5)</sup>
Net Asset Value per unit <sup>(6)</sup>	\$ 10.99	\$ 11.33	\$ 10.97
Closing market price	\$ 10.37	\$ 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 tax and withholding taxes but excluding transaction fees, divided by the average net asset value. Generally, the MER increases when the Fund becomes smaller in size due to redemptions. The MER for 2015 and 2014 includes the special resolution expense/(recovery). The MER for 2015 and 2014 excluding the special resolution expense/(recovery) is 3.35% and 3.06% respectively. The MER for 2015, 2014 and 2013, excluding withholding taxes, is 3.00%, 2.73%, and 2.54% respectively.

(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

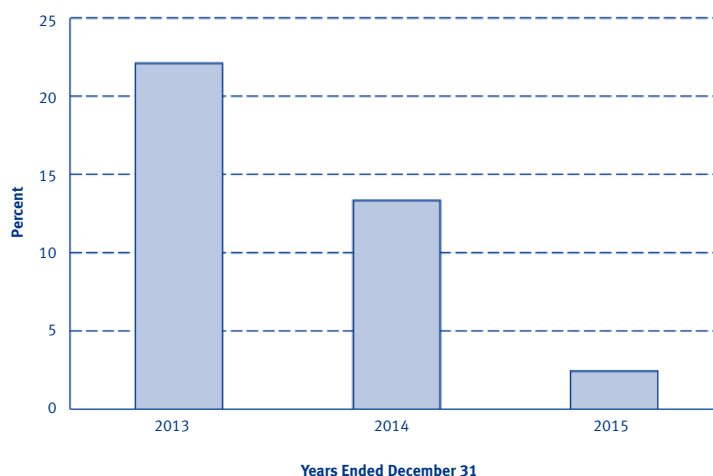
The following chart sets out the Fund’s year-by-year past performance. It is important to note that the:

- (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 from year to year for each of the past three years. The chart also shows, in percentage terms, how much an investment made on January 1 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, 2015 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	2.42 %	13.23 %
S&P 100 Index <sup>(2)</sup>	2.64 %	12.46 %

<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 benchmark 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 rising for three consecutive years from 2012 to 2014, many Global equity markets declined in 2015 with the S&P/TSX Composite Index in Canada generating one of the worst returns, down 8.3 percent. The year started off well for Canadian stocks but, after peaking in mid-April, all sectors except Health Care were in decline in the first half of the year due to negative Gross Domestic Product for the first two quarters of 2015 as well as the significant decline in energy prices. Equity markets continued to weaken over the summer culminating in a flash crash on August 24, when the Dow Jones Industrial Average dropped over 1,000 points intraday due to concerns surrounding global growth as well as the effects from the devaluation of the Chinese yuan. Equities did bounce back in October pushing many markets back into positive territory for the year only to end the year with a whimper as markets digested the U.S. Federal Reserve's overnight rate increase for the first time since 2006. The Bank of Canada surprised the market in 2015 by cutting the overnight lending rate by 25 basis points twice, to end the year at 0.5 percent. This negatively impacted the Canadian dollar as it declined 16 percent in 2015 to end the year at US\$0.72 per Canadian dollar, its lowest level since 2003. For 2015, the S&P 500 Index generated a return of 1.4 percent, outperforming its Canadian counterpart for the fifth year in a row. The Canadian economy was negatively impacted by weaker commodity prices in 2015 as West Texas Intermediate ("WTI") Cushing Crude Oil spot prices declined 30.5 percent to end the year at US\$37.13 per barrel while Copper prices were down 26.0 percent and Gold Bullion dropped 10.4 percent to end the year at US\$1,062 per troy ounce.

For the year ended December 31, 2015, the net asset value of the Fund was \$10.99 per unit compared to \$11.33 per unit on December 31, 2014. Unitholders received cash distributions of \$0.61 per unit during the period. The Fund's units, listed on the Toronto Stock Exchange as LVU.UN, closed on December 31, 2015 at \$10.37 per unit, which represents a 5.6 percent discount to the net asset value.

The annual total return of the Fund, including reinvestment of distributions, was 2.4 percent for the year ended December 31, 2015. The Fund was led by the strong performance of Starbucks Corporation and The Home Depot Inc., which had a total return of 48.2 percent and 28.5 percent respectively during the period. Meanwhile, the Fund's exposure to the Financials sector negatively impacted the performance of the Fund as U.S. Bancorp and The Allstate Corporation were the largest drag on performance for the Fund.

