Flaherty & Crumrine
INVESTMENT GRADE
PREFERRED INCOME FUND

BROMPTON
FUNDS

Flaherty & Crumrine Investment Grade Preferred Income Fund

Annual Report 2019

Investment-grade US preferred and fixed income securities actively managed by Flaherty & Crumrine Incorporated.
Units of the Fund are currently rated P-2(low)f by Standard & Poor's.

VALUE INTEGRITY PERFORMANCE

- THE FOUNDATION FOR EXCELLENCE -

MANAGEMENT REPORT OF FUND PERFORMANCE

March 18, 2020

This annual management report of fund performance for Flaherty & Crumrine Investment Grade Preferred Income Fund (the "Fund") contains financial highlights but does not contain the audited annual financial statements of the Fund. The audited annual financial statements follow this report. You may obtain a copy of the audited annual or unaudited interim financial statements, at no cost, by calling 1-866-642-6001 or by sending a request to Investor Relations, Brompton Funds, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Suite 2930, Box 793, Toronto, Ontario, M5J 2T3, or by visiting our website at www.bromptongroup.com or SEDAR at www.sedar.com. Unitholders may also contact Brompton Funds by 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.

THE FUND

Flaherty & Crumrine Investment Grade Preferred Income Fund is a closed-end investment trust managed by Brompton Funds Limited (the "Manager"). The units of the Fund trade on the Toronto Stock Exchange ("TSX") under the symbol FFI.UN. Flaherty & Crumrine Incorporated (the "Portfolio Manager"), established in 1983, specializes in managing preferred and debt securities and manages the Fund's portfolio. For a more detailed description of Flaherty & Crumrine Incorporated and for the Portfolio Manager's Report on the Fund, see the Portfolio Manager section. The units of the Fund are currently rated P-2(low)f by Standard & Poor's and are RRSP, DPSP, RRIF, RESP and TFSA eligible.

INVESTMENT OBJECTIVES AND STRATEGIES

The Fund's investment objectives are to provide unitholders with a stable stream of monthly distributions, to preserve the Net Asset Value per unit and to enhance the total return per unit by actively managing the portfolio. To achieve these objectives, the Fund invests in a portfolio of fixed income securities consisting primarily of US-dollar-denominated corporate debt and preferred securities of North American issuers. All securities purchased by the Fund are rated investment grade at the time of investment. Substantially all of the US dollar foreign exchange exposure of the Fund's portfolio is hedged to the Canadian dollar.

RECENT DEVELOPMENTS

Market Volatility

This annual management report of fund performance was prepared based on the market value of the Fund's portfolio as of December 31, 2019. Between January 1, 2020 to March 18, 2020 (date of the report), stock markets worldwide experienced significant price volatility, because of various concerns, including COVID-19 and a decline in price of oil. The Fund's Net Asset Value reflecting the value of the Fund's portfolio based on the most recent valuation date can be found on the Fund's webpage at www.bromptongroup.com.

Special Distributions

On December 19, 2019, as a result of the Fund earning taxable income per unit in excess of the previously announced distribution for the year, the Fund declared a special cash distribution of $0.02 per unit for unitholders of record at the close of business on December 31, 2019.

RISKS

Risks associated with an investment in the units of the Fund are discussed in the Fund's 2019 annual information form, which is available on the Fund's website at www.bromptongroup.com or on SEDAR at www.sedar.com. There were no changes during the year ended December 31, 2019 that materially affected the risks associated with an investment in the units of the Fund as they were discussed in the annual information form.

RESULTS OF OPERATIONS

Distributions

The following table provides, on a per unit basis, an approximate summary of the components which affected cash flow available for distribution for the year ended December 31, 2019. These are approximate figures and are calculated using the weighted average number of units outstanding for the period.

Distributions on a Per Unit Basis

	For the year ended December 31, 2019 $
Revenues	**1.20**
Expenses	
Management and Portfolio Manager fees	**(0.13)**
Other expenses	**(0.03)**
Interest and bank charges	**(0.22)**
Total expenses	**(0.38)**
Net investment income	**0.82**
Cash flow available for distribution	**0.82**
Cash distributions to unitholders	**(0.86)**
Net cash flow after distribution	**(0.04)**

The Fund declared cash distributions of $0.86 per unit in 2019, reflecting monthly payments of $0.07 per unit and a special cash distribution of $0.02 per unit. Distributions exceeded net investment income from the portfolio by $0.04 per unit during 2019 to distribute additional taxable income. Net Asset Value at December 31, 2019 was $13.11 per unit, compared to $11.04 per unit at December 31, 2018. See Changes in Net Asset Value on a Per Unit Basis for further analysis.

Based on the December 31, 2019 closing market price of the Fund, the distribution rate of $0.07 per month represented a yield of 6.6%. Since inception, the Fund has paid cash distributions of $17.25 per unit and notional distributions of $0.41 per unit.

The Fund has a distribution reinvestment plan which allows participating unitholders to automatically reinvest monthly distributions, commission free, in additional units of the Fund. Pursuant to this plan, the Fund acquired 6,641 units in the market at approximately $12.08 per unit and no units were issued from treasury in 2019.

Changes in Net Asset Value on a Per Unit Basis

The table below provides an approximate summary of the various factors which contributed to the change in Net Asset Value per unit over the period. These are approximate figures calculated using the weighted average number of units outstanding.

	For the year ended December 31, 2019 $
Opening Net Asset Value	**11.04**
Gain (loss) on portfolio investment[1]	**2.08**
Distributions in excess of cash flow available for distributions	**(0.04)**
Gain from foreign exchange hedge	**0.03**
Total Change	**2.07**
Closing Net Asset Value	**13.11**

1 Excludes the impact of foreign exchange, which is included in the foreign exchange hedge.

The Net Asset Value of $13.11 per unit at December 31, 2019 was 18.8% or $2.07 higher than at December 31, 2018 due to strong portfolio performance.

The Fund has a hedging program in place for foreign exchange risk, whereby substantially all of the Fund's US dollar foreign exchange exposure is hedged to the Canadian dollar at all times. At December 31, 2019, the portfolio was hedged using a combination of foreign currency forward contracts, with staggered maturity dates in Feb 2020, May 2020 and Aug 2020, as well as through US dollar borrowings. At December 31, 2019, the Fund held $62.5 million of US currency forward contracts and had US$36.9 million in borrowings.

Investment Portfolio

The portfolio included 56 holdings at December 31, 2019 compared to 47 holdings at December 31, 2018. The portfolio's investment weighting (excluding cash and short-term investments) and detailed listing of the Fund's security holdings is provided in the financial statements. There are no changes in the Portfolio Manager's credit selection and risk management approach. All securities purchased by the Fund are rated investment grade at the time of investment (see the Credit Quality section). The Fund's credit quality remains investment grade, and its units are currently rated P-2(low)f by S&P.

Portfolio Sectors

	% of Portfolio as of 31-Dec-19
Banking	22.9
Communications	0.4
Energy	14.0
Finance	0.9
Insurance	47.7
Investment funds	3.3
Miscellaneous industries	1.9
Utilities	8.9
Total	**100.0**

Portfolio by Security Type

	% of Portfolio as of 31-Dec-19
Corporate debt	6.1
Preferred securities	90.6
Holdings in investment funds	3.3
Total	**100.0**

During the year ended December 31, 2019 the fund reallocated its sector weightings and reduced its insurance sector weighting by approximately 8.3% from 56% at December 31, 2018. In addition during the year ended December 31, 2019 the fund increased its exposure by approximately 5.9% to be at 22.9% in the Banking sector. The Fund holds 5.1% of Net Asset Value of its investments (or 3.3% of its investment portfolio) in a preferred securities exchange-traded fund, which is managed by the same manager of the Fund. The Fund's percentage ownership in the ETF Fund is 10.5%.

Credit Quality

As at December 31, 2019, the Fund was invested in debt and preferred securities with the following credit ratings. Credit ratings represent the best rating from Standard & Poor’s, Moody’s and Fitch Ratings.

Portfolio Ratings by Category	% of Portfolio as of 31-Dec-19
BBB- to BBB+	87
Below BBB-	10
Other[1]	3
Total	**100**

1 Represents holdings in Investment Funds

Liquidity and Capital Resources

At December 31, 2019, the Fund had total borrowings of $47.9 million (US$36.9 million) or 36.2% of total assets, compared to $50.4 million (US$36.9 million) or 39.6% of total assets at year-end 2018. The rate paid on these borrowings is adjusted regularly based on the London Interbank Offered Rate (“LIBOR”). The borrowings were used to acquire additional portfolio investments as a means of enhancing the distributions paid by the Fund. During 2019, the minimum and maximum amounts of borrowings were $47.9 million and $50.4 million, respectively.

To provide liquidity for unitholders, units of the Fund are listed on the TSX under the symbol FFI.UN. The Fund’s normal course issuer bid program allows it to purchase up to approximately 10% of its units for cancellation if they trade below Net Asset Value per unit. As a result, purchases under the issuer bid program are accretive to the Net Asset Value per unit of the Fund at the time of purchase. During 2019, 188,200 units were repurchased at an average price of $12.07 per unit pursuant to this plan. Investors also may redeem their units in accordance with the Fund’s redemption provisions. During 2019, 315,271 units were redeemed at an average price of $13.04 per unit.

RELATED PARTY TRANSACTIONS

Related party transactions consist of services provided by the Manager pursuant to a management agreement. See the Management Fees section below.

