



## **Ridgewood Tactical Yield Fund**

Annual Report 2018

# Ridgewood Tactical Yield Fund

## Annual Report 2018

Management Report on Fund Performance ..... 1-8

Independent Auditor’s Report..... 9-10

Statements of Financial Position ..... 11

Statements of Comprehensive Income..... 11

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units ..... 12

Statements of Cash Flows..... 12

Schedule of Investments ..... 13

Notes to the Financial Statements ..... 14-23

## MESSAGE TO UNITHOLDERS 2018

The bond market experienced a small gain of 0.19% in the first quarter. Interest rates declined modestly in longer term bonds only to be offset by slight increases in mid-term bonds. Corporate bonds modestly outperformed the overall index by 9 basis points due to the higher yields. The Canadian stock market did well as the S&P/TSX returned 4.51%. The U.S. central bank and the Bank of Canada raised overnight rates in the first quarter by 25 basis points. The target range of Fed Funds went to 1.5%-1.75% and in Canada to 1.25%.

In the second quarter stocks and bonds rose together but with further interest rate hikes being telegraphed by the central banks, equities outperformed by a wide margin. The bond market returned 0.51% while Canadian equities charged ahead by 6.77%. Economic growth remained firm, and the unemployment rate continued to fall. The U.S. central bank raised rates again by 25 basis points, while the Bank of Canada remained on hold.

During the third quarter, the Bank of Canada raised rates 25 basis points to 1.5% and the U.S. central bank also raised rates 25 basis points to a new range of 2%-2.25%. The bond market finally capitulated and interest rates on bonds rose in sympathy, dragging the index down 0.96%. The equity market took the rate increases in stride and ended the third quarter with a positive return of 0.95%

The bond market bounced back strongly in the fourth quarter as the equity market sold off sharply. Given the systematic quarterly interest rate increases by the U.S. central bank in 2018 and global growth concerns brewing, the market entered a period of high volatility where 3%-4% daily moves in the major equity indices were the norm. Expectations were for four interest rate increases in 2019 but that abruptly changed at the final Federal Open Market Committee meeting of the year in December. The statement from Chairman Powell indicated an abrupt change in forward guidance, essentially walking back previous expectations of further increases in interest rates going forward. This led to a rebalancing of equities into bonds, where Canadian equities lost 10.11% in the quarter as investors sold holdings in an attempt to lock in some gains from prior quarters. The demand, and subsequent pricing out of further interest rate increases, provided the bond index with a solid return of 1.76% in the final quarter. The Canadian central bank also raised interest rates another 25 basis points to 1.75% in December, although that was largely priced in and Canadian bonds followed the path of their counterpart south of the border. Government bonds were the top performer in Q4 at 2.82%, and the weakest sector was the communications sector at 0.21%.

We remain constructive on the Canadian corporate bond market given reduced supply, low growth and modest inflation.

# Ridgewood Tactical Yield Fund

For the year ended December 31, 2018

---

## Management Report on Fund Performance

This Management Report on Fund Performance has been prepared in accordance with National Instrument 81-106 (Investment Fund Continuous Disclosure) and contains the financial highlights of Ridgewood Tactical Yield Fund (the "Fund") for the year ended December 31, 2018. The annual audited financial statements of the Fund are also attached behind this report.

Copies of the Fund's quarterly portfolio disclosure may be obtained by calling-1-888-789-8957 toll free or by writing to the Fund at Investor Relations, 55 University Avenue, Suite 1020, Toronto, Ontario, M5J 2H7 or by visiting our website at [www.ridgewoodcapital.ca](http://www.ridgewoodcapital.ca).

## Investment Objectives and Strategies

This fund seeks to achieve a high level of income and capital gains from an actively managed portfolio comprised primarily of securities of Canadian issuers, including preferred shares, investment grade bonds, convertible bonds, real estate investment trusts ("REITs") and high yield bonds. The fund may also invest in comparable securities of foreign issuers.

The portfolio manager uses the following investment strategies to achieve the fund's objectives:

- managing the portfolio to take advantage of changing levels of interest rates to capitalize on yield disparities between different issuers or sectors
- choosing many different investment terms based on the interest rate outlook
- hedging the currency if necessary.

Investment decisions are made by:

- examining economic indicators like growth, inflation and monetary policy
- analyzing credit ratings of issuers to determine the best potential investments
- allocating investments among various sectors to diversify the fund's holdings

The fund may invest in securities denominated in currencies other than Canadian dollars from time to time. The amount of such investments will vary but is not typically expected to exceed 30% of the net assets of the fund at the time that such securities are purchased.

## Risk

The Fund primarily invests in high yield bonds, investment grade bonds, real estate investment trusts and preferred shares. The Fund may also invest to a limited extent in comparable fixed income securities of foreign issuers. Investors should be aware that the primary risk associated with the Fund is credit risk. Securities in this fund will have a higher level of volatility relative to a traditional bond fund.

## Summary of Investment Portfolio

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update will be available on our website at [www.ridgewoodcapital.ca](http://www.ridgewoodcapital.ca).

### **Asset Mix**

December 31, 2018

	% of Net Asset Value		% of Net Asset Value
Corporate Bonds	70.8	Mortgage Backed Securities	11.6
Canadian Equities	8.8	Federal Bonds	5.0
Provincial Bonds	1.6	Cash & Short-term Investments	1.5

# Ridgewood Tactical Yield Fund

For the year ended December 31, 2018

---

## Top 25 Holdings

	% of Total Net Asset Value
1. Government of Canada, 2.750%, 2048/12/01	4.3%
2. Medavie Inc., 6.00%, 2024/05/21	3.6%
3. Transalta Corp., 7.30%, 2029/10/22	3.6%
4. MCAP Commercial LP, 5.000%, 2022/12/14	3.4%
5. Bombardier Inc., 7.35%, 2026/12/22	3.3%
6. Slate Retail REIT	3.2%
7. Enbridge Pipelines Inc., 5.375%, 2027/09/27	3.1%
8. Institutional Mortgage Securities Canada Inc. 2015-6 D, 3.828%, 2025/03/12	3.1%
9. Cameco Corp., 5.090%, 2042/11/14	3.0%
10. Teranet Holdings LP., 5.754%, 2040/12/17	2.6%
11. Loblaw Companies. Ltd., 5.860%, 2043/06/18	2.6%
12. Institutional Mortgage Securities Canada Inc., E, 3.828%, 2025/03/12	2.5%
13. Brookfield Asset Management Inc., 5.95%, 2035/06/14	2.4%
14. Automotive Properties REIT	2.4%
15. Superior Plus LP, 5.125%, 2024/02/07	2.3%
16. Mattamy Group Corp., 6.875%, 2023/12/15	2.2%
17. George Weston Ltd., 7.10%, 2032/02/05	2.1%
18. Shaw Communications Inc., 6.750%, 2039/11/09	2.0%
19. Invesque Inc.	1.9%
20. Fairfax Financial Holdings Ltd., 4.70%, 2026/12/16	1.7%
21. Coast Capital Savings Credit Union, 5.25%, 2030/10/29	1.7%
22. Coast Capital Savings Credit Union, 5.00%, 2028/05/03	1.7%
23. Vesta Energy Corp., 8.125%, 2023/07/24	1.7%
24. First National Financial Corp., 4.010%, 2020/04/09	1.7%
25. Granite REIT Holdings LP, 3.873%, 2023/11/30	1.7%
<b>Total</b>	<b>63.8%</b>

## Results of Operations

For the year ended December 31, 2018, the net asset value of Series A was \$8.99 and Series F was \$9.04 per unit compared to Series A \$9.32 per unit at December 31, 2017.