Volatility levels for companies within the portfolio, although up from 2014, continued to remain at the lower end of their historical range. The covered call writing activity was opportunistic over the year while taking advantage of signals generated by the Strathbridge Selective Overwriting ("SSO") strategy. During the year, the net realized gain on options attributable to the SSO strategy was \$0.03 per unit compared to \$0.06 per unit in 2014. The Fund ended 2015 with 2.2 percent of the portfolio subject to covered calls as well as a cash position of 2.5 percent compared to 1.4 percent at the end of 2014. The U.S. dollar exposure was actively hedged back into Canadian dollars throughout the period and ended the year at approximately 50 percent hedged.

## 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, 2015

	% OF NET ASSET VALUE
Information Technology	23.4 %
Consumer Discretionary	21.1 %
Consumer Staples	19.9 %
Health Care	12.6 %
Financials	11.0 %
Industrials	8.5 %
Cash	4.5 %
Telecommunication Services	2.5 %
Other Assets (Liabilities)	(3.5)%
	100.0 %

### Top 25 Holdings

December 31, 2015

	% OF NET ASSET VALUE
The Home Depot, Inc.	5.6 %
McDonald's Corporation	5.5 %
Costco Wholesale Corporation	5.2 %
Facebook, Inc.	4.6 %
Cash	4.5 %
The Coca-Cola Company	4.2 %
The Procter & Gamble Company	4.1 %
Starbucks Corporation	4.1 %
Altria Group, Inc.	4.1 %
Johnson & Johnson	4.0 %
The Allstate Corporation	4.0 %
eBay Inc.	4.0 %
Wells Fargo & Company	4.0 %
Raytheon Company	3.8 %
Intel Corporation	3.3 %
Baxter International Inc.	3.1 %
Lowe's Companies, Inc.	3.0 %
U.S. Bancorp	3.0 %
Amazon.com, Inc.	2.9 %
Abbott Laboratories	2.9 %
Microsoft Corporation	2.7 %
Medtronic PLC	2.6 %
Lockheed Martin Corporation	2.6 %
AT&T Inc.	2.5 %
Cisco Systems, Inc.	2.3 %

#### 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 7, 2016



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, 2015 and December 31, 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, 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, 2015 and December 31, 2014, and its financial performance, changes in its equity and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Deloitte LLP*

Chartered Professional Accountants

Licensed Public Accountants

March 7, 2016

Toronto, Ontario

## Statements of Financial Position

As at December 31

	Note	2015	2014
<b>ASSETS</b>			
Financial assets at fair value through profit or loss	3	\$ 9,433,967	\$ 14,687,563
Derivative assets	3,6	–	22,494
Dividends receivable		9,606	11,265
Cash		429,805	200,648
<b>TOTAL ASSETS</b>		<b>9,873,378</b>	<b>14,921,970</b>
<b>LIABILITIES</b>			
Derivative liabilities	3,6	185,796	224,111
Due to brokers - investments		95,171	–
Accrued liabilities		54,539	68,328
Accrued management fees	9	8,104	13,274
<b>TOTAL LIABILITIES</b>		<b>343,610</b>	<b>305,713</b>
<b>NET ASSETS ATTRIBUTABLE TO EQUITY HOLDERS</b>		<b>\$ 9,529,768</b>	<b>\$ 14,616,257</b>
<b>NET ASSETS ATTRIBUTABLE TO EQUITY HOLDERS PER UNIT</b>		<b>\$ 10.9852</b>	<b>\$ 11.3345</b>

On behalf of the Manager,  
Strathbridge Asset Management Inc.



