

# HBG

HAMILTON CAPITAL  
GLOBAL BANK ETF



## Hamilton Capital Global Bank ETF (HBG:TSX)

*Hamilton Capital*

Specialists in Financial Services

# Contents

## **MANAGEMENT REPORT OF FUND PERFORMANCE**

Management Discussion of Fund Performance .....	1
Financial Highlights .....	8
Past Performance.....	11
Summary of Investment Portfolio .....	13

## **MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING..... 15**

## **INDEPENDENT AUDITORS' REPORT..... 16**

## **FINANCIAL STATEMENTS**

Statement of Financial Position .....	17
Statement of Comprehensive Income .....	18
Statement of Changes in Financial Position.....	19
Statement of Cash Flows.....	20
Schedule of Investments.....	21
Notes to Financial Statements .....	24

## MANAGEMENT REPORT OF FUND PERFORMANCE

This annual management report of fund performance for Hamilton Capital Global Bank ETF (“HBG” or the “ETF”) contains financial highlights and is included with the audited annual financial statements for the investment fund. You may request a copy of the investment fund’s unaudited interim or audited annual financial statements, interim or annual management report of fund performance, current proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosures, at no cost, by calling (416) 941-9888, by writing to Hamilton Capital Partners Inc. (“Hamilton Capital” or the “Manager”), at 55 York Street, Suite 1202, Toronto, Ontario, M5J 1R7, by visiting our website at [www.hamilton-capital.com](http://www.hamilton-capital.com) or through SEDAR at [www.sedar.com](http://www.sedar.com).

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance, or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements.

Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the ETF may invest and the risks detailed from time to time in the ETF’s simplified prospectus. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors. We caution that the foregoing list of factors is not exhaustive, and that when relying on forward-looking statements to make decisions with respect to investing in the ETF, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Manager does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

## Management Discussion of Fund Performance

### Investment Objective and Strategy

The investment objective of HBG is to seek long-term total returns consisting of long-term capital appreciation and regular dividend income from an actively managed portfolio comprised primarily of equity securities of banks and other deposit-taking institutions located anywhere around the globe.

The ETF seeks to achieve its investment objective by investing in a portfolio of equity securities across the global banking sector. By investing worldwide, Hamilton Capital, as the ETF’s portfolio adviser (the “Portfolio Adviser”), aims to take advantage of the most attractive opportunities in global banking, while reducing country-specific and concentration risks. The ETF’s portfolio is anticipated to include approximately 40-60 banks and other deposit-taking institutions, from over 10 countries, with a geographic split of roughly 50% U.S./Canada, 25% Europe and 25% other countries. However, the number of positions and percentages by region may vary based on the Portfolio Adviser’s assessment of the most attractive risk/reward opportunities. For certain markets, investments will be made predominantly in American Depositary Receipts (“ADRs”). HBG’s investments may be selected from any country, subsector or capitalization level of the global banking sector. The Portfolio Adviser may, at its discretion, hedge some or all of the ETF’s non-Canadian dollar currency exposure.

## Management Discussion of Fund Performance (continued)

The Portfolio Adviser's investment strategies consider both top-down themes as well as bottom-up analysis. Top-down themes may include, but are not limited to, favourable gross domestic product (GDP) growth, inflation and interest trends, fiscal and monetary policies, and regulatory trends. The Portfolio Adviser's bottom-up investment process is primarily based on fundamental research, as well as quantitative and technical factors. Investment decisions are ultimately based on an understanding of a company, its business, and its expected outlook, including earnings growth, asset quality, capital and reserves, as well as business mix and dividend policy. The Portfolio Adviser monitors and reviews HBG's investments on an ongoing basis to try to ensure the best relative values are identified.

### Risk

Investments in the units of the ETF can be speculative, involve a degree of risk and are suitable only for persons who are able to assume the risk of losing their entire investment. The Manager, as a summary for existing investors, is providing the list below of the risks to which an investment in the ETF may be subject. **Prospective investors should read the ETF's prospectus and consider the full description of the risks contained therein before purchasing units.**

The risks to which an investment in the ETF is subject are listed below and have not changed from the list of risks found in the ETF's prospectus. A full description of each risk listed below may also be found in the prospectus. The prospectus is available at [www.hamilton-capital.com](http://www.hamilton-capital.com) or from [www.sedar.com](http://www.sedar.com), or by contacting Hamilton Capital Partners Inc. directly via the contact information on the back page of this document.

- No assurance of meeting investment objective
- Market risk
- Specific issuer risk
- Equity risk
- Short selling risk
- Legal and regulatory risk
- Investing outside of North America
- Performance of banks and financial institutions
- Changes in the regulatory environment in global financial services sector
- Foreign stock exchange risk
- Foreign markets risk
- Currency exposure risk
- Real estate investment trust (REIT) investment risk
- Emerging markets risk
- Derivatives risk
- Use of options risk
- Corresponding net asset value risk
- Distributions risk
- Designated broker/dealer risk
- Reliance on key personnel
- Potential conflicts of interest
- Counterparty risk
- Cease trading of securities risk
- No ownership interest
- Exchange risk
- Early closing risk
- Redemption price
- Concentration risk
- Reliance on historical data risk
- Small capitalization risk
- Liquidity risk
- Tax risk
- Securities lending, repurchase and reverse repurchase transaction risk
- Fund of funds investment risk
- Exchange-traded funds (ETF) risk
- Loss of limited liability
- Absence of an active market and lack of operating history
- No guaranteed return

## Management Discussion of Fund Performance (continued)

### Results of Operations

The ETF began operations on January 22, 2016, at a net asset value (“NAV”) of \$16.00 and finished the period on December 31, 2016, at \$20.23. The ETF distributed \$0.37 in cash per Class E unit during the period. The ETF hedges much of its currency risk, which had the impact of insulating the ETF against the significant appreciation in the Canadian dollar relative to the U.S. dollar in the first half of the year and against the British pound sterling in the latter half. Overall, currency hedging was a net positive for the ETF in 2016.

### *Global Market/Banking Sector Review*

This past year was a volatile one for equities, but particularly global bank stocks. The KBW Nasdaq Global Bank Net Total Return Index, an equal weighted index that tracks the performance of 28 banks from 11 different countries, returned 16.75% during the period that the ETF was active in Canadian dollar terms on a total return basis (22.80% in U.S. dollars). The MSCI World Index, a broad market index which includes more than 1,600 positions, capturing large and mid-cap representation across 23 developed markets, returned 10.54% for the period in Canadian dollar terms on a total return basis (16.26% in U.S. dollars).

The significant volatility experienced much of the year by global equity markets and bank stocks, can be largely attributed to macro events rather than immediate changes in the underlying fundamentals. The year began with a continuation of the “risk-off” sentiment that closed out 2015. Selling was indiscriminate, with much of the turmoil attributed to global growth concerns, sparked in part by mixed economic data out of China, a surprise devaluation of the yuan, and a decline in China’s foreign currency reserves. Concern over the potential slowdown in global gross domestic product (GDP) was also reflected in the weakness in the price of oil.

After an almost 10 year hiatus, the U.S. Federal Reserve (“Fed”) moved rates higher in December 2015 in what was expected to be the beginning of gradual path toward normalization. However, global growth concerns and other macro events conspired to make the path forward much less visible. Markets parsed every comment made by Federal Open Market Committee members for indications on the timing of the next move. By mid-year, the probability of a rate hike in 2016 had declined to below 10%, according to Bloomberg. This resulted in added volatility in bank stocks during the year, particularly the asset sensitive U.S. mid-cap banks, but as well as those in emerging markets where concern over capital outflows increased the risk of abrupt changes in monetary policy. In the end, markets had to wait until December 2016 for the next 25 basis point increase.

Elsewhere, central banks tested various measures to stimulate growth and forestall deflation. In January, the Bank of Japan joined central banks in countries such as Sweden, Denmark and Switzerland in reducing central bank rates into negative territory. In March, the European Central Bank, which was the first to take rates negative in 2014, cut further, while also expanding (both in quantity and type) its monthly asset purchases. In Australia, where the central bank has considerable flexibility to support growth should it need to (with a rate of 1.5%, still a historical low for the country), the Reserve Bank of Australia cut rates twice this year, attempting to support economic growth.

