

**TSX: LCS, LCS.PR.A**

**BROMPTON**  
FUNDS



# **Brompton Lifeco Split Corp. Annual Report 2022**

*Equal-weight portfolio of major  
Canadian life insurance companies.*

**VALUE  
INTEGRITY  
PERFORMANCE**

**THE FOUNDATION FOR EXCELLENCE**

## MANAGEMENT REPORT OF FUND PERFORMANCE

March 17, 2023

This annual management report of fund performance for Brompton Lifeco Split Corp. (the “Fund”) contains financial highlights but does not contain the audited annual financial statements of the Fund. The audited annual financial statements follow this report. You may obtain a copy of the audited annual or unaudited interim financial statements, at no cost, by calling 1-866-642-6001 or by sending a request to Investor Relations, Brompton Funds, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Suite 2930, Box 793, Toronto, Ontario, M5J 2T3, or by visiting our website at [www.bromptongroup.com](http://www.bromptongroup.com) or SEDAR at [www.sedar.com](http://www.sedar.com). Shareholders may also contact us by using one of these methods to request a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record, Independent Review Committee’s report, or quarterly portfolio disclosure.

## THE FUND

Brompton Lifeco Split Corp. is a mutual fund corporation managed by Brompton Funds Limited (the “Manager”). The Fund has Class A and Preferred shares outstanding which trade on the Toronto Stock Exchange (“TSX”) under the symbols LCS and LCS.PR.A, respectively. The Class A and Preferred shares are RRSP, DPSP, RRIF, RESP and TFSA eligible. The Preferred shares are rated Pfd-3 (low) by Dominion Bond Rating Service Limited (“DBRS”).

Preferred shares of the Fund receive fixed, cumulative quarterly payments. Payments are usually in the form of eligible Canadian dividends, which are taxed at a lower rate to individuals than interest income. Preferred shares have a priority claim ahead of the Class A shares on the Fund’s assets in the event of liquidation. However, the Net Asset Value of Preferred shares generally does not benefit from growth in value of the underlying stocks. Class A shares capture the movement of the underlying stocks but in a more magnified way than if an investor owned the underlying portfolio of securities directly. This magnification of return is commonly known as “leverage”, which is provided by the preferred shares.

## INVESTMENT OBJECTIVES AND STRATEGIES

The Fund’s investment objectives are:

- i) to provide holders of Preferred shares with fixed, cumulative, preferential quarterly cash distributions and to return the original issue price of \$10.00 per Preferred share to Preferred shareholders at maturity; and
- ii) to provide holders of Class A shares with regular monthly cash distributions, targeted to be \$0.075 per share, and the opportunity for growth in Net Asset Value per share.

To achieve these objectives, the Fund invests in a common share portfolio of the following Canadian life insurance companies on an equally weighted basis at the time of investment and any subsequent rebalancing:

### Life Insurance Companies

Great-West Lifeco Inc.	Manulife Financial Corp.
iA Financial Group	Sun Life Financial Inc.

The Fund’s portfolio is rebalanced at least annually to adjust for changes in the market value of investments and to reflect the impact of a merger or acquisition affecting one or more of the life insurance companies. Covered call options and cash-covered put options may be written in respect of the portfolio to generate additional distributable income for the Fund and/or to reduce the volatility of the Fund. In addition, the Fund may sell investments for working capital purposes or replace investments with proceeds from the exercise of covered call options previously written.

## RECENT DEVELOPMENTS

### Market Conditions

Fiscal and monetary policy responses to increased levels of inflation have led to higher interest rates and to fluctuations in securities prices. In addition, global political tension and military events in Ukraine and Russia have also caused increased volatility and disruptions in global financial markets.

The collapse of Silicon Valley Bank and Signature Bank, followed by unfavourable news for Credit Suisse in early March 2023 led to overall financial market decline especially in the banking sector as of the date of the annual report. The Fund does not have any direct exposure to the three banks but its portfolio value has been impacted by overall market selloff.

The Fund's Net Asset Value reflecting the value of the Fund's portfolio based on the most recent valuation date can be found on the Fund's webpage at [www.bromptongroup.com](http://www.bromptongroup.com).

### **RISKS**

Risks associated with an investment in the shares of the Fund are discussed in the Fund's 2022 annual information form, which is available on the Fund's website at [www.bromptongroup.com](http://www.bromptongroup.com) or on SEDAR at [www.sedar.com](http://www.sedar.com). There were no changes to the risks during the year ended December 31, 2022 that could materially affect an investment in the shares of the Fund as they were discussed in the annual information form.

### **RESULTS OF OPERATIONS**

#### **Distributions**

The Fund distributed \$0.30 per class A share during the year ended December 31, 2022, reflecting four monthly distributions of \$0.075 per share for the months of January to April. During 2021, Class A shareholders received distributions of \$0.825 per share reflecting eleven monthly distributions of \$0.075 per share for the months of February to December. Per the terms of the Fund's distribution plan, no distributions will be paid on to the Class A Shares if (i) the distributions payable on the Preferred Shares are in arrears, or (ii) in respect of a cash distribution, after the payment of a cash distribution by the Company, the NAV per Unit would be less than \$15.00. The Fund's Preferred shares declared distributions of \$0.625 per share in the year ended December 31, 2022, unchanged from 2021. Since inception, the Fund has distributed \$7.38 per Class A share and \$8.76 per Preferred share.

The Fund has a distribution reinvestment plan which allows participating Class A shareholders to automatically reinvest monthly distributions, commission free, in additional Class A shares of the Fund. Pursuant to this plan, during the year ended December 31, 2022, 9,632 Class A shares were acquired in the market at an average price of \$6.45 per Class A share.

#### **Income and Expenses**

The Fund's investment portfolio generated income of \$0.71 per Class A share during the year ended December 31, 2022 compared to \$0.65 in 2021. The Fund's dividend income increased by \$0.06 per Class A share or by 9.2% due to the Fund's constituents increasing their dividend rates for the year on average by 16.5% in comparison to the rates they paid in the prior year. Expenses were \$0.30 per Class A share, compared to \$0.15 per Class A share in 2021. Class A expenses as of December 31, 2022 include \$0.17 per share that arose from the treasury offerings of the Preferred shares that closed during the year. Excluding this, Class A expenses were \$0.13 per share compared to \$0.15 in 2021.

#### **Net Asset Value**

The Net Asset Value per Class A share was \$4.80 at December 31, 2022 compared to \$6.20 at December 31, 2021. This reflected 22.6% or \$1.40 per Class A share decrease. For the purpose of calculating the Net Asset Value of the Fund as a whole, the Preferred shares are not considered a liability of the Fund. The aggregate Net Asset Value of the Fund was \$133.5 million at December 31, 2022 compared to \$79.6 million at December 31, 2021, reflecting an increase of 67.7% or \$53.9 million. During the year, the fund had gross proceeds of \$70.5 million from follow on treasury offerings.

#### **Investment Portfolio**

As of December 31, 2022, The Fund had \$0.1 million in net realized gains and \$10.1 million in net change in unrealized losses for the year ended December 31, 2022. The stock price of Great-West Lifeco Inc. and Sun Life Financial Inc. in comparison to their price at December 31, 2021 had respectively decreased by 17.5% and 10.7% as at December 31, 2022. The Fund's holdings in iA Financial Corporation Inc. softened the overall net realized and change in unrealized loss, as it had \$2.3 million in net realized and change in unrealized gains, attributed by an increase of 9.5% in the stocks price over the year. For the year ended December 31, 2022, the Fund selectively wrote call options on the insurance companies in the portfolio to generate premiums of \$0.3 million and had a net realized and change in unrealized loss on the options of \$0.3 million. The net loss represents the premiums received less the amounts paid to close out the options at expiry. For the year ended December 31, 2022, the Fund wrote call options on an average notional value of 1.2% of the Fund's portfolio. There were 2,008 outstanding option contracts as of December 31, 2022 which represent 5.3% of the portfolio.

