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**CANADIAN LIFE COMPANIES SPLIT CORP.**  
**SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

MAY 31, 2017

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This is the semi-annual Management Report of Fund Performance (MRFP) for the period ended May 31, 2017. This MRFP contains financial highlights but does not contain the complete financial statements of the Company. The semi-annual financial statements and accompanying notes are attached to this report.

Investors may also obtain a copy of the Company's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure by visiting our website at [www.lifesplit.com](http://www.lifesplit.com) or by writing to the Company at Investor Relations, TD Tower North, 77 King Street West, P.O. Box 341, Toronto, Ontario, M5K 1K7.

These reports are available to view and download at [www.lifesplit.com](http://www.lifesplit.com) or [www.sedar.com](http://www.sedar.com).

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## **INVESTMENT OBJECTIVES AND STRATEGIES**

Canadian Life Companies Split Corp. invests primarily in a portfolio of commons shares which will include each of the Canadian life insurance companies listed below:

Great West Lifeco Inc.	Manulife Financial Corporation
Industrial-Alliance Insurance & Financial Services	Sun Life Financial Inc.

The Company may also invest up to 20% of its net asset value in equity securities of foreign life insurance companies or other Canadian or foreign financial services corporations other than the four Canadian life insurance companies listed above. In order to supplement the dividends received on the portfolio and to reduce risk, the Company will from time to time write covered call options in respect of some or all of the common shares in the portfolio.

The Company offers two types of shares:

### **Preferred shares**

The investment objectives with respect to the Preferred shares are as follows:

1. To provide holders with fixed cumulative preferential monthly cash dividends in the amount of \$0.05208 per Preferred share to yield 6.25% per annum on the original issue price (\$10) of the Preferred shares; and
2. On or about the termination date of December 1, 2018 (subject to further 6 year extensions thereafter) to pay holders the original issue price.

### **Class A shares**

The investment objectives with respect to the Class A shares are as follows:

1. To provide holders with such dividends as the directors of the Company may from time to time determine; and
2. On or about the termination date to pay holders such amounts as remain after paying the holders of the Preferred shares the amounts owing to them.

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## **RISK**

The risks of investing in the Company remain as discussed in the Annual Information Form dated February 22, 2017. In addition, note 5 of the semi-annual financial statements (“Management of Risk of Financial Instruments”) contains disclosure on specific types of risks related to the financial investments held by the Company.

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## **RESULTS OF OPERATIONS**

The market performance of the Canadian life companies held in the portfolio reflected a mixed period.

The Canadian life companies achieved multi- year market price highs during the early months of the six month period ended May 31, 2017, coinciding with a rise in Canadian long term rates. However, long term rates declined significantly during the March to May period which weighed heavily on the market performance of these companies. The prospect of a sustained period of rising longer term rates would allow life insurance companies to earn better rates of return on their longer term portfolios thereby improving earnings potential.

The wealth management units of these companies continue to be significant drivers of earnings for these companies, with several of these companies, including Manulife, reaching record levels of assets under management. This stable and growing component of the earnings of these companies is providing a more favorable valuation profile.

The net assets per unit (consisting of one Preferred share and one Class A share) finished at \$14.44 as at May 31, 2017, after the payment of \$0.31 to Preferred shareholders and five monthly payments to Class A shareholders in the amount of \$0.50.

The Company continued to utilize its ability to invest up to 20% of its net assets in financial services companies other than the 4 core life insurance companies.

Net assets of the Company finished the period at \$214.2 million.

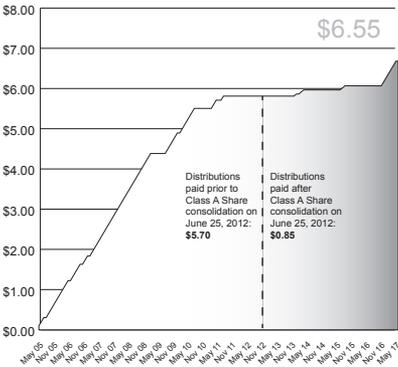
The covered call writing program continued to provide additional income and supplemented the dividend income earned in the portfolio.

### Class A Shares - Distributions

Class A shareholders will receive dividends as the directors of the Company may from time to time determine. The Net Asset Value per unit must remain above the required \$15 per unit threshold for monthly distributions to be paid. Total distributions per Class A share during the period amounted to \$0.50.

### Class A Shares Cumulative Distributions since inception

The Company has paid a total of \$6.55 in dividends for each Class A share.

