CONNOR, CLARK & LUNN

CAPITAL MARKETS

2012

Australian Banc Capital Securities Trust

Annual Report

August 31, 2012

Australian Banc Capital Securities Trust Message to Unitholders

November 29, 2012

Dear Investor,

We are pleased to provide you with the annual report for Australian Banc Capital Securities Trust (the "Fund") for the year ended August 31, 2012.

The Fund was established to provide investors with high levels of tax-advantaged distributions through exposure, on a low cost basis, to capital securities issued by the "Big Four Australian banks", namely Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation.

The Funds' investment objectives are to (i) provide Unitholders with quarterly, tax-advantaged distributions consisting primarily of returns of capital, and (ii) provide exposure to a portfolio consisting primarily of capital securities issued by the Big Four Australian Banks. Distributions are initially targeted to be $0.60 per annum per Unit consisting primarily of returns of capital, representing a yield on the Unit issue price of 6.0% per annum. During the period, all distributions were made and the Class A Units increased from $9.43 to $9.45 for a total return of 6.5%.

Australian Banc Capital Securities Trust is the fourth Fund established by the Manager that invests in capital securities, also commonly known as hybrid bonds or innovative tier 1 capital. They have all benefitted from the adoption of the Basel III Committee's recommendations by the regulators in the different countries. In general, the result of the changes is to lower the risk profile of financial institutions which is good for bondholders.

Australia continues to be in a strong position when measured against the difficulties being experienced in much of the developed world. Its GDP growth to the quarter ending June 30th was 3.7% per annum, unemployment is at 5.3% and core inflation is at 2.5%. Yet much of Australia's growth has been due to exports of natural resources. Slowing Asian economies have caused a significant drop in commodity prices. Australia's central bank, the Reserve Bank of Australia, has lowered its cash rate from 4.75% when the Fund was launched to 3.25% today. There have been 4 cuts of 0.25% and one of 0.50%. A significant portion of the portfolio is in floating rate securities which are impacted by the lower cash rate.

Please check our website for quarterly investment updates and other timely information. We appreciate your investment in the Fund and look forward to continued strong performance by the Fund.

Yours truly,

W. Neil Murdoch

W. Neil Murdoch
Chief Executive Officer
Connor, Clark & Lunn Capital Markets

Management Report of Fund Performance

This annual management report of fund performance for **Australian Banc Capital Securities Trust** (the "Fund") contains financial highlights but does not contain the complete annual financial statements of the Fund. **The annual financial statements and accompanying notes are attached to this report.**

You can obtain a copy of the annual financial statements at no cost by writing to Connor, Clark & Lunn Capital Markets Inc. (the "Manager") to the following address: Connor, Clark & Lunn Capital Markets Inc., 181 University Avenue, Suite 300, Toronto, Ontario, M5H 3M7 or calling (416) 862-2020 or visiting the Manager's website at www.cclcapitalmarkets.com or by visiting www.sedar.com.

Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

Note that any reference to "Net Assets" or "Net Assets per Unit" or "GAAP Net Assets" means that the value was determined in accordance with the Canadian Generally Accepted Accounting Principles "GAAP" for financial statements purposes. Also, any reference to "Net Asset Value" or "Net Asset Value per Unit" or "Transactional NAV" means that the value was determined for valuation and transactional purposes in accordance with the Canadian Securities Administrators. An explanation of the difference between both values can be found in note 3 to the financial statements.

Investment Objectives and Strategies

The Fund is an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement between 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 181 University Avenue, Suite 300, Toronto, Ontario, M5H 3M7. The fiscal year-end of the Fund is August 31.

The beneficial interest in the net assets and net income of the Fund is divided into units of two classes, Class A Units and Class F Units. The Class A Units are listed on the Toronto Stock Exchange (the "TSX") under the symbol AUZ.UN. The Class F Units are not listed on a stock exchange but may be converted into Class A Units on a weekly basis. The principal difference between the Class A Units and the Class F Units are that the agents' fees payable with respect to the original issuance of the units were lower for the Class F Units.

The Fund's investment objectives are to:

(i) provide Unitholders with quarterly, tax-advantaged distributions consisting primarily of returns of capital; and

(ii) provide exposure to 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, the Fund obtained exposure, in a tax-efficient manner, to the performance of a portfolio (the "Portfolio") held by ACS Trust (the "Trust"). Connor, Clark & Lunn Capital Markets Inc. (the "Portfolio Manager"), the Trust's portfolio manager, manages the 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 international banks.

The Fund does not invest directly in the Trust; the Fund used the net proceeds of the initial public offering of its Class A and Class F Units to pre-pay its purchase obligations under a forward purchase and sale agreement (the "Forward Agreement") with Bank of Montreal (the "Counterparty" or "BMO"). Under the Forward Agreement, the Fund will receive, on or before January 22, 2016, a specified portfolio consisting of securities of Canadian public issuers that are "Canadian securities" for the purposes of the Tax Act ("Canadian Securities") in an amount equal to the net asset value of the Trust. Partial settlements under the Forward Agreement are intended to ensure that Unitholders have economic exposure to the distributions effected by the Trust. A fee of up to 0.35% per annum, calculated with reference to the Net Asset Value of the Trust, is payable to BMO under the Forward Agreement.

Risk

Changes in the risk exposure of the Fund occurred in the following areas:

Use of leverage

The Fund's exposure to the securities in the Portfolio through the Forward Agreement may be increased to 20.0% of the levered notional amount (being the Net Asset Value of ACS Trust) (tested daily) for the purposes of adding leverage to the Portfolio and such other short-term funding purposes as may be determined by the Portfolio Manager from time to time and in accordance with the Investment Strategy. The use of leverage has the potential to enhance or reduce returns.

During the year ended August 31, 2012, the Fund applied leverage in the range from 18.13% to 21.01% or U.S. $32,360,000 to U.S. $35,965,000. The Canadian equivalent was $32,120,382 to $36,918,229. (During the period from December 17, 2010 (commencement of operations) to August 31, 2011, the Fund applied leverage in the range from nil% to 20.28% or $nil to U.S. $36,965,000. The Canadian equivalent was $nil to $36,565,703.) The leverage factor as of August 31, 2012 was 19.05% and the borrowed balance was U.S. $30,828,000. The borrowed balance in Canadian Dollars was $30,422,468. The related interest expense was $404,254. (The leverage factor as of August 31, 2011 was 19.90% and the borrowed balance was U.S. $36,965,000 and the Canadian equivalent was $36,146,287. The related interest expense was $219,176.)

For full disclosure of risks associated with an investment in the Fund's units, please refer to the Prospectus dated November 29, 2010 or to the Fund's most recent Annual Information Form. Both are available at www.cclcapitalmarkets.com or www.sedar.com.

Recent Developments

Future accounting changes

On October 31, 2012, the International Accounting Standards Board (the "IASB") issued an amendment to IFRS 10 exempting investment entities from consolidating their controlled investments. The Fund qualifies as investment entity and measures all controlled investments at fair value with changes in fair value recognized through profit or loss.

On December 12, 2011, the Canadian Accounting Standards Board (the "AcSB") extended the deferral of the mandatory International Financial Reporting Standards ("IFRS") changeover date for investment companies to fiscal year beginning on or after January 1, 2014.

On May 12, 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 disclosure about fair value measurements. It only applies when other IFRSs require or permit fair value measurement. 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. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. This may result in eliminating the difference between the net asset value per unit and net assets per unit under the current Canadian GAAP. The Manager is currently assessing the Fund's Unitholder structure and investments to determine the impact of these standards. The Manager has determined that there will likely be no material impact to the net asset value versus net assets per unit from the changeover to IFRS.

Results of Operations

Caution regarding forward-looking statements

The analysis in the document includes forward looking statements. The use of any of the words anticipate, may, will, expect, estimate, should, believe and similar expressions are intended to identify forward-looking statements. Such statements reflect the opinion of the Portfolio Manager regarding factors that might be reasonably expected to affect the performance and the distributions on units of the Fund, and are based on information available at the time of writing. The Portfolio Manager believes that the expectations reflected in these forward-looking statements and in the analysis are reasonable, but no assurance can be given that these expectations or the analysis will prove to be correct and accordingly they should not be unduly relied on. These statements speak only as of the date of this report. Actual events and outcomes may differ materially from those described in these forward-looking statements or analysis.