## Portfolio Sectors

Net Gains (Losses) by Sector (millions)	% of Portfolio as of 31-Dec-22	Realized \$	Change in Unrealized \$	Total \$
Insurance	100.0	0.4	(10.1)	(9.7)
Options	-	(0.3)	-	(0.3)
<b>Total</b>	<b>100.0</b>	<b>0.1</b>	<b>(10.1)</b>	<b>(10.0)</b>

## Liquidity

To provide liquidity for shareholders, the Class A shares and Preferred shares of the Fund are listed on the TSX. Investors may retract their shares in accordance with the Fund's retraction provisions for each class of share.

## RELATED PARTY TRANSACTIONS

Related party transactions consist of services provided by the Manager pursuant to a management agreement. See the Management Fees section below.

## MANAGEMENT FEES

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.60% per annum of the Net Asset Value of the Fund. The management fee is used by the Manager to cover its costs to obtain the Fund's assets, the cost to administer the Fund, the cost of investment management services and for profit. In 2022, management fees amounted to \$0.8 million.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance for the fiscal periods indicated. This information is derived from the Fund's audited annual financial statements. *The information in the following tables is presented in accordance with National Instrument ("NI") 81-106 and, as a result, does not act as a continuity of opening and closing Net Assets per Class A share.* The increase (decrease) in Net Assets from operations is based on average shares outstanding during the period, and all other numbers are based on actual shares outstanding at the relevant point in time.

**Net Assets per Class A Share<sup>1</sup>**

<b>For the year ended December 31</b>	<b>2022 \$</b>	<b>2021 \$</b>	<b>2020 \$</b>	<b>2019 \$</b>	<b>2018 \$</b>
Net Assets, beginning of year <sup>2</sup>	<b>6.20</b>	4.12	6.56	2.71	6.82
<b>Increase (decrease) from operations:<sup>3</sup></b>					
Total revenue	<b>0.71</b>	0.65	0.63	0.61	0.60
Total expenses	<b>(0.30)</b>	(0.15)	(0.12)	(0.15)	(0.25)
Preferred share distributions	<b>(0.62)</b>	(0.61)	(0.60)	(0.61)	(0.57)
Realized gains (losses)	<b>0.01</b>	0.46	(0.33)	0.04	0.12
Unrealized gains (losses)	<b>(1.18)</b>	2.72	(2.62)	4.48	(3.61)
<b>Total increase (decrease) in Net Assets from operations</b>	<b>(1.38)</b>	3.07	(3.04)	4.37	(3.71)
<b>Distributions to Class A shareholders:<sup>2</sup></b>					
Return of capital	<b>0.30</b>	0.83	0.15	0.38	0.68
<b>Total distributions to Class A shareholders</b>	<b>0.30</b>	0.83	0.15	0.38	0.68
<b>Net Assets, end of year<sup>2</sup></b>	<b>4.80</b>	6.20	4.12	6.56	2.71

<sup>1</sup> The financial information was prepared in accordance with International Financial Reporting Standards.

<sup>2</sup> Net Assets per Class A share and distributions per Class A share are based on the actual number of Class A shares outstanding at the relevant time.

<sup>3</sup> The increase (decrease) in Net Assets from operations per Class A share is based on the weighted average number of Class A shares outstanding over the fiscal period.



### Ratios and Supplemental Data (Based on Net Asset Value)

As at December 31	2022	2021	2020	2019	2018
Net Asset Value (\$) (000s) - including Preferred shares	133,493	79,563	75,550	104,748	92,358
Number of Class A shares outstanding (000s)	9,017	4,912	5,349	6,326	7,268
Management expense ratio ("MER") – Class A shares <sup>1</sup>	22.70%	12.43%	23.18%	15.63%	18.27%
Trading expense ratio <sup>2</sup>	0.03%	0.01%	0.02%	0.01%	0.02%
Portfolio turnover rate <sup>3</sup>	3.51%	0.37%	3.00%	2.89%	7.20%
Net Asset Value per unit (\$) <sup>4</sup>	14.91	16.30	14.23	16.66	12.80
Net Asset Value per Class A share (\$)	4.80	6.20	4.12	6.56	2.71
Net Asset Value per Preferred share (\$) <sup>5</sup>	10.00	10.00	10.00	10.00	10.00
Closing market price - Class A shares (\$)	4.43	6.88	3.75	6.23	2.74
Closing market price – Preferred shares (\$)	9.98	10.21	10.25	10.33	10.08

<sup>1</sup> MER for Class A shares is based on the requirements of NI 81-106 and includes the total expenses of the Fund for the stated period, including distributions on Preferred shares and issuance costs, but excluding brokerage commissions on securities transactions, and is expressed as an annualized percentage of the average Net Asset Value of the Fund for Class A shares over the period. Please see the Expense Ratio section following this table for further discussion of the calculation.

<sup>2</sup> The trading expense ratio represents total commissions and transaction costs expressed as an annualized percentage of daily average Net Asset Value of the Fund during the period.

<sup>3</sup> The Fund's portfolio turnover rate indicates how actively the Fund manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher 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. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of such investments during the period.

<sup>4</sup> A unit includes one Class A share and one Preferred share. Net Asset Value per unit is determined by the Net Asset Value of the Fund, for which the Preferred shares are not treated as liabilities. Net Asset Value per unit includes any distributions declared and not paid that are payable to Shareholders.

<sup>5</sup> Net Asset Value per Preferred share does not include the accrued Preferred share distributions.

### Expense Ratio

The MER per Class A share, which includes Preferred share distributions and agents' fees and issuance costs, was 22.70% as of December 31, 2022, up from 12.43% in 2021. Approximately 6.71% of the MER as of December 31, 2022, was contributed by the agents' fees and issuance costs that arose from the treasury offering that the Fund closed during the year. Excluding this, the MER per Class A share was 15.99% for the year. The treasury issuances were priced at Net Asset Value per unit or higher plus fees and expenses and therefore, are not dilutive for the existing shareholders. The agents' fees and issuance costs from the treasury issuances were borne by the new subscribing shareholders; however, pursuant to the prescribed regulatory formula, these costs must be included in the MER calculation.

The MER per Class A share, excluding agents' fees and issuance costs, and Preferred share distributions, was 2.62% for the year ended December 31, 2022 compared to 2.37% in 2021. The MER per unit of the Fund, excluding Preferred share distributions, issuance costs and agents' fees, was 0.83% for December 31, 2022, compared to 0.90% in 2021. The decrease in MER by 0.07% resulted from the higher average Net Asset Value of the Fund, which made the impact of the fixed costs in the Fund lower. This latter ratio is more representative of the ongoing efficiency of the administration of the Fund.

