

ANNUAL INFORMATION FORM

PRO-AMS U.S. TRUST

March 30, 2009

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THE FUND

Pro-AMS U.S. Trust (the “Fund”) is an investment trust established under the laws of the Province of Ontario pursuant to a trust agreement dated as of September 27, 2000, as amended from time to time (the “Trust Agreement”), between Mulvihill Fund Services Inc. (“Mulvihill” or the “Manager”), as manager, and RBC Dexia Investor Services Trust (the “Trustee”), as trustee. Mulvihill is a wholly owned subsidiary of Mulvihill Capital Management Inc. (“MCM” or the “Investment Manager”), the investment manager of the Fund.

On October 5, 2000, the Fund completed its initial public offering of 21,000,000 units (“Units”) at a price of \$25.00 per Unit. On October 23, 2000, the Fund completed an additional offering of 1,820,753 Units at a price of \$25.00 per Unit pursuant to the exercise of an over-allotment option granted to the Fund’s agents in connection with the Fund’s initial public offering. The outstanding Units are listed on the Toronto Stock Exchange (“TSX”) under the symbol PAM.UN.

The principal office of the Fund, of Mulvihill and of MCM is located at 121 King Street West, Standard Life Centre, Suite 2600, Toronto, Ontario, M5H 3T9. The phone number, website address and e-mail address of Mulvihill is (416) 681-3900 or toll-free at 1-800-725-7172, www.mulvihill.com and hybrid@mulvihill.com.

INVESTMENT OBJECTIVES AND STRATEGY

The Fund’s investment objectives are: (a) to return at least the original issue price of the Units (\$25.00 per Unit) to unitholders (“Unitholders”) upon termination of the Fund; (b) to provide Unitholders with a stable stream of monthly distributions targeted to be at least \$0.1875 per Unit (\$2.25 per annum or 9.0% on the original issue price); and (c) to preserve the value of the Fund’s managed portfolio (the Managed Portfolio described below), which will provide Unitholders with capital appreciation above the original issue price.

To provide the means to return the original issue price of the Units on termination, the Fund entered into a forward purchase and sale agreement (the “Forward Agreement”) with the Royal Bank of Canada (“RBC”) on March 2, 2001, pursuant to which RBC will agree to pay to the Fund an amount equal to \$25.00 for each Unit outstanding on January 4, 2011 (the “Termination Date”) in exchange for the Fund agreeing to deliver to RBC equity securities (the “Fixed Portfolio”). The Forward Agreement may be physically or cash settled at the option of the Fund.

In order to achieve the Fund’s monthly distribution and preservation objectives, the Fund initially invested in a diversified portfolio (the “Managed Portfolio”) consisting principally of equity securities of companies with a market capitalization in excess of US\$5.0 billion selected from the S&P 500 Index. In April 2005, the equity positions held in the Managed Portfolio were liquidated. There has been no equity exposure since then.

Monthly cash distributions over the life of the Fund will be derived from net realized capital gains from the Fund’s Managed Portfolio, including premiums from writing covered call options from time to time on the securities held in the Managed Portfolio and from writing cash covered put options on securities in which the Fund is permitted to invest, as well as from dividends received on the Fund’s Managed Portfolio and, in certain circumstances, by returning capital.

The Fund may, from time to time, hold a portion of its assets in cash equivalents. The Fund may also, from time to time, utilize such cash equivalents to provide cover in respect of the writing of cash covered put options, which is intended to generate additional returns and to reduce the net cost of acquiring the securities subject to the put options.

The Fund’s Managed Portfolio will be managed by MCM and the composition of the Managed Portfolio, the securities which are subject to call options and put options and the terms of such options will vary, from time to time, based upon MCM’s assessment of market conditions.

The Trust Agreement was amended on April 14, 2004 to permit the Fund to use interest rate hedging strategies.

Capital Repayment

The Fund entered into the Forward Agreement which is intended to enable the Fund to meet the objective of returning the original issue price per Unit to Unitholders on the Termination Date. As a result, on or about the Termination Date, Unitholders are expected to receive an amount per Unit equal to the original issue price plus any capital appreciation above the original issue price of \$25.00 per Unit generated through management of the Managed Portfolio.

Under the terms of the Forward Agreement, the Fund will be required to deliver on the Termination Date to RBC the equity securities in its Fixed Portfolio. This Fixed Portfolio will be segregated from the Managed Portfolio and Fixed Portfolio securities, cash or other acceptable cash equivalents or securities will be pledged to RBC as security for the obligations of the Fund under the Forward Agreement. RBC will have no right to rehypothecate the pledged securities. On the Termination Date, all Fixed Portfolio securities will be delivered to RBC in exchange for a cash payment in Canadian dollars equal to \$25.00 for each Unit outstanding on the Termination Date. The Fund and RBC have agreed that the settlement obligations under the Forward Agreement with respect to Fixed Portfolio securities may be discharged by physical delivery or the making of a net cash payment to the appropriate party at the election of the Fund. As a result, the amount payable to Unitholders on the Termination Date is expected to be at least \$25.00 per Unit, thereby ensuring that the original issue price will be returned to Unitholders. On the Termination Date, Unitholders will also be entitled to receive an additional amount, if any, attributable to the value of the Managed Portfolio securities at that time. Under the Forward Agreement, the Fund will pay to RBC an annual fee of approximately 0.465% of the guaranteed value of the Forward Agreement.

In order to permit the Fund to fund periodic redemptions of Units, the terms of the Forward Agreement provide that it may be settled in whole or in part in respect of any Valuation Date by the Fund tendering to RBC Fixed Portfolio securities at a price equal to the then current market value of the tendered securities plus or minus the value of the portion of the Forward Agreement attributable to such securities.

If RBC determines in its sole discretion that it is unable to hedge its position under the Forward Agreement with respect to the securities of a particular issuer held in the Fixed Portfolio, the Forward Agreement provides that it may be settled with respect to such securities and as a result the amount payable on the Termination Date will be reduced. However, in such event, the Forward Agreement permits replacement securities acceptable to RBC to be substituted by the Fund to preserve the value of the forward transaction. In the event that no substitution occurs, the Fund will attempt to enter into one or more additional forward, derivative or other transactions in order to enable it to pay the original issue price to Unitholders on or before the Termination Date.

All dividends and distributions, including extraordinary distributions, declared and paid on Fixed Portfolio securities will be paid to the Fund and, under the Forward Agreement, the amount payable on the Termination Date will be reduced. However, if any such dividends or distributions are expected to be received on the Fixed Portfolio securities by the Fund, the Forward Agreement may be amended to provide that replacement securities acceptable to RBC may at the Fund's option be substituted for the common shares in respect of which the dividend or distribution has been declared to preserve the value of the forward transaction prior to the occurrence of such event. In the event that such replacement securities are not available, the Fund may consider contributing additional securities to the Fixed Portfolio or entering into additional forward, derivative or other transactions to enable the Fund to receive the original issue price per Unit on the Termination Date. Similar steps may be taken by the Fund to address the amendments to the Forward Agreement which might otherwise be required if the Fund receives consideration as a consequence of a merger transaction involving any of the securities in the Fixed Portfolio.

The Forward Agreement may be terminated prior to the Termination Date in certain circumstances including: (a) at the option of the Fund in its sole discretion or (b) by RBC if RBC determines in its sole discretion that it is unable to hedge its position under the Forward Agreement. The amount received by the Fund in the event of such an early termination of the Forward Agreement may be insufficient to enable the Fund to pay an amount at least equal to the original issue price per Unit at the time of such termination or on the Termination Date. However in the event of an early termination of the Forward Agreement, the Fund will attempt to enter into one or more additional forward, derivative or other transactions in order to enable it to pay such amount to Unitholders on or before the Termination Date.

STATUS OF THE FUND

While the Fund is technically considered to be a mutual fund under the securities legislation of certain provinces of Canada, the Fund is not a conventional mutual fund and has obtained exemptions from certain requirements of Canadian securities laws relating to mutual funds.

The Fund differs from conventional mutual funds in a number of respects, most notably as follows: (a) while the Units of the Fund may be surrendered at any time for redemption, the redemption price is payable monthly whereas the securities of most conventional mutual funds are redeemable daily; (b) the Units of the Fund have a stock exchange listing whereas the securities of most conventional mutual funds do not; and (c) unlike most conventional mutual funds, the Units are not offered on a continuous basis.

DESCRIPTION OF THE UNITS

The Fund is authorized to issue an unlimited number of transferable, redeemable trust units of one class, each of which represents an equal, undivided interest in the net assets of the Fund.

All Units have equal rights and privileges. Each whole Unit is entitled to one vote at all meetings of Unitholders and is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net income and net realized capital gains, and distributions upon the termination of the Fund. Units are issued only as fully paid and are non-assessable. Fractions of Units are proportionately entitled to all of these rights except voting rights.

On December 16, 2004, the *Trust Beneficiaries' Liability Act, 2004* (Ontario) came into force. This statute provides that holders of units of a trust are not, as beneficiaries, liable for any act, default, obligation or liability of the trust if, when the act or default occurs or the liability arises, (a) the trust is a reporting issuer under the *Securities Act* (Ontario), and (b) the trust is governed by the laws of Ontario. The Fund is a reporting issuer under the *Securities Act* (Ontario) and it is governed by the laws of Ontario by virtue of the provisions of the Trust Agreement.

The Fund does not currently intend to issue additional Units, except (a) by way of a rights offering to existing Unitholders, provided the net proceeds per Unit issued pursuant to the exercise of such rights is not less than the most recently calculated net asset value ("NAV") per Unit prior to the issue of such rights; (b) by way of Unit distributions; or (c) with the approval of Unitholders.