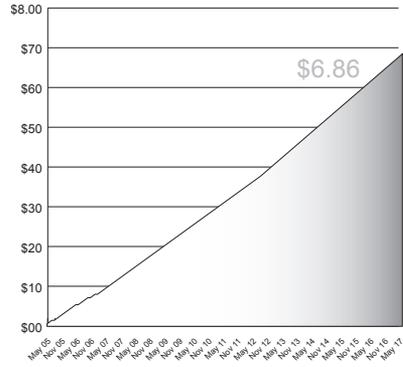


### Preferred Shares - Distributions

Preferred Shareholders are entitled to fixed, cumulative preferential monthly cash dividends in the amount of \$0.05208 per Preferred Share to yield 6.25% per annum on the original issue price. Distributions during the period were at the fixed rate for a total \$0.31 per Preferred share.

### Preferred Shares Cumulative Distributions since inception

The Company has paid a total of \$6.86 in dividends for each Preferred share.



### RECENT DEVELOPMENTS

There were no developments during the period.

### RELATED PARTY TRANSACTIONS

Quadravest Capital Management Inc. (“Quadravest”) as Investment Manager and Manager earns fees from the Company as described below in the Management Fees section.

## FINANCIAL HIGHLIGHTS

The following tables show selected financial information about the Company and are intended to help you understand the Company's financial performance for the past five years. This information is derived from the Company's semi-annual financial statements and previous audited annual financial statements. The information in the following table 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.

### The Company's net assets per unit

	May 31, 2017	Periods ended November 30 <sup>(4)</sup>				
		2016	2015	2014	2013	2012
Net assets per unit, beginning of period <sup>(1)</sup>	15.95	14.97	15.06	14.35	12.48	10.79
Increase (decrease) from operations						
Total revenue	0.24	0.52	0.45	0.40	0.42	0.58
Total expenses	(0.09)	(0.15)	(0.15)	(0.20)	(0.32)	(0.23)
Realized gains for the period	0.16	0.39	0.20	0.26	0.03	(3.48)
Unrealized gains for the period	(1.00)	0.82	0.12	0.86	2.66	5.82
Total increase from operations <sup>(2)</sup>	<u>(0.69)</u>	<u>1.58</u>	<u>0.62</u>	<u>1.32</u>	<u>2.79</u>	<u>2.69</u>
Distributions <sup>(3)</sup>						
Canadian dividends	<u>(0.81)</u>	<u>(0.73)</u>	<u>(0.73)</u>	<u>(0.73)</u>	<u>(0.68)</u>	<u>(0.57)</u>
Total annual distributions	<u>(0.81)</u>	<u>(0.73)</u>	<u>(0.73)</u>	<u>(0.73)</u>	<u>(0.68)</u>	<u>(0.57)</u>
Net assets per unit at end of period	14.44	15.95	14.97	15.06	14.34	12.48
Net assets per Preferred share	10.00	10.00	10.00	10.00	10.00	10.00
Net assets per Class A share	<u>4.44</u>	<u>5.95</u>	<u>4.97</u>	<u>5.06</u>	<u>4.34</u>	<u>2.48</u>
Net assets per unit at end of period	14.44	15.95	14.97	15.06	14.34	12.48

- (1) Net assets per unit is the difference between the aggregate amount of the Company's assets and the aggregate amount of its liabilities, excluding Preferred shares and net assets attributable to holders of redeemable Class A shares, at the valuation date, divided by the number of units then outstanding.
- (2) Total increase (decrease) from operations is before the payment of Preferred and Class A share distributions and is calculated based on the weighted average number of units outstanding during the period.
- (3) Distributions on the Preferred shares and Class A shares are based on the number of Preferred shares and Class A shares outstanding on the record date for each distribution and were paid in cash. Characterization of distributions is based on the tax treatment that is received by investors.
- (4) Per unit figures presented for 2014 and onwards are derived from the Company's semi-annual financial statements and audited annual financial statements which were prepared in accordance with International Financial Reporting Standards ("IFRS"). Per unit figures presented for periods prior to 2014 were derived from the Company's audited financial statements which were prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") as defined in Part V of the CPA Handbook.

