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## ANNUAL FINANCIAL STATEMENTS

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### Global Telecom & Utilities Income Fund

December 31, 2018



# Global Telecom & Utilities Income Fund

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements have been prepared by Harvest Portfolios Group Inc. in its capacity as Manager of the Fund and approved by the Board of Directors of the Manager. The Fund's Manager is responsible for the information and representation contained in these financial statements.

The Manager maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments made by the Manager. The significant accounting policies, which the Manager believes are appropriate, are described in Note 3 to the financial statements.

PricewaterhouseCoopers LLP is the external auditor of the Fund. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report is included as an integral part of the financial statements.

On behalf of Harvest Portfolios Group Inc.,

*Signed* "Michael Kovacs"

Michael Kovacs  
President and Chief Executive Officer

*Signed* "Daniel Lazzer"

Daniel Lazzer  
Chief Financial Officer

Oakville, Canada  
March 14, 2019



## *Independent auditor's report*

To the Unitholders and Trustee of Global Telecom & Utilities Income Fund (the Fund)

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### *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### **What we have audited**

The Fund's financial statements comprise:

- the statements of financial position as at December 31, 2018 and 2017;
- the statements of comprehensive income (loss) for the years then ended;
- the statements of changes in net assets attributable to holders of redeemable units for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

#### **Independence**

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### *Other information*

Management is responsible for the other information. The other information comprises the Management Report of Fund Performance.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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*PricewaterhouseCoopers LLP*  
*PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2*  
*T: +1 416 863 1133, F: +1 416 365 8215*



In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of management and those charged with governance for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

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### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Christopher Pitts.

**(Signed) "PricewaterhouseCoopers LLP"**

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario,  
March 14, 2019

# Global Telecom & Utilities Income Fund

STATEMENTS OF FINANCIAL POSITION			
As at December 31,		2018	2017
<b>Assets</b>			
<b>Current assets</b>			
Investments	\$	3,334,302	\$ 3,862,930
Cash		250,235	54,340
Dividends and other receivables		29,600	80,626
		<b>3,614,137</b>	<b>3,997,896</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings (Note 8)		50,949	-
Distributions payable (Note 4)		24,929	25,751
Interest payable (Note 8)		127	-
		<b>76,005</b>	<b>25,751</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>\$</b>	<b>3,538,132</b>	<b>\$ 3,972,145</b>
<b>Number of redeemable units outstanding (Note 4)</b>			
		<b>415,484</b>	<b>429,184</b>
<b>Net assets attributable to holders of redeemable units per unit</b>	<b>\$</b>	<b>8.52</b>	<b>\$ 9.26</b>

The accompanying notes are an integral part of these financial statements.

## Global Telecom & Utilities Income Fund

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)			
For the year ended December 31,	2018		2017
<b>Income</b>			
Net gain (loss) on investments			
Dividends	\$	159,294	\$ 222,099
Net realized gain (loss) on investments		62,729	57,545
Net change in unrealized appreciation (depreciation) on investments		(38,849)	66,261
Net change in unrealized appreciation (depreciation) on foreign exchange		(647)	(11,653)
Net realized gain (loss) on foreign exchange		(1,905)	2,250
Net gain (loss) on investments		180,622	336,502
<b>Total income (net)</b>	<b>\$</b>	<b>180,622</b>	<b>\$ 336,502</b>
<b>Expenses (Note 6)</b>			
Management fees	\$	53,073	\$ 72,406
Service fees		16,464	22,440
Withholding taxes		26,020	79,174
Unitholder reporting costs		11,663	13,020
Audit fees		17,009	21,746
Transfer agency fees		9,425	10,201
Custodian fees and bank charges		24,915	25,484
Independent Review Committee fees		409	953
Filing fees		21,957	22,035
Legal fees		7,376	6,575
Interest expense (Note 8)		1,059	11,573
Transaction costs (Note 7)		206	1,697
<b>Total expenses</b>	<b>\$</b>	<b>189,576</b>	<b>\$ 287,304</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>\$</b>	<b>(8,954)</b>	<b>\$ 49,198</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units per unit (Note 4)</b>	<b>\$</b>	<b>(0.02)</b>	<b>\$ 0.09</b>

The accompanying notes are an integral part of these financial statements.

