

**ANNUAL INFORMATION FORM**

**MULVIHILL PRO-AMS RSP SPLIT SHARE CORP.**

**Class A Shares and Class B Shares**

**March 30, 2010**

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## **THE FUND**

Mulvihill Pro-AMS RSP Split Share Corp. (the “Fund”) is a mutual fund corporation incorporated under the laws of the Province of Ontario on January 8, 2002.

On March 15, 2002, the articles of incorporation of the Fund were amended to create the class A shares (“Class A Shares”) and the class B shares (the “Class B Shares”) of the Fund. On March 18, 2002, the Fund completed its initial public offering of 3,400,000 Class A Shares at a price of \$10.00 per Class A Share and 3,400,000 Class B Shares at a price of \$20.00 per Class B Share. On April 11, 2002, the Fund completed an additional offering of 150,000 Class A Shares at a price of \$10.00 per Class A Share and 150,000 Class B Shares at a price of \$20.00 per Class B Share 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 Class A Shares and Class B Shares are listed on the Toronto Stock Exchange (“TSX”) under the symbols SPL.A and SPL.B, respectively.

The manager of the Fund is Mulvihill Fund Services Inc. (“Mulvihill” or the “Manager”) and the investment manager is Mulvihill Capital Management Inc. (“MCM” or the “Investment Manager”). Mulvihill is a wholly-owned subsidiary of MCM.

The principal offices of the Fund, of Mulvihill and of MCM are located at 121 King Street West, Standard Life Centre, Suite 2600, Toronto, Ontario, M5H 3T9. The phone numbers, website address and e-mail address of Mulvihill are (416) 681-3900 (toll-free at 1-800-725-7172), [www.mulvihill.com](http://www.mulvihill.com) and [hybrid@mulvihill.com](mailto:hybrid@mulvihill.com), respectively.

## **INVESTMENT OBJECTIVES AND STRATEGY**

The Fund’s investment objectives with respect to the Class A Shares are: (a) to provide holders of Class A Shares with fixed cumulative preferential monthly cash distributions in the amount of \$0.05417 per Class A Share representing a yield on the issue price of the Class A Shares of 6.5% per annum; and (b) to pay such holders \$10.00 for each Class A Share held at redemption of the Class A Shares on December 31, 2013 (the “Termination Date”) (in priority out of the Managed Portfolio (described below)).

The Fund’s investment objectives with respect to the Class B Shares are: (a) to provide holders of Class B Shares with regular monthly cash distributions targeted to be 8.5% per annum; (b) to pay such holders \$20.00 for each Class B Share held at the redemption of the Class B Shares on the Termination Date; and (c) on the Termination Date, to provide holders of Class B Shares with the balance of the value of the Fund’s Managed Portfolio after paying holders of the Class A Shares \$10.00 per Class A Share.

To enhance the Fund’s ability to return the original issue price of the Class A Shares on termination, commencing on September 30, 2002, the Fund contributed, every six months, an amount targeted to be a minimum of \$0.43 per Class A Share outstanding (representing 1/23rd of the issue price of a Class A Share), to an account (the “Class A Share Forward Account”), which amount was used to acquire Canadian equity securities. At each such time of contribution, the Fund entered into a forward purchase and sale agreement (each, a “Class A Share Forward Agreement”) with Royal Bank of Canada (“RBC”) and pursuant to the terms thereof agreed to deliver the equity securities so acquired for a cash amount on termination which was negotiated at the time such forward agreement was entered into. In October 2008, the Fund entered a Class A Share Forward Agreement such that the forward price that would be payable to the Fund under the Class A Share Forward Agreements on the Termination Date equalled the Class A Share issue price (\$10.00) multiplied by the number of Class A Shares outstanding. As a result, the Fund has not entered into additional Class A Share Forward Agreements since that time. Given the current size of the Managed Portfolio (excluding the Class A Share Forward Agreements), in the future, the Fund will need to terminate one or more Class A Forward Agreements to satisfy its liabilities. As a result, as of the date hereof, the redemption value of a Class A Share to be received on the Termination Date is expected to be less than \$10.00.

To provide the Fund with the means to return the original issue price of the Class B Shares on termination, the Fund entered into a forward purchase and sale agreement (the “Class B Share Forward Agreement”) on March 18, 2002 with RBC pursuant to which RBC has agreed to pay to the Fund an amount equal to \$20.00 in respect to each Class

B Share outstanding on the Termination Date in exchange for the Fund agreeing to deliver equity securities to RBC (the “Fixed Portfolio”).

The settlement obligations of the Fund and RBC under the Class B Share Forward Agreement and the Class A Share Forward Agreements (the “Forward Agreements”) may be discharged by physical delivery or by the making of a net cash payment to the appropriate party at the election of the Fund. The Forward Agreements are a direct obligation of RBC.

The Fund may invest in a diversified portfolio consisting principally of Canadian and U.S. equity securities that are listed on a major North American stock exchange or market whose issuers have a market capitalization in excess of U.S. \$5.0 billion if listed solely in the United States or a market capitalization in excess of CDN. \$1.0 billion if listed in Canada and has entered into Class A Share Forward Agreements (collectively, the “Managed Portfolio”).

It is expected that 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 from time to time on the securities held in the Managed Portfolio (other than Managed Portfolio securities pledged as a result of entering into Class A Share Forward Agreements) 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.

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 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 Fund’s articles were amended on April 14, 2004 to permit the Fund to use interest rate hedging strategies.

### **Capital Repayment**

The Fund has entered into the Class B Share Forward Agreement, which is intended to enable the Fund to meet the objective of returning the original issue price of \$20.00 per Class B Share to holders of such shares on the Termination Date. As a result, on or about the Termination Date, holders of Class B Shares are expected to receive an amount per Class B Share equal to the original issue price of \$20.00 plus any capital appreciation above the original issue price per Class B Share generated through management of the Managed Portfolio. However, the Fund’s ability to pay the original issue price to holders of Class B Shares may be affected by the credit risk of the Class B Share Forward Agreement counterparty and the extent to which it satisfies its obligations thereunder or if the Class B Share Forward Agreement is terminated prior to the Termination Date.

Under the terms of the Class B Share Forward Agreement, the Fund is required to deliver on the Termination Date to RBC equity securities in its Fixed Portfolio. The Fixed Portfolio is segregated from the Managed Portfolio. On the Termination Date, all Fixed Portfolio securities will be delivered to RBC in exchange for a cash payment of \$20.00 in respect of each Class B Share outstanding on the Termination Date. The Fund and RBC have agreed that the settlement obligations under the Class B Share 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 holders of Class B Shares on the Termination Date is expected to be at least \$20.00 per Class B Share, thereby helping to ensure that the original issue price will be returned to such holders.

The Fund pays to RBC an annual fee of 0.3892 percent on the guaranteed value of the Forward Agreement and 0.2425 percent on the market value of the Fixed Portfolio. The Fund is also responsible for commissions and other costs of portfolio transactions and any extraordinary expenses which it may incur from time to time.

If the mark-to-market value of the exposure of the Fund under the Forward Agreements exceeds 30% of the Fund’s net assets for a period of 60 days or more, the Fund may seek to amend the terms of a Forward Agreement, partially settle a Forward Agreement and enter into a replacement forward agreement, enter into forward or other derivative transactions with other counterparties or take other actions intended to preserve the original objectives of the Class B

Share Forward Agreement or any other Forward Agreement. If the Fund is not able to take any such action, the Class B Share Forward Agreement or any other Forward Agreement may be settled in part in order to lower the mark-to-market value of the Fund's exposure to the Forward Agreement counterparty.

