















## Summary of Investment Portfolio as of August 31, 2013

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available at [www.astonhill.ca](http://www.astonhill.ca).

	Coupon Rate %	Maturity date	Fair value CAD \$	% of NAV
<b>Portfolio by Category</b>				
Foreign Corporate Bonds			126,560,149	97.1%
Foreign Preferred Stock (AUD) / Financials			2,638,230	2.0%
Other assets net of other liabilities			2,246,424	1.8%
Cash			758,724	0.6%
Short-term investment			316,372	0.2%
Foreign currency forward contracts			(2,187,289)	-1.7%
<b>Top 25 Holdings</b>				
CBA Capital Trust II (U.S. Dollars) *	6.02%	03/15/2016	38,378,192	29.4%
HSBC Bank Australia Ltd. (Australian Dollars) *	5.40%	11/26/2015	23,902,059	18.3%
National Australia Bank/ New York (U.S. Dollars) *	8.00%	09/24/2016	21,744,158	16.7%
National Capital Trust I (British Pounds) *	5.62%	12/17/2018	18,257,251	14.0%
Westpac Capital Trust IV (U.S. Dollars) *	5.26%	03/31/2016	9,743,291	7.5%
National Capital Trust II (U.S. Dollars) *	5.49%	03/23/2015	6,565,981	5.0%
Commonwealth Bank of Australia (Australian Dollars)	6.50%	07/21/2015	3,891,151	3.1%
National Australia Bank Ltd. (Australian Dollars)			2,638,230	2.0%
Westpac Banking Corporation (Australian Dollars)	7.25%	11/18/2016	2,073,049	1.6%
Westpac Banking Corporation (Australian Dollars)	6.50%	11/09/2015	2,005,017	1.5%
Cash			758,724	0.6%
Short-term investment			316,372	0.2%
Bought CAD 17,425,000, sold GBP 11,000,000		10/17/2013	(511,529)	-0.4%
Bought CAD 29,684,300, sold USD 28,900,000		10/17/2013	(741,479)	-0.6%
Bought CAD 18,660,510, sold USD 18,300,000		01/11/2016	(934,281)	-0.7%
*Maturity date is first call date.				
<b>Net asset value</b>			<b>130,332,610</b>	



## Management's Responsibility for Financial Reporting

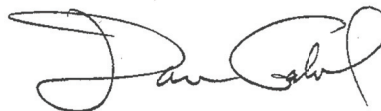
The accompanying financial statements to **ACS Trust** (the "Fund") and all of the information therein have been prepared by Aston Hill Capital Markets Inc. (formerly "Connor, Clark & Lunn Capital Markets Inc.") in its capacity as Manager of the Fund. The Fund's Manager is responsible for all of the information and representations contained in these financial statements and other sections of the Annual Report. Management maintains appropriate process to ensure that relevant and reliable information is produced.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements are not precise since they include certain amounts based on estimates and judgements. The Manager has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has ensured that the other financial information presented in this Annual Report is consistent with the financial statements.

The financial statements have been audited by PricewaterhouseCoopers LLP on behalf of the Unitholder. They have audited the financial statements in accordance with the Canadian generally accepted auditing standards to enable them to express to the Unitholder their opinion on the financial statements. Their report is set below.



W. Neil Murdoch  
President and Chief Executive Officer  
Aston Hill Capital Markets Inc.



Darren N. Cabral  
Vice President and Chief Financial Officer  
Aston Hill Capital Markets Inc.

Toronto, Canada  
**November 28, 2013**



November 28, 2013

## **Independent Auditor's Report**

**To the Unitholder of  
ACS Trust (the Fund)**

We have audited the accompanying financial statements of the Fund, which comprise the statement of investment portfolio as at August 31, 2013, the statements of net assets as at August 31, 2013 and 2012, the statements of operations, changes in net assets and retained earnings, and cash flows for the years ended August 31, 2013 and August 31, 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 the financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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

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\*PwC\* refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at August 31, 2013 and 2012 and the results of its operations, the changes in its net assets and retained earnings, and its cash flows for the years ended August 31, 2013 and August 31, 2012 in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**


