

# FORTIFIED INCOME ALTERNATIVE FUND



**THINK AHEAD.  
STAY AHEAD.**



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## MANAGEMENT'S RESPONSIBILITY STATEMENT

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The accompanying financial statements have been prepared by Picton Mahoney Asset Management, the Manager of the Picton Mahoney Fortified Income Alternative Fund (the "Fund"). The Manager is responsible for all of the information and representations contained in these financial statements.

The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgements. Management maintains appropriate processes to ensure that relevant and reliable financial information is produced.

### **Picton Mahoney Asset Management**

Toronto, Ontario

August 29, 2023

## NOTICE TO UNITHOLDERS

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The auditor of the Fund has not reviewed these financial statements.

Picton Mahoney Asset Management, the Manager of the Fund, appoints an independent auditor to audit the Fund's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the Fund's interim financial statements, this must be disclosed in an accompanying notice.

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## STATEMENTS OF FINANCIAL POSITION

As at June 30, 2023 (unaudited) and December 31, 2022

	June 30, 2023 \$	December 31, 2022 \$
<b>Assets</b>		
<b>Current assets</b>		
Long positions at fair value*	1,227,255,249	1,180,928,785
Cash	151,777,735	102,044,142
Options purchased*	4,530,192	2,208,677
Unrealized gain on foreign exchange forward contracts at fair value	3,658,090	121,075
Subscriptions receivable	1,420,180	3,297,740
Receivable for investments sold	10,274,154	251,832
Interest and other receivable	16,168,882	17,068,599
	<u>1,415,084,482</u>	<u>1,305,920,850</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Short positions at fair value**	275,244,884	237,955,947
Options written**	6,429,739	464,094
Unrealized loss on foreign exchange forward contracts at fair value	57,860	4,471,497
Cash overdraft	31,961,413	52,123,450
Management fee payable	2,851,271	619,406
Redemptions payable	433,772	296,668
Accrued liabilities	370,921	396,471
Payable for investments purchased	31,730,590	5,873
Interest payable	4,037,687	3,215,228
Distributions payable	264	76
	<u>353,118,401</u>	<u>299,548,710</u>
<b>Net Assets Attributable to Holders of Redeemable Units</b>	<b>1,061,966,081</b>	<b>1,006,372,140</b>
<b>Net Assets Attributable to Holders of Redeemable Units per Class</b>		
Class A	56,966,524	55,762,973
Class F	642,461,737	610,079,796
Class I	21,588,088	30,747,719
Class ETF	340,949,732	309,781,652
<b>Number of Redeemable Units Outstanding</b>		
Class A	6,157,893	6,032,754
Class F	66,596,162	63,628,656
Class I	2,132,470	3,071,795
Class ETF	35,290,000	32,260,000
<b>Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Class A	9.25	9.24
Class F	9.65	9.59
Class I	10.12	10.01
Class ETF***	9.66	9.60
	<u>1,271,357,728</u>	<u>1,223,915,689</u>
	<u>(284,779,562)</u>	<u>(237,852,014)</u>
	<u>9.61</u>	<u>9.57</u>

\* Long positions, at cost

\*\* Short positions, at cost

\*\*\* Closing Market Price (TSX)

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

Approved on behalf of the Manager

David Picton

Arthur Galloway




President

CFO

## STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the six month periods ended June 30 (unaudited)

	2023 \$	2022 \$
<b>Income</b>		
Net gains (losses) on investments and derivatives		
Interest for distribution purposes	43,087,154	32,879,020
Dividends	1,104,555	955,522
Distributions from underlying funds	-	97,903
Net realized gain (loss) on investments and options	(6,559,682)	22,939,649
Net realized gain (loss) on foreign exchange forward contracts	4,650,046	(29,158,237)
Change in unrealized appreciation (depreciation) on investments, options and foreign exchange forward contracts	12,726,545	(69,213,766)
Interest and borrowing expense	(9,784,593)	(6,520,116)
Net gains (losses) on investments and derivatives	<u>45,224,025</u>	<u>(48,020,025)</u>
Other income		
Foreign currency gain (loss) on cash and other assets and liabilities	(4,158,015)	2,078,984
Total Income	<u>41,066,010</u>	<u>(45,941,041)</u>
<b>Expenses</b>		
Management fees	5,645,979	5,699,519
Transaction costs	2,390,367	3,910,317
Administrative fees	367,466	390,045
Securityholder reporting fees	234,476	223,231
Withholding taxes	99,944	80,236
Audit fees	82,807	88,129
Legal fees	52,952	47,042
Independent review committee expense	3,503	4,909
Performance fees	-	288,897
Total expense before manager absorption	<u>8,877,494</u>	<u>10,732,325</u>
Less expenses absorbed by manager	-	-
Total expense after manager absorption	<u>8,877,494</u>	<u>10,732,325</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>	<b>32,188,516</b>	<b>(56,673,366)</b>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Class</b>		
Class A	1,480,072	(3,270,005)
Class F	19,612,263	(33,373,837)
Class I	990,369	(1,526,943)
Class ETF	10,105,812	(18,502,581)
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Class A	0.24	(0.56)
Class F	0.30	(0.53)
Class I	0.40	(0.47)
Class ETF	0.29	(0.53)

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

For the six month periods ended June 30 (unaudited)

	2023 \$	2022 \$		2023 \$	2022 \$
<b>Net Assets Attributable to Holders of Redeemable Units at Beginning of Period</b>			<b>Distributions to Holders of Redeemable Units</b>		
Class A	55,762,973	57,373,687	From net investment income		
Class F	610,079,796	589,932,040	Class A	(1,452,064)	(1,131,210)
Class I	30,747,719	33,267,699	Class F	(15,986,692)	(12,470,177)
Class ETF	309,781,652	345,145,490	Class I	(618,340)	(656,453)
	<u>1,006,372,140</u>	<u>1,025,718,916</u>	Class ETF	(8,354,700)	(6,935,913)
				<u>(26,411,796)</u>	<u>(21,193,753)</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>			<b>Net Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>	<u>55,593,941</u>	<u>31,708,637</u>
Class A	1,480,072	(3,270,005)	<b>Net Assets Attributable to Holders of Redeemable Units at End of Period</b>		
Class F	19,612,263	(33,373,837)	Class A	56,966,524	54,893,995
Class I	990,369	(1,526,943)	Class F	642,461,737	626,882,192
Class ETF	10,105,812	(18,502,581)	Class I	21,588,088	30,040,931
	<u>32,188,516</u>	<u>(56,673,366)</u>	Class ETF	340,949,732	345,610,435
<b>Redeemable Unit Transactions</b>			<b>Net Assets Attributable to Holders of Redeemable Units at End of Period</b>	<u>1,061,966,081</u>	<u>1,057,427,553</u>
Proceeds from redeemable units issued					
Class A	5,658,061	7,635,121			
Class F	122,353,856	165,306,088			
Class I	-	2,900,175			
Class ETF	38,041,172	43,211,715			
	<u>166,053,089</u>	<u>219,053,099</u>			
Reinvestments of distributions to holders of redeemable units					
Class A	1,074,908	848,948			
Class F	9,607,819	7,163,639			
Class I	618,340	656,453			
Class ETF	-	-			
	<u>11,301,067</u>	<u>8,669,040</u>			
Redemption of redeemable units					
Class A	(5,557,426)	(6,562,546)			
Class F	(103,205,305)	(89,675,561)			
Class I	(10,150,000)	(4,600,000)			
Class ETF	(8,624,204)	(17,308,276)			
	<u>(127,536,935)</u>	<u>(118,146,383)</u>			
<b>Net Increase (Decrease) from Redeemable Unit Transactions</b>	<u>49,817,221</u>	<u>109,575,756</u>			

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

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## STATEMENTS OF CASH FLOWS

For the six month periods ended June 30 (unaudited)

	2023 \$	2022 \$
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	32,188,516	(56,673,366)
Adjustments for:		
Unrealized foreign exchange (gain) loss on cash	3,964,256	(1,696,560)
Net realized (gain) loss on investments and options	6,559,682	(22,939,649)
Change in unrealized (appreciation) depreciation on investments, options and foreign exchange forward contracts	(12,726,545)	69,213,766
(Increase) decrease in interest and other receivables	899,717	(1,652,261)
(Increase) decrease in dividends receivable	-	5,015
(Increase) decrease in deposits with brokers for securities sold short	-	9,809,141
Increase (decrease) in interest payable	822,459	373,876
Increase (decrease) in other payable and accrued liabilities	2,206,315	2,240,706
Purchase of long positions and repurchases of investments sold short	(745,874,962)	(1,128,063,192)
Proceeds from sales of long positions and on investments sold short	760,400,171	1,012,185,260
<b>Net cash generated (used) by operating activities</b>	<b>48,439,609</b>	<b>(117,197,264)</b>
<b>Cash Flows from Financing Activities</b>		
Distributions to holders of redeemable units, net of reinvested distributions	(15,110,541)	(12,525,253)
Proceeds from redeemable units issued	166,861,089	216,789,692
Amount paid on redemption of redeemable units	(126,330,271)	(108,968,983)
<b>Net cash generated (used) by financing activities</b>	<b>25,420,277</b>	<b>95,295,456</b>
Unrealized foreign exchange gain (loss) on cash	(3,964,256)	1,696,560
Net increase (decrease) in cash	73,859,886	(21,901,808)
Cash, beginning of period	49,920,692	136,537,264
<b>Cash, end of period</b>	<b>119,816,322</b>	<b>116,332,016</b>
Cash	151,777,735	116,332,016
Cash overdraft	(31,961,413)	-
<b>Net Cash (Overdraft)</b>	<b>119,816,322</b>	<b>116,332,016</b>
<b>Items Classified as Operating Activities:</b>		
Interest received, net of withholding tax	43,986,871	31,226,759
Dividends received, net of withholding tax	1,004,611	880,301
Interest and borrowing expense paid	(8,962,134)	(6,146,240)

*Net of non-cash transfers and switches of \$1,069,560 (2022 - \$4,656,559)*



# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2023 (unaudited)