To enhance the Fund's ability to return the original issue price of the Class A Shares on termination, commencing on September 30, 2002, the Fund contributed, every six months, an amount targeted to be a minimum of \$0.43 per Class A Share outstanding (representing 1/23rd of the issue price of a Class A Share), to the Class A Share Forward Account, which amount was used to acquire Canadian equity securities. At each such time of contribution, the Fund entered into a Class A Share Forward Agreement with RBC and pursuant to the terms thereof agreed to deliver the equity securities so acquired for a cash amount on termination which was negotiated at the time such forward agreement was entered into. The settlement obligations of the Fund and RBC under the Class A Share Forward Agreements may be discharged by physical delivery or by the making of a net cash payment to the appropriate party at the election of the Fund. In October 2008, the Fund entered a Class A Share Forward Agreement such that the forward price that would be payable to the Fund under the Class A Share Forward Agreements on the Termination Date equalled the Class A Share issue price (\$10.00) multiplied by the number of Class A Shares outstanding. As a result, the Fund has not entered into additional Class A Share Forward Agreements since that time. Given the current size of the Managed Portfolio (excluding the Class A Share Forward Agreements), in the future, the Fund will need to terminate one or more Class A Forward Agreements to satisfy its liabilities. As a result, as of the date hereof, the redemption value of a Class A Share to be received on the Termination Date is expected to be less than \$10.00.

The Fixed Portfolio and any shares subsequently acquired with contributions to the Class A Share Forward Account are segregated from the balance of the Managed Portfolio. In connection with the Forward Agreements, Fixed Portfolio securities, cash or other equivalents or securities have been pledged to RBC as security for obligations of the Fund thereunder. RBC has no right to rehypothecate the securities pledged under the Forward Agreements.

In order to permit the Fund to fund periodic redemptions of Class A Shares and Class B Shares, the terms of each 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 equity securities at a price equal to the then current market value of the tendered securities plus or minus the value of the portion of such Forward Agreement attributable to such securities.

If RBC determines in its sole discretion that it is unable to hedge its position under a Forward Agreement with respect to the securities of a particular issuer subject to such Forward Agreement, such Forward Agreement provides that it may be settled with respect to such securities and as a result the aggregate forward value payable on the Termination Date will be reduced. However, in such event, such 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 to enhance its ability to pay the original issue price to holders of Class A Shares and Class B Shares, as the case may be, on or before the Termination Date.

All dividends and distributions, including extraordinary distributions, declared and paid on securities subject to a Forward Agreement will be paid to the Fund and, under the Forward Agreement, the amount payable on the Termination Date will be reduced. If any such dividends or distributions are expected to be received on the securities subject to a Forward Agreement 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 or entering into additional forward, derivative or other transactions to enhance its ability to return the original issue price per Class A Share and per Class B Share 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 subject to a Forward Agreement.

A 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; (b) by RBC if RBC determines in its sole discretion that it is unable to hedge its position under such Forward Agreement; or (c) by RBC if the Fund does not pay the annual fee under such Forward Agreement when due. The amount received by the Fund in the event of such an early termination of a

Forward Agreement may be insufficient to enable the Fund to pay an amount at least equal to the original issue price per Class A Share or per Class B Share at the time of termination or on the Termination Date. In the event of an early termination of the Class B Share Forward Agreement or all of the Class A Share Forward Agreements, the Fund may attempt to enter into one or more additional forward, derivative or other transactions in order to enhance its ability to pay such amounts to shareholders 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 Class A Shares and the Class B Shares of the Fund may be surrendered at any time for retraction, the retraction price is payable monthly whereas the securities of most conventional mutual funds are retractable daily; (b) the Class A Shares and the Class B Shares 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 Class A Shares and the Class B Shares are not offered on a continuous basis.

## **DESCRIPTION OF SHARE CAPITAL**

### **Issue of Class A Shares, Class B Shares and Class J Shares**

The Fund is authorized to issue an unlimited number of Class A Shares, an unlimited number of Class B Shares and 100 Class J Shares.

### **Description of Units**

While the Class A Shares and Class B Shares were offered separately they were issued on the basis that there would be one Class A Share outstanding for every Class B Share outstanding (together notionally considered a “Unit”). The number of Units outstanding at any time will be equal to the sum of the number of Class A Shares and Class B Shares outstanding divided by two.

### **Class A Shares**

#### ***Distributions***

One of the Fund’s investment objectives is to provide holders of Class A Shares with fixed, cumulative preferential monthly cash distributions of \$0.05417 per share to yield 6.5% per annum on the last day of each month. Such distributions may consist of ordinary dividends, capital gains dividends or non-taxable returns of capital. The Fund suspended the payment of monthly distributions on the Class A Shares effective October 2008.

All distributions are paid by cheque and are mailed to such registered shareholders at their addresses listed in the register of shareholders to be maintained by the Fund’s registrar and transfer agent or paid in such other manner as may be agreed to by the Fund. See “Book-Entry Only System”. Each holder of Class A Shares is mailed annually, no later than March 31, information necessary to enable such shareholder to complete an income tax return with respect to amounts paid or payable by the Fund in respect of the preceding calendar year.

#### ***Redemptions***

All Class A Shares outstanding on the Termination Date will be redeemed by the Fund on such date. The redemption price payable by the Fund for a Class A Share on that date will be equal to the lesser of: (a) \$10.00 plus any accrued and unpaid distributions, and (b) the net asset value (“NAV”) of the Managed Portfolio on that date divided by the total number of Class A Shares then outstanding.

Notice of redemption will be given to CDS Participants (as defined below) holding Class A Shares on behalf of the beneficial owners thereof at least 30 days prior to the Termination Date.

### ***Retraction Privileges***

Class A Shares may be surrendered at any time for retraction to Computershare Investor Services Inc., the Fund's registrar and transfer agent, but will be retracted only on the monthly Valuation Date (as defined below). Class A Shares surrendered for retraction by a shareholder at least five business days prior to the last day of a month (a "Valuation Date") will be retracted on such Valuation Date and the shareholder will receive payment on or before the eighth business day following such Valuation Date (the "Retraction Payment Date"). If a shareholder makes such surrender after 5:00 p.m. (Toronto time) on the fifth business day immediately preceding a Valuation Date, the shares will be retracted on the Valuation Date in the following month and the shareholder will receive payment for the retracted shares on the Retraction Payment Date in respect of such Valuation Date.

Except as noted below, holders of Class A Shares whose shares are surrendered for retraction will be entitled to receive a retraction price per share ("Class A Share Retraction Price") equal to 96% of the lesser of (a) the NAV per Unit determined as of such Valuation Date less the cost to the Fund of the purchase of a Class B Share in the market for cancellation; and (b) \$10.00. For this purpose, the cost of the purchase of a Class B Share will include the purchase price of the Class B Share, and commission and such other costs, if any, related to the liquidation of any portion of the Portfolio to fund the purchase of the Class B Share. Any declared and unpaid distributions payable on or before a Valuation Date in respect of Class A Shares tendered for retraction on such Valuation Date will also be paid on the Retraction Payment Date.

Holders of Class A Shares also have an annual retraction right under which they may concurrently retract one Class A Share and one Class B Share on the December Valuation Date. The price paid by the Fund for such a concurrent retraction will be equal to the NAV per Unit.

Where the holder of Class A Shares tendered for retraction has not withheld his consent thereto in the manner provided in the Retraction Notice (as defined below) delivered to CDS Clearing and Depository Services Inc. ("CDS") through a participant in the CDS book-entry only system (a "CDS Participant"), the Fund may, but is not obligated to, require the Recirculation Agent (as defined below) to use commercially reasonable efforts to find purchasers for any Class A Shares tendered for retraction prior to the relevant Retraction Payment Date pursuant to the Recirculation Agreement (as defined below). In such event, the amount to be paid to the holder of the Class A Shares on the Retraction Payment Date will be an amount equal to the proceeds of the sale of the Class A Shares less any applicable commission. Such amount will not be less than the Class A Share Retraction Price described above. Holders of Class A Shares are free to withhold their consent to such treatment and to require the Fund to retract their Class A Shares in accordance with their terms.

