

**ANNUAL INFORMATION FORM**

**LOW VOLATILITY U.S. EQUITY INCOME FUND**

**Units**

**March 30, 2016**

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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**

Low Volatility U.S. Equity Income Fund (the “Fund”) is an investment trust established under the laws of the Province of Ontario pursuant to a trust agreement dated as of February 26, 2013 (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. (“Strathbridge” or the “Manager”).

On March 13, 2013, the Fund completed its initial public offering of 2,050,000 units (“Units”) at a price of \$10.00 per Unit. On March 28, 2013, the Fund completed an additional offering of 85,000 Units at a price of \$10.00 per Unit pursuant to the exercise of an over-allotment option granted to the Fund’s agents in connection with the Fund’s initial public offering.

The outstanding Units are listed on the Toronto Stock Exchange (“TSX”) under the symbol LVU.UN.

On January 2, 2015, Unitholders approved by extraordinary resolution changes to the Fund’s investment strategies and investment restrictions so that (i) at least 75% (reduced from 100%) of the value of the Fund’s securities is invested in securities of an issuer included in the S&P 100 Index that has a trailing 12 month Beta relative to the S&P 100 Index of less than 1.0 on the date the Investment Universe (as defined below) is established or reconstituted; and (ii) no more than 25% (previously no basket) of the value of the Fund is invested in securities of other issuers included in the S&P 100 Index, or in 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 hedge foreign currency exposure when considered appropriate and may invest the Fund’s portfolio entirely in cash or cash equivalents denominated in Canadian or U.S. dollars.

The principal offices of the Fund and of Strathbridge are located at 121 King Street West, Suite 2600, P.O. Box 113, 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.

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

The Fund is not a “mutual fund” for securities law purposes. As a result, some of the provisions of National Instrument 81-102 – *Investment Funds* (“NI-81-102”) do not apply to the Fund.

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

## **INVESTMENT OBJECTIVES AND STRATEGY**

The Fund has been created to provide investors with an actively managed investment in the common shares of low volatility, large capitalization, U.S. companies while mitigating downside risk and paying a monthly cash distribution.

The Fund seeks to achieve its investment objectives by actively investing in a conservative portfolio (the “portfolio”) consisting principally of large capitalization equity securities selected from the S&P 100 Index with a Beta of less than 1.0 (the “Investment Universe”), combined with selective covered call option writing designed to enhance portfolio income and mitigate downside risk. Beta is a financial term used as a measure of a security’s or a portfolio’s return in relation to the market. A beta of less than 1.0 indicates that the price of a security will generally vary to a lesser extent than the movement of the market and a beta of greater than 1.0 indicates that the price of a security will generally vary to a greater extent than the movement of the market. The Investment Manager may also invest up to 25% of the Fund’s net asset value (“NAV”) in securities of other issuers included in the S&P 100 Index. The portfolio will generally consist of 20 to 30 securities of issuers selected from the Investment Universe.

The Fund’s investment objectives are:

- (a) to maximize risk adjusted returns for holders of its Units (“Unitholders”); and
- (b) to pay Unitholders monthly cash distributions in an amount targeted to be 5.0% per annum on the NAV per Unit.

The Fund intends to strategically write covered call options on a portion of the securities in the portfolio from time to time in order to:

- (i) enhance the Fund’s total returns;
- (ii) enhance the dividend yield on the portfolio securities; and
- (iii) lower the overall volatility of the portfolio.

Based on the Manager’s experience using its selective covered call writing strategy, it expects there will be periods when a significant portion of the securities in the portfolio will be subject to covered call options as well as periods when no covered call options will be written on the securities in the portfolio.

From time to time, the Fund may purchase put options to protect the Fund from declines in the value of the portfolio or individual securities in the portfolio, and 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.

The composition of the portfolio, the securities that may be subject to call options and the terms of such options will vary from time to time, depending on market conditions.

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 portfolio.

### ***U.S. Currency Hedging***

The Fund will have significant U.S. currency exposure. The Manager may hedge the Fund’s foreign currency exposure back to the Canadian dollar in its discretion when considered appropriate.

### ***Hedging to Protect Portfolio Assets***

The Fund may purchase put options on individual securities in the portfolio, indexed put options or inverse exchange-traded funds in order to protect the Fund from declines in the market prices of the individual securities in its portfolio or in the value of its portfolio as a whole. 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.

### ***No Leverage***

The Fund will not employ leverage.

### ***Utilization of Cash Equivalents***

The Fund may from time to time hold all or a portion of its assets in cash equivalents. The Fund may also from time to time utilize such cash equivalents to provide cover for the writing of cash-covered put options or for other defensive purposes. The Fund may also from time to time write cash-covered put options to generate additional returns and to reduce the net cost of acquiring the securities subject to put options. Such cash-covered put options will only be written in respect of securities in which the Fund is permitted to invest. Additionally, 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.

## **INVESTMENT RESTRICTIONS**

The Fund is subject to certain investment restrictions that, among other things, limit the securities the Fund may acquire to comprise its portfolio. The Fund's investment restrictions may not be changed without the approval of the Unitholders by a two-thirds majority vote at a meeting called for such purpose. The Fund's investment restrictions provide that the Fund may:

- (a) (i) purchase equity securities of issuers selected from the S&P 100 Index provided that: (a) at least 75% of the NAV of the Fund is invested in securities of large capitalization issuers with a trailing 12 month Beta relative to the S&P 100 Index of less than 1.0 on the date the Investment Universe is established or reconstituted; and (b) no more than 25% of the value of the Fund is invested in securities of other issuers included in the S&P 100 Index; and (ii) invest in 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;
- (b) not invest more than 10% of the net assets of the Fund in securities of any single issuer, other than securities issued or guaranteed by the Government of Canada or a province or territory thereof or of the Government of the United States or other cash equivalents;
- (c) 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;
- (d) write a call option in respect of any security only if such security is actually held by the Fund in the portfolio at the time the option is written;
- (e) not dispose of any security that is subject to a call option written by the Fund unless such option has either terminated or expired;

