

# FIRST ASSET U.S. & CANADA LIFECO INCOME ETF



Interim Management Report of Fund Performance for the period  
**January 1, 2015 to June 30, 2015**

**Fund:**

First Asset U.S. & Canada Lifeco Income ETF

**Securities:**

Common Units - Listed Toronto Stock Exchange ("TSX"): FLI  
Advisor Class Units - Listed TSX: FLI.A

**Period:**

January 1, 2015 to June 30, 2015

**Manager, Trustee & Investment Advisor:**

First Asset Investment Management Inc. ("First Asset")  
95 Wellington Street West, Suite 1400  
Toronto, Ontario M5J 2N7  
(416) 642-1289 or (877) 642-1289  
www.firstasset.com • info@firstasset.com

**Notes:**

1. This interim management report of fund performance contains financial highlights but does not contain the complete interim financial statements of the Fund. You can get a copy of the interim financial statements at your request, and at no cost, by contacting us (contact information above) or on SEDAR at [www.sedar.com](http://www.sedar.com). Holders may also contact us to request a free copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.
2. This report may contain forward looking statements. Forward looking statements involve risks and uncertainties and are predictive in nature and actual results could differ materially from those contemplated by the forward looking statements.
3. Unless otherwise indicated all information is as at June 30, 2015.
4. None of the websites that are referred to in this report, nor any of the information on any such websites, are incorporated by reference in this report.

## Investment Objectives and Strategies

The Fund's investment objectives are to provide securityholders with (i) quarterly cash distributions; (ii) the opportunity for capital appreciation; and (iii) lower overall volatility of portfolio returns than would be experienced by owning a portfolio of publicly-traded common equity securities of the ten largest U.S. and Canadian life insurance companies by market capitalization directly. The Fund invests on an equal weight basis in the portfolio which consists of publicly-traded common equity securities of the ten largest U.S. and Canadian life insurance companies, and rebalances and reconstitutes the portfolio annually and in connection with certain corporate events. The Fund sells call options each month on up to 25% of the portfolio securities of each issuer held in the portfolio.

## Results of Operations

For the six-month period ended June 30, 2015, the Fund's Common Units returned 8.1%, underperforming the S&P 500 Life & Health Insurance Index which returned 10.3%, but strongly outperforming the broader S&P 500 Total Return Index which returned 1.2%. The following tables highlight the performance of the Fund's Common Units and Advisor Class Units on a net asset value basis and market price basis.

Net Asset Value	June 30, 2015	December 31, 2014	Return
FLI	\$11.82	\$11.15	8.1%
FLI.A	\$11.94	\$11.27	7.7%

Market Value	June 30, 2015	December 31, 2014	Return
FLI	\$11.82	\$11.17	7.9%
FLI.A	\$12.05 <sup>(1)</sup>	\$11.20 <sup>(2)</sup>	9.3%

(1) Closing Market Price taken from last trade on June 15, 2015.

(2) Closing Market Price taken from last trade on December 11, 2014.

The above returns, whether based on net asset value or market price, assume the reinvestment of all distributions. The Fund's Common Units and Advisor Class Units had per unit distributions of \$0.23 and \$0.18, respectively, during the period.

The Fund's net assets as at June 30, 2015 was \$132.1 million, an increase from \$130.2 million as at December 31, 2014. The largest factor contributing to this increase was net gains on investments of \$11.4 million. This was offset in part by net redemptions of \$5.9 million and distributions of \$2.6 million.

Over the course of the first half of 2015, investors were concerned with Greece's debt crisis, and whether or not Greece would be forced to leave the eurozone if a new agreement with creditors could not be reached. The political deadlock, combined with weaker-than-expected worldwide economic growth, impacted both fixed income and equity markets globally. The European Central Bank began buying government bonds under its expanded quantitative easing plan designed to boost growth in the region. The U.S. Federal Reserve Board had been expected to raise interest rates, but a lack of inflationary pressure and weak economic data pushed out expectations to late 2015 or early 2016. Conversely, the Bank of Canada ("BoC") remained accommodative, following its surprise 25 basis points ("bps") cut in January, with another priced in for the fall to offset weak first-quarter gross domestic product results, lacklustre job growth and struggling oil prices. In China, margin-fueled speculation pushed both the Shanghai and Shenzhen indices higher, despite uncertainty around growth in China this year.

