



**HBanc Capital Securities Trust  
Class A Units and Class U Units**

**Annual Information Form**

**For the year ended August 31, 2015**

No securities regulatory authority has expressed an opinion about these Units and it is an offence to claim otherwise.

November 27, 2015

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## 1 DESCRIPTION OF THE BUSINESS

### 1.1 NAME AND FORMATION

HBanc Capital Securities Trust (the “Fund”) is a non-redeemable investment fund established under the laws of the Province of Ontario and governed by the Fund’s Trust Agreement (the “Trust Agreement”) dated September 28, 2010 between Aston Hill Capital Markets Inc. (the “Manager”) and RBC Investor Services Trust (the “Trustee”). The Fund’s principal office is located at 77 King Street West, Suite 2110, Toronto, Ontario, M5K 1G8. The fiscal year-end of the Fund is August 31.

### 1.2 STATUS OF THE FUND

The Fund is not considered to be a mutual fund under the securities legislation of the provinces and territories of Canada. Consequently, the Fund is not subject to the various policies and regulations that apply to mutual funds under such legislation. However, the Fund is subject to certain other requirements and restrictions contained in securities legislation, including National Instrument 81-106 – Investment Fund Continuous Disclosure of the Canadian Securities Administrators, which governs the continuous disclosure obligations of investment funds, including the Fund.

### 1.3 ISSUE OF UNITS

The beneficial interest in the net assets and net income of the Fund is divided into two classes of units, Class A Units and Class U Units. The Class A Units and Class U Units were each issued in two series designated as Series 1 and Series 2. The only difference between the two series of each class of Units is the fees paid with respect to such series. The Class U Units are designed for investors wishing to make their investment in U.S. dollars. The Fund is authorized to issue an unlimited number of Units of each class. The Class A Units, Series 2 and the Class U Units may be converted into Class A Units, Series 1 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.

On October 13, 2010, the Fund completed an initial public offering pursuant to the prospectus dated September 28, 2010. The following table shows the details of the offering:

	Class A (CAD)			Class U (USD)		
	Series 1	Series 2	Total	Series 1	Series 2	Total
Units issued	5,797,393	105,500	5,902,893	1,042,724	10,565	1,053,289
Offering price per unit	25.00	25.00		25.00	25.00	
Gross Proceeds	144,934,825	2,637,500	147,572,325	26,068,100	264,125	26,332,225
Agents’ fees and issue expenses	(8,192,469)	(69,960)	(8,262,429)	(1,473,200)	(6,951)	(1,480,151)
Net Proceeds	136,742,356	2,567,540	139,309,896	24,594,900	257,174	24,852,074
Opening NAV per unit	23.59	24.34		23.59	24.34	

On April 27, 2012, the Fund completed a private placement and issued an additional 220,200 Class U, Series 1 Units for gross proceeds of U.S. \$5,196,720. The issue expenses associated with the private placement was U.S. \$144,583.

## 2 DESCRIPTION OF THE PORTFOLIO

### 2.1 THE FUND

#### 2.1.1 Investment Objectives

The Fund’s investment objectives are to (i) provide Unitholders with monthly, tax-advantaged distributions consisting primarily of returns of capital, initially representing a yield on the Unit issue price of 7.0% per annum and (ii) provide exposure to the Capital Securities.

### **2.1.2 Investment Strategy**

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 CS Trust (the "CS Trust"). The Fund provides investors with a high level of stable, tax-advantaged distributions through exposure to CS Trust's Portfolio of securities issued by HSBC Holdings plc, a conservatively positioned and strongly capitalized global bank. Specifically, the Trust has exposure to (i) the 8.125% Perpetual Subordinated Capital Securities, Series 1 issued by HSBC and (ii) the 8.00% Perpetual Subordinated Capital Securities, Series 2 issued also by HSBC.

The Fund does not invest directly in CS Trust; the Fund used the net proceeds of the initial public offering to pre-pay its purchase obligations under a forward purchase and sale agreement (the "Forward Agreement") with the Bank of Montreal (the "Counterparty" or "BMO"). Under the Forward Agreement, the Fund will receive, on or before December 21, 2015, 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 CS Trust. Partial settlements under the Forward Agreement are intended to ensure that Unitholders have economic exposure to the distributions effected by CS Trust. A fee of 0.35% per annum, calculated with reference to the Net Asset Value of CS Trust, is payable to BMO under the Forward Agreement.

### **2.1.3 Foreign Exchange Hedging**

CS Trust invests in Capital Securities denominated in U.S. dollars. The Manager intends to hedge substantially all of the value of the Portfolio's U.S. dollar currency exposure back to the Canadian dollar in respect of the Class A Units. The Manager will not hedge its currency exposure in respect of the Class U Units.

### **2.1.4 Leverage**

The Fund is entitled to employ leverage of up to 15.0% of the levered notional amount (being the Net Asset Value of CS Trust). During the year ended August 31, 2015, the Fund applied leverage in the range from 16.59% to 18.77% or U.S. \$9,987,000 to U.S. \$13,078,000 for Class A (the Canadian equivalent was \$12,483,703 to \$15,460,205) and 17.04% to 19.37% or U.S. \$1,570,000 to U.S. \$1,858,000 for Class U (the Canadian equivalent was \$1,877,878 to \$ 2,291,728). (During the year ended August 31, 2014, 14.17% to 15.79% or U.S. \$13,078,000 to U.S. \$17,153,000 for Class A, 14.60% to 15.27% or U.S. \$1,858,000 to U.S. \$3,428,000 for Class U). The leverage factor as of August 31, 2015 was 18.1% for Class A and the borrowed balance was U.S. \$9,987,000 (the Canadian equivalent was \$13,287,653). The leverage factor as of August 31, 2015 was 17.67% for Class U and the borrowed balance was U.S. \$1,570,000 (the Canadian equivalent was \$2,088,877). (As of August 31, 2014, 14.48% for Class A and the borrowed balance was U.S. \$13,078,000 (the Canadian equivalent was \$14,186,382); 14.80% for Class U and the borrowed balance was U.S. \$1,858,000 (the Canadian equivalent was \$2,015,469)).

### **2.1.5 Use of Derivatives**

CS Trust may invest in and use derivative instruments for hedging purposes to the extent considered appropriate by the Manager taking into account factors including transaction costs.

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

The Fund is subject to the investment restrictions set out below and is also indirectly subject to the investment restrictions of CS Trust as a result of the Forward Agreement. The investment restrictions of the Fund, which are set forth in the Trust Agreement, provide that the Fund will not:

- a) with respect to the securities acquired pursuant to the Forward Agreement, purchase any securities other than "Canadian securities" for the purposes of the Tax Act;
- b) purchase the securities of an issuer for the purposes of exercising control over management of that issuer or if, as a result of such purchase, the Fund would be required to make a take-over bid that is a "formal bid" for the purposes of applicable securities laws;
- c) employ financial leverage, except in connection with the Forward Agreement, and such leverage will not exceed 15.0% of the Total Assets (being the Net Asset Value of CS Trust);

- d) make or hold any investment that would result in the Fund failing to qualify as a “mutual fund trust” for purposes of the Tax Act and will not acquire any property that would be “taxable Canadian property” of the Fund as such term is defined in the Tax Act (if the definition were read without reference to paragraph (b) thereof); or
- e) make or hold any investment that would result in the Fund being subject to the tax on SIFT Trusts as provided for in section 122 of the Tax Act (See “Canadian Federal Income Tax Considerations”).

The Fund is not considered to be a mutual fund under the securities legislation of the provinces and territories of Canada. Consequently, the Fund is not subject to the various policies and regulations that apply to conventional mutual funds under such legislation. However, the Fund is subject to certain other requirements and restrictions contained in securities legislation, including National Instrument 81-106 — Investment Fund Continuous Disclosure of the Canadian Securities Administrators, which governs the continuous disclosure obligations of investment funds, including the Fund.

