



## **Ridgewood Canadian Investment Grade Bond Fund**

Annual Report 2016

# Ridgewood Canadian Investment Grade Bond Fund

## Annual Report 2016

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## MESSAGE TO UNITHOLDERS 2016

The bond market experienced a modest overall gain of 1.39% in the first quarter as risk assets attracted capital. Evidence of this was seen in the stock market as the S&P/TSX returned 4.54%. The positive market tone was aided by passive central banks which stayed on the sidelines with little appetite to hike interest rates at this point in the cycle. The European central bank was still in full easing mode and continues to buy Government and corporate bonds in the open market. Commodities remained weak which kept inflation low, pushing CPI in Canada down to 1.3% at the end of the first quarter.

In the second quarter both stocks and bonds rallied again, returning 5.07% and 2.62% respectively. Soft data globally sent a signal to the markets that rates will stay low for an extended period of time. Although the UK's 'Yes' vote for leaving the European Union came as a surprise, the markets returned to business as usual after an initial risk-off reaction. Even though the U.S. data warranted a hike, the central bank was concerned about the asymmetric risks of being the only major country to get ahead of the curve. Energy bonds were the top performing sector, coming in at a positive 4.59%.

During the third quarter, the bond market was strong again; returning 1.19%, while the S&P/TSX rose 5.45%. The sentiment was positive during the quarter as concerns over an economic slowdown in China, as well as globally, failed to materialize. China embarked on a stimulation program by continuing to gradually devalue its currency, and assist its real estate and banking sectors. The US Fed continued to watch economic data and discuss when the appropriate time was to begin to raise the overnight interest rate. With employment strong and corporate profits steady, risk appetites continued to increase. Corporate bonds again outperformed the overall index by 40 basis points.

The market had a challenging fourth quarter as investors quickly sold risk assets due to the impending interest rate hike by the Federal Open Market Committee. Although the Bank of Canada is likely a year away from raising interest rates, our bond market is highly correlated to the U.S bond market and thus fell in sympathy. Bonds dropped 3.44% in the quarter, with equities putting in a strong performance of positive 4.54%. In December, the FOMC finally pulled the trigger on the overnight rate, and increased the range to 0.50- 0.75% from 0.25-0.50%. For the year, the Canadian bond index returned +1.66%, while the TSX gained 21.08%. Energy bonds were the top performer at +6.73%, followed by communication bonds at +5.28%. The weakest sector in the bond market was Canadian government bonds, declining 0.30%. We believe inflation will be well contained by the central banks and the excess savings and low growth environment will add to the strong demand for corporate bonds.

# Ridgewood Canadian Investment Grade Bond Fund

For the year ended December 31, 2016

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## 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 Canadian Investment Grade Bond Fund (the “Fund”) for the year ended December 31, 2016. 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 visiting our website at [www.ridgewoodcapital.ca](http://www.ridgewoodcapital.ca) or 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.

## Investment Objectives and Strategies

The Fund will seek to achieve the following investment objectives:

- to provide unitholders with monthly cash distributions, initially targeted to be 5.25% per annum on the original issue price of \$12.00 per unit; and
- to maximize total returns for unitholders while preserving capital in the long term.

The portfolio of securities of the Fund (the “Portfolio”) will be invested primarily in Investment Grade Bonds issued by Canadian issuers available to domiciled investors. Investment Grade Bonds means debt securities and term loans that are generally rated at or above BBB- from S&P, or Baa3 or higher from Moody’s Investor Services Inc., or a similar rating from a qualified rating agency. Currently, the Fund may invest up to 35% of the Portfolio in Investment Grade Bonds issued by non-Canadian issuers. As at June 30 and December 31 of each year (each a “Determination Date”), at least 90% of the Portfolio will be invested in securities denominated in Canadian dollars.

## Risk

The Fund invests primarily in liquid Canadian federal and provincial government securities, and those of Canadian corporations rated investment grade or better by the Dominion Bond Rating Service Limited or other recognized rating agencies. 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 interest rate risk. The Bank of Canada has an easing bias as inflation is low and growth is slowing down. Fixed income markets should benefit in this environment as rates will likely stay low for the foreseeable future. However, in a rising interest rate environment, bond prices will move down and the income generated by bonds may not be greater than the decrease in the price.

## Summary of Investment Portfolio

The summary of the Fund’s 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).

The following table shows a summary of the Fund’s investment portfolio as at Dec 31, 2016.

### Asset Mix

December 31, 2016

	% of Net Asset Value		% of Net Asset Value
Corporate Bonds	61.4	Asset-Backed Securities	33.7
Foreign Bonds	2.7	Federal Bonds	1.5
Cash and Short-term	0.7		