John P. Mulvihill, Director



John D. Germain, Director

## Statements of Comprehensive Income

For the years ended December 31

	Note	2015	2014
<b>INCOME</b>			
Dividend income		\$ 301,892	\$ 516,583
Net realized gain on investments at fair value through profit or loss	7	3,838,940	4,991,271
Net realized gain on options at fair value through profit or loss	7	41,075	118,906
Net realized loss on forward exchange contracts at fair value through profit or loss	7	(2,209,388)	(1,505,812)
Net change in unrealized gain/loss on investments at fair value through profit or loss	7	(1,432,226)	(1,093,484)
<b>TOTAL INCOME</b>		<b>540,293</b>	<b>3,027,464</b>
<b>EXPENSES</b>			
Management fees	9	125,859	203,077
Service fees		47,749	75,204
Administrative and other expenses		60,138	66,196
Transaction fees	10	46,854	71,293
Custodian fees		63,492	63,300
Audit fees		27,232	29,250
Advisory board fees	9	18,900	23,100
Independent review committee fees	9	6,918	6,900
Legal fees		3,266	21,403
Unitholder reporting costs		11,031	20,242
Harmonized sales tax		22,177	38,845
Withholding taxes	3	45,406	76,777
<b>Subtotal Expenses</b>		<b>479,022</b>	<b>695,587</b>
Special resolution expense/(recovery)	1	(638)	8,883
<b>TOTAL EXPENSES</b>		<b>478,384</b>	<b>704,470</b>
<b>INCREASE IN NET ASSETS ATTRIBUTABLE TO EQUITY HOLDERS</b>	11	<b>\$ 61,909</b>	<b>\$ 2,322,994</b>
<b>INCREASE IN NET ASSETS ATTRIBUTABLE TO EQUITY HOLDERS PER UNIT</b>	11	<b>\$ 0.0532</b>	<b>\$ 1.2370</b>

## Statements of Changes in Equity

For the years ended December 31

	Unit Capital	Retained Earnings	Total
BALANCE AT JANUARY 1, 2014	\$ 19,908,875	\$ 3,518,493	\$ 23,427,368
Increase in Net Assets Attributable to Equity Holders	–	2,322,994	2,322,994
Distributions			
From capital gains	–	(1,383,239)	(1,383,239)
Non-taxable distributions	–	(446,417)	(446,417)
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
Increase in Net Assets Attributable to Equity Holders	–	61,909	61,909
Distributions			
From capital gains	–	(451,594)	(451,594)
Non-taxable distributions	–	(249,631)	(249,631)
Value for units redeemed	(3,935,383)	(511,790)	(4,447,173)
BALANCE AT DECEMBER 31, 2015	\$ 8,089,512	\$ 1,440,256	\$ 9,529,768

## Statements of Cash Flows

For the years ended December 31

	2015	2014
CASH, BEGINNING OF YEAR	\$ 200,648	\$ 539,756
<b>Cash Flows Provided by (Used In) Operating Activities</b>		
<b>Increase in Net Assets Attributable to Equity Holders</b>	<b>61,909</b>	2,322,994
<b>Adjustments to Reconcile Net Cash Provided by (Used in) Operating Activities</b>		
Net realized gain on investments at fair value through profit or loss	(3,838,940)	(4,991,271)
Net realized gain on options at fair value through profit or loss	(41,075)	(118,906)
Net realized loss on forward exchange contracts at fair value through profit or loss	2,209,388	1,505,812
Net change in unrealized gain/loss on investments at fair value through profit or loss	1,432,226	1,093,484
Net change in unrealized gain/loss on foreign cash	1,846	406
Increase in dividends receivable	1,659	17,727
Increase/(decrease) in due to brokers - investments, accrued liabilities and accrued management fees	76,212	(1,833)
Purchase of investment securities	(46,122,043)	(94,498,602)
Proceeds from disposition of investment securities	51,596,373	105,465,186
	<b>5,315,646</b>	8,472,003
<b>Cash Flows Used In Financing Activities</b>		
Unitholder distributions	(701,225)	(1,829,656)
Unitholder redemptions	(4,447,173)	(9,304,449)
	<b>(5,148,398)</b>	(11,134,105)
<b>Net Increase/(Decrease) in Cash during the Year</b>	<b>229,157</b>	(339,108)
CASH, END OF YEAR	\$ 429,805	\$ 200,648
Dividends received, net of withholding taxes	\$ 258,145	\$ 457,533

