



MANAGED BY BLOOM INVESTMENT COUNSEL, INC.

## **BLOOM U.S. INCOME & GROWTH FUND**

### **INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2017**

**BUA.UN**

#### **FORWARD-LOOKING STATEMENTS**

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

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#### **MANAGEMENT REPORT OF FUND PERFORMANCE**

This interim management report of fund performance for Bloom U.S. Income & Growth Fund (the "Fund") contains financial information but does not contain the interim or audited annual financial statements of the Fund. The interim financial statements follow this report. You may obtain a copy of any of the Fund's annual or interim reports, at no cost, by calling 1-855-BLOOM18 or by sending a request to Investor Relations, Bloom Investment Counsel, Inc., Suite 1710, 150 York Street, Toronto, Ontario, M5H 3S5, or by visiting our website at [www.bloomfunds.ca](http://www.bloomfunds.ca) or SEDAR at [www.sedar.com](http://www.sedar.com). Unitholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, Independent Review Committee's report, or quarterly portfolio disclosure.

*In accordance with investment fund industry practice, all figures presented in this management report of fund performance, unless otherwise noted, are based on the Fund's calculation of its net asset value, which is in accordance with the terms of the Fund's declaration of trust and annual information form, and is based on closing market prices of investments. Figures presented in the financial statements and the Financial Highlights section of this management report of fund performance are based on net Assets calculated using International Financial Reporting Standards ("IFRS") which require the use of a price between the last bid and ask prices for investment valuation, which may differ from the closing market price.*

All figures are stated in Canadian dollars unless otherwise noted.

## **MANAGEMENT DISCUSSION OF FUND PERFORMANCE**

### **THE FUND**

Bloom U.S. Income & Growth Fund is a closed-end investment trust managed by Bloom Investment Counsel, Inc. (“Bloom” or the “Manager”). Bloom provides administrative services to the Fund and actively manages the Fund’s portfolio. The Class A units of the Fund trade on the Toronto Stock Exchange (“TSX”) under the symbol BUA.UN and are designed for investors who wish to make their investments in Canadian dollars. The Class U units of the Fund are designed for investors who wish to make their investments in U.S. dollars and are not listed on the Toronto Stock Exchange, but may be converted to Class A units on a monthly basis. The units of the Fund are RRSP, DPSP, RRIF, RESP, RDSP and TFSA eligible. The Fund has a distribution reinvestment plan (“DRIP”) allowing Class A unitholders to automatically reinvest their monthly distributions in additional Class A units of the Fund.

### **RECENT DEVELOPMENTS**

#### **Hedging of foreign currency**

The Fund was established to enable Canadian investors to participate in the U.S. securities market. Investors were provided with the option of Class A or Class U units in order to allow the investor to choose the investment vehicle that matched their approach to currency fluctuation risk. Class A units were, and through their listing on the TSX, are, the option for investors who do not wish to be exposed to the effect of currency fluctuations. Accordingly, the Class A units are denominated in Canadian dollars and substantially all of the U.S. dollar denominated net asset value attributable to the Class A units is hedged in accordance with the Fund’s declaration of trust through the use of foreign currency forward contracts (hedges). Class U units were the option for investors who wanted to invest in U.S. dollars without the hedging of currency fluctuations. Class U units are accordingly denominated in U.S. dollars.

The Fund’s portfolio and its income are denominated in U.S. dollars, whereas the Class A units of the Fund are priced in Canadian dollars. The Fund hedges the Class A units’ currency risk by entering into foreign currency forward contracts to sell U.S. dollars and buy Canadian dollars at a set rate at a set future date.

Under these contracts, the Fund agrees to pay a fixed U.S. dollar amount in return for a fixed Canadian dollar amount at a fixed future date. The objective is to shelter the Class A unitholders of the Fund from potential fluctuations in the Canadian dollar value of U.S. currency denominated investments due to changes in the value of the Canadian dollar. This means that the Class A unitholders are substantially protected from capital losses when the Canadian dollar strengthens, but conversely do not fully participate in the capital gains available when the Canadian dollar weakens.

In the six months ended June 30, 2017, the Canadian dollar strengthened by 3.4%. Consequently, the net income (loss) attributable to Class A unitholders reflects net realized gains on the forward foreign currency contracts of \$0.3 million (since inception on March 21, 2013, the Canadian dollar has weakened by 21.0% causing net realized losses of \$0.4 million). In both periods, these losses substantially offset the corresponding increase in the Canadian dollar value of the U.S. dollar denominated assets of Class A, principally investments, which is included in the net change in unrealized appreciation or depreciation on non-derivative investments and the net realized gain on sale of non-derivative investments.

### **INVESTMENT MANAGER**



The manager was established in 1985 and specializes in the management of segregated investment portfolios for wealthy individuals, foundations, corporations, institutions and trusts. In addition to its conventional investment management business, the Manager currently manages specialty high-income equity portfolios, comprised of dividend paying common equity securities, income trusts and real estate investment trusts, for four TSX listed closed-end funds.

## **INVESTMENT MANAGER'S REPORT**

**July 4, 2017**

### **Fund performance**

The Fund's Class A units demonstrated a negative 1.8% return in the six months ended June 30, 2017, compared to 5.8% for its benchmark, the S&P 500 Total Return Index expressed in Canadian dollars. The Fund's Class U units, when expressed in U.S. dollars, returned negative 0.6% in the six months ended June 30, 2017, compared to 9.3% for the same benchmark in U.S. dollars.

Positions in Tronox Limited, Eli Lilly & Company and Weyerhaeuser Company were the greatest contributors to performance since the beginning of the year. Positions in National CineMedia Inc., New York Community Bancorp, Inc. and General Electric Company were detractors to performance.

On a sector basis, the Fund's holdings in the Materials and Health Care sectors were the greatest contributors to performance over the period, offset primarily by the Fund's Consumer Discretionary and Industrials holdings.

### **The U.S. Economy**

Economic growth in the United States, which was relatively strong over the second half of 2016, decelerated in the first quarter of 2017 with GDP rising 1.4%. This followed three quarters in which economic activity expanded by 2.3% on average. The slowdown in growth in early 2017 was driven by weak consumer spending, although business investment was robust and as expected, residential investment bounced back from sluggish levels in 2016.

Looking forward, U.S. consumer spending is an area to be closely monitored. However, the combination of healthy labor market conditions and consumer sentiment is expected to support a robust pickup in real Personal Consumer Expenditures through the remainder of this year. Residential construction is also expected to sustain positive growth, as is business investment after its protracted weakness since the oil shock. These positive factors may, however, be tempered by the political uncertainty surrounding: 1) the U.S. Congress' attempts to raise the debt ceiling and pass bills to fund the fiscal stimulus measures in the Fall; 2) reductions in corporate and personal income tax rates that may still materialize, but are likely to have a far more modest impact on personal consumption expenditures and business investment than the Trump administration proposes; and 3) push-back against higher infrastructure spending. With these factored in, the consensus view is now for 2017 U.S. GDP growth of around 2.2%, up from the 1.6% growth in 2016.

As expected, the Federal Open Market Committee (the Fed) raised its policy rate by 25 bps at its June 13-14 meeting, as well as announcing a plan to normalize the balance sheet. The market had been bracing for a "dovish hike" given the recent softer data on consumer spending, as well as on housing and core inflation. Instead, the announcement presented more of a hawkish tone, implying that the Fed may want to hike rates again sooner rather than later. The question now remains as to how soon balance sheet normalization will start, and whether it will impact the timing of the next rate hike that we expect by the end of the year.

Headline CPI fell 0.1% in the month of May, and on an annualized basis, the pace of inflation year-on-year decelerated to 1.9% from 2.2% in April. Core CPI (excludes food and energy) also rose by 0.1% in May, decreasing the year-on-year rate to 1.7%, from 1.9% in April. While the Fed is likely to acknowledge the soft inflation figures, its conviction on further rate hikes will likely not waiver unless we see persistent continued softness in this data.

Following Donald Trump's election, the Five-Year U.S. Treasury bond, a proxy for changes in mortgage rates, has moved from 1.16% to roughly 1.89% as at June 30, 2017, the highest level in six years. Housing starts have been cooling off since the beginning of the year, declining by nearly 200,000 units in May to 1,092,000 (annualized), considerably weaker than market expectations of 1,220,000. We would not be surprised to see housing starts continue to fall over the next several months as more Americans prioritize debt reduction in 2017 due to expectations of even higher interest rates.

In addition to the housing market, another key economic indicator to closely monitor is the labour market. As highlighted in the May report, the U.S. labour market generated 138,000 jobs, well below consensus expectations and reducing the three-month average pace of growth. The unemployment rate declined further to 4.3% in May, from 4.4% in April, matching a 10-year low. With that said, we highlight the following negative factors: 1) average hourly earnings surprised negatively in May, recording increases of 0.2% for the month and 2.5% year-on-year; and 2) the labour participation rate has largely remained below 63% over the past 24 months (versus over 65% prior to the 2008 financial crisis).

### **U.S. Investment Markets**

Since the beginning of 2017, the S&P 500 has underperformed several other developed-country markets, but has outperformed the S&P/TSX by a wide margin mainly owing to the best performing (Information Technology) and worst performing (Energy) sectors, representing, respectively, much larger/smaller weights of the S&P 500 versus the S&P/TSX. We project a gradual decline in the S&P 500 earnings multiple later this year, which is currently trading at the largest premium to the S&P/TSX in over a decade.

The S&P 500 Total Return Index since the beginning of the year increased 9.3%. The best performing sectors since the beginning of the year were Information Technology (up 17.2%), Health Care (up 16.1%) and Consumer Discretionary (up 11.0%), while the worst performing sectors were Energy (down 12.6%), Telecommunications Services (down 10.7%) and Financials (up 6.9%).

The U.S. dollar since the beginning of the year decreased by 4.1% against the Canadian dollar, however on a longer-term basis the trailing 12-month performance of the U.S. dollar versus the Canadian dollar was positive 0.5%. Less interest rate divergence than previously anticipated owing to Canadian interest rate hikes, and lower U.S. GDP growth than previously assumed, will likely lead to a muted U.S. dollar performance versus the Canadian dollar and all other currencies.

### **Outlook**

We expect the bull market in U.S. equities to continue, but at a slower pace than the first half of this year as the market copes with the positives and negatives associated with a Trump administration and the changing policy dynamics it generates. The medium-to-long-term U.S. economic growth forecast remains reasonably strong, and while it appears that growth continues to trend higher, the S&P 500 will likely face the following challenges in sustaining its returns since the beginning of the year:

- Given the elevated valuation multiple and considering it has been quite some time since the S&P 500 exhibited a significant pullback, U.S. equities are susceptible to expectations of another rate hike in the absence of earnings estimates rising sufficiently in the near-term;
- It will take some further time to fully assess the impact of the worst elements of Mr. Trump's trade proposals (overall severe protectionism and specific hardline stance towards China); and
- Utilities, Telcos, REITs and other 'bond proxies' could drag on overall performance based on their lower growth profiles and sensitivity to higher interest rates.

