

**ANNUAL INFORMATION FORM**

**TOP 10 SPLIT TRUST**

**Capital Units and Preferred Securities**

**March 31, 2015**

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## **FORWARD-LOOKING STATEMENTS**

Certain statements in this annual information form are forward-looking statements, including those identified by the expressions “anticipate”, “believe”, “plan”, “estimate”, “intend” and similar expressions to the extent they relate to the Fund (as defined below) or Strathbridge (as defined below). Forward-looking statements are not historical facts but reflect the current expectations of the Fund and Strathbridge regarding future results or events. Such forward-looking statements reflect the Fund’s and Strathbridge’s current beliefs and are based on information currently available to them. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results or events to differ materially from current expectations. Some of these risks, uncertainties and other factors are described in this annual information form under the heading “Risk Factors”. Although the forward-looking statements contained in this annual information form are based upon assumptions that the Fund and Strathbridge believe to be reasonable, neither the Fund nor Strathbridge can assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained herein were prepared for the purpose of providing investors with information about the Fund and may not be appropriate for other purposes. Neither the Fund nor Strathbridge assumes any obligation to update or revise them to reflect new events or circumstances except as required by law.

## THE FUND

Top 10 Split Trust (the “Fund”), formerly First Premium U.S. Income Trust, is an investment trust established under the laws of the Province of Ontario pursuant to a trust agreement dated as of January 22, 1997, as amended from time to time (the “Trust Agreement”) between Strathbridge Asset Management Inc., as manager, and RBC Investor Services Trust (the “Trustee”), as trustee.

The manager and investment manager of the Fund is Strathbridge Asset Management Inc. (formerly Mulvihill Capital Management Inc.) (“Strathbridge”, “Manager” or “Investment Manager”).

The principle offices of the Fund and of Strathbridge are located at 121 King Street West, Standard Life Centre, P.O. Box 113, Suite 2600, Toronto, Ontario, M5H 3T9. The phone numbers, website address and e-mail address of Strathbridge are (416) 681-3900 (toll-free at 1-800-725-7172), [www.strathbridge.com](http://www.strathbridge.com) and [info@strathbridge.com](mailto:info@strathbridge.com), respectively.

### Security Offerings and Reorganization

On February 3, 1997, the Fund completed its initial public offering of 12,500,000 units (“Units”) at a price of \$25.00 per Unit. On February 28, 1997, the Fund completed an additional offering of 900,000 Units at a price of \$25.00 per Unit pursuant to the exercise of an over-allotment option granted to the Fund’s agents in connection with the Fund’s initial public offering. The Trust Agreement was amended on July 28, 1999 to permit the Fund to write cash covered put options and on November 30, 2005 to effect a reorganization (the “Reorganization”) of the Fund. The Reorganization was approved at a meeting of holders of Units (“Unitholders”) on November 21, 2005 and involved the following changes:

- (a) a change in the name of the Fund to “Top 10 Split Trust”;
- (b) a change in the capital structure of the Fund to a “split trust” structure to allow the Fund to issue new securities consisting of capital units (“Capital Units”) and preferred securities (“Preferred Securities”);
- (c) an amendment to the investment strategy and investment restrictions of the Fund to permit the Fund to invest in the Financial Portfolio (as defined below);
- (d) an amendment to the investment objectives of the Fund, as set forth in the Trust Agreement, to the following: *Capital Units* — (i) to provide holders of Capital Units, upon redemption, with the benefit of any capital appreciation in the market price of the securities in the Financial Portfolio and (ii) to pay quarterly distributions to holders of Capital Units in an amount targeted to be 7.5% of the net asset value (“NAV”) of the Fund and *Preferred Securities* — (i) to pay holders of Preferred Securities fixed quarterly cash interest payments at least equal to 6.00% per annum on the \$12.50 principle amount of a Preferred Security and (ii) to repay the principle amount of \$12.50 per Preferred Security (the “Repayment Price”) on the Termination Date (as defined below);
- (e) a reduction in the aggregate fees payable to the Manager and the Investment Manager from a total of 1.75% per annum on the NAV of the Fund to 1.10% per annum of the Fund’s total assets from and after December 1, 2005;
- (f) the introduction of an annual service fee of 0.40% per annum of the NAV of the Capital Units;
- (g) an extension of the termination date of the Fund from January 1, 2007 to March 31, 2011 (the “Termination Date”);
- (h) the provision to Unitholders of a special retraction right to enable them to retract their Units on November 30, 2005 on the same terms that would have applied had the Fund redeemed all Units in accordance with their existing terms; and
- (i) a follow-on offering of Capital Units and Preferred Securities on a non-dilutive basis.

In connection with the Reorganization, on December 2, 2005, the Units of the Fund were consolidated such that after giving effect to the consolidation, the NAV per Unit was \$25.00. Unitholders then received for each Unit held: (a) one Capital Unit of the Fund with an initial NAV of \$12.50; and (b) \$12.50 which was automatically invested in

one Preferred Security of the Fund with a principle amount of \$12.50. Pursuant to the reorganization, 1,659,931 Capital Units and 1,659,931 Preferred Securities were issued.

On March 21, 2011, the holders of Capital Units and Preferred Securities (collectively the “Securityholders”) approved a proposal to extend the term of the Fund for five years beyond its scheduled termination date of March 31, 2011 and for automatic successive five-year terms after March 31, 2016.

The Fund also made other changes, including:

- provide a special redemption right, to allow Securityholders who do not wish to continue their investment at such time to retract their Capital Units and Preferred Securities on the same terms that would have applied had the Fund redeemed all Units in accordance with their existing term,
- change the monthly retraction prices for the Capital Units such that monthly retraction prices are calculated by reference to market price in addition to the NAV and to change the notice period and payment period for the exercise of such rights and the payment of the retraction amount;
- consolidate the Capital Units or redeem the Preferred Securities on a pro rata basis, in order to maintain the same number of Capital Units and Preferred Securities outstanding.

On March 23, 2011 the Fund announced a partial redemption for 457,103 Preferred Securities on a pro rata basis from all holders of record on March 31, 2011. Each Preferred Security was redeemed at a price equal to \$12.50, being the principal amount per Preferred Security, plus all accrued and unpaid interest.

On January 2, 2015, Unitholders approved by extraordinary resolution changes to the Fund’s investment strategies and investment restrictions so that the Fund may purchase securities of an issuer only if such securities are common equity securities of issuers included in the Financial Portfolio (as defined below) or public investment funds including exchange traded funds and other Strathbridge funds (provided that no more than 15% of the net asset value of the Fund may be invested in securities of other Strathbridge funds) that provide exposure to such securities. In addition, the Fund may invest up to 10% of its net assets to purchase call options in respect of securities in which the Fund is permitted to invest and the Manager now has the discretion to invest the Fund’s portfolio entirely in cash or cash equivalents denominated in Canadian dollars.

The outstanding Capital Units and Preferred Securities are listed on the Toronto Stock Exchange (“TSX”) under the symbols TXT.UN and TXT.PR.A, respectively.

## **INVESTMENT OBJECTIVES AND STRATEGY**

The Fund’s current investment objectives are:

- (a) Capital Units — (i) to provide holders of Capital Units, upon redemption, with the benefit of any capital appreciation in the market price of the securities in the Financial Portfolio; and (ii) to pay quarterly distributions to holders of Capital Units in an amount targeted to be 7.5% per annum of the NAV of the Fund; and
- (b) Preferred Securities — (i) to pay holders of Preferred Securities fixed quarterly cash interest payments equal to 6.25% per annum on the \$12.50 principle amount of a Preferred Security; and (ii) to repay the principle amount of \$12.50 per Preferred Security on the Termination Date.

The Fund invests in a portfolio (the “Financial Portfolio”) consisting of securities of: (a) the six largest Canadian banks and (b) the four largest Canadian life insurance companies. The Fund will generally invest not less than 5% and not more than 15% of the Fund’s assets in each of the companies in the Financial Portfolio.

The Financial Portfolio is actively managed by Strathbridge, the Fund’s Investment Manager. The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting (“SSO”), to enhance the income generated by the Financial Portfolio and to reduce volatility. In addition, the Fund may write cash covered put options in respect of securities in which it is permitted to invest. The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to continuously writing and rolling

options every thirty days. This proprietary process has been developed by the Manager over many years through various market cycles. The Manager believes that in a flat or downward trending market, a portfolio that is subject to covered option writing will generally provide higher relative returns and lower volatility than one on which no options are written. However, in a rising market, the use of options may have the effect of limiting or reducing the total returns of the Fund since the premiums associated with writing covered options may be outweighed by the foregone opportunity of remaining fully invested in the securities comprising the Financial Portfolio.

