

**ANNUAL INFORMATION FORM**

**WORLD FINANCIAL SPLIT CORP.**

**Preferred Shares and Class A Shares**

**March 24, 2021**

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## **FORWARD-LOOKING STATEMENTS**

Certain statements in this annual information form are forward-looking statements, including those identified by the expressions “anticipate”, “believe”, “plan”, “estimate”, “expect”, “intend” and similar expressions to the extent they relate to the Fund (as defined below) or Strathbridge (as defined below). Forward-looking statements are not historical facts but reflect the current expectations of the Fund and Strathbridge regarding future results or events. Such forward-looking statements reflect the Fund’s and Strathbridge’s current beliefs and are based on information currently available to them. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results or events to differ materially from current expectations. Some of these risks, uncertainties and other factors are described in this annual information form under the heading “Risk Factors”. Although the forward-looking statements contained in this annual information form are based upon assumptions that the Fund and Strathbridge believe to be reasonable, neither the Fund nor Strathbridge can assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained herein were prepared for the purpose of providing investors with information about the Fund and may not be appropriate for other purposes. Neither the Fund nor Strathbridge assumes any obligation to update or revise them to reflect new events or circumstances, except as required by law.

## THE FUND

World Financial Split Corp. (the “Fund”) is a mutual fund corporation incorporated under the laws of the Province of Ontario on December 5, 2003.

The manager and investment manager of the Fund is Strathbridge Asset Management Inc. (formerly Mulvihill Capital Management Inc.) (“Strathbridge”, “Manager” or “Investment Manager”).

On February 16, 2004, the articles of incorporation of the Fund were amended to create the preferred shares (the “Preferred Shares”) and the class A shares (the “Class A Shares”) of the Fund. On February 17, 2004, the Fund completed its initial public offering of 18,000,000 Preferred Shares at a price of \$10.00 per Preferred Share and 18,000,000 Class A Shares at a price of \$15.00 per Class A Share. On February 27, 2004, the Fund completed an additional offering of 850,000 Preferred Shares at a price of \$10.00 per Preferred Share and 850,000 Class A Shares at a price of \$15.00 per Class A Share pursuant to the exercise of an over-allotment option granted to the Fund’s agents in connection with the Fund’s initial public offering.

On November 19, 2009, the Fund completed an offering (the “Warrant Offering”) of warrants (the “Warrants”) to holders of its Class A Shares (“Class A Shareholders”). The Fund issued 8,557,010 Warrants to subscribe for and purchase an aggregate of approximately 8,557,010 Preferred Shares and 8,557,010 Class A Shares together in Units (as defined below). Each Class A Shareholder received one transferable Warrant for each Class A Share held. Altogether, 898,716 Class A Shares and 898,716 Preferred Shares were issued pursuant to the exercise of the warrants for gross proceeds of \$11,809,128.

On August 23, 2010, the Fund completed a Warrant Offering of Warrants to Class A Shareholders. The Fund issued 6,994,526 Warrants to subscribe for and purchase an aggregate of approximately 6,994,526 Preferred Shares and 6,994,526 Class A Shares together in Units (as defined below). Each Class A Shareholder received one transferable Warrant for each Class A Share held. Altogether, 1,123,620 Class A Shares and 1,123,620 Preferred Shares were issued pursuant to the exercise of the warrants for gross proceeds of \$12,842,976.

On May 31, 2011, the articles of incorporation of the Fund were amended to further extend the redemption date of the Preferred Shares and the Class A Shares to June 30, 2018 and, thereafter, to the day that is the seventh year anniversary date of such date, as well as to provide a special retraction right, to allow shareholders who do not wish to continue their investment at such time to redeem their shares, to change the monthly retraction prices so that such prices are calculated by reference to market price in addition to the net asset value and changing the notice period as well as payment period for the exercise of such rights and the payment of the retraction amount in order to maintain the same number of Class A Shares and Preferred Shares outstanding.

On June 24, 2011, the Fund announced a Class A Share consolidation ratio of 0.562426082 new Class A Shares for each Class A share held, effective the opening of trading on July 4, 2011.

On January 2, 2015, shareholders approved by special resolution changes to the Fund’s investment strategies and investment restrictions so that the Fund may purchase securities of an issuer if: (i) such securities are North American exchange traded common equity securities including common shares of an issuer included in the Portfolio Universe (as defined below) or the purchase is permitted under clause (iii) or (iv) below; (ii) for issuers other than Canadian issuers, such securities have a minimum rating of “A” from Standard & Poor’s or a comparable rating from an equivalent rating agency; (iii) after such purchase, no more than 25% (increased from 20%) of the net asset value of the Fund is invested in common shares of financial services or real estate companies other than those issuers included in the Portfolio Universe as long as such companies have a market capitalization at the time of investment of at least US\$10 billion and a minimum local currency issuer credit rating of “A-” (previously “A”) from Standard & Poor’s or a comparable rating from an equivalent rating agency; or (iv) such securities are securities of public investment funds including exchange traded funds or other Strathbridge funds (provided that no more than 15% of the net asset value of the Fund may be invested in securities of other Strathbridge funds) that provide exposure to the securities listed in (i), (ii) and (iii) above. In addition, the Fund may invest up to 10% of its net assets to purchase call options in respect of securities in which the Fund is permitted to invest and the Manager now has the discretion to hedge foreign currency exposure when considered appropriate and may invest the Fund’s portfolio entirely in cash or cash equivalents denominated in Canadian or U.S. dollars.

On May 28, 2018, the board of directors of the Fund announced the extension of the redemption date of the Class A Shares and Preferred Shares of the Fund from June 30, 2018 to June 30, 2025. Pursuant to the special retraction right granted to shareholders in connection with the extension of the Fund, 444,251 Preferred Shares and 872,864 Class A Shares were surrendered for retraction. In order to maintain an equal number of Preferred Shares and Class A Shares, the Fund redeemed 428,613 Preferred Shares on a pro rata basis from all holders of record of Preferred Shares on July 11, 2018.

The outstanding Preferred Shares and Class A Shares are listed on the Toronto Stock Exchange (“TSX”) under the symbols WFS.PR.A and WFS, respectively.

The principal offices of the Fund and of Strathbridge are located at 121 King Street West, Suite 2600, P.O. Box 113, Toronto, Ontario, M5H 3T9. The phone numbers, website address and e-mail address of Strathbridge are (416) 681-3900 (toll-free at 1-800-725-7172), [www.strathbridge.com](http://www.strathbridge.com) and [info@strathbridge.com](mailto:info@strathbridge.com).

## **INVESTMENT OBJECTIVES AND STRATEGY**

The Fund’s investment objectives are: (a) to provide Preferred Shareholders with fixed cumulative preferential quarterly cash distributions in the amount of \$0.13125 per Preferred Share representing a yield on the issue price of the Preferred Shares of 5.25% per annum; (b) to provide Class A Shareholders with quarterly cash distributions targeted to be 8.0% per annum of the original issue price; and (c) to return the issue price to holders of both Preferred Shares and Class A Shares at the time of redemption of such shares on June 30, 2025 (the “Termination Date”).

The Fund invests in a portfolio (the “Portfolio”) which includes common shares selected from the ten largest financial services or real estate companies by market capitalization from each of Canada (at the operating company level), the United States and the rest of the World (the “Portfolio Universe”). The issuers of the securities in the Fund’s Portfolio, other than those of Canadian issuers, must have a minimum local currency issuer credit rating of “A” from Standard & Poor’s or a comparable rating from an equivalent rating agency.

In addition, up to 25% of the net asset value (“NAV”) of the Fund may be invested in common shares of financial services or real estate companies that are not in the Portfolio Universe as long as such companies have a market capitalization at the time of investment of at least US\$10.0 billion and for non-Canadian issuers, a minimum local currency issuer credit rating of “A-” from Standard & Poor’s or a comparable rating from an equivalent rating agency.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting (“SSO”), to enhance the income generated by the Portfolio and to reduce volatility. In addition, the Fund may write cash covered put options in respect of securities in which it is permitted to invest. The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to continuously writing and rolling options every thirty days. This proprietary process has been developed by the Manager over many years through various market cycles. The Manager believes that in a flat or downward trending market, a portfolio that is subject to covered option writing will generally provide higher relative returns and lower volatility than one on which no options are written. However, in a rising market, the use of options may have the effect of limiting or reducing the total returns of the Fund since the premiums associated with writing covered options may be outweighed by the foregone opportunity of remaining fully invested in the securities comprising the Portfolio.

The Fund may, from time to time, hold all or a portion of its assets in cash equivalents. The Fund may also, from time to time, utilize such cash equivalents to provide cover in respect of the writing of cash covered put options, which is intended to generate additional returns and to reduce the net cost of acquiring the securities subject to the put options.

## **STATUS OF THE FUND**

The Fund is not a “mutual fund” for securities law purposes. The Fund differs from conventional mutual funds in a number of respects, most notably as follows: (a) while the Preferred Shares and the Class A Shares of the Fund may be surrendered at any time for retraction, the retraction price is payable monthly whereas the securities of most conventional mutual funds are retractable daily; (b) the Preferred Shares and the Class A Shares of the Fund have a stock exchange listing whereas the securities of most conventional mutual funds do not; and (c) unlike most conventional mutual funds, the Preferred Shares and the Class A Shares are not offered on a continuous basis.

## **SHARE CAPITAL**

### **Issue of Preferred Shares, Class A Shares and Class J Shares**

The Fund is authorized to issue an unlimited number of Preferred Shares, an unlimited number of Class A Shares and an unlimited number of Class J Shares. The holders of Class J Shares are entitled to one vote per share.

### **Description of Units**

While the Preferred Shares and Class A Shares were offered separately, they were issued on the basis that there would be one Class A Share outstanding for every Preferred Share outstanding (together notionally considered a “Unit”). The number of Units outstanding at any time will be equal to the sum of the number of Preferred Shares and Class A Shares outstanding divided by two.

### **Preferred Shares**

#### ***Distributions***

Preferred Shareholders are entitled to receive fixed, cumulative preferential quarterly cash distributions of \$0.13125 per share to yield 5.25% per annum on the issue price of the Preferred Shares on the last day of each quarter. Such distributions may consist of ordinary dividends, capital gains dividends or non-taxable returns of capital or any combination thereof.

Registrations of ownership in Preferred Shares will be made through the book-entry only system and the Fund will, prior to March 31 of each year, provide CDS Clearing and Depository Services Inc. (“CDS”) with the information necessary to enable holders to complete an income tax return with respect to amounts paid or payable by the Fund to such holders in the preceding calendar year. Each Preferred Shareholder will in turn receive such information from the holder’s applicable CDS Participant (as defined below).

