AstonHill
CAPITAL MARKETS

2013

U.S. Agency Mortgage-Backed REIT Advantaged Fund

Annual Report

August 31, 2013

U.S. Agency Mortgage-Backed REIT Advantaged Fund Message to Unitholders

November 28, 2013

Dear Investor,

We are pleased to provide you with the first annual report for the U.S. Agency Mortgage-Backed REIT Advantaged Fund (the "Fund") for the period from October 23, 2012 (commencement of operations) to August 31, 2013. Thank you for investing in the Fund. 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.

The Fund is designed to provide exposure to the ten largest Agency Mortgage-Backed REITs ("Agency MREITs") by market capitalization. These REITS invest in high quality, low credit risk prime residential mortgages via highly liquid agency mortgage-backed securities. U.S. government or government sponsored enterprises guarantee payment of interest and principal which minimizes default risk. The REITs generate high levels of income by borrowing at low cost to invest in the mortgages.

The management teams at the different REITs use different strategies with respect to asset mix (e.g. fixed rate mortgages versus floating rate), interest rate management (e.g. hedging) and leverage. We believe that one of the benefits of the Fund is to provide diversification with respect to the different management approaches. Although in times of major market moves, such as we have seen during the past year, this diversification is not as effective.

The past year has been a challenging market for the Agency MREIT market. The U.S. government's intervention in the market via the Federal Reserve's QE3 program has caused considerable turmoil. In the second quarter of this year most of the management teams in our portfolio were caught off guard by the speed and size of the change in interest rates. The sudden moves were caused by the market's anticipation of a change in policy by the Federal Reserve. It was a tough market for all fixed income instruments, and Agency MREITs were no exception. The result was a significant drop in the book value per share for our holdings. We have presented a chart in the report that shows the changes for the Fund's larger holdings. It compares the drop in the book value with the change in the stock market price. There is a dramatic difference. Valuations have dropped considerably as the market is nervous about a repeat of the second quarter when the Federal Reserve eventually does exit the market. As one sell side analyst wrote: "Price action has decoupled from fundamentals".

In the third quarter we started to see a return to value creation as the Fund's various holdings have taken measures to increase their hedges and lower leverage levels. The spread between two-year and ten-year treasuries has widened substantially in the past few months and prepayment levels have dropped. These two measures have traditionally been good indicators of the health of the Agency MREIT market, so we look forward to the getting the Federal Reserve's intervention past us.

The Fund met its distribution objective, paying distributions yielding 8.0% on the original issue price.

I would like to thank you for investing in the Fund. Please check our website for quarterly investment updates and other timely information.

Yours truly,

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

Management Report of Fund Performance

This annual management report of fund performance for **U.S. Agency Mortgage-Backed REIT Advantaged Fund** (the "Fund") contains financial highlights but does not contain the complete annual financial statements of the Fund. **The annual financial statements and accompanying notes are attached to this report.**

You can obtain a copy of the annual financial statements at no cost by writing to Aston Hill Capital Markets Inc. (formerly "Connor, Clark & Lunn Capital Markets Inc.") (the "Manager") to the following address: Aston Hill Capital Markets Inc., 77 King Street West, Suite 2110, PO Box 92, Toronto, Ontario M5K 1G8 or calling 1-800-513-3868 or visiting the Manager's website at www.astonhill.ca or by visiting www.sedar.com.

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

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

Investment Objectives and Strategy

The Fund is a closed-end investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement (the "Trust Agreement") between the Manager of the Fund and RBC Investor Services Trust (the "Trustee") dated September 28, 2012. The Fund's principal office is located at 77 King Street West, Suite 2110, Toronto, Ontario, M5K 1G8. The fiscal year-end of the Fund is August 31. Beneficial interest in the net assets and net income of the Fund is divided into units of two classes, Class A Units (the "Class A Units") and Class F Units (the "Class F Units"). The Class A Units are listed on the Toronto Stock Exchange (the "TSX") under the symbol USM.UN. The Class F Units are not listed on a stock exchange but may be converted into Class A Units on a weekly basis. The principal differences between the Class A Units and the Class F Units are that the Agents' fees payable with respect to the original issuance of the units were lower for the Class F Units, the service fee component of the Manager's fee are not paid by the Class F Units and the Class F Units are not listed on the TSX.

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.

In order to achieve the Fund's investment objectives, the Fund obtained exposure to a Portfolio (the "Portfolio") through a forward purchase and sale agreement (the "Forward Agreement") entered into with the Bank of Montreal (the "Counterparty" or "BMO"). The Portfolio consists of the 10 largest publicly traded U.S. Agency Mortgage REITs by market capitalization, subject to a limit of 25% of the Portfolio being in any one Agency Mortgage REIT, at the time of investment or rebalancing. The Portfolio is rebalanced at least semi-annually.

The Fund does not invest directly in the Portfolio; the Fund used the net proceeds of the initial public offering of its Class A and Class F Units to pre-pay its purchase obligations under the Forward Agreement with the Bank of Montreal. Under the Forward Agreement, the Fund will receive, on or about the Forward Termination Date, a specified portfolio consisting of securities of Canadian public issuers that are "Canadian securities" for the purposes of the Tax Act ("Canadian Securities") in an amount equal to the value of the Portfolio, net of any amount owing by the Fund to the Counterparty. A fee of up to 0.35% per annum, calculated with reference to the Net Asset Value of the Portfolio, is payable monthly to BMO under the Forward Agreement.

Risk

There were no changes in the risk exposure of the Fund during the period from October 23, 2012 (commencement of operations) to August 31, 2013.

