2018

Annual Report

December 31, 2018

AIC Segregated Funds are issued by:

ivari™

AIC SEGREGATED FUNDS

AIC Segregated Funds
2018 Annual Report

TABLE OF CONTENTS

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Independent Auditor’s Report

To the Contract holders of
AIC Segregated Funds:

AIC Diversified Canada Segregated Fund
AIC Money Market Segregated Fund
(each individually, the “Fund”)

Opinion

We have audited the financial statements of the Fund, which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of income, comprehensive income, changes in net assets attributable to contractholders and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (“IFRS”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
April 8, 2019

AIC DIVERSIFIED CANADA SEGREGATED FUND

STATEMENTS OF FINANCIAL POSITION

As at ($ in thousands except for per unit amounts)	December 31, 2018	December 31, 2017
Assets		
Current assets		
Investments, at fair value	4,480	5,818
Cash	24	29
Receivable from investments sold	-	1
Receivable from Manager	184	240
	4,688	6,088
Liabilities		
Current liabilities		
Payable on investments purchased	1	1
Accrued expenses and other liabilities	82	102
	83	103
Net assets attributable to contractholders	4,605	5,985
Net assets attributable to contractholders per class		
100% Guarantee Option	3,377	4,479
75% Guarantee Option	1,228	1,506
	4,605	5,985
Net assets attributable to contractholders per unit		
100% Guarantee Option	6.74	7.40
75% Guarantee Option	8.02	8.80

AIC DIVERSIFIED CANADA SEGREGATED FUND

STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31 ($ in thousands except for per unit amounts)	2018	2017
Income		
Distribution income from underlying funds	534	386
Other income (loss)	13	14
Realized gain (loss) on sales of investments	162	1,149
Change in unrealized appreciation (depreciation) in the value of investments	(963)	(115)
	(254)	1,434
Expenses		
Management fees	124	133
Administration fees	157	187
Audit fees	6	28
Interest expense & bank charges	-	1
Custodial fees	22	22
Other operating expenses	29	43
	338	414
Less operating expenses absorbed by Manager	(171)	(227)
Net operating expenses	167	187
Increase (decrease) in net assets attributable to contractholders	(421)	1,247
Increase (decrease) in net assets attributable to contractholders per class		
100% Guarantee Option	(305)	958
75% Guarantee Option	(116)	289
	(421)	1,247
Increase (decrease) in net assets attributable to contractholders per unit		
100% Guarantee Option	(0.56)	1.32
75% Guarantee Option	(0.72)	1.63

The accompanying notes are an integral part of the financial statements.

AIC DIVERSIFIED CANADA SEGREGATED FUND

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO CONTRACTHOLDERS

For the year ended December 31, 2018 ($ in thousands except for per unit amounts)	Fund $	100% Guarantee Option $	75% Guarantee Option $
Net assets attributable to contractholders - beginning of year	5,985	4,479	1,506
Increase (decrease) in net assets attributable to contractholders	(421)	(305)	(116)
Security transactions			
Redemption of units	(959)	(797)	(162)
Total security transactions	(959)	(797)	(162)
Net assets attributable to contractholders - end of year	4,605	3,377	1,228
Changes due to securities transactions (Note 4)			
Units outstanding beginning of year		605	171
Units redeemed		(104)	(18)
Units outstanding end of year		501	153

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO CONTRACTHOLDERS

For the year ended December 31, 2017 ($ in thousands except for per unit amounts)	Fund $	100% Guarantee Option $	75% Guarantee Option $
Net assets attributable to contractholders - beginning of year	7,817	6,483	1,334
Increase (decrease) in net assets attributable to contractholders	1,247	958	289
Security transactions			
Redemption of units	(3,079)	(2,962)	(117)
Total security transactions	(3,079)	(2,962)	(117)
Net assets attributable to contractholders - end of year	5,985	4,479	1,506
Changes due to security transactions (Note 4)			
Units outstanding beginning of year		1,078	187
Units redeemed		(473)	(16)
Units outstanding end of year		605	171

The accompanying notes are an integral part of the financial statements.

AIC DIVERSIFIED CANADA SEGREGATED FUND

STATEMENTS OF CASH FLOWS

For the years ended December 31 ($ in thousands except for per unit amounts)	2018	2017
Cash flows from operating activities		
Increase (decrease) in net assets attributable to contractholders	(421)	1,247
Adjustments for:		
Distributions from underlying funds	(534)	(386)
Realized gain (loss) on sales of investments	(162)	(1,149)
Change in unrealized appreciation (depreciation) in the value of investments	963	115
Purchases of investments	(232)	(11,034)
Proceeds from disposition of investments	1,304	14,517
Receivable from Manager	56	(149)
Accrued expenses and other liabilities	(20)	(89)
Net cash provided by (used in) operating activities	954	3,072
Cash flows from financing activities		
Payments for units redeemed	(959)	(3,079)
Net cash provided by (used in) financing activities	(959)	(3,079)
Net increase (decrease) in cash	(5)	(7)
Cash (bank overdraft) beginning of year	29	36
Cash (bank overdraft) end of year	24	29
Supplemental information on cash flows from operating activities:		
Interest paid	-	1

