

**HEALTHCARE SPECIAL OPPORTUNITIES FUND**

**CLASS A UNITS AND CLASS U UNITS**

**ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED DECEMBER 31, 2019**

**March 25, 2020**

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this annual information form constitute forward-looking statements. The use of any of the words “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “believe”, and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, including those relating to the performance of the Portfolio (as defined herein), which may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Fund (as defined herein) believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this annual information form should not be unduly relied upon. These statements speak only as of the date of this annual information form.

In particular, this annual information form may contain forward-looking statements pertaining to distributions. The actual results could differ materially from those anticipated in these forward-looking statements as a result of, among other things, the risk factors set out in this annual information form. The Fund does not undertake any obligation to publicly update or revise any forward-looking statements.

**TABLE OF CONTENTS**

FORWARD-LOOKING STATEMENTS ..... 2

HEALTHCARE SPECIAL OPPORTUNITIES FUND ..... 4

    Name, Formation and History of the Fund ..... 4

    Market for Securities..... 4

DESCRIPTION OF BUSINESS ACTIVITIES..... 4

    Status of the Fund ..... 4

    Investment Objective of the Fund..... 5

    Investment Restrictions of the Fund ..... 5

    Investment Strategy of the Fund ..... 7

    Loan Facility ..... 7

    Securities Lending ..... 8

    Foreign Currency Hedging ..... 9

DECLARATION OF TRUST AND DESCRIPTION OF UNITS ..... 9

    Purchase for Cancellation ..... 10

    Take-over Bids..... 10

    Meetings of Unitholders ..... 10

    Matters Requiring Unitholder Approval ..... 11

    Amendments to the Declaration of Trust..... 11

    Distributions..... 12

    Termination of the Fund ..... 13

REDEMPTION OF UNITS ..... 13

    Annual Redemptions..... 13

    Monthly Redemptions..... 14

    Exercise of Redemption Right ..... 14

    Suspension of Redemptions ..... 15

    Non-resident Unitholders..... 15

CALCULATION OF NET ASSET VALUE..... 16

    Valuation of Assets ..... 16

    Net Asset Value ..... 16

    Valuation Policies and Procedures of the Fund ..... 16

    Reporting of Net Asset Value ..... 18

    Suspension of Calculation of Net Asset Value ..... 18

Information and Reports to Unitholders .....	18
RISK FACTORS .....	19
No Assurances on Achieving Investment Objective.....	19
Loss of Investment.....	19
No Guaranteed Return .....	19
Equity Securities Risk.....	19
Illiquid Securities and Private Securities .....	20
Fluctuations in Value of Securities Underlying Portfolio.....	20
Fluctuations in Net Asset Value .....	20
Risk Related to Healthcare Issuers.....	21
Regulatory Risk .....	21
Risks Related to Healthcare Issuers Operating in the Real Estate Sector.....	21
Sensitivity to Interest Rate Fluctuations .....	22
Use of Derivative Instruments .....	22
Portfolio Concentration Risk .....	22
Reliance on the Manager .....	23
Trading at a Discount and Risks Relating to Redemptions.....	23
Taxation of the Fund.....	23
Status of the Fund .....	24
No Ownership Interest .....	24
Potential Conflicts of Interest .....	24
Global Financial Developments.....	25
Operating History.....	25
No Public Market.....	25
Changes in Legislation.....	25
Foreign Currency Exposure .....	25
Use of Leverage by the Fund .....	26
Availability of Leverage .....	26
Hedging Risks.....	26
Risks of Short Sales and Margin Purchases.....	26
Securities Lending .....	27
General Risk of Investing in Debt Instruments.....	27
Foreign Market Exposure .....	27

RESPONSIBILITY FOR OPERATIONS .....	28
The Manager .....	28
Officers and Directors of the Manager .....	29
The Portfolio Manager .....	29
The Trustee .....	30
Duties and Services to be Provided by the Trustee and Details of the Declaration of Trust .....	30
Remuneration of Members of the Independent Review Committee.....	30
CONFLICTS OF INTEREST .....	31
FUND GOVERNANCE .....	31
Board of Directors of the Manager .....	31
Independent Review Committee.....	32
Proxy Voting Policies and Procedures.....	32
FEES AND EXPENSES .....	33
Management Fee.....	33
Performance Fee .....	34
Operating Expenses .....	34
INCOME TAX CONSIDERATIONS .....	35
Status of the Investment Fund.....	35
Taxation of the Fund.....	36
Taxation of Unitholders .....	39
Taxation of Registered Plans .....	41
Tax Implications of the Fund’s Distribution Policy.....	41
Eligibility for Investment.....	41
MATERIAL CONTRACTS .....	41
AUDITORS, REGISTRAR AND CUSTODIAN .....	42

