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*These securities have not been and will not be registered under the United States Securities Act of 1933, as amended, and, subject to certain exemptions, will not be offered or sold within the United States or to U.S. persons.*

## PROSPECTUS

Initial Public Offering

September 27, 2012



### PICTON MAHONEY TACTICAL INCOME FUND

**Maximum \$175,000,000 (17,500,000 Units (Class A Units and Class F Units))**

**Price: \$10.00 per Unit**

Picton Mahoney Tactical Income Fund (the “**Fund**”) is a closed-end investment fund established as a trust under the laws of the Province of Ontario that proposes to issue Class A Units and Class F Units (collectively, the “**Units**” and each, a “**Unit**”) of the Fund at a price of \$10.00 per Unit (the “**Offering**”). Class F Units are designed for clients of registered brokers, dealers and advisors with fee-based accounts and will not be listed on a stock exchange but may be converted into Class A Units on a weekly basis for liquidity purposes. See “Attributes of the Units – Conversion of Units”.

The investment objectives of the Fund are:

- (i) to provide holders of Units (“**Unitholders**”) with sustainable tax-advantaged monthly distributions;
- (ii) to preserve capital and mitigate risk with less volatility and less correlation to high-yield and equity markets; and
- (iii) to maximize total return to Unitholders through distributions and capital appreciation,

in each case through exposure to a diversified portfolio of income producing securities (the “**Portfolio**”) which will be actively managed by Picton Mahoney Asset Management. The Fund will obtain economic exposure to the Portfolio through a forward agreement (the “**Forward Agreement**”). The return to the Fund will, by virtue of the Forward Agreement, be based on the performance of the IS Trust (as defined below), a newly created investment trust that will acquire the Portfolio. As the Fund will partially pre-settle the Forward Agreement to fund distributions, it is expected that such distributions will be comprised primarily of returns of capital and capital gains and, accordingly, such distributions are described as tax-advantaged. See “Investment Objectives” and “Overview of the Investment Structure – Forward Agreement”.

Amounts distributed on the Units that represent returns of capital are generally not subject to tax but will reduce the Unitholders’ adjusted cost base for tax purposes. See “Income Tax Considerations”. For the Fund’s initial targeted distributions, see “Distribution Policy”.

The Portfolio will be tactically managed and its composition will vary depending on market conditions but will primarily consist of long and short positions in high-yield and investment grade bonds and, to a more limited extent, government bonds, convertible bonds, preferred shares and dividend paying equities, with a focus on North American issuers. In selecting securities for the Portfolio, the Portfolio Manager (as defined below) will focus on securities that it believes will maximize risk-adjusted returns and preserve capital to build a portfolio with less volatility and less correlation to the broader markets in which the Portfolio Manager will invest. See “Investment Strategies”.

Picton Mahoney Asset Management will act as the manager and the portfolio manager (in such capacity, the “**Manager**”) of the Fund and as the manager and the portfolio manager (in such capacity, the “**Portfolio Manager**”) and the trustee of the Income Strategies Trust (the “**IS Trust**”). See “Organization and Management Details of the Fund” and “Organization and Management Details of the IS Trust”.

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**Price: \$10.00 per Unit**

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**Minimum Purchase: \$5,000**  
**(500 Class A Units or Class F Units)**

	<u>Price to the Public<sup>(1)</sup></u>	<u>Agents' Fees</u>	<u>Net Proceeds to the Fund<sup>(2)</sup></u>
Per Class A Unit.....	\$10.00	\$0.525	\$9.475
Per Class F Unit .....	\$10.00	\$0.225	\$9.775
Total Minimum Offering <sup>(3)</sup> .....	\$25,000,000	\$1,312,500	\$23,687,500
Total Maximum Offering <sup>(3)(4)</sup> .....	\$175,000,000	\$9,187,500	\$165,812,500

Notes:

- (1) The offering price was established by negotiation between the Manager and the Agents (as defined herein).
- (2) Before deducting the expenses of the Offering, estimated to be \$800,000 (and subject to a maximum of 1.5% of the gross proceeds of the Offering), which, together with the Agents' fees, will be paid by the Fund from the proceeds of the Offering.
- (3) There will be no closing unless at least 2,500,000 Class A Units are sold. If subscriptions for a minimum of 2,500,000 Class A Units have not been received within 90 days following the date of issuance of a receipt for this prospectus, this Offering may not continue and subscription proceeds will be returned to subscribers without interest or deduction unless an amendment to this prospectus is filed and receipted.
- (4) The Fund has granted the Agents an option (the "**Over-Allotment Option**"), exercisable for a period of 30 days following the closing of the Offering (the "**Closing**"), to purchase additional Class A Units in an amount up to 15% of the aggregate number of Class A Units issued at the Closing on the same terms as set forth above. If the Over-Allotment Option is exercised in full, under the maximum Offering, the price to the public, the Agents' fees and the net proceeds to the Fund, before deducting the expenses of the Offering, will be \$201,250,000, \$10,565,625 and \$190,684,375, respectively (assuming only Class A Units are sold). This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Class A Units issuable on the exercise of the Over-Allotment Option. A purchaser who acquires Class A Units forming part of the Agents' over-allocation position acquires those Class A Units under this prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "Plan of Distribution".

**There is no guarantee that an investment in the Fund will earn any positive return in the short or long term nor is there any guarantee that the Fund's investment objectives will be achieved or that the net asset value per Unit will appreciate or be preserved. An investment in Units is appropriate only for investors who have the capacity to absorb investment losses. There are certain risks associated with an investment in Units, including the IS Trust's use of leverage. Prospective investors should read carefully the risk factors described in the prospectus. There is no market through which the Units may be sold and purchasers may not be able to resell securities purchased under this prospectus. This may affect the pricing of the Units in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See "Risk Factors" for a discussion of certain factors that should be considered by prospective purchasers of Units. The Toronto Stock Exchange (the "TSX") has conditionally approved the listing of the Class A Units. The listing is subject to the Fund fulfilling all of the TSX requirements on or before December 11, 2012, including distribution of Class A Units to a minimum number of public holders.**

In the opinion of McMillan LLP, counsel to the Fund, and Stikeman Elliott LLP, counsel to the Agents, provided that, at all relevant times, the Fund qualifies as a "mutual fund trust" within the meaning of the Tax Act (as defined herein), Units will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered disability savings plans, registered education savings plans and tax-free savings accounts. See "Income Tax Considerations – Status of the Fund".

**The Fund is not a trust company and, accordingly, is not registered under the trust company legislation of any jurisdiction. Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* and are not insured under provisions of that Act or any other legislation.**

RBC Dominion Securities Inc., CIBC World Markets Inc., TD Securities Inc., BMO Nesbitt Burns Inc., Macquarie Private Wealth Inc., National Bank Financial Inc., Scotia Capital Inc., GMP Securities L.P., Canaccord Genuity Corp. and Raymond James Ltd. (collectively, the "**Agents**") have agreed to conditionally offer the Units, subject to prior sale, on a best efforts basis, if, as and when issued by the Fund and accepted by the Agents in accordance with the conditions contained in the agency agreement among the Fund, the Manager and the Agents (the "**Agency Agreement**") referred to under "Plan of Distribution", and subject to the approval of certain legal matters by McMillan LLP on behalf of the Fund and Stikeman Elliott LLP on behalf of the Agents. The Agents may over-allot and effect transactions to cover their over-allotted portion. See "Plan of Distribution".

**The Fund will enter into the Forward Agreement with the Counterparty, which will be a Canadian chartered bank and may be an affiliate of one of the Agents. Accordingly, the Fund may be considered to be a "connected issuer" of such Agent. See "Plan of Distribution".**

Subscriptions will be received for the Units offered hereby, subject to rejection or allotment, in whole or in part, and the right is reserved to close the subscription books at any time without notice. Registrations of interests in and transfers of Units will be made only through the book-based system administered by CDS. A purchaser of Units will receive a customer confirmation from

the registered dealer from or through which the Units are purchased and will not have the right to receive physical certificates evidencing their ownership in the Units. Closing of the Offering is expected to occur on or about October 18, 2012 but in any event not later than 90 days after a final receipt for this prospectus has been issued. See “Attributes of the Units”.

A receipt for a prospectus of the IS Trust will be obtained from each of the Ontario Securities Commission and the Autorité des marchés financiers in order to enable the IS Trust to become a reporting issuer under the *Securities Act* (Ontario) and *Securities Act* (Québec). The Fund will also deliver a copy of such prospectus to purchasers of Units in the Province of Québec prior to the purchase of Units by any person in the Province of Québec.

Certain capitalized terms used, but not defined in, this summary are defined in the “Glossary of Terms”.

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## PROSPECTUS SUMMARY

*The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Certain capitalized terms used, but not defined in, this summary are defined in the “Glossary of Terms”. Unless otherwise indicated, all references to dollar amounts in this prospectus are to Canadian dollars.*

### THE OFFERING

**Issuer:** Picton Mahoney Tactical Income Fund (the “**Fund**”) is a closed-end investment fund established as a trust under the laws of the Province of Ontario pursuant to a trust agreement dated September 26, 2012 (the “**Trust Agreement**”). See “Overview of the Legal Structure of the Fund”.

**Offering:** The offering (the “**Offering**”) consists of Class A Units (“**Class A Units**”) and Class F Units (“**Class F Units**”), and together with the Class A Units, the “**Units**” and each, a “**Unit**”) of the Fund. The Class F Units are designed for fee-based accounts and differ from the Class A Units in the following ways: (i) Class F Units will not be listed on a stock exchange; (ii) the Agents’ fees payable on the issuance of the Class F Units are lower than the Class A Units; and (iii) a component of the management fee paid by the Fund equal to the Servicing Fee is only payable in respect of the Class A Units. Accordingly, the Net Asset Value per Unit of each class will not be the same as a result of the different fees allocable to each class of Units. See “Fees and Expenses”.

**Maximum Issue:** \$175,000,000 (17,500,000 Units)

**Minimum Issue:** \$25,000,000 (2,500,000 Class A Units)

**Subscription Price:** \$10.00 per Unit

**Minimum Subscription:** \$5,000 (500 Class A Units or Class F Units)

**Investment Objectives:** The investment objectives of the Fund are:

- (i) to provide holders of Units (“**Unitholders**”) with sustainable tax-advantaged monthly distributions;
- (ii) to preserve capital and mitigate risk with less volatility and less correlation to high-yield and equity markets; and
- (iii) to maximize total return to Unitholders through distributions and capital appreciation,

in each case through exposure to a diversified portfolio of income producing securities (the “**Portfolio**”) which will be actively managed by the Portfolio Manager (as defined below under “Portfolio Manager of the IS Trust”).

The Fund will obtain economic exposure to the Portfolio through a forward agreement (the “**Forward Agreement**”). The return to the Fund will, by virtue of the Forward Agreement, be based on the performance of the Income Strategies Trust, a newly created investment trust that will acquire the Portfolio. As the Fund will partially pre-settle the Forward Agreement to fund distributions, it is expected that such distributions will be comprised primarily of returns of capital and capital gains and, accordingly, such distributions are described as tax-advantaged. See “Investment Objectives” and “Overview of the Investment Structure – Forward Agreement”.

Amounts distributed on the Units that represent returns of capital are generally not subject to tax but will reduce the Unitholders’ adjusted cost base for tax purposes. See “Income Tax Considerations”. For the Fund’s initial targeted distributions, see “Distribution Policy”.



**Investment Strategies:***Investment Approach*

The Portfolio will be tactically managed and its composition will vary depending on market conditions but will primarily consist of long and short positions in high-yield and investment grade bonds and, to a more limited extent, government bonds, convertible bonds, preferred shares and dividend paying equities, with a focus on North American issuers. In selecting securities for the Portfolio, the Portfolio Manager (as defined below) will focus on securities that it believes will maximize risk-adjusted returns and preserve capital to build a portfolio with less volatility and less correlation to the broader markets in which the Portfolio Manager will invest. See “Investment Strategies”.

The Portfolio Manager organizes income assets broadly into “Core” or “Plus” classifications and further across the four segments of Rate, Credit, Hybrid and Equity. Core is comprised of government bonds (Rate) and investment grade bonds. Plus is comprised of high-yield bonds (Credit), preferred shares and convertible bonds (Hybrid) and income stocks (Equity). The Portfolio Manager believes that a tactical strategy across these classifications provides diversification benefits.

The Portfolio Manager employs a strategy through the various phases of the economic cycle which aims to seek out opportunities across the universe of income assets. The Portfolio Manager currently believes there is value in higher quality high-yield bonds and lower quality investment grade corporate bonds, specifically, bonds rated single B to BBB by S&P (or the equivalent by a nationally recognized rating agency), as corporate balance sheets are, in its view, generally strong with low leverage, high financial flexibility and historically low default rates.

*Picton Mahoney Investment Process*

The Portfolio Manager utilizes an investment process that combines a quantitative bottom-up approach with fundamental analysis and a top-down overlay. The Portfolio Manager believes this combination creates a highly disciplined and repeatable investment process.

*Risk Management*

The Portfolio Manager may employ short selling and other hedging strategies in an effort to reduce overall Portfolio risk and protect the Portfolio against losses associated with the risks of investing in income assets.

The Portfolio Manager employs the following risk management strategies:

- (1) diversification of the Portfolio by issuer, market capitalization, sector, industry, credit rating and region;
- (2) short selling of government bonds to reduce the interest rate risk inherent in the Portfolio’s investment grade corporate debt positions;
- (3) short selling of corporate bonds to reduce the credit risks, both macro and idiosyncratic, inherent in the Portfolio and, depending upon the stage of economic cycle, to potentially enhance returns;
- (4) purchasing credit, equity, foreign exchange and commodity protection with a view to reducing Portfolio losses from macro-economic driven shocks; and
- (5) managing the relative weighting of long and short positions of the Portfolio.

**Distributions:**

The Fund intends to make monthly cash distributions to Unitholders of record on the last Business Day of each month. Distributions will be paid no later than the 15<sup>th</sup> Business Day following the month for which the distribution is payable. The Fund will not have a fixed distribution, but distributions are initially targeted to be 5% per annum on the subscription price of \$10.00 per Unit (\$0.0417 per Unit per month or \$0.50 per annum). The first distribution will be paid on or before December 14, 2012 to Unitholders of record on November 30, 2012. Commencing in January, 2014, the Fund will announce, at least annually, the expected distribution amount for the following twelve months based, in part, on the assessment of the Manager of anticipated cash flow and anticipated expenses of the Fund and the IS Trust from time to time.

Distributions are intended to be tax-advantaged when compared to those made by a trust that relies on interest or other investment income to pay distributions.

**The amount of monthly distributions may fluctuate and there can be no assurance that the Fund will make any distribution in any particular month.**

Assuming gross proceeds of the Offering are \$100 million and fees and expenses are as described herein, the Portfolio, using leverage of 2:1 (total market value of long positions (not including cash or equivalents, but including leveraged long positions) plus the absolute value of total market value of short positions divided by the Net Asset Value of the IS Trust), would be required to generate an average annual total return of approximately 8%, inclusive of interest and other income, in order for the Fund to generate an average annual total return of approximately 5% per annum on the offering price of \$10.00 per Unit. Based on the anticipated composition of the Portfolio, the Manager expects that the return on the securities included in the Portfolio would be sufficient for the Fund, by virtue of the Forward Agreement, to maintain a stable Net Asset Value for both Class A Units and Class F Units and to fund distributions at the initially targeted level. No assurance can be given with respect to the future return on the securities included in the Portfolio from time to time. **If the return on the Portfolio is less than the amount necessary for the Fund to fund monthly distributions at the then current targeted level through the partial pre-settlement of the Forward Agreement, and the Fund nevertheless chooses to pay such distributions, this will result in a portion of the capital of the Fund being returned to Unitholders and the Net Asset Value per Unit will be reduced.**

If the Fund's net income for tax purposes, including net realized capital gains, for any year, net of any available loss carryforwards from prior years, exceeds the aggregate amount of the regular monthly distributions made in the year to Unitholders, the Fund will also be required to pay one or more special distributions (in either cash or Units) in such year to Unitholders in an amount sufficient to ensure that the Fund will not be liable for income tax on such amounts under the Tax Act (after taking into account all available deductions, credits and refunds). See "Income Tax Considerations".

There can be no assurance given as to the amount of targeted distributions, if any, in the future. There is no assurance that the Fund will meet its investment objectives. See "Distribution Policy" and "Risk Factors".

Subject to obtaining any necessary regulatory approvals, the Fund will make available to Unitholders the opportunity to elect to reinvest distributions from the Fund in additional Units by participating in the Reinvestment Plan. See "Distribution Policy – Distribution Reinvestment Plan".

<b>Manager of the Fund:</b>	Picton Mahoney Asset Management will act as the manager and the portfolio manager (in such capacity, the " <b>Manager</b> ") of the Fund. The Manager is an investment manager focused on equity and fixed income securities investments with approximately US\$6 billion of assets under management as of June 30, 2012. See "Organization and Management of the Fund – The Manager".
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<b>Portfolio Manager of the IS Trust:</b>	Picton Mahoney Asset Management will act as the manager and the portfolio manager (in such capacity, the " <b>Portfolio Manager</b> ") of the IS Trust. See "Organization and Management Details of the IS Trust – The Portfolio Manager".
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<b>The Forward Agreement:</b>	The Fund will obtain exposure to the Portfolio through the Forward Agreement. The Fund will invest the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the " <b>Common Share Portfolio</b> ") acceptable to the Counterparty (as defined herein). The Fund will then enter into the Forward Agreement, the terms of which will be negotiated by the Manager on behalf of the Fund, with a Canadian chartered bank or an affiliate of a Canadian chartered bank whose obligations are guaranteed by a Canadian chartered bank (the " <b>Counterparty</b> ") pursuant to which the Counterparty will agree to pay to the Fund on the scheduled settlement date of the Forward Agreement (the " <b>Forward Termination Date</b> "), as the purchase price for the Common Share Portfolio, an amount based on the value of the units of the IS Trust.
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The return to the Fund and Unitholders will, by virtue of the Forward Agreement, be based on the performance of the IS Trust which, in turn, will be based on the performance of the Portfolio. Neither



the Fund nor the Unitholders will have any ownership interest in the IS Trust or the Portfolio. The Counterparty may choose to purchase and hold units of the IS Trust or enter into other transactions in order to hedge its exposure under the terms of the Forward Agreement to the economic performance of the Portfolio. There is no assurance that the Counterparty will maintain a hedge or will do so with respect to the full amount or term of the Forward Agreement.

The Fund will partially pre-settle the Forward Agreement prior to the Forward Termination Date, among other reasons, in order to fund monthly distributions as well as redemptions of Units by Unitholders from time to time and for payment of expenses of the Fund. See “Overview of the Investment Structure – Forward Agreement”.

**Leverage:** The Portfolio Manager may utilize various forms of leverage including borrowings under loan facilities, margin purchases, short selling and the use of derivative instruments provided that aggregate leverage determined on a daily basis shall not exceed 2.5:1 (total market value of long positions (not including cash or equivalents, but including leveraged long positions) plus the absolute value of total market value of short positions divided by the Net Asset Value of the IS Trust). If at any time aggregate leverage exceeds 2.5:1, the Portfolio Manager will, as soon as practicable thereafter, cause the aggregate leverage to be reduced below 2.5:1. See “Investment Strategies”.

**Foreign Currency Hedging:** The Portfolio is expected to have foreign currency exposure, particularly to the U.S. dollar. The Portfolio Manager will seek to protect investment returns from currency fluctuations by hedging foreign currency exposure. The Portfolio Manager will hedge not less than 70% of the Portfolio’s investments denominated in currencies other than the Canadian dollar back to the Canadian dollar. It is the intention of the Portfolio Manager that initially not less than 90% of the value of the assets of the Portfolio denominated in U.S. dollars will be hedged back to the Canadian dollar. The distributions on securities held in the Portfolio will not be hedged at any time. See “Investment Strategies”.

**Short Sales:** Short selling will be used in the Portfolio to the extent the Portfolio Manager believes it is necessary to reduce overall portfolio risk or if the Portfolio Manager believes there is an opportunity to generate returns from short selling. The degree of short selling will depend on the Portfolio Manager’s assessment of market conditions. The Portfolio Manager may sell short securities of companies or governments or use derivatives to obtain short exposure in the Portfolio. The Portfolio Manager will manage the relative long and short positions in the Portfolio to ensure the Portfolio will not have Net Exposure in excess of 150% or less than 50%, on a daily marked-to-market basis. See “Investment Strategies”.

**Conversion of Units:** A holder of Class F Units may convert Class F Units into Class A Units on a weekly basis in accordance with the Trust Agreement and it is expected that liquidity for the Class F Units will be obtained by means of conversion into Class A Units and the sale of those Class A Units through the facilities of the TSX. Class F Units may be converted in any week on the Conversion Date by delivering a notice and surrendering such Class F Units by 5:00 p.m. (Toronto time) at least five Business Days prior to the Conversion Date. For each Class F Unit so converted, a holder will receive that number of Class A Units equal to the Net Asset Value per Class F Unit as of the close of trading on the Business Day immediately preceding the Conversion Date divided by the Net Asset Value per Class A Unit as of the close of trading on the Business Day immediately preceding the Conversion Date. No fractions of Class A Units will be issued upon any conversion of Class F Units, and any fractional amounts will be rounded down to the nearest whole number of Class A Units. Commencing on April 1, 2013, a holder of Class A Units may convert Class A Units into Class F Units, in accordance with the Trust Agreement, on a Conversion Date by delivering a notice and surrendering such Class A Units by 5:00 p.m. (Toronto time) at least 10 Business Days prior to the relevant Conversion Date. For each Class A Unit so converted, a holder will receive that number of Class F Units equal to the Net Asset Value per Class A Unit as of the close of trading on the relevant Conversion Date divided by the Net Asset Value per Class F Unit as of the close of trading on such Conversion Date. No fractions of Class F Units will be issued upon conversion of Class A Units. Any fractional amounts will be rounded down to the nearest whole number of Class F Units. Based in part on the current published administrative policies and assessing practices of the CRA, the Manager

understands that a conversion of Class F Units into Class A Units or Class A Units into Class F Units will not constitute a disposition of the Class F Units or Class A Units for the purposes of the Tax Act. See “Attributes of the Units – Conversion of Units”.

**Redemptions  
of Units:**

**Annual Redemption Right:** Units may be redeemed at the option of Unitholders on the Annual Redemption Date of each year, commencing in April, 2014. Units so redeemed will be redeemed at a redemption price equal to the Net Asset Value per Unit of the applicable Class on the Annual Redemption Date, less any costs associated with the redemption, including commissions and other such costs, if any, related to the partial pre-settlement of the Forward Agreement to fund such redemption. The Units must be surrendered for redemption at least 20 Business Days prior to the Annual Redemption Date. Payment of the proceeds of redemption will be made on or before the 15<sup>th</sup> Business Day of the following month.

**Monthly Redemption Right:** Units may be redeemed at the option of Unitholders on a Monthly Redemption Date, subject to certain conditions. In order to effect such a redemption, the Units must be surrendered by no later than 5:00 p.m. (Toronto time) on the date which is the 10th Business Day of the month preceding the Monthly Redemption Date. Payment of the redemption price will be made on or before the 15<sup>th</sup> Business Day of the month following the Monthly Redemption Date, subject to the Manager’s right to suspend redemptions in certain circumstances. Unitholders surrendering a Class A Unit for redemption, except in connection with the Annual Redemption Date, will receive the redemption price per Class A Unit equal to the lesser of (i) 95% of the weighted average trading price of the Class A Units on the principal exchange or market on which the Class A Units are quoted for trading for the 10 Business Days immediately preceding the applicable Monthly Redemption Date and (ii) 100% of the Closing Market Price of a Class A Unit on the applicable Monthly Redemption Date, less, in each case, any costs and expenses incurred by the Fund in order to fund such redemption including costs, if any, related to the partial pre-settlement of the Forward Agreement (the “**Monthly Redemption Amount**”). Unitholders surrendering a Class F Unit for redemption, except in connection with an Annual Redemption Date, will receive the redemption price per Class F Unit equal to the product of (i) the Monthly Redemption Amount, and (ii) a fraction, the numerator of which is the most recently calculated Net Asset Value per Class F Unit and the denominator of which is the most recently calculated Net Asset Value per Class A Unit.

See “Risk Factors”, “Redemption of Units” and “Calculation of Net Asset Value”.

**Termination  
of the Fund:**

The Fund does not have a fixed termination date but may be terminated on the date specified in an Extraordinary Resolution of Unitholders that has been obtained at a meeting of Unitholders called for that purpose. The Manager may also, in its sole discretion, terminate the Fund on not less than 60 days’ prior notice to Unitholders without the approval of Unitholders if, in the opinion of the Manager, it is no longer economically feasible to continue the Fund, including in the event of the termination of the Forward Agreement, or that it would be in the best interest of the Unitholders to terminate the Fund. See “Termination of the Fund”.

**Permitted  
Merger:**

The Manager may, without obtaining Unitholder approval, merge the Fund with another fund or funds, in certain circumstances. If the Manager determines that such merger is appropriate and desirable, the Manager can effect the merger, including any required changes to the Trust Agreement, without seeking Unitholder approval for the merger or such amendments. If a decision is made to merge, the Manager will issue a press release at least 30 Business Days prior to the proposed effective date thereof disclosing details of the proposed merger and will comply with all applicable laws including the requirements of the TSX concerning mergers involving listed investment funds. See “Matters Requiring Unitholder Approval”.

<b>Use of Proceeds:</b>	<b>Maximum Offering<sup>(1) (2)</sup></b>	<b>Minimum Offering<sup>(1)</sup></b>
Gross Proceeds to the Fund	\$175,000,000	\$25,000,000
Agents' fees	\$9,187,500	\$1,312,500
Expenses of the Offering <sup>(3)</sup>	\$800,000	\$375,000
Net proceeds to the Fund	\$165,012,500	\$23,312,500
(1)	There will be no Closing unless a minimum of 2,500,000 Class A Units are sold. If subscriptions for a minimum of 2,500,000 Class A Units have not been received within 90 days following the date of issuance of a receipt for this prospectus, this Offering may not continue and subscription proceeds will be returned to subscribers without interest or deduction unless an amendment to this prospectus is filed and receipted.	
(2)	The Fund has granted the Agents an option, exercisable for a period of 30 days following the Closing, to purchase additional Class A Units in an amount up to 15% of the aggregate number of Class A Units issued at Closing on the same terms. If the Over-Allotment Option is exercised in full, under the maximum Offering, the price to the public, the Agents' fees and the net proceeds to the Fund before deducting the expenses of the Offering will be \$201,250,000, \$10,565,625 and \$190,684.375, respectively (assuming only Class A Units are sold). This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of Units issuable on the exercise of the Over-Allotment Option. A purchaser who acquires Class A Units forming part of the Agents' over-allocation position acquires those Class A Units under this prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "Plan of Distribution".	
(3)	Subject to a maximum of 1.5% of the gross proceeds of the Offering.	

The net proceeds from the Offering (including any net proceeds from the exercise of the Over-Allotment Option), after payment of the Agents' fees and the expenses, will substantially be used by the Fund to acquire the Common Share Portfolio. See "Use of Proceeds".

**Risk Factors:** An investment in Units is subject to certain risk factors, including:

- (i) no assurances that the Fund will be able to achieve its investment objectives;
- (ii) loss of investment;
- (iii) no guaranteed return;
- (iv) performance of the Portfolio;
- (v) general risks of investing in debt securities;
- (vi) common risk of investing in high-yield securities;
- (vii) equity risk;
- (viii) suspension of trading;
- (ix) use of leverage;
- (x) market disruptions;
- (xi) global financial developments;
- (xii) reliance on the Manager and the Portfolio Manager;
- (xiii) sensitivity to interest rates;
- (xiv) liquidity of securities in the Portfolio;
- (xv) concentration risk;
- (xvi) short sales;
- (xvii) hedging instruments;
- (xviii) over-the-counter transactions;
- (xix) bank loans;
- (xx) forward counterparty risk;

- (xxi) Forward Agreement proceeds;
- (xxii) trading price of Class A Units;
- (xxiii) Class F Units;
- (xxiv) fluctuations in Net Asset Value;
- (xxv) performance fees;
- (xxvi) securities lending;
- (xxvii) currency exposure;
- (xxviii) redemptions;
- (xxix) status of the Fund;
- (xxx) potential conflicts of interest;
- (xxxi) changes in legislation;
- (xxxii) taxation matters affecting the Fund;
- (xxxiii) lack of operating history;
- (xxxiv) Fund is not a trust company;
- (xxxv) nature of Units;
- (xxxvi) liability of Unitholders;
- (xxxvii) use of a prime broker to hold assets;
- (xxxviii) risks of investing in preferred shares;
- (xxxix) use of derivative instruments;
- (xl) liquidity risk;
- (xli) reinvestment risk;
- (xlii) risks relating to interest rates;
- (xlili) distressed securities;
- (xliv) foreign investment risk; and
- (xlv) convertible bonds.

See “Risk Factors”.

## INCOME TAX CONSIDERATIONS

The Fund intends to distribute a sufficient amount of its income for each taxation year so that it will generally not be liable for non-refundable income tax under Part I of the Tax Act. A Unitholder who is resident in Canada will generally be required to include in computing income for a taxation year that part of the net income of the Fund, including net taxable capital gains, if any, that is paid or becomes payable to the Unitholder by the Fund in the year (whether in cash or in Units). To the extent that amounts payable to a Unitholder are designated by the Fund as taxable dividends from taxable Canadian corporations, or as the taxable portion of net realized capital gains, those amounts will retain their character and be treated as such in the hands of the Unitholder.

Amounts paid or payable by the Fund to a Unitholder in excess of the Unitholder's share of the Fund's net income and net realized capital gains will generally not result in an income inclusion to the Unitholder, but will reduce the adjusted cost base of the Unitholder's Units. To the extent that the adjusted cost base of a Unit held as capital property by a Unitholder would otherwise be less than zero, the Unitholder will be deemed to have realized a capital gain equal to such negative amount. A Unitholder who disposes of Units held as capital property (on a redemption or otherwise) will realize a capital gain (or capital loss) to the extent that the proceeds of disposition exceed (or are less than) the aggregate adjusted cost base of the Units disposed of and any reasonable costs of disposition.