## **2.2 OVERVIEW OF THE INVESTMENT STRUCTURE**

### **2.2.1 CS Trust**

CS Trust was established for the purpose of acquiring and holding the Portfolio. The initial beneficial owner of all of the units of CS Trust is the Counterparty. The Counterparty has subscribed for units of CS Trust following the closing of the initial offering. CS Trust used the subscription proceeds to acquire the Portfolio.

Units of CS Trust are redeemable at the demand of its unitholder. On redemption, a CS Trust unitholder receives, for each unit of CS Trust redeemed, an amount equal to the Net Asset Value per unit of CS Trust. The Net Asset Value per unit of CS Trust is equal to the amount by which the Total Assets of CS Trust exceed its total liabilities on a per unit basis and, accordingly, is based upon the value of the Portfolio.

CS Trust generally receives interest income or distributions from the Capital Securities in the Portfolio. The net income of CS Trust consists primarily of interest income or distributions, less expenses of CS Trust. CS Trust distributes all of its net income and net realized capital gains earned in each fiscal year to ensure that it is not liable for tax under Part I of the Tax Act. To the extent that CS Trust has not distributed in cash the full amount of its net income in any year, the difference between such amount and the amount actually distributed by CS Trust may be paid through the issuance of additional units having a Net Asset Value in the aggregate at the date of distribution equal to this difference. Immediately after any such distribution of units, the number of outstanding units of CS Trust may be consolidated such that the unitholder of CS Trust will hold after the consolidation the same number of units of CS Trust as it held before the distribution of additional units.

### **2.2.2 The Forward Agreement**

The Fund does not invest directly in CS Trust; the Fund used the net proceeds of the initial public offering 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 December 30, 2015, 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 CS Trust. Partial settlements under the Forward Agreement are intended to ensure that Unitholders have economic exposure to the distributions effected by CS Trust. A fee of 0.35% per annum, calculated with reference to the Net Asset Value of CS Trust, is payable to BMO under the Forward Agreement.

Pursuant to the Forward Agreement, the Counterparty has agreed to deliver to the Fund on or before December 30, 2015, being the Forward Termination Date, the Canadian Securities Portfolio with an aggregate value equal to (i) the redemption proceeds of a corresponding number of units of CS Trust, or (ii) the value of the Notional Portfolio, as applicable, net of any amount owing by the Fund to the Counterparty. On or about the completion of the Offerings, CS Trust issues units to the Counterparty or an affiliate with an aggregate value equal to the net proceeds of the Offerings, the proceeds from which CS Trust uses to acquire the Portfolio. The initial value of the Portfolio is equal to the net proceeds of the Offerings. In such case, the return to the Fund is, by virtue of the Forward Agreement, based on the return of CS Trust, which, in turn, is based on the performance of the Portfolio. If no such CS Trust units are acquired by the Counterparty or an affiliate, the return to the Fund, by virtue of the Forward Agreement, is based on the performance of the Notional Portfolio. The Fund is fully exposed to the credit risk associated with the Counterparty in respect of the Forward Agreement.

The Fund may settle the Forward Agreement in whole or in part prior to the Forward Termination Date: (i) to fund distributions on the Units; (ii) to fund redemptions and repurchases of Units from time to time; (iii) to fund operating expenses and other liabilities of the Fund; and (iv) for any other reason. The Forward Agreement allows the Fund to leverage its exposure to CS Trust by up to 15.0% of the levered notional amount (being the Net Asset Value of CS Trust).

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

### **2.2.3 Investment Restrictions of CS Trust**

CS Trust is subject to certain investment restrictions which are set out in CS Trust's Trust Agreement. The investment restrictions of CS Trust provide that CS Trust will not:

- a) invest at the time of purchase less than substantially all of the Total Assets of CS Trust in Capital Securities; except within 30 days of the Closing Date and within 30 days of the Fund's termination;
- b) purchase the common or preferred shares of any "substantial securityholder" of CS Trust (as defined in the Securities Act (Ontario)) or the direct or indirect parent of any substantial securityholder of CS Trust;
- c) make or hold any investments in entities that would be "foreign affiliates" of CS Trust for purposes of the Tax Act;
- d) make or hold any investments in securities of non-resident trusts other than "exempt foreign trusts" as defined in proposed section 94 of the Tax Act set forth in proposed amendments to the Tax Act released August 27, 2010 (or pursuant to any amendments to such proposals, subsequent provisions enacted into law, or successor provisions thereto);
- e) at any time, hold any property that is a "non-portfolio property" for the purposes of the SIFT Rules (See "Canadian Federal Income Tax Considerations");
- f) make or hold any investments that could require CS Trust to include any material amount in its income pursuant to the offshore investment fund property rules in proposed amendments to section 94.1 of the Tax Act released August 27, 2010 (or pursuant to any subsequent provisions as enacted into law, or successor provisions thereto);
- g) pledge any of its assets or employ leverage, except in connection with interest rate hedging, foreign exchange rate hedging, or use of derivatives as described under "Investment Strategy"; or
- h) purchase the securities of an issuer for the purposes of exercising control or direction, whether alone or in concert, over management of that issuer.

## **3 REDEMPTION OF SECURITIES**

### **3.1 ANNUAL REDEMPTIONS**

The Class A Units and Class U Units may be redeemed on an Annual Redemption Date, which is the second last Business Day (any day except Saturday, Sunday, a statutory holiday in Toronto, Ontario or any other day on which the Toronto Stock Exchange (the "TSX") is not open for trading) of April of 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 March 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 Annual Redemption Price 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. By virtue of the Forward Agreement, the Annual Redemption Price will be dependent upon the performance of CS Trust. Payment of the Annual 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 redemption price, 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.

### **3.2 MONTHLY REDEMPTIONS**

In addition to the annual redemption right, the Class A Units and Class U Units may also be redeemed on a Monthly Redemption Date, which is the second last Business Day of each month other than April, 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 redemption price, 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, Series 1 for redemption will receive an amount equal to the lesser of (i) 95% of the Market Price of a Class A Unit, Series 1, which is the weighted average trading price on the TSX for 10 trading days immediately preceding such Monthly Redemption Date and (ii) 100% of the Closing Market Price of a Class A Unit, Series 1 on the applicable Monthly Redemption Date, which is the closing price on the TSX on such Monthly Redemption Date or, if there was no trade on the relevant Monthly Redemption Date, the average of the last bid and the last asking prices on the TSX on such Monthly Redemption Date less, in each case, any costs associated with the redemption, including brokerage costs, and less any net realized capital gains of the Fund that are distributed to a Unitholder concurrently with the proceeds of disposition on redemption, being the Monthly Redemption Amount.

Unitholders surrendering a Class A Unit, Series 2 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 A Unit, Series 2 and the denominator of which is the most recently calculated net asset value per Class A Unit, Series 1.

Unitholders surrendering a Class U Unit, Series 1 for redemption will receive in U.S. dollars an amount equal to the U.S. dollar equivalent of the product of (i) the Monthly Redemption Amount and (ii) a fraction, the numerator of which is the most recently calculated Redemption Net Assets per Unit of a Class U Unit, Series 1 and the denominator of which is the most recently calculated Redemption Net Assets per Unit of a Class A Unit, Series 1. For such purpose, the Fund will utilize the Reference Exchange Rate current at, or as nearly as practicable to, the Monthly Redemption Date in respect of a monthly redemption of Class U Units.