## HEALTHCARE SPECIAL OPPORTUNITIES FUND

### Name, Formation and History of the Fund

Healthcare Special Opportunities Fund (the “Fund”) is a closed-end investment fund established as a trust under the laws of the Province of Ontario and is governed by a declaration of trust dated June 26, 2015 (as amended and restated as of July 15, 2015) (“Declaration of Trust”). Pursuant to the Declaration of Trust, LDIC Inc. acts as the trustee (the “Trustee”) and is responsible for managing the affairs of the Fund. LDIC Inc. (“LDIC” or the “Manager”) manages the administration of the Fund. The principal office of the Fund is located at The Exchange Tower, 130 King Street West, Suite 2130, P.O. Box 399, Toronto, Ontario, M5X 1E2.

The Fund completed an initial public offering (the “Offering”) of 3,500,000 Class A Units and 196,500 Class U Units (the “Units”) at a price of US\$10.00 per Unit, for aggregate gross proceeds of approximately \$37 million. The Fund also completed a concurrent private placement of Class A Units for gross proceeds of approximately \$24.5 million.

On July 17, 2015, the Fund completed the first tranche of a private placement (the “Private Placement”) of Class U Units of the Fund. The Fund issued 655,472 Class U Units for aggregate gross proceeds of US\$6.2 million. Following on July 24, 2015, the Fund completed the second tranche of Private Placement of Class U Units of the Fund. The Fund issued 185,785 Class U Units for aggregate gross proceeds of approximately US\$1.8 million. In aggregate, the Fund issued 841,257 Class U Units for gross proceeds of approximately US\$8.0 million.

The Fund used the net proceeds of the Private Placement to: (i) invest primarily in securities of Healthcare Issuers (as defined below under “Investment Objective of the Fund”) in accordance with the Fund’s investment objective, strategy and restrictions and (ii) fund the ongoing fees and expenses of the Fund.

Additional Units and additional classes of units and other securities may be created in the future and shall have the rights, privileges and attributes determined in accordance with the provisions of the Declaration of Trust.

### Market for Securities

The Class A Units of the Fund are listed for trading on the Toronto Stock Exchange (“TSX”) under the symbol “MDS.UN”. The Class U Units are not listed on a stock exchange but may be converted into Class A Units on a weekly basis for liquidity purposes. The Class U Units are designed for investors wishing to make their investments in U.S. dollars.

## DESCRIPTION OF BUSINESS ACTIVITIES

### Status of the Fund

The Fund is considered to be a non-redeemable investment fund under the securities legislation of the provinces and territories of Canada. Consequently, the Fund is subject to certain of the policies and regulations that apply to non-redeemable investment funds under such legislation, including the provisions of National Instrument 81-102 - *Investment Funds* (“NI 81-102”).

## **Investment Objective of the Fund**

The Fund's investment objective is to provide holders of Units ("Unitholders") with long-term total return through distributions and capital appreciation of the Fund's investment portfolio (the "Portfolio") by investing in equity and debt securities of issuers that derive a significant portion of their revenue or earnings from medical and healthcare products and/or services. Such issuers may include, but will not be limited to, issuers operating in the following healthcare industry sub-sectors: (i) healthcare services, financials and insurance; (ii) healthcare products and technology; (iii) healthcare facilities and real estate investment trusts; and (iv) retirement lifestyle, wellness and entertainment (collectively, the "Healthcare Issuers").

## **Investment Restrictions of the 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 that the investments of the Fund are diversified and relatively liquid and to ensure the proper administration of the Fund. The Fund is managed in accordance with these restrictions and practices.

The Units are "qualified investments" under the *Income Tax Act* (Canada) (the "Tax Act") for trusts governed by Registered Plans (as defined under "Income Tax Considerations – Status of the Investment Fund"). During 2019, the Fund did not deviate from the rules under the Tax Act that apply to the status of the Units qualifying for inclusion in such plans.