**Each investor should satisfy himself or herself as to the tax consequences applicable in his or her jurisdiction of an investment in Units by obtaining advice from his or her tax advisor. See "Income Tax Considerations".**

## ELIGIBILITY FOR INVESTMENT

In the opinion of McMillan LLP, counsel to the Fund, and Stikeman Elliott LLP, counsel to the Agents, provided that, at all times, the Fund qualifies as a "mutual fund trust" within the meaning of the Tax Act, Units will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs"), registered disability savings plans, registered education savings plans, tax-free savings accounts ("TFSAs") and deferred profit sharing plans (collectively, "**Registered Plans**"). In addition, the Class A Units will be qualified investments under the Tax Act for Registered Plans provided that, at all times, the Class A Units are listed on a designated stock exchange for the purposes of the Tax Act.

Notwithstanding the foregoing, the holder of a TFSA, or the annuitant of an RRSP or a RRIF (each, a "**Plan Holder**") will be subject to a penalty tax in respect of Units held in the TFSA, RRSP or RRIF, as the case may be, if such Units are a "prohibited investment" for the purposes of the Tax Act. Plan Holders should consult their own tax advisors with respect to whether Units would be "prohibited investments" for their TFSAs, RRSPs or RRIFs and the tax consequences of Units being acquired or held by trusts governed by such accounts, plans or funds. See "Eligibility for Investment".

## ORGANIZATION AND MANAGEMENT OF THE FUND

Management of the Fund	Services Provided to the Fund	Municipality of Residence
<b>Trustee</b>	Equity Financial Trust Company is the trustee of the Fund. See "Organization and Management Details of the Fund – The Trustee".	Toronto, Ontario
<b>Manager, Portfolio Manager and Promoter</b>	Picton Mahoney is the manager, portfolio manager and promoter of the Fund. The Manager's head office is located at 33 Yonge Street, Suite 830, Toronto, Ontario M5E 1G4. See "Organization and Management Details of the Fund – The Manager" and "– Promoter".	Toronto, Ontario
<b>Custodian</b>	The Bank of Nova Scotia will be appointed as custodian of the assets of the Fund and may employ sub-custodians as considered appropriate in the circumstances. The Manager reserves the right to appoint additional or replacement custodians from time to time in its sole discretion. See "Organization and Management Details of the Fund –	Toronto, Ontario

<b>Management of the Fund</b>	<b>Services Provided to the Fund</b>	<b>Municipality of Residence</b>
	Custodian”.	
<b>Registrar, Transfer and Distribution Agent</b>	Equity Financial Trust Company will be appointed the registrar, transfer and distribution agent for the Units. See “Organization and Management Details of the Fund – Registrar and Transfer Agent”.	Toronto, Ontario
<b>Auditor</b>	The auditor of the Fund is PricewaterhouseCoopers LLP, Chartered Accountants. See “Organization and Management Details of the Fund – Auditor”.	Toronto, Ontario

### **ORGANIZATION AND MANAGEMENT OF THE IS TRUST**

<b>Management of the IS Trust</b>	<b>Services Provided to the IS Trust</b>	<b>Municipality of Residence</b>
<b>Trustee</b>	Picton Mahoney is the trustee of the IS Trust. See “Organization and Management Details of the IS Trust – The Trustee”.	Toronto, Ontario
<b>Manager, Portfolio Manager and Promoter</b>	Picton Mahoney is the manager, portfolio manager and promoter of the IS Trust. See “Organization and Management Details of the IS Trust – The Portfolio Manager” and “– Promoter”.	Toronto, Ontario
<b>Custodian</b>	The Bank of Nova Scotia will be appointed as custodian of the assets of the IS Trust and may employ sub-custodians as considered appropriate in the circumstances. The Portfolio Manager reserves the right to appoint additional or replacement custodians from time to time in its sole discretion. See “Organization and Management Details of the IS Trust – Custodian”.	Toronto, Ontario
<b>Auditor</b>	The auditor of the IS Trust is PricewaterhouseCoopers LLP, Chartered Accountants. See “Organization and Management Details of the IS Trust – Auditor”.	Toronto, Ontario

### **AGENTS**

RBC Dominion Securities Inc., CIBC World Markets Inc., TD Securities Inc., BMO Nesbitt Burns Inc., Macquarie Private Wealth Inc., National Bank Financial Inc., Scotia Capital Inc., GMP Securities L.P., Canaccord Genuity Corp. and Raymond James Ltd. (collectively, the “**Agents**”) conditionally offer the Units, subject to prior sale, on a best efforts basis, if, as and when issued by the Fund and accepted by the Agents in accordance with the conditions contained in the Agency Agreement, and subject to the approval of certain legal matters by McMillan LLP on behalf of the Fund and Stikeman Elliott LLP on behalf of the Agents. See “Plan of Distribution”.

<b>Agents’ Position</b>	<b>Maximum Size</b>	<b>Exercise Period</b>	<b>Exercise Price</b>
Over-Allocation Position	2,625,000 Class A Units	Within 30 days following Closing	\$10.00 per Unit



## SUMMARY OF FEES AND EXPENSES

The following table contains a summary of the fees and expenses, payable by the Fund and the IS Trust, which will therefore reduce the value of an investment in the Fund. For further particulars, see “Fees and Expenses”.

<b>Fees and Expenses Payable by the Fund</b>	
<b>Type of Fee</b>	<b>Amount and Description</b>
<b>Fees payable to the Agents</b>	<p>\$0.525 per Class A Unit (5.25%).</p> <p>\$0.225 per Class F Unit (2.25%).</p>
<b>Expenses of the Offering</b>	In addition to the Agents’ fees, the Fund will pay all of the expenses incurred in connection with the Offering, which are estimated to be \$800,000, subject to a maximum of 1.5% of the gross proceeds of the Offering.
<b>Management Fee</b>	<p>A management fee (the “<b>Management Fee</b>”) equal (i) in respect of the Class A Units, in the aggregate to 0.75% per annum of the NAV of the Class A Units, comprised of (a) 0.25% per annum of the NAV of the Class A Units, calculated daily and payable quarterly in arrears, plus (b) an amount equal to the Servicing Fee (as defined below) of 0.50% per annum of the NAV of the Class A Units which the Manager will pay to registered dealers, calculated quarterly and payable as soon as practicable after the end of each calendar quarter; and (ii) in respect of the Class F Units, to 0.25% per annum of the NAV of the Class F Units, calculated daily and payable quarterly in arrears, plus in each case applicable taxes, will be paid to the Manager. See “Summary of Fees and Expenses – Fees and Expenses Payable by the Manager”.</p>
<b>Operating Expenses</b>	<p>The Fund will pay for all ordinary expenses incurred in connection with its operation and administration. It is expected that the expenses for the Fund will include, without limitation: all costs of Common Share Portfolio transactions, fees payable to the Trustee, the Manager, the Custodian and other third-party service providers, legal, accounting, audit and valuation fees and expenses, fees and expenses of the members of the IRC, expenses related to compliance with NI 81-107, fees and expenses relating to the voting of proxies by a third-party, premiums for officers’ insurance coverage for the officers of the Manager, costs of reporting to Unitholders, registrar, transfer and distribution agency costs, printing and mailing costs, listing fees and expenses and other administrative expenses and costs incurred in connection with the continuous public filing requirements and investor relations, website maintenance costs, taxes, brokerage commissions, costs and expenses relating to the issue of Units, costs and expenses of preparing financial and other reports, costs and expenses arising as a result of complying with all applicable laws, regulations and policies, extraordinary expenses that the Fund may incur and all amounts paid on account of indebtedness. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which the Trustee, the Manager, the Custodian, the IRC and/or any of their respective officers, directors, partners, employees, consultants or agents is entitled to indemnity by the Fund.</p> <p>The Manager estimates that operational expenses of the Fund, exclusive of management fees, debt service and other costs and brokerage expenses related to portfolio transactions, will be approximately \$150,000 per year (assuming an aggregate Offering size of \$100 million).</p>
<b>Counterparty Fee</b>	The Fund will pay fees to the Counterparty under the Forward Agreement of 0.60% per annum of the notional amount of the Forward Agreement (being effectively the Net Asset Value of the IS Trust), plus applicable taxes.

## Fees and Expenses Payable by the Manager

Type of Fee	Amount and Description
<b>Servicing Fee</b>	The Manager will pay to registered dealers a servicing fee (the “ <b>Servicing Fee</b> ”) equal to 0.50% annually of the Net Asset Value per Class A Unit for each Class A Unit held by clients of the registered dealers, calculated and paid on the last Business Day of each calendar quarter commencing on December 31, 2012, plus applicable taxes.

## Fees and Expenses Payable by the IS Trust

Type of Fee	Amount and Description
<b>Management Fee</b>	The Portfolio Manager will be paid a management fee equal to 1.0.% of the NAV of the IS Trust, calculated daily and payable monthly in arrears, plus applicable taxes.
<b>Operating Expenses</b>	<p>The IS Trust will pay for all ordinary expenses incurred in connection with its operation and administration. It is expected that expenses of the IS Trust will include, without limitation, all costs of Portfolio transactions, fees payable to the Portfolio Manager, the Custodian and other third-party service providers, prime brokerage fees, legal, accounting, audit and valuation fees, other administrative expenses, all amounts paid on account of indebtedness and any extraordinary expenses that the IS Trust may incur.</p> <p>The Portfolio Manager estimates that operational expenses of the IS Trust, exclusive of management fees, performance fees, debt service and other costs and brokerage expenses related to Portfolio transactions, will be approximately \$75,000 per year (assuming an aggregate Offering size of \$100 million).</p>
<b>Performance Fee</b>	<p>The Portfolio Manager will also receive from the IS Trust, for each fiscal year of the IS Trust, a performance fee (the “<b>Performance Fee</b>”). The amount of the Performance Fee shall be determined as of December 31<sup>st</sup> of each year (the “<b>Determination Date</b>”). The Performance Fee for a given fiscal year will be the amount for each unit of the IS Trust then outstanding equal to 20% of the amount by which the sum of (i) the net asset value of such unit (calculated without taking into account the accrual of a Performance Fee) at the end of such year; and (ii) the distributions paid on such unit during the previous 12 months, exceeds 105.70% (or the <i>pro rata</i> portion of a 5.70% hurdle rate in the event that the calculation period is less than a full year, such as the period between Closing and December 31, 2012) of the Threshold Amount (the “<b>Hurdle Rate</b>”).</p> <p>The “Threshold Amount” is the greater of: (i) the initial net asset value per unit of the IS Trust; (ii) the net asset value per unit of the IS Trust on the Determination Date for the previous fiscal year (after payment of such Performance Fee); and (iii) the net asset value per unit of the IS Trust on the Determination Date in the last fiscal year in which a Performance Fee was paid (after payment of such Performance Fee).</p> <p>The Performance Fee, plus applicable taxes, shall be calculated and accrued daily and paid annually, if earned.</p> <p>Notwithstanding the foregoing, if any units of the IS Trust are redeemed in a calendar year prior to the relevant Determination Date, the amount of any accrued Performance Fee in respect of such redeemed units will be paid to the Portfolio Manager immediately following such redemption as if the date on which the units are redeemed was a Determination Date in respect of such units.</p>

## GLOSSARY OF TERMS

In this prospectus, the following terms shall have the meanings set forth below, unless otherwise indicated.

“**affiliate**” has the meaning ascribed thereto in the *Business Corporations Act* (Ontario).

“**Agency Agreement**” means the agency agreement dated as of September 27, 2012 among the Fund, the Manager, the Portfolio Manager and the Agents.

“**Agents**” means, collectively, RBC Dominion Securities Inc., CIBC World Markets Inc., TD Securities Inc., BMO Nesbitt Burns Inc., Macquarie Private Wealth Inc., National Bank Financial Inc., Scotia Capital Inc., GMP Securities L.P., Canaccord Genuity Corp. and Raymond James Ltd.

“**Alternative Proposal**” has the meaning ascribed thereto under “Risk Factors – Taxation Matters Affecting the Fund”.

“**Annual Redemption Date**” means the last Business Day of April for each year commencing in 2014.

“**Business Day**” means any day on which the TSX is open for business.

“**Capital Gains Refund**” has the meaning ascribed thereto under “Income Tax Considerations – Taxation of the Fund”.

“**CDS**” means CDS Clearing and Depository Services Inc.

“**CDS Participant**” means a participant in CDS.

“**Class A Unit**” means a transferable Class A Unit of the Fund.

“**Class F Unit**” means a transferable Class F Unit of the Fund.

“**Closing**” means the closing of the Offering on the Closing Date.

“**Closing Date**” means the date of the Closing, which is expected to be on or about October 18, 2012 but in any event not later than 90 days after a final receipt for this prospectus has been issued.

“**Closing Market Price**” means, on a particular date: (i) an amount equal to the closing price of the Class A Units on the principal exchange or market on which the Units are quoted for trading if there was a trade on such date and the exchange or market provides a closing price; (ii) an amount equal to the weighted average of the highest and lowest prices of the Class A Units if there was trading on such date on the principal exchange or market on which Class A Units are quoted for trading and the exchange or market provides only the highest and lowest trading prices of the Class A Units traded on such date; or (iii) the weighted average of the last bid and last asking prices if there was no trading on that date.

“**Common Share Portfolio**” has the meaning ascribed thereto under “Overview of the Investment Structure – Forward Agreement”.

“**Conversion Date**” means the first Business Day of each week.

“**Counterparty**” has the meaning ascribed thereto under “Overview of the Investment Structure – Forward Agreement”.

“**CRA**” means the Canada Revenue Agency.

“**Custodian**” means The Bank of Nova Scotia, the custodian of the assets of the Fund and the IS Trust, and its successors or assigns.

**“Custodian Agreement”** means either the custodian agreement dated as of the Closing Date between the Fund and the Custodian or the custodian agreement dated as of the Closing Date between the IS Trust and the Custodian, as the context may require, each as it may be amended from time to time.

**“DBRS”** means DBRS Limited.

**“Distribution Payment Date”** means a Business Day designated by the Manager that will be no later than 15<sup>th</sup> Business Day of the month following the relevant Distribution Record Date.

**“Distribution Record Date”** means the last Business Day of each month.

**“Extraordinary Resolution”** means a resolution passed by the affirmative vote of at least 66⅔% of the votes cast either in person or by proxy at a meeting of Unitholders called for the purpose of considering such resolution or in writing pursuant to the Trust Agreement.

**“Forward Agreement”** has the meaning ascribed thereto under “Overview of the Investment Structure – Forward Agreement”.

**“Forward Termination Date”** has the meaning ascribed thereto under “Overview of the Investment Structure – Forward Agreement”.

**“Fund”** means Picton Mahoney Tactical Income Fund, a trust established under the laws of the Province of Ontario pursuant to the Trust Agreement.

**“Funds”** means, collectively, the Fund and the IS Trust.

**“IRC”** means the independent review committee established by Picton Mahoney in accordance with NI 81-107.

**“IS Trust”** means Income Strategies Trust, a trust established under the laws of the Province of Ontario pursuant to the IS Trust Declaration of Trust.

**“IS Trust Declaration of Trust”** means the declaration of trust of the IS Trust dated September 26, 2012 establishing the IS Trust.

**“Management Fee”** has the meaning ascribed thereto under “Fees and Expenses – Fees and Expenses Payable by the Fund”.

**“Manager”** means Picton Mahoney Asset Management, in its capacity as the manager and portfolio manager of the Fund.

**“Monthly Redemption Date”** means the second last Business Day of each month other than the month of the Annual Redemption Date.

**“Moody’s”** means Moody’s Investors Service, Inc.

**“Net Asset Value of the IS Trust”** or **“NAV of the IS Trust”** on a particular date will be equal to (i) the Total Assets, less (ii) the aggregate fair value of the liabilities of the IS Trust.

**“Net Asset Value of the Fund”** or **“NAV of the Fund”** on a particular date will be equal to (i) the aggregate fair value of the assets of the Fund, less (ii) the aggregate fair value of the liabilities of the Fund.

**“Net Asset Value per Class A Unit”** or **“NAV per Class A Unit”** means the Net Asset Value of the Fund attributable to the Class A Units divided by the number of Class A Units then outstanding.

**“Net Asset Value per Class F Unit”** or **“NAV per Class F Unit”** means the Net Asset Value of the Fund attributable to the Class F Units divided by the number of Class F Units then outstanding.

“**Net Exposure**” means the value of long security positions, excluding cash and cash equivalents, minus the absolute value of short positions, divided by the NAV of the IS Trust.

“**NI 81-102**” means National Instrument 81-102 *Mutual Funds* of the Canadian Securities Administrators, as it may be amended from time to time.

“**NI 81-106**” means National Instrument 81-106 *Investment Fund Continuous Disclosure* of the Canadian Securities Administrators, as it may be amended from time to time.

“**NI 81-107**” means National Instrument 81-107 *Independent Review Committee for Investment Funds* of the Canadian Securities Administrators, as it may be amended from time to time.

“**non-residents**” has the meaning ascribed thereto under “Unitholder Matters”.

“**October 2003 Proposals**” has the meaning ascribed thereto under “Risk Factors – Taxation Matters Affecting the Fund”.

“**Offering**” means the offering of a minimum of 2,500,000 Class A Units and a maximum of 17,500,000 Class A Units and Class F Units at a price of \$10.00 per Unit, as contemplated in this prospectus.

“**Performance Fee**” has the meaning ascribed thereto under “Fees and Expenses – Fees and Expenses Payable by the IS Trust”.

“**Picton Mahoney**” means Picton Mahoney Asset Management.

“**Plan Agent**” means Equity Financial Trust Company, in its capacity as agent under the Reinvestment Plan.

“**Plan Participants**” means Unitholders who are participants in the Reinvestment Plan.

“**Portfolio**” has the meaning ascribed thereto under “Investment Objectives”.

“**Portfolio Manager**” means Picton Mahoney Asset Management, in its capacity as the manager and the portfolio manager of the IS Trust.

“**Portfolio Securities**” means the securities held in the Portfolio.

“**Prime Broker**” means Scotia Capital Inc., in its capacity as prime broker to the IS Trust.

“**Record Date**” means, unless the Manager determines otherwise, the last Business Day of each calendar month commencing with the last Business Day of the second month following the month in which the Closing Date occurs.

“**Reinvestment Plan**” means the Fund’s distribution reinvestment plan, as it may be amended from time to time.

“**Reinvestment Plan Agency Agreement**” means the reinvestment plan agency agreement to be entered into on or prior to the Closing Date among the Manager and the Plan Agent, establishing the Reinvestment Plan, as it may be amended from time to time.

“**S&P**” means Standard & Poor’s, a division of The McGraw-Hill Companies, Inc.

“**Securities Act**” means *Securities Act* (Ontario), R.S.O. 1990, c. S.5, as it may be amended from time to time.

“**September 16th Tax Proposals**” has the meaning ascribed thereto under “Risk Factors – Taxation Matters Affecting the Fund”.

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder, as they may be amended from time to time.

“**Tax Proposals**” has the meaning ascribed thereto under “Income Tax Considerations”.

“**taxable capital gain**” has the meaning ascribed thereto under “Income Tax Considerations – Taxation of the Fund”.

“**Total Assets**” means the aggregate fair value of the assets of the IS Trust as determined in accordance with the terms of the IS Trust Declaration of Trust.

“**Trust Agreement**” means the trust agreement of the Fund dated September 26, 2012 establishing the Fund under the laws of the Province of Ontario.

“**Trustee**” means Equity Financial Trust Company, in its capacity as trustee of the Fund.

“**TSX**” means the Toronto Stock Exchange.

“**Unit**” means a Class A Unit or a Class F Unit.

“**Unitholder**” means, unless the context requires otherwise, a holder of a Unit.

“**U.S.**” means the United States of America.

“**Valuation Date**” has the meaning ascribed thereto under “Calculation of Net Asset Value”.

“**\$**” means Canadian dollars unless otherwise indicated.

## **FORWARD LOOKING STATEMENTS**

Certain statements included in this prospectus constitute forward looking statements. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as “expects”, “anticipates”, “plans”, “believes”, “estimates”, “intends”, “targets”, “projects”, “forecasts” or negative versions thereof and other similar expressions, or future or conditional verbs such as “may”, “will”, “should”, “would” and “could”, and similar expressions to the extent they relate to the Manager, the Portfolio Manager, the Fund or the IS Trust. The forward looking statements are not historical facts but reflect the current expectations regarding future results or events including results of the Fund or the IS Trust. These forward looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations including, but not limited to, the matters discussed under “Risk Factors” and in other sections of this prospectus.

These and other factors should be considered carefully and readers should not place undue reliance on the forward-looking statements. The Fund, the Manager and the Portfolio Manager do not undertake to update any forward-looking statement that is contained in this prospectus.



## OVERVIEW OF THE LEGAL STRUCTURE OF THE FUND

Picton Mahoney Tactical Income Fund (the “**Fund**”) is a closed-end investment fund established under the laws of the Province of Ontario pursuant to a trust agreement dated September 26, 2012. The manager and portfolio manager of the Fund is Picton Mahoney Asset Management (in its capacity as manager and portfolio manager of the Fund, the “**Manager**”). The trustee of the Fund is Equity Financial Trust Company (the “**Trustee**”). The principal office of the Fund and the Manager is located at 33 Yonge Street, Suite 830, Toronto, Ontario M5E 1G4.

The Fund is not a “mutual fund” as defined under Canadian securities laws and, accordingly, the Fund is not subject to the Canadian policies and regulations that apply to mutual funds under such laws. As a result, some of the protections provided to investors in mutual funds under such laws will not be available to investors in the Units.

## INVESTMENT OBJECTIVES

The investment objectives of the Fund are:

- (i) to provide holders of Units (“**Unitholders**”) with sustainable tax-advantaged monthly distributions;
- (ii) to preserve capital and mitigate risk with less volatility and less correlation to high-yield and equity markets; and
- (iii) to maximize total return to Unitholders through distributions and capital appreciation,

in each case through exposure to a diversified portfolio of income producing securities (the “**Portfolio**”) which will be actively managed by the Portfolio Manager (as defined below under “Portfolio Manager of the IS Trust”).

The Fund will obtain economic exposure to the Portfolio through a forward agreement (the “**Forward Agreement**”). The return to the Fund will, by virtue of the Forward Agreement, be based on the performance of the Income Strategies Trust (the “**IS Trust**”), a newly created investment trust that will acquire the Portfolio. As the Fund will partially pre-settle the Forward Agreement to fund distributions, it is expected that such distributions will be comprised primarily of returns of capital and capital gains and, accordingly, such distributions are described as tax-advantaged.

Amounts distributed on the Units that represent returns of capital are generally not subject to tax but will reduce the Unitholders’ adjusted cost base for tax purposes.

## INVESTMENT STRATEGIES

### Investment Approach

The Portfolio will be tactically managed and its composition will vary depending on market conditions but will primarily consist of long and short positions in high-yield and investment grade bonds and, to a more limited extent, government bonds, convertible bonds, preferred shares and dividend paying equities, with a focus on North American issuers. In selecting securities for the Portfolio, the Portfolio Manager will focus on securities that it believes will maximize risk-adjusted returns and preserve capital to build a portfolio with less volatility and less correlation to the broader markets in which the Portfolio Manager will invest. The Portfolio Manager considers itself to be a leader in volatility management.

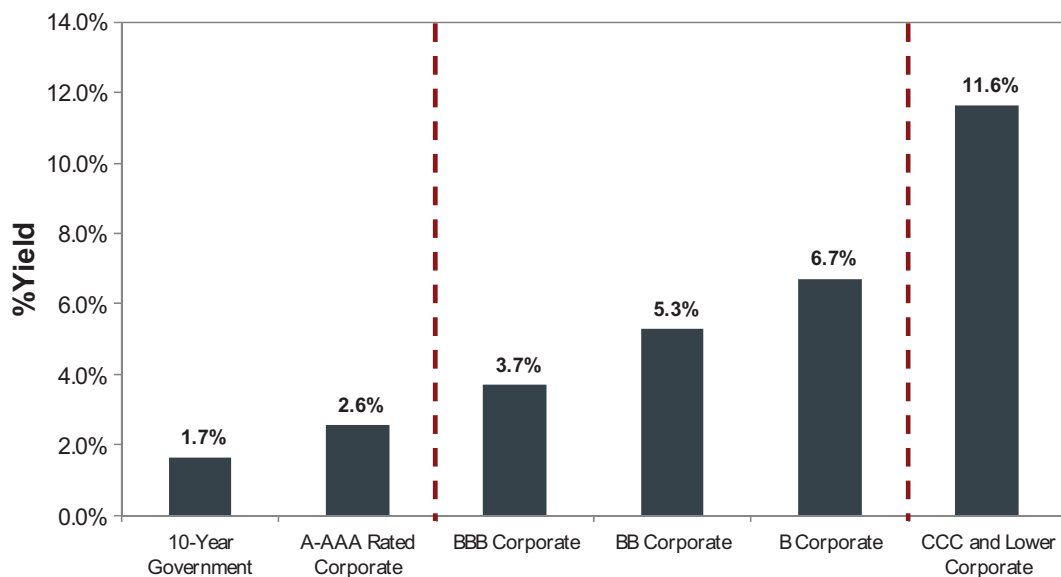
The Portfolio Manager organizes income assets broadly into “Core” or “Plus” classifications and further across the four segments of Rate, Credit, Hybrid and Equity. Core is comprised of government bonds (Rate) and investment grade bonds. Plus is comprised of high-yield bonds (Credit), preferred shares and convertible bonds (Hybrid) and income stocks (Equity). The Portfolio Manager believes that a tactical strategy across these classifications provides diversification benefits. The chart below provides the current market size and weighted average yield by market value available for income assets in these classifications and segments in North America as at August 10, 2012.

	Segment	Description	Size (US\$ Billion)	Yield
<b>Core</b>	Rate	Governments	\$8,844	1.1%
	Credit	Investment Grade	\$4,614	3.1%

<b>Plus</b>	Credit	High Yield	\$1,041	6.9%
	Hybrid	Convertibles	\$207	3.8%
	Hybrid	Preferreds	\$163	6.1%
	Equity	Income Stocks	\$3,524	2.9%

Source: Governments, Investment Grade and High-Yield data provided by Bank of America Merrill Lynch; Convertibles data provided by Bank of America Merrill Lynch and Picton Mahoney Asset Management; Preferreds data provided by Imperial Capital and Picton Mahoney Asset Management; Income Stocks data provided by S&P.

The Portfolio Manager employs a strategy through the various phases of the economic cycle which aims to seek out opportunities across the universe of income assets. The Portfolio Manager currently believes there is value in higher quality high-yield bonds and lower quality investment grade corporate bonds, specifically, bonds rated single B to BBB by S&P (or the equivalent by a nationally recognized rating agency), as corporate balance sheets are, in its view, generally strong with low leverage, high financial flexibility and historically low default rates. The graph below illustrates the opportunity for investing across fixed income bonds in the U.S. market of varying quality as at August 10, 2012.



Source: Bloomberg, Bank of America Merrill Lynch.

In addition to low default rates, the Portfolio Manager believes the risk / reward ratio is also compelling on a forward looking basis for higher quality high-yield bonds and lower quality investment grade corporate bonds, specifically, bonds rated single B to BBB by S&P (or the equivalent by a nationally recognized rating agency), as demonstrated in the table below (containing U.S. data) when comparing the yield of these investments to the default risk. Default risk is the probability of a company going bankrupt according to the Portfolio Manager.

**Risk/Reward Matrix**

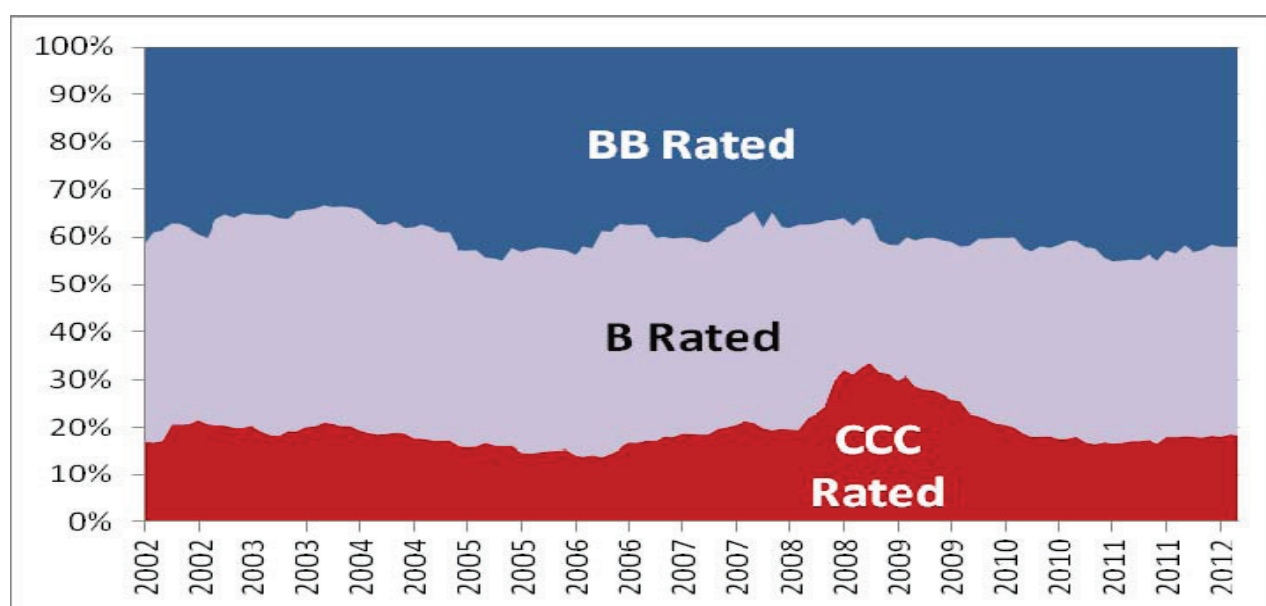
	We see <b>neutral/short</b> value	We see <b>long</b> value			We see <b>short</b> value		
Credit Curve	<b>CCC</b>	B	BB	BBB	A	AA	AAA
Yield (%)	<b>11.60</b>	6.68	5.26	3.70	2.67	2.13	1.64
Default Risk (%)	<b>10.36</b>	0.84	0.19	0.09	0.05	0.01	-
Risk/Reward Ratio (x)	<b>1.12</b>	<b>7.95</b>	<b>27.66</b>	<b>41.09</b>	<b>53.46</b>	<b>213.00</b>	<b>nmf<sup>(1)</sup></b>

(1) No meaningful figure.

Source: Bank of America Merrill Lynch and Picton Mahoney Asset Management. Forward looking default risk estimates are Picton Mahoney Asset Management estimates.

The credit quality of the universe of U.S. high-yield securities has recently shifted to securities rated B and BB (denoting a higher quality) and away from securities rated CCC by S&P (or the equivalent by a nationally recognized rating agency), as illustrated in the chart below.