## **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) the Capital Units and Combined Securities (each Combined Security consisting of one Capital Unit and one Preferred Security) are retractable monthly whereas the securities of most conventional mutual funds are retractable daily; (b) the Capital Units and the Preferred Securities 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 Capital Units and the Preferred Securities are not offered on a continuous basis.

## **DESCRIPTION OF THE CAPITAL UNITS AND PREFERRED SECURITIES**

### **Issue of Capital Units and Preferred Securities**

The Fund is authorized to issue an unlimited number of both Capital Units and Preferred Securities.

### **Capital Units**

The Fund is authorized to issue an unlimited number of transferable, redeemable trust units of one class, each representing an equal, undivided beneficial interest in the net assets of the Fund. All Capital Units have equal rights and privileges. Each whole Capital Unit is entitled to one vote at all meetings of holders and is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net income and net realized capital gains, and any distributions upon the termination of the Fund after payment of debts and liabilities, including the aggregate Repayment Price of the Preferred Securities, and liquidation expenses of the Fund. Capital Units are issued only as fully paid and are non-assessable. Fractions of Capital Units are proportionately entitled to all of these rights except voting rights.

### ***Distributions***

The Fund provides holders of Capital Units with quarterly cash distributions in an amount targeted to be 7.5% of NAV of the Fund per annum. The quarterly distributions are determined using the last NAV prior to the declaration date for the distribution. The Fund expects that all of the quarterly cash distributions payable by it to holders of Capital Units over the life of the Fund until the Termination Date will be return of capital distributions that are generally not subject to tax, but which will reduce the adjusted cost base of Capital Units.

Distributions are payable on the last business day of each quarter in each year. The payment of interest on the Preferred Securities is made in priority to any distributions on the Capital Units. Distributions on the Capital Units are conditional upon the Fund being current in its obligation to pay interest on the Preferred Securities in accordance with the terms of the Trust Indenture (as defined below).

If, in any year after payment of the aggregate Preferred Security Interest Amount and any distributions paid on the Capital Units, there would otherwise remain in the Fund net income or net realized capital gains, the Fund will, on or before December 31 of that year, make a special distribution of such portion of the remaining net income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax under Part I of the *Income Tax Act* (Canada) (the "Tax Act"). If the Fund does not have sufficient cash available to fund all of such additional distributions, additional Capital Units having a NAV equal to the deficiency will be issued. Immediately after such issuance, the number of outstanding Capital Units will be consolidated such that each holder will hold

after the consolidation the same number of Capital Units as the holder held before the issuance of the additional Capital Units.

The Fund intends that the aggregate distributions of net income and net realized capital gains made in each year will be sufficient to ensure that the Fund will not be liable for ordinary income tax under the Tax Act, except to the extent that any tax payable on net realized capital gains of the Fund for a year that are retained by the Fund would be recoverable by it in such year.

### ***Retraction***

A holder of Capital Units may surrender at any time (a “Regular Monthly Retraction”) a Capital Unit for retraction (either alone or together with the surrender of a Preferred Security for repayment), to Computershare Investor Services Inc. (in the manner described below) at least ten (10) business days prior to the last business day in the month (the “Retraction Date”) for retraction and repayment on the Retraction Date. Capital Units and Preferred Securities surrendered for retraction and repayment in this manner will be retracted on the Retraction Date. A holder who retracts Capital Units and surrenders Preferred Securities will receive payment therefore on or before the tenth business day following such Retraction Date (the “Retraction Payment Date”).

*Regular Monthly Retraction:* A holder of Capital Units retracting Capital Units under a Regular Monthly Retraction (without surrendering a corresponding Preferred Security) will receive an amount equal to 95% of the lesser of (i) the NAV of a Combined Unit (the “Combined Value”) less the aggregate of the cost to purchase one Preferred Security in the market and \$0.50 and (ii) the Capital Unit Market Price (as defined below).

*Concurrent Monthly Retraction:* A holder who surrenders a Capital Unit together with a Preferred Security will receive an amount equal to 95% of the lesser of (i) the NAV of the Combined Value less \$0.50 and (ii) the Combined Unit Market Price (as defined below).

*Annual Retraction:* A holder who surrenders a Capital Unit for retraction on the last business day in December (an “Annual Retraction”) (without surrendering a corresponding Preferred Security for repayment) will receive an amount equal to the Combined Value minus the Preferred Security Market Price (as defined below).

A holder of Capital Units who surrenders one Capital Unit and one Preferred Security under an Annual Retraction will receive an amount equal to the Combined Value.

For this purpose, the cost of the purchase of a Preferred Security or a Capital Unit in the market will include the purchase price of the security, commission and such other costs, if any, related to the liquidation of any portion of the Financial Portfolio to fund the purchase. Any unpaid distribution payable on or before the Retraction Date in respect of Capital Units tendered for retraction on a Retraction Date will also be paid on the distribution payment date. The NAV per Capital Unit may be lower than the original subscription price. The NAV per Capital Unit will vary depending on a number of market factors, including interest rates, volatility in the equity and debt markets and the volatility of the Financial Portfolio securities.

The “Capital Unit Market Price” is the weighted average trading price of the Capital Units on the principal stock exchange on which the Capital Units are listed (or, if the Capital Units are not listed on any stock exchange, on the principal market on which the Capital Units are quoted for trading) for the 10 trading days immediately preceding the applicable Valuation Date.

The “Preferred Security Market Price” is the weighted average trading price of the Preferred Securities on the principal stock exchange on which the Preferred Securities are listed (or, if the Preferred Securities are not listed on any stock exchange, on the principal market on which the Preferred Securities are quoted for trading) for the 10 trading days immediately preceding the applicable Valuation Date.

The “Combined Unit Market Price” is the sum of the Capital Unit Market Price and the Preferred Security Market Price.

The retraction proceeds paid by the Fund in connection with the retraction of a Combined Security are allocated as follows (a) as to the portion of such value equal to the principle amount of, and any accrued and unpaid interest on, the Preferred Security, as a repayment in full of such Preferred Security, and (b) as to the remainder of such value, as the proceeds of retraction of the Capital Unit.

The retraction right and, as applicable, the repayment right, must be exercised by providing written notice within the notice periods and in the manner described under “Book-Entry Only System” below. Such surrender will be irrevocable upon the delivery of notice to CDS Clearing and Depository Services Inc. (“CDS”) through a participant in the CDS book-based system (a “CDS Participant”), except with respect to those Capital Units or Preferred Securities which are not paid for by the Fund on the relevant Retraction Payment Date.

Any Capital Units outstanding on the Termination Date will be redeemed by the Fund on such date. On such redemption, each holder will receive for each Capital Unit redeemed the amount, if any, equal to a pro rata share of the net assets of the Fund remaining after payment or accrual of all debts and liabilities (including the aggregate Repayment Price and contingent expenses) and liquidation expenses of the Fund.

### ***Market Purchases***

The Fund may at any time, in its discretion, and subject to the receipt of any necessary regulatory approvals, purchase Capital Units offered in the market provided that, at the time of any such purchase, the Fund must concurrently purchase an equal number of Preferred Securities and the aggregate of the market price per Preferred Security and the market price per Capital Unit is less than the Combined Value at such time.

### **Preferred Securities**

The Preferred Securities are direct unsecured debt obligations issued by the Fund, do not have any voting rights and are not secured by any mortgage, pledge, hypothec or other charge. The Preferred Securities are issuable only in denominations of \$12.50 and integral multiples thereof.

### ***Interest Payments***

The Fund pays holders of Preferred Securities cash interest payments of 6.25% per annum on the \$12.50 principle amount of a Preferred Security (the “Preferred Security Interest Amount”), which is paid, net of applicable non-resident withholding tax, quarterly in arrears on the last day of each of March, June, September and December of each year up to and including the Maturity Date (as defined below). The Fund pays interest on the Preferred Securities at a rate equal to 6.25% per annum.

### ***Payment on Maturity***

The Preferred Securities will mature on the Termination Date, or automatically on such earlier date upon which the Fund terminates (any such date being the “Maturity Date”), at which date the Repayment Price of each Preferred Security will be payable by the Fund, by payment by the Fund of such amount to the Indenture Trustee. The Maturity Date also may be extended by holders of Capital Units and Preferred Securities by a majority vote at a meeting called for such purpose.

Notice of repayment will be given to CDS Participants on behalf of the beneficial owners of Preferred Securities at least 45 days prior to the Maturity Date.