- (f) write put options in respect of any security only if (i) the Fund is permitted to invest in such security in the portfolio, 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 prices of such options;
- (g) 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;
- (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 call options and put options with the effect of closing out existing call options and put options written by the Fund;
- (j) purchase put options on individual securities in the portfolio, indexed put options, and, notwithstanding paragraphs (a) and (c), inverse exchange-traded funds that provide exposure to the S&P 100 Index;
- (k) purchase derivatives or enter into derivatives or other transactions to facilitate achieving the investment objectives of the Fund;
- (l) not undertake any activity, take any action, omit to take any action or make or hold any investment that would result in the Fund failing to qualify as a “mutual fund trust” within the meaning of the *Income Tax Act* (Canada) (the “Tax Act”);
- (m) not make or hold any investment that would result in the Fund becoming a “SIFT trust” within the meaning of subsection 122.1(1) of the Tax Act;
- (n) not invest in: (i) any security that is an offshore investment fund property that would require the Fund to include significant amounts in the Fund’s income pursuant to section 94.1 of the Tax Act or proposed section 94.1 of the Tax Act as set forth in draft legislation to amend the Tax Act contained in Bill C-48, which received first reading in the House of Commons on November 21, 2012 (“Bill C-48”); or (ii) any interest in a non-resident trust that would require the Fund to include amounts in income in connection with such interest pursuant to sections 91 or 94 of the Tax Act or proposed sections 94 or 94.2 of the Tax Act as set forth in draft legislation to amend the Tax Act contained in Bill C-48 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto);
- (o) not invest in any security that would be a “tax shelter investment” within the meaning of the Tax Act; and
- (p) not invest in any security of an issuer that would be a foreign affiliate of the Fund for purposes 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 or U.S. dollars.

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



## **UNITS**

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

All Units have equal rights and privileges. Each whole Unit is entitled to one vote at all meetings of Unitholders and is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net income and net realized capital gains and distributions upon the termination of the Fund. Units are issued only as fully paid and are non-assessable. Fractions of Units are proportionately entitled to all of these rights except voting rights. Holders of Units will have no voting rights in respect of the securities in the portfolio. Such securities will be voted in accordance with the proxy voting guidelines of the Fund. See “Fund Governance – Proxy Voting Policy”.

The provisions or rights attaching to the Units may only be modified, amended or varied with the consent of Unitholders given in accordance with provisions contained in the Trust Agreement as described herein under the heading “Unitholder Matters – Matters Requiring Unitholder Approval”.

The Fund may not issue additional Units, or securities convertible into Units, except (a) by way of private placement or public offering where the net proceeds per Unit to be received by the Fund are not less than the most recently calculated NAV per Unit prior to the date of the setting of the subscription price by the Fund; (b) on a distribution of Units or on an automatic reinvestment of distributions of net income or net realized capital gains; or (c) with the approval of Unitholders.

### **Distributions**

Originally, the Fund endeavoured to pay monthly cash distributions to Unitholders in an amount targeted to be 5.0% per annum of the NAV per Unit. Effective August 2014, the monthly cash distributions target was increased to 5.5% per annum of the NAV per Unit, and is to be paid on the last day of each month. The Fund has determined to base the distributions it pays on the NAV per Unit in order to better facilitate the preservation and enhancement of the Fund’s NAV and to enable Unitholders to benefit from any increases in the NAV of the Fund through the resulting increased distributions. The monthly distributions are determined using the last NAV per Unit prior to the declaration date for the distribution.

The Fund has determined to base the distributions it pays on the NAV per Unit in order to better facilitate the preservation and enhancement of the Fund’s NAV and to enable Unitholders to benefit from any increases in the NAV of the Fund through the resulting increased distributions. The monthly distributions are determined using the last NAV per Unit prior to the declaration date for the distribution.

The distribution can be expected to vary in each month based on variations in the NAV. It is expected that distributions over the life of the Fund will be derived primarily from net realized capital gains and dividend income. There can be no assurance that the Fund will be able to make distributions at its targeted rate. The distribution policy of the Fund, including the targeted distribution rate, is reviewed by the Manager on an annual basis. The Fund has made all scheduled distributions.

If, in any year after making its targeted monthly cash distributions, there would otherwise remain in the Fund, as a consequence of dividend growth, realized capital appreciation, the receipt of option premiums or the settlement of currency contracts, net income or net realized capital gains that are unsheltered by any loss carryforwards from prior years, the Fund intends to make, on December 31 of that year, a special distribution of such remaining net income and net realized capital gains in order to ensure that the Fund will not be liable for income tax thereon under the Tax Act. Such distributions will be made in Units that may at the discretion of the Fund be automatically consolidated. Income or taxable capital gains

distributed to a Unitholder in Units are required to be included in the Unitholder's income even though no cash will be distributed to fund any resulting tax payment. See "Income Tax Considerations".

Cash distributions will be payable in Canadian dollars to Unitholders of record at 5:00 p.m. (Toronto time) on the record date which will generally be on or about the fifteenth day before such distribution payment date. All cash distributions will be paid to Unitholders proportionately based on their respective holdings of Units.

Each Unitholder will be mailed (by the dealer who holds Units on their client's behalf) annually, no later than the 90<sup>th</sup> day following the tax year-end of the Fund, information necessary to enable such Unitholder to complete an income tax return with respect to amounts paid or payable by the Fund in respect of the preceding taxation year of the Fund. See "Income Tax Considerations".

The Fund may, in its discretion, determine what portion, if any, of the redemption amount paid to a Unitholder on a redemption of Units is a distribution to the Unitholder out of the income or net realized capital gains of the Fund.

### **Redemption of Units**

Units may be surrendered at any time for redemption to Computershare Investor Services Inc., the Fund's registrar and transfer agent, but will be redeemed only on a Redemption Date (as defined below). Units surrendered for redemption on or before the first business day of August of any year commencing in 2014 (the "Annual Redemption Deadline") will be redeemed on the last business day of August (the "Annual Redemption Date"). Units surrendered for redemption by a Unitholder at least 10 business days prior to the last day of any other month (a "Monthly Redemption Deadline"), will be redeemed on the last day of such month (a "Monthly Redemption Date" and, together with the Annual Redemption Date, a "Redemption Date"). If a day that would otherwise be a Redemption Date is not a business day, the Redemption Date shall be the preceding business day. Unitholders will receive payment for the Units on or before the 15<sup>th</sup> day following such Redemption Date (the "Redemption Payment Date").

Commencing in 2014, Unitholders whose Units are redeemed on an Annual Redemption Date will be entitled to receive a redemption price per Unit equal to the NAV per Unit determined as of such date, less costs. Costs may include an amount equal to the aggregate of all brokerage fees, commissions and other costs incurred by the Fund in connection with such payment, including, but not limited to, costs incurred in liquidating securities held in the portfolio.