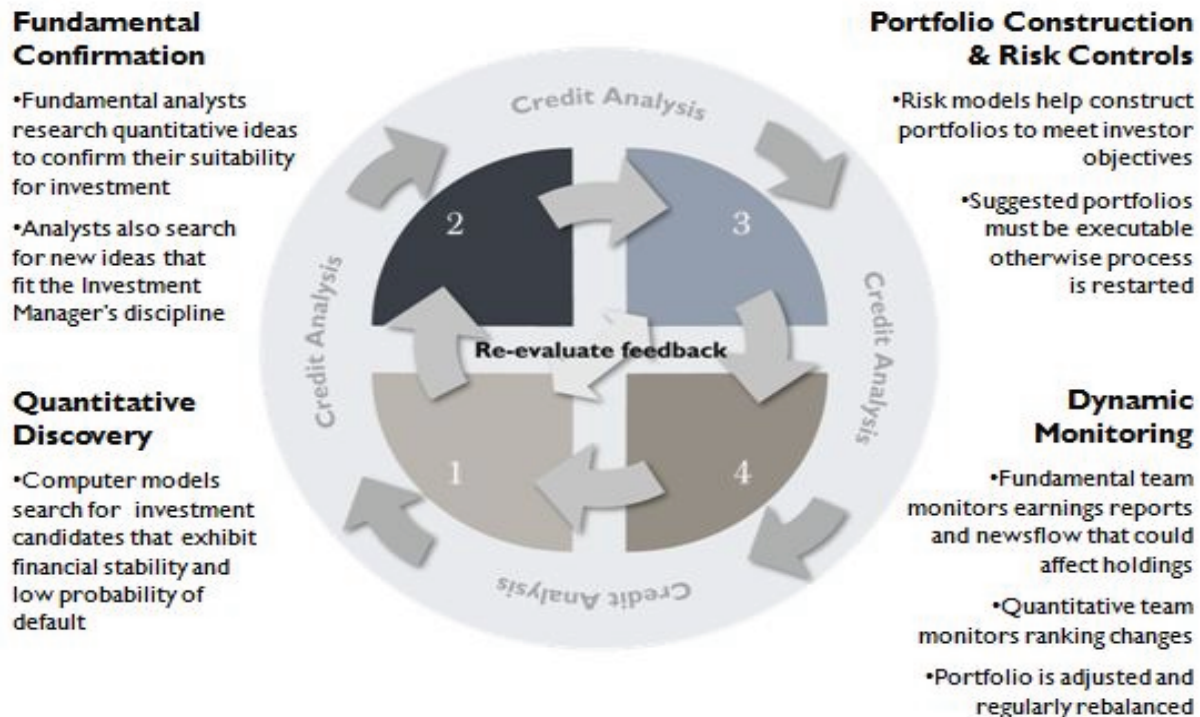
**Breakdown of Credit Quality**



Source: Bloomberg, Bank of America Merrill Lynch.

## Picton Mahoney Investment Process

The Portfolio Manager utilizes an investment process that combines a quantitative bottom-up approach with fundamental analysis and a top-down overlay. The Portfolio Manager believes this combination creates a highly disciplined and repeatable investment process. The following figure illustrates the Portfolio Manager's investment process:



- *Quantitative Discovery.* The Portfolio Manager has developed a quantitative platform that allows it to perform rigorous and objective quantitative analytics. The primary focus is to identify companies with a conservative financial profile and low probability of default. The Portfolio Manager identifies these companies using the following criteria: expected default frequency, valuation factors and earnings quality characteristics. Quantitatively-based triggers focus the Portfolio Manager's attention on opportunities and changing risks and are used in the decision making process.
- *Fundamental Confirmation.* Quantitative studies need to be supported by fundamental analysis and logic. The Portfolio Manager's analysts will overlay sound judgment and fundamental analysis to supplement their proprietary models. Analysts are charged with leveraging the Portfolio Manager's quantitative tools using traditional fundamental research strategies including meeting with corporate management teams, following corporate news releases, attending industry conferences, conducting proprietary research and utilizing sell-side proprietary research. The objective is not only to leverage the Portfolio Manager's quantitative tools but also to independently identify investment opportunities. Each analyst builds a recommended portfolio for the sectors which they are responsible for, which is used by the portfolio managers in their decision making process.
- *Portfolio Construction & Risk Controls.* Linking the decision making process to both fundamental and quantitative processes allows the portfolio managers to allocate capital objectively and optimally to investment opportunities which offer the best risk/reward characteristics.
- *Dynamic Monitoring.* The Portfolio Manager believes that an essential element of portfolio management is the continual monitoring of changing risks and returns, live discussion of investment developments and formal weekly reviews to add discipline to the process.

## Trading Strategies

The Portfolio Manager may invest, both long or short, in the following securities: government bonds, investment grade corporate bonds, credit linked notes, credit default swaps, high-yield bonds, asset backed securities, collateralized debt obligations, government agency securities, distressed bonds, convertible bonds, convertible debentures, preferred shares, bank loans, real estate investment trusts, master limited partnerships, equities, income trusts, Canadian royalty trusts and exchange traded funds.

## Risk Management

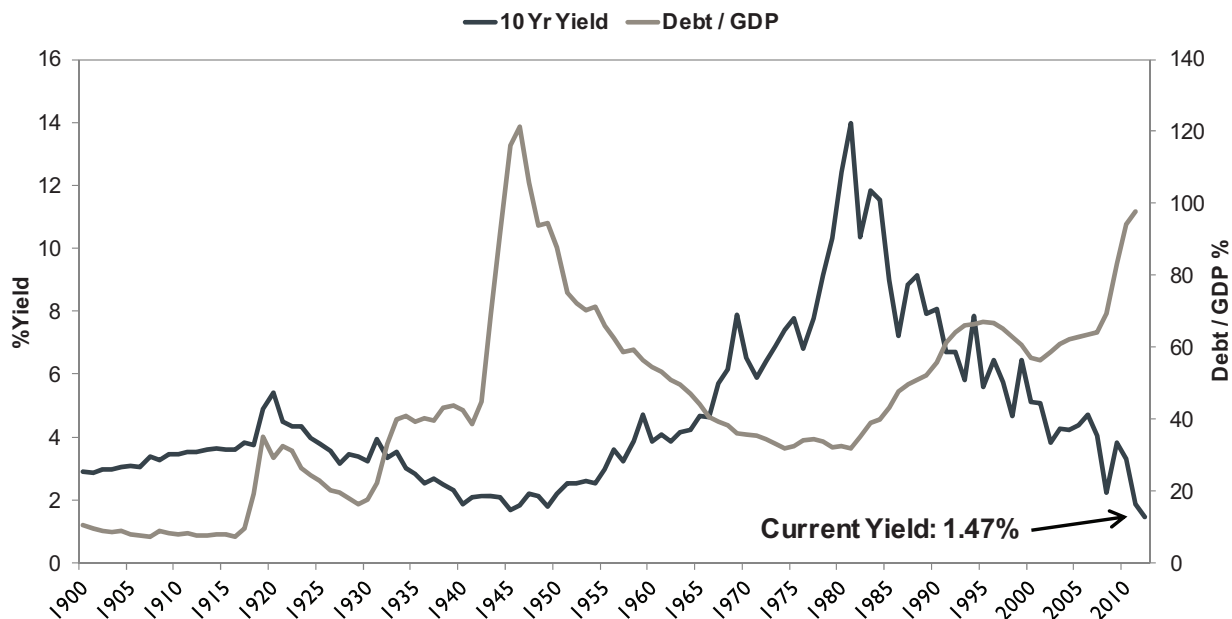
The Portfolio Manager may employ short selling and other hedging strategies in an effort to reduce overall Portfolio risk and protect the Portfolio against losses associated with the risks of investing in income assets.

The Portfolio Manager employs the following risk management strategies:

- (1) diversification of the Portfolio by issuer, market capitalization, sector, industry, credit rating and region;
- (2) short selling of government bonds to reduce the interest rate risk inherent in the Portfolio's investment grade corporate debt positions;
- (3) short selling of corporate bonds to reduce the credit risks, both macro and idiosyncratic, inherent in the Portfolio and, depending upon the stage of economic cycle, to potentially enhance returns;
- (4) purchasing credit, equity, foreign exchange and commodity protection with a view to reducing Portfolio losses from macro-economic driven shocks; and
- (5) managing the relative weighting of long and short positions of the Portfolio.

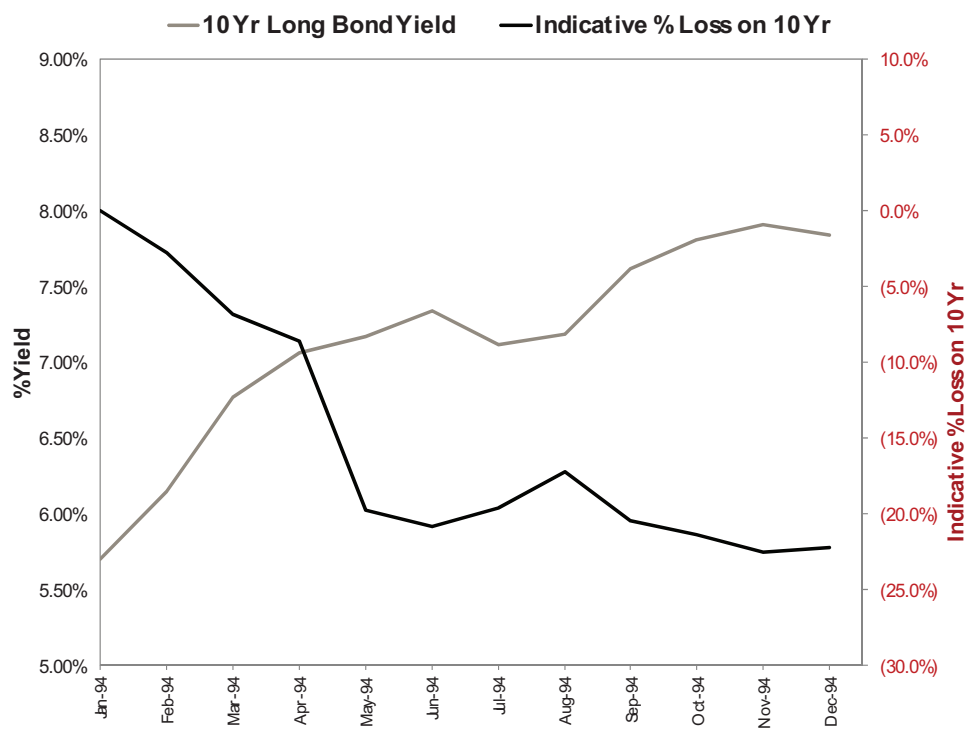
Three key risks of particular focus include interest rate risk, credit deterioration and price risk.

**Interest rate risk** is the variability in bond prices due to changes in interest rates. Generally, as rates rise, the price of a bond will fall and vice versa. Interest rate risk is primarily measured by a bond's duration: the higher a bond's duration the more interest rate risk in the bond. Duration, which is expressed in number of years, is a measure of the sensitivity of a fixed income investment or portfolio to changes in interest rates. Longer duration typically reflects an investment or portfolio with a longer term to maturity and hence greater price sensitivity to a given change in interest rates. By managing duration, the Portfolio Manager can manage the overall risk of interest rate changes to the Portfolio. In a period of falling interest rates, a portfolio manager will want to have a longer duration for a portfolio it manages, as that portfolio will experience greater price appreciation. Conversely, in a period of rising interest rates, a portfolio manager will want to have a portfolio of shorter duration to protect capital. As demonstrated in the graph below, U.S. 10-year treasury bond yields have experienced a 30-year downward trend and currently sit at historic lows of less than 2%; compared with the 200-year average of 4.94%. Given these current low yields, the dollar impact of a 1% increase in interest rates is very high. In the Portfolio Manager's opinion, interest rate sensitive securities currently bear higher than typical levels of risk, and hedging is expected to help protect the Portfolio against fluctuations in interest rates. The graph below sets out the yields on U.S. 10-year government bonds compared to U.S. debt levels during the period from January 1, 1900 to December 31, 2011 and shows that the yields on government bonds are at historical lows, while U.S. debt levels are at historical highs.



Source: Bloomberg

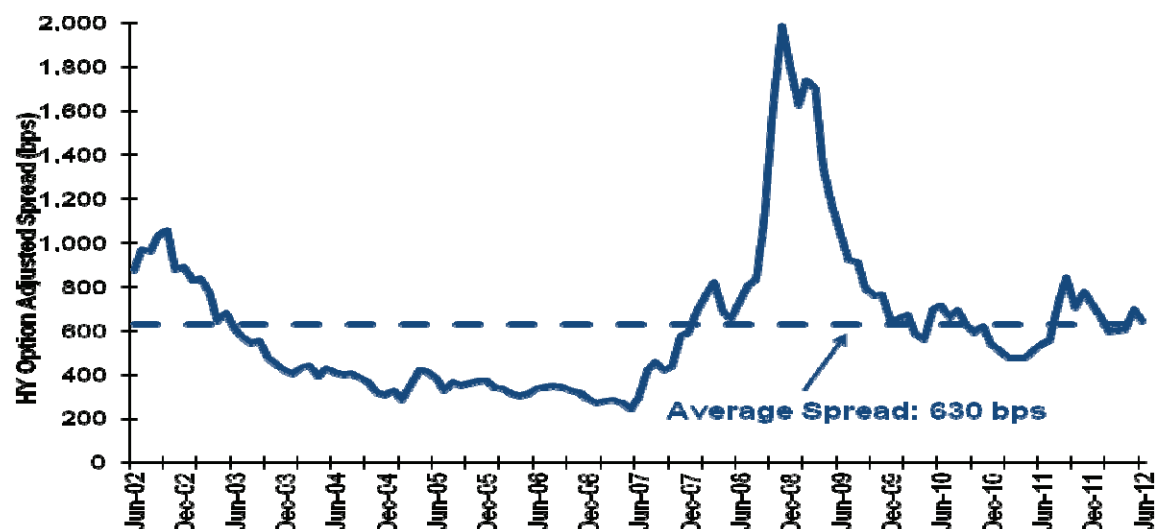
As set out in the chart below, for illustrative purposes, 1994 was a year when interest rates rose materially from relatively low levels, and government bonds lost over 20% of their principal. Although the Portfolio Manager does not expect current interest rates to rise materially in the near term, the dollar impact of a 1% increase in interest rates today is very high. At the current yield, if interest rates increase by 1%, 5 year government bonds will lose approximately \$5 per \$100 of their principal, and U.S. 10-year government bonds will lose approximately \$9 per \$100 of their principal.



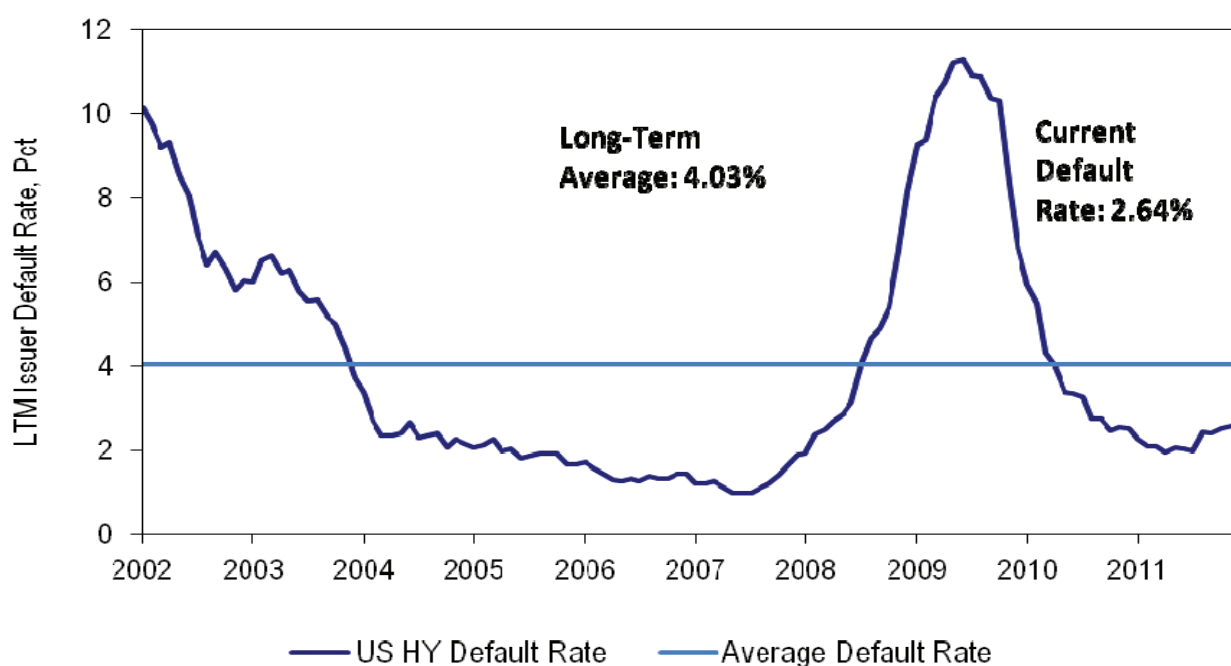
Source: Bloomberg, Bank of America Merrill Lynch.



**Credit deterioration** represents the risk of default in payment of interest and principal and the losses incurred in the event of such default. High-yield bonds involve greater risk of credit deterioration than investment grade bonds given the speculative nature of investments in high-yield bonds. As demonstrated below, high-yield bonds currently benefit from healthy corporate balance sheets and low default rates of less than 2%. However, the historical average default rate on high-yield is over 4%. While the Portfolio Manager believes that in current market conditions high-yield bonds represent an attractive risk-adjusted investment opportunity, hedging can be employed to help mitigate the risk of credit deterioration and protect the Portfolio through the credit cycle. The charts below set out the relationship between the spreads and defaults on U.S. high-yield bonds during the period from June 30, 2002 to June 30, 2012. While spreads currently remain above the long-term average, the Portfolio Manager believes default risk is relatively low.

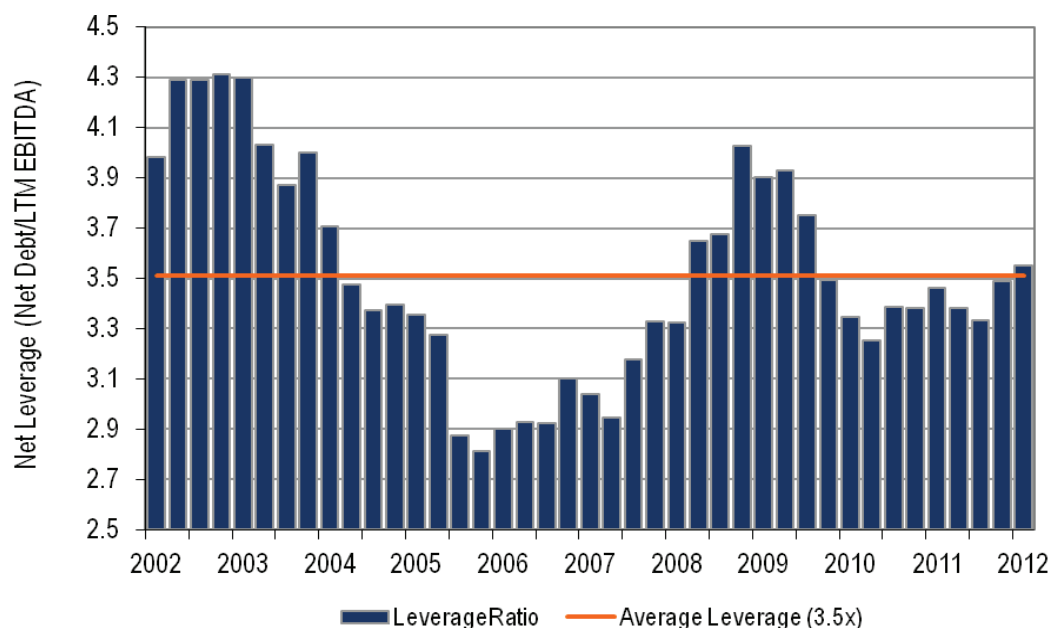


Source: Bank of America Merrill Lynch, S&P.

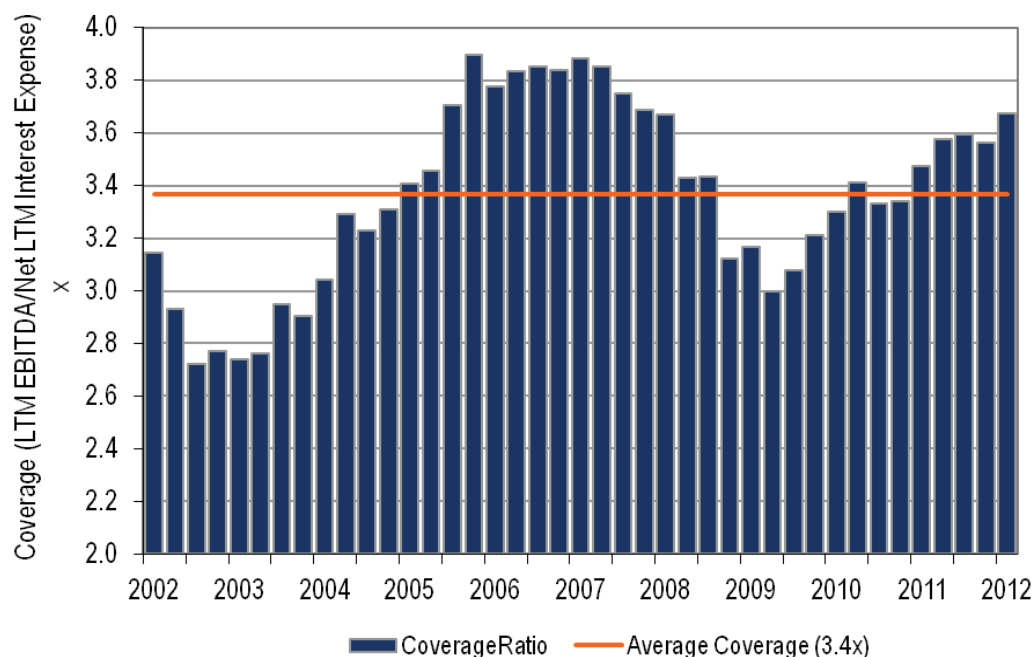


Source: Bank of America Merrill Lynch, S&P.

Furthermore, the Portfolio Manager believes balance sheets in corporate America remain relatively healthy compared to the long-term average, as leverage remains below the long-term average, and interest coverage remains above the long-term average, as set out in the charts below (containing U.S. data).



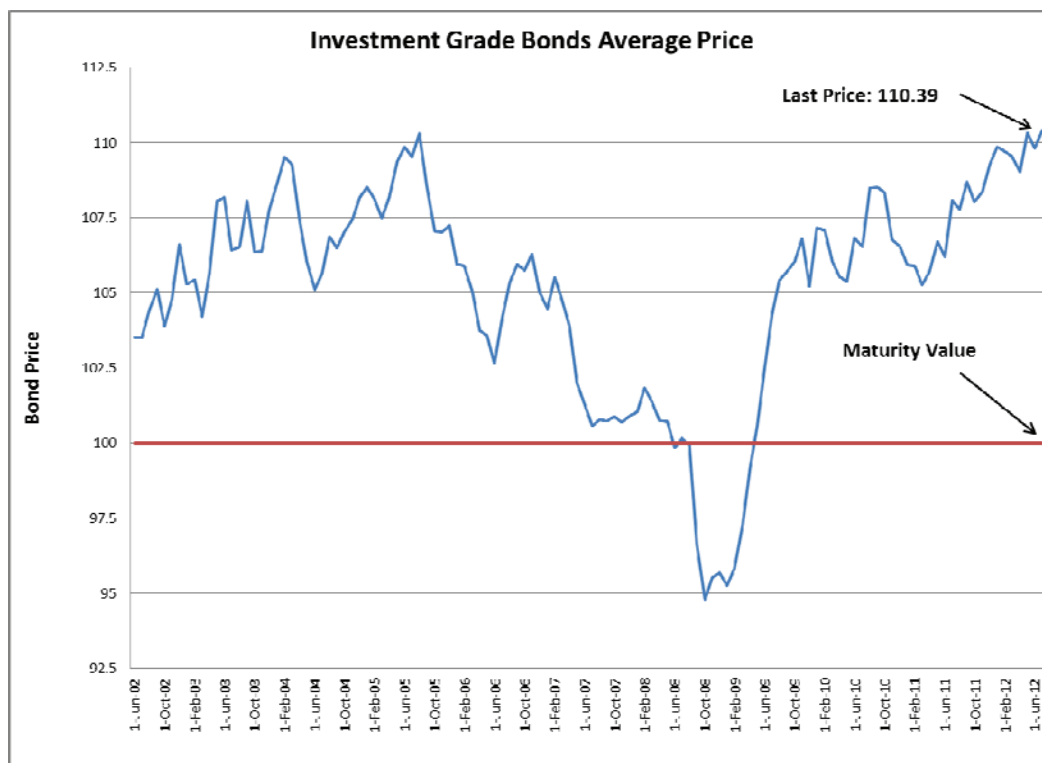
Source: Bloomberg, Bank of America Merrill Lynch.



Source: Bloomberg, Bank of America Merrill Lynch.

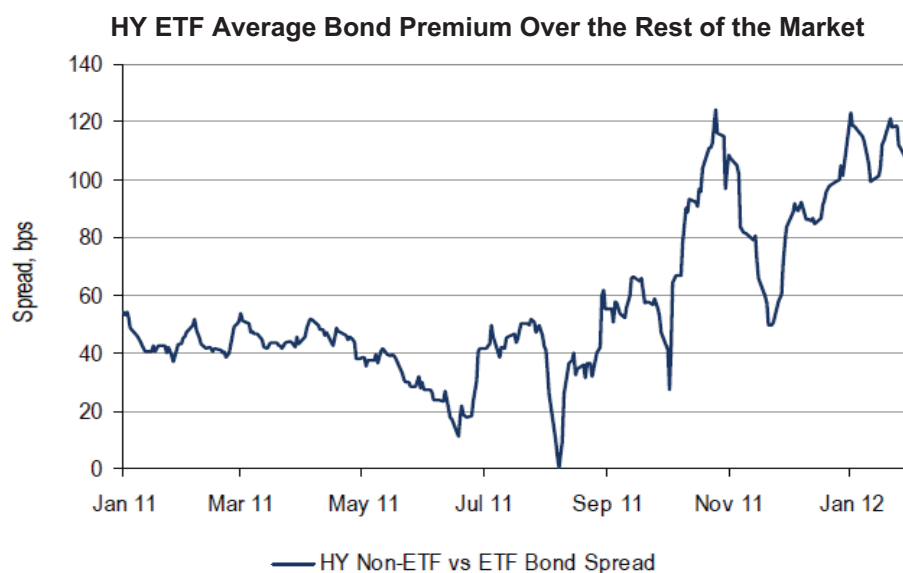
**Price risk** is the risk that the price of a security will fall after purchase. Commonly considered in equity investing, price risk is less commonly emphasized with income assets. The Portfolio Manager believes that price risk is of particular concern with investment grade bonds as they are currently close to all-time highs in price, lows in yield and

high duration. The graph below sets out the average dollar price of Canadian investment grade bonds during the period from June 30, 2002 to June 30, 2012. The Portfolio Manager believes hedging or shorting these investment grade bonds, which the Portfolio Manager believes are over-priced, particularly in the case of higher-rated investment grade bonds, can help both mitigate price risk and potentially generate positive returns. The Portfolio Manager believes that lower-rated investment grade bonds currently represent greater potential value as investments.



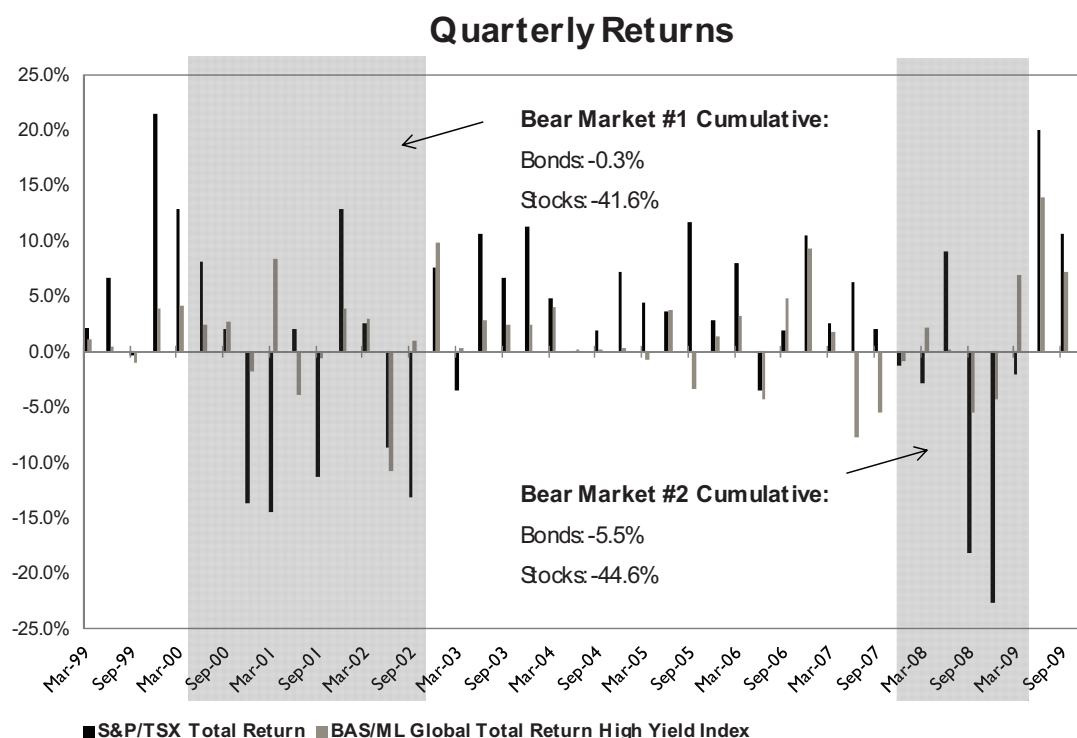
Source: Bloomberg, Bank of America Merrill Lynch.

Investors in exchange-traded funds (ETFs) have recently preferred the high-yield market and pay prices which reflect premium prices for bonds contained in the high-yield indices, 20% of which are comprised of bonds rated CCC by S&P (or the equivalent by a nationally recognized rating agency) as illustrated in the chart below (containing U.S. data).



Source: Bloomberg, Bank of America Merrill Lynch.

Global high-yield bonds as an asset class have outperformed the S&P/TSX Total Return Index during periods of market downturns as shown in the following chart.