MANAGEMENT FEES

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.30% per annum of the Net Asset Value of the Fund, plus applicable taxes. The Fund does not pay any management fees on investments in funds managed by the Manager. The management fee is used by the Manager to cover its costs to obtain the Fund's assets, the cost to administer the Fund, and for profit. In addition, Flaherty & Crumrine Incorporated, the Portfolio Manager of the Fund, and Brompton Funds Limited, as the principal investment advisor of the Fund, are entitled to receive an additional fee equal to 0.70% per annum of the Net Asset Value of the Fund, plus applicable taxes. For the year ended December 31, 2019, $0.2 million was paid in management fees and $0.6 million was paid in advisory fees.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance for the fiscal periods indicated. This information is derived from the Fund's audited annual financial statements. *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.* The increase (decrease) in Net Assets from operations is based on 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[1]

For the year ended December 31	**2019 $**	2018 $	2017 $	2016 $	2015 $
Net Assets, beginning of year[2]	**11.04**	13.08	12.15	12.25	13.24
Total revenue	**1.20**	1.23	1.24	1.31	1.49
Total expenses	**(0.38)**	(0.37)	(0.33)	(0.29)	(0.29)
Realized gains (losses)	**0.74**	0.70	1.02	0.69	(2.11)
Unrealized gains (losses)	**1.38**	(2.71)	(0.04)	(0.81)	1.04
Total increase (decrease) in Net Assets from operations	**2.94**	(1.15)	1.89	0.90	0.13
Distributions to unitholders:[2]					
Cash distributions:					
From investment income	**0.86**	0.89	0.92	1.01	1.12
Return of capital	**-**	-	0.04	-	-
Unit distributions:					
From net investment income	**-**	0.01	-	0.06	0.14
Total distributions to unitholders[2]	**0.86**	0.90	0.96	1.07	1.26
Net Assets, end of year[2]	**13.11**	11.04	13.08	12.15	12.25

1 The financial information was prepared in accordance with International Financial Reporting Standards.
2 Net Assets per unit and distributions per unit are based on the actual number of units outstanding at the relevant time.

Ratios and Supplemental Data (Based on Net Asset Value)

As at December 31	2019	2018	2017	2016	2015
Net Asset Value ($) (000s)	**83,802**	76,076	100,744	97,881	102,534
Number of units outstanding (000s)	**6,390**	6,894	7,704	8,059	8,371
Management expense ratio ("MER")[1]	**3.10%**	3.01%	2.58%	2.40%	2.26%
Trading expense ratio[2]	**-**	-	-	-	-
Portfolio turnover rate[3]	**18.79%**	11.33%	14.12%	18.67%	14.77%
Net Asset Value per unit ($)	**13.11**	11.04	13.08	12.15	12.25
Closing market price – units ($)	**12.83**	10.41	12.92	12.15	11.91

1 MER is based on the requirements of NI 81-106 and includes the total expenses (excluding commissions and other portfolio transaction costs) of the Fund for the stated period, including interest expense and issuance costs, and is expressed as an annualized percentage of the average Net Asset Value of the period. Please see the Expense Ratio section following this table for further discussion of the calculation.

2 The trading expense ratio represents total commissions expressed as an annualized percentage of daily average Net Asset Value of the Fund during the period.

3 The Fund's portfolio turnover rate indicates how actively the Fund's Portfolio Manager 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 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 such investments during the period.

Expense Ratio

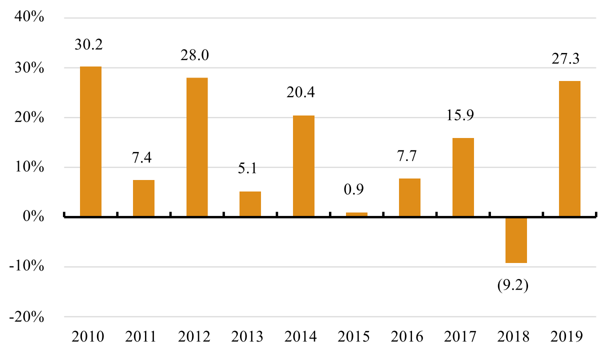
The MER of the Fund was 3.10% for 2019, up from 3.01% in 2018. The increase was primarily due to increase in the interest expense paid in CAD dollar for USD interest. The Fund incurred higher interest expense on its borrowings during the year than the prior year due to CAD dollar depreciation against the US dollar and the Fund incurred US dollar interest expense on its USD dollar loan. This resulted in the Fund having to pay higher interest expenses in Canadian dollars when converted to US dollars. Interest expense is not incurred for working capital purposes or to operate the Fund, but rather to invest in additional US dollar denominated portfolio securities which produce more income for the Fund. The Fund's leverage strategy enhances income and is not an ongoing cost burden. Excluding interest expense, the MER was 1.27% for 2019, down from 1.30% in 2018. This ratio provides a better measure of the ongoing efficiency of the administration of the Fund.

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 cash distributions made by the Fund and deemed distributions based on the warrants' intrinsic value at the approximate exercise date of the warrants in the periods shown were reinvested at Net Asset Value per unit in additional units of the Fund.

The bar chart shows the Fund's return for the periods ended December 31, 2010 through December 31, 2019. The chart shows, in percentage terms, how an investment held on the first day of each fiscal period would have changed by the last day of the fiscal period.

Year-by-Year Returns



The following table shows the Fund's compound return for each period indicated compared with the return for the ICE BofAML US Capital Securities 8% Constrained Index ("Corporate US Capital Index") and the ICE BofAML Hybrid Preferred Securities 8% Constrained Index ("Hybrid Preferred Securities Index") (together the "Indices"). The Corporate US Capital Index includes investment-grade, fixed rate or fixed-to-floating rate $1,000 par securities that are structured for institutional investors and that receive some degree of equity credit from the rating agencies or their regulators. The Hybrid Preferred Securities Index includes taxable, fixed rate, US-dollar-denominated, investment-grade preferred securities listed on a US exchange and structured for retail investors. Since the Fund is actively managed, the sector weightings and credit ratings may differ from those of the Indices. The Indices are also not leveraged, whereas the Fund employs leverage. Further, the indices are calculated without the deduction of management fees, fund expenses and trading commissions, whereas the performance of the Fund is calculated after deducting such fees and expenses.

The benchmarks from ICE Data Indices, LLC ("ICE Data") are used with permission. ICE Data, its affiliates and their respective third-party suppliers disclaim any and all warranties and representations, expressed and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ICE Data, its affiliates nor their respective third-party providers shall be subject to any damages or liability with respect to the adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an "as is" basis and your use is at your own risk. ICE Data, its affiliates and their respective third-party suppliers do not sponsor, endorse, or recommend the Fund.

Annual Compound Returns

	1-Year %	3-Year %	5-Year %	10-Year %	Since Inception %[1]
Flaherty & Crumrine Investment Grade Preferred Income Fund	27.3	10.2	7.8	12.8	6.2
ICE BofAML Hybrid Preferred Securities 8% Constrained Index	17.2	7.9	6.4	7.3	5.1
ICE BofAML US Capital Securities 8% Constrained Index	18.9	8.2	5.8	8.0	5.6

1 Period from December 15, 2004 (commencement of operations) to December 31, 2019.

For the year ended December 31, 2019 and the 3-year, 5-year, 10-year and since inception periods, the Fund outperformed the Corporate US Capital Index and the Hybrid Preferred Securities Index as a result of positive security selection and positive returns were enhanced by the use of leverage. Please see the Portfolio Manager's Report for further details.

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2019

Total Net Asset Value	**$**	**83,801,564**

Portfolio Composition	% of Portfolio	% of Net Asset Value
Preferred Securities:		
Insurance	42.3	65.2
Banking	22.9	35.3
Energy	13.0	20.1
Utilities	8.9	13.6
Miscellaneous industries	1.9	3.0
Finance	0.9	1.4
Communications	0.4	0.7
	90.3	139.3
Corporate Debt:		
Insurance	5.2	8.0
Energy	1.0	1.4
	6.2	9.4
Investment Funds:		
Preferred securities exchange-traded fund	3.3	5.1
Cash and short-term investments	0.2	0.4
Total investment portfolio	100.0	154.2
Currency forward contracts		2.1
Other net liabilities		(56.3)
Total Net Asset Value		**100.0**

Top 25 Holdings	% of Portfolio	% of Net Asset Value
Metlife Inc., 10.75% due August 01, 2039	7.8	12.0
Liberty Mutual Insurance, 7.697% due October 15, 2097	5.2	8.0
HSBC Capital Funding LP, 10.176% due December 31, 2049	4.9	7.6
Aon Corp., 8.205% due January 01, 2027	4.8	7.4
American International Group, 5.75% due April 01, 2048	4.7	7.3
Delphi Financial Group, floating rate due May 15, 2037	4.7	7.2
Enterprise Products Operating L.P., 5.25% due August 16, 2077	4.1	6.3
Provident Financing TR I, 7.405% due March 15, 2038	4.0	6.2
Transcanada Pipelines Limited, 5.875% due August 15, 2076	3.8	5.8
Australia And New Zealand Banking Group, 6.75% due December 31, 2049	3.8	5.8
Integrys Energy Group, 6.00% due August 01, 2073	3.4	5.2
Brompton Flaherty & Crumrine Investment Grade Preferred ETF	3.3	5.1
Partnerre Finance II, floating rate due December 01, 2066	3.1	4.8
BNP Paribas, 7.375% due December 31, 2049	2.9	4.4
QBE Insurance Group Limited, 7.50% due November 24, 2043	2.4	3.7
Everest Reinsurance Holdings, floating rate due May 15, 2037	2.3	3.6
Sempra Energy, 5.75% due July 01, 2079	2.3	3.5
Banco Santander, 7.50% due December 31, 2049	2.2	3.4
Reinsurance Group Of America, 5.75% due June 15, 2056	2.1	3.3
Energy Transfer Operating, 7.60% due December 31, 2049	1.8	2.7
BHP Billiton Finance USA Ltd., 6.75% due October 19, 2075	1.8	2.7

Top 25 Holdings (cont'd)	% of Portfolio	% of Net Asset Value
Credit Agricole S.A., 7.875% due December 31, 2049	1.7	2.7
Enbridge Inc., 6.00% due January 15, 2077	1.7	2.6
Emera Incorporated, 6.75% due June 15, 2076	1.7	2.6
Lloyds Banking Group PLC, 7.50% due December 31, 2049	1.7	2.6
Total	**82.2**	**126.5**

The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available on the Fund's website at www.bromptongroup.com within 60 days of each quarter end.