Monthly Distributions

One of the Fund's investment objectives is to provide Unitholders with a stable stream of monthly distributions targeted to be at least \$0.1875 per Unit. The Fund may also, in the discretion of the Manager, make other distributions at any time in addition to monthly cash distributions, if it considers it appropriate. The amount of the monthly distributions may fluctuate from month to month and there can be no assurance that the Fund will make any distributions in any particular month or months.

Another of the Fund's investment objectives is to return at least the original issue price of the Units (\$25.00 per Unit) to Unitholders on the Termination Date. To increase the likelihood of achieving the principal repayment objective, the Fund suspended the payment of monthly distributions effective April 2005.

If, in any year after the payment of monthly distributions, there would otherwise remain in the Fund additional net income or net realized capital gains, the Fund intends after December 14 but on or before December 31 of that year, to distribute such portion of the remaining net income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax thereon under the *Income Tax Act* (Canada) (the "Tax Act").

Monthly cash distributions over the life of the Fund will primarily be derived from net realized capital gains from the Fund's Managed Portfolio including premiums from writing covered call options on the securities held in the Managed Portfolio and from writing cash covered put options on securities in which the Fund is permitted to invest, as well as from dividends received on the Fund's portfolio and, in certain circumstances, by returning capital. Cash distributions will be payable in Canadian dollars to Unitholders of record at 5:00 p.m. (Toronto time) as of the fifteenth day of each month (or the next business day thereafter if the fifteenth day is not a business day). All cash

distributions will be paid by cheque to Unitholders proportionately based on their respective holdings of Units and will be mailed to Unitholders at their addresses listed in the register of Unitholders to be maintained by the Fund's registrar and transfer agent or paid in such other manner as may be agreed to by the Trustee.

Each Unitholder is mailed annually, no later than March 31, information necessary to enable such Unitholder to complete an income tax return with respect to amounts paid or payable by the Fund in respect of the preceding taxation year of the Fund.

Redemption of Units

Units may be surrendered at any time for redemption to Computershare Investor Services Inc., the Fund's registrar and transfer agent, but will be redeemed only on the monthly Valuation Date (as defined below). Units surrendered for redemption by a Unitholder at least five business days prior to the last day of a month (a "Valuation Date") will be redeemed on such Valuation Date and the Unitholder will receive payment on or before the tenth business day following such Valuation Date (the "Redemption Payment Date"). If a Unitholder makes such surrender after 5:00 p.m. (Toronto time) on the fifth business day immediately preceding a Valuation Date, the Units will be redeemed on the Valuation Date in the following month and the Unitholder will receive payment for the Units on the Redemption Payment Date in respect of such Valuation Date. The NAV per Unit will vary depending on a number of market factors, including interest rates, volatility in the equity markets and the volatility of the Managed Portfolio securities.

Unitholders whose Units are redeemed on the December Valuation Date in each year will be entitled to receive a redemption price per Unit (the "Unit Redemption Price") equal to the NAV per Unit determined as of such Valuation Date. Unitholders whose Units are redeemed on any other Valuation Date will be entitled to receive a redemption price per Unit equal to the NAV per Unit determined as of such other Valuation Date, less the lesser of (a) 4% of the NAV per Unit as of such other Valuation Date and (b) \$1.00.

Any unpaid distribution payable on or before a Valuation Date in respect of Units tendered for redemption on such Valuation Date will also be paid on the Redemption Payment Date. Unitholders who redeem their Units prior to the Termination Date will receive a Unit Redemption Price determined with reference to the NAV without the full benefit of the capital repayment provided by the Forward Agreement. As a result, the NAV per Unit may be lower than the original issue price.

In order to permit the Fund to fund periodic redemptions of Units, the terms of the Forward Agreement will provide that it may be settled in whole or in part in respect of any Valuation Date by the Fund tendering to RBC securities of the Fixed Portfolio at a price equal to the then current market value of the tendered securities plus or minus the value of the portion of the Forward Agreement attributable to such securities.

The redemption right must be exercised by causing written notice to be given within the notice periods prescribed herein and in the manner described under "Book-Entry Only System". Such surrender will be irrevocable upon the delivery of notice to CDS Clearing and Depository Services Inc. ("CDS") through a participant in the CDS book-entry only system (a "CDS Participant"), except with respect to those Units which are not paid for by the Fund on the relevant Redemption Payment Date.

Resale of Units Tendered for Redemption

The Fund has entered into an agreement (a "Recirculation Agreement") with RBC Dominion Securities Inc. (the "Recirculation Agent") whereby the Recirculation Agent has agreed to use commercially reasonable efforts to find purchasers for any Units tendered for redemption prior to the relevant Valuation Date, provided that the holder of the Units so tendered has not withheld consent thereto. The Fund may, but is not obligated to, require the Recirculation Agent to seek such purchasers and, in such event, the amount to be paid to the Unitholder on the Redemption Payment Date will be an amount equal to the proceeds of the sale of the Units less any applicable commission, provided that such amount will not be less than the Unit Redemption Price described above.

Subject to the Fund's right to require the Recirculation Agent to use commercially reasonable efforts to find purchasers for any Units tendered for redemption prior to the relevant Valuation Date, any and all Units which have

been surrendered to the Fund for redemption are deemed to be outstanding until (but not after) the close of business on the relevant Valuation Date, unless not redeemed thereon, in which event such Units will remain outstanding.

Suspension of Redemptions

Mulvihill may, with the prior permission of the securities regulatory authorities, direct the Trustee to suspend the redemption of Units or payment of redemption proceeds: (a) during any period when normal trading is suspended on the Toronto or New York stock exchanges; or (b) for any period not exceeding 120 days during which Mulvihill determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability of the Trustee to determine the value of the assets of the Fund. The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All holders of Units making such requests shall be advised by Mulvihill of the suspension and that the redemption will be effected at a price determined on the first Valuation Date following the termination of the suspension. All such Unitholders shall have and shall be advised that they have the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by Mulvihill shall be conclusive.

Purchase for Cancellation

Subject to applicable law, the Fund may at any time or times purchase Units for cancellation at prices not exceeding the NAV per Unit on the Valuation Date immediately prior to such purchase.

Normal Course Issuer Bids

Under the terms of a normal course issuer bid that expired on July 11, 2008, the Fund could purchase up to a maximum of 134,210 Units. No Units were purchased by the Fund pursuant to the bid. Near the end of July, 2008, the Fund made another normal course issuer bid. Pursuant to the bid, the Fund can purchase, if it considers advisable, up to a maximum of 106,855 Units (representing approximately 10% of the Fund's public float as of July 17, 2008). The Fund may not purchase more than 21,371 of its Units (representing approximately 2% of the Fund's 1,068,554 issued and outstanding Units as of July 17, 2008) in any 30-day period under the bid. The bid will remain in effect until the earlier of July 22, 2009, the termination of the bid by the Fund or the Fund purchasing the maximum number of Units permitted under the bid. As at March 30, 2009, no Units had been purchased by the Fund pursuant to the bid.

BOOK-ENTRY ONLY SYSTEM

Registration of interests in and transfers of the Units are made only through the book-entry only system (the "book-entry only system") administered by CDS. Units must be purchased, transferred and surrendered for redemption through a CDS Participant. All rights of an owner of Units must be exercised through, and all payments or other property to which such owner is entitled will be made or delivered by, CDS or the CDS Participant through which the owner holds such Units. Upon purchase of any Units, the owner will receive only the customary confirmation. References in this annual information form to a holder of Units means, unless the context otherwise requires, the owner of the beneficial interest in such Units.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such owner's interest in such Units (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

An owner of Units who desires to exercise redemption privileges thereunder must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the owner a written notice of the owner's intention to redeem Units, no later than 5:00 p.m. (Toronto time) on the relevant notice date. An owner who desires to redeem Units should ensure that the CDS Participant is provided with notice (the "Redemption Notice") of his intention to exercise his redemption privilege sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS by the required time. The Redemption Notice will be available from a CDS Participant or Computershare Investor Services Inc., the Fund's registrar and transfer agent. Any expense associated with the preparation and delivery of Redemption Notices will be for the account of the owner exercising the redemption privilege.

By causing a CDS Participant to deliver to CDS a notice of the owner's intention to redeem Units, an owner shall be deemed to have irrevocably surrendered his Units for redemption and appointed such CDS Participant to act as his exclusive settlement agent with respect to the exercise of the redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

Any Redemption Notice which CDS determines to be incomplete, not in proper form or not duly executed shall for all purposes be void and of no effect and the redemption privilege to which it relates shall be considered for all purposes not to have been exercised thereby. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with the owner's instructions will not give rise to any obligations or liability on the part of the Fund to the CDS Participant or to the owner.

The Fund has the option to terminate registration of the Units through the book-entry only system in which case certificates for Units in fully registered form would be issued to beneficial owners of such Units or to their nominees.

