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PROSPECTUS

Initial Public Offerings

September 28, 2010



HBanc CAPITAL SECURITIES TRUST

**Maximum \$155,000,000 Class A Units and/or Class U Units
(Maximum 6,200,000 Class A Units and/or Class U Units)**

HBanc Capital Securities Trust is a non-redeemable investment fund established under the laws of the Province of Ontario. The Fund proposes to offer Class A Units, each at a price of \$25.00 per Class A Unit, and Class U Units, each at a price of U.S. \$25.00 per Class U Unit. Class A Units and Class U Units will each be issued in two series designated as Series 1 and Series 2. The only difference between the two series of each class of Units will be the fees paid with respect to such series. See "Fees and Expenses" and "Plan of Distribution". Class A Units, Series 2 and Class U Units may be converted into Class A Units, Series 1 on a weekly basis. The Class U Units are designed for investors wishing to make their investment in U.S. dollars.

Investment Objectives

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

The Fund was established to provide investors with high levels of stable, tax-advantaged distributions through exposure to securities issued by HSBC Holdings plc, a conservatively positioned and strongly capitalized global bank. Specifically, the Fund will gain exposure to (i) the 8.125% Perpetual Subordinated Capital Securities, Series 1 issued by HSBC and/or (ii) the 8.00% Perpetual Subordinated Capital Securities, Series 2 issued by HSBC.

If the Capital Securities are acquired at prices above their par value and are later called at par by HSBC at any time prior to the Termination Date, the Manager expects that the value received by Unitholders upon termination of the Fund will be less than the issue price per Unit. The Capital Securities currently trade at prices in excess of their par value. If the Capital Securities are called by HSBC on their first call date (being April 15, 2013 for the Series 1 Capital Securities and December 15, 2015 for the Series 2 Capital Securities), which the Manager currently believes is likely, and if Unitholders receive distributions at a rate equal to 7.0% of the issue price per annum, the Manager estimates that Class A Units, Series 1 will generate an internal rate of return to a holder thereof of approximately 4.9% per annum, if held to December 30, 2015. This estimate is based on several assumptions including, but not limited to, (i) an aggregate size of the Offerings of \$150 million; (ii) the use of leverage as described herein; (iii) the fees and expenses described under "Fees and Expenses"; (iv) that the Capital Securities were purchased for their trading prices as at September 27, 2010; (v) a constant price of the Canadian dollar relative to the U.S. dollar; and (vi) the composition of the Portfolio. See "Recent Developments", "Risk Factors" and "Distribution Policy".

Description of the Capital Securities

The Series 1 Capital Securities were issued on April 9, 2008 in an aggregate principal amount of U.S. \$2,200,000,000 and the Series 2 Capital Securities were issued on June 24, 2010 in an aggregate principal amount of U.S. \$3,800,000,000. HSBC pays interest in arrears on (i) the Series 1 Capital Securities quarterly at a rate of 8.125% per annum; and (ii) the Series 2 Capital Securities quarterly at a rate of 8.00% per annum. Coupon payments on the Capital Securities may be deferred at HSBC's discretion as further described under "Overview of

the Sector that the Fund Invests In”. The Capital Securities have no fixed maturity date. At HSBC’s option, however, HSBC may redeem (i) the Series 1 Capital Securities at any time on or after April 15, 2013; and (ii) the Series 2 Capital Securities at any time on or after December 15, 2015, at their principal amount together with any accrued and unpaid coupon payments, including any deferred coupon payments. HSBC may also redeem the Capital Securities at any time in the event of a change in certain U.K. regulatory requirements or for certain tax reasons as described under “Description of the Capital Securities – Redemption”. See also Recent Developments”.

HSBC may exchange the Capital Securities in whole (but not in part), at HSBC’s option, for Preference Shares issued by HSBC, on any coupon payment date. The Preference Shares that HSBC may issue upon exchange of (i) the Series 1 Capital Securities will be preference shares with a liquidation preference equal to U.S. \$25.00 per share paying non-cumulative preferential dividends quarterly in arrears, if declared, of 8.125% of the liquidation preference per annum; and (ii) the Series 2 Capital Securities will be preference shares with a liquidation preference equal to U.S. \$25.00 per share paying non-cumulative preferential dividends quarterly in arrears, if declared, of 8.00% of the liquidation preference per annum.

The Capital Securities trade on the New York Stock Exchange. The closing price of the Series 1 Capital Securities (symbol: HCS) on September 27, 2010 was U.S. \$27.72 and the closing price of the Series 2 Capital Securities (symbol: HCS.PR.B) on September 27, 2010 was U.S. \$26.80. The Capital Securities were originally issued at a price of U.S. \$25.00 each. If the Capital Securities are called at their first call date, then the par value of U.S. \$25.00 will be returned to securities holders, resulting in a yield to call of 4.2% in respect of the Series 1 Capital Securities and 6.4% in respect of the Series 2 Capital Securities. See “Recent Developments” and “Risk Factors”.

Price: \$25.00 per Class A Unit and U.S. \$25.00 per Class U Unit

	Price to the public ⁽¹⁾	Agents’ fee	Net proceeds to the Fund ⁽²⁾
Per Class A Unit, Series 1.....	\$25.00	\$1.3125	\$23.6875
Per Class A Unit, Series 2.....	\$25.00	\$0.5625	\$24.4375
Per Class U Unit, Series 1.....	U.S. \$25.00	U.S. \$1.3125	U.S. \$23.6875
Per Class U Unit, Series 2.....	U.S. \$25.00	U.S. \$0.5625	U.S. \$24.4375
Minimum total Offerings ⁽³⁾⁽⁴⁾	\$25,000,000	\$1,312,500	\$23,687,500
Maximum total Offerings ⁽⁴⁾	\$155,000,000	\$8,137,500	\$146,862,500

Notes:

- (1) The terms of the Offerings were established through negotiation between the Agents and the Manager on behalf of the Fund.
- (2) Before deducting the expenses of the Offerings, estimated to be \$675,000 (but not to exceed 1.5% of the gross proceeds of the Offerings) which, together with the Agents’ fee, will be paid by the Fund from the proceeds of the Offerings.
- (3) There will be no Closing unless a minimum of 1,000,000 Class A Units, Series 1 are sold. If subscriptions for such minimum have not been received within 90 days after a final receipt for this prospectus is issued, the Offerings may not continue without the consent of the Canadian Securities Administrators and those who have subscribed for Units on or before such date.
- (4) The Fund has granted to the Agents an Over-Allotment Option, exercisable for a period of 30 days from the Closing Date, to offer additional Class A Units, Series 1 in an amount up to 15% of the aggregate number of Class A Units, Series 1 sold on the Closing Date on the same terms as set forth above solely to cover over-allotments, if any. If the Over-Allotment Option is exercised in full under the maximum Offerings, the price to the public, Agents’ fee and net proceeds to the Fund are estimated to be \$178,250,000, \$9,358,125 and \$168,891,875, respectively (assuming that subscriptions for Class U Units are converted into Canadian dollars at the Reference Exchange Rate in effect as at September 24, 2010). This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Class A Units, Series 1 issuable on the exercise of the Over-Allotment Option. A purchaser who acquires Class A Units, Series 1 forming part of the Over-Allotment Option acquires such Class A Units, Series 1 under this prospectus, regardless of whether the Over-Allotment Option is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See “Plan of Distribution”.

Distributions

The Fund will 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, it is expected that the Fund will pay distributions of approximately \$0.1458 per month per Unit (U.S. \$0.1458 in the

case of the Class U Units) consisting primarily of returns of capital which are not immediately taxable but which reduce a Unitholder's adjusted cost base of its Units, representing an initial yield on the Unit issue price of 7.0% per annum. The initial monthly distribution will be payable to Unitholders of record on November 30, 2010 and will be paid no later than December 31, 2010. The first distribution is expected to reflect the period from the Closing Date to November 30, 2010. Based on the current price of the Capital Securities and assuming (i) an aggregate size of the Offerings of \$150 million, (ii) the employment of the investment strategy as described under "Investment Strategy", (iii) the use of leverage as described herein, and (iv) the fees and expenses described under "Fees and Expenses", it is expected that distributions received on the Capital Securities held in the Portfolio will be sufficient to allow the Fund to pay such distributions at the expected level. See "Investment Objectives", "Recent Developments", "Risk Factors" and "Distribution Policy".

Foreign Currency Hedging

The Capital Securities are denominated in U.S. dollars. The Manager intends to hedge substantially all of the value of the Capital Securities back to the Canadian dollar in respect of Class A Units. The Manager will not hedge its currency exposure in respect of Class U Units. See "Investment Strategy" and "Overview of the Investment Structure".

Redemptions

Class A Units and Class U Units may be redeemed on the second last Business Day of April of each year commencing in 2012, subject to certain conditions, at the Annual Redemption Price. To effect such a redemption, Units must be surrendered by the last Business Day of March in the year of redemption. By virtue of the Forward Agreement, the Annual Redemption Price will be dependent upon the performance of CS Trust or the Notional Portfolio. 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. See "Redemption of Securities" and "Risk Factors – Risks Relating to Redemptions".

Term and Termination

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. See "Termination of the Fund" and "Risk Factors – Risks Relating to Redemptions".

Exchange Option

Prospective purchasers may purchase Units either by (i) cash payment or (ii) an exchange of freely tradeable securities of any Exchange Eligible Issuer. The number of Units issuable in exchange for the securities of an Exchange Eligible Issuer (other than Canadian capital securities) deposited by a prospective purchaser pursuant to the Exchange Option will be determined by dividing the volume weighted average trading price of such securities on the Toronto Stock Exchange or the New York Stock Exchange, as applicable, during the five consecutive trading days ending on September 24, 2010, as adjusted to reflect distributions declared by any Exchange Eligible Issuer that will not be received by the Fund, by \$25.00 or U.S. \$25.00, as applicable. For Canadian capital securities deposited pursuant to the Exchange Option, the Exchange Ratio will be determined based on the average closing price of such securities during the five consecutive trading days ending on, plus any accrued interest to, September 24, 2010, with such closing price being the 4:00 p.m. mid-price reported by PC-Bond Analytics, a division of the TMX Group, based on pricing contributions from 11 Canadian dealers. Prospective purchasers under the Exchange Option are required to deposit securities of Exchange Eligible Issuers with the

Exchange Agent, Computershare Investor Services Inc., prior to 5:00 p.m. (Toronto time) on September 24, 2010, such deposits to be made through CDS. However, such participants may have an earlier deadline for receiving instructions from its clients to deposit securities into the Exchange Option. Prospective purchasers who deposit securities of Canadian Exchange Eligible Issuers that are accepted by the Fund may choose to receive Class A Units, Series 1 or Class A Units, Series 2 and prospective purchasers who deposit securities of U.S. Exchange Eligible Issuers that are accepted by the Fund may choose to receive Class A Units, Series 1 or Class A Units, Series 2 or Class U Units, Series 1 or Class U Units, Series 2. See “Purchases of Securities – Method to Purchase Units”.

There can be no assurance that the Fund will accept deposits of securities made pursuant to the Exchange Option. If for any reason securities of an Exchange Eligible Issuer deposited pursuant to the Exchange Option are not acquired by the Fund, the holders of such securities will be notified of such fact as soon as practicable following the closing or the termination of the Offerings, as the case may be, and such securities will be recredited to their accounts through CDS.

Forward Agreement

The return to the Unitholders and the Fund will be dependent upon the return on the Portfolio (or Notional Portfolio) by virtue of one or more forward purchase and sale agreements with the Counterparty. If the Counterparty hedges its exposure under the Forward Agreement, it or an affiliate may acquire units of CS Trust, which would be a newly formed Ontario trust that would acquire the Portfolio. If the Counterparty or an affiliate does not acquire units in CS Trust, the Manager will maintain a Notional Portfolio with an initial invested amount equal to the amount of the net proceeds of the Offerings. There is no assurance that the Counterparty will maintain a hedge or will do so with respect to the full amount or term of the Forward Agreement. The Fund will use the net proceeds of the Offerings to pre-pay its purchase obligations under the Forward Agreement. Pursuant to the Forward Agreement, the Counterparty has agreed to deliver to the Fund, on the Forward Termination Date, the Canadian Securities Portfolio with an aggregate value equal to (i) the redemption proceeds of all of the units of CS Trust, or (ii) the value of the Notional Portfolio, as applicable, net of any leverage provided through the Forward Agreement and any amount owing by the Fund to the Counterparty. On or about the completion of the Offerings, CS Trust expects to issue 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 would use to acquire the Portfolio. The initial value of the Portfolio would be equal to the net proceeds of the Offerings. In such case, the return to the Fund will, by virtue of the Forward Agreement, be based on the return of CS Trust, which, in turn, will be 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, will be 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 Scheduled 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 will also allow the Fund to leverage its exposure to CS Trust or the Notional Portfolio by up to 15% of its Total Assets. This prospectus assumes that the Counterparty or an affiliate will acquire units of CS Trust. See “Overview of the Investment Structure – The Forward Agreement”.

Connor, Clark & Lunn Capital Markets Inc.

Connor, Clark & Lunn Capital Markets Inc. will act as Manager of the Fund and CS Trust. The Manager will perform or will arrange for the performance of management services for the Fund, including portfolio management services, and will be responsible for the overall undertaking of the Fund. The Manager is a leading provider of investment products, having raised more than \$1.5 billion in assets. The Manager is part of the Connor, Clark & Lunn Financial Group. See “Organization and Management Details of the Fund – The Manager”.

There is no guarantee that an investment in the Fund will earn any positive return in the short or long term nor is there any guarantee that the Net Asset Value per Unit will appreciate or be preserved. An investment in the Fund is appropriate only for investors who have the capacity to absorb a loss. There are certain risk factors associated

with an investment in Units including: general risks relating to the Fund, CS Trust and the Units; no assurance of achieving investment objectives and no guaranteed rate of return; performance of the Portfolio; concentration and accumulation risks; counterparty risks; leverage risks; foreign jurisdiction risks; risks relating to the nature of the Capital Securities; foreign exchange rate fluctuations risks; fluctuations in the value of Portfolio securities risks; recent global financial developments risks; exchange option risks; use of derivatives risks; risks relating to reliance on the Manager; risks relating to the trading price of Units; risks relating to the taxation of the Fund; no ownership interest risk; changes in legislation and regulatory risks; risks relating to Basel III proposals; loss of investment risks; conflicts of interest risks; risks relating to the status of the Fund; risks relating to redemptions; operating history risks; risks relating to the Fund not being a trust company; risks relating to the nature of the Units; various risks relating to HSBC's business; and various risks relating to the Capital Securities. There is no market through which the Units may be sold and purchasers may not be able to resell securities purchased under this prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the Units and the extent of issuer regulation. The Toronto Stock Exchange has conditionally approved the listing of the Class A Units, Series 1. Listing is subject to the Fund fulfilling all of the requirements of the Toronto Stock Exchange on or before December 24, 2010. See "Risk Factors".

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

BMO Nesbitt Burns Inc., HSBC Securities (Canada) Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., National Bank Financial Inc., Scotia Capital Inc., GMP Securities L.P., Canaccord Genuity Corp., Dundee Securities Corporation, Macquarie Capital Markets Canada Ltd., Raymond James Ltd., Desjardins Securities Inc., Mackie Research Capital Corporation and Wellington West Capital Markets Inc., as agents, conditionally offer the Units for sale, subject to prior sale, on a best efforts basis, if, as and when issued by the Fund in accordance with the conditions contained in the Agency Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Fund by McCarthy Tétrault LLP and on behalf of the Agents by Stikeman Elliott LLP. See "Plan of Distribution".

Subscriptions for Units will be received subject to rejection or allotment in whole or in part and the Fund reserves the right to close the subscription books at any time without notice. All prospective purchasers will be entitled to withdraw their purchase on or before midnight on the second Business Day after receipt or deemed receipt of the final prospectus and any amendment in accordance with applicable securities laws. See "Purchasers' Statutory Rights of Withdrawal and Rescission". The Agents may over-allot or effect transactions as described under "Plan of Distribution". Registrations of interests in and transfers of Units will be made only through the book-entry only system administered by CDS Clearing and Depository Services Inc. Book-entry only certificates representing the Class A Units, Series 1, Class A Units, Series 2, Class U Units, Series 1 and Class U Units, Series 2 will be issued in registered form only to CDS or its nominee and will be deposited with CDS on the date of Closing, which is expected to occur on or about October 13, 2010, or such later date as the Fund and the Agents may agree, but in any event not later than December 17, 2010. A purchaser of Units will receive a customer confirmation from the registered dealer from or through which the Units are purchased and will not have the right to receive physical certificates evidencing ownership in the Units.

Although units of CS Trust are not being offered to the public, the Fund has agreed to obtain a receipt for a prospectus of CS Trust from the Autorité des marchés financiers. The Fund has also agreed to deliver a copy of such prospectus to purchasers of Units in the Province of Québec prior to the purchase of Units by any person in the Province of Québec.

Certain capitalized terms used, but not defined, in the foregoing are defined in the "Glossary of Terms".

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PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offerings and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Certain capitalized terms used, but not defined, in this summary are defined in the “Glossary of Terms”.

Certain information contained in this prospectus relating to HSBC and the Capital Securities is taken from and based solely upon information published by HSBC or otherwise publicly available. Specifically, the description of the attributes of the Capital Securities is taken from and based solely upon information published by HSBC or otherwise publicly available, including (i) the prospectus supplement of HSBC dated April 2, 2008 to a prospectus of HSBC dated June 14, 2006 and (ii) the prospectus supplement of HSBC dated June 17, 2010 to a prospectus of HSBC dated April 16, 2010. Neither the Manager, the Fund nor the Agents have independently verified the accuracy or completeness of any such information or assume any responsibility for the completeness or accuracy of such information.

THE FUND

HBanc Capital Securities Trust is a non-redeemable investment fund established under the laws of the Province of Ontario and governed by the Fund Trust Agreement. See “Overview of the Structure of the Fund”. The Fund is offering two classes of Units of the Fund, each of which is offered in two series: Class A Units, Series 1 and 2 at a price of \$25.00 per Class A Unit and Class U Units, Series 1 and 2 at a price of U.S. \$25.00 per Class U Unit. See “Plan of Distribution”. The only difference between the two series of each class of Units will be 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. See “Fees and Expenses”, “Purchases of Securities” and “Plan of Distribution”.

INVESTMENT OBJECTIVES

The Fund’s investment objectives are to (i) provide Unitholders with monthly, tax-advantaged distributions consisting primarily of returns of capital, currently representing a yield on the Unit issue price of 7.0% per annum, and (ii) provide exposure to the Capital Securities. The Fund will 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, it is expected that the Fund will pay distributions of approximately \$0.1458 per month per Unit (U.S. \$0.1458 in the case of the Class U Units) consisting primarily of returns of capital, currently representing a yield on the Unit issue price of 7.0% per annum. See “Investment Objectives”.

Rationale of the Fund

The Fund was established to provide investors with high levels of stable, tax-advantaged distributions through exposure to securities issued by HSBC Holdings plc, a conservatively positioned and strongly capitalized global bank. Specifically, the Fund will gain exposure to (i) the 8.125% Perpetual Subordinated Capital Securities, Series 1 issued by HSBC pursuant to a prospectus supplement dated April 2, 2008 to a prospectus dated June 14, 2006 and/or (ii) the 8.00% Perpetual Subordinated Capital Securities, Series 2 issued by HSBC pursuant to a prospectus supplement dated June 17, 2010 to a prospectus dated April 16, 2010. The Manager believes that the Capital Securities offer an attractive investment opportunity for the following reasons:

- **Compelling yields** – The Capital Securities offer compelling yields, particularly in comparison to capital securities and preferred shares issued by Canadian banks with similar credit ratings.
- **High credit ratings of the Capital Securities** – The Capital Securities are rated “A-” by Standard & Poor’s, “A3” by Moody’s and “A+” by Fitch.
- **Diversified business model** – HSBC is one of the largest banks in the world. HSBC positions itself as “the world’s local bank” and employs a well-balanced and diversified business model with a focus on maintaining its signature capital strength.

- **Stable funding through customer deposits** – A key part of its business model is HSBC’s emphasis on customer deposits as a source of stable funding and a philosophy of “we take deposits first and then we lend”.
- **Consistent profitability** – Similar to Canadian banks, HSBC did not require any government capital support and has remained profitable since the onset of the financial crisis.
- **High credit ratings of HSBC** – HSBC is rated “AA-” by Standard & Poor’s, “Aa2” by Moody’s and “AA” by Fitch. On the strength of these ratings, HSBC was ranked the second safest bank in the world among banks with more than U.S. \$2.0 trillion in assets in October 2009 by *Global Finance* magazine.
- **Strong capital ratios** – HSBC is strongly capitalized with capital ratios at their highest levels in a decade. As at June 30, 2010, HSBC had total assets of U.S. \$2,418 billion, total shareholders’ equity of U.S. \$136 billion, a total capital ratio of 14.4% and Tier 1 Capital ratio of 11.5%.

See “Overview of the Structure of the Fund”.

INVESTMENT STRATEGY

The Fund will seek to achieve its investment objectives through exposure to the Capital Securities through the Forward Agreement.

The Fund may employ leverage of up to 15% of its Total Assets pursuant to the Forward Agreement for the purposes of adding leverage to the Portfolio and such other short term funding purposes as may be determined by the Manager from time to time and in accordance with the Investment Strategy. Accordingly, the maximum amount of leverage that the Fund could employ is 1.25:1. Initially, the Fund is expected to employ leverage of approximately 15% of Total Assets. The composition of the Portfolio as between Series 1 Capital Securities and Series 2 Capital Securities may change from time to time at the discretion of the Manager. See “Investment Strategy”.

DESCRIPTION OF HSBC

Overview:

HSBC is one of the largest banking and financial services organizations in the world, with a market capitalization of U.S. \$173 billion at August 30, 2010. As at June 30, 2010, HSBC had total assets of U.S. \$2,418 billion and total shareholders’ equity of U.S. \$136 billion. Through its subsidiaries and associates, HSBC provides a comprehensive range of banking and related financial services. Headquartered in London, United Kingdom HSBC operates through long-established businesses and has an international network of some 8,000 offices in 87 countries and territories.

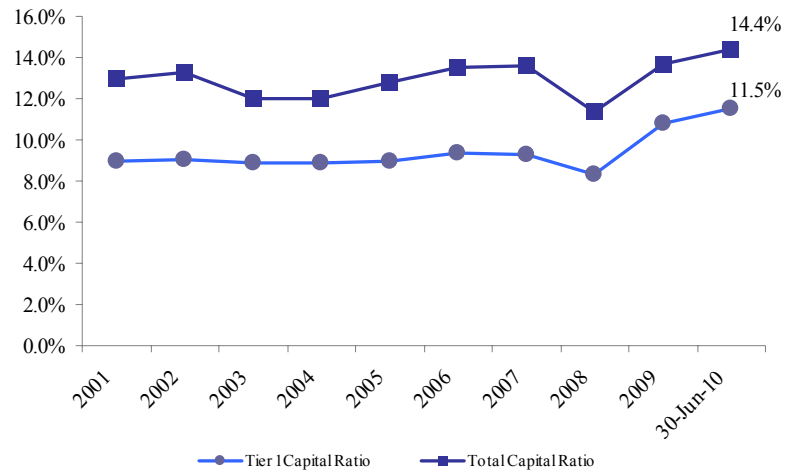
As at August 30, 2010, HSBC was the second largest bank in the world by assets, and third largest by market capitalization and Tier 1 Capital. Of the top four largest banks by Tier 1 Capital, HSBC is the only bank that did not receive government capital support during the recent financial crisis. HSBC is rated “AA-” by Standard & Poor’s, “Aa2” by Moody’s and “AA” by Fitch. On the strength of these ratings, HSBC was ranked the second safest bank in the world among banks with more than U.S. \$2.0 trillion in assets in October 2009 by *Global Finance* magazine. HSBC positions itself as “the world’s local bank” and, for the third consecutive year, HSBC was named the world’s most valuable banking brand by *Brand Finance* in 2010.

Capital Strength:

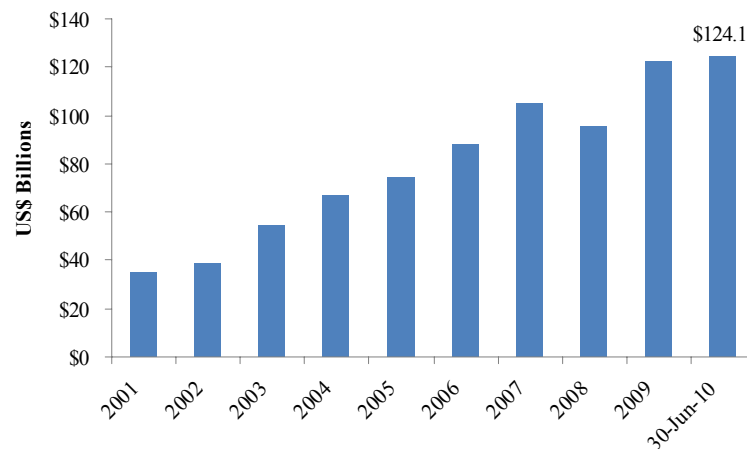
Throughout the financial crisis that began in 2007, HSBC has remained profitable, well capitalized and independently owned by shareholders, which distinguishes HSBC from many other global banks that required government capital support. In 2009, HSBC’s Tier 1 Capital grew by 28.1%, strengthened by profit generation and capital issuance. In April 2009, HSBC successfully completed a rights issue raising U.S. \$17.8 billion in the capital markets. With additional profits generated in the first half of 2010, HSBC increased its Tier 1 Capital ratio to 11.5% and grew its core Tier 1 Capital ratio to 9.9% as at June 30, 2010, putting it ahead of its target position. The

recent European Union-wide stress test exercise by the Committee of European Banking Supervisors in July 2010 further confirmed the robustness of HSBC's capital position.

HSBC Tier 1 Capital and Total Capital Ratios



HSBC Tier 1 Capital

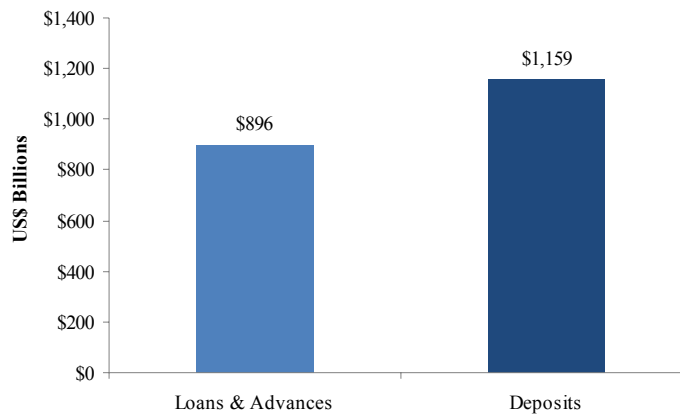


HSBC has historically maintained a strong financial position and continues to position its balance sheet conservatively. A key part of HSBC's business model is its emphasis of the importance of customer deposits as a source of stable funding and a philosophy of "we take deposits first and then we lend". HSBC expects its operating entities to manage liquidity and funding risk on a stand-alone basis employing a centrally imposed framework and limit structure which is adapted to changes in business mix and underlying markets. As at June 30, 2010, HSBC's ratio of loans to deposits was 77.3% and has remained steady at under 80%, providing a broad indication of HSBC's funding strength and liquidity position.

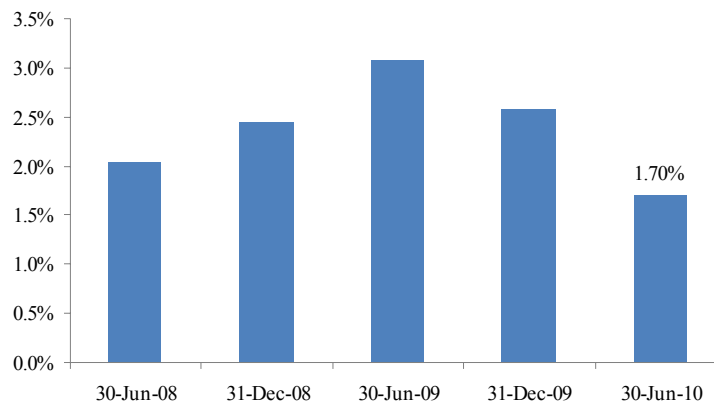
As at June 30, 2010, HSBC's loan impairment charges were at their lowest levels since the start of the financial crisis, declining by almost half year-over-year to U.S.

\$7.5 billion. Over the same period, loan impairment charges as a percentage of average gross customer advances declined from 3.08% to 1.70%. In HSBC's view, this reflects the benefit of more stable economic conditions and follows its actions, begun before the crisis, to reduce exposure to unsecured lending, to exit unprofitable business lines and to tighten underwriting standards for new business.

HSBC Customer Loans and Advances vs. Deposits

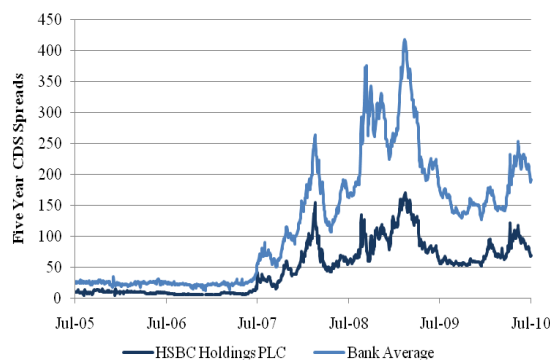


HSBC Loan Impairments as a Percentage of Average Gross Customer Advances



As illustrated in the graph below, HSBC has generally exhibited significantly lower spreads than many of its bank peers, which the Manager believes may indicate a market perception of lower credit default risk.

Historical Bank CDS Spreads



Source: Bloomberg. "Bank Average" is the average of 194 banks.

Business and Geographic Diversification:

HSBC operates in six geographical regions: Europe; Hong Kong; the rest of Asia-Pacific; the Middle East; North America and Latin America. Within these regions, a comprehensive range of financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients. Services are delivered primarily by domestic banks, typically with large retail deposit bases, and by consumer finance operations. Taken together, the five largest customers of HSBC do not account for more than one percent of HSBC's income. HSBC provides a comprehensive range of financial services to around 100 million customers through four customer groups and global businesses: Personal Financial Services (including consumer finance); Commercial Banking; Global Banking and Markets; and Private Banking.

Strategic Direction:

With its extensive international network, longstanding presence in many countries, international management culture and customer base, combined with its financial capacity founded on balance sheet strength, largely attributable to the scale of its retail deposit bases, the Manager believes that HSBC is positioned strongly and competitively for the next stage of the business cycle and for the continuing shift in the global economy.

HSBC's strategic direction reflects its positioning as the 'the world's local bank' and is aligned with trends that will shape the global economy: (i) emerging markets will grow faster than developed ones, (ii) global trade will grow faster than gross domestic product, and (iii) life expectancy is lengthening virtually everywhere. Over the next decade, HSBC expects that emerging markets will account for the majority of global growth and intends to invest primarily in these faster-growing markets. To take advantage of growing global trade, HSBC plans to develop its commercial banking capabilities in trade, payments and international connectivity for both emerging and developed markets. With aging populations in many of its key markets, including emerging countries, HSBC expects there to be greater demand for wealth management products and intends to capitalize on this trend by delivering needed personal financial products. As patterns of trade and wealth evolve, HSBC intends to focus on markets, products and areas of business where HSBC has competitive strengths based on its global reach, scale and expertise. A policy of maintaining HSBC's capital strength and strong liquidity remains complementary to these activities and is the foundation of decisions about the pace and direction of investment.

Recent Performance:

In the first half of 2010, HSBC was profitable in every customer group and in every region. Profit before tax in the first half of 2010 was U.S. \$11,104 million, representing an increase of more than 120% over the profit before tax in the first half of 2009 of U.S. \$5,019 million. HSBC is the dominant bank operating in Hong Kong with leading market positions in deposits, mortgages, life insurance and credit cards. Underlying pre-tax profit in Hong Kong grew by 13% in the first half of 2010 in comparison to the same period in 2009 as HSBC maintained its market leadership in key business segments. HSBC's operations in the rest of Asia-Pacific region reported pre-tax profit of U.S. \$3.0 billion in the first half of 2010, an increase of 48% year-over-year, surpassing profits from Hong Kong. HSBC continues to focus on expanding in key regional markets of mainland China, India, Indonesia, Singapore, Malaysia and Australia. In mainland China, HSBC is the leading international bank and was recognized as the best foreign retail bank in mainland China for the second year in a row by the *Asian Banker* Excellence in Retail Financial Services Awards 2010. HSBC's European operations reported a pre-tax profit of U.S. \$3.5 billion, 18% higher than in the comparable period in 2009 and more than three times higher than the second half of 2009, mainly due to favourable movements in HSBC's own debt held at fair value. In the UK commercial sector, further progress was made in achieving HSBC's strategy of becoming the leading bank for international business with the number of its UK-based customers managed through the international proposition increasing by 9% during the first half of 2010. In North America, HSBC reported a profit before tax of U.S. \$492 million for the first half of 2010 compared with a loss of U.S. \$3.7 billion in the first half of 2009, reflecting a 47% decline in loan impairment charges driven by continued portfolio run-off. HSBC has made significant progress in running off its consumer lending, mortgage services and vehicle finance portfolios. During 2010, HSBC sold its entire portfolio of vehicle finance loans. HSBC's Latin American operations generated a pre-tax profit of U.S. \$883 million in the first half of 2010, compared with U.S. \$580 million in the first half of 2009, an increase of 52%. The significant growth is attributable to improvements in loan impairment charges, and an expanded base of high quality Personal Financial Services customers.