Subject to the Fund's right to require the Recirculation Agent to use commercially reasonable efforts to find purchasers for any Class A Shares tendered for retraction prior to the relevant Retraction Payment Date, any and all Class A Shares which have been surrendered to the Fund for retraction are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Payment Date, unless not retracted thereon, in which event such Class A Shares will remain outstanding.

The retraction 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 through a CDS Participant, except with respect to those Class A Shares which are not retracted by the Fund on the relevant Retraction Payment Date.

If any Class A Shares are tendered for retraction and are not resold, the Fund has directed the Recirculation Agent to purchase for cancellation on behalf of the Fund that number of Class B Shares which equals the number of Class A Shares so retracted. Any Class B Shares so purchased for cancellation will be purchased in the market.

### ***Resale of Class A Shares Tendered for Retraction***

The Fund has entered into an agreement (the "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 Class A Shares tendered for retraction prior to the relevant Retraction Payment Date, provided that the holder of the Class A Shares so tendered has not withheld consent thereto. The Fund is not obligated to require the Recirculation Agent to seek such purchasers but may elect to do so. In the event that a purchaser for such Class A Shares is found in this manner, the amount to be paid to the holder of the Class A Shares on the relevant



Retraction Payment Date will be an amount equal to the proceeds of the sale of the Class A Shares less any applicable commission. Such amount will not be less than the applicable Class A Share Retraction Price described above.

### ***Priority***

The Class A Shares rank in priority to the Class B Shares and the Class J Shares with respect to the payment of distributions and the repayment of capital (out of the Managed Portfolio) on the dissolution, liquidation or winding up of the Fund.

### **Class B Shares**

#### ***Distributions***

One of the Fund's investment objectives is to provide holders of Class B Shares with regular monthly cash distributions targeted to be 8.5% per annum. Such distributions may consist of ordinary dividends, capital gains dividends or non-taxable returns of capital. However, there can be no assurance that the Fund will be able to pay distributions to the holders of Class B Shares.

No distributions will be paid on the Class B Shares if (a) the distributions payable on the Class A Shares are in arrears; (b) the cumulative minimum semi-annual contributions to the Class A Share Forward Account have not been made by the Fund; or (c) after the payment of the distribution by the Fund, the NAV of the Managed Portfolio less the aggregate of the NAV of the equity securities subject to the Class A Share Forward Agreements and the NAV of the Class A Share Forward Agreements would be less than 120% of the difference between (a) an amount equal to \$10.00 times the number of Class A Shares then outstanding, and (b) the forward price that would be payable to the Fund under the Class A Share Forward Agreements on the Termination Date.

In addition, no distributions will be paid on the Class B Shares if the NAV of the Managed Portfolio minus the aggregate of the NAV of the equity securities subject to the Class A Share Forward Agreements and the NAV of the Class A Share Forward Agreements would be less than 20% of \$10.00 multiplied by the number of Class A Shares then outstanding.

The Manager has determined that \$7.75 is the minimum value of the Managed Portfolio required to pay distributions to holders of Class B Shares. As a result of declines in the value of the Managed Portfolio to values less than \$7.75, the Fund suspended the payment of monthly distributions on the Class B Shares following the December 2004 distribution on such shares.

In the event that the Fund realizes capital gains whether as a result of settlement of a portion of the Forward Agreement prior to the Termination Date or otherwise, the Fund may, at its option make a special year end capital gains distribution in certain circumstances, including where the Fund has net realized capital gains, in Class B Shares and/or cash. Any capital gains distribution payable in Class B Shares will increase the aggregate adjusted cost base to holders of Class B Shares of such shares. Immediately following payment of such a distribution in Class B Shares, the number of Class B Shares outstanding will be automatically consolidated such that the number of Class B Shares outstanding after such distribution will be equal to the number of Class B Shares outstanding immediately prior to such distribution.

All distributions are paid by cheque and are mailed to such shareholders at their addresses listed in the register of shareholders to be maintained by the Fund's registrar and transfer agent or paid in such other manner as may be agreed to by the Fund. Each holder of Class B Shares is mailed annually, no later than March 31, information necessary to enable such shareholder to complete an income tax return with respect to amounts paid or payable by the Fund in respect of the preceding calendar year.

#### ***Redemptions***

All Class B Shares outstanding on the Termination Date will be redeemed by the Fund on such date. The redemption price payable by the Fund for a Class B Share on that date will be equal to the greater of: (a) the NAV per Unit minus the Class A Share Redemption Amount; and (b) the forward price that would be payable to the Fund under the Class B Share Forward Agreement divided by the number of Class B Shares then outstanding.

Notice of redemption will be given to CDS Participants holding Class B Shares on behalf of the beneficial owners thereof at least 30 days prior to the Termination Date.

### ***Retraction Privileges***

Class B Shares may be surrendered at any time for retraction to Computershare Investor Services Inc., the Fund's registrar and transfer agent, but will be retracted only on the monthly Valuation Date. Class B Shares surrendered for retraction by a shareholder at least five business days prior to the monthly Valuation Date will be retracted on such Valuation Date and the shareholder will receive payment on or before the eighth business day following such Valuation Date. If a shareholder makes such surrender after 5:00 p.m. (Toronto time) on the fifth business day immediately preceding a Valuation Date, the shares will be retracted on the Valuation Date in the following month and the shareholder will receive payment for the retracted shares on the Retraction Payment Date in respect of such Valuation Date.

Except as noted below, holders of Class B Shares whose shares are surrendered for retraction will be entitled to receive a retraction price per share ("Class B Share Retraction Price") equal to 96% of the difference between (a) the NAV per Unit determined as of such Valuation Date, and (b) the cost to the Fund of the purchase of a Class A Share in the market for cancellation. For this purpose, the cost of the purchase of a Class A Share will include the purchase price of the Class A Share, commission and such other costs, if any, related to the liquidation of any portion of the Portfolio to fund the purchase of the Class A Share. Any declared and unpaid distributions payable on or before a Valuation Date in respect of Class B Shares tendered for retraction on such Valuation Date will also be paid on the Retraction Payment Date.

Holders of Class B Shares also have an annual retraction right under which they may concurrently retract one Class B Share and one Class A Share on the December Valuation Date. The price paid by the Fund for such a concurrent retraction will be equal to the NAV per Unit.

Where the holder of Class B Shares tendered for retraction has not withheld his consent thereto in the manner provided in the Retraction Notice delivered to CDS through a CDS Participant, the Fund may, but is not obligated to, require the Recirculation Agent to use commercially reasonable efforts to find purchasers for any Class B Shares tendered for retraction prior to the relevant Retraction Payment Date pursuant to the Recirculation Agreement. In such event, the amount to be paid to the holder of the Class B Shares on the Retraction Payment Date will be an amount equal to the proceeds of the sale of the Class B Shares less any applicable commission. Such amount will not be less than the Class B Share Retraction Price described above. Holders of Class B Shares are free to withhold their consent to such treatment and to require the Fund to retract their Class B Shares in accordance with their terms.

Subject to the Fund's right to require the Recirculation Agent to use commercially reasonable efforts to find purchasers for any Class B Shares tendered for retraction prior to the relevant Retraction Payment Date, any and all Class B Shares which have been surrendered to the Fund for retraction are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Payment Date, unless not retracted there on, in which event such Class B Shares will remain outstanding.

Such surrender will be irrevocable upon the delivery of notice to CDS through a CDS Participant, except with respect to those Class B Shares which are not retracted by the Fund on the relevant Retraction Payment Date.

If any Class B Shares are tendered for retraction and are not resold, the Fund has directed the Recirculation Agent to purchase for cancellation on behalf of the Fund that number of Class A Shares which equals the number of Class B Shares so retracted. Any Class A Shares so purchased for cancellation will be purchased in the market.

