

# FORTIFIED INCOME 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 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 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*	639,604,461	600,599,852
Cash	130,353,922	96,002,110
Options purchased*	3,006,562	1,462,859
Unrealized gain on foreign exchange forward contracts at fair value	2,210,313	94,351
Subscriptions receivable	1,926,987	1,083,223
Receivable for investments sold	3,489,108	-
Interest and other receivable	8,531,183	8,648,253
	<u>789,122,536</u>	<u>707,890,648</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Short positions at fair value**	54,573,665	46,980,268
Options written**	4,270,510	306,689
Unrealized loss on foreign exchange forward contracts at fair value	-	2,398,810
Management fee payable	1,860,959	426,338
Redemptions payable	626,488	503,794
Accrued liabilities	585,997	511,322
Payable for investments purchased	17,728,462	-
Interest payable	860,940	675,969
Distributions payable	3,127	175
	<u>80,510,148</u>	<u>51,803,365</u>
<b>Net Assets Attributable to Holders of Redeemable Units</b>	<u>708,612,388</u>	<u>656,087,283</u>
<b>Net Assets Attributable to Holders of Redeemable Units per Class</b>		
Class A	71,657,796	73,218,209
Class F	562,476,213	509,028,012
Class FT	27,647,374	26,698,044
Class T	3,702,477	3,117,641
Class I	43,128,528	44,025,377
<b>Number of Redeemable Units Outstanding</b>		
Class A	7,293,301	7,452,695
Class F	53,556,618	48,748,371
Class FT	3,463,676	3,370,617
Class T	500,888	422,609
Class I	3,559,834	3,673,271
<b>Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Class A	9.83	9.82
Class F	10.50	10.44
Class FT	7.98	7.92
Class T	7.39	7.38
Class I	12.12	11.99
	<u>661,140,046</u>	<u>619,203,711</u>
	<u>(59,332,383)</u>	<u>(47,751,360)</u>

\* Long positions, at cost

\*\* Short positions, at cost

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	23,191,650	17,406,042
Dividends	641,364	601,310
Net realized gain (loss) on investments and options	2,061,813	10,126,903
Net realized gain (loss) on foreign exchange forward contracts	3,022,337	(19,617,699)
Change in unrealized appreciation (depreciation) on investments, options and foreign exchange forward contracts	3,082,442	(40,221,943)
Interest and borrowing expense	(1,513,799)	(1,535,137)
Net gains (losses) on investments and derivatives	<u>30,485,807</u>	<u>(33,240,524)</u>
Other income		
Securities lending income	12,296	8,154
Foreign currency gain (loss) on cash and other assets and liabilities	(2,561,032)	1,656,177
Total Income	<u>27,937,071</u>	<u>(31,576,193)</u>
<b>Expenses</b>		
Management fees	3,709,098	3,668,874
Transaction costs	1,539,683	2,695,226
Securityholder reporting fees	258,205	272,985
Administrative fees	247,614	243,429
Audit fees	55,528	53,653
Legal fees	39,238	41,905
Independent review committee expense	3,396	4,769
Performance fees	-	4,876,048
Withholding taxes	-	9,322
Total expense before manager absorption	<u>5,852,762</u>	<u>11,866,211</u>
Less expenses absorbed by manager	-	-
Total expense after manager absorption	<u>5,852,762</u>	<u>11,866,211</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>	<u>22,084,309</u>	<u>(43,442,404)</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Class</b>		
Class A	1,960,038	(5,307,207)
Class F	17,456,631	(32,165,909)
Class FT	928,735	(2,950,639)
Class T	87,338	(186,498)
Class I	1,651,567	(2,832,151)
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Class A	0.26	(0.65)
Class F	0.34	(0.71)
Class FT	0.23	(0.55)
Class T	0.19	(0.52)
Class I	0.46	(0.61)

# PICTON MAHONEY FORTIFIED INCOME 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	73,218,209	94,060,132	From net investment income		
Class F	509,028,012	506,169,283	Class A	(1,942,518)	(2,177,462)
Class FT	26,698,044	45,163,065	Class F	(14,803,893)	(13,269,547)
Class T	3,117,641	2,468,036	Class FT	(813,679)	(1,202,517)
Class I	44,025,377	61,163,527	Class T	(85,172)	(75,590)
	<u>656,087,283</u>	<u>709,024,043</u>	Class I	(1,152,812)	(1,513,100)
				<u>(18,798,074)</u>	<u>(18,238,216)</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>		
Class A	1,960,038	(5,307,207)		52,525,105	(48,237,450)
Class F	17,456,631	(32,165,909)	<b>Net Assets Attributable to Holders of Redeemable Units at End of Period</b>		
Class FT	928,735	(2,950,639)	Class A	71,657,796	77,759,691
Class T	87,338	(186,498)	Class F	562,476,213	483,288,428
Class I	1,651,567	(2,832,151)	Class FT	27,647,374	43,213,627
	<u>22,084,309</u>	<u>(43,442,404)</u>	Class T	3,702,477	2,993,471
			Class I	43,128,528	53,531,376
<b>Redeemable Unit Transactions</b>			<b>Net Assets Attributable to Holders of Redeemable Units at End of Period</b>		
Proceeds from redeemable units issued				<u>708,612,388</u>	<u>660,786,593</u>
Class A	9,214,174	6,959,991	<i>The accompanying notes are an integral part of the financial statements.</i>		
Class F	105,692,191	101,345,996			
Class FT	15,688,459	6,480,421			
Class T	667,379	838,467			
Class I	1,584	1,400,000			
	<u>131,263,787</u>	<u>117,024,875</u>			
Reinvestments of distributions to holders of redeemable units					
Class A	1,520,800	1,627,923			
Class F	8,366,698	8,226,367			
Class FT	21,079	25,682			
Class T	63,109	49,685			
Class I	1,152,812	1,513,100			
	<u>11,124,498</u>	<u>11,442,757</u>			
Redemption of redeemable units					
Class A	(12,312,907)	(17,403,686)			
Class F	(63,263,426)	(87,017,762)			
Class FT	(14,875,264)	(4,302,385)			
Class T	(147,818)	(100,629)			
Class I	(2,550,000)	(6,200,000)			
	<u>(93,149,415)</u>	<u>(115,024,462)</u>			
<b>Net Increase (Decrease) from Redeemable Unit Transactions</b>	<u>49,238,870</u>	<u>13,443,170</u>			

# PICTON MAHONEY FORTIFIED INCOME FUND

## STATEMENTS OF CASH FLOWS

For the six month periods ended June 30 (unaudited)