### ***Concurrent Retraction***

A holder of Preferred Securities may surrender a Preferred Security for repayment together with a Capital Unit under a Regular Monthly Retraction or a Annual Retraction. Preferred Securities which have been surrendered to the Fund for repayment in the manner described above are, subject to the Fund’s right to recirculate Capital Units and Preferred Securities described below under the heading “Resale”, deemed to be outstanding until (but not after) the close of business on the Retraction Date, unless not repaid on or before the Retraction Payment Date in which event such Preferred Securities will remain outstanding.

### ***Subordination***

The payment of the principle of, and interest on, the Preferred Securities is subordinated in right of payment, as set forth in the Trust Indenture governing the Preferred Securities, to the prior payment in full of all “Senior Indebtedness” of the Fund. This is defined in the Trust Indenture as the principle of and premium, if any, and interest on, and other amounts in respect of, all indebtedness of the Fund (whether outstanding as at the date of the Trust Indenture or thereafter incurred, and including indebtedness to trade creditors of the Fund and ordinary and extraordinary liabilities), other than indebtedness evidenced by the Preferred Securities, and all other existing and future notes or other instruments of the Fund which, by the terms of the instrument creating or evidencing the indebtedness, is expressed to rank *pari passu* with, or subordinate in right of payment to, the Preferred Securities.

The Trust Indenture provides that in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relating to the Fund, or to its property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the Fund, whether or not involving insolvency or bankruptcy, or any marshalling of the assets and liabilities of the Fund, then those holders of Senior Indebtedness, including any indebtedness to trade creditors, will receive payment in full before the holders of Preferred Securities will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Preferred Securities or any accrued and unpaid interest. The Trust Indenture also provides that the Fund will not make any payment, and the holders of Preferred Securities will not be entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including by set-off, combination of accounts or realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Preferred Securities (a) in a manner inconsistent with the terms (as they exist on the date of issue) of the Preferred Securities, or (b) at any time when an event of default has occurred under the Senior Indebtedness and is continuing and the notice of such event of default has been given by or on behalf of the holders of Senior Indebtedness to the Fund, unless the Senior Indebtedness has been repaid in full.

### ***Priority Over Capital Unit Distributions***

The payment of interest on the Preferred Securities is made in priority to any distributions on the Capital Units.

The Fund will fund the repayment to the holders of Preferred Securities on the Maturity Date of the aggregate Repayment Price with the proceeds from the sale or redemption of the Financial Portfolio securities and any other net assets of the Fund in priority to any distribution of assets of the Fund on the Capital Units.

The Preferred Securities do not represent interests in or obligations of Computershare Trust Company of Canada (other than in its capacity as the Indenture Trustee), RBC Investor Services Trust (other than in its capacity as the Trustee), the Manager, the beneficiaries of the Fund or any affiliate or any of the foregoing. As such, recourse under the Preferred Securities is limited to the assets of the Fund. A holder of Preferred Securities has no recourse against the Indenture Trustee or the Trustee in their respective personal capacities or to the assets of the Indenture Trustee or the Trustee other than the assets of the Fund, nor any recourse to holders of Capital Units or their assets.

### ***Events of Default***

The Trust Indenture provides that an event of default (“Event of Default”) in respect of the Preferred Securities will occur if any one or more of the following described events has occurred and is continuing with respect to the Preferred Securities: (a) failure to pay the Preferred Security Interest Amount for more than four calendar quarters after such amount becomes due; (b) failure to pay the Repayment Price of the Preferred Securities, whether at maturity, by declaration or otherwise (other than pursuant to a redemption when a suspension is in effect); (c) certain events of bankruptcy, insolvency or reorganization of the Fund; or (d) default in the observance or performance of any material covenant or condition of the Trust Indenture and the continuance of such default for a period of 30 days after notice in writing has been given by the Indenture Trustee to the Fund specifying such default and requiring the Fund to rectify the same. If an Event of Default has occurred and is continuing, the Indenture Trustee may, in its discretion, and must upon request of holders of Preferred Securities holding not less than 25% of the number of Preferred Securities then outstanding (subject to receipt of an appropriate indemnity), declare the aggregate principle amount of, and interest on, all outstanding Preferred Securities to be immediately due and payable. In certain cases, the holders of Preferred Securities holding a majority of the number of the Preferred Securities then outstanding

may, on behalf all holders of Preferred Securities, waive any Event of Default and/or cancel any such declaration upon such terms and conditions as such holders of Preferred Securities prescribe.

### ***Modification***

The rights of the holders of Preferred Securities, as well as holders of any other series of securities that may be issued under the Trust Indenture, may be modified in accordance with the terms of the Trust Indenture. For that purpose, among others, the Trust Indenture contains certain provisions that will make binding on all holders of Preferred Securities resolutions passed at meetings of holders of Preferred Securities by votes cast by holders of Preferred Securities holding not less than two-thirds of the number of Preferred Securities present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of Preferred Securities holding not less than two-thirds of the number of Preferred Securities. In addition, the Maturity Date also may be extended by holders of Preferred Securities by a majority vote. Quorum for a meeting of holders of Preferred Securities will consist of two or more holders of Preferred Securities present in person or by proxy representing not less than 10% of the number of Preferred Securities then outstanding.

In addition, the Trust Indenture provides that where the Indenture Trustee determines, on the advice of counsel, that any modification to the Trust Agreement that requires the approval of holders of Preferred Securities would affect the timeliness or priority of payments to holders of Preferred Securities, or otherwise materially adversely affects the holders of Preferred Securities as a class, such change may not be made to the Trust Agreement unless (a) the Indenture Trustee has determined, on the advice of counsel, that such modification does not require the approval of holders of Preferred Securities, or (b) holders of Preferred Securities have approved such modification as required under the Trust Indenture.

### ***Limitation on Issuance of Additional Preferred Securities***

The Trust Indenture provides that the Fund shall not issue additional debt securities ranking in preference to the Preferred Securities. The Fund will only issue additional Preferred Securities on the basis that, immediately following such issuance, an equal number of Preferred Securities and Capital Units will be outstanding.

### ***Market Purchases***

The Fund may at any time, in its discretion, and subject to the receipt of any necessary regulatory approvals, purchase Preferred Securities offered in the market; provided, however, that if any such purchase is not made in conjunction with the redemption of Capital Units, the Fund will not purchase Preferred Securities unless it at the same time purchases an equal number of Capital Units and the aggregate of the market price per Preferred Security and the market price per Capital Unit is less than the Combined Value at such time.

### ***Resale***

The Fund has entered into an agreement (a "Recirculation Agreement") with RBC Dominion Securities Inc. (the "Recirculation Agent") whereby the Recirculation Agent will agree to use commercially reasonable efforts to find purchasers for any Capital Units and Preferred Securities properly surrendered for retraction or repayment, provided that the holder of the Capital Units so surrendered has not withheld consent. The Fund may from time to time appoint additional dealers to act as recirculation agents for any Capital Units and Preferred Securities surrendered for retraction or repayment. The Fund may, but will not be obligated to, require the Recirculation Agent to seek such purchasers and, in such event, the amount to be paid to the holder on the Retraction Payment Date will be an amount equal to the proceeds of the sale of the Capital Units less any applicable commission and the amount to be received for Preferred Securities will be an amount equal to the proceeds of sale of the Preferred Securities less any applicable commission. Such amounts will not be less than the retraction proceeds otherwise payable for such Capital Units and the Repayment Price otherwise payable for such Preferred Securities, respectively.

### ***Suspension of Retractions and Repayments***

The Fund may suspend the retraction of Capital Units and the repayment of Preferred Securities or postpone repayment of retraction proceeds: (a) during any period when normal trading is suspended on a market where more than 50% of the securities in the Financial Portfolio (in terms of dollar value) trade and, if those securities are not traded on any other exchange that represents a reasonably practical alternative for the Fund; (b) with the permission

of the securities regulatory authorities, for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability of the Trustee to determine the value of the assets of the Fund; or (c) if the Fund would be insolvent or otherwise unable to pay its liabilities as they become due after giving effect to such retractions (and repayment, if applicable). The suspension shall apply to all requests for retraction or repayment received prior to the suspension date but for which payment has not been made, as well as to all requests received while the suspension is in effect. All holders of Capital Units or Preferred Securities making such requests will be advised by the Manager of the suspension and that the retraction or repayment will be effected at a price determined following the resumption of retractions and repayments. All such holders of Capital Units and Preferred Securities will have, and will be advised that they have, the right to withdraw their requests for retraction or repayment if such requests were submitted prior to a suspension and payment has not been made, or if such requests were submitted during a period of suspension. Retractions and repayments will resume in any event on the first day on which the condition giving rise to the suspension has ceased to exist, provided that no other circumstances under which a suspension is authorized then exists. Notwithstanding any suspension of retractions and repayments, the Fund will be required to repay the Preferred Securities and redeem the Capital Units on the Termination Date. To the extent it is not inconsistent with rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by the Manager will be conclusive.

