No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and only by persons permitted to sell these securities.

These securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "1933 Act") or any state securities laws. Accordingly, these securities may not be offered or sold within the United States, or to or for the account or benefit of U.S. Persons (as such term is defined in Regulation S to the 1933 Act) except in transactions exempt from the registration requirements of the 1933 Act and applicable state securities laws. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States.

PROSPECTUS

Initial Public Offering　　　　September 28, 2012

U.S. AGENCY MORTGAGE-BACKED REIT ADVANTAGED FUND

U.S.AGENCY Mortgage-Backed REIT Advantaged Fund

Maximum $100,000,000 (10,000,000 Class A and/or Class F Units)

U.S. Agency Mortgage-Backed REIT Advantaged Fund has been established to provide unitholders with investment exposure to a notional portfolio (the "Portfolio") comprised of the 10 largest (by market capitalization) publicly traded U.S. Agency Mortgage REITs, being REITs that primarily invest in mortgage-backed securities issued or guaranteed by the U.S. government or government-sponsored enterprises. The Fund will not hold the Portfolio but, instead, will obtain economic exposure to the Portfolio through a forward purchase agreement (the "Forward Agreement") with the Bank of Montreal, the initial Counterparty. The Fund is therefore fully exposed to the credit risk associated with the Counterparty; however, the Counterparty will pledge collateral in favour of the Fund to secure its obligations under the Forward Agreement. By virtue of the Forward Agreement, the performance of the Fund will be dependent on the performance of the Portfolio. See "Overview of the Investment Structure — The Forward Agreement and Portfolio" and "Risk Factors".

U.S. Agency Mortgage-Backed REIT Advantaged Fund is a closed-end investment fund established under the laws of the Province of Ontario. The Fund proposes to offer Class A Units and Class F Units at a price of $10.00 per Unit. The Class F Units are designed for fee-based accounts and will not be listed on a stock exchange but will be convertible into Class A Units on a weekly basis.

The Fund's investment objectives are to (i) provide tax-advantaged quarterly cash distributions consisting primarily of returns of capital; and (ii) provide low-cost exposure to the 10 largest (by market capitalization) publicly traded U.S. Agency Mortgage REITs through the Forward Agreement. See "Investment Objectives", "Investment Strategy", "Overview of the Sector that the Fund Invests in", "Risk Factors" and "Distribution Policy".

The Fund will obtain exposure to a portfolio of the 10 largest publicly traded U.S. Agency Mortgage REITs by market capitalization. U.S. Agency Mortgage REITs comprising the Portfolio will be weighted based on their market capitalization, subject to a limit of 25% of the Portfolio being invested in any one Agency Mortgage REIT, at the time of investment or rebalancing. The Portfolio will be rebalanced at least semi-annually.

Price: $10.00 per Unit
Minimum purchase: 100 Units

	Price to the public[1]	Agents' fee	Net proceeds to the Fund[2]
Per Class A Unit	$10.00	$0.525	$9.475
Per Class F Unit	$10.00	$0.225	$9.775
Minimum total Offering[3][4]	$20,000,000	$1,050,000	$18,950,000
Maximum total Offering[4]	$100,000,000	$5,250,000	$94,750,000

Notes:

(1) The terms of the Offering were established through negotiation between the Agents and the Manager on behalf of the Fund.

(2) Before deducting the expenses of the Offering, estimated to be $650,000 (but not to exceed 1.5% of the gross proceeds of the Offering) which, together with the Agents' fee, will be paid by the Fund from the proceeds of the Offering.

(3) There will be no Closing unless a minimum of 2,000,000 Class A Units are sold. If subscriptions for such minimum have not been received within 90 days after a final receipt for this prospectus is issued, the Offering may not continue without the consent of the Canadian Securities Administrators and those who have subscribed for Class A Units on or before such date.

(4) The Fund has granted to the Agents an option (the "Over-Allotment Option"), exercisable for a period of 30 days from the Closing Date, to purchase additional Class A Units in an amount up to 15% of the aggregate number of Class A Units 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 Offering, the price to the public, Agents' fee and net proceeds to the Fund are estimated to be $115,000,000, $6,037,500 and $108,962,500, respectively. This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Class A Units issuable on the exercise of the Over-Allotment Option. A purchaser who acquires Class A Units forming part of the Agents' over-allocation position acquires such Class A Units under this prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Class A Over-Allotment Option or secondary market purchases. See "Plan of Distribution".

The Fund intends to make quarterly tax-advantaged cash distributions to Unitholders. The Fund will not have a fixed quarterly distribution amount but intends to, at least annually, set distribution targets based on the Manager's estimate of expected returns on the Portfolio for the period. Based on current estimates and the assumptions set out herein, it is expected that the Fund will be able to pay distributions at the initial target level and maintain a stable Net Asset Value. **The amount of quarterly distributions may fluctuate from quarter to quarter and there can be no assurance as to the amount of the targeted distributions or that the Fund will make any distribution in any particular quarter.** See "Risk Factors" and "Distribution Policy".

Connor, Clark & Lunn Capital Markets Inc. will act as manager of the Fund. 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 during 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. Prospective investors should read carefully the risk factors described in this prospectus. There is no market through which the Units may be sold and purchasers may not be able to resell securities purchased under this prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the Units and the extent of issuer regulation. See "Risk Factors". The Toronto Stock Exchange ("TSX") has conditionally approved the listing of the Class A Units, subject to the Fund fulfilling all of the requirements of the TSX on or before December 24, 2012.

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 "Organization and Management Details of the Fund — The Manager" and "Plan of Distribution".

BMO Nesbitt Burns Inc., CIBC World Markets Inc., Scotia Capital Inc., Raymond James Ltd., Canaccord Genuity Corp., GMP Securities L.P., Macquarie Private Wealth Inc. and Mackie Research Capital Corporation, 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. Registrations of interests in and transfers of Units will be made only through the book-based system administered by CDS Clearing and Depository Services Inc. A purchaser of Units will receive a customer confirmation from the registered dealer from or through which the Units are purchased and will not have the right to receive physical certificates evidencing their ownership in the Units. Closing is expected to occur on or about October 23, 2012 or such later date as the Fund and the Agents may agree, but in any event not later than the date that is 90 days after the issuance of a receipt for the final prospectus of the Fund.

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PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offering 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".

The Issuer: The Fund is a closed-end investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement. See "Overview of the Legal Structure of the Fund".

The Offering: The Fund is offering Class A Units and Class F Units at a price of $10.00 per Unit. The Class F Units are designed for fee-based accounts and will not be listed on a stock exchange but will be convertible into Class A Units on a weekly basis. See "Purchases of Securities", "Plan of Distribution" and "Fees and Expenses".

Investment Objectives: The Fund's investment objectives are to (i) provide tax-advantaged quarterly cash distributions consisting primarily of returns of capital; and (ii) provide low-cost exposure to the 10 largest (by market capitalization) publicly traded U.S. Agency Mortgage REITs through the Forward Agreement. See "Investment Objectives", "Investment Strategy", "Overview of the Sector that the Fund Invests in", "Risk Factors" and "Distribution Policy".

Investment Strategy: The Fund will seek to achieve its investment objectives by obtaining exposure to the Portfolio through the Forward Agreement.

The Fund will obtain exposure to a portfolio of the 10 largest publicly traded U.S. Agency Mortgage REITs by market capitalization. U.S. Agency Mortgage REITs are REITs which invest primarily in mortgage-backed securities that are issued or guaranteed by the U.S. government or a GSE thereby minimizing their credit risk associated with the underlying mortgages. U.S. Agency Mortgage REITs comprising the Portfolio will be weighted based on their market capitalization, subject to a limit of 25% of the Portfolio being invested in any one Agency Mortgage REIT, at the time of investment or rebalancing. The Portfolio will be rebalanced at least semi-annually.

The Manager believes that a portfolio comprised of the 10 largest publicly traded U.S. Agency Mortgage REITs is an attractive way to invest in the sector as the distinct strategies of the different Agency Mortgage REIT managers can provide investors with a lower level of risk compared to owning any individual U.S. Agency Mortgage REIT. See "Investment Strategy".

Currency: The Portfolio will consist of assets denominated in U.S. dollars. The Manager intends to hedge substantially all of the value of the Portfolio that is invested in U.S. dollars back to the Canadian dollar. See "Currency".

Distributions: The Fund intends to make quarterly tax-advantaged cash distributions to Unitholders of record on the last day of the months of January, April, July and October. The Fund will not have a fixed quarterly distribution amount but intends to, at least annually, set distribution targets based on the Manager's estimate of expected returns on the Portfolio for the period. Based on current estimates and the assumptions set out below, the Fund's initial distribution target is expected to be $0.20 per Unit per quarter, representing an initial yield on the Unit issue price of 8% per annum, consisting primarily of returns of capital which are not immediately taxable but which reduce a Unitholder's adjusted cost base of its Units. The initial quarterly distribution will be payable to Unitholders of record on January 31, 2013 and will be paid no later than February 15, 2013. The first distribution will be *pro-rated* to reflect the period from the Closing Date to January 31, 2013. Based on current estimates and assuming (i) an aggregate size of the Offering of $100 million, (ii) the employment of the investment strategy as described under "Investment Strategy", (iii) the fees and expenses described under "Fees and Expenses", and (iv) the current price and yield of the securities anticipated to be included in the Portfolio, it is expected that the Fund will be able to generate net cash flow that exceeds the initial target distribution by 2.39%. **If the return on the Portfolio or the increase in the value of the Portfolio is less than the amount necessary to**

fund the quarterly distributions (through partial settlement of the Forward Agreement) and all expenses of the Fund, and if the Manager chooses to nevertheless effect settlements of the Forward Agreement to ensure that such quarterly distributions are paid to Unitholders, this will result in a portion of the capital of the Fund being returned to Unitholders and, accordingly, Net Asset Value per Unit would be reduced. The amount of quarterly distributions may fluctuate from quarter to quarter and there can be no assurance as to the amount of the targeted distributions or that the Fund will make any distribution in any particular quarter. See "Investment Objectives", "Risk Factors" and "Distribution Policy".

The Forward Agreement: The Fund will obtain exposure to the Portfolio through the Forward Agreement with the Counterparty. The Net Asset Value per Unit of each class of Units will vary depending on the performance of the Portfolio by virtue of the Forward Agreement. The Fund will use the net proceeds of the Offering to pre-pay the purchase price of securities to be acquired by it under the Forward Agreement. Under the Forward Agreement, the Counterparty will deliver to the Fund on or about the Forward Termination Date a portfolio of Canadian publicly traded securities with an aggregate value equal to the value of the Portfolio, net of any amount owing by the Fund to the Counterparty. The Fund may settle the Forward Agreement in whole or in part prior to the Forward Termination Date: (i) to fund quarterly 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 Fund is fully exposed to the credit risk associated with the Counterparty in respect of the Forward Agreement. To secure the obligations of the Counterparty under the Forward Agreement, the Counterparty will pledge collateral in favour of the Fund with an aggregate value equal to 100% of the mark-to-market value of the exposure under the Forward Agreement and the amount of the collateral will be reset on a weekly basis to 100%. See "Overview of the Investment Structure — The Forward Agreement and Portfolio" and "Risk Factors — Counterparty Risk".

No Leverage: The Fund will not employ leverage.

Redemption: Class A Units and Class F Units may be redeemed on an annual and monthly basis, subject to certain conditions. In order to effect a redemption on an Annual Redemption Date, Units must be surrendered during the period from March 15 until 5:00 p.m. (Toronto time) on the last Business Day in March in the year of redemption, subject to the Fund's right to suspend redemptions in certain circumstances. Unitholders redeeming Units on an Annual Redemption Date will be entitled to receive a redemption price in an amount equal to 100% of the Net Asset Value per Unit of the relevant class on such Annual Redemption Date less any costs associated with the redemption, including brokerage costs, and less any net realized capital gains or income of the Fund that are distributed to a Unitholder concurrently with the proceeds of disposition on redemption. See "Calculation of Net Asset Value", "Redemption of Securities" and "Risk Factors".

Termination of the Fund: The Fund does not have a fixed termination date. However, the Fund may be terminated at any time if the prior approval of Unitholders has been obtained by a majority vote at a meeting of Unitholders called for that purpose; provided, however, that the Manager may, in its discretion, on at least 60 days' notice to Unitholders, terminate the Fund without the approval of Unitholders if, in the opinion of the Manager, it would be in the best interests of Unitholders to terminate the Fund. Upon termination, the net assets of the Fund will be distributed to Unitholders on a *pro rata* basis. There can be no assurance that Unitholders will receive $10.00 per Unit upon any termination of the Fund. See "Termination of the Fund" and "Risk Factors — Risks Relating to Redemptions".

Repurchase of Units: The Fund may purchase (in the open market or by invitation for tenders) Units 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 before deducting the expenses of the Offering) are estimated to be approximately $94,750,000, assuming that the Over-Allotment Option is not exercised. The Fund will use the net proceeds of the Offering (including any net proceeds from the exercise of the Over-Allotment Option) to pre-pay the purchase price of securities to be acquired by it 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 value of the Portfolio, net of any amount owing by the Fund to the Counterparty. See "Use of Proceeds".

Conversion of Class F Units into Class A Units: A holder of Class F Units may convert such Class F Units into Class A Units on a weekly basis and it is expected that liquidity for the Class F Units will be obtained primarily by means of conversion into Class A Units and the sale of such Class A Units. Class F Units may be converted in any week on the first Business Day of such week by delivering a notice and surrendering such Class F Units by 3:00 p.m. (Toronto time) at least five Business Days prior to the applicable Conversion Date. Based on counsel's understanding of the CRA's current administrative position, a conversion of Class F Units into Class A Units will not constitute a disposition of such Class F Units for the purposes of the Tax Act.

For each Class F Unit so converted, a holder will receive that number of Class A Units equal to the Net Asset Value per Class F Unit as of the close of trading on the Business Day immediately preceding the Conversion Date divided by the Net Asset Value per Class A Unit as of the close of trading on the Business Day immediately preceding the Conversion Date. No fraction of a Class A Unit will be issued upon any conversion of Class F Units and any fractional amounts will be rounded down to the nearest whole number of Class A Units. See "Description of the Units — Conversion of Class F Units" and "Income Tax Considerations".

Permitted Merger: The Fund may, without obtaining Unitholder approval, enter into a merger or other similar transaction which has the effect of combining the Fund or its assets on a tax-deferred "rollover basis" (a "Permitted Merger") with any other investment fund or funds managed or advised by the Manager that has or have investment objectives and investment strategies that are substantially the same as the Fund's on an exchange ratio based on the relative Net Asset Values of such funds, subject to certain conditions. See "Unitholder Matters - Permitted Merger".

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

- No assurance of achieving investment objectives and no guaranteed rate of return.
- Risks relating to the fluctuation in value of Mortgage REIT securities and performance of the Portfolio.
- Risks relating to investments in Mortgage REITs, including:
    - Interest rate risk.
    - Leverage rate risk.
    - Prepayment risk.
    - Agency risk.
    - Extension risk.
    - Regulatory/policy risk.
    - Credit risk.
    - Non-agency issuer risk.
    - U.S. tax risk.
    - Risk of investing in the real estate sector.
    - Derivatives risk.
- Market risk.

- Concentration risk.
- Risks relating to reliance on the Manager.
- Counterparty risk.
- Forward termination risk.
- Currency risk.
- Risks relating to the trading price of Class A Units.
- Risks relating to the taxation of the Fund.
- Risk relating to U.S. tax.
- No ownership interest risk.
- Risks relating to changes in legislation and regulatory risk.
- Loss of investment risk.
- Risks relating to conflicts of interest.
- Risks relating to the status of the Fund.
- Risks relating to redemptions.
- Risks relating to the Fund having no operating history.
- Risks relating to the liquidity of the Class F Units.
- Risks relating to the Fund not being a trust company.
- Risks relating to the nature of the Units.

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, the Class A Units are listed on a designated stock exchange (which includes the TSX), such 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 and annuitants of registered retirement savings plans and registered retirement income funds should consult with their tax advisors as to whether Units would be a prohibited investment in their particular circumstances. See "Income Tax Considerations".

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 a capital gain (or a capital loss). 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.

See “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. 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 part of the Connor, Clark & Lunn Financial Group, a multi-boutique asset management firm whose affiliated managers are collectively responsible for the investment of approximately $40 billion in assets as at June 30, 2012. The Manager has offices at 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7. See “Organization and Management Details of the Fund — The Manager”.

Trustee of the Fund: RBC Investor Services Trust will act as trustee of the Fund. The Trustee is located in Toronto, Ontario.

Auditor: PricewaterhouseCoopers LLP, Chartered Accountants, at its offices in Toronto, Ontario, is the auditor of the Fund.

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

Registrar and Transfer Agent: Computershare Investor Services Trust, at its office in Toronto, Ontario, will maintain the securities registers of the Units and will register transfers of the Units.

Agents:

BMO Nesbitt Burns Inc., CIBC World Markets Inc., Scotia Capital Inc., Raymond James Ltd., Canaccord Genuity Corp., GMP Securities L.P., Macquarie Private Wealth Inc. and Mackie Research Capital Corporation , 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 the Over-Allotment Option, exercisable for a period of 30 days from the Closing Date, to purchase additional Class A Units in an amount up to 15% of the Class A Units 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 Offering, the price to the public, Agents’ fee and net proceeds to the Fund are estimated to be $115,000,000, $6,037,500 and $108,962,500, respectively. This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Class A Units issuable on the exercise of the Over-Allotment Option. A purchaser who acquires Class A Units forming part of the Agents’ over-allocation position acquires such Class A Units under this prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See “Plan of Distribution”.

Agents’ position	Maximum size	Exercise period	Exercise price
Over-Allotment Option	1,500,000 Class A Units	Within 30 days following the Closing Date	$10.00 per Class A Unit

SUMMARY OF FEES AND EXPENSES

The following table contains a summary of the fees and expenses payable by the Fund, which will therefore, directly or indirectly, 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:	$0.525 per Class A Unit (5.25%) and $0.225 per Class F Unit (2.25%). The Agents' Fee will be paid out of the proceeds of the Offering.
Expenses of the Offering:	The expenses of the Offering are estimated to be $650,000 (but not to exceed 1.5% of the gross proceeds of the Offering) which, together with the Agents' fee, will be paid by the Fund.
Management Fee:	The Manager will receive a Management Fee from the Fund equal in the aggregate to 0.90% per annum of the Net Asset Value of the Fund comprised of 0.50% per annum of the Net Asset Value of the Fund, calculated and payable monthly in arrears, plus an amount calculated quarterly and paid as soon as practicable after the end of each calendar quarter equal to the Service Fee of 0.40% per annum of the Net Asset Value attributable to the Class A Units referred to below. 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. See "Fees and Expenses — Management Fee".
Service Fee:	From the amounts received by the Manager from the Fund, a Service Fee will be payable by the Manager to each registered dealer whose clients hold Class A Units at the end of a calendar quarter. The Service Fee will be equal to 0.40% annually of the Net Asset Value for each Class A Unit held by clients of the registered dealers, calculated and paid at the end of each calendar quarter commencing on December 31, 2012, plus applicable taxes. The Service Fee will be *pro-rated* for the partial first quarter of the Fund. The Manager may, from time to time, pay the Service Fee more frequently than quarterly, in which event the Service Fee will be *pro-rated* for the period to which it relates.
Counterparty Fees:	The Fund will pay to the Counterparty a fee under the Forward Agreement equal to (a) a fixed fee of 0.30% to 0.35% of the net notional amount of the Forward Agreement (being effectively equal to the net asset value of the Portfolio) per annum, plus (b) an additional variable fee which initially will not exceed 0.70% per annum of the net asset value of the Portfolio calculated daily and paid quarterly. See "Fees and Expenses — Counterparty Fees".
Ongoing expenses of the Fund:	The Fund will pay for all of its expenses incurred in connection with its operation and administration, estimated to be $175,000 per annum (assuming an aggregate size of the Offering of approximately $100 million). The Fund will also be responsible for its costs of portfolio transactions and any extraordinary expenses which may be incurred from time to time. See "Fees and Expenses — Ongoing Expenses".