Unitholders surrendering a Class U Unit, Series 2 for redemption will receive in U.S. dollars an amount equal to the U.S. dollar equivalent of the product of (i) the Monthly Redemption Amount and (ii) a fraction, the numerator of which is the most recently calculated Redemption Net Assets per Unit of a Class U Unit, Series 2 and the denominator of which is the most recently calculated Redemption Net Assets per Unit of a Class A Unit, Series 1. For such purpose, the Fund will utilize the Reference Exchange Rate current at, or as nearly as practicable to, the Monthly Redemption Date in respect of a monthly redemption of Class U Units.

### ***3.3 PRE-SETTLING THE FORWARD AGREEMENT***

The Fund may settle the Forward Agreement in whole or in part prior to the Scheduled Forward Termination Date in order to fund redemptions. The value of the Forward Agreement on an Annual Redemption Date or a Monthly Redemption Date, and accordingly, the Net Asset Value per Unit on an Annual Redemption Date or Monthly Redemption Date, as applicable, and the redemption price is dependent upon the performance of CS Trust and the Net Asset Value of the CS Trust Units.

### ***3.4 EXERCISE OF REDEMPTION RIGHT***

A Unitholder who desires to exercise redemption privileges must do so by causing the CDS Participant through which he or she holds his or her Units to deliver to CDS at its office in the City of Toronto on behalf of the Unitholder, a written notice of the Unitholder's intention to redeem Units by no later than 5:00 p.m. (Toronto time) on the applicable notice dates described above. A Unitholder who desires to redeem Units should ensure that the CDS Participant is provided with notice of his or her intention to exercise his or her redemption right sufficiently in advance of the Annual Redemption Date or Monthly Redemption Date deadline so as to permit the CDS Participant to deliver a notice to CDS by 5:00 p.m. (Toronto time) on the notice dates described above.

By causing a CDS Participant to deliver to CDS a notice of the Unitholder's intention to redeem Units the Unitholder will be deemed to have irrevocably surrendered his or her Units for redemption and appointed such CDS Participant to act as his or her exclusive settlement agent with respect to the exercise of such redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise, provided that the Manager may from time to time prior to the Annual Redemption Date or Monthly Redemption Date permit the withdrawal of a redemption notice on such terms and conditions as the Manager may determine, in its sole discretion, if such withdrawal will not adversely affect the Fund. Any expense associated with the preparation and delivery of the redemption notice will be for the account of the Unitholder exercising the redemption privilege.

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

### **3.5 SUSPENSION OF REDEMPTIONS**

The Fund may suspend the redemption of Units or payment of redemption proceeds (i) for the whole or any part of a period during which normal trading is suspended on one or more exchanges on which more than 50% of the securities included in the Canadian Securities Portfolio (by value) or the Portfolio are listed and traded, and if the securities are not traded on any other exchange that represents a reasonable, practical alternative for the Fund or CS Trust, as applicable, or (ii) for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Fund or CS Trust or which impair the ability of the Manager to determine the value of the assets of the Fund or CS Trust. The suspension may apply to all requests for redemption received prior to the suspension, but for which payment has not been made, as well as to all requests received while the suspension is in effect. In such circumstances all Unitholders will have, and will be advised that they have, the right to withdraw their requests for redemption. The suspension will terminate in any event on the first Business Day on which the condition giving rise to the suspension has ceased to exist, provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by the Manager will be conclusive.

## **4 UNITHOLDER MATTERS**

### **4.1 MEETINGS OF UNITHOLDERS**

A meeting of Unitholders may be convened by the Trustee or the Manager by a written requisition specifying the purpose of the meeting, and must be convened by the Trustee if requisitioned by Unitholders holding not less than 10% of the then outstanding Units entitled to vote on the matter (whether Class A Units and/or Class U Units) by a written requisition specifying the purpose of the meeting. The Trustee or the Manager may convene a Class A Meeting, Series 1, Class A Meeting, Series 2, Class U Meeting, Series 1 or Class U Meeting, Series 2, if the nature of the business to be transacted at that meeting is only relevant to Unitholders of the applicable series.

Notice of all meetings of Unitholders (whether a meeting of all Unitholders, a Class A Meeting, Series 1, Class A Meeting, Series 2, Class U Meeting, Series 1 or Class U Meeting, Series 2) will be given in accordance with the Fund Trust Agreement and applicable law. The quorum for a meeting of all Unitholders is two or more Unitholders present in person or represented by proxy holding not less than five percent of the Units then outstanding (whether Class A Units, Series 1, Class A Units, Series 2 or Class U Units, Series 1 or Class U Units, Series 2). The quorum for a Class A Meeting, Series 1 is two or more holders of Class A Units, Series 1 present in person or represented by proxy holding not less than five percent of the Class A Units, Series 1 then outstanding.

The quorum for a Class A Meeting, Series 2 is two or more holders of Class A Units, Series 2 present in person or represented by proxy holding not less than five percent of the Class A Units, Series 2 then outstanding. The quorum for a Class U Meeting, Series 1 is two or more holders of Class U Units, Series 1 present in person or represented by proxy holding not less than five percent of the Class U Units, Series 1 then outstanding. The quorum for a Class U Meeting, Series 2 is two or more holders of Class U Units, Series 2 present in person or represented by proxy holding not less than five percent of the Class U Units, Series 2 then outstanding. In the event that such quorum is not present within one-half hour after the time called for a meeting, the meeting, if convened upon the request of a Unitholder, will be dissolved, but in any other case, the meeting will stand adjourned to such day no later than 14 days later and to such time and place as may be appointed by the chairman of the meeting (which for greater certainty can be at a later time on the date of the originally scheduled meeting), and if at such adjourned meeting a quorum is not present, the Unitholders present in person or by proxy at such adjourned meeting will be deemed to constitute a quorum.

A matter requiring an Extraordinary Resolution requires an affirmative vote of at least two-thirds of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of considering such resolution.

The Fund, subject to obtaining any necessary regulatory approvals, does not intend to hold annual meetings of Unitholders. However, the Fund will undertake to the TSX to hold annual meetings of Unitholders if so instructed by the TSX.

## **4.2 MATTERS REQUIRING UNITHOLDER APPROVAL**

The following matters may only be undertaken with the approval of Unitholders by an Extraordinary Resolution:

- a) any change in the investment objectives or investment restrictions of the Fund, unless such changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;
- b) any change of the Manager except where the new manager is an affiliate of the Manager;
- c) any increase in the Management Fee;
- d) any amendment, modification or variation in the provisions or rights attaching to the Units;
- e) any change in the frequency of calculating the Net Asset Value per Unit to less often than daily;
- f) any merger, arrangement or similar transaction or the sale of all or substantially all of the assets of the Fund other than in the ordinary course;
- g) any liquidation, dissolution or termination of the Fund except if it is determined by the Manager, in its sole discretion, to be in the best interest of the Unitholders or otherwise in accordance with the terms of the Fund Trust Agreement;
- h) the issuance of additional Units, other than for net proceeds equal to or greater than 100% of the most recently calculated Net Asset Value per Unit calculated immediately prior to the pricing of such issuance; and
- i) any amendment to the above provisions except as permitted by the Fund Trust Agreement.

Notwithstanding the foregoing, the Trustee is entitled to amend the Fund Trust Agreement without the consent of, or notice to, the Unitholders, to:

- a) remove any conflicts or other inconsistencies which may exist between any terms of the Fund Trust Agreement and any provisions of any law, regulation or requirements of any governmental authority applicable to or affecting the Fund;
- b) make any change or correction in the Fund Trust Agreement which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained therein;
- c) bring the Fund Trust Agreement into conformity with applicable laws, rules and policies of Canadian securities regulators or with current practice within the securities or investment fund industries, provided such amendments do not in the opinion of the Manager adversely affect the pecuniary value of the interest of the Unitholders or restrict any protection for the Trustee or the Manager or increase their respective responsibilities;
- d) maintain the status of the Fund as a “mutual fund trust” for the purposes of the Tax Act or to respond to amendments to such Act or to the interpretation or administration thereof;
- e) in the event the Forward Agreement terminates prior to the termination of the Fund, enter into a new forward agreement or amend the Fund Trust Agreement to permit the Fund to hold the Portfolio directly, provided that notwithstanding the above, the Fund will provide at least 30 days notice to Unitholders of any such action by way of press release;
- f) provide added protection or benefit to Unitholders; or
- g) make such modifications as may be necessary or desirable in connection with the termination of the Forward Agreement prior to the Forward Termination Date as a result of the termination of the Fund as described under “Termination of the Fund”.