### ***Resale of Class B Shares Tendered for Retraction***

The Fund has entered into the Recirculation Agreement with the Recirculation Agent whereby the Recirculation Agent has agreed to use commercially reasonable efforts to find purchasers for any Class B Shares tendered for retraction prior to the relevant Retraction Payment Date, provided that the holder of the Class B Shares so tendered has not withheld consent thereto. The Fund is not obligated to require the Recirculation Agent to seek such purchasers but may elect to do so. In the event that a purchaser for such Class B Shares is found in this manner, the amount to be paid to the holder of the Class B Shares on the relevant Retraction Payment Date will be an amount

equal to the proceeds of the sale of the Class B Shares less any applicable commission. Such amount will not be less than the applicable Class B Share Retraction Price described above.

### ***Priority***

The Class B Shares rank subsequent to the Class A Shares but in priority to the Class J Shares with respect to the payment of distributions and the repayment of capital (out of the Managed Portfolio) on the dissolution, liquidation or winding up of the Fund.

### **Suspension of Retractions or Redemptions**

Mulvihill may suspend the retraction or redemption of Class A Shares or Class B Shares or payment of retraction or redemption proceeds: (a) during any period when normal trading in securities owned by the Fund is suspended on the Toronto or New York stock exchanges (provided more than 50% of the total assets of the Fund, by dollar value, trade on one of such suspended markets) and if those securities are not traded on any other exchange that represents a reasonably practical alternative for the Fund to execute trades in such securities; 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 Fund to determine the value of its assets, only with the prior approval of the securities regulatory authorities. The suspension may apply to all requests for retraction 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 Class A Shares and Class B Shares making such requests shall be advised by Mulvihill of the suspension and that the retraction will be effected at a price determined on the first Valuation Date following the termination of the suspension. All such shareholders shall have and shall be advised that they have the right to withdraw their requests for retraction. 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 Class A Shares and Class B Shares for cancellation at prices per Unit not exceeding the NAV per Unit on the applicable Valuation Date immediately prior to such purchase.

### **Class J Shares**

The holders of Class J Shares are not entitled to receive dividends. The holders of the Class J Shares are entitled to one vote per share. The Class J Shares are redeemable and retractable at a price of \$1.00 per share. The Class J Shares rank subordinate to both the Class A Shares and the Class B Shares with respect to distributions on the dissolution, liquidation or winding-up of the Fund.

A trust established for the benefit of the holders from time to time of the Class A Shares and the Class B Shares is the owner of record of all of the issued and outstanding Class J Shares. The Class J Shares have been escrowed with Computershare Trust Company of Canada pursuant to an escrow agreement dated February 26, 2002.

### **BOOK-ENTRY ONLY SYSTEM**

Registration of interests in and transfers of the Class A Shares and the Class B Shares are made only through a book-entry only system administered by CDS (the “book-entry only system”). Class A Shares and Class B Shares must be purchased, transferred and surrendered for retraction or redemption through a CDS Participant. All rights of an owner of Class A Shares or Class B Shares 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 Class A Shares or Class B Shares. Upon purchase of any Class A Shares or Class B Shares, the owner will receive only the customary confirmation. References in this annual information form to a holder of Class A Shares or Class B Shares means, unless the context otherwise requires, the owner of the beneficial interest in such shares.

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

An owner of Class A Shares or Class B Shares who desires to exercise retraction 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 retract shares, no later than 5:00 p.m. (Toronto time) on the relevant notice date. An owner who desires to retract Class A Shares or Class B Shares should ensure that the CDS Participant is provided with notice (the "Retraction Notice") of the owner's intention to exercise the owner's retraction privilege sufficiently in advance of the relevant notice date to permit the CDS Participant to deliver notice to CDS by the required time. The Retraction Notice will be available from a CDS Participant or Computershare Investor Services Inc. Any expense associated with the preparation and delivery of Retraction Notices will be for the account of the owner exercising the retraction privilege.

By causing a CDS Participant to deliver to CDS a notice of the owner's intention to retract Class A Shares or Class B Shares, an owner shall be deemed to have irrevocably surrendered such Class A Shares or Class B Shares for retraction and appointed such CDS Participant to act as the owner's exclusive settlement agent with respect to the exercise of the retraction privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

Any Retraction Notice that 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 retraction 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 retraction 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 Class A Shares or the Class B Shares through the book-entry only system in which case certificates for the Class A Shares or the Class B Shares in fully registered form would be issued to beneficial owners of such shares or to their nominees.

## **SHAREHOLDER MATTERS**

### **Meetings of Shareholders**

Except as required by law or set out below, holders of Class A Shares or Class B Shares will not be entitled to receive notice of, to attend or to vote at any meeting of shareholders of the Fund.

### **Acts Requiring Shareholder Approval**

The following matters require the approval of the holders of Class A Shares and Class B Shares by a two-thirds majority vote (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, each voting separately as a class:

- (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 Company, at its option (other than in connection with a redemption or retraction of Class A Shares or Class B Shares or to reduce its mark-to-market exposure under the Forward Agreements), to terminate the Class B Share Forward Agreement or all of the Class A Share Forward Agreements;
- (b) a change in the investment criteria 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") (or any successor policy, rule or national instrument), as it may be amended from time to time;
- (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 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 retraction privileges;
- (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 shareholders 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 shareholders 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 change of the Termination Date to a later date;
- (l) a change of the Termination Date to an earlier date; and
- (m) an amendment, modification or variation in the provisions or rights attaching to the Class A Shares, Class B Shares or Class J Shares.

Each Class A Share and each Class B Share will have one vote at such a meeting. Ten percent of the outstanding Class A Shares and Class B Shares, respectively, represented in person or by proxy at the meeting will constitute a quorum. If no quorum is present, the holders of Class A Shares and Class B Shares then present will constitute a quorum at an adjourned meeting.

### **Reporting to Shareholders**

The Fund will furnish annual and semi-annual financial statements of the Fund to shareholders in accordance with applicable laws.

### **INVESTMENT RESTRICTIONS**

The Fund is subject to certain investment criteria that, among other things, limit the equity securities and other securities that the Fund may acquire for the Managed Portfolio. The Fund’s investment criteria may not be changed without the approval of the holders of the Class A Shares and Class B Shares by a two-thirds majority vote of such holders 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 equity securities including common shares;
  - (ii) such securities are listed for trading on a major North American stock exchange or market; and

- (iii) the issuer of such securities has a market capitalization of in excess of U.S. \$5.0 billion if such securities are listed solely in the United States or a market capitalization of at least CDN \$1.0 billion if such securities are listed in Canada (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 in the Managed Portfolio at the time the option is written;
- (d) dispose of any security included in the Fund's Managed 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 security, and (ii) so long as the options are exercisable, the Fund continues to hold cash equivalents sufficient to acquire the security 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 make or retain investments which render the Class A Shares or the Class B Shares "foreign property" under Part XI of the *Income Tax Act* (Canada) (the "Tax Act") or, if the Fund is a registered investment within the meaning of such Tax Act, which renders it liable to pay tax under Part XI of such Tax Act;
- (h) 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 of the Tax Act or to include any significant amounts in income pursuant to proposed section 94.1 of the Tax Act, as set forth in the proposed amendments to the Tax Act dealing with foreign investment entities released on August 2, 2001 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto);
- (i) not enter into any arrangement (including the acquisition of securities for the Managed Portfolio and the writing of covered call options in respect thereof) where the result is a dividend rental arrangement for the purposes of the Tax Act; and
- (j) purchase derivatives, including call options and put options, only as specifically permitted under NI 81-102 or as permitted by the Canadian Securities Administrators. In addition, but subject to these investment criteria, the Fund has adopted the standard investment restrictions and practices set forth in NI 81-102 (as it may be amended from time to time). A copy of such standard investment restrictions and practices will be provided by the Manager to any person on request.