FORWARD LOOKING INFORMATION

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 preferred shares. 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 are subject to a number of risks and uncertainties. See "Risk Factors" for a description 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.

DISCLOSURE BASED ON PUBLICLY AVAILABLE INFORMATION

Certain information contained in this prospectus, including with respect to, among other things, the Indicative Portfolio, is taken from and based solely upon publicly available information. None of the Manager, the Fund or the Agents has independently verified the accuracy or completeness of any such information or assumes 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.

"**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".

"**Agency Agreement**" means the agency agreement dated as of September 28, 2012 among the Fund, the Manager and the Agents.

"**Agency Mortgage REIT**" means a Mortgage REIT that primarily invests in mortgage-backed securities issued or guaranteed by the U.S. government or government-sponsored enterprises.

"**Agents**" means, collectively, BMO Nesbitt Burns Inc., CIBC World Markets Inc., Scotia Capital Inc., Raymond James Ltd., Canaccord Genuity Corp., GMP Securities L.P., Macquarie Private Wealth Inc. and Mackie Research Capital Corporation.

"**Annual Redemption Date**" means the second to last Business Day of April of each year, commencing in 2014.

"**Annual Redemption Price**" means a redemption price per Unit equal to 100% of the Net Asset Value per Unit of the relevant class on an Annual Redemption Date less any costs associated with the redemption, including brokerage costs and any net realized capital gains or income of 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, Inc., or any of their respective successors.

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

"**Business Day**" 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.

"**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.

"**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**" means a meeting of holders of Class A Units called in accordance with the Trust Agreement.

"**Class A Units**" means the transferable, redeemable units of the Fund designated as "Class A Units".

"**Class F Meeting**" means a meeting of holders of Class F Units called in accordance with the Trust Agreement.

"**Class F Units**" means the transferable, redeemable units of the Fund designated as "Class F Units".

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

"**Closing Date**" means the date of a Closing, the first of which is expected to be on or about October 23, 2012 or such later date as the Fund and the Agents may agree, but in any event not later than 90 days after the issuance of a receipt for the final prospectus of the Fund.

"**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).

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

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

"**CRA**" means the Canada Revenue Agency.

"**Custodian**" means RBC Investor Services Trust, in its capacity as custodian of the Fund under the Trust Agreement.

"**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.

"**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.

"**Fund**" means U.S. Agency Mortgage-Backed REIT Advantaged Fund, a closed-end investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement.

"**GSE**" means a government sponsored enterprise, namely Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac").

"**Independent Review Committee**" has the meaning given in "Organization and Management Details of the Fund — Independent Review Committee".

"**Indicative Portfolio**" means the Portfolio had it existed as of July 31, 2012.

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

"**Management Fee**" means the management fee payable to the Manager as more fully described under "Fees and Expenses — Management Fee".

"**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.

"**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 or income of the Fund that are distributed to a Unitholder concurrently with the proceeds of disposition on redemption.

"**Monthly Redemption Date**" means the second to last Business Day of each month other than, commencing in 2014, the month of April.

"**Mortgage REIT**" means a REIT that invests primarily in mortgage-backed securities and/or other mortgage related securities.

"**Net Asset Value**" means the net asset value of the Fund determined by subtracting the aggregate liabilities of the Fund from the total assets of the Fund 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 attributable to the Class A Units or Class F Units, as applicable, divided by the total number of Class A Units or Class F Units, as applicable, outstanding on the date on which the calculation is being made.

"**NI 81-102**" means National Instrument 81-102 — *Mutual Funds* of the Canadian Securities Administrators, as amended from time to time.

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

“**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.

“**Notice Period**” has the meaning given under “Redemption of Securities — Annual Redemption”.

“**Offering**” means, collectively, the offering of Class A Units and Class F Units at a price of $10.00 per Unit and the offering of additional Class A Units under the Over-Allotment Option, all pursuant to this prospectus.

“**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 purchase additional Class A Units in an amount up to 15% of the aggregate number of Class A Units sold on the Closing Date at a price of $10.00 per Class A Unit, solely to cover over-allotments, if any.

“**Portfolio**” means a notional portfolio comprised of the 10 largest (by market capitalization) publicly traded U.S. Agency Mortgage REITs, together with any cash or other assets subject to the Forward Agreement.

“**Portfolio Securities**” means the U.S. Agency Mortgage REITs and other assets comprising the Portfolio from time to time.

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

“**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.

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

“**Scheduled Forward Termination Date**” means on or about October 23, 2017.

“**Service Fee**” means the fee payable by the Manager to each registered dealer whose clients hold Class A Units at the end of a calendar quarter.

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

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

“**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.

“**Total Assets**” means the aggregate value of the assets of the Fund.

“**Trust Agreement**” means the trust agreement governing the Fund dated as of September 28, 2012, as it may be amended from time to time.

“**Trustee**” means RBC Investor Services Trust, in its capacity as trustee of the Fund under the Trust Agreement.

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

“**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 F Units issued by the Fund, as applicable.

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

“**Valuation Agent**” means, until its replacement is appointed by the Manager, the Custodian.

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

OVERVIEW OF THE LEGAL STRUCTURE OF THE FUND

U.S. Agency Mortgage-Backed REIT Advantaged Fund is a closed-end investment fund established under the laws of the Province of Ontario and governed by the 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 F Units. The Fund is authorized to issue an unlimited number of Units of each class. The Class F Units are designed for fee-based accounts and will not be listed on a stock exchange but will be convertible into Class A Units on a weekly basis. See "Fees and Expenses".

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 tax-advantaged quarterly cash distributions consisting primarily of returns of capital; and (ii) provide low-cost exposure to the 10 largest (by market capitalization) publicly traded U.S. Agency Mortgage REITs through the Forward Agreement.

INVESTMENT STRATEGY

The Fund will seek to achieve its investment objectives by obtaining exposure to the Portfolio through the Forward Agreement.

The Fund will obtain exposure to a portfolio of the 10 largest publicly traded U.S. Agency Mortgage REITs by market capitalization. U.S. Agency Mortgage REITs are REITs which invest primarily in mortgage-backed securities that are issued or guaranteed by the U.S. government or a GSE thereby minimizing their credit risk associated with the underlying mortgages. U.S. Agency Mortgage REITs comprising the Portfolio will be weighted based on their market capitalization, subject to a limit of 25% of the Portfolio being invested in any one Agency Mortgage REIT, at the time of investment. The Portfolio will be rebalanced at least semi-annually.

The Manager believes that a portfolio comprised of the 10 largest publicly traded U.S. Agency Mortgage REITs is an attractive way to invest in the sector as the distinct strategies of the different Agency Mortgage REIT managers can provide investors with a lower level of risk compared to owning any individual U.S. Agency Mortgage REIT.

Rebalancing

The Portfolio will be rebalanced at least semi-annually to include the then 10 largest publicly traded U.S. Agency Mortgage REITs by market capitalization. At each rebalancing, U.S. Agency Mortgage REITs will be weighted based on their market capitalization, subject to a limit of 25% of the Portfolio being invested in any one Agency Mortgage REIT, at the time of investment or rebalancing. The semi-annual rebalancing will be completed within 15 business days following the last business day of April and October commencing in 2013.

In addition, an Agency Mortgage REIT will be removed from the Portfolio at any point if it is the subject of a merger or other fundamental corporate action or change that in the opinion of the Manager results in it no longer qualifying as an Agency Mortgage REIT. In such circumstances, the securities that are removed from the Portfolio will be replaced as soon as practicable with the securities of the next largest Agency Mortgage REIT by market capitalization not previously included in the Portfolio and the Portfolio will be rebalanced at such time.

Indicative Portfolio

If the Portfolio had existed on July 31, 2012, an indicative list of the securities that would have been included in the Portfolio is as follows:

Mortgage REIT	NYSE Symbol	Market Capitalization (U.S. Dollars, Millions)	Annualized Current Yield[4]	Portfolio Weight	Debt to Equity Ratio[1]	Annualized Return on Avg. Equity[1]	Annualized Total Returns 1 Year	3 Years	5 Years	10 Years	Since Inception[2]
Annaly Capital Management, Inc.	NLY	16,987	12.6%	25.0%	6.0:1	10.1%	19.1%	16.9%	18.8%	10.2%	14.8%
American Capital Agency Corp.	AGNC	12,004	14.2%	25.0%	7.6:1	26.9%	50.3%	39.7%	-	-	38.5%
MFA Financial, Inc.	MFA	2,884	11.4%	10.2%	2.5:1	11.8%	23.9%	17.0%	16.7%	9.7%	10.8%
Hatteras Financial Corp.	HTS	2,869	12.3%	10.2%	7.5:1	13.0%	24.8%	16.9%	-	-	21.6%
CYS Investments Inc.	CYS	2,409	13.8%	8.5%	7.6:1	25.2%	37.0%	21.2%	-	-	27.5%
Invesco Mortgage Capital Inc.	IVR	2,284	13.1%	8.1%	7.5:1	13.0%	19.0%	17.1%	-	-	16.5%
Capstead Mortgage Corp.	CMO	1,317	11.4%	4.7%	8.1:1	13.0%	27.0%	16.3%	23.9%	12.9%	10.2%
Anworth Mortgage Asset Corp.	ANH	917	10.8%	3.3%	7.5:1	10.3%	8.6%	9.8%	10.7%	5.0%	9.7%
American Capital Mortgage Investment Corp.	MTGE	850	14.7%	3.0%	6.7:1	15.1%	-	-	-	-	40.0%[3]
Dynex Capital, Inc.	DX	565	11.2%	2.0%	6.0:1	15.8%	28.8%	19.3%	16.1%	12.8%	4.0%
Weighted Average / Total		**8,354**	**12.9%**	**100.0%**	**6.6:1**	**16.7%**					

Sources: Bloomberg, company filings and other company documents.

1. June 30, 2012 results.
2. Inception dates are noted in each company's profile.
3. Holding period return from August 3, 2011 to July 31, 2012 (not annualized).
4. Last quarterly dividend annualized divided by the closing price as at July 31, 2012.

Annaly Capital Management, Inc.

Founded in 1997, Annaly Capital Management, Inc. ("Annaly") is the largest publicly traded mortgage REIT listed in the U.S. with a market capitalization of approximately U.S. $17.0 billion at July 31, 2012. Since its inception, Annaly has paid out more than U.S. $7 billion in dividends to investors and had an annualized current yield of 12.6% as at July 31, 2012. Substantially all of the mortgage-backed securities that Annaly has invested in have been agency mortgage-backed securities, with a current focus on fixed-rate securities. Annaly employs a risk management program intended to protect its portfolio against the effects of major changes in interest rates and prepayments. Annaly has also maintained a low leverage ratio, giving it greater flexibility and protection against a rise in interest rates.

Select Financial Information

	Six Months Ended June 30, 2012	Year Ended December 31, 2011	2010	2009	2008
Total assets (U.S. $ millions), end of period	$128,305	$109,630	$83,027	$69,376	$57,598
Market cap (U.S. $ millions), end of period	$16,354	$15,483	$11,144	$9,591	$8,590
Net interest rate spread	1.59%	2.09%	2.08%	2.52%	1.81%
Debt to equity, end of period	6.0:1	5.4:1	6.7:1	5.7:1	6.4:1
Annualized return on average equity	10.1%	2.5%	13.1%	22.7%	5.2%
Dividends declared (U.S. $)	$1.10	$2.44	$2.65	$2.54	$2.08
Annualized current yield, end of period[1]	13.1%	14.3%	14.3%	17.3%	12.6%

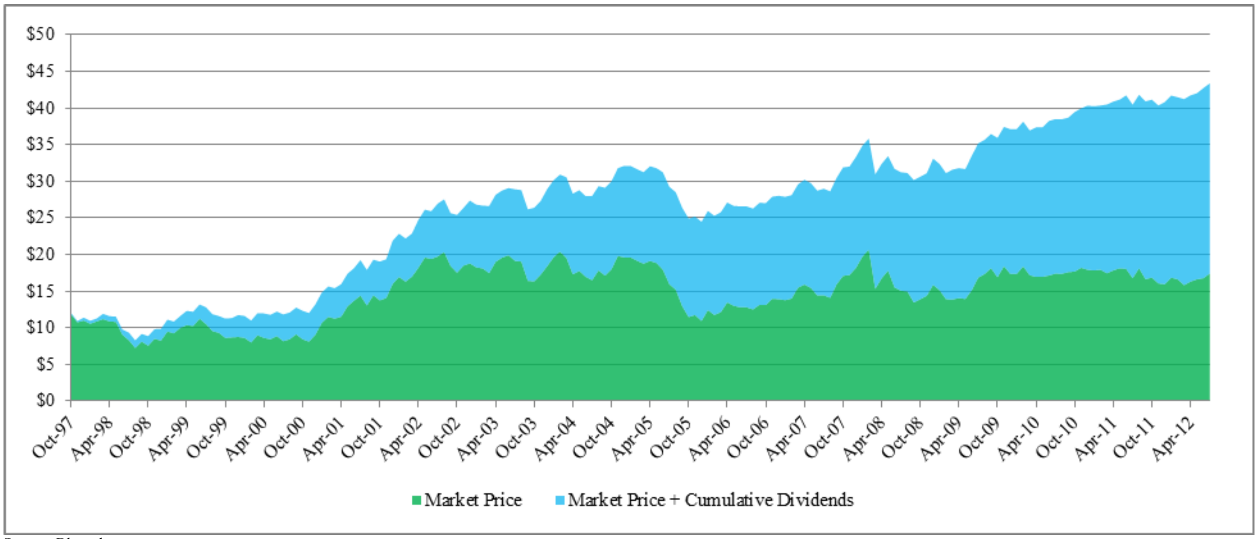
Source: Company filings and Bloomberg.
1. Last quarterly dividend annualized divided by the closing price.

Total Returns to July 31, 2012 (Annualized)

1 Year	3 Years	5 Years	10 Years	Since Inception
19.1%	16.9%	18.8%	10.2%	14.8%

Source: Bloomberg. Inception: October 8, 1997.

Price and Dividend History From Inception to July 31, 2012



Source: Bloomberg.

American Capital Agency Corp.

American Capital Agency Corp. ("AGNC") was established in 2008 and is now the second largest publicly traded Mortgage REIT in the U.S. with a market capitalization of U.S. $12.0 billion at July 31, 2012. In 2011, AGNC raised a total of U.S. $4.4 billion from four equity offerings and has raised additional equity in 2012 totaling U.S. $2.9 billion. As at July 31, 2012, AGNC had an annualized current yield of 14.2%. AGNC invests only in agency mortgage-backed securities or other agency securities using a relative value approach to asset selection. AGNC's principal objective is to preserve shareholder's equity while generating attractive risk-adjusted returns for distribution to its stockholders through regular quarterly dividends. AGNC employs an active management strategy to meet these objectives and uses a variety of strategies to hedge interest rate and prepayment risk. AGNC is currently focused on assets with prepayment protection or low coupon fixed-rate mortgages which may benefit from further quantitative easing.

Select Financial Information

	Six Months Ended	Year Ended December 31,			
	June 30, 2012	2011	2010	2009	2008
Total assets (U.S. $ millions), end of period	$84,782	$57,972	$14,476	$4,626	$1,656
Market cap (U.S. $ millions), end of period	$10,083	$6,294	$1,849	$645	$320
Net interest rate spread	1.95%	2.30%	2.33%	2.93%	2.41%
Debt to equity, end of period	7.6:1	7.9:1	7.8:1	7.3:1	5.2:1
Annualized return on average equity	26.9%	18.5%	33.5%	31.8%	21.4%
Dividends declared (U.S. $)	$2.50	$5.60	$5.60	$5.15	$2.51
Annualized current yield, end of period[1]	14.9%	19.9%	19.5%	21.1%	22.5%

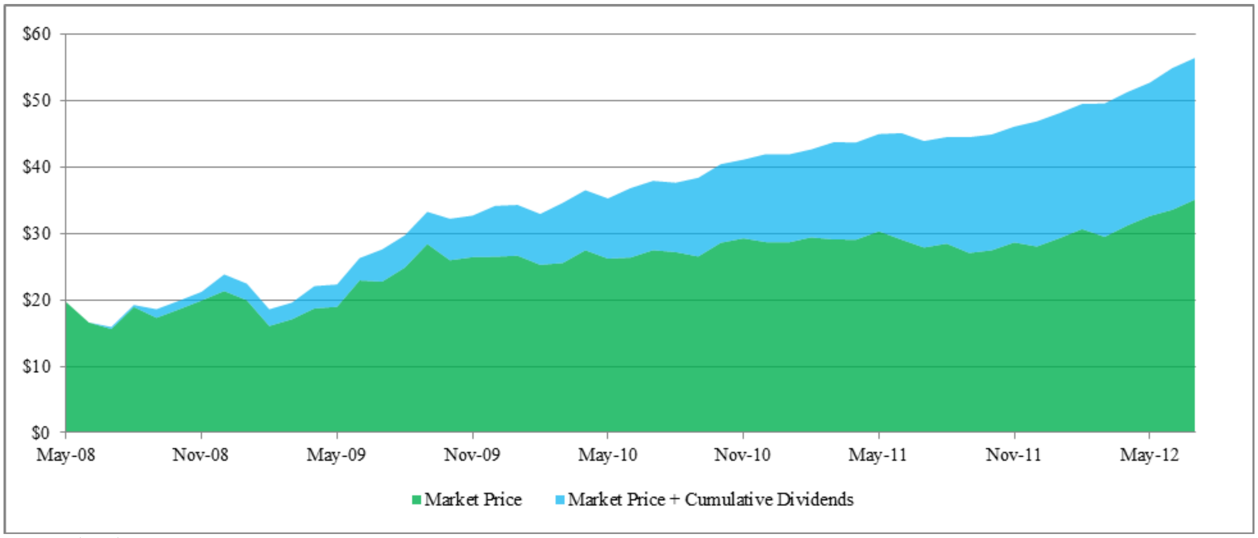
Source: Company filings and Bloomberg.
1. Last quarterly dividend annualized divided by the closing price.