#### ***Redemptions***

All Preferred Shares outstanding on the Redemption Date will be redeemed by the Fund on such date. The “Redemption Date” of the Fund is the Potential Redemption Date that is determined by the Board of Directors of the Corporation as the date on which all of the then outstanding shares of any class or series of shares of the Corporation shall be redeemed. A “Potential Redemption Date” is June 30, 2025 and, thereafter, the day that is the seventh year anniversary date of the immediately preceding potential date of redemption. The redemption price payable by the Fund for each Preferred Share outstanding on that date will be equal to the lesser of (a) \$10.00 and (b) the NAV of the Fund on that date divided by the number of Preferred Shares then outstanding.

Notice of redemption will be given to participants in the CDS book-based system (“CDS Participants”) holding Preferred Shares on behalf of the beneficial owners thereof at least 30 days prior to the Termination Date.

#### ***Retraction Privileges***

Preferred Shares may be surrendered at any time for retraction to Computershare Investor Services Inc., the Fund’s registrar and transfer agent, but will be retracted only on a monthly Valuation Date (as defined below). Preferred Shares surrendered for retraction by a shareholder at least ten business days prior to the last day of a month (a “Valuation Date”) will be retracted on such Valuation Date and the shareholder will receive payment on or before the tenth business day following such Valuation Date (the “Retraction Payment Date”).

Except as noted below, holders of Preferred Shares whose shares are surrendered for retraction will be entitled to receive a retraction price per share (the “Preferred Share Retraction Price”) equal to the lesser of: (A) the sum of (1) 96% of the lesser of (I) NAV per Unit as of the applicable Valuation Date less the cost to the Fund of purchasing a Class A Share in the market for cancellation at any time after the applicable Valuation Date and prior to the applicable Retraction Payment Date and (II) \$10.00 and (2) any accrued and unpaid dividends thereon; and (B) the sum of (1) 96% of the lesser of (I) the Unit Market Price (as defined below) as of the applicable Valuation Date less the cost to the Fund of purchasing a Class A Share in the market for cancellation at any time after the applicable Valuation Date and prior to the applicable Retraction Payment Date and (II) \$10.00 and (2) any accrued and unpaid dividends thereon. For purposes of the calculation noted above, the cost to the Fund of purchasing a Class A Share in the market for

cancellation may include the purchase price of such Class A Share, commissions and such other costs, if any, related to the liquidation of any part of the Portfolio to fund such purchase.

The “Unit Market Price” is the sum of the Class A Market Price (as defined below) and the Preferred Market Price.

The “Preferred Market Price” is the weighted average trading price of the Preferred Shares on the principal stock exchange on which the Preferred Shares are listed (or, if the Preferred Shares are not listed on any stock exchange, on the principal market on which the Preferred Shares are quoted for trading) for the 10 trading days immediately preceding the applicable Valuation Date.

The “Class A Market Price” is the weighted average trading price of the Class A Shares on the principal stock exchange on which the Class A Shares are listed (or, if the Class A Shares are not listed on any stock exchange, on the principal market on which the Class A Shares are quoted for trading) for the 10 trading days immediately preceding the applicable Valuation Date.

Preferred Shareholders also have an annual retraction right under which they may concurrently retract one Preferred Share and one Class A Share on the Valuation Date in June each year. The price paid by the Fund for such a concurrent retraction will be equal to the NAV per Unit on that date.

The Fund may, but is not obligated to, require the Recirculation Agent to use commercially reasonable efforts to find purchasers for any Preferred Shares tendered for retraction prior to the relevant Retraction Payment Date pursuant to the Recirculation Agreement (as defined below). In such event, the amount to be paid to the holder of the Preferred Shares on the Retraction Payment Date will be an amount equal to the proceeds of the sale of the Preferred Shares less any applicable commission. Such amount will not be less than the Preferred Share Retraction Price described above.

Subject to the Fund’s right to require the Recirculation Agent (as defined below) to use commercially reasonable efforts to find purchasers for any Preferred Shares tendered for retraction prior to the relevant Retraction Payment Date, any and all Preferred Shares which have been surrendered to the Fund for retraction are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Payment Date, unless not retracted, in which event such Preferred Shares will remain outstanding.

The retraction right must be exercised by providing written notice within the notice periods prescribed and in the manner described under “Book-Entry Only System”. Such surrender will be irrevocable upon the delivery of notice to CDS through a CDS Participant, except with respect to those Preferred Shares not paid for by the Fund on the relevant Retraction Payment Date.

If any Preferred Shares are tendered for retraction and are not resold, the Fund has directed the Recirculation Agent to purchase for cancellation on behalf of the Fund that number of Class A Shares which equals the number of Preferred Shares so retracted. Any Class A Shares so purchased for cancellation will be purchased in the market.

#### ***Resale of Preferred Shares Tendered for Retraction***

The Fund has entered into an agreement (a “Recirculation Agreement”) with RBC Dominion Securities Inc. (the “Recirculation Agent”) whereby the Recirculation Agent has agreed to use commercially reasonable efforts to find purchasers for any Preferred Shares tendered for retraction prior to the relevant Retraction Payment Date. The Fund is not obligated to require the Recirculation Agent to seek such purchasers but may elect to do so. In the event that a purchaser for such Preferred Shares is found in this manner, the amount to be paid to the holder of the Preferred Shares on the relevant Retraction Payment Date will be an amount equal to the proceeds of the sale of the Preferred Shares less any applicable commission. Such amount will not be less than the applicable Preferred Share Retraction Price described above.

#### ***Priority***

The Preferred Shares rank in priority to the Class A Shares and the Class J Shares with respect to the payment of distributions and the repayment of capital on the dissolution, liquidation or winding up of the Fund.



## **Class A Shares**

### ***Distributions***

One of the Fund's investment objectives is to provide holders of Class A Shares with quarterly cash distributions targeted to be 8.0% per annum. Such distributions may consist of ordinary dividends, capital gains dividends or non-taxable returns of capital or any such combination. There can be no assurance that the Fund will be able to pay distributions to the Class A Shareholders.

No distributions will be paid on the Class A Shares if (a) the distributions payable on the Preferred Shares are in arrears; or (b) after the payment of the distribution by the Fund, the NAV per Unit would be less than \$15.00. As a result of declines in the NAV per Unit to values less than \$15.00, the Fund suspended the payment of monthly distributions on the Class A Shares effective December 2008. In addition, the Fund will not pay special distributions, meaning distributions in excess of the targeted 8.0% quarterly distribution, on the Class A Shares if after payment of the distribution the NAV per Unit would be less than \$23.50 unless the Fund would need to make such distribution so as to fully recover refundable taxes.

In the event that the Fund realizes capital gains, the Fund may, at its discretion make a special year end capital gains distribution in certain circumstances, including where the Fund has net realized capital gains, in Class A Shares and/or cash. Any capital gains distribution payable in Class A Shares will increase the aggregate adjusted cost base to Class A Shareholders of such shares. Immediately following payment of such a distribution in Class A Shares, the number of Class A Shares outstanding will be automatically consolidated such that the number of Class A Shares outstanding after such distribution will be equal to the number of Class A Shares outstanding immediately prior to such distribution.

Registrations of ownership in Class A Shares will be made through the book-entry system and the Fund will, prior to March 31 of each year, provide CDS with the information necessary to enable holders to complete an income tax return with respect to amounts paid or payable by the Fund to such holders in the calendar year.

### ***Redemptions***

All Class A Shares outstanding on the Termination Date will be redeemed by the Fund on such date. The redemption price payable by the Fund for a Class A Share on that date will be equal to the greater of (a) the NAV per Unit on that date minus \$10.00; and (b) nil.

Notice of redemption will be given to CDS Participants holding Class A Shares on behalf of the beneficial owners thereof at least 30 days prior to the Termination Date.

### ***Retraction Privileges***

Class A Shares may be surrendered at any time for retraction to Computershare Investor Services Inc., the Fund's registrar and transfer agent, but will be retracted only on a monthly Valuation Date. Class A Shares surrendered for retraction by a shareholder at least ten business days prior to the monthly Valuation Date will be retracted on such Valuation Date and the shareholder will receive payment on or before the Retraction Payment Date.

Except as noted below, holders of Class A Shares whose shares are surrendered for retraction will be entitled to receive a retraction price per share (the "Class A Share Retraction Price") equal to the lesser of: (A) the sum of (1) 96% of the difference between (I) the NAV per Unit as of the applicable Valuation Date and (II) the cost to the Fund of purchasing a Preferred Share in the market for cancellation at any time after the applicable Valuation Date and prior to the applicable Retraction Payment Date and (2) any accrued and unpaid dividends thereon; and (B) the sum of (1) 96% of the difference between (I) the Unit Market Price as of the applicable Valuation Date and (II) the cost to the Fund of purchasing a Preferred Share in the market for cancellation at any time after the applicable Valuation Date and prior to the applicable Retraction Payment Date and (2) any accrued and unpaid dividends thereon. For purposes of the calculation noted above, the cost to the Fund of purchasing a Preferred Share in the market for cancellation may include the purchase price of such Preferred Share, commissions and such other costs, if any, related to the liquidation of any part of the Portfolio to fund such purchase.

Class A Shareholders also have an annual retraction right under which they may concurrently retract one Preferred Share and one Class A Share on the Valuation Date in June each year. The price paid by the Fund for such a concurrent retraction will be equal to the NAV per Unit.

The Fund may, but is not obligated to, require the Recirculation Agent to use commercially reasonable efforts to find purchasers for any Class A Shares tendered for retraction prior to the relevant Retraction Payment Date pursuant to the Recirculation Agreement. In such event, the amount to be paid to the holder of the Class A Shares on the Retraction Payment Date will be an amount equal to the proceeds of the sale of the Class A Shares less any applicable commission. Such amount will not be less than the Class A Share Retraction Price described above.

Subject to the Fund's right to require the Recirculation Agent to use commercially reasonable efforts to find purchasers for any Class A Shares tendered for retraction prior to the relevant Retraction Payment Date, any and all Class A Shares which have been surrendered to the Fund for retraction are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Payment Date, unless not retracted thereon, in which event such Class A Shares will remain outstanding.

The retraction right must be exercised by providing written notice within the notice periods prescribed and in the manner described below under "Book-Entry Only System". Such surrender will be irrevocable upon the delivery of notice to CDS through a CDS Participant, except with respect to those Class A Shares that are not paid for by the Fund on the relevant Retraction Payment Date.

If any Class A Shares are tendered for retraction and are not resold, the Fund has directed the Recirculation Agent to purchase for cancellation on behalf of the Fund that number of Preferred Shares which equals the number of Class A Shares so retracted. Any Preferred Shares so purchased for cancellation will be purchased in the market.

#### ***Resale of Class A Shares Tendered for Retraction***

Pursuant to the terms of the Recirculation Agreement, the Recirculation Agent will use commercially reasonable efforts to find purchasers for any Class A Shares tendered for retraction prior to the relevant Retraction Payment Date. The Fund is not obligated to require the Recirculation Agent to seek such purchasers but may elect to do so. In the event that a purchaser for such Class A Shares is found in this manner, the amount to be paid to the holder of the Class A Shares on the relevant Retraction Payment Date will be an amount equal to the proceeds of the sale of the Class A Shares less any applicable commission. Such amount will not be less than the applicable Class A Share Retraction Price described above.