**ACS Trust**  
 Statements of Net Assets  
 As at August 31, 2013 and 2012

	2013	2012
	\$	\$
<b>Assets</b>		
Cash	758,724	699,052
Short-term investments	316,372	-
Investments at fair value (average cost - \$122,685,708; 2012 - \$156,484,827)	128,858,194	155,749,424
Interest and dividends receivable	2,305,383	2,298,050
Unrealized gain on foreign currency forward contracts	-	638,756
	<u>132,238,673</u>	<u>159,385,282</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	19,269	19,873
Management fees payable	39,690	48,590
Unrealized loss on foreign currency forward contracts	2,187,289	34,752
	<u>2,246,248</u>	<u>103,215</u>
<b>Net assets and unitholder's equity</b>	<u>129,992,425</u>	<u>159,282,067</u>
<b>Units outstanding</b> (note 5)	<u>13,711,962</u>	<u>17,133,381</u>
<b>Net assets per unit</b>	<u>9.48</u>	<u>9.30</u>
<b>Unitholder's equity</b> (note 5)		
Unit Capital	129,205,910	153,628,074
Retained Earnings	786,515	5,653,993
<b>Total Unitholder's equity</b>	<u>129,992,425</u>	<u>159,282,067</u>

**Approved on behalf of the Manager,  
 Aston Hill Capital Markets Inc.**



**Director**



**Director**

# ACS Trust

## Statements of Operations

For the years ended August 31, 2013 and 2012

	2013	2012
	\$	\$
<b>Income</b>		
Interest income	8,699,751	10,570,496
Dividends (net of withholding taxes)	313,047	562,008
	<u>9,012,798</u>	<u>11,132,504</u>
<b>Expenses</b>		
Management fees (note 7)	385,186	423,935
Harmonized sales tax	54,922	60,973
Custodial and other unitholder fees	25,782	34,694
Audit fees	11,510	10,395
Interest expense	2,675	1,300
Filing fees	2,201	2,207
Broker commission charges (note 9)	1,326	2,256
	<u>483,602</u>	<u>535,760</u>
<b>Investment income</b>	8,529,196	10,596,744
<b>Unrealized gain (loss)</b>		
Change in unrealized gain (loss) on investments	6,907,889	(842,983)
Change in unrealized gain (loss) on foreign currency forward contracts	(2,791,293)	116,739
Change in unrealized (loss) on foreign exchange	417	(34,505)
	<u>4,117,013</u>	<u>(760,749)</u>
<b>Realized gain (loss)</b>		
Net realized gain (loss) on investments	(506,314)	739,748
Net realized gain (loss) on foreign exchange	(223,945)	131,487
	<u>(730,259)</u>	<u>871,235</u>
<b>Net gain on investments</b>	<u>3,386,754</u>	<u>110,486</u>
<b>Increase in net assets from operations</b>	<u>11,915,950</u>	<u>10,707,230</u>
<b>Increase in net assets from operations per unit *</b>	<u>0.72</u>	<u>0.57</u>

\* (based on weighted average number of units outstanding during the period)

(See accompanying notes to financial statements)

## ACS Trust

### Statements of Changes in Net Assets and Retained Earnings

For the years ended August 31, 2013 and 2012

	2013	2012
	\$	\$
<b>Increase in net assets from operations</b>	<u>11,915,950</u>	<u>10,707,230</u>
<b>Distributions to unitholder from:</b> (note 6)		
Net investment income	<u>(15,178,590)</u>	<u>(10,489,674)</u>
<b>Unitholder's transactions</b> (note 5)		
Proceeds from issue of units	380,628	3,640,950
Distributions reinvested	6,226,726	171,663
Payments on redemption of units	<u>(32,634,356)</u>	<u>(25,948,955)</u>
	<u>(26,027,002)</u>	<u>(22,136,342)</u>
<b>Change in net assets during the year</b>	(29,289,642)	(21,918,786)
<b>Net assets - beginning of year</b>	<u>159,282,067</u>	<u>181,200,853</u>
<b>Net assets - end of year</b>	<u>129,992,425</u>	<u>159,282,067</u>
<b>Retained Earnings, beginning of year</b>	5,653,993	6,370,878
Increase in net assets from operations	11,915,950	10,707,230
Distributions to unitholder	(15,178,590)	(10,489,674)
Cost of shares redeemed in excess of average price per unit	<u>(1,604,838)</u>	<u>(934,441)</u>
<b>Retained Earnings, end of year</b>	<u>786,515</u>	<u>5,653,993</u>