## **4.3 AMENDMENT OF FUND TRUST AGREEMENT**

Except as provided above, the Fund Trust Agreement may be amended by an Ordinary Resolution approved at a meeting of Unitholders duly convened and held in accordance with the provisions in that regard contained in the Fund Trust Agreement, or by the written consent in lieu of a meeting if there is only one Unitholder.

## **4.4 REPORTING TO UNITHOLDERS**

The Fund makes available to Unitholders such financial statements and other continuous disclosure documents as are required by

applicable law, including (i) unaudited interim and audited annual financial statements of the Fund and of CS Trust, prepared in accordance with International Financial Reporting Standards and, (ii) interim and annual management reports of fund performance in respect of the Fund and CS Trust. The Fund mails the foregoing disclosure documents relating to CS Trust to all of the Unitholders who receive the Fund's financial statements. The Fund also makes available to each Unitholder annually and within the time prescribed by law, information necessary to enable such Unitholder to complete an income tax return with respect to the amounts payable by the Fund.

## **5 TERMINATION OF THE FUND**

The Fund will have a term of approximately five years, terminating on or about December 30, 2015, and the Fund's investments will be liquidated prior to such termination at the then prevailing market prices. The Manager may, in its discretion, terminate the Fund at an earlier date without the approval of the Unitholders if, in its opinion, it would be in the best interests of the Unitholders to terminate the Fund. Upon termination, the Fund will distribute to Unitholders their pro rata portions of the remaining assets of the Fund after all liabilities of the Fund have been satisfied or appropriately provided for. Prior to the Termination Date, the Manager may present a proposal to extend the term of the Fund, subject to approval of Unitholders at a meeting called for such purpose, provided that all Unitholders will be given a right to cause their Units to be redeemed on the Termination Date, regardless of whether they voted in favour of the term extension.

Pursuant to the Fund Trust Agreement, the Fund will terminate on the date specified in an Extraordinary Resolution of Unitholders calling for the termination of the Fund or when terminated by the Manager, as described below. In addition to such termination, the Fund Trust Agreement also provides that:

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

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

The Fund Trust Agreement provides that prior to the termination of the Fund, the Manager will use commercially reasonable efforts to dispose of all of its assets and will satisfy or make appropriate provision for all liabilities of the Fund. The Fund Trust Agreement provides that the Manager may, in its discretion and upon not less than 30 days prior written notice to the Unitholders, postpone any termination date by a period of up to 180 days if the Manager determines that it will be unable to convert all of its assets to cash prior to any termination date and the Manager determines that it would be in the best interests of the Unitholders to do so.

Upon termination, the Fund Trust Agreement provides that the Fund will distribute to Unitholders their pro rata portions of the remaining assets of the Fund, which will include cash and, to the extent liquidation of certain assets is not practicable or the Manager considers such liquidation not to be appropriate prior to any termination date, such unliquidated assets in specie rather than in cash. The value of any remaining assets of the Fund will be determined by the Manager, acting reasonably. Following such distribution, the Fund will be dissolved. There can be no assurance that Unitholders will receive \$25.00 per Class A Unit or U.S. \$25.00 per Class U Unit upon any termination of the Fund.

## **6 DISTRIBUTION POLICY**

The Fund does not have a fixed distribution but intends to make monthly distributions based on the actual and expected distributions on the Capital Securities less the Fund's estimated expenses. Based on current estimates, the Fund pays monthly distributions initially at \$0.1458 per Class A Series 1 or 2 Unit, and U.S. \$0.1458 per Class U Series 1 or 2 Unit representing a return of 7.0% per annum

on the Unit issue price.

The Fund paid an initial distribution of \$0.23014 per Class A Series 1 and 2 Unit and U.S. \$0.23014 per Class U Series 1 and 2 Unit covering the period from October 13, 2010 (commencement of operations) to November 30, 2011. The Fund made regular monthly distributions of \$0.1458 per Class A Series 1 and 2 Unit and U.S. \$0.1458 per Class U Series 1 and 2 Unit thereafter.

The Fund has made all its scheduled distributions during the year ended August 31, 2015 paying \$1.7496 per Class A, Series 1 and 2 Unit and U.S. \$1.7496 per Class U, Series 1 and 2 Unit (\$1.7496 per Class A, Series 1 and 2 Unit and U.S. \$1.7496 per Class U, Series 1 and 2 Unit during the year ended August 31, 2014).

The Fund is subject to tax under Part I of the Tax Act on the amount of its income for tax purposes for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amounts paid or payable to Unitholders in the year. To ensure that the Fund is generally not be liable for income tax under Part I of the Tax Act, the Fund Trust Agreement provides that, if necessary, an Additional Distribution is automatically payable in each year to Unitholders of record on December 31. The Additional Distribution may be necessary if the Fund realizes income for tax purposes which is in excess of the monthly distributions paid or made payable to Unitholders during the taxation year. If the Fund must pay an Additional Distribution, such Additional Distribution may, at the option of the Manager, be satisfied by the issuance of Units. Following such issue of additional Units, the outstanding Units may be automatically consolidated on a basis such that each Unitholder will hold after the consolidation the same number of Units as it held before the distribution of additional Units, except in the case of a Non-Resident Unitholder if tax was required to be withheld in respect of the distribution. See “Canadian Federal Income Tax Considerations”.

## **7 CALCULATION OF NET ASSET VALUE**

### ***7.1 CALCULATION OF NET ASSET VALUE***

RBC Investor Services Trust (the “Valuation Agent”) acts as valuation agent for the Fund. The Valuation Agent calculates the Net Asset Value per Unit of each series of Units as at the close of business on each Valuation Date. The Fund makes available to the financial press for publication on a daily basis the Net Asset Value per Unit of each series. Such amount is also available on the Manager’s website at [www.astonhill.ca](http://www.astonhill.ca) and is also available to Unitholders upon request at no cost by calling 1-800-513-3868.

### ***7.2 VALUATION POLICIES AND PROCEDURES***

For transactional reporting purposes (i.e., for purposes other than financial statements), the Net Asset Value of the Fund on a particular date is equal to (i) the Total Assets of the Fund less (ii) the aggregate value of the liabilities of the Fund. The Net Asset Value per Unit of a series on any day is obtained by dividing the Net Asset Value of that series on such day by the number of Units of that series then outstanding.