The market was forced to contend with no shortage of political uncertainty this year. In June, the U.K. held a referendum on the country’s membership in the European Union (“EU”). Although opinion polls were very close, the market appeared to be pricing a very low probability of a “Leave” result. Thus the 52%/48% margin in favour of leaving the EU (“Brexit”) came as a significant surprise to the markets, with the major equity markets falling sharply, including the U.K., European and U.S. banks in the two days following the vote. Notwithstanding the sharp initial reaction and the currency dislocation (the British pound fell to 30 year lows versus the U.S. dollar), equity markets, and more specifically, bank stocks (with some exceptions) bottomed in early July.

## Management Discussion of Fund Performance (continued)

In November, the U.S. elections also resulted in an outcome different than anticipated, namely the Republicans winning control of both the executive branch and both houses of the legislative branch. This caused the market to anticipate more pro-growth fiscal policies and higher GDP, supported by a potential decline in corporate tax rates and a more favourable regulatory environment. As a result, banks particularly in the U.S., rallied very strongly to finish out the year.

To complete the 2016 political triad, Italy held its referendum on constitutional reform in December. Although anticipated by many to induce a Brexit-like market reaction in the event of a “No” victory (owing in part to departure of the reformist Prime Minister Renzi who, like his U.K. counterpart, had tied his political future to the outcome), the referendum turned out to largely be a non-event for global markets.

### **Portfolio Review**

The ETF launched part way through the global macro correction that had weighed on equities since early December 2015. The ETF benefited from its diversified geographic mix and the broad number of positions held. Over time, the ETF’s portfolio is expected to have between 40 and 60 positions, split geographically with approximately 50% of the NAV in North American banks, 25% in European banks and 25% in banks located elsewhere in the world, although this mix could vary materially from time to time as conditions warrant.

During the first half of 2016, the ETF benefited from its higher exposure to high GDP growth markets/banks, including those in less macro-sensitive markets like India, Australia and Canada, all of which outperformed in a post-Brexit correction. In the second half rebound, the ETF’s heavy weighting to U.S. banks, particularly mid-caps which largely outperformed their large-cap peers, was the primary source of gains.

### **North America**

At launch, the ETF held a significant weighting in Canadian banks (17%), which it gradually began reducing after first quarter bank earnings (late February). Owing to the sector’s significant outperformance in the first half of 2016 versus its global banking peers, the ETF reallocated capital to other geographies considered to have more attractive risk/reward profiles, particularly the U.S., and remained underweight Canadian banks through year-end.

In the opinion of the Manager, the U.S. banks continue to present an attractive investment opportunity, notwithstanding the very significant moves in stocks following the U.S. election. The ETF’s U.S. domiciled holdings emphasize mid-cap banks that are expected to generate comparatively higher earnings per share (EPS) growth through superior execution, have exposure to higher growth regions and/or higher sensitivity to a rising federal funds rate. This category of banks, which also faces less regulatory risk than their universal/large-cap peers, continues to consolidate, supporting valuations.

### **Europe**

The ETF’s European exposure has remained relatively constant since the ETF’s launch (at or around 25% of NAV), however the mix has altered over time. The ETF increasingly moved to emphasize Northern European countries, like Sweden, Denmark and Netherlands which, relative to Canada, have higher GDP per capita, generally have higher GDP growth, and have very profitable, well capitalized banking systems. The ETF gradually reduced its U.K. holdings (and raised cash) ahead of the Brexit vote, given the uncertainty surrounding the outcome, but has rebuilt that exposure in the latter half of the year, as the near-term impact of Brexit has proved muted.

Correspondingly, the ETF reduced its exposure to Eurozone countries, particularly Italy, late in the year ahead of that country’s referendum. Although Italian banks, which were significant underperformers in 2016, appear to have stabilized following recent developments within the sector (including announced capital raises, and government support for a

## Management Discussion of Fund Performance (continued)

struggling peer), the ETF will continue to underweight countries with relatively more uncertainty, in favour of those making tangible progress, such as Ireland and Spain.

### ***Rest of the World***

The ETF continues to hold meaningful exposure to Australia (9%), whose banks have high returns on capital and very high dividend yields. Like Northern European countries, Australia benefits from higher GDP per capita and higher GDP growth than Canada. The ETF has allowed its weighting to Indian banks to drift lower (4%). Although Indian banks, in particular so-called private banks, arguably operate in one of the world's fastest growing economies, uncertainty has weighed on stocks in the latter part of year. In particular, an effort by the government to counter the country's underground economy through demonetization of large cash notes is expected to hurt bank lending margins and credit quality, at least in the near-term. However, it is possible the longer-term impact will be positive, as the banks benefit from a very large increase in deposits.

The ETF remains underweight Japan (4% of NAV), owing to a combination of weak GDP growth, poor demographics, and uncertain monetary and fiscal policy. The ETF also holds a small weighting in Latin America, although the exposure in Brazil was exited (after significant gains early in the year) in favour of Mexico and Chile, in light of the continued weak economic outlook for South America's largest country, and a severe reaction by other emerging markets such as Mexico to the U.S. President-elect's rhetoric.

From time to time, the ETF does engage in limited covered call writing on securities with sufficiently liquid markets when deemed advantageous. In practice, the intent is to generate modest profits to help support the ETF's yield and partially offset management fee and trading expenses while at the same time, not limiting the capital appreciation of the portfolio. In 2016, the ETF generated small losses in its covered call strategy, and had no open positions at year-end.

### ***Outlook***

Markets enter 2017 with improved expectations for global growth (now forecast to be over 3%), which should be supportive of bank revenue and earnings growth. In addition, it is anticipated the potential for central banks to gradually move towards more "normal" monetary policy will also benefit banks in the form of higher net interest margins. Together, this has led to improved sentiment for bank stocks, particularly in the U.S. The ETF continues to emphasize regions and banks with higher GDP and earnings growth, with a skew towards countries with central bank flexibility. In addition, the ETF emphasizes banks with higher capital ratios and predictable dividend yields.

The Manager believes that the ETF's diversified portfolio, both by geography and by position, provide it with an attractive risk/return profile.

For additional comments on the global financials, please see the Insights section of the Manager's website: [www.hamilton-capital.com/insights](http://www.hamilton-capital.com/insights).

### ***Other Operating Items and Changes in Net Assets Attributable to Holders of Redeemable Units***

For the period from when the ETF effectively began operations on January 22, 2016, to December 31, 2016, the ETF generated gross comprehensive income (loss) from investments and derivatives of \$1,984,974. The ETF incurred management, operating and transaction expenses of \$221,016. Of these expenses, the Manager either paid or absorbed \$93,192 on behalf of the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at its discretion. The ETF distributed \$318,848 to unitholders during the period.

## Management Discussion of Fund Performance (continued)

### **Unitholder Activity**

An “ETF” is a stock exchange listed, open-ended, continuously offered fund. All orders to purchase units directly from the ETF must be placed by designated brokers and/or dealers. On any trading day, a designated broker or a dealer may place a subscription order for a prescribed number of units (“PNU”) or integral multiple PNU. The ETF reserves the absolute right to reject any subscription order placed by a designated broker and/or dealer. No fees will be payable by the ETF to a designated broker or a dealer in connection with the issuance of units.

If a subscription order is received by the ETF by 9:30 a.m. (Toronto time) on a trading day, the ETF will issue to the designated broker or dealer the number of units of the ETF subscribed for generally on the first trading day after the date on which the subscription order is accepted, provided that payment for such units has been received. The number of units issued is based on the net asset value per unit of the ETF on the trading day on which the subscription is accepted by the Manager. Notwithstanding the foregoing, the ETF will issue to the designated broker or dealer the number of units of the ETF subscribed for no later than the third trading day after the date on which the subscription order was accepted, provided that payment for such units has been received.

In issuing units of an ETF to a designated broker or dealer, the designated broker or dealer must deliver subscription proceeds consisting of an acceptable basket of securities and/or cash in an amount sufficient so that the value of the basket of securities and/or cash delivered is equal to the net asset value of the applicable PNU of the ETF next determined following the receipt of the subscription order.

Investors are able to trade units of the ETF in the same way as other securities traded on the Toronto Stock Exchange (“TSX”), including by using market orders and limit orders. An investor may buy or sell units of the ETF on the TSX only through a registered broker or dealer in the province or territory where the investor resides. Investors may incur customary brokerage commissions when buying or selling units.