AIC DIVERSIFIED CANADA SEGREGATED FUND

SCHEDULE OF INVESTMENT PORTFOLIO

As at December 31, 2018

PAR VALUE ($) ('000)/ NO. OF SHARES / NO. OF UNITS	NAME	AVERAGE COST ($) ('000)	FAIR VALUE ($) ('000)
MUTUAL FUNDS 97.3%			
587,351	Manulife Dividend Income Plus Fund, Advisor Series	4,927	4,480
	Total Investments	4,927	4,480
	Other assets less liabilities 2.7%		125
	Net assets attributable to contractholders 100.0%		4,605

The accompanying notes are an integral part of the financial statements.

AIC MONEY MARKET SEGREGATED FUND

STATEMENTS OF FINANCIAL POSITION

As at ($ in thousands except for per unit amounts)	December 31, 2018	December 31, 2017
Assets		
Current assets		
Investments, at fair value	1,470	1,735
Cash	78	75
Receivable from investments sold	-	1
Receivable from Manager	46	51
Distribution receivable from underlying funds	-	2
	1,594	1,864
Liabilities		
Current liabilities		
Payable on investments purchased	-	2
Accrued expenses and other liabilities	47	52
	47	54
Net assets attributable to contractholders	1,547	1,810
Net assets attributable to contractholders per class		
100% Guarantee Option	1,401	1,663
75% Guarantee Option	146	147
	1,547	1,810
Net assets attributable to contractholders per unit		
100% Guarantee Option	6.15	6.08
75% Guarantee Option	7.09	7.00

AIC MONEY MARKET SEGREGATED FUND

STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31 ($ in thousands except for per unit amounts)	2018	2017
Income		
Distribution income from underlying funds	29	19
Other income (loss)	1	1
	30	20
Expenses		
Management fees	12	17
Administration fees	58	63
Audit fees	6	7
Custodial fees	6	7
Other operating expenses	15	23
	97	117
Less operating expenses absorbed by Manager	(85)	(100)
Net operating expenses	12	17
Increase (decrease) in net assets attributable to contractholders	18	3
Increase (decrease) in net assets attributable to contractholders per class		
100% Guarantee Option	16	2
75% Guarantee Option	2	1
	18	3
Increase (decrease) in net assets attributable to contractholders per unit		
100% Guarantee Option	0.06	0.01
75% Guarantee Option	0.09	0.04

The accompanying notes are an integral part of the financial statements.

AIC MONEY MARKET SEGREGATED FUND

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO CONTRACTHOLDERS

For the year ended December 31, 2018 ($ in thousands except for per unit amounts)	Fund $	100% Guarantee Option $	75% Guarantee Option $
Net assets attributable to contractholders - beginning of year	1,810	1,663	147
Increase (decrease) in net assets attributable to contractholders	18	16	2
Security transactions			
Proceeds from units issued	42	26	16
Redemption of units	(323)	(304)	(19)
Total security transactions	(281)	(278)	(3)
Net assets attributable to contractholders - end of year	1,547	1,401	146
Changes due to securities transactions (Note 4)			
Units outstanding beginning of year		273	21
Units issued		4	2
Units redeemed		(49)	(2)
Units outstanding end of year		228	21

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO CONTRACTHOLDERS

For the year ended December 31, 2017 ($ in thousands except for per unit amounts)	Fund $	100% Guarantee Option $	75% Guarantee Option $
Net assets attributable to contractholders - beginning of year	1,855	1,719	136
Increase (decrease) in net assets attributable to contractholders	3	2	1
Security transactions			
Proceeds from units issued	414	400	14
Redemption of units	(462)	(458)	(4)
Total security transactions	(48)	(58)	10
Net assets attributable to contractholders - end of year	1,810	1,663	147
Changes due to security transactions (Note 4)			
Units outstanding beginning of year		283	20
Units issued		66	2
Units redeemed		(76)	(1)
Units outstanding end of year		273	21

The accompanying notes are an integral part of the financial statements.