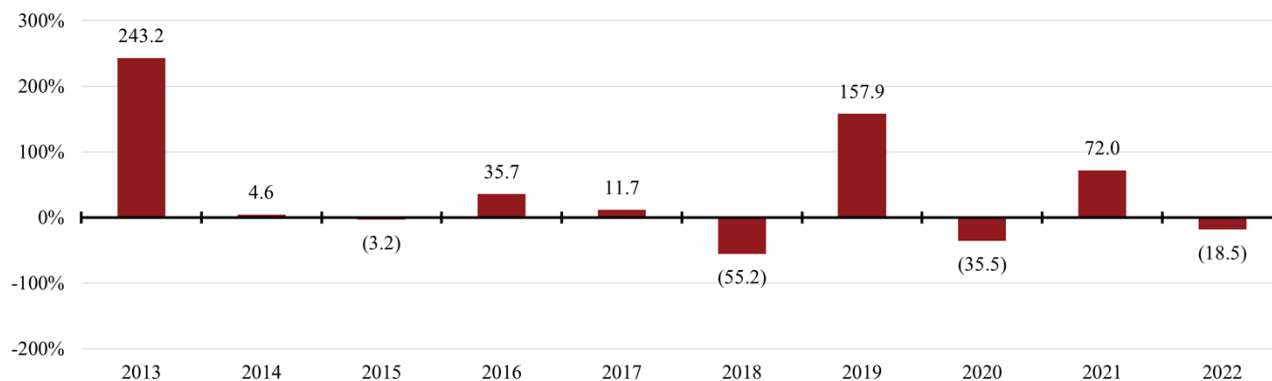
## PAST PERFORMANCE

The following chart and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on Net Asset Value per Class A share and per unit (each unit includes one Class A share and one Preferred share) and assumes that distributions made by the Fund on the Class A shares and units in the periods shown were reinvested (at Net Asset Value per Class A share and unit, respectively) in additional Class A shares and units of the Fund.

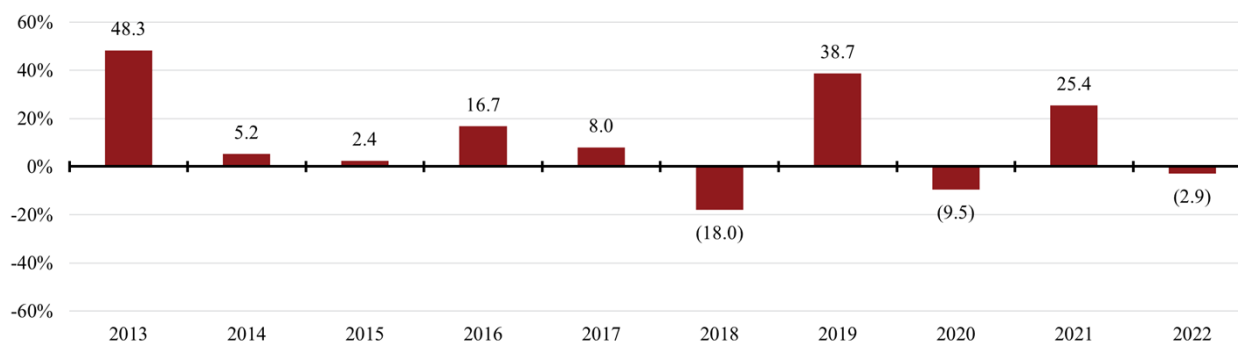
The bar chart shows the Fund's returns for a Class A share and a unit for the years ended December 31, 2013 to December 31, 2022. The chart shows, in percentage terms, how investments held in a Class A share and a unit on the first day of each fiscal period would have changed by the last day of the fiscal period.

### Year by Year Returns

#### LCS Class A share



#### LCS unit



The following table shows the Fund's compound returns on a Class A share, Preferred share and unit for each period indicated, compared with the S&P/TSX Capped Financials Index ("Financials Index"), the S&P/TSX Composite Index ("Composite Index") and the S&P/TSX Preferred Share Index ("Preferred Index") (together the "Indices"). The Financials Index is derived from the Composite Index based on the financials sector of the Global Industry Classification Standard. The Composite Index tracks the performance, on a market-weight basis, of a broad index of large-capitalization issuers listed on the TSX. The Preferred Index tracks the performance, on a market-weight basis, of preferred shares listed on the TSX that meet criteria relating to size, liquidity and issuer rating. The Fund passively invests on an approximately equal-weight basis in a portfolio comprised of four Canadian life insurance companies which are in both the Financials Index and the Composite Index. Since the Indices have more diversified portfolios, it is not expected that the Fund's performance will mirror that of the Indices. The Indices are calculated without the impact of management fees, fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses. Further, the performance of the Fund's Class A shares is impacted by the leverage provided by the Fund's Preferred shares.

### Annual Compound Returns

	1-Year %	3-Year %	5-Year %	10-Year %
Brompton Lifeco Split Corp - Class A share <sup>1</sup>	(18.5)	(3.3)	0.9	18.6
S&P/TSX Capped Financials Index	(9.4)	7.9	6.7	10.4
S&P/TSX Composite Index	(5.8)	7.6	6.9	7.7
Brompton Lifeco Split Corp - Preferred share <sup>1</sup>	6.4	6.4	6.3	6.0
S&P/TSX Preferred Share Index	(18.1)	1.2	(0.2)	0.6
Brompton Lifeco Split Corp - Unit <sup>2</sup>	(2.9)	3.3	4.6	9.7

<sup>1</sup> Based on the Net Asset Value per Class A share and Preferred share and assuming that distributions on the Class A shares and Preferred shares made by the Fund in the periods shown were reinvested (at Net Asset Value per Class A share and Preferred share, respectively) in additional Class A shares and Preferred shares of the Fund.

<sup>2</sup> Based on the Net Asset Value per unit (each unit includes one Class A share and one Preferred share) and assuming that distributions on the units made by the Fund were reinvested (at Net Asset Value per unit) in additional units of the Fund.

The Fund's mandate is to hold four life insurance companies and the Fund's unit performance reflected the decrease in share prices of the four companies. The Fund's Class A share performance return was exacerbated by the leverage provided by the Preferred Shares. The Fund's Preferred shares continue to provide a consistent positive return of 6.4% in 2022 and 6.0% over the past 10 years.



## SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2022

<b>Total Net Asset Value<sup>1</sup></b>	<b>\$ 133,492,682</b>	
<b>Portfolio Composition</b>	<b>% of Portfolio</b>	<b>% of Net Asset Value</b>
Insurance	99.0	99.7
Cash and short-term investments	1.0	1.0
Total investment portfolio	100.0	100.7
Other net liabilities	-	(0.7)
<b>Total Net Asset Value</b>	<b>100.0</b>	<b>100.0</b>
<b>Holdings</b>	<b>% of Portfolio</b>	<b>% of Net Asset Value</b>
iA Financial Corporation Inc.	28.2	28.5
Sun Life Financial Inc.	24.0	24.2
Manulife Financial Corp.	23.8	23.9
Great-West Lifeco Inc.	23.0	23.1
Cash and short-term investments	1.0	1.0
<b>Total</b>	<b>100.0</b>	<b>100.7</b>

<sup>1</sup> Net Asset Value of the Fund includes the value of the Preferred shares and Class J shares.

*The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available on the Fund's website at [www.bromptongroup.com](http://www.bromptongroup.com) within 60 days of each quarter end.*

## 2022 TAX INFORMATION

The following information is applicable to holders who, for the purpose of the Income Tax Act (Canada), are resident in Canada and hold units as capital property outside of an RRSP, DPSP, RRIF, RESP or TFSA. Shareholders should receive a T5 slip from their investment dealer providing this information.

T5 supplementary slips will indicate Capital Gains Dividends in Box 18 and Actual Amount of Eligible Dividends in Box 24. Dividend income is subject to the standard gross-up and federal dividend tax credit rules. The return of capital component is a non-taxable amount that serves to reduce the adjusted cost base of Fund shares.

The following tables outline the breakdown in the Fund's distributions on Class A and Preferred shares paid in 2022 on a per share basis.