2019 TAX INFORMATION

The following information is applicable to holders who, for the purpose of the Income Tax Act (Canada), are resident in Canada and hold units as capital property outside of an RRSP, DPSP, RRIF, RESP or TFSA. Unitholders should receive a T3 slip from their investment dealer providing this information.

T3 supplementary slips for holdings of the Fund will indicate Other Income (Investment Income and Non-Investment Income) in Box 26, Foreign Non-Business Income in Box 25, Capital Gains in Box 21 and Eligible Dividend Income in Box 49. Dividend income is subject to the standard gross-up and federal dividend tax credit rules.

The return of capital component is a non-taxable amount that serves to reduce the adjusted cost base of Fund units and is reported on the T3 supplementary slips in Box 42.

The following table outlines the breakdown in the Fund's distributions declared in 2019 on a per unit basis.

Record Date	Payment Date	Foreign Non-Business Income $	Foreign Non-Business Income Tax Paid $	Total Distributions $
31-Jan-19	14-Feb-19	0.07026	(0.00026)	0.07000
28-Feb-19	14-Mar-19	0.07026	(0.00026)	0.07000
29-Mar-19	12-Apr-19	0.07026	(0.00026)	0.07000
30-Apr-19	14-May-19	0.07026	(0.00026)	0.07000
31-May-19	14-Jun-19	0.07026	(0.00026)	0.07000
28-Jun-19	15-Jul-19	0.07026	(0.00026)	0.07000
31-Jul-19	15-Aug-19	0.07026	(0.00026)	0.07000
30-Aug-19	16-Sep-19	0.07026	(0.00026)	0.07000
30-Sep-19	15-Oct-19	0.07026	(0.00026)	0.07000
31-Oct-19	14-Nov-19	0.07026	(0.00026)	0.07000
29-Nov-19	13-Dec-19	0.07026	(0.00026)	0.07000
31-Dec-19	15-Jan-20	0.07026	(0.00026)	0.07000
31-Dec-19	15-Jan-20	0.02007	(0.00007)	0.02000
		0.86319	**(0.00319)**	**0.86000**

This information is of a general nature and does not constitute legal or tax advice to any particular investor. Accordingly, investors are advised to consult their own tax advisors with respect to their individual circumstances.

PORTFOLIO MANAGER

Flaherty & Crumrine Incorporated

Flaherty & Crumrine Incorporated was established in 1983, and it specializes in US-dollar-denominated preferred securities and corporate debt instruments. The firm uses intensive credit analysis, thorough analysis of securities' terms and structures, and active portfolio management, exploiting pricing inefficiencies in the fixed income markets to provide attractive rates of return on its funds.

PORTFOLIO MANAGER'S REPORT

January 2020

U.S. Economic Conditions

The U.S. economy grew at a moderate pace in 2019. While fourth quarter numbers are not yet available, inflation-adjusted gross domestic product (real GDP) should be up about 2.3% in 2019. That would be modestly below economists' consensus forecast of 2.7% growth entering 2019 and our expectation for a 2.5–3.0% expansion. Looking ahead, economists expect another slowdown in growth to 1.8% in 2020 and 2021. We are more optimistic for 2020, when we look for real GDP to expand by 2.0–2.5% on continued strength in consumer spending, a gradual recovery in housing and a modest rebound in business investment – all of which support a favorable credit outlook for the coming year.

The labor market was a source of strength once again for consumers. Payrolls were up by 2.1 million jobs (1.4%) and average hourly earnings rose by 2.9% over 12 months ending in December 2019. That contributed to a 4.9% jump in personal income over 12 months ending in November (latest data available). In turn, personal consumption expenditures (PCE) rose 3.9% year-over-year (YoY) in November, or 2.4% after inflation, and the savings rate moved up to 7.9%, well above its 20-year average of about 6%. With savings elevated, jobs plentiful and income growth strong, we think personal spending in 2020 should equal or exceed 2019's pace.

The housing market began to recover in 2019's second half, with combined new and existing home sales consistently over 6 million units (at an annual rate) in each month since June. Residential investment turned positive in the third quarter after declining for six consecutive quarters, and we expect further gains in 2020. In contrast, business investment slowed to just 0.3% through the first nine months of 2019 after rising 5.9% in 2018. We are hopeful that a trade agreement between the U.S. and China signed in mid-January 2020 will help unleash investment that was deferred in 2019, although we expect only a modest rebound given lower capacity utilization rates in recent quarters. Finally, government spending rose a bit faster than overall GDP in 2019, and we expect a similar result in 2020.

Despite moderate economic growth, rising wages and higher import tariffs, inflation remained subdued. For 12 months ending in December, the consumer price index (CPI) was up 2.3% both overall and excluding food and energy prices. The Federal Reserve's preferred inflation gauge, the PCE deflator, was up 1.5% overall and 1.6% excluding food and energy over 12 months ending in November – 0.4% below year-ago levels and well below the Fed's 2% target for PCE excluding food and energy. We think inflation will edge up in 2020, but global excess capacity and some tariff rollbacks should prevent inflation from rising rapidly.

Monetary policy was active last year as the Fed shifted from rate hikes and a shrinking balance sheet in 2018 to rate cuts and a growing balance sheet in 2019. Financial conditions progressively loosened as the Federal Open Market Committee (FOMC) signaled a shift to significantly more accommodative monetary policy in January 2019; eliminated projections of additional rate hikes in March; delivered 25 bp rate cuts in July, September and October, bringing the fed funds rate target to 1.50–1.75%; ended balance sheet runoff in August; introduced stepped-up purchases of Treasury bills to address strains in money markets in September; and in December projected no rate hikes through the end of 2020. For now, the FOMC believes it has completed a "mid-cycle adjustment" to monetary policy that should help support economic growth and move inflation up toward its 2% target. These actions added up to considerably easier financial conditions, which propelled the preferred market but also reduced reinvestment yields as the year progressed.

Preferred Market Conditions

What a difference a year can make! The preferred market delivered a fantastic year of performance in 2019, a remarkable turnaround considering that just one year ago during the fourth quarter of 2018, markets produced dismal performance as investors worried about rate hikes and a possible recession. The Federal Reserve's unexpected pivot toward looser monetary policy, however, prompted a sudden and dramatic mood change in early 2019. As the year progressed and the Fed's shift from tighter to more accommodative monetary policy became clear, markets gradually became desensitized to macro headlines. While trade and political uncertainty was abundant, the U.S. economy continued to progress despite these uncertainties, and interest rates settled into a relatively narrow range in the second half of 2019.

The Fed's pivot was a strong signal to markets that it would be cautious on monetary policy, erring on the side of protecting a U.S. economy whose growth stood out among struggling global economies. With the Fed signaling that higher interest rates were unlikely near-term, markets began to price in lower rates as a dovish stance was in place for the foreseeable future. Indeed, interest rates moved substantially lower across the curve, and risk assets generally benefited from monetary policy easing. A global hunt for yield was once again in full effect.

Preferreds and contingent capital securities ("CoCos") offer a yield advantage compared to senior debt (and most other fixed-income alternatives), primarily because they are subordinated in an issuer's capital structure. Issuer credit quality in these markets has remained sound, partly due to a strong regulatory oversight regime for most financial issuers. Preferreds and CoCos have been a natural fit for investors searching for yield. While once very specialized, the preferred market has benefited from a substantial broadening of the investor base. Even traditional bond funds now regularly add a layer of preferreds and CoCos to their portfolios to enhance yield and total return.

While investor demand has been strong, net new issuance this year has been measured. Issuers have largely entered a maintenance phase, where they issue at the margin to facilitate modest balance sheet growth, but where most issuance reflects refinancing of older securities to take advantage of lower rates. We believe this trend likely continues near-term, although CoCo issuance could pick up in 2020. Broad-based demand combined with limited supply kept the preferred market well bid throughout this past year.

This selloff seems to reflect an accumulation of factors that had been bubbling under the surface for much of the year. Top concerns include a global economic slowdown, widening tariffs and potential for escalating trade wars, the Federal Reserve tightening credit conditions, the impact of Brexit beyond the U.K. and Europe and most recently a federal government shutdown to end the year. Many of these concerns involve politics, which often are not aligned with investor goals and tend to heighten volatility. Investors are climbing a wall of worry and, more recently, choosing to wait it out by holding more cash.

Portfolio Results

Over the six months ending December 31, 2019, the Fund's US dollar-denominated investment portfolio (before the impact of expenses and hedging currency risk between U.S. and Canadian dollars) outperformed the ICE BofAML hybrid preferred securities index, which tracks the investment-grade US dollar-denominated taxable preferred securities market structured for retail investors. The Fund's portfolio also outperformed the ICE BofAML capital securities index, which tracks the investment-grade U.S. dollar-denominated taxable preferred market structured for institutional investors.