	2023 \$	2022 \$		2023 \$	2022 \$
<b>Cash Flows from Operating Activities</b>			<b>Cash Flows from Financing Activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	22,084,309	(43,442,404)	Distributions to holders of redeemable units, net of reinvested distributions	(7,670,624)	(6,766,445)
Adjustments for:			Proceeds from redeemable units issued	129,346,295	107,772,898
Unrealized foreign exchange (gain) loss on cash	1,650,114	(2,033,856)	Amount paid on redemption of redeemable units	(91,952,993)	(107,417,627)
Net realized (gain) loss on investments and options	(2,061,813)	(10,126,903)	<b>Net cash generated (used) by financing activities</b>	<b>29,722,678</b>	<b>(6,411,174)</b>
Change in unrealized (appreciation) depreciation on investments, options and foreign exchange forward contracts	(3,082,442)	40,221,943	Unrealized foreign exchange gain (loss) on cash	(1,650,114)	2,033,856
(Increase) decrease in interest and other receivables	117,070	(415,317)	Net increase (decrease) in cash	36,001,926	(52,825,201)
(Increase) decrease in dividends receivable	-	2,828	Cash, beginning of period	96,002,110	147,416,959
(Increase) decrease in deposits with brokers for securities sold short	-	(16,259,088)	<b>Cash, end of period</b>	<b>130,353,922</b>	<b>96,625,614</b>
Increase (decrease) in interest payable	184,971	16,894	Cash	130,353,922	96,625,614
Increase (decrease) in other payable and accrued liabilities	1,509,296	6,299,845	Cash overdraft	-	-
Purchase of long positions and repurchases of investments sold short	(339,044,634)	(479,750,814)	<b>Net Cash (Overdraft)</b>	<b>130,353,922</b>	<b>96,625,614</b>
Proceeds from sales of long positions and on investments sold short	324,922,377	459,072,845	<b>Items Classified as Operating Activities:</b>		
<b>Net cash generated (used) by operating activities</b>	<b>6,279,248</b>	<b>(46,414,027)</b>	Interest received, net of withholding tax	23,308,720	16,990,725
			Dividends received, net of withholding tax	641,364	594,824
			Interest and borrowing expense paid	(1,328,828)	(1,518,243)
			<i>Net of non-cash transfers and switches of \$1,073,728 (2022 - \$6,768,037)</i>		



# PICTON MAHONEY FORTIFIED INCOME FUND

## SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2023 (unaudited)

No. of shares/ units/ CCY*	Face value	Security Description	Average cost (\$)	Fair value (\$)	No. of shares/ units/ CCY*	Face value	Security Description	Average cost (\$)	Fair value (\$)
<b>LONG POSITIONS (90.6%)</b>									
<b>Canadian Equities (3.1%)</b>									
<b>Energy (1.4%)</b>									
94,926		Enbridge Inc., Preferred Series 1	2,911,655	2,700,611	CAD	9,935,000	Bank of Montreal 7.373%, 2049-12-31	9,959,500	9,770,645
29,000		Enbridge Inc., Preferred Series 5	821,920	770,934	CAD	8,425,000	Bank of Montreal 5.625%, 2082-05-26	8,404,354	7,800,152
250,000		Enbridge Inc., Preferred Series L	6,945,586	6,364,791	CAD	2,800,000	Bank of Montreal 7.325%, 2082-11-26	2,800,000	2,750,559
			<u>10,679,161</u>	<u>9,836,336</u>	CAD	9,500,000	Bank of Nova Scotia 7.023%, 2082-07-27	9,500,000	9,214,466
<b>Financials (1.6%)</b>					USD	5,600,000	Bank of Nova Scotia 8.625%, 2082-10-27	7,724,286	7,697,494
96,017		Element Financial Corp., Preferred Series C	2,260,553	2,381,222	CAD	500,000	Brookfield Property Finance ULC 4.300%, 2024-03-01	486,875	489,052
148,200		Element Fleet Management Corp., Preferred Series A	3,592,016	3,702,036	CAD	764,000	Brookfield Property Finance ULC 3.926%, 2025-08-24	699,540	698,838
206,509		Element Fleet Management Corp., Preferred Series E	4,866,136	5,090,447	CAD	1,195,000	Brookfield Property Finance ULC 4.000%, 2026-09-30	1,044,113	1,028,260
			<u>10,718,705</u>	<u>11,173,705</u>	CAD	1,725,000	Brookfield Property Finance ULC 3.930%, 2027-01-15	1,504,763	1,465,481
<b>Real Estate (0.1%)</b>					CAD	10,000,000	Brookfield Property Finance ULC 7.125%, 2028-02-13	10,012,147	9,263,663
16,875		Brookfield Office Properties Inc., Preferred Series CC	279,766	282,488	USD	3,750,000	Brookfield Residential Properties Inc. 6.250%, 2027-09-15	4,594,657	4,564,015
40,000		Brookfield Office Properties Inc., Preferred Series EE	547,295	513,600	USD	5,250,000	Bruce Trail Funding Corporation 16.340%, 2028-08-31	7,108,716	6,910,198
			<u>827,061</u>	<u>796,088</u>	USD	400,000	Canadian Imperial Bank of Commerce 3.621%, 2084-07-31	435,755	440,232
<b>Total Canadian Equities - Long</b>			<b>22,224,927</b>	<b>21,806,129</b>	CAD	5,638,000	Capital Power Corp. 7.950%, 2082-09-09	5,639,538	5,523,355
<b>Canadian Debt (56.1%)</b>									
<b>Asset-Backed Securities (2.5%)</b>									
CAD	4,526,580	Real Estate Asset Liquidity Trust 3.707%, 2031-06-12	3,909,999	3,354,196	CAD	199,200	Chemtrade Logistics Income Fund 4.750%, 2024-05-31	193,074	198,951
CAD	1,508,860	Real Estate Asset Liquidity Trust 3.707%, 2031-07-12	1,324,206	1,074,459	CAD	6,325,000	Chemtrade Logistics Income Fund 6.250%, 2027-08-31	6,336,395	6,325,000
CAD	2,514,520	Real Estate Asset Liquidity Trust 3.707%, 2031-07-12	1,942,243	2,017,902	CAD	600,000	Clarity Trust 10.923%, 2025-04-15	600,000	600,000
CAD	2,011,690	Real Estate Asset Liquidity Trust 3.707%, 2031-08-12	1,333,928	1,414,620	CAD	5,250,000	Corus Entertainment Inc. 5.000%, 2028-05-11	5,266,123	3,780,000
CAD	3,521,328	Real Estate Asset Liquidity Trust 3.707%, 2031-11-12	1,875,915	2,043,779	CAD	3,782,000	Corus Entertainment Inc. 6.000%, 2030-02-28	3,782,000	2,671,038
USD	6,000,000	St Lawrence Srt Usd Corp. 0.000%, 2033-05-25	8,093,125	7,933,097	USD	2,000,000	Curaleaf Holdings Inc. 8.000%, 2026-12-15	2,529,500	2,077,489
			<u>18,479,416</u>	<u>17,838,053</u>	CAD	8,600,000	Doman Building Materials Group Ltd. 5.250%, 2026-05-15	8,398,362	7,795,539
<b>Corporate Bonds (53.6%)</b>					CAD	3,650,000	Enbridge Inc. 5.000%, 2082-01-19	3,114,483	3,048,707
USD	5,466,000	Air Canada 3.875%, 2026-08-15	6,468,907	6,711,017	USD	2,350,000	Enbridge Inc. 7.375%, 2083-01-15	3,149,345	3,056,781
CAD	109,000	Air Canada 4.625%, 2029-08-15	99,871	98,300	USD	6,000,000	First Quantum Minerals Ltd. 8.625%, 2031-06-01	8,092,461	8,146,906
CAD	2,520,000	Air Canada 4.625%, 2029-08-15	2,281,597	2,284,275	CAD	6,900,000	Ford Credit Canada Co. 7.000%, 2026-02-10	6,899,241	6,880,599
CAD	3,600,000	Algonquin Power & Utilities Corp. 5.250%, 2082-01-18	2,883,930	2,852,846	CAD	4,400,000	Ford Credit Canada Co. 7.375%, 2026-05-12	4,402,948	4,416,286
CAD	7,300,000	AltaGas Ltd. 7.350%, 2082-08-17	7,247,323	7,025,593	CAD	600,000	Fusion Trust 10.923%, 2025-04-15	600,000	600,000
CAD	12,250,000	AutoCanada Inc. 5.750%, 2029-02-07	12,042,575	10,310,417	CAD	600,000	George Weston Ltd. 6.690%, 2033-03-01	623,322	644,377
CAD	5,800,000	Bank of Montreal 7.057%, 2049-12-31	5,800,000	5,642,391					