Manager's Commentary (November 2012)

Portfolio Update

As at August 31, 2012, approximately 43% of the Fund's portfolio was invested in floating rate securities with the balance invested in traditional fixed coupon securities with first call dates primarily in three or four years which closely matches the remaining term of the Fund. As a result, the estimated weighted average modified duration of the portfolio was approximately 2.9 years at the end of the fiscal year. The modified duration is low in part due to the portfolio's significant exposure to floating rate securities that benefit from rising interest rates. Floating rate securities offer the potential for lower or higher distributions depending on movements in short-term interest rates in Australia.

As at August 31, 2012, approximately 49% of the Fund's investment portfolio was invested in securities denominated in Australian dollars, 43% in U.S. dollars and the remainder in Pound Sterling. The Fund's non-Australian dollar asset exposure is hedged and its Australian dollar asset exposure is not currently hedged. The Fund's currency hedges have had a positive contribution to the Fund's performance as has the Fund's exposure to the Australian dollar since the inception of the Fund. During this reporting period, a weaker Australian dollar hurt performance.

Australian Economy

In the minutes of its October meeting, the Reserve Bank of Australia (RBA) Board noted that in spite of another stronger than expected quarter for resource investment in Q2, volatile commodity prices are impacting the outlook for development in the mining sector. The minutes went on to say that "resource investment could peak earlier, and at a lower level, than previously forecast" although resource investment as a share of GDP would likely remain high for several years. In lowering the cash rate by 25 basis points on October 3rd, the Board noted that growth had slowed globally and that "further monetary stimulus has been put in place in the major advanced economies." The Board also discussed that non-mining activity was broadly in line with expectations although the labour market continues to soften.

Australia's GDP grew 0.6% in the second quarter, making for a relatively robust 3.7% in the year to June. Inflation came in at 1.4% for the September quarter and 2.0% for the year, exceeding expectations of 1.7% due in part to renewed strength in house pricing and the introduction of the carbon tax in July. Unemployment stood at 5.3% in September, unchanged from August and up 0.1% from a year earlier, with the participation rate at 65.2%, down 0.4% from a year earlier. Core inflation, at 2.5%, is just within RBA's s 2.0% to 2.5% target band but central bankers may be less hawkish on inflation in the face of a stubbornly strong Aussie dollar. RBA has cut its cash rate three times in 2012 for a total drop of 1.0%, to sit at 3.25%.

Australia continues to be in a relatively strong position measured against difficulties being experienced in much of the developed world. The IMF World Economic Outlook released this month asserted that "risks for a serious global slowdown are alarmingly high." The IMF expects the world economy to grow at 3.3% this year and 3.6% in 2013. These estimates are down by 0.2% and 0.3% respectively from the agency's July forecast. The global economy grew at 3.8% in 2011 and 5.1% in 2010. IMF noted that its forecasts depend on the success of the euro-zone in executing plans to ease stress on its most troubled economies and on the United States' avoiding the "fiscal cliff", a series of tax increases and spending cuts that will be implemented early in 2013 absent a political solution. Disappointment on either front would reduce growth estimates.

Similarly, the World Bank recently cut projections for growth in developing East Asia, with a forecast of 7.2% for 2012, well down from the Bank's May prediction of 7.6%. East Asia includes China, Australia's largest trading partner, which is now struggling with the early and delicate phases of economic restructuring required to rein in its "grow at all costs" ethos and accommodate rising labour costs, demographic shifts and the gradual transition to a leading developed economy. The most recent release from China shows GDP having accelerated somewhat in the third quarter, turning in 2.2%, or 9.1% annualized, though one-year growth since the third quarter of 2011, at 7.4%, missed the government's 7.5% "bottom line" target for the first time since 2009. 2012 growth will likely come in below 8.0%, the lowest since the Asian financial crisis 13 years ago.

The relative slowdown in China has helped drive a substantial erosion of commodities prices, off 25% from their June highs, with significant repercussions for Australia's mining sector. Resource developers are re-assessing the 950 planned and current resources and related infrastructure projects. Capital expenditure in the industry is widely viewed as having peaked, and is expected to fall from $759 billion in 2013 to $450 billion by 2020 according to a recent report from Australian New Zealand Banking Corp. (ANZ).

Australian Banks

Having substantially strengthened their capital, funding and liquidity positions since the financial crisis, Australian banks are in a fairly strong position, and well placed to cope with any economic and market shocks from abroad, according to the Reserve Bank of Australia's September Financial Stability Review. However, growth in profits has been a bit slower in recent periods as the decline in bad and doubtful debt charges appears to have played itself out, credit growth continues to be modest, and margin pressures have increased.

In general, Australian banks have very limited exposure to the troubled economies of the Eurozone. 1.6% of assets have Euro area counterparties and 0.2% are in Greece, Ireland, Italy, Portugal and Spain. Perhaps more significant is indirect exposure through counterparties, such as French and German banks, with greater risk to those countries; through the potential for economic contagion resulting from further deterioration; and also through the potential breakdown of funding market such as occurred in late 2011.

Banks have benefitted from changes in their funding structure, as customer deposits now account for 53% of total funding, up from 40% in 2008. During the crisis, this level was a source of concern. The wholesale funding market, into which the banks issue bonds that make up about 34% of their capital structure on average, became very expensive, and at times disappeared altogether, as the difficulties in Europe took hold of bond markets in late 2011. The situation appears to have settled as credit spreads are back at pre-crisis levels. Covered bonds, which were introduced for Australian banks a year ago and briefly made up 100% of bank issuance, now account for about 30%. Major banks have used about a quarter of their covered bond issuance capacity, leaving significant reserve in the event that markets tighten again. Credit spreads over swap rates (the yield required by investors to buy bonds over and above the borrowing rates between financial institutions) for covered bonds on a 5-year term have declined to about 60 basis points having peaked at 175 basis points in January, and the spread on similar unsecured bonds of the big four banks was 109 as at October 9th, down from having exceeded 250 basis points at the end of last year. Asset performance continues to gradually improve, with the ratio of non-performing assets standing at 1.4% as at the end of June, down from 1.7% two years ago. The decline in this ratio appears to have bottomed, reflecting relative weakness in commercial property as well as retail and agriculture to a lesser extent.

The banks continue to strengthen their capital positions. Average Tier 1 capital is up to 10.5% of risk-weighted assets from about 8.5% in 2009. Most of this growth has been achieved organically via retained earnings, with a substantial contribution from dividend re-investment plans. The major banks are in a good position to meet requirements for the first phase of the Basel III regulations, being phased in starting in 2013.

For the latest reported six-month period, the major banks recorded revenues up 5% on average, with cash profits up 6% at ANZ, 5% at National Australia Bank (NAB), and 2% at Westpac Banking Corp. Commonwealth Bank of Australia (CBA), which has a June year-end rather than September for the other three, reported cash profit up 4% for the year to June. ANZ, NAB and Westpac will announce 2012 earnings on October 25th, October 31st and November 5th respectively.

HSBC is also represented in the portfolio by way of floating rate notes issued by HSBC Bank Australia. HSBC reported on the first half 2012 during the quarter. Underlying profit before tax was U.S. $10.6 billion, down 3% compared to the first half of 2011 on 4% higher revenues, and up over 80% compared to the six months ended December 2011. HSBC reported strong revenue growth in the faster growing regions of Hong Kong, Rest of Asia-Pacific and Latin America and achievement of sustainable cost savings of U.S. $8 billion. The group's core tier 1 capital ratio increased from 10.1% at the end of 2011 to 11.3% on June 30 2012.