In addition, but subject to, these investment criteria, 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 Fund to any person on request.

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

- (a) Subclause 2.6(a) – to permit the Fund to create a security interest over the Fixed Portfolio securities and the equity securities acquired with the contributions to the Class A Share Forward Account as security for the Fund's obligations under the Forward Agreements, as disclosed in this annual information form, in accordance with industry practice with respect to this type of transaction;
- (b) Subclause 2.7(1)(a)(ii) – to permit the Fund to enter into Forward Agreements and any replacement or assignment of such agreements, as disclosed in this annual information form, that have a remaining term to maturity of more than five years, provided that the Fund does not and will not enter into any other specified derivative transaction that does not satisfy the requirements of subsection 2.7(1);

- (c) Subsection 2.7(4) – to exempt the Fund from the prescribed exposure limit under its Forward Agreements and any replacement or assignment of such agreements, as described in this annual information form, provided that the marked-to-market exposure to the Counterparty under such Forward Agreements shall not exceed, for a period of 60 days or more, 30 percent of the net assets of the Fund;
- (d) Section 10.3 – to permit the Fund to calculate the Retraction Price in the manner described in this annual information form and on the applicable Retraction Date, following surrender of Class A Shares or Class B Shares for retraction;
- (e) Section 10.4 – to permit the Fund to pay the Retraction Price on or before the eighth business day following the applicable Retraction Date, as defined in this annual information form;
- (f) Section 12.1(1) – to relieve the Fund from the requirement to file the prescribed compliance report;
- (g) Clause 13.1(1)(b) – to permit the Fund to calculate its NAV on a weekly basis; and
- (h) Section 14.1 – to relieve the Fund from the requirement relating to the record date for the payment of dividends or other distributions of the Fund, provided that it complies with the applicable requirements of the TSX.

### **Use of Other Derivative Instruments**

In addition to the Forward Agreements 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 (a "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 prescribed collateral security. Currently, the Fund does not lend securities. Any future securities lending by the Fund will be done in accordance with the provisions of NI 81-102. The Custodian will be responsible for the ongoing administration of any such 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 (a) the aggregate value of the assets of the Fund, less (b) the aggregate value of the liabilities of the Fund, including any distributions declared and not paid that are payable to shareholders on or before such date, less (c) the stated capital of the Class J Shares (\$100). For greater certainty, the Class A Shares will not be treated as liabilities for these purposes. The "NAV per Unit" on any day is obtained by dividing the NAV of the Fund on such day by the number of Units outstanding on that day.

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 to be provided by the Fund to shareholders on request.

## Valuation Policies and Procedures

In determining the NAV of the Fund at any time:

- (a) the value of any security, index futures or index options thereon that is listed on any recognized exchange shall be determined by the closing sale price at the valuation time or, if there is no closing sale price, the average between the closing bid and the closing asked price on the day on which the NAV is being determined, all as reported by any report in common use or authorized as official by a recognized stock exchange; provided that if such stock exchange is not open for trading on that date, then on the last previous date on which such stock exchange was open for trading;
- (b) where a covered clearing corporation option, option on futures or over-the-counter option is written, the premium received by the Fund shall be reflected as a deferred credit that shall be valued at an amount equal to the current market value of the clearing corporation option, option on futures or over-the-counter option that would have the effect of closing the position. Any difference resulting from revaluation of such options shall be treated as an unrealized gain or loss on investment. The deferred credit shall be deducted in arriving at the NAV. The securities, if any, which are the subject of a written clearing corporation option, or over-the-counter option shall be valued at their then current market value;
- (c) purchased or written clearing corporation options, options on futures, over-the-counter options, debt-like securities and listed warrants shall be valued at the current market value thereof;
- (d) the value of any cash on hand, on deposit or on call, prepaid expenses, cash dividends declared and interest accrued and not yet received, shall be deemed to be the face amount thereof, unless the Fund determines that any such deposit or call loan is not worth the face amount thereof, in which event the value thereof shall be deemed to be such value as the Fund determines to be the reasonable value thereof;
- (e) the value of a futures contract or a forward contract shall be the gain or loss with respect thereto that would be realized if, at the valuation time, the position in the futures contract or the forward contract 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;
- (f) 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;
- (g) the value of any bonds, debentures, and other debt obligations shall be valued by taking the average of the bid and ask prices on the valuation date at such times as the Fund, in its discretion, deems appropriate. Short-term investments including notes and money market instruments shall be valued at cost plus accrued interest;
- (h) the value of any security, the resale of which is restricted or limited, shall be the lesser of the value thereof based on reported quotations in common use and that percentage of the market value of securities of the same class, the trading of which is not restricted or limited by reason of any representation, undertaking or agreement or by law, equal to the percentage that the Fund's acquisition cost was of the market value of such securities at the time of acquisition; provided that a gradual taking into account of the actual value of the securities may be made where the date on which the restriction will be lifted is known;
- (i) securities of any unlisted underlying fund held by the Fund will be valued at the net asset value of such securities as provided by such fund from time to time;
- (j) all Fund property valued in a foreign currency and all liabilities and obligations of the Fund payable by the Fund in foreign currency shall be converted into Canadian dollars by applying the rate of exchange obtained from the best available sources to the Fund, including, but not limited to, the Fund or any of its affiliates;
- (k) all expenses or liabilities (including fees payable to the Fund) of the Fund shall be calculated on an accrual basis; and



- (l) the value of any security or property to which, in the opinion of the Fund, the above valuation principles cannot be applied shall be the fair value thereof determined in such manner as the Fund from time to time provides.

The above principles are used to calculate NAV for all purposes other than financial statement reporting. With respect to financial reporting, the *Canadian Institute of Chartered Accountants 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 a management agreement made between the Fund and Mulvihill dated February 26, 2002 (the “Management 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, financial and accounting information as required by the Fund; ensuring that the Fund’s shareholders are provided with financial statements (including semi-annual 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 reports of the Fund to shareholders and the Canadian securities regulatory authorities; providing the Custodian with information and reports necessary for it to fulfill 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 holders of Class A Shares and Class B Shares, 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 shareholders and the Fund. If Mulvihill resigns it may appoint its successor but, unless its successor is an affiliate of Mulvihill, its successor must be approved by shareholders. If Mulvihill is in material default of its obligations under the Management Agreement and such default has not been cured within 30 days after notice of the same has been given to Mulvihill, the Fund shall give notice thereof to shareholders and the shareholders may remove Mulvihill and appoint a successor manager of the Fund.

Mulvihill is entitled to fees for its services under the Management 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 Management Agreement.

### **The Investment Manager**

MCM manages the investment portfolio of the Fund 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 the Fund and MCM dated as of February 26, 2002.

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.

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 John Germain. Also assisting in the management of the portfolio are Dylan D'Costa, Jeff Dobson, Peggy Shiu and Jack Way.

**John P. Mulvihill**, Chairman, President, Chief Executive Officer, Secretary and Sole Director 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.

**John Germain**, Senior Vice-President, 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.

**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.

**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.

**Peggy Shiu**, Vice-President, has been with MCM since April 1995. She is a member of the investment management team and has extensive experience in the Canadian, U.S. and ADR (American Depositary Receipt) equity markets.

**Jack Way**, Vice-President, 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.

### **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 writing of call options and put options by 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 shareholders 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 Date. The Fund may terminate the Investment Management Agreement only 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 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 approval of the shareholders of the Fund. 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 the same to the Fund or if there is a material change in the fundamental investment objectives, strategy or criteria of the Fund.