For the purpose of calculating the Net Asset Value of the Fund or CS Trust on a Valuation Date, the Total Assets of the Fund or CS Trust on such Valuation Date is determined as follows:

- a) the value of any cash on hand or on deposit, bill, demand note, account receivable, prepaid expense, distribution, or other amount receivable (or declared to holders of record of securities owned on a date before the Valuation Date as of which the Total Assets are being determined, and to be receivable) and interest accrued and not yet received will be deemed to be the full amount thereof provided that if the Valuation Agent has determined that any such deposit, bill, demand note, account receivable, prepaid expense, distribution, or other amount receivable (or declared to holders of record of securities owned on a date before the Valuation Date as of which the Total Assets are being determined, and to be receivable) or interest accrued and not yet received is not otherwise worth the full amount thereof, the value thereof will be deemed to be such value as the Valuation Agent determines to be the fair market value thereof;
- b) the value of any bonds, debentures and other debt obligations will be valued by taking the average of the bid and ask prices quoted by a major dealer or recognized information provider in such securities on a Valuation Date at such times as the Valuation Agent, in its discretion, deems appropriate. Short-term investments including notes and money market instruments will be valued at cost plus accrued interest;
- c) the value of any security which is listed or traded upon a stock exchange (or if more than one, on the principal stock exchange for the security, as determined by the Valuation Agent) will be determined by taking the latest available sale price

of recent date, or lacking any recent sales or any record thereof, the simple average of the latest available offer price and the latest available bid price (unless in the opinion of the Valuation Agent such value does not reflect the value thereof and in which case the latest offer price or bid price will be used), as at the Valuation Date on which the Total Assets are being determined, all as reported by any means in common use;

- d) the value of any security which is traded over-the-counter will be priced at the average of the last bid and asked prices quoted by a major dealer or recognized information provider in such securities;
- e) the value of any security or other asset for which a market quotation is not readily available will be its fair market value on the Valuation Date on which the Total Assets are being determined as determined by the Valuation Agent (generally the Valuation Agent will value such security at cost until there is a clear indication of an increase or decrease in value);
- f) any market price reported in currency other than Canadian dollars (or U.S. dollars in the case of the Class U Units) will be translated into Canadian currency (or U.S. currency in the case of the Class U Units) at the rate of exchange available from the Valuation Agent on the Valuation Date on which the Total Assets are being determined;
- g) listed securities subject to a hold period will be valued as described above with an appropriate discount as determined by the Valuation Agent and investments in private companies and other assets for which no published market exists will be valued at the lesser of cost and the most recent value at which such securities have been exchanged in an arm's length transaction which approximates a trade effected in a published market, unless a different fair market value is determined to be appropriate by the Valuation Agent;
- h) the value of the Forward Agreement and any other forward contract or other derivatives, such as future contracts, swap contracts or options on financial futures, will be the value that would be realized by the Fund if, on the date on which the Total Assets are being determined, the Forward Agreement or any other forward contract or other derivatives were closed out in accordance with its terms; and
- i) the value of any security or property to which, in the opinion of the Valuation Agent, the application of the above principles cannot be applied (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) will be the fair market value thereof determined in good faith in such manner as the Valuation Agent determines in consultation with the Manager from time to time.

The Net Asset Value per Unit of a series is calculated in Canadian dollars (or U.S. dollars in the case of the Class U Units) in accordance with the rules and policies of the Canadian Securities Administrators or in accordance with any exemption therefrom that the Fund may obtain.

For the purposes of calculating the Redemption Net Assets per Unit in connection with a redemption of Units on an Annual Redemption Date, the value of the Forward Agreement will be determined on the basis that any bonds, debentures and other debt obligations that are owned by CS Trust will be valued by taking the bid price on the Valuation Date.

### ***7.3 REPORTING OF NET ASSET VALUE***

The Net Asset Value per Unit is provided daily to Unitholders at no cost on the Manager's website at [www.astonhill.ca](http://www.astonhill.ca), and is also available to Unitholders upon request, at no cost, by calling 1-800-513-3686.

### ***7.4 AUDIT OF FINANCIAL STATEMENTS***

The annual financial statements of the Fund and CS Trust are audited by the Fund's auditor in accordance with the International Financial Reporting Standards. The auditor is asked to report on the fair presentation of the annual financial statements in accordance with the International Financial Reporting Standards.

## **8 MANAGEMENT OF THE FUND**

### ***8.1 THE MANAGER***

Aston Hill Capital Markets Inc. acts as manager of the Fund. The Manager oversees, manages and implements the objectives of the Fund. The Manager is entitled to receive fees as compensation for management services rendered to the Fund.

### **8.1.1 Duties and Services to be provided by the Manager**

Pursuant to the Trust Agreements, the Manager has exclusive authority to manage the operations and affairs of the Fund as applicable, to make all decisions regarding the undertaking of the Fund and to bind the Fund. The Manager may delegate certain of its powers to third parties where, in the discretion of the Manager, it would be in the best interests of the Fund to do so.

The Manager's duties include maintaining accounting records for the Fund; authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements, income tax returns and financial and accounting information as required by the Fund; ensuring that unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the Fund and CS Trust comply with regulatory requirements, including its continuous disclosure requirements under applicable securities laws; preparing the Fund's reports to unitholders and to the Canadian securities regulators; providing the Custodian with information and reports necessary for the Custodian to fulfill its fiduciary responsibilities; currency hedging; administering the redemption of Units; arranging for any payment required on the termination of the Fund; dealing and communicating with unitholders; and negotiating contracts with third party providers of services, including, but not limited to, custodians, transfer agents, legal counsel, auditors and printers.

The Manager also implements the Fund's investment strategy to ensure compliance with the Fund's investment guidelines.

### **8.1.2 Details of the Management Agreements**

Pursuant to the Management Agreements, the Manager exercises the powers and discharge the duties of its office honestly, in good faith and in the best interests of the Fund, CS Trust and their respective unitholders, as applicable, and in connection therewith, shall exercise the degree of care, diligence and skill that a reasonably prudent manager would exercise in similar circumstances.

The Manager may resign as manager of the Fund and/or CS Trust upon 60 days' notice to the applicable unitholders and to the Fund and/or CS Trust, as applicable, or upon such lesser notice period as the Fund or CS Trust, as applicable, may accept. If the Manager resigns it may appoint its successor but, unless its successor is an affiliate of the Manager, its successor must be approved by unitholders of the Fund or CS Trust, as applicable. If the Manager is in material default of its obligations under the applicable Trust Agreement and such default has not been cured within 20 business days after notice of same has been given to the Manager, the Fund or CS Trust shall give notice thereof to their respective unitholders, as applicable, and such unitholders may remove the Manager and appoint a successor manager.

The Manager is entitled to fees for its services under the Trust Agreements as described under "Fees and Expenses" and is reimbursed for all reasonable costs and expenses incurred by the Manager on behalf of the Fund.

The Manager and each of its directors, officers, employees and agents are indemnified by the Fund and CS Trust, as applicable, for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against the Manager or any of its officers, directors, employees or agents in the exercise of its duties as manager, except those resulting from the Manager's willful misconduct, bad faith or negligence or the Manager's failure to meet the standard of care set forth above.

### **8.1.3 Accounting and Reporting**

The Fund's fiscal year is the August 31. The Manager ensures that the Fund complies with all applicable reporting and administrative requirements.

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

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

The name and municipality of residence of the directors and officers of the Manager and their principal occupations are as follows:

<b>Name and Municipality</b>	<b>Position with the Manager</b>	<b>Principal Occupation</b>
W. Neil Murdoch Oakville, Ontario	Director and Chief Executive Officer	Director and Chief Executive Officer, Aston Hill Capital Markets Inc.
Darren N. Cabral Toronto, Ontario	Director and President and Chief Financial Officer	President, Aston Hill Capital Markets Inc.
Kal Zakarneh Toronto, Ontario	Chief Financial Officer	Chief Financial Officer, Aston Hill Capital Market Inc.
Peter Anderson Toronto, Ontario	Director	Director, Aston Hill Capital Market Inc. Interim Chief Executive Officer, Aston Hill Financial Inc.
Derek Slemko Alberta, Calgary	Director	Director, Aston Hill Capital Market Inc. Interim Chief Financial Officer, Aston Hill Financial Inc.
Sasha Rnjak Woodbridge, Ontario	Chief Compliance Officer and Corporate Secretary	Vice President, Fund Operations and Chief Compliance Officer, Aston Hill Asset Management Inc.