Capital transactions

On December 17, 2010, the Fund completed an initial public offering pursuant to the Prospectus dated November 29, 2010. $140,000,000 was raised through the issue of 14,000,000 Class A Units and $5,815,760 was raised through the issue of 581,576 Class F Units. The Class A Units were issued at $10.00 per Unit and incurred Agents' fees and issue expenses of $8,038,602 or $0.57 per Unit, for an opening Transactional NAV of $9.43 per Unit. The Class F Units were issued at $10.00 per Unit and incurred Agents' fees and issue expenses of $158,095 or $0.27 per Unit, for an opening Transactional NAV of $9.73 per Unit.

On January 13, 2011, the Agents exercised an over-allotment option in respect of 790,010 Class A Units, raising a further $7,900,100. Agents' fees were $436,840 or $0.55 per Unit.

There were 74,110 Class F Units converted to 76,766 Class A Units for a total value of $727,775 during the year ended August 31, 2012 (66,423 Class F Units were converted to 68,464 Class A Units for $640,348 during the period from December 17, 2010 (commencement of operations) to August 31, 2011). During the same period, the Fund also had redemptions of 1,708,597 Class A Units for $15,849,802 and redemptions of 7,251 Class F Units for $65,739.

Net Assets

The net assets per unit is calculated as the value of the prepaid amount to the Counterparty under the Forward Agreement plus any other investments held by the Fund, plus the value of any gain or loss on the Forward Agreement, less any net liabilities of the Fund, divided by the number of units outstanding.

Since the Fund can at any time terminate the Forward Agreement with the Counterparty in exchange for the value of ACS Trust, the value of the Forward Agreement to the Fund is equal to the transactional value of ACS Trust less the value of the prepaid amount to the Counterparty under the Forward Agreement. On August 31, 2012, the value of the prepaid amount to the Counterparty under the Forward Agreement balance was $144,693,405. The unrealized gain on the Forward Agreement balance was $14,981,480. Liabilities net of other assets in the Fund totalled $30,410,895, leaving net assets of $129,263,990. This amount is assigned to Class A and Class F Unitholders using an allocation percentage that takes into consideration any class level specific expenses. On August 31, 2012, the GAAP Net Assets per Unit were $9.45 per Class A Unit and $9.80 per Class F Unit. On August 31, 2011, the value of the prepaid amount to the Counterparty under the Forward Agreement was $175,022,659. The unrealized gain on the Forward Agreement balance was $6,178,194. Liabilities net of other assets in the Fund totalled $36,040,312, leaving net assets of $145,160,541. This amount is assigned to Class A and Class F Unitholders using an allocation percentage that takes into consideration any class level specific expenses. On August 31, 2011, the GAAP Net Assets per Unit were $9.43 per Class A Unit and $9.73 per Class F Unit.

Market repurchases

The Trust Agreement provides that the Fund may, in its sole discretion, from time to time, purchase (in the open market or by invitation for tenders) Class A Units for cancellation subject to applicable law and stock exchange requirements, based on the Manager's assessment that such purchases are accretive to Unitholders, in all cases at a price per Class A Unit not exceeding the most recently calculated Net Asset Value per Class A Unit immediately prior to the date of any such purchase of Units.

The Fund did not purchase any Class A Units for cancellation during the year ended August 31, 2012 or during the period from December 17, 2010 (commencement of operations) to August 31, 2011.

Distributions

The Fund does not have a fixed distribution. The Fund paid an initial distribution of $0.074 per Class A and Class F Unit respectively covering the period from December 17, 2010 (commencement of operations) to January 31, 2011. The Fund made regular quarterly distributions of $0.15 per Class A and Class F Unit thereafter.

The Fund has made all its scheduled distributions during the year ended August 31, 2012 paying $0.60 per Class A Unit and Class F Unit respectively ($0.374 per Class A Unit and Class F Unit during the period from December 17, 2010 (commencement of operations) to August 31, 2011).

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee of the Board of Advisors tabled no special reports and made no extraordinary material recommendations to management of the Fund during the year ended August 31, 2012.

Related Party Transactions

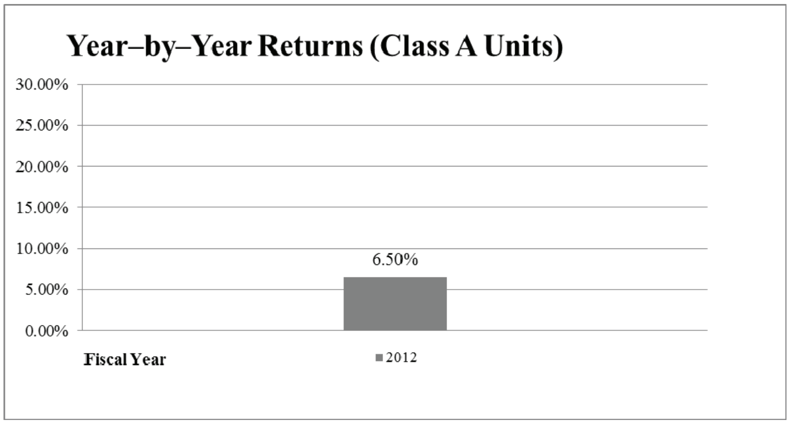
Management Fees

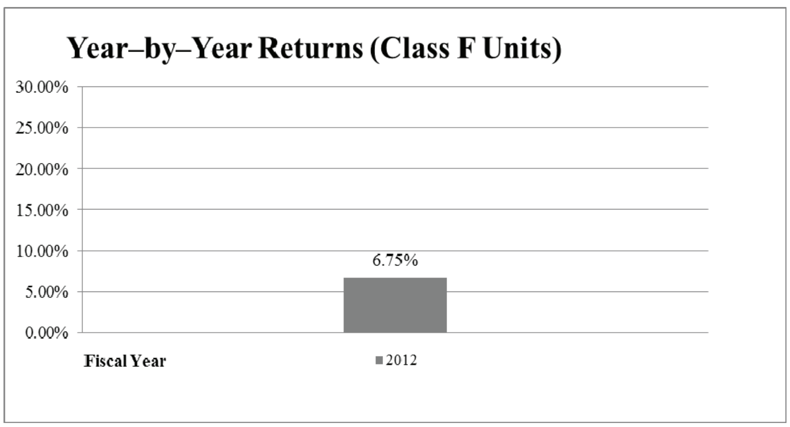
In consideration for management services and investment advice, the Manager receives a management fee from the Fund and the Trust equal in the aggregate to 0.50% per annum of the applicable Net Asset Value, (0.20% from the Fund and 0.30% from the Trust), calculated daily and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund and the Trust on a combined basis during the year ended August 31, 2012 were $792,846 ($583,672 during the period from December 17, 2010 (commencement of operations) to August 31, 2011).

Past Performance

The following bar charts show the Fund's annual performance of the Class A Units and Class F Units assuming all the distributions made by the Fund during the period shown were reinvested. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. The bar charts show, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period. Past performance is not necessarily indicative of future performance.





Annual Compound Returns

	Past Year	Since Inception [1]
Based on NAV (Class A Units)	6.50%	6.97%
Based on share price (Class A Units)	3.48%	2.30%
Based on NAV (Class F Units)	6.75%	7.01%
Bank of America Merrill Lynch Australia Financial Index	6.95%	11.73%

(1) Annualized for the period from December 17, 2010 (commencement of operations) to August 31, 2012.