For full disclosure of risks associated with an investment in the Fund's units, please refer to the Prospectus dated September 28, 2012 and to the Fund's most recent Annual Information Form. Both are available at www.sedar.com.

Recent Developments

Future accounting changes

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

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

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

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

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

Federal Budget Announcement

The most recent federal budget proposed measures with respect to certain financial arrangements, such as the Forward Agreement, that would eliminate certain tax benefits for taxable Unitholders of investment funds that utilize this kind of agreement. The budget announcement states that these changes apply only to forward agreements entered into on or after March 21, 2013 (the "Budget Day").

The Forward Agreement was entered into prior to the Budget Day. Based on the Manager's current understanding of the budget announcement and discussions with the Manager's tax counsel, distributions paid by the Fund are expected to continue to be treated as capital gains and return of capital for tax purposes until such time as the Forward Agreement reaches its scheduled termination date of October 23, 2017.

The draft legislation has not yet been enacted and there is no assurance that the proposals will not be changed from the proposals announced.

Sale of Connor, Clark & Lunn Capital Markets Inc.

Connor, Clark & Lunn Financial Group and the principals of the Manager entered into a sale transaction to sell to Aston Hill Financial Inc. ("Aston Hill"), shares in the Manager, Connor, Clark & Lunn Capital Markets Inc. (the "Company").

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

Results of Operations

Caution regarding forward-looking statements

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

The Manager's Commentary (November 2013)

The principal objective of the management teams at each of the Agency mortgage REITs is to preserve net asset value while generating attractive risk adjusted returns for distribution to unitholders. The returns are typically generated through net interest income and net realized gains and losses from investments and hedging activities. The agency mortgage REITS invest in mortgages that have a government or government sponsored enterprise guarantee on all payments of interest and capital, so the credit risk is very low. The primary source of earnings is the difference between the interest income earned from these mortgage investments and the interest paid on the short term borrowings that the REITs use to finance the purchases. Income will increase/decrease as the spread between the interest rates earned on mortgages and interest rates paid on the short term borrowings widens/narrows.

The management teams have three primary areas that they focus on while managing their portfolios – asset mix (what type of mortgages to hold), liability management (levels of leverage, terms and hedging) and prepayments levels. The choices with respect to mortgages include the original term (e.g. 5, 15, 25 years); fixed rate, floating rate or a combination thereof; how long since the mortgage was issued; and the price of the pool of mortgages. On the liability management side of the balance sheet, managers will vary the level of leverage, the term of the debt and the type and duration of interest rate hedges they employ. A third primary area that managers focus on is prepayment levels. In the United States, mortgage holders have the option to prepay their mortgage at any time. In a falling interest rate environment, homeowners are more likely to prepay their mortgages than during times when interest rates are rising. Currently, most mortgages are trading at a premium to their face value (due to a drop in rates) so prepayments cause the premium to be realized and also create a need to reinvest the proceeds. Certain of our management teams focus on buying mortgages that are less likely to be prepaid and take other actions to mitigate this risk. Prepayment levels have remained relatively steady (and below the market's expectations) so far this year.

Federal Reserve QE3

On September 13, 2012, the Federal Reserve announced, as part of its QE3 asset purchase program, a stimulus effort directed at the U.S. housing market through the purchase of Agency MBS. The Fed currently invests $40 billion a month and also re-invests principal repayments from its holdings. Since it began, QE3 has accounted for about 50% of total issuance in the Agency MBS market. QE3 also invests $45 billion monthly in longer-term treasury securities.

Since the program began, MBS prices have been volatile and especially sensitive to commentary coming out of the Federal Reserve. Beginning on May 22nd, a series of Fed announcements prompted a decline in the price of Fannie Mae's 30yr 3.5% agency MBS from $105.36 per $100 face value to $101.50 by the end of June. The bond continued to decline through a volatile Q3, reaching its nadir on September 5th at $98.11 before jumping back to $101.83 by the end of the month.

The following table provides an indication of how the five largest holdings in the Fund have done since the start of QE3. It also shows how they performed in the most recent quarter. The difference between the economic results and the share price is striking. For example, AGNC has created 5% economic value since the end of June 2012 while its share price is down by 39%.

Value Creation (Erosion) Since the Start of QE3, and Price Action

	AGNC	HTS	NLY	MFA	IVR
Value creation: dividends plus quarter over quarter change in book value					
Dividends declared for 3Q13	$0.80	$0.35	$0.40	$0.31	$0.12
Change in book value	(0.27)	(0.87)	(0.19)	(0.31)	(0.24)
3Q13	0.53	(0.52)	0.21	0.00	(0.12)
As a % of starting BVPS	*2%*	*-2%*	*1%*	*0%*	*-1%*
Value of erosion since the start of QE3; excludes special dividends					
Dividends declared, 3Q12 to date	5.60	3.45	2.15	1.07	3.10
Change in BVPS, 6/30/12 to 9/30/13	(4.17)	(6.14)	(3.44)	0.39	(0.76)
Total return, Sep 2012 to Sep 2013	1.43	(2.69)	(1.29)	1.46	2.34
As a % of 3Q12 BVPS	5%	-10%	-8%	20%	13%
Price action, June 30, 2012 to date					
Change in price, $	(13.25)	(11.83)	(6.54)	(0.67)	(3.40)
Change as a % of starting price	*-39%*	*-41%*	*-39%*	*-8%*	*-19%*

Source: Wunderlich Securities, Inc., November 25, 2013

Q3 Results

The Fund's mortgage REITs produced mainly positive results during a volatile third quarter. All but Capstead, which holds a portfolio made up entirely of adjustable-rate mortgages, reported that they had reduced interest rate exposure through the quarter by reducing leverage, shifting into lower duration (shorter maturity) assets, and increasing hedging. American Capital Agency's management comment reflected the tone of the quarterly releases:

"During the third quarter, we continued to see substantial volatility in both interest rates and mortgage spreads. Consistent with what we said during our last earnings call in late July, we remained disciplined in our approach to risk management and prioritized book value preservation over short term earnings. To this point, we continued to migrate the portfolio into shorter maturity securities, lowered leverage somewhat, and maintained relatively high hedge ratios."

