



## **Ridgewood Tactical Yield Fund**

**Interim Financial Report (Unaudited)  
For the six months ended June 30, 2019**

# Ridgewood Tactical Yield Fund

## Interim Financial Report (Unaudited)

Message to Unitholders ..... 2

Unaudited Interim Report Statement ..... 3

Management’s Responsibility for Financial Reporting. .... 4

Statements of Financial Position ..... 5

Statements of Comprehensive Income..... 5

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units ..... 6

Statements of Cash Flows..... 6

Schedule of Investments ..... 7

Notes to the Financial Statements ..... 8-17

## Message to Unitholders

It was a very positive first half of 2019 for bond investors. Returns across all sectors were strong as global central banks signaled lower interest rates were on the horizon. In particular, the U.S. Federal Open Market Committee did a 180 degree turn. In December Chairman Powell was telegraphing successive hikes in 2019 and by the time January arrived his dialogue indicated those hikes were off the table. Trade tensions and tariffs have created some concern on the future impact to the global economy which has already shown signs of decelerating. For now, modest growth with stable inflation is an attractive backdrop for fixed income investors. Corporate bonds continue to perform well in this environment as they provide an additional yield over Government bonds.

Corporate BBB bonds, an area the portfolio is focused on, outperformed the index again. The FTSE Canada Universe Bond Index returned 6.52% YTD while the BBB index returned 7.50%. The less risky Government and Corporate AAA bonds were the weakest sectors, returning only 4.04% and 4.12% respectively. The yield curve has inverted as the overnight rate is 1.75% and 30-year Canada bonds are yielding 1.67%. Every bond maturity from 1 year out to 30 years is below the overnight Bank rate. The market is telling the central banks the interest rates are restrictive and need to come down.

The Bank of Canada has been on hold this year and has indicated they are in no rush to raise or cut interest rates. Given Canadian interest rates are 50 basis points below the U.S. rates, they likely will be on hold for the remainder of 2019. The U.S. economy is in its 11<sup>th</sup> year of growth, the longest in American postwar history. The demand for corporate bonds will remain robust and the fund is positioned to provide income and capital appreciation. We are comfortable remaining fully invested and overweight in BBB corporate bonds.

## **Ridgewood Tactical Yield Fund**

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Interim Financial Report 2019 (Unaudited)

### **UNAUDITED INTERIM REPORT STATEMENT**

The accompanying interim financial statements have not been reviewed by the external auditors of the Fund. The external auditors will be auditing the annual financial statements of the Fund in compliance with International Financial Reporting Standards.

## Ridgewood Tactical Yield Fund

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The interim 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 interim 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.

August 16, 2019

## Ridgewood Tactical Yield Fund

### STATEMENTS OF FINANCIAL POSITION

As at June 30, 2019 (Unaudited) and December 31, 2018

	30-Jun-19	31-Dec-18
	\$	\$
<b>Assets</b>		
Financial assets at fair value through profit or loss (Cost: 30-Jun-19 - \$61,242,229; 31-Dec-18 - \$59,383,565)	63,176,033	57,730,216
Short-term investments at fair value (Cost: 30-Jun-19 - \$2,199,743; 31-Dec-18 - \$864,641)	2,199,743	864,641
Cash	108,607	66,858
Accrued interest receivable	494,049	463,335
Dividends receivable	40,734	35,969
Prepaid fees	379	782
Subscriptions receivable	714,000	36,000
<b>Total assets</b>	<b>66,733,545</b>	<b>59,197,801</b>
<b>Liabilities</b>		
Accrued expenses	87,148	80,581
Distributions payable	348,526	-
Redemptions payable	117,993	48,299
<b>Total liabilities (excluding net assets attributable to holders of redeemable units)</b>	<b>553,667</b>	<b>128,880</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>66,179,878</b>	<b>59,068,921</b>
<b>Net assets attributable to holders of redeemable units per class</b>		
Class A	58,212,136	51,551,397
Class F	7,967,742	7,517,524
	<b>66,179,878</b>	<b>59,068,921</b>
<b>Number of redeemable units outstanding (Note 5)</b>		
Class A	6,140,360	5,736,177
Class F	830,157	831,313
	<b>6,970,517</b>	<b>6,567,490</b>
<b>Net assets attributable to holders of redeemable units per unit</b>		
Class A	9.4802	8.9871
Class F	9.5979	9.0430