AIC MONEY MARKET SEGREGATED FUND

STATEMENTS OF CASH FLOWS

For the years ended December 31 ($ in thousands except for per unit amounts)	2018	2017
Cash flows from operating activities		
Increase (decrease) in net assets attributable to contractholders	18	3
Adjustments for:		
Distributions from underlying funds	(29)	(19)
Purchases of investments	(1,585)	(3,886)
Proceeds from disposition of investments	1,880	3,952
Receivable from Manager	5	(1)
Accrued expenses and other liabilities	(5)	-
Net cash provided by (used in) operating activities	284	49
Cash flows from financing activities		
Proceeds from sale of units	42	414
Payments for units redeemed	(323)	(462)
Net cash provided by (used in) financing activities	(281)	(48)
Net increase (decrease) in cash	3	1
Cash (bank overdraft) beginning of year	75	74
Cash (bank overdraft) end of year	78	75

AIC MONEY MARKET SEGREGATED FUND

SCHEDULE OF INVESTMENT PORTFOLIO

As at December 31, 2018

PAR VALUE ($) ('000)/ NO. OF SHARES / NO. OF UNITS	NAME	AVERAGE COST ($) ('000)	FAIR VALUE ($) ('000)
MUTUAL FUNDS 95.0%			
146,978	Manulife Money Market Fund, Series HE	1,470	1,470
	Total Investments	1,470	1,470
	Other assets less liabilities 5.0%		77
	Net assets attributable to contractholders 100.0%		1,547

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
($ in thousands except for per unit amounts)

1. THE FUNDS

ivari is the sole issuer of the variable annuity contract, which is invested in mutual funds ("underlying funds"). The assets of the AIC Segregated Funds (individually, a "Fund", and collectively, the "Funds") are owned by ivari, but are segregated from other assets of ivari under the *Insurance Companies Act*. The Funds are not separate legal entities.

Manulife Mutual Funds, a division of MAML (the "Manager") is the manager of the underlying funds. Prior to September 25, 2009, AIC Limited was the manager of the underlying funds. The Manager provides certain administrative services to the underlying funds.

The address of the Funds' registered office is 5000 Yonge Street, Toronto, Ontario, M2N 7J8, Canada.

The financial statements of each of the Funds were authorized for issue by ivari on April 8, 2019.

The inception date of each of the Funds are as follows:

Fund	Date of inception	Fund	Date of inception
AIC Diversified Canada Segregated Fund	January 18, 1999	AIC Money Market Segregated Fund	January 18, 1999

The Statements of Financial Position of the Funds are as at December 31, 2018 and 2017. The Statements of Comprehensive Income, Statements of Changes in Net Assets Attributable to Contractholders and Statements of Cash Flows are for the years ended December 31, 2018 and 2017. The Schedule of Investment Portfolio is as at December 31, 2018.

Investors have two purchase options for the Funds. They can be purchased with a 100% guarantee or a 75% guarantee. Each purchase option comes with a different expense ratio, as described in Note 6.

Abbreviations legend

The following is a list of abbreviations used in these financial statements:

Currency abbreviations	Other abbreviations
CAD - Canadian Dollar	FVTPL - Fair Value Through Profit or Loss
	IAS - International Accounting Standard(s)
	IASB - International Accounting Standards Board
	IFRS - International Financial Reporting Standard(s)
	MAML - Manulife Asset Management Limited
	NAV - Net Asset Value
	NAVPU - Net Asset Value Per Unit
	TSX - Toronto Stock Exchange

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRS as issued by the IASB.

The significant accounting policies set out below have been consistently applied within these financial statements.

a) IFRS 9, *Financial Instruments* adoption

The IASB issued the final version of IFRS 9, *Financial Instruments* that replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The new standard requires financial assets to be either carried at amortized cost, at FVTPL or at fair value recognized in other comprehensive income based on the Funds' business model for managing financial assets and the contractual cash flow characteristics of the financial statements. Effective January 1, 2018, the Funds retrospectively adopted IFRS 9 without restatement.

Upon transition from IAS 39 to IFRS 9, the Funds' financial assets and liabilities previously designated as FVTPL or classified as held for trading under IAS 39 are now classified as FVTPL. Financial assets that were previously classified as loans and receivable under IAS 39 are now classified as amortized cost. The classification and measurement of other liabilities under the new standard remains generally unchanged. As a result of the transition to IFRS 9, there were no changes in the measurement for any of the financial assets and financial liabilities in the current or comparative period. Assessment and the application of the business model approach are areas of accounting judgment.

b) Critical accounting estimates and judgments

The preparation of the Funds' financial statements requires the Manager to make judgments, estimates and assumptions that affect the reported amounts recognized in the financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods. The following is a discussion of the most significant accounting judgments and estimates made in preparing the financial statements:

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The Manager based the assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Manager. Such changes are reflected in the assumptions when they occur.

The Manager believes that the estimates used in preparing the financial statements are reasonable and prudent. Actual results could differ from these estimates and the difference could be material.

c) Financial Instruments

Recognition and derecognition

All financial instruments are recognized at fair value upon initial recognition when a Fund becomes a party to the contractual requirements of the financial instruments.