# Ridgewood Canadian Investment Grade Bond Fund

For the year ended December 31, 2016

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## Top 25 Holdings

	Percentage of Net Asset value
1. Fairfax Financial Holdings Ltd., 4.70%, 2026/12/16	5.7%
2. TransAlta Corp., 7.30%, 2029/10/22	5.5%
3. Brookfield Asset Management Inc., 5.95%, 2035/06/14	5.3%
4. Shaw Communications Inc., 6.75%, 2039/11/09	4.9%
5. Reliance LP., 4.08%, 2021/08/02	4.8%
6. Teranet Holdings LP., 6.10%, 2041/06/17	4.7%
7. Smart REIT, 3.44%, 2026/08/28	4.6%
8. First National Financial Corp., 4.01%, 2020/04/09	4.0%
9. Institutional Mortgage Securities Canada Inc., C2012-2 D, 4.66%, 2022/07/12	4.0%
10. Merrill Lynch Financial Asset Inc., C23 D1, 5.72%, 2017/08/12	3.5%
11. Merrill Lynch Financial Asset Inc., C22 D, 5.20%, 2017/05/12	3.5%
12. Granite REIT, 3.87%, 2023/11/30	3.5%
13. Pembina Pipeline Corp., 4.75%, 2043/04/30	3.4%
14. Altagas, 4.50%, 2044/08/15	3.3%
15. REALT 2016-2 E, 3.62%, 2026/06/12	3.0%
16. Merrill Lynch Financial Asset Inc., C21 D, 5.14%, 2017/01/12	2.8%
17. Fairfax Financial Holdings Ltd., 4.88%, 2024/08/13	2.7%
18. Goldman Sachs, 5.20%, 2022/04/19	2.7%
19. Schooner Trust 2007-8 E, 5.22%, 2022/06/12	2.7%
20. George Weston Ltd., 7.10%, 2032/02/05	2.4%
21. Institutional Mortgage Securities Canada Inc., C2012-2 E, 4.66%, 2022/07/12	2.3%
22. Institutional Mortgage Securities Canada Inc., 2011-1D, 5.28%, 2021/02/12	2.3%
23. Schooner Trust 2007-8 D, 5.22%, 2022/06/12	2.1%
24. Institutional Mortgage Securities Canada Inc., 2016-7D, 3.77%, 2026/10/12	1.9%
25. REALT 2016-2 E, 3.64%, 2026/05/12	1.6%
<b>Total</b>	<b>87.2%</b>

## Results of Operations

For the year ended December 31, 2016, the net asset value of the Fund was \$13.55 compared to \$13.50 per unit at December 31, 2015.

In 2016 there were twelve distributions of \$0.0530 each. The Fund will determine and announce each quarter the distribution amounts for the following quarter, based upon the Manager's estimate of distributable cash flow for the quarter. The Fund may make additional distributions in any given year.

For the year ending December 31, 2016 the Fund had an annual compound return of 5.49% net of fees of 1.39% (including HST) while the FTSE/TMX Universe Bond Index had a return of 1.66%. In 2016 corporate bonds returned 3.73%, beating the overall bond index. Corporate BBB, and more specifically Energy bonds, outperformed returning 5.15% and 6.73% respectively. The portfolio was overweight in these sectors and benefited from this exposure.

# Ridgewood Canadian Investment Grade Bond Fund

For the year ended December 31, 2016

## 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 five years. This information for the years ended December 31 is derived from the Fund's audited annual financial statements.

Information for the year ended December 31 is derived from the Fund's audited financial statements, with the exception of 2013 information, which was re-stated in accordance with IFRS requirements. For December 31, 2016 and December 31, 2015, 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 as well 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.

### The Fund's Net Assets per Unit

Class A					
Year	2016	2015	2014	2013	2012
<b>Net assets value, beginning of year</b>	\$ 13.50	\$ 13.72	\$ 12.51	\$ 12.36	10.95
<b>Increase from operations:</b>					
Total revenue	1.02	1.08	1.03	0.92	0.84
Total expenses	(0.19)	(0.20)	(0.24)	(0.29)	(0.15)
Realized gains (losses)	0.33	0.31	0.44	0.24	0.53
Unrealized gains (losses)	(0.45)	(0.83)	0.59	0.20	0.79
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	0.71	0.36	1.82	1.07	2.01
<b>Distributions:</b>					
From net investment income (excluding dividends)	(0.80)	(0.92)	(0.68)	(0.59)	(0.60)
From net realized capital gains	(0.18)	(0.44)	(0.39)	(0.11)	-
From return of capital	-	-	-	(0.35)	(0.03)
<b>Total annual distributions <sup>(4)</sup></b>	(0.98)	(1.36)	(1.07)	(1.05)	(0.63)
<b>Net assets value, end of year <sup>(2)(5)</sup></b>	\$ 13.55	\$ 13.50	\$ 13.72	\$ 12.51	12.33

<sup>(1)</sup> This information is derived from the Fund's audited annual financial statements as at December 31 of the year, with the exception of 2013 information, which was re-stated in accordance with new IFRS requirements. For all prior years the financial statements of the Fund were prepared in accordance with Canadian GAAP applicable to public enterprises. Class A units list their initial offering price of \$12.00 per unit as the opening net asset value although such units may not have actually been issued at the beginning of the year. The inception date for Class A units was December 18, 2009.

<sup>(2)</sup> The net assets per security presented in the financial statements differs from the net asset value calculated for Fund pricing purposes for 2013 and 2014. An explanation of these differences can be found in the notes to the financial statements.

<sup>(3)</sup> Net assets per security and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the average number of units outstanding over the financial year.

<sup>(4)</sup> Distributions, if any, were paid in cash, reinvested in additional units of the Fund, or both.

<sup>(5)</sup> The Financial Highlights are not intended to act as a continuity of the opening and closing net assets per unit.

### Ratios and Supplemental Data

#### Class A

Year <sup>(1)</sup>	2016 <sup>(1)</sup>	2015	2014	2013	2012
Net asset value (000's)	\$ 104,049	\$ 80,446	\$ 107,992	\$ 89,154	79,366
Number of units outstanding	7,679,487	5,961,001	7,872,822	7,126,722	6,419,709
Management expense ratio <sup>(3)</sup>	1.39%	1.46%	1.83%	2.35%	1.25%
Management expense ratio before waivers or absorptions <sup>(4)</sup>	1.39%	1.46%	1.83%	2.35%	1.25%
Trading expense ratio <sup>(6)</sup>	0.00%	0.00%	0.00%	0.00%	0.00%
Portfolio turnover rate <sup>(5)</sup>	138.28%	59.45%	29.55%	23.25%	95.68%
Closing market price	\$ 14.55	\$ 13.85	\$ 13.73	\$ 13.98	12.25
Net asset value per unit, end of year	\$ 13.55	\$ 13.50	\$ 13.72	\$ 12.51	12.36

# Ridgewood Canadian Investment Grade Bond Fund

For the year ended December 31, 2016

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<sup>(1)</sup> The information is provided for the year ended December 31, 2016

<sup>(2)</sup> The inception date for Class A is December 18, 2009.