For Unitholders whose Units are redeemed on any other Redemption Date, the redemption price per Unit will be equal to the lesser of:

- (a) 95% of the Market Price. For such purposes, "Market Price" means the weighted average trading price of the Units on the principal stock exchange on which the Units are listed (or, if the Units are not listed on any stock exchange, on the principal market on which the Units are quoted for trading) for the ten trading days immediately preceding the applicable Redemption Date, and
- (b) 100% of the Closing Market Price of the Units on the applicable Redemption Date, minus an amount equal to the aggregate of all brokerage fees, commissions and other costs incurred by the Fund in connection with such payment, including, but not limited to, costs incurred in liquidating securities held in the Fund's portfolio. For such purposes, the "Closing Market Price" means the closing price of the Units on the principal stock exchange on which the Units are listed (or, if the Units are not listed on any stock exchange, on the principal market on which the Units are quoted for trading) or, if there was no trade on the relevant date, the average of the last bid and the last asking prices of the Units on the principal stock exchange on which the Units are listed (or, if the

Units are not listed on any stock exchange, on the principal market on which the Units are quoted for trading).

Any unpaid distribution payable on or before the applicable Redemption Date in respect of Units tendered for redemption on such Redemption Date will also be paid on the applicable Redemption Payment Date.

The redemption right must be exercised by providing written notice within the notice periods as described under “Redemption of Units – Exercise of Redemption Right” below. Such surrender will be irrevocable upon the delivery of notice to CDS Clearing and Depository Services Inc. (“CDS”) through a participant in CDS (“CDS Participant”), except with respect to those Units which are not paid for by the Fund on the relevant Redemption Payment Date.

The Fund may designate a portion of the redemption price of Units tendered for redemption as a distribution of income and capital gains to redeeming Unitholders.

### ***Exercise of Redemption Right***

An owner of Units who desires to exercise redemption 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 redeem Units, no later than 5:00 p.m. (EST) on the relevant notice date. An owner who desires to redeem Units should ensure that the CDS Participant is provided with notice (the “Redemption Notice”) of the Unitholder’s intention to exercise the Unitholder’s redemption privilege sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS by the required time. The Redemption Notice will be available from a CDS Participant or Computershare Investor Services Inc., the Fund’s registrar and transfer agent. Any expense associated with the preparation and delivery of Redemption Notices will be for the account of the owner exercising the redemption privilege.

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

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

### ***Resale of Units Tendered for Redemption***

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

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

### ***Suspension of Redemptions***

Strathbridge may direct the Trustee to suspend the redemption of Units or payment of redemption proceeds: (a) during any period when normal trading is suspended on a stock exchange on which securities of the Fund are traded, if those securities represent more than 50% by value, or underlying market exposure, of the total assets of the Fund without allowance for liabilities and if those securities are not traded on any other exchange that represents a reasonably practical alternative for the Fund; or (b) with the prior permission of the securities regulatory authorities, for any period not exceeding 120 days during which Strathbridge determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability of the Trustee to determine the value of the assets of the Fund. The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders making such requests shall be advised by Strathbridge of the suspension and that the redemption will be effected at a price determined on the first applicable Redemption Date following the termination of the suspension. All such Unitholders shall have, and shall be advised that they have, the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by Strathbridge shall be conclusive.

### **Purchase for Cancellation**

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

### **Normal Course Issuer Bid**

On October 17, 2014, the Fund filed a Notice of Intention to make a normal course issuer bid to purchase up to 128,829 Units representing approximately 10% of the Fund's public float of 1,288,297 Units as of September 30, 2014. The normal course issuer bid remained in effect for the period from October 22, 2014 through to October 21, 2015. The Fund did not purchase any Units under the issuer bid.

### **Book-Entry-Only and Book-Based Systems**

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

The Fund and the Manager will not have any liability for (a) the records maintained by CDS or CDS Participants relating to the beneficial interests in the Units or the book-entry or book-based accounts maintained by CDS in respect thereof; (b) maintaining, supervising or reviewing any records relating to

such beneficial ownership interests; or (c) any advice or representation made or given by CDS or CDS Participants, including with respect to the rules and regulations of CDS or any action taken by CDS, its participants or at the direction of those participants.

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

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

## **UNITHOLDER MATTERS**

### **Meetings of Unitholders**

A meeting of Unitholders of the Fund may be convened by Strathbridge or the Trustee at any time and must be convened if requisitioned by the holders of not less than 10% of the Units then outstanding by a written requisition specifying the purpose of the meeting. Not less than 21 days' notice will be given of any meeting of Unitholders. The quorum at any such meeting is two Unitholders present in person or by proxy and representing not less than 10% of the Units then outstanding. If no quorum is present at such meeting when called, the meeting, if called on the requisition of Unitholders, will be terminated and otherwise will be adjourned for not less than ten days and at the adjourned meeting the Unitholders then present in person or represented by proxy will form the necessary quorum. At any such meeting, each Unitholder will be entitled to one vote for each whole Unit registered in the Unitholder's name.

The Fund does not intend to hold annual meetings of Unitholders.

### **Matters Requiring Unitholder Approval**

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

- (a) a change in the fundamental investment objectives of the Fund as described under "Investment Objectives and Strategy";
- (b) a change in the investment restrictions of the Fund as described under "Investment Restrictions";
- (c) 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;
- (d) a change of the manager of the Fund, other than a change resulting in an affiliate of such person assuming such position or, except as described herein, a change in the investment manager or trustee of the Fund, other than a change resulting in an affiliate of such person assuming such position;
- (e) a decrease in the frequency of calculating the NAV per Unit or of redeeming Units;
- (f) any issue of Units for net proceeds per Unit less than the most recently calculated NAV per Unit prior to the date of setting of the subscription price by the Fund;
- (g) a reorganization with, or transfer of assets to, an investment fund, if

- (i) the Fund ceases to continue after the reorganization or transfer of assets;
  - (ii) the transaction results in Unitholders becoming security holders in the other investment fund;
- (h) a reorganization with, or acquisition of assets of, an investment, if
- (A) the Fund ceases to continue after the reorganization or acquisition of assets or ceases to continue as an investment fund;
  - (B) the transaction results in the securityholders of the other investment fund becoming Unitholders of the Fund, and
  - (C) the transaction would be a material change to the Fund;
- (i) the Fund implements a restructuring into a mutual fund or an issuer that is not an investment fund;
- (j) except as described under “Termination of the Fund”, the termination of the Fund; or
- (k) an amendment, modification or variation in the provisions or rights attaching to the Units.