UNITHOLDER MATTERS

Acts Requiring Unitholder Approval

Pursuant to the Trust Agreement, the following matters require the approval of Unitholders by a two-thirds majority of the Unitholders voting thereon (other than items (c), (f), (g) and (l) which require approval by a simple majority vote) at a meeting called and held for such purpose:

- (a) a change in the fundamental investment objectives and strategy of the Fund as described under "Investment Objectives and Strategy" including any determination by the Fund, at its option, to terminate the Forward Agreement;
- (b) a change in the investment restrictions of the Fund as described under "Investment Restrictions";
- (c) the entering into by the Fund of transactions involving derivatives other than specified derivatives permitted under National Instrument 81-102 – *Mutual Funds* ("NI 81-102");
- (d) any change in the basis of calculating fees or other expenses that are charged to the Fund which could result in an increase in charges to the Fund;
- (e) a change of the manager of the Fund, other than a change resulting in an affiliate of such person assuming such position or, except as described herein, a change in the investment manager or trustee of the Fund, other than a change resulting in an affiliate of such person assuming such position;
- (f) a decrease in the frequency of calculating the NAV per Unit or of redeeming Units;
- (g) a change of the auditors of the Fund;
- (h) a reorganization with, or transfer of assets to, another mutual fund, if:
 - (i) the Fund ceases to continue after the reorganization or transfer of assets; and
 - (ii) the transaction results in Unitholders becoming securityholders in the other mutual fund;
- (i) a reorganization with, or acquisition of assets of, another mutual fund, if:
 - (i) the Fund continues after the reorganization or acquisition of assets;
 - (ii) the transaction results in the securityholders of the other mutual fund becoming Unitholders of the Fund; and

- (iii) the transaction would be a material change to the Fund;
- (j) a termination of the Investment Management Agreement (except as described under “Investment Management Agreement”);
- (k) a termination of the Fund prior to the Termination Date;
- (l) an extension of the Fund beyond the Termination Date; and
- (m) an amendment, modification or variation in the provisions or rights attaching to the Units.

Mulvihill and the Trustee may, without the approval of or notice to Unitholders, amend the Trust Agreement for certain limited purposes specified therein, including to:

- (a) remove any conflicts or other inconsistencies which may exist between any terms of the Trust Agreement and any provisions of any law or regulation applicable to or affecting the Fund;
- (b) make any change or correction in the Trust Agreement which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained therein;
- (c) bring the Trust Agreement into conformity with NI 81-102 or other applicable laws, rules and policies of Canadian securities regulators or with current practice within the securities industry, provided that any such amendment does not adversely affect the pecuniary value of the interest of any Unitholder;
- (d) maintain the status of the Fund as a “mutual fund trust” for the purposes of the Tax Act; or
- (e) provide added protection to Unitholders.

Except for changes to the Trust Agreement which require the approval of Unitholders or changes described above which do not require approval of or prior notice to Unitholders, the Trust Agreement may be amended from time to time by Mulvihill and the Trustee upon not less than 30 days’ prior written notice to Unitholders.

Reporting to Unitholders

The Fund will deliver to each Unitholder annual and semi-annual financial statements of the Fund.

INVESTMENT RESTRICTIONS

The Fund is subject to certain investment criteria that, among other things, limit the equity securities and other securities the Fund may acquire for the Managed Portfolio. The Fund’s investment criteria may not be changed without the approval of Unitholders by a two-thirds majority vote of those Unitholders who attend and vote at a meeting called for such purpose. The Fund’s investment criteria provide that the Fund may:

- (a) purchase securities of an issuer if:
 - (i) such securities are common shares issued by corporations selected from the S&P 500 Index (“S&P Universe”);
 - (ii) such securities are listed for trading on a major North American stock exchange or on NASDAQ; and
 - (iii) such equity securities are issued by corporations that have a market capitalization in excess of US\$5.0 billion (determined at the time of purchase);
- (b) purchase debt securities only if such securities are cash equivalents;

- (c) write a call option in respect of any security only if such security is actually held by the Fund at the time the option is written;
- (d) dispose of any security included in the Fund's portfolio that is subject to a call option written by the Fund only if such option has either terminated or expired;
- (e) write put options in respect of any security only if (i) the Fund is permitted to invest in such securities, and (ii) so long as the options are exercisable, the Fund continues to hold cash equivalents sufficient to acquire the securities underlying the options at the aggregate strike price of such options;
- (f) reduce the total amount of cash equivalents held by the Fund, only if the total amount of cash equivalents held by the Fund remains an amount not less than the aggregate strike price of all outstanding put options written by the Fund;
- (g) not invest in the securities of any non-resident corporation or trust or other non-resident entity if the Fund would be required to mark its investment in such securities to market in accordance with proposed section 94.2 or to include any amounts in income pursuant to proposed section 94.1, as set forth in the proposed amendments to the Tax Act dealing with foreign investment entities released on June 22, 2000 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto); and
- (h) purchase call options or put options only as specifically permitted under NI 81-102.

The S&P 500 Index is maintained by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. Standard & Poor's is not under any obligation to maintain the S&P 500 Index. If the S&P 500 Index ceases to be maintained, the Fund may take such action as is determined by the Manager in its sole discretion in order to continue to operate the Fund in accordance with its investment objectives and investment strategy, including, without limitation, replacing the S&P 500 Index with an equivalent replacement or substitute index.

In addition, but subject to these investment restrictions, the Fund has adopted the standard investment restrictions and practices set forth in NI 81-102. A copy of such standard investment restrictions and practices will be provided by the Manager to any person on request.

The Fund has obtained an exemption from certain of the provisions of NI 81-102 including:

- (a) Clause 2.7(a) and subsection 2.7(4) – to enable the Fund to enter in the Forward Agreement, and any replacement or assignment or assignment of that agreement, on the condition that the Fund does not and will not enter into any other specified derivative transaction that does not satisfy all the conditions provided by subsection 2.7(1)(a) of NI 81-102;
- (b) Section 10.3 – to permit the Fund to calculate the redemption price as disclosed in “Redemption of Units”;
- (c) Section 10.4 – to permit the Fund to make payment for redeemed securities within ten business days;
- (d) Subsection 12.1(1) – to exempt the Fund from the requirement in this subsection to file a compliance report; and
- (e) Section 13.1 – to permit the Fund to calculate its NAV on a weekly basis.

Use of Other Derivative Instruments

In addition to the Forward Agreement and writing covered call options and cash covered put options, to the extent permitted by Canadian securities regulators, from time to time, the Fund may also purchase call options and put options with the effect of closing out existing call options and put options written by the Fund. The Fund may also purchase put options in order to protect the Fund from declines in the market prices of the individual securities in the Managed Portfolio or in the value of the Managed Portfolio as a whole. The Fund may enter into trades to close out positions in such permitted derivatives.

The Fund may also use derivatives permitted under NI 81-102 to hedge the Fund's foreign currency exposure. Such permitted derivatives may include exchange traded options, futures contracts, options on futures, over-the-counter options and forward contracts.

Securities Lending

In order to generate additional returns, the Fund may lend Fixed Portfolio securities to securities borrowers acceptable to the Fund pursuant to the terms of a securities lending agreement between the Fund and any such borrower (the "Securities Lending Agreement"). Under a Securities Lending Agreement: (a) the borrower will pay to the Fund a negotiated securities lending fee and will make compensation payments to the Fund equal to any distributions received by the borrower on the securities borrowed; (b) the securities loans must qualify as "securities lending arrangements" for the purposes of the Tax Act; and (c) the Fund will receive the collateral security described below. Currently, the Fund does not lend securities. Any future securities lending by the Fund will be done in accordance with NI 81-102.

The Fund will receive by way of pledge collateral security either before or at the same time as it delivers the loaned securities to borrowers which will consist of cash in Canadian or U.S. dollars or securities issued or guaranteed by the government of Canada or a province thereof or by the United States government or its agencies. The collateral security shall have an aggregate value of not less than 105% of the market value of the loaned securities and will be held by the Trustee on behalf of the Fund. The Trustee will be responsible for the ongoing administration of the securities loans, including the obligation to mark-to-market the collateral on a daily basis.

CALCULATION OF NET ASSET VALUE AND NET ASSET VALUE PER UNIT

The NAV of the Fund on a particular date will be equal to the aggregate value of the assets of the Fund, less the aggregate value of the liabilities of the Fund, including any income, net realized capital gains or other amounts payable to Unitholders on or before such date expressed in Canadian dollars at the applicable exchange rate on such date. The "NAV per Unit" on any day is obtained by dividing the NAV of the Fund on such day by the number of Units then outstanding.

The NAV per Unit will be calculated once each week at the close of business. In the last week of the month, the NAV per Unit will be calculated on the last day of the month at the close of business. Such information will be provided by Mulvihill to Unitholders on request.

In determining the NAV of the Fund at any time:

- (a) the value of common shares and other securities will be the last board lot sale price of such common shares or other securities on the principal stock exchange on which they are traded prior to the determination of the NAV of the Fund or, if no such sale price is available at that time, the closing price quoted for the security provided that where bid and ask quotes are available, at the average of the bid and the asked price instead of at the quoted closing price;
- (b) where a covered clearing corporation option, option on futures or an over-the-counter option is written, the option premium received by the Fund will, so long as the option is outstanding, be reflected as a deferred credit which will be valued at an amount equal to the current market value of an option which would have the effect of closing the position; any difference resulting from revaluation shall be treated as an unrealized gain or loss on investment. The deferred credit shall be deducted in arriving at the NAV;
- (c) the value of any cash on hand or on deposit, prepaid expenses, cash dividends declared and interest accrued and not yet received, shall be deemed to be the face amount thereof unless the Trustee determines that any such asset is not worth the face amount thereof, in which event the value thereof shall be deemed to be such value as the Trustee determines to be the fair value thereof;
- (d) the value of a forward contract (including the Forward Agreement) or of a futures contract shall be the gain or loss with respect thereto that would be realized if, on the Valuation Date, the position in the forward contract or the futures contract, as the case may be, were to be closed out unless "daily limits" are in effect,

in which case fair value shall be based on the current market value of the underlying interest provided that the valuation of the Forward Agreement may be postponed for up to five business days if trading in the shares of an issuer in the Fixed Portfolio is suspended from trading at such time;

- (e) margin paid or deposited in respect of futures contracts and forward contracts shall be reflected as an account receivable and margin consisting of assets other than cash shall be noted as held as margin;
- (f) money-market instruments shall be valued at cost plus accrued interest at the calculation time;
- (g) if a Valuation Date is not a business day, then the securities comprising the Fund's portfolio and other Fund property will be valued as if such Valuation Date were the preceding business day;
- (h) the value of all assets of the Fund quoted or valued in terms of foreign currency, the value of all funds on deposit and contractual obligations payable to the Fund in foreign currency and the value of all liabilities and contractual obligations payable by the Fund in foreign currency shall be determined using the applicable rate of exchange current at, or as nearly as practicable to, the date as of which the NAV is computed; and
- (i) if an investment cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the Trustee to be inappropriate under the circumstances, then notwithstanding such rules, the Trustee shall make such valuation as it considers fair and reasonable. The discretion to deviate from the foregoing rules has not been exercised within the past three years.