Net income and net capital gains of the Fund may be distributed to unitholders of the Fund from time to time at the discretion of Ridgewood. Sufficient distributions will be made each year so the Fund will not be liable for income tax. Distributions totaling \$0.55 per unit were made to unitholders during the year.

For the year ended December 31, 2018, Series A had an annual compound return of 2.33% net of expenses of 1.53% (including HST). Series F has only existed since July 2018. The FTSE/TMX Universe Bond Index had a return of 1.41%, with corporate bonds gaining 1.10%. The portfolio benefited from being overweight securitized bonds, real estate and financial bonds which outperformed the broader index returning 2.33%, 2.19% and 1.66% respectively. In addition, the fund gained performance due to its exposure to REITS and high yield while being underweight energy bonds, the worst performer returning just 0.10%.

# Ridgewood Tactical Yield Fund

For the year ended December 31, 2018

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past years (period).

Information for the years ended December 31 is derived from the Fund's audited financial statements. For December 31, 2018, 2017, 2016, 2015 and 2014, the Net Assets included in the Net Assets per Unit table is from the Fund's audited financial statements and are calculated using closing prices while the Net Asset Value included in the Ratios/Supplemental Data table is for Fund pricing purposes and calculated using closing prices. All other calculations for the purposes of the MRFP are made using Net Asset Value.

Class A	Years ended December 31				
	2018	2017	2016	2015	2014
	\$	\$	\$	\$	\$
<b>The Fund's net assets per unit</b>					
<b>Net assets value, beginning of year <sup>(1)</sup></b>	<b>9.32</b>	9.33	9.13	9.16	8.78
<b>Increase (decrease) from operations</b>					
Total revenue	0.50	0.49	0.51	0.46	0.50
Total expenses (excluding distributions)	(0.13)	(0.14)	(0.14)	(0.13)	(0.14)
Realized gain (loss) for the year	0.14	0.40	0.03	0.05	0.11
Unrealized gain (loss) for the year	(0.31)	(0.21)	0.13	(0.16)	0.26
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>0.20</b>	0.54	0.53	0.22	0.73
<b>Distributions to unitholders</b>					
From net investment income	(0.55)	(0.35)	(0.38)	(0.33)	(0.37)
From return of capital	-	(0.21)	-	-	-
From capital gains	-	-	-	-	-
<b>Total distributions <sup>(3)</sup></b>	<b>(0.55)</b>	(0.56)	(0.38)	(0.33)	(0.37)
<b>Net assets value, end of year <sup>(1)</sup></b>	<b>8.99</b>	9.32	9.33	9.13	9.16

Class F	Years ended December 31				
	2018	2017	2016	2015	2014
	\$	\$	\$	\$	\$
<b>The Fund's net assets per unit</b>					
<b>Net assets value, beginning of year <sup>(1)</sup></b>	<b>9.32</b>	-	-	-	-
<b>Increase (decrease) from operations</b>					
Total revenue	0.23	-	-	-	-
Total expenses (excluding distributions)	(0.01)	-	-	-	-
Realized gain (loss) for the year	0.05	-	-	-	-
Unrealized gain (loss) for the year	(0.29)	-	-	-	-
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>(0.02)</b>	-	-	-	-
<b>Distributions to unitholders</b>					
From net investment income	(0.25)	-	-	-	-
From return of capital	-	-	-	-	-
From capital gains	-	-	-	-	-
<b>Total distributions <sup>(3)</sup></b>	<b>(0.25)</b>	-	-	-	-
<b>Net assets value, end of year <sup>(1)</sup></b>	<b>9.04</b>	-	-	-	-

# Ridgewood Tactical Yield Fund

For the year ended December 31, 2018

- (1) This information is derived from the Fund's audited financial statements as at December 31 of the year. Net Asset Value per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities and including the valuation of securities at closing prices divided by the number of units then outstanding.
- (2) Total increase (decrease) from operations consists of interest revenue, realized and unrealized gains (losses), less expenses, and is calculated based on the weighted average number of units outstanding during the year (period). The schedule is not intended to total to the ending net assets as calculations are based on the weighted average number of units outstanding during the year (period).
- (3) Distributions to unitholders are based on the number of units outstanding on the record date for each distribution and were paid in cash.

<b>Class A</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Ratios/supplemental data</b>					
Net Asset Value, end of year (\$millions) <sup>(1)</sup>	\$ 51.55	\$ 49.19	\$ 59.06	\$ 82.62	\$ 62.30
Number of units outstanding <sup>(1)</sup>	5,736,177	5,276,532	6,330,921	9,049,710	6,798,795
Management expense ratio (including HST) <sup>(2)</sup>	1.45%	1.44%	1.45%	1.42%	1.45%
Management expense ratio including expenses absorbed by the Manager	1.45%	1.44%	1.45%	1.42%	1.45%
Portfolio turnover rate <sup>(3)</sup>	199.69%	153.91%	314.80%	199.20%	139.14%
Trading expense ratio	0.08%	0.03%	0.04%	0.04%	0.03%
Net Asset Value per unit, end of year <sup>(1), (4)</sup>	\$ 8.99	\$ 9.32	\$ 9.33	\$ 9.13	\$ 9.16
<b>Class F</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Ratios/supplemental data</b>					
Net Asset Value, end of year (\$millions) <sup>(1)</sup>	\$ 7.52	\$ -	\$ -	\$ -	\$ -
Number of units outstanding <sup>(1)</sup>	831,313	-	-	-	-
Management expense ratio (including HST) <sup>(2)</sup>	0.17%	-	-	-	-
Management expense ratio including expenses absorbed by the Manager	0.17%	-	-	-	-
Portfolio turnover rate <sup>(3)</sup>	199.69%	-	-	-	-
Trading expense ratio	0.08%	-	-	-	-
Net Asset Value per unit, end of year <sup>(1), (4)</sup>	\$ 9.04	\$ -	\$ -	\$ -	\$ -

- (1) This information is provided as at December 31 of the year shown.
- (2) Management expense ratio is the ratio of all fees and expenses, including harmonized sales taxes but excluding transaction fees charged to the Fund to the average net assets.
- (3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.
- (4) Net Asset Value per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities and including the valuation of securities at closing prices divided by the number of units then outstanding.

## Management Fees

Ridgewood Capital Asset Management Inc. (the "Manager") is entitled to an annual management fee payable out of the assets of the Fund. The maximum management fee is equal to 1.25% (excluding HST) for Class A and 0.35% for Class F of the weighted average net asset value of the Fund less ordinary expenses of the Fund. The management fee is calculated on a monthly basis as of the last valuation date of each month. Services received under the Master Declaration of Trust include managing or arranging for the management of the Fund's investment portfolio and providing or arranging for all required administrative services to the Fund.