**W. Neil Murdoch:** CFA; BComm, McGill University; LLB, University of Toronto; Master of Management, Kellogg Graduate School of Management, Northwestern University. Mr. Murdoch joined Aston Hill Capital Markets Inc. (formerly Connor, Clark & Lunn Capital Markets Inc.) in December 2003. Prior thereto, Mr. Murdoch was Executive Vice President and Portfolio Manager at AIC Group of Funds.

**Darren N. Cabral:** CFA; BA (Hons.), York University; MBA, Schulich School of Business, York University. Mr. Cabral joined Aston Hill Capital Markets Inc. (formerly Connor, Clark & Lunn Capital Markets Inc.) in May 2007. Prior thereto, Mr. Cabral held various positions with affiliates of Middlefield Group Limited from September 2001 to April 2007, including Executive Director of Research at Middlefield Capital Corporation and Managing Director of Middlefield International Limited.

**Kal Zakarneh:** B.Comm, University of Jordan. Mr. Zakarneh joined Aston Hill Capital Markets Inc. in 2013. Prior thereto Mr. Zakarneh was a Fund Accounting Controller with Connor, Clark & Lunn Financial Group since 2005.

**Peter Anderson:** C.A.; B.Comm, University of New Brunswick. Mr. Anderson joined Aston Hill Financial Inc. in 2014. Prior thereto, Mr. Anderson was Chief Executive Officer of CI Investments from 2003 to 2010. Prior to joining CI, he was Managing Director with ScotiaMcLeod Inc.

**Derek Slemko:** C.A.; B.Comm, University of Alberta. Mr. Slemko joined Aston Hill Financial Inc. in 2006. Prior thereto, Mr. Slemko was controller of Vault Energy Trust from 2005 to 2006.

**Sasha Rnjak:** BA Economics, University of Western Ontario, Vice President, Fund Operations and Chief Compliance Officer, Aston Hill Asset Management Inc., since April 2011; prior thereto, Compliance Manager, CI Investments Inc., since September 2007.

## **8.2 PROXY VOTING POLICIES AND PROCEDURES**

Subject to compliance with the provisions of applicable law, the Portfolio Manager acting on the Manager's behalf has the right to vote proxies relating to the securities in the Portfolio and the securities held directly by the Fund. Proxies must be voted in a manner

consistent with the best interests of the Fund and CS Trust.

Because CS Trust does not purchase securities for the purposes of exercising control or direction over the securities of the Portfolio, as a general rule, proxies will be voted with management on routine business. Examples of routine business are voting on the size, nomination and election of the board of directors and the appointment of auditors. All other special or non-routine matters are assessed on a case-by-case basis with a focus on the potential impact of the vote on the value of CS Trust's investment. Examples of non-routine business are stock based compensation plans, executive severance compensation arrangements, shareholders rights plans, corporate restructuring plans, going private transactions in connection with leveraged buyouts, supermajority approval proposals, and stakeholder or shareholder proposals.

On rare occasions, the Portfolio Manager may abstain from voting a proxy or a specific proxy item when it is concluded that the potential benefit of voting the proxy is outweighed by the cost of voting the proxy. In addition, the Portfolio Manager will not vote proxies received for securities which are no longer held in the Portfolio or by the Fund as applicable.

On the delivery of the Canadian Securities Portfolio by the Counterparty on December 30, 2015 (being the Forward Termination Date), the Portfolio Manager acting on the Manager's behalf will retain the right to vote proxies relating to the securities in the Canadian Securities Portfolio pursuant to the Portfolio Management Agreement. The Portfolio Manager will vote the proxies relating to the securities in the Canadian Securities Portfolio in the same manner and with the same restrictions as those proxies voted in relation to the securities in the Portfolio.

### **8.2.1 PROXY VOTING CONFLICTS OF INTEREST**

Where proxy voting could give rise to a conflict of interest or perceived conflict of interest, in order to balance the interest of CS Trust in voting proxies with the desire to avoid the perception of a conflict of interest, the Manager has instituted procedures to help ensure that CS Trust's proxy is voted in accordance with the business judgment of the person exercising the voting rights on behalf of CS Trust, uninfluenced by considerations other than the best interests of CS Trust.

The procedures for voting proxies where there may be a conflict of interest include escalation of the issue to the Independent Review Committee, for their consideration and advice, although the responsibility for deciding how to vote CS Trust's proxies and for exercising the vote remains with the Manager.

## **8.3 THE PORTFOLIO MANAGER**

The Manager, provides portfolio management services for the Fund and CS Trust, but may appoint a sub-advisor pursuant to the applicable Trust Agreement.

## **8.4 CONFLICTS OF INTEREST**

The management and administrative services provided by the Manager to each of the Fund and CS Trust pursuant to the Trust Agreements are not exclusive and nothing in the Trust Agreements prevents the Manager from providing similar management services to other investment funds and clients (whether or not their investment objectives and policies are similar to those of the Fund) or from engaging in other activities. Investment decisions for each of the Fund and CS Trust are made independently of those made for other clients and independently of investments of the Manager. On occasion, however, the Manager may manage the same investment for the Fund or CS Trust and for one or more of its other clients. If the Fund or CS Trust and one or more of the other clients of the Manager are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

The Fund Trust Agreement acknowledges that the Trustee may provide services to the Fund in other capacities, provided that the terms of any such arrangements are no less favourable to the Fund than those which would be obtained from parties which are at arm's length for comparable services. The Trustee may act as trustee of, and provide services to, other investment funds or trusts.

## **8.5 INDEPENDENT REVIEW COMMITTEE**

The Manager has appointed an independent review committee (the "Independent Review Committee") in accordance with NI 81-107 comprised of four members, each of whom is independent of the Manager and entities related to the Manager. The Independent Review Committee intends to function in accordance with applicable securities law, including NI 81-107. The mandate of the

Independent Review Committee is to review and provide its decisions to the Manager on conflict of interest matters that the Manager has referred to the Independent Review Committee for review. The Manager is required to identify conflict of interest matters inherent in its management of the Fund and request input from the Independent Review Committee in respect of how it manages those conflicts of interest, as well as its written policies and procedures outlining its management of those conflicts of interest. The Independent Review Committee has adopted a written charter which it follows when performing its functions and is subject to requirements to conduct regular assessments. In performing their duties, members of the Independent Review Committee are required to act honestly, in good faith and in the best interests of the Fund and to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Independent Review Committee also serves in respect of other funds that are managed by the Manager. The Independent Review Committee report annually to the Fund which report is available free of charge upon request to the Manager and is also posted on the Manager's website at [www.astonhill.ca](http://www.astonhill.ca).

The principal occupations and biographies of the Independent Review Committee members are set out below:

**John Crow (chair)** is the former Governor of the Bank of Canada and a noted economist. He is a director or advisor to a number of companies, and is also a Senior Fellow of the C.D. Howe Institute. In 1999, he chaired a committee of international experts that was commissioned by the Executive Board of the International Monetary Fund (the "IMF") to evaluate IMF bilateral, regional, and multilateral surveillance activities, and in 2002, he took part in a high level international mission to advise on monetary problems in Argentina. In 2003, he chaired an international task force commissioned by the International Federation of Accountants to examine the loss of credibility in financial reporting and how to restore it. Mr. Crow is the author (2002) of *Making Money: An Insider's Perspective on Finance, Politics, and Canada's Central Bank*.

**C. Scott Browning** received his doctorate in chemistry from the University of Toronto in 1992. He returned to join the faculty at UofT after a sixteen month term as a post-doctoral Fellow at the National Institute of Bioscience in Japan. His research on the modular design, synthesis and properties of tunable phosphine ligands has been published in the journals of the Royal Society of Chemistry and the American Chemical Society and presented at international conferences. Dr. Browning is a Fellow of the University of St. Michael's College and is currently coauthoring a textbook that emphasizes a strong mechanistic approach to understanding organic chemistry.