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



Director

John H. Simpson, CFA



Director

Paul W. Meyer, CFA

### STATEMENTS OF COMPREHENSIVE INCOME

For the six months periods ended June 30, 2019 and 2018 (Unaudited)

	2019	2018
	\$	\$
<b>Income</b>		
Interest income for distribution purposes	1,419,618	1,191,276
Dividend income	30,910	60,714
Net gain (loss) on foreign exchange	225	(933)
<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	984,949	448,182
Net change in unrealized appreciation (depreciation) of investments	3,588,960	(4,449)
<b>Total income</b>	<b>6,024,662</b>	<b>1,694,790</b>
<b>Expenses</b>		
Management fees (Note 3 6 and 7)	307,853	156,497
HST expense	41,165	35,567
Administrative and other expenses	22,047	68,403
Custodian fees	20,902	30,394
Audit fees	13,121	9,564
Independent review committee fees (Note 6)	8,933	8,933
Legal fees	8,373	16,125
Withholding taxes	6,255	10,072
Transaction costs	3,307	11,567
<b>Total operating expenses</b>	<b>431,956</b>	<b>347,122</b>
<b>Operating profit</b>	<b>5,592,706</b>	<b>1,347,668</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>5,592,706</b>	<b>1,347,668</b>
<b>Increase in net assets attributable to holders of redeemable units</b>		
Class A	4,883,417	1,347,668
Class F	709,289	-
	<b>5,592,706</b>	<b>1,347,668</b>
<b>Daily average number of redeemable units outstanding</b>		
Class A	6,128,330	4,625,404
Class F	832,138	-
	<b>6,960,468</b>	<b>4,625,404</b>
<b>Increase in net assets attributable to holders of redeemable units per unit</b>		
Class A	0.7970	0.2910
Class F	0.8520	-

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 six months periods ended June 30, 2019 and 2018 (Unaudited)

	2019	2018
	\$	\$
<b>Net assets attributable to holders of redeemable units at beginning of period</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>Distributions to redeemable unitholders</b>		
From net investment income		
Class A	(1,858,973)	(1,369,075)
Class F	(248,174)	-
	<b>(2,107,147)</b>	<b>(1,369,075)</b>
From capital gain		
Class A	-	-
Class F	-	-
	<b>-</b>	<b>-</b>
<b>Total distributions to redeemable unitholders</b>		
Class A	(1,858,973)	(1,369,075)
Class F	(248,174)	-
	<b>(2,107,147)</b>	<b>(1,369,075)</b>
<b>Redeemable unit transactions (Note 5)</b>		
Proceeds from units issued		
Class A	15,631,630	9,946,525
Class F	1,563,000	-
	<b>17,194,630</b>	<b>9,946,525</b>
Amount paid for units redeemed		
Class A	(13,396,098)	(14,879,566)
Class F	(1,780,564)	-
	<b>(15,176,662)</b>	<b>(14,879,566)</b>
Reinvestment of distributions		
Class A	1,400,763	1,004,264
Class F	206,667	-
	<b>1,607,430</b>	<b>1,004,264</b>
<b>Total redeemable unit transactions</b>		
Class A	3,636,295	(3,928,777)
Class F	(10,897)	-
	<b>3,625,398</b>	<b>(3,928,777)</b>
<b>Increase in net assets attributable to holders of redeemable units</b>		
Class A	4,883,417	1,347,668
Class F	709,289	-
	<b>5,592,706</b>	<b>1,347,668</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>		
Class A	58,212,136	45,239,835
Class F	7,967,742	-
	<b>66,179,878</b>	<b>45,239,835</b>

### STATEMENTS OF CASH FLOWS

For the six months periods ended June 30, 2019 and 2018 (Unaudited)