The above principles are used to calculate the net asset value of the Fund for all purposes other than financial reporting. This valuation policy differs from the valuation method required for financial statement reporting purposes under the Canadian Institute of Chartered Accountants Handbook (the "CICA Handbook"). The CICA Handbook requires that portfolio securities in an active market be valued using the latest available bid price. The primary differences between the valuation policy of the Fund and the approach in the CICA Handbook is that the Fund will generally determine the fair value of its equity securities traded on a stock exchange by using the closing price on the exchange. For bonds, debentures and other debt obligations (excluding money-market instruments), the Fund will generally use the average of the bid and ask prices to determine the fair value.

RESPONSIBILITY FOR OPERATIONS

The Manager

Pursuant to the Trust Agreement, Mulvihill is the manager of the Fund and, as such, is responsible for providing or arranging for required administrative services to the Fund including, without limitation: authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements and financial and accounting information as required by the Fund; ensuring that Unitholders are provided with financial statements (including interim and annual financial statements) and other reports as are required by applicable law from time to time; ensuring that the Fund complies with regulatory requirements and applicable stock exchange listing requirements; preparing the Fund's reports to Unitholders and the Canadian securities regulatory authorities; providing the Trustee with information and reports necessary for it to fulfil its fiduciary responsibilities; determining the amount of distributions to be made by the Fund; and negotiating contractual agreements with third-party providers of services, including registrars, transfer agents, auditors and printers.

Mulvihill shall exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of Unitholders, and in connection therewith, shall exercise the degree of care, diligence and skill that a reasonably prudent manager would exercise in similar circumstances.

Mulvihill may resign as manager of the Fund upon 60 days' notice to the Fund and to the Unitholders or upon such lesser notice period as the Trustee may accept. If Mulvihill resigns it may appoint its successor but, unless its successor is an affiliate of Mulvihill, its successor must be approved by Unitholders. If Mulvihill is in material default of its obligations under the Trust Agreement and such default has not been cured within 30 days after notice

of same has been given to Mulvihill, the Trustee shall give notice thereof to Unitholders and the Unitholders may direct the Trustee to remove Mulvihill and appoint a successor manager.

Mulvihill is entitled to fees for its services under the Trust Agreement and will be reimbursed for all reasonable costs and expenses incurred by Mulvihill on behalf of the Fund. In addition, Mulvihill and each of its directors, officers, employees and agents will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against Mulvihill or any of its officers, directors, employees or agents in the exercise of its duties as manager, except those resulting from Mulvihill's wilful misconduct, bad faith, negligence or breach of its obligations under the Trust Agreement.

The management services of Mulvihill under the Trust Agreement are not exclusive and nothing in the Trust Agreement prevents Mulvihill from providing similar management services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Fund) or from engaging in other activities.

The Investment Manager

MCM manages the Fund's investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an investment management agreement (the "Investment Management Agreement") made between Mulvihill as manager and on behalf of the Fund and MCM dated September 27, 2000.

MCM was incorporated in 1984 by The Canada Trust Company under the name CT Investment Counsel Inc. ("CTIC") to manage the institutional pension fund business of The Canada Trust Company. In 1985, The Canada Trust Company and The Canada Permanent Trust Company amalgamated resulting in all of the pension assets managed by The Canada Permanent Trust Company being transferred to CTIC management. In addition, the investment professionals of The Canada Permanent Trust Company joined the CTIC team.

In February 1995, John P. Mulvihill purchased 100% of CTIC from The Canada Trust Company and changed CTIC's name to Mulvihill Capital Management Inc.

Investment Management Agreement

The services provided by MCM pursuant to the Investment Management Agreement include making all investment decisions for the Fund and managing the call option writing and put option writing of the Fund, all in accordance with the investment objectives, strategy and criteria of the Fund. Decisions as to the purchase and sale of securities and as to the execution of all portfolio and other transactions will be made by MCM. In the purchase and sale of securities for the Fund and the writing of option contracts, MCM will seek to obtain overall services and prompt execution of orders on favourable terms.

Under the Investment Management Agreement, MCM is required to act at all times on a basis which is fair and reasonable to the Fund, to act honestly and in good faith with a view to the best interests of the Unitholders of the Fund and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent portfolio manager would exercise in comparable circumstances. The Investment Management Agreement provides that MCM shall not be liable in any way for any default, failure or defect in any of the securities of the Fund, nor shall it be liable if it has satisfied the duties and standard of care, diligence and skill set forth above. MCM will, however, incur liability in cases of wilful misfeasance, bad faith, negligence or breach of its obligations under the Investment Management Agreement.

The Investment Management Agreement, unless terminated as described below, will continue in effect until the termination of the Fund on the Termination Date. The Trustee may terminate the Investment Management Agreement if MCM has committed certain events of bankruptcy or insolvency or is in material breach or default of the provisions thereof and such breach has not been cured within 30 days after notice thereof has been given to MCM by the Trustee. Except as described above, MCM cannot be terminated as investment manager of the Fund.

Except as set out below, MCM may not terminate the Investment Management Agreement or assign the same except to an affiliate of MCM, without Unitholder approval. MCM may terminate the Investment Management Agreement if the Fund is in material breach or default of the provisions thereof and such breach or default has not been cured within 30 days of notice of same to the Trustee or if there is a material change in the fundamental investment objectives, strategy or criteria of the Fund.

If the Investment Management Agreement is terminated, Mulvihill will promptly appoint a successor investment manager to carry out the activities of MCM until a meeting of Unitholders is held to confirm such appointment.

MCM is entitled to fees for its services under the Investment Management Agreement and will be reimbursed for all reasonable costs and expenses incurred by MCM on behalf of the Fund. In addition, MCM and each of its directors, officers, employees and agents will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against MCM or any of its officers, directors, employees or agents in the exercise of its duties as investment manager, except those resulting from MCM's wilful misconduct, bad faith, negligence or breach of its obligations under the Investment Management Agreement.

Independent Review Committee

National Instrument 81-107 – *Independent Review Committee for Investment Funds* (“NI 81-107”) requires all publicly offered investment funds, including the Fund, to establish an independent review committee to whom the manager of the fund must refer all conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the manager to establish written policies and procedures for dealing with conflict of interest matters, maintain records in respect of those matters and provide assistance to the independent review committee in carrying out its functions. The independent review committee is required to conduct regular assessments and provide reports to the manager and securityholders in respect of its activities.

The members of the independent review committee (the “IRC”) of the Fund and the other Mulvihill funds are Michael M. Koerner, Robert W. Korthals and Robert G. Bertram. Mr. Bertram replaced C. Edward Medland as a member of the IRC effective January 1, 2009, following the passing of the latter. The aggregate compensation paid by the Fund to the members of the IRC for the year ended December 31, 2008 was \$4,266.75.

The Advisory Board

The Fund has established an advisory board (the “Advisory Board”) currently consisting of five members appointed by Mulvihill to assist Mulvihill in performing its services under the Trust Agreement. The following are the names, municipalities of residence and principal occupations of each member of the Advisory Board of the Fund:

<i>Name and Municipality of Residence</i>	<i>Principal Occupation</i>
John P. Mulvihill Toronto, Ontario	Chairman and President, MCM
Michael M. Koerner ⁽¹⁾ Toronto, Ontario	Corporate Director
Robert W. Korthals ⁽¹⁾ Toronto, Ontario	Corporate Director
Robert G. Bertram ⁽¹⁾ Aurora, Ontario	Corporate Director
Sheila Szela Toronto, Ontario	Vice-President, Finance and Chief Financial Officer, MCM

(1) Independent of the Manager.

During the past five years all of the Advisory Board members have held the principal occupations noted opposite their respective names, or other occupations with their current employer or a predecessor company with the exception of Robert G. Bertram, who served as Executive Vice President of the Ontario Teachers Pension Plan Board from 1990 until 2008. The independent Advisory Board members are paid an annual fee of \$5,000 and a fee for each Advisory Board meeting attended of \$300. All fees and expenses of the Advisory Board are paid by the Fund.

Each member of the Advisory Board, other than Mr. Koerner, Ms. Szela and Mr. Bertram, has served as a member of the Advisory Board since its initial public offering. Mr. Koerner became an Advisory Board member on June 16, 2000, Ms. Szela became an Advisory Board member on November 23, 2004 and Mr. Bertram became an Advisory Board member on January 1, 2009. Each member of the Advisory Board has been appointed by the Manager and will serve until his or her successor is appointed.