## Schedule of Investments

As at December 31, 2015

	Number of Shares/ (Contracts)	Average Cost/ (Proceeds)	Fair Value	% of Net Assets Attributable to Equity Holders
<b>INVESTMENTS</b>				
<b>Non-North American Common Shares</b>				
<b>Health Care</b>				
Medtronic PLC	2,300	\$ 240,522	\$ 245,754	2.6 %
<b>Total Non-North American Common Shares</b>		\$ 240,522	\$ 245,754	2.6 %
<b>United States Common Shares</b>				
<b>Consumer Discretionary</b>				
Amazon.com, Inc.	300	\$ 281,445	\$ 281,664	
Lowe's Companies, Inc.	2,700	257,490	285,194	
McDonald's Corporation	3,200	399,071	525,147	
Starbucks Corporation	4,700	246,383	391,922	
The Home Depot, Inc.	2,900	427,628	532,755	
<b>Total Consumer Discretionary</b>		1,612,017	2,016,682	21.2 %
<b>Consumer Staples</b>				
Altria Group, Inc.	4,800	348,958	388,126	
Colgate-Palmolive Company	2,400	226,281	222,100	
Costco Wholesale Corporation	2,200	413,791	493,548	
The Coca-Cola Company	6,700	357,836	399,828	
The Procter & Gamble Company	3,600	380,380	397,111	
<b>Total Consumer Staples</b>		1,727,246	1,900,713	19.9 %
<b>Financials</b>				
The Allstate Corporation	4,400	371,036	379,497	
U.S. Bancorp	4,800	284,008	284,510	
Wells Fargo & Company	5,000	369,462	377,558	
<b>Total Financials</b>		1,024,506	1,041,565	10.9 %
<b>Health Care</b>				
Abbott Laboratories	4,400	270,663	274,492	
Baxter International Inc.	5,600	284,625	296,767	
Johnson & Johnson	2,700	363,875	385,259	
<b>Total Health Care</b>		919,163	956,518	10.0 %
<b>Industrials</b>				
Lockheed Martin Corporation	800	210,709	241,315	
Raytheon Company	2,100	298,854	363,268	
The Boeing Company	1,000	195,222	200,850	
<b>Total Industrials</b>		704,785	805,433	8.5 %
<b>Information Technology</b>				
Alphabet Inc.	200	198,267	216,147	
Apple Inc.	1,500	234,184	219,325	
Cisco Systems, Inc.	5,900	213,597	222,554	
eBay Inc.	9,900	377,799	377,908	
Facebook, Inc.	3,000	403,755	436,150	
Intel Corporation	6,700	282,175	320,625	
Microsoft Corporation	3,300	202,279	254,322	
PayPal Holdings, Inc.	3,700	190,698	186,056	
<b>Total Information Technology</b>		2,102,754	2,233,087	23.4 %
<b>Telecommunication Services</b>				
AT&T Inc.	4,900	231,683	234,215	2.5 %
<b>Total United States Common Shares</b>		\$ 8,322,154	\$ 9,188,213	96.4 %
<b>Forward Exchange Contracts</b>				
Sold USD \$1,750,000, Bought CAD \$2,273,294 @ 0.76981 - January 13, 2016			\$ (157,511)	
Sold USD \$1,800,000, Bought CAD \$2,478,303 @ 0.72630 - February 17, 2016			(21,769)	
<b>Total Forward Exchange Contracts</b>			\$ (179,280)	(1.9)%
<b>Options</b>				
<b>Written Covered Call Options (100 shares per contract)</b>				
Baxter International Inc. - January 2016 @ \$37	(18)	\$ (1,736)	\$ (3,888)	
Intel Corporation - January 2016 @ \$35	(22)	(2,614)	(2,628)	
<b>Total Options</b>		\$ (4,350)	\$ (6,516)	(0.1)%
Adjustment for transaction fees		(2,712)		
<b>TOTAL INVESTMENTS</b>		\$ 8,555,614	\$ 9,248,171	97.0 %
<b>OTHER NET ASSETS</b>			281,597	3.0 %
<b>NET ASSETS ATTRIBUTABLE TO EQUITY HOLDERS</b>			\$ 9,529,768	100.0 %



## 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 under the ticker symbol LVU.UN.

On January 2, 2015, the Manager announced unitholder approval of a proposal to change the investment restrictions and the investment strategy of the Fund. In 2014, pro-rata costs of \$8,883 were accrued in relation to this special resolution of which \$638 were recovered in 2015.

In accordance with the new investment mandate, the Fund invests at least 75 percent of the value of the Fund 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. In addition, up to 25 percent of the value of the Fund may be invested in securities of other issuers included in the S&P 100 Index. The Fund may also 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.

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 7, 2016.

## 2. Basis of Presentation

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.

The Fund adopted IFRS accounting policies for the year beginning January 1, 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board.

## 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”). Despite investments and related income being primarily in U.S. currency, the Manager has determined that the Canadian dollar is the functional currency as the Fund incurs its expenses, measures its performance and issues and redeems units in Canadian 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. 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 year. Please refer to Note 11 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 or 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 foreign income is recorded gross of withholding taxes, and the withholding taxes are presented as an expense item 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 Canadian 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 as 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. The fair value option was used as: (i) fair value is readily available via market quotation; (ii) it eliminates or significantly reduces an accounting mismatch; and (iii) financial instruments designated at FVTPL is part of an investment portfolio managed on a fair value basis. 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 6 for a further analysis of risks associated with financial instruments.