(See accompanying notes to financial statements)

# ACS Trust

## Statements of Cash Flows

For the years ended August 31, 2013 and 2012

	2013	2012
	\$	\$
<b>Operating Activities</b>		
Increase in net assets from operations	11,915,950	10,707,230
Items not affecting cash:		
Change in unrealized (gain) loss on investments	(6,907,889)	842,983
Change in unrealized (gain) loss on foreign currency forward contracts	2,791,293	(116,739)
Net realized (gain) loss on investments	506,314	(739,748)
Changes in non-cash working capital:		
(Increase) decrease in interest and dividends receivable	(7,333)	162,548
Increase (decrease) in accounts payable and accrued liabilities	(604)	2,919
(Decrease) in management fees payable	(8,900)	(3,988)
Purchase of investment	(5,562,921)	-
Proceeds on disposition of investment	<u>38,855,726</u>	<u>21,276,379</u>
<b>Net cash flow provided by operating activities</b>	<u>41,581,636</u>	<u>32,131,584</u>
<b>Financing Activities</b>		
Proceeds from issuance of units	380,628	3,640,950
Distributions to unitholder	(8,951,864)	(10,318,011)
Payments on redemption of units	<u>(32,634,356)</u>	<u>(25,948,955)</u>
<b>Net cash flow (used in) financing activities</b>	<u>(41,205,592)</u>	<u>(32,626,016)</u>
<b>Net increase (decrease) in cash</b>	376,044	(494,432)
<b>Cash and short-term investments - beginning of year</b>	<u>699,052</u>	<u>1,193,484</u>
<b>Cash and short-term investments - end of year</b>	<u>1,075,096</u>	<u>699,052</u>
<b>Supplementary Information</b>		
Interest paid	2,675	1,300

(See accompanying notes to financial statements)

## ACS Trust

Statement of Investment Portfolio

As at August 31, 2013

	% Rate	Maturity date	Number of shares / par value \$	Average cost \$	Fair value \$	% of Net Assets
<b>Short-term investments</b>						
<b>Promissory Note</b>						
Province of Ontario (U.S. Dollars)	0.35%	10/02/2013	300,000	315,909	316,372	0.2%
<b>Total short-term investments</b>				315,909	316,372	0.2%
<b>Investments</b>						
<b>Fixed Income</b>						
<b>Fixed Rate Bonds</b>						
CBA Capital Trust II (U.S. Dollars) *	6.02%	03/15/2016	34,750,000	35,037,678	38,215,616	29.4%
National Australia Bank/New York (U.S. Dollars) *	8.00%	09/24/2016	18,590,000	20,147,582	21,695,132	16.7%
National Capital Trust I (British Pounds) *	5.62%	12/17/2018	11,078,000	16,208,563	18,173,192	14.0%
Westpac Capital Trust IV (U.S. Dollars) *	5.26%	03/31/2016	9,000,000	8,824,625	9,707,688	7.5%
National Capital Trust II (U.S. Dollars) *	5.49%	03/23/2015	6,100,000	6,167,136	6,563,568	5.0%
Commonwealth Bank of Australia (Australian Dollars)	6.50%	07/21/2015	3,900,000	3,868,751	3,890,290	3.0%
Westpac Banking Corporation (Australian Dollars)	7.25%	11/18/2016	2,000,000	2,041,119	2,071,556	1.6%
Westpac Banking Corporation (Australian Dollars)	6.50%	11/09/2015	2,000,000	1,968,842	2,004,003	1.5%
<b>Floating Rate Bonds</b>						
HSBC Bank Australia Ltd. (Australian Dollars) *	5.40%	11/26/2015	25,200,000	25,238,186	23,897,086	18.4%
				119,502,482	126,218,131	97.1%
<b>Total Fixed Income</b>				119,502,482	126,218,131	97.1%
<b>Foreign Preferred Stock</b>						
<b>Financials</b>						
National Australia Bank Ltd. (floating rate) (Australian Dollars)	6.30%		39,000	3,209,395	2,640,063	2.0%
<b>Total Foreign Preferred Stock</b>				3,209,395	2,640,063	2.0%
<b>Total investments</b>				122,711,877	128,858,194	99.1%
Transaction costs - Section 3855 adjustment (note 3)				(26,169)	-	0.0%
<b>Total investments</b>				122,685,708	128,858,194	99.1%
<b>Foreign currency forward contracts</b>						
Bought CAD 29,684,300, sold USD 28,900,000		10/17/2013	1.02714	30,425,779	(741,479)	-0.6%
Bought CAD 17,425,000, sold GBP 11,000,000		10/17/2013	1.58409	17,936,529	(511,529)	-0.4%
Bought CAD 18,660,510, sold USD 18,300,000		01/11/2016	1.01970	19,594,791	(934,281)	-0.7%
					(2,187,289)	-1.7%
<b>Other assets net of other liabilities</b>					3,005,148	2.4%
<b>Net assets</b>					129,992,425	100.0%