### **Presentation**

The attached financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Any mention of total net assets, net assets, net asset value or increase (decrease) in net assets in the financial statements and/or management report of fund performance is referring to net assets or increase (decrease) in net assets attributable to holders of redeemable units as reported under IFRS.

### **Recent Developments**

There are no recent industry, management or ETF related developments that are pertinent to the present and future of the ETF.

### **Related Party Transactions**

Certain services have been provided to the ETF by related parties and those relationships are described below.

### **Manager, Trustee and Portfolio Adviser**

The manager, trustee and portfolio adviser of the ETF is Hamilton Capital Partners Inc., 55 York Street, Suite 1202, Toronto, Ontario, M5J 1R7, a corporation incorporated under the laws of the Province of Ontario. The Manager has retained Horizons ETFs Management (Canada) Inc. (the “Administrator”), 26 Wellington Street East, Suite 700, Toronto, Ontario, M5E 1S2 to provide assistance to the Manager in respect of certain aspects of the day-to-day administration of the ETF.

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## Management Discussion of Fund Performance (continued)

### ***Other Related Parties***

One or more registered dealers acts or may act as a designated broker, a dealer and/or a market maker. These relationships may create actual or perceived conflicts of interest which investors should consider in relation to an investment in the ETF. In particular, by virtue of these relationships, these registered dealers may profit from the sale and trading of units. The designated broker, as market maker of the ETF in the secondary market, may therefore have economic interests which differ from and may be adverse to those of unitholders.

Any such registered dealer and its affiliates may, at present or in the future, engage in business with the ETF, the issuers of securities making up the investment portfolio of the ETF, or with the Manager or any funds sponsored by the Manager or its affiliates, including by making loans, entering into derivative transactions or providing advisory or agency services. In addition, the relationship between any such registered dealer and its affiliates, and the Manager and its affiliates may extend to other activities, such as being part of a distribution syndicate for other funds sponsored by the Manager or its affiliates.

No designated broker or dealer was involved in the preparation of the ETF's prospectus or performed any review of the contents of the prospectus. The designated brokers and dealers do not act as underwriters of the ETF in connection with the distribution by the ETF of units under the prospectus. Units do not represent an interest or an obligation of any designated broker, any dealer or any affiliate thereof, and a unitholder does not have any recourse against any such parties in respect of amounts payable by the ETF to such designated brokers or dealers.

## Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance since it effectively began operations on January 22, 2016. This information is derived from the ETF's audited annual financial statements. Please see the front page for information on how you may obtain the annual or interim financial statements.

### The ETF's Net Assets per Unit

Class E Period	2016
<b>Net assets, beginning of period</b> <sup>(1)</sup>	\$ 16.00
<b>Increase from operations:</b>	
Total revenue	0.55
Total expenses	(0.34)
Realized gains for the period	0.75
Unrealized gains for the period	3.98
<b>Total increase from operations</b> <sup>(2)</sup>	4.94
<b>Distributions:</b>	
From net investment income (excluding dividends)	(0.12)
From dividends	(0.02)
From net realized capital gains	(0.37)
<b>Total annual distributions</b> <sup>(3)</sup>	(0.51)
<b>Net assets, end of period</b> <sup>(4)</sup>	\$ 20.23

1. This information is derived from the ETF's audited annual financial statements as at December 31, 2016. Units of the ETF have an initial net asset value of \$16.00 as at January 22, 2016. Information is presented in accordance with IFRS.
2. Net assets per unit and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.
3. Income, dividend and/or return of capital distributions, if any, are paid in cash, reinvested in additional units of the ETF, or both. Capital gains distributions, if any, may or may not be paid in cash. Non-cash capital gains distributions are reinvested in additional units of the ETF and subsequently consolidated. They are reported as taxable distributions and increase each unitholder's adjusted cost base for their units. Neither the number of units held by the unitholder, nor the net asset per unit of the ETF change as a result of any non-cash capital gains distributions. Distributions classified as return of capital, if any, decrease each unitholder's adjusted cost base for their units. The characteristics of distributions, if any, are determined subsequent to the end of the ETF's tax year. Until such time, distributions are classified as from net investment income (excluding dividends) for reporting purposes.
4. The Financial Highlights are not intended to act as a continuity of the opening and closing net assets per unit.

**Financial Highlights** (continued)

**Ratios and Supplemental Data**

<b>Class E Period</b> <sup>(1)</sup>	<b>2016</b>
Total net asset value (000's)	\$ 18,649
Number of units outstanding (000's)	922
Management expense ratio <sup>(2)</sup>	1.00%
Management expense ratio before waivers and absorptions <sup>(3)</sup>	2.49%
Trading expense ratio <sup>(4)</sup>	0.77%
Portfolio turnover rate <sup>(5)</sup>	82.74%
Net asset value per unit, end of period	\$ 20.23
Closing market price	\$ 20.29

1. This information is provided as at December 31, 2016. Information is presented in accordance with IFRS.
2. Management expense ratio is based on total expenses, including sales tax, (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. Out of their management fees, the Manager pays for such services to the ETF as portfolio manager compensation, service fees and marketing.
3. The Manager, at its discretion, may waive and/or absorb a portion of the fees and/or expenses otherwise payable by the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at its discretion.
4. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
5. The ETF's portfolio turnover rate indicates how actively its portfolio investments are traded. A portfolio turnover rate of 100% is equivalent to the ETF buying and selling all of the securities in its portfolio once in the course of the year. Generally, the higher the portfolio turnover rate in a year, the greater the trading costs payable by the ETF 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 ETF.

## Financial Highlights (continued)

### Management Fees

The Manager provides, or oversees the provision of, administrative services required by the ETF including, but not limited to: negotiating contracts with certain third-party service providers, such as custodians, registrars, transfer agents, auditors and printers; authorizing the payment of operating expenses incurred on behalf of the ETF; arranging for the maintenance of accounting records for the ETF; preparing reports to unitholders and to the applicable securities regulatory authorities; calculating the amount and determining the frequency of distributions by the ETF; preparing financial statements, income tax returns and financial and accounting information as required by the ETF; ensuring that unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the ETF complies with all other regulatory requirements, including the continuous disclosure obligations of the ETF under applicable securities laws; administering purchases, redemptions and other transactions in units of the ETF; and dealing and communicating with unitholders of the ETF. The Manager provides office facilities and personnel to carry out these services, if not otherwise furnished by any other service provider to the ETF. The Manager also monitors the investment strategies of the ETF to ensure that the ETF complies with its investment objectives, investment strategies and investment restrictions and practices.

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.85%, plus applicable sales taxes, of the net asset value of the ETF, calculated and accrued daily and payable monthly in arrears.

Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

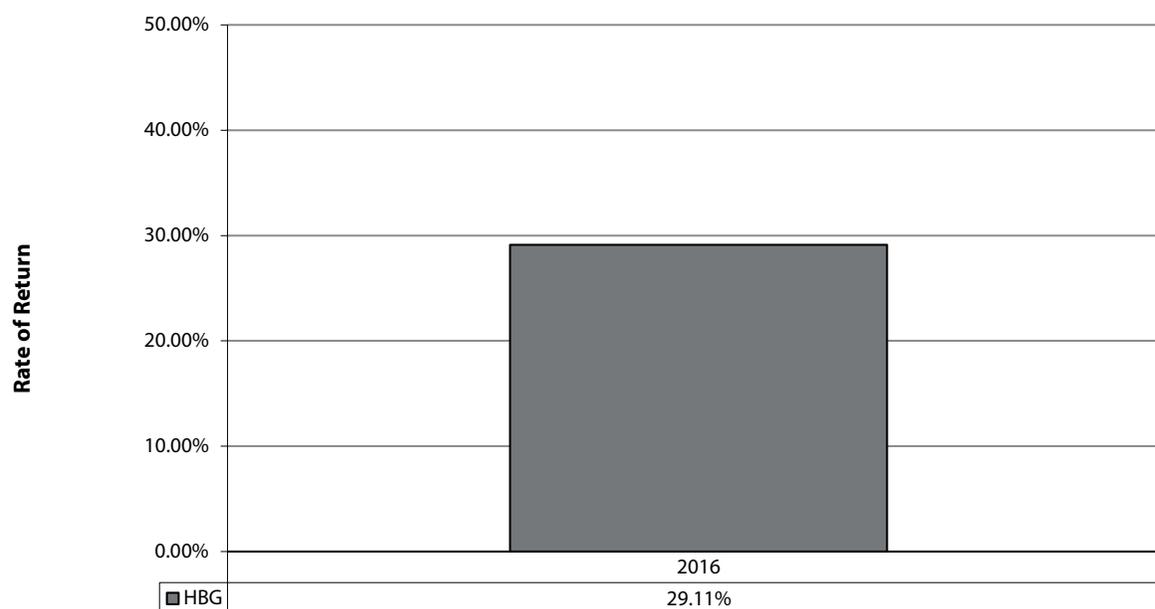
The Manager paid substantially more than 100% of the management fees it received from the ETF during the period towards marketing and promotional costs, and towards the fees associated with the managerial and portfolio management services provided to the ETF.