See "Overview of the Sector that the Fund Invests In – Description of HSBC".

DESCRIPTION OF THE CAPITAL SECURITIES**Description:**

The following description applies equally to each series of the Capital Securities unless attributes that are particular to the Series 1 Capital Securities, or the Series 2 Capital Securities, as applicable, are expressly referenced herein.

The 8.125% Perpetual Subordinated Capital Securities, Series 1 were offered in an aggregate principal amount of U.S. \$2,200,000,000, and the 8.00% Perpetual Subordinated Capital Securities, Series 2 were offered in an aggregate principal amount of U.S. \$3,800,000,000. The Capital Securities constitute Tier 1 Capital securities of HSBC.

Interest:

Interest on the Series 1 Capital Securities will be payable quarterly at a rate of 8.125% per annum. Interest on the Series 2 Capital Securities will be payable quarterly at a rate of 8.00% per annum.

Coupon Payment Dates:

Unless HSBC elects to defer payment, interest on (i) the Series 1 Capital Securities will be payable in arrears on January 15, April 15, July 15 and October 15 of each year, having commenced on July 15, 2008; and (ii) the Series 2 Capital Securities

will be payable in arrears on March 15, June 15, September 15 and December 15 of each year commencing on September 15, 2010.

Deferred Coupon Payment:

HSBC may elect to defer any Coupon Payment. If HSBC elects to defer a Coupon Payment, it will give not less than 30 days' nor more than 60 days' notice of such election to the Capital Securities Trustee, the principal paying agent and the holders of the Capital Securities.

Dividend and Capital Restriction:

Following any Coupon Payment Date on which HSBC does not make payment in full of the Coupon Payments to be paid on such date, HSBC will not (i) declare or pay dividends, distributions or other similar periodic payments in respect of any Junior Securities (other than a dividend declared by HSBC with respect to HSBC's ordinary shares prior to the date on which HSBC gives notice to defer such Coupon Payment) or (ii) repurchase, redeem or otherwise acquire any Junior Security or Parity Security.

Optional and Special Event Redemption:

The Capital Securities are perpetual securities and have no fixed maturity date and are not redeemable at the option of the holders at any time. HSBC may redeem the Capital Securities, in whole or in part, at its option, at any time on or after (i) April 15, 2013 with respect to the Series 1 Capital Securities, and (ii) December 15, 2015 with respect to the Series 2 Capital Securities, or in whole (but not in part) at its option at any time upon the occurrence of a Tax Event or a Regulatory Event. See "Risk Factors—Risks Relating to the Capital Securities" and "Recent Developments". HSBC may redeem the Capital Securities and the Preference Shares at any time for certain tax or regulatory reasons. In each case, the redemption price will be equal to their principal amount together with any accrued and unpaid Coupon Payments to the Capital Security Redemption Date and the aggregate amount of any Deferred Coupon Payments, subject to HSBC's obligation to make payment of Deferred Coupon Payments only through the Alternative Coupon Satisfaction Mechanism.

Variation:

If a Tax Event or a Regulatory Event has occurred and is continuing, HSBC may, subject to certain conditions described under "Description of the Capital Securities—Redemption—Variation Instead of Redemption" and having given not less than 30 days' nor more than 60 days' notice to the trustee, the principal paying agent and the holders of the Capital Securities, vary the terms of the Capital Securities without the consent of any holder of the Capital Securities so that they remain (i) in the case of the Series 1 Capital Securities, Qualifying Tier 1 Securities or become Qualifying Upper Tier 2 Securities, and (ii) in the case of the Series 2 Capital Securities, Qualifying Securities.

Exchange for Preferred Shares:

Subject to certain conditions, HSBC may exchange the Capital Securities in whole (but not in part), at its option, for Preference Shares issued by it, on any Coupon Payment Date upon giving not less than 30 days' nor more than 60 days' notice. The Preference Shares that HSBC may issue upon exchange of the Capital Securities will be preference shares with a liquidation preference equal to U.S. \$25.00 per share paying non-cumulative preferential dividends quarterly in arrears, if declared, (i) of 8.125% of the liquidation preference per annum with respect to the Series 1 Capital Securities that are exchanged, and (ii) of 8.00% of the liquidation preference per annum with respect to the Series 2 Capital Securities that are exchanged.

Subordination: The rights of holders of the Capital Securities will, in the event of HSBC's winding up, be subordinated in right of payment to claims of HSBC's depositors and all HSBC's other creditors other than claims which are by their terms, or are expressed to be, subordinated to or *pari passu* with the Capital Securities as further described under "Description of the Capital Securities—Subordination".

Recent Trading Prices: The Capital Securities trade on the New York Stock Exchange. The closing price of the Series 1 Capital Securities (symbol: HCS) on September 27, 2010 was U.S. \$27.72 and the closing price of the Series 2 Capital Securities (symbol: HCS.PR.B) on September 27, 2010 was U.S. \$26.80. The Capital Securities were originally issued at a price of U.S. \$25.00 each. If the Capital Securities are called at their first call date, then the par value of U.S. \$25.00 will be returned to securities holders, resulting in a yield to call of 4.2% in respect of the Series 1 Capital Securities and 6.4% in respect of the Series 2 Capital Securities. See "Recent Developments" and "Risk Factors".

Credit Ratings: As at the date hereof, the Capital Securities are rated "A-" by Standard & Poor's, "A3" by Moody's and "A+" by Fitch.

Recent Developments: On September 12, 2010 the Basel Committee on Banking Supervision announced certain proposals with respect to bank capital. These proposals will be presented to the Seoul G20 Leaders Summit in November for discussion. As a matter of process, if the Basel Committee proposals are adopted by the G20 in Seoul in November, then the actual regulatory guidelines that banks will be subject to will be established by regulators in the home jurisdiction of each banks, which, in the case of HSBC, will be the FSA. The actual national regulatory authorities have ultimate discretion with respect to what the final rules will say. The Basel proposals include a change in what types of instruments will qualify as Tier 1 Capital and transition rules with respect to existing capital instruments, including a proposal to begin to transition non-compliant instruments over time to a non-qualifying status beginning as early as January 2013.

The Capital Securities were originally designed with features that would enable them to become Basel III compliant (as the proposed rules stood at time of issue). The securities have the ability to be converted to preference shares at the option of HSBC and it would appear as though the form of these preference shares would meet the Basel requirements for Tier 1 Capital (for example, there is no step-up provision). If the Capital Securities are converted to preference shares they would have the same par value and the same coupon. However, the home regulator for HSBC, the FSA, has issued a consultative document that discusses a diversion from the Basel guidelines to tighten the capital rules such that preference shares would not qualify as Tier 1 Capital (and would therefore fall under the transition mechanism). If the FSA does implement tighter restrictions (i.e., if the conversion to preference shares would not result in the securities being Tier 1 compliant) then HSBC would have the right to exercise a regulatory par call feature and the implementation of Basel III by the FSA would likely enable this feature to be exercised at HSBC's option. However, the FSA's transition rules proposed in its December 2009 consultative document relating to preference shares contemplate a period during which preference shares would remain 100% eligible as Tier 1 Capital that extends beyond the Termination Date. Therefore, if the FSA transition regime were to be adopted in relation to banks regulated by the FSA, the right of HSBC to invoke a regulatory par call in relation to the Capital Securities may not occur or be available prior to the

Termination Date.

There is significant uncertainty at this point as to when the regulatory par call date will arise in relation to the Capital Securities, not only because the national regulator has issued no guidance on it since September 12, 2010, but also because of the wording of the Basel Committee release. In particular, the issue is whether the trigger date for the regulatory call event is January 1, 2013 (i.e., the start of the transition period) or 2023 (i.e., the end of the transition period). Ultimately the determination of when the regulatory par call date arises and whether it applies to preference shares will be determined entirely by the FSA, and in accordance with the FSA's regulatory guidance issued for banks that are subject to its jurisdiction, including HSBC.

There can be no certainty at this time as to whether the FSA will issue guidance as to whether the regulatory par call will arise or when it will arise and there can be no certainty as to whether preference shares will no longer qualify for Tier 1 treatment in January 2013. However, any security call at par, whether at the first call date or sooner as a result of HSBC exercising the regulatory par call feature, would result in a capital loss if the security was purchased at a price above par. See "Distribution Policy" and "Risk Factors".

See "Description of the Capital Securities".

DESCRIPTION OF THE OFFERINGS

The Offerings:

The Fund is offering two classes of Units of the Fund, each of which is offered in two series: Class A Units, Series 1 and 2 at a price of \$25.00 per Class A Unit and Class U Units, Series 1 and 2 at a price of U.S. \$25.00 per Class U Unit. See "Plan of Distribution". The only difference between the two series of each Class of Units will be 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. See "Fees and Expenses", "Purchases of Securities" and "Plan of Distribution".

Distributions:

The Fund will 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, it is expected that the Fund will pay distributions of approximately \$0.1458 per month per Unit (U.S. \$0.1458 in the case of the Class U Units) consisting primarily of returns of capital which are not immediately taxable but which reduce a Unitholder's adjusted cost base of its Units, representing an initial yield on the Unit issue price of 7.0% per annum. The initial monthly distribution will be payable to Unitholders of record on November 30, 2010 and will be paid no later than December 31, 2010. The first distribution is expected to reflect the period from the Closing Date to November 30, 2010. Based on the current price of the Capital Securities and assuming (i) an aggregate size of the Offerings of \$150 million, (ii) the employment of the investment strategy as described under "Investment Strategy", (iii) the use of leverage as described herein, and (iv) the fees and expenses described under "Fees and Expenses", it is expected that distributions received on the Capital Securities held in the Portfolio will be sufficient to allow the Fund to pay such distributions at the expected level. See "Investment Objectives".

If the Capital Securities are acquired at prices above their par value and are later called at par by HSBC at any time prior to the Termination Date, the Manager

expects that the value received by Unitholders upon termination of the Fund will be less than the issue price per Unit. The Capital Securities currently trade at prices in excess of their par value. If the Capital Securities are called by HSBC on their first call date (being April 15, 2013 for the Series 1 Capital Securities and December 15, 2015 for the Series 2 Capital Securities), which the Manager currently believes is likely, and if Unitholders receive distributions at a rate equal to 7.0% of the issue price per annum, the Manager estimates that Class A Units, Series 1 will generate an internal rate of return to a holder thereof of approximately 4.9% per annum, if held to December 30, 2015. This estimate is based on several assumptions including, but not limited to, (i) an aggregate size of the Offerings of \$150 million; (ii) the use of leverage as described herein; (iii) the fees and expenses described under “Fees and Expenses”; (iv) that the Capital Securities were purchased for their trading prices as at September 27, 2010; (v) a constant price of the Canadian dollar relative to the U.S. dollar; and (vi) the composition of the Portfolio. In the event that the Capital Securities are called by HSBC prior to their first call date as a result of a Regulatory Event, the internal rate of return to Unitholders would also be adversely affected. See “Recent Developments”, “Risk Factors” and “Distribution Policy”.

Exchange Option:

The price for each Unit purchased may be paid either by cash or by an exchange of freely tradeable securities of an Exchange Eligible Issuers set out under “Exchange Option – Exchange Eligible Issuers”.

The maximum number of securities of any one Exchange Eligible Issuer that the Fund may acquire under the Offerings pursuant to an exchange of securities of an Exchange Eligible Issuer is the lesser of (i) that number of securities with a fair market value which constitutes 9.9% of the equity value of such Exchange Eligible Issuer for purposes of section 122.1 of the Tax Act; (ii) that number which would constitute 10% of the net assets of the Fund; and (iii) that number which, if combined with the other securities of such Exchange Eligible Issuer held, either directly or indirectly, by the Manager, would result in the Manager holding directly and indirectly 19.9% of the outstanding securities of such Exchange Eligible Issuer. To the extent the Maximum Ownership Level has been achieved in respect of the securities of any one Exchange Eligible Issuer, and an excess of securities of such Exchange Eligible Issuer above the Maximum Ownership Level has been deposited and not rescinded, then the securities of such Exchange Eligible Issuer will be accepted by the Manager up to the Maximum Ownership Level and the balance will be re-credited to purchasers’ accounts through CDS. This Exchange Option does not constitute a take-over bid for any of the Exchange Eligible Issuer. See “Purchases of Securities – Method to Purchase Units”.

A prospective purchaser of Units who elects to pay for such Units by using the Exchange Option must do so by means of a book-entry deposit with Computershare Investor Services Inc., as the Exchange Agent, through CDS. Such book-entry deposits must be made prior to 5:00 p.m. (Toronto time) on September 24, 2010 by a CDS Participant. However, such participants may have an earlier deadline for receiving instructions from its clients to deposit securities into the Exchange Option. Once submitted to the Exchange Agent through CDS, a deposit of securities of an Exchange Eligible Issuer under the Exchange Option (including the transfer authorized thereby) is, subject to the completion of the Offerings, irrevocable unless withdrawn as described under the heading “Purchases of Securities – Rescission”.

The number of Units issuable in exchange for the securities of an Exchange Eligible Issuer (other than Canadian capital securities) deposited by a prospective purchaser pursuant to the Exchange Option will be determined by dividing the volume

weighted average trading price of such securities on the TSX or the NYSE, as applicable, during the five consecutive trading days ending on September 24, 2010, as adjusted to reflect distributions declared by any Exchange Eligible Issuer that will not be received by the Fund, by \$25.00 or U.S. \$25.00, as applicable. For Canadian capital securities deposited pursuant to the Exchange Option, the Exchange Ratio will be determined based on the average closing price of such securities during the five consecutive trading days ending on, plus any accrued interest to, September 24, 2010, with such closing price being the 4:00 p.m. mid-price reported by PC-Bond Analytics, a division of the TMX Group, based on pricing contributions from 11 Canadian dealers. Prospective purchasers who deposit securities of Canadian Exchange Eligible Issuers that are accepted by the Fund may choose to receive Class A Units, Series 1 or Class A Units, Series 2 and prospective purchasers who deposit securities of U.S. Exchange Eligible Issuers that are accepted by the Fund may choose to receive Class A Units, Series 1 or Class A Units, Series 2 or Class U Units, Series 1 or Class U Units, Series 2. See “Purchases of Securities – Method to Purchase Units”.

There can be no assurance that the Fund will accept deposits of securities made pursuant to the Exchange Option. If for any reason securities of an Exchange Eligible Issuer deposited pursuant to the Exchange Option are not acquired by the Fund, the holders of such securities will be notified of such fact as soon as practicable following the closing or the termination of the Offerings, as the case may be, and such securities will be recredited to their accounts through CDS.

A purchaser may rescind its purchase of Units hereunder by a written notice of rescission which must be received by the CDS Participant who effected such deposit on or before midnight on the second Business Day after the receipt or deemed receipt of the final prospectus related to the Offerings and any amendment.

A purchaser who holds securities of an Exchange Eligible Issuer as capital property may realize a capital gain or capital loss on the exchange of securities of an Exchange Eligible Issuer for Units pursuant to the Exchange Option.

See “Purchases of Securities – Method to Purchase Units” and “Canadian Federal Income Tax Considerations – The Exchange Option”.

Foreign Currency Hedging:

CS Trust will be invested 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 Class A Units. The Manager will not hedge its currency exposure in respect of Class U Units. See “Investment Strategy” and “Overview of the Investment Structure”.

The Forward Agreement:

The return to the Unitholders and the Fund will be dependent upon the return on the Portfolio (or Notional Portfolio) by virtue of one or more forward purchase and sale agreements with the Counterparty. If the Counterparty hedges its exposure under the Forward Agreement, it or an affiliate may acquire units of CS Trust. If the Counterparty or an affiliate does not acquire units in CS Trust, the Manager will maintain a Notional Portfolio with an initial invested amount equal to the amount of the net proceeds of the Offerings. There is no assurance that the Counterparty will maintain a hedge or will do so with respect to the full amount or term of the Forward Agreement. The Fund will use the net proceeds of the Offerings to pre-pay its purchase obligations under the Forward Agreement. Pursuant to the Forward Agreement, the Counterparty has agreed to deliver to the Fund, on the Forward Termination Date, the Canadian Securities Portfolio with an aggregate value equal to

(i) the redemption proceeds of all of the units of CS Trust, or (ii) the value of the Notional Portfolio, as applicable, net of any leverage provided through the Forward Agreement and any amount owing by the Fund to the Counterparty. On or about the completion of the Offerings, CS Trust expects to issue 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 would use to acquire the Portfolio. The initial value of the Portfolio would be equal to the net proceeds of the Offerings. In such case, the return to the Fund will, by virtue of the Forward Agreement, be based on the return of CS Trust, which, in turn, will be based on the performance of the Portfolio. If CS Trust units are not acquired by the Counterparty or an affiliate, the return to the Fund, by virtue of the Forward Agreement, will be 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 Scheduled 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 will also allow the Fund to leverage its exposure to CS Trust or the Notional Portfolio by up to 15% of its Total Assets. This prospectus assumes that the Counterparty or an affiliate will acquire units of CS Trust. See “Overview of the Investment Structure – The Forward Agreement”.

Redemption:

Class A Units and Class U Units may be redeemed on the second last Business Day of April of each year commencing in 2012, subject to certain conditions, at the Annual Redemption Price. To effect such a redemption, Units must be surrendered by the last Business Day of March in the year of redemption. By virtue of the Forward Agreement, the Annual Redemption Price will be dependent upon the performance of CS Trust or the Notional Portfolio. 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. See “Redemption of Securities” and “Risk Factors – Risks Relating to Redemptions”.

The Annual Redemption Price will vary depending on a number of factors. See “Calculation of Net Asset Value”, “Redemption of Securities” and “Risk Factors”.

Leverage:

The Fund may employ leverage of up to 15% of its Total Assets pursuant to the Forward Agreement for the purposes of adding leverage to the Portfolio and such other short term funding purposes as may be determined by the Manager from time to time and in accordance with the Investment Strategy. Accordingly, the maximum amount of leverage that the Fund could employ is 1.25:1. Initially, the Fund is expected to employ leverage of approximately 15% of Total Assets. See “Investment Strategy” and “Risk Factors”.

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. See “Termination of the Fund” and “Risk Factors – Risks Relating to Redemptions”.

Repurchase of Class A Units, Series 1:

The Fund may purchase (in the open market or by invitation for tenders) Class A Units, Series 1 for cancellation subject to applicable law and stock exchange requirements, based on the Manager’s assessment that such purchases are accretive to Unitholders. See “Description of the Units – Purchase for Cancellation”.

Use of Proceeds:

The net proceeds from the issue of the maximum number of Units offered hereby (after payment of the Agents’ fee and the expenses of the Offerings) are estimated to be \$146,187,500 assuming that the Over-Allotment Option is not exercised. The Fund will use the net proceeds of the Offerings (including any net proceeds from the exercise of the Over-Allotment Option) to pre-pay its purchase obligations under the Forward Agreement with the Counterparty. Under the Forward Agreement, the Fund will, on or about the Forward Termination Date, acquire the Canadian Securities Portfolio from the Counterparty having an aggregate value equal to (i) the redemption proceeds of all of the units of CS Trust or (ii) the value of the Notional Portfolio, as applicable, net of any leverage provided through the Forward Agreement and any amount owing by the Fund to the Counterparty. See “Use of Proceeds”.

Conversion of Class A Units, Series 2 and Class U Units into Class A Units, Series 1:

Class A Units, Series 2 and Class U Units may be converted into Class A Units, Series 1 on a weekly basis. A holder of Class A Units, Series 2 and a holder of Class U Units may convert such Class A Units, Series 2 and Class U Units into Class A Units, Series 1 from time to time and it is expected that liquidity for the Class A Units, Series 2 and Class U Units will be obtained primarily by means of conversion into Class A Units, Series 1. Class A Units, Series 2 and Class U Units may be converted in any week on the first Business Day of such week by delivering a notice and surrendering such Class A Units, Series 2 or Class U Units, as applicable, by 5:00 p.m. (Toronto time) at least 5 Business Days prior to the applicable Conversion Date. For each Class A Unit, Series 2 or Class U Unit so converted, a holder will receive that number of Class A Units, Series 1 equal to the Net Asset Value per Class A Unit, Series 2 or Class U Unit, as applicable, 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, Series 1 as of the close of trading on the Business Day immediately preceding the Conversion Date. No fractions of Class A Units, Series 1 will be issued upon any conversion of Class A Units, Series 2 or Class U Units; any fractional amounts will be rounded down to the nearest whole number of Class A Units, Series 1. For such purpose, the Fund will utilize the Reference Exchange Rate current at, or as nearly as practicable to, the Conversion Date in respect of a conversion of Class U Units. 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. See “Description of the Units – Conversion of Class A Units, Series 2 and Class U Units”.

Risk Factors:

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

Risks Relating to the Fund, CS Trust and the Units

- No assurance of achieving investment objectives and no guaranteed rate of return.
- Performance of the Portfolio.

- Concentration and accumulation risks.
- Counterparty risks.
- Leverage risks.
- Foreign jurisdiction risks.
- Risks relating to the nature of the Capital Securities.
- Foreign exchange rate fluctuations risks.
- Fluctuations in the value of Portfolio securities risks.
- Recent global financial developments risks.
- Exchange option risks.
- Use of derivatives risks.
- Risks relating to reliance on the Manager.
- Risks relating to the trading price of Units.
- Risks relating to the taxation of the Fund.
- No ownership interest risks.
- Changes in legislation and regulatory risks.
- Risks relating to Basel III proposals.
- Loss of investment risks.
- Conflicts of interest risks.
- Risks relating to the status of the Fund.
- Risks relating to redemptions.
- Operating history risks.
- Risks relating to the Fund not being a trust company.
- Risks relating to the nature of the Units.

Risks Relating to HSBC's Business

- Current economic and market conditions may adversely affect HSBC's results.

Risks Relating to the Capital Securities

- HSBC may redeem the Capital Securities and the Preference Shares at any time for certain tax or regulatory reasons.
- Coupon Payments on the Capital Securities may be deferred at any time and any Coupon Payment that is deferred is required to be paid only upon redemption, variation or exchange (which may only occur in limited circumstances) or upon HSBC's winding up or in the case of a Definitive Suspension.
- Dividends on the Preference Shares are non-cumulative and are fully discretionary. Also, dividends may not be declared and paid in full if HSBC do not have sufficient distributable profits or if HSBC fail to meet certain solvency requirements and other conditions prescribed by the FSA are not met.
- The Capital Securities are, and any Preference Shares will be, perpetual securities and need not be redeemed by HSBC.
- The Capital Securities and the Preference Shares differ in certain material respects.
- HSBC is not required to pay an investor under the Capital Securities or any Preference Shares unless HSBC first make other required payments.
- HSBC may issue securities senior to or *pari passu* with the Capital Securities.
- HSBC's holding company structure may mean that its rights to participate in assets of any of its subsidiaries upon its liquidation may be subject to prior claims of some of its creditors.
- HSBC may postpone any planned redemption, variation or exchange of Capital Securities if HSBC have insufficient ACSM Securities authorized and available

for issuance or if HSBC is otherwise unable to raise sufficient proceeds by employing the Alternative Coupon Satisfaction Mechanism.

- HSBC's payment of Deferred Coupon Payments may be delayed in the event of certain disruptions in the market for its ordinary shares or in applicable currency markets.
- Holders of Capital Securities have limited remedies for non-payment of amounts owed thereon.
- Ratings on the Capital Securities could be lowered.
- An investor may not be entitled to receive U.S. dollars in a winding up.

See "Risk Factors".

Eligibility for Investment: In the opinion of McCarthy Tétrault LLP, counsel for the Fund, and Stikeman Elliott LLP, counsel for the Agents, provided that the Fund qualifies as a mutual fund trust within the meaning of the Tax Act or, in the case of Class A Units, Series 1, such Units are listed on a designated stock exchange (which includes the TSX), the Units will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts. Holders of tax-free savings accounts should consult with their tax advisors as to whether Units would be a prohibited investment in their particular circumstances. See "Canadian Federal Income Tax Considerations".

***Canadian Federal
Income Tax
Considerations:***

The Fund intends to distribute the amount of its income for each taxation year so that it will generally not be liable for income tax under the Tax Act. A Unitholder will generally be required to include, in computing income for a taxation year, the amount of the Fund's net income for the taxation year, including net realized taxable capital gains, paid or payable to the Unitholder in the taxation year. The Fund intends to make designations so that the portion of net realized taxable capital gains of the Fund that are distributed to Unitholders will be treated as taxable capital gains to Unitholders. Distributions by the Fund to a Unitholder in excess of the Unitholder's share of net income and the full amount of the Fund's net realized capital gains will reduce the adjusted cost base of the Unitholder's Units. Upon the disposition of Units held as capital property, Unitholders will realize capital gains or capital losses. Prospective investors should consult their own tax advisors with respect to the income tax consequences of investing in Units, based upon their own particular circumstances.

A purchaser who disposes of securities of an Exchange Eligible Issuer pursuant to the Exchange Option and holds such Exchanged Securities as capital property will realize a capital gain (or a capital loss) in the taxation year of the purchaser in which the disposition of Exchanged Securities takes place to the extent that the proceeds of disposition for such Exchanged Securities, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the purchaser of such Exchanged Securities.

See "Canadian Federal Income Tax Considerations".

***Organization and
Management of the
Fund:***

Manager and Promoter:

Connor, Clark & Lunn Capital Markets Inc. will act as Manager of the Fund and CS Trust. The Manager will perform or will arrange for the performance of management services, including portfolio management services, for the Fund and will be

responsible for the overall undertaking of the Fund. The Manager is a leading provider of investment products, having raised more than \$1.5 billion in assets. The Manager is part of the Connor, Clark & Lunn Financial Group. See “Organization and Management Details of the Fund – The Manager”.

Portfolio Manager:

The Manager, Connor, Clark & Lunn Capital Markets Inc., will provide portfolio management services for the Fund and CS Trust, or may appoint a sub-advisor pursuant to the applicable trust agreement.

Trustee:

RBC Dexia Investor Services Trust will act as Trustee of the Fund and CS Trust. The Trustee’s office is located in Toronto, Ontario.

CS Trust:

CS Trust will be a newly created investment fund established prior to the Closing Date pursuant to CS Trust Agreement for the purpose of acquiring the Portfolio. The registered office of CS Trust is located in Toronto, Ontario.

Auditors:

PricewaterhouseCoopers LLP, Chartered Accountants, at its offices in Toronto, Ontario, are the auditors of the Fund.

Custodian:

RBC Dexia Investor Services Trust will act as custodian of the assets of the Fund and CS Trust. The Custodian is located in Toronto, Ontario.

Registrar and Transfer Agent and Exchange Agent:

Computershare Investor Services Trust, at its office in Toronto, Ontario, will maintain the securities registers of the Units, register transfers of the Units, and will accept deposits of securities of Exchange Eligible Issuers.

Exchange Dealer:

BMO Nesbitt Burns Inc. may purchase securities of Exchange Eligible Issuers from the Fund and may sell such securities to CS Trust or in the open market. If CS Trust does not purchase such securities, the Exchange Dealer will have the option to sell such securities back to the Fund. The Exchange Dealer is located in Toronto, Ontario.

Agents:

BMO Nesbitt Burns Inc., HSBC Securities (Canada) Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., National Bank Financial Inc., Scotia Capital Inc., GMP Securities L.P., Canaccord Genuity Corp., Dundee Securities Corporation, Macquarie Capital Markets Canada Ltd., Raymond James Ltd., Desjardins Securities Inc., Mackie Research Capital Corporation and Wellington West Capital Markets Inc., as agents, conditionally offer the Units for sale, subject to prior sale, on a best efforts basis, if, as and when issued by the Fund in accordance with the conditions

contained in the Agency Agreement referred to under “Plan of Distribution”.

The Fund has granted to the Agents an Over-Allotment Option, exercisable for a period of 30 days from the Closing Date, to offer additional Class A Units, Series 1 in an amount up to 15% of the Class A Units, Series 1 sold on the Closing Date on the same terms as set forth above solely to cover over-allotments, if any. If the Over-Allotment Option is exercised in full under the maximum Offerings, the price to the public, Agents’ fee and net proceeds to the Fund are estimated to be \$178,250,000, \$9,358,125 and \$168,891,875, respectively (assuming that subscriptions for Class U Units are converted into Canadian dollars at the Reference Exchange Rate in effect as at September 24, 2010). This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Class A Units, Series 1 issuable on the exercise of the Over-Allotment Option. A purchaser who acquires Class A Units, Series 1 forming part of the Over-Allotment Option acquires such Class A Units, Series 1 under this prospectus, regardless of whether the Over-Allotment Option is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See “Plan of Distribution”.

<u>Agents’ position</u>	<u>Maximum size</u>	<u>Exercise period</u>	<u>Exercise price</u>
Over-Allotment Option	930,000 Class A Units, Series 1	Within 30 days following the Closing Date	\$25.00 per Class A Unit, Series 1

SUMMARY OF FEES AND EXPENSES

The following table contains a summary of the fees and expenses payable by the Fund and CS Trust, which will therefore reduce the value of a Unitholder's investment in the Fund. For further particulars, see "Fees and Expenses".

Type of fee	Amount and description
Agents' Fee:	\$1.3125 per Class A Unit, Series 1 (5.25%), \$0.5625 per Class A Unit, Series 2 (2.25%), U.S. \$1.3125 per Class U Unit, Series 1 (5.25%) and U.S. \$0.5625 per Class U Unit, Series 2 (2.25%). The Agents' Fee will be paid out of the proceeds of the Offerings.
Expenses of the Offerings:	The expenses of the Offerings are estimated to be \$675,000 (but not to exceed 1.5% of the gross proceeds of the Offerings) which, together with the Agents' fee, will be paid by the Fund.
Management Fee:	The Manager will receive 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 or, in the event the Counterparty does not hedge its exposure by acquiring units of CS Trust, the Counterparty will pay the CS Trust portion of the Management Fee), calculated and payable monthly in arrears, plus applicable taxes. See "Fees and Expenses – Management Fee".
Service Fee:	The Fund will pay 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 Class A Units, Series 2 and the Class U Units, Series 2, equal to 0.30% per annum of the Net Asset Value attributable to the Class A Units, Series 2 or the Class U Units, Series 2, as applicable, plus applicable taxes. The Service Fee will be applied by the Manager to pay a service fee in an equivalent aggregate amount, plus applicable taxes, to brokers based on the number of Class A Units, Series 2 or Class U Units, Series 2, as applicable, held by clients of such brokers at the end of the relevant quarter. No Service Fee is payable in respect of the Class A Units, Series 1 or the Class U Units, Series 1.
Counterparty Fees:	The Fund will pay to the Counterparty an additional purchase amount under the Forward Agreement of 0.35% of Total Assets of the Fund or the notional amount of the Forward Agreement (being effectively equal to the Net Asset Value of CS Trust) per annum, calculated daily and paid quarterly. See "Fees and Expenses – Counterparty Fees".
Ongoing expenses of the Fund and CS Trust:	Each of the Fund and CS Trust will pay for all of its respective expenses incurred in connection with its operation and administration, estimated to be \$125,000 for the Fund and \$40,000 for CS Trust per annum (assuming an aggregate size of the Offerings of approximately \$150 million). Each of the Fund and CS Trust will also be responsible for its costs of portfolio transactions, interest expense and any extraordinary expenses which may be incurred from time to time. See "Fees and Expenses – Ongoing Expenses".

FORWARD LOOKING INFORMATION AND INFORMATION REGARDING HSBC AND THE CAPITAL SECURITIES

Information in this prospectus that is not current or historical factual information may constitute forward looking information within the meaning of securities laws, and actual results may vary from the forward looking information. Implicit in this information are assumptions regarding future operations, plans, expectations, anticipations, estimates and intentions, such as the Fund's plans to obtain exposure to Capital Securities. These assumptions, although considered reasonable by the Fund at the time of preparation, may prove to be incorrect. Readers are cautioned that actual future operating results and economic performance of the Fund and CS Trust are subject to a number of risks and uncertainties. See "Risk Factors" for a list of material risk factors. Forward looking information contained in this prospectus is based on current estimates, expectations and projections, which the Fund believes are reasonable as of the date of this prospectus. The Fund uses forward looking statements because it believes such statements provide useful information with respect to the future operation and financial performance of the Fund, and cautions readers that the information may not be appropriate for other purposes. Readers should not place undue importance on forward looking information and should not rely upon this information as of any other date. While the Fund may elect to, it does not undertake to update this information at any particular time.

