

**MFG DIVERSIFIED STRATEGY FUND**  
**FINANCIAL STATEMENTS**  
**December 31, 2020**

## INDEPENDENT AUDITOR'S REPORT

To the Unitholders of  
MFG Diversified Strategy Fund (the "Fund")

### Opinion

We have audited the financial statements of the Fund, which comprise the statement of financial position as at December 31, 2020, and the statement of comprehensive income (loss), statement of changes in net assets attributable to holders of redeemable units and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other matter

The financial statements of the Fund for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on March 25, 2020.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

*Ernst & Young LLP*

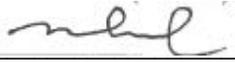
Chartered Professional Accountants

Saskatoon, Canada  
March 31, 2021

# MFG DIVERSIFIED STRATEGY FUND

## Statement of Financial Position As at December 31, 2020

	December 31, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,963,931	\$ 869,383
Investments owned, at fair value through profit or loss (Note 8)	13,840,951	9,084,776
Dividends receivable	4,518	11,579
Sales proceeds receivable	–	766,035
	<u>15,809,400</u>	<u>10,731,773</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	43,277	36,424
Redemptions payable	26,000	100,000
Performance fee payable (Note 5)	291,489	48,420
	<u>360,766</u>	<u>184,844</u>
<b>Net Assets Attributable to Holders of Redeemable Units</b>	<b>\$ 15,448,634</b>	<b>\$ 10,546,929</b>
<b>Number of Redeemable Units Outstanding (Note 6)</b>	<b>1,135,762</b>	<b>887,757</b>
<b>Net Assets Attributable to Holders of Redeemable Units per Unit</b>	<b>\$ 13.60</b>	<b>\$ 11.88</b>

Approved on behalf of the Trust,  Trustee  
Meckelborg Financial Group Ltd.

# MFG DIVERSIFIED STRATEGY FUND

## Statement of Comprehensive Income For the year ended December 31, 2020

	2020	2019
<b>Income</b>		
Net change in unrealized appreciation in value of investments	\$ 2,208,259	\$ 283,520
Net realized gain on sale of investments	1,180,699	1,227,006
Dividends	294,528	273,857
Income from investments	65,404	94,082
Foreign exchange gain (loss)	21,995	(44,795)
	<u>3,770,885</u>	<u>1,833,670</u>
<b>Expenses</b>		
Performance fees (Note 5)	345,005	62,000
Operating costs	65,265	58,508
Commissions and other portfolio transaction costs	39,709	26,680
Audit fees	21,199	21,826
Withholding tax	3,854	3,346
Interest and borrow fees	—	6,644
	<u>475,032</u>	<u>179,004</u>
<b>Increase in Net Assets Attributable to Holders of Redeemable Units</b>	<u>\$ 3,295,853</u>	<u>\$ 1,654,666</u>
<b>Increase in Net Assets Attributable to Holders of Redeemable Units per Unit (Note 10)</b>	\$ 3.23	\$ 1.94

## MFG DIVERSIFIED STRATEGY FUND

### Statement of Changes in Net Assets Attributable to Holders of Redeemable Units For the year ended December 31, 2020

	Net assets attributable to holders of redeemable units, beginning of year	Sale of redeemable units issued	Redemption of redeemable units	Distribution to unitholders	Reinvestment of distributions	Increase in net assets attributable to holders of redeemable units	Net assets attributable to holders of redeemable units, end of year
<b>December 31, 2020</b>	\$ 10,546,929	\$ 2,505,424	\$ (899,572)	\$ (1,213,371)	\$ 1,213,371	\$ 3,295,853	\$ 15,448,634

	Net assets attributable to holders of redeemable units, beginning of year	Sale of redeemable units issued	Redemption of redeemable units	Distribution to unitholders	Reinvestment of distributions	Increase in net assets attributable to holders of redeemable units	Net assets attributable to holders of redeemable units, end of year
<b>December 31, 2019</b>	\$ 11,715,347	\$ 331,062	\$ (3,154,150)	\$ (1,020,157)	\$ 1,020,161	\$ 1,654,666	\$ 10,546,929