**Robert B. Falconer** is a Member of Board of Directors, Audit and Valuation, Investment and Independent Review Committee (chair) of VentureLink Funds and has financial consulting contracts with Altamira Financial Services, Ontario Clean Water Agency and GHD International. He recently worked as a Director of Community Loans Policy & Risk Control for Ontario Strategic Infrastructure Financing Authority and as a Vice President of Corporate Finance for Altamira Financial Services.

**Joseph H. Wright** spent 23 years with Citibank in New York, Geneva and Toronto. He left Citibank in 1986 to join Burns Fry Limited where he worked until 1994, finishing as a Vice Chairman. In 1995, he joined Swiss Bank Corporation (Canada) as President & CEO. Following Swiss Bank, he has spent 16 years as a corporate director, serving on the boards of Loblaw Companies Limited, O & Y Real Estate Investment Trust, Call-Net Enterprises Inc. and St. Laurent Paperboard Inc., to name a few. He also served for 5 years as the Chair of the Connor, Clark & Lunn Financial Group's independent review committee.

The IRC members perform a similar function as the independent review committee for other investment funds managed by the Manager and its affiliates. The current IRC members each receive \$15,000 per annum (\$20,000 for the Chairman) plus \$1,250 per meeting for acting in such capacity and are also reimbursed for expenses in connection with performing their duties.

Each year the IRC determines and discloses its compensation in its annual report to Unitholders in the Fund. The annual fees are allocated across all investment funds managed by the Manager and its affiliates with the result that only a small portion of the annual fees of the IRC are charged to the Fund. The annual fees are determined by the IRC and disclosed in its annual report to Unitholders of the Fund.

The IRC reviews its compensation on an annual basis, giving consideration to: industry practice; the number, nature and complexity of the funds; and the nature and extent of the workload.

## **8.6 THE TRUSTEE**

RBC Investor Services Trust is the trustee of the Fund under the Trust Agreement and, as such, is responsible for certain aspects of the day-to-day administration of the Fund as described in the Trust Agreement, including executing instruments on behalf of the Fund.

The Trustee may resign upon 60 days' notice to Unitholders and the Manager. The Trustee may be removed with the approval of a simple majority vote cast at a meeting of Unitholders called for such purpose or by the Manager, if the Trustee has committed certain events of bankruptcy or insolvency or is in material breach or default of its obligations under the Trust Agreement which breach has not been cured within 30 days after notice thereof has been given to the Trustee. Any such resignation or removal shall become effective only upon the acceptance of appointment by a successor. If the Trustee resigns, its successor may be appointed by the Manager. The successor must be approved by Unitholders if the Trustee is removed by Unitholders. If no successor has been appointed within 90 days, the Fund will be terminated.

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

The Trustee is entitled to receive fees from the Fund as described under "Fees and Expenses". The Trustee is entitled to be reimbursed for all expenses and liabilities which are properly incurred by the Trustee in connection with the activities of the Fund.

### **8.7 THE CUSTODIAN**

RBC Investor Services Trust also acts as Custodian (the "Custodian") of the assets of the Fund pursuant to the Custodian Agreement. The Custodian, or an affiliate of the Custodian, carries out certain aspects of the day-to-day administration of the Fund, including calculating Net Asset Value, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund.

### **8.8 AUDITOR**

The auditor of the Fund and CS Trust is PricewaterhouseCoopers LLP, Chartered Professional Accountants, located at 18 York Street, Suite 2600, Toronto, Ontario M5J 0B2.

### **8.9 TRANSFER AGENT AND REGISTRAR**

Pursuant to the Registrar, Transfer Agency and Distribution Agency Agreement, Computershare Investor Services Inc. acts as transfer agent and registrar for the Units and maintains the securities registers at its office in Toronto.

### **8.10 PORTFOLIO TRANSACTIONS AND BROKERAGE**

The Manager is responsible for selecting members of securities exchanges, brokers and investment dealers for the execution of transactions in respect of the Fund's investments and, when applicable, the negotiation of commissions in connection therewith. The Fund is responsible to pay those commissions.

## **9 FEES AND EXPENSES**

### **9.1 INITIAL FEES AND EXPENSES**

The expenses of the Offering (including the costs of creating and organizing the Fund, the costs of printing and preparing the prospectus, legal expenses, marketing expenses and other reasonable out-of-pocket expenses incurred by the Agents and other incidental expenses), which were \$9,742,580, were paid out of the gross proceeds of the Offering.

### **9.2 MANAGEMENT FEES**

The Manager receives a management fee from the Fund and CS Trust equal in the aggregate to 0.40% per annum of the applicable Net Asset Value, (0.15% from the Fund and 0.25% from CS Trust), calculated and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund and CS Trust on a combined basis during the year ended August 31, 2015 were \$359,400

plus applicable taxes (\$454,882 plus applicable taxes during the year ended August 31, 2014).

### **9.3 ONGOING EXPENSES**

The Fund pays for all expenses incurred in connection with its respective operation and administration which are generally allocated to each class of Units pro rata based on the Net Asset Value of each class, with the exception of any expenses that relate solely to one class, including, fees payable to the Trustee, custodial fees, legal, audit, valuation fees and expenses, any additional fees payable to third party service providers, expenses of the directors of the Manager, fees and expenses of the members of the Independent Review Committee appointed under NI 81-107 and expenses related to compliance with NI 81-107, costs of reporting to Unitholders, registrar, transfer and distribution agency costs, printing and mailing costs, listing fees and expenses and other administrative expenses and costs incurred in connection with the continuous public filing requirements of the Fund and investor relations, fees and expenses relating to the voting of proxies by a third party, taxes, brokerage commissions, costs and expenses relating to the issue of Units, costs and expenses of preparing financial and other reports, costs and expenses arising as a result of complying with all applicable laws, regulations and policies, extraordinary expenses that the Fund may incur, but excluding the fees payable to the Portfolio Manager. Such expenses also includes expenses of any action, suit or other proceedings in which or in relation to which the Manager, the Portfolio Manager, the Custodian or the Trustee and/or any of their respective officers, directors, employees, consultants or agents is entitled to indemnity by the Fund or CS Trust.

The aggregate amount of these fees and expenses on a combined basis during the year ended August 31, 2015 were \$186,745 plus applicable taxes (\$183,250 plus applicable taxes during the year ended August 31, 2014). The Fund is also responsible for any debt service and costs relating to the Leverage Transactions, fees associated with interest hedging activities and any extraordinary expenses which it may incur from time to time. The aggregate amount of these fees and expenses during the year ended August 31, 2015 were \$158,386 (\$186,702 during the year ended August 31, 2014).

### **9.4 SERVICE FEES**

The Fund pays to the Manager a service fee (calculated quarterly and paid as soon as practicable after the end of each calendar quarter), solely with respect to the Series 2 of the Class A and Class U Units equal to 0.30% per annum of the Net Asset Value attributable to Series 2 of the Class A and Class U Units. The service fee is applied by the Manager to pay a service fee in an equivalent aggregate amount to brokers based on the number of Class A Units, Series 2 and Class U Units, Series 2 held by clients of such brokers at the end of the relevant quarter. No service fee is payable in respect of the Series 1 of the Class A and Class U Units.

The service fees charged to the Fund during the year ended August 31, 2015 were \$3,304 (\$3,408 during the year ended August 31, 2014).