Notwithstanding the foregoing, a reorganization of the Fund or transfer of assets described in paragraph (g) may be carried out without the prior approval of Unitholders provided that the independent review committee (the “IRC”) of the Fund approves the transaction pursuant to National Instrument 81-107 – *Independent Review Committee for Investment Funds* (“NI 81-107”), the reorganization or transfer complies with certain requirements of National Instrument 81-102 – *Investment Funds* (“NI 81-102”) and NI 81-107 and Unitholders are sent a written notice at least 60 days before the effective date of the change.

The auditor of the Fund may be changed without the prior approval of Unitholders provided that the IRC of the Fund approves the change and Unitholders 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 Unitholders, amend the Trust Agreement for certain limited purposes specified therein, including to:

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

Except for changes to the Trust Agreement which require the approval of Unitholders or changes described above which do not require approval or prior notice to Unitholders, 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 Unitholders.

### **Reporting to Unitholders**

The Fund will furnish to Unitholders such financial statements (including interim unaudited and annual audited financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

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

The NAV of the Fund on a particular date will be equal to the aggregate value of the assets of the Fund less the aggregate value of the liabilities of the Fund, including any income, net realized capital gains or other amounts payable to Unitholders on or before such date expressed in Canadian dollars at the applicable exchange rate on such date.

The NAV per Unit on any day is obtained by dividing the NAV of the Fund on such day by the number of Units then outstanding. In general, the NAV per Unit will be calculated as of 4 p.m. (Toronto time) each day. If a valuation date is not a business day, then the securities comprising the Fund property will be valued as if such valuation date were the preceding business day. Such information will be provided by Strathbridge to Unitholders on request and will be available at no cost on a daily basis on the Manager's website at [www.strathbridge.com](http://www.strathbridge.com) or by contacting the Manager at [info@strathbridge.com](mailto:info@strathbridge.com).

### **Valuation Policies and Procedures**

In determining the NAV per Unit of the Fund at any time:

- (a) the value of any security that is listed on any recognized exchange shall be determined by the closing sale price at the valuation time or, if there is no closing sale price, the average between the closing bid and the closing asked price on the day on which the NAV is being determined, all as reported by any report in common use or authorized as official by a recognized stock exchange; provided that if such stock exchange is not open for trading on that date, then on the last previous date on which such stock exchange was open for trading;
- (b) where a covered clearing corporation option, option on futures or over-the-counter option is written, the premium received by the Fund shall be reflected as a deferred credit that shall be valued at an amount equal to the current market value of the clearing corporation option, option on futures or over-the-counter option that would have the effect of closing the position. Any difference resulting from revaluation of such options shall be treated as an unrealized gain or loss on investment. The deferred credit shall be deducted in arriving at the NAV. The securities, if any, which are the subject of a written clearing corporation option, or over-the-counter option shall be valued at their then current market value;
- (c) purchased or written clearing corporation options, options on futures, over-the-counter options, debt-like securities and listed warrants shall be valued at the current market value thereof;
- (d) the value of any cash on hand, on deposit or on call, prepaid expenses, cash dividends declared and interest accrued and not yet received, shall be deemed to be the face amount thereof, unless the Trustee 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 Trustee determines to be the reasonable value thereof;

- (e) the value of a futures contract or a forward contract shall be the gain or loss with respect thereto that would be realized if, at the valuation time, the position in the futures contract or the forward contract were to be closed out unless daily limits are in effect in which case fair value shall be based on the current market value of the underlying interest;
- (f) margin paid or deposited in respect of futures contracts and forward contracts shall be reflected as an account receivable and margin consisting of assets other than cash shall be noted as held as margin;
- (g) 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 Trustee, in its discretion, deems appropriate. Short term investments including notes and money market instruments shall be valued at cost plus accrued interest;
- (h) the value of any security, the resale of which is restricted or limited, shall be the lesser of the value thereof based on reported quotations in common use and that percentage of the market value of securities of the same class, the trading of which is not restricted or limited by reason of any representation, undertaking or agreement or by law, equal to the percentage that the Fund's acquisition cost was of the market value of such securities at the time of acquisition; provided that a gradual taking into account of the actual value of the securities may be made where the date on which the restriction will be lifted is known;
- (i) all Fund property valued in a foreign currency and all liabilities and obligations of the Fund payable by the Fund in foreign currency shall be converted into Canadian dollars by applying the rate of exchange obtained from the best available sources to the Trustee; and
- (j) the value of any security or property to which, in the opinion of the Trustee, the above valuation principles cannot be applied shall be the fair value thereof determined in such manner as the Trustee 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. On September 14, 2011, Mulvihill Capital Management Inc. changed its name to Strathbridge Asset Management Inc. Strathbridge is controlled by John P. Mulvihill.

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

As investment manager, the Manager makes all investment decisions for the portfolio including the writing, purchase and sale of all option contracts in accordance with the investment objectives, investment strategies and investment restrictions of the Fund. Decisions as to the purchase and sale of securities in the portfolio and as to the execution of all portfolio and other transactions are also made by the Manager. In the purchase and sale of securities for the Fund and the trading of option contracts, the Manager seeks to obtain overall services and prompt execution of orders on favourable terms.

The Manager shall exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of the Fund, and in connection therewith, shall exercise the degree of care, diligence and skill that a reasonably prudent manager would exercise in comparable circumstances. The Trust Agreement provides that neither the Manager nor any officer, director or agent thereof shall be liable in any way to the Fund or any Unitholder for any default, failure or defect in any of the securities of the Fund. The Manager will, however, incur liability in cases of wilful misconduct, bad faith, negligence or breach of its obligations under the Trust Agreement.

The Manager may resign as manager of the Fund upon 60 days' notice in writing to the Trustee and to Unitholders or upon such lesser notice period as the Trustee may accept. If the Manager resigns it may appoint its successor but its successor must be approved by a two-thirds majority vote of the Unitholders. However, such notice and Unitholder approval are not required if the successor manager is an affiliate of the Manager. If the Manager has committed certain events of bankruptcy or insolvency or 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 the Manager, the Trustee shall give notice thereof to the Unitholders and the Unitholders may direct the Trustee to remove the Manager and appoint a successor manager.

