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## MANAGEMENT REPORT OF FUND PERFORMANCE

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### Harvest Banks & Buildings Income ETF

December 31, 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).

# Harvest Banks & Buildings Income ETF

## CORPORATE OVERVIEW

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

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 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

The Harvest Banks & Buildings Income ETF (the “Fund”) invests primarily in the Canadian banking, other financial and real estate sectors. The banking, other financial and real estate sectors represent significant components of the Canadian economy. As the Canadian economy generally expands, Harvest believes that a diversified portfolio invested across these sectors will provide investors with an attractive yield and strong capital appreciation potential.

# Harvest Banks & Buildings Income ETF

## PRESIDENT'S MESSAGE

Harvest Banks & Buildings Income ETF

Unitholder letter March 2019

Dear Valued Investor,

Like 2017, 2018 proved to be a year of unexpected surprises, though this time with considerably more volatility and global markets ending the year in negative territory.

Should we really be that surprised? As we break into the tenth year since the financial crisis when the market put in a bottom in March 2009, we can point to three additional periods of market disruption: 1) in 2011, 2) late 2015 to early 2016, and 3) most of 2018. I have heard people referring to the current situation as a trader's market while investors have been sidelined. Though the volatility is tough to endure, remaining focused on long term growth by staying invested in great businesses will prove itself now as it has in the past.

A stockholder or unitholder never thinks of himself/herself as a business owner, though in the case of equity investing, that's what you are. You own a piece of many businesses through your ETF or Fund holdings, and if you like what you own and feel comfortable with the underlying companies its best to ignore noise and stay with the program. In short periods of time, interest rates, inflation, analyst reports and media articles can move a company's share price around, but over longer time horizons the trendline economics of the underlying business will override short term price fluctuations with the true direction of the stock price.

One thing we do know is that our investment philosophy at Harvest doesn't change, markets will change, and we accept that, we will fine tune portfolios when the dynamics for a company change, but we maintain our long-term thesis. Option writing, in our Leaders ETFs, allows us to reduce some of the shorter-term risk of a portfolio and monetize that portion of return for income generation. Most of the portfolio will remain long due to our positive bias towards the businesses we hold.

Early in 2018 Harvest launched its first specialty index ETF, the Blockchain Technologies ETF, as a long-term proxy on the transformational Blockchain technology. We truly believe this technology will change the way businesses and consumers transact, track and verify goods and services in a secure and non-corruptible manner. The sell off in crypto currencies early in the year washed through the burgeoning Blockchain technology sector due to its close association to cryptos as Blockchain provides the framework for the crypto currencies to transact upon. As tough as the inaugural year was, we hold steadfast in our belief that it is still early days for Blockchain technology, and it will continue to emerge as the go to transactional technology of the future.

As we look towards 2019, we expect to see some of the macro trade issues resolved and a relatively flat trend for interest rates, it wouldn't surprise us to see markets end the year on a positive note, but to predict how much or how we will get there is like trying to predict the weather. Plan your picnic, just keep an umbrella in the car.

On behalf of Harvest, I would like to thank you for your trust and investment in our products.

Sincerely,

*Signed* "Michael Kovacs"

Michael Kovacs  
President and Chief Executive Officer

# Harvest Banks & Buildings Income ETF

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

The annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Fund. For your reference, the annual financial statements of the Fund are attached to the annual 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 Harvest Banks & Buildings Income ETF (the "Fund") invests in a portfolio that consists primarily of Canadian banking issuers, other financial issuers and real estate related companies and/or REITs.

The Manager may invest up to 10% of the total value of the Fund's portfolio in securities of publicly-traded financial services issuers listed on a recognized stock exchange in North America other than banking issuers, other financial issuers or real estate issuers. The Manager may invest up to 25% of the total value of the Fund in securities outside of Canada.

The Manager will use a combination of top-down, macro analysis to evaluate and identify the most attractive companies and types of securities in the sectors mentioned above. The Manager will also employ a value-based, bottom-up fundamental analysis to identify issuers based on the quality of their assets and the strength of their balance sheets and cash flows. Generally, each company or investment held in the Fund will have consistent dividend payout history and offer a yield component that will help aid the objective of the Fund. The Manager will seek to acquire securities that it believes have strong free cash flow metrics and will not defer future dividend or interest payments.

The capital structure will be considered when investing in any issuer. The Manager will focus not only on yield potential but will also look at risk adjusted rates of returns. At times, the issuer's debt instruments will be purchased with the intent of receiving equity-like returns with the benefits of lower price volatility due to the nature of the bond market.

The Manager may choose to deviate from its investment strategies by temporarily investing most or all of its assets in cash or fixed income securities when it believes that there is greater than usual risk of market downturn or for other reasons.

The Fund's investment objectives are:

- (i) generate monthly income; and
- (ii) maximize total returns by investing primarily in a portfolio of banking issuers, other financial issuers and real estate related companies and/or REITs listed on a recognized stock exchange in North America.

## 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 Harvest Banks & Buildings Income ETF began trading following the listing of its units on March 29, 2018 consisting of 100,000 units of Class A Shares at \$20.00 per unit for gross proceeds of \$2,000,000. Performance information is not available for periods less than one year.