CCY*	No. of shares/units/ Face value	Security Description	Average cost (\$)	Fair value (\$)	CCY*	No. of shares/units/ Face value	Security Description	Average cost (\$)	Fair value (\$)
<b>LONG POSITIONS (116.0%)</b>									
<b>Canadian Equities (3.5%)</b>									
<b>Energy (1.6%)</b>									
	161,294	Enbridge Inc., Preferred Series 1	4,936,079	4,588,757	CAD	19,350,000	Bank of Montreal 7.373%, 2049-12-31	19,400,667	19,029,893
	51,100	Enbridge Inc., Preferred Series 5	1,446,631	1,358,438	CAD	17,750,000	Bank of Montreal 5.625%, 2082-05-26	17,636,133	16,433,555
	425,500	Enbridge Inc., Preferred Series L	11,811,543	10,832,875	CAD	6,125,000	Bank of Montreal 7.325%, 2082-11-26	6,125,000	6,016,848
			18,194,253	16,780,070	CAD	100,000	Bank of Nova Scotia 5.500%, 2026-05-08	99,997	100,340
					CAD	18,275,000	Bank of Nova Scotia 7.023%, 2082-07-27	18,275,000	17,725,722
					USD	12,032,000	Bank of Nova Scotia 8.625%, 2082-10-27	16,591,567	16,538,615
<b>Financials (1.8%)</b>									
	152,963	Element Financial Corp., Preferred Series C	3,700,467	3,793,482	CAD	840,000	Brookfield Property Finance ULC 4.300%, 2024-03-01	817,950	821,607
	210,500	Element Fleet Management Corp., Preferred Series A	5,091,655	5,258,290	CAD	1,338,000	Brookfield Property Finance ULC 3.926%, 2025-08-24	1,225,118	1,223,882
	396,575	Element Fleet Management Corp., Preferred Series E	9,250,726	9,775,574	CAD	2,091,000	Brookfield Property Finance ULC 4.000%, 2026-09-30	1,826,978	1,799,240
			18,042,848	18,827,346	CAD	3,015,000	Brookfield Property Finance ULC 3.930%, 2027-01-15	2,630,078	2,561,406
					CAD	18,575,000	Brookfield Property Finance ULC 7.125%, 2028-02-13	18,597,551	17,207,255
<b>Real Estate (0.1%)</b>									
	26,200	Brookfield Office Properties Inc., Preferred Series CC	434,368	438,588	USD	6,350,000	Brookfield Residential Properties Inc. 6.250%, 2027-09-15	7,780,576	7,728,399
	61,700	Brookfield Office Properties Inc., Preferred Series EE	844,120	792,228	USD	8,775,000	Bruce Trail Funding Corporation 16.340%, 2028-08-31	11,881,711	11,549,903
			1,278,488	1,230,816	USD	600,000	Canadian Imperial Bank of Commerce 3.621%, 2084-07-31	653,633	660,348
					CAD	10,975,000	Capital Power Corp. 7.950%, 2082-09-09	10,983,688	10,751,830
<b>Total Canadian Equities - Long</b>									
			<b>37,515,589</b>	<b>36,838,232</b>					
<b>Canadian Debt (68.5%)</b>									
<b>Asset-Backed Securities (3.0%)</b>									
CAD	7,707,420	Real Estate Asset Liquidity Trust 3.707%, 2031-06-12	6,657,565	5,711,198	CAD	343,200	Chemtrade Logistics Income Fund 4.750%, 2024-05-31	332,650	342,771
CAD	2,569,140	Real Estate Asset Liquidity Trust 3.707%, 2031-07-12	2,254,729	1,829,485	CAD	12,015,000	Chemtrade Logistics Income Fund 6.250%, 2027-08-31	12,070,052	12,015,000
CAD	4,281,480	Real Estate Asset Liquidity Trust 3.707%, 2031-07-12	3,307,062	3,435,888	CAD	1,125,000	Clarity Trust 10.923%, 2025-04-15	1,125,000	1,125,000
CAD	3,425,310	Real Estate Asset Liquidity Trust 3.707%, 2031-08-12	2,271,283	2,408,678	CAD	8,775,000	Corus Entertainment Inc. 5.000%, 2028-05-11	8,798,302	6,318,000
CAD	5,995,776	Real Estate Asset Liquidity Trust 3.707%, 2031-11-12	3,194,126	3,479,948	CAD	6,810,000	Corus Entertainment Inc. 6.000%, 2030-02-28	6,810,000	4,809,563
USD	11,250,000	St Lawrence Srt Usd Corp. 0.000%, 2033-05-25	15,174,609	14,874,557	USD	3,375,000	Curaleaf Holdings Inc. 8.000%, 2026-12-15	4,267,102	3,505,763
			32,859,374	31,739,754	CAD	15,475,000	Doman Building Materials Group Ltd. 5.250%, 2026-05-15	15,216,591	14,027,438
<b>Corporate Bonds (65.5%)</b>									
USD	10,497,000	Air Canada 3.875%, 2026-08-15	12,416,761	12,887,952	CAD	6,450,000	Enbridge Inc. 5.000%, 2082-01-19	5,504,675	5,387,442
CAD	1,826,000	Air Canada 4.625%, 2029-08-15	1,654,080	1,646,756	USD	4,250,000	Enbridge Inc. 7.375%, 2083-01-15	5,695,623	5,528,221
CAD	2,110,000	Air Canada 4.625%, 2029-08-15	1,911,461	1,912,627	USD	10,800,000	First Quantum Minerals Ltd. 8.625%, 2031-06-01	14,564,044	14,664,431
CAD	6,675,000	Algonquin Power & Utilities Corp. 5.250%, 2082-01-18	5,347,284	5,289,652	CAD	13,750,000	Ford Credit Canada Co. 7.000%, 2026-02-10	13,751,340	13,711,338
CAD	12,700,000	AltaGas Ltd. 7.350%, 2082-08-17	12,616,235	12,222,607	CAD	8,250,000	Ford Credit Canada Co. 7.375%, 2026-05-12	8,255,599	8,280,535
CAD	21,450,000	AutoCanada Inc. 5.750%, 2029-02-07	21,365,291	18,053,750	CAD	1,125,000	Fusion Trust 10.923%, 2025-04-15	1,125,000	1,125,000
CAD	9,650,000	Bank of Montreal 7.057%, 2049-12-31	9,650,000	9,387,771					

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2023 (unaudited)

CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)	CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)
CAD	875,000	George Weston Ltd. 6.690%, 2033-03-01	909,011	939,717	CAD	18,950,000	Toronto-Dominion Bank 7.232%, 2049-12-31	18,950,000	18,613,694
CAD	5,450,000	Gibson Energy Inc. 5.800%, 2026-07-12	5,447,766	5,452,175	CAD	5,025,000	Toronto-Dominion Bank 7.283%, 2082-10-31	5,025,000	4,935,497
CAD	3,495,000	Gibson Energy Inc. 6.200%, 2053-07-12	3,491,225	3,603,999	USD	7,950,000	Toronto-Dominion Bank 8.125%, 2082-10-31	10,941,627	10,713,123
CAD	12,488,000	Gibson Energy Inc. 5.250%, 2080-12-22	10,581,318	10,348,746	USD	4,677,000	Trulieve Cannabis Corp. 9.750%, 2024-06-18	6,391,902	5,879,360
CAD	12,925,000	Gibson Energy Inc. 8.700%, 2083-07-12	12,958,389	13,024,768	USD	6,065,000	Trulieve Cannabis Corp. 8.000%, 2026-10-06	7,734,391	5,946,785
CAD	16,117,000	iA Financial Corp. Inc. 6.611%, 2082-06-30	16,014,361	15,574,343	CAD	10,372,000	Videotron Ltd. 4.500%, 2030-01-15	10,062,308	9,053,892
CAD	8,300,000	Intact Financial Corp. 7.338%, 2083-06-30	8,328,063	8,237,770	CAD	8,075,000	Videotron Ltd. 3.125%, 2031-01-15	7,106,020	6,283,359
CAD	11,075,000	Inter Pipeline Ltd. 6.875%, 2079-03-26	11,754,244	10,397,714				<u>725,052,926</u>	<u>695,167,631</u>
CAD	6,525,000	Inter Pipeline Ltd. 6.625%, 2079-11-19	6,705,305	5,950,705			<b>Total Canadian Debt - Long</b>	<b>757,912,300</b>	<b>726,907,385</b>
CAD	9,050,000	Keyera Corp. 6.875%, 2079-06-13	8,929,229	8,495,931			<b>Global Debt (43.6%)</b>		
CAD	7,700,000	Keyera Corp. 5.950%, 2081-03-10	7,717,550	6,648,898			<b>United States Bonds (37.5%)</b>		
USD	14,400,000	Manitoulin USD Ltd. 13.290%, 2027-11-10	19,849,748	19,007,040	USD	19,272,000	Acadia Healthcare Co Inc. 5.500%, 2028-07-01	24,784,928	24,411,574
CAD	14,550,000	Mattamy Group Corp. 4.625%, 2028-03-01	14,111,637	12,975,114	USD	2,750,000	AerCap Global Aviation Trust 6.500%, 2045-06-15	3,528,918	3,523,537
CAD	21,050,000	National Bank of Canada 7.500%, 2082-11-16	21,057,212	20,641,518	USD	16,450,000	American Airlines Inc. 11.750%, 2025-07-15	24,635,214	23,887,088
CAD	2,910,000	Northland Power Inc. 9.250%, 2083-06-30	2,881,307	2,922,619	USD	10,905,000	AMN Healthcare Inc. 4.625%, 2027-10-01	13,476,825	13,370,960
USD	14,675,000	Northriver Midstream Finance LP 5.625%, 2026-02-15	18,598,593	18,127,171	USD	9,625,000	Bath & Body Works Inc. 9.375%, 2025-07-01	13,111,909	13,533,994
CAD	6,520,000	NuVista Energy Ltd. 7.875%, 2026-07-23	6,534,165	6,650,400	USD	15,778,000	Brookfield Property REIT Inc. 4.500%, 2027-04-01	19,233,651	17,607,481
CAD	29,200,000	Parkland Corp. 3.875%, 2026-06-16	27,683,724	27,106,725	USD	1,710,000	Carriage Services Inc. 4.250%, 2029-05-15	1,920,139	1,960,101
CAD	19,475,000	Parkland Corp. 6.000%, 2028-06-23	19,246,335	18,773,900	USD	16,864,000	Catalent Pharma Solutions Inc. 5.000%, 2027-07-15	22,022,887	20,511,519
CAD	13,600,000	Parkland Corp. 4.375%, 2029-03-26	13,532,383	11,903,400	USD	4,987,000	CCO Holdings LLC 5.125%, 2027-05-01	6,227,168	6,152,205
CAD	6,800,000	Pembina Pipeline Corp. 5.720%, 2026-06-22	6,798,504	6,795,714	USD	1,480,000	CCO Holdings LLC 5.000%, 2028-02-01	1,832,716	1,786,437
CAD	12,900,000	Rogers Communications Inc. 5.000%, 2081-12-17	12,463,382	11,734,045	USD	4,700,000	CCO Holdings LLC 6.375%, 2029-09-01	6,055,723	5,866,012
CAD	21,600,000	Royal Bank of Canada 4.500%, 2080-11-24	20,802,364	20,050,214	USD	1,093,000	CCO Holdings LLC 7.375%, 2031-03-01	1,409,944	1,410,314
USD	6,750,000	Royal Bank of Canada 3.862%, 2085-06-29	7,044,439	8,217,329	USD	7,950,000	Churchill Downs Inc. 6.750%, 2031-05-01	10,738,353	10,414,572
CAD	29,166,000	Secure Energy Services Inc. 7.250%, 2026-12-30	28,781,821	28,801,425	USD	9,382,000	Cleveland-Cliffs Inc. 7.000%, 2027-03-15	12,270,320	12,112,665
CAD	1,430,000	Secure Energy Services Inc. 7.250%, 2026-12-30	1,408,550	1,413,019	USD	8,625,000	Cushman & Wakefield US Borrower LLC 6.750%, 2028-05-15	11,613,163	10,338,998
CAD	12,600,000	Shawcor Ltd. 9.000%, 2026-12-10	12,798,398	13,115,813	USD	16,215,000	Freeport Minerals Corp. 7.125%, 2027-11-01	24,172,064	22,368,255
CAD	3,581,000	SNC-Lavalin Group Inc. 7.000%, 2026-06-12	3,585,934	3,643,668	USD	8,827,000	Freeport Minerals Corp. 9.500%, 2031-06-01	15,357,291	13,883,264
CAD	11,014,000	Tamarack Valley Energy Ltd. 7.250%, 2027-05-10	10,741,312	10,308,416	USD	7,897,000	Freeport Minerals Corp. 6.125%, 2034-03-15	11,736,463	10,267,709
USD	14,540,000	Tervita Corp. 11.000%, 2025-12-01	21,082,672	20,489,165	USD	15,001,000	Horizon Therapeutics USA Inc. 5.500%, 2027-08-01	19,613,704	19,958,167
					USD	1,200,000	ILFC E-Capital Trust I 7.064%, 2065-12-21	1,078,407	1,071,183

PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

**SCHEDULE OF INVESTMENT PORTFOLIO**

As at June 30, 2023 (unaudited)

CCY*	No. of shares/units/ Face value	Security Description	Average cost (\$)	Fair value (\$)	CCY*	No. of shares/units/ Face value	Security Description	Average cost (\$)	Fair value (\$)
USD	7,900,000	Iron Mountain Inc. 7.000%, 2029-02-15	10,586,270	10,484,601					
USD	5,310,000	Iron Mountain Inc. 5.250%, 2030-07-15	6,846,209	6,316,372					
USD	2,539,000	Live Nation Entertainment Inc. 5.625%, 2026-03-15	3,360,927	3,286,349					
USD	13,860,000	Mileage Plus Holdings LLC 6.500%, 2027-06-20	18,561,683	18,399,713					
USD	12,955,000	NCR Corp. 5.750%, 2027-09-01	17,011,833	17,161,297					
USD	9,436,000	NCR Corp. 6.125%, 2029-09-01	12,653,067	12,508,331					
USD	500,000	PDC Energy Inc. 6.125%, 2024-09-15	670,628	661,882					
USD	9,271,000	PDC Energy Inc. 5.750%, 2026-05-15	12,456,115	12,229,699					
USD	6,375,000	Prime Healthcare Services Inc. 7.250%, 2025-11-01	7,981,979	8,004,728					
USD	5,610,000	Sealed Air Corp. 5.000%, 2029-04-15	7,040,057	6,920,970					
USD	8,300,000	Sirius XM Radio Inc. 5.000%, 2027-08-01	10,311,444	10,200,921					
USD	14,360,000	Stagwell Global LLC 5.625%, 2029-08-15	18,002,794	16,282,359					
USD	11,412,000	Syneos Health Inc. 3.625%, 2029-01-15	14,903,643	14,780,542					
USD	5,450,000	Tenet Healthcare Corp. 6.125%, 2028-10-01	6,659,227	6,949,594					
USD	3,385,000	United States Treasury Bond 3.875%, 2043-05-15	4,400,894	4,363,694					
USD	12,460,000	Vistra Corp. 8.000%, 2049-12-31	16,222,401	15,342,855					
			412,488,958	398,329,942					
		<b>International Bonds (6.1%)</b>							
USD	15,170,000	Barclays Bank PLC 5.235%, 2049-12-31	17,070,386	19,963,168					
USD	1,050,000	Barclays Bank PLC 5.359%, 2049-12-31	1,169,053	1,386,138					
USD	340,000	Barclays Bank PLC 5.460%, 2049-12-31	377,603	447,597					
USD	3,090,000	HSBC Bank PLC 1.750%, 2049-12-31	3,425,304	4,088,816					
USD	150,000	Standard Chartered PLC 3.025%, 2049-12-31	163,183	198,585					
USD	13,010,000	Standard Chartered PLC 3.188%, 2049-12-31	14,664,495	17,143,307					
USD	16,600,000	Standard Chartered PLC 5.949%, 2049-12-31	18,735,662	21,952,079					
			55,605,686	65,179,690					
		<b>Total Global Debt - Long</b>	<b>468,094,644</b>	<b>463,509,632</b>					
		<b>Options (0.4%)</b>							
		<b>Total Purchased Options - Refer to Appendix A</b>	<b>8,123,473</b>	<b>4,530,192</b>					
		<b>Transaction Costs</b>	<b>(288,278)</b>	<b>-</b>					
		<b>Total Long Positions</b>	<b>1,271,357,728</b>	<b>1,231,785,441</b>					
		<b>SHORT POSITIONS (-26.5%)</b>							
		<b>Canadian Debt (-4.7%)</b>							
		<b>Government Bonds (-0.2%)</b>							
CAD	(2,946,000)	Canadian Government Bond 1.750%, 2053-12-01				(2,115,228)		(2,174,328)	
		<b>Corporate Bonds (-4.5%)</b>							
CAD	(5,175,000)	Allied Properties Real Estate Investment Trust 3.394%, 2029-08-15				(4,491,101)		(4,418,230)	
USD	(4,725,000)	Bombardier Inc. 7.500%, 2029-02-01				(6,339,887)		(6,187,172)	
USD	(4,050,000)	Canadian Pacific Railway Co. 2.450%, 2031-12-02				(4,736,947)		(4,695,140)	
USD	(4,050,000)	Canadian Pacific Railway Co. 3.000%, 2041-12-02				(4,409,468)		(4,380,657)	
CAD	(5,050,000)	First Capital Real Estate Investment Trust 3.753%, 2027-07-12				(4,522,023)		(4,593,694)	
CAD	(4,305,000)	RioCan Real Estate Investment Trust 4.628%, 2029-05-01				(4,069,023)		(4,044,288)	
CAD	(8,650,000)	Sun Life Financial Inc. 3.050%, 2028-09-19				(8,551,316)		(8,607,343)	
CAD	(10,775,000)	Toronto-Dominion Bank 3.589%, 2028-09-14				(10,582,766)		(10,735,057)	
						(47,702,531)		(47,661,581)	
		<b>Total Canadian Debt - Short</b>				<b>(49,817,759)</b>		<b>(49,835,909)</b>	
		<b>Global Debt (-21.2%)</b>							
		<b>United States Bonds (-18.7%)</b>							
USD	(5,175,000)	ACCO Brands Corp. 4.250%, 2029-03-15				(5,796,012)		(5,759,539)	
USD	(5,575,000)	Ally Financial Inc. 7.100%, 2027-11-15				(7,829,745)		(7,445,443)	
USD	(5,125,000)	Bath & Body Works Inc. 6.625%, 2030-10-01				(6,634,411)		(6,556,190)	
USD	(2,400,000)	Caesars Entertainment Inc. 4.625%, 2029-10-15				(2,838,517)		(2,775,784)	
USD	(5,050,000)	Central Garden & Pet Co. 4.125%, 2030-10-15				(5,754,274)		(5,617,479)	
USD	(5,040,000)	Civitas Resources Inc. 8.750%, 2031-07-01				(6,685,897)		(6,770,908)	
USD	(4,900,000)	Clarivate Science Holdings Corp. 4.875%, 2029-07-01				(5,697,518)		(5,758,535)	
USD	(6,100,000)	CommScope Inc. 4.750%, 2029-09-01				(6,746,969)		(6,372,118)	
USD	(4,800,000)	DaVita Inc. 4.625%, 2030-06-01				(5,618,616)		(5,458,633)	
USD	(5,210,000)	Embeckta Corp. 5.000%, 2030-02-15				(5,864,899)		(5,730,814)	
USD	(4,725,000)	Energizer Holdings Inc. 4.375%, 2029-03-31				(5,466,832)		(5,376,466)	
USD	(5,135,000)	Hilton Grand Vacations Borrower Escrow LLC 5.000%, 2029-06-01				(6,172,715)		(6,036,376)	
USD	(5,200,000)	M&T Bank Corp. 5.053%, 2034-01-27				(6,591,923)		(6,286,069)	

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2023 (unaudited)

CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)	CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)
USD	(5,000,000)	Matador Resources Co. 6.875%, 2028-04-15	(6,670,571)	(6,526,308)	<b>International Bonds (-2.5%)</b>				
USD	(3,450,000)	Medline Borrower LP 5.250%, 2029-10-01	(3,962,986)	(3,965,789)	EUR	(4,800,000)	Banco Santander SA 5.250%, 2049-12-31	(5,987,831)	(6,656,761)
USD	(4,925,000)	MGM Resorts International 4.750%, 2028-10-15	(6,218,997)	(5,923,396)	USD	(3,800,000)	Credit Agricole SA 7.875%, 2049-12-31	(4,910,432)	(4,986,150)
USD	(2,990,000)	Novelis Corp. 4.750%, 2030-01-30	(3,848,200)	(3,520,015)	USD	(5,300,000)	HSBC Holdings PLC 8.000%, 2049-12-31	(6,857,455)	(6,979,901)
USD	(4,575,000)	Olin Corp. 5.625%, 2029-08-01	(5,466,653)	(5,841,340)	EUR	(6,196,000)	Stichting AK Rabobank Certificaten 6.500%, 2049-12-31	(8,046,508)	(8,318,700)
USD	(6,275,000)	Organon & Co. 5.125%, 2031-04-30	(7,242,758)	(6,861,488)			Total Global Debt - Short	(25,802,226)	(26,941,512)
USD	(4,925,000)	Performance Food Group Inc. 4.250%, 2029-08-01	(6,048,794)	(5,809,682)				<b>(228,707,364)</b>	<b>(225,408,975)</b>
USD	(5,075,000)	Permian Resources Operating LLC 5.875%, 2029-07-01	(6,507,784)	(6,332,783)	<b>Options (-0.6%)</b>				
USD	(5,150,000)	Post Holdings Inc. 4.500%, 2031-09-15	(5,903,867)	(5,825,525)			<b>Total Written Options - Refer to Appendix A</b>	<b>(6,135,499)</b>	<b>(6,429,739)</b>
USD	(4,800,000)	Prime Security Services Borrower LLC 6.250%, 2028-01-15	(6,092,782)	(5,960,298)			<b>Transaction Costs</b>	<b>(118,940)</b>	<b>-</b>
USD	(4,925,000)	Rocket Mortgage LLC 3.875%, 2031-03-01	(5,333,626)	(5,290,194)			<b>Total Short Positions</b>	<b>(284,779,562)</b>	<b>(281,674,623)</b>
USD	(5,150,000)	Scientific Games International Inc. 7.250%, 2029-11-15	(7,007,685)	(6,829,345)	<b>Foreign Currency Forward Contracts (0.3%)</b>				
USD	(3,500,000)	Six Flags Entertainment Corp. 7.250%, 2031-05-15	(4,694,893)	(4,515,112)			<b>Total Currency Hedge - Refer to Appendix B</b>	<b>3,600,230</b>	
USD	(5,075,000)	SM Energy Co. 6.500%, 2028-07-15	(6,539,461)	(6,453,480)			<b>TOTAL INVESTMENT PORTFOLIO (89.8%)</b>	<b>986,578,166</b>	<b>953,711,048</b>
USD	(5,125,000)	Starwood Property Trust Inc. 4.375%, 2027-01-15	(6,106,333)	(5,847,004)			Other Assets Net of Liabilities (10.2%)		108,255,033
USD	(4,725,000)	Taylor Morrison Communities Inc. 5.125%, 2030-08-01	(5,880,266)	(5,779,562)			<b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (100.0%)</b>		<b>1,061,966,081</b>
USD	(5,200,000)	TransDigm Inc. 4.625%, 2029-01-15	(6,239,531)	(6,128,967)	<i>*CCY denotes local currency of debt security</i>				
USD	(2,980,000)	Tri Pointe Homes Inc. 5.700%, 2028-06-15	(3,650,048)	(3,812,738)					
USD	(7,475,000)	Uber Technologies Inc. 4.500%, 2029-08-15	(9,283,775)	(9,123,166)					
USD	(5,085,000)	Wolverine World Wide Inc. 4.000%, 2029-08-15	(5,638,875)	(5,364,577)					
USD	(5,175,000)	Wynn Resorts Finance LLC 7.125%, 2031-02-15	(6,868,925)	(6,812,340)					
			(202,905,138)	(198,467,463)					