**Class A Shares**

<b>Record Date</b>	<b>Payment Date</b>	<b>Return of Capital \$</b>	<b>Total Distributions \$</b>
31-Dec-21	17-Jan-22	0.07500	0.07500
31-Jan-22	14-Feb-22	0.07500	0.07500
28-Feb-22	14-Mar-22	0.07500	0.07500
31-Mar-22	14-Apr-22	0.07500	0.07500
29-Apr-22	13-May-22	0.07500	0.07500
		<b>0.37500</b>	<b>0.37500</b>

**Preferred Shares**

<b>Record Date</b>	<b>Payment Date</b>	<b>Eligible Dividends \$</b>	<b>Total Distributions \$</b>
31-Jan-22	14-Feb-22	0.15625	0.15625
29-Apr-22	13-May-22	0.15625	0.15625
29-Jul-22	15-Aug-22	0.15625	0.15625
31-Oct-22	14-Nov-22	0.15625	0.15625
		<b>0.62500</b>	<b>0.62500</b>

*This information is of a general nature and does not constitute legal or tax advice to any particular investor. Accordingly, investors are advised to consult their own tax advisors with respect to their individual circumstances.*

**FORWARD-LOOKING STATEMENTS**

*Some of the statements contained herein including, without limitation, financial and business prospects and financial outlook may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may," "will," "should," "could," "anticipate," "believe," "expect," "intend," "plan," "potential," "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based on what management believes to be reasonable assumptions, we cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances, except as required by law.*

**MANAGEMENT RESPONSIBILITY STATEMENT**

The financial statements of Brompton Lifeco Split Corp. (the “Fund”) have been prepared by Brompton Funds Limited (the “Manager” of the Fund) and approved by the Board of Directors of the Fund. The Manager is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

The Manager maintains appropriate procedures to ensure that relevant and reliable financial information is produced. Statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in note 3 to the financial statements.

The Board of Directors of the Fund is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of a majority of independent directors.

The Manager, with the approval of its Board of Directors, has appointed PricewaterhouseCoopers LLP as the auditor of the Fund. It has audited the financial statements of the Fund in accordance with Canadian generally accepted auditing standards to enable it to express to shareholders its opinion on the financial statements. The auditor has full and unrestricted access to the Audit Committee to discuss its findings.

(Signed) “Mark A. Caranci”

(Signed) “Ann P. Wong”

**Mark A. Caranci**

*Chief Executive Officer  
Brompton Funds Limited*

March 17, 2023

**Ann P. Wong**

*Chief Financial Officer  
Brompton Funds Limited*

## INDEPENDENT AUDITOR'S REPORT

### To the Shareholders of Brompton Lifeco Split Corp. (the Fund)

#### OUR OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2022 and 2021 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### What we have audited

The Fund's financial statements comprise:

- the statements of financial position as at December 31, 2022 and 2021;
- the statements of comprehensive income for the years then ended;
- the statements of cash flows for the years then ended;
- the statements of changes in net assets attributable to holders of redeemable Class A shares for the years then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

#### BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

#### Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

#### OTHER INFORMATION

Management is responsible for the other information. The other information comprises the Management Report of Fund Performance and the information, other than the financial statements and our auditor's report thereon, included in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

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

**INDEPENDENT AUDITOR'S REPORT (cont'd)**

**AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Christopher Pitts.

(Signed) "PricewaterhouseCoopers LLP"

**Chartered Professional Accountants,  
Licensed Public Accountants**

*Toronto, Ontario*

March 17, 2023

# Brompton Lifeco Split Corp. - Annual Report 2022

## STATEMENTS OF FINANCIAL POSITION

As at December 31	2022	2021
<b>Assets</b>		
<b>Current assets</b>		
Investments	\$ 133,093,146	\$ 79,417,874
Cash	1,281,554	1,048,677
Prepaid expenses	31,190	42,693
Preferred share discount (note 4)	173,638	-
<b>Total assets</b>	<b>134,579,528</b>	<b>80,509,244</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Option contracts written, at fair value (note 9)	59,391	5,940
Accounts payable for redeemable Preferred shares redeemed (note 4)	12,000	-
Distributions payable to shareholders (note 6)	934,209	877,217
Accounts payable and accrued liabilities (note 7)	81,246	62,622
Class J shares (note 4)	100	100
Preferred shares (note 4)	90,174,150	49,116,150
<b>Total liabilities (excluding Net Assets attributable to holders of redeemable Class A shares)</b>	<b>91,261,096</b>	<b>50,062,029</b>
<b>Net Assets attributable to holders of redeemable Class A shares</b>	<b>\$ 43,318,432</b>	<b>\$ 30,447,215</b>
<b>Redeemable shares outstanding (note 4)</b>		
Preferred shares	9,017,415	4,911,615
Class A shares	9,017,415	4,911,615
Class J shares	100	100
<b>Net Assets attributable to holders of redeemable shares per share</b>		
Preferred share (\$)	10.00	10.00
Class A share (\$)	4.80	6.20
Class J share (\$)	1.00	1.00

Approved by the Board of Directors of Brompton Lifeco Split Corp.

(Signed) "Christopher S.L. Hoffmann"

(Signed) "Mark A. Caranci"

**Christopher S.L. Hoffmann**  
Director

**Mark A. Caranci**  
Director



## Brompton Lifeco Split Corp. - Annual Report 2022

### STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31	2022	2021
<b>Income</b>		
Securities lending income (note 10)	\$ 7,889	\$ 7,773
<b>Net gain (loss) on investments and derivatives:</b>		
Dividend income	6,095,555	3,269,606
Net realized gain (loss) on sale of investments (note 8)	373,821	2,491,255
Net change in unrealized gain (loss) on investments	(10,101,274)	13,742,130
Net realized gain (loss) on options (note 8)	(277,216)	(189,066)
Net change in unrealized gain (loss) on options	7,526	(6,323)
<b>Total net gain (loss) on investments and derivatives</b>	<b>(3,901,588)</b>	<b>19,307,602</b>
<b>Total income (loss), net</b>	<b>(3,893,699)</b>	<b>19,315,375</b>
<b>Expenses</b>		
Management fees (note 7)	829,642	540,507
Audit fees	38,290	33,947
Independent Review Committee fees (note 7)	5,827	3,652
Custodial fees	14,744	8,167
Legal fees	3,128	3,560
Shareholder reporting costs	28,032	25,720
Other administrative expenses	120,934	111,885
Agents' fees and issuance cost on Preferred shares, amortized (note 4)	1,418,215	-
Transaction costs	42,194	7,462
<b>Total expenses</b>	<b>2,501,006</b>	<b>734,900</b>
<b>Net investment income (loss) before distributions on Preferred shares</b>	<b>(6,394,705)</b>	<b>18,580,475</b>
Distributions on Preferred shares (note 6)	(5,322,012)	(3,092,784)
Preferred share premium (discount) amortization (note 4)	(114,119)	-
<b>Increase (decrease) in Net Assets attributable to holders of redeemable Class A shares</b>	<b>\$ (11,830,836)</b>	<b>\$ 15,487,691</b>
<b>Increase (decrease) in Net Assets attributable to holders of redeemable Class A shares per share<sup>1</sup></b>	<b>\$ (1.38)</b>	<b>\$ 3.07</b>

<sup>1</sup> Based on the weighted average number of Class A shares outstanding during the year (note 4).