With that said, we remain disciplined in our valuation approach and continue to seek and own companies that are able to both generate increasing earnings/free cash flow and flourish and adapt in many economic environments.

## **RESULTS OF OPERATIONS**

### **Distributions**

During the six months ended June 30, 2017 distributions totaled \$0.30 per Class A unit and US\$0.30 per Class U unit. The 2017 distribution reflects a monthly rate per unit of \$0.05 per Class A unit and US\$0.05 per Class U unit, in accordance with the targeted distribution rate of 6% per annum on the subscription price of \$10 per unit as disclosed in the Fund's prospectus. Since inception on March 21, 2013, the Fund has paid total cash and reinvested distributions of \$2.56774 per Class A unit and US\$2.56774 per Class U unit.

### **Allocation of income, expenses, gains and losses between classes of the Fund**

The income, expenses, gains and losses of the Fund are generally allocated between Class A and Class U on the basis of the Classes' relative net asset values. However there are certain transactions which are class specific and are allocated to a particular class. These include certain expenses of Class A relating to its distribution reinvestment plan (DRIP), certain expenses of Class U relating to the Class U conversion privilege, fees charged by the Canadian Depository for Securities which are specific to each of the classes, and the unrealized and realized gains and losses on the foreign currency forward contracts which relate to the hedging of the US dollar denominated net asset value attributable to the Class A units, and which are allocated to Class A.

### **Increase in Net Assets from Operations**

The Fund's net loss from investments was \$0.03 million (net income of nil per Class A unit and net loss of \$0.23 per Class U unit) for the six months ended June 30, 2017, arising from average portfolio investments during the period of \$8.2 million. Net investment loss was comprised primarily of \$0.4 million in dividend and distribution income, \$0.2 million in net realized gains on sale of non-derivative investments and \$0.6 million in unrealized gains on foreign currency forward

contracts, offset by net unrealized losses on investments for the period of \$1.0 million and net realized loss on foreign currency forward contracts of \$0.2 million

Expenses were \$0.3 million (\$0.15 per Class A unit and \$0.23 per Class U unit) for the six months ended June 30, 2017, the major components being management fees of \$139,190, withholding taxes of \$31,629 and other administrative expenses of \$43,322.

#### **Net Asset Value**

The net asset value per unit of Class A units of the Fund was \$8.14 at June 30, 2017, down by 5.1% from \$8.58 at December 31, 2016. The net asset value per unit of Class U units of the Fund was US\$8.26 at June 30, 2017, down by 4.1% from US\$8.61 at December 31, 2016.

The aggregate net asset value of the Fund decreased from \$16.8 million at December 31, 2016 to \$15.4 million as at June 30, 2017, primarily due to expenses of \$0.3 million, distributions to unitholders of \$0.6 million, and repurchase and cancellation of units of \$0.4 million.

#### **Liquidity**

To provide liquidity for unitholders, Class A units of the Fund are listed on the TSX under the symbol BUA.UN. Class U units are not listed on the TSX but are convertible to Class A units on a monthly basis.

The Fund received approval from the TSX on June 25, 2016 for a normal course issuer bid program from June 29, 2016 to June 28, 2017, allowing the Fund to purchase for cancellation up to 206,188 Class A units on the TSX if they trade below the Class A net asset value per unit. 47,400 Class A units were purchased and cancelled by the Fund under this normal course issuer bid in the six months ended June 30, 2017 at a cost of \$395,379 or \$8.34 per unit.

The Fund received approval from the TSX on June 27, 2017 for a normal course issuer bid program from June 29, 2017 to June 28, 2018, allowing the Fund to purchase for cancellation up to 160,328 Class A units on the TSX if they trade below the Class A net asset value per unit. No Class A units were purchased and cancelled by the Fund under this normal course issuer bid in the six months ended June, 2017.

#### **Investment Portfolio**

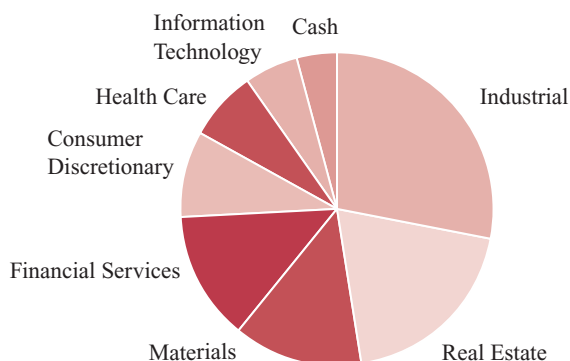
The Fund has established a portfolio invested in U.S. equities and income trusts, each of which was selected to achieve the investment objectives of the Fund.

During the six months ended June 30, 2017 the percentage of the portfolio (equities and cash) invested in the Materials sector has risen from 10.6% to 13.5% due to an increase in the share price of Tronox Limited (despite the sale of part of the Fund's position) and the purchase of additional shares in Catchmark Timber Trust, Inc. The investment in the Consumer Discretionary sector has fallen from 12.9% to 8.9%, due to the sale of the Fund's positions in Donnelley Financial Solutions Inc. and LSC Communications Inc. along with a drop in valuations of other holdings.

The Fund had net unrealized appreciation of \$2.5 million on its portfolio as at June 30, 2017, with unrealized appreciation of \$1.2 million on Real Estate holdings, \$0.8 million on Financial Services holdings, and \$0.5 million on Health Care holdings, offset by unrealized depreciation of \$0.6 million on holdings in the Consumer Discretionary sector.

The Fund had net realized gains on sales of investments of \$0.2 million during the six months ended June 30, 2017, primarily comprising gains on the sale of holdings in Ryman Hospitality Properties, Inc., Tronox Limited, Intel Corporation and Regal Entertainment Group.

**Portfolio Sectors**



Sector	Value (thousands)	% of Total
Industrial	\$ 3,259	28.1%
Real Estate	2,262	19.5%
Materials	1,571	13.5%
Financial Services	1,520	13.1%
Consumer Discretionary	1,028	8.9%
Health Care	840	7.2%
Information Technology	644	5.6%
Cash	471	4.1%
<b>Total</b>	<b>\$ 11,595</b>	<b>100.0%</b>

**RELATED PARTY TRANSACTIONS**

Related party transactions consist of administrative and investment management services provided by the Manager pursuant to the Fund’s Declaration of Trust, and Fund expenses paid by the Manager and recharged to the Fund.

**Administration and Investment Management Fees**

Pursuant to the Fund’s Declaration of Trust, the Manager provides investment management and administrative services to the Fund, for which it is paid an annual management fee aggregating to 1.55% per annum of the net asset value of the Fund. The management fee is comprised of 1.15% per annum of the net asset value of the Fund, calculated weekly and payable monthly in arrears, plus an amount to be paid by the Manager to registered dealers equal to the service fee of 0.40% per annum of the net asset value of the Fund, calculated quarterly and paid as soon as practicable after the end of each calendar quarter, plus applicable taxes.

The management fee is intended to compensate the Manager for providing portfolio advisory and certain administrative services to the Fund. A portion of this fee, equal to the service fee, is paid by the Manager to the registered investment dealers based on the proportionate number of units held by clients of each dealer at the end of each calendar quarter. For the six months ended June 30, 2017, management fees charged directly to the Fund amounted to \$139,190 including service fees of \$35,084.

Services received by the Fund in consideration of the management fee, as an approximate percentage of the management fee, comprise portfolio advisory services (86%) and administrative services (14%). Administrative services include: appointment and monitoring of service providers; administration related to the payment of fund expenses and the deposit of fund receipts; payment of the service fee; administrative services provided to the Independent Review Committee (“IRC”); review and filing of tax returns; preparation, dissemination and filing of annual and interim reports; maintenance of proxy voting records and the voting of proxies; preparation of quarterly portfolio summaries; administration of the Fund’s normal course issuer bid; regulatory reporting; and maintenance of the information on the Fund’s website.

**Other Expenses Recharged to the Fund**

On an ongoing basis the Manager pays on behalf of the Fund, and subsequently recharges to the Fund, certain expenses of the Fund. For the six months ended June 30, 2017 the Fund expensed investor relations costs of \$5,540, IRC fees of \$17,157 and premiums for insurance coverage for members of the IRC of \$100 which were paid and recharged by the Manager.

The Fund pays for all other ordinary expenses incurred in connection with the operation and administration of the Fund, including: all costs of portfolio transactions, fees payable to third party services providers, custodial fees, legal, accounting, audit and valuation fees and expenses, expenses of the members of the IRC, expenses related to compliance with National Instrument 81-107 (“NI 81-107”), fees and expenses relating to the voting of proxies by a third party, costs of reporting to unitholders, registrar, transfer and distribution agency costs, printing and mailing costs, listing fees and expenses and other administrative expenses and costs incurred in connection with the continuous public filing requirements, taxes, brokerage commissions, costs and expenses relating to the issue of units of the Fund, costs and expenses of preparing financial and other reports, costs and expenses arising as a result of complying with all applicable laws, regulations and policies, extraordinary expenses that the Fund may incur and all amounts paid on account of indebtedness.

**INDEPENDENT REVIEW COMMITTEE**

Prior to the Fund’s launch, the IRC for the Fund was established pursuant to NI 81-107 and became operational. The IRC provides independent oversight regarding actual and perceived conflicts of interest involving the Fund and performs all other functions required of an independent review committee under NI 81-107. Costs and expenses, including the remuneration of IRC members, the costs of legal and other advisors to, and legal and other services for, IRC members, and insurance costs are chargeable to the Fund. As at June 30, 2017 the IRC consisted of three members, all of whom are independent of the Manager.

The Manager has received two standing instructions from the IRC with respect to related party transactions:

**Allocation of Fund Expenses and Charging Expenses of Related Entities to the Funds**

The standing instruction requires that the Manager follow its policy regarding the charging of expenses of related parties to the Fund, which will, in the IRC’s opinion, result in a fair and reasonable result for the Fund. The Manager reports any instances of reliance on the standing instruction to the IRC and the IRC reviews the transactions to confirm compliance with the standing instruction. The Manager relies on the standing instruction on an ongoing basis in charging to the Fund expenses which are payable by the Fund as per the Fund’s Declaration of Trust and Annual Information Form, but which have been paid by the Manager. These expense charges are measured on an accrual basis at the monetary value of the expenses incurred.

**The Decision to Re-open a Fund**

The standing instruction requires that the Manager follow its policy and procedures concerning fund re-openings, which will, in the IRC’s opinion, result in a fair and reasonable result for the Fund. The Manager will report any instances of reliance on the standing instruction to the IRC, but has not yet relied on this standing instruction.