# MFG DIVERSIFIED STRATEGY FUND

## Statement of Cash Flows

For the year ended December 31, 2020

	2020	2019
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Increase in Net Assets Attributable to Holders of Redeemable Units	\$ 3,295,853	\$ 1,654,666
Adjustments for non-cash items		
Commissions and other portfolio transaction costs	39,709	26,680
Net realized gain on sale of investments	(1,180,699)	(1,227,006)
Net change in unrealized appreciation in value of investments	(2,208,259)	(283,520)
Foreign exchange (gain) loss	(21,995)	44,795
Change in non-cash balances		
Decrease in dividends receivable	7,061	1,057
Decrease (increase) in sales proceeds receivable	766,035	(766,035)
Increase in accounts payable and accrued liabilities	6,853	1,238
(Decrease) increase in redemptions payable	(74,000)	100,000
Increase in performance fee payable	243,069	48,420
Proceeds from sale of investments	7,899,620	6,476,461
Purchase of investments	(9,306,546)	(3,437,969)
Cash (used in) provided by operating activities	<u>(533,299)</u>	<u>2,638,787</u>
<b>Financing Activities</b>		
Proceeds from issuances of redeemable units	2,505,424	331,062
Amount paid on redemption of redeemable units	(899,572)	(3,154,150)
Distribution to unitholders, net of distribution reinvested	-	4
Cash provided by (used in) financing activities	<u>1,605,852</u>	<u>(2,823,084)</u>
Increase (decrease) in cash during the year	1,072,553	(184,297)
Foreign exchange gain (loss) on cash	21,995	(44,795)
Cash and cash equivalents, beginning of year	<u>869,383</u>	<u>1,098,475</u>
<b>Cash and cash equivalents, end of year</b>	<b>\$ <u>1,963,931</u> \$</b>	<b>\$ <u>869,383</u></b>
<b>Supplemental information*</b>		
Interest paid	\$ -	\$ 6,644
Interest received	65,404	87,846
Dividends received, net of withholding taxes	297,736	271,569

\*Included as a part of cash flows from operating activities

# MFG DIVERSIFIED STRATEGY FUND

## Notes to Financial Statements

**December 31, 2020**

(In Canadian \$)

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### **1. TRUST ORGANIZATION AND NATURE OF OPERATIONS**

MFG Diversified Strategy Fund (the "Trust") is an investment trust which was created under the laws of the Province of Saskatchewan pursuant to a Master Declaration of Trust dated May 28, 2012 (the "Trust Agreement"). Meckelborg Financial Group Ltd. (the "Trustee" or "Manager" or "Investment Advisor"), a company incorporated under the laws of Canada, is the trustee, manager and investment advisor of the Trust. The Trust commenced active operations on July 12, 2012.

The address of the Trust's registered office is, 200, 226 – 20th St East, Saskatoon SK S7K 0A6.

The investment objective of the Trust is to provide long term capital appreciation with less volatility and a better risk adjusted rate of return than traditional equity indices. The Trust will substitute the fixed income portion of a traditional 60/40 (stock/bond) portfolio with a mixture of alternative investment strategies. The targeted asset mix of the Trust will essentially be 60% equity and 40% alternative strategies.

The success of the Trust depends on the continued services of the Manager and will be influenced by a number of risk factors associated with investments in equities, options, and other instruments and the use of leverage, including derivative hedge risk, market liquidity, short sales, portfolio turnover, foreign currency exposure, foreign market exposure, and interest rate fluctuations.

### **2. BASIS OF PRESENTATION**

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB"). The Trust reports under this basis of accounting as required by Canadian Securities Legislation and Canadian Accounting Standards Board.

These financial statements have been prepared on a historical cost basis, except for fair value through profit or loss investments which are presented at fair value.

The financial statements for the year ended December 31, 2020 were authorized for issue by the Manager on March 31, 2021.