<sup>(3)</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of daily average net assets during the year. Out of its management fees, the Manager pays for such services to the Fund as portfolio manager compensation, service fees and marketing. Management expense ratio is inclusive of performance fees.

<sup>(4)</sup> The Manager, at its discretion, may waive and/or absorb a portion of the fees and/or expenses otherwise payable by the Fund. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.

<sup>(5)</sup> The Fund's portfolio turnover rate indicates how actively the Sub-Advisor trades the Fund's 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 the 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 the Fund.

<sup>(6)</sup> The trading expense ratio represents total commissions and other portfolio transactions costs expressed as an annualized percentage of daily average net asset value during the year.

## 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 0.50% (plus applicable taxes) of the net asset value 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 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

Interest rates rose modestly in 2016 as the economic recovery gathered momentum and job growth continued to be robust. Commodities firmed up over the year as OPEC agreed to production cuts and industrial metal demand also increased. The U.S. central bank finally began the process of raising interest rates with a quarter point increase in December. They stressed it will be a gradual program, with modest increases over an extended period of time. The bond market has benefited from the widely anticipated moves and the perception that inflation will be well contained over the long term. As government rates stabilize and gradually rise, corporate bonds become an attractive asset class for investors wishing to maintain a higher level of income.

## 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 return or performance information does not take into account sales, redemptions, distributions or other 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.

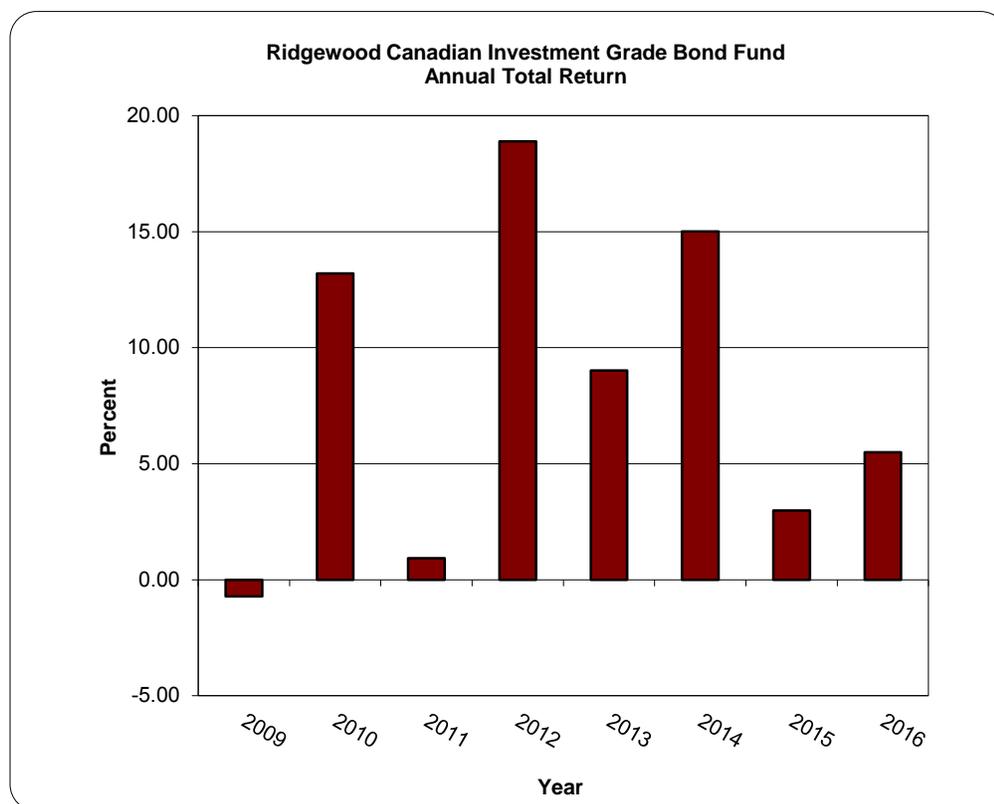
## Year-By-Year Returns

The bar chart illustrates how the Fund's annual total return in each of the past two years has varied. The chart also shows, in percentage terms, how much an investment made on December 18, 2009 and January 1, of each year would have increased or decreased by the end of that fiscal year.

# Ridgewood Canadian Investment Grade Bond Fund

For the year ended December 31, 2016

## Annual Total Return



## Annual Compound Returns

The following table shows the Fund's historical annual compound total return (net of fees of 1.39%, including HST) for the periods ended December 31 as compared to the performance of the FTSE TMX Canada Universal Bond Index.

	One Year	Three Years	Five Years	Ten Years
Ridgewood Canadian Investment Grade Bond Fund	<b>5.49%</b>	7.71%	10.12%	
DEX Universe Bond Index *	<b>1.66%</b>	4.62%	3.23%	

\* 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 the declaration of trust of the Fund dated November 27, 2009, as amended and restated on December 17, 2009.

Ridgewood is the Manager and Trustee of the Fund pursuant to the Declaration of Trust dated, and, as such, is responsible for providing or arranging for required administrative services to the Fund.

# Ridgewood Canadian Investment Grade Bond Fund

For the year ended December 31, 2016

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## 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.

The members of the IRC of the Fund are 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.