#### ***Priority***

The Class A Shares rank subordinate to the Preferred Shares but in priority to the Class J Shares with respect to the payment of distributions and the repayment of capital on the dissolution, liquidation or winding up of the Fund.

#### **Suspension of Retractions or Redemptions**

The Fund may suspend the redemption or retraction of the Preferred Shares or the Class A Shares or the payment of redemption or retraction proceeds: (a) during any period when normal trading in securities owned by the Fund is suspended on the Toronto or New York stock exchanges (provided more than 50% of the total assets of the Fund, by dollar value, trade on one of such suspended markets) and if those securities are not traded on any other exchange that represents a reasonably practical alternative for the Fund to execute trades in such securities; or (b) for any period not exceeding 120 days during which Strathbridge determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability of the Fund to determine the value of its assets, only with the prior approval of the securities regulatory authorities. The suspension may apply to all requests for retraction received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All Preferred Shareholders or Class A Shares making such requests shall be advised by Strathbridge of the suspension and that the retraction will be effected at a price determined on the first applicable Valuation Date following the termination of the suspension. All such shareholders shall have and shall be advised that they have the right to withdraw their requests for retraction. The suspension shall terminate in any event on the first 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 Strathbridge shall be conclusive.

### **Purchase for Cancellation**

Subject to applicable law, the Fund may at any time or times purchase Preferred Shares and Class A Shares for cancellation at prices per Unit not exceeding the NAV per Unit on the applicable Valuation Date immediately prior to such purchase.

### **Class J Shares**

The holders of Class J Shares are not entitled to receive dividends. The holders of the Class J Shares are entitled to one vote per share. The Class J Shares are redeemable and retractable at a price of \$1.00 per share. The Class J Shares rank subordinate to both the Preferred Shares and the Class A Shares with respect to distributions on the dissolution, liquidation or winding-up of the Fund.

A trust established for the benefit of the holders from time to time of the Preferred Shares and the Class A Shares is the owner of record of all of the issued and outstanding Class J Shares. The Class J Shares have been escrowed with Computershare Trust Company of Canada pursuant to an escrow agreement dated February 17, 2004.

### **Book-Entry Only System**

Registration of interests in and transfers of the Preferred Shares and the Class A Shares are made only through a book-entry only system administered by CDS. Preferred Shares and Class A Shares must be purchased, transferred and surrendered for retraction or redemption through a CDS Participant. All rights of an owner of Preferred Shares or Class A Shares must be exercised through, and all payments or other property to which such owner is entitled will be made or delivered by CDS or the CDS Participant through which the owner holds such Preferred Shares or Class A Shares. Upon purchase of any Preferred Shares or Class A Shares, the owner will receive only the customary confirmation. References in this annual information form to a holder of Preferred Shares or Class A Shares means, unless the context otherwise requires, the owner of the beneficial interest in such shares.

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

An owner of Preferred Shares or Class A Shares who wishes to exercise retraction privileges must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the owner a written notice of the owner's intention to retract shares, no later than 5:00 p.m. (EST) on the relevant notice date. An owner who wishes to retract Preferred Shares or Class A Shares should ensure that the CDS Participant is provided with notice (the "Retraction Notice") of the owner's intention to exercise the owner's retraction privilege sufficiently in advance of the relevant notice date to permit the CDS Participant to deliver notice to CDS by the required time. The Retraction Notice will be available from a CDS Participant or Computershare Investor Services Inc. Any expense associated with the preparation and delivery of Retraction Notices will be borne by the owner exercising the retraction privilege.

By causing a CDS Participant to deliver to CDS a notice of the owner's intention to retract Preferred Shares or Class A Shares, an owner shall be deemed to have irrevocably surrendered such Preferred Shares or Class A Shares for retraction and appointed such CDS Participant to act as the owner's exclusive settlement agent with respect to the exercise of the retraction privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

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

The Fund has the option to terminate registration of the Preferred Shares or the Class A Shares through the book-entry only system in which case certificates for the Preferred Shares or the Class A Shares in fully registered form would be issued to beneficial owners of such shares or to their nominees.

## **SHAREHOLDER MATTERS**

### **Meetings of Shareholders**

Except as required by law or under certain circumstances as set out below, Preferred Shareholders and Class A Shareholders will not be entitled to receive notice of, to attend or to vote at any meeting of shareholders of the Fund.

### **Acts Requiring Shareholder Approval**

The following matters require the approval of the Preferred Shareholders and Class A Shareholders by a two-thirds majority vote (other than item (c) which requires approval by a simple majority vote) at a meeting called and held for such purpose, each voting separately as a class:

- (a) a change in the fundamental investment objectives and strategy of the Fund as described under “Investment Objectives and Strategy”;
- (b) a change in the investment criteria of the Fund as described under “Investment Restrictions”;
- (c) any introduction of, or change in the basis of calculating fees or other expenses that are charged to the Fund which could result in an increase in charges to the Fund;
- (d) a change of the manager of the Fund, other than a change resulting in an affiliate of such person assuming such position or, except as described herein, a change in the investment manager of the Fund, other than a change resulting in an affiliate of such person assuming such position;
- (e) a decrease in the frequency of calculating the NAV per Unit or of retraction privileges;
- (f) certain material reorganizations with, or transfer of assets to or from another investment fund or a reorganization that results in the Fund no longer being an investment fund;
- (g) a termination of the Investment Management Agreement (except as described under “Investment Management Agreement”); and
- (h) an amendment, modification or variation in the provisions or rights attaching to the Preferred Shares, Class A Shares or Class J Shares.

The auditors of the Fund may be changed without the prior approval of shareholders provided that the independent review committee of the Fund approves the change and shareholders are sent a written notice at least 60 days before the effective date of the change.

Each Preferred Share and each Class A Share will have one vote at such a meeting. Ten percent of the outstanding Preferred Shares and Class A Shares, respectively, represented in person or by proxy at the meeting will constitute a quorum. If no quorum is present, the Preferred Shareholders and Class A Shareholders then present will constitute a quorum at an adjourned meeting.

### **Reporting to Shareholders**

The Fund will provide annual and semi-annual financial statements of the Fund to shareholders in accordance with applicable laws.

## **INVESTMENT RESTRICTIONS**

The Fund is subject to certain investment criteria that, among other things, limit the equity securities and other securities that the Fund may acquire for the Portfolio. The Fund’s investment criteria may not be changed without the

approval of the holders of the Preferred Shares and Class A Shares by a two-thirds majority vote of such holders who attend and vote at a meeting called for such purpose. The Fund's investment criteria provide that the Fund may:

- (a) purchase securities of an issuer if:
  - (i) such securities are North American exchange traded common equity securities including common shares of an issuer included in the Portfolio Universe or the purchase is permitted under clause (iii) or (iv) below;
  - (ii) for issuers other than Canadian issuers, such securities have a minimum rating of "A" from Standard & Poor's or a comparable rating from an equivalent rating agency;
  - (iii) after such purchase, no more than 25% of the NAV of the Fund is invested in common shares of financial services or real estate companies other than those issuers included in the Portfolio Universe as long as such companies have a market capitalization at the time of investment of at least US\$10 billion and a minimum local currency issuer credit rating of "A-" from Standard & Poor's or a comparable rating from an equivalent rating agency; or
  - (iv) such securities are securities of public investment funds including exchange traded funds or other Strathbridge funds (provided that no more than 15% of the net asset value of the Fund may be invested in securities of other Strathbridge funds) that provide exposure to the securities listed in (i), (ii) and (iii) above.
- (b) purchase equity securities of issuers other than those in the Portfolio Universe and purchase debt securities only if such securities are cash equivalents;
- (c) write a call option in respect of any security only if such security is actually held by the Fund in the Portfolio at the time the option is written;
- (d) dispose of any security included in the Fund's Portfolio that is subject to a call option written by the Fund only if such option has either terminated or expired;
- (e) write put options in respect of any security only if (i) the Fund is permitted to invest in such security, and (ii) so long as the options are exercisable, the Fund continues to hold cash equivalents sufficient to acquire the security underlying the options at the aggregate strike price of such options;
- (f) reduce the total amount of cash equivalents held by the Fund, only if the total amount of cash equivalents held by the Fund remains an amount not less than the aggregate strike price of all outstanding put options written by the Fund;
- (g) invest up to 10% of its net assets to purchase call options in respect of securities in which the Fund is permitted to invest;
- (h) not invest in the securities of any non-resident corporation or trust or other non-resident entity if the Fund would be required to mark its investment in such securities to market in accordance with proposed sections 94.2 or 94.3 of the *Income Tax Act* (Canada) (the "Tax Act") or to include any significant amounts in income pursuant to proposed section 94.1 of the Tax Act, as set forth in the proposed amendments to the Tax Act dealing with foreign investment entities released on November 9, 2006 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto);
- (i) not enter into any arrangement (including the acquisition of securities for the Portfolio and the writing of covered call options in respect thereof) where the result is a dividend rental arrangement for the purposes of the Tax Act; and

- (j) purchase derivatives and enter into derivative or other transactions, including call options and put options, and short-sale arrangements, only as specifically permitted under NI 81-102 or as permitted by the Canadian Securities Administrators.

Notwithstanding the foregoing, at the Manager's discretion, the Fund may be invested entirely in cash or cash equivalents denominated in Canadian or U.S. dollars.

In addition, as a mutual fund, the Fund is subject to certain restrictions and practices contained in securities legislation including NI 81-102, which are designed in part to ensure the investments of the Fund are diversified and relatively liquid and to ensure the proper administration of the Fund. A copy of such standard investment restrictions and practices will be provided by Strathbridge to any person on request. The Fund has obtained an exemption from certain of the provisions of NI 81-102 including:

- (a) Section 10.3 – to permit the Fund to calculate the retraction price for the Preferred Shares and the Class A Shares in the manner described in this annual information form and on the applicable Valuation Date;
- (b) Section 10.4 – to permit the Fund to make retraction payments within eight business days following the applicable Valuation Date;
- (c) Subsection 12.1(1) – to relieve the Fund from the requirement to file the prescribed compliance reports;
- (d) Clause 13.1(1)(b) – to permit the Fund to calculate its NAV once each week and on the last business day of each month; and
- (e) Section 14.1 – to relieve the Fund from the requirement relating to the record date for the payment of distributions of the Fund, provided that it complies with the applicable requirements of the TSX.

#### **Use of Other Derivative Instruments**

The Fund may purchase put options in order to protect the Fund from declines in the market prices of the individual securities in the Portfolio or in the value of the Portfolio as a whole. The Fund may enter into trades to close out positions in such permitted derivatives. The Fund may also invest up to 10% of its net assets to purchase call options in respect of securities in which the Fund is permitted to invest. In addition to writing covered call options and cash covered put options, to the extent permitted by Canadian securities regulators, from time to time, the Fund may also purchase call options and put options with the effect of closing out existing call options and put options written by the Fund.