#### 5. Capital Disclosures

IAS 1, Presentation of Financial Statements ("IAS 1"), 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 8 and the Fund does not have any externally imposed capital requirements.

## 6. 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.

### 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 years ended December 31, 2015 and 2014, 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 derivative instruments 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, 2015			
	Financial Liabilities			
	On Demand	< 3 months	Total	
Derivative liabilities	\$ -	\$ 185,796	\$ 185,796	
Due to brokers - investments	-	95,171	95,171	
Accrued liabilities	-	54,539	54,539	
Accrued management fees	-	8,104	8,104	
	\$ -	\$ 343,610	\$ 343,610	

As at December 31, 2014  
Financial Liabilities

	On Demand	< 3 months	Total
Derivative liabilities	\$ -	\$ 224,111	\$ 224,111
Accrued liabilities	-	68,328	68,328
Accrued management fees	-	13,274	13,274
	\$ -	\$ 305,713	\$ 305,713

### 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 all or part of 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, 2015 and 2014 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, 2015					
	U.S. Currency Exposure			Impact on Net Assets Attributable to Equity Holders		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
	\$ (4,444,295)	\$ 9,427,451	\$ 4,983,156	\$ (222,215)	\$ 471,373	\$ 249,158
% of Net Assets Attributable to Equity Holders	(47)%	99%	52%	(2)%	5%	3%

	As at December 31, 2014					
	U.S. Currency Exposure			Impact on Net Assets Attributable to Equity Holders		
	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%

#### (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 99 percent (2014 - 100 percent) of the Fund's net assets held attributable to equity holders at December 31, 2015 were publicly traded equities. If equity prices on the exchange increased or decreased by 5 percent as at December 31, 2015, the net assets attributable to equity holders would have increased or decreased by \$0.5 million (2014 - \$0.7 million) respectively or 4.9 percent (2014 - 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, 2015	Dec. 31, 2014
Information Technology	23.7%	19.1%
Consumer Discretionary	21.4%	13.6%
Consumer Staples	20.2%	20.7%
Health Care	12.7%	14.7%
Financials	11.0%	5.1%
Industrials	8.5%	20.0%
Telecommunication Services	2.5%	-
Utilities	-	6.8%
	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. For such purposes, "Market Price" means the weighted average trading price of the units on the stock exchange on which the units are listed for the ten trading days immediately preceding the applicable Redemption Date, and the "Closing Market Price" means the closing price of the units on the stock exchange on which the Units are listed or, if there was no trade on the relevant date, the average of the last bid and the last asking prices of the units on the stock exchange on which the units are listed.

**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, 2015 and 2014.

	As at December 31, 2015			Total
	Level 1	Level 2	Level 3	
Non-North American Common Shares	\$ 245,754	\$ -	\$ -	\$ 245,754
United States Common Shares	9,188,213	-	-	9,188,213
Forward Exchange Contracts	-	(179,280)	-	(179,280)
Options	(6,516)	-	-	(6,516)
	\$ 9,427,451	\$ (179,280)	\$ -	\$ 9,248,171

	As at December 31, 2014			Total
	Level 1	Level 2	Level 3	
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

The carrying values of cash, dividends receivable, due to brokers - investments, accrued liabilities, accrued management fees 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 are 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 and the Fund did not hold any financial instruments within Level 3 of the fair value hierarchy during 2015 and 2014.

## 7. Financial Instruments by Category

The following tables present the carrying amounts of the Fund's financial instruments by category as at December 31, 2015 and 2014.

	As at December 31, 2015		Financial Instruments at Amortized Cost	Total
	Financial Instruments at FVTPL Designated at Inception	Held for Trading		
<b>Assets</b>				
Non-derivative financial assets	\$ 9,433,967	\$ -	\$ -	\$ 9,433,967
Dividends receivable	-	-	9,606	9,606
Cash	-	-	429,805	429,805
	\$ 9,433,967	\$ -	\$ 439,411	\$ 9,873,378
<b>Liabilities</b>				
Derivative liabilities	\$ -	\$ 185,796	\$ -	\$ 185,796
Due to brokers - investments	-	-	95,171	95,171
Accrued liabilities	-	-	54,539	54,539
Accrued management fees	-	-	8,104	8,104
	\$ -	\$ 185,796	\$ 157,814	\$ 343,610

	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>				
Derivative liabilities	\$ -	\$ 224,111	\$ -	\$ 224,111
Accrued liabilities	-	-	68,328	68,328
Accrued management fees	-	-	13,274	13,274
	\$ -	\$ 224,111	\$ 81,602	\$ 305,713

The following table presents the net gain/(loss) on financial instruments at FVTPL by category for the years ended December 31, 2015 and 2014.