Source: Bloomberg, Bank of America Merrill Lynch.

### Use of Derivatives

The Portfolio Manager may use derivative instruments to reduce or hedge against various risks, including currency exchange risk associated with foreign investments, and as a substitute for purchasing or selling securities directly to obtain investment exposures consistent with its investment objectives, strategies and risk management. The derivatives that the Portfolio Manager may use include, but are not limited to, options, swaps, futures and forwards. The Portfolio Manager may also employ various option strategies to increase income return of the Portfolio including, but not limited to, covered call and put option writing. No assurance can be given that the Portfolio will be hedged from any particular risk at any time.

### Foreign Currency Hedging

The Portfolio is expected to have foreign currency exposure, particularly to the U.S. dollar. The Portfolio Manager will seek to protect investment returns from currency fluctuations by hedging foreign currency exposure. The Portfolio Manager will hedge not less than 70% of the Portfolio's investments denominated in currencies other than the Canadian dollar back to the Canadian dollar. It is the intention of the Portfolio Manager that initially not less than 90% of the value of the assets of the Portfolio denominated in U.S. dollars will be hedged back to the Canadian dollar. The distributions on securities held in the Portfolio will not be hedged at any time.

### Short Sales

Short selling will be used in the Portfolio to the extent the Portfolio Manager believes it is necessary to reduce overall portfolio risk or if the Portfolio Manager believes there is an opportunity to generate returns from short selling. The degree of short selling will depend on the Portfolio Manager's assessment of market conditions. The Portfolio Manager may sell short securities of companies or governments or use derivatives to obtain short exposure in the

Portfolio. The Portfolio Manager will manage the relative long and short positions in the Portfolio to ensure the Portfolio will not have Net Exposure in excess of 150% or less than 50%, on a daily marked-to-market basis.

### **Leverage**

The Portfolio Manager may utilize various forms of leverage including borrowings under loan facilities, margin purchases, short selling and the use of derivative instruments provided that aggregate leverage determined on a daily basis shall not exceed 2.5:1 (total market value of long positions (not including cash or equivalents, but including leveraged long positions) plus the absolute value of total market value of short positions divided by the NAV of the IS Trust). If at any time aggregate leverage exceeds 2.5:1, the Portfolio Manager will, as soon as practicable thereafter, cause the aggregate leverage to be reduced below 2.5:1.

### **Securities Lending**

In order to generate additional returns, the Fund and the IS Trust may lend securities comprising the Common Share Portfolio and the Portfolio, respectively. Any securities lending must be pursuant to a securities lending agreement to be entered with a securities borrower acceptable to the Manager or the Portfolio Manager, as applicable, pursuant to which securities will be loaned to the securities borrower on the terms therein, which terms shall include that: (i) the borrower will pay a negotiated securities lending fee and will make compensation payments equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as “securities lending arrangements” for the purposes of the Tax Act; and (iii) collateral security will be provided. The Manager or the Portfolio Manager, as applicable, will be responsible for setting and reviewing any securities lending agreements. If a securities lending agent is appointed, such agent will be responsible for the ongoing administration of the securities loans, including the obligation to mark-to-market the collateral on a daily basis.

### **Benefits of Professional Management**

Many of the investments that are expected to be included in the Portfolio are typically traded through over-the-counter markets, which can be difficult for individual investors to access. The Portfolio Manager has extensive experience in these over-the-counter markets and has strong relationships with all major broker dealers and banks, resulting in access to investment product, new issue allocation and idea generation.

## **OVERVIEW OF THE INVESTMENT STRUCTURE**

### **Forward Agreement**

The Fund will obtain exposure to the Portfolio through the Forward Agreement. The Fund will invest the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the “**Common Share Portfolio**”) acceptable to the Counterparty (as defined herein). The Fund will then enter into the Forward Agreement, the terms of which will be negotiated by the Manager on behalf of the Fund, with a Canadian chartered bank or an affiliate of a Canadian chartered bank whose obligations are guaranteed by a Canadian chartered bank (the “**Counterparty**”) pursuant to which the Counterparty will agree to pay to the Fund on the scheduled settlement date of the Forward Agreement (the “**Forward Termination Date**”), as the purchase price for the Common Share Portfolio, an amount based on the value of the units of the IS Trust.

The return to the Fund and Unitholders will, by virtue of the Forward Agreement, be based on the performance of the IS Trust which, in turn, will be based on the performance of the Portfolio. Neither the Fund nor the Unitholders will have any ownership interest in the IS Trust or the Portfolio. The Counterparty may choose to purchase and hold units of the IS Trust or enter into other transactions in order to hedge its exposure under the terms of the Forward Agreement to the economic performance of the Portfolio. There is no assurance that the Counterparty will maintain a hedge or will do so with respect to the full amount or term of the Forward Agreement.

The Fund will partially pre-settle the Forward Agreement prior to the Forward Termination Date, among other reasons, in order to fund monthly distributions as well as redemptions of Units by Unitholders from time to time and for payment of expenses of the Fund.

Under the Forward Agreement, the forward purchase price may be reduced for any dividends and distributions, including extraordinary distributions, declared and paid on the Common Share Portfolio securities paid to the Fund as owner of the Common Share Portfolio. In order to minimize the likelihood that such dividends or distributions will be paid, the Fund intends to acquire non-dividend paying common shares of Canadian public companies for the Common Share Portfolio. However, the Forward Agreement will provide that replacement common shares acceptable to the Counterparty may, at the Fund's option, be substituted for shares in respect of which a dividend or distribution has been declared prior to the record date for such dividend or distribution to preserve the value of the forward transaction. In the event that such replacement securities are not available, the Fund may consider contributing additional securities to the Common Share Portfolio or entering into additional forward, derivative or other transactions. The Forward Agreement will have similar provisions designed to permit the Fund to avoid adjustments of the amount to be paid on or about the Forward Termination Date which might otherwise be required if the Fund receives consideration as a consequence of a merger transaction involving any of the securities in the Common Share Portfolio.

The Forward Agreement may be terminated prior to the Forward Termination Date in certain circumstances, including if an event of default or a termination event occurs under the Forward Agreement.

Termination events under the Forward Agreement will include the following: (i) it becomes unlawful for a party to perform its obligations under or comply with any material provisions of the Forward Agreement; (ii) certain tax events occur which require a party to indemnify the other party in respect of certain taxes or reduce the amount that a party would otherwise have been entitled to receive under the Forward Agreement; (iii) failure of the Fund to comply with its governing documents; (iv) certain regulatory, credit or legal events occur which affect a party thereto, or the Manager; or (v) if the Counterparty determines in its sole discretion, acting reasonably and in good faith, that it is unable to effectively hedge its position under the Forward Agreement or that the cost of hedging its position under the Forward Agreement has increased, including, without limitation, as a result of the adoption of or change in any applicable law or regulation and the Fund is unable or unwilling, in its sole discretion, to compensate the Counterparty for such increased cost of hedging. The legitimate exercise of the Counterparty's rights may be contrary to the interests of the Fund or the holders of Units.

Events of default under the Forward Agreement include the following: (i) failure by a party to make a payment or perform an obligation when due under the Forward Agreement which is not cured within any applicable grace period; (ii) a party makes a representation which is incorrect or misleading in any material respect; (iii) a party defaults in respect of a specified transaction which default is not cured within any applicable grace period; (iv) certain events related to the bankruptcy or insolvency of a party; and (v) a party consolidates, amalgamates or merges with or into, or transfers substantially all its assets to, another entity and the resulting, surviving or transferee entity fails to assume the obligations of such party under the Forward Agreement.

The Counterparty may hedge its exposure under the Forward Agreement to the economic performance of the IS Trust. There is no assurance that the Counterparty will maintain a hedge or will do so with respect to the full amount or term of the Forward Agreement. The Fund is fully exposed to the credit risk associated with the Counterparty in respect of the Forward Agreement.

If the Forward Agreement is terminated prior to the Forward Termination Date for any reason, it is anticipated that the Forward Agreement will be settled by physical delivery of the Common Share Portfolio by the Fund to the Counterparty after payment of any amounts owing by the Counterparty to the Fund or vice versa. In the event of an early termination, the Manager may on behalf of the Fund, in its discretion, enter into a replacement forward agreement on terms satisfactory to the Manager, in its sole discretion, or the Manager may terminate the Fund or may take such other action as it considers necessary under the circumstances.

The Counterparty is at arm's length to each of the Fund, the Manager and the Trustee. One or more affiliates of the Counterparty may be involved in the offering and sale, from time to time, of the Units, through the TSX, and may invest as principal in these securities. The Counterparty and its affiliates may, at present or in the future, engage in business with the Fund, the issuers of securities making up the investment portfolio of the Fund, or with the Manager or any funds sponsored by the Manager or its affiliates, including by making loans, entering into derivative transactions or providing advisory or agency services. In addition, the relationship between the Counterparty and its affiliates, and the Manager and its affiliates may extend to other activities, such as being part of a distribution syndicate for other funds sponsored by the Manager or its affiliates.



As counterparty under the Forward Agreement, the interests of the Counterparty differ from those of the Fund and the Counterparty can be expected to exercise its rights from time to time under the Forward Agreement in its own best interests.

### **The IS Trust**

The IS Trust will be a newly created investment trust established prior to the Closing Date pursuant to the IS Trust Declaration of Trust by Picton Mahoney, as trustee of the IS Trust. The IS Trust will be established for the purpose of acquiring and holding the Portfolio. It is expected that the initial beneficial owner of all of the units of the IS Trust will be the Counterparty or an affiliate. On Closing, the Counterparty or one of its affiliates may subscribe for units of the IS Trust. The IS Trust will use any subscription proceeds for units of the IS Trust to acquire the Portfolio.

Units of the IS Trust will be redeemable at the demand of its unitholders. On redemption, an IS Trust unitholder will receive, for each unit of the IS Trust redeemed, an amount equal to the NAV per unit of the IS Trust at the close of business on that Business Day. The NAV per unit of the IS Trust will be equal to the amount by which the total assets of the IS Trust exceed its total liabilities on a per unit basis and, accordingly, will be based upon the value of the Portfolio.

The IS Trust will distribute all of its net income and net realized capital gains, if any, earned in each fiscal year to its unitholders to ensure that it is not liable for tax under Part I of the Tax Act. To the extent that the IS Trust has not distributed in cash the full amount of its net income in any year, the difference between such amount and the amount actually distributed by the IS Trust will be paid through the issuance of additional units having a NAV in the aggregate at the date of distribution equal to this difference. Immediately after any such distribution of units, the number of outstanding units of the IS Trust will be consolidated such that each unitholder of the IS Trust will hold, after the consolidation, the same number of units of the IS Trust as it held before the distribution of additional units.

### **OVERVIEW OF THE SECTOR THAT THE IS TRUST INVESTS IN**

The Portfolio composition will vary depending on market conditions but the Portfolio will be primarily invested in investment grade bonds and high-yield bonds. To a more limited extent, the Portfolio may be invested in other income asset classes including convertible bonds, preferred shares and dividend paying equities.

#### **Investment Grade Bonds**

Investment grade bonds are debt securities that have credit ratings of (i) BBB- or higher from S&P; (ii) Baa3 or higher from Moody's; or (iii) BBB (low) or higher from DBRS. Debt issues are typically traded over-the-counter by a wide variety of investment dealers and financial institutions on a negotiated basis. Pricing and liquidity can vary depending on the issuer, size of issue, availability of the securities, rating, term to maturity, interest and currency rate fluctuations, investor demand, the risks associated with the issuer and general economic conditions. The yield on investment grade bonds at a specific time is typically calculated on a "yield to maturity" basis (the return to be earned on the security if held to maturity, taking into account the discounted value of the future interest and principal payments). The price of investment grade bonds varies inversely with yields available in the market, which, in turn, reflect the changes in spreads over underlying government bonds and yields. As of August 10, 2012, the market value of the North American investment grade bond market is over US\$4.0 trillion with a yield to maturity of 3.1% according to US Corporate Master Index and Canadian Corporate Index provided by Bank of America Merrill Lynch.

#### **High-Yield Bonds**

High-yield bonds are debt securities that have credit ratings of (i) BB+ or lower from S&P; (ii) Ba1 or lower from Moody's; or (iii) BB (high) or lower from DBRS. The high-yield bond market emerged in the United States in the 1980's as a way to finance leveraged buyouts. More recently, while high-yield bonds have continued to be popular for financing acquisitions, they have been issued for a wide number of reasons, including by many Canadian companies. Global high-yield markets set issuance records in 2010 and 2011 as corporations refinanced their balance sheets after a slower new issue period in 2008 and early 2009. Use of proceeds of high-yield bond offerings is typically refinancing bank loans or high-yield bonds, leveraged buy-outs, dividend payouts, general corporate purposes, capital expenditures and bankruptcy exits. As of August 10, 2012, the market value of the North American high-yield bond market is over US\$1.0 trillion with a yield to worst (meaning the lowest potential yield that can be received on a bond

without the issuer defaulting) of 6.9% according to US High Yield Master II Index and Canadian High Yield Index provided by Bank of America Merrill Lynch.

### **Convertible Bonds**

Convertible bonds are a hybrid security, with debt and equity-like features, which the holder can convert into shares of common stock of the issuer or cash of equal value, at an agreed-upon price. As of August 10, 2012, the Portfolio Manager estimates the market value of convertible bonds is over US\$200 billion in North America with average yields of 3.8%.

### **Preferred Shares**

Preferred shares are a hybrid security with debt and equity-like features. Preferred shares are senior (i.e. higher ranking) to common stock but subordinate to bonds in terms of claim to (or rights to their share of) the assets of the issuer. As of August 10, 2012, the Portfolio Manager estimates the size of the preferred share market to be over US\$160 billion in North America with an average yield of approximately 6.1%.

### **Dividend Paying Equities**

Dividend paying equities are equity securities of companies with good records of paying dividends and equity securities the Portfolio Manager expects will pay dividends. As of August 10, 2012, the Portfolio Manager estimates the size of the income equity market to be US\$3.5 trillion in North America with an average dividend yield of approximately 2.9%, using data from the S&P Dividend Aristocrats indices.

## **INVESTMENT RESTRICTIONS**

### **Investment Restrictions of the Fund**

The investment activities of the Fund are to be conducted in accordance with, among other things, the following investment restrictions:

- (i) the Fund will ensure that all securities included in the Common Share Portfolio are “Canadian securities” as defined in the Tax Act;
- (ii) the Fund will not purchase securities other than through normal market facilities unless the purchase price approximates the prevailing market price or is negotiated or established on an arm’s length basis;
- (iii) the Fund will not purchase securities of an issuer if, as a result of such purchase, the Fund would be required to make a takeover bid that is a “formal bid” for the purposes of the Securities Act or the equivalent provision of applicable securities laws of any other jurisdiction;
- (iv) the Fund will manage its investments and affairs to ensure that it will be a “mutual fund trust” for purposes of the Tax Act and will not acquire any property that would be “taxable Canadian property” of the Fund as such term is defined in the Tax Act (if the definition were read without reference to paragraph (b) thereof) (or any amendment to such definition) or other “specified property” as such term is defined in the September 16th Tax Proposals; and
- (v) the Fund will manage its investments and affairs to ensure that it will not be subject to the tax for “SIFT trusts” as provided for in section 122 of the Tax Act.

The Fund may lend up to 100% of the securities comprising the Common Share Portfolio. Any securities lending by the Fund must be pursuant to a securities lending agreement to be entered into between the Fund and a securities borrower acceptable to the Fund pursuant to which the Fund will loan the securities comprising the Common Share Portfolio to the securities borrower on the terms therein, which terms shall include that: (i) the borrower will pay to the Fund a negotiated securities lending fee and will make compensation payments to the Fund equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as “securities lending arrangements” for the purposes of the Tax Act; and (iii) the Fund will receive collateral security. The Manager will be responsible for setting and reviewing any securities lending agreements. If a securities lending agent is appointed for the Fund, such agent will be responsible for the ongoing administration of the securities loans, including the obligation

to mark-to-market the collateral on a daily basis. The Fund will not, however, lend securities in the first six months following the closing of the Offering.

Unitholder approval is required to change the investment restrictions and investment objectives of the Fund. See “Unitholder Matters – Matters Requiring Unitholder Approval”.

### **Investment Restrictions of the IS Trust**

The investment activities of the IS Trust are to be conducted in accordance with, among other things, the following investment restrictions which provide that the IS Trust will not:

- (i) invest more than 10% of the aggregate value of the Total Assets in the securities of any single issuer and 5% of the aggregate value of the Total Assets in any individual security, other than (a) securities issued or guaranteed by the Government of Canada or a province or territory thereof or securities issued or guaranteed by the U.S. Government or its agencies and instrumentalities or (b) exchange traded funds used for hedging purposes;
- (ii) employ leverage, including borrowings under loan facilities, margin purchases, short selling and the use of derivative instruments, in amounts exceeding 2.5:1 (total market value of long positions (not including cash or cash equivalents, but including leveraged long positions) plus the absolute value of short positions divided by the NAV of the IS Trust) determined at the time of borrowing, provided that if at any time aggregate leverage exceeds 2.5:1, the Portfolio Manager will, as soon as practicable thereafter cause the leverage to be reduced below such threshold;
- (iii) have aggregate Net Exposure in excess of 150% or less than 50%, on a daily marked-to-market basis,;
- (iv) have aggregate Net Exposure in excess of 20% or less than -20%, on a daily marked-to-market basis, with respect to the following categories of security: (i) equity securities, not including exchange traded funds used for hedging purposes; (ii) convertible bonds and preferred shares; or (iii) securities of non-North American issuers;
- (v) invest more than 5% of the NAV of the IS Trust in distressed securities;
- (vi) invest more than 10% of the NAV of the IS Trust in securities of non-North American issuers;
- (vii) guarantee the securities or obligations of any person other than the Portfolio Manager, and then only in respect of the activities of the IS Trust;
- (viii) purchase securities from, sell securities to, or otherwise contract for the acquisition or disposition of securities with the Portfolio Manager or any of its affiliates, any officer, director or partner of the Portfolio Manager, any person, trust, firm or corporation managed by the Portfolio Manager or any of its affiliates or any firm or corporation in which any officer, director or partner of the Portfolio Manager may have a material interest (which, for these purposes, includes beneficial ownership of more than 10% of the voting securities of such entity) unless, with respect to any purchase or sale of securities, any such transaction is effected through normal market facilities, pursuant to a non-pre-arranged trade, and the purchase price approximates the prevailing market price or is approved by the IRC;
- (ix) own securities of an issuer if as a result of such ownership the Portfolio Manager would, either directly or indirectly, hold or exercise control or direction over greater than 19.99% of the securities of such issuer;
- (x) engage in securities lending that does not constitute a “securities lending arrangement” for purposes of the Tax Act;
- (xi) invest in or hold (i) securities of or an interest in any non-resident entity, an interest in or a right or option to acquire such property, or an interest in a partnership which holds any such property if the IS Trust (or the partnership) would be required to include any significant amounts in income pursuant to section 94.1 of the Tax Act; (ii) an interest in a trust (or a partnership which holds such an interest) which would require the IS Trust (or the partnership) to report income in connection with such interest pursuant to the rules in proposed section 94.2 of the Tax Act; or (iii) any interest in a non-resident trust (or a partnership which holds such an interest) other than an “exempt foreign trust” for the purposes of proposed section 94 of the Tax Act, each as set forth in the proposed amendments to the Tax Act dated August 27, 2010 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto);

- (xii) invest in any security that is a “tax shelter investment” within the meaning of section 143.2 of the Tax Act;
- (xiii) invest in any security of an issuer that would be a “foreign affiliate” of the IS Trust for purposes of the Tax Act;
- (xiv) unless it is an “excluded subsidiary entity” (as defined in subsection 122.1(1) of the Tax Act), invest in: (A) securities of a “subject entity” (as defined in the Tax Act) that have a total fair market value that exceeds 10% of the “equity value” (as defined in the Tax Act) of such subject entity; or (B) securities of a subject entity that, together with all securities of entities affiliated with the subject entity owned by the IS Trust, have a total fair market value that is greater than 50% of the equity value of the IS Trust for purposes of the Tax Act;
- (xv) unless it is an “excluded subsidiary entity” (as defined in subsection 122.1(1) of the Tax Act), invest in “Canadian real, immovable or resource property” as that term is defined in the Tax Act, if, at any time, the total fair market value of such properties is greater than 50% of the equity value of the IS Trust for purposes of the Tax Act; or
- (xvi) unless it is an “excluded subsidiary entity” (as defined in subsection 122.1(1) of the Tax Act), invest in any property that is used by the IS Trust, or a person or partnership with whom the IS Trust does not deal at arm’s length, in the course of carrying on a business in Canada.

If a percentage restriction on investment or use of assets or borrowing or financing arrangements set forth above as an investment restriction is adhered to at the time of the transaction, later changes to the market value of the investment or Total Assets will not be considered a violation of the investment restrictions (except for the restrictions in paragraphs (ix), (xiv) and (xv) above which must be complied with at all times and which may necessitate the selling of investments from time to time). If the IS Trust receives from an issuer subscription rights to purchase securities of that issuer, and if the IS Trust exercises those subscription rights at a time when the IS Trust’s holdings of securities of that issuer would otherwise exceed the limits set forth above, the exercise of those rights will not constitute a violation of the investment restrictions if, prior to the receipt of securities of that issuer on exercise of such rights, the IS Trust has sold at least as many securities of the same class and value as would result in the restriction being complied with.

Notwithstanding the foregoing, at the Portfolio Manager’s discretion, the Portfolio may be invested entirely in cash or cash equivalents.

## **FEES AND EXPENSES**

### **Fees and Expenses Payable by the Fund**

#### *Offering Expenses*

In addition to the Agents’ fees, the Fund will pay the expenses incurred in connection with the Offering, estimated to be \$800,000 (subject to a maximum of 1.5% of the gross proceeds of the Offering).

#### *Management Fees*

The Manager will receive an annual management fee (the “**Management Fee**”) equal (i) in respect of the Class A Units, in the aggregate to 0.75% per annum of the NAV of the Class A Units, comprised of (a) 0.25% per annum of the NAV of the Class A Units, calculated daily and payable quarterly in arrears, plus (b) an amount equal to the Servicing Fee (as defined below) of 0.50% per annum of the NAV of the Class A Units which the Manager will pay to registered dealers, calculated quarterly and payable as soon as practicable after the end of each calendar quarter; and (ii) in respect of the Class F Units, to 0.25% per annum of the NAV of the Class F Units, calculated daily and payable quarterly in arrears, plus in each case applicable taxes. The Management Fee payable to the Manager in respect of the quarter in which Closing occurs will be *pro rated* based on the fraction that the number of days from and including the Closing Date to and including the last day of the calendar quarter is of the number of days in such calendar quarter.

#### *Operating Expenses*

The Fund will pay for all ordinary expenses incurred in connection with its operation and administration. It is expected that the expenses for the Fund may include, without limitation: all costs of Common Share Portfolio transactions, fees payable to the Trustee, the Manager, the Custodian and other third-party service providers, legal, accounting, audit and

valuation fees and expenses, fees and expenses of the members of the IRC, expenses related to compliance with NI 81-107, fees and expenses relating to the voting of proxies by a third-party, premiums for officers' insurance coverage for the officers of the Manager and members of the IRC, costs of reporting to Unitholders, registrar, transfer and distribution agency costs, printing and mailing costs, listing fees and expenses and other administrative expenses and costs incurred in connection with the continuous public filing requirements and investor relations, taxes, brokerage commissions, costs and expenses relating to the issue of Units, costs and expenses of preparing financial and other reports, costs and expenses arising as a result of complying with all applicable laws, regulations and policies, extraordinary expenses that the Fund may incur and all amounts paid on account of indebtedness. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which the Manager, the Trustee, the Custodian, the IRC and/or any of their respective officers, directors, partners, employees, consultants or agents is entitled to indemnity by the Fund.

The Manager estimates that operational expenses of the Fund, exclusive of management fees, debt service and other costs and brokerage expenses related to portfolio transactions, will be approximately \$150,000 per year (assuming an aggregate Offering size of \$100 million).

#### *Counterparty Fee*

The Fund will pay fees to the Counterparty under the Forward Agreement of 0.60% per annum of the notional amount of the Forward Agreement (being effectively the Net Asset Value of the IS Trust), plus applicable taxes.

#### *Additional Services*

Any arrangements for additional services between the Fund and the Manager, or any affiliate thereof, that have not been described in this prospectus shall be on terms that are no less favourable to the Fund than those available from arm's length persons (within the meaning of the Tax Act) for comparable services and the Fund shall pay all expenses associated with such additional services. Any such arrangements would require the prior approval of the IRC.

### **Fees and Expenses Payable by the Manager**

#### *Servicing Fee*

The Manager will pay to registered dealers a servicing fee (the "**Servicing Fee**") equal to 0.50% annually of the Net Asset Value per Class A Unit for each Class A Unit held by clients of the registered dealers, calculated and paid on the last Business Day of each calendar quarter commencing on December 31, 2012, plus applicable taxes. The Manager may, from time to time, pay the Servicing Fee more frequently than quarterly, in which event the Servicing Fee will be *pro-rated* for the period to which it relates. The Servicing Fee payable in respect of the quarter in which Closing occurs will be *pro-rated* based on the fraction that the number of days from and including the Closing Date to and including the last day of the calendar quarter is to the number of days in such calendar quarter.

### **Fees and Expenses Payable by the IS Trust**

#### *Management Fee*

The Portfolio Manager will be paid an annual management fee of 1.0% per annum of the NAV of the IS Trust, calculated daily and payable monthly in arrears, plus applicable taxes. The management fee payable to the Portfolio Manager in respect of the month in which Closing occurs will be *pro rated* based on the fraction that the number of days from and including the Closing Date to and including the last day of the month is of the number of days in such month.



### *Operating Expenses*

The IS Trust will pay for all ordinary expenses incurred in connection with its operation and administration. It is expected that expenses of the IS Trust will include, without limitation, all costs of Portfolio transactions, fees payable to the Portfolio Manager, the Custodian and other third-party service providers, custodial and prime brokerage fees, legal, accounting, audit and valuation fees, IRC fees, other administrative expenses, all amounts paid on account of indebtedness and any extraordinary expenses that the IS Trust may incur.

The Portfolio Manager estimates that operational expenses of the IS Trust, exclusive of management fees, performance fees, debt service and other costs and brokerage expenses related to Portfolio transactions, will be approximately \$75,000 per year (assuming an aggregate Offering size of \$100 million).

### *Performance Fee*

The Portfolio Manager will also receive from the IS Trust, for each fiscal year of the IS Trust, a performance fee (the “**Performance Fee**”). The amount of the Performance Fee shall be determined as of December 31<sup>st</sup> of each year (the “**Determination Date**”). The Performance Fee for a given fiscal year will be the amount for each unit of the IS Trust then outstanding equal to 20% of the amount by which the sum of (i) the net asset value of such unit (calculated without taking into account the accrual of a Performance Fee) at the end of such year; and (ii) the distributions paid on such unit during the previous 12 months, exceeds 105.70% (or the *pro rata* portion of a 5.70% hurdle rate in the event that the calculation period is less than a full year, such as the period between Closing and December 31, 2012) of the Threshold Amount (the “**Hurdle Rate**”).

The “Threshold Amount” is the greater of: (i) the initial net asset value per unit of the IS Trust; (ii) the net asset value per unit of the IS Trust on the Determination Date for the previous fiscal year (after payment of such Performance Fee); and (iii) the net asset value per unit of the IS Trust on the Determination Date in the last fiscal year in which a Performance Fee was paid (after payment of such Performance Fee).

The Performance Fee, plus applicable taxes, shall be calculated and accrued daily and paid annually, if earned.

Notwithstanding the foregoing, if any units of the IS Trust are redeemed in a calendar year prior to the relevant Determination Date, the amount of any accrued Performance Fee in respect of such redeemed units will be paid to the Portfolio Manager immediately following such redemption as if the date on which the units are redeemed was a Determination Date in respect of such units.

## **RISK FACTORS**

In addition to the considerations set out elsewhere herein, described below are certain considerations relating to an investment in Units which prospective investors should consider before investing in Units. Additional risks and uncertainties not currently known to the Manager or that are currently considered in currently considered immaterial, may also impair the operations of the Fund and the IS Trust. If any such risk actually occurs, the financial condition, liquidity and the ability to the Fund to meet its objectives could be materially adversely affected.

### **No Assurances of Achieving Distribution and Capital Preservation Objectives**

There is no assurance that the Fund will be able to achieve its total return, capital preservation and distribution investment objectives. The funds available for distribution to Unitholders will vary according to, among other things, the levels of interest, dividends or distributions paid on the securities in the Portfolio and the value of the securities in the Portfolio. There is no assurance that the Portfolio will earn any return. No assurance can be given as to the amount of distributions in future years. No assurance can be given that the NAV of the Fund will appreciate or be preserved.

It is possible that, due to declines in the market value of the securities in the Portfolio, the Fund will, after settlement or partial pre-settlement of the Forward Agreement, have insufficient assets to achieve in full its total return, capital preservation and distribution investment objectives.



## **Loss of Investment**

An investment in the Fund is appropriate only for investors who have the capacity to absorb investment losses and who can withstand the effect of a distribution not being made in any period.

## **No Guaranteed Return**

There is no guarantee that an investment in Units will earn any positive return in the short or long-term.

## **Performance of the Portfolio**

The NAV per Class A Unit and the NAV per Class F Unit will vary as the fair value of the securities in the Portfolio varies by virtue of the Forward Agreement. The Fund and the Manager have no control over the factors that affect the fair value of the securities in the Portfolio, including factors that affect the markets generally, such as general economic and political conditions and fluctuations in interest rates, and factors unique to each issuer included in the Portfolio, such as changes in management, changes in strategic direction, achievement of strategic goals, mergers, acquisitions and divestitures, changes in distribution policies and other events that may affect the value of its securities.

## **General Risks of Investing in Debt Securities**

Generally, debt securities will decrease in value when interest rates rise and increase in value when interest rates decline. The NAV of the Fund will fluctuate with interest rate changes and the corresponding changes in the value of the securities in the Portfolio. The value of debt securities is also affected by the risk of default in the payment of interest and principal and price changes due to such factors as general economic conditions and the issuer's creditworthiness. Corporate debt securities may not pay interest or their issuers may default on their obligations to pay interest and/or principal amounts. Certain of the debt securities that may be included in the Portfolio from time to time may be unsecured, which will increase the risk of loss in case of default or insolvency of the issuer.