MCM is entitled to fees for its services under the Investment Management Agreement at an annual rate of 1.10% of the Fund's NAV. The fee payable to MCM is calculated and payable monthly, plus applicable taxes. In the event that no distributions are made for six or more consecutive months, such fee will be reduced to 1/12 of 0.40% of NAV of the Fund and the full amount of such fees will not be payable until such time as regular distributions resume. The unpaid portion of such fees will be accrued and will not be paid until such time as the distribution shortfall has been paid to shareholders. No unpaid portion of such fees will be paid out of the proceeds of the Forward Agreements. The Fund 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 of the Fund, except those resulting from MCM's wilful misconduct, bad faith, negligence or breach of its obligations under the Investment Management Agreement and provided the Fund has reasonable grounds to believe the action or inaction that gave rise to such claim was in the best interests of the Fund.

### **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 Funds managed by Mulvihill are Michael M. Koerner, Robert W. Korthals and Robert G. Bertram.

The Fund and the other investment funds managed by the Manager (collectively, the "Mulvihill Funds") compensate the members of the IRC for their services. The Manager allocates such compensation among the Mulvihill Funds on an equitable and reasonable basis. The compensation paid by the Fund to the members of the IRC for the year ended December 31, 2009 was \$6,514.

### **Directors and Officers of the Fund**

The following are the names, municipalities of residence, positions and principal occupations of the directors and officers of the Fund:

<i><b>Name and Municipality of Residence</b></i>	<i><b>Position with the Fund</b></i>	<i><b>Principal Occupation</b></i>
John P. Mulvihill Toronto, Ontario	Chairman, President, Chief Executive Officer, Secretary and Director	Chairman, President, Chief Executive Officer, Secretary and Director, MCM
Michael M. Koerner <sup>(1)(2)</sup> Toronto, Ontario	Director, IRC Member	President, Canada Overseas Investments, Ltd. (private investment company)
Robert W. Korthals <sup>(1)(2)</sup> Toronto, Ontario	Director, IRC Member	Corporate Director

<i><b>Name and Municipality of Residence</b></i>	<i><b>Position with the Fund</b></i>	<i><b>Principal Occupation</b></i>
Robert G. Bertram <sup>(1)(2)</sup> Aurora, Ontario	Director, IRC Member	Corporate Director
Sheila S. Szela Toronto, Ontario	Chief Financial Officer and Director	Vice-President, Finance and Chief Financial Officer, MCM

(1) Independent director.

(2) Member of the Audit Committee.

During the past five years all of the directors and officers 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 directors of the Fund are paid an annual fee of \$5,000 and a fee for each board meeting attended of \$300.

Each of the directors, other than Ms. Szela and Mr. Bertram, has served as a director of the Fund since its initial public offering. Ms. Szela was elected a director on November 23, 2004 and Mr. Bertram was elected a director on January 1, 2009. Each of the directors has been elected to serve until the next annual meeting of shareholders or until his or her successor is appointed.

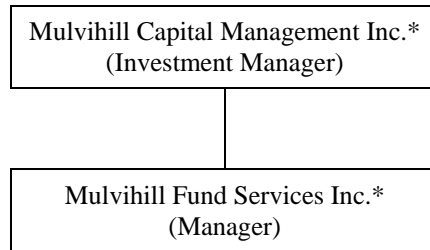
#### **Directors and Officers of the Manager**

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

Each of the foregoing individuals has held his or her current office or has held a similar office with Mulvihill or an affiliate during the five years preceding the date hereof.

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 30, 2010, John P. Mulvihill owned of record and beneficially 95,073 shares (100%) of MCM Group Holdings Inc., the sole shareholder of MCM.

## **CORPORATE GOVERNANCE**

The Board of Directors of the Fund is responsible for the overall stewardship of the Fund's business and affairs. Mulvihill administers many functions associated with the operations of the Fund pursuant to the Management Agreement. Under this agreement, the Manager is responsible for certain day to day operations of the Fund including the payment of distributions on its shares and attending to the retraction or redemption of its shares in accordance with their terms.

The Board consists of five directors, three of whom are independent of the Fund. The Board believes that the number of directors is appropriate for the Fund and only directors independent of the Fund 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 director. Individual directors may engage an outside advisor at the expense of the Fund in appropriate circumstances subject to the approval of the Board.

To assist the Board in its monitoring of the Fund's financial reporting and disclosure, the Board has established a committee of the Board known as the Audit Committee. The Audit Committee consists of three members, all of whom are independent of the Fund. The responsibilities of the Audit Committee include, but are not limited to, review of the annual financial statements and the annual audit performed by the external auditor, oversight of management's reporting on internal control and oversight of the Fund's compliance with tax and securities laws and regulations. The Audit Committee has direct communication channels with the external auditors of the Fund which it may use to discuss and review specific issues as appropriate.

The 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 shareholders.

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 individuals: John Mulvihill, John Germain, Jack Way, Peggy Shiu and John Mulvihill, Jr. 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 senior management.

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 shareholders may only retract their Class A Shares or Class B Shares 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:

- (ii) 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%);
- (iii) the quorum for a meeting of the board of directors should not be less than 50% of the number of directors; and
- (iv) 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](mailto: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](http://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.

During the year, certain companies provided investment decision-making services to the Manager and the Investment Manager. These included access to news wire services, real time and historical data, analyses and reports concerning various securities, company-specific research and opinions, quantitative and fundamental analyses, as well as trade execution and analyses through traditional and electronic trading platforms. The following companies provided such services: Bloomberg Tradebook Canada Company, Bloomberg Tradebook LLC, BMO Capital Markets Corp., CIBC World Markets Inc., Citigroup Global Markets Inc., International Strategy & Investment Group Inc., Merrill Lynch Canada Inc., National Bank Financial Inc., RBC Capital Markets Corporation, Sanford C. Bernstein & Co., LLC, TD Securities Inc. and UBS Securities Canada Inc.

## **CUSTODIAN**

Pursuant to an agreement (the “Custodian Agreement”) dated February 26, 2002 with the Fund, RBC Dexia Investor Services Trust, as successor to The Royal Trust Company, acts as the custodian (the “Custodian”) of the assets of the Fund and is responsible for processing redemptions, calculating NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. Pursuant to the terms of the Custodian Agreement, the assets of the Fund may also be held by sub-custodians. Either party may terminate the Custodian Agreement by giving the other party 30 days’ notice.

The address of the Custodian is 155 Wellington Street West, Toronto, Ontario, M5V 3L3. The Custodian is entitled to receive fees from the Fund and to be reimbursed for all expenses and liabilities which are properly incurred by the Custodian 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 Class A Shares and the Class B Shares. 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, at the date hereof, a summary of the principal Canadian federal income tax considerations generally relevant to holders of Class A Shares or Class B Shares who, for purposes of the Tax Act, are individuals (other than trusts) resident in Canada, deal at arm’s length with the Fund, hold their Class A Shares or Class B Shares as capital property, and are not affiliated with the Fund. This summary is based upon the facts set out in this annual information form, the current provisions of the Tax Act, the regulations thereunder, and the Fund’s understanding of the current administrative practices and assessing policies of the Canada Revenue Agency (the “CRA”) published prior to the date hereof. This summary also takes into account all specific proposals to amend the Tax Act publicly 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 also based on the following assumptions:

- (a) the Class A Shares or Class B Shares will at all times be listed on the TSX;
- (b) the Fund was not established and will not be maintained primarily for the benefit of non-residents of Canada, and not more than 50% (based on fair market value) of the shares of the Fund will be held by non-residents of Canada or by partnerships that are not Canadian partnerships as defined in the Tax Act, or any combination of the foregoing;
- (c) the issuers of securities in the Managed Portfolio will not be foreign affiliates of the Fund or of any shareholder of the Fund;
- (d) the Fund will not invest in securities of any entity that would be a controlled foreign affiliate of the Fund for purposes of the Tax Act; and
- (e) the investments of the Fund will at all times be as set out above under “Investment Restrictions” and the Fund will at all times not engage in any activities other than as described in this annual information form.