**PAST PERFORMANCE**

The following chart and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on net asset value per unit and assumes that distributions made by the Fund in the period were reinvested at net asset value per unit in additional units of the Fund.

**Annual Compound Returns**

The following table shows the Fund’s annual compound return for the one year and three year periods ended June 30, 2017 and the period since inception, compared with the S&P 500 Total Return Index (“Index”). The returns of Class U are expressed in both Canadian dollars and US dollars. The Index tracks the performance, on a market weight basis and a total return basis, of a broad index of large-capitalization issuers listed on the S&P 500, including common stocks and REITs, and is an appropriate benchmark as the Fund invests in such common stocks and REITs. Since the Fund is actively managed, the sector weightings differ from those of the Index. Also, the Fund’s portfolio contains predominantly high dividend paying securities, whereas the Index does not necessarily focus on this type of investment. As well, the Fund may invest in issuers that are not included in the Index. For these reasons it is not expected that the Fund’s performance will mirror that of the Index. Further, the Index is calculated without the deduction of management fees, service fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

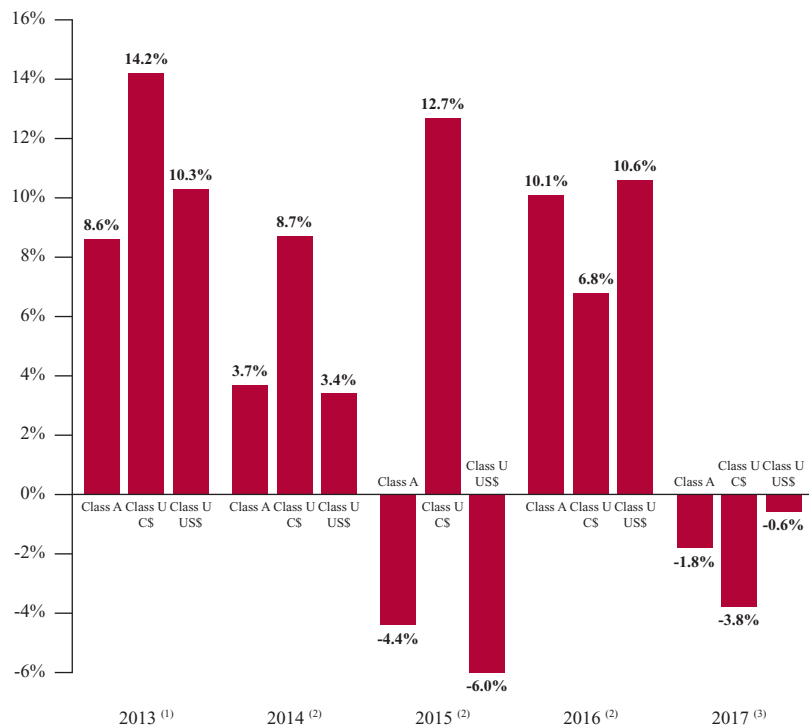
	<b>One year</b>	<b>Three years</b>	<b>Since inception<sup>(1)</sup></b>
<b>Bloom U.S. Income &amp; Growth Fund Class A (net of fees and expenses)</b>	6.4%	0.1%	3.6%
<b>Bloom U.S. Income &amp; Growth Fund Class U in C\$(net of fees and expenses)</b>	7.5%	6.9%	9.8%
<b>S&amp;P 500 Total Return Index in Canadian dollars</b>	18.5%	17.1%	19.6%
<b>Bloom U.S. Income &amp; Growth Fund Class U in US\$(net of fees and expenses)</b>	7.5%	0.0%	3.9%
<b>S&amp;P 500 Total Return Index in US dollars</b>	17.9%	9.6%	13.2%

<sup>(1)</sup> Period from March 21, 2013 (commencement of operations) to June 30, 2017

During all periods the Fund has underperformed relative to the Index, after taking into account the expenses of the Fund. In addition to the effect of the deduction of management fees, service fees and expenses inherent in the Fund’s performance figures, this reflects the differences in average sector weightings between the Fund’s portfolio and the Index over these periods; for example, over the six months to June 30, 2017 the Fund was overweight compared to the Index in the Cash, Industrials, Real Estate and Materials sectors, and was underweight compared to the Index in the Health Care, Energy, Consumer Staples and Information Technology sectors. It also reflects differences in individual portfolio selections between the Fund’s portfolio and the Index within each of the sectors, which result in different average sector returns.

**Year-by-Year Returns**

The bar chart shows the Fund’s performance for each fiscal period since commencement of operations on March 21, 2013. It shows, in percentage terms, how a Canadian dollar investment in Class A and a US dollar investment in Class U, expressed both in Canadian and US dollars, held on the first day of the fiscal period would have changed by the last day of the fiscal period.



<sup>(1)</sup> Period from March 21, 2013 (commencement of operations) to December 31, 2013

<sup>(2)</sup> Year from January 1 to December 31 of the year indicated

<sup>(3)</sup> Six months from January 1 to June 30, 2017



**FINANCIAL HIGHLIGHTS**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund’s financial performance for the fiscal periods indicated. *The information in the following tables is presented in accordance with National Instrument (“NI”) 81-106 and, as a result, does not act as a continuity of opening and closing net assets per unit, because the increase in net assets from operations is based on weighted average units outstanding during the period, and all other numbers are based on actual units outstanding at the relevant point in time.*

**Net Assets Per Unit – Class A**

For the fiscal period ended	June 30, 2017	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013 <sup>(1)</sup>
<b>Net Assets per unit, beginning of period<sup>(2)(3)</sup></b>	\$ 8.58	\$ 8.37	\$ 9.36	\$ 9.61	\$10.00
<b>Unit issue expense<sup>(4)</sup></b>		–	–	–	(0.67)
<b>Increase from operations:<sup>(3)</sup></b>					
Total revenue	0.19	0.64	0.43	0.44	0.33
Total expenses	(0.15)	(0.27)	(0.27)	(0.27)	(0.23)
Net realized gains (losses)	0.00	0.83	0.05	(0.29)	(0.41)
Net unrealized gains (losses)	(0.18)	(0.47)	(0.59)	0.45	1.07
<b>Total increase in net assets from operations<sup>(2)</sup></b>	<b>\$(0.14)</b>	<b>\$ 0.73</b>	<b>\$(0.38)</b>	<b>\$ 0.33</b>	<b>\$ 0.76</b>
<b>Distributions to unitholders<sup>(3)(5)</sup></b>					
From net investment income	–	(0.14)	(0.01)	(0.04)	(0.02)
From return of capital	(0.30)	(0.46)	(0.59)	(0.56)	(0.45)
<b>Total distributions to unitholders</b>	<b>\$(0.30)</b>	<b>\$(0.60)</b>	<b>\$(0.60)</b>	<b>\$(0.60)</b>	<b>\$(0.47)</b>
<b>Net assets per unit, end of period<sup>(2)(3)</sup></b>	<b>\$ 8.14</b>	<b>\$ 8.58</b>	<b>\$ 8.37</b>	<b>\$ 9.36</b>	<b>\$ 9.61</b>

**Net Assets Per Unit – Class U**

For the fiscal period ended	June 30, 2017		December 31, 2016		December 31, 2015		December 31, 2014		December 31, 2013 <sup>(1)</sup>	
	C\$	US\$ <sup>(6)</sup>	C\$	US\$ <sup>(6)</sup>	C\$	US\$ <sup>(6)</sup>	C\$	US\$ <sup>(6)</sup>	C\$	US\$ <sup>(6)</sup>
<b>Expressed in (currency)<sup>(6)</sup></b>										
<b>Net Assets per unit, beginning of period<sup>(2)(3)</sup></b>	\$11.54	\$ 8.61	\$11.61	\$ 8.36	\$11.02	\$ 9.51	\$10.40	\$ 9.79	\$10.23	\$10.00
<b>Unit issue expense<sup>(4)</sup></b>			–	–	–	–	–	–	(0.69)	(0.67)
<b>Increase from operations:<sup>(3)</sup></b>										
Total revenue	0.25	0.19	0.83	0.63	0.55	0.44	0.50	0.45	0.35	0.34
Total expenses	(0.23)	(0.17)	(0.37)	(0.28)	(0.34)	(0.27)	(0.31)	(0.28)	(0.25)	(0.24)
Net realized gains (losses)	0.27	0.20	1.19	0.90	1.68	0.33	0.65	0.59	(0.17)	(0.17)
Net unrealized gains (losses)	(0.66)	(0.50)	(1.06)	(0.80)	(0.43)	(0.88)	0.42	0.38	1.32	1.28
<b>Total increase in net assets from operations<sup>(2)</sup></b>	<b>\$(0.37)</b>	<b>\$(0.28)</b>	<b>\$ 0.59</b>	<b>\$ 0.45</b>	<b>\$ 1.46</b>	<b>\$(0.38)</b>	<b>\$ 1.26</b>	<b>\$ 1.14</b>	<b>\$ 1.25</b>	<b>\$ 1.21</b>
<b>Distributions to unitholders<sup>(3)(5)</sup></b>										
From net investment income		–	(0.10)	(0.08)	–	–	(0.08)	(0.07)	(0.11)	(0.10)
From return of capital	(0.40)	(0.30)	(0.69)	(0.52)	(0.77)	(0.60)	(0.58)	(0.53)	(0.38)	(0.37)
<b>Total distributions to unitholders</b>	<b>\$(0.40)</b>	<b>\$(0.30)</b>	<b>\$(0.79)</b>	<b>\$(0.60)</b>	<b>\$(0.77)</b>	<b>\$(0.60)</b>	<b>\$(0.66)</b>	<b>\$(0.60)</b>	<b>\$(0.49)</b>	<b>\$(0.47)</b>
<b>Net assets per unit, end of period<sup>(2)(3)</sup></b>	<b>\$10.73</b>	<b>\$ 8.26</b>	<b>\$11.54</b>	<b>\$ 8.61</b>	<b>\$11.61</b>	<b>\$ 8.36</b>	<b>\$11.02</b>	<b>\$ 9.51</b>	<b>\$10.40</b>	<b>\$ 9.79</b>

<sup>(1)</sup> Period from commencement of operations on March 21, 2013 to December 31, 2013

## BLOOM U.S. INCOME & GROWTH FUND – INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2017

<sup>(2)</sup> This information is derived from the Fund’s financial statements, to which IFRS apply.

<sup>(3)</sup> Net assets per unit and distributions per unit are based on the actual number of units outstanding at the relevant time. The increase in net assets from operations per unit is based on the weighted average number of units outstanding over the fiscal period.

<sup>(4)</sup> Unit issue expense of \$2,496,135 for Class A and \$324,698 (US\$317,428) for Class U were incurred in connection with the issuance of Fund units. Unit issue expense per unit is based on the number of units issued at the time the expenses were incurred.