\* Maturity date is first call date.

(See accompanying notes to financial statements)



# ACS Trust

## Notes to Financial Statements

### August 31, 2013

#### 1 Trust activities

ACS Trust (the "Fund") is an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement between Aston Hill Capital Markets Inc. (formerly "Connor, Clark & Lunn Capital Markets Inc.") (the "Manager") the Manager of the Fund and RBC Investor Services Trust (formerly "RBC Dexia Investor Services Trust") (the "Trustee") dated November 23, 2010. The Fund's principal office is located at 77 King Street West, Suite 2110, Toronto, Ontario, M5K 1G8. The Fund commenced operations on December 17, 2010. The fiscal year-end of the Fund is August 31. The Fund is divided into units of one class.

Connor, Clark & Lunn Financial Group and the principals of the Manager entered into a sale transaction to sell to Aston Hill Financial Inc. ("Aston Hill") shares in the Manager, Connor, Clark & Lunn Capital Markets Inc. (the "Company"). The terms of the transaction involved Aston Hill purchasing 80% of the Company from Connor, Clark & Lunn Financial Group, Neil Murdoch (President and Chief Executive Officer) and Darren Cabral (Chief Financial Officer). Neil Murdoch and Darren Cabral hold the remaining 20% of the Company not owned by Aston Hill. Completion of the sale transaction occurred on August 15, 2013. The business acquired by Aston Hill included the management agreement related to this Fund.

#### 2 Investment objectives

The Fund's investment objectives are to:

- (i) provide the Unitholder with distributions; and
- (ii) provide an investment in a portfolio consisting primarily of Capital Securities issued by the Big Four Australian Banks (Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation).

In order to achieve the Fund's investment objectives, Aston Hill Capital Markets Inc. (formerly "Connor, Clark & Lunn Capital Markets Inc.") (the "Portfolio Manager"), the Fund's Portfolio Manager, manages its Portfolio. The Portfolio consists primarily of Capital Securities issued by the Big Four Australian Banks and Australian subsidiaries of global banks. The Fund may also invest in other income securities, such as subordinated debt and preferred shares, issued by Australian banks and Australian subsidiaries of global banks.

#### 3 Summary of significant accounting policies

##### Basis of presentation

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates. The following is a summary of the significant accounting policies of the Fund.

##### Valuation of investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore, are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded ("GAAP Net Assets" or "net assets"). Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Manager on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers' commissions and other transaction charges are immediately charged to net income in the period incurred. The Canadian Securities Administrators allow investment funds to calculate the daily net asset value for the purpose of processing unitholder transactions using the last traded price for the day as fair value of financial instruments traded in an active market, which is referred to as a "Transactional NAV" or "NAV". The Fund processes unitholder transactions using Transactional NAV.