Certain information contained in this prospectus relating to HSBC and the Capital Securities is taken from and based solely upon information published by HSBC or otherwise publicly available. Specifically, the description of the attributes of the Capital Securities is taken from and based solely upon information published by HSBC or otherwise publicly available, including (i) the prospectus supplement of HSBC dated April 2, 2008 to a prospectus of HSBC dated June 14, 2006 and (ii) the prospectus supplement of HSBC dated June 17, 2010 to a prospectus of HSBC dated April 16, 2010. Neither the Manager, the Fund nor the Agents have independently verified the accuracy or completeness of any such information or assume any responsibility for the completeness or accuracy of such information.

GLOSSARY OF TERMS

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

“**Acceleration**” has the meaning given under “Description of the Capital Securities – Events of Default”.

“**ACSM Payment Date**” has the meaning given under “Description of the Capital Securities”.

“**ACSM Securities**” has the meaning given under “Description of the Capital Securities”.

“**Additional Amounts**” has the meaning given under “Description of the Capital Securities”.

“**Additional Distribution**” means a distribution that, if necessary, will be made in each year to Unitholders of record on December 31 in order that the Fund will generally not be liable to pay income tax, as described under “Distributions”.

“**ADRs**” means American Depository Receipts.

“**ADSs**” means American Depository Shares.

“**Agency Agreement**” means the agency agreement dated as of the date hereof among the Fund, the Manager and the Agents.

“**Agents**” means, collectively, BMO Nesbitt Burns Inc., HSBC Securities (Canada) Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., National Bank Financial Inc., Scotia Capital Inc., GMP Securities L.P., Canaccord Genuity Corp., Dundee Securities Corporation, Macquarie Capital Markets Canada Ltd., Raymond James Ltd., Desjardins Securities Inc., Mackie Research Capital Corporation and Wellington West Capital Markets Inc.

“**Alternative Coupon Satisfaction Mechanism**” has the meaning given under “Description of the Capital Securities”.

“**Annual Redemption Date**” means the second last Business Day of April of each year, commencing in 2012.

“**Annual Redemption Price**” means a redemption price per Unit equal to 100% of the Redemption Net Assets per Unit of the relevant class and series on an Annual Redemption Date (less any costs associated with the redemption, including brokerage costs and any net realized capital gains to the Fund that are distributed to a Unitholder concurrently with the proceeds of disposition on redemption).

“**Approved Rating**” means the long term debt rating of the Counterparty or each successor counterparty of at least A by S&P or an equivalent rating from DBRS Limited, Moody’s Investors Service, Inc., Fitch Ratings, or any of their respective successors.

“**Assets**” means the total amount of HSBC’s non-consolidated gross assets as shown by its latest published audited balance sheet, but adjusted, for contingencies and subsequent events, and to such extent as the person or persons giving the Solvency Condition Report may determine.

“**Auditors**” means HSBC’s auditors for the time being or, if there are joint auditors for HSBC, any one of such joint auditors or, in the event of their being unable or unwilling to carry out any action requested of them pursuant to the provisions of these presents, such other firm of internationally recognized accountants as may be nominated by HSBC.

“**Bonds**” means debt securities with a term to maturity greater than one year.

“**Book-Entry Only System**” means the book-entry only system administered by CDS.

“**Business Day**”, in the context of the Capital Securities, means a day, other than a Saturday or Sunday, a statutory holiday in Toronto, Ontario or any other day on which the TSX is not open for trading that is neither a legal holiday nor a day on which commercial banks or foreign exchange markets are authorized or required by law, regulation or executive order to close in The City of New York or in London and, in the context of the Fund, means any day except Saturday, Sunday, a statutory holiday in Toronto, Ontario or any other day on which the TSX is not open for trading.

“**Calculation Agent**” has the meaning given under “Description of the Capital Securities – Alternative Coupon Satisfaction Mechanism”.

“**Canadian Securities Portfolio**” means a specified portfolio of securities of Canadian public issuers that are “Canadian securities” as defined in subsection 39(6) of the Tax Act and are listed on the TSX.

“**Capital Regulations**” means at any time the regulations, requirements, guidelines and policies of the FSA (or such other successor governmental authority in the United Kingdom) relating to capital adequacy then in effect.

“**Capital Resources**” has the meaning given to it by the FSA (or such other successor governmental authority in the United Kingdom) from time to time.

“**Capital Securities**” means, collectively, the Series 1 Capital Securities and the Series 2 Capital Securities.

“**Capital Securities Trustee**” means The Bank of New York Mellon, the trustee under the Indenture.

“**Capital Security Default**” has the meaning given under “Description of the Capital Securities”.

“**Capital Security Redemption Date**” has the meaning given under “Description of the Capital Securities”.

“**CDS**” means CDS Clearing and Depository Services Inc. and includes any successor corporation or any other depository subsequently appointed by the Fund as the depository in respect of the Units.

“**CDS Participant**” means a broker, dealer, bank or other financial institution or other person for whom, from time to time, CDS effects book entries for the Units deposited with CDS.

“**Class A Meeting, Series 1**” means a meeting of holders of Class A Units, Series 1 called in accordance with the Fund Trust Agreement.

“**Class A Units**” means the Class A Units, Series 1 and Class A Units, Series 2, collectively.

“**Class A Units, Series 1**” means the transferable, redeemable units of the Fund designated as “Class A Units, Series 1”.

“**Class A Meeting, Series 2**” means a meeting of holders of Class A Units, Series 2 called in accordance with the Fund Trust Agreement.

“**Class A Units, Series 2**” means the transferable, redeemable units of the Fund designated as “Class A Units, Series 2”.

“**Class U Meeting, Series 1**” means a meeting of holders of Class U Units, Series 1 called in accordance with the Fund Trust Agreement.

“**Class U Units**” means the Class U Units, Series 1 and Class U Units, Series 2, collectively.

“**Class U Units, Series 1**” means the transferable, redeemable units of the Fund designated as “Class U Units, Series 1”.

“**Class U Meeting, Series 2**” means a meeting of holders of Class U Units, Series 2 called in accordance with the Fund Trust Agreement.

“**Class U Units, Series 2**” means the transferable, redeemable units of the Fund designated as “Class U Units, Series 2”.

“**Closing**” means the issuance of Units pursuant to this prospectus on the Closing Date.

“**Closing Date**” means the date of the Closing, which is expected to be on or about October 13, 2010 or such later date as the Fund and the Agents may agree, but in any event not later than December 17, 2010.

“**Closing Market Price**” in respect of a security on a Monthly Redemption Date means the closing price of such security on the TSX on such Monthly Redemption Date (or such other stock exchange on which such security is listed) or, if there was no trade on the relevant Monthly Redemption Date, the average of the last bid and the last asking prices of the security on the TSX on such Monthly Redemption Date (or such other stock exchange on which the security is listed).

“**Counterparty**” means the Canadian chartered bank or affiliate thereof which is the counterparty under the Forward Agreement provided that the Counterparty or its guarantor must have an Approved Rating.

“**Coupon Payment**” has the meaning given under “Description of the Capital Securities”.

“**Coupon Payment Date**” has the meaning given under “Description of the Capital Securities”.

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

“**CS Trust**” means a newly created investment fund that will be established prior to Closing.

“**CS Trust Agreement**” means the trust agreement governing CS Trust dated as of September 28, 2010, as it may be amended from time to time.

“**Custodian**” means RBC Dexia Investor Services Trust, in its capacity as custodian under the CS Trust Agreement.

“**Deferred Coupon Payment**” has the meaning given under “Description of the Capital Securities”.

“**Definitive Suspension**” has the meaning given under “Description of the Capital Securities”.

“**Exchange Agency Agreement**” means the exchange agency agreement entered into on or about September 27, 2010 between the Fund and the Exchange Agent.

“**Exchange Agent**” means Computershare Investor Services Inc.

“**Exchange Date**” has the meaning given under “Description of the Capital Securities”.

“**Exchange Dealer**” means BMO Nesbitt Burns Inc.

“**Exchange Eligible Issuer**” has the meaning given under “Purchases of Securities – Method to Purchase Units”.

“**Exchange Option**” has the meaning given under “Purchases of Securities – Method to Purchase Units”.

“**Exchange Ratio**” has the meaning given under “Purchases of Securities – Method to Purchase Units”.

“**Exchanged Securities**” has the meaning given under “Purchases of Securities – Method to Purchase Units”.

“**Extraordinary Resolution**” means a resolution passed by the 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.

“**First Call Date**” has the meaning given under “Description of the Capital Securities”.

“**Forward Agreement**” means one or more forward purchase and sale agreements between the Fund and the Counterparty, as such agreements may be amended from time to time.

“**Forward Termination Date**” means the earlier of (i) the Scheduled Forward Termination Date, and (ii) any other date upon which the Forward Agreement is terminated in accordance with its terms.

“**FSA**” means the Financial Services Authority, the regulator of the financial services industry in the United Kingdom, or any successor or successors thereof.

“**Fund**” means HBanc Capital Securities Trust, a non-redeemable investment fund established under the laws of the Province of Ontario and governed by the Fund Trust Agreement.

“**Fund Trust Agreement**” means the trust agreement governing the Fund dated as of the date hereof, as it may be amended from time to time.

“**HSBC**” means HSBC Holdings plc.

“**Indenture**” means the indenture between HSBC and the Capital Securities Trustee dated as of April 8, 2008 pursuant to which the Capital Securities were issued.

“**Independent Review Committee**” has the meaning given in “Organization and Management Details of the Fund – Independent Review Committee”.

“**Innovative Tier 1 Capital**” has the meaning given to it by the FSA (or such other successor governmental authority in the United Kingdom) from time to time.

“**Junior Securities**” means HSBC’s ordinary shares and any other securities or instruments issued by HSBC or any other member of the HSBC Group ranking or expressed to rank junior to the Capital Securities either issued directly by HSBC or, where issued by a member of the HSBC Group, where the securities or instruments benefit from a guarantee or support agreement entered into by HSBC which ranks or is expressed to rank junior to the Capital Securities. As of June 16 2010, there are no outstanding Junior Securities other than HSBC’s ordinary shares.

“**Liabilities**” means the total amount of the non-consolidated gross liabilities as shown by HSBC’s latest published audited balance sheet, but adjusted, for contingencies and subsequent events, and to such extent as the person or persons giving the Solvency Condition Report may determine.

“**Manager**” means the manager of the Fund and of CS Trust, namely Connor, Clark & Lunn Capital Markets Inc., and if applicable, its successor.

“**Management Fee**” means the management fee payable to the Manager by the Fund and CS Trust as more fully described under “Fees and Expenses – Management Fee”.

“**Market Disruption Event**” means (i) the occurrence or existence of any material suspension of, or limitation imposed on trading or on settlement procedures for, transactions in HSBC’s ordinary shares or Qualifying Alternative Securities, as the case may be, through the London Stock Exchange (or other national securities

exchange or designated offshore securities market constituting the principal trading market for HSBC's ordinary shares or Qualifying Alternative Securities); or (ii) in HSBC's reasonable opinion there has been a substantial deterioration in the price and/or value of its ordinary shares or Qualifying Alternative Securities, or circumstances are such as to prevent or to a material extent restrict the issue or delivery of ordinary shares or Qualifying Alternative Securities, as the case may be, to be issued in accordance with the Alternative Coupon Satisfaction Mechanism; or (iii) where monies are required to be converted from one currency upon issue of the ACSM Securities into another currency for payment of Deferred Coupon Payments, the occurrence of any event that makes it impracticable to effect such conversion.

"Market Price" in respect of a security on a Monthly Redemption Date means the weighted average trading price on the TSX (or such other stock exchange on which such security is listed), for the 10 trading days immediately preceding such Monthly Redemption Date.

"Maximum Ownership Level" has the meaning given in "Purchases of Securities – Method to Purchase Units".

"Monthly Redemption Amount" means the redemption price per Class A Unit equal to the lesser of (i) 95% of the Market Price of a Class A Unit, and (ii) 100% of the Closing Market Price of a Class A Unit on the applicable Monthly Redemption Date less, in each case, any costs 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.

"Monthly Redemption Date" means the second last Business Day of each month other than, commencing in 2012, the month of April.

"Net Asset Value" or **"NAV"** means the net asset value of the Fund or CS Trust, as applicable, as determined by subtracting the aggregate liabilities of the Fund or CS Trust, as applicable, from the Total Assets of the Fund or CS Trust, as applicable, in each case on the date on which the calculation is being made, as more fully described under "Calculation of Net Asset Value".

"Net Asset Value per Unit" means the Net Asset Value of the Fund attributable to the Class A Units, Series 1, Class A Units, Series 2, Class U Units, Series 1 or Class U Units, Series 2, as applicable, divided by the total number of Class A Units, Series 1, Class A Units, Series 2, Class U Units, Series 1 or Class U Units, Series 2, as applicable, outstanding on the date on which the calculation is being made.

"NI 81-107" means National Instrument 81-107 – *Independent Review Committee for Investment Funds* of the Canadian Securities Administrators, as amended from time to time.

"Non-Innovative Tier 1 Capital" means Tier 1 Capital which does not comprise Innovative Tier 1 Capital.

"Non-Resident Unitholder" means a Unitholder who, for the purposes of the Tax Act, and at the relevant time, is not resident in Canada and is not deemed to be resident in Canada, does not use or hold, and is not deemed to use or hold, Units in, or in the course of carrying on, a business in Canada, and is not an insurer who carries on an insurance business in Canada and elsewhere.

"Notional Portfolio" means a notional portfolio of Capital Securities which will be maintained by the Manager in the event that the Counterparty or an affiliate does not acquire units of CS Trust, with an initial subscription amount equal to the net proceeds of the Offerings (less any amount invested by the Fund directly into a portfolio of Canadian securities).

"NYSE" means The New York Stock Exchange.

"Offerings" means, collectively, the offering of Class A Units at a price of \$25.00 per Class A Unit, the offering of Class U Units at a price of U.S. \$25.00 per Class U Unit and the offering of additional Class A Units, Series 1 under the Over-Allotment Option, all pursuant to this prospectus.

“Officer’s Certificate” means a certificate signed by HSBC’s authorized officer and delivered to the Capital Securities Trustee.

“Ordinary Resolution” means a resolution passed by the affirmative vote of at least a majority of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of considering such resolution.

“Over-Allotment Option” means the option granted by the Fund to the Agents, exercisable for a period of 30 days from the Closing Date, to offer additional Class A Units, Series 1 in an amount up to 15% of the aggregate number of Class A Units, Series 1 sold on the Closing Date at a price of \$25.00 per Class A Unit, Series 1, solely to cover over-allotments, if any.

“Parity Guarantees” means the guarantees provided by HSBC in respect of (i) the 8.03% Non-cumulative Step-up Perpetual Preferred Securities issued by HSBC Capital Funding (Euro 1) LP, (ii) the 9.547% (Series 1) and the 10.176% (Series 2) Non-cumulative Step-up Perpetual Preferred Securities issued by HSBC Capital Funding (Dollar 1) LP, (iii) the 4.61% Non-cumulative Step-up Perpetual Preferred Securities issued by HSBC Capital Funding (Dollar 2) LP, (iv) the 5.3687% Non-cumulative Step-up Perpetual Preferred Securities issued by HSBC Capital Funding (Euro 2) LP, and (v) the 5.13% Non-cumulative Step-up Perpetual Preferred Securities issued by HSBC Capital Funding (Euro 3) LP.

“Parity Securities” means any of HSBC’s securities, instruments or other obligations (including any guarantees or similar support undertakings provided by HSBC in respect of such securities or instruments) that constitute HSBC’s Tier 1 Capital on a consolidated basis and are not expressed to rank senior or junior to the Capital Securities.

“Payment ACSM Securities” has the meaning given under “Description of the Capital Securities”.

“Portfolio” means the portfolio of Capital Securities acquired and held by CS Trust from time to time.

“Preference Shares” has the meaning given under “Description of the Capital Securities”.

“Pricing Period” has the meaning given under “Purchases of Securities – Determination of Exchange Ratios”.

“Qualifying Alternative Securities” means securities or instruments issued by HSBC which comply with the requirements for Tier 1 Capital and qualify for at least the same stage of capital as the Capital Securities.

“Qualifying Securities” means securities or instruments issued or guaranteed by HSBC that comply with the following requirements:

- (i) such securities or instruments have the same material terms as the terms of the Series 2 Capital Securities;
- (ii) such securities or instruments are listed on the NYSE;
- (iii) at the time of issue, payments made by HSBC in respect of such Qualifying Securities can be made free from any withholding tax imposed by any taxing or other authority (whether within or outside the United Kingdom) competent to impose, administer or collect any such tax;
- (iv) such securities or instruments will comply with the then current requirements of the FSA in relation to Capital Resources; and
- (v) such securities or instruments will preserve any existing rights under this description to any Deferred Coupon Payment or any other accrued interest which has not been satisfied,

except that such securities need not include the Alternative Coupon Satisfaction Mechanism (or a similar provision).

Notwithstanding anything to the contrary set forth above, the Qualifying Securities may be issued with terms more favorable to the holders thereof than the terms of the Series 2 Capital Securities.

“Qualifying Tier 1 Securities” means securities or instruments issued or guaranteed by HSBC that comply with the following requirements:

- (i) such securities or instruments have the same material terms as the terms of the Series 1 Capital Securities;
- (ii) such securities or instruments are listed on the NYSE;
- (iii) at the time of issue, payments made by HSBC in respect of such Qualifying Tier 1 Securities can be made free from any withholding tax imposed by any taxing or other authority (whether within or outside the United Kingdom) competent to impose, administer or collect any such tax;
- (iv) such securities or instruments will comply with the then current requirements of the FSA in relation to Tier 1 Capital; and
- (v) such securities or instruments will preserve any existing rights under this description to any Deferred Coupon Payment or any other accrued interest which has not been satisfied, except that such securities need not include the Alternative Coupon Satisfaction Mechanism (or a similar provision).

Notwithstanding anything to the contrary set forth above, the Qualifying Tier 1 Securities may be issued with terms more favorable to the holders thereof than the terms of the Series 1 Capital Securities.

“Qualifying Upper Tier 2 Securities” means securities or instruments issued or guaranteed by HSBC that comply with the following requirements:

- (i) such securities or instruments have the same material terms as the terms of the Series 1 Capital Securities;
- (ii) such securities or instruments are listed on the NYSE;
- (iii) at the time of issue, payments made by HSBC in respect of such Qualifying Upper Tier 2 Securities can be made free from any withholding tax imposed by any taxing or other authority (whether within or outside the United Kingdom) competent to impose, administer or collect any such tax;
- (iv) such securities or instruments will comply with the then current requirements of the FSA in relation to Tier 2 Capital; and
- (v) such securities or instruments will preserve any existing rights under this description to any Deferred Coupon Payment or any other accrued interest which has not been satisfied, except that such securities need not include the Alternative Coupon Satisfaction Mechanism (or a similar provision).

Notwithstanding anything to the contrary set forth above, the Qualifying Upper Tier 2 Securities may be issued with terms more favorable to the holders thereof than the terms of the Series 1 Capital Securities.

“**Redemption Net Assets per Unit**” means the net assets of the Fund on a per Unit basis, calculated in a similar manner to the calculation of the Net Asset Value per Unit except that, for the purposes of calculating the net assets of the Fund, 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.

“**Redemption Payment Date**” means the 10th Business Day of the month immediately following an Annual Redemption Date or a Monthly Redemption Date, as applicable.

“**Reference Exchange Rate**” means the U.S. dollar/Canadian dollar WM/Reuters closing spot rate determined at 4:00 p.m. (London, U.K. time), or another U.S. dollar/Canadian dollar exchange rate deemed appropriate by the Custodian in its capacity as valuation services agent.

“**Registered Plan**” means a registered retirement savings plan, a registered retirement income fund, a deferred profit sharing plan, a registered education savings plan, a registered disability savings plan and a tax-free savings account.

“**Registrar, Transfer Agency and Distribution Agency Agreement**” means the registrar, transfer agency and distribution agency agreement to be dated on or about the Closing Date between the Fund and Computershare Investor Services Inc., as it may be amended from time to time.

“**Regulatory Event**” has the meaning given under “Description of the Capital Securities”.

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

“**Scheduled Forward Termination Date**” means December 30, 2015.

“**Senior Creditors**” means HSBC’s creditors (i) who are HSBC’s unsubordinated creditors, (ii) whose claims are, or are expressed to be, subordinated (whether only in the event of HSBC’s winding up or administration or otherwise) to the claims of HSBC’s depositors and other unsubordinated creditors but not further or otherwise, or (iii) whose claims are, or are expressed to be, subordinated to the claims of HSBC’s other creditors, whether subordinated or unsubordinated, other than those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the holders of Capital Securities.

“**Series 1 Capital Securities**” means the 8.125% Perpetual Subordinated Capital Securities, Series 1 issued by HSBC.

“**Series 2 Capital Securities**” means the 8.00% Perpetual Subordinated Capital Securities, Series 2 issued by HSBC.

“**Service Fee**” means the service fee payable to the Manager to be paid by the Manager to brokers as more fully described under “Fees and Expenses – Service Fee”.

“**SIFT Rules**” means the rules in the Tax Act which apply to a SIFT Trust and its unitholders.

“**SIFT Trust**” means a “specified investment flow-through trust” for the purposes of the Tax Act.

“**Solvent**” means, in relation to HSBC, that HSBC (i) is able to pay its debts as they fall due, and (ii) its Assets exceed its Liabilities (other than its Liabilities to persons in respect of the Subordinated Indebtedness).

“**Special Event**” has the meaning given under “Description of the Capital Securities”.

“**Subordinated Indebtedness**” means any of HSBC’s liabilities however arising for the payment of money, the right to payment of which by HSBC by the terms thereof is, or is expressed to be, subordinated in the event of HSBC’s winding up to the claims of all or any of HSBC’s creditors.

“**Tax Act**” means the *Income Tax Act* (Canada), as now or hereafter amended, or successor statutes, and includes regulations promulgated thereunder.

“**Tax Event**” has the meaning given under “Description of the Capital Securities”.

“**Tax Proposals**” means all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof.

“**Termination Date**” means December 30, 2015.

“**Tier 1 Capital**” has the meaning given to it by the FSA (or such other successor governmental authority in the United Kingdom) from time to time.

“**Total Assets**” means the aggregate value of the assets of the Fund or CS Trust, as applicable.

“**Trust Agreements**” means the Fund Trust Agreement and the CS Trust Agreement.

“**Trustee**” means RBC Dexia Investor Services Trust, in its capacity as trustee under the Fund Trust Agreement or as trustee under the CS Trust Agreement, as the context requires.

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

“**Ultimate Owner**” has the meaning given under “Description of the Capital Securities”.

“**United States**” or “**U.S.**” means the United States of America, its territories and possessions, any state thereof, and the District of Columbia.

“**Units**” means the Class A Units and/or the Class U Units issued by the Fund, as applicable.

“**Unitholders**” means the owners of the beneficial interest in the Units.

“**Upper Tier 2 Capital**” has the meaning given to it by the FSA (or such other successor governmental authority in the United Kingdom) from time to time.

“**Valuation Agent**” means the valuation agent and, until its replacement is appointed by the Manager, means the Trustee.

“**Valuation Date**” means each Business Day.

“**Variation Date**” has the meaning given under “Description of the Capital Securities”.

“**Varied Capital Securities**” has the meaning given under “Description of the Capital Securities”.

OVERVIEW OF THE STRUCTURE OF THE FUND

Legal Structure

HBanc Capital Securities Trust is a non-redeemable investment fund established under the laws of the Province of Ontario and governed by the Fund Trust Agreement. Connor, Clark & Lunn Capital Markets Inc. will act as Manager of the Fund and will perform or will arrange for the performance of management services, including portfolio management services, for the Fund and will be responsible for the overall undertaking of the Fund. The Fund's registered and head office is at 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7. The fiscal year-end of the Fund will be 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 U Units. The Fund is authorized to issue an unlimited number of Units of each class. Class A Units and Class U Units will each be issued in two series designated as Series 1 and Series 2. The only difference between the two series of each class of Units will be the fees paid with respect to such series. See "Fees and Expenses". Class A Units, Series 2 and Class U Units may be converted into Class A Units, Series 1 on a weekly basis. The Class U Units are designed for investors wishing to make their investment in U.S. dollars.

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.

INVESTMENT OBJECTIVES

The Fund's investment objectives are to (i) provide Unitholders with monthly, tax-advantaged distributions consisting primarily of returns of capital, currently representing a yield on the Unit issue price of 7.0% per annum, and (ii) provide exposure to the Capital Securities. The Fund will 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, it is expected that the Fund will pay distributions of approximately \$0.1458 per month per Unit (U.S. \$0.1458 in the case of the Class U Units) consisting primarily of returns of capital which are not immediately taxable but which reduce a Unitholder's adjusted cost base of its Units, representing a yield on the Unit issue price of 7.0% per annum.

Rationale for the Fund

The Fund was established to provide investors with high levels of stable, tax-advantaged distributions through exposure to securities issued by HSBC Holdings plc, a conservatively positioned and strongly capitalized global bank. Specifically, the Fund will gain exposure to (i) the 8.125% Perpetual Subordinated Capital Securities, Series 1 issued by HSBC pursuant to a prospectus supplement dated April 2, 2008 to a prospectus dated June 14, 2006 and/or (ii) the 8.00% Perpetual Subordinated Capital Securities, Series 2 issued by HSBC pursuant to a prospectus supplement dated June 17, 2010 to a prospectus dated April 16, 2010. The Manager believes that the Capital Securities offer an attractive investment opportunity for the following reasons:

- **Compelling yields** – The Capital Securities offer compelling yields, particularly in comparison to capital securities and preferred shares issued by Canadian banks with similar credit ratings.
- **High credit ratings of the Capital Securities** – The Capital Securities are rated "A-" by Standard & Poor's, "A3" by Moody's and "A+" by Fitch.
- **Diversified business model** – HSBC is one of the largest banks in the world. HSBC positions itself as "the world's local bank" and employs a well-balanced and diversified business model with a focus on maintaining its signature capital strength.
- **Stable funding through customer deposits** – A key part of its business model is HSBC's emphasis on customer deposits as a source of stable funding and a philosophy of "we take deposits first and then we lend".
- **Consistent profitability** – Similar to Canadian banks, HSBC did not require any government capital support and has remained profitable since the onset of the financial crisis.

- **High credit ratings of HSBC** – HSBC is rated “AA-” by Standard & Poor’s, “Aa2” by Moody’s and “AA” by Fitch. On the strength of these ratings, HSBC was ranked the second safest bank in the world among banks with more than U.S. \$2.0 trillion in assets in October 2009 by *Global Finance* magazine.
- **Strong capital ratios** – HSBC is strongly capitalized with capital ratios at their highest levels in a decade. As at June 30, 2010, HSBC had total assets of U.S. \$2,418 billion, total shareholders’ equity of U.S. \$136 billion, a total capital ratio of 14.4% and Tier 1 Capital ratio of 11.5%.

INVESTMENT STRATEGY

The Fund will seek to achieve its investment objectives through exposure to the Capital Securities through the Forward Agreement.

The Fund may employ leverage of up to 15% of its Total Assets pursuant to the Forward Agreement for the purposes of adding leverage to the Portfolio and such other short term funding purposes as may be determined by the Manager from time to time and in accordance with the Investment Strategy. Accordingly, the maximum amount of leverage that the Fund could employ is 1.25:1. Initially, the Fund is expected to employ leverage of approximately 15% of Total Assets. The composition of the Portfolio as between Series 1 Capital Securities and Series 2 Capital Securities may change from time to time at the discretion of the Manager.

OVERVIEW OF THE INVESTMENT STRUCTURE

CS Trust

CS Trust will be a newly created trust established prior to the Closing pursuant to the CS Trust Agreement. CS Trust will be established for the purpose of acquiring and holding the Portfolio. It is expected that the initial beneficial owner of all of the units of CS Trust will be the Counterparty or an affiliate. On the Closing Date, the Counterparty or one of its affiliates may subscribe for units of CS Trust. CS Trust would use any subscription proceeds to acquire the Portfolio.

Units of CS Trust will be redeemable at the demand of its unitholders. On redemption, a CS Trust unitholder will receive 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 will be equal to the amount by which the Total Assets of CS Trust exceed its total liabilities on a per unit basis and, accordingly, will be based upon the value of the Portfolio.

CS Trust will generally receive interest income or distributions from the Capital Securities in the Portfolio. The net income of CS Trust will consist primarily of interest income or distributions, less expenses of CS Trust. CS Trust will distribute 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 each unitholder of CS Trust (including the Counterparty or an affiliate, if it is a unitholder) will hold after the consolidation the same number of units of CS Trust as it held before the distribution of additional units.

The Forward Agreement

The return to the Unitholders and the Fund will be dependent upon the return on the Portfolio (or Notional Portfolio) by virtue of the Forward Agreement. If the Counterparty hedges its exposure under the Forward Agreement, it or an affiliate may acquire units of CS Trust. If the Counterparty or an affiliate does not acquire units in CS Trust, the Manager will maintain a Notional Portfolio with an initial invested amount equal to the amount of the net proceeds of the Offerings. There is no assurance that the Counterparty will maintain a hedge or will do so with respect to the full amount or term of the Forward Agreement. This prospectus assumes that the Counterparty or an affiliate will acquire units of CS Trust with a subscription amount equal to the net proceeds of

the Offerings, although it is under no obligation to do so. The Fund will use the net proceeds of the Offerings to pre-pay its purchase obligations under the Forward Agreement.

Pursuant to the Forward Agreement, the Counterparty has agreed to deliver to the Fund, on the Forward Termination Date, the Canadian Securities Portfolio with an aggregate value equal to (i) the redemption proceeds of all of the units of CS Trust, or (ii) the value of the Notional Portfolio, as applicable, net of any leverage provided through the Forward Agreement and any amount owing by the Fund to the Counterparty. On or about the completion of the Offerings, CS Trust expects to issue 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 would use to acquire the Portfolio. The initial value of the Portfolio would be equal to the net proceeds of the Offerings. In such case, the return to the Fund will, by virtue of the Forward Agreement, be based on the return of CS Trust, which, in turn, will be based on the performance of the Portfolio. If CS Trust units are not acquired by the Counterparty or an affiliate, the return to the Fund, by virtue of the Forward Agreement, will be 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 Scheduled 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 will also allow the Fund to leverage its exposure to CS Trust or the Notional Portfolio by up to 15% of its Total Assets.

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.

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

Termination events under the Forward Agreement include the following: (i) it becomes unlawful for a party to perform its obligations under or comply with any material provisions of the Forward Agreement; (ii) certain tax events occur which require a party to indemnify the other party in respect of certain taxes or reduce the amount that a party would otherwise have been entitled to receive under the Forward Agreement; (iii) failure of CS Trust to comply with its governing documents; or (iv) certain regulatory, credit or legal events occur which affect a party.

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

In the event that both the Series 1 Capital Securities and the Series 2 Capital Securities are redeemed by HSBC, it is expected that the Fund would be wound up. In the event that only one series of the Capital Securities is redeemed, then it is expected that the Portfolio would be re-balanced fully into the series of Capital Securities that was not redeemed. If the Capital Securities are exchanged for preferred shares of HSBC, it is expected that

there would be no practical impact on the Fund or Unitholders as the coupon and par value of such preferred shares are the same as the Capital Securities. See “*Description of the Capital Securities – Redemption*”

Notional Portfolio

In the event that the Counterparty does not hedge its exposure by investing in units of CS Trust, the Manager would establish the Notional Portfolio. In such event, the return to the Fund, by virtue of the Forward Agreement, will be based on the performance of the Notional Portfolio.

If established, the Notional Portfolio would be a virtual portfolio with an initial invested amount equal to the amount of the net proceeds of the Offerings. The Notional Portfolio would be notionally traded in accordance with market movements on a simulated basis as though such trades were actually made. The value of the Notional Portfolio would be calculated in accordance with the principles set forth in the prospectus of CS Trust, which principles are substantially the same as those described in this prospectus. Trading data would be based on the trading prices of the securities held in the Notional Portfolio as though they were directly held by the Counterparty. The composition of the Notional Portfolio as between the Series 1 Capital Securities and the Series 2 Capital Securities will be determined at the discretion of the Manager from time to time on the same basis as the composition of the Portfolio would have been determined.

At the time that a Notional Portfolio was established, the Counterparty, the Manager, and the Fund’s auditors would collectively agree upon the policies, procedures and mechanisms required in connection with notional trades and other administrative matters.

In the event that the return of the Fund is based on a Notional Portfolio rather than an investment in the Portfolio Trust, the Manager will provide the same continuous disclosure documentation regarding the Notional Portfolio as would be required with respect to the Portfolio Trust (except with respect to the proxy voting record as the Portfolio Trust would not actually own securities); the method used to determine the value of the Notional Portfolio would comply with NI 81-106 and would be calculated based on the principles set forth under the heading “Calculation of Net Asset Value”; in connection with their audit and periodic reviews, the auditors will have the same involvement with the review of the value of the Notional Portfolio as they would otherwise have if the Counterparty were to invest in units of the Portfolio Trust; and the Counterparty and the Manager will agree to the policies, procedures and mechanisms that will need to be put in place in order to manage the Notional Portfolio.