# PICTON MAHONEY FORTIFIED INCOME 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	2,900,000	Gibson Energy Inc. 5.800%, 2026-07-12	2,898,811	2,901,157	CAD	2,250,000	Toronto-Dominion Bank 7.283%, 2082-10-31	2,250,000	2,209,924
CAD	1,860,000	Gibson Energy Inc. 6.200%, 2053-07-12	1,857,991	1,918,008	USD	4,500,000	Toronto-Dominion Bank 8.125%, 2082-10-31	6,182,615	6,064,032
CAD	7,074,000	Gibson Energy Inc. 5.250%, 2080-12-22	5,994,270	5,862,190	USD	2,550,000	Trulieve Cannabis Corp. 9.750%, 2024-06-18	3,484,087	3,205,552
CAD	7,250,000	Gibson Energy Inc. 8.700%, 2083-07-12	7,268,725	7,305,963	USD	2,197,000	Trulieve Cannabis Corp. 8.000%, 2026-10-06	2,801,724	2,154,178
CAD	8,283,000	iA Financial Corp. Inc. 6.611%, 2082-06-30	8,230,568	8,004,112	CAD	5,350,000	Videotron Ltd. 4.500%, 2030-01-15	5,130,769	4,670,104
CAD	5,000,000	Intact Financial Corp. 7.338%, 2083-06-30	5,021,500	4,962,512	CAD	4,000,000	Videotron Ltd. 3.125%, 2031-01-15	3,542,237	3,112,500
CAD	6,250,000	Inter Pipeline Ltd. 6.875%, 2079-03-26	6,474,479	5,867,785				395,392,649	380,139,823
CAD	3,600,000	Inter Pipeline Ltd. 6.625%, 2079-11-19	3,618,789	3,283,147			<b>Total Canadian Debt - Long</b>	<b>413,872,065</b>	<b>397,977,876</b>
CAD	5,000,000	Keyera Corp. 6.875%, 2079-06-13	4,906,033	4,693,885			<b>Global Debt (31.0%)</b>		
CAD	4,000,000	Keyera Corp. 5.950%, 2081-03-10	4,003,648	3,453,973			<b>United States Bonds (26.6%)</b>		
USD	8,500,000	Manitowlin USD Ltd. 13.290%, 2027-11-10	11,716,865	11,219,433	USD	10,000,000	Acadia Healthcare Co Inc. 5.500%, 2028-07-01	12,831,684	12,666,861
CAD	8,000,000	Mattamy Group Corp. 4.625%, 2028-03-01	7,678,428	7,134,084	USD	1,200,000	AerCap Global Aviation Trust 6.500%, 2045-06-15	1,544,318	1,537,543
CAD	12,200,000	National Bank of Canada 7.500%, 2082-11-16	12,204,262	11,963,255	USD	9,450,000	American Airlines Inc. 11.750%, 2025-07-15	14,173,254	13,722,370
CAD	1,740,000	Northland Power Inc. 9.250%, 2083-06-30	1,722,844	1,747,545	USD	5,699,000	AMN Healthcare Inc. 4.625%, 2027-10-01	7,044,524	6,987,722
USD	8,500,000	Northriver Midstream Finance LP 5.625%, 2026-02-15	10,833,150	10,499,554	USD	5,175,000	Bath & Body Works Inc. 9.375%, 2025-07-01	7,055,287	7,276,719
CAD	3,480,000	NuVista Energy Ltd. 7.875%, 2026-07-23	3,492,824	3,549,600	USD	8,250,000	Brookfield Property REIT Inc. 4.500%, 2027-04-01	10,212,574	9,206,599
CAD	18,500,000	Parkland Corp. 3.875%, 2026-06-16	17,413,893	17,173,781	USD	980,000	Carriage Services Inc. 4.250%, 2029-05-15	1,100,431	1,123,333
CAD	9,630,000	Parkland Corp. 6.000%, 2028-06-23	9,495,149	9,283,320	USD	9,614,000	Catalent Pharma Solutions Inc. 5.000%, 2027-07-15	12,542,200	11,693,414
CAD	7,000,000	Parkland Corp. 4.375%, 2029-03-26	6,775,829	6,126,750	USD	1,996,000	CCO Holdings LLC 5.125%, 2027-05-01	2,489,444	2,462,363
CAD	3,625,000	Pembina Pipeline Corp. 5.720%, 2026-06-22	3,624,203	3,622,715	USD	2,300,000	CCO Holdings LLC 6.375%, 2029-09-01	2,963,438	2,870,602
CAD	7,300,000	Rogers Communications Inc. 5.000%, 2081-12-17	7,026,404	6,640,196	USD	587,000	CCO Holdings LLC 7.375%, 2031-03-01	757,216	757,415
CAD	11,000,000	Royal Bank of Canada 4.500%, 2080-11-24	10,591,403	10,210,757	USD	4,500,000	Churchill Downs Inc. 6.750%, 2031-05-01	6,078,308	5,895,040
USD	3,650,000	Royal Bank of Canada 3.862%, 2085-06-29	3,805,186	4,443,445	USD	5,144,000	Cleveland-Cliffs Inc. 7.000%, 2027-03-15	6,672,004	6,641,180
CAD	17,276,000	Secure Energy Services Inc. 7.250%, 2026-12-30	17,064,743	17,060,050	USD	4,900,000	Cushman & Wakefield US Borrower LLC 6.750%, 2028-05-15	6,576,741	5,873,750
CAD	700,000	Secure Energy Services Inc. 7.250%, 2026-12-30	689,500	691,688	USD	1,855,000	Freeport Minerals Corp. 9.500%, 2031-06-01	3,013,092	2,917,577
CAD	7,250,000	Shawcor Ltd. 9.000%, 2026-12-10	7,385,155	7,546,797	USD	7,850,000	Horizon Therapeutics USA Inc. 5.500%, 2027-08-01	10,430,666	10,444,078
CAD	2,147,000	SNC-Lavalin Group Inc. 7.000%, 2026-06-12	2,149,964	2,184,573	USD	700,000	ILFC E-Capital Trust I 7.064%, 2065-12-21	629,071	624,857
CAD	6,222,000	Tamarack Valley Energy Ltd. 7.250%, 2027-05-10	6,065,714	5,823,403	USD	4,250,000	Iron Mountain Inc. 7.000%, 2029-02-15	5,700,814	5,640,450
USD	8,150,000	Tervita Corp. 11.000%, 2025-12-01	11,815,186	11,484,642	USD	2,800,000	Iron Mountain Inc. 5.250%, 2030-07-15	3,614,379	3,330,667
CAD	9,450,000	Toronto-Dominion Bank 7.232%, 2049-12-31	9,450,000	9,282,291	USD	1,376,000	Live Nation Entertainment Inc. 5.625%, 2026-03-15	1,821,440	1,781,023
					USD	6,120,000	Mileage Plus Holdings LLC 6.500%, 2027-06-20	8,214,809	8,124,549