## Past Performance

Sales commissions, management fees and expenses all may be associated with an investment in the ETF. Please read the prospectus before investing. The indicated rates of return are the historical total returns including changes in unit value and reinvestment of all distributions, and do not take into account sales, redemptions, distributions or optional charges or income taxes payable by any investor that would have reduced returns. An investment in the ETF is not guaranteed. Its value changes frequently and past performance may not be repeated. The ETF's performance numbers assume that all distributions are reinvested in additional units of the ETF. If you hold this ETF outside of a registered plan, income and capital gains distributions that are paid to you increase your income for tax purposes whether paid to you in cash or reinvested in additional units. The amount of the reinvested taxable distributions is added to the adjusted cost base of the units that you own. This would decrease your capital gain or increase your capital loss when you later redeem from the ETF, thereby ensuring that you are not taxed on this amount again. Please consult your tax advisor regarding your personal tax situation.

## Year-by-Year Returns

The following chart presents the ETF's performance for the period shown. In percentage terms, the chart shows how much an investment made on the first day of the financial period would have grown or decreased by the last day of the financial period.



Units of the ETF have an initial net asset value of \$16.00 as at January 22, 2016.

**Past Performance** (continued)

**Annual Compound Returns**

The following table presents the ETF's compound total return for the period ended December 31, 2016, compared with a comparable market index. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the ETF or future returns on investments in the ETF.

	<b>HBG Return %</b>	<b>MSCI World Index (CAD) Return %</b>	<b>MSCI World Index (USD) Return %</b>	<b>KBW Nasdaq Global Bank Net Total Return Index (CAD) Return %</b>	<b>KBW Nasdaq Global Bank Net Total Return Index (USD) Return %</b>
<b>Since Inception</b>	29.11%	10.54%	16.26%	16.75%	22.80%

Units of the ETF have an initial net asset value of \$16.00 as at January 22, 2016.

## Summary of Investment Portfolio

As at December 31, 2016

<b>Asset Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
Global Equities	\$ 8,863,261	47.53%
U.S. Equities	8,641,195	46.33%
Canadian Equities	442,304	2.37%
Currency Forward Hedge*	94,742	0.51%
Cash and Cash Equivalents	676,272	3.63%
Other Assets less Liabilities	(68,395)	-0.37%
	<b>\$ 18,649,379</b>	<b>100.00%</b>

<b>Sector Mix</b>	<b>Net Asset Value</b>	<b>% of ETF's Net Asset Value</b>
Financials	\$ 17,946,760	96.23%
Currency Forward Hedge*	94,742	0.51%
Cash and Cash Equivalents	676,272	3.63%
Other Assets less Liabilities	(68,395)	-0.37%
	<b>\$ 18,649,379</b>	<b>100.00%</b>

\* Positions in forward contracts are disclosed as the gain/(loss) that would be realized if the contracts were closed out on the date of this report.

**Summary of Investment Portfolio** (continued)

As at December 31, 2016

<b>Top 25 Holdings</b>	<b>% of ETF's Net Asset Value</b>
SVB Financial Group	4.20%
First Republic Bank	4.18%
Commonwealth Bank of Australia	4.03%
Western Alliance Bancorp	3.75%
Jyske Bank AS	3.33%
Grupo Financiero Santander Mexico SAB de CV	3.05%
Danske Bank AS	3.01%
Australia and New Zealand Banking Group Ltd.	2.89%
F.N.B. Corp.	2.68%
PacWest Bancorp	2.51%
Signature Bank	2.49%
Swedbank AB	2.33%
Banco Santander Chile, ADR	2.03%
Virgin Money Holdings UK PLC	2.02%
ICICI Bank Ltd., ADR	2.00%
FCB Financial Holdings Inc.	1.89%
Citizens Financial Group Inc.	1.87%
KeyCorp	1.82%
Huntington Bancshares Inc.	1.81%
Ing Groep NV	1.78%
East West Bancorp Inc.	1.72%
Zions Bancorp	1.70%
Umpqua Holdings Corp.	1.66%
Banco Bilbao Vizcaya Argentaria SA	1.63%
Skandinaviska Enskilda Banken	1.63%

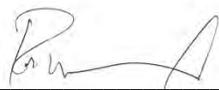
The summary of investment portfolio may change due to the ongoing portfolio transactions of the ETF. The most recent financial statements are available at no cost by calling (416) 941-9888, by writing to us at 55 York Street, Suite 1202, Toronto, Ontario, M5J 1R7, by visiting our website at [www.hamilton-capital.com](http://www.hamilton-capital.com) or through SEDAR at [www.sedar.com](http://www.sedar.com).

### **MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying audited annual financial statements of Hamilton Capital Global Bank ETF (the "ETF") are the responsibility of the manager and trustee to the ETF, Hamilton Capital Partners Inc. (the "Manager"). They have been prepared in accordance with International Financial Reporting Standards using information available and include certain amounts that are based on the Manager's best estimates and judgments.

The Manager has developed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce relevant, reliable and timely financial information, including the accompanying financial statements.

These financial statements have been approved by the Board of Directors of the Manager and have been audited by KPMG LLP, Chartered Professional Accountants, Licensed Public Accountants, on behalf of unitholders. The independent auditors' report outlines the scope of their audit and their opinion on the financial statements.



Robert Wessel  
Director  
Hamilton Capital Partners Inc.



Jennifer Mersereau  
Director  
Hamilton Capital Partners Inc.

## INDEPENDENT AUDITORS' REPORT

### To the Unitholders of Hamilton Capital Global Bank ETF (the "ETF")

We have audited the accompanying financial statements of the ETF, which comprise the statement of financial position as at December 31, 2016, the statements of comprehensive income, changes in financial position and cash flows for the period from inception on January 15, 2016 to December 31, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ETF's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the ETF as at December 31, 2016, and its financial performance and its cash flows for the period from inception on January 15, 2016 to December 31, 2016 in accordance with International Financial Reporting Standards.



Chartered Professional Accountants, Licensed Public Accountants  
March 17, 2017  
Toronto, Canada

## Statement of Financial Position

As at December 31, 2016

2016

### Assets

Cash and cash equivalents	\$ 676,272
Investments	17,946,760
Amounts receivable relating to accrued income	50,318
Derivative assets (note 3)	94,742

<b>Total assets</b>	<b>18,768,092</b>
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### Liabilities

Accrued expenses	12,696
Distribution payable	106,017

<b>Total liabilities</b>	<b>118,713</b>
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<b>Total net assets (note 2)</b>	<b>\$ 18,649,379</b>
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Number of redeemable units outstanding, Class E (note 9)	921,888
Total net assets per unit, Class E	\$ 20.23

(See accompanying notes to financial statements)

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



Robert Wessel  
Director



Jennifer Mersereau  
Director

## Statement of Comprehensive Income

For the Period from Inception on January 15 to December 31, 2016

**2016**

### Income

Dividend income	\$ 207,329
Net realized gain on sale of investments and derivatives	269,471
Net realized gain on foreign exchange	13,043
Net change in unrealized appreciation of investments and derivatives	1,495,622
Net change in unrealized depreciation of foreign exchange	(491)

**1,984,974**

### Expenses

Management fees (note 10)	59,409
Audit fees	4,577
Independent Review Committee fees	10,180
Custodial fees	12,813
Securityholder reporting costs	17,716
Administration fees	50,973
Transaction costs	48,185
Withholding taxes	17,144
Other expenses	19

**221,016**

Amounts that were payable by the investment fund that were paid or absorbed by the Manager	(93,192)
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**127,824**