The Fund's overweight exposure to the Financial sectors versus REITs had a negative impact on the performance for the Fund in the period since the launch to the end of 2018. The Financials sectors both in Canada and the US were weak from the end of March and particularly towards the end of the year. Concerns over a slowing economy coupled with slowing of new loans issued by the banks was a key driver for the relatively weak performance of the Financials sector during the period. This was heightened by the general uncertainty surrounding trade negotiations between the two largest economies in the world and later in the period, the partial shut-down in the United States government. Despite many forecasters projecting that the US Federal Funds Rate hikes would be detrimental to yield sensitive sectors such as REITs, the sector performed relatively well with the US REIT sub-sector flat from the launch of the Fund while in Canada REITs were positive, offering some balance to the large negative returns in the Financials sectors. Within the Financials sub-sector, the Banks particularly were weak during the period, with valuation multiples compressing at times to levels well below those seen on average over the past five years.

# Harvest Banks & Buildings Income ETF

The Fund continued to be in a diversified portfolio of Financial issuers and Real Estate Issuers at the end of the period.

## RECENT DEVELOPMENTS

The Fund was established on January 26, 2018 and commenced operations on March 26, 2018 and trades under the symbol HCBB.

## 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

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 the Manager an annual management fee of 0.85%, plus applicable taxes, based on a percentage of the average daily net asset value ("NAV") of the Fund.

### 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, and is then reimbursed by the Fund.

The Manager may, in some cases, absorb a portion of the Fund's operating expenses. For the period ended December 31, 2018 the Manager absorbed \$73,809 of expenses of the Fund. The Manager may cease doing so at any time without notice to unitholders. The management expense ratio of the Fund with and without the absorptions are reported in the Ratios and Supplemental Data table.

### 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 \$1,916 for the period ended December 31, 2018 and are included in the unitholder reporting costs on the Statement of Comprehensive Income (Loss) in the financial statements.

## RECOMMENDATION 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 December 31, 2018.

# Harvest Banks & Buildings Income ETF

## 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 period ended December 31, 2018. This information is derived from the Fund's annual audited financial statements.

THE FUND'S NET ASSETS PER UNIT		2018
<b>Net assets - beginning of period<sup>2</sup></b>		<b>\$ 20.00</b>
<b>Increase (decrease) from operations</b>		
Total revenue		0.63
Total expenses		(0.27)
Realized gains (losses) for the period		(0.01)
Unrealized gains (losses) for the period		(1.23)
<b>Total increase (decrease) from operations<sup>1</sup></b>		<b>\$ (0.88)</b>
<b>Distributions<sup>3</sup></b>		
Return of capital		(0.82)
<b>Total annual distributions<sup>3</sup></b>		<b>\$ (0.82)</b>
<b>Net assets - end of period<sup>1</sup></b>		<b>\$ 18.52</b>

RATIOS AND SUPPLEMENTAL DATA		2018
<b>Total net asset value</b>		<b>\$ 2,314,639</b>
Number of units outstanding		125,000
Management expense ratio <sup>4</sup>		1.58%
Management expense ratio before waivers or absorptions <sup>4</sup>		5.78%
Trading expense ratio <sup>5</sup>		0.04%
Portfolio turnover rate <sup>6</sup>		11.30%
<b>Net asset value per unit</b>		<b>\$ 18.52</b>
<b>Closing market price (HCBB)</b>		<b>\$ 18.80</b>

### Explanatory Notes:

1. Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the reporting period. It is not intended that the Fund's net assets per unit table act as a continuity of opening and closing net assets per unit.
2. Net assets, at the commencement of operations on March 26, 2018 was \$20.00.
3. Distributions were paid in cash.
4. 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 daily average net asset value during the period.
5. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
6. The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover 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.

# Harvest Banks & Buildings Income ETF

## Past Performance

The performance information presented herein assumes all dividends of the Fund during the years 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

The Fund's performance is not shown as 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.

## ANNUAL COMPOUND RETURNS

The Fund's performance is not shown as 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.

## SUMMARY OF INVESTMENT PORTFOLIO

The Portfolio by category chart below provides a portfolio breakdown based on the total transactional net asset value of the Fund's portfolio holdings. A detailed breakdown of the Fund's holdings is available in the "Schedule of Investments" section of the Fund's annual financial statements.

As at December 31, 2018

Top Holdings	% of Net Asset Value
Killam Apartment Real Estate Investment Trust	6.8
SmartCentres Real Estate Investment Trust	6.7
Canadian Imperial Bank of Commerce	6.1
Bank of Montreal	5.9
First Capital Realty Inc.	5.8
The Bank of Nova Scotia	5.7
Sun Life Financial Inc.	5.6
Royal Bank of Canada	5.4
The Toronto-Dominion Bank	4.8
Digital Realty Trust, Inc.	4.7
JPMorgan Chase & Co.	4.7
Manulife Financial Corporation	4.6
Chartwell Retirement Residences	4.3
Bank of America Corporation	4.2
Morgan Stanley	4.2
InterRent Real Estate Investment Trust	4.1
Cash and other assets and liabilities	4.1
Prologis, Inc.	3.5
Allied Properties Real Estate Investment Trust	3.4
Alexandria Real Estate Equities Inc.	3.3
Timbercreek Financial Corp.	2.1
<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).

# Harvest Banks & Buildings Income ETF

## SECTOR ALLOCATION

Sector	% of Net Asset Value
Financials	53.3
Real Estate	42.6
Cash and other assets and liabilities	4.1
<b>Total</b>	<b>100.0</b>

## GEOGRAPHIC ALLOCATION

Country of Issue	% of Net Asset Value
Canada	72.3
United States of America	27.7
<b>Total</b>	<b>100.0</b>





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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.