## RATIOS AND SUPPLEMENTAL DATA

	May 31, 2017	Periods ended November 30				
		2016	2015	2014	2013	2012
Net asset value (millions) <sup>(1)</sup>	\$214.2	\$236.6	\$240.6	\$245.4	\$190.0	\$103.7
Number of units outstanding	14,830,286	14,830,286	16,074,020	16,291,846	12,489,480	7,880,613
Base management expense ratio <sup>(2)</sup>	1.07%	0.95%	0.96%	1.31%	2.31%	1.59%
Management expense ratio including one time offering expenses <sup>(3)</sup>	1.07%	0.95%	0.96%	1.43%	2.69%	1.59%
Management expense ratio per Class A share <sup>(4)</sup>	14.7%	18.61%	16.71%	18.10%	25.14%	20.78%
Portfolio turnover rate <sup>(5)</sup>	4.43%	14.82%	8.6%	24.10%	86.0%	64.5%
Trading expense ratio <sup>(6)</sup>	0.06%	0.07%	0.01%	0.04%	0.12%	0.13%
Closing market price (TSX): Preferred shares	\$10.32	\$10.26	\$10.23	\$10.27	\$10.02	\$9.99
Closing market price (TSX): Class A shares	\$4.69	\$5.55	\$4.30	\$4.70	\$4.90	\$2.28

(1) This information is provided as at May 31 or November 30.

(2) A separate base management expense ratio has been presented to reflect the normal operating expenses of the Company excluding any one time offering expenses. Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of average net asset value during the period.

(3) Share issue expenses, representing all Agents' fees and other offering expenses are one time initial expenses connected with the launch of the Company or any subsequent secondary offering.

(4) Management expense ratio for Class A shares is based on the requirements of NI 81-106. This instrument requires that all split share companies produce an expense ratio which allocates all operating expenses of the Company, all distributions on Preferred shares and all issuance costs to the Class A shares and expresses this as an annualized percentage of net assets applicable only to the Class A shares during the period. The management expense ratio per Class A shares should not be interpreted as the required return necessary for the Company or the Class A shares to cover the operating expenses of the Company. This calculation is based only on a portion of the Company's assets whereas the Company utilizes its entire assets to generate investment returns. Management believes that the base management expense ratio per unit disclosed in the table above is the most representative ratio in assessing the ongoing efficiency of the administration of the Company, making comparisons to the expense ratios of single unit mutual funds or determining the minimum investment returns necessary by the Company to achieve growth in net asset value per unit.

(5) The Company's portfolio turnover rate indicates how actively Quadravest manages the portfolio investments. A portfolio turnover rate of 100% is equivalent to the Company buying and selling all of the securities in its portfolio once in the course of the period. The Company employs a covered call writing strategy which can cause the portfolio turnover rate to be higher than conventional mutual funds. The higher the Company's portfolio turnover rate in a period, the greater the trading costs payable by the Company in the period and the greater chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of the Company.

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

## MANAGEMENT FEES

Pursuant to the terms of the investment management agreement, Quadravest is entitled to a base management fee payable in arrears at an annual rate equal to 0.65% of the transactional net assets of the Company, which include the outstanding Preferred shares, calculated as at each month-end valuation date. In addition, Quadravest is entitled to receive a performance fee subject to the achievement of certain pre-established total return thresholds.

Pursuant to the management agreement, Quadravest is entitled to an administration fee payable monthly in arrears at an annual rate equal to 0.1% of the net asset value of the Company, which includes the outstanding Preferred shares, calculated as at each month-end valuation date and an amount equal to the service fee payable to dealers on the Class A shares at a rate of 0.50% per annum. No service fee will be paid in any calendar quarter if regular dividends are not paid to holders of Class A shares in respect of each month in such calendar quarter.

The base management fee was used by Quadravest to provide investment analysis, make investment decisions, and make brokerage arrangements for the purchase and sale of securities including the covered call writing program. The administration fee was used to provide or arrange administrative services required by the Company which includes all operational services, financial accounting, shareholder reporting and regulatory reporting.