### **Normal Course Issuer Bid**

On April 29, 2013, the Fund filed a notice of intention to make a normal course issuer bid to purchase up to 152,694 Capital Units and 152,694 Preferred Securities, representing approximately 10% of the Fund's public float of 1,526,948 securities of each class as of April 25, 2013. The normal course issuer bid remained in effect for the period from May 1, 2013 through April 30, 2014. The Fund did not purchase any Capital Units or Preferred Securities under this issuer bid.

On October 17, 2014, the Fund filed a Notice of Intention to make a normal course issuer bid to purchase up to 144,659 Capital Units and 144,659 Preferred Securities representing approximately 10% of the public float of 1,446,599 Capital Units and 1,446,599 Preferred Securities, as of September 30, 2014. The Fund may purchase up to 28,931 of each respective class of securities in any 30 day period which is 2% of the 1,446,599 securities issued and outstanding of each respective class as at September 30, 2014. The Capital Units and Preferred Securities may be purchased for cancellation from October 22, 2014 to October 21, 2015 through the facilities of the Toronto Stock Exchange or other eligible alternative market and may only be purchased together as a unit (consisting of one Capital Unit and one Preferred Share) at a price per unit not exceeding the last combined value. The Fund has not purchased any Capital Units or Preferred Securities under this issuer bid to date.

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

Registration of interests in and transfers of the Capital Units and Preferred Securities are made only through the book-entry only system administered by CDS. Capital Units and Preferred Securities must be purchased, transferred and surrendered for retraction or redemption through a CDS Participant. All rights of an owner of Capital Units and Preferred Securities 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 Capital Units and Preferred Securities. Upon purchase of any Capital Units and Preferred Securities, the owner will receive only the customary confirmation.

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

An owner of Capital Units or Combined Securities who wishes to exercise retraction privileges 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 Capital Units or Combined Securities, no later than 5:00 p.m. (EST) on the relevant notice date. An owner who wishes to retract Capital Units or Combined Securities should ensure that the CDS Participant is provided with notice (the "Redemption Notice") of his intention to exercise his retraction privilege sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS by the required time. The Redemption Notice will be available from a CDS Participant or Computershare

Investor Services Inc., the Fund's registrar and transfer agent. Any expense associated with the preparation and delivery of Redemption Notices will be borne by the owner exercising the retraction privilege.

By causing a CDS Participant to deliver to CDS a notice of the owner's intention to retract Capital Units or Combined Securities, an owner shall be deemed to have irrevocably surrendered his Capital Units or Combined Securities for retraction and appointed such CDS Participant to act as his 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 Redemption Notice which CDS determines to be incomplete, not in proper form or not duly executed shall for all purposes be void and of no effect and the 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 Capital Units or Preferred Securities through the book-entry only system in which case certificates for Capital Units and Preferred Securities in fully registered form would be issued to beneficial owners of such securities or to their nominees.

## **MATTERS REGARDING CAPITAL UNITS**

### **Acts Requiring Approval by Holders of Capital Units**

The following matters require the approval of holders of Capital Units by a two-thirds majority vote (other than items (c) and (d) which require approval by a simple majority vote) of those Capital Units represented and voting at a meeting called and held for such purpose:

- (a) a change in the fundamental investment objectives and strategy of the Fund as described under "Investment Objectives and Strategy";
- (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 (i) the writing of covered call options or cash covered put options, (ii) the purchase of call options or put options and the entering into of trades by the Fund to close out positions in such derivatives, (iii) the purchase of put options to protect the Fund from declines in the market price of the individual securities in the Financial Portfolio or in the value of the Financial Portfolio as a whole, (iv) the purchase of call options in respect to securities in which the Fund is permitted to invest; and (v) the use of derivatives permitted under National Instrument 81-102 – *Investment Funds* ("NI 81-102") to hedge the Fund's foreign exchange exposure;
- (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, a change in the investment manager or trustee of the Fund, other than a change resulting in an affiliate of such person assuming such position;
- (f) a decrease in the frequency of calculating the NAV per Capital Unit or of retracting Capital Units;
- (g) certain material reorganizations with, or transfer of assets to or from another investment fund or a reorganization that results in the Fund no longer being an investment fund;
- (h) a termination of the Investment Management Agreement (except as described under "Investment Management Agreement");
- (i) a termination of the Fund prior to the Termination Date or an extension of the Fund beyond the Termination Date; and
- (j) an amendment, modification or variation in the provisions or rights attaching to the Capital Units.

The auditors of the Fund may be changed without the prior approval of holders of Capital Units provided that the independent review committee of the Fund approves the change and holders of Capital Units are sent a written notice at least 60 days before the effective date of the change.

Strathbridge and the Trustee may, without the approval of or notice to holders of Capital Units, amend the Trust Agreement for certain limited purposes specified, including to:

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

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

#### **Reporting to Holders of Capital Units**

The Fund will provide annual and semi-annual financial statements of the Fund to holders of Capital Units in accordance with applicable laws.

#### **INVESTMENT RESTRICTIONS**

The Fund is subject to certain investment criteria that, among other things, limit the common shares and other securities the Fund may acquire to comprise the Financial Portfolio. The Fund’s investment criteria may not be changed in the future without the approval of the holders of Capital Units by a two-thirds majority vote at a meeting called for such purpose. The Fund’s investment criteria provide that the Fund may:

- (a) purchase securities of an issuer only if such securities are common equity securities of issuers included in the Financial Portfolio or public investment funds, including exchange traded funds and other Strathbridge funds (provided that no more than 15% of the net asset value of the Fund may be invested in securities of other Strathbridge funds), that provide exposure to such securities. The Fund will generally invest not less than 5% and not more than 15% of the Fund’s assets in the securities of each issuer in the Financial Portfolio;
- (b) not purchase equity securities of issuers other than those permitted under paragraph (a) and may only purchase debt securities if such securities are cash equivalents;
- (c) write a call option in respect of any security only if such security is actually held by the Fund at the time the option is written;
- (d) not dispose of any security included in the Financial Portfolio that is subject to a call option written by the Fund unless 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 securities underlying the options at the aggregate strike price of such options;

- (f) reduce the total amount of cash equivalents held by the Fund, only if the total amount of cash equivalents held by the Fund remains an amount not less than the aggregate strike price of all outstanding put options written by the Fund;
- (g) not enter into any arrangement (including the acquisition of securities for the Financial Portfolio and the writing of covered call options on these securities) where the result is a dividend rental arrangement for the purposes of the Tax Act;
- (h) invest up to 10% of its net assets to purchase call options in respect of securities in which the Fund is permitted to invest;
- (i) purchase put options on individual securities in the Financial Portfolio or exchange-traded indexed put options and purchase call options and put options with the effect of closing out existing call options and put options written by the Fund;
- (j) purchase derivatives or enter into derivatives or other transactions to facilitate achieving the investment objectives of the Fund;
- (k) not make or hold any investment that would result in more than 10% (by fair market value) of the Fund's property being "taxable Canadian property" or other "specified property" as described in proposed amendments of the Tax Act released by the Minister of Finance (Canada) on September 16, 2004;
- (l) not make or hold any investments that would result in the Fund failing to qualify as a "mutual fund trust" or a "unit trust" within the meaning of the Tax Act; and
- (m) not make or hold any investment that would result in the Fund becoming a "SIFT trust" as defined in subsection 122.1(1) of the Tax Act.

Notwithstanding the foregoing, at the Manager's discretion, the Fund may be invested entirely in cash or cash equivalents denominated in Canadian dollars.

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

- (a) Subsection 2.1(1) – to permit the Fund to invest more than 10% of the Fund's assets in the securities of each issuer in the Financial Portfolio;
- (b) Section 10.3 – to permit the Fund to calculate the retraction price for the Capital Units and Preferred Securities in the manner described in this annual information form;
- (c) Subsection 10.4(1) – to permit the Fund to pay the retraction price for the Capital Units and Preferred Securities on the Retraction Payment Date;
- (d) Subsection 12.1(1) – to relieve the Fund from the requirement to file the prescribed compliance reports; and
- (e) Section 14.1 – to relieve the Fund from the requirement relating to the record date for the payment of dividends or other distributions, provided that it complies with the applicable requirements of the TSX.