#### **Securities Lending**

In order to generate additional returns, the Fund may lend Portfolio securities to securities borrowers acceptable to the Fund pursuant to the terms of a securities lending agreement between the Fund and any such borrower (a "Securities Lending Agreement"). Under a Securities Lending Agreement: (a) the borrower will pay to the Fund a negotiated securities lending fee and will make compensation payments to the Fund equal to any distributions received by the borrower on the securities borrowed; (b) the securities loans must qualify as "securities lending arrangements" for the purposes of the Tax Act; and (c) the Fund will receive prescribed collateral security. Currently, the Fund does not lend securities. Any future securities lending by the Fund will be done in accordance with the provisions of NI 81-102. The Custodian will be responsible for the ongoing administration of any such securities loans, including the obligation to mark-to-market the collateral on a daily basis. The Fund has not engaged in any securities lending to date.

#### **CALCULATION OF NET ASSET VALUE AND NET ASSET VALUE PER UNIT**

The NAV of the Fund on a particular date will be equal to (a) the aggregate value of the assets of the Fund, less (b) the aggregate value of the liabilities of the Fund, including any distributions declared and not paid that are payable to shareholders on or before such date, less (c) the stated capital of the Class J Shares (\$100). For greater certainty, the Preferred Shares will not be treated as liabilities for these purposes. The "NAV per Unit" on any day is obtained by dividing the NAV of the Fund on such day by the number of Units outstanding on that day.

The NAV per Unit will be calculated once each week at the close of business. In the last week of the month, the NAV per Unit will be calculated on the last business day of the month at the close of business. Such information will be provided by Strathbridge to shareholders on request and will be available at no cost on a weekly basis on the Manager's website at [www.strathbridge.com](http://www.strathbridge.com).

### **Valuation Policies and Procedures**

In determining the NAV of the Fund at any time:

- (a) the value of any security, index futures or index options thereon that is listed on any recognized exchange shall be determined by the closing sale price at the valuation time or, if there is no closing sale price, the average between the closing bid and the closing asked price on the day on which the NAV is being determined, all as reported by any report in common use or authorized as official by a recognized stock exchange; provided that if such stock exchange is not open for trading on that date, then on the last previous date on which such stock exchange was open for trading;
- (b) where a covered clearing corporation option, option on futures or over-the-counter option is written, the premium received by the Fund shall be reflected as a deferred credit that shall be valued at an amount equal to the current market value of the clearing corporation option, option on futures or over-the-counter option that would have the effect of closing the position. Any difference resulting from revaluation of such options shall be treated as an unrealized gain or loss on investment. The deferred credit shall be deducted in arriving at the NAV. The securities, if any, which are the subject of a written clearing corporation option, or over-the-counter option shall be valued at their then current market value;
- (c) purchased or written clearing corporation options, options on futures, over-the-counter options, debt-like securities and listed warrants shall be valued at the current market value thereof;
- (d) the value of any cash on hand, on deposit or on call, prepaid expenses, cash dividends declared and interest accrued and not yet received, shall be deemed to be the face amount thereof, unless the Fund determines that any such deposit or call loan is not worth the face amount thereof, in which event the value thereof shall be deemed to be such value as the Fund determines to be the reasonable value thereof;
- (e) the value of a futures contract or a forward contract shall be the gain or loss with respect thereto that would be realized if, at the valuation time, the position in the futures contract or the forward contract were to be closed out unless daily limits are in effect in which case fair value shall be based on the current market value of the underlying interest;
- (f) margin paid or deposited in respect of futures contracts and forward contracts shall be reflected as an account receivable and margin consisting of assets other than cash shall be noted as held as margin;
- (g) the value of any bonds, debentures, and other debt obligations shall be valued by taking the average of the bid and ask prices on the valuation date at such times as the Fund, in its discretion, deems appropriate. Short-term investments including notes and money market instruments shall be valued at cost plus accrued interest;
- (h) the value of any security, the resale of which is restricted or limited, shall be the lesser of the value thereof based on reported quotations in common use and that percentage of the market value of securities of the same class, the trading of which is not restricted or limited by reason of any representation, undertaking or agreement or by law, equal to the percentage that the Fund's acquisition cost was of the market value of such securities at the time of acquisition; provided that a gradual taking into account of the actual value of the securities may be made where the date on which the restriction will be lifted is known;
- (i) securities of any unlisted underlying fund held by the Fund will be valued at the net asset value of such securities as provided by such fund from time to time;

- (j) all Fund property valued in a foreign currency and all liabilities and obligations of the Fund payable by the Fund in foreign currency shall be converted into Canadian dollars by applying the rate of exchange obtained from the best available sources to the Fund, including, but not limited to, the Fund or any of its affiliates;
- (k) all expenses or liabilities (including fees payable to the Fund) of the Fund shall be calculated on an accrual basis; and
- (l) the value of any security or property to which, in the opinion of the Fund, the above valuation principals cannot be applied shall be the fair value thereof determined in such manner as the Fund from time to time provides.

The above principles are used to calculate NAV for all purposes other than financial statement reporting. With respect to financial reporting, International Financial Reporting Standards requires that portfolio securities in an active market be valued based on a price within the bid-ask spread. The Fund uses the last traded market price (closing sale price) for both financial assets and financial liabilities where the last traded price falls within the day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

## **RESPONSIBILITY FOR OPERATIONS**

### **The Manager**

Strathbridge was incorporated in 1984 by The Canada Trust Company under the name CT Investment Counsel Inc. ("CTIC") to manage the institutional pension fund business of The Canada Trust Company. In 1985, The Canada Trust Company and The Canada Permanent Trust Company amalgamated resulting in all of the pension assets managed by The Canada Permanent Trust Company being transferred to CTIC management. In addition, the investment professionals of The Canada Permanent Trust Company joined the CTIC team.

In February 1995, John P. Mulvihill purchased 100% of CTIC from The Canada Trust Company and changed CTIC's name to Mulvihill Capital Management Inc. Strathbridge became the manager of the Fund on September 1, 2010 as successor by amalgamation with Mulvihill Fund Services Inc. Subsequently, on October 3, 2011, Mulvihill Capital Management Inc. announced a name change to Strathbridge.

Pursuant to a management agreement made between the Fund and Strathbridge dated January 27, 2004, as amended on November 6, 2009 (the "Management Agreement"), Strathbridge is the Manager of the Fund and, as such, is responsible for providing or arranging for required administrative services to the Fund including: authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements, financial and accounting information as required by the Fund; ensuring that shareholders are provided with interim and semi-annual financial statements and other reports as are required by applicable law; ensuring that the Fund complies with regulatory requirements and applicable stock exchange listing requirements; preparing the Fund's reports to shareholders and the Canadian securities regulatory authorities; determining the amount of dividends to be paid by the Fund; and negotiating contractual agreements with third-party providers of services, including registrars, transfer agents, auditors and printers.

Strathbridge shall exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of shareholders, and shall exercise the degree of care, diligence and skill that a reasonably prudent manager would exercise in similar circumstances.

Strathbridge may resign as Manager of the Fund upon 60 days' notice to shareholders and the Fund or such lesser notice as the Fund may accept. If Strathbridge resigns it may appoint its successor, but its successor must be approved by shareholders unless it is an affiliate of Strathbridge. If Strathbridge commits certain events of bankruptcy or insolvency or is in material breach or default of its obligations under the Management Agreement and such breach or default has not been cured within 30 days after notice of the same has been given to Strathbridge, the Fund shall give notice to shareholders and the shareholders may remove Strathbridge and appoint a successor manager. Except as described above, Strathbridge cannot be terminated as manager of the Fund.



Strathbridge is entitled to fees as Manager for its services under the Management Agreement and will be reimbursed for all reasonable costs and expenses incurred by Strathbridge on behalf of the Fund. In addition, Strathbridge 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 Strathbridge or any of its officers, directors, employees or agents in the exercise of its duties as manager, except those resulting from Strathbridge's wilful misconduct, bad faith, negligence or breach of its obligations under the Management Agreement.

The management services of Strathbridge under the Management Agreement are not exclusive and nothing in the Management Agreement prevents Strathbridge from providing similar management services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Fund) or from engaging in other activities.

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

The name and municipality of residence and principal occupation of each of the directors and officers of Strathbridge are as follows:

| <i><b>Name and Municipality of Residence</b></i> | <i><b>Principal Occupation</b></i>                                   |
|--|--|
| John P. Mulvihill<br>Toronto, Ontario            | Chairman, President, Chief Executive Officer, Secretary and Director |
| John D. Germain<br>Toronto, Ontario              | Senior Vice-President, Chief Financial Officer and Director          |
| John P. Mulvihill Jr.<br>Toronto, Ontario        | Vice-President – Portfolio Manager and Director                      |
| Peggy Shiu<br>Toronto, Ontario                   | Vice-President – Portfolio Manager and Chief Compliance Officer      |
| Jack Way<br>Georgetown, Ontario                  | Vice-President – Portfolio Manager                                   |
| Jeff Dobson<br>Milton, Ontario                   | Vice-President – Portfolio Manager                                   |

Each of the officers and directors listed above has held their position with Strathbridge or an affiliate during the five years preceding the date hereof.

### **The Investment Manager**

Strathbridge manages the Fund's investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an investment management agreement made between the Fund and Strathbridge dated January 27, 2004 (the "Investment Management Agreement").

All the individuals on the team responsible for investment management at Strathbridge have significant experience in managing investment portfolios. The officers of Strathbridge who are primarily responsible for the management of the Fund's portfolio are John P. Mulvihill and John D. Germain. Also assisting in the management of the portfolio are John P. Mulvihill Jr., Jeff Dobson, Peggy Shiu, Jack Way and Jeff Thompson.

**John P. Mulvihill**, Chairman, President, Chief Executive Officer, Secretary and Director of Strathbridge, is the senior portfolio manager of Strathbridge and has over 49 years of investment management experience. Prior to purchasing CTIC from The Canada Trust Company in 1995, Mr. Mulvihill had been Chairman of CTIC since 1988. At CTIC he had primary responsibility for the asset allocation and portfolio management of CTIC's pension and mutual fund assets.

**John D. Germain**, Senior Vice-President, Chief Financial Officer and Director of Strathbridge, has been with Strathbridge since March 1997 and is responsible for the overall portfolio management with over 28 years of investment management experience. Prior to joining Strathbridge, he had been employed at Merrill Lynch Canada Inc. since 1992.

**John P. Mulvihill Jr.**, Vice-President and Director of Strathbridge, has been with Strathbridge since April 2008. John's primary focus is on the development and implementation of the firm's various investment strategies within the Structured Products Group, while also assisting with product and business development in the High Net Worth division.