Total Returns to July 31, 2012 (Annualized)

1 Year	3 Years	Since Inception
50.3%	39.7%	38.5%

Source: Bloomberg. Inception: May 14, 2008.

Price and Dividend History From Inception to July 31, 2012



Source: Bloomberg.

MFA Financial Inc.

MFA Financial Inc. ("MFA") began operations in 1998. As at July 31, 2012, MFA had a market capitalization of approximately U.S. $2.9 billion and an annualized current yield of 11.4%. MFA focuses on adjustable-rate mortgage loans which typically have interest rates that adjust annually to an increment over a specified interest rate index. MFA primarily invests in agency mortgage-backed securities and its policies require that at least 50% of its investment portfolio consist of adjustable-rate mortgage-backed securities that are either agency mortgage-backed securities or rated in one of the two highest rating categories by at least one of a nationally recognized ratings agency, such as Moody's or S&P. Because the coupon on these securities adjust over time as interest rates change, typically after an initial fixed-rate period, the market values of these assets are generally less sensitive to changes in interest rates than in fixed-rate mortgage-backed securities.

Select Financial Information

	Six Months Ended	Year Ended December 31,			
	June 30, 2012	2011	2010	2009	2008
Total assets (U.S. $ millions), end of period	$12,891	$11,751	$8,687	$9,627	$10,641
Market cap (U.S. $ millions), end of period	$2,816	$2,394	$2,292	$2,061	$1,218
Net interest rate spread	2.50%	2.62%	2.47%	2.31%	1.32%
Debt to equity, end of period	2.5:1	3.6:1	2.8:1	3.3:1	7.2:1
Annualized return on average equity	11.8%	13.0%	11.8%	15.2%	3.4%
Dividends declared (U.S. $)	$0.47	$1.005	$0.89	$0.99	$0.81
Annualized current yield, end of period[1]	11.7%	14.9%	11.6%	14.7%	14.3%

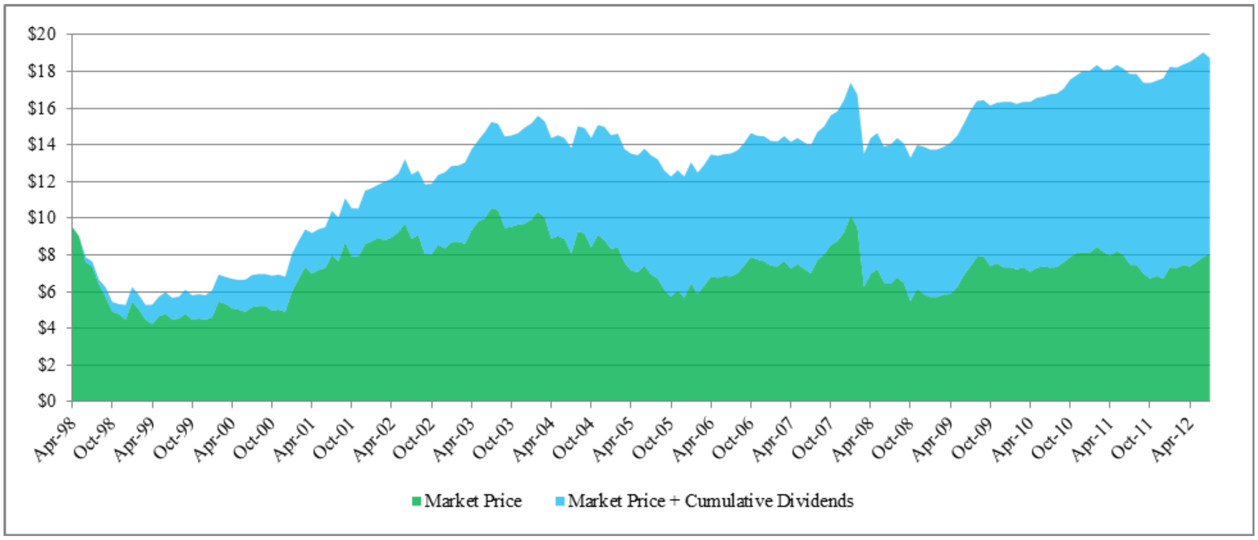
Source: Company filings and Bloomberg.
1. Last quarterly dividend annualized divided by the closing price.

Total Returns to July 31, 2012 (Annualized)

1 Year	3 Years	5 Years	10 Years	Since Inception
23.9%	17.0%	16.7%	9.7%	10.8%

Source: Bloomberg. Inception: April 13, 1998.

Price and Dividend History From Inception to July 31, 2012



Source: Bloomberg.

Hatteras Financial Corp.

Hatteras Financial Corp. ("Hatteras") commenced operations in November 2007 and listed on the New York Stock Exchange in April 2008. At July 31, 2012, Hatteras had a market capitalization of approximately U.S. $2.9 billion and had an annualized current yield of 12.3%. Hatteras focuses on investing in mortgage securities with short effective durations which management believes limits the impact of changes in interest rates on the market value of the company's portfolio and on net interest income. Since its formation, all of Hatteras' invested assets have been in agency securities and management intends that investment assets will continue to be allocated to agency securities.

Select Financial Information

	Six Months Ended	Year Ended December 31,			
	June 30, 2012	2011	2010	2009	2008
Total assets (U.S. $ millions), end of period	$24,018	$18,587	$10,007	$7,416	$5,460
Market cap (U.S. $ millions), end of period	$2,796	$2,019	$1,395	$1,012	$963
Net interest rate spread	1.53%	1.78%	2.26%	2.91%	2.10%
Debt to equity, end of period	7.5:1	7.8:1	7.6:1	6.8:1	6.1:1
Annualized return on average equity	13.0%	15.0%	16.6%	19.9%	17.0%
Dividends declared (U.S. $)	$1.80	$3.90	$4.40	$4.50	$3.49
Annualized current yield, end of period[1]	12.6%	13.7%	13.2%	17.2%	15.0%

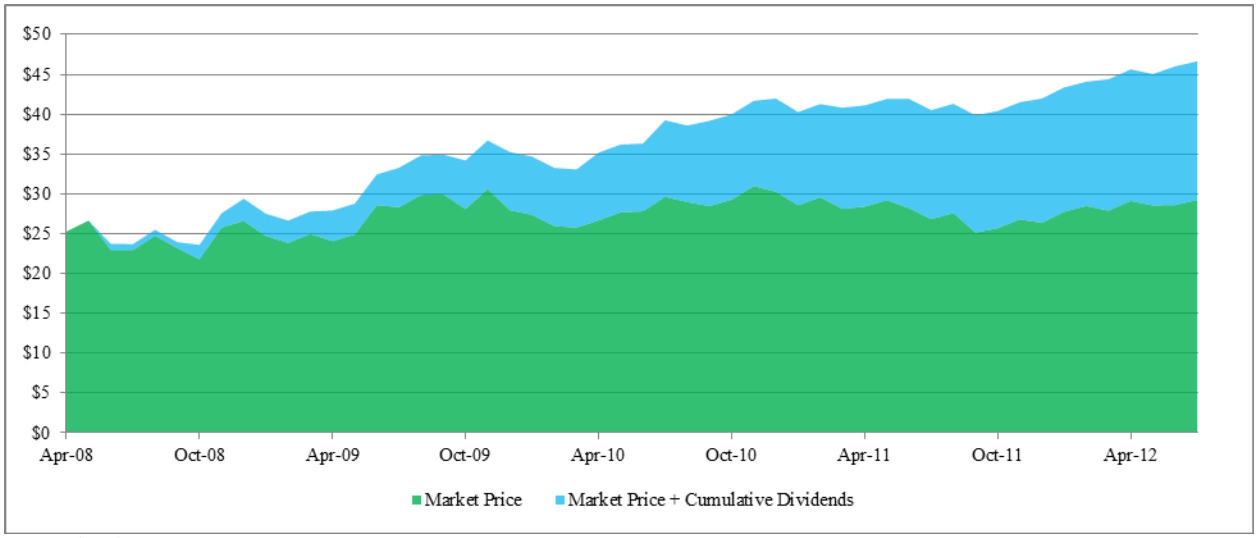
Source: Company filings and Bloomberg.
1. Last quarterly dividend annualized divided by the closing price.

Total Returns to July 31, 2012 (Annualized)

1 Year	3 Years	Since Inception
24.8%	16.9%	21.6%

Inception: April 24, 2008. Source: Bloomberg.

Price and Dividend History From Inception to July 31, 2012



Source: Bloomberg.

Invesco Mortgage Capital Inc.

Invesco Mortgage Capital Inc. ("Invesco Mortgage") commenced operations in June 2009 and is managed by Invesco Advisors Inc., a wholly-owned subsidiary of Invesco Ltd. Since its initial public offering, Invesco Mortgage has completed seven equity offerings and, as at July 31, 2012, Invesco Mortgage had a market capitalization of approximately U.S. $2.3 billion and an annualized current yield of 13.1%. Invesco Mortgage's portfolio is actively managed and targets agency mortgage-backed securities. As of June 30, 2012, 30-year fixed-rate securities that offer higher coupons and call protection based on their collateral attributes accounted for approximately 50% of the company's mortgage-backed securities investments; fifteen year fixed-rate securities accounted for approximately 19% of investments; and 9% was allocated to adjustable-rate securities with similar durations based on prepayment speeds.

Select Financial Information

	Six Months Ended	Year Ended December 31,		
	June 30, 2012	2011	2010	2009
Total assets (U.S. $ millions), end of period	$24,018	$14,772	$5,862	$853
Market cap (U.S. $ millions), end of period	$2,117	$1,621	$1,060	$202
Net interest rate spread	1.53%	2.48%	3.63%	3.96%
Debt to equity, end of period	7.5:1	6.4:1	4.1:1	3.0:1
Annualized return on average equity	13.0%	17.6%	17.6%	19.4%
Dividends declared (U.S. $)	$1.80	$3.42	$3.49	$1.66
Annualized current yield, end of period[1]	14.2%	18.5%	17.8%	18.5%

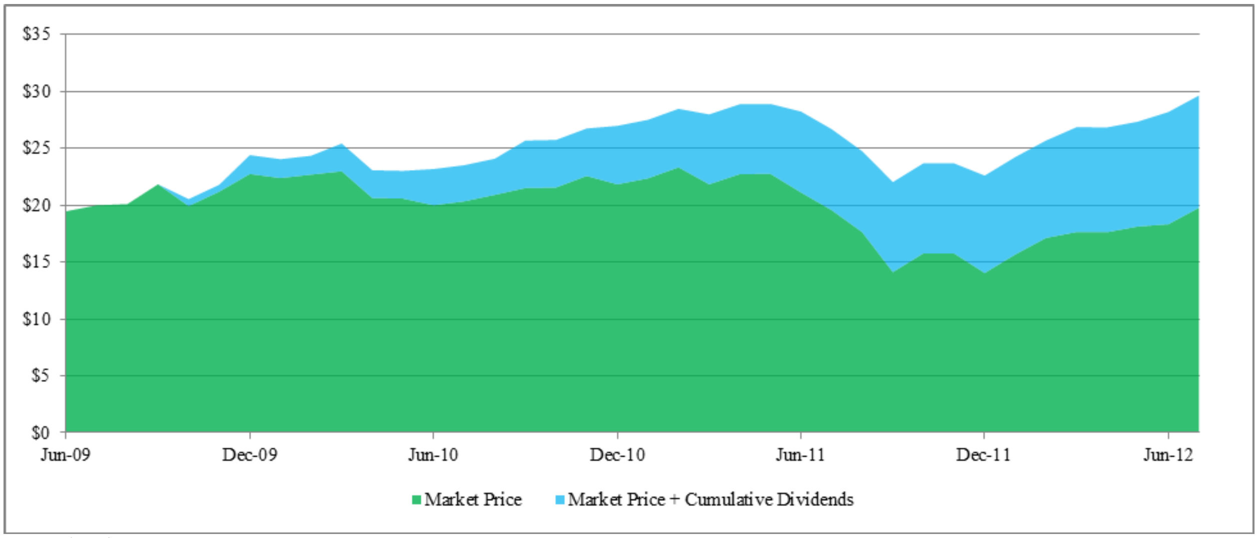
Source: Company filings and Bloomberg.
Annualized return on average equity calculated by the Manager using company filings.
1. Last quarterly dividend annualized divided by the closing price.

Total Returns to July 31, 2012 (Annualized)

1 Year	3 Years	Since Inception
19.0%	17.1%	16.5%

Source: Bloomberg. Inception: June 25, 2009.

Price and Dividend History From Inception to July 31, 2012



Source: Bloomberg.

CYS Investments, Inc.

CYS Investments, Inc. ("CYS") commenced operations in February 2006 and listed on the New York Stock Exchange in June 2009. As at July 31, 2012, CYS had a market capitalization of approximately U.S. $2.4 billion and an annualized current yield of 13.8%. CYS was created with the objective of achieving consistent risk-adjusted investment income by investing on a leveraged basis in agency mortgage-backed securities. As at June 30, 2012, CYS's investments were biased toward fixed-rate agency mortgage-backed securities with a particular focus on 15-year securities, which alone accounted for approximately 61% of its portfolio. CYS employs strategies to hedge against adverse interest rate movements and targets leverage in the range of six to 10 times net assets.

Select Financial Information

	Six Months Ended	Year Ended December 31,		
	June 30, 2012	2011	2010	2009
Total assets (U.S. $ millions), end of period	$14,623	$9,518	$6,389	$1,866
Market cap (U.S. $ millions), end of period	$1,599	$1,087	$745	$246
Net interest rate spread	1.78%	1.97%	2.15%	3.01%
Debt to equity, end of period	7.6:1	7.7:1	8.2:1	6.5:1
Annualized return on average equity	25.2%	33.0%	4.8%	37.2%
Dividends declared (U.S. $)	$1.00	$2.25	$2.35	$2.10
Annualized current yield, end of period[1]	14.5%	15.2%	18.6%	16.3%

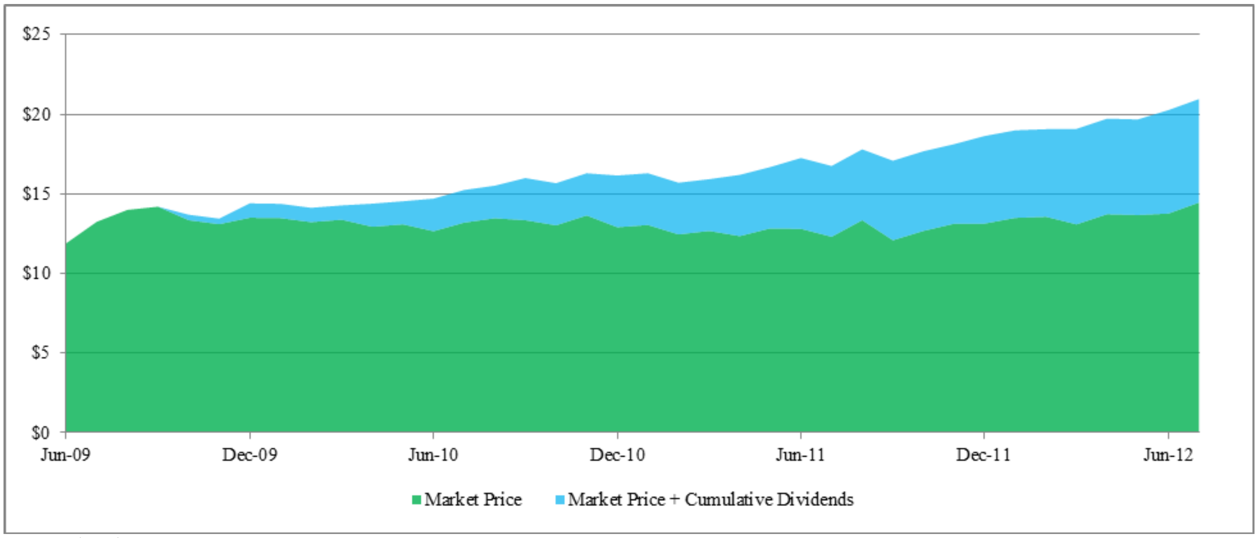
Source: Company filings and Bloomberg.
Annualized return on average equity calculated by the Manager using company filings.
1. Last quarterly dividend annualized divided by the closing price.

Total Returns to July 31, 2012 (Annualized)

1 Year	3 Years	Since Inception
37.0%	21.2%	27.5%

Source: Bloomberg. Inception: June 11, 2009.

Price and Dividend History From Inception to July 31, 2012



Source: Bloomberg.

Capstead Mortgage Corp.

Formed in 1985, Capstead Mortgage Corp. ("Capstead") is one of the oldest Mortgage REITs listed in the U.S. As at July 31, 2012, Capstead had a market capitalization of U.S. $1.3 billion and an annualized current yield of 11.4%. Capstead's investment strategy is to invest almost exclusively in adjustable-rate agency mortgage-backed securities with the objective of producing attractive risk-adjusted returns over the long-term, while reducing sensitivity to changes in interest rates. Adjustable-rate securities reset to more current interest rates within a relatively short period of time allowing for smaller fluctuations in portfolio values from changes in interest rates compared with portfolios that contain a significant amount of fixed-rate securities.

Select Financial Information

	Six Months Ended	Year Ended December 31,			
	June 30, 2012	2011	2010	2009	2008
Total assets (U.S. $ millions), end of period	$14,411	$12,845	$8,999	$8,629	$7,729
Market cap (U.S. $ millions), end of period	$1,302	$1,061	$883	$945	$633
Net interest rate spread	1.45%	1.56%	1.74%	2.23%	1.59%
Debt to equity, end of period	8.1:1	8.2:1	6.9:1	6.7:1	7.9:1
Annualized return on average equity	13.0%	13.9%	12.7%	14.9%	21.0%
Dividends declared (U.S. $)	$0.83	$1.76	$1.51	$2.24	$2.02
Annualized current yield, end of period[1]	11.5%	13.8%	12.4%	15.8%	13.4%

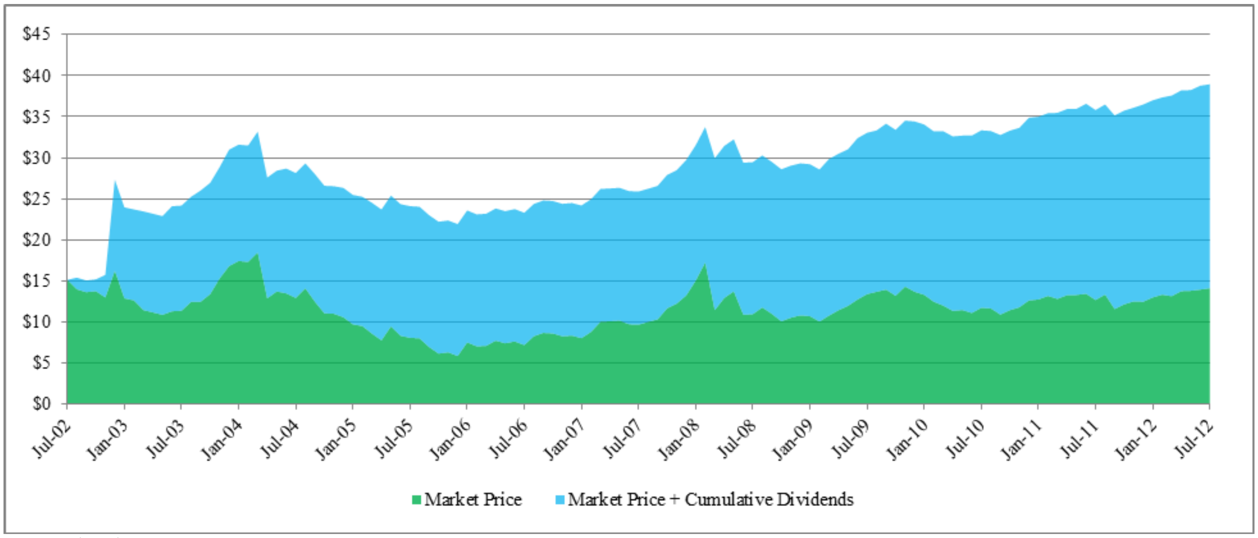
Source: Company filings and Bloomberg.
1. Last quarterly dividend annualized divided by the closing price.