A financial asset is derecognized when the right to receive cash flows from the asset has expired or the Funds have substantially transferred all risks and rewards of ownership. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

Classification

In classifying and measuring financial instruments held by the Funds, the Manager is required to assess the Funds' business model, the manner in which all financial assets and financial liabilities are managed and performance evaluated as a group on a fair value basis and the contractual cash flow characteristics of these financial instruments. The Funds' portfolio of financial assets is managed and evaluated on a fair value basis. Consequently, the Funds classify and measure all investments and derivatives at FVTPL.

All other assets and liabilities are subsequently measured at amortized cost in accordance with IFRS 9.

The Funds' obligations for net assets attributable to contractholders are classified as financial liabilities in accordance with the requirements of IAS 32, *Financial Instruments: Presentation* and are presented at the redemption amount.

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.

Investments in underlying funds are valued at their NAV calculated by the Manager in accordance with the constating documents of the underlying fund. If the NAV is unavailable, underlying funds are valued using the last published NAV or at the fair value as determined by the Manager utilizing observable market inputs, whichever is deemed to be the best representation of fair value of the underlying funds.

d) Investments in subsidiaries, associates and interests in unconsolidated structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Subsidiaries are all entities, including investments in other investment entities, over which the Funds have control. The Funds control an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Manager has determined that Funds are each an investment entity as defined by IFRS 10, *Consolidated Financial Statements* and as such, the Funds account for subsidiaries at fair value. Disclosures with respect to the Funds' interest in structured entities are included in Note 7, as applicable.

e) Impairment of financial assets at amortized cost

At each reporting date, the Manager assesses whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Funds recognize 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 loss 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.

f) Cash

Cash represents cash at the bank and is carried at amortized cost, which approximates its fair value. Cash is held with the Funds' custodian, a Canadian financial institution.

g) Investment transactions

Investment transactions are recorded on a trade date basis. Realized gain or loss on sales of investments and change in unrealized appreciation (depreciation) in the value of investments are determined on an average cost basis.

h) Income recognition

Income from investments is recognized on an accrual basis.

Distributions from the underlying funds can include dividends, interest for distribution purposes and capital gains, the proceeds of which are used to purchase additional units in the underlying funds. Distributions are recognized at the date of the distribution by the underlying funds and shown separately as distribution income from underlying funds in the Statements of Comprehensive Income.

i) Allocation of income and expenses, and realized and unrealized gains and losses

Management and administration fees directly attributable to a class are charged to each class. Income, realized gains and losses from investment transactions, change in unrealized appreciation (depreciation) and any fund-level expenses are allocated proportionately to each class based on the relative NAV of each class.

j) Foreign exchange translations

The Funds' functional and presentation currency is CAD.

k) NAV per unit

The NAVPU of each class of each Fund is computed by dividing the NAV of the class by the number of units outstanding of that class at the time. The NAVPU is determined at the close of business each day the TSX is open for business.

The NAV of each class of a Fund is computed by calculating the value of that class' proportionate share of the Fund's common assets less liabilities and less that class' specific liabilities. Expenses directly attributable to a class are charged to that class. Other income and expenses are allocated to each class proportionately based on the relative NAV of each class.

l) Increase (decrease) in net assets attributable to contractholders per unit

Increase (decrease) in net assets attributable to contractholders per unit in the Statements of Comprehensive Income represents the increase (decrease) in net assets attributable to contractholders of each class for the year, divided by the weighted average number of units outstanding of that class during the year.

m) Other financial assets and financial liabilities

All other financial assets and financial liabilities (other than those classified as FVTPL) such as cash; interest, dividends and other receivables; receivable from investments sold; receivable from Manager; payable on investments purchased and accrued expenses and other liabilities are valued at cost or amortized cost.

n) New IFRS standards issued but not yet effective

There are no standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have significant impact on the Funds.

3. FINANCIAL INSTRUMENT RISKS

Management of financial instrument risks

The Funds may be exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, currency risk, concentration risk and other market risk). The Funds' overall risk management program seeks to maximize the returns derived for the level of risk to which the Fund is exposed, and seeks to minimize potential adverse effects on the Fund's financial performance. The value of investments within the Funds' holdings can fluctuate on a daily basis as a result of changes in interest rates, economic conditions and market and company news related to specific securities within the Funds. The Funds' risk management practice includes the monitoring of compliance to investment policy and guidelines. The Manager manages the potential effects of these financial risks on the Funds' performance by employing and overseeing professional and experienced portfolio advisors that regularly monitor the Funds' positions, market events and diversify investment portfolios within the constraints of the investment guidelines.

The Manager maintains a risk management practice that includes monthly and quarterly monitoring of the returns based risk profile of the Funds. The Manager also monitors compliance with investment restrictions to ensure that each Fund is being managed in accordance with their stated investment objectives, strategies and securities regulations.