# PICTON MAHONEY FORTIFIED INCOME 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	7,172,000	NCR Corp. 5.750%, 2027-09-01	9,416,909	9,500,642	USD	(700,000)	Canadian Pacific Railway Co. 3.000%, 2041-12-02	(761,887)	(757,151)
USD	5,373,000	NCR Corp. 6.125%, 2029-09-01	7,204,977	7,122,432	CAD	(1,000,000)	First Capital Real Estate Investment Trust 3.753%, 2027-07-12	(895,446)	(909,642)
USD	5,049,000	PDC Energy Inc. 5.750%, 2026-05-15	6,786,152	6,660,312	CAD	(850,000)	RioCan Real Estate Investment Trust 4.628%, 2029-05-01	(803,407)	(798,524)
USD	3,675,000	Prime Healthcare Services Inc. 7.250%, 2025-11-01	4,600,875	4,614,490	CAD	(3,000,000)	Toronto-Dominion Bank 3.589%, 2028-09-14	(2,946,042)	(2,988,879)
USD	2,800,000	Sealed Air Corp. 5.000%, 2029-04-15	3,486,110	3,454,316				(8,438,272)	(8,428,920)
USD	4,300,000	Sirius XM Radio Inc. 5.000%, 2027-08-01	5,341,400	5,284,814			<b>Total Canadian Debt - Short</b>	<b>(9,646,666)</b>	<b>(9,671,077)</b>
USD	7,250,000	Stagwell Global LLC 5.625%, 2029-08-15	9,077,097	8,220,550			<b>Global Debt (-6.3%)</b>		
USD	6,505,000	Syneos Health Inc. 3.625%, 2029-01-15	8,494,583	8,425,116			<b>United States Bonds (-5.5%)</b>		
USD	3,000,000	Tenet Healthcare Corp. 6.125%, 2028-10-01	3,642,930	3,825,464	USD	(1,000,000)	ACCO Brands Corp. 4.250%, 2029-03-15	(1,120,003)	(1,112,954)
USD	550,000	United States Treasury Bond 3.875%, 2043-05-15	715,064	709,020	USD	(1,250,000)	Ally Financial Inc. 7.100%, 2027-11-15	(1,755,722)	(1,669,382)
USD	7,265,000	Vistra Corp. 8.000%, 2049-12-31	9,445,931	8,945,894	USD	(1,000,000)	Bath & Body Works Inc. 6.625%, 2030-10-01	(1,294,519)	(1,279,257)
			<u>193,677,722</u>	<u>188,341,162</u>	USD	(500,000)	Caesars Entertainment Inc. 4.625%, 2029-10-15	(591,358)	(578,288)
		<b>International Bonds (4.4%)</b>			USD	(1,000,000)	Central Garden & Pet Co. 4.125%, 2030-10-15	(1,139,461)	(1,112,372)
USD	8,550,000	Barclays Bank PLC 5.235%, 2049-12-31	9,489,818	11,251,489	USD	(1,010,000)	Civitas Resources Inc. 8.750%, 2031-07-01	(1,339,831)	(1,356,868)
USD	500,000	Barclays Bank PLC 5.359%, 2049-12-31	545,472	660,066	USD	(1,000,000)	Clarivate Science Holdings Corp. 4.875%, 2029-07-01	(1,162,759)	(1,175,211)
USD	180,000	Barclays Bank PLC 5.460%, 2049-12-31	199,907	236,963	USD	(1,200,000)	CommScope Inc. 4.750%, 2029-09-01	(1,330,419)	(1,253,531)
USD	1,130,000	Standard Chartered PLC 3.025%, 2049-12-31	1,228,375	1,496,010	USD	(1,000,000)	DaVita Inc. 4.625%, 2030-06-01	(1,170,545)	(1,137,215)
USD	6,590,000	Standard Chartered PLC 3.188%, 2049-12-31	6,955,486	8,683,658	USD	(1,000,000)	Embecta Corp. 5.000%, 2030-02-15	(1,125,263)	(1,099,964)
USD	6,920,000	Standard Chartered PLC 5.949%, 2049-12-31	<b>7,683,673</b>	<b>9,151,108</b>	USD	(750,000)	Energizer Holdings Inc. 4.375%, 2029-03-31	(867,754)	(853,407)
		<b>Total Global Debt - Long</b>	<b>219,780,453</b>	<b>219,820,456</b>	USD	(1,000,000)	Hilton Grand Vacations Borrower Escrow LLC 5.000%, 2029-06-01	(1,202,088)	(1,175,536)
		<b>Options (0.4%)</b>			USD	(1,000,000)	M&T Bank Corp. 5.053%, 2034-01-27	(1,267,923)	(1,208,859)
		<b>Total Purchased Options</b>	<b>5,374,828</b>	<b>3,006,562</b>	USD	(1,000,000)	Matador Resources Co. 6.875%, 2028-04-15	(1,334,115)	(1,305,262)
		<b>- Refer to Appendix A</b>	<b>(112,227)</b>	<b>-</b>	USD	(700,000)	Medline Borrower LP 5.250%, 2029-10-01	(805,374)	(804,653)
		<b>Transaction Costs</b>	<b>(112,227)</b>	<b>-</b>	USD	(1,000,000)	MGM Resorts International 4.750%, 2028-10-15	(1,262,740)	(1,202,720)
		<b>Total Long Positions</b>	<b>661,140,046</b>	<b>642,611,023</b>	USD	(550,000)	Novelis Corp. 4.750%, 2030-01-30	(722,672)	(647,494)
		<b>SHORT POSITIONS (-8.3%)</b>			USD	(1,000,000)	Olin Corp. 5.625%, 2029-08-01	(1,194,896)	(1,276,796)
		<b>Canadian Debt (-1.4%)</b>			USD	(1,000,000)	Organon & Co. 5.125%, 2031-04-30	(1,149,456)	(1,093,464)
		<b>Government Bonds (-0.2%)</b>			USD	(1,000,000)	Performance Food Group Inc. 4.250%, 2029-08-01	(1,228,181)	(1,179,631)
CAD	(1,683,000)	Canadian Government Bond 1.750%, 2053-12-01	(1,208,394)	(1,242,157)	USD	(1,000,000)	Permian Resources Operating LLC 5.875%, 2029-07-01	(1,282,327)	(1,247,839)
		<b>Corporate Bonds (-1.2%)</b>							
CAD	(1,000,000)	Allied Properties Real Estate Investment Trust 3.394%, 2029-08-15	(871,464)	(853,764)					
USD	(1,000,000)	Bombardier Inc. 7.500%, 2029-02-01	(1,341,652)	(1,309,454)					
USD	(700,000)	Canadian Pacific Railway Co. 2.450%, 2031-12-02	(818,374)	(811,506)					