# MFG DIVERSIFIED STRATEGY FUND

## Notes to Financial Statements

**December 31, 2020**

(In Canadian \$)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summarizes the accounting policies of the Trust.

#### **Valuation of investments**

The fair value of financial assets and financial liabilities traded in active markets (such as publicly traded derivatives and trading securities) is based on quoted market prices. In accordance with the provisions of the Declaration of Trust, investment positions are valued based on the last traded market price for the purpose of determining the net asset per unit for subscriptions and redemptions. For financial reporting purposes, the Trust investments are valued on the prices provided by an independent reputable pricing services company who prices the securities based on recent transactions and quotes received from market participants and through incorporating observable market data and using standard market convention practices.

The fair value of financial assets and financial liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Trust uses a variety of methods and makes assumptions that are based on market conditions existing at each Statement of Financial Position date. Valuation techniques used include the use of comparable recent arm's-length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Investments in private companies and other assets for which no active market exists are initially valued at cost and adjusted each reporting period, when appropriate, to reflect the most recent value at which such securities have been exchanged in an arm's length transaction which approximates a trade effected in a published market, unless a different fair market value is otherwise determined to be appropriate by the Manager. As at December 31, 2020 and 2019, the Trust did not hold any investments in private companies and other assets for which no active market existed.

# MFG DIVERSIFIED STRATEGY FUND

## Notes to Financial Statements

**December 31, 2020**

(In Canadian \$)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Classification

The Trust classifies its investments in equity securities at fair value through profit or loss “FVTPL”, in accordance with IFRS 9, Financial Instruments (“IFRS 9”).

The Trust recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost. Regular way purchases and sales of financial assets are recognized at their trade date. The Trust's investments have been classified as FVTPL. The Trust's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount, which represents the fair value. All other financial assets and financial liabilities are classified as subsequently measured at amortized cost. Under this method, financial assets and financial liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. A financial asset is classified as subsequently measured at amortized cost only if both of the following criteria are met:

- a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- b) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding

The Trust's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value (Trading NAV) for transactions with unitholders.

#### Fair Value

Investments measured at fair value are classified into one of three fair value hierarchy levels, based on the lowest level input that is significant to the fair value measurement in its entirety. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The three fair value hierarchy levels are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included in 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).

The level in the hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement.

Refer to Note 8 for the classification of the Trust's financial instruments.

# MFG DIVERSIFIED STRATEGY FUND

## Notes to Financial Statements

**December 31, 2020**

(In Canadian \$)

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In the normal course of business, the Trust enters into various master netting agreements or similar agreements that do not meet the criteria for offsetting in the Statement of Financial Position but still allow for the related amounts to be offset in certain circumstances, such as bankruptcy or termination of the contracts.

#### **Recognition/derecognition**

The Trust recognizes financial assets or financial liabilities designated as trading securities on the trade date – the date it commits to purchase or sell short the instruments. From this date any gains and losses arising from changes in fair value of the assets or liabilities are recognized in the Statement of Comprehensive Income.

Other financial assets are derecognized when and only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Trust derecognizes financial liabilities when, and only when, the Trust's obligations are discharged, cancelled or they expire.

#### **Valuation of underlying funds**

Investments in underlying funds are valued at the series Net Asset Value per unit as of the valuation date, as this value is the most readily and regularly available. Commissions and other portfolio transaction costs do not apply to investments in underlying funds as these investments do not incur such costs.

#### **Commissions and other portfolio transaction costs**

Commissions and other portfolio 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 exchanges, and transfer taxes and duties. Such costs are expensed and are included in "Commissions and other portfolio transaction costs" in the Statement of Comprehensive Income.

# MFG DIVERSIFIED STRATEGY FUND

## Notes to Financial Statements

**December 31, 2020**

(In Canadian \$)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Investment entity**

The Trust has determined that it is an investment entity as defined by IFRS 10, Consolidated Financial Statements and the Amendments to IFRS 10, as the following conditions exist:

- a) The Trust has obtained funds from one or more investors for the purpose of providing those investors with investment management services;
- b) The Trust has committed to its investors that its business purpose is to invest funds solely for returns from capital appreciation and investment income; and
- c) The Trust measures and evaluates the performance of substantially all of its investments on a fair value basis.