Over the full calendar year, the Fund's portfolio outperformed both the Corporate US Capital Index and the Hybrid Preferred Securities Index. Over both the trailing six months and full calendar year, the Fund portfolio benefitted significantly from its overweight to securities with greater call protection. When rates are low, issuers have an incentive to call their outstanding securities and refinance them at lower coupons. This refinancing activity accelerated in the second half of 2019 as the outlook for lower rates became entrenched. Under this environment securities with greater call protection have generally outperformed. Securities with greater call protection can sustain higher prices since they have more time to amortize any price premium before eventually being called at par value. On the other hand, securities nearer to their call date haven't seen as much price appreciation since most are expected to be called at par.

Greater call protection allows the Fund portfolio to have a more stable income profile over time as interest rates move up and down, and it is a feature we have always valued greatly. Of course, call protection is only one aspect that we consider in a preferred investment. Evaluation of spreads, trading patterns and ongoing credit monitoring are equally important to our investment process. So while nearly all market sectors ended the year in positive territory, the Fund portfolio benefitted from its careful selection of securities that had greater room for their credit spreads to narrow.

The Fund portfolio's floating-rate securities were a notable straggler over the past year. Coupons on most floating-rate preferreds are based on a spread above a short-term interest rate benchmark (typically 3-month LIBOR). During the calendar year the Federal Reserve moved to loosen monetary conditions and floating-rate preferreds underperformed as short-term interest rates declined. As of December 31, 2019, floating-rate preferred comprised 11% of the Fund portfolio.

Outlook for the Preferred Market

A number of recent developments helped close 2019 on a positive note and should improve the outlook for 2020. U.K. elections provided a path to proceed finally with Brexit, and although much work remains over coming years, moving Brexit to resolution is positive for markets. China trade issues are much the same – a lot of work remains, but progress is being made and both sides appear to be seeking common ground. As 2020 is a presidential election year in the U.S., we would caution that a long-term investment view is always prudent regarding political events.

More specifically for the preferred market, credit conditions and economic growth should remain broadly favorable in 2020 and benefit preferred and contingent capital securities. Leverage at U.S. financial companies has continued to decline since the financial crisis, and most of those companies have historically strong balance sheets and rising earnings. Among non-U.S. issuers, European bank CoCos have been some of the best performers recently as Brexit finally appears to be on-track. While not a near-term concern, rising leverage at nonfinancial companies is a longer-term risk we are monitoring.

Looking ahead, financial conditions are supportive, and U.S. fiscal policy is mildly expansionary. Risk is mostly for lower rates if growth falters, as we think the Fed is unlikely to raise rates if the economy does better than expected. Markets have to incorporate that risk, and forward rates look about right to us today. But if the Fed leaves rates steady as we expect, that means intermediate- and long-term rates should move modestly higher over the course of 2020. However, credit spreads have room to narrow further in this environment, which should help offset a rise in intermediate- and long-term interest rates if economic growth outpaces economists' subdued expectations for 2020.

We believe the preferred market continues to offer long-term investors an attractive combination of good credit quality, high income and moderate interest-rate risk. We have no doubt 2020 will be another interesting year – and we hope a good one for investors in preferred securities.

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 and we assume no obligation to update or revise them to reflect new events or circumstances, except as required by law.

MANAGEMENT RESPONSIBILITY STATEMENT

The financial statements of Flaherty & Crumrine Investment Grade Preferred Income Fund (the "Fund") have been prepared by Brompton Funds Limited (the ''Manager" of the Fund) and approved by the Board of Directors of the Manager. The Manager is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

The Manager maintains appropriate procedures to ensure that relevant and reliable financial information is produced. Statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in note 3 to the financial statements.

The Board of Directors of the Manager is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of a majority of independent directors.

The Manager, with the approval of its Board of Directors, has appointed PricewaterhouseCoopers LLP as the auditor of the Fund. It has audited the financial statements of the Fund in accordance with Canadian generally accepted auditing standards to enable it to express to unitholders its opinion on the financial statements. The auditor has full and unrestricted access to the Audit Committee to discuss its findings.

(Signed) "Mark A. Caranci"

Mark A. Caranci
Chief Executive Officer
Brompton Funds Limited
March 18, 2020

(Signed) "Craig T. Kikuchi"

Craig T. Kikuchi
Chief Financial Officer
Brompton Funds Limited

INDEPENDENT AUDITOR'S REPORT

To the Unitholders and Trustee of Flaherty & Crumrine Investment Grade Preferred Income Fund (the Fund)

OUR OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2019 and 2018 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Fund's financial statements comprise:

- the statements of financial position as at December 31, 2019 and 2018;
- the statements of comprehensive income for the years then ended;
- the statements of cash flows for the years then ended;
- the statements of changes in net assets attributable to holders of redeemable units for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

OTHER INFORMATION

Management is responsible for the other information of the Fund. The other information comprises the Management Report of Fund Performance and the information, other than the financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Fund, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Fund or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE 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.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (cont'd)

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 generally accepted auditing standards 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 generally accepted auditing standards, 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Derek Hatoum.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants,
Licensed Public Accountants
Toronto, Ontario
March 18, 2020

STATEMENTS OF FINANCIAL POSITION

As at December 31		**2019**		2018
Assets				
Current assets				
Investments	**$**	**128,900,129**	$	129,064,581
Cash		**319,810**		416,311
Unrealized gain on foreign currency forward contracts (note 9)		**1,768,309**		87,625
Income receivable		**1,463,272**		1,592,858
Total assets		**132,451,520**		131,161,375
Liabilities				
Current liabilities				
Unrealized loss on foreign currency forward contracts (note 9)		**-**		3,979,821
Distributions payable to holders of redeemable units (note 6)		**575,145**		585,987
Loans payable (note 10)		**47,916,495**		50,375,880
Accounts payable and accrued liabilities		**158,316**		144,100
Total liabilities (excluding Net Assets attributable to holders of redeemable units)		**48,649,956**		55,085,788
Net Assets attributable to holders of redeemable units	**$**	**83,801,564**	$	76,075,587
Redeemable units outstanding (note 4)		**6,390,496**		6,893,967
Net Assets attributable to holders of redeemable units per unit	**$**	**13.11**	$	11.04

Approved on behalf of Flaherty & Crumrine Investment Grade Preferred Income Fund by the Board of Directors of Brompton Funds Limited, the Manager.

(Signed) “Christopher. S.L. Hoffman”

Christopher S.L. Hoffmann
Director

(Signed) “Mark A. Caranci”

Mark A. Caranci
Director

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

STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31		**2019**		2018
Income				
Securities lending income (note 11)	**$**	**8,764**	$	11,213
Net gain (loss) on foreign exchange on cash		**(84,102)**		350,979
Net realized foreign exchange gain (loss) on loans payable (note 10)		**847,550**		(2,691,529)
Net change in unrealized foreign exchange gain (loss) on loans payable (note 10)		**1,611,835**		(1,908,501)
Net gain (loss) on investments and derivatives:				
Interest income for distribution purposes		**6,465,467**		7,483,698
Dividend income		**1,679,054**		1,684,086
Net realized gain (loss) on sale of investments (note 8)		**6,445,163**		8,268,030
Net change in unrealized gain (loss) on investments		**2,133,347**		(10,761,942)
Net realized gain (loss) on foreign currency forward contracts (note 9)		**(2,294,605)**		(634,583)
Net change in unrealized gain (loss) on foreign currency forward contracts (note 9)		**5,660,505**		(7,669,570)
Total net gain (loss) on investments and derivatives		**20,088,931**		(1,630,281)
Total income (loss), net		**22,472,978**		(5,868,119)
Expenses				
Management fees (note 7)		**240,272**		298,887
Advisory fees (note 7)		**606,825**		654,634
Audit fees		**26,522**		27,217
Trustee fees		**7,277**		7,473
Independent Review Committee fees (note 7)		**6,288**		11,330
Custodial fees		**14,476**		16,439
Legal fees		**4,181**		40,265
Unitholder reporting costs		**11,449**		29,947
Other administrative expenses		**103,669**		103,715
Interest and bank charges (note 10)		**1,531,185**		1,564,694
Transaction costs		**2,021**		2,681
Total expenses		**2,554,165**		2,757,282
Withholding taxes		**20,513**		-
Increase (decrease) in Net Assets attributable to holders of redeemable units	**$**	**19,898,300**	$	(8,625,401)
Increase (decrease) in Net Assets attributable to holders of redeemable units per unit[1]	**$**	**2.94**	$	1.15

1 Based on the weighted average number of redeemable units outstanding for the year (note 4).

STATEMENTS OF CASH FLOWS

For the years ended December 31		**2019**		2018
Cash flows from operating activities:				
Increase (decrease) in Net Assets attributable to holders of redeemable units	**$**	**19,898,300**	$	(8,625,401)
Adjustments for:				
Net (gain) loss on foreign exchange on cash		**84,102**		(350,979)
Net realized foreign exchange (gain) loss on loans payable		**(847,550)**		2,691,529
Net change in unrealized foreign exchange (gain) loss on loans payable (note 10)		**(1,611,835)**		1,908,501
Net realized (gain) loss on sale of investments (note 8)		**(6,445,163)**		(8,268,030)
Net change in unrealized (gain) loss on investments		**(2,133,347)**		10,761,942
Net change in unrealized (gain) loss on foreign currency forward contracts (note 9)		**(5,660,505)**		7,669,570
Decrease (increase) in income receivable		**129,586**		51,311
Increase (decrease) in accounts payable and accrued liabilities		**14,216**		(41,497)
Increase (decrease) in notional distributions from investment funds (note 8)		**-**		(9,600)
Purchase of investments (note 8)		**(24,532,539)**		(16,357,330)
Proceeds from sale of investments (note 8)		**33,275,501**		34,648,047
Cash provided by (used in) operating activities		**12,170,766**		24,078,063
Cash flows from financing activities:				
Amounts paid for redemptions of redeemable units (note 4)		**(4,111,323)**		(4,374,949)
Amounts paid for repurchase of units (note 4)		**(2,271,712)**		(5,105,906)
Distributions paid to unitholders, net (note 6)		**(5,800,130)**		(6,592,933)
Increase (decrease) in loans payable		**-**		(8,852,770)
Cash provided by (used in) financing activities		**(12,183,165)**		(24,926,558)
Net increase (decrease) in cash		**(12,399)**		(848,495)
Net gain (loss) on foreign exchange on cash		**(84,102)**		350,979
Cash, beginning of year		**416,311**		913,827
Cash, end of year	**$**	**319,810**	$	416,311