**Jeff Dobson**, Vice-President, joined Strathbridge in April 2001 after nearly 16 years at Scotia Capital. He brings extensive experience in portfolio management, especially in the use of equity options. His most recent position prior to joining Strathbridge involved managing a portfolio comprised of equity options, their underlying stocks, as well as equity index derivatives.

**Peggy Shiu**, Vice-President and Chief Compliance Officer, has been with Strathbridge since April 1995. She is a member of the investment management team and has extensive experience in the Canadian, U.S. and ADR equity markets.

**Jack Way**, Vice-President, has been with Strathbridge since August 1998 and brings an extensive background in asset management with over 50 years of experience as an investment manager during which he spent considerable time working in the U.S. market.

**Jeff Thompson**, Portfolio Manager, has been with Strathbridge since 1990 primarily working in the fixed income group. Since 2008 he has worked extensively on trading equity options and foreign currency hedging.

#### ***Investment Management Agreement***

The services provided by Strathbridge pursuant to the Investment Management Agreement include making all investment decisions for the Portfolio and the writing, purchase and sale of all option contracts in accordance with the investment objectives, strategy and restrictions of the Fund. Decisions as to the purchase and sale of securities and as to the execution of all portfolio and other transactions will be made by Strathbridge. In the purchase and sale of securities for the Fund and the trading of option contracts, Strathbridge will seek to obtain overall services and prompt execution of orders on favourable terms.

Under the Investment Management Agreement, Strathbridge is required to act at all times on a basis which is fair and reasonable to the Fund, to act honestly and in good faith with a view to the best interests of the shareholders of the Fund and to exercise the degree of care, diligence and skill that a reasonably prudent portfolio manager would exercise in comparable circumstances. The Investment Management Agreement provides that Strathbridge shall not be liable in any way for any default, failure or defect in any of the securities of the Fund, nor shall it be liable if it has satisfied the duties and standard of care, diligence and skill set forth above. Strathbridge will, however, incur liability in cases of wilful misconduct, bad faith, negligence or breach of its obligations under the Investment Management Agreement.

The Investment Management Agreement, unless terminated as described below, will continue in effect until the Termination Date. The Fund may terminate the Investment Management Agreement only if Strathbridge has committed certain events of bankruptcy or insolvency or is in material breach or default of the provisions and such breach has not been cured within 30 days after notice has been given to Strathbridge by the Fund.

Except as set out below, Strathbridge may not terminate the Investment Management Agreement or assign the same except to an affiliate of Strathbridge, without approval of the shareholders of the Fund. Strathbridge may terminate the Investment Management Agreement if the Fund is in material breach or default of the provisions thereof and such breach or default has not been cured within 30 days of notice of the same to the Fund or if there is a material change in the fundamental investment objectives, strategy or criteria of the Fund.

Strathbridge is entitled to fees for its services as Investment Manager under the Investment Management Agreement and will be reimbursed for all reasonable costs and expenses incurred by Strathbridge on behalf of the Fund. In

addition, Strathbridge 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 Strathbridge or any of its officers, directors, employees or agents in the exercise of its duties as investment manager of the Fund, except those resulting from Strathbridge's wilful misconduct, bad faith, negligence or breach of its obligations under the Investment Management Agreement and provided the Fund has reasonable grounds to believe the action or inaction that gave rise to such claim was in the best interests of the Fund.

## **CONFLICTS OF INTEREST**

### **Principal Holders of Securities**

CDS & Co., the nominee of CDS, holds all Preferred Shares and Class A Shares as registered owner for various brokers and other persons on behalf of their clients and others. As of March 23, 2021, the Fund and the Manager are not aware of (a) any holders of Preferred Shares that beneficially own, directly or indirectly, more than 10% of the Preferred Shares of the Fund, or (b) any holders of Class A Shares that beneficially own, directly or indirectly, more than 10% of the Class A Shares of the Fund.

As of March 23, 2021, the directors and officers of the Manager beneficially owned, in aggregate, less than 10% of the outstanding Preferred Shares and Class A Shares of the Fund and the members of the IRC (as defined below) beneficially owned, in aggregate, less than 10% of the outstanding Preferred Shares and Class A Shares.

World Financial Split Trust, a trust established for the benefit of the holders of the Preferred Shares and Class A Shares from time to time, owns 100% of the 100 issued and outstanding Class J Shares of the Fund. The Class J Shares are held in escrow by Computershare Trust Company of Canada pursuant to an escrow agreement dated February 17, 2004.

As of March 23, 2021, John P. Mulvihill owned of record and beneficially 95,073 shares (100%) of Mulvihill Capital Inc., which is the sole shareholder of Strathbridge.

## **FUND GOVERNANCE**

### **Independent Review Committee**

Under NI 81-107, all publicly offered investment funds, including the Fund, are required to establish an independent review committee (the "IRC") to whom the manager of the fund must refer all conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the manager to establish written policies and procedures for dealing with conflict of interest matters, maintain records in respect of those matters and provide assistance to the IRC in carrying out its functions. The IRC is required to conduct regular assessments and provide reports to the manager and securityholders in respect of its activities.

The members of the IRC of the Fund are Michael M. Koerner, Peter Gillin and Robert G. Bertram. Robert W. Korthals resigned from the IRC on January 16, 2021 and Peter Gillin was appointed to the IRC effective January 18, 2021. The aggregate compensation paid by the Fund to the members of the IRC for the year ended December 31, 2020 was \$8,333.33.

### **Directors and Officers of the Fund**

The following are the names, municipalities of residence, positions and principal occupations of the directors and officers of the Fund:

| <i><b>Name and Municipality of Residence</b></i> | <i><b>Position with the Fund</b></i>                                 | <i><b>Principal Occupation</b></i>   |
|--|--|--|
| John P. Mulvihill<br>Toronto, Ontario            | Chairman, President, Chief Executive Officer, Secretary and Director | Chairman, President, Chief Executive Officer, Secretary and Director, Strathbridge |

| <i>Name and Municipality of Residence</i>                | <i>Position with the Fund</i>                               | <i>Principal Occupation</i>   |
|--|---|---|
| Michael M. Koerner <sup>(1)(2)</sup><br>Toronto, Ontario | Director, IRC Member  | President, Canada Overseas Investments, Ltd. (private investment company) |
| Peter Gillin <sup>(1)</sup><br>Toronto, Ontario          | Director, IRC Member  | Corporate Director  |
| Robert G. Bertram <sup>(1)(2)</sup><br>Aurora, Ontario   | Director, IRC Member  | Corporate Director  |
| John D. Germain<br>Toronto, Ontario                      | Senior Vice-President, Chief Financial Officer and Director | Senior Vice-President, Chief Financial Officer and Director, Strathbridge |

(1) Independent director.

(2) Member of the Audit Committee

During the past five years all of the directors and officers have held the principal occupations noted opposite their respective names, or other occupations with their current employer or a predecessor company. The independent directors of the Fund are paid an annual fee of \$5,000 and a fee for each board meeting attended of \$300.

Each of the directors, other than Mr. Germain and Mr. Bertram, has served as a director of the Fund since its initial public offering. Mr. Bertram was elected a director on January 1, 2009 and Mr. Germain was elected a director on September 1, 2010. Each of the directors has been elected to serve until the next annual meeting of shareholders or until his successor is appointed.

The Board of Directors of the Fund is responsible for the overall stewardship of the Fund's business and affairs. Strathbridge administers, either directly or indirectly through third-party service organizations, all functions associated with the operations of the Fund pursuant to the Management Agreement. Under this agreement, the Manager is responsible for certain day to day operations of the Fund including the payment of distributions on its shares and attending to the retraction or redemption of its shares in accordance with their terms.

The Board consists of five directors, three of whom are independent of the Fund. The Board believes that the number of directors is appropriate for the Fund and only directors independent of the Fund are compensated. Amounts paid as compensation are reviewed for adequacy to ensure that they realistically reflect the responsibilities and risk involved in being an effective director. Individual directors may engage an outside advisor at the expense of the Fund in appropriate circumstances subject to the approval of the Board.

To assist the Board in its monitoring of the Fund's financial reporting and disclosure, the Board established a committee of the Board known as the Audit Committee. The Audit Committee consists of three members, all of whom are independent of the Fund. The responsibilities of the Audit Committee include, but are not limited to, review of the annual financial statements and the annual audit performed by the external auditor, oversight of management's reporting on internal control and oversight of the Fund's compliance with tax and securities laws and regulations. The Audit Committee has direct communication channels with the external auditors of the Fund which it may use to discuss and review specific issues as appropriate.

The Board is responsible for establishing the Fund's approach to governance issues and, together with the Investment Manager, is establishing a best practices governance procedure. The Fund maintains an investor relations line and website to respond to inquiries from shareholders.

Strathbridge has adopted policies, procedures and guidelines concerning the governance of the Fund and to ensure the proper management of the Fund. These policies, procedures and guidelines aim to monitor and manage the business, risks and internal conflicts of interest relating to the Fund, and to ensure compliance with regulatory and corporate requirements.

In addition, Strathbridge has an asset mix committee consisting of the following: John P. Mulvihill, John Germain, Jack Way, Peggy Shiu and John P. Mulvihill, Jr. The investment process for the Fund begins at the asset mix committee. Members of this committee meet monthly to examine macro-economic variables and relationships among dominant economic factors. This process culminates in an outlook for the various capital markets around the world and provides the fundamental basis for Strathbridge's long-term market outlook. These views are integrated into the investment decision making process at the portfolio management level. The asset mix committee of Strathbridge oversees investment decisions made by the portfolio managers of the Fund and reports to John P. Mulvihill.

The Fund may use derivatives as permitted by the policies of Canadian securities authorities and consistent with the investment objectives and restrictions of the Fund and with the investment policies set by the asset mix committee of Strathbridge. Policies, procedures and guidelines regarding investing in derivatives, including objectives and goals for derivatives trading and the risk management procedures applicable to such trading are reviewed by Strathbridge on a regular basis. If the Fund uses derivatives, it will hold enough assets to cover any obligations it has under the derivative contracts. The exposure of the Fund to derivatives is monitored daily by senior management.

Strathbridge also employs certain risk assessment tools including mark to market valuing of securities, reporting and monitoring of securities exposure and reconciliations of security transactions.

Because shareholders may only retract their Preferred Shares or Class A Shares on notice for payment not more frequently than monthly, they cannot engage in short-term trading of the Fund's securities with the Fund and the Fund has no policies and procedures in relation to such activities.

### **Proxy Voting Policy**

The Fund has adopted the following proxy guidelines (the "Proxy Guidelines") with respect to the voting of proxies received by it relating to voting securities held by the Fund. The Proxy Guidelines establish standing policies and procedures for dealing with routine matters, as well as the circumstances under which deviations may occur from such standing policies. A general description of certain such policies is outlined below.

(a) *Auditors*

The Fund will generally vote for proposals to ratify auditors except where non-audit-related fees paid to such auditors exceed audit-related fees.