As an investment entity, the Trust is exempted from consolidating particular subsidiaries and instead is required to measure its investments in these particular subsidiaries at FVTPL. As at December 31, 2020, the Trust did not have any subsidiaries.

#### **Classification of units issued by the Trust**

The units of the Trust are classified as financial liabilities under IFRS as the Trust is contractually obligated to repurchase or redeem them for cash or another financial asset when the units are disposed. The net assets attributable to contract holders are classified as FVTPL.

#### **Cost of investments**

The cost of investments represents the amount paid for each security and is determined on an average cost basis excluding commissions and other portfolio transaction costs.

#### **Revenue recognition**

Income from investments is recognized as earned, and is accrued daily based on the effective interest rate and dividend income is recognized on the ex-dividend date, when the Trust's right to receive payments is established. Realized gains and losses from investment transactions are calculated on an average cost basis.

Realized gain/loss on sale of investments and unrealized appreciation/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.

#### **Translation of foreign currency**

The functional and presentation currency of the Trust is the Canadian dollar. The fair value of foreign investments and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at 4:00pm Eastern Standard Time (the "closing rate") on each valuation day. Purchases and sales of foreign securities denominated in foreign currencies and the related income are translated into Canadian dollars at rates of exchange prevailing on the respective dates of such transactions. Foreign exchange gain or loss arising on translation are included in Statement of Comprehensive Income.

#### **Net Assets attributable to holders per unit**

The Net Assets attributable to holders of redeemable units per unit is calculated by dividing the Net Assets attributable to holders of redeemable units of a particular class of units by the total number of units of that particular class outstanding at the end of the year.

# MFG DIVERSIFIED STRATEGY FUND

## Notes to Financial Statements

**December 31, 2020**

(In Canadian \$)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Increase in Net Assets attributable to holders per unit**

Increase in Net Assets attributable to holders of redeemable units per unit is based on the increase in Net Assets attributable to holders of redeemable units attributed to each class of units, divided by the weighted average number of units outstanding of that class during the year. Refer to Note 10 for the calculation.

#### **Use of estimates**

The preparation of financial statements in accordance with IFRS requires management to use accounting estimates. It also requires management to exercise its judgment in the process of applying the Trust's accounting policies. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. Refer to Note 4 for more details on critical accounting estimates and judgements.

#### **Derivative transactions**

The Trust may use derivative contracts to enhance returns of the Trust and to manage risks associated with its investments. The value of the contracts are marked to market on the valuation date and the resultant gains and losses, both realized and unrealized, are recognized in the Statement of Comprehensive Income. As at December 31, 2020 and 2019, the Trust did not hold any derivative contracts.

#### **Written call options**

The premium received upon writing a call option is recorded as a deferred credit. Upon expiry of the option or when the option is exercised by its holder, the premium is recognized as a gain and is included in "Net realized gain on sale of investments" in the Statement of Comprehensive Income.

#### **Foreign exchange forward contracts**

The Trust may enter into foreign exchange forward contracts for hedging purposes or to establish an exposure to a particular currency. Upon closing of a contract, the gain or loss is included in "Net realized (loss) gain on sale of investments" in the Statement of Comprehensive Income. Outstanding settlement amounts on the close out of foreign exchange forward contracts are included in "Receivable for foreign exchange forward contracts" or "Payable for foreign exchange forward contracts" in the Statement of Financial Position. As at December 31, 2020 and 2019, the Trust did not hold any foreign exchange forward contracts.

#### **Cash and cash equivalents**

Cash is comprised of deposits with banks. Cash is carried at amortized cost, which is considered to be equivalent to fair value due to the short-term nature of these assets.