Total Returns to July 31, 2012 (Annualized)

1 Year	3 Years	5 Years	10 Years	Since Inception
27.0%	16.3%	23.9%	12.9%	10.2%

Source: Bloomberg and Capstead Mortgage Corp. Inception: September 5, 1985.

Price and Dividend History, 10 Year Period Ended July 31, 2012



Source: Bloomberg.

Anworth Mortgage Asset Corp.

Anworth Mortgage Asset Corp. ("Anworth") commenced operations in March 1998. As of July 31, 2012, Anworth had a market capitalization of U.S. $917 million and an annualized current yield of 10.8%. Anworth's strategy is to invest primarily in agency mortgage-backed securities which have generally accounted for nearly its entire investment portfolio and is biased toward adjustable-rate securities. Adjustable-rate agency mortgage-backed securities with reset dates in 5 years or less accounted for 78% of its portfolio as of June 30, 2012, fifteen-year fixed-rate agency mortgage-backed securities accounted for 14% of the portfolio, followed by 30-year fixed-rate securities at 5% and adjustable-rate securities with reset dates in more than 5 years accounting for the remainder of the portfolio.

Select Financial Information

	Six Months Ended June 30, 2012	Year Ended December 31, 2011	2010	2009	2008
Total assets (U.S. $ millions), end of period	$9,196	$8,814	$7,790	$6,527	$5,477
Market cap (U.S. $ millions), end of period	$967	$841	$846	$794	$576
Net interest rate spread	0.62%	1.45%	1.47%	2.15%	1.70%
Debt to equity, end of period	7.5:1	7.8:1	7.4:1	6.0:1	8.5:1
Annualized return on average equity	10.3%	12.6%	11.8%	17.0%	11.8%
Dividends declared (U.S. $)	$0.39	$0.94	$0.97	$1.18	$1.00
Annualized current yield, end of period[1]	10.2%	13.4%	12.6%	16.0%	16.2%

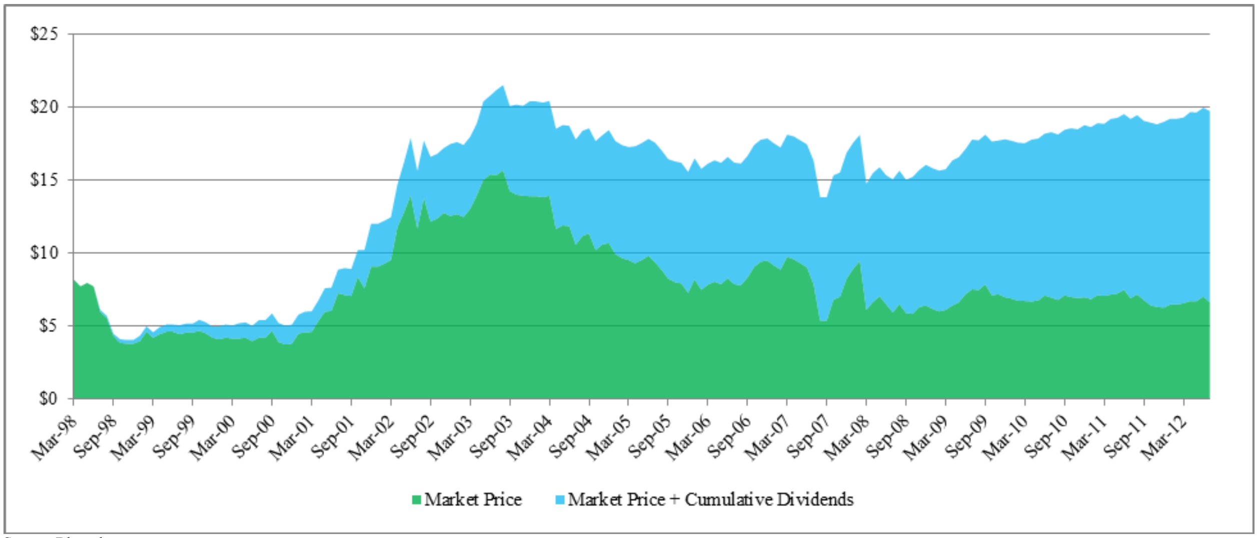
Source: Company filings and Bloomberg.
Net interest rate spread, debt to equity and annualized return on average equity calculated by the Manager using company filings.
1. Last quarterly dividend annualized divided by the closing price.

Total Returns to July 31, 2012 (Annualized)

1 Year	3 Years	5 Years	10 Years	Since Inception
8.6%	9.8%	10.7%	5.0%	9.7%

Source: Bloomberg. Inception: March 12, 1998.

Price and Dividend History From Inception to July 31, 2012



Source: Bloomberg.

American Capital Mortgage Investment Corp.

American Capital Mortgage Investment Corp. ("MTGE") is a new Mortgage REIT that commenced operations in August 2011. As at July 31, 2012, MTGE had a market capitalization of U.S. $850 million and an annualized current yield of 14.7%. MTGE's objective is to provide attractive risk-adjusted returns to stockholders over the long-term through a combination of dividends and net book value appreciation by investing in mortgage securities that, when properly financed and hedged, are designed to produce attractive returns across a variety of market conditions and economic cycles. MTGE seeks to profit not only from current earnings generated from its investment portfolio, but also from identifying investment opportunities whose relative value, arising from current or expected market trends and dislocations, has diverged from other investment opportunities. As of July 31, 2012, MTGE's investment portfolio totaled U.S. $6.1 billion, of which fixed-rate agency mortgage-backed securities comprised $5.8 billion, with a focus on 30-year securities.

Financial Information

	Six Months Ended June 30, 2012	Year Ended December 31, 2011
Total assets (U.S. $ millions), end of period	$7,029	$2,170
Market cap (U.S. $ millions), end of period	$825	$188
Net interest rate spread	2.38%	2.36%
Debt to equity, end of period	6.7:1	8.0:1
Annualized return on average equity	29.0%	24.5%
Dividends declared (U.S. $)	$1.80	$1.00
Annualized current yield, end of period[1]	15.1%	17.0%

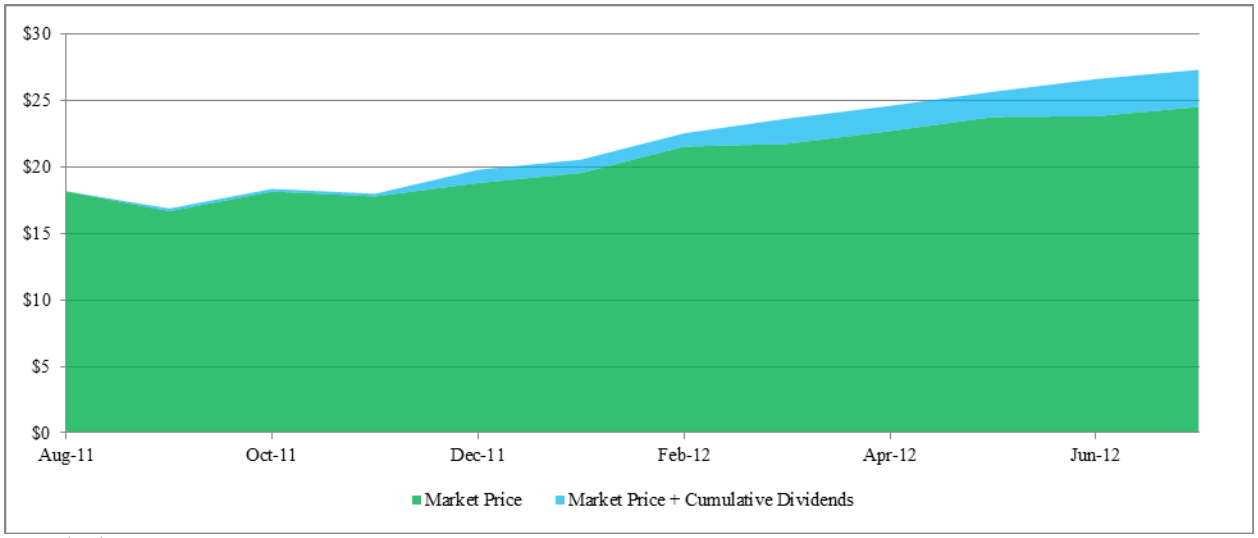
Source: Company filings and Bloomberg.
1. Last quarterly dividend annualized divided by the closing price.

Total Returns to July 31, 2012 (Annualized)

Since Inception
40.0%

Source: Bloomberg. Inception: August 3, 2011. Total return is not annualized as the period from inception is less than one year.

Price and Dividend History From Inception to July 31, 2012



Source: Bloomberg.

Dynex Capital, Inc.

Dynex Capital, Inc. ("Dynex") commenced operations in 1988. As at July 31, 2012, Dynex had a market capitalization of U.S. $565 million and an annualized current yield of 11.2%. In 2008, Dynex changed its strategy to focus on investing in agency mortgage-backed securities and recommenced paying dividends to shareholders. Prior to 2008, Dynex's operations largely consisted of originating and securitizing various types of loans. Dynex targets higher credit quality, shorter duration investments with the goal of maintaining a net portfolio duration within a range of 0.5 to 1.5 years which management believes will provide less volatility. As at June 30, 2012, approximately 82% of Dynex's assets were allocated to agency mortgage-backed securities and Dynex targets an overall investment portfolio composition of 60% to 80% in agency mortgage-backed securities. Dynex's operating policies limit the overall leverage it can use to seven times shareholders' equity capital.

Financial Information

	Six Months Ended June 30, 2012	Year Ended December 31, 2011	2010	2009	2008
Total assets (U.S. $ millions), end of period	$3,729	$2,582	$1,650	$958	$607
Market cap (U.S. $ millions), end of period	$564	$369	$321	$118	$80
Net interest rate spread	1.17%	2.45%	3.17%	3.23%	1.51%
Debt to equity, end of period	6.0:1	5.8:1	4.6:1	4.6:1	3.2:1
Annualized return on average equity	15.8%	12.0%	11.5%	8.8%	7.9%
Dividends declared (U.S. $)	$0.57	$1.09	$0.98	$0.92	$0.71
Annualized current yield, end of period[1]	11.2%	12.3%	9.9%	10.5%	14.1%

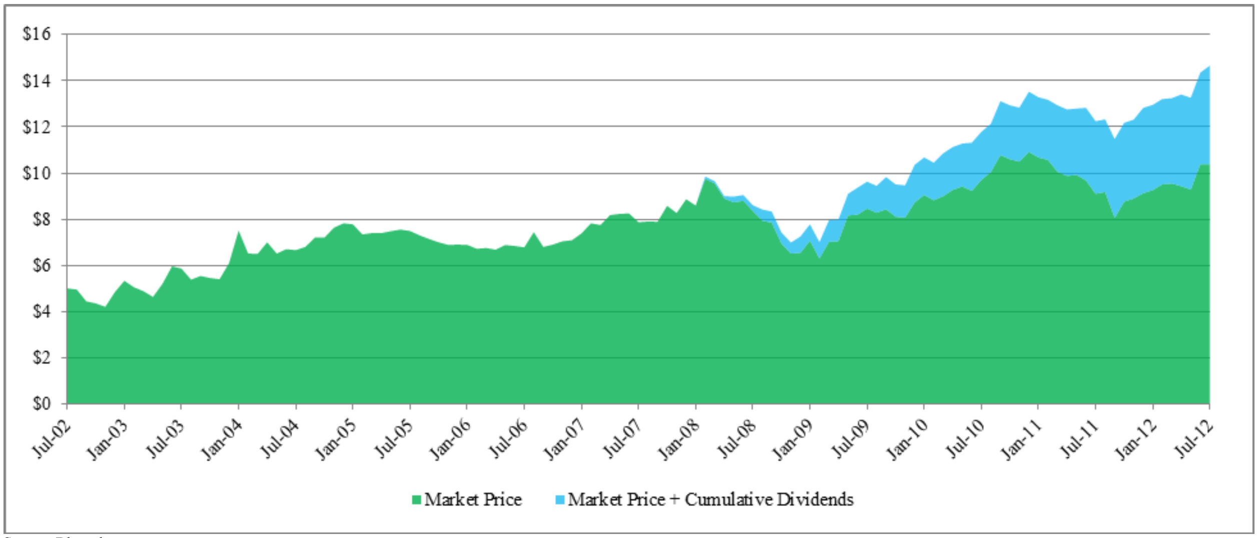
Source: Company filings and Bloomberg.
Debt to equity and annualized return on average equity calculated by the Manager using company filings.
1. Last quarterly dividend annualized divided by the closing price.

Total Returns to July 31, 2012 (Annualized)

1 Year	3 Years	5 Years	10 Years	Since Inception
28.8%	19.3%	16.1%	12.8%	4.0%

Source: Bloomberg and Dynex Capital, Inc. Inception: February 11, 1988.

Price and Dividend History, 10 Year Period Ended July 31, 2012



Source: Bloomberg.

Currency

The Portfolio will consist of assets denominated in U.S. dollars. The Manager intends to hedge substantially all of the value of the Portfolio that is invested in U.S. dollars back to the Canadian dollar.

No Leverage

The Fund will not employ leverage.

OVERVIEW OF THE INVESTMENT STRUCTURE

The Forward Agreement and the Portfolio

The Fund will not hold the Portfolio but, instead, will obtain economic exposure to the Portfolio through one or more forward purchase agreements with one or more Schedule I Canadian chartered banks or affiliates thereof, which will initially be the Bank of Montreal. By virtue of the Forward Agreement, the performance of the Fund will be dependent upon the performance of the Portfolio. The Fund will use the net proceeds of the Offering to pre-pay the forward price of the securities it will acquire under the Forward Agreement with the Counterparty. Pursuant to the terms of the Forward Agreement, the Counterparty will deliver to the Fund, on or about the Forward Termination Date, the Canadian Securities Portfolio with an aggregate value equal to the value of the Portfolio, net of any amount owing by the Fund to the Counterparty. Under the terms of the Forward Agreement, unless an Event of Default has occurred, the Fund and the Counterparty have agreed that the Counterparty's settlement obligations under the Forward Agreement will be discharged by physical delivery of the Canadian Securities Portfolio by the Counterparty to the Fund.

The notional portfolio will have an initial value equal to the amount of the net proceeds of the Offering. There can be no assurance that the Counterparty will maintain a hedge or that it will do so with respect to the full amount or term of the Forward Agreement.

Upon entering into the Forward Agreement, the long-term debt of the Counterparty or its guarantor must have an Approved Rating. The Fund is fully exposed to the credit risk associated with the Counterparty in respect of the Forward Agreement. To secure the obligations of the Counterparty under the Forward Agreement, the Counterparty will pledge collateral in favour of the Fund with an aggregate value equal to 100% of the mark-to-market value of the exposure under the Forward Agreement and the amount of the collateral will be reset on a weekly basis to 100%. The collateral will be placed in a separate securities account and will be free and clear of all liens and adverse claims, other than those in favour of the Fund or a relevant securities intermediary in respect of any fees and expenses incurred by it and, to the extent the intermediary is the Counterparty or an affiliate of the Counterparty, any cash advances made by the intermediary to the Fund in accordance with section 2.6(a)(i) of NI 81-102 (as if the Fund were subject to NI 81-102). The Fund will have a first ranking security interest in such collateral, subject to the intermediary's priority in respect of such advances, fees and expenses. Initially, the collateral will consist of TSX-listed securities. No more than 10% of the value of the collateral may be attributable to the securities of any one issuer, other than units of a closed-end investment fund which has not made a distribution to the public which are not subject to such restriction. The Counterparty may substitute other forms of collateral with the consent of the Fund. In the event of default by the Counterparty under the Forward Agreement, the Fund will have the ability to enforce its security interest and take possession of the collateral.

The payment obligations of the Counterparty to the Fund under the Forward Agreement will be determined by reference to the value of the Portfolio (the “Forward Amount”). The Counterparty may choose to enter into transactions in order to hedge all or a portion of its exposure under the terms of the Forward Agreement to the economic performance of the Portfolio but it is not obligated to do so. If the Counterparty hedges the Forward Amount would be equal to the net amount the Counterparty received under its hedge.

The Forward Amount from time to time will equal the sum of a U.S. dollar amount determined by reference to the value of the Portfolio, plus an accrual amount in respect of the U.S. dollar value of net distributions and other amounts notionally received or receivable on or in respect of the Portfolio Securities. Amounts notionally received in respect of the Portfolio Securities will reflect expenses which may include withholding taxes applicable to distributions. The Forward Amount will also reflect the notional costs and expenses that would be associated with purchases and sales of, and certain related notional transactions in, Portfolio Securities in their relevant markets, including the notional reinvestment of net distributions in Portfolio Securities, determined based on prevailing market terms and conditions at specified times, subject to liquidity considerations.

The Portfolio will be notionally traded in accordance with market movements and the Fund’s rebalancing criteria on a simulated basis as though such trades were actually made. Trading data will be based on the trading prices of the securities included in the Portfolio. The price at which each notional trade is effected will be based on the volume weighted average price (“VWAP”), as computed by Bloomberg, for the notional security subject to a maximum percentage of the daily volume, calculated from the time that the Manager provides notice to the Counterparty that it wishes to enter into a notional trade until the “end time”. The “end time” will be dictated by the size of the order relative to the agreed maximum percentage of the total trading volume for the notional security on the relevant day.

The Fund will pay reasonable notional commissions to the Counterparty under the circumstances with respect to each notional trade which will simulate commissions that would be paid on a physical portfolio.

The Counterparty will provide to the Manager the VWAP, as reported by Bloomberg, for the relevant time period and will also provide trading reports detailing the relevant day’s trading activity that will be reviewed by the Manager in order to track best execution prices and the transaction costs associated with each trade. The valuation of the notional portfolio by the Counterparty will be reviewed by the Manager against its own records on an ongoing basis.

Adjustments and modifications to the Portfolio may be made in response to distributions made on the Portfolio Securities, and certain other events, such as merger events involving Portfolio Securities. The Forward Agreement will set out certain general principles to be reasonably applied by the Counterparty, as the calculation agent under the Forward Agreement, to modify or adjust the Portfolio in these circumstances.