## **High-Yield Securities**

The IS Trust will make investments in "high-yield" bonds that are not investment grade. Securities in the lower rating categories are subject to greater risk of loss, as to timely repayment of principal and timely payment of interest and have lower recovery rates once in default than higher-rated securities. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. The yields and prices of lower-rated securities may tend to fluctuate more than those for higher-rated securities.

In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of the securities. High-yield securities that are rated BB+ or lower by S&P or Ba1 or lower by Moody's are often referred to in the financial press as "junk bonds" and may include securities of issuers in default. "Junk bonds" are considered by the ratings agencies to be predominantly speculative and may involve major risk exposures such as: (i) vulnerability to economic downturns and changes in interest rates; (ii) sensitivity to adverse economic changes and corporate developments and risk of repayment; (iii) redemption or call provisions which may be exercised at inopportune times; and (iv) difficulty in accurately valuing or disposing of such securities.

## **Equity Risk**

Equity securities such as common shares or units of income trusts give the holder part ownership in a company or income trust, as applicable. The value of an equity security changes with the fortunes of the company that issued it. General market conditions and the health of the economy as a whole can also affect equity prices. Equity related securities that provide indirect exposure to the equity securities of an issuer, such as convertible debentures, can also be affected by equity risk. Present economic conditions may adversely affect global companies and the pricing of their securities. Further continued volatility or illiquidity could impair materially the profitability of these issuers.

## **Suspension of Trading**

For all securities traded on public exchanges, each exchange typically has the right to suspend or limit trading in all securities that it lists. Such a suspension could render it impossible to liquidate positions listed on that market and thereby expose the IS Trust to losses. In addition, there is no guarantee that non-exchange markets will remain liquid enough to close out positions.

## **Use of Leverage**

It is anticipated that the IS Trust may employ leverage, including borrowings under loan facilities, margin purchases, short selling and the use of derivative instruments, which will be secured by the assets of the IS Trust. There can be no assurance that such a strategy will enhance returns and in fact the strategy may reduce returns (both distributions and capital). If the securities in the Portfolio suffer a decrease in value, the leverage component will cause a decrease in NAV of the IS Trust in excess of that which would otherwise be experienced.

## **Market Disruptions**

War and occupation, terrorism and related geopolitical risks may in the future lead to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally. Those events could also have an acute effect on individual issuers or related groups of issuers. These risks could also adversely affect securities markets, inflation and other factors relating to the securities that may be held by the IS Trust from time to time.

## **Global Financial Developments**

Global financial markets have experienced a sharp increase in 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 this stimulus will continue or that, if it continues, it will be successful or these economies will not be adversely affected by the inflationary pressures resulting from such stimulus or central banks' efforts to slow inflation. Further, continued market concerns about the European sovereign debt crisis and matters related to the U.S. government debt limits may adversely impact global equity markets. Some of these economies are experiencing significantly diminished growth and some are experiencing a recession. These market conditions and further volatility or illiquidity in capital markets may also adversely affect the prospects of the Fund, the IS Trust and the value of the Portfolio. A substantial drop in the markets in which the IS Trust invests could be expected to have a negative effect on the Fund.

## **Reliance on the Manager and the Portfolio Manager**

Unitholders will be dependent on the ability of Picton Mahoney as the Manager and the Portfolio Manager to effectively manage the Fund and the IS Trust, respectively, in a manner consistent with the investment objectives, strategies and restrictions of the Fund and the IS Trust, as applicable. Performance of the IS Trust (and therefore the return to Unitholders) by virtue of the Forward Agreement will be dependent on the ability of the Portfolio Manager, which provides portfolio management services to the IS Trust to successfully execute the investment strategies of the IS Trust. There is no certainty that the individuals who are principally responsible for providing administration and portfolio management services to the Fund and the IS Trust, will continue to be employed by Picton Mahoney. The loss of the services of any one of these individuals could impair the ability of the Manager or the Portfolio Manager to perform its duties.

## **Sensitivity to Interest Rates**

The market price of the Class A Units may be affected by the level of interest rates prevailing from time to time. In addition, any decrease in the NAV of the Fund resulting from an increase in interest rates may also negatively affect the market price of the Class A Units as well as the NAV per Class A Unit and the NAV per Class F Unit. Unitholders will therefore be exposed to the risk that the NAV per Class A Unit and the NAV per Class F Unit or the market price of the Class A Units may be negatively affected by interest rate fluctuations.

## **Liquidity of the Securities in the Portfolio**

Some of the securities in which the IS Trust intends to invest may trade infrequently and some may have no market at all. It is possible that the IS Trust may not be able to sell portions of such positions without facing substantially adverse prices. If the IS Trust is required to transact in such securities or other assets before their intended investment horizon, the performance of the IS Trust could suffer.

The market value of the IS Trust's investments may fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of financial markets, developments or trends in any particular industry and the financial condition of the issuers of securities in which the IS Trust invests. During periods of limited liquidity and higher price volatility, the IS Trust's ability to acquire or dispose of its investments at a price and time that the IS Trust deems advantageous may be impaired. As a result, in periods of rising market prices, the IS Trust may be unable to participate in price increases fully to the extent that it is unable to acquire the desired positions quickly. The IS Trust's inability to dispose fully and promptly of positions in declining markets will conversely cause the NAV of IS Trust to decline as the value of unsold positions is marked to lower prices.

## **Concentration Risk**

The IS Trust may concentrate its investments in specific industries, commodities or regions. This concentrated focus may constrain the liquidity and the number of investments available to the IS Trust. In addition, the investments of the IS Trust may be disproportionately exposed to the risks associated with the industries, commodities or regions in which the IS Trust concentrates its investments.

## **Short Sales**

The IS Trust may sell securities short. A short sale is effected by selling a security which the IS Trust does not own. In order to make delivery to the buyer of a security sold short, the IS Trust must borrow the security. In so doing, it incurs the obligation to replace that security, whatever its price may be, at the time it is required to deliver it to the lender. The IS Trust must also pay to the lender of the security any dividends or interest payable on the security during the borrowing period and may have to pay a premium to borrow the security. This obligation must be collateralized by a deposit of cash or marketable securities with the lender. Short selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by the IS Trust. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing the loss incurred by the IS Trust. Furthermore, the IS Trust may prematurely be forced to close out a short position if a counterparty from which, the IS Trust borrowed securities demands their return, resulting in a loss on what might otherwise have been ultimately a profitable position.

Market regulators in various jurisdictions have at times taken measures to impose restrictions on the ability of investors to enter into short sales, including the imposition of a complete prohibition on taking short positions in respect of certain issuers. Such restrictions may negatively affect the ability of the IS Trust to implement its strategies and/or they could cause the IS Trust to incur losses. It cannot be determined how future regulations may limit the IS Trust's ability to engage in short selling and how such limitations may impact the IS Trust's performance.

## **Hedging Instruments**

The IS Trust may enter into swaps and other negotiated principal transactions and sell securities short for hedging, leveraging or other purposes. Typically, these techniques involve one or more of the following risks: (i) imperfect correlation between the performance and value of the instrument and the value of the IS Trust's securities or other objective of the Portfolio Manager; (ii) possible lack of a secondary market for closing out a position in such instrument; (iii) losses resulting from interest rate, spread or other market movements; (iv) the possible obligation to meet additional margin or other payment requirements, all of which could worsen the IS Trust's position; and (v) possible impediments to effective portfolio management or the ability to meet short-term obligations because of the percentage of a portfolio's assets segregated to cover its obligations. The ability of the IS Trust to hedge successfully depends on the ability of the Portfolio Manager to predict pertinent market movements, which cannot be assured. The Portfolio Manager is not required to hedge and there can be no assurance that hedging transactions will be available or, if undertaken, will be effective. In addition, it is not possible to hedge fully or perfectly against currency

fluctuations affecting the value of securities denominated in non-Canadian currencies because the value of those securities is likely to fluctuate as a result of independent factors not related to currency fluctuations. Moreover, it should be noted that the Portfolio will always be exposed to certain risks that cannot be hedged practically. In addition, by hedging a particular position, any potential gain from an increase in value of such position may be limited.

### **Over-the-Counter Transactions**

In addition to trading on U.S. and Canadian futures exchanges, the IS Trust may trade other products, some of which may trade on non-U.S. and non-Canadian exchanges while others trade on the over-the-counter (“**OTC**”) market. These transactions present certain risks different from the risks of trading on U.S. and Canadian exchanges. The OTC market is unregulated and, accordingly, there are certain risks related to trading OTC instruments, including the absence of daily price limits and the risk of counterparty default, in addition to the risks of trading futures contracts.

### **Bank Loans**

The IS Trust also may invest in bank loans and participations. Bank loans are not traded on regulated exchanges, are not registered with governmental authorities and are not subject to the rules of any self-regulatory organization. Investment in bank loans may be in the form of either a participation or an assignment. The special risks associated with these obligations include (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors’ rights laws, (ii) environmental liabilities that may arise with respect to collateral securing the obligations, (iii) adverse consequences resulting from participating in such instruments with other institutions with lower credit quality, and (iv) limitations on the ability of the IS Trust to directly enforce its rights with respect to participations (as discussed further below). The Portfolio Manager will balance the magnitude of these risks against the potential investment gain prior to entering into each such investment. Successful claims by third parties arising from these and other risks, absent bad faith, may be borne by the IS Trust.

Bank loan participations involve certain risks in addition to those associated with direct loans. A bank loan participant has no contractual relationship with the borrower of the underlying bank loan. As a result, the participant is generally dependent upon the lender to enforce its rights and obligations under the agreement in the event of a default and may not have the right to object to amendments or modifications of the terms of such agreement. A participant in a syndicated bank loan generally does not have voting rights, which are retained by the lender. In addition, a bank loan participant is subject to the credit risk of the lender as well as the borrower, since a bank loan participant is dependent upon the lender to pay its percentage of payments of principal and interest received on the underlying loan.

In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively, “**Lender Liability**”). Generally, Lender Liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to a borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. In particular, it is anticipated that certain affiliates of the Portfolio Manager may originate or syndicate loans in which the IS Trust may participate. To the extent that an action is brought against an affiliate, a borrower may attempt to bring the IS Trust into such action.

In addition, under common law principles that in some cases form the basis for Lender Liability claims, if a lender or bondholder: (i) intentionally takes an action that results in the undercapitalization of an obligor to the detriment of other creditors of such obligor; (ii) engages in other inequitable conduct to the detriment of such other creditors; (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors; or (iv) uses its influence as a lender or bondholder to dominate or control an obligor to the detriment of such creditors, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, which remedial action is called “equitable subordination.”

The historical performance of the term loan market is not necessarily indicative of its future performance. Should increases in default rates occur with respect to the bank loans in which the IS Trust invests, the IS Trust will suffer greater losses or reduced profits.

The IS Trust may purchase loans that may be in default or are from borrowers in financial distress or bankruptcy proceedings. In addition, some loans that may be purchased by the IS Trust may not have any maturity in the case of a defaulted or bankrupt borrower. As with other types of debt instruments, loans involve the risk of loss in the case of

default or insolvency of the borrower. Such loans may also be less liquid than the debt instruments of publicly traded companies.

### **Forward Counterparty Risk**

The Fund will enter into the Forward Agreement with the Counterparty pursuant to which the Fund will be required on the Forward Termination Date to physically deliver the Common Share Portfolio to the Counterparty in exchange for a cash payment in an amount determined with reference to the value of the units of the IS Trust, or at the election of the Fund, to make a net cash payment to the appropriate party in an amount which may be more or less than the original subscription price of the Units. In entering into the Forward Agreement, the Fund will be exposed to the credit risk associated with the Counterparty and the possibility exists that the Counterparty will default on its payment obligations under the Forward Agreement. Depending on the value of the Common Share Portfolio, the Fund's exposure to the credit risk of the Counterparty may be significant.

### **Forward Agreement Proceeds**

The possibility exists that the Counterparty pursuant to the Forward Agreement will default on its payment obligations under the Forward Agreement or that the proceeds of the Forward Agreement will be used to satisfy other liabilities of the Fund, which liabilities could include obligations to third-party creditors if the Fund has insufficient assets, excluding the proceeds of the Forward Agreement, to pay its liabilities. Unitholders will have no recourse or rights against the assets of the IS Trust, the Manager, the Portfolio Manager or the Counterparty in respect of the Forward Agreement or arising out of the Forward Agreement.

### **Trading Price of Units**

The Class A Units may trade in the market at a discount to the NAV per Class A Unit and there can be no assurance that the Class A Units will trade at a price equal to (or greater than) the NAV per Class A Unit.

### **Class F Units**

Class F Units will not be listed on any stock exchange. It is expected that liquidity for the Class F Units will be obtained by means of conversion into Class A Units and the sale of those Class A Units through the facilities of the TSX.

### **Fluctuations in NAV**

Fluctuations in NAV per Class A Unit (and/or the trading price of the Class A Units) and fluctuations in the NAV per Class F Unit may occur for a number of reasons beyond the control of the Fund or the Manager. The NAV of the Fund varies according to, among other things, the value of the investments held in the Portfolio. The Manager, the Portfolio Manager, the IS Trust and the Fund have no control over the factors that affect the value of such investments, including market, economic, political, regulatory and other conditions.

### **Performance Fees**

The redemption price received by investors whose Units are redeemed during a calendar year will reflect an accrual for the Performance Fee, based on any increase in net asset value from the beginning of the fiscal year through the date of redemption. No adjustment will be made to the redemption price or to the amount payable to the Portfolio Manager for the Performance Fee if the IS Trust's performance subsequently declines.

Performance based payments to the Portfolio Manager, such as the Performance Fee, may create an incentive for the Portfolio Manager to engage in investment strategies and make investments that are more speculative than would be the case in the absence of such payments.

### **Securities Lending**

The Fund and the IS Trust may engage in securities lending. Although they will receive collateral for the loans and such collateral will be marked-to-market, the Fund or the IS Trust, as applicable, will be exposed to the risk of loss



should the borrower default on its obligation to return the borrowed securities and the collateral be insufficient to reconstitute the portfolio of loaned securities.

### **Currency Exposure**

As the Portfolio may be invested in securities traded in U.S. dollars and other foreign currencies, the NAV of the Fund, when measured in Canadian dollars, will, to the extent this has not been hedged against, be affected by changes in the value of the U.S. dollar and other foreign currencies relative to the Canadian dollar. The IS Trust may not be fully hedged and distributions received on the Portfolio will not be hedged and accordingly no assurance can be given that the Fund will not be adversely impacted by changes in foreign exchange rates or other factors. The use of hedges, if used, involves special risks, including the possible default by the other party to the transaction, illiquidity and, to the extent the Portfolio Manager's assessment of certain market movements is incorrect, 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 of the Portfolio if the Portfolio 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.

### **Redemptions**

If holders of a substantial number of Units exercise their redemption rights, the number of Units outstanding and the NAV of the Fund could be significantly reduced. A significant number of redemptions would increase the management expense ratio of the Fund. Many closed-end funds, like the Fund, with a redemption feature, have experienced significant redemptions and, as a result, some have ceased to be economically feasible and have been terminated or merged with other funds. The Manager may terminate the Fund upon notice to Unitholders if, in the opinion of the Manager, the NAV of the Fund is reduced as a result of redemptions or otherwise so that it is no longer economically feasible to continue the Fund.

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

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

### **Potential Conflicts of Interest**

The Manager and the Portfolio Manager and their officers, partners, affiliates and associates may engage in the promotion, management or investment management of other accounts, funds or trusts which invest primarily in the securities held by the IS Trust.

Although officers, directors and professional staff of the Manager and the Portfolio Manager will devote as much time to the Fund and the IS Trust as is deemed appropriate to perform their duties, the staff of the Manager and the Portfolio Manager may have conflicts in allocating their time and services among the Fund, the IS Trust and the other funds managed by the Manager and the Portfolio Manager.

### **Changes in Legislation**

There can be no assurance that tax, securities and other laws will not be changed in a manner which adversely affects the distributions received by the Fund or by the Unitholders.

### **Taxation Matters Affecting the Fund**

On October 31, 2003, the Department of Finance (Canada) released a Tax Proposal (the "**October 2003 Proposals**") relating to the deductibility of losses under the Tax Act. Under the October 2003 Proposals, 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 the October 2003 Proposals were to apply to the Fund, certain losses of the Fund may be limited 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 the October 2003 Proposals would be released (the “**Alternative Proposal**”). To date, the Alternative Proposal has not been released and no assurance can be given that it will not adversely affect the Fund.

If certain Tax Proposals released on September 16, 2004 are enacted as proposed (the “**September 16th Tax Proposals**”), the Fund would cease to qualify as a “mutual fund trust” for purposes of the Tax Act if, at any time after 2004, the fair market value of all Units held by non-residents, partnerships that are not “Canadian partnerships”, or any combination of the foregoing, is more than 50% of the fair market value of all issued and outstanding Units unless not more than 10% (based on fair market value) of the Fund’s property is at any time “taxable Canadian property” as defined in the Tax Act (determined without reference to paragraph (b) of that definition) and certain other types of specified property. The September 16th Tax Proposals were not included in Bill C-52, which received Royal Assent on June 22, 2007. Pursuant to an amendment to the Tax Act contained in Bill C-52, the Fund would be deemed not be a mutual fund trust after any time when it can reasonably be considered that the Fund was established or is maintained primarily for the benefit of non-resident persons unless, at that time, all or substantially all of its property is property other than taxable Canadian property (determined without reference to paragraph (b) of that definition). It is not clear whether this amendment supersedes the September 16th Tax Proposals. Restrictions on the ownership of Units are intended to limit the number of Units held by non-residents such that non-residents, partnerships that are not Canadian partnerships, or any combination of the foregoing, may not own Units representing more than 50% of the Units. Further, provided the Fund complies with its investment restrictions, it is not anticipated that more than 10% of the fair market value of the Fund’s assets will, at any time, be attributable to taxable Canadian property or other specified property, with the result that the Manager does not anticipate that the September 16th Tax Proposals (even if enacted in their current form) or the above-mentioned amendment to the Tax Act would lead to a loss of mutual fund trust status for the Fund.

If the Fund does not qualify as a “mutual fund trust” under the Tax Act at all times, or ceases to so qualify, the income tax considerations described under the heading “Income Tax Considerations” would be materially and adversely different in certain respects. There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the CRA respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the Unitholders.

The Foreign Account Tax Compliance provisions of the U.S. Hiring Incentives to Restore Employment Act of 2010 (“**FATCA**”) generally impose a reporting and 30% U.S. withholding tax regime with respect to (a) certain U.S. source income (including interest and dividends) and gross proceeds from the sale or other disposition of property that can produce U.S. source interest or dividends (“**withholdable payments**”) and (b) “**passthru payments**” (generally, withholdable payments and payments that are attributable to withholdable payments made by certain non-U.S. financial institutions). For purposes of the FATCA rules, each of the Fund and the IS Trust are expected to be treated as non-U.S. financial institutions. Under FATCA, unless the Fund enters into an agreement (a “**FATCA Agreement**”) with the U.S. Internal Revenue Service (the “**IRS**”) pursuant to which it agrees to report to the IRS information regarding the U.S. holders of, and certain U.S. persons that indirectly hold, interests in the Fund (other than equity and debt interests that are regularly traded on an established securities market), and to comply with other reporting, verification, due diligence and other procedures established by the IRS, the Fund will be subject to 30% U.S. withholding tax on (a) withholdable payments made to it after December 31, 2013 (provided that gross proceeds that are withholdable payments will not be subject to FATCA withholding until after December 31, 2014) and (b) foreign passthru payments (generally, passthru payments that are not withholdable payments) made to it after December 31, 2016 by non-U.S. financial institutions that have entered into a FATCA Agreement. Under current FATCA guidance provided by the IRS, a portion of any payments made by the Counterparty to the Fund pursuant to the Forward Agreement may constitute a passthru payment. If the Fund enters into a FATCA Agreement with the IRS and the Units are not regularly traded on an established securities market, the Fund generally will be required to withhold 30% U.S. tax after December 31, 2016 on a portion of the distributions that it makes to Unitholders that fail to provide information requested by the Fund to comply with FATCA. It is expected, however, that Units will be regularly traded on an established securities market within the meaning of the FATCA rules. In addition, if the Fund enters into a FATCA Agreement with the IRS, and regardless of whether Units are regularly traded on an established securities market, the Fund may be required to withhold 30% U.S. tax on a portion of payments made by the Fund after December 31, 2016 to non-U.S. financial institutions (for example, a Unitholder’s Canadian investment dealer) that have not entered into a FATCA Agreement with the IRS, including non-U.S. financial institutions through which Units are held. Similarly, a non-U.S. financial institution that has entered into a FATCA Agreement with the IRS and

that holds Units on behalf of a Unitholder may be required to withhold 30% U.S. tax on foreign passthru payments that it makes with respect to the Units after December 31, 2016 to a Unitholder that fails to provide information requested by such non-U.S. financial institution to comply with FATCA or to a non-U.S. financial institution that has not entered into a FATCA Agreement with the IRS. The Fund has not yet determined if it will enter into a FATCA Agreement.

If the IS Trust does not enter into a FATCA Agreement with the IRS, payments to the IS Trust could be subject to 30% U.S. withholding tax on (a) withholdable payments and (b) passthru payments made to it by non-U.S. financial institutions that have entered into a FATCA Agreement with the IRS. Any such withholding tax could reduce the value of the IS Trust and, therefore, the amount payable to the Fund under the Forward Agreement. In addition, payments made by the IS Trust (including payments on its units) may be foreign passthru payments and accordingly, a portion of such payments may be subject to 30% U.S. tax withholding if made to unitholders of the IS Trust that fail to provide information required by the IS Trust in order to comply with FATCA or to persons that are non-U.S. financial institutions that have not entered into a FATCA Agreement with the IRS. The IS Trust has not yet determined if it will enter into a FATCA Agreement.

The IRS and the U.S. Treasury Department have issued preliminary guidance which, if finalized, will generally not impose the 30% U.S. withholding tax under FATCA on payments pursuant to debt obligations outstanding as of December 31, 2012 (absent a modification that causes the debt obligations to be treated as having been reissued after December 31, 2012). This exception from FATCA withholding will not apply to equity interests (including the Units) or debt instruments that are treated as equity for U.S. federal income tax purposes. It is unclear whether this exception will apply to the Forward Agreement.

This description is based on guidance issued by the IRS, including recently issued proposed regulations. Future guidance may affect the application of FATCA to the Units and the Portfolio. Therefore, the application of FATCA to the Units and the Portfolio is uncertain. Because the application of FATCA withholding tax could materially affect an investment in the Fund, prospective investors are advised to consult their own tax advisors as to the application of FATCA to an investment in the Units.

The U.S. tax characterization of the transactions described herein is uncertain. Any U.S. tax liability of the IS Trust will reduce the value of its units and, therefore, the price payable to the Fund by the Counterparty under the Forward Agreement. Similarly, any U.S. tax liability of the Fund will reduce the amounts otherwise available to the Fund for distribution to Unitholders. For example, with respect to payments made to the Fund pursuant to the Forward Agreement, if any, that are determined by reference to dividends paid on U.S. equities or debt instruments that are treated as equity for U.S. federal income tax purposes (a “**Dividend Equivalent Payment**”), pending final regulations from the IRS, it is not clear whether such payments could be subject to FATCA or U.S. withholding in general. The Portfolio Manager understands that interest paid to the IS Trust by U.S. issuers will generally be free of U.S. withholding tax or other U.S. tax other than under FATCA if no FATCA Agreement is in place, and that dividends paid to the IS Trust by U.S. corporations will be subject to U.S. withholding tax, generally at the rate of 15%, and not be subject to other U.S. tax other than under FATCA if no FATCA Agreement is in place. The Manager, Portfolio Manager, the IS Trust and the Fund will use commercially reasonable efforts to manage the investments and affairs of the IS Trust and the Fund in a manner that will not result in the IS Trust or the Fund being subject to U.S. tax other than U.S. withholding tax on dividends (or on Dividend Equivalent Payments).

#### ***CIRCULAR 230 NOTICE***

PURSUANT TO U.S. TREASURY DEPARTMENT CIRCULAR 230, THE FUND INFORMS PROSPECTIVE INVESTORS THAT (A) THE SUMMARIES OF U.S. FEDERAL INCOME TAX MATTERS AND CONSIDERATIONS SET FORTH IN THIS PROSPECTUS ARE NOT INTENDED AND WERE NOT WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING PENALTIES UNDER THE U.S. FEDERAL TAX LAWS THAT MAY BE IMPOSED ON THE TAXPAYER, (B) THE SUMMARIES OF U.S. FEDERAL INCOME TAX MATTERS AND CONSIDERATIONS SET FORTH IN THIS PROSPECTUS WERE WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING BY THE FUND OF THE UNITS, AND (C) EACH TAXPAYER SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

### **No Operating History**

The Fund is a newly organized investment trust with no previous operating history. There is currently no public market for the Units and there can be no assurance that an active public market for the Units will develop or be sustained after completion of the Offering.

### **Not a Trust Company**

The Fund is not a trust company and, accordingly, is not registered under the trust company legislation of any jurisdiction. Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* and are not insured under provisions of that Act or any other legislation.

### **Nature of Units**

The Units represent a fractional interest in the net assets of the Fund. Units are dissimilar to debt instruments in that there is no principal amount owing to Unitholders. Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions.

### **Liability of Unitholders**

The Fund is a unit trust and as such its Unitholders do not receive the protection of statutorily mandated limited liability in some provinces and territories as in the case of shareholders of most Canadian corporations. There is no guarantee, therefore, that Unitholders could not be made party to legal action in connection with the Fund. However, the Trust Agreement provides that no Unitholder, in its capacity as such, will be subject to any liability whatsoever, in tort, contract or otherwise, to any person in connection with the Fund’s property or the obligations or the affairs of the Fund and all such persons are to look solely to the Fund’s property for satisfaction of claims of any nature arising out of or in connection therewith and only the Fund’s property will be subject to levy or execution.

Pursuant to the Trust Agreement, the Fund will indemnify and hold harmless each Unitholder from any costs, damages, liabilities, expenses, charges and losses suffered by a Unitholder resulting from or arising out of such Unitholder not having limited liability. The Trust Agreement also provides that the Trustee and the Manager shall use reasonable efforts to cause to be inserted in each material written agreement, undertaking and obligation signed by or on behalf of the Fund a provision to the effect that such agreement, undertaking or obligation will not be binding upon Unitholders personally.

As a result of the foregoing, it is considered that the risk of any personal liability of Unitholders is minimal in view of the nature of its activities. In the event that a Unitholder should be required to satisfy any obligation of the Fund, such Unitholder will be entitled to reimbursement from any available assets of the Fund.

### **Use of a Prime Broker to Hold Assets**

Some or all of the assets of the IS Trust may be held in one or more margin accounts due to the fact that the IS Trust may sell securities short. The margin accounts may provide less segregation of customer assets than would be the case with a more conventional custody arrangement. The Prime Broker may also lend, pledge or hypothecate the assets of the IS Trust in such accounts, which may result in a potential loss of such assets. As a result, the assets of the IS Trust could be frozen and inaccessible for withdrawal or subsequent trading for an extended period of time if the Prime Broker experiences financial difficulty. In such case, the IS Trust may experience losses due to insufficient assets of the Prime Broker to satisfy the claims of its creditors, and adverse market movements while its positions cannot be traded, and which would adversely affect the total return to the Fund.

### **Risk of Investing in Preferred Shares**

There is a chance that the issuer of any of the preferred shares included in the Portfolio will have its ability to pay dividends deteriorate or will default (fail to make scheduled dividend payments on the preferred shares or scheduled interest payments on other obligations of the issuer not included in the Portfolio), which would negatively affect the value of any such security.

Unlike interest payments on debt securities, dividend payments on preferred shares typically must be declared by the issuer's board of directors. An issuer's board of directors is generally not under any obligation to pay dividends (even if such dividends have accrued), and may suspend payment of dividends on preferred shares at any time. In the event that an issuer of preferred shares experiences economic difficulties, the issuer's preferred shares may lose substantial value due to the reduced likelihood that the issuer's board of directors will declare a dividend and the fact that the preferred shares may be subordinated to other securities of the issuer. In addition, the ability of a board of directors of a preferred share issuer to declare dividends (even if such dividends have accrued) may be constrained by restrictions imposed by such issuer's lenders.

Because many preferred shares allow holders to convert preferred shares into common shares of the issuer, their market price can be sensitive to changes in the value of the issuer's common shares. To the extent that the Portfolio includes convertible preferred shares, declining common share values may also cause the value of the Portfolio's investments to decline.

A preferred share may include a call or redemption provision that permits the issuer of such security to "call" or repurchase its securities. The existence of such provisions will, if exercised, require such a security to be removed from the Portfolio and replaced. These actions may have implicit costs to the IS Trust and may therefore reduce the distributions paid to Unitholders.

At any time that the Portfolio is reinvested as a result of a redemption or call provision in the terms of a preferred share, the distributions available to Unitholders may be affected as, among other things, the securities included in the Portfolio upon any such reinvestment may not provide the same rate of return as the preferred shares replaced. In addition, if the call or redemption price of a preferred share is less than the volume weighted average trading price traded upon its inclusion in the Portfolio, and that preferred share is redeemed, the Net Asset Value of the IS Trust will be negatively impacted.

### **Use of Derivative Instruments**

The IS Trust is subject to the full risk of its investment position in the securities comprising its Portfolio should the market price of such securities decline. The use of derivative instruments involves risks different from and possibly greater than the risks associated with investing directly in such securities and other traditional investments. Derivatives are subject to a number of risks, such as liquidity risk, interest rate risk, market risk, credit risk, leveraging risk, counterparty risk, trading execution risk and short selling risk. Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index.

In entering into forward contracts, the IS Trust is subject to the credit risk that its counterparty (whether a clearing corporation, in the case of exchange traded instruments, or other third party, in the case of over-the-counter instruments) may be unable to meet its obligations. In addition, there is risk of loss by the IS Trust of margin deposits in the event of the bankruptcy of the dealer with whom the IS Trust has an open position in a futures or forward contract. The ability of the IS Trust to close out its positions may also be effected by exchange imposed daily trading limits on futures contracts. If the IS Trust is unable to close out a position it will be unable to realize its profit or limit its losses until such time as the futures or forward contract terminates, as the case may be. The inability to close out futures and forward positions could also have an adverse impact on the IS Trust's ability to use derivatives instruments to effectively hedge the Portfolio or implement its investment strategies.