## Recent Developments

Moderating global growth, geopolitical risks and escalating trade wars were the main themes of 2018. Given the volatile environment, investors were cautious going into the end of 2018. The FTSE/TMX Canada Universe Bond Index returned 1.41% for the year, with most of that occurring in the final month alone. The Bank of Canada and US Federal Reserve raised rates by 25 bps multiple times last year, 75 bps and 100 bps respectively, however both have

# Ridgewood Tactical Yield Fund

For the year ended December 31, 2018

recently communicated a slowdown in the trajectory of hikes by being data dependent. The uncertainty of NAFTA trade agreement weighed on Canadian markets for much of 2018 and the USMCA trade agreement signed in

November came with great relief. Deteriorating oil prices in the fourth quarter, sluggish housing, CPI easing but around the Bank of Canada's 2% target, the US-China trade tensions and a Fed likely on pause all point to the Bank of Canada remaining patient for some time.

## Past Performance

The past performance of the Fund is set out below and indicates year-by-year returns, overall past performance and annual compound returns.

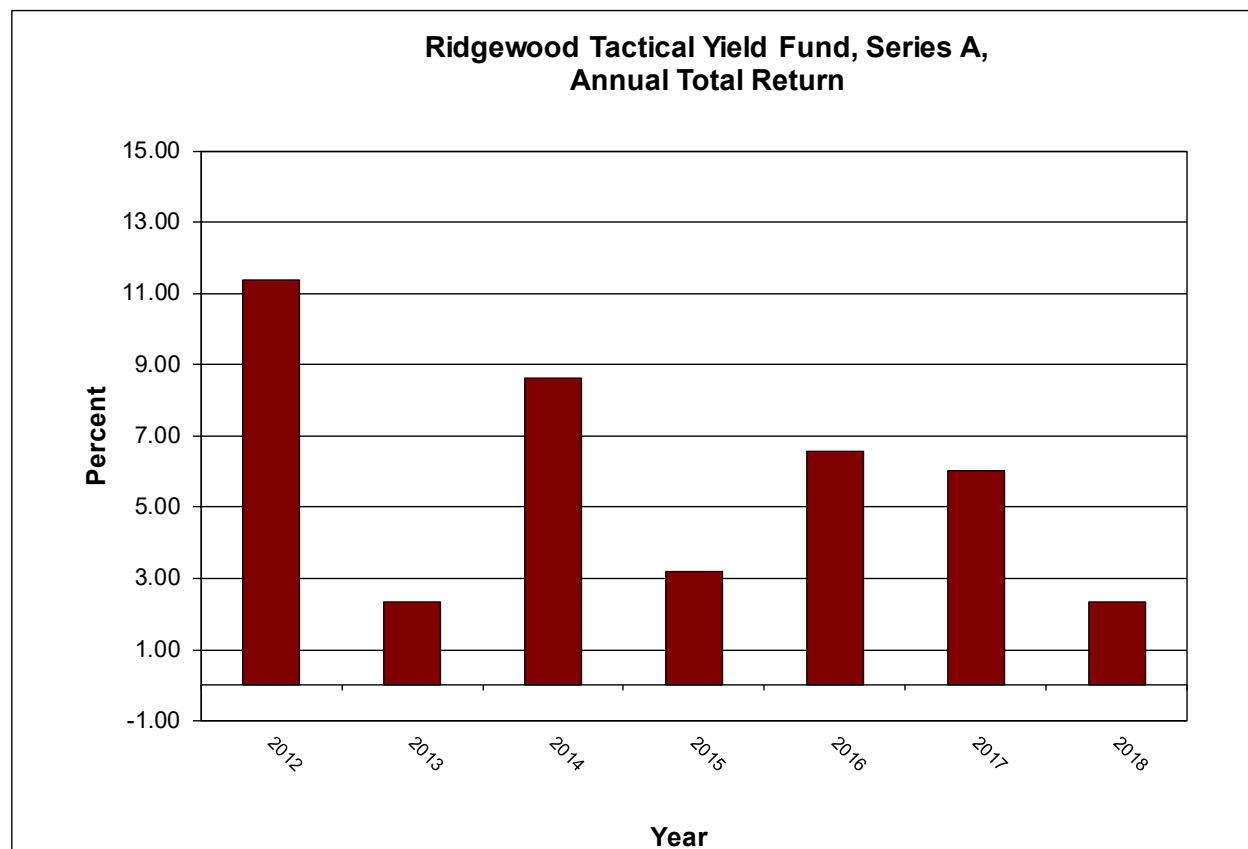
With respect to the charts displayed below, please note the following:

- the returns or performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund;
- the return or performance information does not take into account optional charges or income taxes payable that would have reduced returns or performance; and
- how the Fund has performed in the past does not necessarily indicate how it will perform in the future.

## Year-By-Year Returns

The bar chart illustrates how Series A's annual total return in each of the past seven years has varied from year to year. The chart also shows, in percentage terms, how much an investment made on January 1 in each year would have increased or decreased by the end of that fiscal year.

## Annual Total Return



# Ridgewood Tactical Yield Fund

For the year ended December 31, 2018

## Annual Compound Returns

The following table shows Series A's historical annual total return (net of expenses of 1.53% including HST) for the period ended December 31 as compared to the performance of the FTSE TMX Canada Universe Bond Index.

	One Year	Three Years	Five Years	Ten Years
Ridgewood Tactical Yield Fund	2.33%	4.96%	5.33%	
FTSE TMX Canada Universe Bond *	1.40%	1.86%	3.54%	

\*FTSE TMX Canada Universe Bond (formerly, DEX Universe Bond Index) represents a broad selection of hundreds of Canadian corporate and government bonds including short-term, medium-term, and long-term issues.

## Related Party Transactions

Ridgewood Capital Asset Management Inc. ("Ridgewood") manages the Fund's investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to a Master Investment Management Agreement made between Ridgewood in its capacity as investment advisor and Ridgewood in its capacity as trustee dated September 1, 2008.

Ridgewood is the Manager and Trustee of the Fund pursuant to a Declaration of Trust dated September 1, 2008 and further amended on March 15, 2010 and July 1, 2018, and, as such, is responsible for providing or arranging for required administrative services to the Fund.

## Independent Review Committee

National Instrument 81-107- Independent Review Committee for Investment Funds ("NI 81-107") requires all publicly offered investment funds to establish an independent review committee ("IRC") to whom the Manager must refer conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, maintaining records in respect of these matters and providing assistance to the IRC in carrying out its functions.

For the period January 1 to December 31, 2018, members of the IRC were G. Tomlinson Gunn, Allen B. Clarke, and Marshall E. Nicholishen. Mr. Gunn serves as the Chair of the IRC.

We confirm the Fund did not rely on any approvals or recommendation of the IRC concerning related party transactions during the year.

## Forward-Looking Statements

This report may contain forward-looking statements about the Fund. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund actions, is also forward-looking. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to any divergence between what is anticipated and what actually occurs, including, but not limited to, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technology change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

The above-mentioned list of important factors is not exhaustive. You should consider these and other factors carefully before making any investment decisions and you should avoid placing undue reliance on forward-looking statements. While the Fund currently anticipates that subsequent events and developments may cause the Fund's views to change, the Fund does not undertake to update any forward-looking statements.

## Ridgewood Tactical Yield Fund

---

The financial statements have been prepared by management in accordance with IFRS (International financial reporting standards) and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 4 of the financial statements.

The Manager is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.



John H. Simpson  
Director  
Ridgewood Capital Asset Management Inc.