Supplemental information:[1]		
Dividends received ($)	**1,617,544**	1,732,843
Interest received ($)	**6,636,050**	7,476,652
Interest paid ($)	**1,483,164**	1,545,967

1 Included in cash flows from operating activities.

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

For the years ended December 31		**2019**		2018
Net Assets attributable to holders of redeemable units, beginning of year	**$**	**76,075,587**	$	100,744,440
Operations:				
Increase (decrease) in Net Assets attributable to holders of redeemable units		**19,898,300**		(8,625,401)
Distributions to holders of redeemable units (note 6):				
Net investment income		**(5,789,288)**		(6,666,697)
Total		**(5,789,288)**		(6,666,697)
Redeemable unit transactions:				
Redemption of redeemable units (note 4)		**(4,111,323)**		(4,374,949)
Repurchase of redeemable units (note 4)		**(2,271,712)**		(5,105,906)
Reinvestments of distributions to holders of redeemable units (note 6)		**-**		104,100
Net increase (decrease) from redeemable unit transactions		**(6,383,035)**		(9,376,755)
Net increase (decrease) in Net Assets attributable to holders of redeemable units		**7,725,977**		(24,668,853)
Net Assets attributable to holders of redeemable units, end of year		**83,801,564**		76,075,587
Distributions per unit (note 6)	**$**	**0.86**	$	0.90

SCHEDULE OF INVESTMENT PORTFOLIO

As at December 31, 2019

	Number of Shares/Units/ Par Value US$	Cost CAD$	Carrying Value CAD$	% of Portfolio
Preferred Securities				
Banking				
Australia And New Zealand Banking Group, 6.75% due December 31, 2049	3,289,000	4,573,355	4,877,852	
Banco Bilbao Vizcaya Argentaria S.A., 6.50% due December 31, 2049	400,000	532,240	550,585	
Banco Santander, 7.50% due December 31, 2049	2,000,000	2,621,391	2,871,237	
Barclays PLC, 8.00% due December 31, 2049	800,000	1,093,386	1,162,945	
BBVA Bancomer SA Texas, 5.875% due September 13, 2034	200,000	264,670	272,397	
BNP Paribas, 7.375% due December 31, 2049	2,470,000	3,262,666	3,703,301	
BNP Paribas, 7.625% due December 31, 2049	1,000,000	1,320,393	1,370,425	
Credit Agricole S.A., 7.875% due December 31, 2049	1,500,000	2,106,552	2,225,195	
Credit Suisse Group AG, 6.375% due December 31, 2049	450,000	599,108	631,387	
HSBC Capital Funding LP, 10.176% due December 31, 2049	2,955,000	4,037,291	6,334,859	
HSBC Holdings PLC, 6.875% due December 31, 2049	289,000	378,604	393,707	
ING Groep NV, 6.75% due December 31, 2049	200,000	278,457	282,331	
Lloyds Banking Group PLC, 7.50% due December 31, 2049	1,500,000	2,101,234	2,185,664	
Lloyds TSB Bank PLC, 12.00% due December 31, 2049	1,000,000	1,722,185	1,579,050	
Standard Chartered PLC, 7.50% due December 31, 2049	800,000	1,039,871	1,121,620	
		25,931,403	**29,562,555**	**22.9**
Communications				
Vodafone Group PLC, 7.00% due April 04, 2079	375,000	504,019	572,500	
		504,019	**572,500**	**0.4**
Energy				
DCP Midstream LLC, 5.85% due May 21, 2043	1,250,000	1,281,388	1,515,140	
Enbridge Inc., 6.00% due January 15, 2077	1,600,000	2,132,815	2,203,006	
Energy Transfer Operating, 7.60% due December 31, 2049	70,000	2,335,550	2,301,550	
Enterprise Products Operating L.P., 5.25% due August 16, 2077	4,000,000	5,060,600	5,264,322	
Transcanada Pipelines Limited, 5.50% due September 15, 2079	500,000	657,700	683,037	
Transcanada Pipelines Limited, 5.875% due August 15, 2076	3,500,000	4,743,678	4,898,611	
		16,211,731	**16,865,666**	**13.1**
Finance				
Aercap Holdings NV, 5.875% due October 10, 2079	750,000	1,000,238	1,044,370	
National Rural Utilities CFC, 5.50% due May 15, 2064	4,971	167,119	177,838	
		1,167,357	**1,222,208**	**1.0**
Insurance				
American International Group, 5.75% due April 01, 2048	4,250,000	5,550,925	6,076,130	
Aon Corp., 8.205% due January 01, 2027	3,700,000	4,123,886	6,166,269	
Arch Capital Group Ltd., 5.25% due December 31, 2049	14,000	455,770	463,219	
Arch Capital Group Ltd., 5.45% due December 31, 2049	6,200	195,674	207,636	
Athene Holding Ltd., 6.35% due December 31, 2049	35,000	1,174,513	1,283,941	
Axis Specialty Finance, 4.90% due January 15, 2040	1,000,000	1,329,800	1,318,774	
Delphi Financial Group, floating rate due May 15, 2037	207,500	4,415,612	6,055,869	
Everest Reinsurance Holdings, floating rate due May 15, 2037	2,481,000	2,416,998	3,033,539	

SCHEDULE OF INVESTMENT PORTFOLIO (cont'd)

As at December 31, 2019

	Number of Shares/Units/ Par Value US$	Cost CAD$	Carrying Value CAD$	% of Portfolio
Insurance (cont'd)				
Liberty Mutual Group, 7.80% due March 15, 2037	1,260,000	1,745,037	2,162,358	
Lincoln National Corp., floating rate due May 17, 2066	1,705,000	1,482,053	1,951,710	
Metlife Inc., 10.75% due August 01, 2039	4,650,000	5,843,324	10,095,151	
Partnerre Finance II, floating rate due December 01, 2066	4,000,000	2,710,487	4,064,358	
Partnerre Ltd., 5.875% due December 31, 2049	2,606	84,399	87,206	
Partnerre Ltd., 7.25% due December 31, 2049	3,803	123,165	133,040	
Provident Financing TR I, 7.405% due March 15, 2038	3,320,000	3,699,653	5,201,855	
QBE Insurance Group Limited, 7.50% due November 24, 2043	2,131,000	3,186,812	3,107,632	
Reinsurance Group Of America, 5.75% due June 15, 2056	75,684	2,477,219	2,769,515	
Renaissancere Holdings Ltd., 5.75% due December 31, 2049	3,082	100,157	108,178	
W.R. Berkley Corporation, 5.70% due March 30, 2058	1,400	45,492	48,103	
W.R. Berkley Corporation, 5.75% due June 01, 2056	9,217	286,780	313,581	
		41,447,756	**54,648,064**	**42.4**
Miscellaneous				
Apollo Management Holdings, 4.95% due January 14, 2050	140,000	184,632	184,382	
BHP Billiton Finance USA Ltd., 6.75% due October 19, 2075	1,500,000	1,948,938	2,290,038	
		2,133,570	**2,474,420**	**1.9**
Utilities				
Algonquin Power & Utilities Corp., 6.20% due July 01, 2079	17,000	572,071	622,525	
Emera Incorporated, 6.75% due June 15, 2076	1,496,000	1,932,018	2,198,126	
Integrys Energy Group, 6.00% due August 01, 2073	123,993	3,254,955	4,367,426	
Nextera Energy Capital, 5.65% due May 01, 2079	915,000	1,218,185	1,317,934	
Sempra Energy, 5.75% due July 01, 2079	85,000	2,981,039	2,932,710	
		9,958,268	**11,438,721**	**8.9**
Total Preferred Securities		**97,354,104**	**116,784,134**	**90.6**
Corporate Debt Securities				
Insurance				
Liberty Mutual Insurance, 7.697% due October 15, 2097	3,599,000	3,756,703	6,668,947	
		3,756,703	**6,668,947**	**5.2**
Energy				
Energy Transfer Operating. 8.25% due November 15, 2029	680,000	771,482	1,162,661	
		771,482	**1,162,661**	**0.9**
Total Corporate Debt Securities		**4,528,185**	**7,831,608**	**6.1**
Investment Funds				
Brompton Flaherty & Crumrine Investment Grade Preferred ETF	160,000	3,829,520	4,284,387	
Total Investment Funds		**3,829,520**	**4,284,387**	**3.3**
Embedded Broker Commission		(800)		
Total Investments		**105,711,009**	**128,900,129**	**100.0**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

1. GENERAL INFORMATION

Flaherty & Crumrine Investment Grade Preferred Income Fund (the ‘‘Fund’’) is a closed-end investment trust created under the laws of the Province of Alberta on November 25, 2004, pursuant to an amended and restated declaration of trust. Before August 29, 2018, the Fund’s name was Flaherty & Crumrine Investment Grade Fixed Income Fund. Computershare Trust Company of Canada is the Trustee, and Brompton Funds Limited (the ‘‘Manager’’) is responsible for managing the affairs of the Fund. Flaherty & Crumrine Incorporated is the Portfolio Manager. CIBC Mellon Trust Company is the custodian of the Fund’s assets and prepares the weekly valuations of the Fund. The Fund commenced operations on December 15, 2004. The address of the Fund’s registered office is Bay Wellington Tower, Brookfield Place, Suite 2930, 181 Bay Street, Toronto, Ontario, M5J 2T3.