<sup>(5)</sup> \$76,776 (2016: \$186,101; 2015: \$212,557; 2014: \$223,357; 2013: \$105,688) of distributions was reinvested in units under the Fund’s Class A Distribution Reinvestment Plan. The remainder of the distributions was paid in cash.

<sup>(6)</sup> Class U net assets per unit are translated into US\$ at the exchange rate in effect at the measurement date. Class U increases from operations are translated into US\$ at the average exchange rate for the period. Class U distributions are paid in US\$.

### Ratios and Supplemental Data

For the fiscal period ended	June 30, 2017		December 31, 2016		December 31, 2015		December 31, 2014		December 31, 2013 <sup>(1)</sup>	
	Class A	Class U	Class A	Class U	Class A	Class U	Class A	Class U	Class A	Class U
Net asset value (000s) <sup>(2)</sup>	\$ 14,069	\$ 1,297 (US\$999)	\$ 15,169	\$ 1,609 (US\$1,200)	\$ 18,879	\$ 2,144 (US\$1,543)	\$ 27,472	\$ 3,724 (US\$3,215)	\$ 35,698	\$ 4,203 (US\$3,956)
Number of units outstanding <sup>(2)</sup>	1,728,976	120,906	1,768,014	139,406	2,255,000	184,656	2,935,407	338,006	3,713,316	404,106
Management expense ratio (“MER”) <sup>(3)</sup>	2.96%	3.53%	2.79%	2.92%	2.39%	2.40%	2.24%	2.33%	11.96%	12.24%
Trading expense ratio <sup>(4)</sup>	0.08%	0.08%	0.07%	0.07%	0.12%	0.10%	0.10%	0.10%	0.17%	0.17%
Portfolio turnover rate <sup>(5)</sup>	7.61%	7.61%	8.34%	8.34%	2.95%	2.95%	16.18%	14.34%	28.90%	28.90%
Net asset value per Unit <sup>(2)</sup>	\$ 8.14	\$ 10.73 (US\$8.26)	\$ 8.58	\$ 11.54 (US\$8.61)	\$ 8.37	\$ 11.61 (US\$8.36)	\$ 9.36	\$ 11.02 (US\$9.51)	\$ 9.61	\$ 10.40 (US\$9.79)
Closing market price <sup>(2)</sup>	\$ 7.91	N/A	\$ 8.26	N/A	\$ 8.06	N/A	\$ 9.20	N/A	\$ 9.45	N/A

<sup>(1)</sup> Period from commencement of operations on March 21, 2013 to December 31, 2013

<sup>(2)</sup> As at the period end date shown

<sup>(3)</sup> MER is based on the requirements of NI 81-106 and includes the total expenses (excluding withholding taxes, commissions and other portfolio transaction costs) of the Class for the period, including one-time unit issue expense for that Class relating to the Fund’s initial public offering. Unit issue expense is added to annualized ongoing expenses and expressed as a percentage of the average net asset value of the Class during the period. The MER for 2013 excluding unit issue expense, which is more representative of the ongoing efficiency of the Fund, is 2.56% for Class A and 2.64% for Class U.

<sup>(4)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of the average net asset value of the Fund during the period.

<sup>(5)</sup> The Fund’s portfolio turnover rate indicates how actively the Manager 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 the Fund’s portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of investments during the period.

### Management Expense Ratio

The MER of Class A of the Fund was 2.96% for the six months ended June 30, 2017, up from an MER of 2.79% in the year ended December 31, 2016. The MER of Class U of the Fund was 3.53% for the six months ended June 30, 2017, up from an MER of 2.92% in the year ended December 31, 2016. The increase is primarily due to the decrease in average net asset value through the monthly redemption of units, unit repurchases under the Fund’s normal course issuer bid, and market value decreases, which, when paired with fixed costs, caused the MER to increase.

**SUMMARY OF INVESTMENT PORTFOLIO**

As at June 30, 2017

Total Net Assets (including Cash and Other Net Assets) – Class A	\$14,068,640
Total Net Assets (including Cash and Other Net Assets) – Class U	\$1,296,925
	Or US\$998,633

<b>Portfolio Composition</b>	<b>% of Portfolio</b>	<b>% of Total Net Assets</b>
Industrial	28.1%	27.5%
Real Estate	19.5%	19.1%
Materials	13.5%	13.3%
Financial Services	13.1%	12.8%
Consumer Discretionary	8.9%	8.7%
Health Care	7.2%	7.1%
Information Technology	5.6%	5.5%
Cash	4.1%	4.0%
Total Investment Portfolio	100.0%	98.0%
Other Non-Debt Net Assets (Liabilities)		2.0%
Total Net Assets	100.0%	100.0%

<b>Top 25 Holdings*</b>	<b>% of Portfolio</b>	<b>% of Total Net Assets</b>
Tronox Limited	7.5%	7.3%
Eli Lilly and Company	7.2%	7.1%
First Financial Bancorp	7.1%	6.9%
Ryman Hospitality Properties, Inc.	6.7%	6.6%
Weyerhaeuser Company	6.7%	6.6%
General Electric Company	6.7%	6.5%
CatchMark Timber Trust, Inc.	6.1%	6.0%
EPR Properties	6.1%	6.0%
New York Community Bancorp, Inc.	6.1%	5.9%
Ship Finance International Limited	5.7%	5.6%
Intel Corporation	5.6%	5.5%
Pitney Bowes Inc.	5.0%	4.9%
Seaspan Corporation	4.3%	4.2%
Regal Entertainment Group	4.3%	4.2%
Cash	4.1%	4.0%
Aircastle Limited	3.3%	3.2%
FLY Leasing Limited	3.2%	3.1%
National CineMedia Inc.	2.6%	2.5%
R. R. Donnelley & Sons Company	2.0%	1.9%

*The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Monthly updates are available on the Fund's website at [www.bloomfunds.ca](http://www.bloomfunds.ca)*

\* Securities legislation requires the Fund's top 25 holdings to be presented. However, the Fund currently has less than 25 holdings.

<sup>(1)</sup> Net assets attributable to holders of redeemable units.

**NOTICE**

The accompanying unaudited financial statements of Bloom U.S Income & Growth Fund (the “Fund”) have been prepared by Bloom Investment Counsel, Inc.(the “Manager” of the Fund) and approved by the Board of Directors of the Manager.

The statements have not been reviewed by the external auditors of the Fund. This Notice contains the only change made to the interim report for the six months ended June 30, 2017, being the addition of this paragraph.

Signed



**M. Paul Bloom**  
*President and Chief Executive Officer*  
*Bloom Investment Counsel, Inc.*

Signed



**Fiona E. Mitra**  
*Chief Financial Officer*  
*Bloom Investment Counsel, Inc.*

October 26, 2017

**BLOOM U.S. INCOME & GROWTH FUND – INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2017****STATEMENTS OF FINANCIAL POSITION (unaudited)**

<b>As at</b>	<b>June 30, 2017</b>	<b>December 31, 2016</b>
<b>Assets</b>		
<b>Current assets</b>		
Investments	\$ 14,446,375	\$ 16,205,661
Cash	613,011	852,276
Dividends and distributions receivable	27,565	29,478
Prepaid expenses and other assets	9,746	20,977
Unrealized appreciation on foreign currency forward contracts (note 14)	471,045	–
<b>Total assets</b>	<b>15,567,742</b>	<b>17,108,392</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Redemptions payable	13,021	–
Distributions payable to holders of redeemable units	94,300	97,748
Accrued liabilities (note 11)	94,856	114,431
Unrealized depreciation on foreign currency forward contracts (note 14)	–	118,413
<b>Total liabilities</b>	<b>202,177</b>	<b>330,592</b>
<b>Net assets attributable to holders of redeemable units (note 7)</b>	<b>\$ 15,365,565</b>	<b>\$ 16,777,800</b>
<b>Net assets attributable to holders of redeemable units per class</b>		
Class A	\$ 14,068,640	\$ 15,168,567
Class U	\$ 1,296,925	\$ 1,609,233
<b>Net assets attributable to holders of redeemable units per unit</b>		
Class A	\$ 8.14	\$ 8.58
Class U	\$ 10.73	\$ 11.54
Class U in U.S.\$	\$ 8.26	\$ 8.61

*The accompanying notes are an integral part of these financial statements*

**STATEMENTS OF COMPREHENSIVE INCOME (unaudited)**

For the six months ended	June 30, 2017	June 30, 2016
<b>Income</b>		
Net gain (loss) on investments and derivatives		
Dividend and distribution income	\$ 351,928	\$ 464,275
Net realized gain on sale of non-derivative investments	212,604	204,980
Net change in unrealized appreciation or depreciation on non-derivative investments	(952,417)	(1,189,046)
Net realized gain (loss) on foreign currency forward contracts	(249,858)	512,548
Net change in unrealized appreciation or depreciation on foreign currency forward contracts (note 14)	589,458	559,592
<b>Total net gain (loss) on investments and derivatives</b>	<b>(48,285)</b>	<b>552,349</b>
Other income		
Securities lending income (note 13)	8,355	17,478
Foreign exchange gain (loss) on cash	11,585	(116,467)
<b>Total other income (loss)</b>	<b>19,940</b>	<b>(98,989)</b>
<b>Total income (loss)</b>	<b>(28,345)</b>	<b>453,360</b>
<b>Expenses (Note 10)</b>		
Management fees (note 11)	139,190	173,340
Independent Review Committee fees (note 11)	17,157	16,097
Unitholder reporting costs	13,954	15,971
Audit fees	14,192	14,465
Custody fees	13,467	11,587
Legal fees	4,640	6,118
Other administrative expenses	43,322	43,272
Withholding taxes	31,629	27,789
Transaction costs (note 12)	6,640	5,886
<b>Total expenses</b>	<b>284,191</b>	<b>314,525</b>
<b>Net income (loss)</b>	<b>(312,536)</b>	<b>138,835</b>
Gain on redemption of redeemable units (note 7)	11,230	1,133
Net gain on repurchase and cancellation of redeemable units (note 7)	9,502	34,508
<b>Increase (decrease) in net assets attributable to holders of redeemable units from operations</b>	<b>\$ (291,804)</b>	<b>\$ 174,476</b>
Class A	(243,411)	269,787
Class U	(48,393)	(95,311)
<b>Total increase (decrease) in net assets attributable to holders of redeemable units from operations</b>	<b>\$ (291,804)</b>	<b>\$ 174,476</b>
<b>Weighted average redeemable units outstanding during the period</b>		
Class A	1,751,165	2,218,272
Class U	129,465	180,539
<b>Increase (decrease) in net assets attributable to holders of redeemable units per unit from operations (note 3k)</b>		
Class A	\$ (0.14)	\$ 0.12
Class U	\$ (0.37)	\$ (0.53)
Class U in U.S.\$	\$ (0.28)	\$ (0.40)