Paul W. Meyer  
Director  
Ridgewood Capital Asset Management Inc.

March 20, 2019

## Independent Auditor's Report

To the Unitholders of Ridgewood Tactical Yield Fund

### Opinion

We have audited the financial statements of Ridgewood Tactical Yield Fund (the "Fund"), which comprise the statements of financial position as at December 31, 2018 and December 31, 2017, and the statements of comprehensive income, changes in net assets attributable to holders of redeemable units, and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

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

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). 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 Information

Management is responsible for the other information. The other information comprises:

- The information, other than the financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

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

### **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 GAAS 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 GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
March 20, 2019

## Ridgewood Tactical Yield Fund

### STATEMENTS OF FINANCIAL POSITION

As at December 31, 2018 and 2017

	31-Dec-18	31-Dec-17
	\$	\$
<b>Assets</b>		
Financial assets at fair value through profit or loss (Cost: 31-Dec-18 - \$59,383,565; 31-Dec-17 - \$47,316,195)	57,730,216	47,336,423
Short-term investments at fair value (Cost: 31-Dec-18 - \$864,641; 31-Dec-17 - \$1,523,876)	864,641	1,523,876
Cash	66,858	134,788
Accrued interest receivable	463,335	379,656
Dividends receivable	35,969	25,680
Prepaid fees	782	2,167
Subscriptions receivable	36,000	37,000
<b>Total assets</b>	<b>59,197,801</b>	<b>49,439,590</b>
<b>Liabilities</b>		
Accrued expenses	80,581	132,121
Redemptions payable	48,299	117,450
<b>Total liabilities (excluding net assets attributable to holders of redeemable units)</b>	<b>128,880</b>	<b>249,571</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>59,068,921</b>	<b>49,190,019</b>
<b>Net assets attributable to holders of redeemable units per class</b>		
Class A	51,551,397	49,190,019
Class F	7,517,524	-
	<b>59,068,921</b>	<b>49,190,019</b>
<b>Number of redeemable units outstanding (Note 5)</b>		
Class A	5,736,177	5,276,532
Class F	831,313	-
	<b>6,567,490</b>	<b>5,276,532</b>
<b>Net assets attributable to holders of redeemable units per unit</b>		
Class A	8.9871	9.3224
Class F	9.0430	-

On behalf of the Manager,  
Ridgewood Capital Asset Management Inc.



John H. Simpson, CFA

Director



Paul W. Meyer, CFA

Director

### STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2018 and 2017

	2018	2017
	\$	\$
<b>Income</b>		
Interest income for distribution purposes	2,396,965	2,986,671
Dividend income	183,352	126,492
Net (loss) on foreign exchange	(848)	(9,018)
<b>Other changes in fair value on financial assets and financial liabilities at fair value through profit or loss</b>		
Net realized gain on sale of investments	710,975	2,578,029
Net change in unrealized appreciation (depreciation) of investments	(1,666,753)	(1,319,535)
<b>Total income</b>	<b>1,623,691</b>	<b>4,362,639</b>
<b>Expenses</b>		
Management fees (Note 7)	438,978	645,543
Administrative and other expenses	39,284	22,480
Custodian fees	35,738	60,788
HST expense	70,673	92,403
Independent review committee fees	17,567	17,567
Audit fees	15,644	14,445
Legal fees	26,048	12,329
Withholding taxes	9,538	1,291
Transaction costs	20,969	15,474
<b>Total operating expenses</b>	<b>674,439</b>	<b>882,320</b>
<b>Operating profit</b>	<b>949,252</b>	<b>3,480,319</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>949,252</b>	<b>3,480,319</b>
<b>Increase in net assets attributable to holders of redeemable units</b>		
Class A	963,689	3,480,319
Class F	(14,437)	-
	<b>949,252</b>	<b>3,480,319</b>
<b>Daily average number of redeemable units outstanding</b>		
Class A	4,827,332	6,393,913
Class F	616,582	-
	<b>5,443,914</b>	<b>6,393,913</b>
<b>Increase in net assets attributable to holders of redeemable units per unit</b>		
Class A	0.1996	0.5443
Class F	(0.0234)	-

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

## Ridgewood Tactical Yield Fund

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

For the years ended December 31, 2018 and 2017

	2018	2017
	\$	\$
<b>Net assets attributable to holders of redeemable units at beginning of year</b>		
Class A	49,190,019	59,059,249
Class F	-	-
	<b>49,190,019</b>	<b>59,059,249</b>
<b>Distributions to redeemable unitholders</b>		
From net investment income		
Class A	(2,627,078)	(2,255,488)
Class F	(145,262)	-
	<b>(2,772,340)</b>	<b>(2,255,488)</b>
From capital gain		
Class A	-	(1,178,783)
Class F	-	-
	<b>-</b>	<b>(1,178,783)</b>
<b>Total distributions to redeemable unitholders</b>		
Class A	(2,627,078)	(3,434,271)
Class F	(145,262)	-
	<b>(2,772,340)</b>	<b>(3,434,271)</b>
<b>Redeemable unit transactions (Note 5)</b>		
Proceeds from units issued		
Class A	31,709,110	26,319,714
Class F	8,682,061	-
	<b>40,391,171</b>	<b>26,319,714</b>
Amount paid for units redeemed		
Class A	(30,037,203)	(39,385,371)
Class F	(1,150,100)	-
	<b>(31,187,303)</b>	<b>(39,385,371)</b>
Reinvestment of distributions		
Class A	2,352,860	3,150,379
Class F	145,262	-
	<b>2,498,122</b>	<b>3,150,379</b>
<b>Total redeemable unit transactions</b>		
Class A	4,024,767	(9,915,278)
Class F	7,677,223	-
	<b>11,701,990</b>	<b>(9,915,278)</b>
<b>Increase in net assets attributable to holders of redeemable units</b>		
Class A	963,689	3,480,319
Class F	(14,437)	-
	<b>949,252</b>	<b>3,480,319</b>
<b>Net assets attributable to holders of redeemable units at end of year</b>		
Class A	51,551,397	49,190,019
Class F	7,517,524	-
	<b>59,068,921</b>	<b>49,190,019</b>

### STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

	2018	2017
	\$	\$
<b>Cash provided by (used in) operating activities</b>		
Net increase in net assets attributable to holders of redeemable units	949,252	3,480,319
Adjustments for		
Interest income on short-term notes	(27,933)	(7,498)
Net loss on foreign exchange	848	9,018
Net realized (gain) on investments excluding foreign currency	(710,975)	(2,578,029)
Net change in unrealized depreciation of investments	1,666,753	1,319,535
Purchase of investments	(149,716,639)	(143,116,663)
Proceeds from sale of investments	139,033,267	154,176,862
Transaction costs	20,969	15,474
(Increase) Decrease in accrued interest and dividends receivable	(93,968)	74,667
Decrease in prepaid fees	1,385	3,161
(Decrease) in accrued expenses	(51,540)	(18,519)
<b>Net cash used in operating activities</b>	<b>(8,928,581)</b>	<b>13,358,327</b>
<b>Cash provided by (used in) financing activities</b>		
Subscriptions received in advance	1,000	(28,500)
Payable for units redeemed	(69,151)	82,650
Distributions paid to holders of redeemable units, net of reinvested distributions	(274,218)	(283,892)
Proceeds from units issued	40,391,171	26,319,714
Amount paid for units redeemed	(31,187,303)	(39,385,371)
<b>Net cash provided by (used in) financing activities</b>	<b>8,861,499</b>	<b>(13,295,399)</b>
<b>(Decrease) Increase in cash</b>	<b>(67,082)</b>	<b>62,928</b>
<b>Net (loss) on foreign exchange</b>	<b>(848)</b>	<b>(9,018)</b>
<b>Cash, beginning of year</b>	<b>134,788</b>	<b>80,878</b>
<b>Cash, end of year</b>	<b>66,858</b>	<b>134,788</b>
<b>Supplemental information on cash flows from operating activities</b>		
Interest received	2,313,286	3,073,179
Dividends received, net of withholding taxes	163,525	113,360