(b) *Board of Directors*

The Fund will vote for nominees of management on a case-by-case basis, examining the following factors: independence of the board and key board committees, attendance at board meetings, corporate governance positions, takeover activity, long-term company performance, excessive executive compensation, responsiveness to shareholder proposals and any egregious board actions. The Fund will generally withhold votes from any nominee who is an insider and sits on the audit committee or the compensation committee. The Fund will also withhold support from those individual nominees who have attended fewer than 75% of the board meetings held within the past year without a valid excuse for these absences.

(c) *Compensation Plans*

The Fund will vote on matters dealing with share-based compensation plans on a case-by-case basis. The Fund will review share-based compensation plans with a primary focus on the transfer of shareholder wealth. The Fund will generally vote for compensation plans only where the cost is within the industry maximum except where (i) participation by outsiders is discretionary or excessive or the plan does not include reasonable limits on participation or (ii) the plan provides for option re-pricing without shareholder approval. The Fund will generally also vote against any proposals to re-price options, unless such re-pricing is part of a broader plan amendment that substantially improves the plan and provided that (i) a value-for-value exchange is proposed; (ii) the top five paid officers are excluded; and (iii) exercised options do not go back into the plan or the company commits to an annual burn rate cap.

(d) *Management Compensation*

The Fund will vote on employee stock purchase plans ("ESPPs") on a case-by-case basis. The Fund will generally vote for broadly based ESPPs where all of the following apply: (i) there is a limit on employee

contribution; (ii) the purchase price is at least 80% of fair market value; (iii) there is no discount purchase price with maximum employer contribution of up to 20% of employee contribution; (iv) the offering period is 27 months or less; and (v) potential dilution is 10% of outstanding securities or less. The Fund will also vote on a case-by-case basis for shareholder proposals targeting executive and director pay, taking into account the issuer's performance, absolute and relative pay levels as well as the wording of the proposal itself. The Fund will generally vote for shareholder proposals requesting that the issuer expense options or that the exercise of some, but not all options be tied to the achievement of performance hurdles.

(e) *Capital Structure*

The Fund will vote on proposals to increase the number of securities of an issuer authorized for issuance on a case-by-case basis. The Fund will generally vote for proposals to approve increases where the issuer's securities are in danger of being de-listed or if the issuer's ability to continue to operate is uncertain. The Fund will generally vote against proposals to approve unlimited capital authorization.

(f) *Constituting Documents*

The Fund will generally vote for changes to constituting documents that are necessary and can be classified as "housekeeping". The following amendments will be opposed:

- (i) the quorum for a meeting of shareholders is set below two persons holding 25% of the eligible vote (this may be reduced in the case of a small organization where it clearly has difficulty achieving quorum at a higher level, but the Fund will oppose any quorum below 10%);
- (ii) the quorum for a meeting of the board of directors should not be less than 50% of the number of directors; and
- (iii) the chair of the board has a casting vote in the event of a deadlock at a meeting of directors if that chair is not an independent director.

The Proxy Guidelines also include policies and procedures pursuant to which the Fund will determine how to cause proxies to be voted on non-routine matters including shareholder rights plans, proxy contests, mergers and restructurings and social and environmental issues.

The Proxy Guidelines apply to proxy votes that present a conflict between the interests of Strathbridge or an entity related thereto, on the one hand, and the interests of the shareholders, on the other.

The Fund has retained ISS Governance Services, a subsidiary of RiskMetrics Group to administer and implement the Proxy Guidelines for the Fund.

The Proxy Guidelines are available upon request at no cost by calling toll-free at 1-800-725-7172 or by e-mail at [info@strathbridge.com](mailto:info@strathbridge.com).

The Fund maintains annual proxy voting records for the period beginning July 1 and ending June 30 of each year. These records are available after August 31 of each year at no cost by calling toll-free 1-800-725-7172 or on Strathbridge's website at [www.strathbridge.com](http://www.strathbridge.com).

## **BROKERAGE ARRANGEMENTS**

In evaluating the broker's capability to provide best execution, the portfolio managers consider the broker's financial responsibility, the broker's responsiveness, the commission rate involved and the range of services offered by the broker.

There are no ongoing contractual arrangements with any brokers with respect to securities transactions.

In addition to order execution goods and services, dealers or third parties may provide research goods and services, which include: (a) advice as to the value of securities and the advisability of effecting transactions in securities; and (b) analyses and reports concerning securities, issuers, industries, portfolio strategy or economic or political factors

and trends that may have an impact on the value of securities. Such goods and services may be provided by the executing dealer directly (known as proprietary research) or by a party other than the executing dealer (known as third party research).

In the event of the provision of a good or service that contains an element that is neither research goods and services nor order execution goods and services (“mixed-use goods and services”), brokerage commissions will only be used to pay for such goods and services which would qualify as either research goods and services or order execution goods and services. The Manager would pay for the remainder of the costs of such mixed-use goods or services.

The portfolio managers make a good faith determination that the portfolio, on whose behalf it directs to a dealer any brokerage transactions involving client brokerage commissions in return for research and order execution goods and services, receives reasonable benefit, considering both the use of the goods and services and the amount of brokerage commissions paid.

There are policies and procedures in place to ensure that, over a reasonable period of time, all clients receive a fair and reasonable benefit in return for the commissions generated.

For a list of any other dealer, broker or third party which provides research goods and services and/or order execution goods and services, at no cost, shareholders can contact us at 1-800-725-7172 or [info@strathbridge.com](mailto:info@strathbridge.com).

## **CUSTODIAN**

Pursuant to an agreement (the “Custodian Agreement”) with the Fund dated February 16, 2004, as amended on November 17, 2009, RBC Investor Services Trust, as successor to The Royal Trust Company, acts as the custodian (the “Custodian”) of the assets of the Fund and is responsible for processing redemptions, calculating NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. Pursuant to the terms of the Custodian Agreement, the assets of the Fund may also be held by sub-custodians. Either party may terminate the Custodian Agreement by giving the other party 30 days’ notice.

The address of the Custodian is 155 Wellington Street West, Toronto, Ontario, M5V 3L3. The Custodian is entitled to receive fees from the Fund and to be reimbursed for all expenses and liabilities which are properly incurred by the Custodian in connection with the activities of the Fund.

## **REGISTRAR AND TRANSFER AGENT**

Computershare Investor Services Inc. provides the Fund with registrar, transfer and distribution agency services in respect of the Preferred Shares and the Class A Shares from its principal offices in Toronto, Ontario.

## **FEES AND EXPENSES**

### **Management and Investment Management Fees**

Strathbridge is entitled to a fee at an annual rate of 0.10% of the NAV of the Fund for its services as manager and 1.0% of the NAV of the Fund for its services as investment manager of the Fund. Fees payable to Strathbridge are calculated and payable monthly in arrears and subject to applicable taxes.

### **Service Fee**

The Fund will pay a service fee (the “Service Fee”) which will be paid to each dealer whose clients hold Class A Shares. The Service Fee will be calculated and paid at the end of each calendar quarter and will be equal to 0.40% annually of the value of the Class A Shares held by clients of the dealer.

### **Operating Expenses**

The Fund pays for all expenses incurred in connection with the operation and administration of the Fund. It is expected that these expenses will include, without limitation: (a) mailing and printing expenses for periodic reports to shareholders; (b) fees payable to the Transfer Agent; (c) fees payable to members of the IRC of the Fund; (d) fees payable to the auditor and legal advisors of the Fund; (e) regulatory filing, stock exchange and licensing fees; (f)

website maintenance costs; and (g) expenditures incurred upon the termination of the Fund. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which Strathbridge is entitled to an indemnity by the Fund. The Fund will also be responsible for all commissions and other costs of securities transactions and any extraordinary expenses which may be incurred by it from time to time.

## **AUDITORS**

The auditors of the Fund are Deloitte LLP, Bay Adelaide Centre, East Tower, 8 Adelaide Street West, Suite 200, Toronto, Ontario, M5H 0A9.

## **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

The following is a summary of the principal Canadian federal income tax considerations generally relevant to investors who, for purposes of the Tax Act, are resident in Canada, hold their Preferred Shares and their Class A Shares as capital property, deal at arm's length with and are not affiliated with the Fund and have not with respect to Preferred Shares or Class A Shares entered into a "derivative forward agreement". This summary is based upon the facts set out in this annual information form, the current provisions of the Tax Act, the regulations and the Fund's understanding of the current administrative practices and assessing policies of the Canada Revenue Agency (the "CRA") published prior to the date hereof. This summary is based on the assumption that the Class A Shares and the Preferred Shares will at all times be listed on the TSX. This summary is based on the assumption that the Fund was not established and will not be maintained primarily for the benefit of non-residents of Canada and that not more than 50% (based on fair market value) of the shares of the Fund will be held by non-residents of Canada or by partnerships that are not Canadian partnerships as defined in the Tax Act, or any combination of the foregoing. This summary is based upon the assumption that the investment objectives and permitted investments will at all relevant times be as set out under the heading "Investment Restrictions" and that the Fund will at all times comply with such investment objectives and hold only permitted investments. This summary is also based on the assumption that the Fund will not invest in securities of any entity that would be a controlled foreign affiliate of the Fund for purposes of the Tax Act. This summary also takes into account all specific proposals to amend the Tax Act announced prior to the date hereof by the Minister of Finance (Canada) (the "Proposed Amendments"). No assurances can be given that the Proposed Amendments will become law as proposed or at all.

**This summary is not exhaustive of all possible Canadian federal income tax considerations and, in particular, does not describe income tax considerations relating to the deductibility of interest on money borrowed to acquire Preferred Shares and Class A Shares. This summary does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, other than the Proposed Amendments. This summary does not deal with foreign, provincial or territorial income tax considerations, which might differ from the federal considerations. This summary does not apply to shareholders that are "financial institutions" as defined in section 142.2 of the Tax Act or "specified financial institutions" as defined in section 248 of the Tax Act.**

**This summary is of a general nature only and does not constitute legal or tax advice to any particular investor. Accordingly, investors are advised to consult their own tax advisors with respect to their individual circumstances.**

### **Tax Treatment of the Fund**

The Fund currently continues to qualify at all times as a "mutual fund corporation" as defined in the Tax Act. As a mutual fund corporation, the Fund is entitled in certain circumstances to a refund of tax paid by it in respect of its net realized capital gains. Also, as a mutual fund corporation, the Fund is entitled to maintain a capital gains dividend account in respect of its realized net capital gains and from which it may elect to pay dividends ("capital gains dividends") which are treated as capital gains in the hands of the shareholders of the Fund.

In computing income for a taxation year, the Fund will be required to include in income the value of all dividends received by the Fund in the year. In computing taxable income, the Fund will generally be permitted to deduct the value of all dividends received by it from taxable Canadian corporations. The Fund will generally not be permitted a



deduction in computing taxable income for dividends received by it from other corporations, including non-resident corporations.