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## APPENDIX A

### OPTIONS (-0.2%)

Issuer	Option Type	Number of Options	Strike \$	Expiry	Average Cost \$	Fair Value \$
S&P 500 E-Mini	Call Option	1,344	\$4,650	September, 2023	1,422,052	2,400,903
SPDR S&P Homebuilders ETF	Call Option	2,242	\$90	September, 2023	27,103	91,128
US Bond Futures	Call Option	673	\$135	July, 2023	380,017	27,830
US Bond Futures	Call Option	890	\$145	August, 2023	576,759	36,803
USD Call CAD Put OTC	Call/Put Option	24,000,000	\$1	October, 2023	308,028	18,658
					<u>2,713,959</u>	<u>2,575,322</u>
iShares iBoxx High Yield Corp. Bond	Put Option	13,489	\$72	July, 2023	1,722,920	62,473
iShares iBoxx High Yield Corp. Bond	Put Option	8,962	\$73	July, 2023	345,585	71,154
S&P 500 E-Mini	Put Option	1,344	\$4,000	September, 2023	2,698,948	1,556,142
S&P E-Mini 1st Week	Put Option	445	\$4,325	July, 2023	130,076	26,498
SPDR S&P Homebuilders ETF	Put Option	4,485	\$65	September, 2023	330,452	170,444
SPDR S&P Homebuilders ETF	Put Option	4,479	\$70	July, 2023	181,533	68,159
					<u>5,409,514</u>	<u>1,954,870</u>
<b>Total Purchased Options</b>					<b>8,123,473</b>	<b>4,530,192</b>
S&P 500 E-Mini	Written Call Option	(1,344)	\$4,600	September, 2023	(2,238,188)	(3,668,049)
SPDR S&P Homebuilders ETF	Written Call Option	(2,242)	\$80	September, 2023	(274,110)	(1,223,775)
US Bond Futures	Written Call Option	(673)	\$145	July, 2023	(71,043)	(891)
US Bond Futures	Written Call Option	(890)	\$155	August, 2023	(149,630)	(18,401)
					<u>(2,732,971)</u>	<u>(4,911,116)</u>
iShares iBoxx High Yield Corp. Bond	Written Put Option	(8,993)	\$66	July, 2023	(320,766)	(29,781)
iShares iBoxx High Yield Corp. Bond	Written Put Option	(8,976)	\$68	July, 2023	(332,917)	(41,571)
iShares iBoxx High Yield Corp. Bond	Written Put Option	(13,443)	\$69	July, 2023	(147,248)	(49,670)
S&P 500 E-Mini	Written Put Option	(1,344)	\$3,800	September, 2023	(1,547,204)	(911,455)
SPDR S&P Homebuilders ETF	Written Put Option	(4,485)	\$50	September, 2023	(140,856)	(47,885)
SPDR S&P Homebuilders ETF	Written Put Option	(4,479)	\$65	July, 2023	(67,890)	(28,756)
US Bond Futures	Written Put Option	(890)	\$119	August, 2023	(507,146)	(312,825)
US Bond Futures	Written Put Option	(668)	\$122	July, 2023	(338,501)	(96,680)
					<u>(3,402,528)</u>	<u>(1,518,623)</u>
<b>Total Written Options</b>					<b>(6,135,499)</b>	<b>(6,429,739)</b>

## APPENDIX B

### FOREIGN EXCHANGE FORWARD CONTRACTS (0.3%)

Purchased Currency	Sold Currency	Forward Rate	Maturity Date	Fair Value (\$)	Counterparty	Credit Rating
CAD \$591,615,648	USD \$444,670,000	1.33046	2023-08-10	3,576,184	Canadian Imperial Bank of Commerce	A-1
CAD \$1,719,337	EUR \$1,152,000	1.49248	2023-08-03	53,901	Canadian Imperial Bank of Commerce	A-1
CAD \$3,995,280	USD \$3,000,000	1.33176	2023-08-10	28,005	Canadian Imperial Bank of Commerce	A-1
<b>Unrealized gain on foreign exchange forward contracts at fair value</b>				<b>3,658,090</b>		
USD \$25,000,000	CAD \$33,117,500	0.75489	2023-08-10	(57,860)	Canadian Imperial Bank of Commerce	A-1
<b>Unrealized loss on foreign exchange forward contracts at fair value</b>				<b>(57,860)</b>		
<b>Net unrealized gain (loss) on foreign exchange forward contracts at fair value</b>				<b>3,600,230</b>		

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## FUND SPECIFIC NOTES

As at June 30, 2023 (unaudited)

### 1. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The following table illustrates the classifications of the Fund's financial instruments within the fair value hierarchy as at June 30, 2023 and December 31, 2022.

ASSETS (LIABILITIES) AT FAIR VALUE AS AT JUNE 30, 2023				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Equities - Long	36,838,232	-	-	36,838,232
Bonds - Long	-	1,125,870,320	64,546,697	1,190,417,017
Options - Long	4,530,192	-	-	4,530,192
Forward contracts - Long	-	3,658,090	-	3,658,090
Bonds - Short	-	(275,244,884)	-	(275,244,884)
Options - Short	(6,429,739)	-	-	(6,429,739)
Forward contracts - Short	-	(57,860)	-	(57,860)
<b>Total</b>	<b>34,938,685</b>	<b>854,225,666</b>	<b>64,546,697</b>	<b>953,711,048</b>

ASSETS (LIABILITIES) AT FAIR VALUE AS AT DECEMBER 31, 2022				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Equities - Long	25,007,558	-	-	25,007,558
Bonds - Long	-	1,117,508,537	38,412,690	1,155,921,227
Options - Long	2,208,677	-	-	2,208,677
Forward contracts - Long	-	121,075	-	121,075
Bonds - Short	-	(237,955,947)	-	(237,955,947)
Options - Short	(464,094)	-	-	(464,094)
Forward contracts - Short	-	(4,471,497)	-	(4,471,497)
<b>Total</b>	<b>26,752,141</b>	<b>875,202,168</b>	<b>38,412,690</b>	<b>940,366,999</b>

### 2. RECONCILIATION OF LEVEL 3 FAIR VALUE MEASUREMENTS

The following table reconciles the Fund's Level 3 fair value measurements for the period ended June 30, 2023 and December 31, 2022.

June 30, 2023	Debt Instruments - Long	Debt Instruments - Short	Total
	\$	\$	\$
<b>Balance at Beginning of Period</b>	38,412,690	-	38,412,690
Investment purchases during the period	29,306,320	-	29,306,320
Proceeds from sales during the period	(2,200,000)	-	(2,200,000)
Transfers in during the period	-	-	-
Transfers out during the period	-	-	-
Net realized gain (loss) on sale of investments	-	-	-
Change in unrealized appreciation (depreciation) in value of investments	(972,313)	-	(972,313)
<b>Balance at End of Period</b>	<b>64,546,697</b>	<b>-</b>	<b>64,546,697</b>
<b>Total change in unrealized appreciation (depreciation) for assets held as at June 30, 2023</b>			<b>(972,313)</b>

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## FUND SPECIFIC NOTES (CONTINUED)

December 31, 2022	Debt Instruments - Long \$	Debt Instruments - Short \$	Total \$
<b>Balance at Beginning of Year</b>	20,040,842	-	20,040,842
Investment purchases during the year	19,849,748	-	19,849,748
Proceeds from sales during the year	-	-	-
Transfers in during the year	-	-	-
Transfers out during the year	-	-	-
Net realized gain (loss) on sale of investments	-	-	-
Change in unrealized appreciation (depreciation) in value of investments	(1,477,900)	-	(1,477,900)
<b>Balance at End of Year</b>	<b>38,412,690</b>	-	<b>38,412,690</b>
<b>Total change in unrealized appreciation (depreciation) for assets held as at December 31, 2021</b>			<b>(1,321,823)</b>

During the period ended June 30, 2023 and year ended December 31, 2022, certain securities held long were classified as Level 3. The Fund's long Level 3 securities consist of debt instruments which were measured at the transaction price as determined at the time of purchase. If there was a 5% increase or decrease in the price of level 3 securities, with all other variables held constant, net assets attributable to holders of redeemable units would have increased or decreased, respectively, by approximately \$3,227,334 as at June 30, 2023 (December 31, 2022 - \$1,920,635).