# PICTON MAHONEY FORTIFIED INCOME 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	(1,000,000)	Post Holdings Inc. 4.500%, 2031-09-15	(1,146,383)	(1,131,170)	<b>International Bonds (-0.8%)</b>				
USD	(1,000,000)	Prime Security Services Borrower LLC 6.250%, 2028-01-15	(1,269,330)	(1,241,729)	EUR	(1,000,000)	Banco Santander SA 5.250%, 2049-12-31	(1,250,584)	(1,386,825)
USD	(1,000,000)	Rocket Mortgage LLC 3.875%, 2031-03-01	(1,082,967)	(1,074,151)	USD	(900,000)	Credit Agricole SA 7.875%, 2049-12-31	(1,162,555)	(1,180,930)
USD	(1,000,000)	Scientific Games International Inc. 7.250%, 2029-11-15	(1,360,716)	(1,326,086)	USD	(1,000,000)	HSBC Holdings PLC 8.000%, 2049-12-31	(1,293,656)	(1,316,963)
USD	(700,000)	Six Flags Entertainment Corp. 7.250%, 2031-05-15	(938,885)	(903,022)	EUR	(1,300,000)	Stichting AK Rabobank Certificaten 6.500%, 2049-12-31	(1,721,148)	(1,745,370)
USD	(1,000,000)	SM Energy Co. 6.500%, 2028-07-15	(1,288,564)	(1,271,622)	<b>Total Global Debt - Short</b> <u>(45,586,942)</u> <u>(44,902,588)</u>				
USD	(1,000,000)	Starwood Property Trust Inc. 4.375%, 2027-01-15	(1,189,649)	(1,140,879)	<b>Options (-0.6%)</b>				
USD	(1,000,000)	Taylor Morrison Communities Inc. 5.125%, 2030-08-01	(1,257,005)	(1,223,188)	<b>Total Written Options - Refer to Appendix A</b> <u>(4,074,122)</u> <u>(4,270,510)</u>				
USD	(1,000,000)	TransDigm Inc. 4.625%, 2029-01-15	(1,199,910)	(1,178,648)	<b>Transaction Costs</b> <u>(24,653)</u> <u>-</u>				
USD	(550,000)	Tri Pointe Homes Inc. 5.700%, 2028-06-15	(680,352)	(703,693)	<b>Total Short Positions</b> <u>(59,332,383)</u> <u>(58,844,175)</u>				
USD	(1,500,000)	Uber Technologies Inc. 4.500%, 2029-08-15	(1,862,964)	(1,830,736)	<b>Foreign Currency Forward Contracts (0.3%)</b>				
USD	(1,100,000)	Wolverine World Wide Inc. 4.000%, 2029-08-15	(1,207,539)	(1,160,479)	<b>Total Currency Hedge - Refer to Appendix B</b> <u>2,210,313</u>				
USD	(1,000,000)	Wynn Resorts Finance LLC 7.125%, 2031-02-15	(1,327,329)	(1,316,394)	<b>TOTAL INVESTMENT PORTFOLIO (82.6%)</b> <u>601,807,663</u> <u>585,977,161</u>				
			<u>(40,158,999)</u>	<u>(39,272,500)</u>	Other Assets Net of Liabilities (17.4%) <u>122,635,227</u>				
<b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (100.0%)</b>									<u>708,612,388</u>

\*CCY denotes local currency of security

# PICTON MAHONEY FORTIFIED INCOME 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	892	\$4,650	September, 2023	943,802	1,593,458
SPDR S&P Homebuilders ETF	Call Option	1,493	\$90	September, 2023	18,043	60,684
US Bond Futures	Call Option	448	\$135	July, 2023	252,968	18,526
US Bond Futures	Call Option	591	\$145	August, 2023	382,994	24,439
USD Call CAD Put OTC	Call Option	14,500,000	\$1	October, 2023	186,100	11,272
					<u>1,783,907</u>	<u>1,708,379</u>
iShares iBoxx High Yield Corp. Bond	Put Option	8,934	\$72	July, 2023	1,141,120	41,377
iShares iBoxx High Yield Corp. Bond	Put Option	5,981	\$73	July, 2023	230,634	47,486
S&P 500 E-Mini	Put Option	892	\$4,000	September, 2023	1,791,266	1,032,798
S&P E-Mini 1st Week	Put Option	299	\$4,325	July, 2023	87,399	17,804
SPDR S&P Homebuilders ETF	Put Option	2,986	\$65	September, 2023	220,007	113,477
SPDR S&P Homebuilders ETF	Put Option	2,973	\$70	July, 2023	120,495	45,241
					<u>3,590,921</u>	<u>1,298,183</u>
<b>Total Purchased Options</b>					<b><u>5,374,828</u></b>	<b><u>3,006,562</u></b>
S&P 500 E-Mini	Written Call Option	(892)	\$4,600	September, 2023	(1,485,464)	(2,434,449)
SPDR S&P Homebuilders ETF	Written Call Option	(1,493)	\$80	September, 2023	(182,536)	(814,940)
US Bond Futures	Written Call Option	(448)	\$145	July, 2023	(47,292)	(593)
US Bond Futures	Written Call Option	(591)	\$155	August, 2023	(99,361)	(12,219)
					<u>(1,814,653)</u>	<u>(3,262,201)</u>
iShares iBoxx High Yield Corp. Bond	Written Put Option	(5,956)	\$66	July, 2023	(212,441)	(19,723)
iShares iBoxx High Yield Corp. Bond	Written Put Option	(5,980)	\$68	July, 2023	(221,796)	(27,696)
iShares iBoxx High Yield Corp. Bond	Written Put Option	(8,972)	\$69	July, 2023	(98,275)	(33,151)
S&P 500 E-Mini	Written Put Option	(892)	\$3,800	September, 2023	(1,026,865)	(604,924)
SPDR S&P Homebuilders ETF	Written Put Option	(2,986)	\$50	September, 2023	(93,776)	(31,881)
SPDR S&P Homebuilders ETF	Written Put Option	(2,973)	\$65	July, 2023	(45,063)	(19,088)
US Bond Futures	Written Put Option	(591)	\$119	August, 2023	(336,768)	(207,730)
US Bond Futures	Written Put Option	(443)	\$122	July, 2023	(224,485)	(64,116)
					<u>(2,259,469)</u>	<u>(1,008,309)</u>
<b>Total Written Options</b>					<b><u>(4,074,122)</u></b>	<b><u>(4,270,510)</u></b>

## APPENDIX B

### FOREIGN EXCHANGE FORWARD CONTRACTS (0.3%)

Purchased Currency	Sold Currency	Forward Rate	Maturity Date	Fair Value (\$)	Counterparty	Credit Rating
CAD \$359,733,766	USD \$270,383,000	1.33046	2023-08-10	2,174,510	Canadian Imperial Bank of Commerce	A-1
CAD \$650,721	EUR \$436,000	1.49248	2023-08-03	20,400	Canadian Imperial Bank of Commerce	A-1
CAD \$2,197,404	USD \$1,650,000	1.33176	2023-08-10	15,403	Canadian Imperial Bank of Commerce	A-1
<b>Unrealized gain on foreign exchange forward contracts at fair value</b>				<b><u>2,210,313</u></b>		
<b>Net unrealized gain (loss) on foreign exchange forward contracts at fair value</b>				<b><u>2,210,313</u></b>		