The Fund cannot engage in any undertaking other than the investment of its assets in accordance with its investment objective and strategy and in compliance with the investment restrictions set out in NI 81-102 that are applicable to non-redeemable investment funds from time to time, subject to any exemption therefrom obtained by the Fund. In addition, the Fund shall be subject to the following investment restrictions pursuant to which:

- (a) the Fund will invest a minimum of 80% of the total assets of the Fund, excluding cash and cash equivalents, in Healthcare Issuers, except during the initial investment period;
- (b) the Fund will not have more than 10% of its total assets comprised of securities of any single issuer other than securities issued or guaranteed by the Government of Canada or a province or territory thereof or securities issued or guaranteed by the U.S. Government or its agencies and instrumentalities;
- (c) the Fund will not have more than 20% of the total assets of the Fund comprised of securities of private issuers ("Private Securities");
- (d) the Fund will not own more than 10% of any class of voting or equity securities of any one issuer or purchase the securities of an issuer for the purpose of exercising control or direction over, or to become involved in the management of, any issuer, subject to the Fund obtaining an exemption from the investment restrictions contained in section 2.2 of NI 81-102;
- (e) the Fund will not borrow an amount exceeding 20% of the total assets of the Fund or guarantee the obligations of any person other than the Manager, and then only in respect of the activities of the Fund;
- (f) the Fund will not invest in or use derivative instruments other than: (i) for hedging purposes in a manner consistent with its investment objective, or (ii) for non-hedging purposes in a manner

consistent with its investment objective to a maximum of 10% of the net asset value (“Net Asset Value” or “NAV”) of the Fund;

- (g) the Fund will ensure that the absolute value of all short positions will not exceed 10% of the NAV of the Fund on a daily marked-to-market basis. This 10% limit, however, does not apply to short sales of securities or short positions maintained by the Fund for the purposes of hedging (as defined in NI 81-102);
- (h) the Fund will not make or hold any investment or undertake any activity that would result in the Fund failing to qualify as a “mutual fund trust” within the meaning of the Tax Act;
- (i) the Fund will not:
  - (i) hold “securities” of a “subject entity”, other than a “portfolio investment entity” (each as defined in the SIFT Rules, as defined below under “Income Tax Considerations”), if, together with all of the securities that the Fund holds of entities affiliated with the particular subject entity, such securities have a total fair market value that is greater than 50% of the equity value of the Fund for the purposes of the Tax Act;
  - (ii) acquire any property that is a “Canadian real, immovable or resource property” for purposes of the Tax Act if at any time in the taxation year the total fair market value of such property held by the Fund is greater than 50% of the equity value of the Fund for the purposes of the Tax Act; and
  - (iii) hold property that the Fund, or a person or partnership with whom the Fund does not deal at arm’s length, uses at that time in the course of a business carried on in Canada;
- (j) the Fund will not invest in or hold (i) securities of or an interest in any non-resident entity, an interest in or a right or option to acquire such property, or an interest in a partnership which holds any such property if the Fund (or the partnership) would be required to include any significant amounts in income pursuant to section 94.1 of the Tax Act, (ii) any interest in a non-resident trust other than an “exempt foreign trust” for the purposes of section 94 of the Tax Act, or (iii) an interest in a trust (or a partnership which holds such an interest) which would require the Fund (or the partnership) to report income in connection with such interest pursuant to section 94.2 of the Tax Act;
- (k) the Fund will not invest in any security that is a “tax shelter investment” within the meaning of section 143.2 of the Tax Act;
- (l) the Fund will not make or hold any investment that would be “taxable Canadian property” of the Fund (as such term is defined in the Tax Act (if the definition were read without reference to paragraph (b) thereof)), if it would result in more than 10% of the Fund’s property consisting of such property;
- (m) with the exception of securities of the Fund’s own issue, the Fund will not purchase securities from, sell securities to, or otherwise contract for the acquisition or disposition of securities with the Manager or any of its affiliates, officers, directors or shareholders of the Manager, with any person, trust, firm or corporation managed by the Manager or any of its affiliates or with any firm or corporation in which any officer, director or shareholder of the Manager may have a material interest (which, for these purposes, includes beneficial ownership of more than 10% of the voting securities of such entity) unless, with respect to any such purchase or sale of securities, the purchase



price approximates the prevailing market price and such transaction is otherwise in accordance with applicable laws;

- (n) the Fund will not engage in securities lending that does not constitute a “securities lending arrangement” for purposes of the Tax Act; and
- (o) the Fund will not enter into any arrangement where the result is a dividend rental arrangement for purposes of the Tax Act (including any amendments to such definition).