### **9.5 COUNTERPARTY FEES**

The Fund pays to the Counterparty an additional purchase amount under the Forward Agreement, calculated daily and payable quarterly in arrears, of up to 0.35% per annum of the Total Assets of the Fund or the notional amount of the Forward Agreement (being effectively equal to the Net Asset Value of CS Trust). The amount of this fee paid during the year ended August 31, 2015 was \$380,733 (\$470,838 during the year ended August 31, 2014).

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

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

### **10.1 STATUS OF THE FUND**

The Fund qualifies and intends to qualify as a "unit trust" and a "mutual fund trust" within the meaning of the Tax Act; the Fund

elected under the Tax Act to be a mutual fund trust from the date it was established. To continue to qualify as a mutual fund trust, (i) the Fund must be a Canadian resident “unit trust” for purposes of the Tax Act; (ii) the only undertaking of the Fund must be the investing of its funds in property (other than real property or interests in real property); and (iii) the Fund must comply with certain minimum requirements respecting the ownership and dispersal of Units. An additional condition to continue to qualify as a mutual fund trust for purposes of the Tax Act is that the Fund may not be established or maintained primarily for the benefit of non-resident persons unless, at all times, substantially all of its property consists of property other than “taxable Canadian property” within the meaning of the Tax Act. If the Fund were not to qualify as a mutual fund trust at all times, the income tax considerations as described below and under would in some respects be materially different.

## ***10.2 TAXATION OF THE FUND***

The Fund is subject to tax in each taxation year under Part I of the Tax Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it deducts in respect of the amount paid or payable to Unitholders in the year. The Fund deducts, in computing its income in each taxation year, the full amount available for deduction in each year and, therefore, provided the Fund makes distributions in each year of its net income and net realized capital gains as described under “Distributions”, it will generally not be liable in such year for income tax under Part I of the Tax Act, subject to the possible application of the SIFT Rules as discussed below. The Fund is entitled for each taxation year throughout which it is a mutual fund trust to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized capital gains by an amount determined under the Tax Act based on the redemptions of Units during the year (“capital gains refund”). The capital gains refund in a particular taxation year may not completely offset the tax liability of the Fund for such taxation year which may arise upon the sale of Canadian Securities Portfolio securities acquired by the Fund under the Forward Agreement in connection with redemption of Units. In computing its income for tax purposes, the Fund may deduct reasonable administrative and other expenses incurred to earn income. The Fund may deduct the costs and expenses of the Offerings paid by the Fund and not reimbursed at a rate of 20% per year, prorated where the Fund’s taxation year is less than 365 days.

The Fund does not realize any income, gain or loss as a result of entering into the Forward Agreement and no amount is included in computing the Fund’s income as a result of the acquisition of Canadian Securities Portfolio securities under the Forward Agreement. The cost to the Fund of such Canadian Securities Portfolio securities is that portion of the aggregate amount paid by the Fund under the Forward Agreement attributable to such securities and any other costs of acquisition. Provided the Fund elects in accordance with the Tax Act to have each of its Canadian securities treated as capital property, gains or losses realized by the Fund on the sale of Canadian Securities Portfolio securities acquired under the Forward Agreement are taxed as capital gains or capital losses.

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

The SIFT Rules impose tax on certain income earned by a SIFT Trust (means a “specified investment flow-through trust” for the purposes of the Tax Act). A trust is considered a Trust if, at any time during the taxation year, it is resident in Canada, investments in the trust are listed or traded on a stock exchange or other public market and it holds one or more “non-portfolio properties”. Provided the Fund complies with its investment restrictions, it will not be a SIFT Trust.

## ***10.3 TAXATION OF UNITHOLDERS***

Subject to the possible application of the SIFT Rules described above, a Unitholder is generally required to include, in computing income for a taxation year, the amount of the Fund’s net income for the taxation year, including net realized taxable capital gains, paid or payable to the Unitholder in the taxation year. The non-taxable portion of the Fund’s net realized capital gains paid or payable (whether in cash or in Units) to a Unitholder in a taxation year will not be included in the Unitholder’s income for the year. Any other amount in excess of the Fund’s net income for a taxation year paid or payable to the Unitholder in the year will generally not be included in the Unitholder’s income. Such amount, however, will generally reduce the adjusted cost base of the Unitholder’s Units. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a

capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder's adjusted cost base will be increased by the amount of such deemed gain. Provided that appropriate designations are made by the Fund, such portion of the net realized taxable capital gains of the Fund as is paid or payable to a Unitholder will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Tax Act.

On the disposition or deemed disposition of a Unit, the Unitholder will realize a capital gain (or capital loss) to the extent that the Unitholder's proceeds of disposition (net of any reasonable costs of disposition) exceed (or are less than) the adjusted cost base of the Unit. Any capital gains distribution paid on the redemption of a Unit will reduce the redemption proceeds otherwise payable. For the purpose of determining the adjusted cost base to a Unitholder, when a Unit is acquired, the cost of the newly acquired Units will be averaged with the adjusted cost base of all Units owned by the Unitholder as capital property before that time. For this purpose, the cost of Units that have been issued as an Additional Distribution will generally be equal to the amount of the net income or capital gain distributed to the Unitholder in Units.

One-half of any capital gain ("taxable capital gain") realized on the disposition of Units will be included in the Unitholder's income and one-half of any capital loss realized may be deducted from taxable capital gains in accordance with the provisions of the Tax Act. In general terms, net income of the Fund paid or payable to a Unitholder that is designated as net realized taxable capital gains or taxable capital gains realized on the disposition of Units may increase the Unitholder's liability for alternative minimum tax.

A conversion of Class U Units into Class A Units, Series 1 will constitute a disposition of the Class U Units for the purposes of the Tax Act. A conversion of Class A Units, Series 2 into Class A Units, Series 1 will not constitute a disposition of the Class A Units, Series 2 for the purposes of the Tax Act.

#### ***10.4 FEDERAL BUDGET ANNOUNCEMENT***

On March 21, 2013, the Minister of Finance announced proposals in a federal budget that would treat the gain realized by a mutual fund under such forward agreements as ordinary income rather than a capital gain, if the forward agreement was entered into or extended on or after March 21, 2013. On July 11, 2013, the Department of Finance announced proposed technical changes to the transitional rules related to character conversion transactions announced in the federal budget. One of the announced changes includes the extension of the transition period for short-term agreements. The extended grandfathered period allows investment funds, whose forward agreements were entered into prior to March 21, 2013 and the terms of which provide for settlement or are a part of series of agreements that provide for settlement prior to 2015, to extend their forward agreements until end of 2014. For longer-dated forward agreements, the grandfathering transitional period will not extend beyond March 21, 2018. Grandfathering is subject to certain growth rules with which the Fund intend to comply. The federal budget, part of Bill C-4, was enacted into law on December 12, 2013.

### **11 MATERIAL CONTRACTS**

The following contracts that have been entered into by the Fund can reasonably be regarded as material to the Unitholders:

- a) the Fund Trust Agreement;
- b) the CS Trust Agreement;
- c) the Agency Agreement;
- d) the Exchange Agency Agreement;
- e) the Forward Agreement; and
- f) the Registrar, Transfer Agency and Distribution Agency Agreement.

Copies of the contracts referred to above may be inspected during normal business hours at the offices of the Manager at 77 King Street West, Suite 2110, Toronto, Ontario, M5K 1G8.

## **HBanc Capital Securities Trust**

Additional information about HBanc Capital Securities Trust is available in the financial statements. You can get a copy of the financial statements, including a statement of portfolio transactions, at no charge by contacting the Manager by:

- Mail: Aston Hill Capital Markets Inc.  
77 King Street West, Suite 2110, PO Box 92  
Toronto, ON  
M5K 1G8  
[www.astonhill.ca](http://www.astonhill.ca)
- Phone: 1-800-513-3868
- E-mail: [dcabral@astonhill.ca](mailto:dcabral@astonhill.ca)