Annaly Capital Management, the largest holding, reported taking leverage from 6.1x to 5.4x as well as bringing down exposure to rising interest rates with hedging and portfolio adjustments. Annaly, which began diversifying into non-agency commercial mortgage securities through the purchase of Crexus in Q2, reported that its commercial portfolio grew 28% over the quarter, to make up 11% of shareholders' equity. Annaly management emphasized that the current market looks attractive, with 13% to 16% levered return on equity available in Agency MBS and 7.5% to 11.0% in unlevered commercial investments.

Other Agency MREIT's also highlighted reduced rate exposure compared to Q2. According to the CYS Investments media release:

"The Company continued to reduce its leverage during the quarter to minimize the adverse impacts of expected volatility in interest rates, ending the third quarter of 2013 with a leverage ratio of 6.5 to 1, compared to 7.5 to 1 at June 30, 2013."

Anworth Mortgage took leverage from 8.7x to 8.0x while increasing hedging. Chair and CEO Lloyd McAdams talked about being in capital preservation mode, noting that management had *"materially increased our long-term floating rate to fixed rate swap positions in both size and maturity"* and that *"this will reduce our income going forward in the near future"*.

Measured by economic return on equity (the sum of change in book value and dividends paid) all but two Agency MREITs had a positive or neutral quarter. The weighted average economic ROE for the portfolio came in at 1.0%.

Capital transactions

On October 23, 2012, the Fund completed an initial public offering pursuant to a Prospectus dated September 28, 2012. $31,000,000 was raised through the issue of 3,100,000 Class A Units and $1,679,100 was raised through the issue of 167,910 Class F Units.

On November 21, 2012, the Agents exercised an over-allotment option in respect of 142,185 Class A Units, raising a further $1,421,850.

Agents' fees and other expenses totalled $2,251,441 plus an amount of $33,910 to be reimbursed by the Manager to account for the issue expenses above the 1.5% limit of gross proceeds of the offering as set out in the Fund's Prospects terms and conditions.

During the period from October 23, 2012 (commencement of operations) to August 31, 2013, there were 24,685 Class F Units converted to 25,481 Class A Units for a total value of $205,220.

Market repurchases

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

The Fund did not purchase any Class A Units for cancellation during the period from October 23, 2012 (commencement of operations) to August 31, 2013.

Net Assets

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

On August 31, 2013, the prepaid amount to the Counterparty under the Forward Agreement was $30,798,909 and the value of the unrealized loss on the Forward Agreement was $5,854,079. Other liabilities net of other assets in the Fund totalled $1,401,039, leaving net assets of $23,543,791. This amount is assigned to the Class A and Class F Unitholders using an allocation percentage that takes into consideration any class level specific expenses. On August 31, 2013, the GAAP Net assets per unit were $6.89 per Class A Unit and $7.13 per Class F Unit.

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 does 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.

The Fund declared an initial distribution covering the period from October 23, 2012 (commencement of operations) to January 31, 2013 of $0.2178 per Class A Unit and Class F Unit respectively. The initial distribution amount represents an annualized current yield of 8.0% based on the initial offering prices of the Units. In total, the Fund paid distributions of $0.6178 per Class A and Class F Unit respectively during the period from October 23, 2012 (commencement of operations) to August 31, 2013.

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee of the Fund tabled no special reports and made no extraordinary material recommendations to management of the Fund during the period from October 23, 2012 (commencement of operations) to August 31, 2013.

Related Party Transactions

Management Fees

Pursuant to the Trust Agreement, the Fund retained Aston Hill Capital Markets Inc. (formerly "Connor, Clark & Lunn Capital Markets Inc.") to act as manager. As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Fund, the Manager is entitled to an annual management fee in an amount equal to 0.50% per annum of the Net Asset Value of the Fund, calculated and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund during the period from October 23, 2012 (commencement of operations) to August 31, 2013 were $127,612 plus applicable taxes.

Service Fees

The Fund pays to the Manager a service fee which is payable by the Manager to each registered dealer whose clients hold Class A Units of the Fund at the end of a calendar quarter. The service fee is 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.

The total service fees paid by the Manager during the period from October 23, 2012 (commencement of operations) to August 31, 2013 were $99,512.

Financial Highlights

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

Class A Units:

The Fund's Net Assets per Class A Unit:

	August 31, 2013 (1)
Net Assets, beginning of period	**10.00**
Unit issue expense (2)	(0.68)
Increase (decrease) from operations:	
Total revenues	–
Total expenses	(0.19)
Realized gains (losses) for the period	(0.03)
Unrealized gains (losses) for the period	(1.61)
Total increase (decrease) from operations (3)	**(1.83)**
Distributions:	
From income (excluding dividends)	–
From dividends	–
From capital gains	–
Return of capital	(0.62)
Total Distributions (4)	**(0.62)**
Net Assets, end of period (5)	**6.89**

(1) Results for the period from October 23, 2012 (commencement of operations) to August 31, 2013.