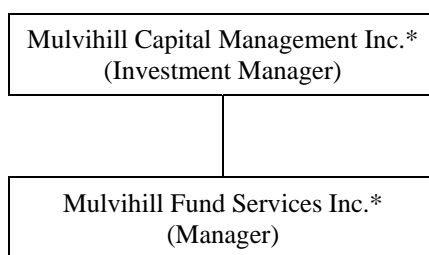
Directors and Officers of the Manager

The name and municipality of residence, position held with Mulvihill and current principal occupation of each of the directors and officers of Mulvihill are as follows:

<i>Name and Municipality of Residence</i>	<i>Office or Position with Mulvihill</i>	<i>Principal Occupation</i>
John P. Mulvihill Toronto, Ontario	Chairman, President and Director	Chairman and President, MCM
Sheila Szela Toronto, Ontario	Chief Financial Officer and Director	Vice-President, Finance and Chief Financial Officer, MCM

Mr. Mulvihill has held his current positions with Mulvihill and MCM for the past five years. Ms. Szela was appointed as Chief Financial Officer and a director of Mulvihill in November, 2004. She joined MCM in June 2002 as Vice-President, Finance and was appointed to the position of Chief Financial Officer in November 2004.

MCM owns the sole outstanding share of Mulvihill, as shown below.



* Fees received by these entities from the Fund are disclosed in the audited financial statements of the Fund.

As of March 26, 2009, John P. Mulvihill owned of record and beneficially 95,073 shares (100%) of MCM Group Holdings Inc., the sole shareholder of MCM.

Directors and Officers of the Investment Manager

The name and municipality of residence and position of each of the directors and officers of MCM are as follows:

<i>Name and Municipality of Residence</i>	<i>Office or Position with MCM</i>
John P. Mulvihill Toronto, Ontario	Chairman, President, Chief Executive Officer, Secretary and Director
Donald Biggs Ancaster, Ontario	Senior Vice-President
John Germain Toronto, Ontario	Vice-President
Supriya Kapoor Toronto, Ontario	Vice-President
Peggy Shiu Toronto, Ontario	Vice-President
Sheila Szela Toronto, Ontario	Vice-President, Finance and Chief Financial Officer
Jack Way Toronto, Ontario	Vice-President

Except as indicated below, each of the foregoing has held his or her current office or has held a similar office in MCM during the five years preceding the date hereof. Prior to joining MCM in October 2004, Ms. Kapoor was Director, Compliance Operations from October 2002 to October 2004 for Assante Advisory Services and Manager, Regulatory Affairs & Compliance from October 2000 to October 2002 for BMO Investments Inc.

All the individuals on the team responsible for investment management at MCM have significant experience in managing investment portfolios. The officers of MCM who are primarily responsible for the management of the Fund's portfolio are John P. Mulvihill and Donald Biggs. Also assisting in the management of the portfolio are: Jack Way, John Germain, Jeff Dobson and Dylan D'Costa.

John P. Mulvihill, Chairman of MCM, is the senior portfolio manager of MCM and has over 30 years of investment management experience. Prior to purchasing CTIC from The Canada Trust Company in 1995, Mr. Mulvihill had been Chairman of CTIC since 1988. At CTIC he had primary responsibility for the asset allocation and portfolio management of CTIC's pension and mutual fund assets.

Donald Biggs, Senior Vice-President of MCM, has extensive experience in managing derivative instruments. Prior to joining MCM in 1997, Mr. Biggs was Vice-President, Bonds and Cash Management at OMERS where he had overall responsibility for Derivative Products.

Jack Way has been with MCM since August 1998 and brings an extensive background in asset management with over 23 years of experience as an investment manager during which he spent considerable time working in the U.S. market.

John Germain has been with MCM and the Structured Products Team since March 1997. Prior to joining MCM, he had been employed at Merrill Lynch Canada Inc. since 1992. For the last two years of his employment at Merrill Lynch Canada Inc., he was a member of the Fixed Income Trading Group.

Jeff Dobson, Portfolio Manager, joined MCM in April 2001 after nearly 16 years at Scotia Capital. He brings extensive experience in portfolio management, especially in the use of equity options. His most recent position prior to joining MCM involved managing a portfolio comprised of equity options, their underlying stocks, as well as equity index derivatives.

Dylan D’Costa, Portfolio Manager, has been with MCM and the Structured Products Team since January 2001 where he has worked extensively on valuing, pricing and trading equity options. Prior to joining MCM, he had been employed at CIBC Mellon where he worked with the valuations group.

CORPORATE GOVERNANCE

The Advisory Board of the Fund is responsible for the overall stewardship of the Fund’s business and affairs. Mulvihill, the Fund’s manager, administers many functions associated with the operations of the Fund pursuant to the Trust Agreement. Under this agreement, the Manager is responsible for certain day to day operations of the Fund including the payment of distributions on its Units and attending to the redemption of Units in accordance with their terms.

The Advisory Board consists of five members, three of whom are independent of the Manager. The Fund believes that the number of Advisory Board members is appropriate for the Fund and only members independent of the Manager are compensated. Amounts paid as compensation are reviewed for adequacy to ensure that they realistically reflect the responsibilities and risk involved in being an effective member of the Advisory Board. Individual members may engage an outside advisor at the expense of the Fund in appropriate circumstances subject to the approval of the Fund.

The Advisory Board is responsible for developing the Fund’s approach to governance issues and, together with the Investment Manager, is evolving a best practices governance procedure. The Fund maintains an Investor Relations line and website to respond to inquiries from Unitholders.

Mulvihill has adopted policies, procedures and guidelines concerning the governance of the Fund and to ensure the proper management of the Fund. These policies, procedures and guidelines aim to monitor and manage the business, risks and internal conflicts of interest relating to the Fund, and to ensure compliance with regulatory and corporate requirements.

In addition, MCM has an asset mix committee consisting of the following senior officers: John Mulvihill, Donald Biggs, Peggy Shiu, Jack Way and John Germain. The investment process for the Fund begins at the asset mix committee. Members of this committee meet monthly to examine macro-economic variables and relationships among dominant economic factors. This process culminates in an outlook for the various capital markets around the world and provides the fundamental basis for MCM’s long-term market outlook. These views are integrated into the investment decision making process at the portfolio management level. The asset mix committee of MCM oversees investment decisions made by the portfolio managers of the Fund and reports to John Mulvihill, the sole director and chairman, president, chief executive officer and secretary of MCM.

The Fund may use derivatives as permitted by the policies of Canadian securities authorities and consistent with the investment objectives and restrictions of the Fund and with the investment policies set by the asset mix committee of MCM. Policies, procedures and guidelines regarding investing in derivatives, including objectives and goals for derivatives trading and the risk management procedures applicable to such trading are reviewed by Mulvihill on a regular basis. If the Fund uses derivatives, it will hold enough assets to cover any obligations it has under the derivative contracts. The exposure of the Fund to derivatives is monitored daily by both senior management and the internal accounting group of Mulvihill.

Mulvihill and MCM also employ certain risk assessment tools including mark to market valuing of securities, reporting and monitoring of securities exposure and reconciliations of security transactions.

Because Unitholders may only redeem their Units on notice for payment not more frequently than monthly, they cannot engage in short-term trading of the Fund’s securities with the Fund and the Fund has no policies and procedures in relation to such activities.

Proxy Voting Policy

The Fund has adopted the following proxy guidelines (the “Proxy Guidelines”) with respect to the voting of proxies received by it relating to voting securities held by the Fund. The Proxy Guidelines establish standing policies and

procedures for dealing with routine matters, as well as the circumstances under which deviations may occur from such standing policies. A general description of certain such policies is outlined below.

(a) *Auditors*

The Fund will generally vote for proposals to ratify auditors except where non-audit-related fees paid to such auditors exceed audit-related fees.

(b) *Board of Directors*

The Fund will vote for nominees of management on a case-by-case basis, examining the following factors: independence of the board and key board committees, attendance at board meetings, corporate governance positions, takeover activity, long-term company performance, excessive executive compensation, responsiveness to shareholder proposals and any egregious board actions. The Fund will generally withhold votes from any nominee who is an insider and sits on the audit committee or the compensation committee. The Fund will also withhold support from those individual nominees who have attended fewer than 75% of the board meetings held within the past year without a valid excuse for these absences.

(c) *Compensation Plans*

The Fund will vote on matters dealing with share-based compensation plans on a case-by-case basis. The Fund will review share-based compensation plans with a primary focus on the transfer of shareholder wealth. The Fund will generally vote for compensation plans only where the cost is within the industry maximum except where (i) participation by outsiders is discretionary or excessive or the plan does not include reasonable limits on participation or (ii) the plan provides for option re-pricing without shareholder approval. The Fund will generally also vote against any proposals to re-price options, unless such re-pricing is part of a broader plan amendment that substantially improves the plan and provided that (i) a value-for-value exchange is proposed; (ii) the top five paid officers are excluded; and (iii) exercised options do not go back into the plan or the company commits to an annual burn rate cap.

(d) *Management Compensation*

The Fund will vote on employee stock purchase plans (“ESPPs”) on a case-by-case basis. The Fund will generally vote for broadly based ESPPs where all of the following apply: (i) there is a limit on employee contribution; (ii) the purchase price is at least 80% of fair market value; (iii) there is no discount purchase price with maximum employer contribution of up to 20% of employee contribution; (iv) the offering period is 27 months or less; and (v) potential dilution is 10% of outstanding securities or less. The Fund will also vote on a case-by-case basis for shareholder proposals targeting executive and director pay, taking into account the issuer’s performance, absolute and relative pay levels as well as the wording of the proposal itself. The Fund will generally vote for shareholder proposals requesting that the issuer expense options or that the exercise of some, but not all options be tied to the achievement of performance hurdles.

(e) *Capital Structure*

The Fund will vote on proposals to increase the number of securities of an issuer authorized for issuance on a case-by-case basis. The Fund will generally vote for proposals to approve increases where the issuer’s securities are in danger of being de-listed or if the issuer’s ability to continue to operate is uncertain. The Fund will generally vote against proposals to approve unlimited capital authorization.