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

The Fund may purchase put options on individual securities in the Financial Portfolio or exchange-traded indexed put options in order to protect the Fund from declines in the market prices of the individual securities in the Financial Portfolio or in the value of the Financial Portfolio as a whole. The Fund may also invest up to 10% of its net assets to purchase call options in respect of securities in which the Fund is permitted to invest. The Fund may enter into trades to close out positions in such permitted derivatives. In addition to writing covered call options and cash covered put options, and to the extent permitted by Canadian securities regulators, from time to time, the Fund may purchase call options and put options with the effect of closing out existing call options and put options written by the Fund.

## **Securities Lending**

In order to generate additional returns, the Fund may lend Financial 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 portfolio securities. Any future securities lending by the Fund will be done in accordance with NI 81-102. The Fund has not engaged in any securities lending to date.

## **CALCULATION OF NET ASSET VALUE AND NET ASSET VALUE PER CAPITAL UNIT**

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

The NAV and the NAV per Capital 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 business day of the month at the close of business. Such information will be provided by Strathbridge to holders of Capital Units on request and will be available at no cost on a weekly basis on the Manager's website at [www.strathbridge.com](http://www.strathbridge.com).

## **Valuation Policies and Procedures**

In determining the NAV of the Fund at any time:

- (a) the value of any security or index options 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 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 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 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 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;

- (f) 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;
- (g) 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;
- (h) all expenses or liabilities (including fees payable to the Fund) of the Fund shall be calculated on an accrual basis; and
- (i) 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 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, International Financial Reporting Standards requires that portfolio securities in an active market be valued based on a price within the bid-ask spread. The Fund uses the last traded market price (closing sale price) for both financial assets and financial liabilities where the last traded price falls within the day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

## **RESPONSIBILITY FOR OPERATIONS**

### **The Manager**

Strathbridge 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. Strathbridge became the Manager of the Fund on September 1, 2010 as successor by amalgamation with Mulvihill Fund Services Inc. Subsequently, on October 3, 2011, Mulvihill Capital Management Inc. announced a name change to Strathbridge.

Pursuant to the Trust Agreement, Strathbridge is the Manager of the Fund and, as such, is responsible for providing or arranging for required administrative services to the Fund including: authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements and financial and accounting information as required by the Fund; ensuring that holders of Capital Units are provided with interim and annual financial statements and other reports as are required by applicable law from time to time; ensuring that the Fund complies with regulatory requirements and applicable stock exchange listing requirements; preparing the Fund's reports to holders of Capital Units and the Canadian securities regulatory authorities; providing the Trustee 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.

Strathbridge shall exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of holders of Capital Units, and shall exercise the degree of care, diligence and skill that a reasonably prudent manager would exercise in similar circumstances.

Strathbridge may resign as Manager of the Fund upon 60 days' notice to the Fund and to the holders of Capital Units or upon such lesser notice period as the Trustee may accept. If Strathbridge resigns it may appoint its successor but,

unless its successor is an affiliate of Strathbridge, its successor must be approved by holders of Capital Units. If Strathbridge is in material default of its obligations under the Trust Agreement and such default has not been cured within 30 days after notice of the same has been given to Strathbridge, the Trustee shall give notice to holders of Capital Units and the holders of Capital Units may direct the Trustee to remove Strathbridge and appoint a successor manager.

Strathbridge is entitled to fees for its services under the Trust Agreement and will be reimbursed for all reasonable costs and expenses incurred on behalf of the Fund. In addition, Strathbridge 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 Strathbridge or any of its officers, directors, employees or agents in the exercise of its duties as Manager, except those resulting from Strathbridge's wilful misconduct, bad faith, negligence or breach of its obligations under the Trust Agreement.

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

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

The name and municipality of residence and principal occupation of each of the directors and officers of Strathbridge are as follows:

<b>Name and Municipality of Residence</b>	<b>Principal Occupation</b>
John P. Mulvihill Toronto, Ontario	Chairman, President, Chief Executive Officer, Secretary and Director
John D. Germain Toronto, Ontario	Senior Vice-President, Chief Financial Officer and Director
David E. Roode Toronto, Ontario	President, Fund Services and Director
Peggy Shiu Toronto, Ontario	Vice-President – Chief Compliance Officer and Portfolio Manager
Jack Way Toronto, Ontario	Vice-President – Portfolio Manager
Jeff Dobson Milton, Ontario	Vice-President – Portfolio Manager
Aaron Ho Richmond Hill, Ontario	Vice-President – Finance

Each of the directors and officers have held their current position or another position with Strathbridge or an affiliate during the five years preceding the date hereof, with the exception of David Roode. In May 2010, David Roode joined Strathbridge from the Brompton Group where he had been since 2002, most recently as Senior Vice-President of Brompton Funds since 2005.

As of March 16, 2015, John P. Mulvihill owned of record and beneficially 95,073 shares (100%) of Mulvihill Capital Inc. which is the sole shareholder of Strathbridge.

## **The Investment Manager**

Strathbridge manages the Fund's investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an investment management agreement (the "Investment Management Agreement") made between Strathbridge as Manager and on behalf of the Fund and Strathbridge dated January 22, 1997 as amended on November 30, 2005.

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

**John P. Mulvihill**, Chairman, President, Chief Executive Officer, Secretary and Director of Strathbridge, is the senior portfolio manager of Strathbridge and has over 35 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 D. Germain**, Senior Vice-President, Chief Financial Officer and Director of Strathbridge, has been with Strathbridge since March 1997. Prior to joining Strathbridge, 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 Strathbridge since January 2001 where he has worked extensively on valuing, pricing and trading equity options. Prior to joining Strathbridge, he had been employed at CIBC Mellon where he worked with the valuations group.

**Jeff Dobson**, Vice-President, joined Strathbridge 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 Strathbridge involved managing a portfolio comprised of equity options, their underlying stocks, as well as equity index derivatives.

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

**Jack Way**, Vice-President, has been with Strathbridge since August 1998 and brings an extensive background in asset management with over 25 years of experience as an investment manager during which he spent considerable time working in the U.S. market.

**Jeff Thompson**, Portfolio Manager, has been with Strathbridge since 1990 primarily working in the fixed income group. Since 2008 he has worked extensively on trading equity options and foreign currency hedging.

**John P. Mulvihill Jr.**, Portfolio Manager, has been with Strathbridge since 2008 working with the portfolio management group specializing in metals and mining companies.

### ***Investment Management Agreement***

The services provided by Strathbridge pursuant to the Investment Management Agreement include making all investment decisions for the portfolio and the writing, purchase and sale of all option contracts in accordance with the investment objectives, strategy and restrictions 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 Strathbridge. In the purchase and sale of securities for the Fund and the trading of option contracts, Strathbridge will seek to obtain overall services and prompt execution of orders on favourable terms.

Under the Investment Management Agreement, Strathbridge 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 holders of

Capital Units of the Fund and 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 Strathbridge 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. Strathbridge will, however, incur liability in cases of wilful misfeasance, bad faith, negligence or breach of its obligations under the Investment Management Agreement.

The Investment Management Agreement, unless terminated as described below, will continue in effect until the termination of the Fund on the Termination Date. The Trustee may terminate the Investment Management Agreement if Strathbridge 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 Strathbridge by the Trustee. Except as described above, Strathbridge cannot be terminated as investment manager of the Fund.

Except as set out below, Strathbridge may not terminate the Investment Management Agreement or assign the same except to an affiliate of Strathbridge, without approval of the holders of Capital Units. Strathbridge 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 Trustee or if there is a material change in the fundamental investment objectives, strategy or criteria of the Fund.

If the Investment Management Agreement is terminated, Strathbridge will promptly appoint a successor investment manager to carry out the activities of Strathbridge until a meeting of holders of Capital Units is held to confirm such appointment.

Strathbridge is entitled to fees for its services as Investment Manager under the Investment Management Agreement and will be reimbursed for all reasonable costs and expenses incurred by Strathbridge on behalf of the Fund. In addition, Strathbridge 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 Strathbridge or any of its officers, directors, employees or agents in the exercise of its duties as Investment Manager, except those resulting from Strathbridge's wilful misconduct, bad faith, negligence or breach of its obligations under the Investment Management Agreement.

## **CONFLICTS OF INTEREST**

### **Principal Holders of Securities**

CDS & Co., the nominee of CDS, holds all of the Units as registered owner for various brokers and other persons on behalf of their clients and others. The Fund is aware that there is a securityholder that owns approximately 15% of the Capital Units, however the identity of such securityholder is not known to the Fund or the Manager.