June 30, 2023							
Security Name	Fair Value	Valuation Technique	Unobservable Inputs	Reasonable Shift (+)	Reasonable Shift (-)	Change in Valuation (+)	Change in Valuation (-)
Bruce Trail Funding Corporation 16.340%, 2028-08-31	11,549,903	Private valuation	Broker quote	5%	5%	\$577,495	\$(577,495)
Clarity Trust 10.923%, 2025-04-15	1,125,000	Private valuation	Broker quote	5%	5%	\$56,250	\$(56,250)
Fusion Trust 10.923%, 2025-04-15	1,125,000	Private valuation	Broker quote	5%	5%	\$56,250	\$(56,250)
Manitoulin USD Ltd. 13.290%, 2027-11-10	19,007,040	Private valuation	Broker quote	5%	5%	\$950,352	\$(950,352)
Real Estate Asset Liquidity Trust 3.707%, 2031-06-12	5,711,198	Private valuation	Broker quote	5%	5%	\$285,560	\$(285,560)
Real Estate Asset Liquidity Trust 3.707%, 2031-07-12	1,829,485	Private valuation	Broker quote	5%	5%	\$91,474	\$(91,474)
Real Estate Asset Liquidity Trust 3.707%, 2031-07-12	3,435,888	Private valuation	Broker quote	5%	5%	\$171,794	\$(171,794)
Real Estate Asset Liquidity Trust 3.707%, 2031-08-12	2,408,678	Private valuation	Broker quote	5%	5%	\$120,434	\$(120,434)
Real Estate Asset Liquidity Trust 3.707%, 2031-11-12	3,479,948	Private valuation	Broker quote	5%	5%	\$173,997	\$(173,997)
St Lawrence Srt Usd Corp. 0.000%, 2033-05-25	14,874,557	Private valuation	Broker quote	5%	5%	\$743,728	\$(743,728)

December 31, 2022							
Security Name	Fair Value	Valuation Technique	Unobservable Inputs	Reasonable Shift (+)	Reasonable Shift (-)	Change in Valuation (+)	Change in Valuation (-)
Clarity Trust Series D Medium Term Note 6.42%, 2023-04-17	1,100,000	Private valuation	Broker quote	5%	5%	\$55,000	\$(55,000)
Fusion Trust Series D Medium Term Note 6.42%, 2023-04-17	1,100,000	Private valuation	Broker quote	5%	5%	\$55,000	\$(55,000)
Manitoulin USD Ltd.	19,519,207	Private valuation	Broker quote	5%	5%	\$975,960	\$(975,960)
Real Estate Asset Liquidity Trust	5,693,471	Private valuation	Broker quote	5%	5%	\$284,674	\$(284,674)
Real Estate Asset Liquidity Trust	1,844,386	Private valuation	Broker quote	5%	5%	\$92,219	\$(92,219)
Real Estate Asset Liquidity Trust	3,397,783	Private valuation	Broker quote	5%	5%	\$169,889	\$(169,889)
Real Estate Asset Liquidity Trust	2,367,232	Private valuation	Broker quote	5%	5%	\$118,362	\$(118,362)
Real Estate Asset Liquidity Trust	3,390,611	Private valuation	Broker quote	5%	5%	\$169,531	\$(169,531)

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 3. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The following table shows the net impact of the Fund's statement of financial position if all set-off rights were exercised.

Financial Assets and Liabilities	Amounts Eligible for Offset			
	Gross Assets / (Liabilities) \$	Financial Instruments \$	Collateral received/paid \$	Net \$
<b>June 30, 2023</b>				
Derivative assets - Foreign exchange forward contracts	3,658,090	(57,860)	-	3,600,230
Derivative liabilities - Foreign exchange forward contracts	(57,860)	57,860	-	-
<b>December 31, 2022</b>				
Derivative assets - Foreign exchange forward contracts	121,075	(121,075)	-	-
Derivative liabilities - Foreign exchange forward contracts	(4,471,497)	121,075	-	(4,350,422)

### 4. OTHER PRICE RISK

Using Beta as a measure of the relationship of the Fund's performance against the blended index consisting of 75% ICE BofAML Global High Yield Index (Hedged to CAD) and 25% BofAML Global Corporate Index (Hedged to CAD) (the Index), if the Index were to increase or decrease by 10%, net assets would have increased or decreased by approximately \$33,337,671 (December 31, 2022 - \$56,406,788). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

The COVID-19 (coronavirus disease) pandemic has caused volatility in global financial markets as well as significant disruptions to global business activity. The continued impact of unanticipated market disruptions, including COVID-19 is uncertain and may exacerbate pre-existing political, social or economic risk, and may disproportionately affect certain issuers, industries or types of securities. Such unanticipated market and economic disruptions, including COVID-19, may be short-term or may last for an extended period of time, and could have effects that cannot necessarily be presently foreseen.

### 5. CURRENCY RISK

The currency risk reflects the net impact after taking into consideration the forward contracts. Foreign currencies to which the Fund had exposure as at June 30, 2023 and December 31, 2022 were as follows:

FINANCIAL INSTRUMENTS					
June 30, 2023 Currency	Monetary \$	Non-Monetary \$	Forward Currency Contracts \$	Total \$	Percentage of Net Assets %
United States Dollar	553,674,190	16,780,073	(559,298,078)	11,156,185	1.1%
European Euro	1,150,739	-	(1,663,103)	(512,364)	0.0%
<b>Net Exposure</b>	<b>554,824,929</b>	<b>16,780,073</b>	<b>(560,961,181)</b>	<b>10,643,821</b>	<b>1.1%</b>

FINANCIAL INSTRUMENTS					
December 31, 2022 Currency	Monetary \$	Non-Monetary \$	Forward Currency Contracts \$	Total \$	Percentage of Net Assets %
United States Dollar	580,042,946	7,279,513	(582,096,005)	5,226,454	0.5%
European Euro	2,164,640	-	(1,665,873)	498,767	0.0%
<b>Net Exposure</b>	<b>582,207,586</b>	<b>7,279,513</b>	<b>(583,761,878)</b>	<b>5,725,221</b>	<b>0.5%</b>

If the Canadian dollar had strengthened or weakened by 5% in relation to all other currencies held in the investment portfolio, net assets would have decreased or increased by approximately \$532,191 (December 31, 2022 - \$286,261). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.



# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 6. INTEREST RATE RISK

If the yield curve had shifted in parallel by 1%, with all other variables held constant, net assets will increase or decrease by \$25,319,836 (December 31, 2022 - \$28,462,474). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

As at June 30, 2023 and December 31, 2022, the Fund's exposure to debt instruments by maturity were as follows:

Debt Instruments by Maturity Date	June 30, 2023 (\$)		
	Long Positions	Short Positions	Total
Less than 1 year	7,043,738	-	7,043,738
1-3 years	177,359,716	-	177,359,716
3-5 years	356,435,720	(34,185,485)	322,250,235
Greater than 5 years	649,577,843	(241,059,399)	408,518,444
<b>Total</b>	<b>1,190,417,017</b>	<b>(275,244,884)</b>	<b>915,172,133</b>

Debt Instruments by Maturity Date	December 31, 2022 (\$)		
	Long Positions	Short Positions	Total
Less than 1 year	2,200,000	-	2,200,000
1-3 years	90,843,495	-	90,843,495
3-5 years	395,857,644	(51,118,060)	344,739,584
Greater than 5 years	667,020,088	(186,837,887)	480,182,201
<b>Total</b>	<b>1,155,921,227</b>	<b>(237,955,947)</b>	<b>917,965,280</b>

### 7. CREDIT RISK

The following table shows debt as a percentage of net assets attributable to holders of redeemable units held under each credit rating. All counterparties to derivative contracts had a credit rating of A- or higher. All cash is held with a financial institution with a minimum credit rating of A+.

June 30, 2023				December 31, 2022			
Bond Ratings	Net	Long	Short	Bond Ratings	Net	Long	Short
AAA	0.2%	0.4%	-0.2%	AAA	0.0%	0.0%	0.0%
A	-0.8%	0.0%	-0.8%	A	0.0%	0.0%	0.0%
A-	-1.0%	0.0%	-1.0%	A-	-0.4%	0.9%	-1.3%
BBB+	0.8%	2.2%	-1.4%	BBB+	0.2%	2.3%	-2.1%
BBB	6.4%	6.8%	-0.4%	BBB	8.2%	9.0%	-0.8%
BBB-	15.7%	18.4%	-2.7%	BBB-	11.8%	14.6%	-2.8%
BB+	14.7%	15.9%	-1.2%	BB+	15.1%	18.5%	-3.4%
BB	20.1%	22.6%	-2.5%	BB	19.7%	22.3%	-2.6%
BB-	5.7%	11.3%	-5.6%	BB-	11.0%	13.8%	-2.8%
B+	13.9%	17.3%	-3.4%	B+	7.1%	8.5%	-1.4%
B	1.5%	5.9%	-4.4%	B	9.4%	12.6%	-3.2%
B-	1.2%	2.7%	-1.5%	B-	1.2%	2.8%	-1.6%
CCC+	0.0%	0.0%	0.0%	CCC+	0.9%	1.5%	-0.6%
CCC	0.0%	0.0%	0.0%	CCC	0.4%	0.4%	0.0%
NR	7.8%	8.6%	-0.8%	NR	6.6%	7.7%	-1.1%

The above credit ratings are obtained and disclosed from the rating services in the following hierarchical order: 1) Standard & Poor's; 2) Moody's; 3) Dominion Bond Rating Service, using first available.

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 8. CONCENTRATION RISK

The table below summarizes the Fund's concentration risk as a percentage of net assets attributable to holders of redeemable units as at June 30, 2023 and December 31, 2022.

Jurisdiction	% of Net Assets	
	June 30, 2023	December 31, 2022
<b>LONG POSITIONS</b>	<b>116.3%</b>	<b>117.5%</b>
<b>Canadian Equities</b>	<b>3.5%</b>	<b>2.5%</b>
Financials	1.8%	1.8%
Energy	1.6%	0.7%
Real Estate	0.1%	0.0%
<b>Canadian Debt</b>	<b>68.5%</b>	<b>66.5%</b>
Corporate Bonds	65.5%	64.8%
Asset-Backed Securities	3.0%	1.7%
<b>Global Debt</b>	<b>43.6%</b>	<b>48.3%</b>
United States Bonds	37.5%	36.2%
International Bonds	6.1%	12.1%
<b>Derivatives</b>	<b>0.7%</b>	<b>0.2%</b>
<b>SHORT POSITIONS</b>	<b>-26.5%</b>	<b>-24.1%</b>
<b>Canadian Debt</b>	<b>-4.7%</b>	<b>-4.5%</b>
Corporate Bonds	-4.5%	-4.5%
Government Bonds	-0.2%	0.0%
<b>Global Debt</b>	<b>-21.2%</b>	<b>-19.2%</b>
United States Bonds	-18.7%	-14.6%
International Bonds	-2.5%	-4.6%
<b>Derivatives</b>	<b>-0.6%</b>	<b>-0.4%</b>

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 9. LIQUIDITY RISK

The table below categorizes the Fund's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Amounts due to holders of redeemable units are disclosed as net assets attributable to holders of redeemable units on the statements of financial position and are due on demand.