The Manager will provide the same continuous disclosure documentation regarding the Portfolio as would be required with respect to a portfolio of securities; the method used to determine the value of the Portfolio will comply with National Instrument 81-106 and will be calculated based on the principles set forth under the heading “Calculation of Net Asset Value”; in connection with the audit and periodic reviews, the auditor will have the same involvement with the review of the value of the Portfolio as they would otherwise have if the Counterparty were to invest in a portfolio of securities.

The terms of the Forward Agreement will provide that the Forward Agreement may, in certain circumstances, be settled prior to the Forward Termination Date at the request of the Fund on two days notice with settlement to occur three days later. 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 including in the event the Counterparty’s credit rating is downgraded.

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; or (iii) 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, other than as a result of an event of default, it is expected that the Forward Agreement will be settled by physical delivery of the Canadian Securities Portfolio by the Counterparty to the Fund net 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, have the Fund hold the Portfolio directly or the Manager may terminate the Fund and may take such other action as it considers necessary under the circumstances.

As the Fund only has exposure to the Portfolio through the Forward Agreement, and does not have a direct or indirect interest in the underlying securities constituting the Portfolio, neither Unitholders nor the Fund will have any voting or other rights with respect to the Portfolio Securities. The Manager may also substitute counterparties provided that the replacement counterparty is a Schedule I Canadian chartered bank or an affiliate thereof.

OVERVIEW OF THE SECTOR THAT THE FUND INVESTS IN

U.S. Mortgage REITs

In general, a real estate investment trust (“REIT”) is an entity that owns and operates income producing real estate assets. An entity that qualifies as a REIT in the U.S. has a tax-advantaged status because it can deduct dividends paid to its shareholders, thereby essentially eliminating corporate-level taxes. Consequently, REITs typically distribute at least 90% of their taxable income to shareholders, resulting in high dividend yields. Mortgage REITs generally do not own or operate real estate properties, but rather lend money directly or indirectly by investing in mortgages and mortgage-backed securities.

The U.S. Mortgage REIT sector has grown significantly in recent years. Over the ten year period ending June 30, 2012, the number of exchange-listed Mortgage REITs has tripled from 11 to 33 and the aggregate market value of Mortgage REITs has increased by more than ten times from U.S. $5.4 billion to U.S. $54.6 billion (based on data obtained from Bloomberg).

Mortgage-Backed Securities

Mortgage REITs typically gain exposure to mortgages by investing in mortgage-backed securities and other mortgage related securities. Mortgage-backed securities are securities created by pooling together primarily residential mortgage loans with similar characteristics purchased from mortgage lenders and placing them in a trust which passes through to investors a pro-rata share of the interest and/or principal paid by the borrowers on the underlying mortgages in the pool. Regular payments of both interest and principal differentiate mortgage-backed securities from conventional bonds such as U.S. Treasuries which make periodic interest payments and return principal at maturity.

There are two common categories for mortgage-backed securities: agency and non-agency. Agency mortgage-backed securities are mortgage-backed securities issued or guaranteed by the U.S. government or a GSE. Three agencies are responsible for the majority of U.S. mortgage-backed securities issuance: the Government National Mortgage Association, known as Ginnie Mae; the Federal National Mortgage Association, known as Fannie Mae; and the Federal Home Loan Mortgage Corporation, known as Freddie Mac. In addition to being backed by a pool of mortgage loans, the payment of principal and interest on Freddie Mac and Fannie Mae agency mortgage-backed securities are guaranteed by those respective agencies, and the payment of principal and interest on Ginnie Mae agency mortgage-backed securities are explicitly backed by the full faith and credit of the U.S. government. As a result, agency mortgage-backed securities are generally viewed as very high credit quality investments. During the credit crisis in 2008, Fannie Mae and Freddie Mac were placed into government conservatorship and are now operated by the Federal Housing Finance Agency. The U.S. federal government has stated that it is committed to ensuring that Fannie Mae and Freddie Mac have sufficient capital to perform under any guarantees issued by these agencies. In addition, the U.S. Treasury Department has committed capital to both agencies and has stated that it will ensure both agencies can maintain a positive net worth and fulfill all of their financial obligations. The Manager believes these statements of support for the obligations of these agencies lends credence to the very high credit quality of mortgage-backed securities issued by these agencies. Further, the agencies primarily participate in the "prime" mortgage-backed securities market, which comprises mortgages made to borrowers with strong credit histories. Agency mortgage-backed securities provide investors with an opportunity to enhance the yield of their fixed income portfolios without taking the credit risk associated with spread sectors like corporate credit.

While the agencies issue the majority of U.S. mortgage-backed securities, there are also private companies that issue mortgage-backed securities. Non-agency mortgage-backed securities are typically issued by homebuilders or financial institutions and are backed by mortgage loans that do not conform to the agencies' requirements. Non-agency mortgage-backed securities are not guaranteed by the U.S. government or an agency thereof and investors in such securities are exposed to credit and default risk and therefore typically provide higher yields than agency mortgage-backed securities. Non-agency mortgage-backed securities are rated by credit rating agencies and often feature credit enhancements, such as overcollateralization or letters of credit that are intended to help protect investors from delinquencies or losses on the underlying mortgage loans.

With U.S. $8.4 trillion in mortgage-related debt outstanding as of March 31, 2012, mortgage securities are the second largest segment of the U.S. bond market, accounting for approximately 22.8% of all bond market debt outstanding, behind only treasury debt, accounting for 27.3%, and ahead of corporate debt which accounted for 21.9% (based on data compiled by the Securities Industry and Financial Markets Association). Agency mortgage-backed securities accounted for approximately two-thirds of the mortgage debt market and are also among the most actively traded securities in the U.S. bond market. Primary dealers, banks and broker-dealers that are permitted to trade directly with the U.S. Federal Reserve, traded on average more than U.S. $300 billion per day of agency mortgage-backed securities in 2011. In comparison, the average daily trading volume for U.S. corporate bonds with maturities greater than one year was U.S. $20.6 billion in 2011.

U.S. Agency Mortgage REITs

Like all Mortgage REITs, U.S. Agency Mortgage REITs generally finance their activities through equity and debt capital, primarily through the use of short-term repurchase agreements. U.S. Agency Mortgage REITs then purchase longer-term, higher yielding mortgage-related assets. U.S. Agency Mortgage REITs are Mortgage REITs that primarily invest in agency mortgage-backed securities. They typically employ high levels of leverage, reflecting the fact that they invest in mortgage-backed securities that are guaranteed by the U.S. government or a GSE.

The primary source of earnings for Mortgage REITs is net interest income, being the difference between interest income from mortgage assets and interest paid on borrowings to fund the purchase of mortgage assets. Wider spreads between borrowing costs and investment yield will generally result in higher net interest income margins. Conversely, narrower spreads will generally compress margins.

U.S. Agency Mortgage REITs are required to distribute at least 90% of their taxable income and as a result have historically generated high dividend yields. As at July 31, 2012, the weighted average annualized dividend yield of the Fund's Indicative Portfolio was 12.9% and the weighted average debt to equity ratio was 6.6:1. The primary source of earnings for U.S. Agency Mortgage REITs is net interest income, being the difference between the interest earned from mortgage assets and the interest paid to fund the purchase of mortgage assets. U.S. Agency Mortgage REITs typically employ relatively high levels of leverage as part of their investment strategies. As such, the Manager believes that the primary risk for the Fund is changes in interest rates, both in absolute terms and the slope of the yield curve given that, before any hedging, the assets are longer term in nature and the borrowings are shorter term in nature. Market conditions have generally been favourable for U.S. Agency Mortgage REITs and the Manager believes that continued low short-term interest rates and a relatively steep yield curve will continue to create an attractive investment environment. The Fund will only obtain exposure to U.S. Agency Mortgage REITs.

The issuers in the Indicative Portfolio have generally exhibited a low correlation with equities as well as high yield and investment grade bonds. The weighted average correlation coefficient of the Indicative Portfolio relative to the S&P 500 Index, Bank of America Merrill Lynch High Yield Master II Index and Dow Jones (Investment Grade) Corporate Bond Index was 0.41, 0.28 and -0.06, respectively, measured over the three year period ending July 31, 2012.

While all of the managers invest in the agency mortgage-backed securities sector, there are a number of different strategies for asset selection and interest rate hedging that an Agency Mortgage REIT manager can use to maximize shareholder value. U.S. Agency Mortgage REITs can differ considerably based on their view of a number of factors including interest rates, prepayments, directional trends in housing prices, general economic conditions, defaults on underlying mortgages and social and demographic conditions, among others. For example, certain U.S. Agency Mortgage REITs invest almost exclusively in adjustable-rate mortgage-backed securities, whereas others are focused on longer duration fixed-rate mortgage-backed securities. The amount of leverage employed and hedging strategies utilized to protect against changes in interest rates and prepayment rates can also be significantly different.

Key Investment Variables

There are certain key variables that generate returns for U.S. Agency Mortgage REITs on which managers need to focus. These variables include:

(i) short-term interest rates;

(ii) the slope of the yield curve;

(iii) net interest spreads;

(iv) duration; and

(v) prepayment levels.

Additionally, credit risk is a key risk for Mortgage REITs with exposure to non-agency mortgage-backed securities, but not for the U.S. Agency Mortgage REITs that the Fund is focused on. Mortgage REITs employ a variety of strategies to mitigate these risks.

Short-term Interest Rates

Many Mortgage REITs and U.S. Agency Mortgage REITs, in particular, utilize leverage extensively. High levels of leverage are available to U.S. Agency Mortgage REITs to invest in agency mortgage-backed securities due to their backing by the U.S. government or a GSE. Due to their reliance on leverage, Mortgage REITs are sensitive to changes in short-term rates as higher borrowing costs compress margins. In general, U.S. Agency Mortgage REITS finance long-term assets with shorter term borrowings in the form of repurchase agreements. The repurchase agreement market is a deep liquid market but it does depend on functioning capital markets. In the recent financial crisis the repurchase agreement market did continue to function but there was heightened stress regarding the continued ability of lenders to provide financing. Mortgage REITs currently benefit from low short-term interest rates as these rates lower their cost of borrowing. A weak economic recovery, subdued inflation and high unemployment in the U.S. have resulted in policymakers maintaining short-term interest rates at near record lows. In a statement made on June 20, 2012, the Federal Open Market Committee maintained the target range for the federal funds rate (a short-term rate) at 0% to 0.25% and reiterated its view that exceptionally low levels for the federal funds rate are warranted at least through late 2014. With the U.S. Federal Reserve committed to maintaining low short-term interest rates, funding costs for Mortgage REITs are likely to continue to remain low for some period. As illustrated in the graph below, the cost of borrowing using repurchase agreements, known as repo rates, remain at low levels historically, with the three month repurchase rate averaging 11 bps over the past year.

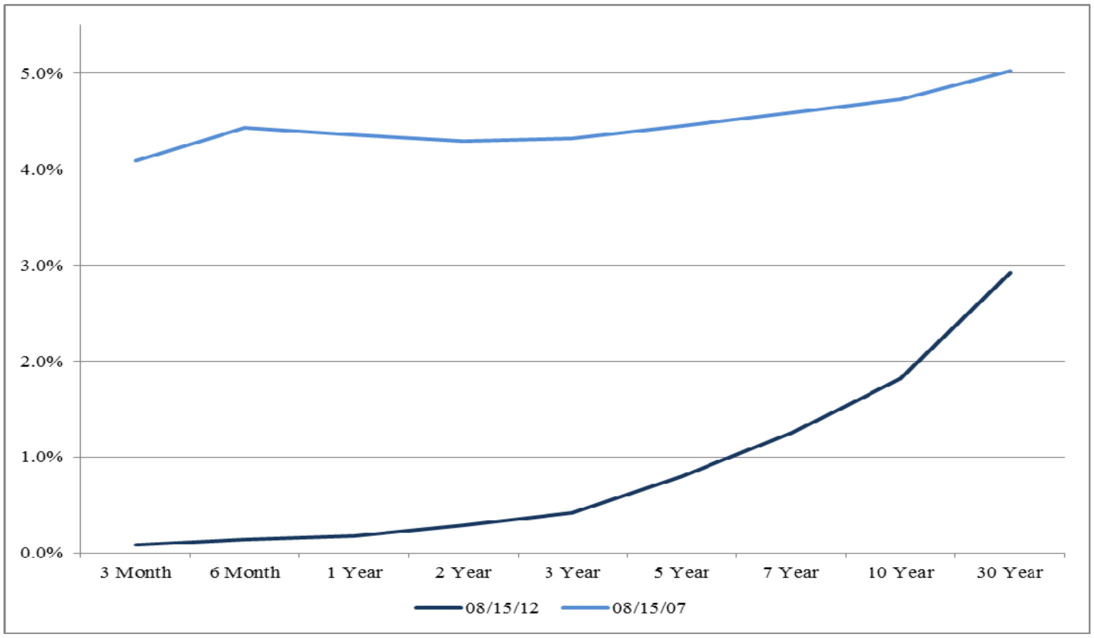
3 Month Repo Rates from July 31, 2002 to July 31, 2012

Source: Bloomberg

Yield Curve

In general, before applying any hedging strategies, U.S. Agency Mortgage REITs tend to invest in mortgage securities that have a longer duration than the money they borrow. As a result, they will typically benefit from a steeper yield curve. Since the financial crisis, U.S. Agency Mortgage REITs have benefited from a favourable operating environment in which long-term interest rates have significantly exceeded short-term interest rates resulting in an environment where U.S. Agency Mortgage REITs can generate attractive net interest spreads by borrowing short-term funds and investing in longer-term, low credit risk agency mortgage-backed securities. Since the Great Depression, the yield curve has usually been "normal" meaning that the interest rates increased as maturities lengthened resulting in a yield curve with a positive slope. Over the past ten years, the yield curve primarily exhibited an upward slope; however, between late 2005 to late 2007, the yield curve was generally flat or inverted as short-term interest rates rose rapidly and exceeded long-term interest rates. As the financial crisis gathered momentum, short-term interest rates declined significantly relative to long-term interest rates as the U.S. Federal Reserve reduced its target for the federal funds rate from 5.25% to 0.25% between September 2007 and December 2008 and remains near record low levels today. Further, many U.S. Agency Mortgage REITs have been able to employ less leverage relative to the period preceding the financial crisis while still generating attractive levels of return on equity. The graph below shows the how the yield curve has changed from being flat five years ago to positively sloped today.

U.S. Treasury Yield Curve as at August 15, 2007 and August 15, 2012

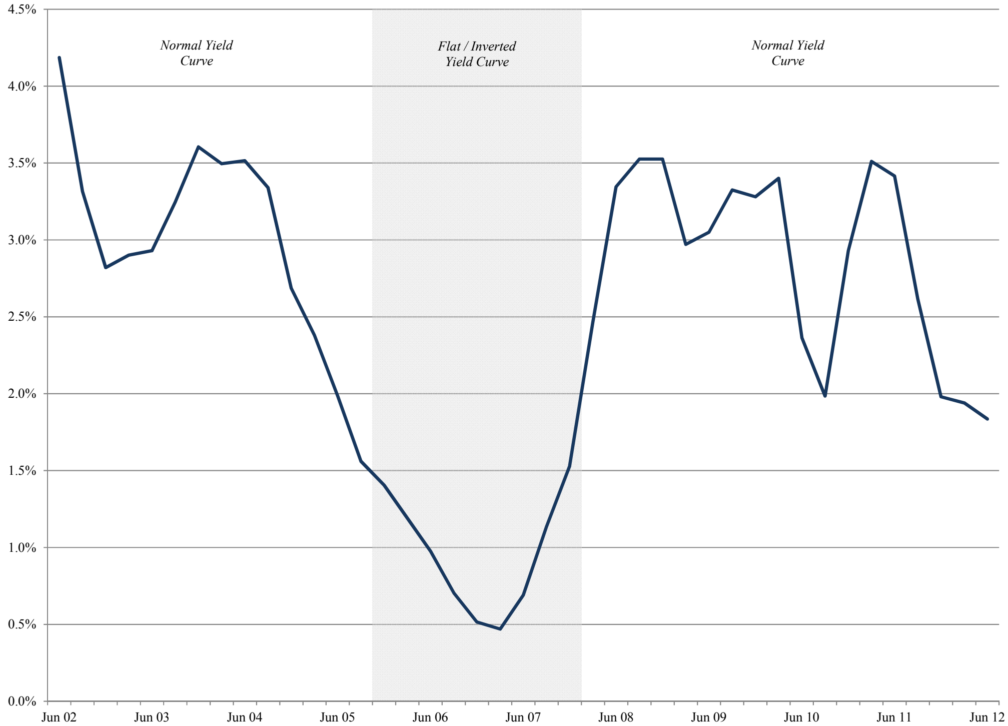


Source: Bloomberg

Net Interest Spreads

The net interest spread represents the net effect of the combination of short term interest rates (repo rates) and the yield curve. Changes in each of these variables do not happen in isolation and, overall, tend to reflect the market's view of the macro-economic environment. The graph below shows the spread between the yield to maturity on the Bank of America Merrill Lynch U.S. Mortgage Backed Securities Index, which tracks the performance of U.S. agency mortgage-backed securities, and three month repo rates to provide a general overview of net interest spreads. It does not take into consideration hedges that U.S. Agency Mortgage REITs can employ. As illustrated in the graph, spreads are wider when the yield curve is normal but have remained positive even in the period between late 2005 and late 2007 when the yield curve was flat or inverted. While borrowing costs remain near historic lows, asset yields have declined due in part to significant purchases of longer-term U.S. treasury bonds and agency mortgage-backed securities by investors seeking safety and by the U.S. Federal Reserve to lower yields. In the first half of 2012, the U.S. Agency Mortgage REITs in the Indicative Portfolio reported net interest spreads largely ranging between 1.5% and 2.0%. In the current spread environment, U.S. Agency Mortgage REITs have been able to produce attractive returns with each issuer in the Indicative Portfolio generating an annualized return on equity in excess of 10% in the first half of 2012.

Net Interest Spreads



Source: Bank of America Merrill Lynch and Bloomberg

U.S. Agency Mortgage REITs can utilize a variety of strategies to limit the effects of changes in interest rates on net income. For example, U.S. Agency Mortgage REITs can use financial instruments such as interest rate swaps to hedge their short-term funding cost exposure by locking in fixed-rate funding over longer periods of time. With market expectations of low short-term interest rates for an extended period of time, the cost of hedging funding costs has declined considerably. U.S. Agency Mortgage REITs can also alter the asset mix of their portfolio. For example, U.S. Agency Mortgage REITs in the Indicative Portfolio that were focused on adjustable-rate mortgage-backed securities generally experienced less net interest spread compression in the first half of 2012.

Duration

Changes in the level of interest rates can affect the market value of agency mortgage-backed securities held by U.S. Agency Mortgage REITs. Similar to other fixed income securities, the market value of fixed-rate mortgage-backed securities typically rise (fall) as interest rates fall (rise). Adjustable-rate mortgage-backed securities generally exhibit less sensitivity to changes in interest rates because the coupon on these securities adjust over time. In general, the duration of the assets held by U.S. Agency Mortgage REITs (ie. mortgage-backed securities) is longer than the duration of their liabilities (ie. repurchase agreements). The ability to manage this duration gap is a key factor in being able to deliver attractive returns to shareholders over an interest rate cycle.