*The accompanying notes are an integral part of these financial statements*

**STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS  
(unaudited)**

For the six months ended June 30, 2017 and 2016

	<b>Class A</b>	<b>Class U</b>	<b>Total</b>
<b>Net assets attributable to holders of redeemable units at January 1, 2016</b>	\$ 18,878,786	\$ 2,144,263	\$ 21,023,049
<b>Increase (decrease) in net assets attributable to holders of redeemable units from operations</b>	269,787	(95,311)	174,476
<b>Distributions to holders of redeemable units (note 9)</b>	(661,706)	(71,386)	(733,092)
<b>Redeemable unit transactions (note 7)</b>			
Redemptions of redeemable units	–	(11,900)	(11,900)
Repurchase and cancellation of redeemable units	(677,412)	–	(677,412)
Class U redeemable units converted to Class A redeemable units	62,825	(62,825)	–
<b>Net decrease from redeemable unit transactions</b>	(614,587)	(74,725)	(689,312)
<b>Net decrease in net assets attributable to holders of redeemable units</b>	(1,006,506)	(241,422)	(1,247,928)
<b>Net assets attributable to holders of redeemable units at June 30, 2016</b>	\$ 17,872,280	\$ 1,902,841	\$ 19,775,121
<b>Net assets attributable to holders of redeemable units at January 1, 2017</b>	<b>15,168,567</b>	<b>1,609,233</b>	<b>16,777,800</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units from operations</b>	<b>(243,411)</b>	<b>(48,393)</b>	<b>(291,804)</b>
<b>Distributions to holders of redeemable units (note 9)</b>	<b>(523,196)</b>	<b>(50,865)</b>	<b>(574,061)</b>
<b>Redeemable unit transactions (note 7)</b>			
Redemptions of redeemable units	–	(141,489)	(141,489)
Repurchase and cancellation of redeemable units	(404,881)	–	(404,881)
Class U redeemable units converted to Class A redeemable units	71,561	(71,561)	–
<b>Net decrease from redeemable unit transactions</b>	<b>(333,320)</b>	<b>(213,050)</b>	<b>(546,370)</b>
<b>Net decrease in net assets attributable to holders of redeemable units</b>	<b>(1,099,927)</b>	<b>(312,308)</b>	<b>(1,412,235)</b>
<b>Net assets attributable to holders of redeemable units at June 30, 2017</b>	<b>\$ 14,068,640</b>	<b>\$ 1,296,925</b>	<b>\$ 15,365,565</b>

*The accompanying notes are an integral part of these financial statements*

**STATEMENTS OF CASH FLOWS**

For the six months ended	June 30, 2017	June 30, 2016
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units from operations	\$ (291,804)	\$ 174,476
Adjustment for:		
Unrealized foreign exchange loss on cash	29,759	35,913
Gain on redemption of redeemable units	(11,230)	(1,133)
Net gain on repurchase and cancellation of redeemable units	(9,502)	(34,508)
Net realized gain loss on sale of non-derivative investments	(212,604)	(204,980)
Net change in unrealized appreciation or depreciation on investments	952,417	1,189,046
Net realized (gain) loss on foreign currency forward contracts	249,858	(512,548)
Net change in unrealized appreciation or depreciation on foreign currency forward contracts	(589,458)	(559,592)
Decrease (increase) in dividends and distributions receivable	1,914	3,696
Decrease (increase) in prepaid expenses and other assets	11,231	14,296
Increase (decrease) in accrued liabilities	(19,575)	(15,183)
Operating cash flows:		
Purchases of investments and derivatives	(625,335)	(884,864)
Proceeds from sale of investments and derivatives	1,644,807	830,459
Net proceeds received (paid) on settlement of foreign currency forward contracts	(249,858)	512,548
<b>Net cash from operating activities</b>	<b>880,620</b>	<b>547,626</b>
<b>Cash flows used in financing activities</b>		
Repurchase of redeemable units for cancellation	(395,379)	(642,904)
Redemptions of redeemable units	(117,238)	(10,767)
Distributions paid to holders of redeemable units	(577,509)	(643,744)
Distributions reinvested on behalf of holders of redeemable units	–	(94,427)
<b>Net cash used in financing activities</b>	<b>(1,090,126)</b>	<b>(1,391,842)</b>
Unrealized foreign exchange loss on cash	(29,759)	(35,913)
Net decrease in cash	(209,506)	(844,216)
Cash at beginning of period	852,276	3,153,194
<b>Cash at end of period</b>	<b>\$ 613,011</b>	<b>\$ 2,273,065</b>
Dividends and distributions received	\$ 354,178	\$ 468,623
Withholding taxes paid	\$ 31,966	\$ 28,441

*The accompanying notes are an integral part of these financial statements*



**BLOOM U.S. INCOME & GROWTH FUND – INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2017**

**SCHEDULE OF INVESTMENT PORTFOLIO (unaudited)**

As at June 30, 2017

No. of Units/ Shares		Cost	Fair value
	<b>Equities</b>		
	<b>Consumer Discretionary</b>		
40,500	National CineMedia Inc.	\$ 714,567	\$ 390,272
18,333	R.R. Donnelley & Sons Company	757,016	298,566
24,300	Regal Entertainment Group	482,910	645,685
		<b>1,954,493</b>	<b>1,334,523</b>
	<b>Financial Services</b>		
29,500	First Financial Bancorp	460,771	1,061,233
53,500	New York Community Bancorp, Inc.	728,923	912,278
		<b>1,189,694</b>	<b>1,973,511</b>
	<b>Health Care</b>		
10,200	Eli Lilly and Company	638,265	1,090,207
		<b>638,265</b>	<b>1,090,207</b>
	<b>Industrial</b>		
17,400	Aircastle Limited	241,406	491,493
27,500	FLY Leasing Limited	460,713	480,357
28,600	General Electric Company	757,992	1,003,228
38,000	Pitney Bowes Inc.	647,020	745,194
70,300	Seaspan Corporation	1,241,504	651,872
48,700	Ship Finance International Limited	809,939	860,155
		<b>4,158,574</b>	<b>4,232,299</b>
	<b>Information Technology</b>		
19,100	Intel Corporation	461,515	836,926
		<b>461,515</b>	<b>836,926</b>
	<b>Materials</b>		
62,000	CatchMark Timber Trust, Inc.	869,256	915,506
57,300	Tronox Limited	985,015	1,125,163
		<b>1,854,271</b>	<b>2,040,669</b>
	<b>Real Estate</b>		
9,800	EPR Properties	555,100	914,708
12,200	Ryman Hospitality Properties, Inc.	481,822	1,014,182
23,200	Weyerhaeuser Company	684,937	1,009,350
		<b>1,721,859</b>	<b>2,938,240</b>
	<b>Total equities</b>	<b>\$ 11,978,671</b>	<b>\$ 14,446,375</b>
	<b>Embedded broker commissions</b>	<b>(17,646)</b>	
	<b>Total investments</b>	<b>\$ 11,961,025</b>	<b>\$ 14,446,375</b>

*The accompanying notes are an integral part of these financial statements*

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

June 30, 2017

**1. GENERAL INFORMATION**

Bloom U.S. Income & Growth Fund (the “Fund”) is a closed-end investment trust established under the laws of the province of Ontario pursuant to a declaration of trust dated February 25, 2013, as amended and restated on April 25, 2013. The address of the Fund’s principal place of business is 150 York Street, Toronto, Ontario. The Fund invests in equity securities of U.S. companies. The financial statements are presented in Canadian dollars.

The Fund’s investment objectives are to provide unitholders with exposure to an actively managed portfolio consisting primarily of publicly traded high dividend paying U.S. common securities, stable cash distributions, and the opportunity for capital appreciation.

The Class A units of the Fund are listed on the Toronto Stock Exchange (“TSX”) under the symbol BUA.UN. Class U units are designed for investors wishing to make their investments in U.S. dollars and are not listed on the TSX, but may be converted to Class A units on a monthly basis. The Fund commenced operations on March 21, 2013 and reorganized its structure on April 26, 2013.

The manager and trustee of the Fund is Bloom Investment Counsel, Inc. (the “Manager”). CIBC Mellon Trust Company is the custodian of the Fund and CIBC Mellon Global Securities Services Company is the administrator of the Fund.

These financial statements were authorized for issue by the Manager on August 8, 2017.

**2. BASIS OF PRESENTATION**

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Statements*.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit and loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the funds significant accounting policies. Actual results could differ from those estimates and the results could be material.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Financial instruments**

The Fund’s financial instruments include, where applicable, investments, cash, dividends and distributions receivable, receivable for investments sold, payable for investments purchased, distributions payable to holders of redeemable units, accrued liabilities, redemptions payable, derivative assets and liabilities, and redeemable units.

The Fund’s non-derivative investments are designated as financial assets to be measured at fair value through profit and loss (“FVTPL”). The Fund’s derivative assets and liabilities (arising from the foreign currency forward contracts into which the Fund enters as described in Note 14) and derivative investments are classified as held for trading (“HFT”) and are measured at FVTPL. The Fund’s obligation for net assets attributable to holders of redeemable units is classified as a financial liability and is presented at the redemption amount. The fair value of the Class A units as at June 30, 2017 was \$13,676,200 (December 31, 2016 – \$14,603,796).

All other financial assets and liabilities of the Fund are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted where appropriate at the contract’s effective interest rate. The carrying values of financial assets and liabilities at amortized cost approximate their fair values due to their short-term nature.

The Fund recognizes financial instruments at fair value on initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost.

**b) Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

*June 30, 2017 (continued)*

The fair value of financial assets traded in active markets (which includes the Fund’s non-derivative investments) is based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for investment valuation where that price falls between the latest bid and ask prices. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

The fair value of financial assets and liabilities that are not traded in an active market (which include the Fund’s foreign currency forward contracts), is determined using valuation techniques. The Manager uses a variety of methods and makes assumptions that are based on market conditions at each reporting date. Valuation techniques may include the use of comparable recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and make the maximum use of observable inputs.

The Fund classifies fair value measurements within a hierarchy as described in Note 15(h). The Fund recognizes transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

**c) Impairment of financial assets at amortized cost**

At each reporting date, the Fund assesses whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Fund recognizes an impairment loss as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument’s original effective interest rate. Impairment losses on financial assets at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

**d) Derecognition of financial assets and liabilities**

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership are transferred, or in which these risks and rewards are neither transferred nor retained but the Fund does not retain control of the asset. On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is included in the Statements of Comprehensive Income. The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Fund enters into securities lending transactions in which it lends investments to counterparties, but since the Fund retains all of the risks and rewards of ownership, the investments are not derecognized. Non-cash collateral pledged by the counterparty to a securities lending transactions is not recognized as the Fund does not accept the risks and rewards of ownership of that collateral.