June 30, 2023 Financial Liabilities	On Demand \$	< 3 months \$	> 3 months \$	Total \$
Short positions	275,244,884	-	-	275,244,884
Distributions payable	264	-	-	264
Redemptions payable	433,772	-	-	433,772
Accrued liabilities and other payables	-	7,259,879	-	7,259,879
Payable for investments purchased	31,730,590	-	-	31,730,590
Derivative liabilities	6,487,599	-	-	6,487,599
Cash overdraft	31,961,413	-	-	31,961,413

December 31, 2022 Financial Liabilities	On Demand \$	< 3 months \$	> 3 months \$	Total \$
Short positions	237,955,947	-	-	237,955,947
Distributions payable	76	-	-	76
Redemptions payable	296,668	-	-	296,668
Accrued liabilities and other payables	-	4,231,105	-	4,231,105
Payable for investments purchased	5,873	-	-	5,873
Derivative liabilities	4,935,591	-	-	4,935,591
Cash overdraft	52,123,450	-	-	52,123,450

### 10. FUND UNIT TRANSACTIONS

For the six month periods ended June 30 (unaudited)

	2023				2022			
	Class A	Class F	Class I	Class ETF	Class A	Class F	Class I	Class ETF
Units issued and outstanding, beginning of period	6,032,754	63,628,656	3,071,795	32,260,000	5,676,106	56,845,775	3,103,416	33,210,000
Units issued	607,827	12,642,354	-	3,920,000	766,789	16,229,441	275,426	4,230,000
Units reinvested	115,946	996,236	61,232	-	86,815	712,321	62,963	-
Units redeemed	(598,634)	(10,671,084)	(1,000,557)	(890,000)	(668,956)	(8,921,435)	(448,766)	(1,730,000)
<b>Units issued and outstanding, end of period</b>	<b>6,157,893</b>	<b>66,596,162</b>	<b>2,132,470</b>	<b>35,290,000</b>	<b>5,860,754</b>	<b>64,866,102</b>	<b>2,993,039</b>	<b>35,710,000</b>
<b>Weighted average number of units held during the period</b>	<b>6,244,633</b>	<b>66,039,594</b>	<b>2,494,655</b>	<b>34,349,834</b>	<b>5,890,481</b>	<b>63,140,320</b>	<b>3,219,694</b>	<b>35,139,392</b>

### 11. COMMISSIONS

For the six month periods ended June 30 (unaudited) (in \$000)

	2023	2022
Brokerage commissions	2,390	3,910
Soft Dollar commissions	173	182

### 12. TAX LOSS CARRY FORWARDS

As at December 31 (in \$000)

	2022
Net capital losses carry forward	19,642
Non-capital losses carry forward	-

### 13. LEVERAGE

During the six month period ended June 30, 2023, the Fund's aggregate exposure reached a low of 43.46% (year ended December 31, 2022 - 29.88%) and a high of 184.77% (year ended December 31, 2022 - 179.42%) of the Fund's NAV. As at June 30, 2023, the Fund's aggregate exposure was 53.39% (December 31, 2022 - 54.14%) of the Fund's NAV. The primary source of leverage was short positions in equity and fixed income securities.

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2023 (unaudited)

### 1. GENERAL INFORMATION

Picton Mahoney Fortified Income Alternative Fund (the "Fund") is an open-ended mutual fund trust established under the laws of the Province of Ontario pursuant to a trust agreement dated September 19, 2018 and as amended and restated as of June 26, 2019 (the "Trust Declaration"). The Fund commenced operations on July 5, 2019. Picton Mahoney Asset Management acts as manager (the "Manager"), portfolio advisor (the "Portfolio Advisor"), and trustee (the "Trustee") for the Fund pursuant to the Trust Declaration. The Manager is responsible for the day-to-day business of the Fund, including the management of the Fund's investment portfolio. The address of the Fund's registered office is 33 Yonge Street, Suite 830, Toronto, Ontario, M5E 1G4. The financial statements are presented in Canadian dollars (CAD). These financial statements were authorized for issue by the Manager on August 29, 2023.

On July 5, 2019, 5,001 Class A units, 5,000 Class F units, and 5,000 Class I units of the Fund were issued to the Manager of the Fund, for cash consideration of CAD \$10.00 per unit. These units are not redeemable until an additional \$500,000 has been invested by other investors in the aggregate in the Fund.

The Fund may issue an unlimited number of classes or series and may issue an unlimited number of units of each class or series. The Fund has created Class A, Class F, Class I, and Class ETF units.

Class A units are available to all investors. Class F units are available to investors who are enrolled in a dealer sponsored fee for service or wrap program and who are subject to an annual asset based fee rather than commissions on each transaction or, at the discretion of the Manager, any other investor for whom the Manager does not incur distribution costs. Class I units are available to institutional investors or to other investors on a case-by-case basis, all at the discretion of the Manager. Class ETF units are listed and issued and sold on a continuous basis and will be available to investors that purchase such units on the TSX through a registered broker or dealer in the province or territory where the investor resides.

As at June 30, 2023, the Fund currently has 4 Classes of Units: Class A, Class F, and Class I and Class ETF. As at June 30, 2023, the Manager holds 6 units of Class A and 820 units of Class I.

The investment objective of the Fund is to maximize total return to unitholders through income and capital appreciation by investing primarily in global fixed income securities while mitigating capital loss through shorting and other hedging strategies. The Fund invests its assets primarily in North America but can invest up to 100% of its assets globally in long and short positions in high yield bonds, investment grade corporate bonds, government bonds, emerging market bonds, loans, convertible bonds, convertible debentures, preferred shares, options, futures, forward contracts, swaps, swaptions, short-term debt instruments, distressed debt, collateral loan obligations, mortgage-backed securities, cash and cash equivalents, equities, ETFs and other mutual funds. The Fund may engage in borrowing for investment purposes.

The Fund is considered an "alternative fund" meaning it has received exemptions from National Instrument 81-102 - Investment Funds ("NI 81-102") to permit it to use strategies generally prohibited by conventional mutual funds, such as the ability to borrow, up to 50% of the Fund's net asset value, cash to use for investment purposes; sell, up to 50% of the Fund's net asset value, securities short (the combined level of cash borrowing and short selling is limited to 50% in aggregate); and leverage up to 300% of the Fund's net asset value.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Fund.

#### (a) Basis of Preparation

These unaudited interim financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34"), as published by the International Accounting Standards Board. The accounting policies and methods of computation followed in these unaudited interim financial statements are consistent with the most recent annual financial statements for the year ended December 31, 2022. These unaudited interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

#### (b) Classification

##### (i) Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss.

##### (ii) Liabilities

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are held for trading and are consequently classified as financial liabilities at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss. As such, the Fund classifies all of its investment portfolio as financial assets or liabilities as fair value through profit or loss. The Fund's policy requires the Manager to evaluate the information about these financial assets and liabilities on a fair value basis together with other related financial information.

#### (c) Fair Value Measurements

The Fund utilizes a three tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 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 (unobservable inputs).

Fair values are classified as Level 1 when the related security or derivative is actually traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2023 (unaudited)

Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

### (d) Valuation of Investments and Derivatives

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, which include equities, bonds, options, and warrants are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's 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 the specific facts and circumstances.

Securities not listed on any recognized public securities exchange are valued in the same manner based on available public quotations from recognized dealers in such securities. If market quotations are not readily available, securities will be valued at fair value as determined in good faith by or under the supervision of the Manager. The cost of investments represents the amount paid for each security and is determined on an average cost basis.

The fair value of financial assets and liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Investment fund units held as investments are valued at their respective Net Asset Values on the relevant valuation dates as reported by the investment fund manager, as these values are the most readily and regularly available.

Warrants, options, and futures that are not listed on any recognized public securities exchange are valued using the Black-Scholes model and based on observable market inputs.

Foreign exchange forward contracts are valued on each valuation day based on the difference between the value of the contract on the date the contract originated and the value of the contract on the valuation day.

The difference between fair value and the average cost is shown as the change in unrealized appreciation (depreciation) on investments, options and foreign exchange forward contracts.

Other financial assets (held for collection) and other financial liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, where appropriate at the contract's effective interest rate. Due to their

short-term nature, the fair value of other financial assets and financial liabilities carried at amortized cost approximates their carrying amount.

### *Receivable for investments sold and payable for investments purchased*

Receivable for investments sold and payable for investments purchased represent trades that have been contracted for but not yet settled or delivered on the statements of financial position dates. These amounts are recognized initially at fair value and subsequently measured at amortized cost. At each reporting date, the Funds measure the loss allowance on receivable for investments sold and payable for investments purchased at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Funds measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganization, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by the Manager as any contractual payment which is more than 30 days past due or a significant deterioration in a counterparty credit quality. Any contractual payment which is more than 90 days past due is considered credit impaired.

### (e) Cash

Cash is comprised of cash on demand deposit with a Canadian financial institution and is stated at fair value.

### (f) Investment Transactions and Income Recognition

Investment transactions are accounted for as of the trade date. Expenses are recorded on an accrual basis. Dividend income is recorded on the ex-dividend date. The interest for distribution purposes shown on the statement of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized on a straight line basis. Realized gains and losses on sale of investments and unrealized appreciation and depreciation in investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds. Income, common expenses and gains (losses) are allocated to each Class of the Fund based on the Class' prorated share of total Net Asset Value. Interest and borrowing expense and dividend expense on short sales are included within net gains (losses) on investments and derivatives.

Distributions received from investment fund holdings are recognized by the Fund in the same form in which they were received from the underlying funds and are recognized on the distribution date.

### (g) Valuation of Fund Units

The Fund's net asset value is calculated at the close of regular trading, normally 4:00pm (Eastern Time), on a day the Toronto Stock Exchange ("TSX") is open (a "Valuation Day"). The net asset value of the Fund will be calculated in Canadian dollars and the units of the Fund are denominated in Canadian dollars.

The Fund's units are divided into the Class A, Class F, Class I, and Class ETF units. Each class is divided into units of equal value. When you invest in the Fund, you are purchasing units of a specific class of the Fund.

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2023 (unaudited)

A separate net asset value per unit is calculated for each class of units (the "Unit Price"). The Unit Price is the price used for all purchases, switches, reclassifications and redemptions of units of that class (including purchases made on the reinvestment of distributions). The price at which units are issued or redeemed is based on the next applicable Unit Price determined after the receipt of the purchase or redemption order.

The Unit Price of each class of the Fund is calculated by taking the fair value of all the investments and other assets allocated to the class and subtracting the liabilities allocated to that class. This gives us the net asset value for the class. The Unit Price for the class is obtained by dividing the net asset value for the class by the total number of units of the class that investors in a Fund are holding.

Although the purchases and redemptions of units are recorded on a class basis, the assets attributable to all of the class of a Fund are pooled to create one fund for investment purposes.