# PICTON MAHONEY FORTIFIED INCOME FUND

## FUND SPECIFIC NOTES

As at June 30, 2023 (unaudited)

### 1. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The following tables illustrate 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	21,806,129	-	-	21,806,129
Bonds - Long	-	580,630,647	37,167,685	617,798,332
Options - Long	3,006,562	-	-	3,006,562
Forward contracts - Long	-	2,210,313	-	2,210,313
Bonds - Short	-	(54,573,665)	-	(54,573,665)
Options - Short	(4,270,510)	-	-	(4,270,510)
<b>Total</b>	<b>20,542,181</b>	<b>528,267,295</b>	<b>37,167,685</b>	<b>585,977,161</b>

ASSETS (LIABILITIES) AT FAIR VALUE AS AT DECEMBER 31, 2022				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Equities - Long	14,543,485	-	-	14,543,485
Bonds - Long	-	563,130,504	22,925,863	586,056,367
Options - Long	1,462,859	-	-	1,462,859
Forward contracts - Long	-	94,351	-	94,351
Bonds - Short	-	(46,980,268)	-	(46,980,268)
Options - Short	(306,689)	-	-	(306,689)
Forward contracts - Short	-	(2,398,810)	-	(2,398,810)
<b>Total</b>	<b>15,699,655</b>	<b>513,845,777</b>	<b>22,925,863</b>	<b>552,471,295</b>

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

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

June 30, 2023	Debt Instruments - Long \$	Debt Instruments - Short \$	Total \$
<b>Balance at Beginning of Period</b>	22,925,863	-	22,925,863
Investment purchases during the period	16,401,842	-	16,401,842
Proceeds from sales during the period	(1,600,000)	-	(1,600,000)
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	(560,020)	-	(560,020)
<b>Balance at End of Period</b>	<b>37,167,685</b>	<b>-</b>	<b>37,167,685</b>
<b>Total change in unrealized appreciation (depreciation) for assets held as at June 30, 2023</b>			<b>(560,020)</b>

# PICTON MAHONEY FORTIFIED INCOME FUND

## FUND SPECIFIC NOTES (CONTINUED)

December 31, 2022	Debt Instruments - Long \$	Debt Instruments - Short \$	Total \$
<b>Balance at Beginning of Year</b>	12,077,954	-	12,077,954
Investment purchases during the year	11,716,865	-	11,716,865
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	(868,956)	-	(868,956)
<b>Balance at End of Year</b>	<b>22,925,863</b>	<b>-</b>	<b>22,925,863</b>
<b>Total change in unrealized appreciation (depreciation) for assets held as at December 31, 2022</b>			<b>(777,293)</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 \$1,858,385 as at June 30, 2023 (December 31, 2022 - \$1,146,293). Transfers between levels on the fair value hierarchy table are deemed to have occurred at the beginning of the reporting period.

June 30, 2023							
Security Name	Fair Value	Valuation Technique	Unobservable Inputs	Reasonable Shift (+)	Reasonable Shift (-)	Change in Valuation (+)	Change in Valuation (-)
Clarity Trust 10.923%, 2025-04-15	600,000	Private valuation	Broker quote	5%	5%	\$30,000	\$(30,000)
Fusion Trust 10.923%, 2025-04-15	600,000	Private valuation	Broker quote	5%	5%	\$30,000	\$(30,000)
Bruce Trail Funding Corporation 16.340%, 2028-08-31	6,910,198	Private valuation	Broker quote	5%	5%	\$345,510	\$(345,510)
Manitoulin USD Ltd. 13.290%, 2027-11-10	11,219,434	Private valuation	Broker quote	5%	5%	\$560,972	\$(560,972)
Real Estate Asset Liquidity Trust 3.707%, 2031-06-12	3,354,196	Private valuation	Broker quote	5%	5%	\$167,710	\$(167,710)
Real Estate Asset Liquidity Trust 3.707%, 2031-07-12	1,074,459	Private valuation	Broker quote	5%	5%	\$53,723	\$(53,723)
Real Estate Asset Liquidity Trust 3.707%, 2031-07-12	2,017,902	Private valuation	Broker quote	5%	5%	\$100,895	\$(100,895)
Real Estate Asset Liquidity Trust 3.707%, 2031-08-12	1,414,620	Private valuation	Broker quote	5%	5%	\$70,731	\$(70,731)
Real Estate Asset Liquidity Trust 3.707%, 2031-11-12	2,043,779	Private valuation	Broker quote	5%	5%	\$102,189	\$(102,189)
St Lawrence Srt Usd Corp. 0.000%, 2033-05-25	7,933,097	Private valuation	Broker quote	5%	5%	\$396,655	\$(396,655)

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	800,000	Private valuation	Broker quote	5%	5%	\$40,000	\$(40,000)
Fusion Trust Series D Medium Term Note 6.42%, 2023-04-17	800,000	Private valuation	Broker quote	5%	5%	\$40,000	\$(40,000)
Manitoulin USD Ltd. 13.290%, 2027-11-10	11,521,754	Private valuation	Broker quote	5%	5%	\$576,088	\$(576,088)
Real Estate Asset Liquidity Trust 3.707%, 2031-06-12	3,343,785	Private valuation	Broker quote	5%	5%	\$167,189	\$(167,189)
Real Estate Asset Liquidity Trust 3.707%, 2031-07-12	1,083,211	Private valuation	Broker quote	5%	5%	\$54,161	\$(54,161)
Real Estate Asset Liquidity Trust 3.707%, 2031-07-12	1,995,523	Private valuation	Broker quote	5%	5%	\$99,776	\$(99,776)
Real Estate Asset Liquidity Trust 3.707%, 2031-08-12	1,390,279	Private valuation	Broker quote	5%	5%	\$69,514	\$(69,514)
Real Estate Asset Liquidity Trust 3.707%, 2031-11-12	1,991,311	Private valuation	Broker quote	5%	5%	\$99,566	\$(99,566)



# PICTON MAHONEY FORTIFIED INCOME 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			Net \$
	Gross Assets / (Liabilities) \$	Financial Instruments \$	Collateral received/paid \$	
<b>June 30, 2023</b>				
Derivative assets - Foreign exchange forward contracts	2,210,313	-	-	2,210,313
Derivative liabilities - Foreign exchange forward contracts	-	-	-	-
<b>December 31, 2022</b>				
Derivative assets - Foreign exchange forward contracts	94,351	(94,351)	-	-
Derivative liabilities - Foreign exchange forward contracts	(2,398,810)	94,351	-	(2,304,459)

### 4. SECURITIES LENDING TRANSACTIONS

The Fund has entered into a securities lending program with its 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 consists primarily of fixed income securities. As at June 30, 2023, there was \$16,530,443 (Collateral - \$16,861,055) of securities on loan (December 31, 2022 - \$7,998,289 (Collateral - \$8,158,257) of securities on loan).