(2) Issue expenses of $2,188,475 were incurred in connection with the Class A Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes. The Manager will reimburse Class A with the amount of $32,250 for issue expenses above the maximum allowable percentage of 1.5% of the gross proceeds of the initial public offering as set out in the Fund's Prospectus.

(3) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of 3,235,728 Class A units outstanding over the financial period.

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

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

Ratios and Supplemental Data (Class A Units):

	August 31, 2013 (1)
Net asset value ($000's)	22,523
Number of units outstanding	3,267,666
Base management expense ratio (annualized) (2) (3)	2.53%
Issue expenses ratio (2) (3)	7.83%
Interest expense ratio (annualized) (2) (3)	0.00%
Management expense ratio (annualized) (3)	10.36%
Management expense ratio before waivers or absorptions (annualized) (3)	10.36%
Portfolio turnover rate (4)	0.00%
Trading expense ratio (5)	0.00%
Net asset value per unit (6)	6.89
Closing market price (TSX)	6.60

(1) Results for the period from October 23, 2012 (commencement of operations) to August 31, 2013.

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

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

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

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

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

Class F Units:

The Fund's Net Assets per Class F Unit:

	August 31, 2013 [(1)]
Net Assets, beginning of period	**10.00**
Unit issue expense [(2)]	(0.39)
Increase (decrease) from operations:	
Total revenues	–
Total expenses	(0.16)
Realized gains (losses) for the period	(0.03)
Unrealized gains (losses) for the period	(1.62)
Total increase (decrease) from operations [(3)]	**(1.81)**
Distributions:	
From income (excluding dividends)	–
From dividends	–
From capital gains	–
Return of capital	(0.62)
Total Distributions [(4)]	**(0.62)**
Net Assets, end of period [(5)]	**7.13**

(1) Results for the period from October 23, 2012 (commencement of operations) to August 31, 2013.

(2) Issue expenses of $62,966 were incurred in connection with the Class F Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes. The Manager will reimburse Class F with the amount of $1,660 for issue expenses above the maximum allowable percentage of 1.5% of the gross proceeds of the initial public offering as set out in the Fund's Prospectus.

(3) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of 161,400 Class F units outstanding over the financial period.

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

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

Ratios and Supplemental Data (Class F Units):

	August 31, 2013 [(1)]
Net asset value ($000's)	1,021
Number of units outstanding	143,225
Base management expense ratio (annualized) [(2) (3)]	2.11%
Issue expenses ratio [(2) (3)]	4.35%
Interest expense ratio (annualized) [(2) (3)]	0.00%
Management expense ratio (annualized) [(3)]	6.46%
Management expense ratio before waivers or absorptions (annualized) [(3)]	6.46%
Portfolio turnover rate [(4)]	0.00%
Trading expense ratio [(5)]	0.00%
Net asset value per unit [(6)]	7.13

(1) Results for the period from October 23, 2012 (commencement of operations) to August 31, 2013.

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

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

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

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

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

Summary of Investment Portfolio as of August 31, 2013

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available at www.astonhill.ca.

Investment portfolio of U.S. Agency Mortgage-Backed REIT Advantaged Fund

	Fair value $	% of NAV
Portfolio by Category		
Equity derivatives	24,944,830	106.0%
Short-term investment	99,854	0.4%
Cash	22,594	0.1%
Other liabilities net of other assets	(60,182)	-0.3%
Foreign currency forward contracts	(1,463,305)	-6.2%
Top 25 Holdings		
Forward Agreement	24,944,830	106.0%
Short-term investment	99,854	0.4%
Cash	22,594	0.1%
Bought CAD 4,987,088, sold USD 5,160,000, October 23, 2013	(453,531)	-1.9%
Bought CAD 10,569,026, sold USD 10,246,268, October 23, 2017	(476,417)	-2.0%
Bought CAD 10,451,194, sold USD 10,246,268, October 23, 2015	(533,357)	-2.3%
Net asset value	**23,543,791**	

The Fund obtained exposure to the performance of the Portfolio through the Forward Agreement (see Investment Objectives and Strategy). The following is the summary of the Portfolio as of August 31, 2013:

Portfolio

	Fair value $	% of NAV
Portfolio by Category		
United States	24,769,366	99.3%
Cash	175,464	0.7%
Top 25 Holdings		
Annaly Capital Management Real Estate Investment Trust	6,432,140	25.8%
American Capital Agency Real Estate Investment Trust	6,173,094	24.8%
MFA Financial Real Estate Investment Trust	2,562,116	10.3%
Invesco Mortgage Capital Real Estate Investment Trust	2,043,729	8.2%
Hatteras Financial Real Estate Investment Trust	1,783,109	7.1%
ARMOUR Residential Real Estate Investment Trust	1,543,253	6.2%
CYS Investments Real Estate Investment Trust	1,322,012	5.3%
American Capital Mortgage Investment Real Estate Investment Trust	1,171,692	4.7%
Capstead Mortgage Real Estate Investment Trust	1,105,625	4.4%
Anworth Mortgage Asset Real Estate Investment Trust	632,596	2.5%
Cash	175,464	0.7%
Net asset value	**24,944,830**	

Management's Responsibility for Financial Reporting

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

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

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

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

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

Toronto, Canada
November 28, 2013

pwc

November 28, 2013

Independent Auditor's Report

To the Unitholders of
U.S. Agency Mortgage-Backed REIT Advantaged Fund (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statements of net assets and investment portfolio as at August 31, 2013, the statements of operations, changes in net assets and deficit, and cash flows for the period from October 23, 2012 (commencement of operations) to August 31, 2013, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