Each class pays its proportionate share of fund costs in addition to its management fee and performance fee. The difference in fund costs, management fees and performance fees between each class means that each class has a different Unit Price.

Any purchase, switch, reclassification or redemption instruction received after 4:00pm (Eastern Time) on Valuation Day will be processed on the next Valuation Day.

ETF units of the Fund are available for purchase or sale on the TSX through a registered broker or dealer. The cut-off time for ETF units of the Fund is 2:00pm (Eastern Time) on a trading day.

### (h) Foreign Currency Translation

The Fund's functional and presentation currency is Canadian dollars. The fair value of foreign investments and other assets and liabilities are translated into Canadian dollars at the exchange rates prevailing at the close of each valuation day. Purchases and sales of foreign securities and the related income and expenses are translated into Canadian dollars at rates of exchange prevailing on the respective dates of such transactions.

Foreign exchange gains and losses relating to cash and other assets and liabilities are presented as 'Foreign currency gain (loss) on cash and other assets and liabilities' and those relating to other financial assets and liabilities are presented within 'Net realized gain (loss) on investments, options, and foreign exchange forward contracts and 'Change in unrealized appreciation (depreciation) on investments, options, and foreign exchange forward contracts.

### (i) 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 of each Class of the Fund is determined by dividing the net increase in net assets attributable to holders of redeemable units from each Class of Units by the weighted average number of Units outstanding of that Class during the year.

### (j) Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchange, and transfer taxes and duties. Such costs are expensed and included in "Transaction costs" in the Statement of Comprehensive Income.

### (k) Securities Lending Transactions

The Fund may enter into securities lending transactions. These transactions involve the temporary exchange of securities as collateral with a commitment to deliver the same securities on a future date. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on securities held as collateral. Income earned from these transactions is recognized on an accrual basis and included in the Statements of Comprehensive Income.

The Fund has entered into a securities lending program with their custodian, RBC Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral will generally be comprised of cash and obligations of, or guaranteed by, the Government of Canada or a province thereof, or a permitted supranational agency as defined in National Instrument 81-102. Securities lending income reported in the Statements of Comprehensive Income is net of a securities lending charge which the Fund's custodian, RBC Investor Services Trust, is entitled to receive.

### (l) Leverage

Leverage occurs when the Fund borrows money or securities, or uses derivatives, to generate investment exposure that would otherwise not be possible.

The Fund's aggregate exposure to its sources of leverage is calculated as the sum of the following: (i) the market value of short holdings; (ii) the amount of cash borrowed for investment purposes; and (iii) the notional value of the Fund's derivatives positions, excluding any derivatives used for hedging purposes. The Fund's exposure to leverage must not exceed 300% of the Fund's NAV.

The Fund has received exemptive relief from Canadian securities regulatory authorities from certain investment restrictions set out in NI 81-102 that would restrict the ability of the Fund to leverage their assets through borrowing, short sales and/or derivatives. Investment decisions may be made for the assets of the Fund that exceed the net asset value of the Fund. As a result, if these investment decisions are incorrect, the resulting losses will be more than if investments were made solely in an unleveraged long portfolio as is the case in most conventional equity mutual funds. In addition, leveraged investment strategies can also be expected to increase a Fund's turnover, transaction and market impact costs, interest and other costs and expenses.

The Fund has also obtained exemptive relief such that the Fund is permitted to engage in short selling transactions and cash borrowing up to a combined maximum of 100% of its net asset value, which is in excess of the short sale and cash borrowing limits provided for both conventional mutual funds and alternative mutual funds in NI 81-102.

### (m) Structured Entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Picton Mahoney has determined that all of the underlying funds in which the Fund invests are unconsolidated structured entities. In making this determination, Picton Mahoney evaluated the fact that decision making about the underlying funds' activities is not governed by voting or similar rights held by the Fund and other investors in any underlying funds.

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## NOTES TO THE FINANCIAL STATEMENTS

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The Fund may invest in underlying funds whose investment objectives range from achieving short- to long-term income and capital growth potential. Underlying funds may use leverage in a manner consistent with their respective investment objectives. Underlying funds finance their operations by issuing redeemable units which are puttable at the holder's option and entitle the holder to a proportionate stake in the respective fund's net assets. The Fund's interests in underlying funds as at June 30, 2023 and December 31, 2022, held in the form of redeemable units, are included at their fair value in the Statement of Financial Position, which represent the Fund's maximum exposure in these underlying funds. The Fund does not provide and has not committed to provide any additional significant financial or other support to the underlying funds. The change in fair value of each of the underlying funds during the periods is included in 'Change in unrealized appreciation (depreciation) of investments, options, and foreign exchange forward contracts' in the Statement of Comprehensive Income.

### (n) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

These financial statements, include estimates and assumptions by management that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the period. Actual results could differ from these estimates. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements.

#### *Fair value measurement of derivatives and securities not quoted in an active market*

The Fund holds financial instruments that are not quoted in active markets, including derivatives. Fair values of such instruments are determined using recognized valuation techniques and may be determined using reputable pricing sources or indicative prices from market makers.

Where no market data is available, the Fund may value positions using its own models, which are based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by the Manager, independent of the party that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

### 4. FINANCIAL INSTRUMENTS RISKS

The Fund is exposed to various financial risks, including market risk (which includes currency risk, interest rate risk and price risk), credit risk and liquidity risk. The investment team reviews and rebalances the portfolio on a regular and ongoing basis to maintain the risk reward targets.

Portfolios within each strategy are reviewed relative to each other and to their benchmark. Active industry and security allocations are analyzed. All investments may result in a risk of loss of capital.

Please refer to the Fund Specific Notes for details of the Fund's financial instruments risks.

#### **Price risk:**

The Fund trades in financial instruments, taking positions in traded and over-the-counter instruments which may include derivatives. As of June 30, 2023 and December 31, 2022, the Fund held or had exposure to long and short equity positions in publicly traded companies whose securities are actively traded on a recognized public exchange. Equities are susceptible to price risk arising from uncertainties about future prices of those instruments (other than those arising from interest rate risk or currency risk).

Short sales entail certain risks, including the risk that a short sale of a security may expose a Fund to losses if the value of the security increases. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Fund of buying those securities to cover the short position. In addition, a short sale by a Fund requires the Fund to borrow securities in order that the short sale may be transacted. There is no assurance that the lender of the securities will not require the security to be paid back by a Fund before the Fund wants to do so, possibly requiring the Fund to borrow the security elsewhere or purchase the security on the market at an unattractive price. Moreover, the borrowing of securities entails the payment of a borrowing fee. The borrowing fee may increase during the borrowing period, adding to the expense of the short sale strategy. There is also no guarantee that the securities sold short can be repurchased by a Fund due to supply and demand constraints in the equity markets. Finally, in order to maintain the appropriate ratios between the long portfolio and the short portfolio of a Fund, the Manager may be required to buy or sell short securities at unattractive prices. The maximum risk resulting for financial instruments held long is determined by the fair value of the instrument.

#### **Currency risk:**

Currency risk is the risk that the cash and securities held by the Fund as well as due to and due from broker balances may be valued in or have exposure to currencies other than the Canadian dollar which is the functional currency of the Fund. The prices of the foreign securities are denominated in foreign currencies which are converted to the Fund's functional currency for determining fair value and, accordingly, each Class Net Asset Value will be affected by fluctuations in the value of such foreign currencies relative to the Canadian dollar. The Fund may enter into forward currency contracts to manage currency risk.

#### **Interest rate risk:**

Interest rate risk arises when a fund invests in interest-bearing financial instruments and from the possibility that changes in the prevailing levels of market interest rates will affect future cash flows or fair values of such financial instruments. There is minimal fair value sensitivity to interest rate fluctuations on any cash and cash equivalents invested at short-term market interest rates. Market prices may also be affected by changes in market interest rates. Also, changes in the market interest rate may affect the borrowing expenses of the short positions held by the Fund. Refer to Note 6 within the fund specific notes for the fund exposure.

#### **Credit risk:**

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. All transactions in listed securities are settled/paid for upon

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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. However, there are risks involved in dealing with custodians or prime brokers who settle trades and in rare circumstances, the securities and other assets deposited with the custodian or broker may be exposed to credit risk with regard to such parties. In addition, there may be practical problems or time delays associated with enforcing the Fund's rights to its assets in the case of an insolvency of any such party.

The Fund is exposed to credit risk. For other financial assets at amortized cost, the Manager considers both historical analysis and forward looking information in determining any expected credit loss. At June 30, 2023 and December 31, 2022, all receivables for investments sold, dividends receivable, due from manager, deposits with brokers for securities sold short, and cash are held with counterparties with a good credit quality and are due to be settled within one week. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognized based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

The Fund primarily invests in fixed income securities and is therefore exposed to the credit risk of the underlying fixed income portfolio. Refer to Note 7 within the fund specific notes for the fund exposure.

### Liquidity Risk:

Liquidity risk is the risk that a Fund will not be able to generate sufficient cash availability to execute its payment obligations. The Fund primarily invests in liquid securities that are readily realizable in an active market which is essential if the Fund is required to fund daily redemptions in the course of operations. The Fund from time to time may invest in restricted securities through private placements. However, this type of investment does not constitute a significant percentage of the Fund's Net Asset Value. The Fund may also maintain a cash reserve to accommodate normal-type redemptions. All liabilities of the Fund mature in one year or less. Redeemable units are redeemable on demand at the holder's option. However, the Manager does not expect that the contractual maturity will be representative of the actual cash outflows, as holders of these instruments typically retain them for a longer period.

### Concentration risk:

Concentration risk arises as a result of the concentration of financial instrument exposures within the same category, whether it is geographic region, asset type or industry sector.

### Leverage Risk:

The Fund has received exemptive relief from Canadian securities regulatory authorities from certain investment restrictions set out in NI 81-102 that would restrict the ability of the Fund to leverage their assets through borrowing, short sales and/or derivatives. Investment decisions may be made for the assets of the Fund that exceed the net asset value of the Fund. As a result, if these investment decisions are incorrect, the resulting losses will be more than if investments were made solely in an unleveraged long portfolio as is the case in most conventional equity mutual funds. In addition, leveraged investment strategies can also be expected to increase a Fund's turnover, transaction and market impact costs, interest and other costs and expenses.

Pursuant to the terms of the exemptive relief, the Fund's aggregate gross exposure, calculated as the sum of the following, must not exceed three times the Fund's net asset value: (i) the aggregate market value of the Fund's long

positions; (ii) the aggregate market value of physical short sales on equities, fixed income securities or other portfolio assets; and (iii) the aggregate notional value of the Fund's specified derivatives positions excluding any specified derivatives used for hedging purposes. If the Fund's aggregate gross exposure exceeds three times the Fund's net asset value, the Fund must, as quickly as is commercially reasonable, take all necessary steps to reduce the aggregate gross exposure to three times the Fund's net asset value or less.