Some Funds specialize in a particular industry, or in a single country or geographic region of the world. These Funds may therefore be more volatile than more broadly diversified Funds. The overall risk management program of such Funds seeks to minimize the potentially adverse effect of risk on each Fund's financial performance in a manner consistent with its investment objective.

Fund on Fund portfolios are rebalanced by buying or selling the underlying funds in these portfolios based solely on the strategic asset allocation model and not on the specific securities in the Underlying Funds. To help to achieve consistent stable and robust returns over the long term, each Fund is diversified by asset class, region, and management style and strategies. Each portfolio is designed for a defined level of risk.

Financial instrument risk

a) Credit risk

Credit risk is the risk that the issuer of a debt security or counterparty to a financial instrument will fail to pay the interest or to repay the principal or discharge an obligation or commitment that it has entered into with the Fund. The carrying value of investments as presented in the Schedule of Investment Portfolio represents the maximum credit risk exposure as at December 31, 2018. This also applies to other assets, as they have short terms to settlement. The midpoint credit rating from Standard & Poor's has been used in the risk disclosures.

Since money market funds primarily invest in securities with maturities less than one year, their exposure to credit risk is minimal.

Credit risk is presented on debt securities (excluding short-term investments) and derivative assets. The Funds may be exposed to indirect credit risk in the event that the underlying fund holds debt securities and/or derivative assets.

As at December 31, 2018 and 2017, the Funds are not exposed to significant credit risk.

($ in thousands except for per unit amounts)

b) Interest rate risk

The interest rate risk is presented on debt securities (excluding short-term investments). All short-term investments have a maturity of less than one year. The Funds are exposed to the risk that the fair value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. Other assets and liabilities are either short-term in nature or non-interest-bearing.

Generally, the fair value of fixed income securities will vary inversely in relation to a change in interest rates. As interest rates rise, the fair value of fixed income securities falls and vice versa. The magnitude of the fall and rise will generally be greater for long-term fixed income securities than for short-term fixed income securities.

Since money market funds primarily invest in securities with maturities less than one year, their exposure to interest rate risk is minimal.

The Funds may be exposed to indirect interest rate risk in the event that the underlying fund holds debt securities.

As at December 31, 2018 and 2017, the Funds are not subject to significant interest rate risk.

c) Currency risk

Currency risk arises from financial instruments that are denominated in a currency other than the functional currency of each Fund. The Funds are exposed to the risk that the fair value of securities denominated in other currencies will fluctuate due to changes in exchange rates. The Schedule of Investment Portfolio identifies all fixed income securities denominated in foreign currencies. Fixed income securities are presumed to be denominated in the Fund's presentation currency unless otherwise noted. Equities trading in foreign markets are also exposed to currency risk as the price in local terms on the foreign stock exchange is converted to the functional currency to determine fair value.

The foreign currency exposure amounts are based on the fair value of the Funds' holdings and the underlying notional amounts of any derivative contracts. The investments include both monetary and non-monetary instruments.

The Funds may be exposed to indirect currency risk in the event the underlying funds invest in foreign currency denominated instruments.

As at December 31, 2018 and 2017, the Funds are not exposed to significant currency risk.

d) 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.

e) Other market risk

The value of units of a Fund that invests in securities is directly related to the fair value of those investments held by that Fund. The fair value of those investments will increase or decrease depending on the financial performance of the issuers and general economic, political, tax and market conditions.

All securities present a risk of loss of capital. The Manager manages this risk through a careful selection of securities and other financial instruments within the parameters of the Funds' investment strategies. Except for options written and futures contracts held short (if any), the maximum risk resulting from financial instruments is equivalent to their fair values. Possible losses from options written and futures contracts held short can be unlimited. The Funds' equity, debt and derivative instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments.

Since money market funds primarily invest in investments that are short-term in nature, their exposure to other market risk is minimal.

The impact on net assets attributable to contractholders of the Funds due to a 5% change in NAV of the Funds, with all other variables held constant, is summarized in the table below. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

As at December 31,	2018	2017
AIC Diversified Canada Segregated Fund	230	291

f) Liquidity risk

Liquidity risk is the risk that a Fund may not be able to settle or meet its obligations associated with financial liabilities on time. Each Fund is exposed to daily cash redemptions of units. The Funds are primarily invested in securities that are traded in active markets and can be readily disposed of. All other liabilities of the Funds, other than derivatives, mature in six months or less. In addition, the Funds try to maintain sufficient cash positions to meet liquidity requirements. The Funds also have the ability to borrow up to 5% of their net assets attributable to contractholders for the purpose of funding redemptions.

g) Fair value measurement

The Funds classify each financial instrument into one of three fair value levels within the fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1 – for unadjusted quoted prices in active markets for identical assets or liabilities,

Level 2 – for inputs, other than quoted prices included in Level 1, that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

Level 3 – for inputs that are based on unobservable market data.