As at March 16, 2015, the directors and officers of the Manager beneficially owned, in aggregate, less than 10% of the outstanding Units of the Fund and the members of the IRC (as defined below) beneficially owned, in aggregate, less than 10% of the outstanding Units of the Fund.

## **FUND GOVERNANCE**

### **Independent Review Committee**

Under NI 81-107 all publicly offered investment funds, including the Fund, are required to establish an independent review committee (the "IRC") 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 IRC in carrying out its functions. The IRC is required to conduct regular assessments and provide reports to the Manager and securityholders in respect of its activities.

The members of the IRC of the Fund and the other Funds managed by Strathbridge are Michael M. Koerner, Robert W. Korthals and Robert G. Bertram. The aggregate compensation paid by the Fund to the members of the IRC for the year ended December 31, 2014 was \$6,900.

### The Advisory Board

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

<i>Name and Municipality of Residence</i>	<i>Principal Occupation</i>
John P. Mulvihill Toronto, Ontario	Chairman, President, Chief Executive Officer, Secretary and Director, Strathbridge
Michael M. Koerner <sup>(1)</sup> Toronto, Ontario	President, Canada Overseas Investments, Ltd. (private investment company)
Robert W. Korthals <sup>(1)</sup> Toronto, Ontario	Corporate Director
Robert G. Bertram <sup>(1)</sup> Aurora, Ontario	Corporate Director
John D. Germain Toronto, Ontario	Senior Vice-President, Chief Financial Officer and Director, Strathbridge

(1) Independent of the Manager.

During the past five years all of the Advisory Board members have held the principal occupations noted opposite their respective names, or other occupations with their current employer or a predecessor company. The independent Advisory Board members are paid an annual fee of \$5,000 and a fee for each Advisory Board meeting attended of \$300. All fees and expenses of the Advisory Board are paid by the Fund.

Each member of the Advisory Board, other than Mr. Koerner, Mr. Germain and Mr. Bertram, has served as a member of the Advisory Board since its initial public offering. Mr. Koerner became an Advisory Board member on June 16, 2000, Mr. Bertram became an Advisory Board member on January 1, 2009 and Mr. Germain became an Advisory Board member on October 8, 2010. Each member of the Advisory Board has been appointed by the Manager and will serve until his or her successor is appointed.

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

The Advisory Board of the Fund is responsible for the overall stewardship of the Fund’s business and affairs. Strathbridge administers, either directly or indirectly through third-party service organizations, all functions associated with the operations of the Fund pursuant to the Trust Agreement. Under this agreement, the Manager is responsible for certain day to day operations of the Fund including the payment of distributions on Capital Units and Preferred Securities and attending to the retraction or redemption of Capital Units and Preferred Securities in accordance with their terms.

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

Strathbridge 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, Strathbridge has an asset mix committee consisting of the following: 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 Strathbridge'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 Strathbridge oversees investment decisions made by the portfolio managers of the Fund and reports to John P. Mulvihill.

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 Strathbridge. 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 Strathbridge 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.

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

Because Securityholders may only retract their Capital Units or Combined Securities on notice for payment not more frequently than monthly, they cannot engage in short-term trading of the Fund's securities with the Fund and the Fund has no policies and procedures in relation to such activities.

### **Proxy Voting Policy**

The Fund has adopted the following proxy guidelines (the "Proxy Guidelines") with respect to the voting of proxies received by it relating to voting securities held by the Fund. The Proxy Guidelines establish standing policies and procedures for dealing with routine matters, as well as the circumstances under which deviations may occur from such standing policies. A general description of certain such policies is outlined below.

(a) *Auditors*

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

(b) *Board of Directors*

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

(c) *Compensation Plans*

The Fund will vote on matters dealing with share-based compensation plans on a case-by-case basis. The Fund will review share-based compensation plans with a primary focus on the transfer of shareholder wealth. The Fund will generally vote for compensation plans only where the cost is within the industry maximum except where (i) participation by outsiders is discretionary or excessive or the plan does not include reasonable limits on participation or (ii) the plan provides for option re-pricing without shareholder approval. The Fund will generally also vote against any proposals to re-price options, unless such re-pricing

is part of a broader plan amendment that substantially improves the plan and provided that (i) a value-for-value exchange is proposed; (ii) the top five paid officers are excluded; and (iii) exercised options do not go back into the plan or the company commits to an annual burn rate cap.

(d) *Management Compensation*

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

(e) *Capital Structure*

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

(f) *Constituting Documents*

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

- (i) the quorum for a meeting of shareholders is set below two persons holding 25% of the eligible vote (this may be reduced in the case of a small organization where it clearly has difficulty achieving quorum at a higher level, but the Fund will oppose any quorum below 10%);
- (ii) the quorum for a meeting of the board of directors should not be less than 50% of the number of directors; and
- (iii) the chair of the board has a casting vote in the event of a deadlock at a meeting of directors if that chair is not an independent director.

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

The Proxy Guidelines apply to proxy votes that present a conflict between the interests of Strathbridge or an entity related thereto, on the one hand, and the interests of the securityholders, 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 [info@strathbridge.com](mailto:info@strathbridge.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 Strathbridge’s website at [www.strathbridge.com](http://www.strathbridge.com).

## **BROKERAGE ARRANGEMENTS**

In evaluating the broker's capability to provide best execution, the portfolio managers consider the broker's financial responsibility, the broker's responsiveness, the commission rate involved and the range of services offered by the broker.

There are no ongoing contractual arrangements with any brokers with respect to securities transactions.

In addition to order execution goods and services, dealers or third parties may provide research goods and services, which include: (a) advice as to the value of securities and the advisability of effecting transactions in securities; and (b) analyses and reports concerning securities, issuers, industries, portfolio strategy or economic or political factors and trends that may have an impact on the value of securities. Such goods and services may be provided by the executing dealer directly (known as proprietary research) or by a party other than the executing dealer (known as third party research).

In the event of the provision of a good or service that contains an element that is neither research goods and services nor order execution goods and services ("mixed-use goods and services"), brokerage commissions will only be used to pay for such goods and services which would qualify as either research goods and services or order execution goods and services. The Manager would pay for the remainder of the costs of such mixed-use goods or services.

The portfolio managers make a good faith determination that the portfolio, on whose behalf it directs to a dealer any brokerage transactions involving client brokerage commissions in return for research and order execution goods and services, receives reasonable benefit, considering both the use of the goods and services and the amount of brokerage commissions paid.

There are policies and procedures in place to ensure that, over a reasonable period of time, all clients receive a fair and reasonable benefit in return for the commissions generated.

For a list of any other dealer, broker or third party which provides research goods and services and/or order execution goods and services, at no cost, securityholders can contact us at 1-800-725-7172 or [info@strathbridge.com](mailto:info@strathbridge.com).

## **TRUSTEE AND CUSTODIAN**

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

The Trustee is responsible for certain aspects of the day-to-day administration of the Fund as described in the Trust Agreement, including calculating NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund in relation to its portfolio.

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

The address of the Trustee is 155 Wellington Street West, Toronto, Ontario, M5V 3L3.

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

### **INDENTURE TRUSTEE**

Computershare Trust Company of Canada is the indenture trustee (the “Indenture Trustee”) of the Fund for the Preferred Securities pursuant to the Trust Indenture (the “Trust Indenture”) dated December 2, 2005, as amended from time to time, between the Fund and the Indenture Trustee. The Indenture Trustee is entitled to receive fees from the Fund and to be reimbursed for all reasonable expenses and disbursements incurred by it in connection with the provision of its services under the Trust Indenture. The Indenture Trustee may be removed with the approval of a two-thirds majority vote cast at a meeting of holders of Preferred Securities, but no such removal shall be effective unless and until a new indenture trustee or trustees becomes bound by the Trust Indenture.

### **REGISTRAR AND TRANSFER AGENTS**

Pursuant to the Registrar and Transfer Agency Agreement and the Trust Indenture, Computershare Investor Services Inc. and Computershare Trust Company of Canada, at their principle offices in Toronto, are the registrar and transfer agents for the Capital Units and Preferred Securities, respectively. The register of the Fund is kept in Toronto, Ontario.

### **AUDITORS**

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

### **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

The following is a summary of the principle Canadian federal income tax considerations generally relevant to holders of Capital Units or Preferred Securities who are individuals (other than trusts) and who, for purposes of the Tax Act, are resident in Canada, deal at arm’s length with the Fund, are not affiliated with the Fund, hold their Capital Units or Preferred Securities as capital property and have not with respect to Capital Units or Preferred Units entered into a “derivative forward agreement”.