The Bank of America Merrill Lynch Australia Financial Index tracks the performance of investment grade debt of financial issuers publicly issued in the Australian domestic market and denominated in Australian dollars with at least one year remaining until maturity. The index includes securities issued by regional banks, non-bank financials and non-Australian banks that have issued securities in the domestic Australian market which the Fund does not have exposure to. The index total returns are presented in and calculated in Canadian dollars.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to aid in understanding the Fund's financial performance since inception. This information is derived from the Fund's audited annual financial statements:

Class A Units:

The Fund's Net Assets per Class A Unit:

	August 31, 2012	August 31, 2011 (1)
Net Assets, beginning of period	**9.43**	**10.00**
Unit issue expense (2)	–	**(0.57)**
Increase (decrease) from operations:		
Total revenues	–	–
Total expenses	(0.09)	(0.06)
Realized gains (losses) for the period	0.15	–
Unrealized gains (losses) for the period	0.53	0.44
Total increase (decrease) from operations (3)	**0.59**	**0.38**
Distributions:		
From income (excluding dividends)	–	–
From dividends	–	–
From capital gains	–	–
Return of capital	(0.60)	(0.37)
Total Distributions (4)	**(0.60)**	**(0.37)**
Net Assets, end of period (5)	**9.45**	**9.43**

(1) Results for the period from December 17, 2010 (commencement of operations) to August 31, 2011.
(2) Issue expenses of $8,475,442 incurred in connection with the Class A Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes.
(3) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of 14,642,305 units outstanding as of August 31, 2012 (August 31, 2011 – 14,746,173 units).
(4) The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on estimates.
(5) This is not a reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data (Class A Units):

	August 31, 2012	August 31, 2011 (1)
Net asset value (000's)	125,015	140,549
Number of units outstanding	13,226,643	14,858,474
Base Management expense ratio (2) (3)	0.73%	0.71%
Issue expenses ratio (2) (3)	0.00%	6.07%
Interest expense ratio (2) (3)	0.29%	0.21%
Management expense ratio (annualized) (3)	1.02%	6.99%
Management expense ratio before waivers or absorptions (annualized) (3)	1.02%	6.99%
Portfolio turnover rate (4)	0.00%	1.36%
Trading expense ratio (5)	0.00%	0.00%
Net asset value per unit (6)	9.45	9.46
Closing market price (TSX)	9.14	9.42

(1) Results for the period from December 17, 2010 (commencement of operations) to August 31, 2011.
(2) A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio: representing all agents' fees and unit issue expenses, and Interest expense ratio: representing cost of leverage.
(3) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. Unit issue expenses, representing all Agents' fees and other offering expenses, which are one-time expenses, have not been annualized.
(4) The Fund's turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities (including fixed income) in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.
(5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
(6) The net asset value (Transactional NAV) per unit is based on the last traded price for the day of the underlying portfolio.

Class F Units:

The Fund's Net Assets per Class F Unit:

	August 31, 2012	August 31, 2011 [(1)]
Net Assets, beginning of period	**9.73**	**10.00**
Unit issue expense [(2)]	–	**(0.29)**
Increase (decrease) from operations:		
Total revenues	–	–
Total expenses	(0.10)	(0.06)
Realized gains (losses) for the period	0.15	–
Unrealized gains (losses) for the period	0.61	0.42
Total increase (decrease) from operations [(3)]	**0.66**	**0.36**
Distributions:		
From income (excluding dividends)	–	–
From dividends	–	–
From capital gains	–	–
Return of capital	(0.60)	(0.37)
Total Distributions [(4)]	**(0.60)**	**(0.37)**
Net Assets, end of period [(5)]	**9.80**	**9.73**

(1) Results for the period from December 17, 2010 (commencement of operations) to August 31, 2011.

(2) Issue expenses of $158,095 incurred in connection with the Class F Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes.

(3) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of 481,583 units outstanding as of August 31, 2012 (August 31, 2011 – 543,893 units).

(4) The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on estimates.

(5) This is not a reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data (Class F Units):

	August 31, 2012	August 31, 2011 [(1)]
Net asset value (000's)	4,249	5,027
Number of units outstanding	433,792	515,153
Base Management expense ratio [(2) (3)]	0.72%	0.71%
Issue expenses ratio [(2) (3)]	0.00%	2.98%
Interest expense ratio [(2) (3)]	0.29%	0.21%
Management expense ratio (annualized) [(3)]	1.01%	3.90%
Management expense ratio before waivers or absorptions (annualized) [(3)]	1.01%	3.90%
Portfolio turnover rate [(4)]	0.00%	1.36%
Trading expense ratio [(5)]	0.00%	0.00%
Net asset value per unit [(6)]	9.80	9.76

(1) Results for the period from December 17, 2010 (commencement of operations) to August 31, 2011.

(2) A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio: representing all agents' fees and unit issue expenses and Interest expense ratio: representing cost of leverage.

(3) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. Unit issue expenses, representing all Agents' fees and other offering expenses, which are one-time expenses, have not been annualized.

(4) The Fund's turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities (including fixed income) in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.

(5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

(6) The net asset value (Transactional NAV) per unit is based on the last traded price for the day of the underlying portfolio.

Summary of Investment Portfolio as of August 31, 2012

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available at www.cclcapitalmarkets.com and at www.sedar.com.

Investment portfolio of the Fund

	Fair value CAD $	% of NAV
Portfolio by Category		
Equity Derivatives	159,674,885	123.4%
Cash and Short term investments	139,409	0.1%
Top 25 Holdings		
Equity Derivatives	159,674,885	123.4%
Cash and Short term investments	139,409	0.1%
Net asset value	**129,263,990**	

Investment portfolio of ACS Trust

	Coupon Rate %	Maturity date	Fair value CAD $	% of NAV of ACS Trust
Portfolio by Category				
Foreign Corporate Bonds			150,583,004	94.3%
Foreign Preferred Stock (AUD) / Financials			5,559,238	3.5%
Cash and Short-term investments			699,052	0.4%
Foreign currency forward contracts			604,004	0.4%
Top 25 Holdings				
CBA Capital Trust II (U.S. Dollars)	6.02%	03/15/2016	34,044,595	21.3%
HSBC Bank Australia Ltd. (Australian Dollars)	7.77%	11/26/2015	25,671,088	16.1%
National Australia Bank/ New York (U.S. Dollars)	8.00%	09/24/2016	19,962,607	12.5%
Westpac Banking Corp. (Australian Dollars)	6.27%	07/08/2015	16,103,624	10.1%
National Capital Trust I (British Pounds)	5.62%	12/17/2018	12,287,440	7.7%
Australia & New Zealand Banking Group Ltd. (Australian Dollars)	6.06%	11/10/2014	10,587,719	6.6%
Westpac Capital Trust IV (U.S. Dollars)	5.26%	03/31/2016	8,637,364	5.4%
National Australia Bank Ltd. (Australian Dollars)			5,559,238	3.5%
Commonwealth Bank of Australia (Australian Dollars)	6.50%	07/21/2015	5,432,215	3.4%
Westpac Banking Corp. (Australian Dollars)	6.11%	08/18/2014	4,943,726	3.1%
National Capital Trust II (U.S. Dollars)	5.49%	03/23/2015	3,910,197	2.4%
Australia & New Zealand Banking Group Ltd. (Australian Dollars)	5.97%	02/17/2014	2,318,794	1.5%
Commonwealth Bank of Australia (Australian Dollars)	5.98%	07/21/2015	2,253,602	1.4%
Westpac Banking Corp. (Australian Dollars)	7.25%	11/18/2016	2,252,527	1.4%
Westpac Banking Corp. (Australian Dollars)	6.50%	11/09/2015	2,177,506	1.4%
Cash and Short-term investments			699,052	0.4%
Foreign currency forward contracts			604,004	0.4%
Net asset value			**159,674,885**	

Management's Responsibility for Financial Reporting

The accompanying financial statements to **Australian Banc Capital Securities Trust** (the "Fund") and all of the information therein have been prepared by Connor, Clark & Lunn Capital Markets Inc. in its capacity as Manager of the Fund and have been approved by the Board of Directors of the Manager. 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 financial information is produced.

The financial statements have been prepared in accordance with the 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 Unitholders. They have audited the financial statements in accordance with the Canadian generally accepted auditing standards to enable them to express to the Unitholders their opinion on the financial statements. Their report is set below.

W. Neil Murdoch
President and Chief Executive Officer
Connor, Clark & Lunn Capital Markets Inc.

Darren N. Cabral
Vice President and Chief Financial Officer
Connor, Clark & Lunn Capital Markets Inc.