## Accounting Standards Issues and Amendments Not Yet Adopted

Below are accounting standards issued or amended but not yet effective and not yet adopted. The Manager does not expect the adoption of these standards or amendments to have significant impact to the Fund's financial statements.

The final version of IFRS 9 Financial Instruments (“IFRS 9”) was issued by the IASB on July 24, 2014 and will replace IAS 39. IFRS 9 introduces a model for classification and measurement of financial assets and liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. Ridgewood Capital Group of Funds is in the process of assessing the impact of IFRS 9 and has not yet determined when it will adopt the new standard.

## 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 Canadian Investment Grade Bond Fund

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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 17, 2017

## Independent Auditor's Report

To the Unitholders of  
Ridgewood Canadian Investment Grade Bond Fund (the "Fund")

We have audited the accompanying financial statements of the Fund, which comprise the statements of financial position as at December 31, 2016 and December 31, 2015, the statements of comprehensive income, statements of changes in net assets attributable to holders of redeemable units and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2016 and December 31, 2015, and its financial performance, its changes in net assets attributable to holders of redeemable units and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
March 17, 2017

# Ridgewood Canadian Investment Grade Bond Fund

## Statements of Financial Position

As at December 31, 2016 and 2015

	December 31, 2016	December 31, 2015
<b>Assets</b>	<b>\$</b>	<b>\$</b>
Financial asset at fair value through profit or loss (cost 31-Dec-16 - \$143,916,320; 31-Dec-15 - \$112,805,977)	145,529,934	117,260,486
Cash	8,974	2,175,271
Accounts receivable relating to units issued	-	4,481,767
Accrued interest receivable	1,071,742	1,303,223
<b>Total Assets</b>	<b>146,610,650</b>	<b>125,220,747</b>
<b>Liabilities</b>		
Redemptions payable	268,800	-
Accrued expenses	160,414	126,056
Distribution payable	407,013	471,781
Loan payable (Note 9)	41,725,774	-
Liabilities for securities redeemed	-	44,177,329
<b>Total Liabilities</b>	<b>42,562,001</b>	<b>44,775,166</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>104,048,649</b>	<b>80,445,581</b>
<b>Number of units outstanding, Class A (Note 5)</b>	<b>7,679,487</b>	<b>5,961,001</b>
<b>Net assets attributable to holders of redeemable units per unit</b>	<b>13.55</b>	<b>13.50</b>

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

Approved on behalf of the Board of Directors of the Manager:



John H. Simpson, CFA  
Managing Director



Paul W. Meyer, CFA  
Managing Director

## Ridgewood Canadian Investment Grade Bond Fund

### Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

	December 31, 2016	December 31, 2015
	\$	\$
<b>Income</b>		
Interest for distribution purposes	6,482,805	9,471,918
<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	2,201,080	2,720,362
Net realized loss of foreign exchange on cash	(850)	(408)
Net realized gain (loss) on foreign exchange	(71,020)	17,921
Net change in unrealized appreciation (depreciation) on foreign exchange	(17,194)	18,233
Net change in unrealized depreciation of investments	(2,840,895)	(7,279,935)
<b>Total operating income</b>	<b>5,753,926</b>	<b>4,948,091</b>
<b>Expenses</b>		
Management fees (Note 6 & 7)	460,082	652,013
Administration fees	148,954	229,000
Legal fees	66,116	17,832
Independent Review Committee fees (Note 6)	14,867	17,567
Audit fees	12,797	27,476
<b>Total operating expenses</b>	<b>702,816</b>	<b>943,888</b>
<b>Operating profit</b>	<b>5,051,110</b>	<b>4,004,203</b>
<b>Finance cost</b>		
Interest and bank fees (Note 9)	501,347	847,849
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>4,549,763</b>	<b>3,156,354</b>
Increase in net assets attributable to holders of redeemable units per unit, Class A (based on weighted average number of units outstanding during the year - (2016 - 6,390,153; 2015 - 8,797,642)	0.71	0.36

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

## Ridgewood Canadian Investment Grade Bond Fund

### Statements of Changes in Net Assets Attributable to Holders of Redeemable Units

For the years ended December 31, 2016 and 2015

	December 31, 2016	December 31, 2015
	\$	\$
<b>Net assets attributable to holders of redeemable units at beginning of year</b>	80,445,581	107,991,974
Increase in net assets attributable to holders of redeemable units	4,549,763	3,156,354
Distributions:		
From net investment income	(4,924,114)	(7,313,601)
From net realized capital gains	(1,404,468)	(2,604,668)
	<b>(1,778,819)</b>	<b>(6,761,915)</b>
Redeemable unit transactions		
Issue costs and agency fees	(28,915)	(481,115)
Proceeds from the issuance of units of the investment fund	23,523,374	19,562,546
Aggregate amounts paid on redemption of units of the investment fund	(270,270)	(44,177,331)
Securities issued on reinvestment of distributions	2,157,698	4,311,422
	<b>25,381,887</b>	<b>(20,784,478)</b>
<b>Net assets attributable to holders of redeemable units at end of year</b>	<b>104,048,649</b>	<b>80,445,581</b>