**Increase in net assets for the period** **\$ 1,857,150**

Increase in net assets per unit, Class E \$ 4.94

(See accompanying notes to financial statements)

## Statement of Changes in Financial Position

For the Period from Inception on January 15 to December 31, 2016

	<b>2016</b>
<b>Total net assets at the beginning of the period</b>	\$ -
<b>Increase in net assets</b>	1,857,150
<b>Redeemable unit transactions</b>	
Proceeds from the issuance of securities of the investment fund	16,980,068
Securities issued on reinvestment of distributions	131,009
Distributions:	
From net investment income	(71,080)
From net realized capital gains	(247,768)
<b>Total net assets at the end of the period</b>	<b>\$ 18,649,379</b>

(See accompanying notes to financial statements)

## Statement of Cash Flows

For the Period from Inception on January 15 to December 31, 2016

2016

### Cash flows from operating activities:

Increase in net assets for the period	\$ 1,857,150
Adjustments for:	
Net realized gain on sale of investments and derivatives	(269,471)
Net realized gain on currency forward contracts	130,423
Net change in unrealized appreciation of investments and derivatives	(1,495,622)
Net change in unrealized appreciation of foreign exchange	(1)
Purchase of investments	(21,924,717)
Proceeds from the sale of investments	5,517,885
Amounts receivable relating to accrued income	(50,318)
Accrued expenses	12,696

**Net cash used in operating activities** **(16,221,975)**

### Cash flows from financing activities:

Amount received from the issuance of units	16,980,068
Distributions paid to unitholders	(81,822)

**Net cash from financing activities** **16,898,246**

**Net increase in cash and cash equivalents during the period** **676,271**

Effect of exchange rate fluctuations on cash and cash equivalents	1
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**Cash and cash equivalents at beginning of period** **–**

**Cash and cash equivalents at end of period** **\$ 676,272**

Dividends received, net of withholding taxes \$ 139,867

(See accompanying notes to financial statements)

## Schedule of Investments

As at December 31, 2016

Security	Shares/ Contracts	Average Cost	Fair Value
<b>GLOBAL EQUITIES (47.53%)</b>			
<b>Australia (9.28%)</b>			
Australia and New Zealand Banking Group Ltd.	18,300	\$ 506,035	\$ 539,386
Commonwealth Bank of Australia	9,400	751,431	750,580
National Australia Bank Ltd.	7,800	216,259	231,792
Westpac Banking Corp. Ltd.	6,590	204,357	208,158
		1,678,082	1,729,916
<b>Denmark (6.34%)</b>			
Danske Bank AS	13,800	543,541	561,957
Jyske Bank AS	9,690	584,667	620,256
		1,128,208	1,182,213
<b>Sweden (5.19%)</b>			
Nordea Bank AB	15,380	223,078	229,605
Skandinaviska Enskilda Banken, Series 'A'	21,540	290,111	303,314
Swedbank AB	13,400	422,983	435,046
		936,172	967,965
<b>United Kingdom (4.19%)</b>			
Barclays PLC	36,900	133,028	136,434
HSBC Holdings PLC	24,700	268,518	268,479
Virgin Money Holdings UK PLC	75,000	398,730	375,654
		800,276	780,567
<b>India (3.96%)</b>			
Axis Bank Ltd., Registered, GDR	3,140	144,141	138,282
HDFC Bank Ltd., ADR	1,800	145,805	146,650
ICICI Bank Ltd., ADR	37,200	389,648	374,100
State Bank of India, Registered, GDR	1,610	60,117	79,441
		739,711	738,473
<b>Japan (3.81%)</b>			
Mitsubishi UFJ Financial Group Inc., ADR	27,800	226,903	229,926
Mizuho Financial Group Inc., ADR	29,400	143,263	141,712
Shinsei Bank Ltd.	63,300	149,413	142,528
Sumitomo Mitsui Financial Group Inc., ADR	19,070	169,328	195,617
		688,907	709,783
<b>Netherlands (3.23%)</b>			
ABN AMRO Group NV	9,100	266,632	270,732
Ing Groep NV	17,600	314,294	332,576
		580,926	603,308
<b>Mexico (3.05%)</b>			
Grupo Financiero Santander Mexico SAB de CV	59,000	594,621	569,566

**Schedule of Investments** (continued)

As at December 31, 2016

<b>Security</b>	<b>Shares/ Contracts</b>	<b>Average Cost</b>	<b>Fair Value</b>
<b>Spain (2.70%)</b>			
Banco Bilbao Vizcaya Argentaria SA	33,510	295,573	303,774
Bankinter SA	19,280	186,835	200,554
		482,408	504,328
<b>Chile (2.03%)</b>			
Banco Santander Chile, ADR	12,900	376,694	378,792
<b>South Korea (1.41%)</b>			
Shinhan Financial Group Co. Ltd., ADR	5,200	253,386	262,794
<b>France (1.24%)</b>			
BNP Paribas SA	2,700	200,095	231,060
<b>Austria (1.10%)</b>			
Erste Group Bank AG	5,200	194,223	204,496
<b>TOTAL GLOBAL EQUITIES</b>		<b>8,653,709</b>	<b>8,863,261</b>
<b>U.S. EQUITIES (46.33%)</b>			
<b>Financials (46.33%)</b>			
Bank of the Ozarks Inc.	3,200	183,087	225,952
BankUnited Inc.	3,060	144,151	154,850
BNC Bancorp	2,800	102,567	119,926
Citizens Financial Group Inc.	7,300	356,483	349,222
ConnectOne Bancorp Inc.	5,600	182,531	195,114
East West Bancorp Inc.	4,700	280,724	320,760
Enterprise Financial Services Corp.	4,300	232,031	248,256
F.N.B. Corp.	23,200	461,120	499,326
FCB Financial Holdings Inc., Class 'A'	5,500	305,840	352,244
First Busey Corp.	3,900	120,835	161,174
First Merchants Corp.	5,600	283,989	283,084
First Republic Bank	6,300	668,754	779,384
Great Western Bancorp Inc.	4,900	235,824	286,778
Huntington Bancshares Inc.	18,990	273,195	337,069
IBERIABANK Corp.	2,600	304,165	292,362
KeyCorp	13,870	258,164	340,234
M&T Bank Corp.	900	141,581	189,028
OceanFirst Financial Corp.	3,380	86,885	136,281
PacWest Bancorp	6,410	386,467	468,532
Sandy Spring Bancorp Inc.	2,700	134,637	144,970
Signature Bank	2,300	437,312	463,832
SVB Financial Group	3,400	624,572	783,630

**Schedule of Investments** (continued)

As at December 31, 2016

<b>Security</b>	<b>Shares/ Contracts</b>	<b>Average Cost</b>	<b>Fair Value</b>
Umpqua Holdings Corp.	12,240	266,578	308,631
United Community Banks Inc.	4,600	126,105	182,939
Western Alliance Bancorp	10,700	602,439	699,785
Zions Bancorp	5,500	301,111	317,832
		<u>7,501,147</u>	<u>8,641,195</u>
<b>TOTAL U.S. EQUITIES</b>		<b><u>7,501,147</u></b>	<b><u>8,641,195</u></b>
<b>CANADIAN EQUITIES (2.37%)</b>			
<b>Financials (2.37%)</b>			
Bank of Nova Scotia (The)	2,200	167,054	164,472
Royal Bank of Canada	1,600	129,346	145,392
Toronto-Dominion Bank (The)	2,000	123,966	132,440
		<u>420,366</u>	<u>442,304</u>
<b>TOTAL CANADIAN EQUITIES</b>		<b><u>420,366</u></b>	<b><u>442,304</u></b>
<b>DERIVATIVES (0.51%)</b>			
<b>Currency Forwards (0.51%)</b>			
Currency forward contract to buy C\$9,476,600 for US\$7,000,000 maturing January 31, 2017		-	81,263
Currency forward contract to buy C\$1,197,774 for AU\$1,230,000 maturing January 31, 2017		-	7,282
Currency forward contract to buy C\$1,419,500 for EUR€1,000,000 maturing January 31, 2017		-	4,541
Currency forward contract to buy C\$746,595 for GB£450,000 maturing January 31, 2017		-	1,656
		<u>-</u>	<u>94,742</u>
<b>TOTAL DERIVATIVES</b>		<b><u>-</u></b>	<b><u>94,742</u></b>
<b>Transaction Costs</b>		<u>(29,342)</u>	
<b>TOTAL INVESTMENT PORTFOLIO (96.74%)</b>		<b><u>\$ 16,545,880</u></b>	<b><u>\$ 18,041,502</u></b>
<b>Cash and cash equivalents (3.63%)</b>			676,272
<b>Other assets less liabilities (-0.37%)</b>			(68,395)
<b>TOTAL NET ASSETS (100.00%)</b>			<b><u>\$ 18,649,379</u></b>

(See accompanying notes to financial statements)

## Notes to Financial Statements

For the Period from Inception on January 15 to December 31, 2016

### 1. REPORTING ENTITY

Hamilton Capital Global Bank ETF (“HBG” or the “ETF”) is an investment trust established under the laws of the Province of Ontario by Declaration of Trust and effectively began operations on January 22, 2016. The address of the ETF’s registered office is: c/o Hamilton Capital Partners Inc., 55 York Street, Suite 1202, Toronto, Ontario, M5J 1R7.