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.

All fair value measurements are recurring. For financial instruments whose fair values approximate their carrying values, given their short term nature, the carrying values of financial instruments measured at amortized cost approximate their fair values. Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

The models used to determine fair value measurements included in the financial statements of the Funds including Level 3 measurements, are validated and periodically reviewed by experienced personnel of the Manager, independent of the party that created them. The Manager considers and reviews the appropriateness of the valuation models, the valuation results, as well as any adjustments to the prices or estimates used by these models. At each financial reporting date, the Manager reviews and approves all Level 3 fair value measurements.

Underlying funds

The investments in the underlying funds are classified as Level 1, as they are redeemable and the NAVPU is observable.

Transfers between levels

There were no significant transfers between levels during the years ended December 31, 2018 and 2017.

4. UNITS OF THE FUNDS

Units issued and outstanding represent the capital of each Fund. Each Fund is authorized to issue an unlimited number of units with no par value in each class, which are redeemable at the option of the contractholder at their current NAVPU.

Each Fund has a contractual obligation to repurchase or redeem its units for cash or another financial assets and as such, the outstanding units are classified as a financial liability. The Funds have no restrictions or specific capital requirements other than minimum subscription requirements. Changes in each Fund's units during the periods are disclosed in the Statements of Changes in Net Assets Attributable to Contractholders. The Funds endeavour to invest the proceeds received from subscriptions in appropriate investments in conjunction with their investment objectives while remaining in compliance with regulatory requirements. The Funds maintain sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

The Funds issued multiple class of units which are equally subordinate, but are not identical. Thus, the units do not qualify for classification as equity and are presented as financial liabilities in accordance with the requirements of IAS 32, *Financial Instruments: Presentation*.

5. TAXATION

The Funds are deemed to be trusts under the provisions of the *Income Tax Act* (Canada) (the "Act"). The Funds' income and net capital gains and losses are deemed to be allocated to the beneficiaries so that the Funds will not be liable for tax under Part I of the Act. Accordingly, the Funds do not record income tax provisions. Any tax benefit of non-capital loss carry-forwards, where applicable, has not been reflected as a deferred income tax asset in the Statements of Financial Position.

Starting in 2018, non-capital losses may be used to reduce future taxable amounts, and can be carried forward for up to twenty years.

There are no non-capital loss carry-forwards available in the Funds for the years ended December 31, 2018.

6. RELATED PARTY TRANSACTIONS

The Funds' investments in underlying funds managed by MAML, if any, are related party investments. All investment transactions relating to these underlying funds are at the NAVPU of each underlying fund. The Funds receive distribution income from these underlying funds based on the Funds' percentage ownership of each underlying fund. Details of such investments, if any, are included in the Schedule of Investment Portfolio.

Management fees

ivari charges the Funds an annual management fee. MAML charges an annual management fee to the underlying funds for the provision of its services pursuant to the management agreement.

The daily management fee applicable to the Funds and payable to ivari is calculated on each valuation date and is equal to the product of the NAV of the Funds on such date and the number of days elapsed since the last valuation date, multiplied by ivari's daily management fee applicable to the Funds.

In addition to the management fee payable, the Funds and underlying funds (except for the AIC Money Market Segregated Fund) are responsible for all costs and expenses relating to their operations, including, but not limited to, legal, audit, accounting, custodial and safekeeping fees, taxes (if any), interest, operating and administrative costs and expenses, and costs and expenses of financial and other reports and information folders required to comply with laws and regulatory guidelines regulating the issuance or sale of variable annuity contracts.

The Manager, at its discretion, may waive or absorb a portion of the operating expenses otherwise payable by a Fund. These waivers may be terminated at any time by the Manager.

7. INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND STRUCTURED ENTITIES

The Funds consider all of their investments in underlying funds to be investments in unconsolidated structured entities.

The purpose of the underlying fund(s) is to invest funds solely for returns from capital appreciation, investment income, or both.

The underlying funds finance their operations by issuing redeemable units which are puttable at the holder's option and entitles the holder to a proportional stake in the respective underlying fund's net assets. The Funds hold redeemable units in each of their underlying funds. The carrying amount of the Funds' interests in the underlying fund(s) is recognized in investments, at fair value in the Statements of Financial Position. The carrying amount of the Funds' interests in the underlying fund(s) is equal to the maximum exposure to loss. The change in fair value of each underlying fund is included in change in unrealized appreciation (depreciation) in the value of investments in the Statements of Comprehensive Income.

The Funds' investments in underlying funds are subject to the terms and conditions of the respective underlying funds' offering documents and are susceptible to market price risk arising from uncertainties about future values of those underlying funds.