	2019	2018
	\$	\$
<b>Cash provided by (used in) operating activities</b>		
Net increase in net assets attributable to holders of redeemable units	5,592,706	1,347,668
Adjustments for		
Interest income on short-term notes	(14,986)	(6,445)
Net (gain) loss on foreign exchange	(225)	933
Net realized (gain) on investments excluding foreign currency	(984,949)	(448,977)
Net change in unrealized (appreciation) depreciation of investments	(3,588,960)	5,244
Purchase of investments	(104,881,253)	(44,184,553)
Proceeds from sale of investments	102,685,922	47,002,018
Transaction costs	3,307	11,567
(Increase) Decrease in accrued interest and dividends receivable	(35,479)	104,158
Decrease in prepaid fees	403	528
Increase in accrued expenses	6,567	1,544
Increase in investment purchases payable	-	1,209,475
<b>Net cash provided by (used in) operating activities</b>	<b>(1,216,947)</b>	<b>5,043,160</b>
<b>Cash provided by (used in) financing activities</b>		
Subscriptions received in advance	(678,000)	(197,100)
Payable for units redeemed	69,694	46,229
Distributions paid to holders of redeemable units, net of reinvested distributions	(151,191)	(122,125)
Proceeds from units issued	17,194,630	9,946,525
Amount paid for units redeemed	(15,176,662)	(14,879,566)
<b>Net cash provided by (used in) financing activities</b>	<b>1,258,471</b>	<b>(5,206,037)</b>
<b>Increase (Decrease) in cash</b>	<b>41,524</b>	<b>(162,877)</b>
Net gain (loss) on foreign exchange	225	(933)
<b>Cash, beginning of period</b>	<b>66,858</b>	<b>134,788</b>
<b>Cash (Overdraft), end of period</b>	<b>108,607</b>	<b>(29,022)</b>
<b>Supplemental information on cash flows from operating activities</b>		
Interest received	1,388,904	1,302,380
Dividends received, net of withholding taxes	26,145	43,696