# Brompton Lifeco Split Corp. - Annual Report 2022

## STATEMENTS OF CASH FLOWS

For the years ended December 31	2022	2021
<b>Cash flows from operating activities:</b>		
Increase (decrease) in Net Assets attributable to holders of redeemable Class A shares from operations	\$ (11,830,836)	\$ 15,487,691
<b>Adjustments to reconcile net cash provided by (used in) operations:</b>		
Net realized (gain) loss on sale of investments (note 8)	(373,821)	(2,491,255)
Net change in unrealized (gain) loss on investments	10,101,274	(13,742,130)
Net realized (gain) loss on options (note 8)	277,216	189,066
Net change in unrealized (gain) loss on options	(7,526)	6,323
Increase (decrease) in distributions payable to Preferred shareholders	425,363	(45,306)
Preferred share (premium) discount amortization (note 4)	114,119	-
Decrease (increase) in prepaid expenses	11,503	(42,693)
Increase (decrease) in accounts payable and accrued liabilities	18,624	21,831
Purchase of investments and options (note 8)	(67,923,824)	(298,813)
Proceeds from sale of investments and options (note 8)	4,304,860	12,093,651
<b>Cash provided by (used in) operating activities</b>	<b>(64,883,048)</b>	<b>11,178,365</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of redeemable Class A shares (note 4)	28,537,950	-
Agents' fees and issue cost paid on issuance of redeemable Class A shares (note 4)	(1,250,709)	-
Proceeds from issuance of redeemable Preferred shares (note 4) <sup>1</sup>	41,417,243	-
Amounts paid for retraction of redeemable Class A shares (note 4)	(268,875)	(2,983,763)
Amounts paid for retraction of redeemable Preferred shares (note 4)	(629,038)	(4,373,160)
Distributions paid to holders of redeemable Class A shares (note 6)	(2,690,646)	(3,749,308)
<b>Cash provided by (used in) financing activities</b>	<b>65,115,925</b>	<b>(11,106,231)</b>
Net increase (decrease) in cash	232,877	72,134
Cash, beginning of year	1,048,677	976,543
<b>Cash, end of year</b>	<b>\$ 1,281,554</b>	<b>\$ 1,048,677</b>
<b>Distributions paid on Preferred shares (note 6) (\$)</b>	<b>4,896,649</b>	<b>3,138,090</b>
<b>Supplemental information:<sup>2</sup></b>		
Dividends received (\$)	6,095,555	3,269,606

<sup>1</sup> For the year ended December 31, 2022, gross proceeds from issuance of redeemable Preferred shares of \$41,913,525 (year ended December 31, 2021 - \$nil), net of \$496,282 (year ended December 31, 2021 - \$nil) accrued distributions payable.

<sup>2</sup> Included in cash flows from operating activities.

## Brompton Lifeco Split Corp. - Annual Report 2022

### STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE CLASS A SHARES

For the years ended December 31	2022	2021
<b>Net Assets attributable to holders of redeemable Class A shares at beginning of year</b>	<b>\$ 30,447,215</b>	<b>\$ 22,060,966</b>
<b>Operations:</b>		
Increase (decrease) in Net Assets attributable to holders of redeemable Class A shares from operations	<b>(11,830,836)</b>	15,487,691
<b>Distributions to holders of redeemable Class A shares (note 6):</b>		
Return of capital	<b>(2,322,275)</b>	(4,117,679)
<b>Total</b>	<b>(2,322,275)</b>	<b>(4,117,679)</b>
<b>Redeemable Class A share transactions:</b>		
Proceeds from issuance of redeemable Class A shares (note 4)	<b>28,537,950</b>	-
Agents' fees and issue costs paid on issuance of redeemable Class A shares (note 4)	<b>(1,250,709)</b>	-
Retraction of redeemable Class A shares (note 4)	<b>(262,913)</b>	(2,983,763)
<b>Net increase (decrease) from redeemable Class A share transactions</b>	<b>27,024,328</b>	(2,983,763)
<b>Net increase (decrease) in Net Assets attributable to holders of redeemable Class A shares</b>	<b>12,871,217</b>	8,386,249
<b>Net Assets attributable to holders of redeemable Class A shares at end of year</b>	<b>\$ 43,318,432</b>	<b>\$ 30,447,215</b>

# Brompton Lifeco Split Corp. - Annual Report 2022

## SCHEDULE OF INVESTMENT PORTFOLIO

As at December 31, 2022

	Number of Shares	Cost \$	Carrying Value \$	% of Portfolio
<b>Insurance</b>				
Great-West Lifeco Inc.	986,717	35,092,123	30,884,242	
iA Financial Corporation Inc.	479,194	29,008,752	37,985,708	
Manulife Financial Corp.	1,323,394	33,135,879	31,959,965	
Sun Life Financial Inc.	513,337	29,583,456	32,263,231	
		<b>126,820,210</b>	<b>133,093,146</b>	<b>100.0</b>
Embedded Broker Commission		(64,521)		
<b>Total Investments</b>		<b>126,755,689</b>	<b>133,093,146</b>	<b>100.0</b>

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2022 and 2021

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**1. GENERAL INFORMATION**

Brompton Lifeco Split Corp. (the “Fund”) is a mutual fund corporation established under the laws of the Province of Ontario on January 19, 2007. Brompton Funds Limited (the “Manager”) is responsible for managing the affairs of the Fund and manages the Fund’s portfolio and options program. The Fund is listed on the Toronto Stock Exchange and commenced operations on April 18, 2007. CIBC Mellon Trust Company is the custodian of the Fund’s assets and prepares the weekly valuations of the Fund. The address of the Fund’s registered office is Bay Wellington Tower, Brookfield Place, Suite 2930, 181 Bay Street, Toronto, Ontario, M5J 2T3.

The Fund invests in a portfolio comprised of common shares of four major publicly traded Canadian life insurance companies.

These financial statements were approved by the Board of Directors of Brompton Lifeco Split Corp. on March 8, 2023.

**2. BASIS OF PRESENTATION**

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied.

**a) Financial Instruments**

The Fund’s portfolio of investments is managed, and performance is evaluated, on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets’ performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income (“FVOCI”). The contractual cash flows of the Fund’s debt securities that are solely principal and interest are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the objective of the Fund’s business model. Consequently, all investments are measured at fair value through profit or loss (“FVTPL”). Derivative assets and liabilities are also measured at FVTPL.

The Fund’s obligations for Net Assets attributable to holders of redeemable Class A shares and Class J shares are measured assuming the redemption of shares at Net Asset Value on the valuation date. The Preferred shares are measured at amortized cost. All other financial assets and liabilities are initially recognized at fair value and subsequently measured at amortized cost. Under this method, financial assets and liabilities reflect the amounts required to be received or paid, net of any directly attributable transaction costs, discounted when appropriate, at the financial instrument’s effective interest rate. The Fund’s accounting policies for measuring the fair value of its investments and derivatives are the same as those used in measuring its published Net Asset Value. In addition, Preferred shares are carried at amortized cost for accounting purposes but at redemption amount in measuring the published Net Asset Value. The carrying values of the Fund’s financial assets and liabilities, except for the Preferred shares (Note 4), that are not carried at FVTPL approximate their fair values due to their short-term nature.

**b) Fair Value Measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded marketable securities) is based on quoted market prices at the close of trading on the measurement date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day’s bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Fund’s policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2022 and 2021

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The fair value of financial assets and liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each measurement date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, and others commonly used by market participants that make the maximum use of observable inputs. Refer to note 12 for further information about the Fund's fair value measurements.

**c) Cash**

Cash is comprised of demand deposits with financial institutions.

**d) Investment Transactions and Income and Expense Recognition**

Realized gain (loss) on sale of investments and change in unrealized gain (loss) on investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities. Dividend income is recognized on the ex-dividend date. Investment transactions are accounted for as of the trade date and any realized gains or losses from such transactions are calculated on an average cost basis.

The interest for distribution purposes shown on the Statements of Comprehensive Income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities.

Option premiums paid or received by the Fund are, so long as the options are outstanding, reflected as an asset or liability, respectively, in the Statements of Financial Position and are valued at an amount equal to the current market value of an option that would have the effect of closing the position. Gains or losses realized upon expiration, repurchase or exercise of the options are included in net realized gains or losses on options.

**e) Transaction Costs**

Transaction costs directly attributable to the acquisition or disposal of an investment are expensed in the period incurred and disclosed as "Transaction costs" in the Statements of Comprehensive Income.