## Global Telecom & Utilities Income Fund

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS			
For the year ended December 31,	2018		2017
Net assets attributable to holders of redeemable units beginning of year	\$	3,972,145	\$ 5,591,022
Increase (decrease) in net assets attributable to holders of redeemable units	\$	(8,954)	\$ 49,198
<b>Redeemable unit transactions</b>			
Redemption and cancellation of redeemable units		(119,335)	(1,295,097)
<b>Net unitholders' transactions</b>	\$	(119,335)	\$ (1,295,097)
<b>Distributions to holders of redeemable units</b>			
Return of capital		(305,724)	(372,978)
<b>Total distributions to unitholders</b>	\$	(305,724)	\$ (372,978)
<b>Net assets attributable to holders of redeemable units end of year</b>	\$	3,538,132	\$ 3,972,145

The accompanying notes are an integral part of these financial statements.



# Global Telecom & Utilities Income Fund

STATEMENTS OF CASH FLOWS			
For the year ended December 31,	2018		2017
Operating activities			
Increase (decrease) in net assets attributable to holders of redeemable units	\$	(8,954)	\$ 49,198
Add (deduct) items not affecting cash:			
Net realized (gain) loss on sale of investments		(62,729)	(57,545)
Change in unrealized (appreciation) depreciation on investments		38,849	(66,261)
Change in unrealized (appreciation) depreciation on foreign exchange		1,905	11,653
Proceeds from sale of investments		560,369	2,575,949
Purchases of investments		(7,861)	(647,250)
Net change in non-cash assets and liabilities		49,248	39,047
Net cash flow provided by (used in) operating activities	\$	570,827	\$ 1,904,791
Financing activities			
Redemption and cancellation of redeemable units		(119,335)	(1,295,097)
Borrowings drawn down (repaid)		50,949	(1,227,279)
Distributions paid to holders of redeemable units		(306,546)	(380,974)
Net cash flow provided by (used in) financing activities	\$	(374,932)	\$ (2,903,350)
Net increase (decrease) in cash during the year		195,895	(998,559)
Cash, beginning of the year		54,340	1,052,899
Cash, end of the year	\$	250,235	\$ 54,340
Supplemental disclosure of cash flow information			
Dividends received, net of withholding taxes*	\$	184,300	\$ 195,327
Interest paid during the year*		-	11,573
*included in operating activities			

\*included in operating activities

The accompanying notes are an integral part of these financial statements.

# Global Telecom & Utilities Income Fund

SCHEDULE OF INVESTMENTS				
As at December 31, 2018				
Number of shares	Security	Average Cost (\$)	Carrying Value (\$)	% of Net Assets
<b>EQUITIES</b>				
<b>Energy</b>				
2,675	Inter Pipeline Ltd.	58,689	51,734	1.5
2,200	TransCanada Corporation	138,349	107,250	3.0
		197,038	158,984	4.5
<b>Communication Services</b>				
2,900	AT&T Inc.	137,948	112,992	3.2
6,150	Deutsche Telekom AG	150,534	142,564	4.0
20,550	Mediaset S.p.A.	120,597	88,203	2.5
3,300	ProSiebenSat.1 Media SE	236,830	80,266	2.3
55,000	Spark New Zealand Limited	162,117	209,150	5.9
59,000	Telecom Italia S.p.A.	101,782	44,602	1.3
6,600	Telefonica, SA	106,467	75,765	2.1
11,450	Telia Company AB	77,503	74,040	2.1
2,000	TELUS Corporation	81,240	90,500	2.6
2,299	Verizon Communications Inc.	147,858	176,452	5.0
4,900	Vivendi SA	142,629	163,100	4.6
28,127	Vodafone Group PLC	124,175	74,834	2.1
		1,589,680	1,332,468	37.7
<b>Utilities</b>				
1,300	Ameren Corporation	77,299	115,768	3.3
1,050	Duke Energy Corporation	101,679	123,708	3.5
4,250	E.ON AG	53,458	57,350	1.6
28,800	EDP - Energias de Portugal, SA	134,146	137,352	3.9
4,150	Endesa SA	116,652	130,671	3.7
2,650	ENGIE SA	64,243	51,917	1.5
15,861	Iberdrola, SA	145,465	174,112	4.9
10,495	National Grid PLC	217,389	139,560	3.9
6,250	Naturgy Energy Group, SA	181,498	217,616	6.1
2,800	PPL Corporation	130,984	108,293	3.1
3,010	RWE AG	50,240	89,290	2.5
5,100	SSE PLC	155,005	95,977	2.7
18,800	Terna S.p.A.	131,892	145,651	4.1
9,450	United Utilities Group PLC	183,798	121,059	3.4
4,790	Veolia Environnement SA	158,562	134,526	3.8
		1,902,310	1,842,850	52.0
<b>Total investments</b>		<b>3,689,028</b>	<b>3,334,302</b>	<b>94.2</b>
<b>Other assets less liabilities</b>			<b>203,830</b>	<b>5.8</b>
<b>Net assets attributable to holders of redeemable units</b>			<b>3,538,132</b>	<b>100.0</b>