Securities lending income reported in the Statements of Comprehensive Income is net of a securities lending charge which the Fund's custodian is entitled to receive. For the six month periods ended June 30, 2023 and 2022 securities lending income were as follows:

	June 30, 2023 (\$)	June 30, 2022 (\$)
Gross securities lending income	18,917	12,544
Securities lending charges	(6,621)	(4,390)
<b>Net securities lending income</b>	<b>12,296</b>	<b>8,154</b>
Withholding taxes on securities lending income	-	(8)
<b>Net securities lending income received by the Fund</b>	<b>12,296</b>	<b>8,146</b>
Security lending charges percentage of gross securities lending income	35%	35%

### 5. OTHER PRICE RISK

Using Beta as a measure of the relationship of the Fund's performance versus its index, if the blended index consisting of 75% BofA Merrill Lynch Global High Yield Index (hedged to Canadian dollars) and 25% BofA Merrill Lynch Global Corporate Index (hedged to Canadian dollars) were to increase or decrease by 10%, net assets would have increased or decreased by approximately \$26,023,565 (December 31, 2022 - \$33,861,505). 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.



# PICTON MAHONEY FORTIFIED INCOME FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 6. 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	347,399,789	9,836,337	(359,967,667)	(2,731,541)	-0.4%
European Euro	557,810	-	(629,438)	(71,628)	0.0%
British Pound	(1,279)	-	-	(1,279)	0.0%
<b>Net Exposure</b>	<b>347,956,320</b>	<b>9,836,337</b>	<b>(360,597,105)</b>	<b>(2,804,448)</b>	<b>-0.4%</b>

FINANCIAL INSTRUMENTS					
December 31, 2022 Currency	Monetary \$	Non-Monetary \$	Forwards Currency Contracts \$	Total \$	Percentage of Net Assets %
United States Dollar	333,923,696	4,236,738	(335,485,620)	2,674,814	0.4%
European Euro	735,521	-	(630,487)	105,034	0.0%
British Pound	(1,206)	-	-	(1,206)	0.0%
<b>Net Exposure</b>	<b>334,658,011</b>	<b>4,236,738</b>	<b>(336,116,107)</b>	<b>2,778,642</b>	<b>0.4%</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 \$140,222 (December 31, 2022 - \$138,932). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

### 7. 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 \$17,080,226 (December 31, 2022 - \$16,386,811). 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	3,893,555	-	3,893,555
1-3 years	100,011,441	-	100,011,441
3-5 years	178,797,746	(6,970,587)	171,827,159
Greater than 5 years	335,095,590	(47,603,078)	287,492,512
<b>Total</b>	<b>617,798,332</b>	<b>(54,573,665)</b>	<b>563,224,667</b>

Debt Instruments by Maturity Date	December 31, 2022 (\$)		
	Long Positions	Short Positions	Total
Less than 1 year	1,600,000	-	1,600,000
1-3 years	49,793,903	-	49,793,903
3-5 years	203,160,456	(8,715,727)	194,444,729
Greater than 5 years	331,502,008	(38,264,541)	293,237,467
<b>Total</b>	<b>586,056,367</b>	<b>(46,980,268)</b>	<b>539,076,099</b>

# PICTON MAHONEY FORTIFIED INCOME FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 8. 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 of credit rating A+.

June 30, 2023				December 31, 2022			
Bond Ratings	Net	Long	Short	Bond Ratings	Net	Long	Short
AAA	-0.1%	0.1%	-0.2%	AAA	0.0%	0.0%	0.0%
A-	-0.4%	0.0%	-0.4%	A-	0.2%	0.8%	-0.6%
BBB+	1.4%	1.8%	-0.4%	BBB+	1.0%	1.8%	-0.8%
BBB	4.9%	5.0%	-0.1%	BBB	6.8%	7.0%	-0.2%
BBB-	13.3%	14.1%	-0.8%	BBB-	11.4%	12.2%	-0.8%
BB+	9.3%	9.7%	-0.4%	BB+	9.7%	10.6%	-0.9%
BB	18.0%	18.8%	-0.8%	BB	18.2%	18.9%	-0.7%
BB-	7.1%	8.8%	-1.7%	BB-	9.5%	10.2%	-0.7%
B+	13.5%	14.5%	-1.0%	B+	6.5%	7.0%	-0.5%
B	3.7%	5.0%	-1.3%	B	9.6%	10.5%	-0.9%
B-	1.9%	2.3%	-0.4%	B-	2.0%	2.5%	-0.5%
CCC+	0.0%	0.0%	0.0%	CCC+	1.0%	1.2%	-0.2%
CCC	0.0%	0.0%	0.0%	CCC	0.3%	0.3%	0.0%
NR	6.8%	7.0%	-0.2%	NR	6.0%	6.4%	-0.4%

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.

### 9. 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>90.9%</b>	<b>91.8%</b>
<b>Canadian Equities</b>	<b>3.1%</b>	<b>2.2%</b>
Financials	1.6%	1.6%
Energy	1.4%	0.6%
Real Estate	0.1%	0.0%
<b>Canadian Debt</b>	<b>56.1%</b>	<b>53.9%</b>
Corporate Bonds	53.6%	52.4%
Asset-Backed Securities	2.5%	1.5%
<b>Global Debt</b>	<b>31.0%</b>	<b>35.5%</b>
United States Bonds	26.6%	24.8%
International Bonds	4.4%	10.7%
<b>Derivatives</b>	<b>0.7%</b>	<b>0.2%</b>
<b>SHORT POSITIONS</b>	<b>-8.3%</b>	<b>-7.6%</b>
<b>Canadian Debt</b>	<b>-1.4%</b>	<b>-1.8%</b>
Corporate Bonds	-1.2%	-1.8%
Government Bonds	-0.2%	0.0%
<b>Global Debt</b>	<b>-6.3%</b>	<b>-5.4%</b>
United States Bonds	-5.5%	-4.1%
International Bonds	-0.8%	-1.3%
<b>Derivatives</b>	<b>-0.6%</b>	<b>-0.4%</b>

# PICTON MAHONEY FORTIFIED INCOME FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 10. 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	54,573,665	-	-	54,573,665
Distributions payable	3,127	-	-	3,127
Redemptions payable	626,488	-	-	626,488
Accrued liabilities and other payables	-	3,307,896	-	3,307,896
Payable for investments purchased	17,728,462	-	-	17,728,462
Derivative liabilities	4,270,510	-	-	4,270,510

December 31, 2022 Financial Liabilities	On Demand \$	< 3 months \$	> 3 months \$	Total \$
Short positions	46,980,268	-	-	46,980,268
Distributions payable	175	-	-	175
Redemptions payable	503,794	-	-	503,794
Accrued liabilities and other payables	-	1,613,629	-	1,613,629
Derivative liabilities	2,705,499	-	-	2,705,499

### 11. FUND UNIT TRANSACTIONS

For the six month periods ended June 30 (unaudited)