Life insurers performed well as market speculation grew that interest rates would begin to rise, contributing favourably to the Fund's performance. Top individual contributors included Great-West Lifeco Inc. (+111 bps), Torchmark Corporation (+95 bps) and Manulife Financial Corporation (+57 bps).

Individual stocks that weighed slightly on the Fund's performance included Prudential Financial Inc. (-10 bps).

## Recent Developments

Looking forward, First Asset expects that the U.S. economy will show moderate growth after an underwhelming first half of 2015. The Canadian economy should benefit from U.S. strength, particularly given the dual tailwinds of the July BoC rate cut and a lower Canadian dollar relative to the U.S. Low energy prices are likely to continue, but could change if supply levels are altered in the coming months. In Europe, the possibility of a Greek exit from the European Union has decreased for the time-being, given the new possibility of an agreement with its creditors, although longer-term concerns remain.

## Related Party Transactions

First Asset is deemed to be a related party to the Fund. Please refer to the "Management Fee" section below which outlines fees paid to First Asset.

First Asset and the Fund were not party to any other related party transactions during the period ended June 30, 2015. F.A. Administration Services Inc., an affiliate of First Asset, administers the Fund's relationship with the Fund's Independent Review Committee on behalf of First Asset, however, it receives no compensation for doing so.

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance since inception.

### THE FUND'S NET ASSETS PER SECURITY<sup>(1)</sup>

	Common Units		
	2015	2014	2013 <sup>(2)</sup>
<b>Net Assets, beginning of period</b>	\$11.15	\$10.62	\$9.43
<b>Increase (decrease) from operations</b>			
Total revenue	0.12	0.22	0.07
Total expenses	(0.05)	(0.12)	(0.04)
Realized gains (losses) for the period	0.58	0.38	(0.09)
Unrealized gains (losses) for the period	0.26	0.52	1.49
<b>Total increase from operations<sup>(4)</sup></b>	0.91	1.00	1.43
<b>Distributions</b>			
From income (excluding dividends)	0.00	0.00	0.00
From dividends	0.00	0.00	0.00
From capital gains	(0.23)	0.11	0.00
Return of capital	0.00	0.40	(0.24)
<b>Total Distributions<sup>(5)</sup></b>	(0.23)	(0.51)	(0.24)
<b>Net Assets, end of period<sup>(6)</sup></b>	\$11.82	\$11.15	\$10.62

	Advisor Class Units	
	2015	2014 <sup>(3)</sup>
<b>Net Assets, beginning of period</b>	\$11.27	\$10.94
<b>Increase (decrease) from operations</b>		
Total revenue	0.12	0.06
Total expenses	(0.10)	(0.06)
Realized gains (losses) for the period	0.59	0.28
Unrealized gains (losses) for the period	0.25	0.14
<b>Total increase from operations<sup>(4)</sup></b>	0.86	0.42
<b>Distributions</b>		
From income (excluding dividends)	0.00	0.00
From dividends	0.00	0.00
From capital gains	(0.18)	0.00
Return of capital	0.00	(0.09)
<b>Total Distributions<sup>(5)</sup></b>	(0.18)	(0.09)
<b>Net Assets, end of period<sup>(6)</sup></b>	\$11.94	\$11.27

Notes:

- (1) This information is derived from the Fund's audited annual and unaudited interim financial statements. The term "net assets" used in this report and the term "net assets attributable to holders of redeemable securities" used in the Fund's financial statements are interchangeable. The Fund adopted International Financial Reporting Standards ("IFRS") on January 1, 2014. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as defined in Part V of the CPA Canada Handbook. Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with CICA Handbook Section 3855 which required the use of bid prices for long positions and ask prices for short positions. Under IFRS, the Fund measures the fair value of its investments using the guidance in IFRS 13 which requires that if an asset or liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. Comparative figures above have been restated to reflect the accounting policy adjustments made in accordance with IFRS.
- (2) Results for the period from July 26, 2013 (inception date) to December 31, 2013. Opening net assets per security reflects the issue price of \$10 less offering expenses.
- (3) Results for the period from September 9, 2014 (launch date) to December 31, 2014.
- (4) Net assets and distributions are based on the actual number of securities outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of securities outstanding over the financial period.
- (5) Distributions were paid in cash.
- (6) This is not a reconciliation of the beginning and ending net assets per security.

## RATIOS AND SUPPLEMENTAL DATA

	2015 Common Units	2014 Common Units	2013 Common Units
Total net asset value (000s) <sup>(1)</sup>	\$131,471	\$129,630	\$145,736
Number of securities outstanding <sup>(1)</sup>	11,125,000	11,625,000	13,725,000
Management expense ratio excluding offering expenses <sup>(2)</sup>	0.88%	1.14%	0.74%
Management expense ratio <sup>(2)</sup>	0.88%	1.14%	6.48%
Management expense ratio before waivers or absorptions <sup>(2)</sup>	0.88%	1.14%	6.48%
Portfolio turnover rate <sup>(3)</sup>	19.60%	34.00%	6.77%
Trading expense ratio <sup>(4)</sup>	0.12%	0.13%	0.29%
Net asset value per security	\$11.82	\$11.15	\$10.62
Closing market price <sup>(5)</sup>	\$11.82	\$11.17	\$10.25

	2015 Advisor Class Units	2014 Advisor Class Units
Total net asset value (000s) <sup>(1)</sup>	\$597	\$563
Number of securities outstanding <sup>(1)</sup>	50,000	50,000
Management expense ratio <sup>(2)</sup>	1.72%	1.68%
Management expense ratio before waivers or absorptions <sup>(2)</sup>	1.72%	1.68%
Portfolio turnover rate <sup>(3)</sup>	19.60%	34.00%
Trading expense ratio <sup>(4)</sup>	0.12%	0.13%
Net asset value per security	\$11.94	\$11.27
Closing market price <sup>(5)</sup>	\$12.05	\$11.20

### Notes:

- (1) This information is provided as at December 31 of the year shown, except 2015, which is provided as at June 30.
- (2) Management expense ratio is based on total expenses (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.
- (3) The Fund's portfolio turnover rate indicates how actively First Asset manages the Fund's portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of a fund.
- (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) If the securities traded during the period, the closing market price on the last trading day during the period that the securities traded, as reported on the TSX.

## Management Fee

First Asset manages and administers the business operations and affairs of the Fund, and is also responsible for providing all investment advisory and portfolio management services required by the Fund. As compensation for the services it provides to the Fund, the Fund pays First Asset an annual management fee on the Common and Advisor Class Units at the maximum annual rate set out below. The fee is based on the net asset value of the relevant class, and is calculated daily and paid monthly in arrears, except for the portion of the Advisor Class management fee that is in respect of the service fee payable to dealers which is calculated daily and paid quarterly in arrears. In addition to investment advisory and portfolio management, the services provided by First Asset to the Fund include, without limitation, implementation of the Fund's investment strategies, negotiating contracts with certain third-party service providers, authorizing the payment of operating expenses incurred on behalf of the Fund, maintaining certain accounting and financial records, calculating the amount and determining the frequency of distributions by the Fund, ensuring that securityholders are provided with financial statements and other reports as are required from time to time by applicable law, ensuring that the Fund complies with all other regulatory requirements including continuous disclosure obligations under applicable securities law and administering purchases, redemptions and other transactions in securities.