#### **Other assets and liabilities**

Dividends receivable and sales proceeds receivable are classified as subsequently measured at amortized cost. Accounts payable and accrued liabilities, redemptions payable and performance fee payable are classified as financial liabilities and subsequently measured at amortized cost using the effective interest rate method. Financial liabilities are generally settled within three months of issuance. Other assets and liabilities are short-term in nature and are carried at amortized cost which approximates fair value.

# MFG DIVERSIFIED STRATEGY FUND

## Notes to Financial Statements

**December 31, 2020**

(In Canadian \$)

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### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with IFRS requires management to make certain critical accounting estimates and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected. The following discusses the most significant accounting judgements and estimates made in preparing the Trust's financial statements:

#### Functional currency

These financial statements are presented in Canadian dollars, which is the Trust's functional currency. This is considered to most faithfully represent the economic effects of the Trust's underlying transactions, events, and conditions taking into consideration the manner in which securities are issued and redeemed and how returns and performance by the Trust are measured.

#### Estimations of fair value

The Trust may, from time to time, hold financial instruments that are not quoted in active markets, such as unlisted securities or private securities. To estimate fair value, the Manager uses valuation techniques that make use of observable data, to the extent practicable. The Trust categorizes the fair value of its assets and liabilities into three categories, which are differentiated based on the observable nature of the inputs and extent of estimation required. See Note 8 for the fair value classifications of the Trust.

# MFG DIVERSIFIED STRATEGY FUND

## Notes to Financial Statements

**December 31, 2020**

(In Canadian \$)

### 5. RELATED PARTY TRANSACTIONS

Meckelborg Financial Group Ltd. and its Directors are considered related parties of the Trust due to direct or indirect common control.

#### **Board of directors of the Investment Manager**

For the years ended December 31, 2020 and 2019, the units held by Meckelborg Financial Group Ltd. in the Trust are detailed below:

	2020	2019
Number of units at the beginning of the year	22,872	40,972
Number of units purchased during the year	18,075	–
Number of units sold during the year	–	(21,718)
Number of units issued on reinvestments during the year	4,496	3,618
Number of units at year end	45,443	22,872

#### **Management fees**

Unitholders holding Class M units of the Trust shall pay the Manager a management fee in accordance with the investment management agreement between the Manager and the unitholder.

#### **Performance fee**

The Trust shall pay a performance fee to the Manager equal to the product of (a) 10% of the positive difference between (i) the Adjusted Class Net Asset Value per unit on the first business day of each week, or such other business day as may be specified by the Manager, and in any event, on December 31 of each year and such other day as agreed from time to time by the Trustee (each, a “Valuation Date”), and (ii) the greatest Class Net Asset Value per Unit on any previous Valuation Date (or the date units of the Class were first issued, where no performance fee has previously arisen) (the “High Water Mark”), and (b) the number of units outstanding on the applicable Valuation Date on which the performance fee is determined. Adjusted Class Net Asset Value per Unit on a Valuation Date means the Class Net Asset Value per Unit on the Valuation Date, without giving effect to any performance fee determined on such Valuation Date. The performance fee is calculated and accrued on each Valuation Date and payable at the end of each calendar quarter, plus applicable taxes.

Upon the redemption of units of a particular class, the accrued portion of the performance fee allocated to the redeemed units for that class will be payable by the Trust.

For the year ended December 31, 2020, a total performance fee of \$345,005 (2019 - \$62,000) was incurred and \$291,489 was payable at December 31, 2020 (2019 - \$48,420).

# MFG DIVERSIFIED STRATEGY FUND

## Notes to Financial Statements

**December 31, 2020**

(In Canadian \$)

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### 6. REDEEMABLE UNITS OF THE TRUST

The Trust is authorized to issue an unlimited number of redeemable units, issuable in an unlimited number of classes, each of which represents an equal, undivided, beneficial interest in the net assets attributable to holders of redeemable units of the Trust. Each unit of each class entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust. Redeemable units of a class may be consolidated or subdivided and/or re-designated by the Manager.