(f) *Constituting Documents*

The Fund will generally vote for changes to constituting documents that are necessary and can be classified as “housekeeping”. The following amendments will be opposed:

- (i) the quorum for a meeting of shareholders is set below two persons holding 25% of the eligible vote (this may be reduced in the case of a small organization where it clearly has difficulty achieving quorum at a higher level, but the Fund will oppose any quorum below 10%);

- (ii) the quorum for a meeting of the board of directors should not be less than 50% of the number of directors; and
- (iii) the chair of the board has a casting vote in the event of a deadlock at a meeting of directors if that chair is not an independent director.

The Proxy Guidelines also include policies and procedures pursuant to which the Fund will determine how to cause proxies to be voted on non-routine matters including shareholder rights plans, proxy contests, mergers and restructurings and social and environmental issues.

The Proxy Guidelines apply to proxy votes that present a conflict between the interests of Mulvihill, MCM or an entity related thereto, on the one hand, and the interests of the securityholders of the Fund, on the other.

The Fund has retained ISS Governance Services, a subsidiary of RiskMetrics Group to administer and implement the Proxy Guidelines for the Fund.

The Proxy Guidelines are available upon request at no cost by calling toll-free at 1-800-725-7172 or by e-mail at hybrid@mulvihill.com.

The Fund maintains annual proxy voting records for the period beginning July 1 and ending June 30 of each year. These records are available after August 31 of each year at no cost by calling toll-free 1-800-725-7172 or on Mulvihill's website at www.mulvihill.com.

BROKERAGE ARRANGEMENTS

The Investment Manager has been delegated authority to determine the brokerage arrangements of the Fund. Decisions that the Investment Manager may make as to the purchase and sale of portfolio securities and the execution of portfolio transactions for the Fund, including the selection of markets and dealers and the negotiation of commissions, are based on elements such as price, speed of execution, certainty of execution and total transactions costs.

TRUSTEE AND CUSTODIAN

RBC Dexia Investor Services Trust, as successor to The Royal Trust Company, is the trustee of the Fund and acts as custodian of the assets of the Fund under the Trust Agreement. Pursuant to the terms of the Trust Agreement, the assets of the Fund may also be held by subcustodians.

The Trustee is responsible for certain aspects of the day-to-day administration of the Fund as described in the Trust Agreement, including executing instruments on behalf of the Fund, processing redemptions, calculating NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund.

The Trustee may resign upon 60 days' notice to Unitholders and Mulvihill or such lesser notice as Mulvihill may accept. The Trustee may be removed with the approval of a two-thirds majority vote cast at a meeting of Unitholders called for such purpose or by Mulvihill in the event the Trustee has committed certain events of bankruptcy or insolvency or is in material breach or default of its obligations under the Trust Agreement which breach has not been cured within 30 days after notice thereof has been given to the Trustee. Any such resignation or removal shall become effective only upon the acceptance of appointment by a successor. If the Trustee resigns or is removed by Mulvihill, its successor may be appointed by Mulvihill. The successor must be approved by Unitholders if the Trustee is removed by Unitholders. If no successor has been appointed within 60 days, the Trustee or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor.

The address of the Trustee is 77 King Street West, 7th Floor, Toronto, Ontario, M5W 1P9.

The Trustee receives fees from the Fund for acting as trustee and custodian of the assets of the Fund and performing certain administrative services under the Trust Agreement and is reimbursed for all expenses and liabilities which are properly incurred by the Trustee in connection with the activities of the Fund.

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc. at its principal offices in Toronto is the registrar and transfer agent for the Units. The register of the Fund is kept in Toronto, Ontario.

AUDITORS

The auditors of the Fund are Deloitte & Touche LLP, Bay Wellington Tower - Brookfield Place, 181 Bay Street, Suite 1400, Toronto, Ontario, M5J 2V1.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the principal Canadian federal income tax considerations generally applicable to the acquisition, holding and disposition of Units by holders who are individuals (other than trusts) and who, for purposes of the Tax Act, are resident in Canada, deal at arm's length with the Fund and hold their Units as capital property (each a "Holder"). This summary is based upon the current provisions of the Tax Act, the regulations thereunder, and the Fund's understanding of the current administrative practices of the Canada Revenue Agency (the "CRA") and the specific proposals to amend the Tax Act and regulations thereunder announced prior to the date hereof by the Minister of Finance (Canada) (the "Proposed Amendments"). No assurances can be given that the Proposed Amendments will become law as proposed or at all.

This summary is based on the following assumptions:

- (a) the Fund will not make or hold any investment that would result in the Fund becoming a "SIFT trust" for purposes of the Tax Act. Among other requirements, in order for the Fund to so qualify:
 - (i) the Fund must not hold "securities" of a "subject entity" other than a "portfolio investment entity" (as defined in the Tax Act) if such securities have a total fair market value that is greater than 10% of the fair market value of all of the issued and outstanding shares or interests in such entity; and
 - (ii) the Fund must not hold "securities" of a "subject entity" other than a "portfolio investment entity" (as defined in the Tax Act) if, together with all of the securities that the Fund holds of entities affiliated with the particular subject entity, such securities have a total fair market value that is greater than 50% of the fair market value of all of the issued and outstanding Units of the Fund;
- (b) none of the issuers of the securities acquired or held by the Fund will be foreign affiliates of the Fund or of any Holder;
- (c) none of the securities acquired or held by the Fund will be a "tax shelter investment" within the meaning of section 143.2 of the Tax Act; and
- (d) none of the securities acquired or held by the Fund will be a "participating interest", other than an "exempt interest", in a "foreign investment entity" or a "tracking entity", or an interest in a non-resident trust other than an "exempt foreign trust" under tax proposals relating to foreign investment entities and non-resident trusts.

This summary is not exhaustive of all possible Canadian federal income tax considerations and does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, other than the Proposed Amendments. This summary does not deal with foreign, provincial or territorial income tax considerations, which might differ from the federal considerations summarized herein.

This summary is of a general nature only and does not constitute legal or tax advice to any particular investor. Investors are advised to consult their own tax advisors with respect to the tax consequences to them of an investment in Units in their individual circumstances.

Status of the Fund

This summary is based on the assumption that the Fund will qualify at all times as a “mutual fund trust” within the meaning of the Tax Act. To so qualify, the sole undertaking of the Fund must be the investing of its funds in property (other than real property or interests in real property), the Units must be redeemable at the demand of Unitholders and the Fund must comply on a continuous basis with certain requirements relating to the qualification of the Units for distribution to the public, the number of Unitholders and the dispersal of ownership of Units. An additional condition to qualify as a mutual fund trust for purposes of the Tax Act is that the Fund may not be established or maintained primarily for the benefit of non-resident persons unless, at all times, substantially all of its property consists of property other than “taxable Canadian property” within the meaning of the Tax Act. If certain Proposed Amendments released on September 16, 2004 are enacted as proposed, the Fund would cease to qualify as a mutual fund trust for purposes of the Tax Act if, at any time after 2004, the fair market value of all Units held by non-residents, or partnerships that are not “Canadian partnerships” for the purpose of the Tax Act, or any combination of the foregoing, is more than 50% of the fair market value of all issued and outstanding Units unless no more than 10% (based on fair market value) of the Fund’s property is at any time “taxable Canadian property” within the meaning of the Tax Act and certain other types of specified property. Bill C-52, which received Royal Assent on June 22, 2007, amended the relevant provision of the Tax Act such that a trust is deemed not to be a mutual fund trust after any time when it can be reasonably considered that the trust was established or maintained primarily for the benefit of non-resident persons, unless at that time all or substantially all of its property is property other than taxable Canadian property. It is not clear whether this amendment supersedes the Tax Proposals released on September 16, 2004. If the Fund were not to qualify as a mutual fund trust, the income tax considerations described below would in some respects be materially different.

Under the Tax Act, trusts or partnerships (defined as “SIFT trusts” and “SIFT partnerships”, respectively) the securities of which are listed or traded on a public market and that hold one or more “non-portfolio properties” (as defined in the Tax Act) are effectively taxed on income and capital gains in respect of such non-portfolio properties at combined rates comparable to the rates that apply to income earned and distributed by Canadian public corporations. Distributions of such income received by unitholders of SIFT trusts (and allocations of such income made to members of SIFT partnerships) are treated as eligible dividends from a taxable Canadian corporation. This summary assumes that the Fund will at no time be a SIFT trust.

Taxation of the Fund

The Fund will be subject to tax in each taxation year under Part I of the Tax Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to Unitholders in the year. The Fund intends to deduct in computing its income in each taxation year the full amount available for deduction in each year and, therefore, provided the Fund makes deductions in each year of its net income and net realized capital gains, it will generally not be liable in such year for income tax under Part I of the Tax Act.

On October 31, 2003, Proposed Amendments were released by the Department of Finance for public comment which propose that the Tax Act be amended to require, for taxation years commencing after 2004, that there be a “reasonable expectation of cumulative profit” from a business or property in order for a taxpayer to deduct any loss incurred by the taxpayer from the business or property, and would provide that profit, for this purpose, does not include capital gains. The October 31, 2003 Proposed Amendments could potentially have an adverse effect on the deductibility by the Fund of certain otherwise deductible expenses. On February 23, 2005, the Department of Finance announced it has developed an alternative proposal to the October 31 Proposed Amendments which it intends to release for comment. No such alternative proposal has been released as of the date hereof.

The Fund has elected in accordance with the Tax Act to have each of its Canadian securities treated as capital property. Such an election ensures that gains or losses realized by the Fund on the sale of Canadian securities are taxed as capital gains or capital losses.