Toronto, Canada

November 29, 2012

November 29, 2012

Independent Auditor's Report

To the Unitholders of
Australian Banc Capital Securities Trust (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statement of investment portfolio as at August 31, 2012, the statements of net assets as at August 31, 2012 and 2011, and the statements of operations, changes in net assets, surplus and contributed surplus, and cash flow for the year ended August 31, 2012 and the period from December 17, 2010 (commencement of operations) to August 31, 2011, 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 an 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.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
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pwc

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at August 31, 2012 and 2011 and the results of its operations, changes in its net assets, and cash flow for the year ended August 31, 2012 and the period from December 17, 2010 (commencement of operations) to August 31, 2011, in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Australian Banc Capital Securities Trust

Statements of Net Assets

As at August 31, 2012 and 2011

	2012	2011
	$	$
Assets		
Cash	139,409	198,704
Short-term investments	-	199,840
Prepaid Forward Agreement (note 8)	159,674,885	181,200,853
Prepaid expenses and other receivables	8,889	3,555
	159,823,183	181,602,952
Liabilities		
Bank indebtedness (note 5)	30,422,468	36,146,287
Interest payable	29,697	87,642
Accounts payable and accrued liabilities	94,031	186,732
Management fees payable	12,997	21,750
	30,559,193	36,442,411
Net assets and unitholders' equity	129,263,990	145,160,541
Net Assets		
Class A Units	125,014,923	140,147,638
Class F Units	4,249,067	5,012,903
	129,263,990	145,160,541
Units issued and outstanding (note 6)		
Class A Units	13,226,643	14,858,474
Class F Units	433,792	515,153
Net assets per unit		
Class A Units	9.45	9.43
Class F Units	9.80	9.73
Unitholders' equity (note 6)		
Unit Capital	114,830,701	139,332,811
Contributed surplus	2,068	-
Surplus	14,431,221	5,827,730
Total Unitholders' equity	129,263,990	145,160,541

Approved on behalf of the Manager,
Connor, Clark & Lunn Capital Markets Inc.

Director **Director**

(See accompanying notes to financial statements)

Australian Banc Capital Securities Trust

Statements of Operations

For the year ended August 31, 2012 and for the the period from December 17, 2010 (commencement of operations) to August 31, 2011

	2012	2011
	$	$
Income		
Interest income	744	2,424
Expenses		
Forward fees (note 8)	518,770	374,245
Interest expense (note 5)	404,254	219,176
Management fees (note 10)	313,800	225,621
Custodial and other unitholder fees	54,532	31,638
Administration fees	29,061	15,893
Audit fees	21,613	20,547
TSX Sustaining fees	20,989	14,576
Transfer agent fees	17,531	11,838
Filing fees	12,364	12,628
Printing and mailing fees	11,263	8,549
Registration fees	11,227	-
Legal fees	6,012	9,598
IRC fees	5,636	2,475
Other	4,956	1,293
Transaction costs (note 12)	-	561
	1,432,008	948,638
Investment income (loss)	(1,431,264)	(946,214)
Realized and unrealized gain (loss) on investments		
Net realized gain (loss) on investments	-	(80,845)
Net realized gain (loss) on foreign exchange	(100,323)	(44,104)
Net realized gain (loss) on forward agreement (note 8)	2,296,771	192,685
	2,196,448	67,736
Unrealized gain (loss) on investments		
Change in unrealized gain (loss) on foreign exchange	(583,299)	528,014
Change in unrealized gain (loss) on forward agreement (note 8)	8,803,287	6,178,194
	8,219,988	6,706,208
Net gain (loss) on investments	10,416,436	6,773,944
Increase (decrease) in net assets from operations	8,985,172	5,827,730
Increase (decrease) in net assets from operations		
Class A Units	8,666,832	5,632,202
Class F Units	318,340	195,528
Increase (decrease) in net assets from operations per unit *		
Class A Units	0.59	0.38
Class F Units	0.66	0.36

* (based on average number of units outstanding for the period)
(See accompanying notes to financial statements)

Australian Banc Capital Securities Trust

Statements of Changes in Net Assets, Surplus and Contributed Surplus

For the year ended August 31, 2012 and for the the period from December 17, 2010 (commencement of operations) to August 31, 2011

	Class A		Class F		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**	**$**	**$**
Increase (decrease) in net assets from operations	8,666,832	5,632,202	318,340	195,528	8,985,172	5,827,730
Distributions to unitholders from: (note 9)						
Return of capital	(8,677,520)	(5,549,570)	(288,662)	(199,942)	(8,966,182)	(5,749,512)
Unitholders' transactions (note 6)						
Proceeds from issue of units	-	147,900,100	-	5,815,760	-	153,715,860
Agents' fees and issue expenses	-	(8,475,442)	-	(158,095)	-	(8,633,537)
Class F units converted to Class A	727,775	640,348	(727,775)	(640,348)	-	-
Payments on redemption of units	(15,849,802)	-	(65,739)	-	(15,915,541)	-
	(15,122,027)	140,065,006	(793,514)	5,017,317	(15,915,541)	145,082,323
Change in net assets during the period	(15,132,715)	140,147,638	(763,836)	5,012,903	(15,896,551)	145,160,541
Net assets - beginning of period	140,147,638	-	5,012,903	-	145,160,541	-
Net assets - end of period	125,014,923	140,147,638	4,249,067	5,012,903	129,263,990	145,160,541
Surplus, beginning of period	5,632,202	-	195,528	-	5,827,730	-
Increase (decrease) in net assets from operations	8,666,832	5,632,202	318,340	195,528	8,985,172	5,827,730
Cost of shares redeemed in excess of original issue price	(381,681)	-	-	-	(381,681)	-
Surplus, end of period	13,917,353	5,632,202	513,868	195,528	14,431,221	5,827,730
Contributed surplus, beginning of period	-	-	-	-	-	-
Cost of shares redeemed at less than original issue price	-	-	2,068	-	2,068	-
Contributed surplus, end of period	-	-	2,068	-	2,068	-

(See accompanying notes to financial statements)

Australian Banc Capital Securities Trust

Statements of Cash Flow

For the year ended August 31, 2012 and for the the period from December 17, 2010 (commencement of operations) to August 31, 2011

	2012	2011
	$	$
Operating Activities		
Increase (decrease) in net assets from operations	8,985,172	5,827,730
Items not affecting cash:		
Change in unrealized (gain) loss on forward agreement (note 8)	(8,803,287)	(6,178,194)
Net realized (gain) loss on investments	-	80,845
Net realized (gain) loss on forward agreement	(2,296,771)	(192,685)
Changes in non-cash working capital:		
(Increase) decrease in prepaid expenses and other receivables	(5,334)	(3,555)
Increase (decrease) in interest payable	(57,945)	87,642
Increase (decrease) in accounts payable and accrued liabilities	(92,701)	186,732
Increase (decrease) in management fees payable	(8,753)	21,750
Settlement (investment) in forward agreement	(3,640,950)	(181,716,544)
Pre-settlements received by the Fund from the Counterparty under the forward agreement	36,266,975	6,886,569
Purchase of investment	-	(2,042,670)
Proceeds on disposition of investment	-	1,961,826
Net cash flow provided by (used in) operating activities	30,346,406	(175,080,554)
Financing Activities		
Proceeds from issuance of units	-	153,715,860
Unit issue costs	-	(8,633,537)
Payments on redemption of units	(15,915,541)	-
Distributions paid to unitholders	(8,966,182)	(5,749,512)
Bank indebtedness	(5,723,818)	36,146,287
Net cash flow provided by (used in) financing activities	(30,605,541)	175,479,098
Net increase (decrease) in cash and short-term investments	(259,135)	398,544
Cash and short-term investments - beginning of period	398,544	-
Cash and short-term investments - end of period	139,409	398,544
Supplementary Information		
Interest paid	462,199	131,534

(See accompanying notes to financial statements)