# Global Telecom & Utilities Income Fund

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

December 31, 2018

### 1. GENERAL INFORMATION

Global Telecom & Utilities Income Fund (the "Fund") is an investment trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated February 25, 2011 and as amended and restated, being the inception date. There was no significant activity in the Fund from the date of inception to commencement of operations on March 23, 2011. On March 23, 2011, the Fund completed an initial public offering of 2,600,000 units at \$12.00 per unit for gross proceeds of \$31,200,000. On April 6, 2011, an over-allotment option was exercised for an additional 123,662 units at a price of \$12.00 per unit for gross proceeds of \$1,483,944. The address of the Fund's registered office is 710 Dorval Drive, Oakville, Ontario, L6K 3V7.

The Fund's investment objectives are to provide unitholders with monthly distributions and capital appreciation. Up until December 16, 2015 the investment objectives were to provide tax-advantaged month distributions by way of an investment strategy where the Fund provides exposure, through a forward agreement (the "Forward Agreement"), to the return, in Canadian dollars, of the underlying performance of the GTU Portfolio Trust (the "GTU Trust"). The GTU Trust portfolio was an actively managed portfolio comprised primarily of equity securities of Global Telecom Issuers and Global Utilities Issuers. On December 16, 2015 the Forward Agreement was terminated (Note 5) and subsequently the Fund owns the equity securities directly.

On June 22, 2016, the Fund changed its name from Global Advantaged Telecom & Utilities Income Fund to Global Telecom & Utilities Income Fund. No changes were made to the investment objective, strategies or management of the Fund.

### 2. BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (FRS). These financial statements were authorized for issue by Harvest Portfolios Group Inc. (the "Manager") on March 14, 2019.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial instruments

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments not measured at fair value through profit or loss (FVTPL). Transaction costs on financial assets and liabilities at FVTPL are expensed as incurred. Regular way purchases and sales of financial assets are recognized at their trade date. The Fund's investments and derivative assets and liabilities are measured at fair value through profit or loss (FVTPL) based on its business model. The Fund's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount, which approximates fair value. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid. Carrying values of other financial assets and liabilities at amortized cost approximate their fair values due to the short term to maturity. The Fund's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value (NAV) for transactions with unitholders. As at December 31, 2018 and December 31, 2017 there were no differences between the Fund's NAV per security and its net assets per security calculated in accordance with IFRS 9.

#### Fair value of investments

Investments that are traded in an active market are valued at their closing prices through recognized public stock exchanges or through recognized investment dealers on the valuation date. The Fund uses the last traded market price that falls within the bid-ask spread. In 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 based on specific facts and circumstances. Investments held include equities.