Auditor's responsibility
Our responsibility is to express an opinion on the financial statements based on our 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 the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at August 31, 2013 and the results of its operations, the changes in its net assets and deficit, and its cash flows for the period from October 23, 2012 (commencement of operations) to August 31, 2013 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

U.S. Agency Mortgage-Backed REIT Advantaged Fund

Statement of Net Assets

As at August 31, 2013

	2013
	$
Assets	
Cash	22,594
Short-term investments	99,854
Prepaid forward agreement (note 7)	24,944,830
Issue expense reimbursement from Manager	33,910
Interest receivable	56
Prepaid expenses	4,655
	25,105,899
Liabilities	
Accounts payable and accrued liabilities	87,341
Management fees payable	11,462
Unrealized loss on foreign currency forward contracts	1,463,305
	1,562,108
Net assets and unitholders' equity	23,543,791
Net Assets	
Class A Units	22,522,900
Class F Units	1,020,891
	23,543,791
Units issued and outstanding (note 5)	
Class A Units	3,267,666
Class F Units	143,225
Net assets per unit	
Class A Units	6.89
Class F Units	7.13
Unitholders' equity (note 5)	
Unit Capital	29,742,583
Deficit	(6,198,792)
Total Unitholders' equity	23,543,791

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

Director **Director**

(See accompanying notes to financial statements)

U.S. Agency Mortgage-Backed REIT Advantaged Fund

Statement of Operations

For the period from October 23, 2012 (commencement of operations) to August 31, 2013

	2013
	$
Income	
Interest income	1,120
Expenses	
Counterparty fees (note 7)	272,435
Management fees (note 9)	127,612
Service fees (note 10)	99,512
Audit fees	26,273
Harmonized sales tax	24,855
Administration fees	20,362
Legal fees	12,894
Printing and mailing fees	11,924
Filing fees	11,733
Transfer agent fees	11,131
TSX fees	6,367
Other fees	4,684
Custodial and other unitholder fees	2,232
IRC fees	2,221
	634,235
Investment (loss)	(633,115)
Unrealized gain (loss) on investments	
Unrealized (loss) on forward agreement (note 7)	(5,854,079)
Unrealized (loss) on foreign currency forward contracts	(1,463,305)
Unrealized gain on foreign exchange	1,860,277
	(5,457,107)
Realized gain (loss) on investments	
Net realized (loss) on forward agreement (note 7)	(111,862)
Net realized gain on foreign exchange	3,292
	(108,570)
Net (loss) on investments	(5,565,677)
(Decrease) in net assets from operations	(6,198,792)
(Decrease) in net assets from operations	
Class A Units	(5,907,233)
Class F Units	(291,559)
(Decrease) in net assets from operations per unit (*)	
Class A Units	(1.83)
Class F Units	(1.81)

* (Based on weighted average number of units outstanding during the period).

(See accompanying notes to financial statements)

U.S. Agency Mortgage-Backed REIT Advantaged Fund

Statement of Changes in Net Assets and Deficit

For the period from October 23, 2012 (commencement of operations) to August 31, 2013

	Class A 2013 $	Class F 2013 $	Total 2013 $
(Decrease) in net assets from operations	(5,907,233)	(291,559)	(6,198,792)
Distributions to unitholders from: (note 8)			
Return of capital	(2,008,462)	(98,464)	(2,106,926)
Unitholders' transactions (note 5)			
Proceeds from issuance of units	32,421,850	1,679,100	34,100,950
Agents' fees and issue expenses	(2,188,475)	(62,966)	(2,251,441)
Class F units converted to Class A	205,220	(205,220)	-
	30,438,595	1,410,914	31,849,509
Change in net assets during the period	22,522,900	1,020,891	23,543,791
Net assets - Beginning of period	-	-	-
Net assets - End of period	22,522,900	1,020,891	23,543,791
Deficit, beginning of period	-	-	-
(Decrease) in net assets from operations	(5,907,233)	(291,559)	(6,198,792)
Deficit, end of period	(5,907,233)	(291,559)	(6,198,792)

(See accompanying notes to financial statements)

U.S. Agency Mortgage-Backed REIT Advantaged Fund

Statement of Cash Flow

For the period from October 23, 2012 (commencement of operations) to August 31, 2013

	2013
	$
Operating Activities	
(Decrease) in net assets from operations	(6,198,792)
Items not affecting cash:	
Unrealized loss on forward agreement	5,854,079
Unrealized loss on foreign currency forward contracts	1,463,305
Net realized loss on forward agreement	111,862
Changes in non-cash working capital:	
(Increase) in prepaid expenses	(4,655)
(Increase) in interest receivable	(56)
(Increase) in issue expense reimbursement from Manager	(33,910)
Increase in accounts payable and accrued liabilities	87,341
Increase in management fees payable	11,462
Investment in forward agreement	(33,827,452)
Pre-settlements received by the Fund from the Counterparty under the forward agreement	2,916,681
Net cash flow (used in) operating activities	(29,620,135)
Financing Activities	
Proceeds from issuance of units	34,100,950
Unit issue costs	(2,251,441)
Distributions paid to unitholders	(2,106,926)
Net cash flow provided by financing activities	29,742,583
Net increase in cash and short-term investments	122,448
Cash and short-term investments - beginning of period	-
Cash and short-term investments - end of period	122,448