Redeemable units of the Trust may be surrendered for redemption on each Valuation Date upon at least 30 days prior written notice. Such units will be redeemed at the Class Net Asset Value per Unit multiplied by the number of units to be redeemed, calculated on the applicable Valuation Date. If a Unitholder redeems units of the Trust within 120 days of purchasing such units, the Trust may deduct and retain, for the benefit of the remaining Unitholders, 5% of the Class Net Asset Value of the units being redeemed, unless waived by the Manager in its sole discretion.

The unit activity of Class M during the years ended December 31 are as follows:

	2020	2019
Redeemable units, Beginning of year	887,757	1,041,929
Redeemable units issued	237,405	27,862
Redeemable units redeemed	(78,606)	(267,926)
Redeemable units issued on reinvestments of distributions	89,206	85,892
Redeemable units, End of year	1,135,762	887,757

# MFG DIVERSIFIED STRATEGY FUND

## Notes to Financial Statements

**December 31, 2020**

(In Canadian \$)

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### 6. REDEEMABLE UNITS OF THE TRUST (Continued)

#### Capital disclosure

The capital of the Trust is represented by issued and redeemable units. The units are entitled to distributions, if any, and to payment of a proportionate share based on the Trust's Net Asset Value per unit upon redemption. The Trust has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The relevant movements are shown on the Statement of Changes in Net Assets Attributable to Holders of Redeemable Units. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 7, the Trust endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

### 7. RISK MANAGEMENT

#### Management of Financial Instrument Risks

In the normal course of business, the Trust is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk). The value of investments within the Trust's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, the market and, company news related to specific securities within the Trust. The level of risk depends on the Trust's investment objectives and the type of investments it invests in.

#### 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 Trust.

As at December 31, 2020 and 2019, the Trust had no significant investments in debt instruments and/or derivatives.

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

# MFG DIVERSIFIED STRATEGY FUND

## Notes to Financial Statements

**December 31, 2020**

(In Canadian \$)

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### 7. RISK MANAGEMENT (Continued)

#### Liquidity Risk

Liquidity risk is defined as the risk that the Trust may not be able to settle or meet its obligations on time or at a reasonable price.

The Trust's exposure to liquidity risk is concentrated in the periodic cash redemptions of units. The Trust primarily invests in investments that are traded in active markets and can be readily disposed of. In addition, the Trust generally retains sufficient cash and cash equivalent positions to maintain liquidity.

The Trust may employ the use of derivatives to moderate certain risk exposures. There is no guarantee that a market will exist for some derivatives and it is possible that the exchanges may impose limits on trading of derivatives.

All financial liabilities are due between one and three months.

#### Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

Interest rate risk arises when the Trust invests in interest-bearing financial instruments. The Trust is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. There is minimal sensitivity to interest rate fluctuations on any cash and cash equivalents invested at short-term market interest rates.

From time to time, the Trust holds fixed rate high yield (or below investment grade) exposure, however, net assets attributable to holders of redeemable units tend to be affected more by changes in overall economic growth rather than changes in interest rates.

As at December 31, 2020 and 2019, the Trust's had no exposure to debt instruments.

#### Other Price Risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

All investments are exposed to a risk of loss of capital. The Manager aims to moderate this risk through careful selection and diversification of investments and other financial instruments in accordance with the Trust's investment objectives and strategy. Except for written options and investments sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from written options and investments sold short can be unlimited. The Trust's overall market positions are monitored on a regular basis by the Manager. Financial instruments held by the Trust are susceptible to market price risk arising from uncertainties about future prices of the instruments.

# MFG DIVERSIFIED STRATEGY FUND

## Notes to Financial Statements

**December 31, 2020**

(In Canadian \$)

### 7. RISK MANAGEMENT (Continued)

#### Other Price Risk (Continued)

As at December 31, 2020, 78.3% (December 31, 2019 – 71.8%) of the Trust's net assets attributable to holders of redeemable units were invested in securities traded on North American stock exchanges. If security prices on the North American stock exchanges had increased or decreased by 10% as at the year end, with all other factors remaining constant, net assets attributable to holders of redeemable units could possibly have increased or decreased by approximately \$1,209,292 (December 31, 2019 – \$757,015), respectively. In practice, the actual results may differ from this sensitivity analysis and the difference could be material. Additionally, the Investment Funds held by the Trust are also subject to equity price risk. The total of those investments at December 31, 2020 are \$1,748,036 (December 31, 2019 – \$1,514,623).

#### Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Trust. The Trust may enter into foreign exchange forward contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currencies.

Currency to which the Trust had exposure as at December 31, 2020, is as follows:

Currency	Exposure			Impact if CAD strengthened or weakened by 5% in relation to other currencies		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
<b>December 31, 2020</b>						
U.S. Dollar	\$ 314,078	\$ 3,600,992	\$ 3,915,070	\$ 15,704	\$ 180,050	\$ 195,754
	\$ 314,078	\$ 3,600,992	\$ 3,915,070	\$ 15,704	\$ 180,050	\$ 195,754
<b>% of Net Assets</b>						
Attributable to Holders of Redeemable Units	2.0	23.3	25.3	0.1	1.2	1.3

# MFG DIVERSIFIED STRATEGY FUND

## Notes to Financial Statements

**December 31, 2020**

(In Canadian \$)

### 7. RISK MANAGEMENT (Continued)

#### Currency Risk (Continued)

Currency to which the Trust had exposure as at December 31, 2019, is as follows:

Currency	Exposure			Impact if CAD strengthened or weakened by 5% in relation to other currencies		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
<b>December 31, 2019</b>						
U.S. Dollar	\$ 599,097	\$ 1,754,234	\$ 2,353,331	\$ 29,955	\$ 87,712	\$ 117,667
	\$ 599,097	\$ 1,754,234	\$ 2,353,331	\$ 29,955	\$ 87,712	\$ 117,667
% of Net Assets Attributable to Holders of Redeemable Units						
	5.7	16.6	22.3	0.3	0.8	1.1

The amounts in the above table are based on the fair value of the Trust's financial instruments (including cash and cash equivalents). Other financial assets (including dividends receivable and sales proceeds receivable) and financial liabilities (including accounts payables and accrued liabilities, redemptions payable and performance fee payable) that are denominated in foreign currencies do not expose the Trust to significant currency risk.

### 8. CLASSIFICATION OF FINANCIAL INSTRUMENTS – FAIR VALUE MEASUREMENTS

The following table summarizes the levels within the fair value hierarchy in which the fair value measurements of the Trust's investments fall as of December 31, 2020:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Common stocks	\$ 12,092,915	\$ –	\$ –	\$ 12,092,915
Canadian investment funds	–	1,748,036	–	1,748,036
	\$ 12,092,915	\$ 1,748,036	\$ –	\$ 13,840,951

The following table summarizes the levels within the fair value hierarchy in which the fair value measurements of the Trust's investments fall as of December 31, 2019:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Common stocks	\$ 7,570,153	\$ –	\$ –	\$ 7,570,153
Canadian investment funds	–	1,514,623	–	1,514,623
	\$ 7,570,153	\$ 1,514,623	\$ –	\$ 9,084,776

During the years ended December 31, 2020 and 2019, there were no transfers between levels.

# MFG DIVERSIFIED STRATEGY FUND

## Notes to Financial Statements

**December 31, 2020**

(In Canadian \$)

### 9. EXPENSES

The Manager has the power to incur and make payment out of the Trust property any charges or expenses which, in the opinion of the Manager, are necessary or incidental to, or proper for, carrying out any of the purposes of the Trust Agreement, including without limitation all fees and expenses relating to the management and administration of the Trust. The Trust is responsible for any income or excise taxes and brokerage commissions on portfolio transactions.