The Manager is entitled to fees for its services under the Trust Agreement and will be reimbursed for all reasonable costs and expenses incurred by it on behalf of the Fund. See "Fees and Expenses". In addition, the Manager, its affiliates and its agents, and the directors, officers and employees of any of them, 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 the Manager or its affiliates and its agents, and the directors, officers and employees of any of them, in the exercise of its duties as manager, except those resulting from the Manager's wilful misconduct, bad faith, negligence, a breach of its obligations under the Trust Agreement or its failure to meet its standard of care set out in 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 Strathbridge**

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

<b>Name and Municipality of Residence</b>	<b>Principal Office Held and 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
John P. Mulvihill Jr. Toronto, Ontario	Vice-President and Director
Peggy Shiu Toronto, Ontario	Vice-President and Chief Compliance Officer
Jack Way Toronto, Ontario	Vice-President
Jeff Dobson Milton, Ontario	Vice-President
Aaron Ho Richmond Hill, Ontario	Vice-President

Each of the officers and directors listed above, other than Peggy Shiu and John P. Mulvihill Jr., have held their position with Strathbridge or an affiliate during the five years preceding the date hereof. Peggy Shiu joined Strathbridge in April 1995 and was made Chief Compliance Officer on July 11, 2011. John P. Mulvihill Jr. joined Strathbridge in April 2008 and became Vice-President and Director on March 1, 2016.

### **The Investment Manager**

Strathbridge manages the Fund's investment portfolio in a manner consistent with the investment objectives, strategy and restrictions of the Fund pursuant to the Trust Agreement.

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

**John P. Mulvihill**, Chairman, President, Chief Executive Officer, Secretary and Director of Strathbridge, is the senior portfolio manager of Strathbridge and has over 40 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.

**John P. Mulvihill Jr.**, Vice-President and Director of Strathbridge, has been with Strathbridge since April 2008 working with the portfolio management group specializing in metals and mining companies.

**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 and Chief Compliance Officer, 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.

## **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. As at March 7, 2016, to the knowledge of the Manager, no person owned beneficially, directly or indirectly, more than 10% of the Units of the Fund.

As at March 7, 2016, 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 beneficially owned, in aggregate, less than 10% of the outstanding Units of the Fund.

As of March 7, 2016, John P. Mulvihill owned of record and beneficially 95,073 shares (100%) of Mulvihill Capital Inc. which is the sole shareholder of Strathbridge.

## FUND GOVERNANCE

### Independent Review Committee

Under NI 81-107, all publicly offered investment funds, including the Fund, are required to establish an 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 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, 2015 was \$6,918.

### 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:

<b>Name and Municipality of Residence</b>	<b>Principal Occupation</b>
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

<sup>(1)</sup> 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 has served as a member of the Advisory Board since its initial public offering. Each member of the Advisory Board has been appointed by the Manager and will serve until his 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, the Fund's Manager, administers many functions associated with the operations of the Fund pursuant to the Trust Agreement. Under the Trust Agreement, Strathbridge is responsible for certain day to day operations of the Fund including the payment of distributions on its Units and attending to the redemption of Units in accordance with their terms.

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

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 P. Mulvihill, John D. Germain, Jack Way, Peggy Shiu and John P. 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 Unitholders may only redeem their Units on notice for payment not more frequently than monthly, they cannot engage in short-term trading of the Fund's securities with the Fund and the Fund has no policies and procedures in relation to such activities.

### **Proxy Voting Policy**

The Fund has adopted the following proxy guidelines (the "Proxy Guidelines") with respect to the voting of proxies received by it relating to voting securities held by the Fund. The Proxy Guidelines establish standing policies and procedures for dealing with routine matters, as well as the circumstances under

which deviations may occur from such standing policies. A general description of certain such policies is outlined below.

(a) *Auditors*

The Fund will generally vote for proposals to ratify the auditor except where non-audit-related fees paid to such auditor 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) *Constating Documents*

The Fund will generally vote for changes to constating 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 Unitholders, 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, Unitholders can contact us at 1-800-725-7172 or info@strathbridge.com.

## **TRUSTEE AND CUSTODIAN**

RBC Investor Services Trust is the trustee of the Fund and acts as custodian (the “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 the NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund in relation to the portfolio.

The Trustee may resign upon 60 days’ notice to Unitholders and Strathbridge. The Trustee may be removed with the approval of a two-thirds majority vote cast at a meeting of Unitholders 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 default of its obligations under the Trust Agreement and such default continues for 30 days from the date the Trustee receives notice of such material default from Strathbridge. 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 Unitholders if the Trustee is removed by Unitholders. If no successor has been appointed within 60 days from the date of written notice of such resignation or removal, the Trust Agreement and the Fund will be terminated.

The Trust Agreement provides that the Trustee shall not be liable in carrying out its duties under the Trust Agreement except where it is in breach of its obligations under the Trust Agreement or where the Trustee fails to act honestly and in good faith, and in the best interests of the Fund, or to exercise the degree of care, diligence and skill that a reasonably prudent Canadian trust company would exercise in comparable circumstances. In addition, the Trust Agreement contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee and its agents and the directors, officers and employees of either of them in respect of certain liabilities incurred in carrying out their duties.

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.

## **REGISTRAR AND TRANSFER AGENT**

Computershare Investor Services Inc. provides the Fund with registrar, transfer and distribution agency services in respect of the Units from its principal offices in Toronto, Ontario.



## **AUDITOR**

The auditor of the Fund is Deloitte LLP, located at Bay Adelaide Centre, East Tower, 22 Adelaide Street West, Suite 200, Toronto, Ontario, M5H 0A9.

## **TERMINATION OF THE FUND**

The Fund will be terminated at any time (the date on which such time occurs being the “Termination Date”) upon not less than 90 days’ written notice to the Manager from the Trustee, with the approval of a two-thirds majority of Unitholders, such approval to have been received at a duly convened meeting of Unitholders called for the purpose of considering such termination, provided that Unitholders holding at least 10% of the Units outstanding on the record date of the meeting vote in favour of such termination.

The Manager, may, in its discretion, terminate the Fund without the approval of Unitholders if, in the opinion of the Manager after consulting with the Advisory Board, the NAV of the Fund has been reduced as a result of redemptions or otherwise such that it is no longer economically feasible to continue the Fund and it would be in the best interests of the Unitholders to terminate the Fund. In such circumstances, the Manager will provide at least 30 and no more than 60 days’ notice to Unitholders of the Termination Date and will issue a press release at least ten days in advance thereof.

Immediately prior to the Termination Date, Strathbridge will, to the extent possible, convert the assets of the Fund to cash and the Trustee shall, after paying or making adequate provision for all of the Fund’s liabilities, distribute the net assets of the Fund to Unitholders on a *pro rata* basis as soon as practicable after the Termination Date.

## **FEES AND EXPENSES**

### ***Management and Investment Management Fees***

Strathbridge is entitled to a fee at an annual rate of 1.0% of the NAV of the Fund for its services as manager and investment manager of the Fund. Fees payable to Strathbridge are calculated and payable monthly based on the NAV as at the Redemption Date of each month.