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

# Ridgewood Canadian Investment Grade Bond Fund

## Statements of Cash Flows

For the years ended December 31, 2016 and 2015

	December 31, 2016	December 31, 2015
	\$	\$
<b>Cash provided by (used in) operating activities</b>		
Net increase in net assets attributable to holder of redeemable Units	4,549,763	3,156,354
Adjustments for:		
Net realized gain on sale of investments	(2,201,080)	(2,720,362)
Net change in unrealized depreciation of investments	2,840,895	7,279,935
Purchase of investments	(208,796,838)	(107,188,721)
Proceeds from sale of investments	179,887,575	150,853,580
Decrease in accrued interest receivable	231,481	100,803
Increase (Decrease) in accrued expenses	34,358	(56,872)
	<b>(23,453,846)</b>	<b>51,424,717</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issuance of units of the investment fund	28,005,141	17,293,823
Issue costs and agency fees paid	(28,915)	(481,115)
Aggregate amounts paid on redemption of units of the investment fund	(44,178,799)	(2,395,824)
Distributions paid to unitholders	(4,235,652)	(5,627,763)
Change in loan payable	41,725,774	(58,208,773)
	<b>21,287,549</b>	<b>(49,419,652)</b>
<b>Increase (decrease) in cash during the year</b>	<b>(2,166,297)</b>	<b>2,005,065</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>2,175,271</b>	<b>170,206</b>
<b>Cash and cash equivalents, end of year</b>	<b>8,974</b>	<b>2,175,271</b>
Interest received	6,714,286	9,572,721
Interest paid	480,648	909,958

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

## Ridgewood Canadian Investment Grade Bond Fund

### Schedule of Investments

As at December 31, 2016

Par Value	Security	Average Cost	Fair Value	% of net assets
		\$	\$	
<b>Canadian Bonds</b>				
<b>Corporate Bonds</b>				
5,000,000	AltaGas Ltd., Callable, 4.50%, 2044/08/15*	4,591,750	4,810,457	
7,000,000	Brookfield Asset Management Inc., 5.95%, 2035/06/14*	7,715,280	7,692,684	
8,250,000	Fairfax Financial Holdings Ltd., Callable, 4.70%, 2026/12/16	8,222,692	8,343,203	
5,804,000	First National Financial Corp., Callable, 4.01%, 2020/04/09*	5,799,846	5,791,702	
2,800,000	George Weston Ltd., Callable, 7.10%, 2032/02/05*	3,530,500	3,531,170	
5,000,000	Granite REIT Holdings L.P., Series '3', Callable, 3.87%, 2023/11/30	5,000,100	5,022,519	
1,485,000	MCAP Commercial L.P., Callable, 3.96%, 2019/03/11	1,462,725	1,467,196	
5,000,000	Pembina Pipeline Corp., Callable, 4.75%, 2043/04/30*	4,926,700	4,946,112	
6,920,000	Reliance L.P., 4.08%, 2021/08/02*	6,942,792	6,962,347	
6,000,000	Shaw Communications Inc., Callable, 6.75%, 2039/11/09*	7,100,040	7,191,785	
7,000,000	Smart REIT, Series 'P', Callable, 3.44%, 2026/08/28*	7,009,450	6,714,020	
2,000,000	Sobeys Inc., Callable, 6.64%, 2040/06/07	2,295,780	1,969,790	
2,000,000	Teranet Holdings L.P., Callable, 5.75%, 2040/12/17	2,176,900	2,147,778	
6,149,000	Teranet Holdings L.P., Callable, 6.10%, 2041/06/17*	6,927,893	6,895,265	
1,000,000	TransAlta Corp., 5.00%, 2020/11/25	1,030,000	1,028,578	
8,000,000	TransAlta Corp., Callable, 7.30%, 2029/10/22*	8,767,680	8,032,840	
1,900,000	TransAlta Corp., Step Coupon, 6.90%, 2030/11/15*	1,713,550	1,877,934	
		85,213,678	84,425,380	81.14%
<b>Mortgage-Backed Securities</b>				
3,100,000	Institutional Mortgage Securities Canada Inc., Class 'D', Series '2011-1', Variable Rate, Callable, 5.28%, 2021/02/12	2,899,833	3,283,586	
6,000,000	Institutional Mortgage Securities Canada Inc., Class 'D', Series '2012-2', Variable Rate, Callable, 4.66%, 2022/07/12	5,434,200	5,760,836	
3,603,000	Institutional Mortgage Securities Canada Inc., Class 'E', Series '2012-2', Variable Rate, Callable, 4.66%, 2022/07/12	3,177,197	3,322,849	
2,422,000	Institutional Mortgage Securities Canada Inc., Class 'C', Series '2016-7', Callable, 3.60%, 2026/10/12	2,332,690	2,208,864	
3,230,000	Institutional Mortgage Securities Canada Inc., Class 'D', Series '2016-7', Callable, 3.77%, 2026/10/12	2,919,044	2,771,340	
5,000,000	Merrill Lynch Financial Asset Inc., Class 'D1', Series '2007-CA23', Variable Rate, Callable, 5.72%, 2017/08/12	4,726,750	5,062,500	
4,111,000	Merrill Lynch Financial Asset Inc., Class 'D', Series '2007-CA21', Variable Rate, 5.14%, 2040/01/12	3,821,380	4,111,000	
1,870,000	Merrill Lynch Financial Asset Inc., Class 'E', Series '2007-CA21', Variable Rate, 5.14%, 2040/01/12	1,732,555	1,869,065	
5,000,000	Merrill Lynch Financial Asset Inc., Class 'D', Series '2007-CA22', Variable Rate, Callable, 5.20%, 2049/03/12	3,938,000	5,030,000	
2,756,000	Real Estate Asset Liquidity Trust, Class 'E', Series '2016-1', Variable Rate, Callable, Restricted, 3.64%, 2026/05/12	2,323,766	2,259,920	
5,269,000	Real Estate Asset Liquidity Trust, Class 'E', Series '2016-2', Variable Rate, Callable, Restricted, 3.62%, 2051/09/12	4,466,456	4,283,697	
2,137,860	Schooner Trust, Class 'E', Series '2007-7', Variable Rate, Callable, 5.17%, 2022/02/12	2,066,199	2,137,860	
3,000,000	Schooner Trust, Class 'D', Series '2007-8', Floating Rate, Callable, 5.22%, 2022/06/12	2,931,800	3,024,600	
3,886,087	Schooner Trust, Class 'E', Series '2007-8', Variable Rate, Callable, 5.22%, 2022/06/12	3,754,115	3,909,404	
		46,523,985	49,035,521	47.13%
<b>Government Bonds</b>				
2,000,000	Government of Canada, 2.75%, 2048/12/01	2,155,000	2,197,614	
		2,155,000	2,197,614	2.11%
<b>Total Canadian Bonds and ABS</b>		133,892,663	135,658,515	130.38%
<b>U.S. Bonds</b>				
<b>Corporate Bonds</b>				
3,000,000	Fairfax (US) Inc., 4.88%, 2024/08/13	4,113,657	3,946,044	
4,000,000	Goldman Sachs Group Inc. (The), Variable Rate, Callable, 5.20%, 2022/04/19	3,910,000	3,934,035	
		8,023,657	7,880,079	7.57%
<b>Total U.S. Bonds</b>		8,023,657	7,880,079	7.57%
<b>Global Bonds</b>				
<b>Corporate Bonds</b>				
2,000,000	HSBC Holdings PLC, 3.20%, 2023/12/05	2,000,000	1,991,340	
		2,000,000	1,991,340	1.91%
<b>Total Global Bonds</b>		2,000,000	1,991,340	1.91%
<b>Total Investment Portfolio</b>		143,916,320	145,529,934	139.86%
<b>Cash</b>			8,974	0.01%
<b>Other assets less liabilities</b>			(41,490,259)	-39.87%
<b>Total net assets attributable to holders of redeemable units</b>			104,048,649	100.00%