The Fund qualifies as a “financial intermediary corporation” (as defined in the Tax Act) and, thus, is not subject to tax under Part IV.1 of the Tax Act on dividends received by the Fund and is not generally liable to tax under Part VI.1 of the Tax Act on dividends paid by the Fund. As a mutual fund corporation (which is not an “investment corporation” as defined in the Tax Act), the Fund is generally subject to a refundable tax of 38<sup>1</sup>/<sub>3</sub>% under Part IV of the Tax Act on taxable dividends received by the Fund during the year to the extent that such dividends were deductible in computing the Fund’s taxable income for the year. This tax is refundable upon payment by the Fund of sufficient dividends other than capital gains dividends (“Ordinary Dividends”).

Premiums received on covered call options and cash covered put options written by the Fund which are not exercised prior to the end of the year will constitute capital gains of the Fund in the year received, unless such premiums are received by the Fund as income from a business or the Fund has engaged in a transaction or transactions considered to be an adventure in the nature of trade. The Fund has purchased the Portfolio with the objective of earning dividends thereon over the life of the Fund, may write covered call options with the objective of increasing the yield on the Portfolio beyond the dividends received on the Portfolio and will write cash covered put options to increase returns and to reduce the net cost of purchasing securities upon the exercise of put options. Thus, having regard to the foregoing and in accordance with the CRA’s published administrative practices, transactions undertaken by the Fund in respect of shares comprising the Portfolio and options on such shares will be treated and reported by the Fund as arising on capital account.

Premiums received by the Fund on covered call (or cash covered put) options which are subsequently exercised will be added in computing the proceeds of disposition (or deducted in computing the adjusted cost base) to the Fund of the securities disposed of (or acquired) by the Fund upon the exercise of such call (or put) options. In addition, where the premium was in respect of an option granted in a previous year so that it constituted a capital gain of the Fund in the previous year, such capital gain may be reversed.

The Fund is required to compute all amounts, including interest, cost of property and proceeds of disposition, in Canadian dollars for purposes of the Tax Act. As a consequence, the amount of income, expenses and capital gains or capital losses may be affected by changes in the value of foreign currency relative to the Canadian dollar.

### ***Dividend Distributions***

The intention of the Fund is to pay quarterly dividends and, in addition, to pay a special year-end dividend to Class A Shareholders where the Fund has net taxable capital gains upon which it would otherwise be subject to tax (other than taxable capital gains realized on the writing of options that are outstanding at year end) or where the Fund needs to pay a dividend in order to recover refundable tax not otherwise recoverable upon payment of quarterly dividends. While the principal sources of income of the Fund are expected to include taxable capital gains as well as dividends from taxable Canadian corporations, to the extent that the Fund earns net income, after expenses, from other sources, including dividends from non-Canadian sources and interest income upon interim investment of its reserves, the Fund will be subject to income tax on such income and no refund of such tax will be available.

Given the investment and dividend policy of the Fund and taking into account expenses, the Fund does not expect to be subject to any appreciable amount of non-refundable Canadian income tax.

### **Tax Treatment of Shareholders**

Shareholders of the Fund must include in income Ordinary Dividends paid to them by the Fund. For individual shareholders, Ordinary Dividends will be subject to the usual gross-up and dividend tax credit rules applicable to taxable dividends paid by taxable Canadian corporations including the enhanced gross-up and dividend tax credit rules applicable to any dividends designated by the Fund as eligible dividends in accordance with the provisions of the Tax Act. For corporate shareholders, Ordinary Dividends will normally be deductible in computing the taxable income of the corporation.

Ordinary Dividends received by a corporation (other than a “private corporation” or a “financial intermediary corporation”, as defined in the Tax Act) on Preferred Shares will generally be subject to a 10% tax under Part IV.1 of the Tax Act to the extent that such dividends are deductible in computing the corporation’s taxable income.

A shareholder which is a private corporation or any other corporation controlled directly or indirectly by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) may be liable to pay a 38<sup>1</sup>/<sub>3</sub>% refundable tax under Part IV of the Act on Ordinary Dividends received on the shares to the extent that such dividends are deductible in computing the corporation’s taxable income. Where Part IV.1 tax also applies to an Ordinary Dividend received by a corporation, the rate of Part IV tax otherwise payable by the corporation is reduced by 10% of the amount of such Ordinary Dividend.

The amount of any capital gains dividend received by a shareholder from the Fund will be considered to be a capital gain of the shareholder from the disposition of capital property in the taxation year of the shareholder in which the capital gains dividend is received.

The amount of any payment received by a holder from the Fund as a return of capital on a Preferred Share or Class A Share will not be required to be included in computing income. Instead, such amount will reduce the adjusted cost base of the relevant share to the holder. To the extent that the adjusted cost base to the holder would otherwise be a negative amount, the holder will be considered to have realized a capital gain at that time.

Having regard to the dividend policy of the Fund a person acquiring shares may become taxable on income or capital gains accrued or realized before such person acquired such shares.

### ***Disposition of Shares***

Upon the redemption, retraction or other disposition of a share, a capital gain (or a capital loss) will be realized to the extent that the proceeds of disposition of the share exceed (or are less than) the aggregate of the adjusted cost base of the share and any reasonable costs of disposition. The adjusted cost base of each share will generally be the weighted average of the cost of the shares of that class acquired by a holder at a particular time and the aggregate adjusted cost base of any shares of that class held immediately before the particular time. One-half of a capital gain (a taxable capital gain) is included in computing income and one-half of a capital loss (an allowable capital loss) is deductible against taxable capital gains in accordance with the provisions of the Tax Act.

Shares will qualify as Canadian securities for purposes of making an irrevocable election under the Tax Act to deem such shares held by the investor to be capital property and to deem any disposition of the shares held to be a disposition of a capital property for the purposes of the Tax Act. This election is not available to all taxpayers under all circumstances and therefore investors considering making such an election should consult their tax advisors.

### **Eligibility for Investment**

Provided that the Fund qualifies as a mutual fund corporation under the Tax Act or if the Preferred Shares or Class A Shares are listed on a “designated stock exchange” for purposes of the Tax Act (which includes the TSX), such shares will be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered disability savings plans, registered education savings plans and tax-free savings accounts (each, a “registered plan”).

However, if the Preferred Shares or Class A Shares are a “prohibited investment” for a tax-free savings account, registered retirement savings plan, registered disability savings plan, registered education savings plan, or registered retirement income fund, the holder of a tax-free savings account or registered disability savings plan, subscriber of a registered education savings plan or annuitant under a registered retirement savings plan or registered retirement income fund, will be subject to a penalty tax as set out in the Tax Act. An investment in the Preferred Shares or Class A Shares will not generally be a “prohibited investment” unless the holder, subscriber or annuitant does not deal at arm’s length with the Fund for purposes of the Tax Act or if the holder, subscriber or annuitant has a significant interest (within the meaning of the Tax Act) in the Fund. Holders of tax-free savings accounts or registered disability savings plans, subscribers of registered education savings plans, and annuitants under registered retirement savings plans and registered retirement income funds should consult their own tax advisors to ensure that neither Preferred Shares nor Class A Shares would be a “prohibited investment” in their particular circumstances.

## **Exchange of Tax Information**

The Fund is required to comply with due diligence and reporting obligations imposed under amendments to the Tax Act that implemented the Canada-United States Enhanced Tax Information Exchange Agreement. As long as the Preferred Shares and Class A Shares continue to be listed on the TSX, the Fund should not have any U.S. reportable accounts and, as a result, should not be required to provide information to the CRA in respect of securityholders. However, dealers through which securityholders hold their Preferred Shares and Class A Shares are subject to due diligence and reporting obligations with respect to financial accounts they maintain for their clients. Securityholders (and, if applicable, the controlling person(s) of a securityholder) may be requested to provide information to their dealer to identify U.S. persons holding the Preferred Shares and Class A Shares. If a securityholder, or its controlling person(s), is a “Specified U.S. Person” (including a U.S. citizen who is a resident of Canada) or if a securityholder does not provide the requested information and indicia of U.S. status is present, Part XVIII of the Tax Act will generally require information about the securityholder’s investments held in the financial account maintained by the dealer to be reported to the CRA, unless the investments are held within a registered plan. The CRA will then provide that information to the U.S. Internal Revenue Service.

In addition, reporting obligations in the Tax Act have been enacted to implement the Organization for Economic Co-operation and Development Common Reporting Standard (the “CRS Rules”). Pursuant to the CRS Rules, Canadian financial institutions are required to have procedures in place to identify accounts held by tax residents of foreign countries other than the U.S. (“Reportable Jurisdictions”) or by certain entities any of whose “controlling persons” are tax residents of Reportable Jurisdictions. The CRS Rules provide that Canadian financial institutions must report certain account information and other personal identifying details of securityholders (and, if applicable, of the controlling persons of such securityholders) who are tax residents of Reportable Jurisdictions to the CRA annually. Such information would generally be exchanged on a reciprocal, bilateral basis with Reportable Jurisdictions in which the account holders or such controlling persons are tax resident under the provisions and safeguards of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters or the relevant bilateral tax treaty. Under the CRS Rules, securityholders will be required to provide such information regarding their investment in the Fund to their dealer for the purpose of such information exchange, unless the investment is held within a registered plan.

## **RISK FACTORS**

An investment in the Fund may be deemed to be speculative and involves significant risks. Investors should review closely the investment objectives and investment strategies to be utilized by the Fund to familiarize themselves with the risks associated with an investment in the Fund. The following are certain considerations relating to an investment in the Fund which should also be considered before purchasing its securities.

### **Performance of the Fund’s Portfolio**

NAV per Unit will vary as the value of the securities in the Portfolio varies. At any time, the issuers in the Portfolio may decide to decrease or discontinue the payment of distributions on their securities. The Fund has no control over the factors that affect the issuers in the Portfolio, including factors such as fluctuations in interest rates, changes in management or strategic direction, achievement of strategic goals, mergers, acquisitions and divestitures, and changes in its dividend and distribution policies. An investment in the Preferred Share or Class A Shares does not constitute an investment in the securities of the issuers in the Portfolio. Holders of Preferred Shares and Class A Shares will not own the securities held by the Fund and will not have any voting or other rights with respect to such securities.

### **Concentration Risk**

The Portfolio will consist only of securities of the companies in the financials or real estate sectors and, as a result, the Fund’s holdings are not diversified and the NAV may be more volatile than the value of a more broadly diversified portfolio and may fluctuate substantially over short periods of time in response to economic conditions and regulatory changes that specifically affect the provision of financial services or real estate companies.

### **No Assurances on Achieving Investment Objectives**

There is no assurance that the Fund will be able to achieve its distribution and Portfolio preservation objectives or that the Portfolio will earn any return or will return an amount in excess of the issue price of the Class A Shares or that the

Fund will achieve its objective of returning the issue price to Preferred Shareholders and Class A Shareholders on the Termination Date.