(See accompanying notes to financial statements)

U.S. Agency Mortgage-Backed REIT Advantaged Fund

Statement of Investment Portfolio

As at August 31, 2013

	Coupon %	Maturity date	Number of shares / par value $	Average cost $	Fair value $	% of Net assets
Short-term investments						
Banker's Acceptance						
National Bank of Canada	1.13%	10/01/2013	100,000	99,854	99,854	0.4%
Forward agreement:						
Investments notionally held in the Portfolio under the forward agreement						
Investments						
United States						
Annaly Capital Management Real Estate Investment Trust			522,486	8,843,004	6,432,140	27.3%
American Capital Agency Real Estate Investment Trust			257,111	8,902,274	6,173,094	26.2%
MFA Financial Real Estate Investment Trust			337,331	2,908,417	2,562,116	10.9%
Invesco Mortgage Capital Real Estate Investment Trust			126,543	2,850,170	2,043,729	8.7%
Hatteras Financial Real Estate Investment Trust			92,367	2,653,205	1,783,109	7.6%
ARMOUR Residential Real Estate Investment Trust			349,986	2,619,887	1,543,253	6.6%
CYS Investments Real Estate Investment Trust			163,179	2,303,735	1,322,012	5.6%
American Capital Mortgage Investment Real Estate Investment Trust			55,425	1,449,395	1,171,692	5.0%
Capstead Mortgage Real Estate Investment Trust			89,275	1,159,424	1,105,625	4.7%
Anworth Mortgage Asset Real Estate Investment Trust			135,367	874,879	632,596	2.7%
				34,564,390	24,769,366	105.3%
Total investments held in the Portfolio under the Forward Agreement				34,564,390	24,769,366	105.3%
Other Portfolio assets net of other liabilities					175,464	0.7%
Net assets of the Portfolio					24,944,830	106.0%
Forward agreement					24,944,830	106.0%

	Maturity date	Contract price/ rate $	Unrealized gain (loss) $	% of Net assets
Foreign currency forward contracts				
Bought CAD 4,987,088, sold USD 5,160,000	10/23/2013	0.966490	(453,531)	-1.9%
Bought CAD 10,451,194, sold USD 10,246,268	10/23/2015	1.020000	(533,357)	-2.3%
Bought CAD 10,569,026, sold USD 10,246,268	10/23/2017	1.031500	(476,417)	-2.0%
Total foreign currency forward contracts			(1,463,305)	-6.2%
Other liabilities net of other assets of the Fund			(37,588)	-0.2%
Net assets of the Fund			23,543,791	100.0%

(See accompanying notes to financial statements)

1 Corporate activities

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 and governed by the Trust Agreement (the "Trust Agreement") between Aston Hill Capital Markets Inc. (formerly "Connor, Clark & Lunn Capital Markets Inc.") (the "Manager") the Manager of the Fund and RBC Investor Services Trust (the "Trustee") dated September 28, 2012. The Fund's principal office is located at 77 King Street West, Suite 2110, Toronto, Ontario, M5K 1G8. The Fund commenced operations on October 23, 2012. The fiscal year-end of the Fund is August 31. The Fund is divided into units of two classes, Class A Units and Class F Units. The Class A Units are listed on the Toronto Stock Exchange (the "TSX") under the symbol USM.UN. The Class F Units are not listed on a stock exchange but may be converted into Class A Units on a weekly basis.

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

2 Investment objectives

The Fund's investment objectives are to:

(i) provide 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.

In order to achieve the Fund's investment objectives, the Fund obtained exposure to a notional Portfolio (the "Portfolio") through a forward agreement entered into with the Bank of Montreal (the "Counterparty" or "BMO"). The Portfolio consists of the 10 largest publicly traded U.S. Agency Mortgage REITs by market capitalization, subject to a limit of 25% of the Portfolio being in any one Agency Mortgage REIT, at the time of investment or rebalancing. The Portfolio is rebalanced at least semi-annually.

The Fund does not invest directly in the Portfolio; the Fund used the net proceeds of the initial public offering of its Class A and Class F Units to pre-pay its purchase obligations under a forward purchase and sale agreement (the "Forward Agreement") with the Bank of Montreal. Under the Forward Agreement, the Fund will receive, on or about the Forward Termination Date, a specified portfolio consisting of securities of Canadian public issuers that are "Canadian securities" for the purposes of the Tax Act ("Canadian Securities") in an amount equal to the value of the Portfolio, net of any amount owing by the Fund to the Counterparty. A fee of up to 0.35% per annum, calculated with reference to the NAV of the Portfolio, is payable monthly to BMO under the Forward Agreement.

3 Summary of significant accounting policies

Basis of presentation

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

Valuation of investments

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

The valuation of the Portfolio that the Fund has exposure to through the prepaid forward agreement is calculated in accordance with the above.

There were no differences between the Transactional NAV and GAAP Net Assets as at August 31, 2013.

Cash and short-term investments

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

Income recognition

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

Expense recognition

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

Foreign currency forward contracts

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

Foreign currency translation

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

Initial fees and expenses

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

(Decrease) in net assets from operations per unit

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

Valuation of a class

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

Designation of financial assets and liabilities

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

Related party transactions

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

International Financial Reporting Standards

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

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

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

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

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

4 Custodian

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

5 Unitholders' equity

The beneficial interest in the net assets and net income of the Fund is divided into Class A Units and Class F Units. The Fund is authorized to issue an unlimited number of Units of each class. 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 NAV per Unit of a particular class.