### ***Service Fee***

The Fund pays a service fee (the “Service Fee”) to each dealer whose clients hold Units. The Service Fee is calculated and paid at the end of each calendar quarter and will be equal to 0.40% annually of the NAV of the Units held by clients of the dealer. The Fund may, from time to time, pay the Service Fee more frequently than quarterly, in which event the Service Fee will be *pro rated* for the period to which it relates.

### ***Operating Expenses***

The Fund pays for all expenses incurred in connection with the operation and administration of the Fund. It is expected that these expenses will include, without limitation: (a) mailing and printing expenses for periodic reports to Unitholders; (b) fees payable to the Trustee for acting as trustee and custodian of the assets of the Fund and performing certain administrative services under the Trust Agreement; (c) fees payable to the Transfer Agent with respect to the Units; (d) fees payable to members of the Advisory Board and the IRC of the Fund; (e) fees payable to the auditor and legal advisors of the Fund; (f) regulatory filing, stock exchange and licensing fees; (g) website maintenance costs; and (h) expenditures incurred upon the termination of the Fund. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which Strathbridge is entitled to an indemnity by the Fund. The Fund will also be responsible for all commissions and other costs of securities transactions and any

extraordinary expenses which may be incurred by it from time to time. All such expenses are subject to an independent audit and report thereon to the Trustee and Strathbridge will provide reasonable access to its books and records for such purpose.

## **INCOME TAX CONSIDERATIONS**

The following is a summary of the principal Canadian federal income tax considerations generally relevant to a Unitholder who is an individual (other than a trust) and who, for the purposes of the Tax Act, is resident in Canada, deals at arm's length with the Fund, is not affiliated with the Fund, and holds such Units as capital property. Generally, Units will be considered to be capital property to a Unitholder provided the Unitholder does not hold the Units in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to have their Units and all other "Canadian securities" owned or subsequently owned by them, treated as capital property by making an irrevocable election in accordance with the Tax Act.

This summary is also based on the assumption that the Fund will at all times comply with its investment restrictions. This summary assumes that the Fund will at no time be a SIFT trust as defined in the Tax Act.

This summary is based on the current provisions of the Tax Act and the regulations, an understanding of the current published administrative policies and assessing practices of Canada Revenue Agency ("CRA") and all specific proposals to amend the Tax Act and regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (such proposals being referred to as the "Tax Proposals"). This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial action; nor does it take into account other federal or any provincial, territorial or foreign income tax legislation or considerations. There can be no assurance that the Tax Proposals will be enacted in the form publicly announced or at all.

**This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Units and does not describe the income tax consequences relating to the deductibility of interest on money borrowed to acquire Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary depending on an investor's particular circumstances including the province or territory in which the investor resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any investor. Investors should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Units, based on their particular circumstances.**

### **Status of the Fund**

This summary is based on the assumptions that the Fund has qualified and will continue to qualify at all relevant times as a "mutual fund trust" within the meaning of the Tax Act. To qualify as a mutual fund trust, (a) the Fund must be a Canadian resident "unit trust" for purposes of the Tax Act; (b) the only undertaking of the Fund must be the investing of its funds in property (other than certain real property or interests in certain real property); and (c) the Fund must comply with certain minimum requirements respecting the ownership and dispersal of Units.

If the Fund were not to qualify as a mutual fund trust at all relevant times, the income tax considerations as described below would in some respects be materially and adversely different.

## **Taxation of the Fund**

The Fund will be subject to tax in each taxation year under Part I of the Tax Act on the amount of its income for the year, including net realized taxable capital gains, less the portion that it claims in respect of the amount paid or payable to Unitholders in the year. An amount will be considered to be payable to a Unitholder in a taxation year if it is paid in the year by the Fund or the Unitholder is entitled in that year to enforce payment of the amount.

In computing its income for a taxation year, the Fund will be required to include all dividends received in the year on shares of corporations. It will also be required to include all interest on debt securities it holds that accrues or is deemed to accrue to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a previous taxation year.

Generally, the Fund will include gains and deduct losses on income account in connection with investments made through derivative securities, except where such derivatives are used to hedge, and are sufficiently linked with, portfolio securities held on capital account, and will recognize such gains and losses for tax purposes at the time they are realized.

Gains or losses realized upon dispositions of portfolio securities of the Fund 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. Accordingly, the Fund will treat gains (or losses) as a result of any disposition of portfolio securities as capital gains (or capital losses) or, depending on the circumstances, may include the full amount of such gains in (or deduct the full amount from) income.

The Fund is subject to the suspended loss rules contained in the Tax Act. A loss realized on a disposition of capital property is considered to be a suspended loss when the Fund acquires a property (a “substituted property”) that is the same or identical to the property disposed of, within 30 days before and 30 days after the disposition and the Fund owns the substituted property 30 days after the original disposition. If a loss is suspended, the Fund cannot deduct the loss from the Fund’s capital gains until the substituted property is sold and is not reacquired within 30 days before and after the sale.

Premiums received on covered call options and cash-covered put options written by the Fund that are not exercised prior to the end of the year will constitute capital gains of the Fund in the year received, unless such premiums are received by the Fund as income from a business of buying and selling securities or the Fund has engaged in a transaction or transactions considered to be an adventure in the nature of trade. The Fund has purchased the portfolio with the objective of earning dividends over the life of the Fund, will write covered call options with the objective of increasing the yield on the portfolio beyond the dividends received on the portfolio and will write cash-covered put options to increase returns and to reduce the net cost of purchasing securities upon the exercise of put options. Thus, having regard to the foregoing and in accordance with the CRA’s published administrative practice, option transactions undertaken by the Fund in respect of securities in the portfolio will be treated and reported by the Fund as arising on capital account.

Premiums received by the Fund on covered call (or cash-covered put) options that are subsequently exercised will be added in computing the proceeds of disposition (or deducted in computing the adjusted cost base) to the Fund of the securities disposed of (or acquired) by the Fund upon the exercise of such call (or put) options. In addition, where the premium was in respect of an option granted in a previous year so that it constituted a capital gain of the Fund in the previous year, such capital gain may be reversed.

The Fund's investment portfolio may include securities that are not denominated in Canadian dollars. Proceeds of disposition of securities, distributions, interest and all other amounts will be determined for the purposes of the Tax Act in Canadian dollars. The Fund may realize gains or losses by virtue of the fluctuation in the value of foreign currencies relative to Canadian dollars.