Australian Banc Capital Securities Trust

Statement of Investment Portfolio

As at August 31, 2012

	% Rate	Maturity date	Number of shares / Par value	Average cost $	Fair value $	% of net assets
Forward agreement:						
Investments held in ACS Trust under the Forward Agreement with Bank of Montreal (note 8)(*)						
Investments						
Fixed Income						
Fixed Rate Bonds						
CBA Capital Trust II (U.S. Dollars)	6.02%	03/15/2016	34,750,000	35,037,678	34,044,595	26.3%
National Australia Bank/New York (U.S. Dollars)	8.00%	09/24/2016	18,590,000	20,147,582	19,962,607	15.4%
National Capital Trust I (British Pounds)	5.62%	12/17/2018	8,978,000	12,849,459	12,287,440	9.5%
Westpac Capital Trust IV (U.S. Dollars)	5.26%	03/31/2016	9,000,000	8,824,625	8,637,364	6.7%
Commonwealth Bank of Australia (Australian Dollars)	6.50%	07/21/2015	5,000,000	4,959,937	5,432,215	4.2%
National Capital Trust II (U.S. Dollars)	5.49%	03/23/2015	4,000,000	3,963,319	3,910,197	3.0%
Westpac Banking Corp. (Australian Dollars)	7.25%	11/18/2016	2,000,000	2,041,119	2,252,527	1.7%
Westpac Banking Corp. (Australian Dollars)	6.50%	11/09/2015	2,000,000	1,968,842	2,177,506	1.7%
Floating Rate Bonds						
HSBC Bank Australia Ltd. (Australian Dollars)	7.77%	11/26/2015	25,200,000	25,238,186	25,671,088	19.9%
Westpac Banking Corp. (Australian Dollars)	6.27%	07/08/2015	15,600,000	15,592,712	16,103,624	12.5%
Australia & New Zealand Banking Group Ltd. (Australian Dollars)	6.06%	11/10/2014	10,300,000	10,222,301	10,587,719	8.2%
Westpac Banking Corp. (Australian Dollars)	6.11%	08/18/2014	4,800,000	4,791,016	4,943,726	3.8%
Australia & New Zealand Banking Group Ltd. (Australian Dollars)	5.97%	02/17/2014	2,250,000	2,230,291	2,318,794	1.8%
Commonwealth Bank of Australia (Australian Dollars)	5.98%	07/21/2015	2,200,000	2,186,080	2,253,602	1.7%
				150,053,147	150,583,004	116.4%
Total Fixed Income				150,053,147	150,583,004	116.4%
Foreign Preferred Stock						
Financials						
National Australia Bank Ltd. (floating rate) (Australian Dollars)	6.30%		79,000	6,501,082	5,559,238	4.3%
Total Foreign Preferred Stock				6,501,082	5,559,238	4.3%
Total investments				156,554,229	156,142,242	120.7%

	Maturity date	Contract price / rate $	Fair value $	Unrealized gain (loss) $	% of Net Assets
Foreign currency forward contracts					
Bought CAD 18,639,000, sold USD 18,310,000	10/17/2012	1.01797	18,061,564	577,436	0.4%
Bought CAD 11,375,000, sold GBP 7,225,000	10/17/2012	1.57439	11,313,680	61,320	0.0%
Bought CAD 18,660,510, sold USD 18,300,000	01/11/2016	1.01970	18,695,262	(34,752)	0.0%
				604,004	0.4%
Other assets less other liabilites of ACS Trust				2,928,639	2.3%
Transactional net asset value of ACS Trust				159,674,885	123.4%
Prepaid forward agreement				159,674,885	123.4%
Other liabilities net of other assets of the Fund				(30,410,895)	-23.4%
Net asset value of the Fund				129,263,990	100.0%

(*) Australian Banc Capital Securities Trust (the "Fund") obtained exposure to the performance of the portfolio held by ACS Trust through the Forward Agreement (see note 8); thus, the portfolio of ACS Trust is presented as part of this statement.

(See accompanying notes to financial statements)

1 Fund activities

Australian Banc Capital Securities Trust (the "Fund") is an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement between 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 181 University Avenue, Suite 300, Toronto, Ontario, M5H 3M7. The fiscal year-end of the Fund is August 31. The Fund is divided into units of two classes, Class A Units and Class F Units. The Class A Units are listed on the Toronto Stock Exchange (the "TSX") under the symbol AUZ.UN. The Class F Units are not listed on a stock exchange but may be converted into Class A Units on a weekly basis.

2 Investment objectives

The Fund's investment objectives as set out in the Prospectus dated November 29, 2010 are to:

(i) provide Unitholders with quarterly, tax-advantaged distributions consisting primarily of returns of capital; and

(ii) provide exposure to 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, the Fund obtained exposure, in a tax-efficient manner, to the performance of a portfolio (the "Portfolio") held by ACS Trust (the "Trust"). Connor, Clark & Lunn Capital Markets Inc. (the "Portfolio Manager"), the Trust's portfolio manager, manages the 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 international banks.

3 Summary of significant accounting policies

Basis of presentation

These financial statements, prepared in accordance with the 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 reconciliation between the Transactional NAV and the GAAP Net Assets is as follows:

	Transactional NAV	Section 3855 Adjustment	GAAP Net Assets
Per Class A Unit			
August 31, 2012	9.45	0.00	9.45
August 31, 2011	9.46	(0.03)	9.43
Per Class F Unit			
August 31, 2012	9.80	0.00	9.80
August 31, 2011	9.76	(0.03)	9.73

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.

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

Initial fees and expenses

The issue expenses and Agents' fees incurred in connection with the initial units issuance are deducted from the unit capital for accounting purposes.

Increase (decrease) in net assets from operations per unit

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

Valuation of a class

A separate net assets per unit is calculated for each class. The net assets of a class is computed by calculating the class' proportionate share of the assets and liabilities to all classes, less the liabilities attributable only to that class. Expenses directly attributable to a class are charged to that class. Other expenses, income, realized and unrealized gains and losses are allocated proportionately to each class based upon the relative net assets of each class.

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 short-term investments and derivatives, if any, are recognized at fair value and are designated as held for trading. Accrued interest and dividends receivable, amounts receivable for capital units 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.

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.

Future accounting changes

On October 31, 2012, the International Accounting Standards Board (the "IASB") issued an amendment to IFRS 10 exempting investment entities from consolidating their controlled investments. The Fund qualifies as investment entity and measures all controlled investments at fair value with changes in fair value recognized through profit or loss.

On December 12, 2011, the Canadian Accounting Standards Board (the "AcSB") extended the deferral of the mandatory International Financial Reporting Standards ("IFRS") changeover date for investment companies to fiscal year beginning on or after January 1, 2014.

On May 12, 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 disclosure about fair value measurements. It only applies when other IFRSs require or permit 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. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. This may result in eliminating the difference between the NAV per unit and net assets per unit under the current Canadian GAAP. The Manager is currently assessing the Fund's Unitholder structure and investments to determine the impact of these standards. The Manager has determined that there will likely be no material impact to the NAV versus net assets per unit from the changeover to IFRS.

4 Custodian

Pursuant to the Trust Agreement, RBC Investor Services Trust (formerly "RBC Dexia Investor Services Trust") (the "Custodian") acts as custodian of the assets of the Fund. The Custodian also 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 Standard & Poor's ("S&P") as of August 31, 2012 and 2011.

5 Bank indebtedness

The Fund's exposure to the securities in the Portfolio through the Forward Agreement may be increased to 20.0% of the levered notional amount (being the net asset value of ACS Trust) (computed daily) for the purposes of adding leverage to the Portfolio and such other short-term funding purposes as may be determined by the Portfolio Manager from time to time and in accordance with the Investment Strategy. The use of leverage has the potential to enhance or reduce returns.

The Fund entered into a letter of agreement (the "Credit Agreement") dated December 17, 2010, between the Manager and the Bank of Montreal (the "Counterparty" or "BMO"), to borrow amounts up to 20.0% of the levered notional amount as being part of the Forward Agreement (see note 8). This agreement will be terminated on the earlier of (i) January 22, 2016 and (ii) the date on which this transaction is pre-settled in full pursuant to the terms of the Credit Agreement. Amounts borrowed under the Credit Agreement are in U.S. Dollars. In addition to the normal interest charges calculated on the amount of actual borrowing, the Fund is also charged a small fee of 0.25% on the difference between the maximum allowable borrowing amount and the amount of actual borrowing. If the borrowed amount exceeds 20.0% of the levered notional amount, the leverage amount will be reduced to ensure the leverage ratio is not greater than 20.0%.