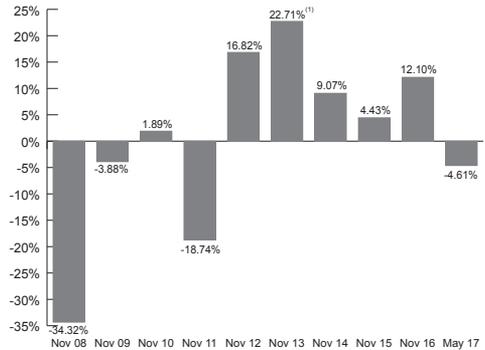
## PAST PERFORMANCE

### Year-by-Year Returns

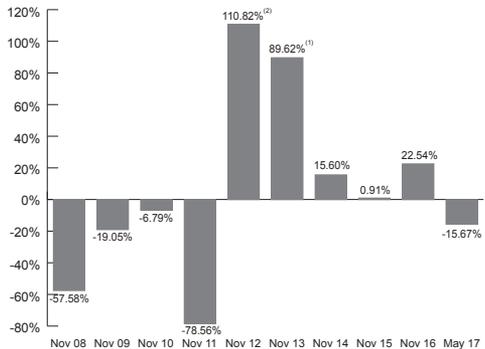
The past performance of 1) the net asset value per unit; 2) the Preferred share on a net asset value basis; and 3) the Class A share on a net asset value basis for each of the last 10 years are presented in the bar charts below. Each bar in the chart reflects the change in percentage terms of how a unit, a Preferred share or a Class A share would have increased or decreased during the applicable year. In respect to the charts displayed below, please note the following:

- The performance information shown assumes that all cash distributions made by the Company during the years shown were reinvested in the applicable additional securities of the Company;
- The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance; and
- Past performance of the Company does not necessarily indicate how it will perform in the future.

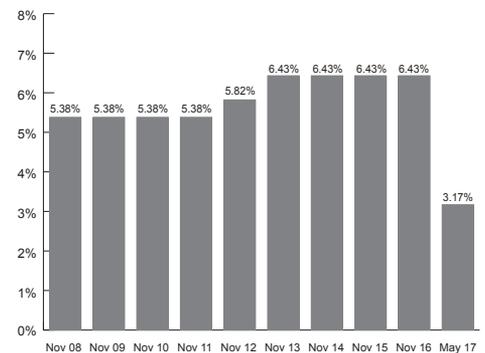
#### NET ASSET VALUE PER UNIT



#### CLASS A SHARE



#### PREFERRED SHARE



<sup>(1)</sup> Based on diluted net asset value per unit.

<sup>(2)</sup> Adjusted for the consolidation of Class A shares on the reorganization date of June 25, 2012. Diluted net asset value was also used in this calculation.

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**SUMMARY OF INVESTMENT PORTFOLIO**  
All holdings as at May 31, 2017

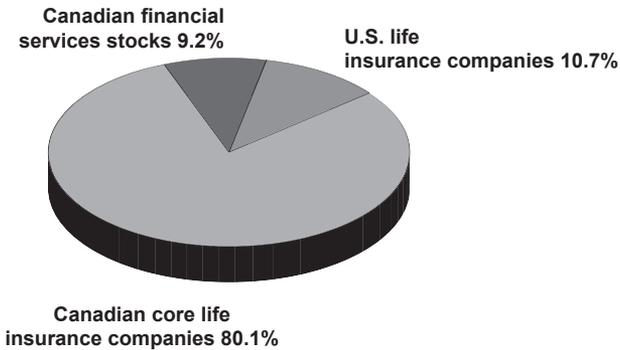
<b>Name</b>	<b>Weighting (%)</b>
Sun Life Financial Inc.	25.9
Manulife Financial Corporation	22.1
Great-West Lifeco Inc.	16.0
Industrial Alliance Insurance & Financial Services Inc.	12.2
Royal Bank of Canada	3.7
Lincoln National Corp.	3.2
Toronto-Dominion Bank	3.0
Prudential Financial Inc.	2.5
Metlife Inc.	2.3
Bank of Nova Scotia	2.1
Aflac Corp.	2.1
<b>Total long positions as a percentage of net assets</b>	<b>95.1</b>
Cash	4.5
Other net assets (liabilities)	0.4
	100.0

The summary of investment portfolio may change due to ongoing portfolio transactions of the Company. Updates are available quarterly.

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## PORTFOLIO BREAKDOWN

The following pie chart shows the division of the Company's holdings between Canadian core insurance, Canadian financial services and U.S. financial services investments.



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## CANADIAN LIFE COMPANIES SPLIT CORP. MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of Canadian Life Companies Split Corp. (the "Company") and all the information in this semi-annual report are the responsibility of management and have been approved by the Board of Directors of the Company.

The Company maintains appropriate procedures to ensure that relevant and reliable financial information is produced. Statements have been prepared in accordance with International Financial Reporting Standards, as applicable to the preparation of interim financial statements including International Accounting Standard 34, and may include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Company are described in note 3 to the financial statements.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements.

The Company's independent auditor has not performed a review of these semi annual financial statements in accordance with standards established by the Chartered Professional Accountants.