The ETF is offered for sale on a continuous basis by its prospectus in class E units (“Class E”) which trade on the Toronto Stock Exchange (“TSX”) under the symbol HBG. An investor may buy or sell units of the ETF on the TSX only through a registered broker or dealer in the province or territory where the investor resides. Investors are able to trade units of the ETF in the same way as other securities traded on the TSX, including by using market orders and limit orders and may incur customary brokerage commissions when buying or selling units.

The investment objective of HBG is to seek long-term total returns consisting of long-term capital appreciation and regular dividend income from an actively managed portfolio comprised primarily of equity securities of banks and other deposit-taking institutions located anywhere around the globe.

Hamilton Capital Partners Inc. (“Hamilton Capital” or the “Manager”) is the manager, trustee and portfolio adviser of the ETF. The Manager is responsible for implementing the ETF’s investment strategies.

### 2. BASIS OF PREPARATION

#### *(i) Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Any mention of total net assets, net assets, net asset value or increase (decrease) in net assets is referring to net assets or increase (decrease) in net assets attributable to holders of redeemable units as reported under IFRS.

These financial statements were authorized for issue on March 17, 2017 by the Board of Directors of the Manager.

#### *(ii) Basis of measurement*

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss, which are measured at fair value.

#### *(iii) Functional and presentation currency*

These financial statements are presented in Canadian dollars, which is the ETF’s functional currency.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

## Notes to Financial Statements (continued)

For the Period from Inception on January 15 to December 31, 2016

### (a) Financial instruments

#### (i) Recognition, initial measurement and classification

Financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are initially recognized on the trade date, at fair value (see below), with transaction costs recognized in the statement of comprehensive income. Other financial assets and financial liabilities are recognized on the date on which they are originated at fair value.

The ETF classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through profit or loss:
  - Held for trading: derivative financial instruments
  - Designated as at fair value through profit or loss: debt securities and equity investments
- Financial assets at amortized cost: All other financial assets are classified as loans and receivables
- Financial liabilities at fair value through profit or loss:
  - Held for trading: derivative financial instruments
- Financial liabilities at amortized cost: all other financial liabilities are classified as other financial liabilities

#### (ii) 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 in the principal or, in its absence, the most advantageous market to which the ETF has access at that date. The fair value of a liability reflects its non-performance risk.

Investments are valued at fair value as of the close of business on each day upon which a session of the TSX is held ("Valuation Date") and based on external pricing sources to the extent possible. Investments held that are traded in an active market through recognized public stock exchanges, over-the-counter markets, or through recognized investment dealers, are valued at their closing sale price. However, such prices may be adjusted if a more accurate value can be obtained from recent trading activity or by incorporating other relevant information that may not have been reflected in pricing obtained from external sources. Short-term investments, including notes and money market instruments, are valued at amortized cost which approximates fair value.

Investments held that are not traded in an active market, including some derivative financial instruments, are valued using observable market inputs where possible, on such basis and in such manner as established by the Manager. Derivative financial instruments are recorded in the statement of financial position according to the gain or loss that would be realized if the contracts were closed out on the Valuation Date. Margin deposits, if any, are included in the schedule of investments as margin deposits. See also the summary of fair value measurements in note 7.

Fair value policies used for financial reporting purposes are the same as those used to measure the net asset value ("NAV") for transactions with unitholders.

The fair value of other financial assets and liabilities approximates their carrying values due to the short-term nature of these instruments.

## Notes to Financial Statements (continued)

For the Period from Inception on January 15 to December 31, 2016

### **(iii) Offsetting**

Financial assets and liabilities are offset and the net amount presented 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.

Income and expenses are presented on a net basis for gains and losses from financial instruments at fair value through profit or loss and foreign exchange gains and losses.

### **(iv) Specific instruments**

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

Cash and cash equivalents consist of cash on deposit and short-term, interest bearing notes with a term to maturity of less than three months from the date of purchase.

#### **Forward foreign exchange contracts**

Forward foreign exchange contracts, if any, are valued at the current market value thereof on the Valuation Date. The value of these forward contracts is the gain or loss that would be realized if, on the Valuation Date, the positions were to be closed out and recorded as derivative assets and/or liabilities in the statement of financial position and as a net change in unrealized appreciation (depreciation) of investments and derivatives in the statement of comprehensive income. When the forward contracts are closed out or mature, realized gains or losses on forward contracts are recognized and are included in the statement of comprehensive income in net realized gain (loss) on sale of investments and derivatives. The Canadian dollar value of forward foreign exchange contracts is determined using forward currency exchange rates supplied by an independent service provider.

#### **Redeemable units**

The redeemable units are measured at the present value of the redemption amounts and are considered a residual amount of the net assets attributable to holders of redeemable units. They are classified as financial liabilities as a result of the ETF's requirement to distribute net income and capital gains to unitholders.

### **(b) Investment income**

Investment transactions are accounted for as of the trade date. Realized gains and losses from investment transactions are calculated on a weighted average cost basis. The difference between fair value and average cost, as recorded in the financial statements, is included in the statement of comprehensive income as part of the net change in unrealized appreciation (depreciation) of investments and derivatives. Interest income for distribution purposes from investments in bonds and short-term investments represents the coupon interest received by the ETF accounted for on an accrual basis. The ETF does not amortize premiums paid or discounts received on the purchase of fixed income securities. The ETF does not use the effective interest method. Dividend income is recognized on the ex-dividend date. Distribution income from investments in other funds or ETFs is recognized when earned.

Income from derivatives is shown in the statement of comprehensive income as net realized gain (loss) on sale of investments and derivatives; net change in unrealized appreciation (depreciation) of investments and derivatives; and, interest income for distribution purposes, in accordance with its nature.

## Notes to Financial Statements (continued)

For the Period from Inception on January 15 to December 31, 2016

Income from securities lending, if any, is included in "Securities lending income" on the statement of comprehensive income and is recognized when earned. Any securities on loan continue to be displayed in the schedule of investments and the market value of the securities loaned and collateral held is determined daily (see note 8).

If the ETF incurs withholding taxes imposed by certain countries on investment income and capital gains, such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the statement of comprehensive income.

### (c) Foreign currency

Transactions in foreign currencies are translated into the ETF's reporting currency using the exchange rate prevailing on the trade date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the period-end exchange rate. Foreign exchange gains and losses are presented as "Net realized gain (loss) on foreign exchange", except for those arising from financial instruments at fair value through profit or loss, which are recognized as a component within "Net realized gain (loss) on sale of investments and derivatives" and "Net change in unrealized appreciation (depreciation) of investments and derivatives" in the statement of comprehensive income.

### (d) Cost basis

The cost of portfolio investments is determined on an average cost basis.

### (e) Increase (decrease) in net assets attributable to holders of redeemable units per unit

The increase (decrease) in net assets per unit in the statement of comprehensive income represents the change in net assets attributable to holders of redeemable units from operations divided by the weighted average number of units of the ETF outstanding during the reporting period. For management fees please refer to note 10.

### (f) Unitholder transactions

The value at which units are issued or redeemed is determined by dividing the net asset value of the class by the total number of units outstanding of that class on the Valuation Date. Amounts received on the issuance of units and amounts paid on the redemption of units are included in the statement of changes in financial position.