The Fund will not realize income, gain or loss as a result of entering into the Forward Agreement. Gains or losses realized by the Fund on the sale or other disposition of the securities in the Fixed Portfolio will be treated as capital gains or capital losses. If the Fund elects physical settlement under the Forward Agreement and, as a result, the Fund delivers Canadian securities in the Fixed Portfolio and receives a payment from RBC equal to the price stipulated in

the Forward Agreement, the gain realized by the Fund will be a capital gain. If the Fund elects cash settlement of the obligations of the Fund and RBC under the Forward Agreement, the gain or loss to the Fund may be on capital or income account depending on the facts and circumstances.

In determining the income of the Fund, premiums received by the Fund on covered call options and cash covered put options written by the Fund (and which are not exercised prior to the end of the year) will constitute capital gains of the Fund in the year received, and gains or losses realized upon dispositions of securities of the Fund (whether upon the exercise of call options written by the Fund or otherwise) will constitute capital gains or capital losses of the Fund in the year realized unless the Fund is considered to be trading or dealing in securities or otherwise carrying on a business of buying and selling securities or the Fund has acquired the securities in a transaction or transactions considered to be an adventure in the nature of trade. The Fund will purchase the Managed Portfolio with the objective of earning dividends thereon over the life of the Fund including dividends on securities acquired upon the exercise of cash covered put options written by the Fund, will write covered call options with the objective of increasing the yield on the investment portfolio beyond the dividends received on the investment portfolio and will write cash covered put options to increase returns and to reduce the net cost of purchasing securities subject to put options. In accordance with the CRA's published administrative practice, transactions undertaken by the Fund in respect of options will be treated and reported for purposes of the Tax Act on capital account and designations with respect to its income and capital gains, as described below, will be made and reported to Holders on this basis. Premiums received by the Fund on covered call (or cash covered put) options which are exercised in the taxation year in which the option is written by the Fund are added in computing the proceeds of disposition (deducted in computing the adjusted cost base) to the Fund of the securities disposed of (acquired) by the Fund on exercise of such call (put) options.

The Managed Portfolio will include securities which are not denominated in Canadian dollars. Option premiums, the cost and proceeds of disposition of securities, dividends, interest and all other amounts will be determined for the purposes of the Tax Act in Canadian dollars at the exchange rate prevailing at the time of the transaction. The Fund may realize gains or losses by virtue of the fluctuation in the value of foreign currencies relative to Canadian dollars.

The Fund will derive income or gains from investments in countries other than Canada and, as a result, may be liable to pay income or profits tax to such countries. To the extent that such foreign tax paid does not exceed 15% of such amount and has not been deducted in computing the Fund's income, the Fund may designate a portion of its foreign source income in respect of a Holder so that such income and a portion of the foreign tax paid by the Fund may be regarded as foreign source income of, and foreign tax paid by, the Holder for the purposes of the foreign tax credit provisions of the Tax Act. To the extent that such foreign tax paid by the Fund exceeds 15% of the amount included in the Fund's income from such investments, such excess may generally be deducted by the Fund in computing its income for the purposes of the Tax Act.

The Tax Act provides for a special tax on designated income of certain trusts which have designated beneficiaries. This special tax does not apply to a trust for a taxation year if the trust is a mutual fund trust throughout such year. Accordingly, provided that the Fund qualifies as a mutual fund trust throughout a taxation year, it will not be subject to the special tax for such taxation year.

Taxation of Holders

A Holder will generally be required to include in computing income for a taxation year the amount of the Fund's net income for the taxation year, including net realized taxable capital gains, paid or payable to the Holder in the taxation year. The non-taxable portion of the Fund's net realized capital gains paid or payable to a Holder in a taxation year will not be included in the Holder's income for the year. Any other amount in excess of the Fund's net income for a taxation year paid or payable to the Holder in the year will not generally be included in the Holder's income. Such amount, however, will generally reduce the adjusted cost base of the Holder's Units, except to the extent such amount is the non-taxable portion of a capital gain of the Fund the taxable portion of which was designated to the Holder.

Provided that appropriate designations are made by the Fund, such portion of (i) the net realized taxable capital gains of the Fund, (ii) the foreign source income of the Fund and foreign taxes eligible for the foreign tax credit, and (iii) the taxable dividends received by the Fund on shares of taxable Canadian corporations, as is paid or payable to a

Holder will effectively retain its character and be treated as such in the hands of the Holder for purposes of the Tax Act. To the extent that amounts are designated as taxable dividends (including “eligible dividends”) from taxable Canadian corporations, the normal gross-up and dividend tax credit rules will apply.

Under the Tax Act, the Fund is permitted to deduct in computing its income for a taxation year an amount which is less than the amount of its distributions for the year. This will enable the Fund to utilize, in a taxation year, losses from prior years without affecting the ability of the Fund to distribute its income annually. The amount distributed to a Holder but not deducted by the Fund will not be included in the Holder’s income. However, the adjusted cost base of the Holder’s Units will be reduced by such amount.

The NAV per Unit will reflect any income and gains of the Fund that have accrued or been realized but have not been made payable at the time Units are acquired. Accordingly, a Holder who acquires Units may become taxable on the Holder’s share of income and gains of the Fund that accrued or were realized before the Units are acquired and not made payable at such time.

On the disposition or deemed disposition of Units, the Holder will realize a capital gain (or capital loss) to the extent that the Holder’s proceeds of disposition (other than any amount payable by the Fund which represents an amount that is otherwise required to be included in the Holder’s income as described above) exceed (or are exceeded by) the aggregate of the adjusted cost base of the Units and any reasonable costs of disposition. If the Fund distributes property in specie on the termination of the Fund, a Holder’s proceeds of disposition will generally be equal to the aggregate of the fair market value of the property and the amount of any cash received and the Holder’s cost of the property will generally be equal to such fair market value. For the purpose of determining the adjusted cost base to a Holder of Units, when a Unit is acquired, the cost of the newly-acquired Unit will be averaged with the adjusted cost base of all of the Units owned by the Holder as capital property at that time.

One-half of any capital gain (“taxable capital gain”) realized on the disposition of Units will be included in the Holder’s income and one-half of any capital loss realized may be deducted from taxable capital gains in accordance with the provisions of the Tax Act.

In computing a Holder’s income for purposes of the Tax Act, any taxable capital gain designated to the Holder arising from the settlement of the Forward Agreement (or otherwise) may be netted against any allowable capital loss realized by the Holder, including any allowable capital loss realized on the disposition of Units to the Fund on redemption.

In general terms, net income of the Fund paid or payable to a Holder that is designated as eligible dividends or net realized capital gains, or net capital gain realized on the disposition of Units may increase the Holder’s liability for alternative minimum tax.

Eligibility for Investment

Provided that the Fund qualifies as a mutual fund trust within the meaning of the Tax Act or that Units continue to be listed on the TSX or any other “designated stock exchange” (as defined in the Tax Act), Units will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered disability savings plans, registered education savings plans and tax-free savings accounts.

RISK FACTORS

The following are certain considerations relating to an investment in Units which investors should consider, along with other factors in relation to an investment in the Fund’s Units.

Current Economic Conditions

During recent months, both domestic and foreign financial markets have been characterized by increased volatility. This has been due, in part, to a revaluation of assets on the balance sheets of international financial institutions, as well as the securities of those issuers. Access to public financing has been negatively affected and no assurance can be made that the combined impact of the significant revaluations and constraints on the availability of credit will not

materially and adversely affect economies around the world in the near to medium term. If such heightened levels of volatility and current market turmoil continue, the value of the Fund's investments could be adversely affected.

No Assurances on Achieving Objectives

There is no assurance that the Fund will be able to achieve its distribution and Managed Portfolio preservation objectives or that the Managed Portfolio will earn any return or will return to investors an amount in excess of the original issue price of the Units. The Fund will forgo the benefits of any increase in the value of the Fixed Portfolio and only Managed Portfolio Securities will be available to generate option premiums from covered call and cash covered put option writing.

There is no assurance that the Fund will be able to pay monthly distributions. The funds available for distribution to Unitholders will vary according, among other things, to the dividends paid on all of the securities comprising the Managed Portfolio, the level of option premiums received and the value of the securities comprising the Managed Portfolio. As the dividends received by the Fund will not be sufficient to meet the Fund's objectives in respect of the payment of distributions, the Fund depends and will depend on the receipt of option premiums and the realization of capital gains to meet those objectives. Although many investors and financial market professionals price options based on the Black-Scholes Model, in practice actual option premiums are determined in the marketplace and there is no assurance that the premiums predicted by such pricing model can be attained.

Counterparty Credit Risk

In entering into the Forward Agreement, the Fund will be exposed to the credit risk associated with the counterparty and as well as the risk that the counterparty will not satisfy its obligations under the Forward Agreement on a timely basis or at all.

Sensitivity to Interest Rates

As the Fund is targeting monthly distributions of at least \$0.1875 per Unit (9.0% per annum on the original issue price), the market price of the Units may be affected by the level of interest rates prevailing from time to time. In addition, prior to the Termination Date, the Fund's NAV may be highly sensitive to interest rate fluctuations because the value of the Forward Agreement will fluctuate based on interest rates. In addition, any decrease in the NAV of the Fund resulting from an increase in interest rates may also negatively affect the market price of the Units. Unitholders who wish to redeem or sell their Units prior to the Termination Date will therefore be exposed to the risk that NAV per Unit or the market price of the Units will be negatively affected by interest rate fluctuations.

Fluctuations in Net Asset Value

The NAV per Unit and the funds available for distribution will vary according, among other things, to the value of the Managed Portfolio securities acquired by the Fund, the dividends paid and interest earned thereon, the volatility of such securities and the levels of option premiums received. Fluctuations in the market values of the Managed Portfolio securities in which the Fund invests may occur for a number of reasons beyond the control of the Manager, MCM or the Fund. Overweighting investments in certain sectors or industries of the U.S. stock market involves risk that the Fund will suffer a loss because of general advances or declines in the prices of stocks in those sectors or industries. Although many investors and financial market professionals price options based on the Black-Scholes Model, in practice, actual option premiums are determined based on market factors including interest rate levels, and there is no assurance that the premiums predicted by such pricing model can be attained.