The redeemable units of the Fund are publicly listed on the Toronto Stock Exchange under the symbol FFI.UN. The Fund invests in a portfolio of fixed income securities consisting primarily of US-dollar-denominated corporate debt securities and preferred securities of North American issuers. All securities purchased by the Fund are rated investment grade at the time of investment.

These financial statements were approved on behalf of Flaherty & Crumrine Investment Grade Preferred Income Fund by the Board of Directors of Brompton Funds Limited, the Manager, on March 10, 2020.

2. BASIS OF PRESENTATION

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied.

a) Financial Instruments

The Fund’s portfolio of investments is managed, and performance is evaluated, on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets’ performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income (“FVOCI”). The contractual cash flows of the Fund’s debt securities that are solely principal and interest are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund’s business model’s objective. Consequently, all investments are measured at fair value through profit or loss (“FVTPL”). Derivative assets and liabilities are also measured at FVTPL.

The Fund’s obligation for Net Assets attributable to holders of redeemable units is measured assuming the redemption of units at Net Asset Value on the valuation date. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amounts required to be received or paid, discounted when appropriate, at the financial instrument’s effective interest rate. The Fund’s accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its published Net Asset Value. The carrying values of the Fund’s financial assets and liabilities that are not carried at FVTPL approximate their fair values due to their short-term nature.

b) Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund or the counterparty.

c) 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. The fair value of financial assets and liabilities traded in active markets (such as publicly traded marketable securities) is based on quoted market prices at the close of trading on the measurement date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. 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 Fund's policy is to recognize 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.

Investments in underlying funds are valued at the Net Asset Value per unit reported by the underlying funds.

The fair value of financial assets and liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each measurement date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same and others commonly used by market participants that make the maximum use of observable inputs. Refer to note 13 for further information about the Fund's fair value measurements.

d) Investments in Associates, Joint Ventures and Subsidiaries

An investment entity is an entity that obtains funds from one or more investors for the purpose of providing them with investment management services. Its business purpose is to invest funds solely for returns from capital appreciation, income, or both, and it measures and evaluates the performance of substantially all of its investments on a fair value basis. Subsidiaries are all entities, including investment in other investment entities, over which the Fund has control. A Fund controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and the ability to affect those returns through its power over the entity. The Fund has determined that they are investment entities and, as such, accounts for subsidiaries at fair value.

e) Cash

Cash is comprised of demand deposits with financial institutions.

f) Investment Transactions and Income and Expense Recognition

Investment transactions are accounted for on the trade date. The interest for distribution purposes shown on the Statements of Comprehensive Income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds, which are amortized on a straight line basis.

Realized gain (loss) on sale of investments and change in unrealized gain (loss) on investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds. Dividend income is recognized on the ex-dividend date.

g) Transaction Costs

Transaction costs directly attributable to the acquisition or disposal of an investment are expensed in the period incurred and disclosed as "Transaction costs" in the Statements of Comprehensive Income.

h) Income Taxes

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). The Fund distributes to its unitholders sufficient net income and net capital gains so that it is not subject to income taxes and, in substance, is exempt from Canadian taxes on these sources of income. Accordingly, the Fund does not record any Canadian income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the Statements of Financial Position as a deferred income tax asset. The Fund may incur 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.

i) Foreign Currency Translation

The Fund's subscriptions and redemptions are denominated in Canadian dollars, which is also its functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates that transactions occur. Foreign currency assets and liabilities denominated in a foreign currency 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 "Net gain (loss) on foreign exchange on cash" and those relating to other financial assets and liabilities are presented within "Net realized gain (loss)" and "Net change in unrealized gain (loss)" in the Statements of Comprehensive Income..

j) Securities Lending

The Fund may enter into securities lending transactions. These transactions involve the temporary exchange of securities as collateral with a commitment to deliver the same securities on a future date. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on securities held as collateral. Income earned from these transactions is recognized on an accrual basis and included in the Statements of Comprehensive Income.

k) Classification of Redeemable Units by the Fund

Under International Accounting Standard ("IAS") 32, Financial Instruments: Presentation, the Fund classifies its redeemable units as liabilities. The Fund's redeemable units do not meet the criteria in IAS 32 for classification as equity as the Fund has more than one contractual obligation to its unitholders.

4. REDEEMABLE UNITS

Authorized

The Fund is authorized to issue an unlimited number of transferable, redeemable units of beneficial interest, each of which represents an equal, undivided interest in the Net Asset Value of the Fund. Each unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Fund.

Units may be redeemed at the option of unitholders by tendering units of the Fund between 20 and 45 business days prior to the second last business day in November (''Redemption Valuation Date''). Redemptions of tendered units are settled based on the Net Asset Value per unit on the Redemption Valuation Date, less associated costs of the redemption, including brokerage costs. Units tendered for redemption will be redeemed effective the Redemption Valuation Date and will be settled on or before the tenth business day following the Redemption Valuation Date.

Units may also be tendered for redemption at the option of unitholders at least 10 business days prior to the second last business day of each month, except for the month of November. Unitholders whose units are redeemed will receive a redemption price per unit equal to the lesser of (i) 96% of the weighted average trading price of the units for the 10 trading days preceding the redemption date; and (ii) 100% of the closing market price of the units, less associated costs of the redemption, including brokerage costs.

The Fund received approval from the Toronto Stock Exchange for a normal course issuer bid program for the period from December 31, 2018 to December 30, 2019, which allowed the Fund to purchase up to 691,200 units for cancellation. The Fund renewed the issuer bid for the period from December 31, 2019 to December 30, 2020, which allows the Fund to purchase up to 639,100 units for cancellation. The Fund may only repurchase units when the Net Asset Value per unit exceeds its trading price.

Issued

	2019 Number of Units	2018 Number of Units
Redeemable units, outstanding at January 1	**6,893,967**	7,704,041
Redemption of redeemable units	**(315,271)**	(384,074)
Repurchase of redeemable units	**(188,200)**	(426,000)
Distributions through issuance of units (note 6)	-	9,414
Consolidation of units (note 6)	-	(9,414)
Redeemable units, outstanding at December 31	**6,390,496**	6,893,967
Weighted average number of redeemable units outstanding	**6,776,051**	7,477,953

Following the notional distribution paid on December 31, 2018, 9,414 units were issued and subsequently consolidated.

For the year ended December 31, 2019, 315,271 units were redeemed at a price of $13.04 (year ended December 31, 2018 – 384,074 units at $11.39 per unit).

For the year ended December 31, 2019, 188,200 units (year ended December 31, 2018 – 426,000 units) were purchased for cancellation pursuant to the normal course issuer bid program.

On December 31, 2019, the Fund's closing market price per unit was $12.83 (December 31, 2018 – $10.41).

5. CAPITAL MANAGEMENT

The Fund's objectives in managing its capital are to provide unitholders with a stable stream of monthly distributions, to mitigate the impact of significant and rapid long-term interest rate increases on the value of the portfolio, and to preserve the Net Asset Value per unit. The Fund's capital includes Net Assets attributable to holders of redeemable units and loans payable. 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, or purchase units for cancellation.

6. DISTRIBUTIONS TO UNITHOLDERS

Distributions, as declared by the Manager, are made on a monthly basis to unitholders of record on the last business day of each month. The distributions are payable by the tenth business day of the following month. On April 23, 2018, the Fund announced a change in monthly distributions from the previously paid $0.08 per unit per month to $0.07 per unit per month. Currently, the Fund pays monthly distribution of $0.07 per unit.

For the year ended December 31, 2019, the Fund declared total monthly distributions of $0.86 per unit. This includes a special cash distribution of $0.02 per unit. In the year 2019, no special unit distribution was paid. Total distribution amounted to $5,789,288. Under the Fund's distribution reinvestment plan, unitholders may elect to reinvest monthly distributions by purchasing additional units of the Fund, which may be issued from treasury or purchased from the open market.

For the year ended December 31, 2018, the Fund declared total monthly distributions of $0.90 per unit. This included a special cash distribution of $0.015 per unit and a special unit distribution of $0.0151 per unit. Total distributions amounted to $6,666,697. Total distributions included notional distributions of $104,100 paid on December 31, 2018. Notional distributions are paid in additional units and subsequently consolidated so the number of units outstanding after the consolidation is identical to the number of units before the distribution. They are reported as taxable distributions and increase each unitholder's adjusted cost base for their units. Neither the number of units held by the unitholder nor the Net Asset Value per unit of the Fund changes as a result of the notional distributions.

On January 24, 2020, the Fund declared $0.07 per unit monthly distributions for record dates January 31, 2020, February 28, 2020, and March 31, 2020, respectively.

7. RELATED PARTY TRANSACTIONS

a) Management, Advisor and Service Fees

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, including the provision of key management personnel, for which it receives a management fee equal to 0.30% per annum of the Net Asset Value of the Fund excluding investments in funds managed by the Manager, plus applicable taxes. Flaherty & Crumrine Incorporated, the Portfolio Manager for the Fund, and Brompton Funds Limited, the Manager of the Fund, are entitled to receive an aggregate advisory fee equal to 0.70% per annum of the Net Asset Value of the Fund, plus applicable taxes. Fees are calculated and payable monthly.