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

**Ridgewood Tactical Yield Fund**  
**Schedule of investments**

As at December 31, 2018

Par Value	Average Cost	Fair Value	% of Portfolio
	\$	\$	
<b>Short-term Investments</b>			
<b>Treasury Bills</b>			
870,000 Canadian Treasury Bill, 1.7153%, May 02, 2019	864,641	864,641	1.46%
<b>Investments</b>			
<b>Federal Bonds</b>			
400,000 Canadian Government Bond, 2.000%, June 01, 2028	384,677	401,256	
2,250,000 Canadian Government Bond, 2.750%, December 01, 2048	2,521,487	2,530,206	
	2,906,164	2,931,462	4.96%
<b>Provincial Bonds</b>			
1,000,000 Province of Ontario, 2.900%, June 02, 2049	952,510	947,174	1.60%
<b>Corporate Bonds</b>			
1,000,000 Arountown SA, 4.625%, September 18, 2025	986,200	995,519	
500,000 Bank of America Corp., 6.250%, December 31, 2049	544,750	682,902	
2,055,000 Bombardier Inc., 7.350%, December 22, 2026	2,044,725	1,920,141	
1,300,000 Brookfield Asset Management Inc., 5.950%, June 14, 2035	1,455,800	1,438,385	
1,000,000 Brookfield Property Finance ULC, 4.346%, July 03, 2023	1,000,000	1,003,319	
750,000 Brookfield Renewable Partners ULC, 3.630%, January 15, 2027	720,000	719,745	
2,000,000 Cameco Corp., 5.090%, November 14, 2042	1,822,840	1,784,793	
1,000,000 Capital Power Corp., 4.284%, September 18, 2024	984,500	990,960	
700,000 CES Energy Solutions Corp., 6.375%, October 21, 2024	700,000	655,521	
1,000,000 Choice Properties Real Estate Investment Trust, 4.178%, March 08, 2028	980,500	990,787	
1,000,000 Coast Capital Savings Credit Union, 5.000%, May 03, 2028	1,002,350	1,014,540	
1,000,000 Coast Capital Savings Credit Union, 5.250%, October 29, 2030	1,000,000	1,023,091	
2,000,000 Enbridge Inc., 5.375%, September 27, 2077	2,013,970	1,847,814	
1,000,000 Fairfax Financial Holdings Ltd., 4.700%, December 16, 2026	1,015,500	1,023,582	
1,000,000 First National Financial Corp., 4.010%, April 09, 2020	1,004,000	1,004,431	
1,000,000 George Weston Ltd., 7.100%, February 05, 2032	1,213,000	1,233,307	
1,000,000 Golf Town Canada Inc./ Golfsmith International Holdings Inc., 0.000%, May 24, 2019	871,866	30,000	
1,000,000 Granite REIT Holdings LP, 3.873%, November 30, 2023	997,500	1,004,118	
500,000 Kruger Products LP, 6.000%, April 24, 2025	500,000	480,634	
1,000,000 Laurentian Bank of Canada, 4.250%, June 22, 2027	991,000	994,687	
1,389,000 Loblaw Cos. Ltd., 5.860%, June 18, 2043	1,622,421	1,524,216	
1,000,000 Mattamy Group Corp., 6.875%, December 15, 2023	1,360,483	1,282,148	
1,000,000 Mattamy Group Corp., 6.500%, October 01, 2025	1,011,667	945,417	
2,000,000 MCAP Commercial LP, 5.000%, December 14, 2022	1,995,500	1,995,046	
2,100,000 Medavie Inc., 6.000%, May 21, 2024	2,129,473	2,100,000	
1,000,000 NuVista Energy Ltd., 6.500%, March 02, 2023	1,000,000	953,125	
1,000,000 Parkland Fuel Corp., 5.625%, May 09, 2025	1,001,250	953,333	
1,000,000 Parkland Fuel Corp., 6.500%, January 21, 2027	1,000,000	971,625	
1,000,000 Russel Metals Inc., 6.000%, March 16, 2026	1,000,000	986,250	
1,000,000 Shaw Communications Inc., 6.750%, November 09, 2039	1,178,000	1,192,739	
1,000,000 SmartCentres Real Estate Investment Trust, 2.987%, August 28, 2024	946,000	953,170	
1,500,000 Superior Plus LP, 5.125%, August 27, 2025	1,500,000	1,373,906	
1,500,000 Teranet Holdings LP, 5.754%, December 17, 2040	1,624,150	1,527,581	
500,000 Teranet Holdings LP, 6.100%, June 17, 2041	550,975	534,458	
1,909,000 TransAlta Corp., 7.300%, October 22, 2029	1,746,464	2,099,415	
1,075,000 Vesta Energy Corp., 8.125%, July 24, 2023	1,075,000	1,013,859	
540,000 Yellow Pages Digital & Media Solutions Ltd., 10.000%, November 01, 2022	529,200	549,068	
<b>Total Corporate Bonds</b>	<b>43,119,084</b>	<b>41,793,632</b>	<b>70.76%</b>
<b>Equities</b>			
160,000 Automotive Properties Real Estate Investment Trust	1,593,059	1,435,200	
31,000 Capital Power Corp., Preferred 5.75%, Series 9	775,000	774,070	
114,400 Invesque Inc.	1,164,408	1,114,047	
160,888 Slate Retail REIT	2,041,580	1,890,434	
<b>Total Equities</b>	<b>5,574,047</b>	<b>5,213,751</b>	<b>8.83%</b>
<b>Mortgage Backed Securities</b>			
2,000,000 Institutional Mortgage Securities Canada Inc., D, 3.828%, March 12, 2025	1,816,100	1,804,000	
1,750,000 Institutional Mortgage Securities Canada Inc., E, 3.828%, March 12, 2025	1,520,965	1,505,000	
1,000,000 Institutional Mortgage Securities Canada Inc., 3.773%, October 12, 2026	836,370	827,500	
1,000,000 Institutional Mortgage Securities Canada Inc., 4.648%, July 12, 2045	897,500	964,906	
1,013,000 Real Estate Asset Liquidity Trust, 3.640%, May 12, 2051	876,367	879,791	
1,000,000 Real Estate Asset Liquidity Trust, 4.328%, August 12, 2053	884,458	863,000	
<b>Total Mortgage Backed Securities</b>	<b>6,831,760</b>	<b>6,844,197</b>	<b>11.59%</b>
<b>Investments</b>	<b>59,383,565</b>	<b>57,730,216</b>	<b>97.74%</b>
<b>Transaction costs</b>	<b>(13,901)</b>	<b>-</b>	
<b>Total investments</b>	<b>59,369,664</b>	<b>57,730,216</b>	<b>97.74%</b>
<b>Total investments and short-term investments</b>	<b>60,234,305</b>	<b>58,594,857</b>	<b>99.20%</b>
<b>Cash and other assets, net of liabilities</b>	<b>474,064</b>	<b>474,064</b>	<b>0.80%</b>
<b>Net Assets</b>		<b>59,068,921</b>	<b>100.00%</b>