### **Liquidity Risk**

There is no assurance that an adequate market will exist for the assets included in the Portfolio and it cannot be predicted whether the assets included in the Portfolio will trade at a discount to, a premium to, or at their respective par or maturity values. Certain assets held in the Portfolio may trade infrequently, if at all, and may trade at a significant premium or discount to the latest price at which they are valued in the Portfolio. The Portfolio may experience a lack of liquidity of the assets in the Portfolio due to, for example, restrictions on transfers in loan agreements and the nature of the private syndication of loans including, for example, the lack of publicly-available information.

If the Portfolio Manager determines that it is appropriate to acquire certain securities for the Portfolio, the Portfolio

Manager may be unable to acquire such securities in quantities or at prices which are acceptable to the Portfolio Manager, if the market for such securities is particularly illiquid. Some Portfolio securities may be very thinly traded or no market for them may exist, which may make it difficult for the IS Trust to value them or dispose of them at an acceptable price, or at all, when it wants to.

### **Reinvestment Risk**

The IS Trust's investments will be subject to reinvestment risk as there is a risk that borrowers will prepay their debt.

### **Risks Relating to Interest Rates**

The majority of the IS Trust's investments will be subject to interest rate risk, which will vary depending upon whether such assets are floating rate or fixed rate. Changes in short-term market interest rates will directly affect the yield on the floating rate assets owned by the IS Trust. If short-term market interest rates fall, the yield on such assets will also fall. Also, to the extent that credit spreads in the market experience a general increase, the value of the IS Trust's existing floating rate assets may decrease, which will cause the IS Trust's Net Asset Value to decrease. Conversely, when short-term market interest rates rise, because of the lag between changes in such short-term rates and the resetting of the floating rates on the debt in the Portfolio, the impact of rising rates will be delayed to the extent of such lag. Changes in short-term market interest rates will have a different effect on any fixed rate assets in the Portfolio. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decline. Conversely, as interest rates decline, the market value of fixed income securities tends to rise. This risk will be greater for long-term securities than for short term securities.

### **Distressed Securities**

Distressed securities purchased by the IS Trust may be subject to certain additional risks to the extent that such securities may be unsecured and subordinated to substantial amounts of senior indebtedness, a significant portion of which may be secured.

Distressed securities may result in significant returns to the IS Trust, but also involve a substantial degree of risk. The IS Trust may lose a substantial portion or all of its investment in a distressed environment or may be required to accept cash or securities with a value less than the IS Trust's investment. Among the risks inherent in investments in entities experiencing significant financial or business problems is the difficulty in obtaining information as to the true condition of such issuers. Such investments also may be adversely affected by applicable laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the relevant court's discretionary power to disallow, subordinate or disenfranchise particular claims. The market prices of such instruments are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and ask prices of such instruments may be greater than normally expected. In trading distressed securities, litigation sometimes arises. Such litigation can be time-consuming and expensive, and can frequently lead to unpredicted delays or losses.

### **Foreign Investment Risk**

To the extent that the IS Trust invests in securities of foreign issuers, it will be affected by world economic factors and in many cases by the value of the Canadian dollar as measured against foreign currencies. Obtaining complete information about potential investments from foreign markets may also be of greater difficulty. Foreign issuers may not follow certain standards that are applicable in North America, such as accounting, auditing, financial reporting and other disclosure requirements. The political climate may differ, affecting stability and volatility in foreign markets. As a result, the Portfolio's value may fluctuate to a greater degree if it invests in foreign securities than if the Portfolio limits its investments to North American securities.

### **Convertible Bonds**

The IS Trust holds investments in convertible bonds which involve risks of default on interest and principal and price changes due to, without limitation, such factors as interest rates, general economic conditions and the issuer's creditworthiness. Convertible bonds may be less liquid than other securities and involve the risk that the Portfolio Manager may not be able to dispose of them at current market prices. During periods of thin trading, the spread between bid and ask prices is likely to increase. Convertible bonds may experience greater price volatility than



conventional debt securities, due to, among other things, the volatility of the underlying equity security. There is no guarantee that an investment in convertible bonds of an issuer will provide a greater rate of return than either the equity or fixed income securities of such issuer, or any positive return at all. Convertible bonds often rank subordinate to conventional debt securities of an issuer, and the analysis of the creditworthiness of convertible debentures may be more complex than for rated debt instruments. Generally, debt securities will decrease in value when interest rates rise and increase in value when interest rates decline. In addition, convertible bonds typically contain provisions which allow the issuer of these securities to call or redeem the securities. In circumstances where an issuer has exercised its call or redemption right, the IS Trust would have to seek alternative investment opportunities.

## DISTRIBUTION POLICY

In accordance with the Fund's investment objective to provide Unitholders with monthly cash distributions, the Fund intends to make monthly distributions to Unitholders of record on the last Business Day of each month (each, a **"Distribution Record Date"**). Distributions will be paid on a Business Day designated by the Manager that will be no later than the 15<sup>th</sup> Business Day of the month following the Distribution Record Date (each, a **"Distribution Payment Date"**). The Fund will not have a fixed distribution, but distributions are initially targeted to be 5% per annum on the subscription price of \$10.00 per Unit (\$0.0417 per Unit per month or \$0.50 per annum. The first distribution will be paid on or before December 14, 2012 to Unitholders of record on November 30, 2012 and will be *pro rated* to reflect the period from the Closing Date to November 30, 2012. Commencing in January, 2014, the Fund will announce, at least annually, the expected distribution amount for the following twelve months based, in part, on the assessment of the Manager of anticipated cash flow and anticipated expenses of the Fund and the IS Trust from time to time.

It is expected that the monthly distributions received by Unitholders will consist primarily of returns of capital and capital gains for tax purposes. Amounts distributed on the Units that represent returns of capital are generally non-taxable to a Unitholder but reduce the Unitholder's adjusted cost base of the Units for tax purposes. See "Income Tax Considerations".

Distributions are intended to be tax-advantaged when compared to those made by a trust that relies on interest or other investment income to pay distributions.

**The amount of monthly distributions may fluctuate and there can be no assurance that the Fund will make any distribution in any particular month.**

Assuming gross proceeds of the Offering are \$100 million and fees and expenses are as described herein, the Portfolio, using leverage of 2:1 (total market value of long positions (not including cash or equivalents, but including leveraged long positions) plus the absolute value of total market value of short positions divided by the Net Asset Value of the IS Trust), would be required to generate an average annual total return of approximately 8%, inclusive of interest and other income, in order for the Fund to generate an average annual total return of approximately 5% per annum on the offering price of \$10.00 per Unit. Based on the anticipated composition of the Portfolio, the Manager expects that the return on the securities included in the Portfolio would be sufficient for the Fund, by virtue of the Forward Agreement, to maintain a stable Net Asset Value for both Class A Units and Class F Units and to fund distributions at the initially targeted level. No assurance can be given with respect to the future return on the securities included in the Portfolio from time to time. **If the return on the Portfolio is less than the amount necessary for the Fund to fund monthly distributions at the then current targeted level through the partial pre-settlement of the Forward Agreement, and the Fund nevertheless chooses to pay such distributions, this will result in a portion of the capital of the Fund being returned to Unitholders and the Net Asset Value per Unit will be reduced.**

As of August 10, 2012, the Merrill Lynch U.S. High Yield Master II Index, a proxy for the U.S. high-yield debt market, had a yield to worst of 6.9% and duration of 4.77 years. As of August 10, 2012, the Merrill Lynch High Yield Canadian Issuers Index, a proxy for the Canadian high-yield debt market, had a yield to worst of 8.70% and duration of 4.16 years.

If the Fund's net income for tax purposes, including net realized capital gains, for any year, net of any available loss carryforwards from prior years, exceeds the aggregate amount of the regular monthly distributions made in the year to Unitholders, the Fund will also be required to pay one or more special distributions (either in cash or Units) in such year to Unitholders in an amount sufficient to ensure that the Fund will not be liable for income tax on such amounts under the Tax Act (after taking into account all available deductions, credits and refunds). Immediately after a *pro rata*

distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold, after the consolidation, the same number of Units as the Unitholder held before the non-cash distribution, except in the case of a non-resident Unitholder to the extent tax was required to be withheld in respect of the distribution. See “Income Tax Considerations”.

There can be no assurance given as to the amount of targeted distributions, if any, in the future.

### **Distribution Reinvestment Plan**

The Fund will adopt, on or prior to the Closing, the Reinvestment Plan so that, subject to obtaining all necessary regulatory approvals, all monthly cash distributions shall, at the election of each Unitholder, be automatically reinvested in additional Units on each Unitholder’s behalf pursuant to the Reinvestment Plan in accordance with the provisions of the Reinvestment Plan Agency Agreement. Notwithstanding the Reinvestment Plan, all distributions to non-resident Unitholders will be paid in cash and will not be reinvested and Unitholders who cease to be residents of Canada will be required to terminate such Unitholders’ participation in the Reinvestment Plan. **There is no guarantee that the Fund will receive the requisite regulatory approvals, including the approval of the TSX, to effect reinvestment of distributions or avoid resale restrictions in connection with the operation of the Reinvestment Plan. Such approvals may not be available, or may be conditional upon amendments being made to the Reinvestment Plan.** The Manager expects that the Reinvestment Plan will commence in respect of the distributions upon receiving such regulatory approvals.

Distributions due to the Plan Participants shall be paid to the Plan Agent and applied, on behalf of Plan Participants, to purchase additional Units from treasury at a price equal to the Net Asset Value per Unit of the applicable class of Units as at the Distribution Payment Date. No fractional Units will be issued under the Reinvestment Plan.

Depending on market conditions, direct reinvestment of cash distributions by Unitholders in the market may be more, or less, advantageous than the reinvestment arrangements under the Reinvestment Plan. The Plan Agent will furnish to each Plan Participant a report of the Units purchased for the Plan Participant’s account in respect of each distribution and the cumulative total purchased for that account. The Plan Agent’s charges for administering the Reinvestment Plan will be paid by the Fund. **The automatic reinvestment of distributions under the Reinvestment Plan will not relieve participants of any income tax applicable to those distributions.** See “Income Tax Considerations”.

A Unitholder may elect to participate in the Reinvestment Plan by notifying CDS in writing via the CDS Participant through which he holds his Units, CDS will then appropriately instruct the Plan Agent. That notice, if actually received by the Plan Agent no later than the close of business on the Business Day immediately preceding the Record Date, will have effect for the distribution to be made on the following Distribution Payment Date. Unless the Plan Agent has provided written notice of a Unitholder’s intention to participate in the Reinvestment Plan in such manner, distributions to Unitholders will be made in cash. Once a Unitholder has enrolled in the Reinvestment Plan, participation continues automatically until the Fund terminates, unless terminated earlier in accordance with the terms of the Reinvestment Plan. The Manager may terminate the Reinvestment Plan in its sole discretion on not less than 30 days notice to: (i) the Plan Participants via the CDS Participants through which the Plan Participants hold their Units; (ii) the Plan Agent; and (iii) if necessary, the TSX. The Manager, on behalf of the Fund, also reserves the right to amend or suspend the Reinvestment Plan at any time in its sole discretion, provided that any amendment to the Reinvestment Plan is subject to prior approval of any exchange upon which the Units are listed and posted for trading, but such action shall have no retroactive effect that would prejudice the interest of the Plan Participants. All Plan participants will be sent written notice of any such amendment, suspension or termination, which notice may be given by the Fund by issuing a press release or in any other manner the Manager deems appropriate. The Fund is not required to issue Units to Unitholders in any jurisdiction where that issuance would be illegal.

### **PURCHASES OF UNITS**

Prospective purchasers may subscribe for Units through the Agents or any member of a sub-agency group that the Agents may form. Closing will take place on or about October 18, 2012, or such later date as may be agreed upon by the Fund and the Agents that is not later than 90 days after a final receipt for this prospectus has been issued. Units are offered at \$10.00 per Unit. The Offering price was determined by negotiation between the Agents and the Fund. See “Plan of Distribution”.



## REDEMPTION OF UNITS

### Annual Redemption

Units may be redeemed at the option of Unitholders on the Annual Redemption Date, commencing in April, 2014. Units so redeemed will be redeemed at a redemption price equal to the Net Asset Value per Class A Unit or the Net Asset Value per Class F Unit, as applicable, on the Annual Redemption Date, less any costs associated with the redemption, including commissions and other such costs, if any, related to the partial pre-settlement of the Forward Agreement to fund such redemption. The Units must be surrendered for redemption at least 20 Business Days prior to the Annual Redemption Date. Payment of the proceeds of redemption will be made on or before the 15<sup>th</sup> Business Day of the following month subject to the Manager's right to suspend redemptions in certain circumstances.

### Monthly Redemptions

Units may be redeemed at the option of Unitholders on a Monthly Redemption Date, subject to certain conditions. In order to effect such a redemption, the Units must be surrendered by no later than 5:00 p.m. (Toronto time) on the date which is the 10th Business Day of the month preceding the Monthly Redemption Date. Payment of the redemption price will be made on or before the 15<sup>th</sup> Business Day of the month following the Monthly Redemption Date, subject to the Manager's right to suspend redemptions in certain circumstances. Unitholders surrendering a Class A Unit for redemption, except in connection with the Annual Redemption Date, will receive the redemption price per Class A Unit equal to the lesser of (i) 95% of the weighted average trading price of the Class A Units on the principal exchange or market on which the Class A Units are quoted for trading for the 10 Business Days immediately preceding the applicable Monthly Redemption Date and (ii) 100% of the Closing Market Price of a Class A Unit on the applicable Monthly Redemption Date, less, in each case, any costs and expenses incurred by the Fund in order to fund such redemption including costs, if any, related to the partial pre-settlement of the Forward Agreement (the "**Monthly Redemption Amount**"). Unitholders surrendering a Class F Unit for redemption, except in connection with an Annual Redemption Date, will receive the redemption price per Class F Unit equal to the product of (i) the Monthly Redemption Amount, and (ii) a fraction, the numerator of which is the most recently calculated Net Asset Value per Class F Unit and the denominator of which is the most recently calculated Net Asset Value per Class A Unit.

### Exercise of Redemption Rights

A Unitholder who desires to exercise redemption privileges must do so by causing the CDS Participant through which he or she holds his or her Units to deliver to CDS at its office in the City of Toronto on behalf of the holder, a written notice of the Unitholder's intention to redeem Units by no later than 5:00 p.m. (Toronto time) on the applicable notice date described above. A Unitholder who desires to redeem Units should ensure that the CDS Participant is provided with notice of his or her intention to exercise his or her redemption right sufficiently in advance of the redemption deadline so as to permit the CDS Participant to deliver a notice to CDS by 5:00 p.m. (Toronto time) on the notice date described above. A Unitholder not holding their Units through a CDS Participant who desires to exercise redemption privileges thereunder must deliver to the Manager at its office in the City of Toronto a written notice of such Unitholder's intention to redeem Units by no later than 5:00 p.m. (Toronto time) on the applicable notice date described above.

By causing a CDS Participant to deliver to CDS a notice of the Unitholder's intention to redeem Units or a registered holder of Units delivering such notice to the Manager, as the case may be, such Unitholder will be deemed to have irrevocably surrendered his or her Units for redemption and appointed such CDS Participant or the Manager, as the case may be, to act as his or her 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, provided that the Manager may from time to time prior to the redemption date permit the withdrawal of a redemption notice on such terms and conditions as the Manager may determine, in its sole discretion, provided that such withdrawal will not adversely affect the Fund. Any expenses associated with the preparation and delivery of the redemption notice will be for the account of the Unitholder exercising the redemption privilege.

Any redemption notice that CDS or the Manager, as the case may be, determines to be incomplete, not in proper form or not duly executed will, for all purposes, be void and of no effect and the redemption privilege to which it relates shall be considered, for all purposes, not to have been exercised thereby. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with the Unitholder's instructions will

not give rise to any obligations or liability on the part of the Fund, the Trustee or the Manager to the CDS Participant or to the holder of the Units.

The Manager may, without the approval of Unitholders, change the redemption rights attached to the Units on not less than 30 days' notice to Unitholders to increase the number of times in each year that Units may be redeemed by Unitholders (at a redemption price per Unit to be determined by the Manager), so long as such change does not result in the Fund being a mutual fund for securities law purposes and provided that no such change may be made without Unitholder approval if it would eliminate the rights of Unitholders to redeem their Units on a Monthly Redemption Date.

### **Suspension of Redemptions**

The Manager may suspend the redemption of Units or payment of redemption proceeds: (i) during any period when normal trading is suspended on stock exchanges or other markets on which securities owned by the Fund or the IS Trust, as applicable, are listed and traded, if these securities represent more than 50% by value or underlying market exposure of the Fund or the IS Trust, as applicable, and if these securities are not traded on any other exchange that represents a reasonably practical alternative for the Fund or the IS Trust, as applicable, or (ii) for a period not exceeding 30 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Fund or the IS Trust or which impair the ability of the Manager to determine the value of the assets of the Fund or the IS Trust. 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 the Manager of the suspension and that the redemption will be effected at a price determined on the first Business Day 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 Business 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 the Manager shall be conclusive.

### **INCOME TAX CONSIDERATIONS**

In the opinion of McMillan LLP, counsel to the Fund, and Stikeman Elliott LLP, counsel to the Agents, the following is, as of the date hereof, a summary of certain of the principal Canadian federal income tax considerations generally applicable to the acquisition, holding and disposition of Units by certain Unitholders who acquire Units pursuant to this prospectus. This summary is applicable to a Unitholder who is an individual (other than a trust) and who, for the purposes of the Tax Act and at all relevant times, is resident in Canada, deals at arm's length with and is not affiliated with the Fund or the Manager and holds Units as capital property.

Generally, the Units will be considered to be capital property to a purchaser provided that the purchaser does not hold such Units in the course of carrying on a business or as part of an adventure or concern in the nature of trade. On the assumption that the Fund will qualify at all times as a "mutual fund trust" within the meaning of the Tax Act, certain Unitholders who might not otherwise be considered to hold Units as capital property may, in certain circumstances, make the irrevocable election permitted by subsection 39(4) of the Tax Act the effect of which would be to deem such Units and all other "Canadian securities" as defined in the Tax Act owned by them in the taxation year in which the election is made and in all subsequent taxation years to be capital property. Prospective Unitholders should consult their tax advisors as to the availability of, and implications of making, a subsection 39(4) election.

This summary is based on the current provisions of the Tax Act, counsel's understanding of the current administrative policies and assessing practices of the CRA published by it prior to the date hereof and all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (such proposals referred to hereafter as the "**Tax Proposals**") and relies upon certificates from the Manager and the Agents as to certain factual matters. 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 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 assumes that the Fund will, at all times, comply with its investment restrictions and that the Fund will, at no time, be subject to tax imposed on “SIFT trusts” for purposes of the Tax Act.

**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 considerations 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 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 will qualify at all times as a “mutual fund trust” within the meaning of the Tax Act, that the Fund will validly elect under the Tax Act to be a mutual fund trust from the date it was established, that the Fund has not been established and will not be maintained primarily for the benefit of non-residents, and that not more than 50% (based on fair market value) of the Units will be held by persons who are non-residents of Canada for purposes of the Tax Act, partnerships that are not “Canadian partnerships” as defined in the Tax Act, or any combination thereof.

To qualify as a “mutual fund trust”, (i) the Fund must be a “unit trust” resident in Canada for purposes of the Tax Act; (ii) the only undertaking of the Fund must be (a) the investing of its funds in property (other than real property or interests in real property or an immovable or a real right in an immovable), (b) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property) or of any immovable (or real right in immovables) that is capital property of the Fund, or (c) any combination of the activities described in (a) and (b); and (iii) the Fund must comply with certain minimum requirements respecting the ownership and dispersal of Units. In this regard, the Manager intends to: (i) cause the Fund to qualify as a “unit trust” throughout the existence of the Fund; and (ii) ensure that the Fund’s undertakings conform at all times with the above-mentioned restrictions for mutual fund trusts.

If the Fund were not to qualify as a “mutual fund trust” at all times, the income tax considerations 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 dividends and net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to Unitholders in the year. The Manager has advised counsel that the Fund intends to make distributions to Unitholders and to deduct, in computing its income in each taxation year, such amount as will be sufficient to ensure that the Fund will not be liable for income tax under Part I of the Tax Act for each year other than such tax on net realized capital gains that will be recoverable by the Fund in respect of such year by reason of the capital gains refund mechanism. The Manager has advised counsel that the Fund intends to make an election under subsection 39(4) of the Tax Act so that all securities included in the Common Share Portfolio that are “Canadian securities” (as defined in the Tax Act) will be deemed to be capital property to the Fund.

The Fund will not realize any income, gain or loss as a result of entering into the Forward Agreement. Provided the Fund elects to have each of its Canadian securities treated as capital property, gains (or losses) realized by the Fund on the sale of Canadian securities will be taxed as capital gains (or capital losses). If the obligations of the Fund under the Forward Agreement are settled by making net cash payments, rather than the delivery of securities in the Common Share Portfolio, a payment made or received by the Fund may be treated as an income outlay or receipt, as applicable. If the Fund delivers securities in the Common Share Portfolio to the Counterparty in satisfaction of its obligations under the Forward Agreement, the Fund will realize capital gains (or capital losses) equal to the amount by which the purchase price under the Forward Agreement of such securities exceeds (or is less than) the aggregate adjusted cost base of such securities and any reasonable costs of disposition of such securities.

One-half of the amount of any capital gain (a “**taxable capital gain**”) realized by the Fund in a taxation year on the delivery of securities in the Common Share Portfolio to the Counterparty in satisfaction of its obligations under the Forward Agreement must be included in computing the Fund’s income for the year, and one-half of the amount of any capital loss (an “**allowable capital loss**”) realized by the Fund in a taxation year is required to be deducted against any taxable capital gains realized by the Fund in the year. Any excess of allowable capital losses over taxable capital gains for a taxation year may be deducted against taxable capital gains realized by the Fund in any of the three preceding taxation years or in any subsequent taxation year to the extent and under the circumstances described in the Tax Act.

In computing its income for tax purposes, the Fund may deduct reasonable administrative and other expenses incurred to earn income, subject to the October 2003 Proposals. The Fund may generally deduct the costs and expenses of the Offering paid by the Fund at a rate of 20% per year, *pro-rated* where the Fund’s taxation year is less than 365 days. Any losses incurred by the Fund may not be allocated to Unitholders but may generally be carried forward and back and deducted in computing the taxable income of the Fund in accordance with the detailed rules and limitations in the Tax Act.

The Fund will be entitled for each taxation year throughout which it is a mutual fund trust for purposes of the Tax Act to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized capital gains by an amount determined under the Tax Act based on the redemptions of Units during the year (the “**Capital Gains Refund**”). The Capital Gains Refund in a particular taxation year may not completely offset the tax liability of the Fund for such taxation year which may arise upon the sale or other disposition of securities included in the Common Share Portfolio under the Forward Agreement in connection with the redemption of Units.

### **Taxation of Unitholders**

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 the taxable portion of its net realized capital gains, paid or payable to the Unitholder in the taxation year (whether received in cash, Units or reinvested in additional Units pursuant to the Reinvestment Plan).

The non-taxable portion of the Fund’s net realized capital gains paid or payable and designated 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 Unitholder’s share 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, but 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 to zero. Any losses of the Fund for purposes of the Tax Act cannot be allocated to, and cannot be treated as a loss of, a Unitholder.

Provided that appropriate designations are made by the Fund, such portion of (i) the net realized taxable capital gains of the Fund; and (ii) the taxable dividends, if any, received or deemed to be received by the Fund on shares of taxable Canadian corporations, as is paid or becomes payable to a Unitholder will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the gross-up and dividend tax credit rules will apply, including the enhanced gross-up and dividend tax credit rules in respect of eligible dividends paid by taxable Canadian corporations.

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. 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.

On the disposition or deemed disposition of a Unit (whether on a sale, redemption or otherwise), the Unitholder will realize a capital gain (or a capital loss) to the extent that the Unitholder’s proceeds of disposition exceed (or are less

than) the aggregate of the adjusted cost base of the Unit to the Unitholder immediately before the disposition and any reasonable costs of disposition. Based in part on the current published administrative policies and assessing practices of the CRA, a conversion of Class F Units into Class A Units or of Class A Units into Class F Units will not constitute a disposition of Class F Units or Class A Units, respectively, for purposes of the Tax Act.

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 of the same class owned by the Unitholder as capital property immediately before that time. The cost of Units acquired as a distribution or as a reinvestment of a distribution of income or capital gains from the Fund will generally be equal to the amount of the distribution. If a Unitholder participates in the Reinvestment Plan and acquires a Unit from the Fund at a price that is less than the fair market value of the Unit, it is the CRA's administrative position that the Unitholder must include the difference in income and increase the cost of such Unit by a corresponding amount. A consolidation of Units following a distribution paid in the form of additional Units will not be regarded as a disposition of Units. See "Attributes of the Units".

Any taxable capital gain realized on the disposition of Units in a taxation year will be included in the Unitholder's income and any allowable capital loss realized will be required to be deducted from taxable capital gains of the Unitholder for that year. Allowable capital losses for a taxation year in excess of taxable capital gains may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against taxable capital gains in accordance with the provisions of the Tax Act.

In general terms, net income of the Fund paid or payable to a Unitholder that is designated as taxable dividends from taxable Canadian corporations or as net realized taxable capital gains, as well as taxable capital gains realized by the Unitholders on the disposition of Units, may increase the Unitholder's liability for alternative minimum tax.

### **Tax Implications of the Fund's Distribution Policy**

The NAV per Unit will reflect any income and gains of the Fund that have accrued or have been realized but have not been made payable at the time Units are acquired. A Unitholder who acquires Units may become taxable on the Unitholder's share of income and gains of the Fund that accrued before the Units were acquired notwithstanding that such amounts may have been reflected in the price paid by the Unitholder for the Units. Since the Fund intends to make monthly distributions as described under "Distribution Policy", the consequences of acquiring Units late in a calendar year will generally depend on the amount of monthly distributions throughout the year and whether one or more special distributions to Unitholders are necessary late in the calendar year to ensure that the Fund will not be liable for non-refundable income tax on such amounts under the Tax Act.

### **Taxation of Registered Plans**

Amounts of income and capital gains included in a Registered Plan's income are generally not taxable under Part I of the Tax Act, provided that the Units are qualified investments for the Registered Plan. (See "Eligibility for Investment".) Unitholders should consult their own advisors regarding the tax implications of establishing, amending, terminating or withdrawing amounts from a Registered Plan.

## **ELIGIBILITY FOR INVESTMENT**

In the opinion of McMillan LLP, counsel to the Fund, and Stikeman Elliott LLP, counsel to the Agents, provided that, at all times, the Fund qualifies as a "mutual fund trust" within the meaning of the Tax Act, Units will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs"), registered disability savings plans, registered education savings plans, tax-free savings accounts ("TFSAs") and deferred profit sharing plans (collectively, "**Registered Plans**"). In addition, the Class A Units will be qualified investments under the Tax Act for Registered Plans provided that, at all times, the Class A Units are listed on a designated stock exchange (which currently includes the TSX) for the purposes of the Tax Act.

Notwithstanding the foregoing, the holder of a TFSA, or the annuitant of an RRSP or a RRIF (each, a "**Plan Holder**"), will be subject to a penalty tax in respect of Units held in the TFSA, RRSP or RRIF, as the case may be, if such Units are a "prohibited investment" for the purposes of the Tax Act. A "prohibited investment" includes (but is not limited



to) a unit of a trust with which a Plan Holder does not deal at arm's length (for purposes of the Tax Act) or in which the Plan Holder, either alone or together with persons and partnerships with whom the Plan Holder does not deal at arm's length (for purposes of the Tax Act), own units that have a value equal to 10% or more of the value of the trust's outstanding units. Plan Holders should consult their own tax advisors with respect to whether Units would be "prohibited investments" for their TFSAs, RRSPs or RRIFs and the tax consequences of Units being acquired or held by trusts governed by such accounts, plans or funds.

## **ORGANIZATION AND MANAGEMENT DETAILS OF THE FUND**

### **The Trustee**

Equity Financial Trust Company (the "**Trustee**") will act as trustee of the Fund pursuant to the provisions of the Trust Agreement. The address of the Trustee is 200 University Avenue, Suite 400, Toronto, Ontario M5H 4H1.

Pursuant to the Trust Agreement, the Trustee is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Unitholders and to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. The Trust Agreement provides that the Trustee will not be liable in carrying out its duties under the Trust Agreement except in cases of willful misconduct, bad faith, gross negligence or the disregard or material breach of its obligations or duties or its standard of care. The Trustee and each of its directors, officers, and employees will be indemnified by the Fund for all liabilities and expenses reasonably incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against the Trustee or any of its officers, directors or employees in the exercise of its duties under the Trust Agreement, except those resulting from the Trustee's or such person's willful misconduct, bad faith, gross negligence, disregard or material breach of the Trustee's or such person's obligations or duties or standard of care in relation to the matter in respect of which indemnification is claimed.

Unless the Trustee resigns or is removed as described below, the Trustee will continue as trustee until the termination date of the Fund. The Trustee or any successor trustee may resign upon 60 days' written notice to Unitholders and the Manager, and the Trustee is deemed to have resigned in certain circumstances, including if the Trustee becomes bankrupt or insolvent or in the event the Trustee (i) ceases to be resident in Canada for the purposes of the Tax Act; (ii) ceases to carry out its functions of managing the Fund in Canada; or (iii) ceases to exercise the main powers and discretions of the trustee in respect of the Fund in Canada. The Trustee may not be removed other than by an Extraordinary Resolution in the event the Trustee is in material breach or default of the provisions of the Trust Agreement and, if capable of being cured, such breach or default had not been cured within 20 Business Days' notice of such breach or default; provided that the Manager or an affiliate of the Manager may be appointed as trustee at any time. Any such resignation or removal shall become effective only upon the appointment of a successor trustee. If the Trustee resigns or is removed by Unitholders, its successor must be approved by Unitholders. If, after the resignation or removal of the Trustee, no successor has been appointed within 90 days, the Trustee, the Manager or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor trustee. If a successor trustee is not appointed, the Fund shall be terminated. Notwithstanding the foregoing, Unitholder approval shall not be required to approve the appointment of a Person as a successor Trustee where: (i) such Person is a trust company duly authorized to carry on business as a trust company in the relevant jurisdictions; or (ii) such Person is the Manager or an affiliate of the Manager or the Trustee.

The Trustee is entitled to fees for its services under the Trust Agreement and will be reimbursed by the Fund for all reasonable costs and expenses incurred by the Trustee on behalf of the Fund. In the event the trustee is an affiliate of the Manager, no fees will be payable to the trustee for its services as trustee under the Trust Agreement.

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

### **The Manager**

Picton Mahoney will act as the manager and portfolio manager of the Fund. The principal office of the Manager is located at 33 Yonge Street, Suite 830, Toronto, Ontario M5E 1G4. The Manager is a general partnership that was established under the laws of the Province of Ontario as of September 13, 2004.