**f) Income Taxes**

The Fund is a mutual fund corporation as defined in the Income Tax Act (Canada) (the "Act") and is subject to tax in respect of its net realized capital gains. This tax is refundable in certain circumstances. Also, the Fund is generally subject to tax of 38 1/3% under Part IV of the Act on taxable dividends received from Canadian corporations in the year. This tax is fully refundable upon payment of sufficient dividends.

The Fund is also a financial intermediary corporation as defined in the Act and, as such, is not subject to tax under Part IV.1 of the Act on dividends received nor is it generally liable to tax under Part VI.1 on dividends paid by the Fund on taxable preferred shares as defined in the Act.

Given the investment and dividend policy of the Fund and taking into account the deduction of expenses and taxable dividends on shares of taxable Canadian corporations, the Fund does not expect to be subject to any appreciable amount of non-refundable Canadian income tax. Accordingly, no income tax provision has been recorded.

**g) Securities Lending**

The Fund may enter into securities lending transactions. These transactions involve the temporary exchange of securities as collateral with a commitment to deliver the same securities on a future date. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on securities held as collateral. Income earned from these transactions is recognized on an accrual basis and included in the Statements of Comprehensive Income.

**h) Classification of Redeemable Shares by the Fund**

As required under International Accounting Standard ("IAS") 32, *Financial Instruments: Presentation*, shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset must be classified as financial liabilities, unless certain criteria are met. Under IFRS, the Fund's Preferred shares and Class J shares are classified as liabilities as they are not the most subordinate class of shares. The Class A shares contain multiple redemption features and, therefore are considered to have more than one contraction obligation to its Class A shareholders. As a result, the Fund's Class A shares have been classified as financial liabilities.



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2022 and 2021

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**4. REDEEMABLE SHARES**

**Units**

A unit means a notional unit consisting of one Preferred share and one Class A share. Net Asset Value per unit is determined by (i) the aggregate value of the assets of the Fund, less (ii) the aggregate value of the liabilities of the Fund (the Preferred shares will not be treated as liabilities), including any distributions declared and not paid that are payable to shareholders, less (iii) the stated capital of Class J shares (\$100).

**Class J Shares**

The Fund is authorized to issue an unlimited number of Class J shares.

As of December 31, 2022, 100 (December 31, 2021 - 100) Class J shares were outstanding.

Class J shares are not entitled to receive dividends but are entitled to one vote per share. The Class J shares are redeemable and retractable at a price of \$1.00 per share.

**Redeemable Class A Shares**

**Authorized**

The Fund is authorized to issue an unlimited number of Class A shares.

The Fund intends to pay monthly, non-cumulative distributions to the holders of Class A shares. No distributions will be paid on Class A shares if (i) distributions payable on the Preferred shares are in arrears or (ii) in respect of a cash distribution, after the payment of a cash distribution by the Fund, the Net Asset Value per unit is less than \$15.00.

The Class A shares rank subsequent to the Preferred shares but in priority to the Class J shares with respect to the payment of distributions and the repayment of capital on the dissolution, liquidation or winding-up of the Fund. Each Class A share is entitled to one vote on certain shareholder matters.

The current issued and outstanding Class A shares have a maturity date of April 29, 2024. The redemption price payable by the Fund for a Class A share on that date will be equal to the greater of (i) the Net Asset Value per unit on that date minus the sum of \$10.00, plus any accrued and unpaid distributions on the Preferred shares, and (ii) nil.

Class A shares may be surrendered for retraction by the Fund at least 10 business days prior to the second last business day of a month ("Retraction Date"). Holders of Class A shares whose Class A shares are surrendered for retraction will be entitled to receive a price per Class A share equal to 96% of the difference between (i) the Net Asset Value per unit determined as of the relevant Retraction Date and (ii) the cost to the Fund of the purchase of a Preferred share for cancellation. The cost of the purchase of a Preferred share includes the purchase price of the Preferred share, commission and such other costs, if any, related to the liquidation of any portion of the Fund's portfolio required to fund such purchase.

A holder of Class A shares may concurrently retract an equal number of Class A and Preferred shares on the second last business day of April of each year ("Annual Retraction Date"), at a price per unit equal to the Net Asset Value per unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the portfolio required to fund such retraction. The Class A shares and the Preferred shares must both be surrendered for retraction at least 10 business days prior to the Annual Retraction Date.

The Fund's Class A shares are classified as financial liabilities on the Statements of Financial Position.

## Brompton Lifeco Split Corp. - Annual Report 2022

### NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2022 and 2021

#### Issued

	2022 Number of Shares	2021 Number of Shares
Redeemable Class A shares, outstanding at January 1	4,911,615	5,348,931
Issuance of redeemable Class A shares	4,170,500	-
Retraction of redeemable Class A shares	(64,700)	(437,316)
<b>Redeemable Class A shares, outstanding at December 31</b>	<b>9,017,415</b>	<b>4,911,615</b>
<b>Weighted average number of redeemable Class A shares outstanding</b>	<b>8,578,677</b>	<b>5,046,174</b>

On January 13, 2022, the Fund completed a treasury offering 2,382,400 Class A shares at a price of \$6.95 per share for gross proceeds of \$16.6 million.

On April 6, 2022, the Fund completed a treasury offering 1,788,100 Class A shares at a price of \$6.70 per share for gross proceeds of \$12.0 million.

The agents' fees and issuance costs from the January and April 2022 treasury offerings have amounted to \$1.3 million. These were netted off against Class A shares gross proceeds.

Pursuant to the monthly retraction option, during the year ended December 31, 2022, 64,200 Class A shares were retracted (December 31, 2021- nil).

Pursuant to the annual retraction option, during the year ended December 31, 2022, 500 Class A shares were retracted (December 31 2021 - 437,316).

On December 31, 2022, the Class A shares' closing market price on the Toronto Stock Exchange was \$4.43 per share (December 31, 2021 – \$6.88).

#### Redeemable Preferred Shares

##### Authorized

The Fund is authorized to issue an unlimited number of Preferred shares.

Effective April 30, 2019, the annual distribution rate was changed to \$0.625 per Preferred share for the term ending April 29, 2024. The Preferred shares rank in priority to the Class A shares with respect to the payment of distributions and the repayment of capital on the dissolution, liquidation, or winding-up of the Fund. Each Preferred share is entitled to one vote on certain shareholder matters.

The current issued and outstanding Preferred shares have a maturity date of April 29, 2024. The redemption price payable by the Fund for a Preferred share on that date will be equal to the lesser of (i) \$10.00, plus any accrued and unpaid distributions thereon, and (ii) the Net Asset Value of the Fund on that date divided by the number of Preferred shares then outstanding.

Preferred shares may be surrendered for retraction by the Fund at least 10 business days prior to the second last business day of a month ("Retraction Date"). Shareholders whose Preferred shares are retracted will be entitled to receive a price per share equal to 96% of the lesser of (i) the Net Asset Value per unit determined as of the relevant Retraction Date, less the cost to the Fund of the purchase of a Class A share for cancellation, and (ii) \$10.00. The cost of the purchase of a Class A share will include the purchase price of the Class A share, commission and other costs, if any, related to the liquidation of any portion of the portfolio required to fund such purchase.