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

December 31, 2018

### 1. Establishment of the Fund

Ridgewood Tactical Yield Fund (the "Fund") is an open-end mutual fund trust existing under the laws of Ontario pursuant to an amended and restated Master Declaration of Trust dated September 1, 2008, executed by Ridgewood Capital Asset Management Inc. ("Ridgewood" or the "Manager") in its separate capacities as manager and trustee of the Fund, and a Fund Master Declaration of Trust dated March 31, 2011 as amended on July 1, 2018. The Fund began operations on March 31, 2011. The Fund's principal office is 55 University Avenue, Suite 1020, Toronto, Ontario M5J 2H7. The fiscal year end of the Fund is December 31.

Ridgewood is also the investment manager and distributor of units of the Fund. RBC Investor & Treasury Services is the custodian, transfer agent, administrator and registrar of the Fund, and, as such, performs certain valuation and other services for the Fund. The financial statements are authorized for issuance by the Manager on March 20, 2019.

### 2. Investment objective of the Fund

The investment objective of the Fund is to achieve a high level of income and capital gains from an actively managed portfolio. The Fund is invested primarily in securities of Canadian issuers, including preferred shares, investment grade bonds, convertible bonds, real estate investment trusts ("REITs") and high yield bonds. The Fund may also invest in comparable securities of foreign issuers. Assets of the Fund may also be held in interest-bearing accounts at a bank or trust company, including the custodian, invested in guaranteed investment certificates or invested in Canadian short-term debt obligations.

### 3. Basis of presentation

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS").

### 4. Summary of significant accounting policies

#### *Financial instruments*

Financial instruments include financial assets and liabilities such as debt and equity securities, open-ended investment funds and derivatives, cash and other trade receivables and payables. All financial assets and liabilities are recognized in the Statement of Financial Position when the Fund becomes a party to the contractual requirements of the instrument. Financial instruments are derecognized when the right to receive cash flows from the instrument has expired or the Funds have transferred substantially all risks and rewards of ownership.

#### IFRS 9 Financial Instruments ("IFRS 9")

On January 1, 2018, the Fund adopted IFRS 9 Financial Instruments ("IFRS 9") retrospectively. IFRS 9 requires assets to be carried at amortized cost or fair value, with changes in fair value recognized in profit and loss or other comprehensive income, based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Upon adoption of IFRS 9, the Fund's financial assets and liabilities previously classified as at fair value through profit or loss ("FVTPL") and amortized cost under IAS 39 "Financial Instruments: Recognition and Measurement", continued to be classified at FVTPL and amortized cost.

#### a) Classification and Measurement

The Fund classifies its investments in debt and equity securities and open-ended investment funds based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets.

These financial assets are managed and their performance is evaluated on a fair value basis. The Fund also manages these financial assets with the objective of realizing cash flows through sales.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

December 31, 2018

### 4. Summary of significant accounting policies (continued)

#### ***Financial instruments (continued)***

##### *Financial assets and financial liabilities at amortized cost*

The financial assets and liabilities measured at amortized cost include loans payable, accrued interest receivable, cash, accrued expenses and distribution payable, subscriptions receivable and payable and due to/from brokers.

IFRS 9 replaced the incurred loss model in IAS 39 with the expected credit loss model (“ECL”), as the new impairment model for financial assets carried at amortized cost. The Fund’s financial assets measured at amortized cost consist of trade receivables with no financing component and which have maturities of less than 12 months, as such, it has chosen to apply the simplified ECL approach, whereby any loss allowance is recognized based on the lifetime ECLs. Given the short-term nature of the trade receivables and high credit quality, this amendment has not had a material impact on the financial statements and these trade receivables are not considered impaired.

Financial assets and 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 Fund 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 set off in certain circumstances, such as bankruptcy or termination of the contracts.

#### ***Transaction costs***

Transaction costs are expensed and are included in “transaction costs” in the Statements of Comprehensive Income. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. The cost of investments for each security is determined on an average cost basis.

#### ***Capital Disclosures***

The Fund’s objectives, policies and processes for managing capital are described in Note 2. Information on the Funds’ capital structure is described in Note 5 and 9. The Fund does not have any externally imposed capital requirements.

#### ***Valuation of Investments***

Investments are recorded in the financial statements at their fair value which is determined as follows:

All exchange traded equities (and other securities) are valued using the last trade or closing price (where available) from the primary exchange. If no current closing price is available the average of bid price and ask price (mid-price) will be taken. If no current pricing is available the previous business day’s price will be used.

Bonds are valued at the mean of bid/ask prices provided by recognized investment dealers. Unlisted convertible debentures are valued at cost, if the underlying security is less than the conversion price; or if the underlying security is greater than the conversion price, at the market value of the underlying security multiplied by the number of shares to be received. Mutual fund units held are priced using the “NAV” per unit which is fair value, as of the valuation date for the particular fund for both reporting Net Assets attributable to holders of redeemable units and daily NAV.

Short-term notes and treasury bills are stated at amortized cost, which approximates fair market value, are included in the Schedule of Investments.

Cash is comprised of cash on deposit.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

December 31, 2018

### 4. Summary of significant accounting policies (continued)

#### *Investment Transactions and Income Recognition*

Investment transactions are recorded on trade date. Interest income from investments in bonds and short-term investments are accrued daily. Realized gains and losses from investment transactions are calculated on a weighted average cost basis.

#### *Income Recognition*

Interest income for distribution purposes resulting from investments in bonds is recognized on an accrual basis based on the bond coupon rate.

Dividend income is recognized on the ex-dividend date.

#### *Financial Instruments - Disclosures*

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows.

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Investment Manager has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices that is observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 Inputs that are unobservable.

All fair value measurements above are recurring. The carrying values of cash, subscriptions receivable, accrued interest receivable, due to/from brokers, redemptions payable, distributions payable, accrued liabilities and the Fund's obligation for net assets attributable to holders of redeemable units approximates their fair values due to their short-term nature. Fair values are classified as Level 1 when the related security or derivative is actively 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.

#### a) Common stock

The Fund's equity positions are classified as Level 1 when the security is actively traded and a reliable price is observable. Certain of the Fund's equities do not trade frequently and therefore observable prices may not be available. In such cases, fair value is determined using observable market data (e.g., transactions for similar securities of the same issuer) and the fair value is classified as Level 2, unless the determination of fair value requires significant unobservable data, in which case the measurement is classified as Level 3.

#### b) Bonds and short-term investments

Bonds include primarily government and corporate bonds. Short-term notes and treasury bills are stated at amortized cost, plus accrued interest, which approximates fair market value. The inputs that are significant to valuation are generally observable and therefore the Fund's bonds and short-term investments have been classified as Level 2.