The Manager would consider the use of the Notional Portfolio to be a material change to Fund’s investment strategy in respect of which it would issue a press release and file a material change report pursuant to applicable securities laws.

See also “Overview of the Investment Structure – The Forward Agreement”.

OVERVIEW OF THE SECTOR THAT THE FUND INVESTS IN

The following information is taken from and based solely upon information published by HSBC or otherwise publicly available, including (i) the prospectus supplement of HSBC dated April 2, 2008 to a prospectus of HSBC dated June 14, 2006 and (ii) the prospectus supplement of HSBC dated June 17, 2010 to a prospectus of HSBC dated April 16, 2010. Neither the Manager, the Fund nor the Agents have independently verified the accuracy or completeness of any such information or assume any responsibility for the completeness or accuracy of such information.

Description of HSBC

Overview

HSBC is one of the largest banking and financial services organizations in the world, with a market capitalization of U.S. \$173 billion at August 30, 2010. As at June 30, 2010, HSBC had total assets of U.S. \$2,418

billion and total shareholders' equity of U.S. \$136 billion. Through its subsidiaries and associates, HSBC provides a comprehensive range of banking and related financial services. Headquartered in London, United Kingdom HSBC operates through long-established businesses and has an international network of some 8,000 offices in 87 countries and territories.

As at August 30, 2010, HSBC was the second largest bank in the world by assets, and third largest by market capitalization and Tier 1 Capital. Of the top four largest banks by Tier 1 Capital, HSBC is the only bank that did not receive government capital support during the recent financial crisis. HSBC is rated "AA-" by Standard & Poor's, "Aa2" by Moody's and "AA" by Fitch. On the strength of these ratings, HSBC was ranked the second safest bank in the world among banks with more than U.S. \$2.0 trillion in assets in October 2009 by Global Finance magazine. HSBC positions itself as "the world's local bank" and for the third consecutive year, HSBC was named the world's most valuable banking brand by *Brand Finance* in 2010.

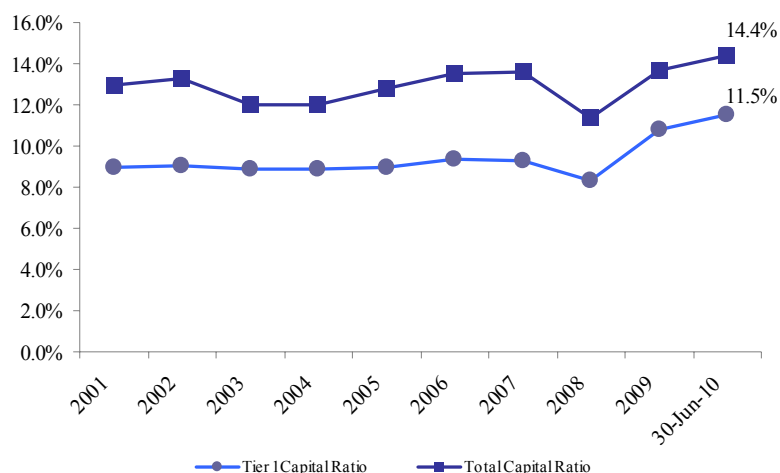
Capital Strength

Throughout the financial crisis that began in 2007, HSBC has remained profitable, well capitalized and independently owned by shareholders, which distinguishes HSBC from many other global banks that required government capital support. In 2009, HSBC's Tier 1 Capital grew by 28.1%, strengthened by profit generation and capital issuance. In April 2009, HSBC successfully completed a rights issue raising U.S. \$17.8 billion in the capital markets. With additional profits generated in the first half of 2010, HSBC increased its Tier 1 Capital ratio to 11.5% and grew its core Tier 1 Capital ratio to 9.9% as at June 30, 2010, putting it ahead of its target position. The recent European Union-wide stress test exercise by the Committee of European Banking Supervisors in July 2010 further confirmed the robustness of HSBC's capital position.

HSBC has historically maintained a strong financial position and continues to position its balance sheet conservatively. A key part of HSBC's business model is its emphasis of the importance of customer deposits as a source of stable funding and a philosophy of "we take deposits first and then we lend". HSBC expects its operating entities to manage liquidity and funding risk on a stand-alone basis employing a centrally imposed framework and limit structure which is adapted to changes in business mix and underlying markets. As at June 30, 2010, HSBC's ratio of loans to deposits was 77.3% and has remained steady at under 80%, providing a broad indication of HSBC's funding strength and liquidity position.

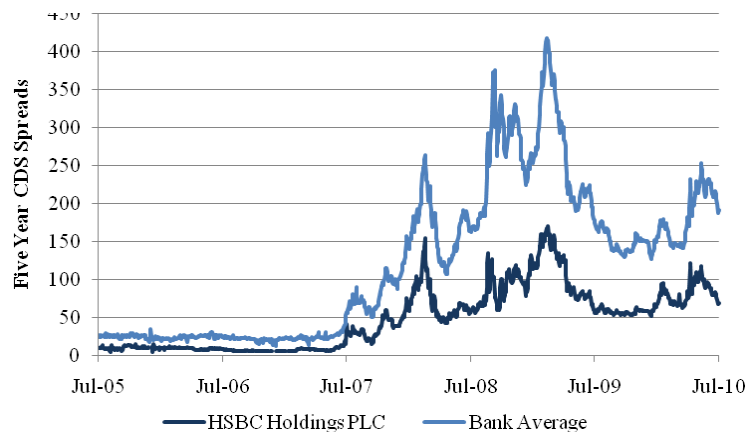
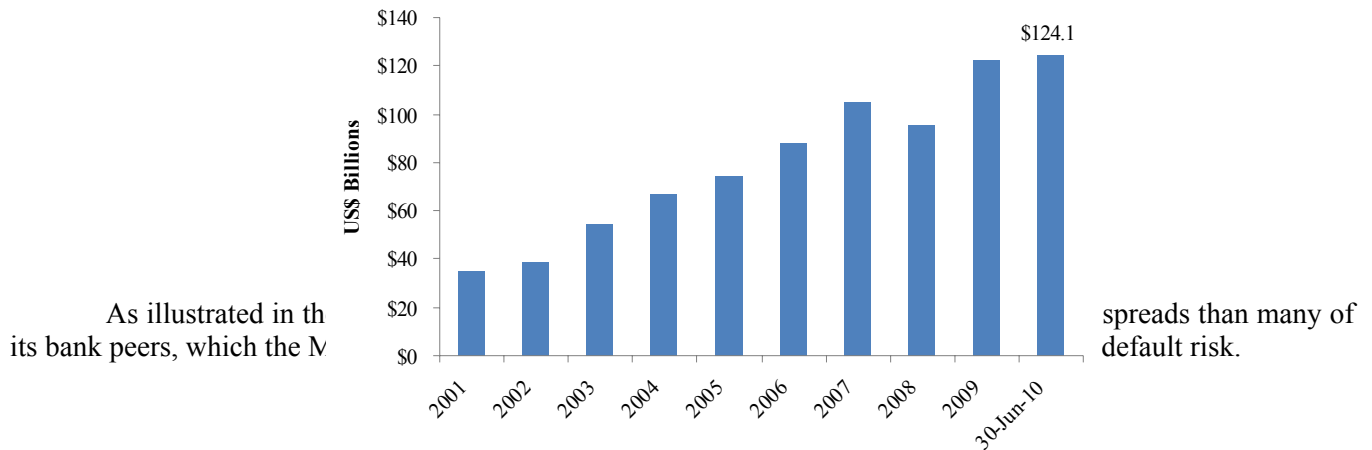
As at June 30, 2010, HSBC's loan impairment charges were at their lowest levels since the start of the financial crisis, declining by almost half year-over-year to U.S. \$7.5 billion. Over the same period, loan impairment charges as a percentage of average gross customer advances declined from 3.08% to 1.70%. In HSBC's view, this reflects the benefit of more stable economic conditions and follows its actions, begun before the crisis, to reduce exposure to unsecured lending, to exit unprofitable business lines and to tighten underwriting standards for new business.

HSBC Tier 1 Capital and Total Capital Ratios



HSBC Tier 1 Capital

HSBC Tier 1 Capital



Source: Bloomberg. "Bank Average" is the average of 194 banks.

Business and Geographic Diversification

HSBC operates in six geographical regions: Europe; Hong Kong; the rest of Asia-Pacific; the Middle East; North America and Latin America. Within these regions, a comprehensive range of financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients. Services are delivered primarily by domestic banks, typically with large retail deposit bases, and by consumer finance operations. Taken together, the five largest customers of HSBC do not account for more than one percent of HSBC's income. HSBC provides a comprehensive range of financial services to around 100 million customers through four customer groups and global businesses: Personal Financial Services (including consumer finance); Commercial Banking; Global Banking and Markets; and Private Banking.

Strategic Direction

With its extensive international network, longstanding presence in many countries, international management culture and customer base, combined with its financial capacity founded on balance sheet strength,

largely attributable to the scale of its retail deposit bases, the Manager believes that HSBC is positioned strongly and competitively for the next stage of the business cycle and for the continuing shift in the global economy.

HSBC's strategic direction reflects its positioning as the 'the world's local bank' and is aligned with trends that will shape the global economy: (i) emerging markets will grow faster than developed ones, (ii) global trade will grow faster than gross domestic product, and (iii) life expectancy is lengthening virtually everywhere. Over the next decade, HSBC expects that emerging markets will account for the majority of global growth and intends to invest primarily in these faster-growing markets. To take advantage of growing global trade, HSBC plans to develop its commercial banking capabilities in trade, payments and international connectivity for both emerging and developed markets. With aging populations in many of its key markets, including emerging countries, HSBC expects there to be greater demand for wealth management products and intends to capitalize on this trend by delivering needed personal financial products. As patterns of trade and wealth evolve, HSBC intends to focus on markets, products and areas of business where HSBC has competitive strengths based on its global reach, scale and expertise. A policy of maintaining HSBC's capital strength and strong liquidity remains complementary to these activities and is the foundation of decisions about the pace and direction of investment.

Recent Performance

In the first half of 2010, HSBC was profitable in every customer group and in every region. Profit before tax in the first half of 2010 was U.S. \$11,104 million, representing an increase of more than 120% over the profit before tax in the first half of 2009 of U.S. \$5,019 million. HSBC is the dominant bank operating in Hong Kong with leading market positions in deposits, mortgages, life insurance and credit cards. Underlying pre-tax profit in Hong Kong grew by 13% in the first half of 2010 in comparison to the same period in 2009 as HSBC maintained its market leadership in key business segments. HSBC's operations in the rest of Asia-Pacific region reported pre-tax profit of U.S. \$3.0 billion in the first half of 2010, an increase of 48% year-over-year, surpassing profits from Hong Kong. HSBC continues to focus on expanding in key regional markets of mainland China, India, Indonesia, Singapore, Malaysia and Australia. In mainland China, HSBC is the leading international bank and was recognized as the best foreign retail bank in mainland China for the second year in a row by the *Asian Banker* Excellence in Retail Financial Services Awards 2010. HSBC's European operations reported a pre-tax profit of U.S. \$3.5 billion, 18% higher than in the comparable period in 2009 and more than three times higher than the second half of 2009, mainly due to favourable movements in HSBC's own debt held at fair value. In the UK commercial sector, further progress was made in achieving HSBC's strategy of becoming the leading bank for international business with the number of its UK-based customers managed through the international proposition increasing by 9% during the first half of 2010. In North America, HSBC reported a profit before tax of U.S. \$492 million for the first half of 2010 compared with a loss of U.S. \$3.7 billion in the first half of 2009, reflecting a 47% decline in loan impairment charges driven by continued portfolio run-off. HSBC has made significant progress in running off its consumer lending, mortgage services and vehicle finance portfolios. During 2010, HSBC sold its entire portfolio of vehicle finance loans. HSBC's Latin American operations generated a pre-tax profit of U.S. \$883 million in the first half of 2010, compared with U.S. \$580 million in the first half of 2009, an increase of 52%. The significant growth is attributable to improvements in loan impairment charges, and an expanded base of high quality Personal Financial Services customers.

Capital Structure of Banks

On September 12, 2010, the Basel Committee on Banking Supervision announced new capital reforms that, if implemented by member countries, may result in certain non-common tier 1 capital and tier 2 capital instruments in their current form, including the Capital Securities, receiving reduced tier 1 capital recognition commencing in 2013. See "Recent Developments".

The Basel Committee on Banking Supervision is a committee of banking supervisory authorities that was established by central bank governors in 1975. The Basel II report details the committee's agreed framework for measuring capital adequacy and the minimum standard to be adopted by the national supervisory authorities of each country represented on the Committee, which includes Canada, the United States and the United Kingdom. Under the Basel II framework, capital is comprised of three tiers. Tier 1 capital includes common stock, perpetual

non-cumulative preference shares, and retained earnings which allow a bank to absorb losses on an ongoing basis and are permanently available for this purpose. Innovative capital instruments may also constitute Tier 1 capital subject to certain requirements and are limited to a maximum of 15% of Tier 1 capital. Tier 2 elements (supplementary capital) include subordinated term debt and instruments referred to as hybrid capital which combine characteristics of equity and debt. Tier 3 capital, consisting of short-term subordinated debt, may be used for the sole purpose of meeting a proportion of the capital requirements for market risks. The Tier 1 capital ratio measures capital adequacy by comparing a bank's Tier 1 capital with its risk-weighted assets. The following chart is illustrative of an extract of a bank balance sheet of liabilities and shareholders' equity.

Sample Extract of a Bank Balance Sheet —Liabilities and Shareholders' Equity⁽¹⁾

Deposits/Senior Debt

Subordinated Debt

Innovative Tier 1 Capital Securities

Preferred Shares

Common Shares

Note:

(1) This extract of a bank balance sheet is not necessarily illustrative of bank obligations in terms of priority on distribution or liquidation.

DESCRIPTION OF THE CAPITAL SECURITIES

The following information is taken from and based solely upon information published by HSBC or otherwise publicly available, including (i) the prospectus supplement of HSBC dated April 2, 2008 to a prospectus of HSBC dated June 14, 2006 and (ii) the prospectus supplement of HSBC dated June 17, 2010 to a prospectus of HSBC dated April 16, 2010. Neither the Manager, the Fund nor the Agents have independently verified the accuracy or completeness of any such information or assume any responsibility for the completeness or accuracy of such information.

General

The description of the Capital Securities in this prospectus applies equally to each series of the Capital Securities unless attributes that are particular to the Series 1 Capital Securities, or the Series 2 Capital Securities, as applicable, are expressly referenced herein.

The Series 1 Capital Securities were issued on April 9, 2008 in an aggregate principal amount of U.S. \$2,200,000,000 and the Series 2 Capital Securities were issued on June 24, 2010 in an aggregate principal amount of U.S. \$3,800,000,000. The Capital Securities constitute Tier 1 Capital securities of HSBC.

HSBC pays interest in arrears on (i) the Series 1 Capital Securities quarterly on January 15, April 15, July 15 and October 15 of each year, at a rate of 8.125% per annum, having commenced on July 15, 2008; and (ii) the Series 2 Capital Securities quarterly on March 15, June 15, September 15 and December 15 of each year, at a rate of 8.00% per annum commencing on September 15, 2010. Coupon payments on the Capital Securities may be deferred at HSBC's discretion. The Capital Securities have no fixed maturity date. At HSBC's option, however, HSBC may redeem (i) the Series 1 Capital Securities at any time on or after April 15, 2013 and (ii) the Series 2 Capital Securities at any time on or after December 15, 2015, at their principal amount together with any accrued and unpaid coupon payments, including any deferred coupon payments. HSBC may also redeem the Capital Securities at any time in the event of a change in certain U.K. regulatory requirements or for certain tax reasons as described under "Description of the Capital Securities – Redemption". See also "Recent Developments".

HSBC may exchange the Capital Securities in whole (but not in part), at HSBC's option, for Preference Shares issued by HSBC, on any coupon payment date. The Preference Shares that HSBC may issue upon exchange of (i) the Series 1 Capital Securities will be preference shares with a liquidation preference equal to U.S. \$25.00 per share paying non-cumulative preferential dividends quarterly (January 15, April 15, July 15 and October 15) in arrears, if declared, of 8.125% of the liquidation preference per annum; and (ii) the Series 2 Capital Securities will be preference shares with a liquidation preference equal to U.S. \$25.00 per share paying non-cumulative preferential dividends quarterly (March 15, June 15, September 15 and December 15) in arrears, if declared, of 8.00% of the liquidation preference per annum.

The Capital Securities trade on the New York Stock Exchange. The closing price of the Series 1 Capital Securities (symbol: HCS) on September 27, 2010 was U.S. \$27.72 and the closing price of the Series 2 Capital Securities (symbol: HCS.PR.B) on September 27, 2010 was U.S. \$26.80. The Capital Securities were originally issued at a price of U.S. \$25.00 each. If the Capital Securities are called at their first call date, then the par value of U.S. \$25.00 will be returned to securities holders, resulting in a yield to call of 4.2% in respect of the Series 1 Capital Securities and 6.4% in respect of the Series 2 Capital Securities. As at the date hereof, the Capital Securities are rated “A-” by Standard & Poor’s, “A3” by Moody’s and “A+” by Fitch.

If HSBC decides to exchange the Capital Securities for Preference Shares, HSBC will undertake to obtain a listing of the Preference Shares (in the form of ADSs evidenced by ADRs) on the New York Stock Exchange, if either the Capital Securities or HSBC’s ordinary shares are then listed on the New York Stock Exchange, otherwise on any other internationally recognized stock exchange.

The Capital Securities were issued under an indenture (the “Indenture”) dated as of April 8, 2008 between HSBC and The Bank of New York Mellon (the “Capital Securities Trustee”). CS Trust’s rights will be determined by the Capital Securities, the Indenture and the Trust Indenture Act of 1939, as amended, unless HSBC exchanges Capital Securities held by CS Trust into Preference Shares as described below under “Redemption—Exchange Option,” in which case CS Trust’s rights will be determined in accordance with the terms of the Preference Shares and HSBC’s Articles of Association.

Interest

Interest on the Capital Securities is payable from (and including) the date of issue of the Capital Securities and will be calculated on the basis of twelve 30-day months or, in the case of an incomplete month, the actual number of days elapsed, in each case assuming a 360-day year. Interest on (i) the Series 1 Capital Securities is payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, and (ii) the Series 2 Capital Securities is payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year (each respective date, a “Coupon Payment Date”), at a fixed rate per annum on their outstanding principal amount equal to (i) 8.125% for the Series 1 Capital Securities, and (ii) 8.00% for the Series 2 Capital Securities (each respective payment, a “Coupon Payment”), having commenced on July 15, 2008 for the Series 1 Capital Securities and commencing September 15, 2010 for the Series 2 Capital Securities. If any Coupon Payment Date is not a Business Day, the Coupon Payment will be made on the next succeeding Business Day; however, HSBC will not pay any additional interest due to the delay in payment.

HSBC may elect to defer any Coupon Payment as described under “Deferred Coupon Payments” below.

Deferred Coupon Payments

HSBC may elect to defer any Coupon Payment, subject to and in accordance with the provisions under this section. If HSBC elects to defer a Coupon Payment, HSBC will give not less than 30 days’ notice of such election to the Capital Securities Trustee, the principal paying agent and the holders of the Capital Securities.

Any Coupon Payment in respect of the Capital Securities that is not paid will (other than in the event of HSBC winding up), to the extent it remains unpaid, constitute a “Deferred Coupon Payment”. No interest will accrue on any Deferred Coupon Payment, except in the limited circumstances referred to below under “Market Disruption Event”. HSBC is permitted to satisfy its obligation to make Deferred Coupon Payments only in accordance with the Alternative Coupon Satisfaction Mechanism except (i) in the case of its winding up, in which case any Deferred Coupon Payment will be payable by the liquidator in the same manner and with the same ranking as the principal on the related Capital Securities or (ii) in case of a Definitive Suspension. See “Subordination”, “Alternative Coupon Satisfaction Mechanism” and “Suspension”.

Dividend and Capital Restriction

Following any Coupon Payment Date on which HSBC does not make payment in full of the Coupon Payments to be paid on such date, HSBC will not (a) declare or pay dividends, distributions or other similar periodic payments in respect of any Junior Securities (other than a dividend declared by HSBC with respect to its ordinary shares prior to the date on which HSBC gives notice to defer such Coupon Payment) or (b) repurchase, redeem or otherwise acquire any Junior Security or Parity Security, in each case unless and until (i) an amount equal to the Coupon Payments otherwise due and payable on the next succeeding Coupon Payment Date on all outstanding Capital Securities on such date is paid in full or duly set aside or provided for in full for the benefit of the holders, or (ii) if earlier, all outstanding Deferred Coupon Payments are satisfied in full using the Alternative Coupon Satisfaction Mechanism.

In addition, if HSBC elects to make any periodic payment on any Parity Securities which provide for HSBC's discretion with respect to such periodic payments, HSBC will be required to settle all outstanding Deferred Coupon Payments in accordance with the Alternative Coupon Satisfaction Mechanism.

Solvency Condition

HSBC's obligation to make any payment of principal, Coupon Payments in cash and Deferred Coupon Payments through the Alternative Coupon Satisfaction Mechanism, whether prior or subsequent to the commencement of HSBC's winding up, is conditional upon HSBC being able to make such payment and remain Solvent immediately thereafter (the "Solvency Condition"). No such payment in respect of any Capital Securities which would otherwise fall due for payment while HSBC is unable to satisfy the Solvency Condition will fall so due and any such payment which would otherwise be a Coupon Payment will constitute a Deferred Coupon Payment.

Redemption

The Capital Securities are perpetual securities and have no fixed maturity date. The Capital Securities are not redeemable at the option of the holders at any time. The Capital Securities will not be subject to any sinking fund or mandatory redemption, other than on a winding-up. See "Subordination".

Optional Redemption

HSBC may redeem the Capital Securities, in whole or in part, at HSBC's option, at any time on or after (i) April 15, 2013 for the Series 1 Capital Securities, and (ii) December 15, 2015 for the Series 2 Capital Securities (each a respective "First Call Date") at a redemption price as described under "Redemption Procedures". Capital Securities to be redeemed will be drawn for redemption at such place and individually, by lot or otherwise in a manner as may be approved by The Depository Trust Corporation.

Special Event Redemption

HSBC may also redeem the Capital Securities in whole (but not in part) at any time prior to the First Call Date upon the occurrence of a Tax Event or a Regulatory Event (each, a "Special Event") and upon a Definitive Suspension. See "Suspension".

A "Tax Event" will be deemed to have occurred with respect to the Capital Securities if:

- (i) HSBC have or will or would, but for redemption, become obliged to pay Additional Amounts;
- (ii) any Coupon Payment would be a "distribution" for United Kingdom tax purposes;
- (iii) in respect of HSBC's obligation to make any Coupon Payment on the next following Coupon Payment Date, HSBC would not, to any material extent, be entitled to have any

attributable loss or non-trading deficit set against the profits of companies with which HSBC are grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at June 17, 2010 or any similar system or systems having like effect as may from time to time exist); or

- (iv) there is more than an insubstantial risk that HSBC will not obtain relief for the purposes of United Kingdom corporation tax for any payment of interest in respect of the Capital Securities;

in each case as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax (including any treaty to which the United Kingdom is a party), or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of the prospectus supplement pursuant to which the applicable Capital Securities were issued.

“Regulatory Event” means any event (including any amendment to, clarification of, or change (including any announced prospective change or adoption of any announced prospective change) in applicable laws or regulations or official interpretations thereof or policies with respect thereto or any official administrative pronouncement or judicial decision interpreting or applying such laws or regulations, including any pronouncement or publication from the European Commission or other relevant authority) which occurs after the date hereof that for any reason results in there being more than an insubstantial risk, or in any increase in risk, that for the purposes of the FSA’s capital adequacy requirements applicable to banks in the United Kingdom at that time (i) the Capital Securities may not be included in HSBC’s Tier 1 Capital or (ii) the Preference Shares would not be included in HSBC’s Non-Innovative Tier 1 Capital, in each case except where such non-qualification is due to limits in HSBC’s absolute capacity for Innovative Tier 1 Capital and Non-Innovative Tier 1 Capital (other than changes made by the FSA to prescribed limits for different forms of Tier 1 Capital).

Redemption Procedures

Any redemption may be made on not less than 30 days’ nor more than 60 days’ notice to the Capital Securities Trustee, the principal paying agent and the holders of the Capital Securities, at a redemption price equal to U.S. \$25 per Capital Security together with any accrued and unpaid Coupon Payments to the date fixed for redemption (referred to as the “Capital Security Redemption Date”) and the aggregate amount of any outstanding Deferred Coupon Payments.

In addition to, or in place of, the FSA requirements described herein, the FSA may impose conditions on any such redemption or purchase at the time. Any notice of redemption will be irrevocable, subject to the postponement requirements set out below under “—*Postponement of Redemption, Variation or Exchange*”. If the redemption price in respect of any Capital Securities is improperly withheld or refused and is not paid by HSBC, interest on the outstanding principal amount of such Capital Securities will continue to be payable until the redemption price is actually paid. HSBC’s failure to pay or set aside for payment the principal amount of the Capital Securities to be redeemed, any accrued but unpaid payments and any Deferred Coupon Payments within 14 days in respect of the Series 1 Capital Securities, and within seven days in respect of the Series 2 Capital Securities, of the Capital Security Redemption Date, as postponed, if applicable, may constitute a Capital Security Default. See “Defaults; Limitation of Remedies—Capital Security Defaults”.

Variation Instead of Redemption

If a Special Event has occurred and is continuing, then instead of giving notice to redeem HSBC may, having given not less than 30 days’ nor more than 60 days’ notice (any such date so designated, a “Variation Date”) to the Capital Securities Trustee, the principal paying agent and (i) the holders of the Series 1 Capital Securities, vary the terms of the Series 1 Capital Securities so that they remain Qualifying Tier 1 Securities or become Qualifying Upper Tier 2 Securities, and (ii) the holders the Series 2 Capital Securities, vary the terms of the Series 2 Capital Securities without the consent of any holder of the Series 2 Capital Securities so that they

remain Qualifying Securities, notwithstanding the provisions set forth under “Supplemental Indentures” (the “Varied Capital Securities”) (subject to the following provisions and subject to the receipt by it of a certificate signed by two of HSBC’s authorized signatories certifying that the Varied Capital Securities are Qualifying Securities, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities as the case may be).

The aggregate principal amount, payment rates, payment dates, redemption dates and denomination of the Capital Securities will not be varied pursuant to this provision and the Varied Capital Securities must rank *pari passu* with or senior to the Capital Securities. Prior to any variation, HSBC will be required to deliver to the Trustee an opinion of independent legal advisers of recognized standing to the effect that holders and beneficial owners of the Capital Securities (and the Varied Capital Securities) will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such variation and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case had such variation not occurred.

Any notice of variation will be irrevocable, subject to the requirements set out below under “Postponement of Redemption, Variation or Exchange”. The Capital Securities Trustee will (at HSBC’s expense) in accordance with the Indenture and the terms of the Capital Securities use its reasonable endeavors to participate in or assist HSBC with the variation of the terms of the Capital Securities so that they become the Varied Capital Securities, provided that the Capital Securities Trustee will not be obliged to participate in, or assist with, any such variation if the terms of the proposed Varied Capital Securities, or the participation in or assistance with such variation would impose, in the Capital Securities Trustee’s opinion, more onerous obligations upon it or reduce its protections. If, notwithstanding the above, the Capital Securities Trustee does not participate or assist as provided above, HSBC may redeem the Capital Securities as provided above.

In connection with any variation in accordance with this section, HSBC will comply with the rules of any stock exchange on which the Capital Securities are at that time listed or admitted to trading.

Exchange Option

HSBC may exchange the Capital Securities in whole (but not in part), at its option, for Preference Shares issued by HSBC, on any Coupon Payment Date upon giving not less than 30 days’ nor more than 60 days’ notice (any such date so designated, an “Exchange Date”), subject to the Solvency Condition being met.

HSBC will not exchange any Capital Securities for its Preference Shares unless:

- (i) no Capital Security Default or Event of Default has occurred and is continuing;
- (ii) HSBC has a sufficient number of authorized but unissued Preference Shares immediately prior to the exchange;
- (iii) HSBC’s board of directors have the necessary authority to allot and issue the Preference Shares arising on exchange; and
- (iv) HSBC complies with certain other conditions set forth in the Indenture.

The “Preference Shares” will be represented by American Depositary Shares, or “ADSs,” evidenced by American Depositary Receipts, or “ADRs” and will constitute a separate series of HSBC’s perpetual non-cumulative preference shares that will rank *pari passu* as to return of assets on a winding up with any class or classes of preference shares from time to time issued by HSBC which have a preferential right to a return of assets in the winding up over, and so ahead of, the holders of all other classes of issued shares for the time being in HSBC’s capital (and thus *pari passu* with (x) HSBC 6.20% Non-Cumulative Dollar Preference Shares—Series A issued in 2005, (y) the Series 1 Capital Securities and (z) the Parity Guarantees), but junior to the claims of the Senior Creditors. Non-cumulative preferential dividends on the Preference Shares will be payable if declared by HSBC’s board of directors. If declared, any such dividend will amount to (i) 8.125% of the liquidation preference

per annum with respect to the Series 1 Capital Securities, payable in arrears on January 15, April 15, July 15 and October 15, and (ii) 8.00% of the liquidation preference per annum with respect to the Series 2 Capital Securities, payable in arrears on March 15, June 15, September 15 and December 15 of each year, beginning on the first such date occurring after the relevant Exchange Date. For the avoidance of doubt, holders of the Preference Shares will not receive any additional amounts, if such dividend payments become subject to withholding tax.

The first call date with respect to any Preference Shares issued in exchange for the Capital Securities will not be earlier than: (i) April 15, 2013 for the Series 1 Capital Securities, and (ii) December 15, 2015 for the Series 2 Capital Securities, other than upon the occurrence of certain adverse changes to the tax and/or regulatory treatment of such Preference Shares. The redemption price will be at least U.S. \$25 per Preference Share together with any accumulated but unpaid dividends for the then-current dividend period to the date fixed for redemption.

Prior to the exchange of any Capital Securities for the Preference Shares, HSBC will be required to deliver to the Capital Securities Trustee an officers' certificate stating that all conditions precedent to such exchange have been complied with in accordance with the terms of the Capital Securities.

If HSBC elects to exchange the Capital Securities, HSBC will effectuate an exchange by redeeming the Capital Securities being exchanged for their principal amount and immediately applying such redemption proceeds to subscribe for the applicable number of Preference Shares being issued to the holders. Investors in the Capital Securities will be deemed on purchase of the Capital Securities to have irrevocably authorized and instructed HSBC immediately to apply the redemption amounts payable in connection with an exchange of the Capital Securities in satisfaction in cash of the applicable subscription amount of the Preference Shares being issued upon such exchange. Accordingly, the redemption of Capital Securities and subscription for and issuance of the Preference Shares will constitute a single transaction initiated and effected solely at HSBC's option.

As a consequence of the exchange provisions described above, holders of Capital Securities being exchanged will not be entitled under any circumstances to the redemption amounts payable in connection with the exchange as described above. Such holders will receive only the Preference Shares, represented by ADRs, HSBC will issue on the Exchange Date in respect of which the redemption amounts will have been applied.

The Preference Shares will be issued at a nominal value of U.S. \$0.01 per share and a premium of U.S. \$24.99 per share, with both such amounts being subscribed and fully paid.

Any notice of exchange will be irrevocable, subject to the postponement requirements set out below under "Postponement of Redemption, Variation or Exchange". A notice of exchange will specify:

- the Exchange Date;
- that on the Exchange Date, the Capital Securities to be exchanged will cease to exist for any purpose on or after the Exchange Date;
- the place or places where the Capital Securities are to be exchanged;
- the form in which HSBC will issue the Preference Shares; and
- whether there are any Deferred Coupon Payments outstanding on the Capital Securities and, if so, the amount of such Deferred Coupon Payments.

After an exchange in accordance with the Indenture, the Capital Securities being exchanged will cease to exist for any purpose on the Exchange Date. From the Exchange Date, the person or persons entitled to receive Preference Shares upon an exchange will be treated as the holder or holders of those Preference Shares, in accordance with the Indenture.

If HSBC decides to exchange the Capital Securities for Preference Shares, upon HSBC giving notice of such exchange, HSBC will undertake to obtain a listing of the Preference Shares (in the form of ADSs evidenced by ADRs) on the New York Stock Exchange if (i) either the Capital Securities immediately prior to such exchange, or (ii) HSBC's ordinary shares at the time of such exchange, are listed on the New York Stock Exchange, otherwise on any other internationally recognized stock exchange.

Where any U.K. stamp duty, stamp duty reserve tax or similar U.K. governmental charge arises in connection with the issuance of the Preference Shares, ADSs or ADRs, and such duty, tax or other charge is borne by the holders or beneficial owners of Capital Securities that are exchanged, HSBC undertakes to pay the amount of such duty, tax or charge to, or to the respective accounts of, such holders or beneficial owners.