There is no assurance that the Fund will be able to pay quarterly distributions. The funds available for distribution to Preferred Shareholders or Class A Shareholders will vary according to, among other things, the dividends paid on all of the securities comprising the Portfolio, the level of option premiums received and the value of the securities comprising the Portfolio. Since the dividends received by the Fund will not be sufficient to meet the objectives of the Fund in respect of the payment of distributions, the Fund will depend on the receipt of option premiums and the realization of capital gains to meet those objectives. Although many investors and financial market professionals price options based on the Black-Scholes Model, in practice, actual option premiums are determined in the marketplace and there is no assurance that the premiums predicted by such a pricing model can be attained.

### **Sensitivity to Interest Rates**

As the Fund is targeting quarterly distributions representing a yield on the issue price of the Preferred Shares of 5.25% per annum and at least 8.0% per annum on the Class A Shares, the market price of the Preferred Shares and Class A Shares may be affected by the level of interest rates prevailing from time to time. In addition, any decrease in the NAV of the Fund resulting from an increase in interest rates may also negatively affect the market price of the Preferred Shares or Class A Shares. Preferred Shareholders or Class A Shareholders who wish to redeem or sell their Preferred Shares or Class A Shares prior to the Termination Date will therefore be exposed to the risk that NAV per Unit or the market price of the Preferred Shares or Class A Shares will be negatively affected by interest rate fluctuations.

### **Fluctuations in Net Asset Value**

The NAV per Unit and the funds available for distribution will vary according, among other things, to the value of the Portfolio securities acquired by the Fund, the dividends paid and interest earned thereon, the volatility of such securities and the levels of option premiums received. Fluctuations in the market values of the Portfolio securities in which the Fund invests may occur for a number of reasons beyond the control of the Manager, Strathbridge or the Fund. Although many investors and financial market professionals price options based on the Black-Scholes Model, in practice, actual option premiums are determined based on market factors including interest rate levels, and there is no assurance that the premiums predicted by such a pricing model can be attained. Preferred Shares or Class A Shares may trade in the market at a premium or discount to the NAV per Unit and there can be no guarantee that Preferred Shares or Class A Shares will trade at prices that reflect their NAV.

### **Reliance on the Manager**

Strathbridge manages the Fund's Portfolio in a manner consistent with the investment objectives, investment strategies and investment restrictions of the Fund. The officers of Strathbridge who are primarily responsible for the management of the Portfolio have extensive experience in managing investment portfolios, but there is no certainty that they will continue to be employees of Strathbridge until the Termination Date.

### **Significant Retractions**

The Class A Shares and the Preferred Shares are retractable annually for a price based on NAV per Unit (which represents the value that the Fund is able to obtain in the market when it sells Portfolio securities to fund the retraction) and monthly based on market price. The purpose of the retraction right is to prevent the Class A Shares and the Preferred Shares from trading at a substantial discount to their market value and to provide shareholders with the right to realize their investment without any trading discount to such value. While the retraction right provides shareholders the option of liquidity, there can be no assurance that it will reduce trading discounts. If a significant number of Class A Shares and Preferred Shares are retracted, the trading liquidity of the Class A Shares and the Preferred Shares could be significantly reduced. In addition, the expenses of the Fund would be spread among fewer Class A Shares and Preferred Shares, potentially resulting in lower NAV per Unit.

### **Greater Volatility of the Class A Shares**

An investment in the Class A Shares is a leveraged investment because the Preferred Shares have priority in payment of any distributions or any proceeds from the winding up of the Fund. This leverage amplifies the potential return to Class A Share investors in so far as returns in excess of the amounts payable to holders of Preferred Shares accrue

first to the benefit of the holders of Class A Shares. Conversely, any losses incurred on the Fund's Portfolio accrue to the detriment of the holders of Class A Shares since the Preferred Shares rank prior to the Class A Shares in respect of distributions and proceeds upon the winding up of the Fund.

### **Use of Options and Other Derivative Instruments**

The Fund is subject to the full risk of its investment position in the securities comprising its Portfolio, including those securities that are subject to outstanding call options and those securities underlying put options written by the Fund, should the market price of such securities decline. In addition, the Fund will not participate in any gain on the securities that are subject to outstanding call options above the strike price of such options.

There is no assurance that a liquid exchange or over-the-counter market will exist to permit the Fund to write covered call options or cash covered put options or purchase cash secured put options on desired terms or to close out option positions should it desire to do so. The ability of the Fund to close out its positions may also be affected by exchange imposed daily trading limits on options or the lack of a liquid over-the-counter market. If the Fund is unable to repurchase a call option which is in-the-money, it will be unable to realize its profits or limit its losses until such time as the option becomes exercisable or expires. In addition, upon the exercise of a put option, the Fund will be obligated to acquire a security at a strike price which may exceed the then current market value of such security.

Where the Fund has purchased call options and entered into other derivative transactions there is also the risk that the counterparty (whether a clearing corporation in the case of exchange-traded instruments, or other third party in the case of over-the-counter instruments) may be unable to meet its obligations under the transaction and may default on such obligations, which could prevent Fund from reducing a loss or making a profit.

### **Foreign Currency Exposure**

As the Portfolio will include securities and options denominated in U.S. dollars or other foreign currencies, the NAV of the Fund and the value of the dividends and option premiums received by the Fund will be affected by fluctuations in the value of the U.S. dollar or other foreign currencies relative to the Canadian dollar.

### **Securities Lending**

The Fund may engage in securities lending as described under "Securities Lending". Although the Fund will receive collateral for the loans and such collateral is marked to market, the Fund will be exposed to the risk of loss should the borrower default on its obligation to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities.

### **Fund of Funds Investment Risk**

The Fund may invest directly in, or obtain exposure to, exchange traded funds or other public investment funds as part of its investment strategy. The Fund will be subject to the risks of the underlying funds. Also, if an underlying fund suspends redemptions, the Fund will be unable to accurately value part of its portfolio and may be unable to redeem its units in such fund.

### **Tax Changes**

There can be no assurance that changes will not be made to the tax rules affecting the taxation of the Fund or the Fund's investments, or that such tax rules will not be administered in a way that is less advantageous to the Fund or its shareholders.

### **Tax Treatment of Proceeds of Disposition and Option Premiums**

In determining its income for tax purposes, the Fund will treat option premiums received on the writing of covered call options and cash covered put options and any losses sustained on closing out options as capital gains or capital

losses, as the case may be, in accordance with its understanding of CRA's published administrative and assessing practices. Gains or losses realized upon the disposition of shares, including the disposition of shares held in the Portfolio upon exercise of a call option will be treated as capital gains or losses. The CRA's practice is not to grant an advance income tax ruling on the characterization of items as capital gains or income and no advance ruling has been requested or obtained.

If, contrary to the CRA's published administrative practices, some or all of the transactions undertaken by the Fund in respect of options and shares were treated as income rather than capital gains, after-tax returns to Preferred Shareholders and Class A Shareholders could be reduced and the Fund could be subject to non refundable income tax from such transactions and be subject to penalty taxes in respect of excessive capital gains dividend elections.

### **Recent Global Market Conditions**

Global financial markets have experienced substantial volatility in recent years. Significant sources of this volatility have included the revaluation of assets on the balance sheets of international financial institutions resulting in a reduction in liquidity among financial institutions and generally reduced availability of credit, substantial intervention by central banks as well as global governments in financial markets, low economic growth in various markets and economies, substantial changes in currency valuations and commodity prices and concerns regarding both inflation and deflation. Further, continued concerns about global health risks or epidemics/pandemics, the European Sovereign debt crisis, uncertainty surrounding the ratification and implementation of the United States-Mexico-Canada Agreement, developments in the Middle East and North Korea, strained trade relations between and trade barriers instituted by the U.S. and a number of other countries (including Canada), matters related to the United Kingdom's withdrawal from the EU, tightening monetary policy in the U.S., and matters related to the U.S. government debt limits, may adversely impact the global equity markets, which may adversely affect the prospects of the Fund and the value of the Fund. A substantial drop in the markets in which the Fund invests could be expected to have a negative effect on the value of the shares of the Fund.

More recently, an outbreak of the respiratory disease designated as a novel coronavirus in December 2019 has caused substantial volatility and declines in global financial markets, which have caused losses for investors. The impact of this novel coronavirus pandemic, and other epidemics and pandemics that may arise in the future, may be short term or may last for an extended period of time, and in either case may result in a substantial economic downturn or recession.

### **Cyber Security Risk**

Cyber security risk is the risk of harm, loss and liability resulting from a breach or failure of information technology systems. Breaches or failures of information technology systems ("Cyber Security Events") can result from deliberate attacks or unintentional events and may arise from external or internal sources. Deliberate cyber attacks include gaining unauthorized access to digital systems (through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information, corrupting data, equipment or systems, or causing operational disruption. Deliberate cyber attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended users).

The primary risk to the Fund from the occurrence of Cyber Security Events include disruption in operations, reputational damage, disclosure of confidential information, regulatory penalties, additional compliance costs associated with corrective measures, and/or financial loss. The Fund's third party service providers (e.g., custodian, administrator, transfer agent) or the issuers that the Fund invests in may also be subject to a Cyber Security Event which could adversely affect the Fund and its operations. The Fund cannot control the cyber security plans and systems put in place by its service providers or any other third party whose operations may affect the Fund or its shareholders and they could be adversely affected as a result.

### **Credit Risk**

The Fund is subject to the credit risk that its counterparty (whether a clearing corporation, in the case of exchange traded instruments, or other third party, in the case of over-the-counter instruments) may be unable to meet its obligations. The Fund manages these risks through the use of various risk limits and trading strategies.

The Fund is also exposed to counterparty credit risk on derivative financial instruments. The counterparty credit risk for derivative financial instruments is managed by dealing with counterparties that have a credit rating that is not below the level of approved credit ratings as set out in NI 81-102.

### **Liquidity Risk**

Liquidity risk is the possibility that investments in the Fund cannot be readily converted into cash when required. To manage this risk, the Fund invests the majority of its assets in investments that are traded in an active market and which can be easily disposed. In addition, the Fund aims to retain sufficient cash and short-term investments to maintain liquidity and to meet its obligations when due.

### **MATERIAL CONTRACTS**

The following documents can reasonably be regarded as material to Preferred Shareholders and Class A Shareholders:

- (a) the articles of incorporation and articles of amendment of the Fund;
- (b) the Management Agreement;
- (c) the Investment Management Agreement; and
- (d) the Custodian Agreement.

Copies of the foregoing may be inspected during business hours at the principal office of the Fund.

## **ADDITIONAL INFORMATION**

Additional information about the Fund is available in the Fund's management report of fund performance and financial statements.

You can get a copy of these documents at no cost by calling toll-free at 1-800-725-7172 or by e-mail at [info@strathbridge.com](mailto:info@strathbridge.com).

These documents and other information about the Fund, such as information circulars and material contracts, are also available at [www.sedar.com](http://www.sedar.com).

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