Please see Note 12 for these disclosures.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

December 31, 2018

### 4. Summary of significant accounting policies (continued)

#### *Foreign currency*

a) Functional and presentation currency

Items included in the financial statements of the Fund are measured in the currency of the primary economic environment in which the Fund operates (the “functional currency”). The financial statements of the Fund are presented in Canadian Dollar (“CAD”) which is the Fund’s functional currency.

b) Foreign currency translation

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary items and non-monetary assets and liabilities that are denominated in foreign currencies are recognized in profit or loss in the period in which they arise. Foreign exchange gains and losses on financial assets and financial liabilities at fair value through profit or loss are recognized together with other changes in fair value.

#### *Critical accounting estimates and judgments*

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

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

The Fund holds financial instruments that are not quoted in active markets. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding.

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. Refer to Note 12 – Financial Instruments – Fair Value Disclosure for further information about the fair value measurement of the Fund’s financial instruments.

b) Classification and measurement of investments and application of the fair value option

In classifying and measuring financial instruments held by the Funds, the Manager is required to make significant judgments about whether or not the business of the Funds is to manage its portfolio of investments and evaluate performance on a fair value basis and that the portfolio of investments is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The most significant judgments made include assessing and determining the appropriate business model that enables the decision that the Funds’ investments are classified as FVTPL.

### 5. Redeemable Units

Each unitholder in the Fund acquires redeemable units, which represent an undivided interest in the net assets of the Fund. All redeemable units are of the same class with equal rights and privileges. Each redeemable unit is entitled to one vote at any meeting of unitholders and to equal participation in any distributions made by the Fund. Fractional units are not entitled to voting privileges. Each redeemable unit is redeemable at the option of the unitholder in accordance with the Trust Agreement and the number of redeemable units which may be issued is unlimited. The units of the Fund are fully paid when issued and are generally not transferable.

As of July 1, 2018, the previously issued units of the Fund were renamed class A units and an additional class of units designated as class F units were created for the Fund. Units of class F were issued July 3, 2018.

Following are the redeemable unit transactions during the years December 31, 2018 and 2017:

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

December 31, 2018

### 5. Redeemable Units (continued)

	2018		2017	
	Class A	Class F	Class A	Class F
Units outstanding, beginning of year	5,276,532	-	6,330,921	-
Units issued for cash	3,454,252	942,452	2,789,872	-
Units redeemed	(3,250,697)	(127,048)	(4,178,727)	-
Reinvestment of distribution	256,090	15,909	334,466	-
Units outstanding, end of year	<b>5,736,177</b>	<b>831,313</b>	5,276,532	-

### 6. Related party transactions

The Fund's investment activities are managed by Ridgewood Capital Asset Management Inc.

#### **Management fees**

Under the terms of the Master Declaration of Trust, the Fund appointed the Manager to provide management services. The Manager receives a fee in respect of each series of a class of the Fund which shall be paid from the assets of the Fund. The maximum management fee is equal to 1.25% (excluding HST) of the net asset value of the Fund. Services received under the Declaration of Trust include managing or arranging for the management of the Fund's investment portfolio and providing or arranging for all required administrative services to the Fund. Total Management fees for the year ended December 31, 2018 amounted to \$ 438,978 (2017 - \$ 645,543).

#### **Independent Review Committee fees**

The total remuneration paid to members of the Independent Review Committee ("IRC") during the year ended December 31, 2018 was \$ 17,567 (2017 - \$ 17,567).

### 7. Management fees and expenses

Ridgewood is entitled to an annual management fee payable out of the assets of each class of units of the Fund. The maximum management fee of each class of units of the Fund is equal to the "Maximum Ordinary Expenses", which is the percentage of the weighted average net asset value of each class of units of the Fund as shown below, less the Ordinary Expenses (as defined below) of each class of units of the Fund. The Maximum Ordinary Expenses acts as a cap on the management fee and ordinary expenses of the Fund. The management fee is estimated and paid on a monthly basis as of the last valuation date each month and shall be adjusted annually. The Maximum Ordinary Expenses of a class of units of the Fund will not be increased unless unitholders of the applicable class have received at least 60 days written notice of the increase.

	Class A	Class F
Maximum Ordinary Expenses percentage	1.25%	0.35%

"Ordinary Expenses" are paid out of the assets of the Fund and include normal course day-to-day operating expenses of the Fund such as fees and expenses payable to the custodian and any sub-custodian, printing and postage expenses incurred in connection with the provision of information to unitholders, legal, accounting and audit fees and regulatory filing fees. Ordinary Expenses may include common and class expenses. Class expenses are expenses that are attributable to a class of units of the Fund, while common expenses are all expenses of the Fund that are not class expenses.

The Fund may also be subject to other expenses incurred in the day-to-day operations of the Fund, including commissions, brokerage fees and other fees and disbursements directly relating to the implementation of transactions for the portfolio of the Fund, costs associated with the IRC, taxes payable by the Fund or to which the Fund may be subject (such as goods and services taxes and harmonized sales taxes), any interest expenses, as well as expenses incurred in respect of matters not in the ordinary course of the day-to-day

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

December 31, 2018

### 7. Management fees and expenses (continued)

activities of the Fund, all of which are the responsibility of the Fund. These expenses are not included in the Maximum Ordinary Expenses and accordingly are attributable to both the class A units and the class F units of the Fund, as applicable. If the total ordinary expenses are greater than the Maximum Ordinary Expenses, Ridgewood will reimburse the Fund the amount of such excess.

### 8. Brokerage commissions

The Fund uses some of the commissions generated from transactions with the brokerage industry for goods and services used in the investment decision making process and other executions.

### 9. Distributions

Net income and net realized capital gains of the Fund may be declared payable to unitholders of the Fund from time to time at the discretion of Ridgewood, provided that in each year sufficient net income and net realized capital gains will be made payable to unitholders so that the Fund will not be liable for income tax thereon, except to the extent that any tax payable on net realized capital gains retained by the Fund would be immediately refundable to it.

Net income and net realized capital gains payable to unitholders of the Fund will be automatically reinvested in additional units of the Fund as of the valuation date of payment unless the unitholder otherwise requests in writing.

### 10. Income taxes

The Fund qualifies as a "mutual fund trust" under the Income Tax Act (Canada). The Fund uses the "capital gains refund mechanism" which allows a mutual fund trust to retain some capital gains without paying any tax thereon. As a result, the Fund may not distribute all its net capital gains. The net income and net capital gains of the Fund that would otherwise be taxable in the Fund are either paid or payable to unitholders in each calendar year. Accordingly, no income tax is paid or payable by the Fund. Such income is taxable in the hands of the unitholders.

As at December 31, 2018, the Fund had capital losses of \$ 883,387 (2017 - \$ 883,387) are available for utilization against realized gains on sales of investments in future years. The capital losses can be carried forward indefinitely. The Fund has no non-capital losses.

### 11. Financial instruments and risk management

The Fund's financial instruments consist of bonds, equities, short-term investments, and cash. As a result, the Fund is primarily exposed to interest rate risk and credit risk.