### (g) Amounts receivable (payable) relating to portfolio assets sold (purchased)

In accordance with the ETF's policy of trade date accounting for sale and purchase transactions, sales/purchase transactions awaiting settlement represent amounts receivable/payable for securities sold/purchased, but not yet settled as at the reporting date.

### (h) Net assets attributable to holders of redeemable units per unit

Net assets attributable to holders of redeemable units per unit is calculated by dividing the ETF's net assets attributable to holders of redeemable units by the number of units of the ETF outstanding on the Valuation Date.

## Notes to Financial Statements (continued)

For the Period from Inception on January 15 to December 31, 2016

### (i) Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs are expensed and are included in "Transaction costs" in the statement of comprehensive income.

### (j) Future accounting changes

The International Accounting Standards Board ("IASB") has issued the following new standards and amendments to existing standards that are not yet effective.

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

In July 2014, the IASB issued IFRS 9, Financial Instruments, to replace International Accounting Standard 39, Financial Instruments – Recognition and Measurement ("IAS 39"). IFRS 9 addresses classification and measurement, impairment and hedge accounting.

The new standard requires assets to be classified based on the ETF's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. Financial assets will be measured at fair value through profit and loss unless certain conditions are met which permit measurement at amortized cost or value through other comprehensive income.

The classification and measurement of liabilities remain generally unchanged, with the exception of liabilities recorded at fair value through profit and loss. For financial liabilities designated at fair value through profit and loss, IFRS 9 requires the presentation of the effects of changes in the ETF's own credit risk in other comprehensive income instead of net income.

IFRS 9 is effective for fiscal years beginning on January 1, 2018, though early adoption is permitted. The Manager is currently assessing the impact of this new standard on the ETF's financial statements.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these financial statements, the Manager has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The ETF may hold financial instruments that are not quoted in active markets, including derivatives. The determination of the fair value of these instruments is the area with the most significant accounting judgements and estimates that the ETF has made in preparing the financial statements. See note 7 for more information on the fair value measurement of the ETF's financial instruments.

## 5. FINANCIAL INSTRUMENTS RISK

In the normal course of business, the ETF's investment activities expose it to a variety of financial risks. The Manager seeks to minimize potential adverse effects of these risks for the ETF's performance by employing professional, experienced

## Notes to Financial Statements (continued)

For the Period from Inception on January 15 to December 31, 2016

portfolio advisors, by daily monitoring of the ETF's positions and market events, and periodically may use derivatives to hedge certain risk exposures. To assist in managing risks, the Manager maintains a governance structure that oversees the ETF's investment activities and monitors compliance with the ETF's stated investment strategies, internal guidelines and securities regulations.

Please refer to the most recent prospectus for a complete discussion of the risks attributed to an investment in the units of the ETF. Significant financial instrument risks that are relevant to the ETF and an analysis of how they are managed are presented below.

### (a) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the ETF's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

#### (i) Currency risk

Currency risk is the risk that financial instruments which are denominated in currencies other than the ETF's reporting currency, the Canadian dollar, will fluctuate due to changes in exchange rates and adversely impact the ETF's income, cash flows or fair values of its investment holdings. The ETF may reduce its foreign currency exposure through the use of derivative arrangements such as foreign exchange forward contracts or futures contracts. The following table indicates the foreign currencies to which the ETF had significant exposure as at December 31, 2016, in Canadian dollar terms and the potential impact on the ETF's net assets (including the underlying principal amount of future or forward currency contracts, if any), as a result of a 1% change in these currencies relative to the Canadian dollar:

December 31, 2016	Financial Instruments	Currency Forward and/ or Futures Contracts	Total	Impact on Net Asset Value
Currency	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Australian Dollar	1,731	(1,190)	541	5
British Pound	787	(745)	42	–
Danish Krone	1,183	–	1,183	12
Euro Currency	1,546	(1,415)	131	1
Japanese Yen	143	–	143	1
Swedish Krona	971	–	971	10
U.S. Dollar	11,205	(9,395)	1,810	18
Total	17,566	(12,745)	4,821	47
As % of Net Asset Value	94.2%	-68.3%	25.9%	0.3%

**Notes to Financial Statements** (continued)

For the Period from Inception on January 15 to December 31, 2016

**(ii) Interest rate risk**

The ETF may be exposed to the risk that the fair value of future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. In general, the value of interest-bearing financial instruments will rise if interest rates fall, and conversely, will generally fall if interest rates rise. There is minimal sensitivity to interest rate fluctuation on cash and cash equivalents invested at short-term market rates since those securities are usually held to maturity and are short term in nature.

As at December 31, 2016, the ETF did not hold any long-term debt instruments and did not have any exposure to interest rate risk.

**(iii) Other market risk**

Other market 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. The Manager has imposed internal risk management controls on the ETF which are intended to limit the loss on its trading activities.

The table below shows the estimated impact on the ETF of a 1% increase or decrease in a broad-based market index, based on historical correlation, with all other factors remaining constant, as at the dates shown. In practice, actual results may differ from this sensitivity analysis and the difference could be material. The historical correlation may not be representative of future correlation.

Comparative Index	December 31, 2016
MSCI World Index	\$57,936

**(b) Credit risk**

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of a counterparty on its obligation to the ETF. It arises principally from debt securities held, and also from derivative financial assets, cash and cash equivalents, and other receivables. The ETF's maximum credit risk exposure as at the reporting date is represented by the respective carrying amounts of the financial assets in the statement of financial position. The ETF's credit risk policy is to minimize its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the credit standards set out in the ETF's prospectus and by taking collateral.

As at December 31, 2016, due to the nature of its portfolio investments, the ETF did not have any material credit risk exposure.

**(c) Liquidity risk**

Liquidity risk is the risk that the ETF will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The ETF's policy and the Manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including estimated redemptions of shares, without incurring unacceptable losses or risking damage to the ETF's reputation. All financial liabilities are generally due within 90 days. Liquidity risk is managed by investing the majority of the ETF's assets in investments that are traded in an active market and can be readily disposed. The ETF aims to retain sufficient cash and cash equivalent positions to maintain liquidity; therefore, the liquidity risk for the ETF is considered minimal.

## Notes to Financial Statements (continued)

For the Period from Inception on January 15 to December 31, 2016

### 6. NET CHANGES FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net changes in fair value on financial assets and financial liabilities at fair value through profit or loss presented in the table below are comprised of the following: net realized gain (loss) on sale of investments and derivatives, net change in unrealized appreciation (depreciation) of investments and derivatives, dividend income and interest income for distribution purposes. Their classifications between held for trading and designated at fair value are presented in the following table:

Category	Net Changes at FVTPL (\$)
	December 31, 2016
<b>Financial assets (liabilities) at FVTPL:</b>	
Held for trading	216,703
Designated at fair value	1,768,271
<b>Total financial assets (liabilities) at FVTPL</b>	<b>1,984,974</b>

### 7. FAIR VALUE MEASUREMENT

Below is a classification of fair value measurements of the ETF's investments based on a three level fair value hierarchy and a reconciliation of transactions and transfers within that hierarchy. The hierarchy of fair valuation inputs is summarized as follows:

- Level 1: securities that are valued based on quoted prices in active markets.
- Level 2: securities that are valued based on inputs other than quoted prices that are observable, either directly as prices, or indirectly as derived from prices.
- Level 3: securities that are valued with significant unobservable market data.

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following is a summary of the inputs used as at December 31, 2016, in valuing the ETF's investments and derivatives carried at fair values:

	December 31, 2016		
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
<b>Financial Assets</b>			
Equities	17,946,760	–	–
Currency Forward Contracts	–	94,742	–
<b>Total Financial Assets</b>	<b>17,946,760</b>	<b>94,742</b>	–
<b>Total Financial Liabilities</b>	–	–	–
<b>Net Financial Assets and Liabilities</b>	<b>17,946,760</b>	<b>94,742</b>	–

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

## Notes to Financial Statements (continued)

For the Period from Inception on January 15 to December 31, 2016

### 8. SECURITIES LENDING

In order to generate additional returns, the ETF is authorized to enter into securities lending agreements with borrowers deemed acceptable in accordance with National Instrument 81-102 – *Investment Funds* (“NI 81-102”). Under a securities lending agreement, the borrower must pay the ETF a negotiated securities lending fee, provide compensation to the ETF equal to any distributions received by the borrower on the securities borrowed, and the ETF must receive an acceptable form of collateral in excess of the value of the securities loaned. Although such collateral is marked to market, the ETF may be exposed to the risk of loss should a borrower default on its obligations to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities. Revenue, if any, earned on securities lending transactions during the period is disclosed in the ETF’s statement of comprehensive income.