Investments held that are not traded in an active market are valued using valuation techniques, on such basis and in such a manner established by the Manager. The value of any security for which, in the opinion of the Manager, the published market quotations are not readily available shall be the fair value as determined by the Manager. The fair values of certain securities may be determined using valuation models that are based, in part, on assumptions that are not supported by observable market inputs. These methods and procedures may include, but are not limited to, performing comparisons with prices of comparable or similar securities, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indication of value. These values are independently assessed internally to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may be materially different from the values that would be used had a ready market

# Global Telecom & Utilities Income Fund

for the security existed. The fair values of such securities are affected by the perceived credit risks of the issuer, predictability of cash flows and length of time to maturity.

## Classification of redeemable units

Under IFRS, IAS 32 Financial Instruments – Presentation requires that units or shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as a financial liability unless certain criteria are met. In addition to the annual redemption at 100% of NAV, the Fund's units are redeemable at 95% of their market price monthly. As a result, the Fund's units contain multiple contractual obligations and are presented as financial liabilities on transition to IFRS as they do not meet the criteria for classification as equity.

## Cash

Cash is comprised of cash on deposit.

## Investment transactions and income recognition

Net realized gain (loss) on investments and net change in unrealized appreciation (depreciation) on investments are determined on an average cost basis. Dividend income is accounted for on the ex-dividend date. The cost of investments is determined using the average cost method.

## Foreign currency translation

The Fund's subscriptions and redemptions are predominately denominated in Canadian dollars which is also the Fund's functional and presentation currency. Purchases and sales of investments denominated in foreign currencies and foreign currency dividend and interest income are translated into Canadian dollars at the rate of exchange prevailing at the time of the transactions. Realized and unrealized foreign currency gains or (losses) on investments are included in the Statements of Comprehensive Income (Loss) in "Net realized gain (loss) on sale of investments" and "Net change in unrealized appreciation (depreciation) of investments", respectively. Realized and unrealized foreign currency gains or losses on assets and liabilities, other than investments, denominated in foreign currencies are included in the Statements of Comprehensive Income (Loss) in "Net realized gain (loss) on foreign exchange" and "Net change in unrealized appreciation (depreciation) of foreign exchange", respectively. Foreign currency assets and liabilities in the Statements of Financial Position are translated into Canadian dollars on the statement date.

## Redeemable units valuation

The NAV on a particular date will be equal to the aggregate value of the assets of the Fund less the aggregate value of the liabilities of the Fund, expressed in Canadian dollars at the applicable exchange rate on such date. The NAV and NAV per unit will be calculated on each Thursday during the year (or, if a Thursday is not a Business Day, the Business Day following such Thursday) and on the last Business Day of each month, and any other time as may be determined by the Manager from time to time. "Business Day" means any day on which the TSX is open for trading.

## Increase (decrease) in net assets attributable to holders of redeemable units per unit

"Increase (decrease) in net assets attributable to holders of redeemable units per unit" in the Statement of Comprehensive Income represents the increase (decrease) in net assets attributable to holders of redeemable units, divided by the weighted average units outstanding for the financial year.

## Income and other taxes

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). For tax purposes, the Fund has a December 31 year end. All of the Fund's net income for tax purposes and sufficient net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the statement of financial position as a deferred income tax asset. Capital losses may be carried forward indefinitely to reduce future realized capital gains. Non-capital losses may be carried forward 20 years and applied against future taxable income. As at the last taxation year end, the Fund had non-capital losses of \$1,772,081 and \$167,823 net capital losses available to be carried forward for income tax purposes.

The Fund may incur withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense.

As the Manager is a resident of Ontario, the expenses paid by the Fund generally include HST of 13%. HST is calculated using the residency of unitholders in the Fund as at specific times, rather than the physical location of the Manager. A blended rate refund is filed with the Canada Revenue Agency on behalf of the Fund, in arrears, using each province's HST rate or GST rate in the case of non-participating provinces.

# Global Telecom & Utilities Income Fund

## Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements:

- a) Fair value measurement of derivatives and securities not quoted in an active market

The Fund may hold financial instruments that are not quoted in active markets, including derivatives. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Refer to Note 7 for further information about the fair value measurement of the Fund's financial instruments.