**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 or decision, 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.**



**This summary is of a general nature only and does not constitute legal or tax advice to any particular investor. Investors should consult their own tax advisors with respect to their particular circumstances, including, in the case of corporate investors, as to the availability of the inter-corporate dividend received deduction in respect of Ordinary Dividends received from the Fund.**

### **Tax Treatment of the Fund**

The Fund has elected in accordance with the Tax Act to have each of its “Canadian securities” (as defined in subsection 39(6) of the Tax Act) treated as capital property. Such an election will result in the treatment of gains or losses realized by the Fund on the sale of Canadian securities as capital gains or capital losses.

The Fund will not realize income, gain or loss as a result of entering into a Forward Agreement. If the Fund elects physical settlement under a Forward Agreement and thereupon delivers Canadian securities 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 under a Forward Agreement, the resulting gain or loss to the Fund may be on capital or income account depending on the facts and circumstances.

Premiums received by the Fund in a year from writing covered call options and cash covered put options which are not exercised prior to the end of the year will constitute capital gains of the Fund in the year, and gains or losses realized upon dispositions of securities of the Fund in the Managed Portfolio (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 of disposition, unless (in respect of or in the case of securities other than Canadian securities) 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: (a) has purchased 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; (b) will write covered call options with the objective of increasing the yield on the Managed Portfolio beyond the dividends received thereon; and (c) will write cash covered put options to increase returns and to reduce the net cost of purchasing securities subject to put options. Thus, having regard to the foregoing and 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.

Premiums received by the Fund on covered call (or cash covered put) options which are subsequently exercised will be added in computing the proceeds of disposition (or deducted in computing the adjusted cost base) to the Fund of the securities disposed of (or acquired) by the Fund upon the exercise of such call (put) options. In addition, where the premium previously constituted a capital gain of the Fund, such capital gain may be reversed.

The Fund will be required to include in computing its income all dividends received, but will generally be entitled to deduct all dividends received from taxable Canadian corporations whose shares are included in the Managed Portfolio in computing its taxable income (unless such shares are subject to a Forward Agreement). Other dividends received by the Fund will not be deductible and thus will be fully taxable. The Fund will be a “financial intermediary corporation” (as defined in the Tax Act) and thus will not be subject to tax under Part IV.1 of the Tax Act on dividends received by the Fund nor will it generally be liable to tax under Part VI.1 on dividends paid by the Fund on “taxable preferred shares” (as defined in the Tax Act). As a “mutual fund corporation” (as defined in the Tax Act) which is not an “investment corporation” (as defined in the Tax Act), the Fund will generally be subject to a refundable tax of 33<sup>1</sup>/<sub>3</sub>% under Part IV of the Tax Act on taxable dividends received during the year to the extent such dividends are deductible in computing taxable income of the Fund. This tax will be fully refundable upon payment of sufficient dividends (other than capital gains dividends) by the Fund (“Ordinary Dividends”).

As a mutual fund corporation, the Fund will be entitled in certain circumstances to a refund of tax paid by it in respect of its net realized capital gains. Also, as a mutual fund corporation, the Fund will maintain a capital gains dividend account in respect of capital gains realized by the Fund and from which it may elect to pay dividends (“capital gains dividends”) which will be treated as capital gains in the hands of the shareholders of the Fund.

To the extent that the Fund earns income other than taxable capital gains or dividends from taxable Canadian corporations on shares in the Managed Portfolio which are not subject to a Forward Agreement, the Fund will be subject to income tax on such income and no refund will be available in respect thereof. Such income will include

interest, dividends from taxable Canadian corporations subject to a Forward Agreement and dividends from U.S. corporations.

The Fund is required to compute all amounts, including dividend income, foreign taxes paid, cost and proceeds of disposition and option premiums in Canadian dollars for the purposes of the Tax Act. As a consequence, the amount of income, expenses and capital gains or capital losses may be affected by changes in the value of foreign currency (including the U.S. dollar) relative to the Canadian dollar.

## **Tax Treatment of Shareholders**

### ***Distributions***

The amount of any capital gains dividend received by a shareholder from the Fund on a share will be considered to be a capital gain of the shareholder from the disposition of capital property in the taxation year of the shareholder in which the capital gains dividend is received.

The amount of any Ordinary Dividend received by a shareholder from the Fund on a share will be required to be included in computing income. Such dividends will generally be subject to the gross-up and dividend tax credit rules applicable to taxable dividends received from taxable Canadian corporations including the enhanced gross-up and dividend tax credit rules applicable to any dividends designated by the Fund as eligible dividends in accordance with the provisions of the Tax Act.

The amount of any payment received by a shareholder from the Fund on a share as a return of capital will not be required to be included in computing income. Instead such amount will reduce the adjusted cost base of such share to the shareholder. To the extent that the adjusted cost base of such shareholder would otherwise be a negative amount, the shareholder will be considered to have realized a capital gain at that time equal to that negative amount.

The investment objectives of the Fund include the payment of monthly distributions to holders of Class A Shares and holders of Class B Shares. In addition, in the event that the Fund realizes capital gains whether as a result of settlement of a portion of the Forward Agreement prior to the Termination Date or otherwise, the Fund may make a special year end distribution to holders of Class B Shares in particular circumstances, including where the Fund has net realized taxable capital gains upon which it would otherwise be subject to tax (other than taxable capital gains in respect of options that are outstanding at year end). Thus, a person acquiring Class B Shares in a year after the realization of such net realized taxable capital gains may be subject to tax thereon, notwithstanding that such Class B Shares may not have increased in value.

### ***Disposition***

Upon the redemption, retraction or other disposition of a share, a capital gain (or a capital loss) will be realized to the extent that the proceeds of disposition of the share exceed (or are less than) the aggregate of the adjusted cost base of the share and any reasonable costs of disposition.

The adjusted cost base to a shareholder of a share will generally be the weighted average of the cost of the shares of that class acquired by the shareholder at a particular time and the aggregate adjusted cost base of any shares of that class already held by the shareholder as capital property.

One-half of a capital gain (the taxable capital gain) will be included in computing income and one-half of a capital loss (the allowable capital loss) will be deductible against taxable capital gains in accordance with the detailed provisions of the Tax Act.

The Class A Shares and the Class B Shares will generally qualify as “Canadian securities” for purposes of the irrevocable election of guaranteed capital gains treatment provided for in certain circumstances under the Tax Act. Investors considering making such an election should consult their own tax advisors.

## **Eligibility for Investment**

Provided that the Fund qualifies as a mutual fund corporation under the Tax Act or if the Class A Shares or Class B Shares are listed on a “designated stock exchange” for purposes of the Tax Act (which includes the TSX), such shares will be qualified investments 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.

However, if the Class A Shares or Class B Shares are a “prohibited investment” for a tax-free savings account, the holder of a tax-free savings account that governs a trust that holds Class A Shares or Class B Shares will be subject to a penalty tax as set out in the Tax Act. An investment in the Class A Shares or Class B Shares will not generally be a “prohibited investment” unless the holder of a tax-free savings account does not deal at arm’s length with the Fund for purposes of the Tax Act or if the holder has a significant interest (within the meaning of the Tax Act) in the Fund or in a corporation, partnership or trust with which the Fund does not deal at arm’s length for purposes of the Tax Act. Holders of tax-free savings accounts should consult their own tax advisors to ensure that neither Class A Shares nor Class B Shares would be a “prohibited investment” in their particular circumstances.

## **RISK FACTORS**

An investment in the Fund may be deemed to be speculative and involves significant risks. Investors should review closely the investment objectives and investment strategies to be utilized by the Fund to familiarize themselves with the risks associated with an investment in the Fund. The following are certain considerations relating to an investment in the Fund which should also be considered before purchasing its securities.

### **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 an amount in excess of the original issue price of the Class B Shares. The Fund will forgo the benefits of any increase in the value of the Fixed Portfolio and only Managed Portfolio securities (other than Managed Portfolio securities pledged as a result of entering into the Class A Share Forward Agreements) 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 holders of Class A Shares and Class B Shares 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 objectives of the Fund 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.