U.S. Agency Mortgage REITs may utilize a variety of strategies to limit the effects of interest rates on portfolio values. U.S. Agency Mortgage REITs can use financial instruments as well as alter their asset mix to modify duration. For example, an Agency Mortgage REIT can reduce its duration by buying adjustable-rate mortgage-backed securities and selling longer term fixed-rate securities.

Prepayment Levels

Mortgage prepayments are early repayments of mortgage loans. Residential borrowers are able to prepay their mortgage loans at par at any time and prepayment rates generally accelerate when interest rates fall as borrowers have an incentive to refinance their existing mortgage at a lower rate. Conversely, when rates rise, prepayments generally decrease. Faster than expected prepayments may adversely affect a mortgage REIT's profitability because the mortgage REIT may need to replace investments that have been redeemed or repaid early with other investments in a lower interest rate environment. To compensate investors for the uncertainty caused by mortgage refinancing and subsequent repayment, agency mortgage-backed securities have historically offered higher yields than bonds of similar high credit quality, such as

U.S. treasury bonds. The price of a mortgage-backed security at any given time reflects an assumption regarding prepayment levels.

Other factors that affect the rate at which mortgage prepayments occur, include changes in the level of and directional trends in housing prices, general economic conditions, the age of the mortgage loan, the location of the property and social and demographic conditions. U.S. Agency Mortgage REITs can employ strategies to minimize the effects of faster or slower than anticipated prepayment rates by structuring a diversified portfolio with a variety of prepayment characteristics, such as mortgage-backed securities with prepayment prohibitions, penalties or lower loan balances that are less likely to incur prepayments, and balancing assets purchased at a premium with assets purchased at a discount.

More recently, U.S. government initiatives have been created that may encourage prepayments. For example, the Home Affordable Refinance Program (HARP) was established in March 2009 to help homeowners with negative equity in their houses lower their payments by refinancing their mortgages at lower interest rates. The impact of this program on the housing market was fairly subdued as it was limited to homeowners with a loan-to-value (LTV) less than 105% and who were current on their mortgage payments. In an effort to improve effectiveness, the program was expanded in December 2011 to include all agency-backed mortgages regardless of LTV, issued on or before May 2009. The plan is still limited by the fact that mortgage holders must be current on their payments (i.e. only one missed payment in the last 12 months). While this program has increased prepayment levels modestly on certain mortgage-backed securities, the Manager does not believe that they will increase significantly over the near-term because of the program's eligibility requirements.

The Manager does not believe that agency mortgage-backed securities will exhibit high prepayment rates in the current low interest rate environment as was experienced in 2003 when interest rates were last near current levels. U.S. housing market credit availability is currently limited due to tightened underwriting standards, lower housing prices, lower loan limits, and the continuing weak employment environment. In addition to limited credit, muted home sales and previous refinancing activity support expectations for no significant increases in prepayment levels.

INVESTMENT RESTRICTIONS

The Fund will be subject to its investment restrictions set out below, and will also indirectly be subject to the investment restrictions of the Portfolio as a result of the Forward Agreement.

Investment Restrictions of the Portfolio

The Portfolio will be subject to certain investment restrictions which are set out in the Forward Agreement. The investment restrictions of the Portfolio provide that the Portfolio will not:

(a) invest in securities other than securities of publicly traded Mortgage REITs that invest primarily in agency mortgaged-backed securities;

(b) invest more than 25% of the assets of the Portfolio at the time of investment in the securities of any single Agency Mortgage REIT;

(c) invest in securities of any single issuer where the number of securities held represents more than (i) 5% of the outstanding voting or equity securities of any class of that issuer or securities convertible into voting or equity securities of any class of that issuer; or (ii) 25% of the total outstanding equity securities of that issuer;

(d) invest in or use derivative instruments, except in connection with the currency hedging described under "Investment Strategy – Currency";

(e) invest in securities of an issuer for the purposes of exercising control or direction, whether alone or in concert, over management of that issuer; or

(f) invest in securities of, sell securities to, or otherwise contract for the acquisition or disposition of securities with the Manager or any of its affiliates, any officer, director or shareholder of the Manager, any person, trust, firm or corporation managed by the Manager or any of its affiliates or any firm or corporation in which any officer, director or shareholder of the Manager may have a material interest (which, for these purposes, includes beneficial ownership of more than 10% of the voting securities of such entity) unless such transaction complies with NI 81-107.

Investment Restrictions of the Fund

The investment restrictions of the Fund, which are set forth in the Trust Agreement, provide that the Fund will not:

(a) borrow money;

(b) 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;

(c) 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;

(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 any amendment to such definition) 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.

FEES AND EXPENSES

Initial Fees and Expenses

The expenses of the Offering (including the costs of creating and organizing the Fund, the costs of printing and preparing this prospectus, legal expenses, marketing expenses and reasonable out-of-pocket expenses incurred by the Agents and other incidental expenses), which are estimated to be $650,000 (but not to exceed 1.5% of the gross proceeds of the Offering), will be paid out of the gross proceeds of the Offering by the Fund. In addition, the Agents’ fee ($0.525 per Class A Unit and $0.225 per Class F Unit sold under the Offering) 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 equal in the aggregate to 0.90% per annum of the Net Asset Value of the Fund comprised of 0.50% per annum of the Net Asset Value of the Fund, calculated and payable monthly in arrears, plus an amount calculated quarterly and paid as soon as practicable after the end of each calendar quarter equal to the Service Fee of 0.40% per annum of the Net Asset Value attributable to the Class A Units referred to below. 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

From the amounts received by the Manager from the Fund, a Service Fee will be payable by the Manager to each registered dealer whose clients hold Class A Units at the end of a calendar quarter. The Service Fee will be equal to 0.40% annually of the Net Asset Value for each Class A Unit held by clients of the registered dealers, calculated and paid at the end of each calendar quarter commencing on December 31, 2012, plus applicable taxes. The Service Fee will be *pro-rated* for the partial first quarter of the Fund. The Manager may, from time to time, pay the Service Fee more frequently than quarterly, in which event the Service Fee will be *pro-rated* for the period to which it relates.

Counterparty Fees

The Fund will pay to the Counterparty a fee under the Forward Agreement equal to (a) a fixed fee of 0.30% to 0.35% of the net notional amount of the Forward Agreement (being effectively equal to the net asset value of the Portfolio) per annum, plus (b) an additional variable fee which initially will not exceed 0.70% per annum of the net asset value of the Portfolio calculated daily and paid quarterly.

Ongoing Expenses

The Fund will pay for all expenses incurred in connection with its operation and administration, which will generally be allocated to the Units of each class *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 and 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, the Custodian, the Trustee and/or any of their respective officers, directors, employees, consultants or agents is entitled to indemnity by the Fund.

The Manager estimates that ongoing expenses, exclusive of the Management Fee, fees under the Forward Agreement and brokerage expenses related to portfolio transactions will be approximately $175,000 per year (assuming an aggregate size of the Offering of approximately $100 million).

Additional Services

Any arrangements for additional services between the Fund and the Manager, or any of its affiliates, that have not been described in this prospectus will be on terms that are no less favourable to the Fund than those available from arm's length persons (within the meaning of the Tax Act) for comparable services and the Fund will pay all expenses associated with such additional services. Any such additional services and the associated expenses will be subject to review by the Independent Review Committee.

RISK FACTORS

Certain risk factors relating to the Fund, the Units and Mortgage REITs 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. If any such risk actually occurs, the undertaking, financial condition, liquidity or results of operations of the Fund, and the ability of the Fund to make distributions on the Units, could be materially adversely affected.

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 return on the assets in the Portfolio and the value of the assets 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 assets in the Portfolio, the Fund will have insufficient assets to achieve its investment objectives.

Risks Relating to Fluctuation in Value of Mortgage REIT Securities and Performance of the Portfolio

The Net Asset Value will vary according to the value of the securities included in the Portfolio. The Fund and the Manager have no control over the factors that affect the value of the securities in the Portfolio, including both factors that affect the equity and real estate markets generally, such as general economic and market conditions, political conditions and fluctuations in interest rates, and factors unique to issuers of Mortgage REITs and their business, such as liquidity and funding conditions, competition, legal and compliance risks, operational risks, tax-related risks, performance by or changes in management, changes in strategic direction, achievement of strategic goals, mergers, acquisitions and divestitures, and other events that may affect the value of their securities.

Risks Relating to Investments in Mortgage REITs

Interest Rate Risk: Mortgage REITs are subject to significant interest rate risk. Interest rate risk refers to fluctuations in the value of a Mortgage REIT's investment in fixed-rate obligations resulting from changes in the general level of interest rates. When the general level of interest rates rises, the value of a Mortgage REIT's investment in fixed-rate obligations falls and, conversely, when the general level of interest rates falls, the value of a Mortgage REIT's investment in fixed-rate obligations rises. A Mortgage REIT's investment in adjustable-rate obligations may react differently to interest rate changes than an investment in fixed-rate obligations. As interest rates on adjustable-rate mortgage loans are reset periodically, yields on a Mortgage REIT's investment in such loans will gradually align themselves to reflect changes in market interest rates, causing the value of such investments to fluctuate less dramatically in response to interest rate fluctuations than would investments in fixed-rate obligations. Mortgage REITs are also subject to the risk of changes in the slope of the yield curve. A lower slope will decrease the income generated by the difference between the income generated by the longer term assets and the cost of the short-term liabilities.

Leverage Risk: Mortgage REITs typically use leverage and many Mortgage REITs, especially U.S. Agency Mortgage REITs, are highly leveraged, which exposes them to leverage risk. Leverage risk refers to the risk that leverage created from borrowing may impair a Mortgage REIT's liquidity, cause it to liquidate positions at an unfavorable time, reduce dividends paid by the Mortgage REIT and increase the volatility of the values of securities issued by the Mortgage REIT. To the extent that a Mortgage REIT uses significant leverage, it may incur substantial losses if its borrowing costs increase as higher borrowing costs compress margins or be adversely affected if credit is not available due to global economic conditions or other factors. The use of leverage, which exposes the borrower to changes in price at a ratio higher than 1:1 in reference to the amount invested, magnifies both the favourable and the unfavourable effects of price movements in investments. Borrowing costs may increase for any of the following reasons: short-term interest rates increase; the market value of a Mortgage REIT's assets decreases; interest rate volatility increases; or the availability of financing in the market decreases. During periods of adverse market conditions the use of leverage may cause a Mortgage REIT to lose more money than would have been the case if leverage was not used.

Prepayment Risk: Mortgage REITs are subject to prepayment risk, which is the risk that borrowers may prepay their mortgage loans at faster than expected rates. Prepayment rates generally increase when interest rates fall and decrease when interest rates rise. These faster than expected payments may adversely affect a Mortgage REIT's profitability.

Prepayments can also occur when borrowers default on their mortgages and the mortgages are prepaid from the proceeds of a foreclosure sale of the property, or when borrowers sell the property and use the sale proceeds to prepay the mortgage as part of a physical relocation. Prepayment rates may be affected by conditions in the housing and financial markets, increasing defaults on residential mortgage loans, which could lead to an acceleration of the payment of the related principal, general economic conditions and the relative interest rates on loans. Securities purchase programs such as "Operation Twist" announced by the U.S. Federal Reserve in September 2011, could lead to a flattening in the yield curve, which could result in increased prepayment rates due to lower long-term interest rates and a narrowing of net interest margins. In addition, modifications to existing U.S. government sponsored programs, such as the Home Affordable Refinance Program (HARP) which allows borrowers who are current on their mortgage payments to refinance and reduce their monthly mortgage payments without new mortgage insurance, or the implementation of new programs, could materially alter prepayment levels which may adversely affect the performance of U.S. Agency Mortgage REITs.

Agency Risk: A Mortgage REIT may invest in mortgage-backed securities issued or guaranteed by Fannie Mae or Freddie Mac, which are not backed by the full faith and credit of the U.S. government and the actions of the U.S. government may not be adequate for their needs. The maximum potential liability of such entities may greatly exceed their current resources, and it is possible that they will not be able to meet their obligations in the future. Concerns about Freddie Mac's and Fannie Mae's solvency during the volatility and disruption that impacted the capital and credit markets during late 2008 and into 2009 led to Freddie Mac and Fannie Mae being placed under the conservatorship of the Federal Housing Finance Agency ("FHFA") and receiving a capital infusion from the U.S. Treasury. While the U.S. Treasury Department has said it will ensure that both agencies can maintain a positive net worth and fulfill all of their financial obligations, the value of the mortgage-backed securities issued or guaranteed by Freddie Mac or Fannie Mae held by a Mortgage REIT may be affected by future actions taken by the FHFA, the U.S. Treasury or the U.S. government with respect to these entities and market perceptions. For example, in February 2011, the U.S. Department of Treasury issued a White Paper that lays out proposals to limit or potentially wind down the role that Fannie Mae and Freddie Mac play in the mortgage market. Any such proposals, if enacted, may have broad adverse implications for the mortgage-backed securities market and U.S. Agency Mortgage REITs in particular. Any changes to the nature of their guarantee obligations could redefine what constitutes an agency mortgage-backed security and could have adverse implications for the market and the business operations and financial condition of U.S. Agency Mortgage REITs. Any reduction in the supply of agency mortgage-backed securities could negatively affect the pricing of such securities and the ability of U.S. Agency Mortgage REITs to acquire such securities and to utilize leverage.

Extension Risk: Mortgage REITs are subject to extension risk, which is the risk that borrowers may prepay their mortgage loans at slower than expected rates. Prepayment rates generally decrease when interest rates rise and increase when interest rates fall. These slower than expected payments may adversely affect a Mortgage REIT's profitability.

Regulatory/Policy Risk: Future policies that change the relationship between Fannie Mae and Freddie Mac and the U.S. Government, including those that result in their winding down, nationalization, privatization, elimination or reduction in government support for these agencies, may create market uncertainty and have the effect of reducing the actual or perceived credit quality of securities issued or guaranteed by Fannie Mae or Freddie Mac. As a result, such policies could increase the risk of loss on investments held by U.S. Agency Mortgage REITs and have a significant adverse impact in their performance. It also is possible that such policies could adversely impact the market for such securities and spreads at which they trade. All of the foregoing could materially and adversely affect the business, operations and financial condition of U.S. Agency Mortgage REITs.

The U.S. government has implemented programs designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures. The programs may involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans or the rate of interest payable on the loans, or to extend the payment terms of the loans. Members of the U.S. Congress have indicated support for additional legislative relief for homeowners, including an amendment of the bankruptcy laws to permit the modification of mortgage loans in bankruptcy proceedings. These loan modification programs, future legislative or regulatory actions, including amendments to the bankruptcy laws, that result in the modification of outstanding mortgage loans, as well as changes in the requirements necessary to qualify for refinancing a mortgage with Fannie Mae, Freddie Mac or Ginnie Mae may adversely affect the value of, and the returns on, the mortgage-backed securities held by U.S. Agency Mortgage REITs.

Many Mortgage REITs conduct their business so as not to become regulated as an investment company under the U.S. Investment Company Act of 1940 (the "Investment Company Act"). The U.S. Securities and Exchange Commission recently solicited public comment on a wide range of issues relating to the Investment Company Act, including the nature of the assets that qualify for purposes of the exemptions available under the act and whether mortgage REITs should be regulated in a manner similar to investment companies. If Mortgage REITs fail to maintain an exception or exemption from the Investment Company Act, they could, among other things, be required either to (a) change the manner in which they conduct their operations to avoid being required to register as an investment company, (b) effect sales of their assets in a manner that they would not otherwise choose, or (c) register as an investment company (which, among other things, would require them to comply with the leverage constraints applicable to investment companies), any of which could negatively affect the value of their securities. There can be no assurance that the laws and regulations governing the Investment Company Act status of Mortgage REITs will not change in a manner that adversely affects the operations of Mortgage REITs.

Credit Risk: Mortgage REITs receive principal and interest payments from the owners of the mortgaged properties. Accordingly, Mortgage REITs are exposed to the credit risk of the party to whom they extend credit. Credit risk refers to the possibility that the borrower will be unable and/or unwilling to make timely interest payments and/or repay the principal on the loan to the Mortgage REIT when they are due. Mortgage REITs are also subject to risks of delinquency and foreclosure and risks of loss. In the event of any default of a mortgage loan, the Mortgage REIT bears the risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the loan. Some of the U.S. Agency Mortgage REITs comprising the Portfolio may invest a portion of their assets in mortgage-backed securities that are not issued or guaranteed by the U.S. government or a GSE and thus may be subject to credit risk.

Non-Agency Issuer Risk: To the extent that a U.S. Agency Mortgage REIT that is included in the Portfolio invests in mortgage-backed securities offered by private issuers, such as commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary market issuers, the Agency Mortgage REIT may be subject to additional risks. Timely payment of interest and principal of non-governmental issuers are supported by various forms of private insurance or guarantees, including individual loan, title, pool and hazard insurance purchased by the issuer. There can be no assurance that the private insurers can meet their obligations under such policies.

U.S. Tax Risk: U.S. REITs, including U.S. Agency Mortgage REITs, are subject to special U.S. federal tax requirements. Unlike corporations, U.S. REITs do not have to pay income taxes if they meet certain requirements set forth in the U.S. Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). To qualify, a U.S. REIT must distribute at least 90% of its taxable income to its shareholders and receive at least 75% of that income from rents, mortgages and sales of property. A U.S. REIT's failure to comply with these requirements may subject it to U.S. federal income taxation. This may adversely affect the U.S. REIT's performance.

Risk of Investing in the Real Estate Sector: The Portfolio invests in Mortgage REITs that invest in mortgages, the underlying security for which is real estate which subjects the Portfolio to the risks similar to owning real estate directly. Adverse economic, business or political developments affecting real estate could have a major effect on the values of the Portfolio's investments. Certain real estate securities have a relatively small market capitalization, which may tend to increase the volatility of the market price of these securities. Real estate securities are dependent upon specialized management skills, have limited diversification and are, therefore, subject to risks inherent in operating and financing a limited number of projects. Real estate securities are also subject to heavy cash flow dependency and defaults by borrowers.

Derivatives Risk: Derivatives are financial instruments, such as swaps, options, warrants and futures contracts, whose values are based on the value of one or more indicators, such as a security, asset, currency, interest rate, or index. The use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other more traditional investments. Moreover, although the value of a derivative is based on an underlying indicator, a derivative does not carry the same rights as would be the case if the Mortgage REIT invested directly in the underlying securities.

Derivatives are subject to a number of risks, such as potential changes in value in response to market developments or as a result of the counterparty's credit quality and the risk that a derivative transaction may not have the effect anticipated. Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying indicator. Derivative transactions can create investment leverage, may be highly volatile, and the Mortgage REIT could lose more than the amount it invests. The use of derivatives may increase the amount and affect the timing and character of taxes payable by securityholders of the Mortgage REIT.