On October 23, 2012, the Fund completed an initial public offering pursuant to the Prospectus dated September 28, 2012. $31,000,000 was raised through the issue of 3,100,000 Class A Units and $1,679,100 was raised through the issue of 167,910 Class F Units.

On November 21, 2012, the Agents exercised an over-allotment option in respect of 142,185 Class A Units, raising a further $1,421,850.

Total Agents' fees and issue expenses totalled $2,251,441 plus an amount of $33,910 to be reimbursed by the Manager to account for issue expenses above the 1.5% limit of gross proceeds of the offering as per the Fund's Prospectus terms and conditions.

The Class A Units and Class F Units may be redeemed on an Annual Redemption Date, which is the second to last Business Day (any day except Saturday, Sunday, a statutory holiday in Toronto or any other day on which the TSX is not open for trading) of April of each year, commencing in 2014, subject to certain conditions. A holder of Units 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 to the Annual Redemption Date, the Units may also be redeemed on the Monthly Redemption Date, which is the second to last Business Day of each month other than, commencing in 2014, the month of April, 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, which is 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 and (ii) 100% of the Closing Market Price of a Class A Unit on the applicable Monthly Redemption Date, which is 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) 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.

During the period from October 23, 2012 (commencement of operations) to August 31, 2013, there were 24,685 Class F Units converted into 25,481 Class A Units for a total value of $205,220.

Changes in outstanding Units during the period from October 23, 2012 (commencement of operations) to August 31, 2013 are summarized as follows:

	Class A Units August 31, 2013	**Class F Units August 31, 2013**
Balance – beginning of period	–	–
Units issued	3,242,185	167,910
Class F Units converted to Class A Units	25,481	(24,685)
Balance – end of period	3,267,666	143,225

The Unit Capital dollar amount represents the face value of the Fund's units minus any return on capital distributions and issue costs paid since October 23, 2012 (commencement of operations) to August 31, 2013. If the redemption price is lower than the average cost per unit, the difference is included in Contributed Surplus on the Statement of Net Assets. If the redemption price is greater than the average cost per unit, the difference is first charged to Contributed Surplus until the balance in Contributed Surplus is eliminated and the remaining amount is charged to Retained Earnings (Deficit).

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

6 Market purchase program

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

The Fund did not purchase any Class A Units for cancellation during the period from October 23, 2012 (commencement of operations) to August 31, 2013.

7 Forward agreement

The Fund does not invest directly in the Portfolio, the Fund used the net proceeds of the initial public offering of its Class A Units and Class F Units to pre-pay its purchase obligations under a forward purchase and sale agreement (the "Forward Agreement") with the Bank of Montreal (the "Counterparty" or "BMO") (whose S&P credit rating is A+ as of August 31, 2013). Under the Forward Agreement, the Fund will receive, on or about the Forward Termination Date of October 23, 2017, a specified portfolio consisting of securities of Canadian public issuers that are "Canadian securities" for the purposes of the Tax Act ("Canadian Securities") in an amount equal to the value of the Portfolio, net of any amount owing by the Fund to the Counterparty. To secure the obligations of the Counterparty under the Forward Agreement, the Counterparty has pledged 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 to 100% on a weekly basis. The Fund pays a fee to the Counterparty under the Forward Agreement equal to (a) a fixed fee of 0.35% per annum, calculated with reference to the NAV of the Portfolio and paid monthly, plus (b) an additional variable fee which initially will not exceed 0.70% per annum of the NAV of the Portfolio, calculated daily and paid quarterly. The Counterparty fees charged to the Fund during the period from October 23, 2012 (commencement of operations) to August 31, 2013 were $272,435.

On August 31, 2013, the prepaid amount to the Counterparty under the Forward Agreement was $30,798,909 and the value of the unrealized loss on the Forward Agreement was $5,854,079. Other liabilities net of other assets in the Fund totalled $1,401,039, leaving net assets of $23,543,791. This amount is assigned to the Class A and Class F Unitholders using an allocation percentage that takes into consideration any class level specific expenses. On August 31, 2013, the GAAP Net assets per unit were $6.89 per Class A Unit and $7.13 per Class F Unit.

8 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 does 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.

The Fund declared an initial distribution covering the period from October 23, 2012 (commencement of operations) to January 31, 2013 of $0.2178 per Class A Unit and Class F Unit respectively. The initial distribution amount represents an annualized current yield of 8.0% based on the initial offering prices of the Units. In total, the Fund paid distributions of $0.6178 per Class A Unit and Class F Unit respectively during the period from October 23, 2012 (commencement of operations) to August 31, 2013.

9 Management fees

Pursuant to the Trust Agreement, the Fund retained Aston Hill Capital Markets Inc. (formerly "Connor, Clark & Lunn Capital Markets Inc.") to act as manager. As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Fund, the Manager is entitled to an annual management fee in an amount equal to 0.50% per annum of the NAV of the Fund, calculated and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund during the period from October 23, 2012 (commencement of operations) to August 31, 2013 were $127,612 plus applicable taxes.

10 Service fees

The Fund pays to the Manager a service fee which is payable to each registered dealer whose clients hold Class A Units at the end of a calendar quarter. The service fee is equal to 0.40% annually of the NAV for each Class A Unit held by clients of the registered dealers, calculated and paid at the end of each calendar quarter.

The total service fees paid by the Manager during the period from October 23, 2012 (commencement of operations) to August 31, 2013 were $99,512.