These risks and related risk management practices employed by the Fund are discussed below:

#### ***Interest Rate Risk***

The Fund's interest-bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The table summarizes the Fund's exposure to interest rate risks, categorized by the earlier of contractual repricing or maturity dates.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

December 31, 2018

### 11. Financial instruments and risk management (continued)

#### Interest Rate Risk (continued)

As at December 31, 2018								
	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 3 years	3-5 years	More than 5 years	Non interest bearing	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Interest Rate Exposure	66,858	-	894,641	1,004,431	7,800,683	43,681,351	5,213,751	58,661,715

As at December 31, 2017								
	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 3 years	3-5 years	More than 5 years	Non interest bearing	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Interest Rate Exposure	134,788	-	1,827,795	-	6,072,449	35,586,591	5,373,464	48,995,087

At December 31, 2018, should interest rates have decreased by 100 basis points with all other variables remaining constant, the increase in net assets attributable to holders of redeemable units for the period would amount to approximately \$4.2 million (December 31, 2017 - \$3.4 million) arising substantially from the increase in market values of debt securities. Conversely, if interest rates had risen by 100 basis points, the decrease in net assets attributable to holders of redeemable units would amount to approximately \$4.2 million (December 31, 2017 - \$3.4 million).

#### Credit Risk

Financial instruments that potentially subject the Fund to a concentration of credit risk consist primarily of cash and investments. The Fund limits its exposure to credit loss by placing its cash and short-term investments with high quality government and financial institutions. To maximize the credit quality of its investments, the Fund's managers perform ongoing credit evaluations based upon factors surrounding the credit risk of customers, historical trends and other information. The Fund measures credit risk and lifetime ECL's related to the accrued interest receivables using historical analysis and forward looking information.

The Fund's main credit risk concentration is spread between BBB/Baa and BB/Ba rated securities.

The Fund invests in financial assets, which have an investment grade as rated by a well-known rating agency Dominion Bond Rating Service Limited and Canadian Bond rating Service Limited.

#### Portfolio by rating category

Rating	December 31, 2018 As a % of Net Assets
AAA/Aaa	6.43%
A/A	4.04%
BBB/Baa	54.15%
BB/Ba	14.83%
B/B	8.62%
Unrated	3.61%
<b>Total</b>	<b>91.68%</b>

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

December 31, 2018

### 11. Financial instruments and risk management (continued)

#### Credit Risk (continued)

Portfolio by rating category

Rating	December 31, 2017	
	As a % of Net Assets	
AAA/Aaa		5.10%
AA/Aa		1.94%
A/A		2.39%
BBB/Baa		46.05%
BB/Ba		16.64%
B/B		12.95%
Unrated		4.96%
<b>Total</b>		<b>90.03%</b>

All transactions in listed securities are settled 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 obligations.

#### Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2018, the Fund held \$3,121,892 (December 31, 2017 – \$3,392,408) in assets and liabilities denominated in currencies other than the Canadian dollar. As at December 31, 2018, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies represented in the portfolio, with all other variables remaining constant, net assets would have increased or decreased by approximately \$ 156,095 (December 31, 2017 - \$169,620).

#### Liquidity Risk

Liquidity risk is the risk that a Fund will encounter difficulty in meeting obligations associated with its daily cash redemption of units. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and which can be readily disposed of and by retaining sufficient cash and cash equivalent positions.

The Fund's short-term investments of approximately \$ 0.9 million (December 31, 2017, \$1.5 million) are invested in Canadian Government treasury bills with less than 150 days to maturity. The Fund's accrued liabilities are generally due and paid within three months.

#### December 31, 2018

Financial Liabilities	On Demand	< 3 Months	Total
<b>Redemptions payable</b>	\$ -	\$ 48,299	\$ 48,299
<b>Accrued expenses</b>	-	80,581	80,581
<b>Net Assets attributable to holders of redeemable</b>	<b>59,068,921</b>	-	<b>59,068,921</b>
<b>Total Liabilities</b>	<b>\$ 59,068,921</b>	<b>\$ 128,880</b>	<b>\$ 59,197,801</b>

#### December 31, 2017

Financial Liabilities	On Demand	< 3 Months	Total
Redemptions payable	\$ -	\$ 117,450	\$ 117,450
Accrued expenses	-	132,121	132,121
Net Assets attributable to holders of redeemable units	49,190,019	-	49,190,019
<b>Total Liabilities</b>	<b>\$ 49,190,019</b>	<b>\$ 249,571</b>	<b>\$ 49,439,590</b>

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

December 31, 2018

### 11. Financial instruments and risk management (continued)

#### Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk as a percentage of net assets attributable to holders of redeemable units:

Market segments	December 31, 2018	December 31, 2017
Canadian Short Term Investments	1.46%	3.10%
Federal Bonds	4.96%	2.00%
Provincial Bonds	1.60%	1.94%
Corporate Bonds	70.76%	73.44%
Mortgage Backed Securities	11.59%	7.93%
Equities	8.83%	10.93%
Total	99.20%	99.34%

### 12. Financial Instruments

#### Fair Value Disclosure

The Fund's financial assets recorded at fair value have been categorized based upon a fair value hierarchy described in Note 4. The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis as of December 31, 2018 and 2017.

	Financial assets at fair value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	66,858	-	-	66,858
Short Term Investments	-	864,641	-	864,641
Bonds	-	45,642,268	30,000	45,672,268
Mortgage Backed Securities (MBS)	-	6,844,197	-	6,844,197
Equities	5,213,751	-	-	5,213,751
	5,280,609	53,351,106	30,000	58,661,715

	Financial assets at fair value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	134,788	-	-	134,788
Short Term Investments	-	1,523,876	-	1,523,876
Bonds	-	37,756,078	303,919	38,059,997
Mortgage Backed Securities (MBS)	-	3,902,962	-	3,902,962
Equities	5,373,464	-	-	5,373,464
	5,508,252	43,182,916	303,919	48,995,087

There were no significant transfers made between Levels 1 and 2 as a result of changes in the availability of quoted market prices or observable market inputs during the years ended December 31, 2018 and 2017.

The following is a reconciliation of Level 3 fair value assets as at December 31, 2018. The potential impact of a 5% change in value would have increased/(decreased) level 3 assets by \$ 1,500.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

December 31, 2018

### 12. Financial Instruments (continued)

#### *Fair Value Disclosure (continued)*

For the year ended December 31, 2018:

	Balance at December 31, 2017	Purchases	Sales	Net transfers	Realized gain (loss)	Unrealized gain (loss)	Balance at December 31, 2018
Bonds	\$ 303,919	\$ -	\$ -	\$ -	\$ -	\$ (273,919)	\$ 30,000
Mortgage Backed Securities	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 303,919</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (273,919)</b>	<b>\$ 30,000</b>

The following is a reconciliation of Level 3 fair value assets as at December 31, 2017. The potential impact of a 5% change in value would have increased/(decreased) level 3 assets by \$15,195.

For the year ended December 31, 2017:

	Balance at December 31, 2016	Purchases	Sales	Net transfers	Realized gain (loss)	Unrealized gain (loss)	Balance at December 31, 2017
Bonds	\$ -	\$ -	\$ -	\$ 303,919	\$ -	\$ -	\$ 303,919
Mortgage Backed Securities	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 303,919</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 303,919</b>

**Mutual Funds**  
**Managed by Ridgewood Capital Asset Management Inc.**

---

Ridgewood Canadian *Bond Fund*

**Head Office:**

Ridgewood Capital Asset Management Inc.  
55 University Avenue, Suite 1020  
Toronto ON  
M5J 2H7

*Visit our website at [www.ridgewoodcapital.ca](http://www.ridgewoodcapital.ca) for additional information on Ridgewood Funds.*