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

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

As at June 30, 2019

Par Value	Average Cost	Fair Value	% of Portfolio
	\$	\$	
<b>Short-term Investments</b>			
<b>Treasury Bills</b>			
1210000 Canadian Treasury Bill, 1.67012%, November 14, 2019	1,202,183	1,202,183	1.82%
<b>Discount Commercial Paper</b>			
1000000 Enbridge Inc., 2.5508%, July 11, 2019	997,560	997,560	1.51%
<b>Investments</b>			
<b>Federal Bonds</b>			
1000000 Canadian Government Bond, 2.750%, December 01, 2048	1,245,170	1,246,579	1.88%
<b>Provincial Bonds</b>			
985000 Province of Manitoba, 2.850%, September 05, 2046	900,851	1,028,753	
1000000 Province of Ontario, 2.900%, June 02, 2049	1,069,949	1,087,706	
<b>Total Provincial Bonds</b>	<b>1,970,800</b>	<b>2,116,459</b>	<b>3.20%</b>
<b>Corporate Bonds</b>			
2000000 Arountown SA, 4.625%, September 18, 2025	2,018,220	2,086,154	
1000000 AT&T Inc., 4.850%, May 25, 2047	947,320	1,055,352	
500000 Bank of America Corp., 6.250%, December 31, 2049	544,750	702,376	
2055000 Bombardier Inc., 7.350%, December 22, 2026	2,044,725	2,037,015	
1300000 Brookfield Asset Management Inc., 5.950%, June 14, 2035	1,455,800	1,591,237	
2000000 Brookfield Property Finance ULC, 4.300%, March 01, 2024	2,044,660	2,067,360	
1000000 Bruce Power LP, 4.746%, June 21, 2049	999,910	1,107,030	
1500000 Cameco Corp., 5.090%, November 14, 2042	1,396,200	1,485,321	
1000000 Capital Power Corp., 4.986%, January 23, 2026	1,000,000	1,074,403	
1000000 Choice Properties Real Estate Investment Trust, 4.178%, March 08, 2028	980,500	1,072,363	
1000000 Coast Capital Savings Credit Union, 5.000%, May 03, 2028	1,002,350	1,047,439	
1000000 Coast Capital Savings Credit Union, 5.250%, October 29, 2030	1,000,000	1,068,610	
2000000 Enbridge Inc., 5.375%, September 27, 2077	2,013,970	1,978,120	
2000000 Enbridge Pipelines Inc., 4.330%, February 22, 2049	1,999,340	2,242,453	
1000000 First National Financial Corp., 4.010%, April 09, 2020	1,004,000	1,007,706	
1000000 George Weston Ltd., 7.100%, February 05, 2032	1,213,000	1,315,308	
1000000 Golf Town Canada Inc./ Golfsmith International Holdings Inc., 0.000%, July 24, 2020	871,866	30,000	
2000000 Inter Pipeline Ltd., 6.875%, March 26, 2079	2,032,770	2,072,607	
2000000 Keyera Corp., 6.875%, June 13, 2079	2,000,000	2,024,218	
1000000 Kruger Packaging Holdings LP, 6.000%, June 01, 2026	1,000,000	1,018,438	
500000 Kruger Products LP, 6.000%, April 24, 2025	500,000	484,583	
1389000 Loblaw Cos. Ltd., 5.860%, June 18, 2043	1,622,421	1,737,494	
1000000 Mattamy Group Corp., 6.500%, October 01, 2025	1,011,667	1,042,500	
1000000 Nova Scotia Power Inc., 3.571%, April 05, 2049	1,000,000	1,068,402	
1000000 Parkland Fuel Corp., 5.625%, May 09, 2025	1,001,250	1,020,417	
1000000 Parkland Fuel Corp., 6.500%, January 21, 2027	1,000,000	1,041,250	
1000000 Russel Metals Inc., 6.000%, March 16, 2026	1,000,000	1,026,667	
1500000 Superior Plus LP, 5.125%, August 27, 2025	1,500,000	1,476,563	
1500000 Teranet Holdings LP, 5.754%, December 17, 2040	1,624,150	1,632,660	
500000 Teranet Holdings LP, 6.100%, June 17, 2041	550,975	568,404	
1909000 TransAlta Corp., 7.300%, October 22, 2029	1,746,464	2,168,786	
1000000 Transcanada Trust, 4.650%, May 18, 2077	937,180	954,489	
575000 Vesta Energy Corp., 8.125%, July 24, 2023	575,000	537,984	
255000 Yellow Pages Digital & Media Solutions Ltd., 10.000%, November 01, 2022	249,900	260,344	
<b>Total Corporate Bonds</b>	<b>41,888,388</b>	<b>43,104,053</b>	<b>65.12%</b>
<b>Equities</b>			
160000 Automotive Properties Real Estate Investment Trust	1,515,219	1,652,800	
30000 Canadian Apartment Properties REIT	1,457,486	1,450,800	
31000 Capital Power Corp., Preferred 5.75%, Series 9	775,000	777,480	
144400 Invesque Inc.	1,444,964	1,368,032	
160888 Slate Retail REIT	1,910,293	2,035,233	
<b>Total Equities</b>	<b>7,102,962</b>	<b>7,284,345</b>	<b>11.01%</b>
<b>Mortgage Backed Securities</b>			
1750000 Institutional Mortgage Securities Canada Inc., E, 3.813%, March 12, 2025	1,520,965	1,592,500	
2000000 Institutional Mortgage Securities Canada Inc., D, 3.813%, March 12, 2025	1,816,100	1,876,000	
1000000 Institutional Mortgage Securities Canada Inc., 3.778%, October 12, 2026	836,370	893,000	
1000000 Institutional Mortgage Securities Canada Inc., 4.641%, July 12, 2045	897,500	988,274	
1013000 Real Estate Asset Liquidity Trust, 3.640%, May 12, 2051	876,367	936,012	
1000000 Real Estate Asset Liquidity Trust, 4.346%, August 12, 2053	884,459	936,000	
2375000 Real Estate Asset Liquidity Trust, 4.215%, June 12, 2054	2,203,148	2,202,811	
<b>Total Mortgage Backed Securities</b>	<b>9,034,909</b>	<b>9,424,597</b>	<b>14.24%</b>
<b>Investments</b>	<b>61,242,229</b>	<b>63,176,033</b>	<b>95.45%</b>
<b>Transaction costs</b>	<b>(15,708)</b>	<b>-</b>	<b>-</b>
<b>Total Investments and short-term Investments</b>	<b>61,226,521</b>	<b>63,176,033</b>	<b>95.45%</b>
<b>Total Investments and short-term Investments</b>	<b>63,426,264</b>	<b>65,375,776</b>	<b>98.78%</b>
<b>Cash and other assets, net of liabilities</b>	<b>804,102</b>	<b>804,102</b>	<b>1.22%</b>
<b>Net Assets</b>		<b>66,179,878</b>	<b>100.00%</b>

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



# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2019 (Unaudited)

### 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 August 16, 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 semi-annual financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) including International Accounting Standards (IAS) 34: Interim Financial Reporting as published by the International Accounting Standards Board (IASB).

### 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.

#### *Classification and Measurement*

The investments are classified as at fair value through profit or loss. 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.

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

Financial assets carried at amortized cost are subject to expected credit loss model ("ECL") as required by IFRS 9. 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, these trade receivables are not considered impaired.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2019 (Unaudited)

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

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

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. 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. 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.