During the year ended August 31, 2012, the Fund applied leverage in the range from 18.13% to 21.01% or U.S. $32,360,000 to $35,965,000. The Canadian equivalent is $32,120,382 to $36,918,229. (During the period from December 17, 2010 (commencement of operations) to August 31, 2011, the Fund applied leverage in the range from nil% to 20.28% or $nil to U.S. $36,965,000. The Canadian equivalent was $nil to $36,565,703.) The leverage factor as of August 31, 2012 was 19.05% and the borrowed balance was U.S. $30,828,000. The borrowed balance in Canadian Dollars was $30,422,468. The related interest expense was $404,254. (The leverage factor as of August 31, 2011 was 19.90% and the borrowed balance was U.S. $36,965,000 and the Canadian equivalent was $36,146,287. The related interest expense was $219,176.)

6 Unitholders' equity

The Fund is authorized to issue an unlimited number of redeemable, transferable units of Class A and Class F 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. The Class F Units may be converted into Class A Units on a weekly basis. Each Unit entitles the holder to the same rights and obligations as a Unitholder and no Unitholder is entitled to any privilege, priority or preference in relation to any other holder of Units, subject to Unitholders of each class being entitled to distributions or redemptions based on the net asset value of the Units of a particular class.

On December 17, 2010, the Fund completed an initial public offering pursuant to the Prospectus dated November 29, 2010. $140,000,000 was raised through the issue of 14,000,000 Class A Units and $5,815,760 was raised through the issue of 581,576 Class F Units. The Class A Units were issued at $10.00 per Unit and incurred Agents' fees and issue expenses of $8,038,602 or $0.57 per Unit, for an opening Transactional NAV of $9.43 per Unit. The Class F Units were issued at $10.00 per Unit and incurred Agents' fees and issue expenses of $158,095 or $0.27 per Unit, for an opening Transactional NAV of $9.73 per Unit.

On January 13, 2011, the Agents exercised an over-allotment option in respect of 790,010 Class A Units, raising a further $7,900,100. Agents' fees were $436,840 or $0.55 per Unit.

The principal difference between the Class A Units and the Class F Units are that the Agents' fees payable with respect to the original issuance of units were lower for the Class F Units.

Commencing in 2012, the Class A Units and Class F Units may be redeemed on an Annual Redemption Date, which is the second last business day of June each year, subject to certain conditions and in order to effect such a redemption, the Units must be surrendered by no later than 5:00 p.m. (Toronto time) on the last business day of May in the year of redemption. Unitholders whose Units are redeemed on an Annual Redemption Date will receive a redemption price in an amount equal to 100% of the net asset value per Unit of the relevant class less any costs associated with the redemption, including brokerage costs and less any net realized capital gains to the Fund that are distributed to a Unitholder concurrently with the proceeds of disposition on redemption.

In addition to the annual redemption right, the Class A and Class F Units may also be redeemed on a Monthly Redemption Date, which is the second last business day of each month other than June, subject to certain conditions and 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 last business day of the month preceding the monthly redemption date. Payment of the redemption price will be made on or before the redemption payment date, subject to the Manager's right to suspend redemptions in certain circumstances. Concurrently with the payment of the proceeds of redemption, the Fund may pay to the redeeming Unitholder a cash distribution in the amount of the net realized capital gains of the Fund incurred by it to fund the payment of the redemption price. Unitholders surrendering a Class A Unit for redemption will receive a redemption price equal to the lesser of (i) 95% of the Market Price of a Class A Unit, which is the weighted average trading price on the TSX for 10 trading days immediately preceding the Monthly Redemption Date and (ii) 100% of the Closing Market Price of a Class A Unit, which is the closing price on the TSX on the Monthly Redemption Date or, if there was no trade on the Monthly Redemption Date, the average of the last bid and the last asking prices on the Monthly Redemption Date less, in each case, any costs associated with the redemption, including brokerage costs, being the Monthly Redemption Amount. Unitholders surrendering a Class F Unit for redemption will receive an amount 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.

Class F Units may be converted into Class A Units on a weekly basis. A holder of Class F Units may convert such Class F Units into Class A Units from time to time and it is expected that liquidity for the Class F Units will be obtained primarily by means of conversion into Class A Units. Class F Units may be converted in any week on the first business day of such week by delivering a notice and surrendering such Class F Units by 3:00 p.m. (Toronto time) at least five business days prior to the applicable 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; any fractional amounts will be rounded down to the nearest whole number of Class A Units. A conversion of Class F Units into Class A Units will not constitute a disposition of the Class F Units for the purposes of the Tax Act.

During the year ended August 31, 2012, there were 74,110 Class F Units converted to 76,766 Class A Units for a total value of $727,775. (During the period from December 17, 2010 (commencement of operations) to August 31, 2011, there were 66,423 Class F Units were converted to 68,464 Class A Units for $640,348.) During the same period, 1,708,597 Class A Units were redeemed for $15,849,802 and 7,251 Class F Units were redeemed for $65,739.

Changes in outstanding units during the year ended August 31, 2012 and during the period from December 17, 2010 (commencement of operations) to August 31, 2011 are summarized as follows:

	Class A Units		Class F Units	
	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
Balance – beginning of period	14,858,474	–	515,153	–
Units issued	–	14,790,010	–	581,576
Units redeemed	(1,708,597)	–	(7,251)	–
Class F Units converted to Class A Units	76,766	68,464	(74,110)	(66,423)
Units cancelled (note 7)	–	–	–	–
Balance – end of period	13,226,643	14,858,474	433,792	515,153

The Unit Capital dollar amount represents the face value of the Fund's Units minus any return on capital distributions and issue costs paid since December 17, 2010 (commencement of operations) to August 31, 2012. 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 redemption 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 Surplus (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.

7 Market Purchase Program

The Trust Agreement provides that the Fund may, in its sole discretion, from time to time, purchase (in the open market or by invitation for tenders) Class A Units for cancellation subject to applicable law and stock exchange requirements, based on the Manager's assessment that such purchases are accretive to Unitholders, in all cases at a price per Class A Unit not exceeding the most recently calculated net asset value per Class A Unit immediately prior to the date of any such purchase of Units.

The Fund did not purchase any Class A Units for cancellation during the year ended August 31, 2012 or during the period from December 17, 2010 (commencement of operations) to August 31, 2011.

8 Forward Agreement

The Fund does not invest directly in the Trust; the Fund used the net proceeds of the initial public offering of its Class A and Class F Units to pre-pay its purchase obligations under a forward purchase and sale agreement (the "Forward Agreement") with BMO. Under the Forward Agreement, the Fund will receive, on or before January 22, 2016, a specified portfolio consisting of securities of Canadian public issuers that are "Canadian securities" for the purposes of the Tax Act ("Canadian Securities") in an amount equal to the net asset value of the Trust. Partial settlements under the Forward Agreement are intended to ensure that Unitholders have economic exposure to the distributions effected by the Trust. A fee of up to 0.35% per annum, calculated with reference to the net asset value of the Trust, is payable to BMO under the Forward Agreement. The Forward Agreement may be terminated by either party with 90 days notice.

Since the Fund can at any time terminate the Forward Agreement with the Counterparty in exchange for the value of ACS Trust, the value of the Forward Agreement to the Fund is equal to the transactional value of ACS Trust. On August 31, 2012, the value of the prepaid amount to the Counterparty under the Forward Agreement was $144,693,405. The value of the unrealized gain on the Forward Agreement balance was $14,981,480. Other liabilities net of other assets totalled $30,410,895, leaving net assets of $129,263,990. This amount is assigned to Class A and Class F Unitholders using an allocation percentage that takes into consideration any class level specific expenses. On August 31, 2012, the GAAP Net assets per unit were $9.45 per Class A Unit and $9.80 per Class F Unit. (On August 31, 2011, the value of the prepaid amount to the Counterparty under the Forward Agreement was $175,022,659. The unrealized gain on the Forward Agreement balance was $6,178,194. Other liabilities net of other assets in the Fund totalled $36,040,312, leaving net assets of $145,160,541. This amount is assigned to Class A and Class F Unitholders using an allocation percentage that takes into consideration any class level specific expenses. On August 31, 2011, the GAAP Net assets per unit were $9.43 per Class A Unit and $9.73 per Class F Unit.)