**e) Offsetting**

Financial assets and liabilities are offset and the net amount presented in the Statements of Financial Position only when the Fund has a legal right to offset the amounts and it intends to either settle on a net basis or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, e.g. for gains and losses arising from a group of similar transactions, such as realized gains and losses on investments.

**f) Cash**

Cash consist of deposits with financial institutions.

**g) Foreign currency forward contracts**

The Fund may enter into foreign currency forward contracts, which are agreements between two parties to buy and sell currencies at a set price on a future date. These are over-the-counter derivatives and are classified as held for trading (“HFT”) and valued at fair value. The fair value of the buy side of a contract is netted with the fair value of the sell side of the contract since there is a contractual ability to settle on a net basis. The net fair value is recorded as an unrealized appreciation or depreciation on foreign currency forward contracts in the Statements of Financial Position.

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

*June 30, 2017 (continued)*

The fair value of such contracts will fluctuate with changes in currency exchange rates, and the change in fair value is included as ‘Net change in unrealized appreciation or depreciation on foreign currency forward contracts’ in the Statements of Comprehensive Income. When the contract is closed, the Fund reverses any previously recognized change in unrealized appreciation or depreciation and records a realized gain or loss equal to the difference between the value of the contract on the date it was opened and the value on the date it was closed, which is included as ‘Net realized gain (loss) on foreign currency forward contracts’ in the Statements of Comprehensive Income.

**h) Investment transactions and income recognition**

Investment transactions are recorded on the trade date. Dividend and distribution income are recognized on the ex-dividend or ex-distribution date. Realized and unrealized gains and losses from investment transactions are calculated on an average cost basis.

**i) Allocation of income, expenses, gains and losses between classes**

The income, expenses, gains and losses of the Fund are generally allocated between Class A and Class U on the basis of the Classes’ relative net asset values. However there are certain transactions which are class specific and are allocated to a particular class. These include: certain expenses of Class A relating to its distribution reinvestment plan (“DRIP”); certain expenses of Class U relating to the Class U conversion privilege; and the unrealized and realized gains and losses on the foreign currency forward contracts which relate to the hedging of the US dollar denominated value of the net assets attributable to the Class A units, and which are allocated to Class A.

**j) Foreign exchange**

The functional and presentation currency of the Fund is the Canadian dollar. Any currency other than the Canadian dollar represents foreign currency to the Fund. Proceeds received from the issuance of, and redemption proceeds payable on the redemption of, the Fund’s Class A units are denominated in Canadian dollars. Proceeds received from the issuance of, and redemption proceeds payable on the redemption of, the Fund’s Class U Units are denominated in U.S. dollars. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates that the transactions occur. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the measurement date. Foreign exchange gains and losses relating to cash are presented as ‘Foreign exchange gain (loss) on cash’ and those relating to investment and derivatives are presented within ‘Net realized gain on sale of non-derivative investments’, ‘Net change in unrealized appreciation or depreciation on non-derivative investments’, ‘Net realized gain (loss) on foreign currency forward contracts’ and ‘Net unrealized appreciation or depreciation on foreign currency forward contracts’ in the Statements of Comprehensive Income.

**k) Increase (decrease) in net assets attributable to holders of redeemable units from operations per unit**

Increase (decrease) in net assets attributable to holders of redeemable units from operations per unit for each class of redeemable units represents the increase (decrease) in net assets attributable to holders of redeemable units from operations for each class for the period divided by the weighted average number of redeemable units of the class outstanding during the period.

**l) Distributions**

Income and net realized capital gains (reduced by loss carryforwards, if any) earned by the Fund are distributed to participants through a regular monthly distribution. Any excess income and net realized capital gains not so distributed during the year are distributed in December of each year to unitholders. Any excess of regular monthly distributions over actual income and net realized capital gains is characterized as a return of capital.

**m) Transaction costs on investment transactions**

Transaction costs on purchases and sales of investments are expensed and are included in ‘Transaction costs’ in the Statements of Comprehensive Income. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

**n) Classification of obligation to holders of redeemable units**

The Manager is required by IAS 32, *Financial Instruments: Presentation* (IAS 32) to assess whether the obligation to holders of redeemable units represents a liability of the Fund or equity of the Fund. The Fund has multiple obligations, being those under the monthly redemption option and those under the annual redemption option, to deliver cash or other

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

*June 30, 2017 (continued)*

financial instruments to the unitholders. The Class A units and Class U units do not have identical features. As a result, the obligation to unitholders is classified as a liability.

**o) Net assets attributable to holders of redeemable units per unit**

The net assets attributable to holders of redeemable units per unit is calculated by dividing the net assets attributable to holders of redeemable units of a particular class by the total number of units of that particular class outstanding at the end of the period.

**4. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED**

The final version of IFRS 9, *Financial instruments* (“IFRS 9”) was issued by the IASB in July 2014 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however it is available for early adoption. IFRS 9 has not yet been adopted by the Fund but is expected to be relevant to the Fund. The Fund has begun the process of assessing the impact that the standard will have on its financial statements, and its preliminary assessment is that the impact will be negligible. The Fund will adopt the new standard in its financial statements for the year ending December 31, 2018.

IFRS 9 introduces a model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.

**5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements:

**Classification and measurement of investments and application of the fair value option**

In classifying and measuring the financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39. The most significant judgment made is the determination that the fair value option can be applied to the Fund’s investments.

**Assessment of functional currency**

The Manager is also required to make a significant judgment about the functional currency of the Fund. The Manager assessed the primary indicators (including the currencies in which income is received and in which expenses are paid) and secondary indicators (including the currency in which funds from financing activities are raised) as prescribed by IFRS, and as a result of this assessment has concluded that the functional currency of the Fund is the Canadian dollar.

**6. TAXATION**

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada) and accordingly is subject to income tax on its income, including net realized capital gains, which is not paid or payable to the Fund’s unitholders, less any income that can be retained by the use of tax credits available to the Fund. The Fund’s taxation year end is December 31. No provision for income taxes has been recorded in the accompanying financial statements as the Fund has determined that it is in substance not taxable since all net income and net realized capital gains of the Fund for the year are distributed to the unitholders to the extent necessary to reduce income taxes payable to nil.

Since the Fund does not record income taxes, the tax assets or liabilities related to capital and non-capital losses and other temporary differences have not been reflected in the Statements of Financial Position as deferred income tax assets or liabilities.

Non-capital loss carryforwards may be applied against future years’ taxable income, and may be carried forward for 20 years from the year in which they are realized. As at June 30, 2017, the Fund had no non-capital losses carried forward

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

*June 30, 2017 (continued)*

(December 31, 2016 – nil). Capital losses incurred by the Fund may be carried forward indefinitely to apply against capital gains realized in future years. As at June 30, 2017, the Fund had \$2,643,880 in capital losses available for carryforward (December 31, 2016 – \$2,643,880).

The Fund currently 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 Statements of Comprehensive Income.

**7. REDEEMABLE UNITS**

The Fund is authorized to issue an unlimited number of classes or series of units. Initially, two classes of units, designated as Class A units and Class U units, were created and authorized for issuance. The Class A units are designed for investors wishing to make their investments in Canadian dollars, and the Class U units are designed for investors wishing to make their investment in U.S. dollars. Each unit of a class entitles the holder to one vote at all meetings of the unitholders and at all meetings of holders of that class, and to participate equally with respect to any and all distributions to the class made by the Fund.

A holder of Class U units may convert such Class U units into Class A units on a monthly basis by delivering a notice and surrendering such Class U units by 3:00 p.m. (Toronto time) at least ten business days prior to the first business day of each month (the “Conversion Date”). For each Class U unit so converted, a holder will receive that number of Class A units equal to the net asset value (“NAV”) per unit of a Class U unit converted to Canadian dollars using the Bank of Canada closing rate as at the close of trading on the business day immediately preceding the Conversion Date divided by the NAV per unit of a Class A unit as at the close of trading on the business day immediately preceding the Conversion Date. No fraction of a Class A unit will be issued upon any conversion of Class U units and any fractional amounts will be rounded down to the nearest whole number of Class A units.

Class A units and Class U units may be surrendered for redemption annually at the option of the unitholders during the period from September 15 until 5:00 p.m. (Toronto time) on the last business day in September, subject to the Fund’s right to suspend redemptions in certain circumstances. Units properly surrendered for redemption will be redeemed on the second last business day of October (the “Annual Redemption Date”) and the redeeming unitholders will receive a redemption price per unit equal to 100% of the Net Asset Value per unit of the relevant class as determined on the Annual Redemption Date, less any costs and expenses incurred by the Fund in order to fund such redemption, including brokerage costs and less any net realized capital gains or income of the Fund that is distributed to unitholders concurrently with the redemption proceeds.

The 2016 annual redemption took place on October 28, 2016 and consisted of 360,595 Class A units for redemption proceeds of \$2,967,137 and 25,700 Class U units for proceeds of US\$212,404 (\$283,974), payable on November 17, 2016.

In addition, Class A units and Class U units may also be redeemed on the second last business day of each month other than a month in which an Annual Redemption date occurs (“Monthly Redemption Date”). Units must be surrendered for redemption prior to 5:00 p.m. on the last business day of the month preceding the Monthly Redemption Date. Unitholders surrendering Class A units for redemption will receive a redemption price per Class A unit equal to the lesser of: (a) 94% of the weighted average trading price on the TSX for the 10 trading days immediately preceding the Monthly Redemption Date (market price) of a Class A unit; and (b) 100% of the closing market price of a Class A unit on the applicable Monthly Redemption Date less, in each case, any costs associated with the redemption, including brokerage costs and less any net realized capital gains or income of the Fund that is distributed to unitholders concurrently with the redemption proceeds. Unitholders surrendering a Class U unit for redemption will receive in U.S. dollars an amount equal to the U.S. dollar equivalent of the product of: (a) Class A monthly redemption amount; and (b) a fraction, the numerator of which is the most recently calculated NAV per unit of a Class U unit and the denominator of which is the most recently calculated NAV per unit of a Class A unit. For such purpose, the Fund will utilize the exchange rate current at, or as nearly as practicable to, the Monthly Redemption Date in respect of a monthly redemption of Class U units.

For the six months ended June 30, 2017, no Class A units were redeemed under the monthly redemption option, and 12,300 Class U units were redeemed under the monthly redemption option for proceeds of US \$98,032 (\$130,259) (2016 – No Class A units were redeemed under the monthly redemption option and 1,100 Class U units were redeemed under the monthly redemption option for proceeds of US\$8,321 (\$10,763).