Units may trade in the market at a premium or discount to NAV per Unit and there can be no assurance that Units will trade at a price equal to NAV per Unit.

Loss of Full Capital Repayment

Early Redemption

Unitholders who request the redemption of their Units prior to the Termination Date will forgo the full benefit of the capital repayment provided by the Forward Agreement on the Termination Date and may receive a redemption amount which is less than the original issue price.

Forward Agreement

The Fund has entered into the Forward Agreement with RBC with respect to the Fixed Portfolio in order to provide the Fund with the means to return the original issue price of the Units to Unitholders on the Termination Date. The possibility exists that RBC will default on its payment obligations under the Forward Agreement or that the proceeds of the Forward Agreement will be used to satisfy other liabilities of the Fund, which liabilities could include obligations to third-party creditors in the event the Fund has insufficient assets, excluding the proceeds of the Forward Agreement, to pay its liabilities. If any of these eventualities should occur investors in the Units may not receive the original issue price on the Termination Date.

A consequence of entering into the Forward Agreement is that the Fund will in effect forgo the benefits of any appreciation of the value of the Fixed Portfolio. If the Fund receives dividends or other distributions on the Fixed Portfolio securities or if the Fund receives consideration in respect of such securities as a consequence of a merger transaction, the amount payable under the Forward Agreement will be reduced. If, in these circumstances, the Fund is unable to amend the Forward Agreement or enter into another transaction to enable it to receive an amount at least equal to the original issue price on or about the Termination Date, Unitholders may not receive an amount at least equal to the original issue price per Unit on or about the Termination Date. In the event of an early termination of the Forward Agreement, the Fund may be unable to pay Unitholders an amount at least equal to the original issue price per Unit on the Termination Date. However, in the event of an early termination of the Forward Agreement, the Fund will attempt to enter into additional forward, derivative or other transactions in order to enable it to pay to Unitholders the original issue price on or before the Termination Date. See “Capital Repayment”.

Reliance on the Investment Manager

MCM manages the portfolio of the Fund in a manner consistent with the investment objectives, strategy and criteria of the Fund. The officers of MCM who are primarily responsible for the management of the Fund’s portfolio have extensive experience in managing investment portfolios. There is no certainty that such individuals will continue to be employees of MCM throughout the term of the Fund.

Significant Redemptions

Units are redeemable annually and monthly for a price based on NAV per Unit (which represents the value that the Fund is able to obtain in the market when it sells portfolio securities to fund the redemption). The purpose of the annual redemption right is to prevent the Units from trading at a substantial discount to this value and to provide Unitholders with the right to realize their investment once per year without any trading discount to such value. While the annual redemption right provides Unitholders the option of annual liquidity, there can be no assurance that it will reduce trading discounts. If a significant number of Units are redeemed, the trading liquidity of the Units could be significantly reduced. In addition the expenses of the Fund would be spread among fewer Units potentially resulting in lower NAV.

Use of Options and Other Derivative Instruments

The Fund is subject to the full risk of its investment position in the securities comprising the Fund’s Managed Portfolio, including those securities that are subject to outstanding call options, and those securities underlying put options written by the Fund, should the market price of such securities decline. In addition, the Fund will not participate in any gain on the securities that are subject to outstanding call options above the strike price of the options.

There is no assurance that a liquid exchange or over-the-counter market will exist to permit the Fund to write covered call options or cash covered put options or purchase cash secured put options on desired terms or to close out option positions should MCM desire to do so. The ability of the Fund to close out its positions may also be affected by exchange imposed daily trading limits on options or the lack of a liquid over-the-counter market. If the Fund is unable to repurchase a call option which is in-the-money, it will be unable to realize its profits or limit its losses until such time as the option becomes exercisable or expires. In addition, upon the exercise of a put option, the Fund will be obligated to acquire a security at a strike price that may exceed the then current market value of such security.

In purchasing call or put options or entering into forward or future contracts, the Fund is subject to the credit risk that its counterparty (whether a clearing corporation, in the case of exchange traded instruments, or other third party, in the case of over-the-counter instruments) may be unable to meet its obligations.

Foreign Currency Exposure

As the Fund's Managed Portfolio is comprised of securities and options denominated in U.S. dollars or other foreign currencies, the NAV of the Fund and the value of the dividends and option premiums received by the Fund will, when measured in Canadian dollars, be affected by fluctuations in the value of the U.S. dollar or other foreign currencies relative to the Canadian dollar.

Foreign Market Exposure

The Fund's Managed Portfolio may, at any time, include securities of issuers established in jurisdictions outside Canada and the United States. Although most of such issuers will be subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to Canadian and U.S. companies, some issuers may not be subject to such standards and, as a result, there may be less publicly available information about such issuers than a Canadian or U.S. company. Volume and liquidity in some foreign stock markets may be less than in Canada and the U.S. and, at times, volatility of price may be greater than in Canada or the U.S. As a result, the price of such securities may be affected by conditions in the market of the jurisdiction in which the issuer is located or its securities are traded.

Securities Lending

The Fund may engage in securities lending as described under "Securities Lending". Although the Fund will receive collateral for the loans and such collateral is marked to market, the Fund will be exposed to the risk of loss should the borrower default on its obligation to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities.

Taxation of the Fund

In determining its income for tax purposes, the Fund will treat option premiums received on the writing of covered call options and cash covered put options and any losses sustained on closing out options as capital gains and capital losses in accordance with its understanding of CRA's published administrative and assessing practice. Gains or losses on the disposition of shares, including disposition of shares held in the Managed Portfolio upon exercise of a call option and disposition of shares in the Fixed Portfolio upon delivery under the Forward Agreement will be treated as capital gains or losses. The CRA's practice is not to grant an advance income tax ruling on the characterization of items as capital gains or income and no advance ruling has been requested or obtained.

If, contrary to the CRA's published administrative practice, some or all of the transactions undertaken by the Fund in respect of options were treated on income rather than capital account, or if, contrary to the advice of counsel, the character and timing of the gain under the Forward Agreement were other than a capital gain on sale of the shares thereunder, after-tax returns to Unitholders could be reduced and the Fund could be subject to non-refundable income tax from such transactions.

On October 31, 2003, Proposed Amendments were released for public comment which propose that the Tax Act be amended to require, for taxation years commencing after 2004, that there be a "reasonable expectation of cumulative profit" from a business or property in order for a taxpayer to deduct any loss incurred by the taxpayer from the business or property, and would provide that profit, for this purpose, does not include capital gains. The October 31, 2003 Proposed Amendments could potentially have an adverse effect on the deductibility by the Fund of certain otherwise deductible expenses. On February 23, 2005, the Department of Finance announced it has developed an alternative proposal to the October 31, 2003 Proposed Amendments which it intends to release for comment. No such alternative proposal has been released as of the date hereof, and there can be no assurance that such alternative proposal will not adversely affect the Fund.

Currently, a trust will be deemed not to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents unless all or substantially all of its property is property other than taxable Canadian property

as defined in the Tax Act. On September 16, 2004, the Minister of Finance (Canada) released Proposed Amendments which propose that a trust would lose its status as a mutual fund trust if at any time after 2004 the aggregate fair market value of all units issued by the trust held by one or more non-resident persons or partnerships that are not Canadian partnerships, or any combination thereof, is more than 50% of the aggregate fair market value of all units issued by the trust where, at that time or any previous time, more than 10% (based on fair market value) of the trust's property is taxable Canadian property or certain other types of specified property (the "September 16th Proposed Amendments"). If these circumstances applied to the Fund, the Fund would thereafter cease to be a mutual fund trust and the income tax considerations as described under "Canadian Federal Income Tax Considerations" would in some respects be materially different. The September 16th Proposed Amendments do not currently provide any means of rectifying a loss of mutual fund trust status. Bill C-52, which received Royal Assent on June 22, 2007, amended the relevant provision of the Tax Act such that a trust is deemed not to be a mutual fund trust after any time when it can be reasonably considered that the trust was established or maintained primarily for the benefit of non-resident persons, unless at that time all or substantially all of its property is property other than taxable Canadian property. It is not clear whether this amendment supersedes the September 16th Tax Proposals.

Under the Tax Act, trusts or partnerships (defined as "SIFT trusts" and "SIFT partnerships", respectively) the securities of which are listed or traded on a public market and that hold one or more "non-portfolio properties" (as defined in the Tax Act) are effectively taxed on income and capital gains in respect of such non-portfolio properties at combined rates comparable to the rates that apply to income earned and distributed by Canadian public corporations. Distributions of such income received by unitholders of SIFT trusts (and allocations of such income made to members of SIFT partnerships) are treated as eligible dividends from a taxable Canadian corporation. If the Fund were to qualify as a SIFT trust within the meaning of the Tax Act, the income tax considerations described under the heading "Canadian Federal Income Tax Considerations" would be materially and adversely different in certain respects.

MATERIAL CONTRACTS

The following contracts can reasonably be regarded as material to holders of Units:

- (a) the Trust Agreement;
- (b) the Investment Management Agreement; and
- (c) the Forward Agreement.

Copies of the foregoing agreements may be inspected during business hours at the principal office of the Fund.

ADDITIONAL INFORMATION

Additional information about the Fund is available in the Fund's management reports of fund performance and financial statements.

You can get a copy of these documents at no cost by calling toll-free at 1-800-725-7172 or by e-mail at hybrid@mulvihill.com.

These documents and other information about the Fund, such as information circulars and material contracts, are also available at www.sedar.com.

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