The difference between the net asset value per unit and the net assets per unit as shown on the Statements of Net Assets is due to the different pricing methodology discussed above. The reconciliation between the Transactional NAV and the GAAP Net Assets is as follows:

	Transactional NAV	Section 3855 Adjustment	GAAP Net Assets
<b>Per Unit</b>			
August 31, 2013	9.51	(0.03)	9.48
August 31, 2012	9.32	(0.02)	9.30

##### Cash and short-term investments

Cash and short-term investments include cash and cash equivalents with maturities of less than 90 days from the date of acquisition.

##### Income recognition

Income from investments is recognized on an accrual basis. Interest income is accrued based on the number of days the investment is held during the period. All income, realized and unrealized net gains (losses) and transaction costs (apart from an insignificant amount of income arising from cash) are attributable to investments and derivatives, which are deemed held for trading. Realized gains (losses) are recorded on the transaction date they are incurred.

##### Expense recognition

Expenses that are directly attributable to the Fund are recorded on an accrual basis as incurred.

##### Related party transactions

All related party transactions occur in the normal course of operations and are recorded at an amount of consideration agreed to by the parties.

# ACS Trust

## Notes to Financial Statements

### August 31, 2013

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#### Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the end of the year. Purchases and sales of investments and income and expenses are translated into Canadian dollars at the exchange rate prevailing on the transaction dates.

Realized foreign currency gains and losses on monetary assets and liabilities other than investments denominated in foreign currencies are included in the Statements of Operations in "Net realized gain (loss) on foreign exchange". Unrealized foreign currency gains and losses on monetary assets and liabilities other than investments denominated in foreign currencies are included in the Statements of Operations in "Change in unrealized gain (loss) on foreign exchange".

#### Foreign currency forward contracts

The Fund may enter into foreign currency forward contracts to hedge against exposure to foreign currency fluctuations. The carrying value of these contracts is the gain or loss that would be realized if the positions were closed out on the valuation date and is recorded as an unrealized gain or loss. Upon closing of a contract, the gain or loss is recorded as a net realized gain or loss on foreign currency forward contracts.

#### Increase (decrease) in net assets from operations per unit

This calculation is based on the increase (decrease) in net assets from operations divided by the weighted average number of units outstanding during the period.

#### Designation of financial assets and liabilities

For the purpose of measuring and recognizing assets and liabilities, the following designations have been made: All investments, including derivatives, if any, are initially recognized at fair value and are designated as held for trading. Accrued interest and dividends receivable, amounts receivable for capital shares sold and securities sold and other assets are designated as loans and receivables and reported at cost or amortized cost. Amounts payable for securities purchased and capital shares redeemed, other liabilities and accrued expenses are designated as other financial liabilities and reported at amortized cost.

#### International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) had originally planned to adopt International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB), effective January 1, 2011. Subsequently, the AcSB deferred the adoption of IFRS for investment companies, which include investment funds. Investment companies may continue to apply existing GAAP standards until fiscal years beginning on or after January 1, 2014.

The Manager is reviewing and developing its IFRS changeover plan by performing an impact assessment and identifying differences between existing Canadian GAAP and IFRS. Management has also been monitoring developments in IFRS and has been assessing the likely impacts on accounting policies, implementation decisions, internal controls, information systems and training.

In May 2011, the IASB issued IFRS 13 Fair Value Measurement, which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. The standard allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread. This may result in the elimination of the differences between the transactional NAV and net assets at the financial statements reporting dates.

On July 24, 2013, the IASB voted tentatively to defer the mandatory adoption date of IFRS 9, Financial Instruments and that the mandatory effective date should be left open pending finalization of the project. Early adoption will continue to be permitted. This follows an agreement by the IASB and FASB to re-deliberate their proposals on the classification and measurement of financial instruments.

As the revised standard was scheduled to be completed in 2013, the Fund may now choose to adopt IAS 39, Financial Instruments: Recognition and Measurement instead, given the uncertainty about the timing and future development of IFRS 9. The Manager will decide the appropriate course of action for the Fund prior to completion of the August 2015 financial statements.

Other than the potential impact of IFRS 13 as described above, the Manager has currently not identified any changes that will impact net assets per Unit as a result of the changeover to IFRS. The impact of IFRS on other accounting policies and implementation decisions will mainly be in the areas of presentation and disclosures in the financial statements of the Funds. However, this present determination is subject to change resulting from the issuance of new standards or interpretations of existing standards.