The authority of HSBC's board of directors to allot and issue Preference Shares was renewed at HSBC's annual general meeting on May 28, 2010. In seeking renewal of such authority, HSBC's board of directors indicated that they have no present intention to allot or issue Preference Shares.

Postponement of Redemption, Variation or Exchange

HSBC may not give a notice of redemption, variation or exchange with respect to a Capital Security Redemption Date, Variation Date or Exchange Date, as the case may be, if HSBC is aware at the time of giving such notice of circumstances which would render HSBC unable to satisfy any Deferred Coupon Payments, which are (or would be) due to be satisfied on or before such date, through the Alternative Coupon Satisfaction Mechanism.

If, following the giving of a notice of redemption, variation or exchange with respect to a Capital Security Redemption Date, Variation Date or Exchange Date, as the case may be, on which any Deferred Coupon Payments are due to be satisfied, a Market Disruption Event (as defined under "Alternative Coupon Satisfaction Mechanism—Market Disruption Event") occurs or if, on such date, HSBC does not have a sufficient number of ACSM Securities available, and authorized to be issued and allotted, to implement the Alternative Coupon Satisfaction Mechanism, HSBC will be required to postpone the Capital Security Redemption Date, Variation Date or Exchange Date, as the case may be. In such event, the Capital Securities will continue to accrue and pay interest in accordance with their terms and such postponement will not constitute a Capital Security Default. In addition, if the Capital Security Redemption Date, Variation Date or Exchange Date, as the case may be, is postponed, interest will accrue on such Deferred Coupon Payment from (and including) the initial Capital Security Redemption Date, Variation Date or Exchange Date, as the case may be, to (but excluding) the date such Deferred Coupon Payment is paid, at a rate per annum equal to the rate per annum payable on the Capital Securities; *provided*, that any such interest will be payable by HSBC only in accordance with the Alternative Coupon Satisfaction Mechanism.

A determination to postpone the Capital Security Redemption Date, Variation Date or Exchange Date, as the case may be, will be made: (i) for the Series 1 Capital Securities, not later than the Business Day prior to the initially scheduled Capital Security Redemption Date, Variation Date or Exchange Date, as the case may be; and (ii) for the Series 2 Capital Securities not later than five Business Days, and notice thereof will be given to the holders of the Series 1 Capital Securities and Series 2 Capital Securities, as applicable. Notice of a new Capital Security Redemption Date, Variation Date or Exchange Date, as the case may be, will be given to the holders of the Capital Securities not less than 30 days' nor more than 60 days prior to the newly selected Capital Security Redemption Date, Variation Date or Exchange Date, as the case may be.

Conditions of Redemption, Variation and Exchange

The Capital Securities may only be redeemed, exchanged or varied by HSBC under "—*Optional Redemption*", "Special Event Redemption", "Suspension", "Variation Instead of Redemption" and "Exchange Option", provided that:

- (i) HSBC has, if required, notified the FSA of its intention to do so prior to the Capital Security Redemption Date, Variation Date or Exchange Date, as the case may be, and no objection thereto has been raised by the FSA or, if required, the FSA has provided its consent thereto;
- (ii) an Officer's Certificate has been furnished to the Trustee stating that HSBC is entitled to effect such redemption, variation or exchange and setting forth a statement of facts demonstrating the same; and
- (iii) all accrued but unpaid Coupon Payments and other payments thereon (other than any Deferred Coupon Payments) are paid and the amount of Deferred Coupon Payments are satisfied in full through the Alternative Coupon Satisfaction Mechanism (except if the redemption is on account of a Definitive Suspension, where the Deferred Coupon Payments are required to be satisfied in cash without utilizing the Alternative Coupon Satisfaction Mechanism) on or prior to the date of such redemption, variation or exchange.

Repurchase

HSBC and any of its subsidiary undertakings may, in accordance with applicable law, repurchase the Capital Securities for HSBC or their account. Under the requirements of the FSA, as of June 17, 2010, any such repurchase would require the prior consent of the FSA.

Subordination

The Capital Securities will constitute HSBC's unsecured, subordinated obligations and will rank equally and ratably without any preference among themselves.

The rights of holders of the Capital Securities will, in the event of HSBC's winding up, be subordinated in right of payment to claims of HSBC's depositors and all HSBC's other creditors other than claims which are by their terms, or are expressed to be, subordinated to or *pari passu* with the Capital Securities. The subordination provisions of the Indenture, and to which the Capital Securities are subject, are governed by English law. In the event of HSBC's winding up, holders of the Capital Securities will be treated in the same way as they would be treated if they were holders of a class of preference shares in HSBC's capital having a preferential right to a return of assets in such winding up *pari passu* with the most senior class of non-cumulative preference shares in HSBC's capital for the time being issued and outstanding; they will receive an amount equal to the principal amount of the Capital Securities then outstanding together with any Coupon Payment, Deferred Coupon Payment, any accrued interest to the repayment date or other amount payable under or in respect of the Capital Securities to the extent that a holder of such class of preference shares would receive an equivalent amount.

As a consequence of these subordination provisions, the holders of the Capital Securities may recover less ratably than the holders of HSBC's unsubordinated liabilities and the holders of certain of HSBC's subordinated liabilities. If, in any winding up, the amount payable on any Capital Securities and any claims ranking equally with the Capital Securities are not paid in full, the holders of the Capital Securities and other claims ranking equally will share ratably in any such distribution of HSBC's assets in proportion to the respective amounts to which they are entitled.

If any holder is entitled to any recovery with respect to the Capital Securities in any winding up or liquidation, the holder might not be entitled in those proceedings to a recovery in U.S. dollars and might be entitled only to a recovery in pounds sterling or any other lawful currency of the United Kingdom. In addition, under current English law, HSBC's liability to holders of the Capital Securities would have to be converted into pounds sterling or any other lawful currency of the United Kingdom at a date close to the commencement of proceedings against HSBC and holders of the Capital Securities would be exposed to currency fluctuations between that date and the date they receive proceeds pursuant to such proceedings, if any.

In addition, because HSBC is a holding company, HSBC's rights to participate in the assets of any subsidiary if it is liquidated will be subject to the prior claims of its creditors, except to the extent that HSBC may be a creditor with recognized claims ranking ahead of or *pari passu* with such prior claims against the subsidiary.

Defaults; Limitation of Remedies

Capital Security Defaults

It will be a "Capital Security Default" with respect to the Capital Securities if:

- HSBC fails to pay, or set aside for payment, the amount due to satisfy any Coupon Payment (which is not a Deferred Coupon Payment), and such failure continues for 14 days,
- HSBC fails to pay, or set aside a sum to provide for payment of, the principal amount of the Capital Securities, any accrued but unpaid Coupon Payment and any Deferred Coupon Payment on a Capital Security Redemption Date, Variation Date or Exchange Date, as the case may be, as may be postponed from time to time pursuant to the terms and conditions of the Capital Securities, and such failure continues for seven days; or
- HSBC makes any payment in breach of its obligations under "*—Dividend and Capital Restriction*", and such breach continues for 30 Business Days.

If any Capital Security Default occurs and is continuing in respect of the Capital Securities, the Capital Securities Trustee may institute proceedings at the written direction of the holders of the Capital Securities in accordance with the Indenture in England (but not elsewhere) for HSBC's winding up, provided, that the Trustee may not, upon the occurrence of a Capital Security Default in respect of the Capital Securities, declare the principal of (or premium, if any on) and any accrued but unpaid Coupon Payment of any outstanding Capital Securities immediately due and payable unless an Event of Default (as defined below) has occurred and is continuing. For the purposes of determining whether or not a Capital Security Default has occurred in respect of the Capital Securities, a payment will not be deemed to be due on any date on which the Solvency Condition is not satisfied. However, if HSBC fails to make the payments set out in the three bullet points above, and at such time such Solvency Condition is satisfied, the Capital Securities Trustee may institute proceedings at the written direction of the holders of the Capital Securities in accordance with the Indenture in England (but not elsewhere) for HSBC's winding up.

Notwithstanding the foregoing, failure to make any payment in respect of the Capital Securities will not be a default in respect of the Capital Securities if such payment is withheld or refused:

- in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction, in each case applicable to such payment; or
- in case of doubt as to the validity of any such law, regulation or order, in accordance with advice given as to such validity or applicability at any time during the said grace period of 14 days, 30 Business Days, or 7 days, as the case may be, by independent legal advisers acceptable to the Trustee;

provided, that the Capital Securities Trustee may as directed by written notice from the holders of the Capital Securities together with an indemnity satisfactory to the Capital Securities Trustee, send written notice to HSBC, require HSBC to take such action (including but not limited to proceedings for a declaration by a court of competent jurisdiction) as the Capital Securities Trustee may be advised in an opinion of counsel, upon which opinion the Trustee may conclusively rely, is appropriate and reasonable in the circumstances to resolve such doubt, in which case, HSBC will forthwith take and expeditiously proceed with such action and will be bound by any final resolution of the doubt resulting therefrom. If any such resolution determines that the relevant payment can be made without violating any applicable law, regulation or order then the preceding sentence will cease to

have effect and the payment will become due and payable on the expiration of the relevant grace period of 14 days, 30 Business Days or 7 days, as the case may be, after the Capital Securities Trustee gives written notice to HSBC informing HSBC of such resolution.

Events of Default

An “Event of Default” with respect to the Capital Securities means any one of the following events:

- the making or entry of any order by an English court which is not successfully appealed within 30 days after the date such order was made or entered for HSBC’s winding up; or
- the valid adoption by HSBC’s shareholders of any effective resolution for HSBC’s winding up;

in either case other than in connection with a scheme of amalgamation or reconstruction not involving bankruptcy or insolvency.

If an Event of Default occurs and is continuing, the Capital Securities Trustee may or, if requested by the holder or holders of not less than 25% in aggregate principal amount of the outstanding Capital Securities will, declare the entire principal amount of the Capital Securities together with any Deferred Coupon Payments to be due and payable immediately (an “acceleration”).

At any time after such a declaration of acceleration with respect to the Capital Securities has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee, the holder or holders of a majority in aggregate principal amount of the outstanding Capital Securities may rescind and annul the declaration of acceleration and its consequences if

- (i) HSBC has paid or deposited with the Capital Securities Trustee a sum sufficient to pay (x) the principal of any Capital Securities which have become due and payable otherwise than by such declaration of acceleration and any Deferred Coupon Payments and (y) all sums paid or advanced by the Capital Securities Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Capital Securities Trustee, its agents and counsel; and
- (ii) all Events of Default have been remedied.

General

Holders of Capital Securities and the Capital Securities Trustee, by their acceptance of the Capital Securities, will be deemed to have waived any right of set-off or counterclaim that they might otherwise have. Notwithstanding the preceding sentence, if any of the rights and claims of any holder of Capital Securities are discharged by set-off, such holder will immediately pay an amount equal to the amount of such discharge to HSBC or, if applicable, the liquidator or Capital Securities Trustee or receiver in HSBC’s bankruptcy and, until such time as payment is made, will hold a sum equal to such amount in trust for HSBC or, if applicable, the liquidator or Capital Securities Trustee or receiver in HSBC’s bankruptcy. Accordingly, such discharge will be deemed not to have taken place.

The holder or holders of a majority of the aggregate principal amount of the Capital Securities may waive any past Event of Default or Capital Security Default with respect to the Capital Securities, except an Event of Default or Capital Security Default in respect of either:

- the payment of principal of, or Coupon Payments or Deferred Coupon Payments on, any Capital Securities; or

- a covenant or provision of the indenture which cannot be modified or amended without the consent of each holder of Capital Securities.

Subject to the provisions of the Indenture relating to the duties of the Capital Securities Trustee, in case an Event of Default or a Capital Security Default occurs and is continuing with respect to the Capital Securities, the Trustee will be under no obligation to any holder or holders of the Capital Securities to exercise any of its rights or powers under the Indenture at the request of any holder of Capital Securities unless such holders will have offered to the Capital Securities Trustee an indemnity satisfactory to the Trustee.

Subject to such provisions for the indemnification of the Capital Securities Trustee, and subject to certain exceptions, the holder or holders of a majority in aggregate principal amount of the outstanding Capital Securities will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Capital Securities Trustee or exercising any trust or power conferred on the Capital Securities Trustee with respect to the Capital Securities. However, the Capital Securities Trustee may refuse to follow any direction that is in conflict with any rule of law or the Indenture, or is unjustly prejudicial to the holder or holders of any Capital Securities not taking part in the direction or exposes it to liability. The Capital Securities Trustee may take any other action that it deems proper which is not inconsistent with that direction.

The Indenture provides that the Capital Securities Trustee will, within 90 days after the occurrence of a Capital Security Default or Event of Default with respect to the Capital Securities, give to the holders of the Capital Securities notice of such Capital Security Default or Event of Default, unless the Event of Default or Capital Security Default has been cured or waived, provided, that the Trustee will be protected in withholding such notice if it determines in good faith that withholding notice is in the interest of the holders.

After the end of each fiscal year, HSBC will furnish to the Capital Securities Trustee a certificate of certain officers as to the absence of any Event of Default or Capital Security Default, specifying any such Event of Default or Capital Security Default.

Additional Amounts

All payments made under or with respect to the Capital Securities will be made without deduction or withholding for, or on account of, any and all present and future taxes, levies, imposts, duties, charges, fees, deductions, or withholdings whatsoever imposed, levied, collected, withheld or assessed by or for the account of the United Kingdom or any political subdivision or taxing authority thereof or therein, or of any other jurisdiction through which such payments are made by HSBC or on its behalf, unless required by law. If such deduction or withholding will at any time be required by the law of the United Kingdom or any such subdivision or authority or other jurisdiction, HSBC will pay additional amounts (the "Additional Amounts") as may be necessary so that the net amount (including Additional Amounts) paid to the holders or beneficial owners of the Capital Securities, after such deduction or withholding, will be equal to the amount to which the holders or beneficial owners of the Capital Securities would have been entitled in the absence of such deduction or withholding, provided that the foregoing will not apply to any such tax, levy, impost, duty, charge, fee, deduction or withholding which:

- would not be payable or due but for the fact that the holder or beneficial owner of the Capital Securities is domiciled in, or is a national or resident of, or engaging in business or maintaining a permanent establishment or being physically present in, the United Kingdom or such political subdivision or jurisdiction, or otherwise has some connection or former connection with the United Kingdom or such political subdivision or jurisdiction other than the holding or ownership of a Capital Security, or the collection of principal or Coupon Payments (including Deferred Coupon Payments) on, or the enforcement of, a Capital Security;
- would not be payable or due but for the fact that the relevant Capital Security or Coupon Payment (including a Deferred Coupon Payment) in respect of Capital Securities is presented for payment more than 30 days after the date payment became due or was provided for, whichever is later,

except to the extent that the holder would have been entitled to such additional amount on presenting the same for payment at the close of such 30 day period;

- is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive;
- would not have been imposed if presentation for payment of the relevant Capital Securities had been made to a paying agent in a Member State of the European Union other than the paying agent to which the presentation was made;
- is imposed because of the failure to comply by the holder or the beneficial owner of the Capital Securities or the beneficial owner of any payment on such Capital Securities with a request from HSBC addressed to the holder or the beneficial owner, including a written request from HSBC related to a claim for relief under any applicable double tax treaty:
 - (a) to provide information concerning the nationality, residence, identity or connection with a taxing jurisdiction of the holder or the beneficial owner; or
 - (b) to make any declaration or other similar claim to satisfy any information or reporting requirement, if the information or declaration is required or imposed by a statute, treaty, regulation, ruling or administrative practice of the taxing jurisdiction as a precondition to exemption from withholding or deduction of all or part of the tax, duty, assessment or other governmental charge;
- is imposed in respect of any estate, inheritance, gift, sale, transfer, personal property, wealth or similar tax, duty assessment or other governmental charge; or
- is imposed in respect of any combination of the above items.

HSBC has agreed in the Indenture that at least one paying agent for the Capital Securities will be located outside the United Kingdom. HSBC also undertook that it will maintain a paying agent in a European Union Member State that will not be obliged to withhold or deduct taxes pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

Whenever herein, in any context, to the payment of the principal of or any Coupon Payments (including any Deferred Coupon Payments) on, or in respect of, any Capital Securities, it is meant to include the payment of Additional Amounts to the extent that, in the context, Additional Amounts are, were or would be payable.

Alternative Coupon Satisfaction Mechanism

General

HSBC is permitted to satisfy its obligation to make any Deferred Coupon Payment only in accordance with the procedures described below, which HSBC refers to as the “Alternative Coupon Satisfaction Mechanism”, except in case of HSBC’s winding up or a Definitive Suspension. Each payment made under the Alternative Coupon Satisfaction Mechanism is referred to as an “ACSM Payment”.

HSBC’s obligations to pay in accordance with the Alternative Coupon Satisfaction Mechanism will be satisfied as follows:

- HSBC may only satisfy such obligations by issuing (x) its ordinary shares or (y) Qualifying Alternative Securities, to the extent that such Qualifying Alternative Securities are permitted under the then prevailing criteria for Tier 1 Capital (as published by the FSA or any successor entity) and

using the proceeds of such issuance for settlement of the Deferred Coupon Payments. HSBC's ordinary shares and any Qualifying Alternative Securities issued, or to be issued, for the purpose of the Alternative Coupon Satisfaction Mechanism are referred to as the "ACSM Securities";

- HSBC will satisfy such obligations at any time upon the expiry of not less than 16 Business Days' notice (the "ACSM Payment Date") to such effect given by HSBC to the Capital Securities Trustee and holders of the Capital Securities and in any event HSBC will satisfy any Deferred Coupon Payments in the manner herein on the first of the following to occur: (i) redemption of the Capital Securities; (ii) variation of the terms of the Capital Securities; or (iii) exchange of the Capital Securities for Preference Shares;
- HSBC will appoint a calculation agent (if not already done so) (the "Calculation Agent") and notify the Capital Securities Trustee, the principal paying agent and the Calculation Agent not less than 16 Business Days prior to the relevant ACSM Payment Date that an ACSM Payment is to be satisfied on such ACSM Payment Date;
- no later than ten Business Days prior to the ACSM Payment Date, the Calculation Agent will determine the number of the ACSM Securities (the "Payment ACSM Securities") which, in its judgment, have an aggregate fair market value of not less than the aggregate amount of Deferred Coupon Payments payable (after conversion from pounds sterling into U.S. dollars and after HSBC pays any taxes, duties, costs and expenses payable by it in and associated with the issue, and placement by the Calculation Agent, of the ACSM Securities);
- by or before the close of business on the seventh Business Day prior to the relevant ACSM Payment Date, HSBC will issue (or, if so agreed between HSBC and the Capital Securities Trustee, to an agent of the Trustee) the Payment ACSM Securities;
- the Capital Securities Trustee and HSBC will use reasonable endeavors to effect the transfer or instruct their respective agent to effect the transfer of such Payment ACSM Securities to or to the order of the Calculation Agent as soon as practicable (subject to any necessary consents being obtained) and in any case by not later than the close of business in London on the sixth Business Day prior to the relevant ACSM Payment Date and the Calculation Agent will be required to agree in the calculation agency agreement to use reasonable endeavors to procure purchasers for such Payment ACSM Securities and give written notice to the Capital Securities Trustee of the transfer of Payment ACSM Securities. The Calculation Agent will further be required to agree in the calculation agency agreement (where necessary) to convert, as agent of the Capital Securities Trustee or HSBC, the proceeds of such sale into U.S. dollars at prevailing market exchange rates and to deliver such proceeds of such sale in U.S. dollars to, or hold such proceeds of such sale to the order of, HSBC, who will pay or procure that its agent pays or will instruct the Calculation Agent to pay such proceeds as it holds in respect of the relevant payment on its due date to the principal paying agent;
- if the proceeds of the sale of the Payment ACSM Securities will not, in the opinion of the Calculation Agent despite the arrangements described above, result in a sum at least equal to the relevant ACSM Payment being available to satisfy the necessary ACSM Payment in full on its due date, HSBC and the Calculation Agent will take such steps as are reasonably necessary to ensure, so far as practicable, that through issuing additional ACSM Securities on one or more further occasions (also "Payment ACSM Securities") and allotting them in favor of the

Calculation Agent or its agent and following, *mutatis mutandis*, the procedures referred to above (and exchanged into U.S. dollars), a sum as near as practicable to, and at least equal to, the relevant ACSM Payment will be available to satisfy the relevant ACSM Payment in full on its due date. If, despite the operation of the above provisions, a shortfall exists on the Business Day preceding the intended ACSM Payment Date, HSBC will, for a period of five years from such date, continue to use all reasonable endeavors to settle any ACSM Payment in accordance with the provisions herein and may in accordance with the provisions of any calculation agency agreement, and subject to having the relevant corporate authorizations in place, continue to issue and allot the relevant number of Payment ACSM Securities until the Trustee will have received funds on behalf of HSBC equal to the full amount of such shortfall; and

- if, pursuant to the Alternative Coupon Satisfaction Mechanism, proceeds are raised in excess of the amount required to make the ACSM Payment, plus the claims for the fees, costs and expenses to be borne by HSBC in connection with using the Alternative Coupon Satisfaction Mechanism, any remaining proceeds will be paid to HSBC.

If HSBC is required to make payment of any Deferred Coupon Payments in accordance with the Alternative Coupon Satisfaction Mechanism, the proceeds from the sale of the ACSM Securities pursuant to the Alternative Coupon Satisfaction Mechanism will be paid to the investors of the Capital Securities by the Trustee or any paying agent in respect of the relevant Deferred Coupon Payment.

Certain Conditions; Sufficiency and Availability of Ordinary Shares

HSBC's ability to use the Alternative Coupon Satisfaction Mechanism to satisfy any Deferred Coupon Payments is subject to the following conditions:

- HSBC will not be required to issue or sell any ordinary shares, or cause them to be sold, at a price below the nominal value of HSBC's ordinary shares, currently U.S. \$0.50 per share;
- HSBC must have a sufficient number of authorized but unissued ordinary shares at the relevant issuance date(s); and
- HSBC's directors must have all the necessary authority under English law to allot and issue a sufficient number of ordinary shares at the relevant issuance date(s).

HSBC has agreed that for so long as any Capital Securities remain outstanding HSBC will review its ordinary share price and relevant exchange rates prior to each annual meeting of its shareholders. If HSBC determines, as the result of any such review, that HSBC does not have a sufficient number of authorized but unissued ordinary shares to permit it to issue at that date a number of ordinary shares equal to the amount of scheduled Coupon Payments for the next 12 months on the Capital Securities, and/or if HSBC's directors do not have the necessary authority to allot and issue such number of ordinary shares, then at the next annual shareholders' meeting, HSBC will propose resolutions to increase the number of authorized but unissued ordinary shares and the directors' authority to allot and issue ordinary shares to the level that would enable HSBC to issue at that date a sufficient number of ordinary shares to enable payment of scheduled Coupon Payments for the next 12 months on the Capital Securities pursuant to the Alternative Coupon Satisfaction Mechanism.

Market Disruption Event

If a Market Disruption Event (as defined below) exists on or after the 15th Business Day preceding any date upon which HSBC is due to satisfy a payment using the Alternative Coupon Satisfaction Mechanism, the payment to the holders of Capital Securities may be deferred until the Market Disruption Event no longer exists. Any such deferred payments will bear interest at the same rate as the principal of the Capital Securities if the Market Disruption Event continues for 20 Business Days or more from the due date for such payment.

A market disruption deferral will not constitute a Capital Security Default; provided that if any Deferred Coupon Payment has not been paid, or an amount set aside for payment, within 20 days after the date on which any such Market Disruption Event is no longer continuing, such failure will constitute a Capital Security Default under the indenture.

Suspension

If following any take-over offer made under the City Code on Take-overs and Mergers or any reorganization, restructuring or scheme of arrangement involving HSBC, the company which, immediately prior to such event, was the ultimate owner of the HSBC Group (referred to as the “Ultimate Owner”) ceases to be the Ultimate Owner, HSBC will determine what amendments (if any) to the terms and conditions of the Capital Securities, the Indenture and any other relevant documents are appropriate or necessary in order to replicate the Alternative Coupon Satisfaction Mechanism in the context of the capital structure of the new Ultimate Owner. Upon any such determination being reached and notified to the Capital Securities Trustee by HSBC, HSBC will, pursuant to the terms of the Indenture and without the consent of the holders of the Capital Securities but subject to the consent of the new Ultimate Owner, effect any necessary consequential changes to the terms and conditions of the Capital Securities, the Indenture and any other relevant documents. Any such amendments will be subject to the requirements that:

- HSBC will not be obliged to reduce its net assets;
- no amendment may be proposed or made which would alter the treatment of the Capital Securities for regulatory capital and solvency purposes unless HSBC has, if required, notified the FSA of its intention to do so and no objection has been raised by the FSA or, if required, the FSA has provided its consent thereto;
- no such amendment may be made which would, in the Capital Securities Trustee’s opinion, impose more onerous obligations on it without its consent; and
- such amendments will preserve substantially the financial effect for the security holders of a holding in the Capital Securities and in particular the aggregate principal amount, coupon rate, payment dates, redemption dates, denomination and ranking of the Capital Securities.

If, after using all reasonable endeavors, HSBC is unable to formulate such amendments, HSBC will so notify the previous Ultimate Owner (if not HSBC), the new Ultimate Owner, the Capital Securities Trustee, any paying agent and the calculation agent of that result. HSBC refers to the giving of such a notice by HSBC as a “Definitive Suspension” of the Alternative Coupon Satisfaction Mechanism.

Upon the occurrence of a Definitive Suspension, HSBC may at its sole discretion, subject in each case to compliance with applicable regulatory requirements, including giving prior written notice thereof to the FSA and the FSA not objecting, at any time convert the Capital Securities in whole (but not in part) to another series of capital securities constituting undated cumulative subordinated notes, having the same material terms as the Capital Securities, except that such undated cumulative subordinated notes will:

- be a perpetual capital security issued by HSBC with cumulative interest payments,
- rank *pari passu* with any other undated cumulative subordinated notes issued by HSBC,
- following conversion be redeemable upon any Special Event as modified as necessary to be applicable to a class of undated cumulative subordinated notes, and
- not be subject to the Alternative Coupon Satisfaction Mechanism. Any Deferred Coupon Payments outstanding at the time of conversion will be carried over and become outstanding missed cumulative interest payments for purposes of the undated cumulative subordinated notes.

If, following a Definitive Suspension, the FSA objects to HSBC's proposal to convert the Capital Securities into another series of capital securities constituting undated cumulative subordinated notes, then, subject to giving notice thereof to, and receiving a statement of no objection from, the FSA, HSBC will have the option to redeem the Capital Securities in whole (but not in part) at a redemption price equal to their principal amount together with accrued and unpaid Coupon Payments and all Deferred Coupon Payments, in cash without utilizing the Alternative Coupon Satisfaction Mechanism.

Supplemental Indentures

Without the consent of any holders of the Capital Securities, HSBC, when authorized by or pursuant to a resolution of HSBC's board of directors, and the Capital Securities Trustee, at any time and from time to time, may enter into one or more supplemental indentures, in form satisfactory to the Capital Securities Trustee, for any of the following purposes:

- to add to HSBC's covenants for the benefit of the holders of the Capital Securities or to surrender any right or power herein conferred upon HSBC,
- to change or eliminate any restrictions on the payment of any principal of (or premium, if any, on) or Coupon Payment or Deferred Coupon Payment on the Capital Securities,
- to evidence and provide for the acceptance of appointment hereunder by a successor trustee with respect to the Capital Securities and to add to, change or eliminate any of the provisions of the Indenture as will be necessary to provide for or facilitate the administration of the trusts hereunder by more than one trustee,
- to cure any ambiguity, to correct or supplement any provision of the Indenture which may be defective or inconsistent with any other provision herein, or to make any other provision with respect to matters or questions arising under the indenture that will not be inconsistent with any provision of the Indenture; provided that such action will not adversely affect the interests of the holders of the Capital Securities in any material respect, or
- to add, to change or to eliminate any provision of the Indenture as will be necessary or desirable in accordance with any amendment to the Trust Indenture Act.

With the consent of the holders of not less than a majority in aggregate principal amount of the outstanding Capital Securities affected by such supplemental indenture, HSBC and the Capital Securities Trustee may enter into an indenture or supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of modifying in any manner the rights under the Indenture of the holders of the Capital Securities; *provided*, however, that no such supplemental indenture will, without the consent of each holder of the Capital Securities affected thereby,

- change the terms of the Capital Securities to include a stated maturity date of the principal, or change the obligation to satisfy Coupon Payments on Coupon Payment Dates or payment of Additional Amounts, or change the circumstances in which Deferred Coupon Payments may become payable, or reduce the principal amount of the Capital Securities or the rate of interest thereon, or change the manner in which the amount of any payment of any principal, premium or interest is determined, or change any place of payment or currency in which any principal, Coupon Payment or Deferred Coupon Payment is payable, or change any redemption or repurchase rights to the detriment of any holder of the Capital Securities, or impair the right to institute suit for the enforcement of any such payment on or after the date any such payment is otherwise due and payable (or, in the case of redemption, on or after the redemption date),
- reduce the percentage of the aggregate principal amount of the outstanding Capital Securities affected thereby, the consent of whose holders is required for any such supplemental indenture, or

- the consent of whose holders is required for any waiver (of compliance with certain provisions of the indenture or certain defaults hereunder and their consequences) provided for in the Indenture,
- change any of HSBC's obligations to maintain an office or agency in the places and for the purposes specified in the Indenture,
 - change the terms and conditions (i) under which the Capital Securities can be varied or exchanged, or (ii) of the Preference Shares, into which such Capital Securities may be exchanged, in each case, in any manner that has a material adverse effect on the rights of any holder of such securities,
 - modify certain of the provisions of the indenture pertaining to the waiver by holders of the Capital Securities of defaults and the waiver by holders of the Capital Securities of certain covenants, except to increase any specified percentage in aggregate principal amount required for any actions by holders of Capital Securities or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the holder of each such Capital Security affected thereby, or
 - change the subordination provisions in any manner adverse to the interests of the holders of the outstanding Capital Securities.

In addition, any amendment or variation to the terms and conditions of the Capital Securities will require the provision of at least 30 days' notice to, and receipt of a statement of no objection from, the FSA.

Consolidation, Merger and Sale of Assets of HSBC

HSBC may, without the consent of the holders of the Capital Securities, consolidate or amalgamate with, or merge into, any corporation, or convey, sell, transfer or lease its properties and assets substantially as an entirety to any person, provided that:

- any successor corporation expressly assumes HSBC's obligations under the Capital Securities and the Indenture and, if applicable, the provision for payment of additional amounts for withholding taxes are amended to include the jurisdiction of incorporation of the successor corporation;
- immediately after giving effect to the transaction and treating any indebtedness that becomes the obligation of HSBC, as a result of such transaction as having been incurred by HSBC at the time of the transaction, no event of default or default, and no event that, after notice or lapse of time, or both, would become an event of default or a default, shall have occurred and be continuing; and
- certain other conditions are satisfied.

The Trustee

The Bank of New York Mellon is the Trustee under the Indenture.

Governing Law

The Capital Securities and the Indenture are governed by and construed in accordance with the laws of the State of New York, except that the subordination provisions of the Capital Securities and the Indenture is governed by and construed in accordance with the laws of England and Wales.

RECENT DEVELOPMENTS

On September 12, 2010 the Basel Committee on Banking Supervision announced certain proposals with respect to bank capital. These proposals will be presented to the Seoul G20 Leaders Summit in November for discussion. As a matter of process, if the Basel Committee proposals are adopted by the G20 in Seoul in November, then the actual regulatory guidelines that banks will be subject to will be established by regulators in the home jurisdiction of each bank, which, in the case of HSBC, will be the FSA. The actual national regulatory authorities have ultimate discretion with respect to what the final rules will provide.

The Basel proposals include a change in what types of instruments will qualify as Tier 1 Capital and transition rules with respect to existing capital instruments, including a proposal to begin to transition non-compliant instruments over time to a non-qualifying status beginning as early as January 2013.

The Capital Securities were originally designed with features that would enable them to become Basel III compliant (as the proposed rules stood at time of issue). The securities have the ability to be converted to preference shares of HSBC at the option of HSBC and it would appear at this time as though the form of these preference shares would meet the Basel requirements for Tier 1 Capital (for example, there is no step-up provision). If the Capital Securities are converted to preference shares they would have the same par value and the same coupon.

However, the home regulator for HSBC, the FSA, issued a consultative document in December 2009 that discusses a diversion from the Basel III guidelines to tighten the capital rules such that preference shares would not qualify as Tier 1 Capital (and would therefore fall under a transition mechanism). If the FSA does implement tighter restrictions (i.e., if the conversion to preference shares would not result in the securities being Tier 1 compliant) then HSBC would have the right to exercise a regulatory par call feature and the implementation of Basel III by the FSA would likely enable this feature to be exercised at HSBC's option. However, the FSA's transition rules proposed in its December 2009 consultative document relating to preference shares contemplate a period during which preference shares would remain 100% eligible as Tier 1 Capital that extends beyond the Termination Date. Therefore, if the FSA transition regime were to be adopted in relation to banks regulated by the FSA, the right of HSBC to invoke a regulatory par call in relation to the Capital Securities may not occur or be available prior to the Termination Date.