- b) Classification and measurement of investments and derivatives under IFRS 9

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about the business model in which the portfolio of investments and derivatives is held. The Manager has determined that the Fund's business model is one in which its portfolio is managed and performance evaluated on a fair value basis under IFRS 9.

## Accounting standards effective January 1, 2018

The Funds have adopted IFRS 9, Financial Instruments in the current reporting period commencing January 1, 2018, replacing IAS 39 Financial Instruments – Recognition and Measurement. IFRS 9 introducing a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. The business model determined by the Fund is the fair value business model.

Upon transition to IFRS 9, the Fund's portfolio investments and derivative instruments previously either designated at fair value through profit and loss or held for trading under IAS 39 continued to be categorized as fair value through profit and loss.

Other financial assets and liabilities previously classified as loans and receivables under IAS 39 are categorized as amortized cost under IFRS 9.

## 4. REDEEMABLE UNITS

The authorized capital of the Fund consists of an unlimited number of transferable units of one class representing an equal, undivided interest in the net assets of the Fund. Except as provided in the Declaration of Trust, all units have equal rights and privileges. Each whole unit is entitled to one vote at all meetings of unitholders and is entitled to participate equally in any and all distributions made by the Fund. The units trade on the TSX under the symbol HGI.UN. As at December 31, 2018, the closing price for the units was \$8.12 per unit (December 31, 2017 - \$9.32 per unit).

## Redemptions

Units may be surrendered prior to 5:00 p.m. (Toronto time) on the 10<sup>th</sup> business day before the last business day of the applicable month by the holders for monthly redemption. Upon receipt by the Fund of the redemption notice the holder of a unit shall be entitled to receive a price per unit equal to the lesser of:

- a) 95% of the "market price" of the units on the principal market on which the units are quoted for trading during the 20 trading day period ending immediately before the monthly redemption date; and
- b) 100% of the "closing market price" on the principal market on which the units are quoted for trading on the monthly redemption date.

Notwithstanding the monthly redemption price formula above, at no time will the Fund pay out redemption proceeds greater than the NAV per Unit as determined on the monthly redemption date for each Unit being redeemed.

In accordance with the Fund prospectus, in addition to the monthly redemption rights, on an annual basis, units may be surrendered for redemption at the Fund's NAV per unit, subject to the required redemption notice period, in August and the unitholder will receive payment on or before the 15<sup>th</sup> business day of the following month. On August 31, 2018, 13,700 units (2017 – 133,261) were surrendered for redemption for total proceeds of \$119,335 (2017 - \$1,295,097).

# Global Telecom & Utilities Income Fund

The following units were redeemed and/or cancelled during the year:

	Trust units outstanding
<b>Total outstanding as at January 1, 2017</b>	<b>562,445</b>
Redeemable units redeemed	(133,261)
<b>Total outstanding as at December 31, 2017</b>	<b>429,184</b>
Redeemable units redeemed	(13,700)
<b>Total outstanding as at December 31, 2018</b>	<b>415,484</b>

The weighted average number of units outstanding during the year ended December 31, 2018 was 424,717 units (2017 – 517,903 units).

## Distributions

The Fund intends to make monthly cash distributions to unitholders of record on the last business day of each month and pay such cash distributions on or before the 15th day of the following month. The Fund will annually determine and announce the indicative distribution amount for the following year based upon the prevailing market conditions. The distribution amount paid was \$305,724 for the year ended December 31, 2018 (2017 – \$372,978).

## 5. RELATED PARTY TRANSACTIONS AND OTHER EXPENSES

### Management and service fees

Harvest Portfolios Group Inc. is the Manager of the Fund and is responsible for managing the Fund's overall business and operations and provides key management personnel to the Fund. The Fund pays its manager, Harvest, a management fee from the Fund of 1.25% per annum of the applicable average weekly NAV calculated and payable monthly in arrears, plus applicable taxes.

The Fund also pays service fees to registered dealers at the rate on 0.40%, plus applicable taxes, of the average weekly NAV of the Fund. Service fees are accrued daily and paid monthly to the manager, who in turn pays the dealers quarterly.

