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## INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

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**Big Pharma Split Corp.**

**June 30, 2018**



The Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure, can be obtained at your request, and at no cost, by calling us at 1-866-998-8298; by writing to us at Harvest Portfolios Group Inc., 710 Dorval Drive, Suite 209, Oakville, Ontario, L6K 3V7; by visiting our website at [www.harvestportfolios.com](http://www.harvestportfolios.com); or on SEDAR at [www.sedar.com](http://www.sedar.com).

# Big Pharma Split Corp.

## CORPORATE OVERVIEW

Harvest Portfolios Group Inc. (“Harvest”) is a Canadian Investment Manager founded in 2009. Harvest is focused on developing investment products that follow the investment philosophy of:

1. Clear investment objectives
2. Transparency
3. Consistent income and growth

Harvest endeavours to develop investment products that are clear in their mandate and easy for our investors to understand. We strive to be transparent, so that our investors can open their financial reports and know exactly what they own. Our funds are invested to provide investors with consistent monthly or quarterly income; therefore, we seek to invest our fund portfolios in well managed companies that have a history of steady cash flow and pay dividends.

## INVESTMENT PRODUCT

Big Pharma Split Corp. (the “Company” or “Fund”) will invest in an equally-weighted portfolio (the “Portfolio”) comprised of Equity Securities of ten issuers, selected by the Portfolio Manager from the Investable Universe, that at the time of investment and immediately following each semi-annual reconstitution and rebalancing: (i) are listed on a North American exchange; (ii) pay a dividend; and (iii) have options in respect of its Equity Securities that, in the opinion of the Portfolio Manager, are sufficiently liquid to permit the Portfolio Manager to write options in respect of such securities. The Portfolio will be comprised primarily of the largest (as determined by market capitalization calculated in US\$) Pharmaceutical Issuers in the Investable Universe.

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### **MANAGEMENT DISCUSSION OF FUND PERFORMANCE**

The interim management report of fund performance contains financial highlights but does not contain the complete interim financial statements of the Fund. For your reference, the interim financial statements of the Fund are attached to the interim management report of fund performance. You may obtain additional copies of these documents at your request, and at no cost, by calling toll free at 1-866-998-8298; by writing to us at Harvest Portfolios Group Inc., 710 Dorval Drive, Suite 209, Oakville, Ontario, L6K 3V7; or by visiting our website at [www.harvestportfolios.com](http://www.harvestportfolios.com); or on SEDAR at [www.sedar.com](http://www.sedar.com).

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

### **INVESTMENT OBJECTIVES AND STRATEGY**

The Fund has been created to provide investors with a unique exposure to a portfolio of Equity Securities of ten issuers, selected by the Portfolio Manager from the Investable Universe, that at the time of investment and immediately following each semi-annual reconstitution and rebalancing: (i) are listed on a North American exchange; (ii) pay a dividend; and (iii) have options in respect of its Equity Securities that, in the opinion of the Portfolio Manager, are sufficiently liquid to permit the Portfolio Manager to write options in respect of such securities. The Portfolio will be comprised primarily of the largest (as determined by market capitalization calculated in US\$) Pharmaceutical Issuers in the Investable Universe.

The investment objectives for the Preferred shares are to provide their holders with fixed cumulative preferential quarterly cash distributions in the amount of \$0.125 per Preferred share (\$0.50 per annum or 5.0% per annum on the issue price of \$10.00 per Preferred share) until December 31, 2022 (the "Maturity Date") and to return the original issue price of \$10.00 to holders on the Maturity Date.

The investment objectives for the Class A shares are to provide their holders with regular monthly non-cumulative cash distributions targeted to be \$0.1031 per Class A share representing a yield on the issue price of the Class A shares of 8.25% per annum on the issue price of \$15.00 per Class A share and to provide holders with the opportunity for growth in the net asset value per Class A share.

To achieve its investment objectives, the Company will invest in an initially equally-weighted Portfolio comprised of Equity Securities of ten issuers from the Investable Universe, eight of which will be selected by the Portfolio Manager from the ten largest (as determined by market capitalization calculated in US\$) Pharmaceutical Issuers in the Investable Universe and the remaining two issuers will be selected by the Portfolio Manager from the Investable Universe.

Harvest will semi-annually reconstitute and rebalance the Portfolio.

### **RISK**

The risks associated with investing in the Fund are as described in the prospectus. There were no material changes to the Fund over the period that affected the overall level of risk of the Fund.

### **RESULTS OF OPERATIONS**

The Big Pharma Split Corp. commenced operations following the closing of its initial public offering on November 24, 2017 of 1,360,000 units of Preferred Shares at \$10.00 per unit and 1,360,000 units of Class A shares for gross proceeds of \$34,000,000. Performance information is not available for periods less than one year.