## 5. CAPITAL MANAGEMENT

The capital of a Fund is represented by the issued and outstanding units and the net asset value attributable to participating unitholders. The Manager utilizes the capital of the Fund in accordance with the Fund's investment objectives, strategies and restrictions, as outlined in the Fund's prospectus, while maintaining sufficient liquidity to meet normal redemptions. The Fund does not have any externally imposed capital requirements.

## 6. REDEEMABLE UNIT TRANSACTIONS

The Fund is permitted to have an unlimited number of Classes of Units having such terms and conditions as the Manager may determine. Additional Classes may be offered in future on different terms, including having different fee and dealer compensation terms and different minimum subscription levels. Each Unit of a Class represents an undivided ownership interest in the Net Asset Value of the Fund attributable to that Class of Units.

Investors may be admitted to the Fund or may acquire additional Units on a daily basis. Units of the Fund are offered at the Class Net Asset Value per Unit calculated as of the applicable Valuation Date. The minimum initial investment in the Fund is \$2,000 for all Classes and the Manager has the discretion to accept a lesser initial subscription, provided, in each case, that the issuance of Units in respect of such subscription shall otherwise be exempt from the prospectus requirements of applicable securities legislation. Subsequent investments are subject to an additional minimum investment of CAD \$500 subject to applicable securities legislation. The capital of the Fund is represented by issued redeemable Units with no par value. The Units are entitled to distributions, if any, and to payment of a proportionate share based on the Fund's Net Asset Value per Unit upon redemption. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of Units other than as described above. The relevant movements are shown on the Statement of Changes in Net Assets Attributable to Holders of Redeemable Units and in the Fund Specific Notes of each Fund.

IAS 32, Financial Instrument - Recognition and Measurement, requires that units of an entity that include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liability. The Fund's units have been classified as financial liabilities. The Fund has multiple series of units that carry different management fee rates and therefore do not have identical features. As all units are equally subordinate, the units also would not meet the requirements of IAS 32 and therefore do not meet the conditions to be classified as equity.

Generally, all orders to purchase ETF units directly from a Fund must be placed by a Designated Broker or an "ETF Dealer", which is a registered dealer (that may or may not be a Designated Broker) that has entered into an agreement with us authorizing the dealer to subscribe for, purchase and redeem ETF units from one or more Funds on a continuous basis from time to time. For each Prescribed Number of Units issued, an ETF Dealer must deliver payment consisting of, either: (i) a group of securities or assets representing the constituents of the Fund (a "Basket of Securities") for each Prescribed Number of Units for which the subscription order has been accepted and cash, in an amount sufficient so that the value of the securities and cash received is equal to the aggregate net asset value of



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the Prescribed Number of Units next determined following the receipt of the subscription order; or (ii) cash only, securities other than Baskets of Securities or a combination of securities other than Baskets of Securities and cash, in an amount sufficient so that the value of the securities and cash received is equal to the aggregate net asset value of the Prescribed Number of Units next determined following the receipt of the subscription order. When you redeem ETF units of a Fund, you receive the proceeds of your sale in cash at a redemption price per unit equal to 95% of the closing trading price on the effective date of the cash redemption request, subject to a maximum redemption price of the applicable net asset value per unit. As unitholders will generally be able to sell ETF units at the market price on the TSX or another exchange or marketplace through a registered broker or dealer subject only to customary brokerage commissions.

### 7. DISTRIBUTIONS

The Fund intends to distribute net income and net realized capital gains, if any, to Unitholders at the end of each taxation year to ensure that the Fund is not liable for income tax under Part I of the Income Tax Act (Canada) (the "Act"), after taking into account any loss carry forwards and capital gains refunds.

All annual distributions paid on Class A, Class F, Class I and Class ETF units will be automatically reinvested in additional units.

### 8. TAXATION

The Fund qualifies as a "mutual fund trust" and will be 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. The Fund deducts, in computing its income in each taxation year, the full amount available for deduction in each year and, therefore, provided the Fund makes distributions in each year of its net income and net realized capital gains, it will generally not be liable in such year for any tax on its net income or profit under Part I of the Tax Act. 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 tax asset.

Non-capital losses have expiry periods of up to 20 years and can be offset against future taxable income. Net capital losses can be carried forward indefinitely and offset against future taxable capital gains. For tax loss carry forward information, please refer to Note 13 in the Fund Specific Notes.

The Fund is required to include in income for each taxation year any dividends received by it in a taxation year and all interest that accrues to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year. In computing its income, the Fund will take into account any loss carry-forwards, any capital gains refund and all deductible expenses, including management fees.

Gains and losses realized by the Fund on the disposition of securities will generally be reported as capital gains and capital losses. The Fund will elect under section 39(4) of the Tax Act so that all gains or losses realized on the disposition of securities that are "Canadian securities" (as defined in the Tax Act), including Canadian securities acquired in connection with short sales, will be deemed to be capital gains or losses to the Fund. Generally, gains and losses realized by the Fund from derivative securities and in respect of short sales of securities (other than Canadian securities) will be treated as income and losses of the Fund, except where a derivative is used to hedge securities held on capital account provided there is sufficient linkage and subject to detailed rules in the Tax Act.

Whether gains or losses realized by the Fund in respect of a particular security (other than a Canadian security) is on income or capital account will depend largely on factual considerations. Losses incurred by the Fund in a taxation year cannot be allocated to unitholders, but may be deducted by the Fund in future years in accordance with the Tax Act.

### 9. OPERATING EXPENSES

The Manager is responsible for the day-to-day operations of the Fund. The Fund pays its own operating expenses, other than advertising costs and costs of dealer compensation programs, which are paid by the Manager. Operating expenses include, but are not limited to, brokerage commissions and fees, taxes, audit and legal fees, fees of the members of the Independent Review Committee ("IRC"), costs and fees in connection with the operation of the IRC, safekeeping and custodial fees, interest expenses, operating, administrative and systems costs, investor servicing costs and costs of financial and other reports to investors, as well as prospectuses, annual information forms and fund facts.

With the exception of Class specific expenses, all other expenses are allocated to each Class of the Fund based on the Class' pro-rated share of total Net Asset Value of the Fund. The Manager may from time to time waive any portion of the fees and reimbursement of expenses otherwise payable to it, but no such waiver affects its right to received fees and reimbursement of expenses subsequently accruing to it.

### 10. RELATED PARTY TRANSACTIONS

#### (a) Management Fees

The Manager receives a management fee payable for providing its services to the Fund. The management fee varies for each class of units. The management fee is calculated and accrued daily based on a percentage of the net asset value of the class of units of the Fund, plus applicable taxes, and is payable on the last business day of each calendar quarter. This fee differs among the classes of units of the Fund. The annual management fee payable by the Fund to the Manager on Class A units is 1.95% and on Class F units and Class ETF units is 0.95%. The management fee for Class I units of the Fund is negotiated by the investor and paid directly by the investor, and would not exceed the management fee payable on Class A units of the Fund.

#### Management Fee Distributions

The Manager may, in its discretion, agree to charge a reduced management fee as compared to the fee that the Manager otherwise would be entitled to receive from the Fund with respect to investments in the Fund by unitholders who hold a minimum amount of units during any period and/or meet other criteria as determined by the Manager from time to time. In such cases, an amount equal to the difference between the management fee otherwise chargeable and the reduced fee payable by the Fund will be distributed regularly by the Fund to those unitholders as "Management Fee Distributions". The Manager reserves the right, in its discretion, to discontinue or change Management Fee Distributions at any time.

#### (b) Performance Fees

The Manager receives a performance fee in respect of each of the Class A units, Class F, and Class ETF units of the Fund. The performance fee for each class shall be calculated and become a liability of the Fund on each Valuation Day and shall be payable at the end of each calendar quarter.

The performance fee is equal to 20% of the amount by which the performance of the applicable class exceeds an annual hurdle rate of return equal to 2%, for each of the Class A units, Class F units, or Class ETF

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units, plus applicable taxes. The performance fee in respect of each of the Class A units, Class F units, and Class ETF units of the Fund on a particular Valuation Day shall be equal to the product of, (a) 20% of the positive difference between (i) the Unit Price on the Valuation Day; and (ii) the greatest Unit Price on any previous Valuation Day or the Unit Price on the date when the units of the class were first issued, where no performance fee liability has previously arisen in respect of units of the class (the "High Water Mark"); less (iii) the hurdle amount (the "Hurdle Amount") per unit on the Valuation Day; and (b) the number of units outstanding on the applicable Valuation Day on which the performance fee is determined, plus applicable taxes.

The Hurdle Amount per unit is the product of (a) 2% for each calendar year (prorated for the number of days in the year); (b) the Unit Price on the applicable Valuation Day; and (c) the number of days since the most recently determined High Water Mark or the beginning of the current calendar year, whichever is most recent. The Manager may make such adjustments to the Unit Price, the High Water Mark and/or the Hurdle Amount per unit as are determined by the Manager to be necessary to account for the payment of any distributions on units, any unit splits or consolidations or any other event or matter that would, in the opinion of the Manager, impact upon the computation of the performance fee. Any such determination of the Manager shall, absent manifest error, be binding on all unitholders. Investors in Class I units may negotiate a different performance fee than the one described herein or no performance fee at all. Any performance fee for Class I units will be paid directly to the Manager. The Manager reserves the right, in its discretion, to discontinue, decrease or waive the performance fee at any time. For the period January 1, 2023 to June 30, 2023, the Fund incurred no performance fees.

### (c) Fund-on-Fund Fees and Expenses

When the Fund invests in an underlying fund, the underlying fund may pay a management and performance fee and other expenses in addition to the fees and expenses payable by the Fund. The fees and expenses of the underlying fund will have an impact on the management expense ratio of the Fund. However, the Fund will not pay a management or performance fee that, to a reasonable person, would duplicate a fee payable by the underlying fund(s) for the same service. In addition, the Fund will not pay any sales charges, redemption fees or short-term trading fees for its purchase or redemption of units of any underlying fund that is managed by the Manager, or that, in respect of the other underlying funds, to a reasonable person, would duplicate a fee payable by an investor in any underlying fund.

### 11. COMPARATIVE FIGURES

For the period January 1, 2022 to June 30, 2022, the Fund reported HST expenses in "Harmonized sales tax" on the Statement of Comprehensive Income. For the period January 1, 2023 to June 30, 2023, the Fund reported HST expenses in "Management fees", "Performance fees", "Administrative fees", "Securityholder reporting fees", "Legal fees", "Independent Review Committee fees", "Audit fees", and "Custody fees" on the Statement of Comprehensive Income and revised the comparative amounts to conform to the current year presentation.



**THINK AHEAD.  
STAY AHEAD.**



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## **PICTON MAHONEY ASSET MANAGEMENT CORPORATE INFORMATION**

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### **Fund Administration & Transfer Agent**

#### **Picton Mahoney Funds**

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