A holder of Preferred shares may also concurrently retract an equal number of Preferred shares and Class A shares on the second last business day of April of each year ("Annual Retraction Date"), at a price per unit equal to the Net Asset Value per unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the portfolio required to fund such retraction. The Preferred shares and Class A shares must both be surrendered for retraction at least 10 business days prior to the Annual Retraction Date.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2022 and 2021

**Issued**

	<b>2022 Number of Shares</b>	<b>2021 Number of Shares</b>
Redeemable Preferred shares, outstanding at January 1	<b>4,911,615</b>	5,348,931
Issuance of redeemable Preferred shares	<b>4,170,500</b>	-
Retraction of redeemable Preferred shares	<b>(64,700)</b>	(437,316)
<b>Redeemable Preferred shares, outstanding at December 31</b>	<b>9,017,415</b>	4,911,615

On January 13, 2022, the Fund completed a treasury offering 2,382,400 Preferred shares at a price of \$10.05 per share for gross proceeds of \$23.9 million.

On April 6, 2022, the Fund completed a treasury offering 1,788,100 Preferred shares at a price of \$10.05 per share for gross proceeds of \$18.0 million.

The agents' fees and issuance costs from the January, and April 2022 treasury offerings have amounted to \$1.4 million.

The Fund's preferred shares may be issued at a premium, discount or at par, which is the redemption value. A premium/discount is identified as the difference between the Fund's treasury offering issuance price (excluding the accrued dividends embedded in the price) and its redemption value. There is a premium when the Fund completes an offering at an issuance price (excluding the accrued dividends embedded in the price) that is more than the redemption value; and a discount when the Fund completes an offering at an issuance price (excluding the accrued dividends embedded in the price) that is less than the redemption value. The Fund completed its January 13, 2022 and April 6, 2022 treasury offerings at a discount of \$176,252 and \$111,505, respectively. The cumulative discount is amortized until the next Annual Retraction Date of the Preferred shares. During the year ended December 31, 2022, \$114,119 (year ended December 31, 2021 – \$nil) was amortized and the discount balance as at December 31, 2022 is \$173,638 (year ended December 31, 2021 – \$nil).

Pursuant to the monthly retraction option, during the year ended December 31, 2022, 64,200 Preferred shares were retracted (December 31, 2021 - nil).

Pursuant to the annual retraction option, during the year ended December 31, 2022, 500 Preferred shares were retracted (December 31, 2021 - 437,316).

On December 31, 2022, the Preferred shares' closing market price on the Toronto Stock Exchange was \$9.98 per share (December 31, 2021 – market price \$10.21).

**5. CAPITAL MANAGEMENT**

The Fund's capital is comprised of its Net Assets attributable to holders of redeemable units. The Fund's objectives in managing its capital are:

- i) to provide holders of Preferred shares with fixed, cumulative, preferential quarterly cash distributions and to return the original issue price to the holders of the shares on the maturity date, the terms of which may be extended for a period of up to five years as determined by the Board of Directors or such other date if the term of the Fund is extended, and
- ii) to provide holders of Class A shares with regular monthly cash distributions targeted to be \$0.075 per share and the opportunity for growth in Net Asset Value per share.

The Fund manages its capital taking into consideration the risk characteristics of its holdings. In order to manage its capital structure, the Fund may adjust the amount of distributions paid to shareholders or return capital to shareholders.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2022 and 2021

## 6. DISTRIBUTIONS TO SHAREHOLDERS

Distributions are made on a quarterly basis, record date being last business day of January, April, July and October, on the Preferred shares and on a monthly basis on the Class A shares. Distributions are payable no later than the tenth business day of the following month.

For the year ended December 31, 2022, the Fund declared distributions of \$0.30 (year ended December 31, 2021– \$0.83) per Class A share and accrued distributions of \$0.625 (year ended December 31, 2021- \$0.625) per Preferred share, which amounted to \$2,322,275 (year ended December 31, 2021– \$4,117,679) and \$5,322,012 (year ended December 31, 2021– \$3,092,784), respectively. Under the Fund's distribution reinvestment plan, Class A shareholders may elect to reinvest monthly distributions in additional Class A shares of the Fund, which may be purchased in the open market.

On January 24, 2023, the Fund declared a monthly distribution of \$0.075 per Class A share and \$0.15625 per Preferred share for record date on January 31, 2023.

## 7. RELATED PARTY TRANSACTIONS

### a) Management Fees

Pursuant to a management agreement, the Manager provides management and administrative services, including key management personnel, to the Fund. In consideration for these services, the Fund pays a management fee equal to 0.60% per annum of the Net Asset Value of the Fund, plus applicable taxes. The Net Asset Value of the Fund is determined by taking the total assets of the Fund and deducting the Fund's liabilities. For these purposes, the Preferred shares are not considered a liability of the Fund. This fee is calculated and payable monthly.

For the year ended December 31, 2022, the management fee amounted to \$829,642 (year ended December 31, 2021 – \$540,507), of which \$31 was payable as of December 31, 2022 (December 31, 2021 – \$240). The Fund is responsible for the payment of all expenses relating to its operations and the carrying on of its business.

### b) Independent Review Committee Fees

The total remuneration paid to members of the Independent Review Committee during the year ended December 31, 2022 was \$5,827 (year ended December 31, 2021 - \$3,652) and consisted only of fees. As at December 31, 2022 and 2021, there were no Independent Review Committee fees payable.

## 8. INVESTMENT TRANSACTIONS

Investment transactions for the years ended December 31 were as follows:

	2022 \$	2021 \$
Proceeds from sale of investments and options	4,304,860	12,093,651
<b>Less cost of investments and options sold:</b>		
Investments and options at cost, beginning of year	62,966,966	72,459,615
Investments purchased and options written during the year	67,923,824	298,813
Investments and options at cost, end of year	(126,682,535)	(62,966,966)
<b>Cost of investments sold and options written during the year</b>	<b>4,208,255</b>	<b>9,791,462</b>
<b>Net realized gain (loss) on sale of investments and options</b>	<b>96,605</b>	<b>2,302,189</b>

There were no soft dollar commissions paid by the Fund for the years ended December 31, 2022 and 2021.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2022 and 2021

**9. OPTION CONTRACTS**

The Fund may write covered call or cash covered put options to generate additional income. The Fund had the following call option contracts outstanding:

As at December 31, 2022:

Underlying Interest	Number of Contracts <sup>1</sup>	Expiration Date	Strike Price per Contract \$	Premium Received \$	Fair Value \$
Manulife Financial Corp.	1,451	20-Jan-23	24.50	39,177	(36,275)
Sun Life Financial Inc.	557	20-Jan-23	64.00	33,977	(23,116)
	<b>2,008</b>			<b>73,154</b>	<b>(59,391)</b>

<sup>1</sup> Each contract was written for 100 shares of the underlying security.

As at December 31, 2021:

Underlying Interest	Number of Contracts <sup>1</sup>	Expiration Date	Strike Price per Contract \$	Premium Received \$	Fair Value \$
Sun Life Financial Inc.	297	21-Jan-22	72.00	12,177	(5,940)
	297			12,117	(5,940)

<sup>1</sup> Each contract was written for 100 shares of the underlying security.

**10. SECURITIES LENDING**

The Fund has entered into a securities lending program with its custodian, CIBC Mellon Trust Company (and certain of its affiliates). The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral will generally be comprised of cash and obligations of, or guaranteed by, the Government of Canada or a province thereof, or the United States Government or its agencies, or a permitted supranational agency as defined in National Instrument 81-102. There were no securities on loan and related collateral at December 31, 2022 (December 31, 2021 - \$8.8 million and \$9.3 million, respectively).