As at December 31, 2016, the ETF was not participating in any securities lending transactions. The ETF did not earn any income from securities lending transactions for the period ended December 31, 2016.

### 9. REDEEMABLE UNITS

The ETF is authorized to issue an unlimited number of redeemable, transferable Class E units each of which represents an equal, undivided interest in the net assets of the ETF. Each unit entitles the owner to one vote at meetings of unitholders. Each unit is entitled to participate equally with all other units with respect to all payments made to unitholders, other than management fee distributions, whether by way of income or capital distributions and, on liquidation, to participate equally in the net assets of the ETF remaining after satisfaction of any outstanding liabilities that are attributable to units of the ETF. All units will be fully paid and non-assessable, with no liability for future assessments, when issued and will not be transferable except by operation of law.

The redeemable units issued by the ETF provide an investor with the right to require redemption for cash at a value proportionate to the investor’s share in the ETF’s net assets at each redemption date and are classified as liabilities as a result of the ETF’s requirement to distribute net income and capital gains to unitholders. The ETF’s objectives in managing the redeemable units are to meet the ETF’s investment objective, and to manage liquidity risk arising from redemptions. The ETF’s management of liquidity risk arising from redeemable units is discussed in note 5.

On any Valuation Date, unitholders of the ETF may (i) redeem units of the ETF for cash at a redemption price per unit equal to 95% of the closing price for units of the ETF on the TSX on the effective day of the redemption, where the units being redeemed are not equal to a prescribed number of units (“PNU”) or a multiple PNU; or (ii) redeem, less any applicable redemption charge as determined by the Manager in its sole discretion from time to time, a PNU or a multiple PNU of the ETF for cash equal to the net asset value of that number of units.

Units of the ETF are issued or redeemed on a daily basis at the net asset value per security that is determined as at 4:00 p.m. (Eastern Time) each Valuation Date. Purchase and redemption orders are subject to a 9:30 a.m. (Eastern Time) cutoff time.

The ETF is required to distribute all of its income (including net realized capital gains) that it has earned in the year to such an extent that the ETF will not be liable for ordinary income tax thereon. Income earned by the ETF is distributed to unitholders at least once per year, if necessary, and any such amount distributed by the ETF will be paid as a “reinvested distribution”. Reinvested distributions on units of the ETF will be reinvested automatically in additional units of the ETF at a price equal to the net asset value per unit of the ETF on such day and the units of the ETF will be immediately consolidated such that the number of outstanding units of the ETF held by each unitholder on such day following the distribution will equal the number of units of the ETF held by the unitholder prior to the distribution. Reinvested distributions are

## Notes to Financial Statements (continued)

For the Period from Inception on January 15 to December 31, 2016

reported as taxable distributions and used to increase each unitholder's adjusted cost base for the ETF. Distributions paid to holders of redeemable units, if any, are recognized in the statement of changes in financial position.

Please consult the ETF's most recent prospectus for a full description of the subscription and redemption features of the ETF's units.

For the period ended December 31, 2016, the number of units issued by subscription, the number of units redeemed, the total and average number of units outstanding was as follows:

Period	Beginning Units Outstanding	Units Issued	Units Redeemed	Ending Units Outstanding	Average Units Outstanding
2016	–	921,888	–	921,888	375,950

### 10. EXPENSES AND OTHER RELATED PARTY TRANSACTIONS

#### Management fees

The Manager provides, or oversees the provision of, administrative services required by the ETF including, but not limited to: negotiating contracts with certain third-party service providers, such as portfolio managers, custodians, registrars, transfer agents, auditors and printers; authorizing the payment of operating expenses incurred on behalf of the ETF; arranging for the maintenance of accounting records for the ETF; preparing reports to unitholders and to the applicable securities regulatory authorities; calculating the amount and determining the frequency of distributions by the ETF; preparing financial statements, income tax returns and financial and accounting information as required by the ETF; ensuring that unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the ETF complies with all other regulatory requirements, including the continuous disclosure obligations of the ETF under applicable securities laws; administering purchases, redemptions and other transactions in units of the ETF; and dealing and communicating with unitholders of the ETF. The Manager provides office facilities and personnel to carry out these services, if not otherwise furnished by any other service provider to the ETF. The Manager also monitors the investment strategies of the ETF to ensure that the ETF complies with its investment objectives, investment strategies and investment restrictions and practices.

In consideration for the provision of these services, the Manager receives a monthly management fee at the annual rate of 0.85%, plus applicable sales taxes, of the net asset value of the ETF, calculated and accrued daily and payable monthly in arrears.

Any expenses of the ETF which are waived or absorbed by the Manager are paid out of the management fees received by the Manager.

#### Other expenses

In addition to the management fees, unless otherwise waived or absorbed by the Manager, the ETF pays all of its operating expenses, including but not limited to: audit fees; trustee and custodial expenses; administration costs; valuation, accounting and record keeping costs; legal expenses; permitted prospectus preparation and filing expenses; costs associated with delivering documents to unitholders; listing and annual stock exchange fees; CDS Clearing and Depository Services Inc. fees; bank related fees and interest charges; extraordinary expenses; unitholder reports and servicing costs; registrar and transfer agent fees; costs of the Independent Review Committee; income taxes; sales taxes; brokerage expenses and commissions; and withholding taxes.

## Notes to Financial Statements (continued)

For the Period from Inception on January 15 to December 31, 2016

The Manager, at its discretion, may waive and/or absorb a portion of the fees and/or expenses otherwise payable by the ETF. The waiving and/or absorption of such fees and/or expenses by the Manager may be terminated at any time, or continued indefinitely, at the discretion of the Manager.

### 11. BROKER COMMISSIONS, SOFT DOLLARS AND RELATED PARTY TRANSACTIONS

Brokerage commissions paid on securities transactions may include amounts paid to related parties of the Manager for brokerage services provided to the ETF.

Research and system usage related services received in return for commissions generated with specific dealers are generally referred to as soft dollars.

Total brokerage commissions paid to dealers in connection with investment portfolio transactions, soft dollar transactions incurred and amounts paid to related parties of the Manager for the period ended December 31, 2016, were as follows:

Period Ended	Brokerage Commissions Paid	Soft Dollar Transactions	Amount Paid to Related Parties
December 31, 2016	\$48,185	\$9,500	\$nil

In addition to the information contained in the table above, the management fees paid to the Manager described in note 10 are related party transactions, as the Manager is considered to be a related party to the ETF. Fees paid to the Independent Review Committee are also considered to be related party transactions. Both fees are disclosed in the statement of comprehensive income.

The ETF may invest in other ETFs managed by the Manager or its affiliates, in accordance with the ETF's investment objectives and strategies. Such investments, if any, are disclosed in the schedule of investments.

### 12. INCOME TAX

The ETF has qualified as a mutual fund trust under the *Income Tax Act* (Canada) (the "Tax Act") and accordingly, is not taxed on the portion of taxable income that is paid or allocated to unitholders. As well, tax refunds (based on redemptions and realized and unrealized gains during the period) may be available that would make it possible to retain some net capital gains in the ETF without incurring any income taxes.

### 13. TAX LOSSES CARRIED FORWARD

Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years. Non-capital losses carried forwards may be applied against future years' taxable income. Non-capital losses that are realized in the current taxation year may be carried forward for 20 years. As at December 31, 2016, the ETF has no net capital losses or non-capital losses available.

**Notes to Financial Statements** (continued)

For the Period from Inception on January 15 to December 31, 2016

**14. OFFSETTING OF FINANCIAL INSTRUMENTS**

In the normal course of business, the ETF may enter into various master netting arrangements or other 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. The following table shows financial instruments that may be eligible for offset, if such conditions were to arise, as at December 31, 2016. The “Net” column displays what the net impact would be on the ETF’s statement of financial position if all amounts were set-off.

Financial Assets and Liabilities as at December 31, 2016	Amounts Offset (\$)			Amounts Not Offset (\$)		Net (\$)
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Pledged	
Derivative assets	94,742	–	94,742	–	–	94,742
Derivative liabilities	–	–	–	–	–	–

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