## 4 Custodian

Pursuant to the Trust Agreement, RBC Investor Services Trust (formerly "RBC Dexia Investor Services Trust") (the "Custodian") also acts as Custodian of the assets of the Fund. The Custodian carries out certain aspects of the day-to-day administration of the Fund, including calculating Transactional NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. In consideration for these services, the Fund pays a fee to the Custodian. The Custodian is rated AA- by S&P as of August 31, 2013 and 2012.

## 5 Unitholder's equity

The Fund is authorized to issue an unlimited number of redeemable, transferable single class of units (the "Units"), each of which represents an equal, undivided interest in the net assets of the Fund, subject to the terms and conditions of the Trust Agreement. All units of the Fund are held by one unitholder.

On December 17, 2010, the Fund completed a unit offering pursuant to the Prospectus dated November 29, 2010. \$136,292,000 was raised through the issue of 14,581,576 Units. The Units were issued at \$9.35 per Unit.

During the year ended August 31, 2013, the Fund issued 39,150 Units for a total value of \$380,628 and redeemed 3,460,569 Units for net payment of \$32,634,356 (385,927 Units were issued for \$3,640,950 and 2,796,303 Units were redeemed for \$25,948,955 during the year ended August 31, 2012).

Changes in outstanding units during the years ended August 31, 2013 and 2012 are summarized as follows:

# ACS Trust

## Notes to Financial Statements

### August 31, 2013

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	August 31, 2013	August 31, 2012
Balance – beginning of year	17,133,381	19,543,757
Units issued	39,150	385,927
Units redeemed	<u>(3,460,569)</u>	<u>(2,796,303)</u>
Balance – end of year	<u>13,711,962</u>	<u>17,133,381</u>

The Unit Capital dollar amount represents the face value of the Fund's Units minus any return on capital distributions. If the redemption price is lower than the average cost per unit, the difference is included in Contributed Surplus on the Statements of Net Assets. If the price is greater than the average cost per unit, the difference is first charged to Contributed Surplus until the balance in Contributed Surplus is eliminated and the remaining amount is charged to Retained Earnings (Deficit).

The Fund considers capital to include all units issued and outstanding. The Fund manages its capital in accordance with the objectives outlined in Note 2.

#### 6 Distributions

The Fund pays distributions if, as and when declared by the Fund from time to time. During the year ended August 31, 2013, the Fund paid \$15,178,590 in distributions and the amount of \$6,226,726 was reinvested and the Units consolidated (\$10,489,674 during the year ended August 31, 2012 and the amount of \$171,633 was reinvested and the Units consolidated).

#### 7 Management fees

The Manager receives a management fee from the Fund equal in the aggregate to 0.30% per annum of the applicable NAV, calculated daily and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund during the year ended August 31, 2013 were \$385,186 plus applicable taxes (\$423,935 plus applicable taxes during the year ended August 31, 2012).

#### 8 Income taxes

The Fund is a financial institution for purposes of the "specified debt obligation" and "mark-to-market" rules contained in the Income Tax Act (Canada) as more than 50% of the fair market value of all interests in the Fund are held any time by one or more such financial institutions. The Fund will be subject to tax in each taxation year under Part I of the Income Tax Act (Canada) on the amount of its income for the year, including net unrealized gains, if any, less the portion thereof that it deducts in respect of the amount paid or payable to unitholders in the year. The Fund may also be subject to "minimum tax" under the Tax Act.

It is the intention of the Manager that all annual net taxable income will be distributed to the unitholder on a calendar year basis such that Canadian income taxes payable by the Fund under present legislation will be eliminated. As a result thereof, and of the deduction of expenses in computing its taxable income, no provisions for income taxes are made in the financial statements.

The Fund did not have any net taxable capital losses or non-capital losses carry forward balances as at tax year ends December 31, 2012 and 2011.

#### 9 Broker commission charges and soft dollar services

There were \$1,326 of broker commissions paid during the year ended August 31, 2013 in connection with portfolio transactions (\$2,256 during the year ended August 31, 2012). No contractual arrangements for soft dollar services exist in the broker commission charges.