	Maximum annual management fee rate	As a percentage of management fee	
		Dealer compensation	General administration and profit
Common Units	0.75%	–	100%
Advisor Class Units	1.50%	50%	50%

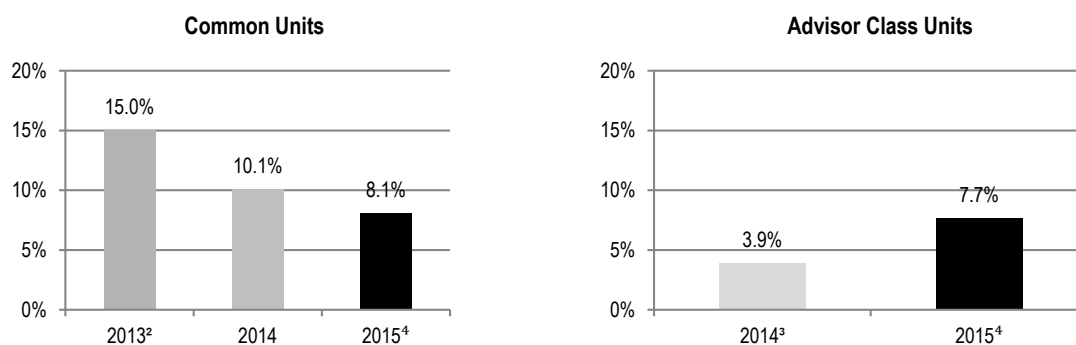


## Past Performance

Please note that the performance information shown in this section assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund. Also note that the performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns on performance. The performance of the Fund in the past does not necessarily indicate how it will perform in the future.

### YEAR-BY-YEAR RETURNS<sup>(1)</sup>

The following bar charts show annual performance for each class of the Fund's securities for the financial years shown and illustrate how the Fund's performance has changed from year to year. The bar charts show, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.



<sup>(1)</sup> Returns based on net asset value per security.

<sup>(2)</sup> Returns for the period August 22, 2013 (first day of trading) to December 31, 2013.

<sup>(3)</sup> Returns for the period September 9, 2014 (launch date) to December 31, 2014.

<sup>(4)</sup> Returns for the period January 1, 2015 to June 30, 2015.

## Summary of Investment Portfolio

The following is a summary of the Fund's investment portfolio as at June 30, 2015. This is a summary only and will change due to ongoing portfolio transactions of the Fund. A quarterly update is available on [www.firstasset.com](http://www.firstasset.com).

### HOLDINGS AS AT JUNE 30, 2015

Description	% of Net Asset Value
<b>LONG POSITIONS</b>	
Torchmark Corporation	10.71
MetLife, Inc.	10.31
Lincoln National Corporation	10.29
Unum Group	10.24
Great-West Lifeco Inc.	10.22
Aflac, Inc.	10.10
Principal Financial Group, Inc.	9.91
Manulife Financial Corp.	9.75
Prudential Financial, Inc.	9.67
Sun Life Financial Inc.	9.32
Cash and Cash Equivalents	0.77
<b>CALL OPTIONS</b>	
Torchmark Corporation	(0.03)
Lincoln National Corporation	(0.03)
Sun Life Financial Inc.	(0.03)
MetLife, Inc.	(0.02)
Unum Group	(0.02)
Prudential Financial, Inc.	(0.02)
Aflac, Inc.	(0.02)
Great-West Lifeco Inc.	(0.02)
Manulife Financial Corp.	(0.01)
Principal Financial Group, Inc.	(0.01)
<b>Total Net Asset Value</b>	<b>\$132,067,795</b>

### SECTOR ALLOCATION AS AT JUNE 30, 2015

Industry	% of Net Asset Value
Financials	100.32
Cash and Cash Equivalents	0.77
	<b>101.09</b>
<b>Other Liabilities, Net of Assets</b>	<b>(1.09)</b>
<b>Total Net Asset Value</b>	<b>100.00</b>
<b>CALL OPTIONS</b>	
Financials	(0.20)
	<b>(0.20)</b>



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[www.firstasset.com](http://www.firstasset.com) • [info@firstasset.com](mailto:info@firstasset.com)

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