There is significant uncertainty at this point as to when the regulatory par call date will arise in relation to the Capital Securities, not only because the national regulator has issued no guidance on it since September 12, 2010, but also because of the wording of the Basel Committee release. In particular, the issue is whether the trigger date for the regulatory call event is January 1, 2013 (i.e., the start of the transition period) or 2023 (i.e., the end of the transition period). Ultimately the determination of when the regulatory par call date arises and whether it applies to preference shares will be determined entirely by the FSA, and in accordance with the FSA's regulatory guidance issued for banks that are subject to its jurisdiction, including HSBC.

If the current guidance of the FSA regarding the non-qualification of preference shares remains in place and the transition guidance from the FSA ultimately provides a regulatory trigger that allows HSBC to redeem the Capital Securities at par on or about January 1, 2013, at this time it is possible to identify a number of factors that the Manager believes will form the basis of the decision of HSBC as to whether in fact it will exercise its right to redeem the Capital Securities at par at that time, including the following: (i) HSBC currently has considerably more Basel III compliant capital than the new regulations will require, with the Series 2 Capital Securities issue representing only 3.1% of its current Tier 1 Capital; (ii) the coupon on the Series 2 Capital Securities is 8% and it is treated as interest for tax purposes and is therefore deductible. (As such the after tax cost (based on HSBC's estimated effective tax rate of 34.7% in the first half of 2010) for HSBC is 5.2%); (iii) capital securities have been a preference source of capital for banks because of the deductibility of the coupon as well as the fact that they qualify as Tier 1 Capital (and therefore, under the banking business model can be levered as loans) while they do not impact earnings per share, ROE or other common equity based calculations; (iv) the high coupon on the Capital Securities may be a reason to redeem if HSBC wishes to reduce its excess capital or if it is able to raise lower cost replacement capital to the extent it is available; however, the implementation of Basel III may

potentially result in higher costs for regulatory capital if securities issued as replacement capital are required to contain provisions that would enable them to be exchangeable for common shares; (v) if the market does not view the impact of Basel III on Series 2 Capital Securities as being punitive to HSBC, HSBC runs the risk of alienating investors by calling the securities earlier than the first call date which could have the effect of increasing HSBC's cost of capital; and (vi) since the September 12, 2010 Basel Committee proposals were made public, the prices of the Capital Securities have remained largely static while there have been significant reductions in the market prices of other capital securities with different features.

There can be no certainty at this time as to whether the FSA will issue guidance as to whether the regulatory par call will arise or when it will arise and there can be no certainty as to whether preference shares will no longer qualify for Tier 1 treatment in January 2013. However, any security call at par, whether at the first call date or sooner as a result of HSBC exercising the regulatory par call feature, would result in a capital loss if the security was purchased at a price above par.

See "Distribution Policy" and "Risk Factors".

INVESTMENT RESTRICTIONS

Investment Restrictions of the Fund

The Fund will be subject to the investment restrictions set out below, and will also indirectly be 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 Fund 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 purpose 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% of the Total Assets;
- (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 "specified property" (as defined in the Tax Proposals released on September 16, 2004); 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.

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.

Investment Restrictions of CS Trust

CS Trust will be subject to certain investment restrictions that are set out in CS 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;
- (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.

FEES AND EXPENSES

Initial Fees and Expenses

The expenses of the Offerings (including the costs of creating and organizing the Fund, the costs of printing and preparing this prospectus, legal expenses, marketing expenses and other reasonable out-of-pocket expenses incurred by the Agents and other incidental expenses), which are estimated to be \$675,000 (but not to exceed 1.5% of the gross proceeds of the Offerings), will be paid out of the gross proceeds of the Offerings by the Fund. In addition, the Agents' fee will be paid to the Agents from the gross proceeds as described under "Plan of Distribution".

Management Fee

The Manager will receive 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 or, in the event the Counterparty does not hedge its exposure by acquiring units of CS Trust, the Counterparty will pay the CS Trust portion of the Management Fee), calculated and payable monthly in arrears, plus applicable taxes. The Management Fee payable to the Manager in respect of the month in which Closing occurs will be pro-rated based on the fraction that the number of days from and including the Closing Date to and including the last day of the month is of the number of days in such month.

Service Fee

The Fund will pay 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 Class A Units, Series 2 and the Class U Units, Series 2, equal to 0.30% per annum of the Net Asset Value attributable to the Class A Units, Series 2 or the Class U Units, Series 2, as applicable, plus applicable taxes. The Service Fee will be applied by the Manager to pay a service fee in an equivalent aggregate amount, plus applicable taxes, to brokers based on the number of Class A Units, Series 2 or Class U Units, Series 2, as applicable, held by clients of such brokers at the end of the relevant quarter. No Service Fee is payable in respect of the Class A Units, Series 1 or the Class U Units, Series 1. See “Fees and Expenses – Service Fee”.

Counterparty Fees

The Fund will pay to the Counterparty an additional purchase amount under the Forward Agreement, calculated daily and payable quarterly in arrears, of 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).

Ongoing Expenses

Each of the Fund and CS Trust will pay for all expenses incurred in connection with its respective operation and administration which, in the case of the Fund will generally be allocated to the Units *pro rata* based on the Net Asset Value applicable to each class of Units, 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 Manager. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which the Manager, any sub-advisor, 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 Manager estimates that ongoing expenses, exclusive of the Management Fee, fees under the Forward Agreement, brokerage expenses related to portfolio transactions and interest expense will be approximately \$125,000 per year for the Fund and \$40,000 per year for CS Trust (assuming an aggregate size of the Offerings of approximately \$150 million).

Additional Services

Any arrangements for additional services between the Fund or CS Trust and the Manager, or any of their respective affiliates, that have not been described in this prospectus will be on terms that are no less favourable to the Fund and CS Trust, as applicable, than those available from arm’s length persons (within the meaning of the Tax Act) for comparable services and the Fund and CS Trust, as applicable, will pay all expenses associated with such additional services.

RISK FACTORS

Certain risk factors relating to the Fund, CS Trust, the Units and the Capital Securities are described below. Additional risks and uncertainties not currently known to the Manager or that are currently considered immaterial, may also impair the operations of the Fund or CS Trust. If any such risk actually occurs, the undertaking, financial condition, liquidity or results of operations of the Fund, and the ability to the Fund to make distributions on the Units, could be materially adversely affected.

General Risks Relating to the Fund, CS Trust and the Units

No Assurance of Achieving Investment Objectives and No Guaranteed Rate of Return

There is no assurance that the Fund will be able to achieve its investment objectives. There is no assurance that the Fund will pay distributions. The funds available for distribution to Unitholders will vary according to, among other things, the levels of dividends or distributions paid on the securities in the Portfolio and the value of the securities in the Portfolio. There is no assurance that the Portfolio will earn any return. It is possible that, due to declines in the market value of the securities in the Portfolio, the Fund will have insufficient assets to achieve in full its distribution and capital appreciation investment objectives, including that of long-term total returns.

Performance of the Portfolio

The Net Asset Value of the Fund will vary as the fair value of the securities in the Portfolio varies. The Capital Securities in the Portfolio will be purchased at their prevailing current market price which currently is at a premium to its par value of U.S. \$25.00 per share. If HSBC redeems the Capital Securities or the Preference Shares in any of the circumstances mentioned herein, the Portfolio will receive the par value and may not be able to reinvest the redemption proceeds in securities offering a comparable yield. In addition, any early redemption of the Capital Securities or the Preference Shares in the Portfolio may be favourable or unfavourable to an investor and will affect the performance of the Portfolio. The Fund also has no control over the factors that affect the fair value of the securities in the Portfolio, including factors that affect the equity markets generally, such as general economic and market conditions, political conditions and fluctuations in interest rates, and factors unique to HSBC and its business, such as liquidity and funding conditions, legal and compliance risks, operational risks, tax-related risks, changes in management, changes in strategic direction, achievement of strategic goals, mergers, acquisitions and divestitures, changes in distribution policies and other events that may affect the value of its securities. See “Distribution Policy”.

Concentration and Accumulation Risk

The Portfolio will be comprised entirely of Capital Securities and may be comprised entirely of either Series 1 Capital Securities or Series 2 Capital Securities at any given time and, therefore, the Portfolio will not be diversified. The Net Asset Value of the Fund and CS Trust may be more volatile than the value of a more broadly diversified portfolio and may fluctuate substantially over short periods of time. This may have a negative impact on the value of the Units. In addition, a significant acquisition by CS Trust of Capital Securities during the accumulation of the Portfolio may put upward pressure on the market prices at which the Capital Securities are purchased which may adversely affect the return to investors.

Counterparty Risk

On Closing, the Fund will enter into the Forward Agreement with the Counterparty, which will be a Canadian chartered bank or an affiliate of a Canadian chartered bank and an affiliate of one of the Agents. In entering into the Forward Agreement, which will be the sole material asset of the Fund, the Fund is exposed to the credit risk associated with the Counterparty. The Counterparty may have relationships with HSBC which could conflict with the interests of the Fund or CS Trust. Depending on the value of the Portfolio, the Fund’s exposure to the credit risk of the Counterparty may be significant. In addition, the possibility exists that the Counterparty will default on its obligations under the Forward Agreement. Unitholders will have no recourse or rights against the assets of CS Trust or the Counterparty, other than as a general, unsecured creditor, and the Counterparty is not responsible for the returns of the Portfolio. In addition, through the Forward Agreement, the Counterparty will also provide leverage which may constitute a conflict of interest.

Leverage Risk

The Fund's exposure to the Portfolio through the Forward Agreement may be increased by up to 15% at the time leverage is employed. As a result of fluctuations in the prices of the securities in the Portfolio, leverage may temporarily, and from time to time, exceed 15%. The addition of leverage has the potential to enhance returns but also involves additional risks. There can be no assurance that the leverage employed by the Fund will enhance returns. The use of leverage may reduce returns (both distributions and capital) to Unitholders. If there is a decline in the value of the securities in the Portfolio, the leverage under the Forward Agreement will cause a decrease in the Net Asset Value of the Fund in excess of that which would otherwise be experienced. Under certain conditions, leverage may be reduced or discontinued under the terms of the Forward Agreement.

Foreign Jurisdiction Risk

There are risks associated with investments in foreign jurisdictions that could adversely affect the value of the Capital Securities and the Units. The prices of foreign securities, including the Capital Securities, may be more volatile because of economic conditions in such foreign jurisdictions, political developments, and changes in the business and regulatory environment. Foreign economies may differ favourably or unfavourably from the domestic economy in such respects as growth of gross domestic product, rate of inflation, capital reinvestment, resource self-sufficiency and balance of payment positions.

Risks Relating to the Nature of the Capital Securities

The Capital Securities are issued by a UK-based financial institution and therefore the terms of such securities are different in some material respects from capital securities issued by other financial institutions. Investors should review the terms of such Capital Securities set forth in this prospectus.

Foreign Exchange Rate Fluctuations Risk

As the Portfolio will be invested in securities traded in U.S. dollars, the Net Asset Value of the Fund and the market price of the Class A Units, when measured in Canadian dollars, will, to the extent this has not been hedged against, be affected by changes in the value of the U.S. dollar relative to the Canadian dollar. Although the Fund intends to hedge substantially all of the value of the Capital Securities back to the Canadian dollar in respect of Class A Units, the Fund may not be fully hedged at all times. Accordingly, the Fund may be adversely impacted by changes in foreign exchange rates or other factors. The use of hedges, if used, involves special risks, including the possible default by the other party to the transaction, illiquidity and, to the extent the Manager's assessment of certain market movements is incorrect, the risk that the use of hedges could reduce total returns or result in losses greater than if the hedging had not been used. In addition, the costs associated with a hedging program may outweigh the benefits of the arrangements in such circumstances.

Risks Relating to Fluctuation in Value of Portfolio Securities

The value of the Units will vary according to the value of the securities included in the Portfolio by virtue of the Forward Agreement. The value of the securities included in the Portfolio will be influenced by factors that are not within the control of CS Trust or the Manager, including the financial performance of HSBC, operational risks relating to the specific business activities of HSBC, exchange rates, interest rates, political risks, issues relating to government regulation, credit markets and other financial market conditions. CS Trust may enter into commitments to purchase securities prior to the Closing Date. Accordingly, the Portfolio may have exposure to changes in the market value of such securities prior to the Closing Date. As a result, the initial value of the Portfolio may be greater than or less than the net proceeds of the Offerings.

Recent Global Financial Developments Risk

Global financial markets have experienced a sharp increase in volatility during 2008 and 2009. This has been, in part, the result of the revaluation of assets on the balance sheets of international financial institutions and

related securities. This has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the issuers who borrow from them. While central banks as well as global governments are attempting to restore liquidity to the global economies, no assurance can be given that the combined impact of the significant revaluations and constraints on the availability of credit will not materially and adversely affect economies around the world in the near to medium term. Some of these economies may experience significantly diminished growth or a recession. These market conditions and unexpected volatility or illiquidity in financial markets may also adversely affect the prospects of the Fund and the value of the securities included in the Portfolio.

Exchange Option Risk

A significant portion of the proceeds realized pursuant to the Offerings may be by way of deposits under the Exchange Option. Accordingly, the Fund may be initially exposed to the value of the securities of a number of issuers other than HSBC. To achieve the desired Portfolio of Capital Securities, the Manager may be required to dispose of securities at prices below the prices at which they are then trading and perhaps at prices which are below what the Manager believes they are worth. This may have a negative impact on Net Asset Value during the period in which the Portfolio is being established. No assurance can be given that this will not adversely and materially affect the performance of the Fund in the near term. Additionally, the price of these securities on the Closing Date may be higher or lower than the price that was used to calculate the Exchange Ratios for such securities. Notwithstanding any such change, the Exchange Ratios will not, unless otherwise disclosed, change from the date on which they are established and, accordingly, if the price of an Exchange Eligible Security on the Closing Date is less than the price used to calculate the Exchange Ratio, the Fund will in effect pay more to acquire the Exchange Eligible Securities than it would if it had acquired the same security in the market on the Closing Date.

Use of Derivatives Risk

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. There can be no assurance that CS Trust's hedging strategies will be effective. CS Trust is subject to the credit risk that its counterparty (whether a clearing corporation in the case of exchange traded instruments or another third party in the case of over-the-counter instruments) may be unable to meet its obligations. In addition, there is a risk of loss by CS Trust of margin deposits in the event of the bankruptcy of the dealer with whom CS Trust has an open position in an option or futures or forward contract. Derivative instruments traded in foreign markets may offer less liquidity and greater credit risk than comparable instruments traded in North American markets. The ability of CS Trust to close out its positions may also be affected by exchange imposed daily trading limits on options and futures contracts. If CS Trust is unable to close out a position, it will be unable to realize its profit or limit its losses until such time as the option becomes exercisable or expires or the futures or forward contract terminates, as the case may be. The inability to close out options, futures and forward positions could also have an adverse impact on CS Trust's ability to use derivative instruments to effectively hedge the Portfolio.

Risks Relating to Reliance on the Manager

The Manager will manage and advise CS Trust in a manner consistent with the investment objectives and the investment restrictions of CS Trust. The officers of the Manager who will be primarily responsible for the management of the Portfolio have extensive experience in managing investment portfolios, however there is no certainty that such individuals will continue to be employees of the Manager.

Risks Relating to the Trading Price of Units

The Class A Units may trade in the market at a discount to the Net Asset Value per Class A Unit and there can be no assurance that the Class A Units will trade at a price equal to the Net Asset Value per Class A Unit. Units will be redeemable at 100% of the Redemption Net Assets per Unit on an Annual Redemption Date less any costs associated with the redemption, including brokerage costs. While the redemption right provides

Unitholders the option of annual liquidity at the Redemption Net Assets per Unit, there can be no assurance that it will reduce trading discounts of the Class A Units.

Risks Relating to the Taxation of the Fund

In determining its income for tax purposes, the Fund will not treat the acquisition of Canadian Securities Portfolio securities under the Forward Agreement as a taxable event and will treat gains or losses on any disposition of Canadian Securities Portfolio securities acquired under the Forward Agreement as capital gains and losses. No advance income tax ruling has been requested or obtained from the CRA regarding the timing or characterization of the Fund's income, gains or losses.

If, contrary to the advice of counsel to the Fund, whether through the application of the general anti-avoidance rule or otherwise, or as a result of a change of law, the acquisition of Canadian Securities Portfolio securities under the Forward Agreement were a taxable event or if gains realized on the sale of Canadian Securities Portfolio securities acquired under the Forward Agreement were treated other than as capital gains on the sale of such securities, after-tax returns to Unitholders would be reduced.

On October 31, 2003 the Department of Finance (Canada) 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 this 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 this Tax Proposal would be released for comment. No such alternative proposal has been released to date. There can be no assurance that such alternative proposal will not adversely affect the Fund.

No Ownership Interest Risk

An investment in Units does not constitute an investment by Unitholders in the securities included in the Portfolio. Unitholders will not own the securities held by the Fund or CS Trust.

Changes in Legislation and Regulatory Risk

There can be no assurance that certain laws applicable to the Fund, including income tax laws, and the treatment of trusts under the Tax Act will not be changed in a manner which adversely affects the Fund or Unitholders. If such laws change, such changes could have a negative effect upon the value of the Portfolio and upon the investment opportunities available to the Portfolio.

Risks Relating to Basel III Proposals

On September 12, 2010 the Basel Committee on Banking Supervision announced certain proposals with respect to bank capital. These proposals will be presented to the Seoul G20 Leaders Summit in November for discussion. As a matter of process, if the Basel Committee proposals are adopted by the G20 in Seoul in November, then the actual regulatory guidelines that banks will be subject to will be established by regulators in the home jurisdiction of each banks, which, in the case of HSBC, will be the FSA. The actual national regulatory authorities have ultimate discretion with respect to what the final rules will say. The Basel proposals include a change in what types of instruments will qualify as Tier 1 Capital and transition rules with respect to existing capital instruments, including a proposal to begin to transition non-compliant instruments over time to a non-qualifying status beginning as early as January 2013.

The Capital Securities were originally designed with features that would enable them to become Basel III compliant (as the proposed rules stood at time of issue). The securities have the ability to be converted to preference shares at the option of HSBC and it would appear as though the form of these preference shares would meet the Basel requirements for Tier 1 Capital (for example, there is no step-up provision). If the Capital Securities are converted to preference shares they would have the same par value and the same coupon. However, the home regulator for HSBC, the FSA, has issued a consultative document that discusses a diversion from the Basel guidelines to tighten the capital rules such that preference shares would not qualify as Tier 1 Capital (and would therefore fall under the transition mechanism). If the FSA does implement tighter restrictions (i.e., if the conversion to preference shares would not result in the securities being Tier 1 compliant) then HSBC would have the right to exercise a regulatory par call feature and the implementation of Basel III by the FSA would likely enable this feature to be exercised at HSBC's option. However, the FSA's transition rules proposed in its December 2009 consultative document relating to preference shares contemplate a period during which preference shares would remain 100% eligible as Tier 1 Capital that extends beyond the Termination Date. Therefore, if the FSA transition regime were to be adopted in relation to banks regulated by the FSA, the right of HSBC to invoke a regulatory par call in relation to the Capital Securities may not occur or be available prior to the Termination Date.

There is significant uncertainty at this point as to when the regulatory par call date will arise in relation to the Capital Securities, not only because the national regulator has issued no guidance on it since September 12, 2010, but also because of the wording of the Basel Committee release. In particular, the issue is whether the trigger date for the regulatory call event is January 1, 2013 (i.e., the start of the transition period) or 2023 (i.e., the end of the transition period). Ultimately the determination of when the regulatory par call date arises and whether it applies to preference shares will be determined entirely by the FSA, and in accordance with the FSA's regulatory guidance issued for banks that are subject to its jurisdiction, including HSBC.

There can be no certainty at this time as to whether the FSA will issue guidance as to whether the regulatory par call will arise or when it will arise and there can be no certainty as to whether preference shares will no longer qualify for Tier 1 treatment in January 2013. However, any security call at par, whether at the first call date or sooner as a result of HSBC exercising the regulatory par call feature, would result in a capital loss if the security was purchased at a price above par.

Loss of Investment Risk

An investment in the Fund is appropriate only for investors who have the capacity to absorb a loss.

Conflicts of Interest Risk

The Manager and its directors and officers engage in the promotion, management or investment management of one or more funds or trusts with similar investment objectives to those of the Fund and CS Trust. Although none of the directors or officers of the Manager will devote his or her full time to the undertaking and affairs of the Fund or CS Trust, each director and officer of the Manager will devote as much time as is necessary to supervise the management of (in the case of the directors) or to manage the undertaking and affairs of (in the case of officers) the Fund, CS Trust and the Manager, as applicable.

Risks Relating to the Status of the Fund

As the Fund is not a mutual fund as defined under Canadian securities laws, the Fund is not subject to the Canadian policies and regulations that apply to open-end mutual funds. It is intended that the Fund will be a mutual fund trust for purposes of the Tax Act. If the Fund ceases or fails to qualify as a mutual fund trust for purposes of the Tax Act, certain tax considerations described in this prospectus would be materially and adversely different.

Risks Relating to Redemptions

The purpose of the annual redemption right is to prevent Units from trading at a substantial discount and to provide investors with the right to eliminate entirely any trading discount once per year. While the redemption right provides investors the option of annual liquidity, there can be no assurance that it will reduce trading discounts. There is a risk that the Fund may incur significant redemptions if Units trade at a significant discount to their Net Asset Value per Unit, thereby providing arbitrage traders an opportunity to profit from the difference between the applicable Net Asset Value per Unit and the discounted market price at which they purchased their Units.

If a significant number of Units are redeemed, the trading liquidity of the Units could be significantly reduced. In addition, the expenses of the Fund would be spread among fewer Units resulting in a potentially lower distribution per Unit. The Manager has the ability to terminate the Fund if, in its opinion, it would be in the best interests of Unitholders to do so. The Manager may also suspend the redemption of Units in the circumstances described under “Redemption of Securities – Suspension of Redemptions”.

Operating History Risk

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

Not a Trust Company

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

Risks Relating to the Nature of the Units

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

Risks Relating to HSBC’s Business

Current economic and market conditions may adversely affect HSBC’s results.

HSBC’s earnings are affected by global and local economic and market conditions. The dislocation in financial markets which began in August 2007 put financial institutions under considerable pressure. Market turbulence was accompanied by recessionary conditions in developed economies and a slowdown in emerging countries, with serious adverse consequences for asset values, employment, consumer confidence and levels of economic activity. The global economy entered the most severe downturn for 80 years in 2008.

Governments and central banks took concerted action to make substantial funds and deposit guarantees available to boost liquidity and confidence in their financial systems, stimulate lending and support institutions which were judged to be at risk of failing. In addition, governments extended fiscal stimulus programs and central banks reduced interest rates. As a consequence, conditions eased in 2009 and most leading developed economies began to emerge from recession, although the pace and depth of recovery was uneven across economies and asset markets. The financial services industry continued to face an unusually high degree of uncertainty.

Despite some evidence of stabilization in housing market conditions during 2009, the dramatic declines of the previous two years, particularly in the U.S. and the U.K., continued to affect adversely the credit performance

of real estate-related exposures. Higher unemployment undermined consumer confidence and this, coupled with the deterioration in house prices, led to lower spending which weakened economies. This resulted in significant write-downs of related asset values by financial institutions, including HSBC. These write-downs, both of direct lending exposures and of asset-backed securities, caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger competitors and, in some cases, to fail.

Economic conditions remain fragile, and the risk exists that major economies may suffer a “double dip” recession in which the improvements seen in a number of important markets reverse. This could have an adverse effect on HSBC’s operating results. In particular, HSBC may face the following challenges in connection with these events:

- HSBC’s ability to assess the creditworthiness of its customers or to estimate the values of its assets may be impaired if the models and techniques it uses become less accurate in their predictions of future behavior, valuations or estimates. The process HSBC uses to estimate losses inherent in its credit exposure or assess the value of certain assets requires difficult, subjective and complex judgments. These include forecasts of economic conditions and how predicted economic scenarios may impair the ability of HSBC’s borrowers to repay their loans or affect the value of assets. As a consequence, this process may be less capable of making accurate estimates which, in turn, may undermine the reliability of the process;
- the demand for borrowing from creditworthy customers may diminish should economic activity slow;
- a prolonged period of low interest rates will constrain net interest income earned by HSBC on its excess deposits;
- HSBC’s ability to borrow from other financial institutions or to engage in funding transactions on favorable terms, or at all, could be adversely affected by any renewed disruption in the capital markets or deteriorating investor sentiment;
- market developments may continue to depress consumer confidence and may cause further declines in credit card usage and adverse changes in payment patterns, leading to increases in delinquencies and default rates, write-offs and loan impairment charges beyond HSBC’s expectations;
- loan impairment allowances and write-offs would be likely to rise in the event of a ‘double dip’ recession as consumer confidence weakened and business failures increased;
- HSBC expects to face increased regulation and supervision of the financial services industry, following new proposed regulatory measures in countries in which it operates;
- trade and capital flows may contract as a result of protectionist measures being introduced in certain markets; and
- increased government ownership and control over financial institutions and further consolidation in the financial industry which could significantly alter the competitive landscape.

As a global financial institution, HSBC is exposed to these developments across all its businesses, both directly and through their impact on its customers and clients. Local variations exist, however, reflecting regional circumstances and presenting challenges to HSBC which are specific to those areas. HSBC’s strong balance sheet and capital position, its roots in emerging markets and its links with the developed world provide it with the platform to continue to grow, taking opportunities to expand its operations in existing markets and connect local customers internationally.

Risks Relating to the Capital Securities

The following is a description of certain risks relating to the Capital Securities that has been excerpted or derived from (i) the prospectus supplement of HSBC dated April 2, 2008 to a prospectus of HSBC dated June 14, 2006 with respect to the Series 1 Capital Securities and (ii) the prospectus supplement of HSBC dated June 17, 2010 to a prospectus of HSBC dated April 16, 2010 with respect to the Series 2 Capital Securities. Neither the Manager, the Fund nor the Agents have independently verified the accuracy or completeness of any such information or assume any responsibility for the completeness or accuracy of such information.

HSBC may redeem the Capital Securities and the Preference Shares at any time for certain tax or regulatory reasons.

Although the Capital Securities have no maturity date, HSBC may redeem (i) the Series 1 Capital Securities in whole or in part at any time falling on or after April 15, 2013; and (ii) the Series 2 Capital Securities in whole or in part at any time falling on or after December 15, 2015, par plus accrued Coupon Payments, including any Deferred Coupon Payments, subject to satisfaction of certain conditions and HSBC's obligation to make payment of any outstanding Deferred Coupon Payments through the Alternative Coupon Satisfaction Mechanism. HSBC may redeem the Preference Shares at its option at any time on or after their first call date, which will be no earlier than (i) April 15, 2013 for the Series 1 Capital Securities and (ii) December 15, 2015 for the Series 2 Capital Securities, at a redemption price of at least \$25, together with any accumulated dividend for the then-current dividend period to the date fixed for redemption. HSBC may also redeem the Capital Securities at any time in whole (but not in part) upon the occurrence of a Tax Event or a Regulatory Event, as more particularly described under "Description of the Capital Securities—Redemption", and in the event of a Definitive Suspension as described under "Description of the Capital Securities—Suspension", and may redeem the Preference Shares at any time upon the occurrence of certain adverse changes to the tax or regulatory treatment of the Preference Shares. Certain of such events may occur at any time after the issue date of the Capital Securities and it is therefore possible that HSBC would be able to redeem the Capital Securities or the Preference Shares at any time after such issue date.

On December 17, 2009, the Basel Committee on Banking Supervision published a consultative document entitled "Strengthening the resilience of the banking sector". The proposals outlined in this document contain a new set of criteria for Tier 1-qualifying securities that are not consistent with certain features of the Capital Securities and may not be consistent with certain features of the Preference Shares. The committee has proposed for the new criteria to be implemented by year-end 2012 and has also proposed that only instruments issued prior to the date of publication of the consultative document should benefit from a transition arrangement allowing the issuer to continue to treat the instruments as Tier 1 capital for a period of time. On February 27, 2010, the European Commission published a working document entitled "Possible Further Changes to the Capital Requirements Directive" (also known as "CRD IV"), which endorses the proposal of the Basel Committee on Banking Supervision. The proposed new international regulations described above are still in draft form. To the extent they are adopted in their current form by the European Commission, or any other event occurs that results in there being more than an insubstantial risk, or in any increase in risk, that, for the purposes of the FSA's capital adequacy requirements applicable to banks in the United Kingdom at that time, (i) the Capital Securities may not be included in HSBC's Tier 1 Capital or (ii) the Preference Shares would not be included in HSBC's Non-Innovative Tier 1 Capital, its right to redeem the Capital Securities or Preference Shares for regulatory reasons may be triggered. See also "Recent Developments".

If HSBC redeems the Capital Securities or the Preference Shares in any of the circumstances mentioned above, an investor may not be able to reinvest the redemption proceeds in securities offering a comparable yield. In addition, any early redemption of the Capital Securities or the Preference Shares may be subject to FSA conditions, regardless of whether such redemption would be favourable or unfavourable to an investor.

Coupon Payments on the Capital Securities may be deferred at any time and any Coupon Payment that is deferred is required to be paid only upon redemption, variation or exchange (which may only occur in limited circumstances) or upon HSBC's winding up or in the case of a Definitive Suspension.

HSBC may elect to defer any Coupon Payment at any time. In addition, HSBC's obligation to make any payment of principal or any Coupon Payments in cash and to make Deferred Coupon Payments through the Alternative Coupon Satisfaction Mechanism, whether prior or subsequent to the commencement of HSBC's winding up, is conditional upon HSBC being able to make such payment and remain Solvent immediately thereafter. No such payment in respect of any Capital Securities which would otherwise fall due for payment while HSBC is unable to satisfy the Solvency Condition will fall so due and will constitute a Deferred Coupon Payment.

Payments of Deferred Coupon Payments with respect to the Capital Securities are required to be paid only upon redemption, variation or exchange of the Capital Securities (which may only occur in limited circumstances), upon HSBC's winding up or in the case of a Definitive Suspension, and not in any other circumstances. HSBC is permitted to satisfy its obligation to make Deferred Coupon Payments on a Capital Security Redemption Date, Variation Date or Exchange Date only in accordance with the Alternative Coupon Satisfaction Mechanism described herein.

Any deferral of Coupon Payments may cause the Capital Securities to trade at a lower price than if all Coupon Payments have been made.

Dividends on the Preference Shares are non-cumulative and are fully discretionary. Also, dividends may not be declared and paid in full if HSBC do not have sufficient distributable profits or if HSBC fail to meet certain solvency requirements and other conditions prescribed by the FSA are not met.

HSBC may exchange the Capital Securities at its option on any Coupon Payment Date for its Preference Shares. HSBC's board of directors at its sole discretion may elect not to pay dividends on its Preference Shares. Also, HSBC's board of directors cannot declare and pay in full dividends on a series of Preference Shares if its board of directors determines that HSBC do not have sufficient distributable profits or if HSBC fail to meet certain solvency or other requirements prescribed by the FSA. If, for any such reason, HSBC's board of directors does not pay a dividend when due on a dividend payment date in respect of the Preference Shares, then holders of such shares will have no claim in respect of the non-payment and HSBC will have no obligation to pay the dividend accrued for the dividend period or to pay any interest on the dividend, whether or not dividends on the Preference Shares are declared for any future dividend period.

The Capital Securities are, and any Preference Shares will be, perpetual securities and need not be redeemed by HSBC.

HSBC is under no obligation to redeem the Capital Securities or the Preference Shares at any time and the holders of the Capital Securities or the Preference Shares have no right to call for their redemption.

The Capital Securities and the Preference Shares differ in certain material respects.

The Capital Securities and the Preference Shares differ in certain material respects including, among others; (i) the Preference Shares do not benefit from any gross-up for taxes associated with dividend payments; and (ii) the Preference Shares may only be redeemed from distributable profits or the proceeds of a new issue of equity securities. As a result of these differences, there may be circumstances in which payments could be made on Capital Securities but not on the Preference Shares.

HSBC is not required to pay an investor under the Capital Securities or any Preference Shares unless HSBC first make other required payments.

HSBC's obligations under the Capital Securities and the Preference Shares will rank junior as to payments to all of its liabilities to Senior Creditors. In a winding up or dissolution, HSBC's assets would be available to pay obligations under the Capital Securities or any Preference Shares only after HSBC have made all payments on liabilities to its Senior Creditors.

HSBC may issue securities senior to or pari passu with the Capital Securities.

There is no restriction on the amount of securities that HSBC may issue which rank senior to or *pari passu* with the Capital Securities being offered hereby. The issue of any such securities may reduce the amount recoverable by Capital Securities holders in the event HSBC is wound up and may increase the likelihood of a deferral of Coupon Payments under the Capital Securities.

The Capital Securities and the Preference Shares into which they may be exchanged do not limit HSBC's ability to incur additional indebtedness, including indebtedness that ranks senior in priority of payment to the Capital Securities.