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 of Canada Revenue Agency (the “CRA”) and the specific proposals to amend the Tax Act and regulations thereunder announced prior to the date hereof by the Minister of Finance (the “Tax Proposals”). No assurances can be given that the Tax Proposals will become law as proposed or at all. This summary is based on the following assumptions:

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

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

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

#### **Status of the Fund**

Provided that the Fund meets certain prescribed conditions (“minimum distribution requirements”) relating to the number of holders of Capital Units, dispersal of ownership of Capital Units and public trading of its Capital Units at such time and provided that its sole undertaking is and continues to be the investing of its funds in property (other than real property or an interest in real property) as described in this annual information form, the Fund will qualify at a particular time as a “mutual fund trust” as defined in the Tax Act. This summary assumes that the Fund has satisfied, and will satisfy at all relevant times the minimum distribution and other requirements to qualify as a mutual fund trust.

If the Fund were not to qualify as a mutual fund trust, the income tax consequences described below would in some respects be materially different.

#### **Taxation of the Fund**

The Fund is subject to tax in each taxation year under Part I of the Tax Act on the amount of its income for the year computed pursuant to the Tax Act, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to holders of Capital Units in the year. Income tax paid by the Fund on any net realized capital gains not paid or payable to its holders of Capital Units is recoverable by the Fund to the extent and in the circumstances provided in the Tax Act.

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

The 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 ensures that gains or losses realized by the Fund on dispositions of Canadian securities will be taxed as capital gains or capital losses.

In computing its income for tax purposes, the Fund may deduct reasonable expenses incurred to earn income, including interest on Preferred Securities.

The Fund generally intends to deduct in computing its income in each taxation year for purposes of the Tax Act the full amount available for deduction in each year (computed on the assumption that options outstanding after the year end will expire unexercised) and therefore, provided that the Fund makes distributions in each year of its net income including net realized capital gains net of realized capital losses and net capital loss carry forwards, it will generally not be liable in such year for income tax under Part I of the Tax Act other than such tax on net realized capital gains that would be recoverable by it in such year.

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

### **Taxation of Holders of Capital Units**

A holder of Capital Units will generally be required to include in the calculation of the holder's income under the Tax Act the net income and the net realized taxable capital gains of the Fund paid or payable to the holder of Capital Units in the year or deemed so paid or payable, whether received in cash or in additional Capital Units. To the extent that distributions by the Fund to a holder of Capital Units in any year exceed the net income including net realized capital gains of the Fund for the year computed pursuant to the Tax Act, such distributions generally will not be included in the calculation of the holder's income for the year but will reduce the adjusted cost base of the holder's Capital Units.

The Fund will designate to the extent permitted by the Tax Act the portion of the net income distributed to holders of Capital Units as may reasonably be considered to consist of realized taxable capital gains of the Fund net of realized capital losses and net capital loss carry forwards, and the taxable dividends received, or deemed to be received, by the Fund on shares of taxable Canadian corporations net of expenses and non-capital loss carry forwards. Any such designated amount will be deemed for purposes of the Tax Act to be received or realized by holders of Capital Units in the year as a taxable capital gain or taxable dividend from a taxable Canadian corporation, as the case may be. To the extent that amounts are designated as taxable dividends (including "eligible dividends") from taxable Canadian corporations, the normal gross-up and dividend tax credit rules will apply.

Any loss of the Fund for purposes of the Tax Act cannot be allocated to, and cannot be treated as the loss of, a holder of Capital Units.

Under the Tax Act, a trust is permitted to deduct in computing its income an amount which is less than the amount of its distributions. This will enable the Fund to utilize, in a particular year, losses from prior years without affecting the ability of the Fund to distribute its income annually. The amount distributed to a holder of Capital Units but not deducted by the Fund will not be required to be included in the income of the holder of Capital Units. However, unless such amount relates to the non-taxable portion of capital gains, the taxable portion of which has been designated in respect of the holder of Capital Units, the adjusted cost base of the holder's Capital Units would be reduced by such amount.

The NAV per Capital Unit of the Fund will reflect any income and gains of the Fund that have accrued or have been realized but not made payable at the time Capital Units are acquired. Consequently, holders of Capital Units of the Fund that acquire additional Capital Units may become taxable on their share of income and gains of the Fund that accrued or were realized before the Capital Units were acquired and not made payable at such time.

Upon the actual or deemed disposition of a Capital Unit, including on a sale or redemption, a capital gain (or capital loss) will generally be realized by the holder of Capital Units to the extent that the holder's proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base to the holder of Capital Units of the Capital Unit and any reasonable costs of disposition. For the purpose of determining the adjusted cost base to a holder of Capital Units, when a Capital Unit is acquired the cost of the newly-acquired Capital Unit will be averaged with the adjusted cost base of all of the Capital Units owned by the holder as capital property at that time.

One-half of any capital gains (“taxable capital gains”) realized will be included in computing the income of a holder of Capital Units and one-half of any capital loss realized may be deducted against taxable capital gains in accordance with the provisions of the Tax Act.

### **Taxation of Holders of Preferred Securities**

A holder of Preferred Securities will generally be required to include, in computing income for a taxation year, all interest on the Preferred Securities that is received or receivable (depending on the method regularly followed by the holder in computing income) by the holder in that taxation year, except to the extent that the interest was included in the holder’s income for a preceding taxation year.

If the Fund retracts or repurchases a Preferred Security prior to maturity or repays a Preferred Security upon maturity, the holder of such Preferred Security will be considered to have disposed of the Preferred Security for proceeds of disposition equal to the amount received by the holder (other than the amount received or deemed to be received as interest (as described below)) on such retraction or repayment. A disposition or deemed disposition of a Preferred Security by a holder will generally result in the holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition are greater (or less) than the aggregate of the holder’s adjusted cost base thereof and any reasonable costs of disposition. Any such capital gains or capital losses will be treated, for tax purposes, in the same manner as capital gains and capital losses arising from a disposition of Capital Units, which treatment is discussed above under “Taxation of Holders of Capital Units”. Upon such a disposition or deemed disposition of a Preferred Security, interest accrued to the date of disposition will be included in computing the income of the holder, except to the extent such amount was otherwise included in the income of such holder, and will be excluded in computing such holder’s proceeds of disposition of the Preferred Security.

### **Eligibility for Investment**

Provided that the Fund qualifies and continues to qualify at all times as a mutual fund trust within the meaning of the Tax Act or that the Units are listed on a “designated stock exchange” for purposes of the Tax Act (which includes the TSX), Units 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 Units are a “prohibited investment” for a tax-free savings account, registered retirement savings plan or registered retirement income fund, the holder of a tax-free savings account or annuitant under a registered retirement savings plan or registered retirement income fund, will be subject to a penalty tax under the Tax Act. An investment in Units will not generally be a “prohibited investment” unless the holder or annuitant does not deal at arm’s length with the Fund for purposes of the Tax Act or the holder or annuitant has a significant interest (within the meaning of the Tax Act) in the Fund. Holders of tax-free savings accounts and annuitants of registered retirement savings plans and registered retirement income funds should consult with their own tax advisors in this regard.

### **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.

### **Portfolio of the Fund**

NAV per Capital Unit will vary as the value of the securities in the Financial Portfolio varies. At any time, the issuers in the Financial Portfolio may decide to decrease or discontinue the payment of distributions on their securities. The Fund has no control over the factors that affect the issuers in the Financial Portfolio, including factors such as fluctuations in interest rates, changes in management or strategic direction, achievement of strategic goals, mergers, acquisitions and divestitures and changes in dividend and distribution policies. An investment in Units does not constitute an investment in the securities of issuers in the Financial Portfolio. Securityholders will not own the securities held by the Fund and will not have any voting or other rights with respect to such securities.

## **Concentration Risk**

The Financial Portfolio consists only of securities of the companies in the financial services and life insurance industries and, as a result, the Fund's holdings are not diversified and the NAV may be more volatile than a more broadly diversified portfolio and may fluctuate substantially over short periods of time in response to economic conditions and regulatory changes that specifically affect the provision of financial services or life insurance. This may have a negative impact on the value of the Capital Units and the Preferred Securities.

## **No Assurances on Achieving Objectives**

There is no assurance that the Fund will be able to achieve its objectives, including being able to pay the interest on, and repay the principle amount of, the Preferred Securities, or being able to pay the anticipated distributions on the Capital Units or provide holders of Capital Units, upon redemption, with the benefit of any capital appreciation in the market price of the securities in the Financial Portfolio. Furthermore, there can be no assurance that the Fund's NAV will be preserved.