\* These securities are held as collateral with Scotiabank for the loan payable or margin account (Note 9)

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

# Ridgewood Canadian Investment Grade Bond Fund

## Notes to the Financial Statements

December 31, 2016

### 1. ESTABLISHMENT OF THE FUND

Ridgewood Canadian Investment Grade Bond Fund (the “Fund”) is a closed-end investment fund established under the laws of the Province of Ontario pursuant to the Declaration of Trust dated November 27, 2009, as amended and restated. Ridgewood Capital Asset Management Inc. (“Ridgewood” or the “Manager”) is the Manager and Trustee of the Fund. 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 of the Fund. CIBC Mellon Trust Company is the custodian, transfer agent and registrar of the Fund, and, as such, performs certain valuation and other services for the Fund. The Fund commenced operations on December 18, 2009. The Fund has a fixed termination date of December 31, 2019, recently extended from December 31, 2014. The financial statements were authorized for issuance by Ridgewood Capital Asset Management Inc. on March 17, 2017.

### 2. INVESTMENT OBJECTIVE OF THE FUND

The investment objective of the Fund is to maximize total returns for unitholders while preserving capital in the long term. The portfolio of securities of the Fund (the “Portfolio”) will be invested primarily in Investment Grade Bonds issued by Canadian issuers available to domiciled investors. Investment Grade Bonds means debt securities and term loans that are generally rated at or above BBB- from S&P, or Baa3 or higher from Moody’s Investor Services Inc., or a similar rating from a qualified rating agency. Currently, the Fund may invest up to 25% of the Portfolio in Investment Grade Bonds issued by non-Canadian issuers. As at June 30 and December 31 of each year (each a “Determination Date”), at least 90% of the Portfolio will be invested in securities denominated in Canadian dollars.

### 3. BASIS OF PRESENTATION AND ADOPTION OF IFRS

These annual financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) International Accounting Standard (“IAS”) 34, Annual Financial Reporting as published by the International Accounting Standards Board (“IASB”) and as required by Canadian securities legislation and the Canadian Accounting Standards Board.

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Financial instruments*

The Fund classifies its investments as financial assets at fair value through profit and loss (“FVTPL”). Financial assets have two sub-categories: those designated at FVTPL at inception, and financial assets held for trading. Financial assets designated at FVTPL at inception are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Fund’s documented investment strategy. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorized as held for trading. The Fund does not classify any investments as held for trading. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, on the accrual basis based on the bond coupon rate. The Fund’s accounting policies for measuring the fair value of its investments are identical to those used in measuring its net asset value (NAV) for transactions with unitholders.

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.

#### *Recognition, Initial Measurement and Classification*

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the FVTPL designation for financial assets under IAS 39, Financial Instruments – Recognition and Measurement. The most significant judgments made include the determination that certain investments are held-for-trading.

# Ridgewood Canadian Investment Grade Bond Fund

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## Notes to the Financial Statements

December 31, 2016

### *Amendments to IAS1 disclosure requirements*

The Fund has applied these amendments for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the basis of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the Fund's financial position and financial performance.

Regarding the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or the financial position of the Fund.

### *Capital Disclosures*

The Fund's objectives, policies and processes for managing capital are described in Note 2. Information on the Fund's capital structure is described in Note 5 and Note 8. The fund does not have any externally imposed capital requirements other than disclosed in Note 8.

### *Valuation of Investments*

For financial reporting purposes, investments are valued at their fair value. Investments held that are traded in an active market through recognized public stock exchange, over-the-counter markets, or through recognized investment dealers, are valued at their last traded market price where the last traded market price falls within the day's bid ask spread. In circumstances where the last traded price is not within that day's bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on specific facts and circumstances. Investments held include equities, short-term notes, treasury bills, bonds, asset-backed securities and other debt instruments. The Fund policy is to recognize transfers in and out of the fair value hierarchy levels as at the end of the reporting period for transfers between Levels 1 and 2 and as at the date of the transfer for transfers in and out of Level 3.