For the year ended December 31, 2019, the management fee amounted to $240,272 (year ended December 31, 2018 – $298,887), of which $88 was payable as of December 31, 2019 (December 31, 2018 – $1,080 prepaid). For the year ended December 31, 2019, the advisory fee amounted to $606,825 (year ended December 31, 2018 – $654,634), of which $34,758 was payable as of December 31, 2019 (December 31, 2018 – $32,256). The Fund is responsible for the payment of all expenses relating to its operations and the carrying on of its business.

b) Independent Review Committee Fees

The total remuneration paid to members of the Independent Review Committee during the year ended December 31, 2019 was $6,288 (year ended December 31, 2018 - $11,330) and consisted only of fees. As at December 31, 2019, there was $19 prepaid (December 31, 2018 – $63 prepaid) in Independent Review Committee fees.

8. INVESTMENT TRANSACTIONS

Investment transactions for the years ended December 31 were as follows:

	2019 **$**	2018 $
Proceeds from sale of investments	**33,275,501**	34,648,047
Less cost of investments sold:		
Investments and cost, beginning of year	**108,008,808**	118,021,895
Investments purchased during the year[1]	**24,532,539**	16,366,930
Investments at cost, end of year	**(105,711,009)**	(108,008,808)
Cost of investments sold during the year	**26,830,338**	26,380,017
Net realized gain (loss) on sale of investments	**6,445,163**	8,268,030

1 Purchases for the year ended December 31, 2018, include a $9,600 adjustment to cost resulting from the notional distribution from holdings in investment funds.

For the years ended December 31, 2019 and 2018, there were no soft dollar amounts paid.

9. FOREIGN CURRENCY FORWARD CONTRACTS

The Fund uses foreign currency forward contracts to hedge foreign exchange risks associated with its US dollar investment portfolio. During the year ended December 31, 2019, the Fund realized a loss in the amount of $2,294,605 (year ended December 31, 2018 – loss of $634,583) on the close-out of certain contracts.

The Fund had entered into the following foreign currency forward contracts with a Canadian chartered bank with a DBRS rating of AA.

As at December 31, 2019:

Canadian Dollars Purchased (Sold)	**US Dollars Purchased (Sold)**	**Maturity Date**	**Forward Rate (USD/CAD)**	**Fair Value (CAD) $**
26,950,779	(20,131,000)	14-Feb-20	0.74695	814,540
24,779,183	(18,765,000)	14-May-20	0.75729	418,610
31,228,579	(23,641,000)	17-Aug-20	0.75703	535,159
82,958,541	**(62,537,000)**			**1,768,309**

As at December 31, 2018:

Canadian Dollars Purchased (Sold)	US Dollars Purchased (Sold)	Maturity Date	Forward Rate (USD/CAD)	Fair Value (CAD) $
27,732,850	(21,500,000)	14-Feb-19	0.77525	(1,587,345)
31,175,640	(24,000,000)	14-May-19	0.76983	(1,494,912)
22,339,440	(17,100,000)	15-Aug-19	0.76546	(897,564)
(7,127,122)	5,300,000	14-May-19	0.74364	87,625
74,120,808	(57,300,000)			(3,892,196)

10. LOANS PAYABLE

Pursuant to an agreement with a Canadian chartered bank, the Fund maintains a 364-day renewable revolving credit facility. The revolving credit facility provides for maximum borrowings of US$2.5 million for working capital purposes under one tranche and US$48 million under the second tranche for investment purposes. Both tranches may be availed at the prime rate of interest, the bankers' acceptance rate plus a fixed percentage, the LIBOR rate plus a fixed percentage or by US base rate borrowings. At December 31, 2019, the Fund had a US dollar loan equivalent to $47.9 million (US$36.9 million) outstanding under this facility (December 31, 2018 - $50.4 million equivalent to US$36.9 million). During the year ended December 31, 2019, the Fund realized a foreign exchange gain in the amount of $847,550 (year ended December 31, 2018 – loss of $2,691,529) on the repayment of borrowings in US dollars, and borrowings in US dollars had a net change in unrealized foreign exchange gain of $1,611,835 (year ended December 31, 2018 – loss of $1,908,501). The credit facility is secured by a first-ranking and exclusive charge on all of the Fund's assets. For the year ended December 31, 2019, the minimum and maximum amounts of borrowings were $47.9 million (year ended December 31, 2018 – $48.9 million) and $50.4 million (year ended December 31, 2018 – $58.3 million), respectively.

11. SECURITIES LENDING

The Fund has entered into a securities lending program with its custodian, CIBC Mellon Trust Company (and certain of its affiliates). The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund receives collateral of at least 102% of the value of the securities on loan. Collateral is comprised of obligations of, or guaranteed by, the Government of Canada or a province thereof, or the United States Government or its agencies, or a permitted supranational agency as defined in National Instrument 81-102. The market values of the securities on loan and the related collateral at December 31, 2019 were $120,145 (December 31, 2018 – $443,069) and $126,897 (December 31, 2018 – $465,652), respectively.

Securities lending income reported in the Statements of Comprehensive Income is net of a securities lending charge which the Fund's custodian, CIBC Mellon Trust Company (and certain of its affiliates), is entitled to receive.

For the years ended December 31, securities lending income was as follows:

	2019 **$**	2018 $
Gross securities lending income	**12,550**	20,009
Securities lending charges	**(3,764)**	(6,002)
Net securities lending income	**8,786**	14,007
Withholding taxes on securities lending income	**(22)**	(2,794)
Net securities lending income received by the Fund	**8,764**	11,213

During the year ended December 31, 2019, securities lending charges represented 30% (year ended December 31, 2018 – 30%) of the gross securities lending income.

12. FINANCIAL RISK MANAGEMENT

The Fund's investment activities expose it to a variety of financial risks. The Schedule of Investment Portfolio presents the securities held by the Fund as at December 31, 2019, and groups the securities by asset type and market segment. The following comparative summary represents the securities by asset type and market segment held by the Fund as at December 31, 2018. Significant risks that are relevant to the Fund are discussed below.

As at December 31, 2018	% Preferred Securities	% Corporate Debt Securities	% Investment Funds	% of Portfolio
Insurance	48.6	5.1	-	53.7
Banking	19.1	-	-	19.1
Utilities	7.2	-	-	7.2
Energy	14.4	0.9	-	15.3
Miscellaneous	1.7	-	-	1.7
Investment Fund, ETF	-	-	3.0	3.0
Total	91.0	6.0	3.0	100.0

The Manager attempts to minimize the potential adverse effects of these risks on the Fund's performance by employing a professional, experienced Portfolio Manager, by diversifying the investment portfolio within the constraints of the investment objectives, and by using financial instruments to hedge certain risk exposures. All securities purchased by the Fund are rated investment grade at the time of investment. To assist in managing risks, the Manager also maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and restrictions, internal guidelines, and securities regulations.

The investment portfolio is primarily comprised of US-dollar-denominated corporate debt and preferred securities. It is the Manager's intention to hedge substantially all of the US dollar foreign exchange exposure at all times.

a) Interest Rate Risk

Interest rate risk arises on interest-bearing financial instruments such as corporate debt and preferred securities. The Fund is exposed to the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. Due to the negative effect that rising long-term interest rates can have on the value of a long-term duration portfolio, the Fund may employ a safety net hedge strategy to help mitigate this impact. The Fund may purchase out-of-the-money put options on US Treasury futures under this strategy.

The Fund is also exposed to interest rate risk on its variable interest rate loans. Fluctuations in interest rates have a direct impact on the interest payments the Fund makes on its loans.

The tables below summarize the Fund's exposure to interest rate risk by remaining term to maturity.

As at December 31, 2019:

	Less Than 1 Year $	**1–3 Years $**	**3–5 Years $**	**Greater Than 5 Years $**	**Total $**
Preferred securities and corporate debt	-	-	-	124,615,742	124,615,742
Investment funds	-	-	-	4,284,387	4,284,387
Loans payable	(47,916,495)	-	-	-	(47,916,495)

As at December 31, 2018:

	Less Than 1 Year $	1–3 Years $	3–5 Years $	Greater Than 5 Years $	Total $
Preferred securities and corporate debt	-	-	-	125,251,459	125,251,459
Investment funds	-	-	-	3,813,122	3,813,122
Loans payable	(50,375,880)	-	-	-	(50,375,880)

As at December 31, 2019, had prevailing interest rates increased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, Net Assets would have decreased by approximately $7.1 million or 8.5% (December 31, 2018 - $6.3 million or 8.3%) of Net Asset Value. Similarly, had prevailing interest rates decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, Net Assets would have increased by $7.8 million or 9.3% (December 31, 2018 - $7 million or 9.2%) of Net Asset Value. The Fund's sensitivity to interest rate changes was estimated using the weighted average duration of the portfolio and the impact on annual interest expense for the loans payable. In practice, the actual trading results may differ, and the difference could be material.

b) Currency Risk

Currency risk is the risk that financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate due to changes in exchange rates. The investment portfolio is comprised primarily of US-dollar-denominated corporate debt and preferred securities. The Fund's exposure to US dollar currency was substantially hedged through its US-dollar-denominated foreign currency forward contracts and loans. The tables below indicate the foreign currency investment holdings in the Fund and the corresponding foreign currency hedges as at December 31, 2019 and 2018 in Canadian dollar terms. The tables also illustrate the potential impact to the Fund's Net Assets attributable to holders of redeemable units, with all other variables held constant, as a result of a 5% change in the foreign currency related to the Canadian dollar. In practice, the actual trading results may differ, and the difference could be material.