11 Income taxes

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and accordingly, is subject to tax on its investment income, including net realized capital gains, for any calendar year in which its net investment income or sufficient net realized capital gains are not paid or payable to its unitholders as at the end of the calendar year. It is the intention of the Manager that all annual net investment income and sufficient net taxable capital gains will be distributed to unitholders on a calendar year basis such that Canadian income taxes payable by the Fund under present legislation will be minimized. As a result thereof and of the deduction of expenses in computing its taxable income, no provisions for income taxes are made in the financial statements.

As at tax year end December 31, 2012, the Fund had net capital losses of $60,785, which may be carried forward indefinitely to reduce future realized capital gains and non-capital losses of $654,013, which will expire within the next twenty years as shown in the following table:

Year of the realized non-capital tax loss	Amount of tax loss	Expiry date
2012	654,013	2032
Total	**654,013**	

12 Broker commission charges and soft dollar services

There were $nil broker commissions paid during the period from October 23, 2012 (commencement of operations) to August 31, 2013 in connection with portfolio transactions. No contractual arrangements for soft dollar services exist in the broker commission charges.

13 Financial instruments

	August 31, 2013
Assets	**$**
Cash	22,594
Held for trading	25,044,684
Loans and receivables	38,621
Total assets	**25,105,899**
Liabilities	
Held for trading	1,463,305
Financial liabilities at amortized cost	98,803
Total liabilities	**1,562,108**

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

The Fund obtained exposure to the performance of the Portfolio through the Forward Agreement (see note 7) and therefore, the following tables illustrate the classification of the Fund's and the Portfolio's financial instruments within the fair value hierarchy as at August 31, 2013:

Assets at fair value as at August 31, 2013	Level 1	Level 2	Level 3	Total
Equities	24,769,366	–	–	**24,769,366**
Short-term investments	–	99,854	–	**99,854**
Total	**24,769,366**	**99,854**	–	**24,869,220**

Liabilities at fair value as at August 31, 2013	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	–	1,463,305	–	1,463,305
Total	–	**1,463,305**	–	**1,463,305**

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

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

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

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

There were no transfers among the three levels during the period from October 23, 2012 (commencement of operations) to August 31, 2013.

14 Financial instrument risk

The Fund obtained exposure to the performance of the Portfolio through the Forward Agreement (see note 7) and therefore, the risks associated with an investment in the Fund's units are best defined by describing the financial risks associated with an investment in the Portfolio.

Interest rate risk

Interest rate risk is the risk that the fair value of the Fund's interest-bearing investments will fluctuate due to changes in the prevailing interest rates. Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as short-term notes. The Fund is exposed to the risk that the value of interest-sensitive financial instruments will fluctuate due to changes in the prevailing levels of market interest rates.

Credit risk

The Fund is exposed to the risk that a security issuer will be unable to pay amounts in full when due. The Fund is exposed to the credit risk associated with the Counterparty. To secure the obligations of the Counterparty under the Forward Agreement, the Counterparty has pledged 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 to 100% on a weekly basis The possibility exists that the Counterparty will default on its obligations under the Forward Agreement. The Counterparty is rated A+ by S&P as of August 31, 2013.

The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of debt investments and unrealized gain (loss) on derivative instruments outstanding with counterparties represents the maximum exposure to credit risk.

The table below summarizes the Fund's exposure to credit risk through its exposure to the Portfolio as of August 31, 2013. Amounts shown are based on the carrying value of debt investments and the unrealized loss on foreign currency forward contracts.

Rating	August 31, 2013 (% of NAV)
A+	-6.2%
A-2	0.4%
Total	**-5.8%**

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

Currency risk

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

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

August 31, 2013:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
U.S. Dollar	175,464	24,769,366	(27,060,779)	(2,115,949)	(9.0%)	(106,000)

Liquidity risk

Liquidity risk is the risk of not being able to meet the Fund's cash requirements in a timely manner and includes the risk of not being able to liquidate assets at reasonable prices. This risk arises mainly from the Fund's exposure to daily cash redemptions from its market purchase program which is limited to certain conditions (see note 6). The Fund is also exposed to monthly redemptions and unlimited annual anniversary redemptions on the second to last day of April of every year commencing in 2014 (see note 6); therefore, the Fund, which has exposure to the Portfolio through the Forward Agreement, invests the majority of its assets in investments that are traded in an active market and can be readily disposed. The Fund also achieves liquidity through its ability to pre-settle the Forward Agreement. In addition, the Fund retains sufficient cash and cash equivalent positions to meet its daily cash requirements. All liabilities, with the exception of the foreign currency forward contracts, are due within three months.

Concentration risk

The Portfolio's assets are concentrated in the real estate sector and in particular, 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 Fund's Units.

Market price risk

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

If the Portfolio's equity prices had increased or decreased by 10% on August 31, 2013, all other variables held constant, the net assets of the Fund, through exposure to the Forward Agreement, would have increased or decreased, respectively, by approximately $2,477,000. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

15 Federal Budget Announcement

The most recent federal budget proposed measures with respect to certain financial arrangements, such as the Forward Agreement, that would eliminate certain tax benefits for taxable Unitholders of investment funds that utilize this kind of agreement. The budget announcement states that these changes apply only to forward agreements entered into on or after March 21, 2013 (the "Budget Day").

The Forward Agreement was entered into prior to the Budget Day. Based on the Manager's current understanding of the budget announcement and discussions with the Manager's tax counsel, distributions paid by the Fund are expected to continue to be treated as capital gains and return of capital for tax purposes until such time as the Forward Agreement reaches its scheduled termination date.

The draft legislation has not yet been enacted and there is no assurance that the proposals will not be changed from the proposals announced.