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

In computing its income for tax purposes, the Fund may deduct reasonable administrative and other expenses incurred to earn income. The Fund may generally deduct any costs and expenses of the initial public offering paid by the Fund and not reimbursed at a rate of 20% per year, pro-rated where the Fund's taxation year is less than 365 days.

The Fund intends to deduct, in computing its income in each taxation year, the full amount available for deduction in each year and, therefore, provided the Fund makes distributions in each year of its net income and net realized capital gains as described under "Units – Distributions", it will generally not be liable in such year for income tax under Part I of the Tax Act.

### **Taxation of Holders**

A Unitholder will generally be required to include in computing income for a taxation year the amount of the Fund's net income for the taxation year, including net realized taxable capital gains, paid or payable to the Unitholder (whether in cash or in Units) in the taxation year including any portion of amounts paid on redemption treated as distributions of income or gains by the Fund. The non-taxable portion of the Fund's net realized capital gains paid or payable to a Unitholder in a taxation year will not be included in the Unitholder's income for the year and will not reduce the adjusted cost base of the Unitholder's Units. Any other amount in excess of the Fund's net income for a taxation year paid or payable to the Unitholder in the year will not generally be included in the Unitholder's income. Such amount, however, will generally reduce the adjusted cost base of the Unitholder's Units. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder's adjusted cost base will be increased by the amount of such deemed capital gain.

Provided that appropriate designations are made by the Fund, such portion of: (a) the net realized taxable capital gains of the Fund, (b) income of the Fund from foreign sources, and (c) taxable dividends (including eligible dividends) received on shares of taxable Canadian corporations, as are paid or payable to a Unitholder, will effectively retain their character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. A taxable Unitholder will generally be entitled to foreign tax credits in respect of foreign taxes under and subject to detailed foreign tax credit rules under the Tax Act and depending upon other foreign source income or loss of and foreign taxes paid by the Unitholder. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the normal gross-up and dividend tax credit rules applicable to such dividends (including eligible dividends) will apply.

Under the Tax Act, the Fund is permitted to deduct in computing its income for a taxation year an amount that is less than the amount of its distributions for the year. This will enable the Fund to utilize, in a taxation year, losses from prior years. The amount distributed to a Unitholder but not deducted by the Fund will not be included in the Unitholder's income. However, the adjusted cost base of the Unitholder's Units will be reduced by such amount.

On the disposition or deemed disposition of a Unit, including a redemption, the Unitholder will realize a capital gain (or capital loss) to the extent that the Unitholder's proceeds of disposition, excluding any portion of amounts paid on redemption treated as distributions of income or gains by the Fund, exceed (or are less than) the aggregate of the adjusted cost base of the Unit and any reasonable costs of disposition. For the purpose of determining the adjusted cost base of Units to a Unitholder, when Units are acquired, the cost of the newly acquired Units will be averaged with the adjusted cost base of all Units owned by the Unitholder as capital property immediately before that time. The cost of Units acquired as a distribution of income or capital gains will generally be equal to the amount of the distribution. A consolidation of Units following a distribution paid in the form of additional Units will not be regarded as a disposition of Units and will not affect the aggregate adjusted cost base to a Unitholder of Units.

In general, the adjusted cost base of all Units held by a Unitholder is the total amount paid for the Units, regardless of when the Unitholder bought them, less any non-taxable distributions (other than the non-taxable portion of capital gains) such as a return of capital and less the adjusted cost base of any Units of the Fund previously disposed of by the Unitholder.

One-half of any capital gain realized on the disposition of Units will be included in the Unitholder's income as a taxable capital gain and one-half of any capital loss realized by the Unitholder may be deducted from taxable capital gains in accordance with the provisions of the Tax Act.

### **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 (including having regard to proposed amendments to the Tax Act issued by the Department of Finance on December 21, 2012) in this regard.

### **RISK FACTORS**

An investment in the Fund 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 Units of the Fund which investors should consider before purchasing such securities.

## **Concentration Risk**

The Fund was created to invest primarily in the securities of large capitalization issuers listed in the U.S. and is not expected to have significant exposure to any other investments or assets. The Fund will invest at least 75% of its assets in equity securities of issuers selected from the S&P 100 Index that have a Beta of less than 1.0.

## **Portfolio Securities**

The NAV per Unit will vary as the value of the securities in the portfolio varies. At any time, the issuers in the 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 its portfolio, 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 the Units does not constitute an investment in the securities of the issuers in the portfolio. Holders of the Units will not own the securities held by the Fund and will not have any voting or other rights with respect to such securities.

## **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 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 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.

## **No Assurances of Achieving Investment Objectives**

There is no assurance that the Fund will be able to achieve its distribution or capital preservation objectives. There is no assurance that the Fund will be able to pay distributions. The funds available for distribution to Unitholders will vary according to, among other things, the dividends and distributions paid on the securities in the portfolio, the level of option premiums received and the value of the securities comprising the 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 distributions, 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. The Beta of a security in the portfolio will be less than 1.0 when included in the Investment Universe, however, since the Investment Universe will be reconstituted annually there may be times that the Beta of a portfolio security exceeds 1.0.

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

The Fund is subject to the full risk of its investment position in the securities comprising its 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 securities that are subject to outstanding call options above the strike price of the options.

The use of options may have the effect of limiting or reducing the total returns of the Fund if the Manager's expectations concerning future events or market conditions prove to be incorrect. In such circumstances, the Fund may have to increase the percentage of the portfolio that is subject to covered call options to meet its targeted distributions. In addition, the premiums associated with writing covered call options may be outweighed by the foregone opportunity of remaining invested directly in the securities comprising the portfolio.

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 that 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 that 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.

## **Currency Hedging**

Currency hedges entail a risk of illiquidity and, to the extent that the U.S. dollar appreciates in Canadian dollar terms, the risk that the use of hedges could result in losses greater than if the hedging had not been used. Hedging arrangements may have the effect of limiting or reducing the total returns to the Fund if the Manager's expectations concerning future events or market conditions prove to be incorrect. In addition, the costs associated with a hedging program may outweigh the benefits of the arrangements in such circumstances. Currency hedges also involve the risk of the possible default by the other party to the transaction (whether a clearing corporation in the case of exchange-traded instruments or other third party in the case of over-the-counter instruments) in that it may be unable to meet its obligations.

## **Reliance on the Manager**

Strathbridge manages the portfolio of the Fund in a manner consistent with the investment objectives, the investment strategies and the investment restrictions of the Fund. The officers of Strathbridge who are primarily responsible for the management of the 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.