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

June 30, 2017 (continued)

If a significant number of units are redeemed, the trading liquidity of the units could be significantly reduced. In addition, the expenses of the Fund would be spread among fewer units resulting in a potentially lower distribution per unit. The Manager has the ability to terminate the Fund if, in its opinion, it would be in the best interests of the unitholders to do so. The Manager may also suspend the redemption of units in certain circumstances.

The Fund has received approval from the TSX for normal course issuer bid (“NCIB”) programs between specified dates, allowing the Fund to purchase Class A units for cancellation on the TSX if they trade below NAV per unit. The maximum number of Class A units which can be purchased and cancelled is specified for each NCIB. Class A units purchased and cancelled by the Fund for the six months ended June 30, 2017 and 2016 were as follows:

Approval date	Start date	End date	Maximum units	Units purchased and cancelled	
				2017	2016
June 25, 2015	June 29, 2015	June 28, 2016	279,253	–	83,700
June 27, 2016	June 29, 2016	June 28, 2017	206,188	<b>47,400</b>	–
June 27, 2017	June 29, 2017	June 28, 2018	160,328	–	–
				<b>47,400</b>	<b>83,700</b>

When units of the Fund are redeemed or repurchased for cancellation at a price per unit which is higher or lower than the net asset value per unit at the time, the difference is included in the Statements of Comprehensive Income as ‘Gain (loss) on redemption of redeemable units’ or ‘Net gain (loss) on repurchase and cancellation of redeemable units’.

Unit transactions of the Fund for the six months ended June 30, 2017 and 2016 were as follows:

	2017		2016	
	Class A	Class U	Class A	Class U
Units outstanding at beginning of period	<b>1,768,014</b>	<b>139,406</b>	2,255,000	184,656
Redemptions	–	<b>(12,300)</b>	–	(1,100)
Class U units converted to Class A	<b>8,362</b>	<b>(6,200)</b>	7,646	(5,700)
Repurchase and cancellation of units	<b>(47,400)</b>	–	(83,700)	–
Units outstanding at end of period	<b>1,728,976</b>	<b>120,906</b>	2,178,946	177,856

**8. CAPITAL MANAGEMENT**

For operating purposes, units issued and outstanding are considered to be the capital of the Fund. The Fund’s capital therefore comprises net assets attributable to holders of redeemable units of \$15,365,565 (December 31, 2016 – \$16,777,800). The Fund’s objectives in managing its capital are to provide unitholders with monthly cash distributions and the opportunity to participate in gains in the value of the investment portfolio. The Fund manages its capital taking into consideration the risk characteristics of its holdings. In order to manage its capital structure, the Fund may adjust the amount of distributions paid to unitholders, return capital to unitholders, increase or decrease its level of borrowing if applicable, or purchase units for cancellation.

**9. DISTRIBUTIONS TO UNITHOLDERS**

Distributions, as declared on the Fund’s behalf by the Manager, are made on a monthly basis to unitholders of record on the last business day of each month, payable by the fifteenth business day of the following month. For the six months ended June 30, 2017 the Fund declared total distributions of \$0.30 (2016 – \$0.30) per Class A unit and US\$0.30 (2016 – US\$0.30) per Class U unit, which amounted to \$523,196 (2016 – \$661,706) for Class A units and US\$38,257 (\$50,865) (2016 – US\$54,097 (\$71,386) for Class U units. Under the Fund’s distribution reinvestment plan (“DRIP”), unitholders may elect to reinvest monthly distributions on Class A units in additional Class A units of the Fund which are purchased on the open market. For the six months ended June 30, 2017, distributions of \$76,776 were reinvested in 9,160 Class A units of the Fund which were purchased on the open market (2016 – \$94,296 reinvested in 11,797 Class A units of the Fund).

In conjunction with the annual redemption described in note 8, the Fund made distributions of capital gains to redeeming unitholders in the amount of \$956,418.

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

*June 30, 2017 (continued)*

**10. EXPENSES**

Management fees and other reasonable expenses incurred in the operations of the Fund are charged as expenses in the Statements of Comprehensive Income of the Fund, and include expenses paid by the manager on behalf of the Fund and subsequently recharged to the Fund as described in note 11.

The Fund pays for all other expenses incurred in connection with the operation and administration of the Fund, including: all costs of portfolio transactions, fees payable to third party services providers, custodial fees, legal, accounting, audit and valuation fees and expenses, expenses of the members of the Independent Review Committee (“IRC”), expenses related to compliance with National Instrument 81-107, fees and expenses relating to the voting of proxies by a third party, costs of reporting to unitholders, registrar, transfer and distribution agency costs, printing and mailing costs, listing fees and expenses and other administrative expenses and costs incurred in connection with the continuous public filing requirements, taxes, brokerage commissions, costs and expenses relating to the issue of units of the Fund, costs and expenses of preparing financial and other reports, costs and expenses arising as a result of complying with all applicable laws, regulations and policies, extraordinary expenses that the Fund may incur and all amounts paid on account of indebtedness.

**11. RELATED PARTY TRANSACTIONS**

In accordance with the Declaration of Trust, the Manager is entitled to an annual management fee aggregating to 1.55% per annum of the NAV of the Fund, comprised of 1.15% per annum of the NAV of the Class A and Class U units of the Fund, calculated weekly and paid monthly in arrears, plus an amount to be paid by the Manager to registered dealers equal to the service fee of 0.40% per annum of the NAV of the Fund, calculated quarterly and paid as soon as practicable after the end of each calendar quarter, plus applicable taxes.

For the six months ended June 30, 2017, the Fund expensed management fees of \$139,190 (2016 – \$173,340). As at June 30, 2016, the Fund had management fees payable of \$33,198 (December 31, 2016 – \$36,315) included in accrued liabilities.

On an ongoing basis, the Manager pays on behalf of the Fund, and subsequently recharges to the Fund, certain expenses of the Fund. For the six months ended June 30, 2017 the Fund expensed IRC fees of \$17,157 (2016 – \$16,097), as well as investor relations costs of \$5,540 (2016 – \$5,340) and insurance premiums of \$100 (2016 – \$137) (both included in ‘Other administrative expenses’) which were paid and recharged by the manager. As at June 30, 2017 the Fund owed the Manager \$972 for recharged expenses (December 31, 2016 – \$911) included in accrued liabilities.

Units held by the Manager and its affiliates represent 7.8% of the Class A units outstanding at June 30, 2017 (December 31, 2016 – 7.3%).

**12. BROKERAGE COMMISSIONS ON SECURITIES TRANSACTIONS**

During the six months ended June 30, 2017 the Fund paid \$6,640 (2016 – \$5,886) in brokerage commissions and other transaction costs for portfolio transactions. There are no soft dollar commissions.

**13. SECURITIES LENDING**

The Fund has entered into a securities lending program with CIBC Mellon Global Securities Services Company, (as administrator), which has a DBRS credit rating of AA / R-1 / Stable and a Moody’s credit rating of Aa3 / P-1 / Stable, and BNY Mellon (as lending agent), which has a DBRS credit rating of AA / R-1 / Stable and a Moody’s credit rating of A1 / P-1 / Stable. Securities lending transactions involve the temporary exchange of securities for collateral with a commitment to deliver the same securities and collateral on a specified future date. Income is earned in the form of fees paid by the counterparty and is recognised on the accrual basis in the Statements of Comprehensive Income. The Fund retains the risks and rewards of ownership of the securities loaned, and therefore these securities do not qualify for derecognition and therefore remain in the Statements of Financial Position of the Fund during the loan period. The risks and rewards of ownership include any gains or losses in market value of the securities, the ability to sell the securities, and any dividends or distributions on the securities for which the ex-dividend dates fall within the loan period.

The Fund receives collateral of at least 102% of the value of securities on loan. Should a borrower default on a securities loan, the Fund is entitled to the associated collateral. The Fund is not exposed to the risks and rewards of ownership of the collateral therefore non-cash collateral is not included in the Fund’s Statements of Financial Position. Collateral may comprise: cash; debt that is issued or guaranteed by the Government of Canada or a province thereof, by the Government



**NOTES TO FINANCIAL STATEMENTS (unaudited)**

June 30, 2017 (continued)

of the United States of America or of one of the states of the United States of America or of a sovereign state of the G7 countries, or of Austria, Belgium, Denmark, Finland, the Netherlands, Spain, Sweden, or Switzerland, or a permitted supranational agency of Organisation for Economic Coordination and Development countries; debt that is issued or guaranteed by a financial institution whose short-term debt is rated A-1 or R-1 or equivalent and includes bankers acceptances, banker bearer deposit notes, or irrevocable letters of credit; corporate debt or corporate commercial paper; or convertible securities.

The aggregate fair value of securities loaned (which equals their carrying amount) and the aggregate fair value of the associated collateral under securities lending transactions as at June 30, 2017 and December 31, 2016 are as follows:

Fair value of securities loaned	Fair value of collateral	Fair value of securities loaned	Fair value of collateral
\$ 3,143,875	\$ 3,311,845	\$ 4,851,427	\$ 5,111,296

As at June 30, 2017, the collateral consisted of debt that is issued or fully and unconditionally guaranteed as to the principal and interest by government of Canada, a province of Canada, the government of the United States of America or the government of the United Kingdom or of the Netherlands (December 31, 2016, the collateral consisted of debt that is issued or fully and unconditionally guaranteed as to the principal and interest by the government of Canada, a province of Canada, the government of the United States of America or the government of France or of the Netherlands)

The table below sets out a reconciliation of the gross amounts generated from securities lending transactions to the securities lending income disclosed in the Statements of Comprehensive Income for the six months ended June 30, 2017 and 2016:

	June 30 2017		June 30 2016	
	\$	% of gross income	\$	% of gross income
Securities lending income	\$ 8,355	55.9%	17,478	51.0%
Agent fees paid to the lending agent	2,712	18.2%	9,896	28.9%
Withholding tax	\$ 3,875	25.9%	6,927	20.1%
Gross securities lending income	\$ 14,942		34,301	

**14. FOREIGN CURRENCY FORWARD CONTRACTS**

The Fund was established to enable Canadian investors to participate in the U.S. securities market. Investors were provided with the option of Class A or Class U units in order to allow the investor to choose the investment vehicle that matched their approach to currency fluctuation risk. Class A units were, and through their listing on the TSX, are, the option for investors who do not wish to be exposed to the effect of currency fluctuations. Accordingly, the Class A units are denominated in Canadian dollars and substantially all of the U.S dollar denominated value of the net assets attributable to Class A is hedged in accordance with the Fund’s declaration of trust through the use of foreign currency forward contracts (hedges). Class U units were the option for investors who wanted to invest in U.S. dollars without the hedging of currency fluctuations. Class U units are accordingly denominated in U.S. dollars.

The Fund’s portfolio and its income are denominated in U.S. dollars, whereas the Class A units of the Fund are priced in Canadian dollars. The Fund hedges the Class A units’ currency risk by entering into foreign currency forward contracts to sell U.S. dollars and buy Canadian dollars at a set rate at a set future date.