Following a robust recovery in the broader Healthcare sectors in 2017, volatility in the sector was exacerbated early in 2018 as several key drug trials missed expectations and political rhetoric increased ahead of the release of the Trump administration's blueprint to "Lower Drug Prices and Reduce Out-of-Pocket Costs" released in early May of 2018. Broader market noise surrounding potential US tariffs also was a source of volatility. However, towards the latter part of the period, commentary surrounding drug prices started to shift away from the drug manufacturers and was more focused on inefficiencies within the supply chain that might result in lower net prices for consumer. This coincided with a shift in the sentiment toward the group and resulted in a rebound in the underlying shares of the drug manufacturers. This had a positive impact on the underlying performance of the Fund given the pure allocation directly to pharmaceutical and biopharmaceutical drug manufacturers.

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The Fund listed for trading on the Toronto Stock Exchange under the ticker symbols of PRM and PRM.PR.A following the closing of its IPO. The Fund subsequently invested the net proceeds of the offering into 10 issuers and wrote call options in accordance with its investment objectives

### **RECENT DEVELOPMENTS**

No new recent developments to note for the period ended June 30, 2018.

### **RELATED PARTY TRANSACTIONS**

There were no related party transactions during the reporting period, except for management fees and other expense reimbursements paid to Harvest, as noted below in Management and Other Fees.

### **MANAGEMENT AND OTHER FEES**

The Fund pays its manager, Harvest, a management fee calculated based on the average daily net asset value (“NAV”) and paid monthly in arrears, based on an annual rate of 0.75%, plus applicable taxes, of the NAV of the Fund. For these purposes, the Preferred shares are not considered a liability of the Fund. At its sole discretion, the Manager may waive management fees or absorb expenses of the Fund. The management expense ratios of the Fund with and without the waivers and absorptions are reported in the Ratios and Supplemental Data table below.

#### **Operating expenses**

The Fund is responsible for operating expenses relating to the carrying on of its business, including custodial services, interest, taxes, legal, audit fees, transfer agency services relating to the issue and redemption of shares, and the cost of financial and other reports, costs and expenses for the Fund’s Independent Review Committee (“IRC”), including fees and expenses of the IRC members and compliance with applicable laws, regulations and policies. The Manager pays for such expenses on behalf of the Fund, except for certain expenses such as interest, and is then reimbursed by the Fund.

#### **Other expenses**

The Manager will be reimbursed by the Fund for all reasonable costs, expenses and liabilities incurred by the Manager for performance of services on behalf of the Fund in connection with the discharge by the Manager of its duties hereunder. Such costs and expenses may include, without limitation: mailing and printing expenses for reports to shareholders and other shareholder communications; a reasonable allocation of salaries, benefits and consulting fees; independent directors of the Manager and other administrative expenses and costs incurred in connection with the Fund’s other obligations. These expenses were \$21,189 for the period ended June 30, 2018 and are included in the shareholder reporting costs on the Statements of Comprehensive Income (Loss) in the financial statements.

#### **Issue costs**

During the Fund’s offering, certain offering expenses such as costs of creating the Fund, the cost of printing and preparing the prospectus, legal expenses of the Fund and other out-of-pocket expenses incurred by the agents together with the agent’s fees payable by the Fund are included in the carrying amount of the Fund’s obligation for net assets attributable to holders of redeemable Class A shares. As a result of the priority of the Preferred Shares, the expenses of the Offering will effectively be borne by holders of the Class A shares (as long as the net asset value per unit exceeds the Offering price per Preferred share plus accrued and unpaid distributions) and the net asset value per Class A share will reflect the expenses of the Offering of both the Preferred Shares and Class A Shares.

### **RECOMMENDATIONS OR REPORTS BY THE INDEPENDENT REVIEW COMMITTEE**

The Independent Review Committee tabled no special reports and made no extraordinary material recommendations to management of the Fund during the period ended June 30, 2018.

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## FINANCIAL HIGHLIGHTS

The following tables present selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the six-month period ended June 30, 2018 and past annual periods. This information is derived from the Fund's interim financial statements and past annual audited financial statements.

### Class A shares

THE FUND'S NET ASSETS PER SHARE		2018	2017
Net assets - beginning of the period <sup>2</sup>	\$	13.73	\$ 13.65
<b>Increase (decrease) from operations</b>			
Total revenue		0.48	0.02
Total expenses		(0.28)	(0.08)
Preferred share distribution		(0.25)	(0.05)
Preferred shares agent fees and issue costs		-	(0.42)
Realized gains (losses) for the period		(0.27)	(0.07)
Unrealized gains (losses) for the period		0.22	0.37
<b>Total increase (decrease) from operations<sup>1</sup></b>	\$	<b>(0.10)</b>	<b>\$ (0.23)</b>
<b>Distributions<sup>3</sup></b>			
Dividends		(0.62)	(0.10)
<b>Total annual distributions<sup>3</sup></b>	\$	<b>(0.62)</b>	<b>\$ (0.10)</b>
<b>Net assets - end of the period<sup>1</sup></b>	\$	<b>13.01</b>	<b>\$ 13.73</b>