## **Status of the Fund for Securities Law Purposes**

The Fund is not a "mutual fund" for Canadian securities law purposes. As a result, some of the protections provided to investors in mutual funds under such laws will not be available to Unitholders and

certain restrictions imposed on mutual funds under Canadian securities laws, including NI 81-102, do not apply to the Fund. See “Investment Restrictions”.

### **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.

### **Interest Rate Fluctuations**

It is anticipated that the market price of the Units will be affected by the prevailing level of interest rates. A rise in interest rates may have a negative effect on the market price of the Units.

### **Trading at a Discount**

The Fund cannot predict whether the Units will trade above, at or below their NAV per Unit.

### **Significant Redemptions**

Units are redeemable monthly based on market price and, commencing in August 2014, 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 redemption). The purpose of the annual redemption right is to prevent the Units from trading at a substantial discount to the NAV per Unit and to provide Unitholders with the right to realize their investment once per year without any trading discount to such value. While the annual redemption right provides Unitholders the option of annual liquidity, there can be no assurance that it will reduce trading discounts. If a significant number of Units is redeemed, the trading liquidity of the Units could be significantly reduced. In addition, the expenses of the Fund would be spread among fewer Units potentially resulting in a lower NAV per Unit. Other closed-end funds with annual redemption rights similar to the redemption rights in respect of the Units have experienced significant redemptions on annual redemption dates in the past.

### **Withholding Tax**

The Fund will be investing in securities of foreign issuers and at the date hereof would be subject to foreign withholding tax. The return of the Fund will be net of such foreign withholding tax. There is no guarantee that the rate of withholding tax will not increase which may significantly affect results.

### **Status of the Fund for Securities Law Purposes**

The Fund is not a “mutual fund” for Canadian securities law purposes. As a result, some of the protections provided to investors in mutual funds under such laws will not be available to Unitholders and restrictions imposed on mutual funds under Canadian securities laws, including NI 81-102, do not apply to the Fund. See “Investment Restrictions”.

### **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 Unitholders.



## **Taxation of the Fund**

The Fund will be subject to certain tax risks generally applicable to investment funds that hold Canadian and/or non-Canadian securities, including the following.

On October 31, 2003 the Department of Finance announced a Tax Proposal relating to the deductibility of losses under the Tax Act. Under this Tax Proposal, a taxpayer will be considered to have a loss from a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, or can reasonably be expected to carry on, the business or has held, or can reasonably be expected to hold, the property. Profit, for this purpose, does not include capital gains or capital losses. If such Tax Proposal were to apply to the Fund, deductions that would otherwise reduce the Fund's taxable income could effectively be denied, with after-tax returns to Unitholders reduced as a result. On February 23, 2005, the Minister of Finance (Canada) announced that an alternative proposal to replace such Tax Proposal would be released for comment. This proposal has not been released as of the date hereof. There can be no assurance that such alternative proposal will not adversely affect the Fund.

If the Fund ceases to qualify as a mutual fund trust under the Tax Act, the income tax considerations described under the heading "Income Tax Considerations" would be materially and adversely different in certain respects.

The Fund uses derivative instruments for converting non-Canadian currency exposure to the Canadian dollar. In accordance with the published administrative practice of the CRA, gains or losses realized on derivatives by virtue of the fluctuation of foreign currencies against the Canadian dollar will, where such derivatives are sufficiently linked with and hedge currency exposure in respect of, underlying securities, be treated and reported for purposes of the Tax Act on capital or income account depending on the nature of the securities to which the hedge is linked and designations with respect to its income and capital gains will be made and reported to Unitholders on this basis.

In determining its income for tax purposes, the Fund will treat option premiums received on the writing of covered call options and cash-covered put options and any losses sustained on closing out options as capital gains and capital losses in accordance with 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 some or all of the transactions undertaken by the Fund in respect of derivatives, covered options and securities in the portfolio are reported on capital account but are subsequently determined to be on income account, the net income of the Fund for tax purposes and the taxable component of distributions to Unitholders could increase. Any such redetermination by the CRA may result in the Fund being liable for unremitted withholding taxes on prior distributions made to Unitholders who were not resident in Canada for the purposes of the Tax Act at the time of the distribution. Such potential liability may reduce NAV, NAV per Unit and/or the trading prices of the Units.

The Fund is formed to provide investors with exposure to portfolio investments and is subject to investment restrictions intended to ensure that it will not be a SIFT trust (as defined in the Tax Act). 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 "Income Tax Considerations" would be materially and adversely different in certain respects.

Rules in the Tax Act applicable to "loss restriction events" (as defined in the Tax Act) 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

Units having a fair market value that is greater than 50% of the fair market value of all the 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 Unitholders as a distribution on their Units (or tax thereon paid by the Fund in respect of such year).

#### **United States Foreign Account Tax Compliance Act**

In 2010, the United States enacted legislation, generally referred to as the “Foreign Account Tax Compliance Act” (“FATCA”). On February 5, 2014, the United States and Canada entered into the Canada-United States Enhanced Tax Information Exchange Agreement (the “IGA”), which modifies the application of FATCA to certain Canadian entities including registered brokers and dealers and certain investment entities. On June 19, 2014, Canada enacted amendments to the Tax Act to implement the IGA as part of Canadian law. These amendments were added as Part XVIII of the Tax Act. The dealers through which Unitholders hold their Units are subject to registration, information collection and reporting obligations contained in Part XVIII of the Tax Act and the IGA with respect to “financial accounts” such dealers maintain for their clients. Unitholders will generally be requested to provide their dealer with information related to their citizenship, residency and, if applicable, a U.S. federal tax identification number. If a Unitholder is a U.S. person (including a U.S. citizen or green card holder who is resident in Canada) or if a Unitholder does not provide the requested information, Part XVIII of the Tax Act and the IGA will generally require information about the Unitholder’s investment in the Fund to be reported to the Canada Revenue Agency, unless the investment is held within a Registered Plan. The Canada Revenue Agency is expected to provide that information to the United States Internal Revenue Service. Prospective Unitholders should consult their independent tax advisor regarding the potential effect of the FATCA rules to an investment in the Fund.

#### **MATERIAL CONTRACTS**

The Trust Agreement can reasonably be regarded as material to holders of Units. A copy of the Trust Agreement may be inspected during business hours at the principal office of the Fund.

## **ADDITIONAL INFORMATION**

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

You can get a copy of these documents at no cost by calling toll-free at 1-800-725-7172 or by e-mail at [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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**LOW VOLATILITY U.S. EQUITY INCOME FUND**