### ***Duties and Services to be Provided by the Manager***

The Manager will be appointed to act as the manager of the Fund pursuant to the Trust Agreement and will be given the authority to manage the business, affairs, activities and day to day operations of the Fund, to make all decisions regarding the business of the Fund and has authority to bind the Fund, including providing and arranging for the provision of marketing and administrative services required by the Fund. The Manager may delegate certain of its duties to third parties. The Manager's duties will include: maintaining accounting records for the Fund; authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements, income tax forms and financial and accounting information as required by the Fund; calculating the net asset value of the Fund; ensuring that Unitholders are provided with financial statements and other reports as are required by applicable law from time to time; monitoring the Fund's compliance with regulatory requirements; preparing the Fund's reports to Unitholders; negotiating contractual agreements with third-party providers of services, including auditors and printers; and establishing and monitoring the Reinvestment Plan, and amending, modifying, suspending or terminating the Reinvestment Plan in a manner which the Manager believes is in the best interests of the Unitholders.

The Manager shall exercise its powers and discharge its duties as manager honestly, in good faith and in the best interests of the Fund and shall exercise the care, diligence and skill of a reasonably prudent person in similar circumstances. The Manager will not be liable for any default, failure or defect in any of the securities comprising the Common Share Portfolio or any losses in the Net Asset Value of the Fund if it has satisfied the duties and the standard of care, diligence and skill set forth above. The Manager will incur liability, however, in cases of willful misconduct, bad faith, gross negligence, disregard of the Manager's standard of care or any material breach or default by it of its obligations.

Unless the Manager resigns or is removed as described below, the Manager will continue as manager until the termination of the Fund. The Manager may resign as the manager of the Fund, if the Fund is in breach or default of the provisions of the Trust Agreement and, if capable of being cured, any such breach or default has not been cured within 30 days' notice of such breach or default to the Fund and the Manager is deemed to have resigned if the Manager becomes bankrupt or insolvent or in the event the Manager ceases to be resident in Canada for the purposes of the Tax Act or to carry out its functions of managing the Fund in Canada. In the event that the Manager is in material breach or default of the provisions of the Trust Agreement and, if capable of being cured, any such breach or default has not been cured within 30 days' notice of such breach or default to the Manager, the Trustee shall give notice thereof to Unitholders of the Fund and such Unitholders, upon approval by way of Extraordinary Resolution (as defined herein), may direct the Trustee to remove the Manager and appoint a successor manager. If a successor Manager is not appointed within 120 days of such termination, the Fund shall be terminated.

The Manager is entitled to fees for its services as manager under the Trust Agreement as described under "Fees and Expenses – Fees and Expenses Payable by the Fund" and will be reimbursed for all reasonable costs and expenses incurred by the Manager on behalf of the Fund. In addition, the Manager and each of its officers, partners, employees and agents will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced, or other claim that is made against, the Manager, or any of its officers, partners, employees or agents, in the exercise of its duties as manager, except those resulting from the Manager's or such person's willful misconduct, bad faith, gross negligence, disregard or material breach of the Manager's or such person's obligations or duties or standard of care in relation to the matter in respect of which indemnification is claimed.

The management services to be provided by the Manager are not exclusive to the Fund and nothing in the Trust Agreement prevents the Manager 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.



### ***Officers of the Manager***

The name and municipality of residence of each of the officers and senior management of the Manager and their principal occupation are as follows:

<b>Name and Municipality of Residence</b>	<b>Position with Manager/Portfolio Manager</b>	<b>Principal Occupation</b>
DAVID K. PICTON Toronto, Ontario	Member of the Executive Committee, President and Chief Executive Officer	Member of the Executive Committee, President and Chief Executive Officer of the Manager
MICHAEL J. MAHONEY Goodwood, Ontario	Member of the Executive Committee and Managing Director	Member of the Executive Committee and Managing Director of the Manager
ARTHUR F. GALLOWAY Toronto, Ontario	Member of the Executive Committee, Chief Financial Officer, Chief Operating Officer, Chief Compliance Officer and Corporate Secretary	Member of the Executive Committee of the Manager, Chief Financial Officer, Chief Operating Officer, Chief Compliance Officer and Corporate Secretary of the Manager

The following is a brief description of the background of the officers and senior management of the Manager.

#### **David Picton**

David Picton, President and Chief Executive Officer of Picton Mahoney, has 23 years of investment experience, including eight years as a top-ranked analyst and head of quantitative research at RBC Dominion Securities. Mr. Picton has managed portfolios for Synergy Asset Management since 1997, including the Synergy Canadian Class.

Mr. Picton is a graduate of the University of British Columbia with a Bachelor of Commerce Honours degree. He also received a Leslie Wong Fellowship from UBC's prestigious Portfolio Management Foundation.

#### **Michael Mahoney**

Michael Mahoney, a Managing Director of Picton Mahoney, has 23 years of investment management experience. He began his investment career at the Alberta Treasury as a U.S. equities analyst. He later became a portfolio manager of U.S. and international equities at Genus Capital Management and a research manager at HSBC Asset Management Europe, a U.K.-based firm. He has managed global portfolios for Synergy Asset Management since 1997. Mr. Mahoney holds the Chartered Financial Analyst designation and has an MBA from the University of Alberta.

#### **Arthur Galloway**

Arthur Galloway is the Chief Financial Officer, Chief Operating Officer, Chief Compliance Officer and Corporate Secretary of Picton Mahoney. Mr. Galloway is responsible for company-wide financial operations, internal financial control and internal and external financial reporting. He is also responsible for the financial oversight and administration of Picton Mahoney's alternative investment funds. Before joining Picton Mahoney in 2005, Mr. Galloway spent ten years with Investors Financial Services, most recently as a Director, where his clients included numerous global asset management firms. He holds a Bachelor of Business degree in Finance from Brock University and holds the Chartered Financial Analyst designation.

#### **Brokerage Arrangements**

The primary consideration in all Portfolio transactions will be prompt execution of orders in an efficient manner at the most favourable price. In selecting and monitoring dealers and negotiating commissions, the Portfolio Manager considers the dealer's reliability, the quality of its execution services on a continuing basis and its financial condition. When more than one dealer is believed to meet these criteria, preference may be given to dealers who provide research or statistical material or other services to the Fund, the IS Trust, the Portfolio Manager or its affiliates. Such services include advice, both directly and in writing, as to the value of securities; the advisability of investing in, purchasing or selling securities; the availability of securities, or purchasers or sellers of securities; as well as analyses and reports concerning issues, industries, securities, economic factors and trends, portfolio strategy or the performance of

accounts. Such services allow the Portfolio Manager to supplement its own investment research activities and obtain the views and information of others prior to making investment decisions. The Portfolio Manager is of the opinion that, because this material may be analyzed and reviewed by its staff, its receipt and use does not tend to reduce expenses but may benefit the IS Trust by supplementing the Portfolio Manager's research. Brokerage transactions may also be allocated to dealers affiliated with the Portfolio Manager, on terms, including fees and commissions, not less favourable than would be offered to other similar clients of such affiliated dealers.

### **Conflicts of Interest**

The Manager and the Portfolio Manager and their affiliates are engaged in a wide range of investment management, investment advisory and other business activities. The services provided by the Manager and the Portfolio Manager under the Trust Agreement and the IS Trust Declaration of Trust are not exclusive and nothing in the Trust Agreement and the IS Trust Declaration of Trust prevents the Manager and the Portfolio Manager or any of their respective affiliates from providing similar services to other investment funds or clients (whether or not their investment objectives, strategies and policies are similar to those of the Fund or the IS Trust) or from engaging in other activities. The Manager's and the Portfolio Manager's investment decisions for the Fund and the IS Trust will be made independently of those made on behalf of its other clients or for its own investments. On occasion, however, Picton Mahoney will make the same investment for the Fund or the IS Trust and for one or more of its other clients. If the Fund or the IS Trust and one or more of the other clients of the Manager or the Portfolio Manager, or any of its affiliates, are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis. In this regard, Picton Mahoney will generally endeavour to allocate investment opportunities to the Fund or the IS Trust on a *pro rata* basis.

Where the Manager or its affiliates otherwise perceive, in the course of their businesses, that they are or may be in a material conflict of interest position, the matter will be referred to the IRC. The IRC will consider all matters referred to it and provide its recommendations to the Manager as soon as possible.

### **Independent Review Committee**

NI 81-107 requires all publicly offered investment funds, such as the Fund, to establish an independent review committee ("IRC") to whom the Manager must refer 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 these matters and provide assistance to the IRC in carrying out its functions. The IRC will be required to conduct regular assessments and provide reports to the Manager and to Unitholders in respect of its functions.

The investment funds in the Manager's family may share the same IRC. The fees and expenses of the IRC will be borne and shared *pro rata* by all of the applicable investment funds in the Manager's family. Each investment fund is also responsible for its *pro rata* share of all expenses associated with insuring and indemnifying the IRC members. The annual fee payable to each member is anticipated to be \$7,500 (\$10,000 for the Chair). Expenses incurred by the members of the IRC in connection with performing their duties are also the responsibility of the investment funds, including the Fund.

The members of the IRC are William Woods, Michele McCarthy and Jane Davis (Chair).

### **William Woods**

Mr. Woods is a lawyer, admitted to practice in Bermuda, England, Wales and Hong Kong. He was a solicitor with Linklaters & Paines in Hong Kong where he specialized in corporate finance work. For three years he acted as Legal Counsel to the Stock Exchange of Hong Kong. He then co-founded the International Securities Consultancy, a consulting group based in Hong Kong and London that specializes in advising on the development of both emerging and mature securities markets. From August 1995 to December 2001 he was the CEO of the Bermuda Stock Exchange. He is currently the CEO of Independent Review Inc. based in Toronto, Canada. Mr. Woods serves as an independent director on the boards of a number of hedge funds.

### **Michele McCarthy**

Ms. McCarthy is a practicing lawyer with McCarthy Law Professional Corporation. Ms. McCarthy opened McCarthy Law Professional Corporation in 2003 to provide a virtual general counsel service to medium sized hedge funds, mutual funds, reporting issuers and Schedule II and III banks. Prior to that she was the Chief Legal Officer, a director and the corporate secretary for Deutsche Bank AG, Canada Branch, Deutsche Bank Canada (DBC), Deutsche Bank Securities Limited (DBSL) and their respective subsidiaries (between 1997 and 2003). From 1983 to 1997 Ms. McCarthy was a lawyer and then partner with Fraser & Beatty, the predecessor firm to Fraser, Milner Casgrain LLP. From 2007 to 2011, she was also the Chief Legal Officer, Chief Privacy Officer, Ombudsman and corporate secretary for GMAC Residential Funding of Canada and ResMor Trust Company (also known as Ally) and in 2002 and 2003 she was a consultant on the corporate reorganization of UBS Bank (Canada) and was responsible for establishing UBS AG Canada Branch. Ms. McCarthy holds a Bachelor of Laws degree and Master of Laws degree (in Securities Laws) from Osgoode Hall and an Institute of Corporate Directors Diploma from the Rotman School of Business at the University of Toronto.

### **Jane Davis**

Ms. Davis is an experienced risk management and change management professional. She built the Global Risk and Compliance function at RBC Investments, leading this function for the wealth management division of RBC Group for five years. Her in depth knowledge of the regulatory environment spanning the brokerage, mutual funds, investment counselling and private banking businesses combined with her risk / reward mantra to develop a compliance function fully integrated into the business. Ms. Davis built compliance programs that were focused on mitigating investor risk and adjusted to the culture of the business, including reward mechanisms. She has worked closely with the regulators, developing excellent, proactive relationships with senior staff. Ms. Davis has sat as an independent director on three corporate board and one not for profit board and obtained her ICD designation in early 2006. Ms. Davis has worked internationally in both her corporate banking risk management role where she covered Asian clients and the banks global lending book in four separate industries. She also managed the global brokerage, investment management and private banking businesses in the USA, Europe, South America and Asia in addition to Canada.

The IRC will prepare a report, at least annually, of its activities for Unitholders which will be available to Unitholders on the Manager's website at [www.pictonmahoney.com](http://www.pictonmahoney.com), or upon request at no cost, by contacting the Manager at 1-800-369-4108.

### **Custodian**

The Bank of Nova Scotia (the "**Custodian**") will be appointed custodian of the Fund pursuant to a custodian agreement (the "**Custodian Agreement**"). The Custodian's principal place of business in respect of the Fund will be Toronto, Ontario.

In the Custodian Agreement, the Custodian will covenant, when carrying out its duties in respect of the safekeeping of and dealing with the assets of the Fund, to exercise, at a minimum, the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances. The Custodian will agree to hold, or direct its sub-custodians to hold, for the account of the Fund, all securities, collateral security and other non-cash property (other than securities which are held in a book-based system). The Custodian may employ sub-custodians as considered appropriate in the circumstances.

Pursuant to the Custodian Agreement, the Custodian will be indemnified out of the Fund's assets in certain circumstances, including from and against any direct loss, liability, claim or expense (including reasonable legal counsel fees and disbursements) suffered or incurred by the Custodian arising from or in connection with the performance of its duties under the Custodian Agreement except with respect to any costs, expenses, damages, liabilities and losses resulting primarily from breach of its standard of care, bad faith, willful default, fraud or negligence of the Custodian or any of its employees, directors or officers.

## **Registrar and Transfer Agent**

Equity Financial Trust Company (the “**Registrar and Transfer Agent**”) will be appointed the registrar, transfer and distribution agent for the Units. The Registrar and Transfer Agent is located in, and the register of Units is kept by the Registrar and Transfer Agent in, Toronto, Ontario.

## **Auditor**

The auditor of the Fund is PricewaterhouseCoopers LLP, Chartered Accountants, at its principal office located at PwC Tower, 18 York Street – Suite 2600, Toronto, Ontario M5J 0B2.

## **Promoter**

The Manager has taken the initiative in organizing the Fund and accordingly may be considered to be a “promoter” of the Fund within the meaning of the securities legislation of certain provinces and territories of Canada. The Manager will receive fees from the Fund and will be entitled to reimbursement of reasonable expenses incurred in connection with the operation and management of the Fund as described under “Fees and Expenses – Fees and Expenses Payable by the Fund”.

## **ORGANIZATION AND MANAGEMENT DETAILS OF THE IS TRUST**

### **The Trustee**

Picton Mahoney will act as trustee of the IS Trust pursuant to the provisions of the IS Declaration of Trust. The address of the trustee is located at 33 Yonge Street, Suite 830, Toronto, Ontario M5E 1G4.

### **The Portfolio Manager**

Picton Mahoney will act as the manager and the portfolio manager of the IS Trust. The principal office of the Portfolio Manager is located at 33 Yonge Street, Suite 830, Toronto, Ontario M5E 1G4.

Picton Mahoney is an investment manager focused on equity and fixed income securities investments with approximately US\$6 billion of assets under management as of June 30, 2012.

### ***Duties and Services to be Provided by the Portfolio Manager***

The Portfolio Manager will implement the investment strategy for the Portfolio on an ongoing basis.

The Portfolio Manager will act at all times on a basis which is fair and reasonable to the IS Trust, act honestly and in good faith with a view to the best interests of the IS Trust and, in connection therewith, exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

### ***The Investment Team***

The Portfolio Manager’s investment team is comprised of 25 individuals. Led by David Picton, the team has expertise in Canadian, U.S. and International financial markets. Philip Mesman is responsible for the Portfolio Manager’s bond and income strategies and will be the lead portfolio manager of the Portfolio. The investment decisions made by the individuals identified below are not subject to the oversight, approval or ratification of any committee of the Portfolio Manager.

#### **T. Philip Mesman**

##### ***Portfolio Manager***

Philip Mesman has 16 years of investment industry experience specializing in income oriented securities. Prior to joining Picton Mahoney, he was Managing Director and Portfolio Manager at HIM Money, a subsidiary of Harris Investments. Mr. Mesman’s previous business experience includes portfolio management, quantitative and credit analytics and trading through positions at a Canadian chartered bank, Merrill Lynch and Greywolf Capital. He

additionally brings expertise in the long/short, special situation and structured product arenas. Mr. Mesman earned a B.A. in Economics from the University of Western Ontario and is a Chartered Financial Analyst Charterholder.

**Ashley Kay**

*Trader*

Ashley Kay has 27 years of investment industry experience specializing in Provincial and Strip Government securities. Mr. Kay has held many senior positions including Managing Director at Scotia Capital Markets where he managed the Provincial and Strip Government Trading Portfolio's. As an entrepreneur, he started his own company in 2005 focused on trading U.S. government bonds and foreign exchange.

**Michael Harber**

*Senior Analyst*

Michael Harber has four years of experience in the investment industry. Prior to joining Picton Mahoney in October 2009, Mr. Harber worked as a junior credit analyst and trading assistant at SGS Asset Management in Toronto and briefly worked as a retail mutual advisor for BMO Mutual Funds. Mr. Harber graduated from the University of Windsor in 2006 with a Bachelor degree in Commerce with a specialization in Finance and Economics. Mr. Harber is a Level III candidate for the Chartered Financial Analyst designation.

**Philip Porat**

*Analyst*

Philip Porat joined Picton Mahoney in 2012. Prior to this, he was a senior investment analyst at Ontario Teachers' Pension Plan, within a multi-strategy investment fund focusing on pre-IPO transactions and partnership opportunities requiring significant capital. Prior to joining Ontario Teachers' Pension Plan, Mr. Porat worked in the Mergers & Acquisitions department at RBC Capital Markets, where he was involved in several advisory assignments, including both M&A and restructuring engagements. Mr. Porat holds a B.Comm. from McGill University and is a Chartered Financial Analyst Charterholder.

**Custodian**

The Bank of Nova Scotia will be appointed custodian of the IS Trust pursuant to a custodian agreement. The custodian's principal place of business in respect of the IS Trust will be Toronto, Ontario.

In the custodian agreement, the custodian will covenant, when carrying out its duties in respect of the safekeeping of and dealing with the assets of the IS Trust, to exercise, at a minimum, the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances. The custodian will agree to hold, or direct its sub-custodians to hold, for the account of the IS Trust, all securities, collateral security and other non-cash property (other than securities which are held in a book-based system). The IS Trust may employ sub-custodians as considered appropriate in the circumstances.

Pursuant to the custodian agreement, the custodian will be indemnified out of the IS Trust's assets in certain circumstances, including from and against any direct loss, liability, claim or expense (including reasonable legal counsel fees and disbursements) suffered or incurred by the custodian arising from or in connection with the performance of its duties under the agreement except with respect to any costs, expenses, damages, liabilities and losses resulting primarily from breach of its standard of care, bad faith, willful default, fraud or negligence of the custodian or any of its employees, directors or officers.

**Prime Broker**

Scotia Capital Inc. at its office in Toronto, Ontario will be appointed as the Prime Broker of the IS Trust to facilitate short selling of securities pursuant to an agreement with the IS Trust.

**Auditor**

The auditor of the IS Trust is PricewaterhouseCoopers LLP, Chartered Accountants, at its principal office located at PwC Tower, 18 York Street – Suite 2600, Toronto, Ontario M5J 0B2.

## Promoter

The manager has taken the initiative in organizing the IS Trust and accordingly may be considered to be a “promoter” of the IS Trust within the meaning of the securities legislation of certain provinces and territories of Canada. The manager will receive fees from the IS Trust and will be entitled to reimbursement of reasonable expenses incurred in connection with the operation and management of the IS Trust as described under “Fees and Expenses – Fees and Expenses Payable by the IS Trust”.

## CALCULATION OF NET ASSET VALUE

The NAV of the Fund or the IS Trust, as applicable, on a particular date will be equal to the aggregate fair value of the assets of the Fund or the IS Trust, as applicable, less the aggregate fair value of the liabilities of the Fund or the IS Trust, as applicable, expressed in Canadian dollars. The NAV per Class A Unit and the NAV per Class F Unit on any day will be obtained by dividing the NAV of the Fund attributable to the relevant class on such day by the number of Units of such class then outstanding.

The NAV per Class A Unit and the NAV per Class F Unit will be calculated as of 4:00 p.m. (Toronto time), or such other time as the Manager or the Portfolio Manager deems appropriate (the “**Valuation Time**”), on each Business Day and any other day on which the Manager or the Portfolio Manager elects, in its discretion, to calculate the NAV per Class A Unit and the NAV per Class F Unit (each, a “**Valuation Date**”).

## Valuation Policies and Procedures of the Fund and the IS Trust

In determining the NAV of the Fund or the NAV of the IS Trust at any time:

- (i) the value of any cash on hand or on deposit, bill, demand note and account receivable, prepaid expense, distribution, dividend or other amount received (or declared to holders of record of securities owned by the Fund or the IS Trust, as applicable, on a date before the Valuation Date as of which the net asset value is being determined, and to be received) and interest accrued and not yet received shall be deemed to be the full amount thereof provided that if the Manager or the Portfolio Manager has determined that any such deposit, bill, demand note, account receivable, prepaid expense, distribution, dividend or other amount received (or declared to holders of record of securities owned by the Fund or the IS Trust, as applicable, on a date before the Valuation Date as of which the net asset value is being determined, and to be received) or interest accrued and not yet received is not otherwise worth the full amount thereof, the value thereof shall be deemed to be such value as the Manager or the Portfolio Manager determines to be the fair value thereof;
- (ii) the value of any security that is listed or traded upon a stock exchange (or if more than one, on the principal stock exchange for the security, as determined by the Manager or the Portfolio Manager) and is freely transferable shall be determined by taking the latest available sale price at the close of business on such day or lacking any recent sales or any record thereof, at the “bid” price at the close of business on such day and if sold short at the “asked” price at the close of business on such day, plus, in the case of listed securities, for greater certainty, accrued interest, as calculated in accordance with market practice, as at the Valuation Date on which the net asset value is being determined, all as reported by any means in common use;
- (iii) the value of any security traded over the counter which is freely transferable shall be valued at the “bid” price at the close of business on such day if held long by a major dealer or an independent pricing service, and at the “asked” price at the close of business on such day if held short by a major dealer or an independent pricing service, unless included in the NASDAQ National Market System, in which case they are valued based upon their sales price (if such prices are available);
- (iv) the value of any security or other asset for which a market quotation is not readily available will be its fair value at the Valuation Time on the Valuation Date on which the net asset value is being determined as determined by the valuation agent, with input from the Manager or the Portfolio Manager (generally the valuation agent will value such security at cost until there is a clear indication of an increase or decrease in value);
- (v) the value of all assets of the Fund or the IS Trust, as applicable, quoted or valued in terms of foreign currency, the value of all funds on deposit and contractual obligations payable to the Fund or the IS Trust, as applicable, in foreign currency and the value of all liabilities and contractual obligations payable by the Fund



or the IS Trust, as applicable, in foreign currency shall be determined using the applicable rate of exchange current at, or as nearly as practicable to, the Valuation Time on the Valuation Date;

- (vi) the value of any futures contract, or forward contract including the Forward Agreement, shall be the gain or loss with respect thereto that would be realized if, at the Valuation Time on a Valuation Date, the position in the futures contract, or the forward contract, as the case may be, were to be closed out in accordance with its terms unless daily limits are in effect in which case fair value shall be based on the current market value of the underlying interest;
- (vii) the value of any swaps will be valued at a rate, determined at the Valuation Time on the Valuation Date provided by a pricing source selected by the Manager or the Portfolio Manager;
- (viii) the value of any investment in an investment fund (excluding those that trade on a stock exchange) will be valued at the net asset value of the holding in such investment fund as provided by such investment fund at, or as nearly practicable to, the Valuation Time on the Valuation Date;
- (ix) short-term investments shall be valued at cost plus accrued interest which approximates fair value;
- (x) listed securities subject to a hold period will be valued as described above with an appropriate discount as determined by the Manager or the Portfolio Manager and investments in private companies and other assets for which no published market exists will be valued at fair market value as determined by the Manager or the Portfolio Manager;
- (xi) 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;
- (xii) 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 which 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 of the Fund or the NAV of the IS Trust, as applicable. 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; and
- (xiii) 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 in margin.

If a security cannot be valued under the foregoing principles or if the foregoing principles are at any time considered by the Manager or the Portfolio Manager to be inappropriate under the circumstances for any reason, then notwithstanding such principles, the Manager or the Portfolio Manager, as the case may be, may make such valuation as it considers fair and reasonable.

The valuation agent calculates the value of the Fund's and the IS Trust's securities for which there exists a published market on the basis of quoted prices in such market. For this purpose, a published market means any market on which such securities are traded if the prices are regularly published in a newspaper or business or financial publication of general and regular paid circulation. The process of valuing investments for which no published market exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments and may differ from the prices at which the investments may be sold.

The NAV of the Fund and the IS Trust and the NAV per Unit of each class will be calculated in Canadian dollars in accordance with the rules and policies of the Canadian Securities Administrators or in accordance with any exemption therefrom that the Fund may obtain. The NAV per Class A Unit and the NAV per Class F Unit determined in accordance with the principles set out above may differ from net asset value per Unit determined under Canadian generally accepted accounting principles.

For financial statement reporting purposes, the fair value of the Fund's and IS Trust's investments are measured in accordance with CICA Handbook Section 3855: Financial Instruments – *Recognition and Measurement*, which for publicly listed securities is based on the closing bid price for securities held long and closing ask price for securities held short on the recognized stock exchange on which the investments are listed or principally traded. Pursuant to NI

81-106, the net asset value of investment funds is calculated based on the fair value of investments using the closing or last trade price. The net asset value per Unit for financial reporting purposes and the NAV per Class A Unit and the NAV per Class F Unit for redemption purposes could be different due to the use of different valuation techniques.

### **Reporting of Net Asset Value**

The NAV of the Fund and the NAV per Class A Unit and the NAV per Class F Unit will be calculated as of the Valuation Time on each Valuation Date. Such information will be provided by the Manager to Unitholders on the Manager's website at [www.pictonmahoney.com](http://www.pictonmahoney.com), or upon request at no cost, by contacting the Manager at 1-800-369-4108.

### **ATTRIBUTES OF THE UNITS**

The beneficial interest in the net assets and net income of the Fund is divided into two classes of units, Class A Units and Class F Units. The Fund is authorized to issue an unlimited number of classes of units and an unlimited number of units of each class. The Class F Units are designed for fee-based accounts and differ from the Class A Units in the following ways: (i) Class F Units will not be listed on a stock exchange; (ii) Class F Units are convertible into Class A Units; (iii) the Agents' fee payable on the issuance of the Class F Units is lower than the Class A Units; and (iv) a component of the management fee paid by the Fund equal to the Servicing Fee is payable in respect of the Class A Units only, as described under "Fees and Expenses". Accordingly, the Net Asset Value per Unit of each class will not be the same as a result of the different fees allocable to each class of Units. Each Unit is entitled to one vote at all meetings of Unitholders and at all meetings of Unitholders of that class and is entitled to participate equally with respect to any and all distributions to the class 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.

The Trust Agreement provides that the Fund may not issue additional Units following the issuance of Units on the Closing Date except: (i) at a price that yields net proceeds of not less than 100% of the NAV per Unit of the applicable class calculated as of the close of business on the Business Day immediately prior to the pricing of such offering; (ii) by way of Unit distributions; or (iii) with the approval of Unitholders.

Immediately after a *pro rata* distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold, after the consolidation, the same number of Units as the Unitholder held before the non-cash distribution, except in the case of a non-resident Unitholder to the extent tax was required to be withheld in respect of the distribution. Subject to the foregoing, the Fund may allot and issue Units or other securities at such time or times and in such manner as the Manager in its sole discretion shall determine.

### **Registration of Units**

Registration of interests in, and transfers of, the Units will be made only through the book-entry only system of CDS. On the Closing Date, the Fund will deliver to CDS certificates evidencing the aggregate number of Class A Units and Class F Units subscribed for under the Offering. Units must be purchased, transferred and surrendered for redemption only through a CDS Participant. All rights of an owner of Units 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 prospectus to a holder of Units means, unless the context otherwise requires, the Unitholder of the beneficial interest in such Units.

The Fund, the Manager and the Agents will not have any liability for (i) records maintained by CDS relating to the beneficial interests in the Units or the book-based entry accounts maintained by CDS; (ii) maintaining, supervising or reviewing any records relating to such beneficial ownership interests; or (iii) any advice or representation made or given by CDS and made or given with respect to the rules and regulations of CDS or any action taken by CDS or at the direction of the CDS Participants.

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

### **Purchase for Cancellation or Resale**

Subject to applicable law and stock exchange requirements, the Fund may at any time or times purchase Class A Units for cancellation at prices per Class A Unit not exceeding the NAV per Class A Unit on the Business Day immediately prior to such purchase up to a maximum in any 12 month period of 10% of the outstanding public float of Class A Units.

### **Conversion of Units**

A holder of Class F Units may convert Class F Units into Class A Units on a weekly basis in accordance with the Trust Agreement and it is expected that liquidity for the Class F Units will be obtained by means of conversion into Class A Units and the sale of those Class A Units through the facilities of the TSX. Class F Units may be converted in any week on the Conversion Date by delivering a notice and surrendering such Class F Units by 5:00 p.m. (Toronto time) at least five Business Days prior to the Conversion Date. For each Class F Unit so converted, a holder will receive that number of Class A Units equal to the Net Asset Value per Class F Unit as of the close of trading on the Business Day immediately preceding the Conversion Date divided by the Net Asset Value per Class A Unit as of the close of trading on the Business Day immediately preceding the Conversion Date. No fractions of Class A Units will be issued upon any conversion of Class F Units, and any fractional amounts will be rounded down to the nearest whole number of Class A Units. Commencing on April 1, 2013, a holder of Class A Units may convert Class A Units into Class F Units, in accordance with the Trust Agreement, on a Conversion Date by delivering a notice and surrendering such Class A Units by 5:00 p.m. (Toronto time) at least 10 Business Days prior to the relevant Conversion Date. For each Class A Unit so converted, a holder will receive that number of Class F Units equal to the Net Asset Value per Class A Unit as of the close of trading on the relevant Conversion Date divided by the Net Asset Value per Class F Unit as of the close of trading on such Conversion Date. No fractions of Class F Units will be issued upon conversion of Class A Units. Any fractional amounts will be rounded down to the nearest whole number of Class F Units. Based in part on the current published administrative policies and assessing practices of the CRA, the Manager understands that a conversion of Class F Units into Class A Units or Class A Units into Class F Units will not constitute a disposition of the Class F Units or Class A Units for the purposes of the Tax Act.