### **Loss of Full Capital Repayment**

#### ***Forward Agreements***

The Fund has entered into a Forward Agreement with RBC with respect to its Fixed Portfolio in order to provide the Fund with the means to return the original issue price of the Class B Shares to such holders on the Termination Date. Initially, every six months the Fund entered into a Class A Share Forward Agreement in connection with contributions made semi-annually to the Class A Share Forward Account.

The possibility exists that RBC will default on its payment obligations under a Forward Agreement or that the proceeds of a Forward Agreement will be used to satisfy other liabilities of the Fund, which liabilities could include obligations to third-party creditors, including the CRA, in the event the Fund has insufficient assets, excluding the proceeds of the Forward Agreement, to pay its liabilities. If any of these circumstances should occur investors in the Class A Shares or in the Class B Shares may not receive an amount equal to the original issue price on the Termination Date.

Given the current size of the Managed Portfolio (excluding the Class A Share Forward Agreements), in the future, the Fund will need to terminate one or more Class A Forward Agreements to satisfy its liabilities. As a result, as of the date hereof, the redemption value of a Class A Share to be received on the Termination Date is expected to be less than \$10.00.

A consequence of entering into Forward Agreements in respect of the Class B Shares and with the amounts in the Class A Share Forward Account is that the Fund will, in effect, forgo the benefits of any appreciation in the value of its Fixed Portfolio and of securities acquired with contributions to the Class A Share Forward Account. If the Fund receives dividends or other distributions on such securities or if the Fund receives consideration in respect of such securities as a consequence of a merger transaction, the amount payable under the relevant Forward Agreement will be reduced. If, in these circumstances, the Fund is unable to amend the relevant 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, holders of Class A Shares and Class B Shares may receive an amount less than the original issue price per share at such time. In the event of an early termination of any Forward Agreement, the Fund may be unable to pay shareholders an amount greater than or equal to the original issue price per share on the Termination Date. In the event of an early termination of the Class B Share Forward Agreement or all of the Class A Share Forward Agreements, the Fund may attempt to enter into one or more additional forward, derivative or other transactions in order to enhance its ability to pay such amounts to shareholders on or before the Termination Date. See “Capital Repayment”.

### ***Early Redemption***

Holders of Class A Shares or Class B Shares who request the redemption of such shares prior to the Termination Date will forgo the full benefit of the capital repayment provided by the Forward Agreements on the Termination Date and may receive a redemption amount which is less than the original issue price.

### **Sensitivity to Interest Rates**

As the Fund is targeting monthly distributions of 6.5% per Class A Share and at least 8.5% per Class B Share, the market price of the Class A Shares and Class B Shares may be affected by the level of interest rates prevailing from time to time. In addition, prior to the Termination Date, the NAV of the Fund may be sensitive to interest rate fluctuations because the value of the Forward Agreements 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 Class A Shares or Class B Shares. Holders of Class A Shares or Class B Shares who wish to redeem or sell their Class A Shares or Class B Shares prior to the Termination Date will therefore be exposed to the risk that NAV per Unit or the market price of the Class A Share or Class B Share will be negatively affected by interest rate fluctuations.

### **Counterparty Credit Risk**

In entering into the Forward Agreements, 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 Agreements on a timely basis or at all. Since, depending on the performance of the Fixed Portfolio, the mark-to-market value of the Forward Agreements may represent a significant portion of the value of the assets of the Fund, the exposure of the Fund to the credit risk associated with the counterparty is significant.

### **Recent Global Financial Developments**

Global financial markets have experienced a sharp rise in volatility during recent months. This has been, in part, the result of a revaluation of assets on the balance sheets of international financial institutions and related securities. This has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the issuers who borrow from them. Notwithstanding that central banks as well as global governments are attempting to restore liquidity to the world economy, no assurance can be given that these efforts will abate, in the near to medium term, the combined impact of the significant revaluations and constraints on the availability of credit on economies around the world. Some economies are experiencing diminished growth or a recession. Continuing adverse market conditions and unexpected volatility or illiquidity in financial markets may adversely affect the prospects of the Fund.

### **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 invest 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.

Class A Shares or Class B Shares may trade in the market at a premium or discount to NAV per Unit and there can be no guarantee that Class A Shares or Class B Shares will trade at prices that reflect their NAV.

### **Reliance on the Investment Manager**

MCM manages the Fund's portfolio 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 Managed 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 Retractions**

The Class A Shares and Class B Shares are retractable 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 retraction). The purpose of the retraction right is to prevent the Class A Shares and the Class B Shares from trading at a substantial discount to their market value and to provide shareholders with the right to realize their investment without any trading discount to such value. While the retraction right provides shareholders the option of liquidity, there can be no assurance that it will reduce trading discounts. If a significant number of Class A Shares and Class B Shares are retracted, the trading liquidity of the Class A Shares and the Class B Shares could be significantly reduced. In addition, the expenses of the Fund would be spread among fewer Class A Shares and Class B Shares, potentially resulting in lower NAV per Unit.

### **Use of Options and Other Derivative Instruments**

The Fund is subject to the full risk of its investment position in the securities comprising its Managed Portfolio (other than Managed Portfolio securities pledged as a result of entering into the Class A Share Forward Agreements), 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 such 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 which 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 Managed Portfolio includes 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 be affected by fluctuations in the value of the U.S. dollar or other foreign currencies relative to the Canadian dollar.

## **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.

## **Tax Changes**

There can be no assurance that changes will not be made to the tax rules affecting the taxation of the Fund or the Fund’s investments, or that such tax rules will not be administered in a way that is less advantageous to the Fund or its securityholders.

The Province of Ontario has taken steps to harmonize its existing provincial sales tax with the federal goods and services tax (“GST”). It is expected that, effective July 1, 2010, a harmonized sales tax of 13% will apply to management fees and investment management fees paid by the Fund, rather than the currently imposed 5% GST, which may increase the costs borne by the Fund and its investors.

## **Tax Treatment 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 or capital losses, as the case may be, in accordance with its understanding of CRA’s published administrative and assessing practice. Gains or losses realized upon the disposition of shares, including the disposition of shares held in the Managed Portfolio upon exercise of a call option and the disposition of shares in the Fixed Portfolio or acquired with contributions to the Class A Share Forward Account upon delivery under a 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 the character and timing of the gain under a Forward Agreement, if the Forward Agreement is physically settled, were other than a capital gain on sale of the shares thereunder, after-tax returns to holders of Class A Shares and Class B Shares could be reduced and the Fund could be subject to non-refundable income tax from such transactions and be subject to penalty taxes in respect of excessive capital gains dividend elections.

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 corporation will be deemed not to be a mutual fund corporation 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 corporation would lose its status as a mutual fund corporation if at any time after 2004 the aggregate fair market value of all shares issued by the corporation 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 shares issued by the corporation where, at that time or any previous time, more than 10% (based on fair market value) of the corporation’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 corporation and the income tax considerations as described under “Canadian Federal Income Tax Considerations” and “Eligibility for Investment” 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 corporation status. Bill C-52, which received Royal Assent on June 22, 2007, amended the relevant provision of the Tax Act such that a corporation is deemed not to be a mutual fund corporation after any time when it can be reasonably considered that the corporation 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 Proposed Amendments.

## **MATERIAL CONTRACTS**

The following documents can reasonably be regarded as material to holders of Class A Shares and Class B Shares:

- (a) the articles of incorporation and articles of amendment of the Fund;
- (b) the Class A Share Forward Agreements;
- (c) the Class B Share Forward Agreement;
- (d) the Management Agreement;
- (e) the Investment Management Agreement; and
- (f) the Custodian Agreement.

Copies of the foregoing 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](mailto: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](http://www.sedar.com).

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