To achieve the required hedge, the Fund has entered into rolling foreign currency forward contracts with terms of approximately one month, with a financial institution which has a DBRS credit rating of AA / R-1 / Negative, and a Moody’s credit rating of Aa3 / P-1 / Negative. Under these contracts, the Fund agrees to pay a fixed U.S. dollar amount in return for a fixed Canadian dollar amount at a fixed future date. The objective is to shelter the Class A unitholders of the Fund from potential fluctuations in the Canadian dollar value of U.S. currency denominated investments due to changes in the value of the Canadian dollar. This means that the Class A unitholders are substantially protected from capital losses

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

*June 30, 2017 (continued)*

when the Canadian dollar strengthens, but conversely may not fully participate in the capital gains available when the Canadian dollar weakens.

The Fund is subject to enforceable master netting arrangements in the form of International Swaps and Derivatives Association agreements with the counterparty to the foreign currency forward contracts. The value of the amount to be received (purchased) by the Fund, which represents a financial asset of the Fund, is offset with the value of the amount to be paid (sold) by the Fund, which represents a financial liability to the Fund, and the net amount is presented as unrealized appreciation or depreciation on foreign currency forward contract in the Statements of Financial Position.

As at June 30, 2017, the Fund held the following foreign currency forward contract:

<u>Gross financial liability</u>			<u>Gross financial asset</u>			<b>Unrealized appreciation</b>
<b>Notional value</b>	<b>Currency</b>	<b>Fair value CAD</b>	<b>Notional value</b>	<b>Currency</b>	<b>Settlement date</b>	
(9,300,000)	USD	(12,077,910)	12,548,955	CAD	July 5, 2017	471,045

As at December 31, 2016, the Fund held the following foreign currency forward contract:

<u>Gross financial liability</u>			<u>Gross financial asset</u>			<b>Unrealized depreciation</b>
<b>Notional value</b>	<b>Currency</b>	<b>Fair value CAD</b>	<b>Notional value</b>	<b>Currency</b>	<b>Settlement date</b>	
(9,800,000)	USD	(13,142,123)	13,023,710	CAD	January 5, 2017	(118,413)

**15. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS**

**a) Risk factors**

The Fund's investment activities expose it to a variety of risks associated with financial instruments.

The Manager seeks to maximize the returns derived for the level of risk to which the Fund is exposed and to minimize potential adverse effects on the Fund's performance by employing professional and experienced portfolio managers, by daily monitoring of the Fund's positions and market events, and by diversifying the investment portfolio within the constraints of the investment objectives and restrictions. The Manager also maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment objectives and restrictions, internal guidelines and securities regulations.

**b) Credit risk**

The Fund is exposed to credit risk, which is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The carrying amount of the Fund's assets represents the maximum credit risk exposure as at June 30, 2017 and December 31, 2016.

All transactions in listed securities are settled upon delivery using approved brokers. The trade will fail if either party fails to meet its obligations. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker.

The Fund enters into securities lending transactions with counterparties whereby the Fund temporarily exchanges securities for collateral with a commitment by the counterparty to deliver the same securities at a future date. All counterparties are subject to a stringent examination of creditworthiness which includes a financial assessment of the company, a review of qualitative factors including management and corporate governance, comparison to similar companies and consideration of ratings assigned by external ratings agencies, and the value of collateral must be at least 102% of the fair value of the securities loaned. Therefore credit risk associated with these transactions is considered minimal.

The Fund also enters into foreign currency forward contracts as described in note 14.

The Fund limits its exposure to credit loss by dealing with counterparties, including the lending agent and foreign currency forward contract counterparty, of high credit quality (see notes 13 and 14). To maximize the credit quality of its

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

June 30, 2017 (continued)

investments, the Fund’s Manager performs ongoing credit evaluations based upon factors surrounding the credit risk of counterparties, historical trends and other information. Given that the Fund is primarily invested in equities, credit risk is not considered significant.

**c) Other price risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All investments present a risk of loss of capital. The Manager aims to moderate this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Fund’s investment objectives and strategy. The maximum risk of loss resulting from financial instruments is equivalent to their fair value.

The Fund is exposed to price risk from its investment in equity securities. As at June 30, 2017, had the prices of these securities increased or decreased by 10%, with all other variables held constant, net assets attributable to holders of redeemable units would have increased or decreased by approximately \$1,444,638, (December 31, 2016 – \$1,620,566) or 9.4% (December 31, 2016 – 9.7%) of total net assets. In practice, the actual results may differ and the impact could be material.

**d) Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to liquidity risk through the monthly and annual redemption of its units and targeted monthly distributions, because there may be insufficient trade volumes in the markets for the securities of the Fund or because the securities may be subject to legal or contractual restrictions on their resale. The Fund receives notice of at least 21 business days prior to the date of an annual redemption of units and at least 19 business days prior to a monthly redemption date, and has up to 15 business days after the annual or monthly redemption date to settle the redemptions, which provides the Manager time to liquidate securities to fund the redemptions, although there remains a risk that the required funds cannot be obtained. All other liabilities of the Fund mature in six months or less. Liquidity risk is managed by investing the majority of the Fund’s assets in investments that are traded in an active market and can be readily disposed of.

**e) Interest rate risk**

Interest rate risk arises on interest-bearing financial instruments. As at June 30, 2017 and December 31, 2016, the Fund had no significant exposure to interest rate risk as it did not hold any interest bearing securities.

**f) Currency risk**

Currency risk arises on financial instruments denominated in foreign currencies. Fluctuations in foreign exchange rates impact the valuation of assets and liabilities denominated in foreign currencies.

The Fund is invested primarily in publicly traded U.S. securities denominated in U.S. dollars and limits the currency risk associated with the Class A units through the use of hedging via foreign currency forward contracts as described in note 14. While substantially all of the U.S. dollar value of net assets attributable to the Class A units is hedged, the remaining unhedged amount could expose Class A to potential losses and gains. In addition, the foreign currency forward contracts have terms of approximately one month, and there is an exposure to the exchange rate differential at the maturity of each contract.

The Fund’s Class U units are redeemable in U.S. dollars, and are therefore only subject to Canadian dollar exposure with respect to certain administrative expenses. The net assets attributable to the Class U units exclude unrealized gains or losses from foreign currency forward contract.

As at June 30, 2017, the Fund’s direct exposure to currency risk associated with the Class A units, after the effects of the foreign currency forward contract hedge, was as follows:

Currency	Class A currency risk exposed holdings		Net Class A exposure	As a percentage of Class A net assets
	Monetary	Non-monetary		
U.S. dollars	\$ (11,555,518)	\$ 13,252,273	\$ 1,696,755	12.06%

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

June 30, 2017 (continued)

As at December 31, 2016, the Fund’s direct exposure to currency risk associated with the Class A units, after the effects of the foreign currency forward contract hedge, was as follows:

Currency	Class A currency risk exposed holdings		Net Class A exposure	As a percentage of Class A net assets
	Monetary	Non-monetary		
U.S. dollars	\$ (12,374,389)	\$ 14,682,837	\$ 2,308,448	15.22%

As at June 30, 2017 had the U.S. dollar exchange rate increased or decreased by 5% with all other variables held constant, the net unhedged exposure to currency risk associated with the Class A units would have increased or decreased the net assets of the Fund attributable to the Class A units by \$84,838 or 0.60% (December 31, 2016 – \$115,422 or 0.76%). In practice, the actual exchange rate fluctuations may differ and the impact could be material.

**g) Concentration risk**

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund’s concentration risk, expressed in terms of percentage of net assets invested by sector, as at June 30, 2017 and December 31, 2016:

Market Segment	June 30, 2017	December 31, 2016
Consumer Discretionary	8.7%	13.1%
Financial Services	12.8%	13.5%
Health Care	7.1%	6.0%
Industrial	27.5%	28.2%
Information Technology	5.5%	6.1%
Materials	13.3%	10.7%
Real Estate	19.1%	18.9%

**h) Fair value hierarchy**

The Fund classifies fair value measurements within a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Manager has the ability to access at the measurement date;
- Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3 Inputs that are unobservable. The determination of fair value requires significant management judgment or estimation.

If inputs of different levels are used to measure an asset’s or liability’s fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The following fair value hierarchy table

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

June 30, 2017 (continued)

presents information about the Fund’s financial instruments measured at fair value as of June 30, 2017 and December 31, 2016:

<b>June 30, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Equities</b>	\$ 14,446,375	\$ –	\$ –	\$ 14,446,375
<b>Unrealized appreciation on foreign currency forward contract</b>	–	471,045	–	471,045
	<b>\$ 14,446,375</b>	<b>\$ 471,045</b>	<b>\$ –</b>	<b>\$ 14,917,420</b>
<hr/>				
<b>December 31, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Equities</b>	\$ 16,205,661	\$ –	\$ –	\$ 16,205,661
<b>Unrealized depreciation on foreign currency forward contract</b>	–	(118,413)	–	(118,413)
	<b>\$ 16,205,661</b>	<b>\$ (118,413)</b>	<b>\$ –</b>	<b>\$ 16,087,248</b>

The measurement of the fair value of the Class A units disclosed in note 3 a) uses Level 1 inputs, being the quoted price of the Class A units on the Toronto Stock Exchange.

The measurement of the gross financial liability in CAD arising under the Fund’s foreign exchange forward contracts as disclosed in note 14 uses Level 2 inputs, being the current USD spot exchange rate and the current 30 day USD forward exchange rate. An interpolation is performed to obtain the fair value of the liability as of the reporting date. The difference between the gross financial asset in CAD and the gross financial liability in CAD gives the unrealized appreciation or depreciation on the foreign exchange forward contract.

There were no transfers between the levels during the six months ended June 30, 2017 and 2016.

**16. FINANCIAL INSTRUMENTS BY CATEGORY**

The Fund’s investments have been designated at FVTPL at inception, its derivative assets and liabilities are HFT, its redeemable units are recorded at their redemption amounts and all other financial assets and liabilities are at amortized cost, less any impairment, as applicable.

The following table presents the net gains (losses) on financial instruments recorded at FVTPL by category for the six months ended June 30, 2017 and 2016:

	<b>2017</b>	<b>2016</b>
<b>Financial assets at FVTPL:</b>		
HFT	339,600	\$ –
Designated at inception	(379,530)	(502,313)
<b>Total financial assets at FVTPL</b>	<b>(39,930)</b>	<b>(502,313)</b>
<b>Financial liabilities at FVTPL:</b>		
HFT	–	1,072,140
<b>Total</b>	<b>\$ (39,930)</b>	<b>569,827</b>

**CORPORATE  
INFORMATION**

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**Lea M. Hill**, BCom, FCSI

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