As at December 31, 2019:

	Investments	**Cash and Other Receivables**	**Foreign Currency Forward Contracts (note 9)**	**Loans**	**Total Currency Exposure**	**Impact on Net Assets**	**Impact on Net Assets**
	$	**$**	**$**	**$**	**$**	**$**	**(%)**
US dollars	124,615,742	1,649,191	(81,190,232)	(47,916,495)	(2,841,794)	(142,090)	(0.17)
	124,615,742	**1,649,191**	**(81,190,232)**	**(47,916,495)**	**(2,841,794)**	**(142,090)**	**(0.17)**

As at December 31, 2018:

	Investments	Cash and Other Receivables	Foreign Currency Forward Contracts (note 9)	Loans	Total Currency Exposure	Impact on Net Assets	Impact on Net Assets
	$	$	$	$	$	$	(%)
US dollars	125,251,459	1,789,770	(78,013,004)	(50,375,880)	(1,347,655)	(67,383)	(0.09)
	125,251,459	1,789,770	(78,013,004)	(50,375,880)	(1,347,655)	(67,383)	(0.09)

c) Credit Risk

Credit risk 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 Fund's greatest concentration of credit risk is in debt securities such as corporate debt, preferred securities and derivatives. The fair value of corporate debt, preferred securities and derivatives includes consideration of the creditworthiness of the issuer. The carrying amount of investments, as presented on the Schedule of Investment Portfolio, represents the maximum credit risk exposure as at December 31, 2019. The carrying amount of the Fund's other assets also represents the maximum credit risk exposure, as they will be settled in the short term.

All transactions in securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal as delivery of securities sold is only made once the Fund has received payment. The trade will fail if either party fails to meet its obligation.

Credit risk arising on debt and preferred securities is mitigated by investing in investment grade securities at the time of purchase. The Portfolio Manager evaluates the credit quality of the securities prior to purchase and performs ongoing monitoring of the credit quality of the securities. The Fund would not invest more than 10% of its total assets in the securities of any one issuer at the time of purchase in accordance with investment restrictions.

The Fund has entered into a securities lending program with its custodian; see note 11. Credit risk associated with these transactions is considered minimal as all counterparties have a sufficient, approved credit rating and the value of cash or securities held as collateral must be at least 102% of the fair value of the securities loaned.

As at December 31, 2019 and 2018, the Fund invested in debt and preferred securities with the following credit ratings. Credit ratings represent the best rating of Standard & Poor's, Moody's or Fitch Ratings.

	2019	2018
Portfolio by Rating Category	**% of Portfolio**	% of Portfolio
BBB- to BBB+	**87**	95
Below BBB-	**10**	2
Other[1]	**3**	3
Total	**100**	100

1 Represents holdings in investment funds.

The Fund is also exposed to credit risk for the amount of unrealized gains under the foreign currency forward contracts (note 9) with a Canadian chartered bank with a DBRS rating of AA.

d) Price Risk

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Portfolio Manager attempts to moderate this risk through the careful selection of securities and other financial instruments within the parameters of the investment 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 debt and equity securities. As at December 31, 2019, had the prices on the respective stock exchanges for these debt and equity securities increased or decreased by 10%, with all other variables held constant, Net Assets would have increased or decreased by approximately $12.9 million or 15.4% of total Net Assets (December 31, 2018 – approximately $12.9 million or 17% of total Net Assets). In practice, the actual results may differ, and the difference could be material.

e) Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund is exposed to liquidity risk through its monthly and annual redemptions and loans payable. For the annual redemption, the Fund receives notice at least 20 business days prior to the date of redemption and has up to 10 business days following the redemption date in December to settle the redemption, which gives the Portfolio Manager time to sell securities, although there may not be sufficient time to sell the securities at a reasonable price.

The Fund also has a 364-day revolving credit facility which can be used to fund redemptions or finance investments; see note 10. The credit facility contains several financial covenants that require the Fund to meet certain financial ratios and financial condition tests. The Fund is within its financial covenants with respect to the credit facility. The Manager monitors the use of the credit facility on a regular basis.

All of the Fund's financial liabilities at December 31, 2019 and 2018 had maturities of less than three months.

13. FAIR VALUE MEASUREMENT

The Fund's assets and liabilities recorded at fair value have been categorized within a hierarchy which 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: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs, other than quoted prices that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgement or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Assets and liabilities at fair value as at December 31, 2019	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Preferred securities	21,872,337	94,911,797	-	116,784,134
Corporate debt	-	7,831,608	-	7,831,608
Investment funds	4,284,387	-	-	4,284,387
Foreign currency forward contracts gain	-	1,768,309	-	1,768,309
Total	**26,156,724**	**104,511,714**	**-**	**130,668,438**

Assets and liabilities at fair value as at December 31, 2018	Level 1 $	Level 2 $	Level 3 $	Total $
Preferred securities	23,757,053	93,717,577	-	117,474,630
Corporate debt	-	7,776,829	-	7,776,829
Investment funds	3,813,122	-	-	3,813,122
Foreign currency forward contracts gain	-	87,625	-	87,625
Foreign currency forward contracts loss	-	(3,979,821)	-	(3,979,821)
Total	27,570,175	97,602,210	-	125,172,385

There were no transfers of financial assets and liabilities between the levels during the years ended December 31, 2019 and 2018.

All fair value measurements above are recurring. The carrying values of cash, income receivable, distributions payable, loans payable and accounts payable and accrued liabilities approximate their fair values due to their short-term nature. 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, the instrument is 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.

a) Preferred Securities and Corporate Debt

The Fund's preferred securities are classified as level 1 when the security is actively traded and a reliable price is observable. Certain of the Fund's preferred securities do not trade frequently and therefore observable prices may not be available. In such cases, fair value is determined using observable market data (e.g., transactions for similar securities of the same issuer) and the fair value is classified as level 2. Corporate debt includes corporate bonds, which are valued at the mean of the bid/ask price provided by recognized investment dealers. These prices are generally observable and therefore the Fund's corporate debt has been classified as level 2. The net realized and net change in unrealized gain from preferred and corporate debt securities during the year ended December 31, 2019 was $8,107,244 (year ended December 31, 2018 – net loss of $2,478,314).

b) Investment Funds

The Fund's holdings in the investment fund are classified as level 1, as the security is actively traded and a reliable price is observable. The net realized and net change in unrealized gain from holdings in the investment fund during the year ended December 31, 2019 was $471,266 (year ended December 31, 2018 – net loss of $5,998).

c) 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. The fair value of such contracts will fluctuate with changes in currency exchange rates. The forward contracts' value, which is based on current forward rates, is the value that could be realized if the forward contracts were closed out on the financial reporting date and the change in fair value recorded as an unrealized gain or loss. When the contract is closed, the Fund 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. Foreign currency forward contracts are classified as level 2. The net realized and net change in unrealized gain from derivatives during the year ended December 31, 2019 was $3,365,900 (year ended December 31, 2018 – net loss of $8,304,153).

14. OFFSETTING OF FINANCIAL INSTRUMENTS

The Fund has a foreign exchange settlement and novation netting agreement in place for its foreign currency forward contracts that does not meet the criteria for offsetting in the Statements of Financial Position but allows for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts. The following tables present the Fund's financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements. The tables are presented by type of financial instruments, as at December 31, 2019 and 2018.

As at December 31, 2019:

	Amounts eligible for offset			
Financial Assets and Liabilities	**Gross Amounts of Recognized Financial Assets/Liabilities $**	**Net Amounts of Financial Assets/Liabilities Presented in the Statement of Financial Position $**	**Financial Instruments Eligible for Offset $**	**Net Amount $**
Derivative Assets	1,768,309	1,768,309	-	1,768,309
Derivative Liabilities	-	-	-	-
Total	**1,768,309**	**1,768,309**	**-**	**1,768,309**

As at December 31, 2018:

	Amounts eligible for offset			
Financial Assets and Liabilities	Gross Amounts of Recognized Financial Assets/Liabilities $	Net Amounts of Financial Assets/Liabilities Presented in the Statement of Financial Position $	Financial Instruments Eligible for Offset $	Net Amount $
Derivative Assets	87,625	87,625	(87,625)	-
Derivative Liabilities	(3,979,821)	(3,979,821)	87,625	(3,892,196)
Total	(3,892,196)	(3,892,196)	-	(3,892,196)

15. INTEREST IN UNCONSOLIDATED STRUCTURED ENTITIES

The Fund qualifies as an investment entity under IFRS 10, *Consolidated Financial Statements*, and therefore accounts for investments at FVTPL. The Fund's primary purpose is to obtain funds from investors to provide them with investment management services, and to obtain a return primarily from capital appreciation and/or investment income. The Fund also measures and evaluates the performance of its investments on a fair value basis. In determining whether the Fund has control over an investee, the Fund assessed the voting rights, the exposure to variable returns and their ability to use the voting rights over the investee to affect the amount of the returns.

Type of Structured Entity	**Nature and Purpose**	**Interest Held by the Fund**
Investment funds	• To manage assets on behalf of third-party investors and generate investment fees for the Manager of the Fund. • These vehicles are financed through the issue of units to investors.	Investments in units issued by the investment funds

The tables below set out interests held by the Fund in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the financial assets held:

As at December 31, 2019:

Holding	**% of Net Asset Value**	**Country of Establishment and Principal Place of Business**	**% of Ownership Interest**
Brompton Flaherty & Crumrine Investment Grade Preferred ETF	5.1	Canada	10.5

As at December 31, 2018:

Holding	% of Net Asset Value	Country of Establishment and Principal Place of Business	% of Ownership Interest
Brompton Flaherty & Crumrine Investment Grade Preferred ETF	5.0	Canada	80.0

The Fund can redeem or sell units in the above investment fund on any business day.

16. INCOME TAX

The Fund had accumulated capital losses of $71,007,071 as at December 31, 2019 (December 31, 2018 – $72,011,221). The capital losses can be carried forward for an indefinite period.

CORPORATE INFORMATION

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Ken S. Woolner, BSc, PEng

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Vice President and
Corporate Secretary

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Computershare Trust Company of Canada

Custodian

CIBC Mellon Trust Company

Banker

Royal Bank of Canada

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