The Funds have the right to request redemption of its investment in an underlying fund on a daily basis. Once the Funds have disposed of units of an underlying fund, the Funds cease to be exposed to any risk from that underlying fund.

8. COMPARATIVE BALANCES

The comparative financial statements have been reclassified from the statements previously presented in order to conform to the presentation of the current year financial statements. Certain balances have been combined or disaggregated in order to conform to the current year's classification of financial statement items.

MANULIFE DIVIDEND INCOME PLUS FUND

TOP 25 UNDERLYING HOLDINGS (UNAUDITED)

Par value, shares or units	Name	Average cost ($) ('000)	Fair value ($) ('000)
79,958	Constellation Software, Inc.	59,435	69,873
981,149	Alimentation Couche-Tard, Inc.	61,760	66,630
648,547	Canadian National Railway Co.	72,573	65,575
60,900,000	Canadian Treasury Bill, 0.73%, Jan 24, 2019	60,683	60,835
3,492,965	Aritzia, Inc.	56,124	57,285
1,173,469	Linamar Corp.	63,147	53,158
2,844,672	CI Financial Corp.	70,727	49,156
34,383,000	BlackBerry Ltd., 3.75%, Nov 13, 2020	45,054	47,864
951,336	CCL Industries, Inc.	59,349	47,624
766,682	MTY Food Group, Inc.	20,734	46,492
27,382	Alphabet, Inc.	30,910	38,730
145,643	MasterCard, Inc.	39,629	37,526
513,500	Fastenal Co.	35,553	36,673
162,510	Apple, Inc.	42,521	35,012
1,900,654	Westjet Airlines Ltd.	40,214	34,212
1,476,582	The Stars Group, Inc.	55,461	33,282
93,310	Ulta Salon Cosmetics & Fragrance, Inc.	32,118	31,203
3,933,084	Aphria, Inc.	34,726	30,875
159,692	Facebook, Inc.	31,713	28,592
790,328	Stantec, Inc.	26,861	23,639
80,758	Arista Networks, Inc.	18,505	23,240
283,785	Spirit Airlines, Inc.	22,495	22,450
670,710	Dollarama, Inc.	24,305	21,778
400,000	Swedish Match AB	26,563	21,532
40,500	Credit Acceptance Corp.	23,175	21,117

MANULIFE MONEY MARKET FUND

TOP 25 UNDERLYING HOLDINGS (UNAUDITED)

Par value, shares or units	Name	Average cost ($) ('000)	Fair value ($) ('000)
50,000,000	Canadian Treasury Bill, 1.54%, Jan 10, 2019	49,657	49,657
36,500,000	Province of New Brunswick, 1.72%, Jan 17, 2019	36,426	36,426
32,326,000	OMERS Finance Trust, 2.04%, Jan 17, 2019	32,259	32,259
32,000,000	The Bank of Nova Scotia, 2.37%, Jun 14, 2019	32,000	32,000
30,000,000	Province of Ontario, 1.76%, Jan 09, 2019	29,739	29,739
28,500,000	Merit Trust, 2.17%, Jan 18, 2019	28,446	28,446
28,000,000	Province of Manitoba, 1.90%, Feb 20, 2019	27,906	27,906
25,800,000	National Bank of Canada, 2.07%, Jan 11, 2019	25,749	25,749
25,000,000	Storm King Funding, 2.33%, Mar 18, 2019	25,000	25,000
25,000,000	Prime Trust, 2.12%, Jan 10, 2019	24,949	24,949
23,300,000	Bank of Montreal, 2.08%, Jan 17, 2019	23,246	23,246
22,170,000	Royal Bank of Canada, 2.40%, Apr 09, 2019	22,170	22,170
21,000,000	Royal Bank of Canada, 2.37%, Jun 19, 2019	21,000	21,000
20,900,000	The Bank of Nova Scotia, 2.40%, Aug 27, 2019	20,900	20,900
20,200,000	Royal Bank of Canada, 2.43%, Nov 05, 2019	20,200	20,200
20,011,000	Canadian Imperial Bank of Commerce, 2.43%, May 08, 2019	20,011	20,011
19,700,000	Canadian Imperial Bank of Commerce, 2.43%, Jun 07, 2019	19,700	19,700
19,500,000	National Bank of Canada, 2.39%, Jun 11, 2019	19,500	19,500
19,150,000	The Toronto-Dominion Bank, 2.08%, Jan 17, 2019	19,104	19,104
18,000,000	Prime Trust, 2.12%, Jan 11, 2019	17,963	17,963
17,000,000	OMERS Finance Trust, 2.08%, Jan 10, 2019	16,971	16,971
17,000,000	Merit Trust, 2.12%, Jan 10, 2019	16,965	16,965
15,000,000	The Toronto-Dominion Bank, 2.08%, Jan 11, 2019	14,970	14,970
14,450,000	Honda Canada Finance, Inc., 2.11%, Feb 08, 2019	14,398	14,398
14,350,000	Province of Alberta, 1.90%, Feb 19, 2019	14,303	14,303