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

Bonds are valued at the mean of bid/ask prices provided by recognized investment dealers. 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 net assets value (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 value, are included in the Schedule of investments.

Cash is comprised of cash on deposit.

### *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.

### *Financial Instruments – Disclosures*

The Fund classifies fair value measurements within a hierarchy that prioritize the inputs to valuation techniques used to measure fair value. 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 measurement). 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. There is little if any market activity. Inputs into the determination of fair value require significant management judgment or estimation.

All fair value measurements above are recurring. The carrying values of cash, subscriptions receivable, interest receivable, payable for investments purchased, redemptions payable, distributions payable, accrued

# Ridgewood Canadian Investment Grade Bond Fund

## Notes to the Financial Statements

December 31, 2016

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) 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.

### *Foreign currency*

#### a) Functional and presentation currency

Items included in the annual financial statements of the Fund are measured in the currency of the primary economic environment in which the Fund operates (the "functional currency"). The annual financial statements of the Fund are presented in 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 an 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. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager, independent of the party that created them. The models used for private equity securities are based mainly on earnings multiples adjusted for a lack of marketability as appropriate.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to Note 4 – Financial Instruments - Disclosure for further information about the fair value measurement of the Fund's financial instruments.

#### b) Classification and measurement of investments designated as FVTPL.

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the FVTPL designation for the financial assets under IAS39, Financial Instruments – Recognition and Measurement (IAS39). The most significant judgment made include the determination that certain investments are held-for-trading.

## 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

# Ridgewood Canadian Investment Grade Bond Fund

## Notes to the Financial Statements

December 31, 2016

Agreement. The units of the Fund are fully paid when issued.

Following are the redeemable unit transactions during the year:

December 31, 2016

	2016
Units outstanding,	
Beginning of year	5,961,001
Redeemable units issued for cash	1,718,486
Redeemable units redeemed	-
Units issued on	
reinvestment of distributions	-
Units outstanding, end of year	7,679,487

December 31, 2015

	2015
Units outstanding,	
Beginning of year	7,872,822
Redeemable units issued for cash	1,360,695
Redeemable units redeemed	(3,272,516)
Units issued on	
reinvestment of distributions	-
Units outstanding, end of year	5,961,001

### 6. RELATED PARTY TRANSACTIONS

The Fund's investment activities are managed by Ridgewood.

#### *Management fees*

Under the terms of the management agreement dated November 27, 2009 as amended and restated on December 17, 2009, the Fund appointed the Manager to provide management services. 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, 2016 amounted to \$460,082 (December 31, 2015 - \$652,013). See Note 7 for further details.

#### *Independent Review Committee fees*

The total remuneration paid to members of the Independent Review Committee during the year ended December 31, 2016 was \$14,867 (December 31, 2015 - \$17,567).

### 7. MANAGEMENT FEES AND EXPENSES

Ridgewood is entitled to an annual management fee payable out of the assets of the Fund. The management

fee is equal to 0.50% (excluding HST) of the net asset value of the Fund.

Ongoing expenses are paid out of the assets of the Fund and include all normal day-to-day operating expenses of the Fund, including without limitation, mailing and printing expenses for periodic reports to unitholders and other unitholder communications including marketing and advertising expenses. Fees payable to the Custodian, the registrar and transfer agent, the Valuation Agent and/or other parties engaged by the Fund for performing certain financial, record keeping, reporting and general administrative services are charged to the Fund. Any reasonable out-of-pocket expenses incurred by the Manager or its agents in connection with their ongoing obligations to the Fund, fees are payable to the Manager for performance of extraordinary services on behalf of the Fund, auditors and legal advisors; regulatory filing, stock exchange and licensing fees; any expenditures incurred upon the termination of the Fund; and fees payable to the members of the independent review committee of the Fund. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which the Manager or any other party is entitled to indemnity by the Fund. The Fund will be responsible for its costs of portfolio transactions and any extraordinary expenses which it may incur from time to time.

### 8. 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.

### 9. LOAN PAYABLE INTEREST AND BANK FEES

The Fund has a margin account held at Scotiabank which requires collateral against loans (see Schedule of Investments). The Fund can borrow an amount up to 35% of the total assets of the Fund.

#### *Loan Payable*

As at December 31, 2016 the balance of the account was \$41,725,774 (December 31, 2015 - \$Nil). During

# Ridgewood Canadian Investment Grade Bond Fund

## Notes to the Financial Statements

December 31, 2016

the year the maximum amount borrowed was \$52,456,069 (December 31, 2015 - \$74,599,009) and the minimum amount borrowed was \$Nil (December 31, 2015 - \$Nil).

### Interest and Bank Fees

Total interest and bank fees on the account were \$501,347 for the year (2015 - \$847,849). The account is charged interest based on Bloomberg Ticker Reference plus 70bps on debit spread or minus 25 bps on credit spread. If interest rates had increased/decreased by 100 basis points interest expense would have changed by approximately \$415,236 (2015 - \$621,807).

## 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 of 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, 2016 taxation year-end, the Fund had no capital losses and non-capital losses available for carryforward (2015 – Nil).

## 11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Fund's financial instruments consist of bonds, asset-backed securities, liabilities for securities redeemed, cash and loan payable. 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. Since the loan payable is a short-term obligation the interest rate sensitivity is minimal.