RATIOS AND SUPPLEMENTAL DATA		2018	2017
<b>Total net asset value (including Preferred shares)</b>	\$	<b>31,284,984</b>	<b>\$ 32,276,788</b>
<b>Total net asset value – Class A shares</b>	\$	<b>17,688,984</b>	<b>\$ 18,676,788</b>
Number of Class A shares outstanding		1,359,600	1,360,000
Management expense ratio <sup>4</sup> – Class A shares		6.75%	17.82%
Management expense ratio before waivers or absorptions <sup>4</sup> – Class A shares		6.75%	17.82%
Trading expense ratio <sup>5</sup>		0.21%	0.58%
Portfolio turnover rate <sup>6</sup>		26.39%	3.33%
<b>Net asset value per unit</b>	\$	<b>23.01</b>	<b>\$ 23.73</b>
<b>Net asset value per Class A shares</b>	\$	<b>13.01</b>	<b>\$ 13.73</b>
<b>Net asset value per Preferred shares</b>	\$	<b>10.00</b>	<b>\$ 10.00</b>
<b>Closing market price – Class A shares</b>	\$	<b>12.47</b>	<b>\$ 14.15</b>
<b>Closing market price – Preferred shares</b>	\$	<b>10.08</b>	<b>\$ 10.30</b>

### Explanatory Notes:

- Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of shares outstanding over the reporting period. It is not intended that the Fund's net assets per share table act as a continuity of opening and closing net assets per Class A share.
- Net assets, at the commencement of operations on November 24, 2017 was \$13.65, net of agents' commissions and issuance costs of \$1.35 per share.
- Distributions were paid in cash.
- Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) of the stated period and is expressed as an annualized percentage of the Class A daily average net asset value during the period. The MER for the period December 31, 2017 includes agent fees of \$1,428,000, issue costs of \$408,000 and preferred share distributions of \$70,217. Agent fees and issues costs are treated as one-time expenses and therefore were not annualized. The MER without these costs and excluding the preferred share distribution was 4.47%. The MER without agent fees and issue costs but including the preferred share distribution was 8.06%. The MER based on the daily average of the total net asset value (including preferred shares) is 10.34%. This MER includes agent fees, issue

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costs and preferred share distribution. This MER without these costs and excluding the preferred share distribution was 2.59%. The MER without agent fees and issue costs but including the preferred share distribution was 4.67%.

The Class A MER for the period June 30, 2018 excluding the preferred share distribution was 3.03%. The MER based on the daily average of the total net asset value (including preferred shares) is 3.88%. This MER excluding the preferred share distribution was 1.74%.

5. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value (including preferred shares) during the period.
6. The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a Fund's portfolio turnover rate, the greater the trading costs payable by the Fund and the greater the chance of an investor receiving taxable capital gains. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.

### Past Performance

The performance information presented herein assumes all dividends of the Fund during the periods presented were reinvested in additional securities of the Fund. The performance information does not take into account sales, redemptions, or other charges that would have reduced returns or affected performance. Past performance of the Fund is not necessarily indicative of how it will perform in the future.

### YEAR-BY-YEAR RETURNS

National Instrument 81-106, the regulatory guideline for Continuous Disclosure, does not permit reporting of performance for any investment fund that has been in existence less than one year.

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### SUMMARY OF INVESTMENT PORTFOLIO

The Portfolio by Sector chart below provides a portfolio breakdown based on the total transactional net asset value attributable to holders of redeemable Class A shares. A detailed breakdown of the Fund's holdings is available in the "Schedule of Investments" section of the Fund's interim financial statements.

As at June 30, 2018

Top Holdings	% of Net Asset Value
GlaxoSmithKline PLC, ADR	19.4
AstraZeneca PLC, ADR	18.9
Pfizer Inc.	18.8
Sanofi, ADR	18.6
Amgen Inc.	18.4
Eli Lilly & Company	17.6
Bristol-Myers Squibb Company	17.5
Merck & Company Inc.	17.5
Johnson & Johnson	17.2
AbbVie Inc.	16.5
Cash and other assets less liabilities	1.0
Options	(1.0)
Foreign currency forward contracts	(3.5)
Preferred Shares	(76.9)
<b>Total</b>	<b>100.0</b>

This summary of investment portfolio may change due to the ongoing portfolio transactions of the Fund. Quarterly updates of the Fund's investment portfolio are available from Harvest Portfolios Group Inc. at [www.harvestportfolios.com](http://www.harvestportfolios.com).

### SECTOR ALLOCATION

Sector	% of Net Asset Value
Health Care	180.4
Cash and other assets and liabilities	1.0
Options	(1.0)
Foreign currency forward contracts	(3.5)
Preferred shares	(76.9)
<b>Total</b>	<b>100.0</b>



### **Head Office**

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#### **CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Fund may invest and the risks detailed from time to time in the Fund's prospectus or offering memorandum. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Fund does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.