Many derivative transactions are entered into "over-the-counter" (not on an exchange or contract market); as a result, the value of such a derivative transaction will depend on the ability and the willingness of the counterparty to perform its obligations under the transaction. If a counterparty were to default on its obligations, the Mortgage REIT's contractual remedies against such counterparty may be subject to bankruptcy and insolvency laws, which could affect the REIT's rights as a creditor (e.g., the REIT may not receive the net amount of payments that it is contractually entitled to receive). A liquid secondary market may not always exist for the REIT's derivative positions at any time. Mortgage REITs have exposure to many different industries and counterparties including brokers and dealers, commercial and investment banks, mutual and hedge funds, and are therefore exposed to the credit risk of these institutions.

While the Fund will not invest in derivative instruments other than the Forward Agreement, the Mortgage REITs may have derivative exposure.

Market Risk

The prices of the securities in the Portfolio are subject to the risk associated with investing in the securities market, including general economic conditions and sudden and unpredictable drops in value. An investment in the Portfolio may lose money.

Concentration Risk

The Portfolio's assets will be concentrated in the real estate sector, and in particular in the Mortgage REIT sector. By concentrating its assets in this sector, the Portfolio is subject to the risk that economic, political or other conditions that have a negative effect on that sector will negatively impact the Portfolio to a greater extent than if the Portfolio's assets were invested in a wider variety of sectors or industries. The securities of many or all of the companies in the real estate sector may decline in value due to developments adversely affecting such sector. This may have a negative impact on the value of the Units.

Risks Relating to Reliance on the Manager

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.

Counterparty Risk

On Closing, the Fund will enter into the Forward Agreement with the Counterparty (which will be a Canadian chartered bank and an affiliate of one of the Agents, provided that the Counterparty or its guarantor must have an Approved Rating). In entering into the Forward Agreement, which will be the sole material asset of the Fund, the Fund is fully exposed to the credit risk associated with the Counterparty. The possibility exists that the Counterparty will default on its obligations under the Forward Agreement. As the Fund has pre-paid its obligations under the Forward Agreement to the Counterparty, the Fund's sole asset (other than cash it may hold from time to time and Canadian securities delivered on partial pre-settlements of the Forward Agreement) is its interest in the Forward Agreement. To secure the obligations of the Counterparty under the Forward Agreement, the Counterparty will pledge collateral in favour of the Fund with an aggregate value equal to 100% of the mark-to-market value of the exposure under the Forward Agreement and the amount of the collateral will be reset on a weekly basis to 100%. Should a bankruptcy or other similar event related to the Counterparty occur that precludes the Counterparty from performing its obligations under the Forward Agreement, the Fund would have to enforce its security interest and the Forward Agreement would be terminated. See "Risk Factors — Early Termination of the Forward Agreement" and "Overview of the Investment Structure — The Forward Agreement and Portfolio".

Early Termination of the Forward Agreement

In the event the Forward Agreement terminates prior to the termination of the Fund, the Fund may enter into one or more new forward agreements or may amend the Trust Agreement to permit the Fund to hold the Portfolio directly. The tax consequences to Unitholders may be different in the event that the Fund holds the Portfolio directly. See "Termination of the Fund".

Currency Exposure

As the Portfolio will be invested in securities traded in U.S. dollars, the Net Asset Value, 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. The Portfolio may not be fully hedged at all times and distributions received on the Portfolio may not be hedged and accordingly no assurance can be given that the Fund will not be adversely impacted by changes in foreign exchange rates or other factors. The use of hedges, if used, involves special risks, including the possible default by the other party to the transaction, illiquidity and, to the extent the 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 the Trading Price of the Class A 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. Class A Units will be redeemable at 100% of the Net Asset Value 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 Net Asset Value 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.

On September 16, 2004, the Minister of Finance (Canada) released Tax Proposals under which a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more non-residents (including partnerships with one or more non-resident members) is more than 50% of the aggregate fair market value of all units issued by the trust where more than 10% (based on fair market value) of the trust's property is "taxable Canadian property" within the meaning of the Tax Act or certain other types of specified property. Such draft amendments do not provide any means of rectifying a loss of mutual fund trust status. On December 6, 2004, the Minister of Finance (Canada) tabled a Notice of Ways and Means Motion which did not include these proposed changes. The Minister of Finance (Canada) has suspended implementation of those proposed changes pending further consultation with interested parties. Under the Trust Agreement, the Fund is restricted from acquiring investments that are "taxable Canadian property" as such term is defined in the Tax Act (without reference to paragraph (b) of that definition) or other types of specified property. If the Fund were not to qualify as a mutual fund trust at all times, the income tax consequences described under the heading "Income Tax Considerations" would in some respects be materially and adversely different.

The value of the Forward Agreement will be based substantially on the value of the Portfolio Securities comprising the Portfolio at the relevant time. Such value will reflect the notional costs and expenses that would be associated with holding, buying or selling Portfolio Securities (which costs will be determined based on prevailing market terms and conditions). Additional costs and expenses such as withholding taxes may arise, including as a result of changes in applicable laws, including, without limitation, laws relating to taxation. To the extent that such costs and expenses increase, the Fund's return on its exposure to the performance of the Portfolio will be reduced.

U.S. Tax Risk

On March 18, 2010, the Hiring Incentives to Restore Employment Act of 2010 was enacted into law and added a new withholding tax system, often referred to as the Foreign Account Tax Compliance Act ("FATCA"), to the U.S. Internal Revenue Code. Proposed regulations were issued under FATCA on February 8, 2012. Under these proposed regulations, FATCA will impose a 30% U.S. withholding tax, effective January 1, 2014, on certain U.S. source income (and, effective January 1, 2015, on gross proceeds from the disposition of property that can give rise to U.S. source interest or dividends) paid to a non-US financial institution unless it enters into and complies with an agreement with the U.S. Internal Revenue Service ("IRS"). The Fund may be considered to be a non-U.S. financial institution for purposes of FATCA, in which case payments to the Fund will be subject to these U.S. withholding tax requirements unless the Fund collects certain information from its investors and provides certain information to the IRS on its U.S. investors and investors who have U.S. owners. Furthermore, if it is considered to be a non-U.S. financial institution for purposes of FATCA, the Fund will be required to withhold 30% U.S. tax on all or a portion of certain payments made to an investor of the Fund who (i) fails to provide the required information to the Fund, or (ii) is a non-U.S. financial institution that has not entered into an agreement with the IRS under FATCA or holds Units of the Fund directly or indirectly through such a non-compliant non-U.S. financial institution. As the proposed regulations are not in final form, it is not possible to determine at this time what impact, if any, this legislation will have on investors of the Fund.

U.S. tax law requires the withholding of U.S. tax on certain "dividend equivalent" payments made pursuant to the terms of a derivative financial instrument like the Forward Agreement that provides for payments determined by reference to dividends on shares of U.S. equities like the Portfolio Securities, and could require withholding of U.S. tax in respect of those dividends for other reasons. Regulations have been proposed that set forth certain new conditions under which payments or accruals would be characterized as dividend equivalent payments subject to such U.S. withholding tax. Based on advice from U.S. tax counsel, and subject to certain assumptions, the Fund does not currently expect that U.S. tax will be required to be withheld. Final regulations are expected to differ in some regards from the regulations as proposed, and no assurance can be given as to the requirements of such final regulations when issued. If U.S. withholding tax is required, the Fund's return on its exposure to the performance of the Portfolio will be reduced.

U.S. withholding tax could also be imposed on the basis that, by virtue of the Forward Agreement, the Fund would be treated as the owner of the Agency Mortgage REIT securities for U.S. tax purposes. U.S. tax counsel to the Fund has advised that on balance withholding on this basis is likely not required. If, notwithstanding advice of counsel, U.S.

withholding tax is found to be applicable, such withholding tax would be at the rate of 15% and would reduce returns to investors.

No Ownership Interest Risk

An investment in Units does not constitute an investment by Unitholders in the assets included in the Portfolio. Unitholders will not own the assets held by the Fund or the Portfolio. It is possible that the proceeds from the sale of securities acquired under the Forward Agreement will be used to satisfy other liabilities of the Fund, which liabilities could include obligations to third-party creditors in the event the Fund has insufficient assets, excluding the proceeds from the sale of securities acquired under the Forward Agreement, to pay its liabilities.

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.

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 respective directors and officers may engage in the promotion, management or investment management of one or more funds or trusts with similar investment objectives and/or investment strategies to those of the Fund. 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, such applicable directors and officers 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 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 monthly and annual redemption rights 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 an alternative option of monthly or 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 Offering.

Liquidity of Class F Units

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

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.

DISTRIBUTION POLICY

The Fund intends to make quarterly tax-advantaged distributions to Unitholders of record on the last day of the months of January, April, July and October. The Fund will not have a fixed quarterly distribution amount but intends to, at least annually, set distribution targets based on the Manager's estimate of expected returns on the Portfolio for the period. Based on current estimates and the assumptions set out below, the Fund's initial distribution target is expected to be $0.20 per Unit per quarter, representing an initial yield on the Unit issue price of 8% per annum, consisting primarily of returns of capital which are not immediately taxable but which reduce a Unitholder's adjusted cost base of its Units. The initial quarterly distribution will be payable to Unitholders of record on January 31, 2013 and will be paid no later than February 15, 2013. The first distribution will be *pro-rated* to reflect the period from the Closing Date to January 31, 2013. Based on current estimates and assuming (i) an aggregate size of the Offering of $100 million; (ii) the employment of the investment strategy as described under "Investment Strategy"; (iii) the fees and expenses described under "Fees and Expenses"; and (iv) the current price and yield of the securities anticipated to be included in the Portfolio, it is expected that the Fund will be able to generate net cash flow that exceeds the initial target distribution by 2.39%. **If the return on the Portfolio or the increase in the value of the Portfolio is less than the amount necessary to fund the quarterly distributions (through partial settlement of the Forward Agreement) and all expenses of the Fund and if the Manager chooses to nevertheless effect settlements of the Forward Agreement to ensure that such quarterly distributions are paid to Unitholders, this will result in a portion of the capital of the Fund being returned to Unitholders and, accordingly, Net Asset Value per Unit would be reduced.** The Manager will review such distribution policy from time to time and the distribution amount may change from time to time. **The amount of quarterly distributions may fluctuate from quarter to quarter and there can be no assurance as to the amount of the targeted distributions or that the Fund will make any distribution in any particular quarter.**

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 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 and net realized capital gains for tax purposes which is in excess of the quarterly 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 "Income Tax Considerations".

PURCHASES OF SECURITIES

The Fund proposes to offer Class A Units and Class F Units at a price of $10.00 per Unit (with a minimum subscription of 100 Units for $1,000). The Class F Units are designed for fee-based accounts and will not be listed on a stock exchange but will be convertible into Class A Units on a weekly basis. 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 Offering will take place on or about October 23, 2012, or such later date as may be agreed upon by the Fund and the Agents, but in any event no later than the date that is 90 days after the receipt is issued for the final prospectus of the Fund. The distribution price was determined by negotiation between the Agents and the Fund. See “Plan of Distribution”.

REDEMPTION OF SECURITIES

Annual Redemptions

Class A Units and Class F Units may be redeemed on an Annual Redemption Date, subject to certain conditions. In order to effect such a redemption, the Units must be surrendered during the period from March 15 until 5:00 p.m. (Toronto time) on the last Business Day in March in the year of redemption (the “Notice Period”), subject to the Fund’s right to suspend redemptions in certain circumstances. Units properly surrendered for redemption during the Notice Period will be redeemed on the Annual Redemption Date and the Unitholder surrendering such Units will receive payment on or before the Redemption Payment Date. Redeeming Unitholders will be entitled to receive a redemption price in an amount equal to 100% of the Net Asset Value per Unit of the relevant class on an Annual Redemption Date less any costs associated with the redemption, including brokerage costs, and less any net realized capital gains or income to the Fund that are distributed to a Unitholder concurrently with the proceeds of disposition on redemption. By virtue of the Forward Agreement, the Annual Redemption Price will be dependent upon the performance of the Portfolio. 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 or income 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 F Units may also be redeemed on a Monthly Redemption Date, subject to certain conditions. In order to effect such a redemption, the Units must be surrendered by no later than 5:00 p.m. (Toronto time) on the date which is the last Business Day of the month preceding the month in which the Monthly Redemption Date falls, subject to the Fund’s right to suspend redemptions in certain circumstances. Units properly surrendered for redemption within such period will be redeemed on the Monthly Redemption Date and the Unitholder surrendering such Units will receive payment on or before the Redemption Payment Date. 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 or income of the Fund incurred by it to fund the payment of the redemption price. See “Risk Factors”.

Unitholders surrendering a Class A Unit for redemption will receive a redemption price equal to the lesser of (i) 95% of the Market Price of a Class A Unit, 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 or income 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 F Unit for redemption will receive an amount equal to the product of (i) the Monthly Redemption Amount and (ii) a fraction, the numerator of which is the most recently calculated Net Asset Value per Unit of a Class F Unit and the denominator of which is the most recently calculated Net Asset Value per Unit of a Class A Unit.

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 net asset value of the 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, the Custodian, 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 (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 which impair the ability of the Manager to determine the value of the assets of the Fund. 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.

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 the CRA prior to the date hereof, 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 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 expresses 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.

This summary is also based on the assumption that the Fund will at no time be subject to the tax for SIFT Trusts for purposes of the Tax Act. The investment restrictions of the Fund prohibit it from managing its investments and affairs in a manner that would result in it being subject to the tax for SIFT Trusts.

On September 16, 2004, the Minister of Finance (Canada) released Tax Proposals under which a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more non-residents (including partnerships with one or more non-resident members) is more than 50% of the aggregate fair market value of all units issued by the trust where more than 10% (based on fair market value) of the trust's property is "taxable Canadian property" within the meaning of the Tax Act or certain other types of specified property. Such draft amendments do not provide any means of rectifying a loss of mutual fund trust status. On December 6, 2004, the Minister of Finance (Canada) tabled a Notice of Ways and Means Motion which did not include these proposed changes. The Minister of Finance (Canada) has suspended implementation of those proposed changes pending further consultation with interested parties. Under the Trust Agreement, the Fund is restricted from acquiring investments that are "taxable Canadian property" as such term is defined in the Tax Act (without reference to paragraph (b) of that definition) or other types of specified property. If the Fund were not to qualify as a mutual fund trust at all times, the income tax consequences described below would in some respects be materially and adversely different.

Taxation of the Fund

The Fund will be subject to tax in each taxation year under Part I of the Tax Act on the amount of its income for the year, including 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 "Distribution Policy", it will generally not be liable in such year for income tax under Part I of the Tax Act. 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 Offering 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.

Taxation of Unitholders

A Unitholder will generally be required to include, in computing income for a taxation year, the amount of the Fund's net income for the taxation year, including net realized taxable capital gains, paid or payable to the Unitholder in the taxation year. The non-taxable portion of the Fund's net realized capital gains paid or payable (whether in cash or in Units) to a Unitholder in a taxation year will not be included in the Unitholder's income for the year. Any other amount in excess of the Fund's net income for a taxation year paid or payable to the Unitholder in the year will generally not be included in the Unitholder's income. Such amount, however, will generally reduce the adjusted cost base of the Unitholder's Units. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder's adjusted cost base will be increased by the amount of such deemed gain. Provided that appropriate designations are made by the Fund, such portion of the net realized taxable capital gains of the Fund as is paid or payable to a Unitholder will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Tax Act.

On the disposition or deemed disposition of a Unit (including a redemption), 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 or income distribution paid on the redemption of a Unit will not be included in the proceeds of disposition. 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 immediately 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. 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 Unitholder 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.

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

Based on counsel's understanding of the current published administrative policies and assessing practices of the CRA, a conversion of Class F Units into Class A Units will not constitute a disposition of such Class F Units for the purposes of the Tax Act.

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 quarterly distributions, as described under "Distributions", the consequences of acquiring Units late in a calendar year will generally depend on the amount of the quarterly 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

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, the Class A Units are listed on a designated stock exchange (which includes the TSX), such 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"), registered retirement savings plan ("RRSP") or registered retirement income fund ("RRIF"), the holder of the TFSA or the annuitant of the RRSP or RRIF, as the case may be, 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 the annuitant of the RRSP or RRIF, as the case may be, or in which such holder or annuitant 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 or annuitant, either alone or together with persons and partnerships with whom the holder or annuitant does not deal at arm's length. Holders of TFSAs and annuitants of RRSPs and RRIFs should consult with their own 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 is a leading provider of investment products, having raised approximately $2.2 billion in assets. The Manager is part of the Connor, Clark & Lunn Financial Group, a multi-boutique asset management firm whose affiliated managers are collectively responsible for the investment of approximately $40 billion in assets as at June 30, 2012. 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 Agreement, the Manager has exclusive authority to manage the operations and affairs of the Fund, to make all decisions regarding the undertaking of the Fund and to bind the Fund. The Manager may delegate certain of its powers to third parties where, in the discretion of the Manager, it would be in the best interests of the Fund to do so. The Manager is also responsible for providing, or causing to be provided, portfolio management services to the Fund.

The Manager's duties will include maintaining accounting records for the Fund; authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements, income tax 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 complies with regulatory requirements, including its continuous disclosure requirements under applicable securities laws; preparing the Fund's reports to Unitholders and to the Canadian securities regulators; providing the Custodian with information and reports necessary for the Custodian to fulfill its fiduciary responsibilities; administering the redemption of Units; arranging for any payment required on the termination of the Fund; dealing and communicating with Unitholders; and negotiating contracts with third party providers of services including, but not limited to, custodians, transfer agents, legal counsel, auditors and printers. The Manager will also implement and monitor the Fund's investment strategy and ensure that the net proceeds of the Offering 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 Agreement

Pursuant to the Trust Agreement, 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 or 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 Agreement provides that the Manager shall not be liable in any way for any default, failure or defect in the assets held by the Fund or for any loss or diminution in the value of such assets 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 willful misconduct, bad faith or negligence or breach of its obligations under the Trust Agreement and is responsible for any investment advisory and portfolio management services provided to the Fund.

The Manager may resign as manager of the Fund upon at least 60 days' notice to the applicable unitholders and to the Fund or upon such lesser notice period as the Fund 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 the Unitholders. If the Manager is in material default of its obligations under the 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 shall give notice thereof to the Unitholders and the Unitholders may remove the Manager and appoint a successor manager.

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

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

Conflicts of Interest — Manager and Trustee

The management and administrative services provided by the Manager to the Fund pursuant to the Trust Agreement are not exclusive and nothing in the Trust Agreement 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 the Fund 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 and for one or more of its other clients. If the Fund 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 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:

Name and municipality of residence	Position with the Manager	Principal occupation
W. Neil Murdoch Oakville, Ontario	Director, President, Chief Executive Officer and Chief Compliance Officer	Director, President, Chief Executive Officer and Chief Compliance Officer, Connor, Clark & Lunn Capital Markets Inc.
Michael W. Freund Toronto, Ontario	Director and Chairman	Managing Partner, Connor, Clark & Lunn Financial Group
Darren N. Cabral Toronto, Ontario	Director, Vice-President and Chief Financial Officer	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.