	Dec. 31, 2015	Dec. 31, 2014
<b>Net Realized Gain/(Loss) on Financial Instruments at FVTPL</b>		
Designated at Inception	\$ 3,838,940	\$ 4,991,271
Held for Trading	(2,168,313)	(1,386,906)
	1,670,627	3,604,365
<b>Net Change in Unrealized Gain/Loss on Financial Instruments at FVTPL</b>		
Designated at Inception	(1,447,704)	(1,160,967)
Held for Trading	15,478	67,483
	(1,432,226)	(1,093,484)
<b>Net Gain on Financial Instruments at FVTPL</b>	<b>\$ 238,401</b>	<b>\$ 2,510,881</b>

## 8. 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.

For the year ended December 31, 2015, cash distributions paid to unitholders were \$701,225 (2014 - \$1,829,656) representing a payment of \$0.61 (2014 - \$1.02) per unit.

During the year ended December 31, 2015, 422,025 (2014 - 845,467) units were redeemed with a total retraction value of \$4,447,173 (2014 - \$9,304,449).

During the years ended December 31, 2015 and 2014, unit transactions are as follows:

	Dec. 31, 2015	Dec. 31, 2014
Units outstanding, beginning of year	1,289,533	2,135,000
Units redeemed	(422,025)	(845,467)
Units outstanding, end of year	867,508	1,289,533

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 as of September 30, 2014. The normal course issuer bid remained in effect until October 21, 2015 and at such time nil units had been purchased by the Fund.

## 9. 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, 2015 were \$125,859 (2014 - \$203,077).

### (b) Advisory Board Fees

Total advisory board fees paid to the external members of the Board of Advisors for the year ended December 31, 2015 were \$18,900 (2014 - \$23,100).

### (c) Independent Review Committee Fees

Total remuneration paid to the external members of the Independent Review Committee for the year ended December 31, 2015 were \$6,918 (2014 - \$6,900).

## 10. 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 years ended December 31, 2014 and 2015 is disclosed below:

## Notes to the Financial Statements

December 31, 2015 and 2014

	Dec. 31, 2015	Dec. 31, 2014
Soft Dollars	\$ 15,087	\$ 20,162
Percentage of Total Transaction Fees	32.2%	28.3%

### 11. 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 years ended December 31, 2015 and 2014 is calculated as follows:

	Dec. 31, 2015	Dec. 31, 2014
Increase in Net Assets Attributable to Equity Holders	\$ 61,909	\$ 2,322,994
Weighted Average Number of Units Outstanding during the Year	1,164,660	1,877,885
Increase in Net Assets Attributable to Equity Holders per Unit	\$ 0.0532	\$ 1.2370

### 12. Income Taxes

No amount is payable on account of income taxes in 2015 or 2014.

Issue costs of approximately \$0.6 million (2014 - \$0.9 million) remain undeducted for tax purposes at year-end.

### 13. Future Accounting Policy Changes

IFRS 9: Financial Instruments ("IFRS 9"), which will 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 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.

In December 2014, Disclosure Initiative was issued, which amends IAS 1. The amendments are designed to encourage entities to use professional judgment to determine what information to disclose in the financial statements and accompanying notes by clarifying the guidance on materiality, presentation, and note structure. These amendments are effective for annual periods beginning on or after January 1, 2016. The Fund will amend disclosures, if required, in the financial statements for the semi-annual period ended June 30, 2016 and for the year ended December 31, 2016.

## 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:**  
Deloitte LLP  
Bay Adelaide Centre, East Tower  
22 Adelaide Street West, Suite 200  
Toronto, Ontario  
M5H 0A9

**Transfer Agent:**  
Computershare Investor Services Inc.  
100 University Avenue, 8th Floor  
Toronto, Ontario  
M5J 2Y1

**Units Listed:**  
Toronto Stock Exchange  
trading under  
LVU.UN

**Custodian:**  
RBC Investor Services Trust  
RBC Centre  
155 Wellington Street West, 2nd Floor  
Toronto, Ontario  
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)  
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)

### MUTUAL FUND

U.S. Tactical Allocation Fund

### Head Office:

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Contact your broker directly for address changes.



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