# ACS Trust

## Notes to Financial Statements

### August 31, 2013

#### 10 Financial instruments

	August 31, 2013	August 31, 2012
	\$	\$
<b>Assets</b>		
Cash	758,724	699,052
Held for trading	129,174,566	156,388,180
Loans and receivables	2,305,383	2,298,050
<b>Total assets</b>	<b>132,238,673</b>	<b>159,385,282</b>
<b>Liabilities</b>		
Held for trading	2,187,289	34,752
Financial liabilities at amortized cost	58,959	68,463
<b>Total liabilities</b>	<b>2,246,248</b>	<b>103,215</b>

For the purposes of categorization in accordance with CICA Section 3862, Financial Instruments – Disclosures, cash is reported at fair value, while interest and dividends receivable is deemed to be loans and receivables and recorded at cost or amortized cost. Similarly, management fees payable and accounts payable and accrued liabilities are deemed to be financial liabilities and reported at amortized cost.

The following tables illustrate the classification of the Fund's financial instruments within the fair value hierarchy as at August 31, 2013 and 2012:

Assets at fair value as at August 31, 2013	Level 1	Level 2	Level 3	Total
Equities	2,640,063	–	–	2,640,063
Bonds	–	126,218,131	–	126,218,131
Short-term investments	–	316,372	–	316,372
<b>Total</b>	<b>2,640,063</b>	<b>126,534,503</b>	<b>–</b>	<b>129,174,566</b>

Liabilities at fair value as at August 31, 2013	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	–	2,187,289	–	2,187,289
<b>Total</b>	<b>–</b>	<b>2,187,289</b>	<b>–</b>	<b>2,187,289</b>

Assets at fair value as at August 31, 2012	Level 1	Level 2	Level 3	Total
Equities	5,553,679	–	–	5,553,679
Bonds	–	150,195,745	–	150,195,745
Foreign currency forward contracts	–	638,756	–	638,756
<b>Total</b>	<b>5,553,679</b>	<b>150,834,501</b>	<b>–</b>	<b>156,388,180</b>

Liabilities at fair value as at August 31, 2012	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	–	34,752	–	34,752
<b>Total</b>	<b>–</b>	<b>34,752</b>	<b>–</b>	<b>34,752</b>

Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

*Equities:* The Fund's long equity positions are classified as Level 1 as the security held is actively traded and a reliable quote is observable.

*Bonds and short-term investments:* Bonds and short-term investments are classified as Level 2 as they are valued using observable inputs, including interest rate curves, credit spreads and volatilities.

*Foreign currency forward contracts:* Foreign currency forward contracts for which inputs, including interest rates, forward market rates and credit spreads are observable and reliable or for which unobservable inputs are determined not to be significant to fair value, are classified as Level 2.

There were no transfers among the three levels during the years ended August 31, 2013 and 2012.

#### 11 Financial instrument risk

The Fund's activities expose it to a variety of financial risks. The Portfolio Manager may invest in derivatives for the purpose of hedging interest rate exposure. The Investment Manager also invests in foreign currency forward contracts to hedge the Fund's foreign exchange risk exposure.

##### Interest rate risk

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio, such as bonds and short-term notes. The Fund is exposed to the risk that the value of interest-sensitive financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. The tables below summarize the Fund's exposure to interest rate risks. It includes the Fund's assets and trading liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

# ACS Trust

## Notes to Financial Statements

### August 31, 2013

#### August 31, 2013:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	–	84,278,251	23,766,688	18,173,192	452,774	126,670,905
Cash and short-term investments	316,372	–	–	–	758,724	1,075,096
Other assets	–	–	–	–	2,305,383	2,305,383
Liabilities	–	–	–	–	(58,959)	(58,959)
Net assets	316,372	84,278,251	23,766,688	18,173,192	3,457,892	129,992,425

#### August 31, 2012:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	–	12,895,970	121,842,375	34,210,779	8,667,179	177,616,303
Cash and short-term investments	–	–	–	–	1,193,484	1,193,484
Other assets	–	–	–	–	2,460,598	2,460,598
Liabilities	–	–	–	–	(69,532)	(69,532)
Total	–	12,895,970	121,842,375	34,210,779	12,251,729	181,200,853

As at August 31, 2013, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$2,774,000 and \$2,873,000 (as at August 31, 2012, net assets would have decreased or increased, respectively, by approximately \$2,988,000 and \$3,115,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

#### Currency risk

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar (“CAD”), which is the Fund’s functional currency. The Fund is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates. The Statement of Investment Portfolio identifies all securities denominated in foreign currencies.