#### ***Investment Transactions***

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.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2019 (Unaudited)

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

#### *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.

#### *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.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2019 (Unaudited)

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

#### *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 Fund, the Manager is required to make significant judgments about whether or not the business of the Fund 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 Fund's 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 period from January 1 to June 30, 2019 and the year from January 1 to December 31, 2018:

	2019		2018	
	Class A	Class F	Class A	Class F
Units outstanding, beginning of year	5,736,177	831,313	5,276,532	-
Units issued for cash	1,703,216	168,356	3,454,252	942,452
Units redeemed	(1,450,080)	(191,585)	(3,250,697)	(127,048)
Reinvestment of distribution	151,047	22,073	256,090	15,909
Units outstanding, end of year	6,140,360	830,157	5,736,177	831,313

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2019 (Unaudited)

### 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 six months period ended June 30, 2019 amounted to \$307,853 (2018 - \$156,497).

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

The total remuneration paid to members of the Independent Review Committee ("IRC") during the six months period ended June 30, 2019 was \$8,933 (2018 - \$8,933).

### 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 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.

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2019 (Unaudited)

### 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.

	As at June 30, 2019							
	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	1,106,167	-	2,209,889	30,000	2,865,689	51,988,293	7,284,345	65,484,383

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2019 (Unaudited)

### 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

At June 30, 2019, 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 \$3.6 million (December 31, 2018 - \$4.2 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 \$3.6 million (December 31, 2018 - \$4.2 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 DBRS.

#### Portfolio by rating category

Rating	June 30, 2019 As a % of Net Assets
AAA/Aaa	3.70%
A/A	7.11%
BBB/Baa	55.70%
BB/Ba	17.77%
B/B	4.62%
Unrated	0.05%
<b>Total</b>	<b>88.95%</b>

# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2019 (Unaudited)

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

#### Credit Risk (continued)

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>

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 June 30, 2019, the Fund held \$2,109,789 (December 31, 2018 – \$3,121,892) in assets and liabilities denominated in currencies other than the Canadian dollar. As at June 30, 2019, 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 \$105,489 (December 31, 2018 - \$156,095).

#### 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 \$2.2 million (December 31, 2018, \$0.9 million) are invested in Canadian Government Treasury bill and Discount Commercial Paper with less than 150 days to maturity. The Fund's accrued liabilities are generally due and paid within three months.

#### June 30, 2019

Financial Liabilities	On Demand	< 3 Months	Total
Redemptions payable	\$ -	\$ 117,993	\$ 117,993
Accrued expenses	-	87,148	87,148
Distributions payable	-	348,526	348,526
Net Assets attributable to holders of redeemable units	66,179,878	-	66,179,878
<b>Total Liabilities</b>	<b>\$ 66,179,878</b>	<b>\$ 553,667</b>	<b>\$ 66,733,545</b>

#### December 31, 2018

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



# Ridgewood Tactical Yield Fund

## Notes to the Financial Statements

June 30, 2019 (Unaudited)

### 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	June 30, 2019	December 31, 2018
Canadian Short Term Investments	3.33%	1.46%
Federal Bonds	1.88%	4.96%
Provincial Bonds	3.20%	1.60%
Corporate Bonds	65.12%	70.76%
Mortgage Backed Securities	14.24%	11.59%
Equities	11.01%	8.83%
Total	98.78%	99.20%

### 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 June 30, 2019 and December 31, 2018.

	Financial assets at fair value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	108,607	-	-	108,607
Short Term Investments	-	2,199,743	-	2,199,743
Bonds	-	46,437,091	30,000	46,467,091
Mortgage Backed Securities (MBS)	-	9,424,597	-	9,424,597
Equities	7,284,345	-	-	7,284,345
	7,392,952	58,061,431	30,000	65,484,383

	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	5,313,751	-	-	5,313,751
	5,380,609	53,351,106	30,000	58,761,715

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 six months period ended June 30, 2019 and the year ended December 31, 2018.

The following is a reconciliation of Level 3 fair value assets as at June 30, 2019. 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

June 30, 2019 (Unaudited)

### 12. Financial Instruments (continued)

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

For the six months period ended June 30, 2019:

	Balance at December 31, 2018	Purchases	Sales	Net transfers	Realized gain (loss)	Unrealized gain (loss)	Balance at June 30, 2019
Bonds	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,000
Mortgage Backed Securities	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 30,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30,000</b>

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.

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>

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