### 10. INCREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS PER UNIT

The increase in net assets attributable to holders of redeemable units per unit for the years ended December 31, 2020 and 2019 are calculated as follows:

	Increase in net assets attributable to holders of redeemable units	Weighted Average of Redeemable Units Outstanding During the Year	Increase in Net Assets Attributable to Holders of Redeemable Units per Unit
<b>December 31, 2020</b>	\$ 3,295,853	1,021,925	\$ 3.23
<b>December 31, 2019</b>	\$ 1,654,666	855,077	\$ 1.94

### 11. INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

The table below describes the types of structured entities that the Trust does not consolidate but in which it holds an interest as at December 31, 2020:

Funds	Number of Investee Funds	Net Asset Value of Investee Funds	Investment fair value	% of net assets attributable to holders of redeemable units
Canadian investment funds	4	\$ 1,680,000,000	\$ 1,748,036	11.31%
		\$ 1,680,000,000	\$ 1,748,036	11.31%

The table below describes the types of structured entities that the Trust does not consolidate but in which it holds an interest as at December 31, 2019:

Funds	Number of Investee Funds	Net Asset Value of Investee Funds	Investment fair value	% of net assets attributable to holders of redeemable units
Canadian investment funds	4	\$ 2,250,000,000	\$ 1,514,623	14.36%
		\$ 2,250,000,000	\$ 1,514,623	14.36%

# MFG DIVERSIFIED STRATEGY FUND

## Notes to Financial Statements

**December 31, 2020**

(In Canadian \$)

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### 11. INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

The Trust has determined that all of the other funds (the "Investee Funds") in which it invests are unconsolidated structured entities and the Trust has no control over the operations of these entities. This represents a significant judgement by the Trust and generally because decision-making about the Investee Funds' investing activities is not governed by voting rights held by the Trust and other investors.

The Investee Funds' objectives range from achieving medium to long-term capital appreciation and whose investment strategy does not include the use of leverage. The Investee Funds are managed by asset managers who are unrelated to the Trust and apply various investment strategies to accomplish their respective investment objectives. The Investee Funds finance their operations by issuing redeemable units which are puttable at the holder's option and entitle the holder to a proportional stake in the Trust's net assets. The Trust holds redeemable shares in each of its Investee Funds. The change in fair value of the investments in the Fund is included in the Statement of Comprehensive Income in net gains/losses on financial instruments held at FVTPL.

During the year ended December 31, 2020 and 2019, the Trust did not provide financial support to unconsolidated structured entities and has no intention of providing financial or other support.

### 12. FILING EXEMPTION

These financial statements of the Trust have not been filed with the provincial regulators pursuant to the exemption under section 2.11 of National Instrument 81-106 Investment Fund Continuous Disclosure. This exemption is available when the financial statements have been sent to the investors by the Trust as required under the National Instrument.

### 13. INCOME TAXES

The Trust qualifies as a unit trust under the provisions of the Income Tax Act (Canada) (the "Tax Act"), and accordingly, is not subject to tax on its net taxable income for the tax year which ends in December, including net realized capital gains, which is paid or payable to its unitholders as at the end of the tax year. However, such part of the Trust's net income and net realized capital gains that is not paid or payable, is subject to income tax. It is the intention of the Trust to distribute all of its income and sufficient net realized capital gains so that the Trust will not be subject to income tax.

Non-capital losses are available to be carried forward for twenty years and applied against future taxable income. Capital losses for income tax purposes may be carried forward indefinitely and applied against future capital gains.

As at the tax years ended December 31, 2020 and 2019, the Trust had nil non-capital losses and nil capital losses carrying forward.

# MFG DIVERSIFIED STRATEGY FUND

## Notes to Financial Statements

**December 31, 2020**

(In Canadian \$)

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### **14. OTHER UNCERTAINTIES**

The spread of the Coronavirus disease ("COVID-19") has impacted equity markets significantly and the continued volatility and ultimate impact on the markets cannot be predicted. The duration and impact of the COVID-19 outbreak is not known at this time, nor is the efficacy of the government and central bank monetary and fiscal interventions designed to stabilize economic conditions. As a result, it is not possible to reliably estimate the length and severity of these developments or the impact on the financial position and financial results of the Trust in future periods.