HSBC's holding company structure may mean that its rights to participate in assets of any of its subsidiaries upon its liquidation may be subject to prior claims of some of its creditors.

Because HSBC is a holding company, its rights to participate in the assets of any subsidiary if it is liquidated will be subject to the prior claims of its creditors, except to the extent that HSBC may be a creditor with recognized claims ranking ahead of or *pari passu* with such prior claims against the subsidiary.

HSBC may postpone any planned redemption, variation or exchange of Capital Securities if HSBC have insufficient ACSM Securities authorized and available for issuance or if HSBC is otherwise unable to raise sufficient proceeds by employing the Alternative Coupon Satisfaction Mechanism.

HSBC may not redeem, vary the terms of, or exchange for Preference Shares, any Capital Securities unless all accrued but unpaid Coupon Payments and other payments thereon and the aggregate amount of Deferred Coupon Payments, if any, are satisfied at the same time. In the event that HSBC do not have a sufficient number of ACSM Securities available and authorized to be issued to implement the Alternative Coupon Satisfaction Mechanism, then the Capital Security Redemption Date, Variation Date or Exchange Date will be postponed. Even if HSBC has authorized sufficient ACSM Securities to be issued, HSBC cannot be certain that the public market for its ACSM Securities at any given time will enable it to raise sufficient proceeds to pay such Deferred Coupon Payment.

HSBC's payment of Deferred Coupon Payments may be delayed in the event of certain disruptions in the market for its ordinary shares or in applicable currency markets.

If, shortly before or during the operation of the Alternative Coupon Satisfaction Mechanism to satisfy a payment of all amounts of Deferred Coupon Payments owing, a Market Disruption Event exists, the payment of all such amounts owing may be deferred until the cessation of such market disruption and such deferral will not constitute a Capital Security Default, as more particularly described under "Description of the Capital Securities—Alternative Coupon Satisfaction Mechanism—Market Disruption Event". Any such deferred payments will bear interest at the rate per annum applicable to the Capital Securities commencing on the date which but for the Market Disruption Event would have been the date for payment.

Holder of Capital Securities have limited remedies for non-payment of amounts owed thereon.

In most circumstances the sole remedy against HSBC available to the Trustee to recover any amounts owing in respect of the principal of or interest on the Capital Securities will be to institute proceedings for the

collection of sums due and unpaid or to institute proceedings in England (but not elsewhere) for HSBC's winding up, but the Trustee may not declare the principal amount of any outstanding Capital Securities to be due and payable in order to recover such amount. See "Description of the Capital Securities—Defaults; Limitation of Remedies".

Ratings on the Capital Securities could be lowered.

The rating agencies are continuing to assess the impact of proposed regulatory changes and how these proposals may impact future ratings. A downgrade or potential downgrade of the capital securities' ratings, the assignment of a new rating that is lower than existing ratings, or a downgrade or potential downgrade in the ratings assigned to HSBC, its subsidiaries or any of its securities could adversely affect the price and liquidity of the capital securities.

An investor may not be entitled to receive U.S. dollars in a winding up.

If any holder is entitled to any recovery with respect to the Capital Securities or Preference Shares in any winding up, the holder might not be entitled in those proceedings to a recovery in U.S. dollars and might be entitled only to a recovery in pounds sterling or any other lawful currency of the United Kingdom. In addition, under current English law, HSBC's liability to holders of the Capital Securities or Preference Shares would have to be converted into pounds sterling or any other lawful currency of the United Kingdom at a date close to the commencement of proceedings against it and holders of the Capital Securities or the Preference Shares would be exposed to currency fluctuations between that date and the date they receive proceeds pursuant to such proceedings, if any.

DISTRIBUTION POLICY

The Fund will 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, it is expected that the Fund will pay distributions of approximately \$0.1458 per month per Unit (U.S. \$0.1458 in the case of the Class U Units) consisting primarily of returns of capital which are not immediately taxable but which reduce a Unitholder's adjusted cost base of its Units, representing an initial yield on the Unit issue price of 7.0% per annum. The initial monthly distribution will be payable to Unitholders of record on November 30, 2010 and will be paid no later than December 31, 2010. The first distribution is expected to reflect the period from the Closing Date to November 30, 2010. Based on the current price of the Capital Securities and assuming (i) an aggregate size of the Offerings of \$150 million, (ii) the employment of the investment strategy as described under "Investment Strategy", (iii) the use of leverage as described herein, and (iv) the fees and expenses described under "Fees and Expenses", it is expected that distributions received on the Capital Securities held in the Portfolio will be sufficient to allow the Fund to pay such distributions at the expected level. Distributions in excess of such returns of capital are expected to be capital gains. See "Canadian Federal Income Tax Considerations".

The distributions are not guaranteed. The initial monthly distribution will be payable to Unitholders of record on November 30, 2010 and will be paid no later than December 31, 2010. The first distribution will reflect the period from the Closing Date to November 30, 2010. The Manager will review such distribution policy from time to time and the distribution amount may change from time to time.

If the Capital Securities are acquired at prices above their par value and are later called at par by HSBC at any time prior to the Termination Date, the Manager expects that the value received by Unitholders upon termination of the Fund will be less than the issue price per Unit. The Capital Securities currently trade at prices in excess of their par value. If the Capital Securities are called by HSBC on their first call date (being April 15, 2013 for the Series 1 Capital Securities and December 15, 2015 for the Series 2 Capital Securities), which the Manager currently believes is likely, and if Unitholders receive distributions at a rate equal to 7.0% of the issue price per annum, the Manager estimates that Class A Units, Series 1 will generate an internal rate of return to a holder thereof of approximately 4.9% per annum, if held to December 30, 2015. This estimate is based on several

assumptions including, but not limited to, (i) an aggregate size of the Offerings of \$150 million; (ii) the use of leverage as described herein; (iii) the fees and expenses described under “Fees and Expenses”; (iv) that the Capital Securities were purchased for their trading prices as at September 27, 2010; (v) a constant price of the Canadian dollar relative to the U.S. dollar; and (vi) the composition of the Portfolio. In the event that the Capital Securities are called by HSBC prior to their first call date as a result of a Regulatory Event, the internal rate of return to Unitholders would also be adversely affected. See “Recent Developments” and “Risk Factors”.

The Fund will be 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 will 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 will be 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”.

PURCHASES OF SECURITIES

The Fund proposes to offer Class A Units at a price of \$25.00 per Class A Unit and Class U Units at a price of U.S. \$25.00 per Class U Unit (with a minimum subscription of 100 Units for \$2,500.00 or U.S. \$2,500.00, as applicable). Prospective purchasers may subscribe for Units through one of the Agents or any member of a sub-agency group that the Agents may form. Closing of the Offerings will take place on or about October 13, 2010, or such later date as may be agreed upon by the Fund and the Agents, but in any event no later than December 17, 2010. The distribution price was determined by negotiation between the Agents and the Fund. See “Plan of Distribution”.

Class A Units and Class U Units will each be issued in two series designated as Series 1 and Series 2. The only difference between the two series of each class of Units will be the fees paid with respect to such series. See “Fees and Expenses” and “Plan of Distribution”. Class A Units, Series 2 and Class U Units may be converted into Class A Units, Series 1, and Class U Units, Series 2 may be converted into Class U Units, Series 1, in each case, on a weekly basis. The Class U Units are designed for investors wishing to make their investment in U.S. dollars. See “Description of the Units – Conversion of Class A Units, Series 2 and Class U Units”.

Method to Purchase Units

Prospective purchasers may acquire Units either by (i) cash payment or (ii) an exchange of freely tradeable securities of any issuer listed below (each, an “Exchange Eligible Issuer”). The maximum number of securities of any one Exchange Eligible Issuer that the Fund may acquire under the Offerings pursuant to an exchange of securities of an Exchange Eligible Issuer (the “Exchange Option”) is the lesser of (i) that number of securities with a fair market value which constitutes 9.9% of the equity value of such Exchange Eligible Issuer for purposes of section 122.1 of the Tax Act; (ii) that number which would constitute 10% of the net assets of the Fund; and (iii) that number which, if combined with the other securities of such Exchange Eligible Issuer held, either directly or indirectly, by the Manager, would result in the Manager holding directly and indirectly 19.9% of the outstanding securities of such Exchange Eligible Issuer (such lesser number being referred to as the “Maximum Ownership Level”). To the extent the Maximum Ownership Level has been achieved in respect of the securities of any one Exchange Eligible Issuer, and an excess of securities of such Exchange Eligible Issuer above the Maximum Ownership Level has been deposited and not rescinded, then the securities of such Exchange Eligible Issuer will be accepted by the Manager up to the Maximum Ownership Level and the balance will be re-credited *pro rata* to purchasers’ accounts through CDS. There will be no closing unless a minimum of 1,000,000 Class A Units, Series 1 are sold.

A purchaser who holds securities of an Exchange Eligible Issuer as capital property may realize a capital gain or capital loss on the exchange of securities of an Exchange Eligible Issuer for Units pursuant to the Exchange Option. See “Canadian Federal Income Tax Considerations – The Exchange Option”.

Exchange Option Procedure

A prospective purchaser of Units who elects to pay for such Units by using the Exchange Option must do so by means of a book-entry deposit with Computershare Investor Services Inc., as the Exchange Agent through CDS. Such book-entry deposits must be made prior to 5:00 p.m. (Toronto time) on September 24, 2010 by a CDS Participant. However, such participants may have an earlier deadline for receiving instructions from its clients to deposit securities into the Exchange Option. Once submitted to the Exchange Agent through CDS, deposit of securities of an Exchange Eligible Issuer under the Exchange Option (including the transfer authorized thereby) is, subject to the completion of the Offerings, irrevocable unless withdrawn as described below under the heading “Rescission”. By authorizing a deposit of securities of an Exchange Eligible Issuer under the Exchange Option through CDS, a prospective purchaser authorizes the transfer to the Fund of each such security and represents and warrants that the prospective purchaser has full right and authority to transfer the securities and is the beneficial owner of such securities, that such securities have not previously been conveyed, that the transfer of such securities is not prohibited by laws applicable to the prospective purchaser and that such securities are free and clear of all liens, encumbrances and adverse claims. Such representations and warranties will survive the issuance of Units in exchange for such securities of Exchange Eligible Issuers. The Manager’s interpretation of the terms and conditions of the Exchange Option will be final and binding. The Manager reserves the right to waive any conditions of the Exchange Option (other than the Maximum Ownership Level) and to accept or reject, in whole or in part, any deposit of securities made pursuant to the Exchange Option for any reason including, without limitation, an unfavourable relationship between the Exchange Ratio as described below and the value of the securities of the Exchange Eligible Issuer.

There can be no assurance that the Fund will accept deposits of securities made pursuant to the Exchange Option. If for any reason securities of an Exchange Eligible Issuer deposited pursuant to the Exchange Option are not acquired by the Fund, the holders of such securities will be notified of such fact as soon as practicable following the closing or the termination of the Offerings, as the case may be, and such securities will be recredited to their accounts through CDS.

Determination of Exchange Ratios

The number of Units issuable in exchange (the “Exchange Ratio”) for the securities of an Exchange Eligible Issuer (other than Canadian capital securities) deposited by a prospective purchaser pursuant to the Exchange Option will be determined by dividing the volume weighted average trading price of such securities on the TSX or the NYSE, as applicable, during the five consecutive trading days ending on September 24, 2010 (the “Pricing Period”), as adjusted to reflect distributions declared by any Exchange Eligible Issuer that will not be received by the Fund, by \$25.00 or U.S. \$25.00, as applicable. For the Canadian capital securities deposited pursuant to the Exchange Option, the Exchange Ratio will be determined based on the average closing price of such securities during the five consecutive trading days ending on, plus any accrued interest to, September 24, 2010, with such closing price being the 4:00 p.m. mid-price reported by PC-Bond Analytics, a division of the TMX Group, based on pricing contributions from 11 Canadian dealers. For greater certainty, the distribution payable on the securities of any Exchange Eligible Issuer that are deposited under the Exchange Option and which have a record date before the Closing will be received by the prospective purchaser who deposited such securities and not by the Fund. The Exchange Ratios will be rounded down to four decimal places. If a prospective purchaser of Units has deposited securities of one or more Exchange Eligible Issuers pursuant to the Exchange Option, and if the exchange of such securities for Units would otherwise result in the issuance of a fractional Unit, the Fund will, after the applicable withdrawal period has expired, forward a cash payment to CDS equal to \$25.00 or U.S. \$25.00, as applicable, multiplied by such fraction of a Unit, in lieu of issuing a fractional Unit. Prospective purchasers who deposit securities of Canadian Exchange Eligible Issuers that are accepted by the Fund may choose to receive Class A Units, Series 1 or Class A Units, Series 2 and prospective purchasers who deposit securities of U.S. Exchange Eligible Issuers that are accepted by the Fund may choose to receive Class A

Units, Series 1 or Class A Units, Series 2 or Class U Units, Series 1 or Class U Units, Series 2. For prospective purchasers who deposit securities of U.S. Exchange Eligible Issuers and elect to receive Class A Units, the Exchange Ratio will be determined by dividing the Canadian dollar equivalent, determined by the Reference Exchange Rate on September 24, 2010, of the volume weighted average trading price of such securities on the NYSE during the Pricing Period, as adjusted to reflect distributions declared by any Exchange Eligible Issuer that will not be received by the Fund, by \$25.00. In the event that the Closing Date occurs on a date other than October 13, 2010, the Fund will issue a press release that shows the recalculated Exchange Ratios.

Delivery of Final Prospectus

Each prospective purchaser who authorizes the deposit of securities of an Exchange Eligible Issuer through CDS by 5:00 p.m. (Toronto time) on September 24, 2010 will be furnished with a copy of the final prospectus relating to the Offerings.

Rescission

A purchaser may rescind its purchase of Units hereunder by a written notice of rescission which must be received by the CDS Participant who effected such deposit on or before midnight on the second Business Day after receipt or deemed receipt of the final prospectus related to the Offerings and any amendment. Any such notice of rescission must specify the securities of each Exchange Eligible Issuer to be so rescinded and the name of the prospective purchaser. In the event that the Closing Date occurs on a date other than October 13, 2010, the Fund will issue a press release that shows the recalculated Exchange Ratios and will provide the purchasers under the Exchange Option with an additional two Business Days after the issuance of the press release to rescind their purchase in accordance with the foregoing procedures. A prospective purchaser also has the rights described under “Purchasers’ Statutory Rights of Withdrawal and Rescission”.

Exchange Eligible Issuers

The tables below list the securities that may be accepted by the Fund pursuant to the Exchange Option, including the name of the Exchange Eligible Issuer, the applicable CUSIP and ISIN number and, if applicable, the ticker symbol.

HSBC Capital Securities

Description	NYSE Symbol	CUSIP	ISIN	Volume weighted average trading price (\$)	Exchange Ratio for Class A Units ¹	Exchange Ratio for Class U Units
HSBC Capital Securities, Series 1	HCS	404280703	US4042807036	27.8636	1.1442	1.1145
HSBC Capital Securities, Series 2	HCS.PR.B	404280802	US4042808026	27.0635	1.1114	1.0825

Notes:

1. The Exchange Ratio in respect of Class A Units has been determined based on the Reference Exchange Rate on September 24, 2010.

Canadian Equities

Description	TSX Symbol	CUSIP	ISIN	Volume weighted average trading price (\$)	Exchange Ratio
Bank of Montreal	BMO	063671101	CA0636711016	59.7773	2.3911
Bank of Nova Scotia	BNS	064149107	CA0641491075	53.4033	2.1165

Canadian Imperial Bank of Commerce	CM	136069101	CA1360691010	73.8437	2.9259
National Bank of Canada	NA	633067103	CA6330671034	64.9762	2.5990
Royal Bank of Canada	RY	780087102	CA7800871021	53.3101	2.1324
Toronto Dominion Bank	TD	891160509	CA8911605092	74.8511	2.9696

Canadian Preferred Shares

Description	TSX Symbol	CUSIP	ISIN	Volume weighted average trading price (\$)	Exchange Ratio
Brookfield Asset Management, Series 24, 5.4%	BAM.PR.R	112585740	CA1125857401	26.8760	1.0750
Brookfield Asset Management, Series 22, 7%	BAM.PR.P	112585120	CA1125851206	27.9317	1.1173
Bank of Montreal, Series 13, 4.5%	BMO.PR.J	063671812	CA0636718128	22.2566	0.8903
Bank of Montreal, Series 16, 5.2%	BMO.PR.M	063671788	CA0636717880	26.8403	1.0736
Bank of Montreal, Series 14, 5.25%	BMO.PR.K	063671143	CA0636711438	24.6097	0.9844
Bank of Montreal, Series 23, 5.4%	BMO.PR.P	063671747	CA0636717476	27.9666	1.1187
Bank of Montreal, Series 15, 5.8%	BMO.PR.L	063671796	CA0636717963	26.3539	1.0542
Bank of Montreal, Series 21, 6.5%	BMO.PR.O	063671762	CA0636717625	28.4140	1.1366
Bank of Nova Scotia, Series 30, 3.85%	BNS.PR.Y	064149636	CA0641496363	25.3947	1.0062
Bank of Nova Scotia, Series 14, 4.5%	BNS.PR.L	064149784	CA0641497841	22.1838	0.8761
Bank of Nova Scotia, Series 15, 4.5%	BNS.PR.M	064149776	CA0641497767	22.1369	0.8742
Bank of Nova Scotia, Series 13, 4.8%	BNS.PR.K	064149792	CA0641497924	23.1716	0.9149
Bank of Nova Scotia, Series 12, 5.25%	BNS.PR.J	064149818	CA0641498187	24.6884	0.9744
Bank of Nova Scotia, Series 16, 5.25%	BNS.PR.N	064149768	CA0641497684	24.6541	0.9730
Bank of Nova Scotia, Series 17, 5.6%	BNS.PR.O	064149750	CA0641497502	25.7630	1.0165
Bank of Nova Scotia, Series 26, 6.25%	BNS.PR.T	064149677	CA0641496777	28.3273	1.1175
CIBC, Series 32, 4.5%	CM.PR.J	136069531	CA1360695318	21.7631	0.8615
CIBC, Series 31, 4.7%	CM.PR.I	136069549	CA1360695490	22.4167	0.8873
CIBC, Series 30, 4.8%	CM.PR.H	136069556	CA1360695565	22.7909	0.9020
CIBC, Series 23, 5.3%	CM.PR.A	136069648	CA1360696480	25.4660	1.0080
CIBC, Series 29, 5.4%	CM.PR.G	136069564	CA1360695649	24.6517	0.9753
CIBC, Series 27, 5.6%	CM.PR.E	136069598	CA1360695987	25.1333	0.9941
Great-West Lifeco, Series I, 4.5%	GWO.PR.I	39138C866	CA39138C8667	20.3917	0.8157
Great-West Lifeco, Series G, 5.2%	GWO.PR.G	39138C882	CA39138C8824	23.2686	0.9307
Power Financial, Series P, 4.4%	PWF.PR.P	73927C779	CA73927C7796	26.2895	1.0366
Power Financial, Series K, 4.95%	PWF.PR.K	73927C837	CA73927C8372	22.2829	0.8789
Power Financial, Series I, 6%	PWF.PR.I	73927C845	CA73927C8455	25.6105	1.0094
Royal Bank of Canada, Series AA, 4.45%	RY.PR.A	780085445	CA7800854456	22.1189	0.8848
Royal Bank of Canada, Series AD, 4.5%	RY.PR.D	780102844	CA7801028449	21.8825	0.8753
Royal Bank of Canada, Series AG, 4.5%	RY.PR.G	780102554	CA7801025544	21.8765	0.8751
Royal Bank of Canada, Series AE, 4.5%	RY.PR.E	780102760	CA7801027607	21.8450	0.8738
Royal Bank of Canada, Series AC, 4.6%	RY.PR.C	780102604	CA7801026047	22.3309	0.8932
Royal Bank of Canada, Series AB, 4.7%	RY.PR.B	780085247	CA7800852476	22.7750	0.9110
Royal Bank of Canada, Series W, 4.9%	RY.PR.W	780085502	CA7800855024	23.7804	0.9512
Royal Bank of Canada, Series AJ, 5%	RY.PR.I	78010A416	CA78010A4164	26.7085	1.0683
Royal Bank of Canada, Series AL, 5.6%	RY.PR.L	78010A333	CA78010A3331	27.3555	1.0942
Royal Bank of Canada, Series AX, 6.1%	RY.PR.Y	780086815	CA7800868159	28.1970	1.1279
Royal Bank of Canada, Series AN, 6.25%	RY.PR.N	780086302	CA7800863028	27.8630	1.1145
Royal Bank of Canada, Series AV, 6.25%	RY.PR.X	780086856	CA7800868563	28.2386	1.1295

Royal Bank of Canada, Series AT, 6.25%	RY.PR.T	780086872	CA7800868720	28.2425	1.1297
Royal Bank of Canada, Series AP, 6.25%	RY.PR.P	780086500	CA7800865007	27.9034	1.1161
Sun Life Financial, Series 8R, 4.35%	SLF.PR.G	866796881	CA8667968819	25.9575	1.0383
Sun Life Financial, Series 1, 4.75%	SLF.PR.A	866796204	CA8667962044	21.1398	0.8456
Sun Life Financial, Series 2, 4.8%	SLF.PR.B	866796303	CA8667963034	21.5596	0.8624
Sun Life Financial, Series 6R, 6%	SLF.PR.F	866796709	CA8667967092	27.6728	1.1069
Toronto-Dominion Bank, Series O, 4.85%	TD.PR.O	891160681	CA8911606819	23.3923	0.9236
Toronto-Dominion Bank, Series R, 5.6%	TD.PR.R	891145401	CA8911454012	25.5575	1.0083
Toronto-Dominion Bank, Series AK, 6.25%	TD.PR.K	891145740	CA8911457403	28.3542	1.1185
Toronto-Dominion Bank, Series AE, 6.25%	TD.PR.E	891145831	CA8911458310	28.2888	1.1159
Toronto-Dominion Bank, Series AG, 6.25%	TD.PR.G	891145799	CA8911457999	28.2493	1.1143

Canadian Capital Securities

Description	CUSIP	ISIN	Average Closing Price Plus Accrued Interest (\$)	Exchange Ratio
BMO Capital Trust, Series B, 6.647%	05560HAB9	CA05560HAB92	102.9382	4.1175
BMO Capital Trust, Series C, 6.685%	05560HAC7	CA05560HAC75	106.8680	4.2747
BMO Capital Trust, Series D, 5.474%	05560HAD5	CA05560HAD58	109.7646	4.3906
BMO Capital Trust, Series E, 4.633%	05560HAE3	CA05560HAE32	105.8212	4.2328
BMO Capital Trust II, Series A, 10.221%	055974AA7	CA055974AA71	132.9044	5.3162
BNS Capital Trust, Series 2000-1, 7.31%	05564PAA9	CA05564PAA99	103.2216	4.1289
Scotiabank Capital Trust, Series 2002-1, 6.626%	80928BAA4	CA80928BAA40	108.4516	4.3381
Scotiabank Capital Trust, Series 2003-1, 6.282%	80928BAB2	CA80928BAB23	110.5428	4.4217
Scotiabank Capital Trust, Series 2006-1, 5.65%	80928BAC0	CA80928BAC06	100.1344	4.0054
Scotiabank Tier 1 Trust, Series 2009-1, 7.802%	80928FAA5	CA80928FAA53	116.9658	4.6786
CIBC Capital Trust, Series A, 9.976%	12544UAA9	CA12544UAA93	129.4294	5.1772
CIBC Capital Trust, Series B, 10.25%	12544UAB7	CA12544UAB76	136.4806	5.4592
Great-West Life Capital Trust, Series A, 5.995%	391380AA0	CA391380AA03	108.5492	4.3420
Manulife Financial Capital Trust, Series B, 6.7%	56501QAB4	CA56501QAB47	107.4662	4.2986
Manulife Financial Capital Trust II, Series 1, 7.405%	56501XAA1	CA56501XAA15	109.2116	4.3685
RBC Capital Trust, Series 2011, 7.183%	74925YAB8	CA74925YAB89	105.5170	4.2207
RBC Capital Trust II, Series 2013, 5.812%	74926HAA6	CA74926HAA64	110.2470	4.4099
RBC Capital Trust, Series 2015, 4.87%	74925YAC6	CA74925YAC62	107.4392	4.2976
RBC Capital Trust, Series 2008-1, 6.821%	74925YAD4	CA74925YAD46	117.0318	4.6813
Sun Life Capital Trust, Series A, 6.865%	86679QAA9	CA86679QAA90	106.9086	4.2763
Sun Life Capital Trust, Series B, 7.093%	86679QAB7	CA86679QAB73	114.5930	4.5837
Sun Life Capital Trust II, Series 2009-1, 5.863%	86680BAA9	CA86680BAA94	105.1560	4.2062
TD Capital Trust II, Series 2012-1, 6.792%	87807TAA6	CA87807TAA66	110.6164	4.4247
TD Capital Trust III, Series 2008, 7.243%	87239BAA3	CA87239BAA31	120.7910	4.8316
TD Capital Trust IV, Series 1, 9.523%	87239GAA2	CA87239GAA28	126.8656	5.0746
TD Capital Trust IV, Series 2, 10%	87239GAB0	CA87239GAB01	133.7236	5.3489
TD Capital Trust IV, Series 3, 6.631%	87239GAC8	CA87239GAC83	112.4596	4.4984

Sale by the Fund of the Securities of Exchange Eligible Issuers

Subject to the Manager's right to accept or reject, in whole or in part, any deposit of securities made pursuant to the Exchange Option, promptly following receipt and acceptance by the Fund of securities of any Exchange Eligible Issuer (other than Capital Securities), the Fund will sell such securities in the open market or to the Exchange Dealer. If the Fund receives and accepts Capital Securities pursuant to the Exchange Option, the Fund will sell such Capital Securities to the Exchange Dealer, which will then re-sell such securities to CS Trust at the applicable market prices. The Exchange Dealer will receive a commission not greater than 0.25% of the purchase price for any such securities purchased by it. In the event that the Counterparty determines not to hedge its exposure by acquiring units of CS Trust, the Exchange Dealer will have the option to put the securities of any Exchange Eligible Issuer acquired by it back to the Fund at the applicable acquisition price paid for such securities, less the amount of the applicable commission to which the Exchange Dealer is entitled.

REDEMPTION OF SECURITIES

Annual Redemptions

Class A Units and Class U Units may be redeemed on an Annual Redemption Date, 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 dependant upon the performance of CS Trust (or the Notional Portfolio). 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. The Annual Redemption Price will vary depending on a number of factors. See "Risk Factors".

Monthly Redemptions

In addition to the annual redemption right, Class A Units and Class U Units may also be redeemed on a Monthly Redemption Date, 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. See "Risk Factors".

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 and (ii) 100% of the Closing Market Price of a Class A Unit, Series 1 on the applicable 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.

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 will be dependent upon the performance of CS Trust and the Net Asset Value of CS Trust units (or the Notional Portfolio).

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.

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.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of McCarthy Tétrault LLP, counsel to the Fund, and Stikeman Elliott LLP, counsel to the Agents, the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to the acquisition, holding and disposition of Units by a Unitholder who acquires Units pursuant to this prospectus. This summary is applicable to a Unitholder who is an individual (other than a trust) and who, at all relevant times, for the purposes of the Tax Act, is resident in Canada, deals at arm's length with the Fund, is not affiliated with the Fund, and holds Units as capital property. Generally, Units will be considered to be capital property to a Unitholder provided the Unitholder does not hold the Units in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to have such Units and all other "Canadian securities" (as defined in the Tax Act) owned or subsequently acquired by them treated as capital property by making an irrevocable election in accordance with subsection 39(4) of the Tax Act. This summary is based on the assumptions that the Canadian Securities Portfolio will consist solely of "Canadian securities" for purposes of the Tax Act and that the Fund will elect in accordance with the Tax Act to have each of its Canadian securities treated as capital property.

This summary is based on the current provisions of the Tax Act, counsel's understanding of the current administrative policies and assessing practices of the CRA published in writing by it, the Tax Proposals and certificates from the Agents and the Manager regarding certain matters. Except for the Tax Proposals, this summary does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, or any changes in the administrative policies and assessing practices of the CRA, nor does it take into account other federal or any provincial, territorial or foreign income tax legislation or considerations which may differ significantly from the tax considerations described herein. There can be no assurance that the Tax Proposals will be enacted in the form publicly announced or at all.

This summary is not exhaustive of all possible Canadian federal tax considerations applicable to an investment in Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary depending on the investor's particular circumstances including the province or provinces in which the investor resides or carries on business. Counsel express no views herein with respect to the deductibility of interest on any funds borrowed by a Unitholder to purchase Units. This summary is of a general nature only and is not intended to be legal or tax advice to any investor. Investors should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Units, based on their particular circumstances.

Status of the Fund

This summary is based on the assumptions that the Fund will qualify at all times as a "unit trust" and a "mutual fund trust" within the meaning of the Tax Act, and that the Fund will elect under the Tax Act to be a mutual fund trust from the date it was established. To qualify as a mutual fund trust the Fund must, among other things, comply on a continuous basis with certain minimum requirements respecting the ownership and dispersal

of Units. The Manager has advised counsel that the Fund intends to make an election so that it can qualify under the Tax Act as a mutual fund trust from the commencement of its first taxation year.

Taxation of the Fund

The Fund will be subject to tax in each taxation year under Part I of the Tax Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it deducts in respect of the amount paid or payable to Unitholders in the year. Counsel have been advised that the Fund intends to deduct, in computing its income in each taxation year, the full amount available for deduction in each year and, therefore, provided the Fund makes distributions in each year of its net income and net realized capital gains as described under “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 will be 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 a redemption of Units. In computing its income for tax purposes (and subject to the October 31 Proposal, described below), 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, pro-rated where the Fund’s taxation year is less than 365 days.

The Fund will not realize any income, gain or loss as a result of entering into the Forward Agreement and no amount will be 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 will be 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 will be taxed as capital gains or capital losses.

On October 31, 2003 the Department of Finance announced a Tax Proposal (the October 31 Proposal) relating to the deductibility of losses under the Tax Act. Under the October 31 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 the October 31 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 October 31 Proposal 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. A trust will be considered a SIFT 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.

Taxation of Unitholders

Subject to the possible application of the SIFT Rules described above, a Unitholder will generally be required to include, in computing income for a taxation year, the amount of the Fund’s net income for the taxation year, including net realized taxable capital gains, paid or payable to the Unitholder 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. Subject to the detailed rules in the Tax Act, allowable capital losses in excess of taxable capital gains in the year of disposition may be applied to reduce net taxable capital gains of the purchaser in any of the three years preceding the year of disposition or in any year following the year of disposition in accordance with 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 Unit will be averaged with the adjusted cost base of all identical 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 (a "taxable capital gain") realized on the disposition of Units will be included in the Unitholder's income and one-half of any capital loss (an "allowable 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.

The Exchange Option

A purchaser who disposes of securities of an Exchange Eligible Issuer ("Exchanged Securities") pursuant to the Exchange Option and holds such Exchanged Securities as capital property will realize a capital gain (or a capital loss) in the taxation year of the purchaser in which the disposition of Exchanged Securities takes place to the extent that the proceeds of disposition for such Exchanged Securities, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the purchaser of such Exchanged Securities. For this purpose, the proceeds of disposition to the purchaser will equal the aggregate of the fair market value of the Units received and the amount of any cash received in lieu of fractional Units. The cost to a purchaser of Units so acquired will be equal to the fair market value of the Exchanged Securities at the time of exchange less any cash received by the purchaser of Units.

A taxable capital gain realized upon the disposition of Exchanged Securities will be included in the purchaser's income and the purchaser will be generally entitled to deduct an allowable capital loss realized on such disposition against taxable capital gains in accordance with the Tax Act. Subject to the detailed rules in the Tax Act, allowable capital losses in excess of taxable capital gains in the year of disposition may be applied to reduce net taxable capital gains of the purchaser in any of the three years preceding the year of disposition or in any year following the year of disposition in accordance with the Tax Act.

Taxable capital gains realized by a purchaser may give rise to alternative minimum tax depending on the purchaser's circumstances.

Taxation of Registered Plans

Amounts of income and capital gains distributed by the Fund to a Registered Plan, and capital gains realized by a Registered Plan on a disposition of Units, are generally not taxable under Part I of the Tax Act while retained in a Registered Plan, provided that the Units are qualified investments under such Registered Plan. See “Eligibility for Investment”. Unitholders should consult with their own advisors regarding the tax implications of establishing, amending, terminating or withdrawing amounts from a Registered Plan.

Taxation Implications of the Fund’s Distribution Policy

The Net Asset Value per Unit will reflect any income and gains of the Fund that have accrued or have been realized but have not been made payable at the time the Units are acquired. Accordingly, a Unitholder who acquires Units may become taxable on the Unitholder’s share of income and gains of the Fund that accrued before the Units were acquired, notwithstanding that such amounts will have been reflected in the price paid by the Unitholder for the Units. Since the Fund makes monthly distributions, as described under “Distributions”, the consequences of acquiring Units late in a calendar year will generally depend on the amount of the monthly distributions throughout the year and whether an Additional Distribution is necessary late in the calendar year to ensure that the Fund will not be liable for income tax on such amounts under the Tax Act.