9 Distributions

The Fund does not have a fixed distribution. The Fund paid an initial distribution of $0.074 per Class A Unit and Class F Unit respectively, covering the period from December 17, 2010 (commencement of operations) to January 31, 2011. The Fund paid regular quarterly distributions of $0.15 per Class A Unit and Class F Unit thereafter.

During the year ended August 31, 2012, the Fund paid total distributions of $0.60 per Class A Unit and Class F Unit respectively ($0.374 per Class A Unit and Class F Unit respectively during the period from December 17, 2010 (commencement of operations) to August 31, 2011).

10 Management fees

The Manager receives a management fee from the Fund and Trust equal in the aggregate to 0.50% per annum of the applicable net asset value (0.20% from the Fund and 0.30% from the Trust), calculated daily and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund and the Trust on a combined basis during the year ended August 31, 2012 were $792,846 ($583,672 during the period from December 17, 2010 (commencement of operations) to August 31, 2011).

11 Income taxes

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and accordingly, is subject to tax on its investment income, including net realized capital gains, for any calendar year in which its net investment income or sufficient net realized capital gains are not paid or payable to its unitholders as at the end of the calendar year. It is the intention of the Manager that all annual net investment income and sufficient net taxable capital gains will be distributed to unitholders 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.

As at tax year end December 31, 2011, the Fund had net capital losses of $81,406 (December 31, 2010 – $81,406), which may be carried forward indefinitely to reduce future realized capital gains. The Fund had non-capital losses of $2,965,932 as at December 31, 2011 (December 31, 2010 – $88,550), which will expire within the next twenty years as shown in the following table:

Year of the realized non–capital tax loss	Amount of tax loss	Expiry date
2010	88,550	2030
2011	2,877,382	2031
Total	**2,965,932**	

12 Broker commission charges and soft dollar services

There were $nil broker commissions paid during the year ended August 31, 2012 in connection with portfolio transactions ($561 during the period from December 17, 2010 (commencement of operations) to August 31, 2011). No contractual arrangements for soft dollar services exist in the broker commission charges.

13 Financial instruments

	August 31, 2012	August 31, 2011
Assets	**$**	**$**
Cash	139,409	198,704
Held for trading	159,674,885	181,400,693
Loans and receivables	8,889	3,555
Total assets	**159,823,183**	**181,602,952**
Liabilities		
Financial liabilities at amortized cost	30,559,193	36,442,411
Total liabilities	**30,559,193**	**36,442,411**

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

The Fund obtained exposure to the performance of the portfolio held by the Trust through the Forward Agreement (see note 8) and therefore, the following tables illustrate the classification of the Fund's and the Trust's financial instruments within the fair value hierarchy as at August 31, 2012 and 2011:

Assets at fair value as at August 31, 2012	Level 1	Level 2	Level 3	Total
Equities	5,559,238	–	–	5,559,238
Bonds	–	150,583,004	–	150,583,004
Foreign currency forward contracts	–	638,756	–	638,756
Total	**5,559,238**	**151,221,760**	–	**156,780,998**

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

Assets at fair value as at August 31, 2011	Level 1	Level 2	Level 3	Total
Equities	8,179,914	–	–	8,179,914
Bonds	–	168,949,124	–	168,949,124
Short-term investments	–	199,840	–	199,840
Foreign currency forward contracts	–	619,634	–	619,634
Total	**8,179,914**	**169,768,598**	–	**177,948,512**

Liabilities at fair value as at August 31, 2011	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	–	132,369	–	132,369
Total	–	**132,369**	–	**132,369**

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 year ended August 31, 2012 and during the period from December 17, 2010 (commencement of operations) to August 31, 2011.

14 Financial instrument risk

The Fund obtained exposure to the performance of the portfolio held by the Trust through the Forward Agreement (see note 8) and therefore, the risks associated with an investment in the Fund's units are best defined in conjunction with the financial risks associated with an investment in the Trust's portfolio.

Interest rate risk

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds and short-term notes. Certain equity instruments, such as preferred shares that pay fixed rate dividends, are also sensitive to changes in the level of prevailing market interest rates. Due to their sensitivity to interest rates, the preferred shares held by the Trust are included in the analysis of interest rate risk. The tables below summarize the combined exposure of the Fund and the Trust to interest rate risk and include the assets and liabilities of the Fund and the Trust at fair value.

August 31, 2012:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	–	45,549,877	92,745,687	12,287,440	6,163,242	**156,746,246**
Cash and cash equivalents	–	–	–	–	838,461	**838,461**
Other assets	–	–	–	–	2,306,939	**2,306,939**
Liabilities	(30,422,468)	–	–	–	(205,188)	**(30,627,656)**
et assets	**(30,422,468)**	**45,549,877**	**92,745,687**	**12,287,440**	**9,103,454**	**129,263,990**

August 31, 2011:

	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 cash equivalents	199,840	–	–	–	1,392,188	**1,592,028**
Other assets	–	–	–	–	2,464,153	**2,464,153**
Liabilities	(36,146,287)	–	–	–	(365,656)	**(36,511,943)**
Net assets	**(35,946,447)**	**12,895,970**	**121,842,375**	**34,210,779**	**12,157,864**	**145,160,541**

As at August 31, 2012, 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 $3,005,000 and $3,133,000 (as at August 31, 2011, net assets would have decreased or increased, respectively, by approximately $3,522,000 and $3,704,000). 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 Investments identifies all securities denominated in foreign currencies.

The tables below summarize the Fund's combined exposure to foreign currencies held by the Fund and the Trust. 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. It also includes amounts borrowed under the Credit Agreement and is shown under "monetary instruments". Other financial assets and liabilities denominated in foreign currencies do not expose the Fund to significant currency risk. The tables below summarize the 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, 2012:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
Australian Dollar	72,431,548	5,559,238	–	77,990,786	60.3%	3,900,000
British Pound	12,287,567	–	(11,324,806)	962,761	0.7%	48,000
U.S. Dollar	36,229,730	–	(36,128,408)	101,322	0.1%	5,000
	120,948,845	5,559,238	(47,453,214)	79,054,869	61.1%	3,953,000

August 31, 2011:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
Australian Dollar	94,871,389	8,179,914	–	103,051,303	71.0%	5,153,000
British Pound	11,944,025	–	(13,374,305)	(1,430,280)	(1.0%)	(72,000)
U.S. Dollar	26,540,054	–	(30,704,542)	(4,164,488)	(2.9%)	(208,000)
	133,355,468	8,179,914	(44,078,847)	97,456,535	67.1%	4,873,000

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 and debt-like 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, 2012 and 2011.

The tables below summarize the Fund's exposure to credit risk through its investment in the Trust as of August 31, 2012 and 2011. Amounts shown are based on the carrying value of debt investments and the unrealized gain on derivative instruments outstanding with counterparties.

Rating	August 31, 2012 (% of Net Assets)
AA-	40.3%
A	19.9%
BBB	60.9%
Total	**121.1%**

Rating	August 31, 2011 (% of Net Assets)
AA	43.1%
AA-	27.4%
A+	51.8%
A-1	0.1%
Total	**122.4%**

As at August 31, 2012 and 2011, 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 daily cash redemptions from to its market purchase program which is limited to certain conditions (see note 7). The Fund is also exposed to unlimited annual anniversary redemptions on May 31 of every year (see note 6); therefore, the Fund invests the majority of its assets in investments that can be readily disposed. In addition, the Fund retains sufficient cash and cash equivalent positions to meet its daily cash requirements. All liabilities (other than bank indebtedness) 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, 2012, all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately $555,924 (August 31, 2011 – $818,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.