FINANCIAL HIGHLIGHTS (UNAUDITED)

AIC Diversified Canada Segregated Fund

Ratios and Supplemental Data

100% Guarantee Option

	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Total net asset value (000's)[1] ($)	3,377	4,479	6,482	4,916	6,177
Number of units outstanding[1]	500,607	605,363	1,077,886	877,588	1,044,778
Management expense ratio[2] (%)	5.00	5.00	5.00	5.00	5.00
Management expense ratio before waivers or absorptions (%)	8.40	8.98	6.80	8.10	8.53
Portfolio turnover rate[3] (%)	13.97	186.22	26.83	11.12	13.19
Net Asset Value per unit ($)	6.74	7.40	6.01	5.60	5.91

(1) This information is provided as at December 31 of the year shown, unless otherwise indicated.

(2) The management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net assets during the period. It is calculated by dividing total expenses, fees and charges excluding commissions, transaction costs and income taxes by the average net asset value of the segregated fund for the financial period, then multiplying the result by 100. For AIC Money Market Segregated Fund, for years after 2014, the management expense ratio shown does not include the management fee that is paid directly by AIC Money Market Segregated Fund as a unitholder of Manulife Money Fund

(3) The Fund's portfolio turnover rate indicates how actively the portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a portfolio turnover rate in the period, the greater the trading costs payable by the Fund in the period, and the greater the 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 a portfolio.

75% Guarantee Option

	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Total net asset value (000's)[1] ($)	1,228	1,506	1,335	928	1,069
Number of units outstanding[1]	153,190	171,158	186,629	139,121	151,991
Management expense ratio[2] (%)	5.00	5.00	5.00	5.00	5.00
Management expense ratio before waivers or absorptions (%)	6.98	8.09	5.37	6.60	6.76
Portfolio turnover rate[3] (%)	13.97	186.22	26.83	11.12	13.19
Net Asset Value per unit ($)	8.02	8.80	7.15	6.67	7.03

(1) This information is provided as at December 31 of the year shown, unless otherwise indicated.

(2) The management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net assets during the period. It is calculated by dividing total expenses, fees and charges excluding commissions, transaction costs and income taxes by the average net asset value of the segregated fund for the financial period, then multiplying the result by 100. For AIC Money Market Segregated Fund, for years after 2014, the management expense ratio shown does not include the management fee that is paid directly by AIC Money Market Segregated Fund as a unitholder of Manulife Money Fund

(3) The Fund's portfolio turnover rate indicates how actively the portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a portfolio turnover rate in the period, the greater the trading costs payable by the Fund in the period, and the greater the 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 a portfolio.

FINANCIAL HIGHLIGHTS (UNAUDITED)

AIC Money Market Segregated Fund

Ratios and Supplemental Data

100% Guarantee Option

	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Total net asset value (000's)(1) ($)	1,401	1,663	1,719	2,005	2,418
Number of units outstanding(1)	227,693	273,375	282,911	328,728	394,898
Management expense ratio(2) (%)	0.76	0.93	1.28	1.32	1.59
Management expense ratio before waivers or absorptions (%)	5.91	6.30	1.28	8.62	8.26
Net Asset Value per unit ($)	6.15	6.08	6.07	6.10	6.12

(1) This information is provided as at December 31 of the year shown, unless otherwise indicated.

(2) The management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net assets during the period. It is calculated by dividing total expenses, fees and charges excluding commissions, transaction costs and income taxes by the average net asset value of the segregated fund for the financial period, then multiplying the result by 100. For AIC Money Market Segregated Fund, for years after 2014, the management expense ratio shown does not include the management fee that is paid directly by AIC Money Market Segregated Fund as a unitholder of Manulife Money Fund

75% Guarantee Option

	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Total net asset value (000's)(1) ($)	146	147	136	144	163
Number of units outstanding(1)	20,650	20,975	19,548	20,699	23,491
Management expense ratio(2) (%)	0.60	0.58	0.74	0.77	1.04
Management expense ratio before waivers or absorptions (%)	5.92	6.17	0.74	8.20	7.78
Net Asset Value per unit ($)	7.09	7.00	6.96	6.95	6.94

(1) This information is provided as at December 31 of the year shown, unless otherwise indicated.

(2) The management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net assets during the period. It is calculated by dividing total expenses, fees and charges excluding commissions, transaction costs and income taxes by the average net asset value of the segregated fund for the financial period, then multiplying the result by 100. For AIC Money Market Segregated Fund, for years after 2014, the management expense ratio shown does not include the management fee that is paid directly by AIC Money Market Segregated Fund as a unitholder of Manulife Money Fund

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