Eligibility for Investment

In the opinion of McCarthy Tétrault LLP, counsel for the Fund, and Stikeman Elliott LLP, counsel for the Agents, provided that the Fund qualifies as a mutual fund trust within the meaning of the Tax Act or, in the case of Class A Units, Series 1, such Units are listed on a designated stock exchange (which includes the TSX), the Units will be qualified investments under the Tax Act for Registered Plans.

Notwithstanding the foregoing, if the Units are “prohibited investments” for a tax-free savings account (“TFSA”), the holder of the TFSA will be subject to a penalty tax as set out in the Tax Act. A “prohibited investment” includes a unit of a trust which does not deal at arm’s length with the holder of the TFSA, or in which the holder has a significant interest, which in general terms means the ownership of 10% or more of the value of the trust’s outstanding units by the holder, either alone or together with persons and partnerships with whom the holder does not deal at arm’s length. Holders of TFSAs should consult with their tax advisors in this regard.

ORGANIZATION AND MANAGEMENT DETAILS OF THE FUND

The Manager

Connor, Clark & Lunn Capital Markets Inc. oversees, manages and implements the objectives of the Fund. The Manager has offices at 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7. The corporate secretary of the Manager is W. Neil Murdoch.

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 and CS Trust, as applicable, to make all decisions regarding the undertaking of the Fund and CS Trust and to bind the Fund and CS Trust. 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 and/or CS Trust to do so.

The Manager’s duties will include maintaining accounting records for the Fund and CS Trust; authorizing the payment of operating expenses incurred on behalf of the Fund and/or CS Trust; 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 and CS Trust’s reports to unitholders and to the Canadian securities regulators; providing the Custodian with information and reports necessary for the

Custodian to fulfil its fiduciary responsibilities; currency hedging; administering the redemption of Units; arranging for any payment required on the termination of the Fund and/or CS Trust; 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 will also implement the Fund's and CS Trust's investment strategy to ensure compliance with the Fund's and CS Trust's investment guidelines and that the net proceeds of the Offerings are invested as described under "Use of Proceeds".

The Fund will enter into the Registrar, Transfer Agency and Distribution Agency Agreement, as referred to under "Organization and Management Details of the Fund – Transfer Agent and Registrar". The Fund may terminate the foregoing agreement upon notice.

Details of the Manager's Obligations under the Trust Agreements

Pursuant to the Trust Agreements, the Manager shall exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of the Fund, 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 Trust Agreements provide that the Manager shall not be liable in any way for any default, failure or defect in the securities held by the Fund or CS Trust or for any loss or diminution in the value of such securities or other loss or damage suffered by any such person or for any errors of judgement, acts or omissions if it has satisfied the duties and standard of care, diligence and skill set forth above. The Manager will, however, incur liability in cases of wilful misconduct, bad faith or negligence or breach of its obligations under the Trust Agreements and is responsible for any investment advisory and portfolio management services provided to the Fund and CS Trust.

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 its unitholders, 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 will be 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 will be 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 wilful misconduct, bad faith or negligence or the Manager's failure to meet the standard of care set forth above.

Conflicts of Interest – Manager and Trustee

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 will be 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.

Accounting and Reporting

The Fund's fiscal year-end will be August 31. The Manager will ensure that the Fund complies with all applicable reporting and administrative requirements.

The Manager will keep adequate books and records reflecting the activities of the Fund. A Unitholder or his or her duly authorized representative will have the right to examine the books and records of the Fund during normal business hours at the offices of the Manager. Notwithstanding the foregoing, 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.

Officers and Directors of the Manager

The name and municipality of residence of the Directors and Executive Officers of the Manager and their principal occupations are as follows:

<u>Name and municipality of residence</u>	<u>Position with the Manager</u>	<u>Principal occupation</u>
W. NEIL MURDOCH Oakville, Ontario	Director, President and Chief Executive Officer	Director, President and Chief Executive Officer, Connor, Clark & Lunn Capital Markets Inc.
MICHAEL W. FREUND..... Toronto, Ontario	Director, Chairman and Chief Financial Officer	Managing Partner, Connor, Clark & Lunn Financial Group
DARREN N. CABRAL..... Toronto, Ontario	Director, Vice-President	Vice-President, Connor, Clark & Lunn Capital Markets Inc.

Each of the foregoing has held his current position or has held a similar position with the Manager during the five years preceding the date hereof, except for Darren N. Cabral who joined Connor, Clark & Lunn Capital Markets Inc. in May 2007 and was elected as a director on September 29, 2009.

W. Neil Murdoch: CFA; B.Comm, McGill University; LLB, University of Toronto; Master of Management, Kellogg Graduate School of Management, Northwestern University. Mr. Murdoch joined 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.

Michael W. Freund: B.Bus.Sci., University of Cape Town. Mr. Freund has held various management positions within the Connor, Clark & Lunn Financial Group of companies since 1997. Mr. Freund's current principal occupation is Managing Partner of the Connor, Clark & Lunn Financial Group.

Darren N. Cabral: CFA; BA (Hons.), York University; MBA, Schulich School of Business, York University. Mr. Cabral joined 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.

Independent Review Committee

The Manager has appointed an independent review committee (the Independent Review Committee) in accordance with NI 81-107 comprised of three 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 will report annually to the Fund which report will be available free of charge upon request to the Manager and will also be posted on the Manager's

website at www.cclgroup.com. Information contained on the Manager's website is not part of this prospectus and is not incorporated herein by reference.

The members of the Independent Review Committee are Fred Lazar, Frank Santangeli and Joseph Wright. The Independent Review Committee acts as a review committee for a number of investment funds managed by the Manager and by Connor, Clark & Lunn Managed Portfolios Inc., an affiliate of the Manager.

The fees and other reasonable expenses of members of the Independent Review Committee, as well as premiums for insurance coverage for such members, will be paid by the Fund and approximately 20 other applicable investment funds managed by the Manager and Connor, Clark & Lunn Managed Portfolios Inc. with each fund's share based on a complexity factor approved by the Independent Review Committee on a *pro rata* basis. It is expected that the annual retainer fees (but not including expenses) and insurance for the Independent Review Committee for all such funds collectively will be approximately \$55,000. In addition, the Fund has agreed to indemnify the members of the Independent Review Committee against certain liabilities.

Portfolio Manager

The Manager will provide portfolio management services for the Fund and CS Trust, or may appoint a sub-advisor pursuant to the applicable trust agreement.

Trustee

RBC Dexia Investor Services Trust is the trustee of the Fund under the Fund Trust Agreement and, as such, is responsible for certain aspects of the day-to-day administration of the Fund as described in the Fund Trust Agreement. The Trustee's office is located in Toronto, Ontario.

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 Fund 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 Fund Trust Agreement provides that the Trustee shall not be liable in carrying out its duties under the Fund Trust Agreement except where it is in breach of its obligations under the Fund 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 Fund 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.

Custodian

RBC Dexia Investor Services Trust will act as Custodian of the assets of the Fund pursuant to the Trust Agreement. The Custodian, in its capacity as valuation services agent, will also carry out certain aspects of the day-to-day administration of the Fund, including calculating NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. The Custodian's office is located in Toronto, Ontario.

Auditor

The auditor of the Fund and CS Trust is PricewaterhouseCoopers LLP, Chartered Accountants, at 77 King Street West, Suite 3000, Toronto, Ontario, M5K 1G8.

Transfer Agent, Registrar and Exchange Agent

Pursuant to the Registrar, Transfer Agency and Distribution Agency Agreement, Computershare Investor Services Inc., at its office in Toronto, Ontario, will maintain the securities registers of the Units, register transfers of the Units, and will accept deposits of securities of Exchange Eligible Issuers.

Exchange Dealer

BMO Nesbitt Burns Inc. may purchase securities of Exchange Eligible Issuers from the Fund and may sell such securities to CS Trust or in the open market. If CS Trust does not purchase such securities, the Exchange Dealer will have the option to sell such securities back to the Fund. The Exchange Dealer is located in Toronto, Ontario.

The Promoter

Connor, Clark & Lunn Capital Markets Inc. may be considered a promoter of the Fund by reason of its initiative in forming and establishing the Fund and taking the steps necessary for the public distribution of the Units. Connor, Clark & Lunn Capital Markets Inc. will not receive any benefits, directly or indirectly, from the issuance of Units offered hereunder other than amounts paid to it in its capacity as Manager of the Fund as described under "Fees and Expenses". Connor, Clark & Lunn Capital Markets Inc. has offices in Toronto, Ontario.

CALCULATION OF NET ASSET VALUE

Calculation of Net Asset Value

The Valuation Agent will calculate the Net Asset Value per Unit of each series of Units as at the close of business on each Valuation Date. The Fund will make available to the financial press for publication on a daily basis the Net Asset Value per Unit of each series. Such amount will also be available on the Manager's website at www.cclcapitalmarkets.com.

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 will be 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 will be 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 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 will be 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. The Net Asset Value per Unit of a series

determined in accordance with the principles set out above may differ from Net Asset Value per Unit determined under Canadian generally accepted accounting principles.

For 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.

Reporting of Net Asset Value

The Net Asset Value per Unit will be provided daily to Unitholders at no cost on the Manager's website at www.cclcapitalmarkets.com, and will also be available to Unitholders upon request, at no cost, by calling 1-888-276-2258.

DESCRIPTION OF THE UNITS

The Units

The beneficial interest in the net assets and net income of the Fund is divided into two classes of units, Class A Units and Class U Units. Class A Units and Class U Units will each be issued in two series designated as Series 1 and Series 2. The only difference between the two series of each class of Units will be the fees paid with respect to such series. See "Fees and Expenses" and "Plan of Distribution". The Fund is authorized to issue an unlimited number of Units of each class. Class A Units, Series 2 and 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, 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 (due to the Class U Units being denominated in U.S. dollars). Each Unitholder is entitled to one vote for each Unit held and is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net realized capital gains, if any. On the redemption of Units, however, the Fund may in its sole discretion, designate payable to redeeming Unitholders, as part of the redemption price, any capital gains realized by the Fund in the taxation year in which the redemption occurred. On termination or liquidation of the Fund, the Unitholders of record are entitled to receive on a *pro rata* basis with holders of Units of that class all of the assets of the Fund attributable to that class remaining after payment of all debts, liabilities and liquidation expenses of the Fund. Unitholders will have no voting rights in respect of securities held by the Fund. CS Trust has delegated to the Manager the responsibility for voting on matters for which CS Trust receives, in its capacity as a securityholder, proxy materials for a meeting of securityholders of an issuer included in the Portfolio. See "Proxy Voting Disclosure".

The Fund Trust Agreements provides that the Fund may not issue additional Units following completion of the Offerings except (i) at a price that yields net proceeds of not less than 100% of Net Asset Value per Unit calculated as of the close of business on the Business Day immediately prior to the pricing of such offering; or (ii) with the approval of Unitholders.

See "Unitholder Matters – Amendment of Fund Trust Agreement" with respect to the modification, amendment or variation of the rights attached to the Units.

On December 16, 2004, the *Trust Beneficiaries' Liability Act, 2004* (Ontario) came into force. This statute provides that holders of units of a trust are not, as beneficiaries, liable for any act, default, obligation or liability of the trust if, when the act or default occurs or the liability arises, (i) the trust is a reporting issuer under the *Securities Act* (Ontario) and (ii) the trust is governed by the laws of Ontario. The Fund is a reporting issuer under the *Securities Act* (Ontario) and it is governed by the laws of Ontario by virtue of the provisions of the Fund Trust Agreement.

Conversion of Class A Units, Series 2 and Class U Units

Class A Units, Series 2 and Class U Units may be converted into Class A Units, Series 1 on a weekly basis. A holder of Class A Units, Series 2 or Class U Units, as applicable, may convert Class A Units, Series 2 or Class U Units, as applicable, into Class A Units, Series 1 from time to time and it is expected that liquidity for the Class A Units, Series 2 and Class U Units will be obtained primarily by means of conversion into Class A Units, Series 1. Class A Units, Series 2 and Class U Units may be converted in any week on the first Business Day of such week by delivering a notice and surrendering such Class A Units, Series 2 or Class U Units, as applicable, by 5:00 p.m. (Toronto time) at least 5 Business Days prior to the applicable Conversion Date. For each Class A Unit, Series 2 or Class U Unit so converted, a holder will receive that number of Class A Units, Series 1 equal to the Net Asset Value per Class A Unit, Series 2 or Class U Unit, as applicable, 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, Series 1 as of the close of trading on the Business Day immediately preceding the Conversion Date. No fractions of Class A Units, Series 1 will be issued upon any conversion of Class A Units, Series 2 or Class U Units; any fractional amounts will be rounded down to the nearest whole number of Class A Units, Series 1. For such purpose, the Fund will utilize the Reference Exchange Rate current at, or as nearly as practicable to, the Conversion Date in respect of a conversion of Class U Units. 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.

Purchase for Cancellation

The Fund 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, Series 1 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, Series 1 not exceeding the most recently calculated Net Asset Value per Class A Unit, Series 1 immediately prior to the date of any such purchase of Units. It is expected that these purchases will be made as normal course issuer bids through the facilities and under the rules of the TSX or such other exchange or market on which the Class A Units, Series 1 are then listed.

Take-over Bids

The Fund Trust Agreement contains provisions to the effect that if a take-over bid is made for the Class A Units, Series 1 and not less than 90% of the aggregate of the Class A Units, Series 1 (but not including any Class A Units, Series 1 held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Class A Units, Series 1 held by the Unitholders who did not accept the take-over bid on the terms offered by the offeror.

The Fund Trust Agreement also provides that if, prior to the termination of the Fund, a formal bid (as defined in the *Securities Act* (Ontario)) is made for all of the Class U Units or Class A Units, Series 2, and such bid would constitute a formal bid for all Class A Units, Series 1 if the Class A Units, Series 2, Class U Units, Series 1 and/or Class U Units, Series 2 had been converted to Class A Units, Series 1 immediately prior to such bid and the other offer does not include a concurrent identical take-over bid, including in terms of price (relative to the Net Asset Value per Unit of the class or series), for the Class A Units, Series 1 then the Fund shall provide the holders of Class A Units, Series 1 the right to convert all or a part of their Class A Units, Series 1 into Units of the applicable class or series and to tender such units to the other offer, as applicable. In the circumstances described above, the Fund shall by press release provide written notice to the holders of the Class A Units, Series 1 that such an offer has been made and of the right of such holders to convert all or a part of their Class A Units, Series 1 into Units of the applicable class or series and to tender such units to other offer.

Book Entry Only System

Registration of interests in and transfers of the Units will be made only through the Book-Entry Only System. On the Closing Date, the Manager, on behalf of the Fund will deliver to CDS certificates representing the aggregate number of Class A Units, Series 1, Class A Units, Series 2, Class U Units, Series 1 and Class U Units, Series 2 then subscribed for under the Offerings. Class A Units, Series 1, Class A Units, Series 2, Class U Units, Series 1 and Class U Units, Series 2 must be purchased, converted, transferred and surrendered for redemption through a CDS Participant. All rights of Unitholders must be exercised through, and all payments or other property to which such Unitholders are entitled will be made or delivered by CDS or the CDS Participant through which the Unitholder holds such Units. Upon purchase of any Units, the Unitholders will receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Units are purchased.

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

The Fund has the option to terminate registration of the Units through the Book-Entry Only System, in which case certificates for the Units in fully registered form would be issued to beneficial owners of such Units or their nominees.

UNITHOLDER MATTERS

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.

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”.

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.

Reporting to Unitholders

The Fund will make 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 Canadian generally accepted accounting principles and, (ii) interim and annual management reports of fund performance in respect of the Fund and CS Trust. The Fund will mail the foregoing disclosure documents relating to CS Trust to all of the Unitholders who receive the Fund’s financial statements. The Fund will make 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.

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. See “Risk Factors – Risks Relating to Redemptions”.

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.

USE OF PROCEEDS

The net proceeds from the issue of the maximum number of Units offered hereby (after payment of the Agents' fee and the expenses of the Offerings) are estimated to be approximately \$146,187,500, assuming that the Over-Allotment Option is not exercised. If the Over-Allotment Option is exercised in full under the maximum Offerings the net proceeds to the Fund (after payment of the Agents' fee and the expenses of the Offerings) are estimated to be approximately \$168,216,875 (assuming that subscriptions for Class U Units are converted into Canadian dollars at the Reference Exchange Rate in effect as at September 24). The Fund will use the net proceeds of the Offerings (including any net proceeds from the exercise of the Over-Allotment Option) to pre-pay its purchase obligations under the Forward Agreement with the Counterparty. Under the Forward Agreement, the Fund will, on or about the Forward Termination Date, acquire the Canadian Securities Portfolio from the Counterparty having an aggregate value equal to the redemption proceeds of all of the units of CS Trust net of any amount owing by the Fund to the Counterparty. The Fund may also directly hold a small amount of the same securities as are held in the Canadian Securities Portfolio.

PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement, the Agents have agreed to act as, and have been appointed as, the sole and exclusive agents of the Fund to offer the Units for sale, subject to prior sale, on a best efforts basis, if, as and when issued by the Fund in accordance with the conditions contained in the Agency Agreement. The Class A Units will be issued at a price of \$25.00 per Class A Unit and the Class U Units will be issued at a price of U.S. \$25.00 per Class U Unit. The offering price per Unit was determined by negotiation between the Agents and the Manager on behalf of the Fund. In consideration for their services in connection with the Offerings, the Agents will be paid a fee of \$1.3125 per Class A Unit, Series 1, \$0.5625 per Class A Unit, Series 2, U.S. \$1.3125 per Class U Unit, Series 1 and U.S. \$0.5625 per Class U Unit, Series 2 sold under the Offerings and will be reimbursed for reasonable out of pocket expenses incurred by them. The Agents' fees and expenses will be paid

by the Fund out of the proceeds of the Offerings. The Agents may form a sub-agency group including other qualified investment dealers and limited market dealers and determine the fee payable to the members of such group, which fee will be paid by the Agents out of their fees. While the Agents have agreed to use their best efforts to sell the Units offered hereby, the Agents will not be obligated to purchase any Units which are not sold.

The Fund has granted to the Agents the Over-Allotment Option, which is exercisable for a period of 30 days from the Closing Date and gives the Agents the right to offer additional Class A Units, Series 1 in an amount up to 15% of the aggregate number of Class A Units, Series 1 sold on the Closing Date on the same terms as set forth above solely to cover over-allotments, if any. To the extent that the Over-Allotment Option is exercised, the additional Class A Units, Series 1 will be sold at \$25.00 per Class A Unit, Series 1 and the Agents will be paid a fee of \$1.3125 per Class A Unit, Series 1 sold. This prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Class A Units, Series 1 issuable on the exercise of the Over-Allotment Option. A purchaser who acquires Class A Units, Series 1 forming part of the Over-Allotment Option acquires such Class A Units, Series 1 under this prospectus, regardless of whether the Over-Allotment Option is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Subscription amounts received in trust will be held in segregated accounts with a depository who is a registered dealer, bank or trust company until the minimum amount of subscriptions for Units has been obtained. If subscriptions for a minimum of 1,000,000 Class A Units, Series 1 (or \$25,000,000) have not been received within 90 days following the date of issuance of a final receipt for this prospectus, the Offerings may not continue without the consent of the securities regulatory authorities and those who have subscribed for Units on or before such date. In the event such consents are not obtained or if the Closing does not occur for any reason, subscription proceeds received from prospective purchasers in respect of the Offerings will be returned to such purchasers promptly without interest or deduction. The maximum number of Class A Units and/or Class U Units that will be sold is 6,200,000 (\$155,000,000). Under the terms of the Agency Agreement, the Agents, at their discretion on the basis of their assessment of the state of the financial markets and upon the occurrence of certain stated events, may terminate the Agency Agreement and withdraw all subscriptions for Units on behalf of subscribers. Subscriptions for Units will be received subject to rejection or allotment in whole or in part. The right is reserved to close the subscription books at any time without notice. The Closing will take place on or about October 13, 2010 or such later date as the Fund and the Agents may agree, but in any event not later than December 17, 2010.

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

Pursuant to policy statements of the Ontario Securities Commission and the Autorité des marchés financiers, the Agents may not, throughout the period of distribution under this prospectus, bid for or purchase Units. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Units. These exceptions include a bid or purchase permitted under the by-laws and rules of the TSX relating to market stabilization and passive market making activities and a bid or purchase made for or on behalf of a customer where the order was not solicited during the period of distribution. Subject to the foregoing and applicable laws, an Agent may, in connection with the Offerings, over-allot or effect transactions in connection with its over-allotted position. Such transactions, if commenced, may be discontinued at any time.

Although units of CS Trust are not being offered to the public, the Fund has agreed to obtain a receipt for a prospectus of CS Trust from the Autorité des marchés financiers. The Fund has also agreed to deliver a copy of such prospectus to purchasers of Units in the Province of Québec prior to the purchase of Units by any person in the Province of Québec.

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

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The Manager is entitled to receive the Management Fee pursuant to the Trust Agreements. See “Organization and Management Details of the Fund” and “Fees and Expenses”.

PROXY VOTING DISCLOSURE FOR PORTFOLIO SECURITIES HELD

Policies and Procedures

Subject to compliance with the provisions of applicable law, the Manager 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 will be 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 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 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 the Forward Termination Date, the 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 Fund Trust Agreement. The 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.

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.

Disclosure of Proxy Voting Guidelines and Record

A copy of the Manager’s proxy voting guidelines will be made available on the Internet at www.cclcapitalmarkets.com. The most recent proxy voting record for CS Trust for the most recent period ended June 30 of each year will also be available on the Internet at www.cclcapitalmarkets.com.

MATERIAL CONTRACTS

The only material contracts entered into by the Fund or the Manager during the past two years or to which either of them will become a party prior to the Closing, other than during the ordinary course of business, are as follows:

- (a) the Fund Trust Agreement;
- (b) the CS Trust Agreement;
- (c) the Agency Agreement;
- (d) the Exchange Agency Agreement; and
- (e) the Forward Agreement.

Copies of the foregoing documents may be examined during normal business hours at the principal office of the Fund during the period of distribution to the public of the Units offered under the Offerings and for a period of 30 days thereafter. Copies of the Fund Trust Agreement may be obtained at any time from the Manager on written request.

EXPERTS

Certain legal matters in connection with the issuance and sale of the Units offered by this prospectus will be passed upon on behalf of the Fund by McCarthy Tétrault LLP and on behalf of the Agents by Stikeman Elliott LLP.

The auditors of the Fund and CS Trust are PricewaterhouseCoopers LLP, Chartered Accountants. PricewaterhouseCoopers LLP is independent with respect to the Fund and CS Trust within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities within two Business Days after receipt or deemed receipt of a prospectus and any amendment thereto. In several of the provinces and territories of Canada, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if this prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of his or her province or territory of residence for the particulars of these rights or consult with a legal advisor.

In addition, the Manager has agreed on behalf of the Fund that purchasers in the Province of Québec have the right to withdraw from an agreement to purchase Units which may be exercised within two Business Days after receipt or deemed receipt of a prospectus of CS Trust.

AUDITORS' CONSENT

We have read the prospectus of HBanc Capital Securities Trust (the "Fund") dated September 28, 2010 relating to the initial public offerings of Class A Units, Series 1, Class A Units, Series 2, Class U Units, Series 1 and Class U Units, Series 2 of the Fund. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above mentioned prospectus of our report to the Unitholder and the Manager of the Fund on the statement of net assets of the Fund as at September 28, 2010. Our report is dated September 28, 2010.

Toronto, Ontario
September 28, 2010

(Signed) "PricewaterhouseCoopers LLP"
Chartered Accountants, Licensed Public Accountants

AUDITORS' REPORT

To the Unitholder and the Manager of HBanc Capital Securities Trust

We have audited the statement of net assets of HBanc Capital Securities Trust (the "Fund") as at September 28, 2010. This statement of net assets is the responsibility of the Fund's management. Our responsibility is to express an opinion on this statement of net assets based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the statement of net assets is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of net assets. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of net assets.

In our opinion, this statement of net assets presents fairly, in all material respects, the financial position of the Fund as at September 28, 2010 in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
September 28, 2010

(Signed) "PricewaterhouseCoopers LLP"
Chartered Accountants, Licensed Public Accountants

HBanc CAPITAL SECURITIES TRUST
STATEMENT OF NET ASSETS
As at September 28, 2010

Assets	
Cash.....	\$25
Unitholder's Equity	
Unitholder's Equity (Note 1)	\$25

Approved on behalf of HBanc Capital Securities Trust
By: Connor, Clark & Lunn Capital Markets Inc., as Manager

(Signed) "W. Neil Murdoch"
Director

(Signed) "Michael Freund"
Director

The accompanying notes are an integral part of this statement of net assets.

**HBanc CAPITAL SECURITIES TRUST
NOTES TO STATEMENT OF NET ASSETS**

As at September 28, 2010

1. ORGANIZATION AND UNITHOLDER'S EQUITY

HBanc Capital Securities Fund (the "Fund") is a non-redeemable investment fund established under the laws of the Province of Ontario pursuant to a trust agreement dated as of September 28, 2010. The beneficiaries of the Fund will be the holders of Class A Units, Series 1, Class A Units, Series 2, Class U Units, Series 1 and Class U Units, Series 2. The Fund's investment objectives are to (i) provide Unitholders with monthly, tax-advantaged distributions consisting primarily of returns of capital, currently representing a yield on the Unit issue price of 7.0% per annum, and (ii) provide exposure to the Capital Securities.

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 (collectively, the "Units"). Class A Units and Class U Units will each be issued in two series designated as Series 1 and Series 2. The only difference between the two series of each class of Units will be the fees paid with respect to such series. The Fund is authorized to issue an unlimited number of transferable, redeemable Units. The Class A Units, Series 2 and Class U Units may be converted into Class A Units, Series 1 on a weekly basis. On September 28, 2010, the Fund was settled and issued an initial Class A Unit, Series 1 for cash consideration of \$25 to Connor, Clark & Lunn Capital Markets Inc., the settlor of the Fund

The Fund may 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 assessment of Connor, Clark & Lunn Capital Markets Inc. (the "Manager") that such purchases are accretive to the holders of Units.

2. MANAGEMENT AND SERVICE FEES

The Manager will receive a Management Fee from the Fund and CS Trust (being a newly created Ontario trust that may acquire the portfolio (if the Counterparty hedges its obligations under the Forward Agreement) 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 or, in the event the Counterparty does not hedge its exposure by acquiring units of CS Trust, the Counterparty will pay the CS Trust portion of the Management Fee), calculated and payable monthly in arrears, plus applicable taxes. In connection with a forward agreement (the "Forward Agreement") to be entered into the Fund has agreed to pay to the counterparty a fee equal to 0.35% per annum of the total assets of CS Trust. The Manager estimates that ongoing expenses, exclusive of the Management Fee, the Service Fee, fees under the Forward Agreement and brokerage expenses related to portfolio transactions and interest expense will be approximately \$125,000 per year for the Fund and \$40,000 per year for the CS Trust (assuming an aggregate size of the Offerings of approximately \$150 million).

The Fund will pay 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 Class A Units, Series 2 and the Class U Units, Series 2, equal to 0.30% per annum of the Net Asset Value attributable to the Class A Units, Series 2 or the Class U Units, Series 2, as applicable, plus applicable taxes. The Service Fee will be applied by the Manager to pay a service fee in an equivalent aggregate amount, plus applicable taxes, to brokers based on the number of Class A Units, Series 2 or the Class U Units, Series 2, as applicable, held by clients of such brokers at the end of the relevant quarter. No Service Fee is payable in respect of the Class A Units, Series 1 or the Class U Units, Series 1.

The Units may be redeemed on the second last Business Day of April of each year, commencing in 2012 (each, an "Annual Redemption Date"), subject to certain conditions. A holder of Units (each, a

“Unitholder”) whose Units are redeemed on an Annual Redemption Date will receive a redemption price in an amount equal to 100% of the redemption net assets per Unit (less any costs associated with the redemption, including brokerage costs and less any net realized capital gains of the Fund that are distributed to the holder concurrently with the proceeds of disposition on redemption).

In addition, the Units may also be redeemed on the second last Business Day of each month other than, commencing in 2012, in the month of April (each, a “Monthly Redemption Date”), subject to certain conditions.

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 and (ii) 100% of the Closing Market Price of a Class A Unit, Series 1 on the applicable 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.

For the purposes hereof, the “Market Price” in respect of a security on a Monthly Redemption Date means the weighted average trading price on the Toronto Stock Exchange (or such other stock exchange on which such security is listed), for the 10 trading days immediately preceding such Monthly Redemption Date and the “Closing Market Price” in respect of a security on a Monthly Redemption Date means the closing price of such security on the Toronto Stock Exchange on such Monthly Redemption Date (or such other stock exchange on which such security is listed) or, if there was no trade on the relevant Monthly Redemption Date, the average of the last bid and the last asking prices of the security on the Toronto Stock Exchange on such Monthly Redemption Date (or such other stock exchange on which the security is listed). 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.

The Fund intends to pay monthly distributions initially estimated to be \$0.1458 per Unit, representing a yield of 7.0% per annum on the Unit issue price. The initial monthly distribution will be payable to Unitholders of record on November 30, 2010 and will be paid no later than December 31, 2010. The first distribution will reflect the period from the closing date in respect of the offering of Units to November 30, 2010.

3. SUBSEQUENT EVENT

- (a) The Fund and the Manager have entered into an agency agreement with BMO Nesbitt Burns Inc., HSBC Securities (Canada) Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., National Bank Financial Inc., Scotia Capital Inc., GMP Securities L.P., Canaccord Genuity Corp., Dundee Securities Corporation, Macquarie Capital Markets Canada Ltd., Raymond James Ltd., Desjardins Securities Inc., Mackie Research Capital Corporation and Wellington West Capital Markets Inc. (collectively, the “Agents”) dated as of September 28, 2010, pursuant to which the Fund has agreed to create, issue and sell, and the Agents have agreed to offer for sale to the public a minimum of 1,000,000 Class A Units, Series 1 and a maximum of 6,200,000 Class A Units and/or Class U Units at \$25 per Class A Unit and U.S. \$25 per Class U Unit. In consideration for their services in connection with the Offerings, the Agents will be paid a fee of \$1.3125 per Class A Unit, Series 1, \$0.5625 per Class A Unit, Series 2, U.S. \$1.3125 per Class U Unit, Series 1 and U.S. \$0.5625 per Class U Unit, Series 2 out of the proceeds of the Offerings.
- (b) As set forth in the initial public offering prospectus dated September 28, 2010, the Fund proposes to issue a minimum of 1,000,000 Class A Units, Series 1 and a maximum of 6,200,000 Class A Units, and/or Class U Units at a price of \$25 per Class A Unit, and U.S. \$25 per Class U Unit.

CERTIFICATE OF THE FUND, THE MANAGER AND THE PROMOTER

Dated: September 28, 2010

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

HBanc CAPITAL SECURITIES TRUST
by its attorney, Connor, Clark & Lunn Capital Markets Inc.

By: *(signed)* "W. NEIL MURDOCH"
Chief Executive Officer

By: *(signed)* "MICHAEL FREUND"
Chief Financial Officer

On behalf of the Board of Directors of
Connor, Clark & Lunn Capital Markets Inc.

By: *(signed)* "W. NEIL MURDOCH"
Director

By: *(signed)* "DARREN N. CABRAL"
Director

By: *(signed)* "MICHAEL FREUND"
Director

Connor, Clark & Lunn Capital Markets Inc.
as Manager and Promoter

By: *(signed)* "W. NEIL MURDOCH"
Chief Executive Officer

CERTIFICATE OF THE AGENTS

Dated: September 28, 2010

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

BMO NESBITT BURNS INC.
(signed) "Robin G. Tessier"

HSBC SECURITIES (CANADA) INC.
(signed) "Brent Larkan"

CIBC WORLD MARKETS INC.
(signed) "Michael D. Shuh"

RBC DOMINION SECURITIES INC.
(signed) "Edward V. Jackson"

NATIONAL BANK FINANCIAL INC.
(signed) "Timothy Evans"

SCOTIA CAPITAL INC.
(signed) "Brian D. McChesney"

GMP SECURITIES L.P.
(signed) "Neil Selfe"

**CANACCORD GENUITY
CORP.**
(signed) "Ron Sedran"

**DUNDEE SECURITIES
CORPORATION**
(signed) "Harold M. Wolkin"

**MACQUARIE CAPITAL
MARKETS CANADA LTD.**
(signed) "Raymond Sawicki"

RAYMOND JAMES LTD.
(signed) "J. Graham Fell"

DESJARDINS SECURITIES INC.
(signed) "Beth Shaw"

**MACKIE RESEARCH CAPITAL
CORPORATION**
(signed) "David J. Keating"

**WELLINGTON WEST
CAPITAL MARKETS INC.**
(signed) "Scott Larin"