### **Take-over Bids**

The Trust Agreement contains provisions to the effect that if a take-over bid is made for the Class A Units and not less than 90% of the aggregate of the Class A Units (but not including any Class A Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Class A Units held by the Unitholders who did not accept the take-over bid on the terms offered by the offeror.

The Trust Agreement also provides that, if prior to the termination of the Fund, a formal bid (as defined in the Securities Act) is made for all of the Class F Units and such bid would constitute a formal bid for all Class A Units if the Class F Units had been converted to Class A Units immediately prior to such bid and the other offer does not include a concurrent identical take-over bid, including in terms of price (relative to the Net Asset Value of the class), for the Class A Units then the Fund shall provide the holders of Class A Units the right to convert all or a part of their Class A Units into Units of the applicable class and to tender such units to the other offer, as applicable. In the circumstances described above, the Fund shall by press release provide written notice to the holders of the Class A Units that such an offer has been made and of the right of such holders to convert all or a part of their Class A Units into Units of the applicable class and to tender such units to other offer.

### **Non-Resident Unitholders**

At no time may persons who are non-residents of Canada for purposes of the Tax Act and/or partnerships that are not "Canadian partnerships" within the meaning of the Tax Act (or any combination thereof) (collectively, "**non-residents**") be the beneficial owners of a majority of the Units. The Manager may require declarations as to the jurisdictions in which a beneficial owner of Units is resident and, if a partnership, its status as a Canadian partnership.

If the Manager becomes aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of 40% of the Units then outstanding are, or may be, non-residents, or that such a situation is imminent, the Manager may make a public announcement thereof. If the Manager determines that more than 40% of the Units are beneficially held by non-residents, or that such a situation is imminent, the Manager may send a notice to such non-resident Unitholders, chosen in inverse order to the order of acquisition or in such manner as the Manager may consider equitable and practicable, requiring them to dispose of their Units or a portion thereof within a specified period of not less than thirty (30) days. If the Unitholders receiving such notice have not disposed of the specified number of Units or provided the Manager with satisfactory evidence that they are not non-residents within such period, the Manager may, on behalf of such Unitholders, dispose of such Units and, in the interim, shall suspend the voting and distribution rights attached to such Units. Upon such disposition, the affected Unitholders shall cease to be beneficial holders of Units and their rights shall be limited to receiving the net proceeds of disposition of such Units.

Notwithstanding the foregoing, the Manager may determine not to take any of the actions described above if the Manager has been advised by legal counsel that the failure to take any of such actions would not adversely impact the status of the Fund as a “mutual fund trust” for purposes of the Tax Act or, alternatively, may take such other action or actions as may be necessary to maintain the status of the Fund as a “mutual fund trust” for purposes of the Tax Act.

## UNITHOLDER MATTERS

### Meetings of Unitholders

A meeting of Unitholders may be convened by the Manager by a written requisition specifying the purpose of the meeting and must be convened if requisitioned by Unitholders holding not less than 10% of the Units then outstanding (whether Class A Units and/or Class F Units) by a written requisition specifying the purpose of the meeting. The Trustee may convene a Class A Meeting or Class F Meeting if the nature of the business to be transacted at that meeting is only relevant to Unitholders of the applicable class. A Class A Meeting must be convened if requisitioned by Unitholders holding not less than 10% of the Class A Units then outstanding by a written requisition specifying the purpose of the meeting. A Class F Meeting must be convened if requisitioned by Unitholders holding not less than 10% of the Class F Units then outstanding by a written requisition specifying the purpose of the meeting. Not less than 21 days’ and not more than 50 days’ notice will be given of any meeting of Unitholders. The quorum at any meeting of all Unitholders is one Unitholder present in person or represented by proxy holding 10% of the Units (whether Class A Units or Class F Units) except for the purpose of any meeting called to consider item (d) below under “Matters Requiring Unitholder Approval” in which case the quorum shall be Unitholder(s) holding 15% of the outstanding Units (whether Class A Units or Class F Units). If no quorum is present at such meeting within one-half hour after the time called for the meeting, the meeting, if called on the requisition of Unitholders, will be terminated and otherwise will be adjourned for not less than 10 days and at the adjourned meeting the Unitholders then present in person or represented by proxy will form the necessary quorum. At any meeting of Unitholders, each Unitholder will be entitled to one vote for each Unit registered in the Unitholder’s name.

The Fund does not intend to hold annual meetings of Unitholders; however, it will undertake to the TSX to hold annual meetings if so instructed by the TSX.

### Matters Requiring Unitholder Approval

Pursuant to the Trust Agreement, the following matters require the approval of Unitholders by resolution passed by at least 66⅔% of the votes cast at a meeting called and held for such purpose (an “**Extraordinary Resolution**”), other than item (f), which requires approval of Unitholders by a simple majority vote at a meeting called and held for such purpose (an “**Ordinary Resolution**”):

- (a) a change in the investment objectives of the Fund as described under “Investment Objectives”, unless such a change is necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;
- (b) a change in the investment restrictions of the Fund as described under “Investment Restrictions”, unless such a change is necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;

- (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 other than a fee or expense charged by a person or company that is at arm's length to the Fund;
- (d) except as described under "Organization and Management Details of the Fund – The Manager", a change in the manager of the Fund, other than a change resulting in an affiliate of such person assuming such position;
- (e) except as described under "Organization and Management Details of the Fund – The Trustee", a change in the trustee of the Fund other than a change resulting in an affiliate of such person being appointed as trustee of the Fund;
- (f) a change in the auditor of the Fund;
- (g) a reorganization (other than a Permitted Merger) with, or transfer of assets to, a mutual fund trust, if
  - (i) the Fund ceases to continue after the reorganization or transfer of assets; and
  - (ii) the transaction results in Unitholders becoming securityholders in the mutual fund trust;
- (h) a reorganization (other than a Permitted Merger) with, or acquisition of assets of, a mutual fund trust, if
  - (i) the Fund continues after the reorganization or acquisition of assets;
  - (ii) the transaction results in the securityholders of the mutual fund trust becoming Unitholders; and
  - (iii) the transaction would be a significant change to the Fund;
- (i) a liquidation, dissolution or termination of the Fund, other than as described under "Termination of the Fund" or in connection with a Permitted Merger;
- (j) an amendment, modification or variation in the provisions or rights attaching to the Units;
- (k) the issuance of additional Units following the issuance of Units on the Closing Date or in connection with the exercise of the Over-Allotment Option, other than: (i) for net proceeds not less than 100% of the NAV per Class A Unit or Class F Unit, as applicable, calculated as of the close of business on the Business Day immediately prior to the pricing of such offering; or (ii) by way of Unit distribution;
- (l) a reduction in the frequency of calculating the NAV per Class A Unit or Class F Unit; and
- (m) any amendment to the above provisions.

The Manager may, without obtaining Unitholder approval, merge the Fund (a "**Permitted Merger**") with another fund or funds, provided that:

- (a) the fund(s) with which the Fund is merged must be managed by the Manager or an affiliate of the Manager (the "**Affiliated Fund(s)**");
- (b) Unitholders are permitted to redeem their Units at a redemption price equal to 100% of the NAV per Class A Unit or Class F Unit, as applicable, less any costs of funding the redemption, including commissions prior to the effective date of the merger;
- (c) the funds being merged have similar investment objectives as set forth in their respective declarations of trust, as determined in good faith by the Manager in its sole discretion;
- (d) the Manager must have determined in good faith that there will be no increase in the management expense ratio borne by the Unitholders as a result of the merger;
- (e) the merger of the funds is completed on the basis of an exchange ratio determined with reference to the net asset value per unit of each fund; and
- (f) the merger of the funds must be capable of being accomplished on a tax-deferred rollover basis for Unitholders.

If the Manager determines that a merger is a Permitted Merger, the Manager can effect the merger, including any required changes to the Trust Agreement, without seeking Unitholder approval for the merger or such amendments. If a decision is made to merge, the Manager will issue a press release at least 30 Business Days prior to the proposed



effective date thereof disclosing details of the proposed merger and will comply with all applicable laws including the requirements of the TSX concerning mergers involving listed investment funds. While the funds to be merged will have similar investment objectives, the funds may have different investment strategies, guidelines and restrictions and, accordingly, the units of the merged funds will be subject to different risk factors.

The Unitholders will also be permitted to vote on any modification, amendment, alteration or deletion of rights, privileges or restrictions attaching to the Units which would have a material adverse effect on the interest of the Unitholders. No amendment may be made to the Trust Agreement which would have the effect of reducing the expenses reimbursable to the Manager.

### **Amendments to the Trust Agreement**

Pursuant to the Trust Agreement, the Manager is entitled, without the consent of or notice to the Unitholders, to make all such amendments to the Trust Agreement as the Manager believes are necessary or desirable for the purpose of: (i) making any change or correction which is of a typographical nature or is required to cure or correct a clerical omission, mistake or manifest error contained therein, (ii) amending the existing provisions or adding any provisions which are for the protection or benefit of the Unitholders, (iii) curing an ambiguity or correcting any administrative difficulty in the Trust Agreement, (iv) supplementing any provision which may be defective or inconsistent with another provision, (v) maintaining the status of the Fund as a “unit trust” and a “mutual fund trust” for the purposes of the Tax Act or to respond to amendments to the Tax Act or to the interpretation thereof, (vi) changing the Fund’s taxation year-end as permitted under the Tax Act; (vii) complying with applicable law including the rules and policies of Canadian securities regulatory authorities, (viii) conforming the Trust Agreement with current market practice within the securities or investment funds industries, (ix) changing the name of the Fund, (x) adding additional redemption rights, subject to the restriction set forth under “Redemption of Units – Exercise of Redemption Rights”; (xi) removing any conflict or any inconsistencies which may exist between any of the terms of the Trust Agreement and any provisions of any applicable law; and (xii) making such modifications as may be necessary or desirable in connection with the termination of the Forward Agreement prior to the Forward Termination Date.

Any amendments made by the Manager without the consent of Unitholders must be disclosed in the next regularly scheduled report to Unitholders. Such amendments may be made only if they will not materially adversely affect the interest of any Unitholder.

### **Reporting to Unitholders**

The Fund will furnish to Unitholders such financial statements of the Fund and the IS Trust (including interim unaudited and annual audited financial statements, accompanied by management reports of fund performance) prepared in accordance with NI 81-106 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.

The Fund will comply with all of the continuous disclosure requirements applicable to it as a reporting issuer under applicable securities laws. Prior to any meeting of Unitholders, the Fund will provide to Unitholders (along with notice of such meeting) all such information as is required by applicable law to be provided to Unitholders.

### **Accounting and Reporting**

The fiscal year of the Fund will be the calendar year. The annual financial statements of the Fund which shall be audited by the auditor of the Fund will be prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), however, the Fund may be required to or may choose to adopt International Financial Reporting Standards, in which case GAAP will be deemed to be the International Financial Reporting Standards as published by the International Accounting Standards Board, or any successor accounting standards board, in each case, applicable as at the date on which such statements are prepared or required to be prepared in accordance with such generally accepted accounting principles. The auditor will be asked to report on the fair presentation of the annual financial statements in accordance with GAAP. The Manager will ensure that the Fund complies with all applicable reporting and administrative requirements, including preparing and issuing unaudited interim financial statements.



The Manager will keep adequate books and records reflecting the activities of the Fund. A Unitholder or his or her duly authorized representative will have the right to examine the books and records of the Fund during normal business hours at the offices of the Manager. Notwithstanding the foregoing, a Unitholder shall not have access to any information that, in the opinion of the Manager, should be kept confidential in the interests of the Fund.

## TERMINATION OF THE FUND

The Fund does not have a fixed termination date. Pursuant to the Trust Agreement, the Fund will terminate on the date specified in an Extraordinary Resolution of Unitholders calling for the termination of the Fund or when terminated by the Manager, as described below. In addition to such termination, the Trust Agreement also provides that:

- (a) in the event that the Manager resigns and no new Manager is appointed by the Trustee within 120 days of the Manager giving notice to the Trustee of such resignation, the Fund will automatically terminate on the date which is 60 days following the end of such 120 day period;
- (b) the Manager may, in its discretion, terminate the Fund without the approval of Unitholders if, in its opinion, it is no longer economically feasible to continue the Fund or that it would be in the best interests of the Unitholders; and
- (c) the Manager may terminate the Fund in the event of an early termination of the Forward Agreement, provided that the Manager has given Unitholders notice of such termination at least 60 days in advance of such early termination.

In the event the Forward Agreement terminates prior to the termination of the Fund, the Fund may enter into a new forward agreement or amend the Trust Agreement to permit the Fund to hold the Portfolio directly. Although these actions do not require Unitholder approval, the Fund will provide at least 30 days notice to Unitholders of any such action by way of press release. The Fund will issue a second press release at least 10 days in advance of any such action.

The Manager may, in its discretion, terminate the Fund without the approval of Unitholders if, in its opinion, it would be in the best interests of the Unitholders to do so. The Manager will provide notice of such termination upon at least 30 days notice to Unitholders of the termination date by way of press release. The Fund will issue a second press release at least 10 Business Days in advance of the termination date. Upon such a termination the Fund will pre-settle the Forward Agreement, liquidate the Common Share Portfolio and distribute to Unitholders their *pro rata* portions of the remaining assets of the Fund after all liabilities of the Fund have been satisfied or appropriately provided for, and which will include cash and, to the extent liquidation of certain assets is not practicable or the Manager considers such liquidation not to be appropriate prior to the termination date, such unliquidated assets *in specie* rather than in cash, subject to compliance with any securities or other laws applicable to such distributions. Following such distribution, the Fund will be dissolved.

## USE OF PROCEEDS

The Fund will use the net proceeds from the sale of Units as follows:

	Maximum Offering <sup>(1)(2)</sup>	Minimum Offering <sup>(1)</sup>
Gross Proceeds to the Fund	\$175,000,000	\$25,000,000
Agents' fees	\$9,187,500	\$1,312,500
Expenses of the Offering <sup>(3)</sup>	\$800,000	\$375,000
Net proceeds to the Fund	\$165,012,500	\$23,312,500

Notes:

- (1) There will be no Closing unless a minimum of 2,500,000 Class A Units are sold. If subscriptions for a minimum of 2,500,000 Class A Units have not been received within 90 days following the date of issuance of a receipt for this prospectus, this Offering may not continue and subscription proceeds will be returned to subscribers without interest or deduction unless an amendment to this prospectus is filed and receipted.
- (2) The Fund has granted the Agents an Over-Allotment Option, exercisable for a period of 30 days following the Closing, to purchase additional Class A Units in an amount up to 15% of the aggregate number of Class A Units issued at the Closing on the same terms as set forth above. If the Over-Allotment is exercised in full, under the maximum Offering, the price to the public, the Agents' fees and the net proceeds to the Fund, before deducting the expenses of the Offering, will be \$201,250,000, \$10,565,625 and \$190,684,375, respectively, (assuming only Class A Units are sold). A purchaser who acquires Class A Units forming part of the over allocation

position acquires those Class A Units under this prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See “Plan of Distribution”.

- (3) Subject to a maximum of 1.5% of the gross proceeds of the Offering.

The net proceeds from the Offering, after payment of the Agents’ fees and the Offering expenses, will substantially be used by the Fund to acquire the Common Share Portfolio.

## PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement, the Agents have agreed to conditionally offer the Units for sale, as agents of the Fund, on a best efforts basis, if, as and when issued by the Fund. The Agents will receive a fee equal to \$0.525 per Class A Unit and \$0.225 per Class F Unit sold and will be reimbursed for reasonable out-of-pocket expenses incurred by them. The Agents may form a sub-agency group including other qualified investment dealers and determine the fee payable to the members of such group, which fee will be paid by the Agents out of their fees. While the Agents have agreed to use their best efforts to sell the Units offered hereby, the Agents will not be obligated to purchase Units that are not sold.

The Offering price of \$10.00 per Unit was established by negotiation between the Agents and the Manager.

The Fund has granted the Agents an option, exercisable for a period of 30 days following the Closing, to purchase additional Class A Units in an amount up to 15% of the aggregate number of Class A Units issued at the Closing on the same terms set forth above. If the Over-Allotment Option is exercised in full, under the maximum Offering, the price to the public, the Agents’ fees and the net proceeds to the Fund before deducting the expenses of the Offering, will be \$201,250,000, \$10,565,625 and \$190,684.375, respectively, (assuming only Class A Units are sold). This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Units issuable on the exercise of the Over-Allotment Option. A purchaser who acquires Class A Units forming part of the Agents’ over-allocation position acquires those Class A Units under this prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

If subscriptions for a minimum of 2,500,000 Class A Units have not been received within 90 days following the date of issuance of a final receipt for this prospectus, the Offering may not continue and subscription proceeds will be returned to subscribers without interest or deduction unless an amendment to this prospectus is filed and receipted. Under the terms of the Agency Agreement, the Agents may, at their discretion on the basis of their assessment of the state of the financial markets and upon the occurrence of certain stated events, terminate the Agency Agreement. Proceeds from subscriptions will be held by the Agents until Closing. If the minimum Offering is not achieved or if the Closing does not occur for any other reason, subscription proceeds received from prospective purchasers held in trust by the applicable Agent will be returned to such purchasers promptly without interest or deduction. Subscriptions for Units will be received subject to rejection or allotment in whole or in part. The right is reserved to close the subscription books at any time without notice. Closing is expected to take place on or about October 18, 2012, as may be agreed upon by the Fund and the Agents but in any event not later than 90 days after a final receipt for this prospectus has been issued. **The TSX has conditionally approved the listing of the Class A Units. The listing is subject to the Fund fulfilling all of the TSX requirements on or before December 11, 2012, including distribution of Class A Units to a minimum number of public holders.**

Registration of interests in and transfers of Units will only be made through book-entry only system administered by CDS. At Closing, book-entry global certificates each representing the Class A Units and the Class F Units will be issued in registered form to CDS or its nominee and will be deposited with CDS.

Any purchase or transfer of Units must be made through CDS Participants. Indirect access to the CDS book-entry only system is also available to other institutions that maintain custodial relationships with a CDS Participant, either directly or indirectly. Each purchaser of a Unit will receive a customer confirmation of purchase from the CDS Participant from whom such Unit is purchased in accordance with the practices and procedures of such CDS Participant.

This prospectus qualifies the distribution by the Fund of the Units. Purchases of Units are subject to certain ownership restrictions as set out in the Trust Agreement. See “Attributes of the Units – Non-Resident Unitholders”.

On closing, the Fund will enter into the Forward Agreement with the Counterparty, which will be a Canadian chartered bank or an affiliate of a Canadian chartered bank and may be an affiliate of one of the Agents. See “Overview of the Investment Structure”.

Pursuant to policy statements of certain Canadian securities regulators, the Agents may not, throughout the period of distribution, bid for or purchase Units. The foregoing restriction is subject to certain exceptions, on the conditions that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of Units. Such exceptions include a bid or purchase permitted under applicable by-laws and rules of the relevant self-regulatory authorities relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Pursuant to the first mentioned exception, in connection with the Offering, the Agents may over-allot and may effect transactions to cover their over-allotted position. Such transactions, if commenced, may be discontinued at any time.

Pursuant to the Agency Agreement, the Fund and the Manager have agreed to indemnify the Agents and their controlling persons, directors, officers and employees against certain liabilities.

At the Closing, the Fund will enter into the Forward Agreement with the Counterparty, which will be a Canadian chartered bank or an affiliate of one of the Agents. Accordingly, the Fund may be considered to be a “connected issuer” of such Agent. See “Investment Strategies” and “Overview of the Investment Structure”.

### **INTERESTS OF MANAGER, PORTFOLIO MANAGER AND OTHERS IN MATERIAL TRANSACTIONS**

The Manager and the Portfolio Manager will receive the fees described under “Fees and Expenses” for its services to the Fund and the IS Trust and will be reimbursed by the Fund and the IS Trust for all expenses incurred in connection with the operation and administration of the Fund and the IS Trust.

### **PROXY VOTING DISCLOSURE FOR PORTFOLIO SECURITIES HELD**

The proxies associated with the securities of the Common Share Portfolio will be voted by the Manager in accordance with the Manager’s proxy voting policy (the “**Proxy Voting Policy**”). The objective in voting is to support proposals and director nominees that maximize the value of the applicable fund’s investments over the long-term. In evaluating proxy proposals, information from many sources will be considered, including management or shareholders of a company presenting a proposal and independent proxy research services. Substantial weight will be given to the recommendations of a company’s board, absent guidelines or other specific facts that would support a vote against management. The Manager has developed guidelines that address the following circumstances: election of directors; contested director elections; classified boards; director/officer indemnification; director ownership; approval of independent auditors; stock based compensation plans; bonus plans; employee stock purchase plans; executive severance agreements; shareholder rights plans; defences; cumulative voting; voting requirements matters related to shareholder meetings, among others.

While serving as a framework, the Proxy Voting Policy cannot contemplate all possible proposals with which the Fund may be presented. In the absence of a specific guideline for a particular proposal (e.g., in the case of a transactional issue or contested proxy), the Manager will evaluate the issue and cast the Fund’s vote in a manner that, in the Manager’s view, will maximize the value of the Fund’s investment.

The current Proxy Voting Policy and procedures of the Manager are available to Unitholders at no cost on the Manager’s website at [www.pictonmahoney.com](http://www.pictonmahoney.com).

The Fund’s proxy voting record for the annual period from July 1<sup>st</sup> to June 30<sup>th</sup> will be available at any time after August 31<sup>st</sup> following the end of that annual period, to any Unitholder on request to the Manager, at no cost, and will also be available on the Manager’s website at [www.pictonmahoney.com](http://www.pictonmahoney.com). Information contained on the Manager’s website is not part of this prospectus and is not incorporated herein by reference.

### **MATERIAL CONTRACTS**

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

- (i) the Trust Agreement;

- (ii) the Forward Agreement;
- (iii) the Agency Agreement; and
- (iv) the Custodian Agreement; and
- (v) the Reinvestment Plan Agency Agreement to be entered into on or prior to the Closing Date referred to under “Distribution Policy – Distribution Reinvestment Plan”.

Copies of the foregoing documents, after the execution thereof, may be inspected during business hours at the principal office of the Fund during the course of distribution of the Units offered hereby. Any of the foregoing contracts that are not executed prior to the filing of this prospectus will be filed with the securities regulatory authorities forthwith after such contract is entered into.

### **EXPERTS**

The matters referred to under “Income Tax Considerations” and certain other legal matters relating to the securities offered hereby will be passed upon by McMillan LLP, on behalf of the Fund and Stikeman Elliott LLP, on behalf of the Agents.

The Fund’s auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have prepared an independent auditor’s report dated September 27, 2012 in respect of the Fund’s statement of financial position as at September 27, 2012. PricewaterhouseCoopers LLP has advised that it is independent with respect to the Fund within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

### **PURCHASERS’ STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission, or in some jurisdictions revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for the particulars of these rights or consult with a legal adviser. In addition, the Manager has agreed on behalf of the Fund that purchasers in the Province of Quebec have the right to withdraw from an agreement to purchase Units which may be exercised within two Business Days after receipt or deemed receipt of a prospectus of the IS Trust.

#### **AUDITOR'S CONSENT**

We have read the prospectus of Picton Mahoney Tactical Income Fund (the "**Fund**") dated September 27, 2012 relating to the offering of Class A Units and Class F Units of the Fund. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the Trustee of the Fund on the statement of financial position of the Fund as at September 27, 2012. Our report is dated September 27, 2012.

*(Signed) PricewaterhouseCoopers LLP*  
Chartered Accountants, Licensed Public Accountants  
Toronto, Canada  
September 27, 2012

## INDEPENDENT AUDITOR'S REPORT

To the Trustee of  
Picton Mahoney Tactical Income Fund

We have audited the accompanying statement of financial position of Picton Mahoney Tactical Income Fund (the “**Fund**”) as at September 27, 2012 and the related notes which comprise a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, this financial statement presents fairly, in all material respects, the financial position of the Picton Mahoney Tactical Income Fund as at September 27, 2012 in accordance with Canadian generally accepted accounting principles.

*(Signed) PricewaterhouseCoopers LLP*  
Chartered Accountants, Licensed Public Accountants  
September 27, 2012



**PICTON MAHONEY TACTICAL INCOME FUND  
STATEMENT OF FINANCIAL POSITION**

**As at September 27, 2012**

<b>ASSETS</b>	
Cash	<u>\$10.00</u>
<b>TOTAL</b>	<u><b>\$10.00</b></u>
 <b>UNITHOLDER'S EQUITY</b>	
Unitholder's Equity (1 Class A Unit)	<u>\$10.00</u>
 <b>NET ASSETS PER UNIT</b>	
	<u><b>\$10.00</b></u>

**Approved by the Manager:**

**PICTON MAHONEY ASSET MANAGEMENT**

(SIGNED) DAVID K. PICTON  
President and Chief Executive Officer

(SIGNED) ARTHUR F. GALLOWAY  
Chief Financial Officer

The accompanying notes are an integral part of this statement.

**PICTON MAHONEY TACTICAL INCOME FUND  
NOTES TO STATEMENT OF FINANCIAL POSITION**

**September 27, 2012**

**1. ORGANIZATION AND UNITHOLDER'S EQUITY**

Picton Mahoney Tactical Income Fund (the “**Fund**”) was established under the laws of the Province of Ontario by a trust agreement made as of September 26, 2012. The Fund will obtain exposure to a diversified portfolio of income producing securities (the “**Portfolio**”). The manager of the Fund is Picton Mahoney Asset Management (the “**Manager**”) and the trustee of the Fund is Equity Financial Trust Company. The beneficial interest in the net assets and net income of the Fund is divided into two classes of Units, Class A Units and Class F Units (collectively, the “**Units**”). The Fund is authorized to issue an unlimited number of transferable units of each class. The Class F Units are designed for fee-based accounts and differ from the Class A Units in the following ways: (i) Class F Units will not be listed on a stock exchange; (ii) the Agents' fees payable on the issuance of the Class F Units are lower than the Class A Units; and (iii) as described in note 2, the component of the Management Fee equal to the Servicing Fee is only payable in respect of the Class A Units. Accordingly, the net asset value per Unit of each class will not be the same as a result of the different fees allowable to each class of Units. On September 26, 2012, the Fund issued one Class A Unit to the Manager for \$10.00 cash.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The statement of financial position has been prepared in accordance with Canadian generally accepted accounting principles (“**GAAP**”). In applying Canadian GAAP, management may make estimates and assumptions that affect the reported accounts of assets, liabilities, income and expenses during any reporting period. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund in the preparation of this financial statement.

**Cash**

Cash is stated at fair value.

**Valuation of Fund Units for Transaction Purposes**

Net asset value per Unit of the Fund on any valuation day will be obtained by dividing the Net Asset Value of the Fund on such day by the number of Units then outstanding.

**3. MANAGEMENT FEES AND OTHER EXPENSES**

The Manager is entitled to receive an annual management fee equal to 0.25% per annum of the NAV of the Fund, calculated daily and payable quarterly in arrears, plus an amount calculated quarterly and paid as soon as practicably after the end of each calendar quarter, equal to the Servicing Fee paid by the Manager to certain registered dealers, plus applicable taxes.

The Fund will pay fees to the Counterparty (as defined below) under the Forward Agreement (as defined below) of 0.60% per annum of the notional amount of the Forward Agreement (being effectively the Net Asset Value of the IS Trust), plus applicable taxes.

The Fund will pay for all expenses incurred in connection with its operation and administration, including commissions and other costs of portfolio transactions and any extraordinary expenses which it may incur from time to time.

**4. INITIAL OFFERING**

The Fund and the Manager have entered into an agency agreement with RBC Dominion Securities Inc., CIBC World Markets Inc., TD Securities Inc., BMO Nesbitt Burns Inc., Macquarie Private Wealth Inc., National Bank Financial Inc., Scotia Capital Inc., GMP Securities L.P., Canaccord Genuity Corp. and Raymond James Ltd. (collectively, the “**Agents**”) dated as of September 27, 2012 pursuant to which the Fund has agreed to create, issue and sell, and the

Agents have agreed to offer for sale to the public, a minimum of 2,500,000 Class A Units and a maximum of 17,500,000 Class A Units and Class F Units at \$10.00 per Unit (the “**Offering**”). In consideration for their services in connection with the Offering, the Agents will be paid a fee of \$0.525 per Class A Unit and \$0.225 per Class F Unit.

As set forth in this prospectus, the Fund proposes to issue a minimum of 2,500,000 Class A Units and a maximum of 17,500,000 Class A Units and Class F Units at a price of \$10.00 per Unit. The Fund has granted to the Agents an option exercisable for a period of 30 days following the closing of the Offering to purchase additional Class A Units in an amount up to 15% of the aggregate number of Class A Units issued at the closing of the Offering on the same terms as the Offering to cover over-allotments, if any.

**CERTIFICATE OF THE ISSUER, THE MANAGER AND THE PROMOTER**

Dated: September 27, 2012

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces and territories of Canada.

**PICTON MAHONEY ASSET MANAGEMENT  
(as Manager and Promoter and on behalf of the Fund)**

BY: (SIGNED) DAVID K. PICTON  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

BY: (SIGNED) ARTHUR F. GALLOWAY  
CHIEF FINANCIAL OFFICER

**On behalf of the Executive Committee of  
Picton Mahoney Asset Management**

BY: (SIGNED) DAVID K. PICTON  
PARTNER

BY: (SIGNED) MICHAEL J. MAHONEY  
PARTNER

BY: (SIGNED) ARTHUR F. GALLOWAY  
PARTNER

## **CERTIFICATE OF THE AGENTS**

Dated: September 27, 2012

To the best of our knowledge, information and belief, this prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces and territories of Canada.

### **RBC DOMINION SECURITIES INC.**

BY: (SIGNED) EDWARD JACKSON

### **CIBC WORLD MARKETS INC.**

BY: (SIGNED) MICHAEL D. SHUH

### **TD SECURITIES INC.**

BY: (SIGNED) CAMERON GOODNOUGH

### **BMO NESBITT BURNS INC.**

BY: (SIGNED) ROBIN G.  
TESSIER

### **MACQUARIE PRIVATE WEALTH INC.**

BY: (SIGNED) BRENT  
LARKAN

### **NATIONAL BANK FINANCIAL INC.**

BY: (SIGNED) TIMOTHY D.  
EVANS

### **SCOTIA CAPITAL INC.**

BY: (SIGNED) FAROOQ N.P.  
MOOSA

### **GMP SECURITIES L.P.**

BY: (SIGNED) NEIL SELFIE

### **CANACCORD GENUITY CORP.**

BY: (SIGNED) RON SEDRAN

### **RAYMOND JAMES LTD.**

BY: (SIGNED) J. GRAHAM FELL