### 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 units, 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 which are paid directly by the Fund 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 Unitholders and other Unitholder 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 continuous public offering and other obligations. These expenses are allocated by the Manager on a reasonable basis, across all of the Harvest Portfolios Group Inc. funds, and series of each applicable fund. These expenses were \$4,259 for the year ended December 31, 2018 (2017 - \$9,483) and are included in the unitholder reporting costs in the Statements of Comprehensive Income.

## 6. FINANCIAL RISK MANAGEMENT

Investment activities of the Fund expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk). The Manager seeks to minimize these risks by employing experienced portfolio managers that will manage the security portfolios of the Fund on a daily basis according to market events and the investment objectives of the Fund. To assist in managing risk, the Manager also maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and securities regulations.

### Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The value of securities in the Fund's portfolio may be affected by the stock market conditions rather than each



## Global Telecom & Utilities Income Fund

company's performance. Developments in the market are affected by general economic and financial conditions. Political, social and environmental factors can also affect the value of any investment.

As at December 31, 2018, 94.2% (December 31, 2017 – 97.3%) of the Fund's net assets attributable to holders of redeemable units were traded on public stock exchanges. If equity prices on these exchanges had increased or decreased by 5%, as at period end, with all other factors remaining constant, net assets attributable to holders of redeemable units of the Fund would have increased or decreased by approximately \$166,715 (December 31, 2017 - \$193,147).

In practice, the actual trading results may differ and the difference could be material.

### Currency risk

Currency risk is the risk that the value of investments denominated in currencies other than the functional currency of the Fund will fluctuate as a result of changes in foreign exchange rates. When a Fund, buys an investment priced in a foreign currency and the exchange rate between the Canadian dollar and the foreign currency changes unfavorably, it could reduce the value of the Fund's investment.

As at December 31, 2018		
Currency	Currency exposure (\$)*	As a % of net assets
U.S. Dollar	639,651	18.1
Euro	1,733,620	49.0
New Zealand Dollar	209,151	5.9
Pound Sterling	441,035	12.5
Swedish Krona	74,040	2.1
<b>Totals</b>	<b>3,097,497</b>	<b>87.6</b>

\*Amounts are in Canadian dollars

As at December 31, 2017		
Currency	Currency exposure (\$)*	As a % of net assets
U.S. Dollar	693,947	17.5
Euro	1,743,294	43.9
New Zealand Dollar	177,908	4.5
Pound Sterling	669,035	16.8
Swedish Krona	64,044	1.6
<b>Totals</b>	<b>3,348,228</b>	<b>84.3</b>

\*Amounts are in Canadian dollars

The non-monetary currency exposure is \$3,084,818 (December 31, 2017 – \$3,321,374) and the monetary currency exposure is \$12,679 (December 31, 2017 – \$26,854).

As at December 31, 2018, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies, with all other variables held constant, the Fund's net assets attributable to holders of redeemable units would have increased or decreased, respectively, by approximately \$154,875 (December 31, 2017 - \$167,411) or 4.4% (December 31, 2017 – 4.2%). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair value of financial instruments. Interest rate risk arises when the Fund invests in interest-bearing financial instruments. The Fund does not hold any bonds or money market instruments; therefore, the Fund has no significant exposure to interest rate risk.

The Fund has an interest-bearing liability and so the Fund is exposed to risks associated with the effects of fluctuations in interest rates on its cash flows. As at December 31, 2018, the Fund had a net borrowing of \$50,949 (December 31, 2017 - \$nil). If interest rates were to change by 1.0%, the interest expense in the Fund could increase (decrease) on an annual basis by \$509 (December 31, 2017 - \$nil).

# Global Telecom & Utilities Income Fund

## Liquidity risk

Liquidity risk is defined as the risk that a fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund is exposed to redemption of units as described in Note 4. However, the Manager does not expect that the contractual maturity will be representative of the actual cash outflows as holders of those units typically retain them for a longer period. Therefore, in order to maintain sufficient liquidity, the Fund primarily invest in securities that are actively traded in public markets and can be readily disposed of to raise liquidity.