The tables below summarize the Fund’s exposure to foreign currencies as at August 31, 2013 and 2012. Amounts shown are based on the carrying values of monetary and non-monetary assets as well as the underlying principal amounts of foreign currency derivatives such as forward contracts. Other financial assets and liabilities such denominated in foreign currencies do not expose the Fund to significant currency risk. The tables below summarize the Fund’s significant exposure to foreign currencies and the approximate impact on net assets had the Canadian dollar weakened by 5% in relation to these currencies. If the Canadian dollar were to strengthen relative to these currencies, the opposite would occur. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

#### August 31, 2013:

	Monetary instruments	Non-monetary instruments	Derivative instruments	Net Exposure	% of Net Assets	Sensitivity (based on devaluation of CAD)
	\$	\$	\$	\$		\$
Australian Dollar	32,541,949	2,640,063	–	35,182,012	27.1%	1,759,000
British Pound	18,199,876	–	(17,950,099)	249,777	0.2%	12,000
U.S. Dollar	76,560,173	–	(49,791,130)	26,769,043	20.6%	1,338,000
	127,301,998	2,640,063	(67,741,229)	62,200,831	47.9%	3,109,000

#### August 31, 2012:

	Monetary instruments	Non-monetary instruments	Derivative instruments	Net Exposure	% of Net Assets	Sensitivity (based on devaluation of CAD)
	\$	\$	\$	\$		\$
Australian Dollar	72,408,634	5,553,679	–	77,962,313	48.9%	3,898,000
British Pound	12,144,729	–	(11,324,806)	819,923	0.5%	41,000
U.S. Dollar	66,350,166	–	(36,128,408)	30,221,758	19.0%	1,511,000
	150,903,529	5,553,679	(47,453,214)	109,003,994	68.4%	5,450,000

#### Credit risk

The Fund is exposed to the risk that a security issuer or counterparty will be unable to pay amounts in full when due. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of debt investments and unrealized gain on derivative instruments outstanding with counterparties represents the maximum credit risk exposure as at August 31, 2013 and 2012.

The tables below summarize the Fund’s exposure to credit risk as of August 31, 2013 and 2012. Amounts shown are based on the carrying value of debt investments and the unrealized gain on derivative instruments outstanding with counterparties.

# ACS Trust

## Notes to Financial Statements

### August 31, 2013

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	August 31, 2013 (% of Net Assets)
Rating	
AA-	6.4%
A	18.4%
BBB+	72.6%
A-1+	0.2%
<b>Total</b>	<b>97.6%</b>

	August 31, 2012 (% of Net Assets)
Rating	
AA-	32.8%
A	16.1%
BBB	49.4%
<b>Total</b>	<b>98.3%</b>

As at August 31, 2013 and 2012, no debt securities were contractually past due and no longer meeting interest payment obligations.

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

#### Liquidity risk

Liquidity risk is the risk of not being able to meet the Fund's cash requirements in a timely manner and includes the risk of not being able to liquidate assets at reasonable prices. This risk arises mainly from the Fund's exposure to unlimited annual redemptions in any given year; therefore, the Fund invests the majority of its assets in investments that can be readily disposed. In addition, the Fund retains sufficient cash positions to maintain liquidity. All liabilities, with the exception of one foreign currency forward contract, are due within three months.

#### Other market risk

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Manager moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk resulting from financial instruments is equivalent to their fair value. The Fund's equity instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments.

If equity prices had increased or decreased by 10% on August 31, 2013, all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately \$264,006 (August 31, 2012 – \$555,368). In practice, actual results may differ from this sensitivity analysis and the difference could be material.