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

As at December 31, 2016:

	Less than 1 month	1-3 months	3 months - 1 year
Loan payable	\$	\$	\$
Interest Rate Exposure	41,725,774	-	-

	Less than 1 year	1-3 years	3-5 years	More than 5 years
Investments	\$	\$	\$	\$
Interest Rate Exposure	5,062,500	1,467,196	17,066,213	121,934,025

	Non Interest bearing	Total
	\$	\$
Interest Rate Exposure	-	145,529,934

As at December 31, 2015:

	Less than 1 month	1-3 months	3 months - 1 year
Loan payable	\$	\$	\$
Interest Rate Exposure	-	-	-

	1-3 years	3-5 years	More than 5 years
Investments	\$	\$	\$
Interest Rate Exposure	11,287,782	8,507,871	97,464,833

	Non Interest bearing	Total
	\$	\$
Interest Rate Exposure	-	117,260,486

At December 31, 2016, should interest rates have decreased by 100 basis points with all other variables remaining constant, the increase in net assets for the year would amount to approximately \$7.9 million (December 31, 2015 - \$6.4 million), arising substantially

# Ridgewood Canadian Investment Grade Bond Fund

## Notes to the Financial Statements

December 31, 2016

from the increase in market values of debt securities, with a small portion affecting interest rate futures. Conversely, if interest rates had risen by 100 basis points, the decrease in net assets would amount to approximately \$7.9 million (December 31, 2015 - \$6.4 million).

### Credit Risk

Financial instruments that potentially subject the Fund to a concentration of a credit risk consist primarily of cash and investments. The Fund limits its exposure to credit loss by placing its cash 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's main credit risk concentration is spread between A/A and BBB/Baa rated securities.

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

Portfolio by rating category December 31, 2016	
Rating	As a % of Net Assets
AAA/Aaa	2.11%
AA/Aa	-
A/A	11.43%
BBB/Baa	124.43%
Below BBB	1.89%
Total	139.86%
Portfolio by rating category December 31, 2015	
Rating	As a % of Net Assets
AAA/Aaa	2.69%
AA/Aa	-
A/A	10.70%
BBB/Baa	135.07%
Total	148.46%

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. The Fund holds securities that are denominated in currencies other than the Canadian dollar. It is therefore exposed to currency risk.

As at December 31, 2016, the Fund held \$4,021,319 (December 31, 2015 - \$13,365,487) of its assets in foreign securities. As at December 31, 2016, 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 \$201,066 (December 31, 2015 - \$668,274). In practice, actual results may differ from this sensitivity analysis and the difference may be material.

### 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. The tables below analyze the Fund's financial liabilities as at December 31, 2016 and December 31, 2015.

As at December 31, 2016:

	1-3 months	> 3 months	Total
	\$	\$	\$
Redemptions payable	268,800	-	268,800
Accrued expenses	160,414	-	160,414
Distribution payable	407,013	-	407,013
Loan payable	-	41,725,774	41,725,774
Total liabilities	836,227	41,725,774	42,562,001

As at December 31, 2015:

	1-3 months	> 3 months	Total
	\$	\$	\$
Accrued expenses	126,056	-	126,056
Distribution payable	471,781	-	471,781
Liabilities for securities redeemed	44,177,329	-	44,177,329
Total liabilities	44,775,166	-	44,775,166

# Ridgewood Canadian Investment Grade Bond Fund

## Notes to the Financial Statements

December 31, 2016

### 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, 2016
Canadian Corporate Bonds	81.14%
Canadian Government Bonds	2.11%
U.S. Corporate Bonds	7.57%
Global Bonds	1.91%
Mortgage-Backed Securities	47.13%
Total	139.86%

Market segments	December 31, 2015
Canadian Corporate Bonds	72.17%
U.S. Corporate Bonds	9.36%
Global Bonds	16.13%
Asset-Backed Securities	48.11%
Total	145.77%

## 12. Financial Instruments – Disclosures

### Fair Value Disclosure

The Fund's financial assets and liabilities 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, 2016 and December 31, 2015.

Financial Assets at fair value as of December 31, 2016				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Bonds	-	96,494,413	-	96,494,413
Mortgage-backed securities:	-	49,035,521	-	49,035,521
Cash	8,974	-	-	8,974
Loan payable	-	41,725,774	-	41,725,774
Total	8,974	187,255,708	-	187,264,682
Financial Assets at fair value as of December 31, 2015				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Bonds	-	78,556,523	-	78,556,523
Asset-backed securities	-	38,703,963	-	38,703,963
Cash	2,175,271	-	-	2,175,271
Loan payable	-	-	-	-
Total	2,175,271	117,260,486	-	119,435,757

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, 2016 and 2015.

In addition, there were no investments or transactions classified in Level 3 for the years ended December 31, 2016 and 2015.

## 13. Financial instruments by category

The following tables present the carrying amounts of the Fund's financial instruments by category

Financial Instruments by category as of December 31, 2016			
	Financial assets at FVTPL		Total
Assets	HFT	Designated at inception	\$
Non-derivative financial assets	-	145,529,934	145,529,934
Total	-	145,529,934	145,529,934

Financial Instruments by category as of December 31, 2015			
	Financial assets at FVTPL		Total
Assets	HFT	Designated at inception	\$
Non-derivative financial assets	-	117,260,486	117,260,486
Total	-	117,260,486	117,260,486

The Fund's financial instruments as at December 31, 2016 and December 31, 2015 are designated as FVTPL.

The Fund's net gains (losses) on financial instruments for the years ended December 31, 2016 and 2015 were all from financial instruments designated as FVTPL.

## 14. Future accounting policies

### Accounting standards issues and amendments not yet adopted

Below are accounting standards issued or amended but not yet effective and not yet adopted. The Manager does not expect the adoption of these standards or amendments to have significant impact to the Fund's financial statements.

The final version of IFRS 9 Financial Instruments ("IFRS 9") was issued by the IASB on July 24, 2014 and will replace IAS 39. IFRS 9 introduces a model for classification and measurement of financial assets and liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. Ridgewood is in the process of assessing the impact of IFRS 9 and has not yet determined when it will adopt the new standard.

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

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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.*