	2023					2022				
	Class A	Class F	Class FT	Class T	Class I	Class A	Class F	Class FT	Class T	Class I
Units issued and outstanding, beginning of period	7,452,695	48,748,371	3,370,617	422,609	3,673,271	8,679,748	44,166,743	5,095,664	297,851	4,766,283
Units issued	926,993	9,988,518	1,954,233	89,657	-	660,376	9,076,596	743,967	103,775	114,181
Units reinvested	155,775	803,120	2,643	8,523	96,077	159,785	762,099	3,014	6,275	124,226
Units redeemed	(1,242,162)	(5,983,391)	(1,863,817)	(19,901)	(209,514)	(1,648,538)	(7,842,433)	(503,155)	(12,572)	(498,794)
<b>Units issued and outstanding, end of period</b>	<b>7,293,301</b>	<b>53,556,618</b>	<b>3,463,676</b>	<b>500,888</b>	<b>3,559,834</b>	<b>7,851,371</b>	<b>46,163,005</b>	<b>5,339,490</b>	<b>395,329</b>	<b>4,505,896</b>
<b>Weighted average number of units held during the period</b>	<b>7,460,790</b>	<b>52,031,399</b>	<b>4,092,524</b>	<b>456,286</b>	<b>3,598,836</b>	<b>8,160,823</b>	<b>45,560,344</b>	<b>5,399,485</b>	<b>356,766</b>	<b>4,622,111</b>

### 12. COMMISSIONS

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

	2023	2022
Brokerage commissions	1,540	2,695
Soft Dollar commissions	67	71

### 13. TAX LOSS CARRY FORWARDS

As at December 31 (in \$000)

	2022
Net capital losses carry forward	23,270
Non-capital losses carry forward	-

# PICTON MAHONEY FORTIFIED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2023 (unaudited)

### 1. GENERAL INFORMATION

Picton Mahoney Fortified Income Fund (the "Fund") is an open-ended mutual trust established under the laws of the Province of Ontario pursuant to a trust agreement dated October 21, 2015 (the "Trust Declaration"). The Fund commenced operations on October 29, 2015. 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 October 29, 2015, 15,001 Class A units of the Fund were issued to the Manager of the Fund, for cash consideration of CAD \$10.00 per unit.

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 FT, Class T and Class I 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 FT 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 FT units are also designed to provide cash flow to investors by making monthly distributions of cash. Class T units are available to all investors and are designed to provide cash flow to investors by making monthly distributions of cash. 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.

As at June 30, 2023, the Fund currently has 5 Classes of Units: Class A, Class F, Class FT, Class T, and 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 income securities while mitigating capital loss by engaging in hedging strategies for downside risk protection.

### 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 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, warrants, and exchanged traded funds 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.

# PICTON MAHONEY FORTIFIED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2023 (unaudited)

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.

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 FT, Class T and Class I 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.

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.

# PICTON MAHONEY FORTIFIED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2023 (unaudited)

Any purchase, switch, reclassification or redemption instruction received after 4:00pm (Eastern Time) on Valuation Day will be processed on the next Valuation 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) IFRS 9, Financial Instruments

IFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and liabilities.

Classification and measurement of debt assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognized at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income.

The Fund's investment portfolio continues to be classified as fair value through profit or loss and other financial assets which are held for collection continue to be measured at amortized cost.

### (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. The Manager has determined that all of the underlying funds in which the Funds invest are unconsolidated structured entities. In making this determination, the Manager evaluated the fact that decision making about the underlying funds' activities is not governed by voting or similar rights held by the Funds and other investors in any underlying funds.

The Fund invests in mortgage-related and other asset-backed securities. These securities include mortgage pass-through securities, collateralized mortgage obligations, commercial mortgage-backed securities, asset-backed securities, collateralized debt obligations and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. The Manager has determined that such securities are also unconsolidated structured entities. The debt and equity securities issued by these securities may include tranches with varying levels of subordination. These securities may provide a monthly payment which consists of both interest and principal payments.

Mortgage-related securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans.

The carrying value of mortgage related and other asset-backed securities are disclosed in the Schedule of Investment Portfolio. The fair value of such securities as at June 30, 2023 and December 31, 2022 represents the maximum exposure in losses at that date. The change in fair value of mortgage related and other asset backed securities are included in the Statement of Comprehensive Income and Change in unrealized appreciation (depreciation) on investments, options, and foreign exchange forward contracts.

### (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



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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 7 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 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 amounts receivable for investments sold, subscriptions receivable, dividends receivable, interest and other receivable, 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.

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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 8 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 with the exception of bonds sold short. At the Manager's discretion, bonds sold short can be repurchased to settle the liability immediately. 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.

## 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.

## 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 and Class I units will be automatically reinvested in additional units. For Class FT and Class T units, unitholders will receive a target monthly distribution at an initial rate of 5% per annum. The target rate of monthly distribution will be reset at the beginning of each calendar year to provide a target yield based on the net asset value per Class FT unit or Class T unit as at December 31 of the prior year. Throughout the year, such monthly distributions to unitholders will be composed of net income, net capital gains and/or a return of capital. All distributions on Class FT and Class T units will be paid in cash.

## 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 has elected 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, are 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



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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 1.90%, on Class F units is 0.90%, on Class FT units is 0.90%, and on Class T units is 1.90%. 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.

#### (b) Performance Fees

The Manager receives a performance fee payable in respect of each class of units of the Fund. The performance fee is equal to the daily net asset value of the class of units of the Fund during the calendar quarter multiplied by 20% of the amount by which the total return of the class of units exceeds the total percentage increase or decrease in the blended benchmark consisting of 75% BofA Merrill Lynch Global High Yield Index (hedged to Canadian dollars) and 25% BofA Merrill Lynch Global Corporate Index (hedged to Canadian dollars) (the "Performance Fee Index") since the end of the period for which the last performance fee was paid. If at any time the total return of the class of units of the Fund is less than its Performance Fee Index, then no performance fee will be payable until the total return of the class of units of the Fund relative to its Performance Fee Index has exceeded the amount of the deficiency calculated on a percentage basis. 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 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 of Fund Expenses

When a Top 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 Top Fund. The fees and expenses of the underlying fund will have an impact on the management expense ratio of a Top Fund that invests in such underlying fund as the Top Fund is required, in determining its management expense ratio, to take into account the expenses incurred by the Top Fund that are attributable to its investment in the underlying fund. However, the Top 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 Top 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, its affiliate or associate, 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**

### **Corporate Address**

#### **Picton Mahoney Asset Management**

33 Yonge Street, Suite. 830  
Toronto, Ontario  
Canada M5E 1G4

Telephone: 416.955.4108

Toll free: 1.866.369.4108

Fax: 416.955.4100

Email: [service@pictonmahoney.com](mailto:service@pictonmahoney.com)

[www.pictonmahoney.com](http://www.pictonmahoney.com)

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

#### **Picton Mahoney Funds**

C/O RBC Investor Services Trust,  
Shareholder Services  
155 Wellington Street West, 3<sup>rd</sup> Floor  
Toronto, ON  
Canada M5V 3L3

### **Auditor**

#### **PricewaterhouseCoopers LLP**

18 York Street, Suite 2600  
Toronto, Ontario  
Canada M5J 0B2

### **Legal Counsel**

#### **McMillan LLP**

Brookfield Place, Suite 4400  
181 Bay Street  
Toronto, Ontario  
Canada M5J 2T3