The Fund expects to pay the interest on the Preferred Securities, in part, from dividends and distributions from the Financial Portfolio securities. Dividends and distributions received by the Fund in respect of Financial Portfolio securities will not be sufficient to fund the interest on the Preferred Securities.

The Fund intends to make quarterly cash distributions on the Capital Units. However, such distributions are conditional upon the Fund being current in its obligation to pay interest on the Preferred Securities in accordance with the terms of the Trust Indenture.

There is no assurance that the Fund will be able to pay any quarterly cash distributions to holders of Capital Units. The funds available for distribution to holders of Capital Units and Preferred Securities will vary according to, among other things, the dividends and distributions paid on all of the securities comprising the Financial Portfolio, the level of option premiums received and the value of the securities comprising the Financial Portfolio. Since the dividends and distributions received by the Fund will not be sufficient to meet the objectives of the Fund in respect of the payment of interest on the Preferred Securities or cash distributions to holders of Capital Units, the Fund 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 a pricing model can be attained.

An investment in the Fund is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment and who can withstand the effect of no distributions (in respect of Capital Units) or interest (in respect of Preferred Securities) being paid in any given period. Failure to pay interest on the Preferred Securities only gives rise to an Event of Default after four quarters.

## **Interest Rate Fluctuations**

It is anticipated that the market price of the Capital Units and the Preferred Securities will at any time be affected by the level of interest rates prevailing at such time. A rise or decline in interest rates may have a negative effect on the market price of the Capital Units and the Preferred Securities.

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

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

There can be 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 on desired terms or to close out option positions should it 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 the strike price which may exceed the then current market value of such security.

Where the Fund has purchased call options and entered into other derivative transactions there is also the risk that the 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 under the transaction and may default on such obligations, which could prevent Fund from reducing a loss or making a profit.

### **Greater Volatility of the Capital Units**

An investment in the Capital Units is a leveraged investment because the Preferred Securities have priority in repayment of all accrued and unpaid interest on the Preferred Securities, and any other indebtedness of the Fund after the winding up of the Fund. This leverage amplifies the potential return to Capital Unit investors in so far as returns in excess of the amounts payable to holders of Preferred Securities accrue first to the benefit of the holders of Capital Units. Conversely, any losses incurred on the Financial Portfolio accrue to the detriment of the holders of Capital Units since the Preferred Securities rank prior to the Capital Units in respect of distributions and proceeds upon the winding up of the Fund.

### **Trading at a Discount**

The Fund cannot predict whether Capital Units will trade above, at or below NAV per Capital Unit or whether the Preferred Securities will trade above, at or below their Repayment Price.

### **Reliance on the Manager**

Strathbridge manages the portfolio of the Fund in a manner consistent with the investment objectives, investment strategies and investment restrictions of the Fund. The officers of Strathbridge who are primarily responsible for the management of the Financial Portfolio have extensive experience in managing investment portfolios, but there is no certainty that they will continue to be employees of Strathbridge throughout the term of the Fund.

### **Significant Retractions**

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

### **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.

### **Fund of Funds Investment Risk**

The Fund may invest directly in, or obtain exposure to, exchange traded funds or other public investment funds as part of its investment strategy. The Fund will be subject to the risks of the underlying funds. Also, if an underlying fund suspends redemptions, the Fund will be unable to accurately value part of its portfolio and may be unable to redeem its units in such fund.

## **Leverage**

Holders of Capital Units will be subject to a form of leverage such that any capital appreciation in the Capital Units after repaying the Preferred Securities and all accrued and unpaid interest thereon, and any other indebtedness of the Fund, and any other expenses and liabilities of the Fund will be for the benefit of the holders of Capital Units. In the event of a decrease in the value of the Financial Portfolio, this leverage will work to the disadvantage of holders of Capital Units, with the result that any net capital loss incurred by the Fund on its investment in the Financial Portfolio will effectively first be for the account of holders of Capital Units. Accordingly, any decrease in the value of the Financial Portfolio will result in a greater proportionate decrease in the value of the Capital Units. If, at the Termination Date, the total assets of the Fund are less than or equal to the amount of the aggregate of all liabilities of the Fund (including the aggregate principle amount of the Preferred Securities and all accrued and unpaid interest thereon and other indebtedness of the Fund), the Capital Units will have no value. There is no assurance that there will be any capital appreciation on the Capital Units.

## **Distributions on the Capital Units**

Distributions on the Capital Units will vary with the NAV per Capital Unit. There can be no assurance that the NAV will remain stable or at current levels. A decrease in the NAV per Capital Unit will result in a decrease on the distributions on the Capital Units.

## **Risks Specific to the Structure of the Fund**

Distributions on Financial Portfolio securities will be used to pay the expenses and other liabilities of the Fund and the Preferred Security Interest Amount. In addition to periodic interest on the Preferred Securities, the Repayment Price of the Preferred Securities must be repaid on the Maturity Date. The amount to be repaid depends on the aggregate principle amount of the Preferred Securities then outstanding, together with any accrued and unpaid interest thereon. A reduction in the total assets of the Fund does not change the amount that must be paid on account of the Preferred Securities. Due to this required repayment of the Preferred Securities, decreases in the total assets of the Fund will cause the value of a Capital Unit to decrease to a proportionately greater extent, as compared to the situation where the Fund did not issue Preferred Securities. There can be no assurance that the total assets of the Fund will not decrease.

There is a risk that the Preferred Securities may be repaid by the Fund prior to the Maturity Date. In such event, the aggregate amount of interest payable to a securityholder would be less than if Preferred Securities were held until the Maturity Date.

## **Status of Preferred Securities**

The Preferred Securities will be subordinate to all indebtedness of the Fund ranking senior to the Capital Units, including indebtedness to trade creditors of the Fund. The Preferred Securities will be direct unsecured debt obligations issued by the Fund. See "Subordination".

## **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.

## **Taxation of the Fund**

In determining its income for tax purposes, the Fund will treat gains and losses realized on the disposition of securities in the Financial Portfolio, option premiums received on the writing of covered call options and cash covered put options and any losses sustained on closing out options as capital gains and capital losses in accordance with CRA's published administrative practice. CRA's practice is not to grant advance income tax rulings on the characterization of items as capital or income and no advance income tax ruling has been applied for or received from CRA.

If, contrary to CRA's published administrative practice and the advice of counsel or as a result of a change of law, some or all of the transactions undertaken by the Fund in respect of covered options and securities in the Financial Portfolio were treated on income rather than capital account, after-tax returns to holders of Capital Units could be reduced and the Fund may be subject to non-refundable income tax from such transactions.

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

Recently enacted amendments to the Tax Act apply to "loss restriction events" (as defined in the Tax Act) of certain trusts. These amendments may have an impact on the Fund generally to the extent that any person, together with other persons with whom that person is affiliated within the meaning of the Tax Act, or any group of persons acting in concert, acquires Capital Units having a fair market value that is greater than 50% of the fair market value of all the Capital Units of the Fund. If such circumstances occur, the Fund will have a deemed tax year end and any undistributed income and realized capital gains (net of any applicable losses) would be expected to be made payable to all Capital Unitholders as a distribution on their Capital Units (or tax thereon paid by the Fund in respect of such year).

### **Recent Global Market Conditions**

Global financial markets have experienced increased volatility in the last several years. This has been, in part, the result of the 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. While central banks as well as global governments have worked to restore much needed liquidity to the global economies, no assurance can be given that the combined impact of the significant revaluations and constraints on the availability of credit will not continue to materially and adversely affect economies around the world. No assurance can be given that efforts to respond to the crisis will continue or that, if continued, they will be successful or these economies will not be adversely affected by the inflationary pressures resulting from such efforts or central banks' efforts to slow inflation. Further, continued market concerns about the European sovereign debt crisis and matters related to the U.S. government debt limits may adversely impact global equity markets. Some of these economies have experienced significantly diminished growth and some are experiencing or have experienced a recession. These market conditions and further volatility or illiquidity in capital markets may also adversely affect the prospects of the Fund and the value of the Financial Portfolio. A substantial decline in equities markets could be expected to have a negative effect on the Fund and the market price of the Units.

### **MATERIAL CONTRACTS**

The following agreements can reasonably be regarded as material to holders of Capital Units and Preferred Securities:

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

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

## **ADDITIONAL INFORMATION**

Additional information about the Fund is available in the Fund's management report 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 [info@strathbridge.com](mailto:info@strathbridge.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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