As at December 31, 2018 and December 31, 2017, all the Fund's financial liabilities had maturities of less than three months.

## Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

All transactions executed by the Fund in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

As at December 31, 2018 and December 31, 2017, the Fund did not have significant credit risk exposure. All cash held by the fund is held with a reputable and regulated financial institution.

## Fair value of financial instruments

The Fund classifies fair value measurements 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 that the entity can access at the measurement date;

**Level 2:** Inputs other than quoted prices included within 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 for the asset or liability that are not based on observable market data.

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period.

The table below summarizes the fair value of the Fund's financial instruments using the following fair value hierarchy:

Securities classification:

Investments at fair value as at December 31, 2018				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
<b>Financial Assets</b>				
<b>Equities</b>				
Common Shares	3,334,302	-	-	3,334,302
<b>Total Financial Assets</b>	<b>3,334,302</b>	<b>-</b>	<b>-</b>	<b>3,334,302</b>

  

Investments at fair value as at December 31, 2017				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
<b>Financial Assets</b>				
<b>Equities</b>				
Common Shares	3,862,930	-	-	3,862,930
<b>Total Financial Assets</b>	<b>3,862,930</b>	<b>-</b>	<b>-</b>	<b>3,862,930</b>

There were no Level 3 securities held by the Fund as at December 31, 2018 and December 31, 2017 there were no transfers between Level 1 and Level 2 for the year ended December 31, 2018 and 2017.



# Global Telecom & Utilities Income Fund

## Concentration Risk

Concentration risk arises as a result of the concentration of exposures within 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 by geography and segment.

Geography:

As at	December 31, 2018	December 31, 2017
	% of net assets	% of net assets
Eurozone	49.0	43.9
United States	18.0	16.8
United Kingdom	12.2	16.8
Canada	7.0	13.7
New Zealand	5.9	4.5
Sweden	2.1	1.6
<b>Totals</b>	<b>94.2</b>	<b>97.3</b>

Market Segment:

As at	December 31, 2018	December 31, 2017
	% of net assets	% of net assets
<b>EQUITIES</b>		
Utilities	52.0	46.1
Communication Services	37.7	27.1
Consumer Discretionary	-	14.2
Energy	4.5	9.9
<b>Total</b>	<b>94.2</b>	<b>97.3</b>

## 7. SOFT DOLLAR COMMISSIONS

Brokerage commissions paid to certain brokers may, in addition to paying for the cost of brokerage services in respect of security transactions, also provide for the cost of investment research services provided to the investment manager. The value of such research services included in commissions paid to brokers for the year ended December 31, 2018 and 2017 amounted to \$nil.

## 8. BORROWINGS

The Fund established a revolving margin with its Prime Broker, a Canadian chartered bank. Interest charged at floating rates is included in "Interest expense" on the Statements of Comprehensive Income (Loss). The Fund has the facility in place to borrow up to 25 percent of its total assets or 33.3% of the Fund's NAV. The overdraft function is to borrow for the purpose of making investments in accordance with its investment objectives and restrictions, and to pledge its assets to secure the borrowings. The borrowing is a revolving margin that is due on demand with no fixed repayment terms.

The amount drawn on the margin was \$50,949 (December 31, 2017 - \$nil) or 1.4% (December 31, 2017 - nil%) of net assets attributable to holders of redeemable units at December 31, 2018. For the year ended December 31, 2018 the Fund recorded interest expense of \$1,059 (2017 - \$11,573). The amount of borrowings ranged between \$nil and \$50,949 during the year (December 31, 2017 between \$nil and \$1,227,279) and represented 0.0% to 1.4% of the Fund's net assets attributable to holders of redeemable units during the year ended December 31, 2018 (December 31, 2017 - 0.0% to 21.9%).



### **Head Office**

710 Dorval Drive, Suite 209 Oakville,  
Ontario L6K 3V7

Phone Number: 416.649.4541

Toll Free: 866.998.8298

Fax Number: 416.649.4542

Email: [info@harvestportfolios.com](mailto:info@harvestportfolios.com)

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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.