Securities lending income reported in the Statements of Comprehensive Income is net of a securities lending charge which the Fund's custodian, CIBC Mellon Trust Company (and certain of its affiliates), is entitled to receive. The securities lending income details as following:

For the years ended December 31,	2022 \$	2021 \$
Gross securities lending income	11,513	11,418
Securities lending charges	(3,453)	(3,426)
<b>Net securities lending income</b>	<b>8,060</b>	<b>7,992</b>
Withholding taxes on securities lending income	(171)	(219)
<b>Net securities lending income received by the Fund</b>	<b>7,889</b>	<b>7,773</b>

During the year ended December 31, 2022, securities lending charges represented 30.0% (year ended December 31, 2021 – 30.0%) of the gross securities lending income.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2022 and 2021

**11. FINANCIAL RISK MANAGEMENT**

The Fund's investment activities expose it to a variety of financial risks. The Schedule of Investment Portfolio presents the securities held by the Fund as at December 31, 2022, and groups the securities by market segment. The following summary represents the investment sectors held by the Fund as at December 31, 2021. Significant risks that are relevant to the Fund are discussed below.

As at	December 31, 2021
Investment Sector	% of Portfolio
Life Insurance	100.0

The Manager attempts to minimize the potential adverse effects of these risks on the Fund's performance by regular rebalancing of the investment portfolio within the constraints of the investment objectives. To assist in managing risks, the Manager also maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and restrictions, internal guidelines, and securities regulations.

The investment portfolio is primarily comprised of Canadian-dollar-denominated, exchange-listed equity securities. There is no exposure to currency risk.

**a) Other Price Risk**

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities and derivatives present a risk of loss of capital. The Manager attempts to moderate this risk through the careful selection of securities and derivatives within the parameters of the investment strategy. Except for options written, the maximum risk of loss resulting from financial instruments is equivalent to their fair value. There were no cash-covered put options outstanding as at December 31, 2022 and 2021. No additional risk is introduced by covered call options written.

The Fund is exposed to other price risk from its investment in equity securities and option contracts. As at December 31, 2022, had the prices on the respective stock exchanges for these securities increased by 10%, with all other variables held constant, Net Assets attributable to holders of redeemable Class A shares would have increased by approximately \$13.0 million or 30.1% (December 31, 2021 – approximately \$7.8 million or 25.6%). Similarly, had the prices on the respective stock exchanges for these securities decreased by 10%, with all other variables held constant, Net Assets attributable to holders of redeemable Class A shares would have decreased by approximately \$13.3 million or 30.6% (December 31, 2021 – approximately \$7.9 million or 26.1%). In practice, the actual trading results may differ, and the difference could be material.

**b) Credit Risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The Fund did not have significant credit risk exposure as at December 31, 2022 and 2021. The carrying amount of income receivable represents the maximum credit risk exposure as it will be settled in the short term.

All transactions in securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal as delivery of securities sold is only made once the Fund has received payment. The trade will fail if either party fails to meet its obligation.

The Fund has entered into a securities lending program with its custodian; see note 10. Credit risk associated with these transactions is considered minimal as all counterparties have a sufficient, approved credit rating and the value of cash or securities held as collateral must be at least 102% of the fair value of the securities loaned.



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2022 and 2021

**c) Liquidity Risk**

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund is exposed to liquidity risk through its monthly and annual retractions of Class A shares and Preferred shares. For the monthly and annual retractions of Class A shares and Preferred shares, the Fund receives notice at least 10 business days prior to the Retraction Date and has up to 10 business days after the Retraction Date to settle the retractions, which gives the Manager time to sell securities, although there may not be sufficient time to sell the securities at a reasonable price. All Class A shares and Preferred shares outstanding on April 29, 2024 are scheduled to be redeemed by the Fund on that date unless the term of the Fund is extended.

As at December 31, 2022 and 2021, all the Fund's other financial liabilities had maturities of less than three months.

**d) Currency Risk**

Currency risk is the risk that financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate due to changes in exchange rates. As at December 31, 2022 and 2021, the Fund had no exposure to currency risk.

**e) Interest Rate Risk**

Interest rate risk is the risk that the fair value of the Fund's interest bearing investments will fluctuate due to changes in market interest rates. Interest bearing investments are namely, bonds, money market investments, short-term investments, debentures and mortgages or other income-producing securities, whose value increases if interest rates fall and decreases if interest rates rise. As of December 31, 2022 and 2021, the Fund had no exposure to interest rate risk.

**12. FAIR VALUE MEASUREMENT**

The Fund's assets and liabilities recorded at fair value have been categorized within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are:

Level 1: Inputs that reflect unadjusted quoted prices, in active markets for identical assets or liabilities.

Level 2: Inputs, other than quoted prices that are 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 judgement or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

<b>Assets and liabilities at fair value as at December 31, 2022</b>	<b>Level 1 \$</b>	<b>Level 2 \$</b>	<b>Level 3 \$</b>	<b>Total \$</b>
Equities	133,093,146	-	-	133,093,146
Option contracts written	(59,391)	-	-	(59,391)
<b>Total</b>	<b>133,033,755</b>	<b>-</b>	<b>-</b>	<b>133,033,755</b>

<b>Assets and liabilities at fair value as at December 31, 2021</b>	<b>Level 1 \$</b>	<b>Level 2 \$</b>	<b>Level 3 \$</b>	<b>Total \$</b>
Equities	79,417,874	-	-	79,417,874
Option contracts written	(5,940)	-	-	(5,940)
<b>Total</b>	<b>79,411,934</b>	<b>-</b>	<b>-</b>	<b>79,411,934</b>

The Preferred shares issued and outstanding as at December 31, 2022 had a retraction price per share of \$10.00 (December 31, 2021 – \$10.00) and a TSX closing market price of \$9.98 (December 31, 2021 – \$10.21 market price).

There were no transfers of financial assets and liabilities between the levels during the year ended December 31, 2022 and 2021.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2022 and 2021

All fair value measurements above are recurring. The carrying values of cash, distributions payable, and accounts payable and accrued liabilities approximate 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, the instrument is 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) Equities**

The Fund's equity positions are classified as level 1 as the securities are actively traded and a reliable price is observable. The net realized and net change in unrealized loss from equity securities during the year ended December 31, 2022 was \$9,727,453 (year ended December 31, 2021 – gain of \$16,233,385).

**b) Option Contracts**

The Fund's option contracts written are classified as level 1, as the options are based on unadjusted quoted prices in active markets. The net realized and net change in unrealized loss from option contracts during the year ended December 31, 2022 was \$269,690 (year ended December 31, 2021 – loss of \$195,389).

**13. INCOME TAXES**

As at December 31, 2022, the Fund had non-capital loss carry-forwards for income tax purposes of \$14,685,260 (December 31, 2021 - \$13,588,943). The non-capital loss carry-forwards will expire as follows.

	2022 \$
2029	530,021
2030	1,219,759
2031	1,133,683
2032	329,142
2033	346,227
2034	1,288,562
2035	1,525,133
2036	1,312,897
2037	1,213,915
2038	1,610,790
2039	1,291,321
2040	1,031,643
2041	53,226
2042	1,798,941
	<b>14,685,260</b>

The Fund also had a capital loss carry-forward for income tax purposes of \$9,827,208 (December 31, 2021 – \$9,827,208) which can be carried forward for an indefinite period.

## CORPORATE INFORMATION

### Independent Review Committee

**Raj Kothari**, BComm, MBA,  
FCPA/FCA

**Patricia Meredith**, BMath, MBA,  
PhD, FCPA/FCA

**Ken S. Woolner**, BSc, PEng

### Directors and Officers of the Manager

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**Michelle L. Tiraborelli**, BSc, MBA  
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**Michael D. Clare**, BComm (Hons),  
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Senior Vice President and  
Senior Portfolio Manager

**Kathryn A.H. Banner**, BA, MA  
Senior Vice President and  
Corporate Secretary

**Manith Phanvongsa**, BA  
Senior Vice President

### Transfer Agent

TSX Trust Company

### Custodian

CIBC Mellon Trust Company

### Auditor

PricewaterhouseCoopers LLP

### Website

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