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 Private Capital, 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 Private Capital 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.

Trustee of the Fund

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

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

The Trust Agreement provides that the Trustee shall not be liable in carrying out its duties under the Trust Agreement except where it is in breach of its obligations under the Trust Agreement or where the Trustee fails to act honestly and in good faith, and in the best interests of Unitholders to the extent required by laws applicable to trustees, or to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. In addition, the Trust Agreement contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee and its officers, directors, employees and 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 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 Net Asset Value, 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 is PricewaterhouseCoopers LLP, Chartered Accountants, at 18 York Street, Suite 2600, Toronto ON M5J 0B2.

Transfer Agent and Registrar

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 and register transfers of the Units.

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 class 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 class. Such amount will also be available on the Manager's website at www.cclcapitalmarkets.com.

Valuation Policies and Procedures

For transactional reporting purposes, the Net Asset Value 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 class on any day will be obtained by dividing the net asset value of that class on such day by the number of Units of that class then outstanding.

For the purpose of calculating Net Asset Value (i.e., for purposes other than financial statements) of the Fund on a Valuation Date, the Total Assets of the Fund 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 assets 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 assets 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 assets 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) any market price reported in currency other than Canadian dollars will be translated into Canadian currency at the rate of exchange available from the Valuation Agent on the Valuation Date on which the Total Assets are being determined;

(f) 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;

(g) 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

(h) 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 class is calculated in Canadian dollars in accordance with the rules and policies of the Canadian Securities Administrators or in accordance with any exemption therefrom that the Fund may obtain. The Net Asset Value per Unit of a class determined in accordance with the principles set out above may differ from Net Asset Value per Unit determined under Canadian generally accepted accounting principles.

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 classes of units of which initially two have been created, Class A Units and Class F Units. The Fund is authorized to issue an unlimited number of Units of each class. The Class F Units are designed for fee-based accounts and will not be listed on a stock exchange but will be convertible into Class A Units on a weekly basis. Each Unit entitles the holder to the same rights and obligations as a Unitholder and no Unitholder is entitled to any privilege, priority or preference in relation to any other holder of Units, subject to Unitholders of each class being entitled to redemptions based on the Net Asset Value per Unit of a particular class. 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 or income, 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, and income of, 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 assets held by the Fund. The Fund has delegated to the Manager the responsibility for voting on matters for which the Fund receives, in its capacity as a securityholder, proxy materials for a meeting of securityholders of an issuer of securities held by the Fund. See "Proxy Voting Disclosure for Portfolio Securities Held".

The Trust Agreement provides that the Fund may not issue additional Units of a class following completion of the Offering except (i) at a price that yields net proceeds of not less than 100% of the applicable Net Asset Value per Unit calculated as of the close of business on the Business Day immediately prior to the pricing of such offering; (ii) with the approval of Unitholders; (iii) by way of unit distribution; or (iv) pursuant to any offering of rights, warrants or options to existing Unitholders to acquire Units.

See "Unitholder Matters — Amendment of 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 Trust Agreement.

Conversion of Class F Units

A holder of Class F Units may convert such Class F Units into Class A Units on a weekly basis and it is expected that liquidity for the Class F Units will be obtained primarily by means of conversion into Class A Units and a sale of such Class A Units. Class F Units may be converted in any week on the first Business Day of such week by delivering a notice and surrendering such Class F Units by 3:00 p.m. (Toronto time) at least five Business Days prior to the applicable Conversion Date. For each Class F Unit so converted, a holder will receive that number of Class A Units equal to the Net Asset Value per Class F Unit as of the close of trading on the Business Day immediately preceding the Conversion Date divided by the Net Asset Value per Class A Unit as of the close of trading on the Business Day immediately preceding the Conversion Date. No fraction of a Class A Unit will be issued upon any conversion of Class F Units and any fractional amounts will be rounded down to the nearest whole number of Class A Units. Based on counsel's understanding of the CRA's current administrative practice, a conversion of Class F Units into Class A Units will not constitute a disposition of such Class F Units for the purposes of the Tax Act. See "Income Tax Considerations — Taxation of Unitholders".

Purchase for Cancellation

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

Take-over Bids

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

The Trust Agreement also provides that if, prior to the termination of the Fund, a formal bid (as defined in the *Securities Act* (Ontario)) is made for all of the Class F Units and such bid would constitute a formal bid for all Class A Units if the Class F Units had been converted to Class A Units immediately prior to such bid and the other offer does not include a concurrent identical take-over bid, including in terms of price (relative to the Net Asset Value per Unit of the class), for the Class A Units then the Fund shall provide the holders of Class A Units the right to convert all or a part of their Class A Units into Class F Units. In the circumstances described above, the Fund shall by press release provide written notice to the holders of the Class A Units that such an offer has been made and of the right of such holders to convert all or a part of their Class A Units into Class F Units and to tender such units to the Class F 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 and Class F Units then subscribed for under the Offering. Class A Units and Class F Units must be purchased, 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 F Units) by a written requisition specifying the purpose of the meeting. The Trustee or the Manager may convene a Class A Meeting or a Class F Meeting if the nature of the business to be transacted at that meeting is only relevant to Unitholders of the applicable class.

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

Permitted Merger

The Fund may, without obtaining Unitholder approval, enter into a merger or other similar transaction which has the effect of combining the Fund or its assets on a tax-deferred "rollover basis" (a "Permitted Merger") with any other investment fund or funds managed or advised by the Manager that has or have investment objectives and investment strategies that are substantially the same as the Fund's on an exchange ratio based on the relative Net Asset Values of such funds, subject to:

(a) approval of the Permitted Merger by the Fund's Independent Review Committee;

(b) written notice to Unitholders at least 60 days before the effective date of the Permitted Merger;

(c) a special redemption right allowing Unitholders to redeem Units at 100% of Net Asset Value per Unit if they so choose; and

(d) the merging funds bearing none of the costs associated with the Permitted Merger.

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) other than a Permitted Merger, 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) other than in connection with a Permitted Merger, 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 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 other than (i) by way of unit distribution or (ii) pursuant to any offering of rights, warrants or options to existing Unitholders to acquire Units; and

(i) any amendment to the above provisions except as permitted by the Trust Agreement.

Notwithstanding the foregoing, the Trustee or the Manager is entitled to amend the 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 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 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 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 Trust Agreement to permit the Fund to hold a portfolio of securities, 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;

(g) in connection with a Permitted Merger; or

(h) 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 Trust Agreement

Except as provided above, the 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 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, prepared in accordance with Canadian generally accepted accounting principles, and (ii) interim and annual management reports of fund performance in respect of the Fund. 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 does not have a fixed termination date. However, the Fund may be terminated at any time provided that the prior approval of Unitholders has been obtained by an Extraordinary Resolution at a meeting of Unitholders called for that purpose (the "Termination Date"), in connection with a Permitted Merger or in the event that a replacement Forward Agreement cannot be entered into by the Fund on commercially reasonable terms satisfactory to the Manager on or before the Forward Termination Date. In addition, the Manager may, in its discretion, on at least 60 days' notice to Unitholders by press release, terminate the Fund without the approval of Unitholders if, in the opinion of the Manager, it would be in the best interests of Unitholders to terminate the Fund. In such circumstance, the Fund will also issue a press release ten days prior to the Termination Date setting forth the details of the termination including the fact that, upon termination, the net assets of the Fund will be distributed to Unitholders on a *pro rata* basis. Immediately prior to the termination of the Fund, including on the Termination Date, the Trustee will, to the extent possible, convert the assets of the Fund to cash and, after paying or making adequate provision for all of the Fund's liabilities, distribute the net assets of the Fund to the Unitholders as soon as practicable after the date of termination, subject to compliance with any securities or other laws applicable to such distributions.

In the event the Forward Agreement terminates prior to the termination of the Fund, the Fund may enter into a new forward agreement or amend the Trust Agreement to permit the Fund to hold the Portfolio directly. Although these actions do not require Unitholder approval, the Fund will provide at least 30 days' notice to the 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. See "Risk Factors — Risks Relating to Redemptions".

Upon termination, the Trust Agreement provides that 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. Such assets, 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, 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 $10.00 per Unit upon any termination of the Fund.

USE OF PROCEEDS

The net proceeds from the issue of the maximum number of Class A Units offered hereby (after payment of the Agents' fee and before deducting the expenses of the Offering) are estimated to be approximately $94,750,000, assuming that the Over-Allotment Option is not exercised. If the Over-Allotment Option is exercised in full under the maximum Offering the net proceeds to the Fund (after payment of the Agents' fee and before deducting the expenses of the Offering) are estimated to be approximately $108,962,500 (assuming only Class A Units are sold). The expenses of the Offering, which are estimated to be $650,000 (but not to exceed 1.5% of the gross proceeds of the Offering), will be paid by the Fund out of the gross proceeds of the Offering and will be allocated *pro rata* between the Class A Units and the Class F Units. The Fund will use the net proceeds of the Offering (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 Portfolio 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 Units will be issued at a price of $10.00 per 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 Offering, the Agents will be paid a fee of $0.525 per Class A Unit and $0.225 per Class F Unit sold under the Offering 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 Offering. 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, exercisable for a period of 30 days from the Closing Date, which gives the Agents the right to purchase additional Class A Units in an amount up to 15% of the aggregate number of Class A Units 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 will be sold at $10.00 per Class A Unit and the Agents will be paid a fee of $0.525 per Class A Unit sold. This prospectus also qualifies the grant of the Over-Allotment Option, the distribution of the Class A Units issuable upon exercise of the Over-Allotment Option and the distribution of the Class A Units issuable as part of part of the Agents' over-allocation position. A purchaser who acquires Class A Units forming part of the Agents' over-allocation position acquires such Class A Units under this prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

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 2,000,000 Class A Units (or $20,000,000) have not been received within 90 days following the date of issuance of a final receipt for this prospectus, the Offering in respect of the Class A Units may not continue without the consent of the securities regulatory authorities and those who have subscribed for Class A 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 Offering will be returned to such purchasers promptly without interest or deduction. The maximum number of Class A Units and/or Class F Units that will be sold is 10,000,000 ($100,000,000). 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 23, 2012 or such later date as the Fund and the Agents may agree, but in any event not later than the date that is 90 days after a receipt is issued for the final prospectus of the Fund. The Toronto Stock Exchange ("TSX") has conditionally approved the listing of the Class A Units, subject to the Fund fulfilling all of the requirements of the TSX on or before December 24, 2012.

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, provided that the Counterparty or its guarantor must have an Approved Rating). Accordingly, the Fund may be considered to be a "connected issuer" of such Agent. See "Overview of the Investment Structure — The Forward Agreement and Portfolio".

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 Offering, over-allot or effect transactions in connection with its over-allotted position. Such transactions, if commenced, may be discontinued at any time.

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

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The Manager is entitled to receive the Management Fee pursuant to the Trust Agreement. 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 assets in the Portfolio and the assets held directly by the Fund. Proxies must be voted in a manner consistent with the best interests of the Fund.

Because the Fund does not purchase assets for the purposes of exercising control or direction over the assets of the Fund, 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 the Fund'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 assets which are no longer held by the Fund.

On the delivery of the Canadian Securities Portfolio by the Counterparty on the Forward Termination Date, the Manager acting on the Fund's behalf will retain the right to vote proxies relating to the securities in the Canadian Securities Portfolio pursuant to the Trust Agreement. The Manager will vote the proxies relating to the assets in the Canadian Securities Portfolio in the same manner and with the same restrictions as those proxies voted in relation to the other assets held by the Fund.

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 the Fund in voting proxies with the desire to avoid the perception of a conflict of interest, the Manager has instituted procedures to help ensure that the Fund's proxy is voted in accordance with the business judgment of the person exercising the voting rights on behalf of the Fund, uninfluenced by considerations other than the best interests of the Fund.

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 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 the most recent period ended December 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 Trust Agreement;

(b) the Agency Agreement; and

(c) 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 Offering and for a period of 30 days thereafter and will be available at www.sedar.com following the Closing. Copies of the 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 auditor of the Fund is PricewaterhouseCoopers LLP, Chartered Accountants. PricewaterhouseCoopers LLP is independent with respect to the Fund within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

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

AUDITOR'S CONSENT

We have read the prospectus of U.S. Agency Mortgage-Backed REIT Advantaged Fund (the "Fund") dated September 28, 2012 relating to the initial public offering of Class A Units and Class F Units of the Fund. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above mentioned prospectus of our report to the Unitholder and the Manager of the Fund on the statement of net assets of the Fund as at September 28, 2012. Our report is dated September 28, 2012.

Toronto, Ontario
September 28, 2012

(Signed) PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Unitholder and the Manager of U.S. Agency Mortgage-Backed REIT Advantaged Fund (the "Fund")

We have audited the accompanying statement of net assets of the Fund as at September 28, 2012 and the related notes, which comprise a summary of significant accounting policies and other explanatory information (the "financial statement").

Management's responsibility for the financial statement

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Fund as at September 28, 2012 in accordance with Canadian generally accepted accounting principles.

(Signed) PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
September 28, 2012

U.S. AGENCY MORTGAGE-BACKED REIT ADVANTAGED FUND
STATEMENT OF NET ASSETS

As at September 28, 2012

Assets	
Cash	$10
Unitholder's Equity	
Unitholder's Equity (Note 1)	$10

Approved on behalf of U.S. Agency Mortgage-Backed REIT Advantaged Fund
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.

U.S. AGENCY MORTGAGE-BACKED REIT ADVANTAGED FUND

NOTES TO STATEMENT OF NET ASSETS

As at September 28, 2012

1. ORGANIZATION AND UNITHOLDER'S EQUITY

U.S. Agency Mortgage-Backed REIT Advantaged Fund (the "Fund") is a closed-end investment fund established under the laws of the Province of Ontario pursuant to a trust agreement dated as of September 28, 2012. The beneficiaries of the Fund will be the holders of Class A Units and Class F Units. The Fund's investment objectives are to (i) provide tax-advantaged quarterly cash distributions consisting primarily of returns of capital; and (ii) provide low-cost exposure to a notional portfolio (the "Portfolio") comprised of the 10 largest publicly traded U.S. Agency Mortgage REITs by market capitalization through one or more forward purchase and sale agreements with a counterparty. The return to the Unitholders and the Fund will be dependent upon the return on the Portfolio by virtue of such forward purchase and sale agreements. The beneficial interest in the net assets and net income of the Fund is divided into two classes of units, Class A Units and Class F Units (collectively, the "Units"). The Fund is authorized to issue an unlimited number of transferable, redeemable Units. The Class F Units may be converted into Class A Units on a weekly basis. On September 28, 2012, the Fund was settled and issued an initial Class A Unit for cash consideration of $10.00 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.

The Manager will receive a Management Fee from the Fund equal in the aggregate to 0.90% per annum of the Net Asset Value of the Fund comprised of 0.50% per annum of the Net Asset Value of the Fund, calculated and payable monthly in arrears, plus an amount calculated quarterly and paid as soon as practicable after the end of each calendar quarter equal to the Service Fee of 0.40% per annum of the Net Asset Value attributable to the Class A Units referred to below. 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.

From the amounts received by the Manager from the Fund, a Service Fee will be payable by the Manager to each registered dealer whose clients hold Class A Units at the end of a calendar quarter. The Service Fee will be equal to 0.40% annually of the Net Asset Value for each Class A Unit held by clients of the registered dealers, calculated and paid at the end of each calendar quarter commencing on December 31, 2012, plus applicable taxes. The Service Fee will be *pro-rated* for the partial first quarter of the Fund.

The expenses of the Offering are estimated to be $650,000 (but not to exceed 1.5% of the gross proceeds of the Offering), which will be paid by the Fund.

Class A Units and Class F Units may be redeemed on the second to last Business Day of April of each year, commencing in 2014 (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 net asset value per Unit (less any costs associated with the redemption including brokerage costs and less any net realized capital gains or income 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 to last Business Day of each month other than, commencing in 2014, April (each, a "Monthly Redemption Date"), subject to certain conditions.

Unitholders surrendering a Class A Unit for redemption will receive a redemption price equal to the lesser of (i) 95% of the Market Price of a Class A Unit, 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 or income 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 F Unit for redemption will receive an amount equal to the product of (i) the Monthly Redemption Amount and (ii) a fraction, the numerator of which is the most recently calculated net asset value per Unit of a Class F Unit and the denominator of which is the most recently calculated net asset value per Unit of a Class A Unit.

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 (the "TSX") (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 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).

2. SIGNIFICANT ACCOUNTING POLICIES

This financial statement has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In applying Canadian GAAP, management may make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statement.

Issue Costs

Issue costs incurred in connection with the offering are charged to equity.

Cash and Cash Equivalents

Cash is comprised of cash on deposit with a Canadian financial institution. Cash is stated at fair value.

Valuation of Fund Units for Transaction Purposes

Net asset value per Unit of a class on any day will be obtained by dividing the net asset value of that class on such day by the number of Units of that class then outstanding.

3. SUBSEQUENT EVENT

The Fund and the Manager have entered into an agency agreement with BMO Nesbitt Burns Inc., CIBC World Markets Inc., Scotia Capital Inc., Raymond James Ltd., Canaccord Genuity Corp., GMP Securities L.P., Macquarie Private Wealth Inc. and Mackie Research Capital Corporation (collectively, the "Agents") dated as of September 28, 2012, pursuant to which the Fund has agreed to create, issue and sell, and the Agents have agreed to offer for sale to the public, a minimum of 2,000,000 Class A Units at $10.00 per Unit. The maximum number of Class A Units and/or Class F Units that will be sold is 10,000,000 ($100,000,000). In consideration for their services in connection with the Offering, the Agents will be paid a fee of $0.525 per Class A Unit and $0.225 per Class F Unit out of the proceeds of the Offering.

CERTIFICATE OF THE FUND, THE MANAGER AND THE PROMOTER

Dated: September 28, 2012

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

Connor, Clark & Lunn Capital Markets Inc.
as Manager and on behalf of
U.S. Agency Mortgage-Backed REIT Advantaged Fund

By: (Signed) W. NEIL MURDOCH Chief Executive Officer	By: (Signed) DARREN N. CABRAL 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 Promoter

By: (Signed) W. NEIL MURDOCH
Chief Executive Officer

CERTIFICATE OF THE AGENTS

Dated: September 28, 2012

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

BMO NESBITT BURNS INC.

(Signed) ROBIN G. TESSIER

CIBC WORLD MARKETS INC.

(Signed) MICHAEL D. SHUH

SCOTIA CAPITAL INC.

(Signed) FAROOQ N.P. MOOSA

RAYMOND JAMES LTD.

(Signed) J. GRAHAM FELL

CANACCORD GENUITY CORP.

(Signed) RON SEDRAN

GMP SECURITIES L.P.

(Signed) NEIL SELFE

MACQUARIE PRIVATE WEALTH INC.

(Signed) BRENT LARKAN

MACKIE RESEARCH CAPITAL CORPORATION

(Signed) DAVID J. KEATING

U.S.AGENCY Mortgage-Backed REIT
Advantaged Fund