The Fund will not be considered to have breached the investment restrictions set forth above and will not be required to dispose of any security in the Portfolio as a result of redemptions or later changes to the value of such security, the Portfolio or the total assets of the Fund as a whole (except for the restrictions in paragraphs (h) to (l) above which must be complied with at all times and which may necessitate the sale of Portfolio securities from time to time) so long as any percentage restriction on investment or use of assets set forth above was adhered to at the time of purchase. If the Fund receives from an issuer subscription rights to purchase Portfolio securities of that issuer, and if the Fund exercises those subscription rights at a time when the Fund’s holdings of Portfolio securities of that issuer would otherwise exceed the limits set forth above, the exercise of those rights will not constitute a violation of the investment restrictions if, prior to the receipt of Portfolio securities on exercise of those rights, the Fund has sold at least as many Portfolio securities of the same class and value as would result in the Fund complying with the restriction.

Unitholder approval is required to change the investment objective or investment restrictions of the Fund. See “Declaration of Trust and Description of Units – Matters Requiring Unitholder Approval”.

### **Investment Strategy of the Fund**

The Fund has been created to invest in an actively managed Portfolio comprised primarily of publicly traded issuers and private issuers that derive a significant portion of their revenue or earnings from medical and healthcare products and/or services. The Fund will be invested primarily in publicly traded healthcare equity securities (the “Public Portfolio”), but may also invest up to 20% of the Fund’s total assets in private equity investments (the “Private Portfolio”). It is expected that the Public Portfolio will be comprised of securities of 20 to 30 large, mid and small capitalization publicly-listed Healthcare Issuers based in developed markets.

Through the Private Portfolio, the Manager will seek to enhance returns by investing in “late-stage” private equity investments in healthcare and healthcare related businesses. “Late-Stage” means an investment in a revenue-generating or soon-to-be revenue-generating business that is expected to go public or achieve another liquidity event within 12 to 24 months following the initial investment. The goal of the Manager is to provide investors with exposure to a limited number of investments in the Private Portfolio that it believes have potential for significant upside because the Fund will be investing at “pre-initial public offering” prices. The Fund expects to make Private Portfolio investments at a point where the capital will be used to grow revenues of the healthcare business investee company. The healthcare business investee company may then seek to raise additional capital in public markets, or in some instances consider a sale of the business to a strategic or financial buyer.

### **Loan Facility**

The Fund may enter a loan facility (the “Loan Facility”) with one or more Canadian chartered banks or affiliates thereof (the “Lender”). The Lender will be at arm’s length to the Fund and the Manager and their respective affiliates and associates but may be affiliated with one of the Agents (as defined under “Conflicts of Interest”).

The Loan Facility will permit the Fund to borrow an amount not exceeding 20% of the total assets of the Fund, which borrowing may be used for various purposes, including purchasing additional securities for the Portfolio and maintaining liquidity. The interest rates, fees and expenses under the Loan Facility will be typical of credit facilities of this nature and the Fund expects that the Lender will require the Fund to provide a security interest in favour of the Lender over the assets of the Fund to secure such borrowings. The Fund will monitor its use of leverage and, based on factors such as changes in interest rates, the Manager's economic outlook and the composition of the Portfolio, the Fund may from time to time alter the amount of leverage it employs. The maximum amount of leverage that the Fund could employ through the Loan Facility is 1.2:1.

The Loan Facility will contain provisions to the effect that in the event of a default under the loan, the Lender's recourse will be limited solely to the assets of the Fund. Such provisions are intended to ensure that Unitholders will not be liable for the obligations of the Fund under the Loan Facility. Other than borrowing by the Fund under the Loan Facility, the Fund does not contemplate engaging in other borrowings.

The Manager has entered in an agreement appointing the Fund's custodian as lending agent pursuant to terms set out under section 12.15(4) of National Instrument 81-102 *Investment Funds* ("NI 81-102"). Under the terms of that agreement, the custodian is required to comply with securities lending conditions set out under paragraph 12.12 of NI 81-102.

The Fund may enter into securities lending transactions, repurchase transactions and reverse repurchase transactions, as permitted under NI 81-102. The Custodian or a sub-custodian of the Fund will act as the agent for the Fund in administering the securities lending, repurchase and reverse repurchase transactions of the Fund. The risk associated with these transactions will be managed by requiring the Fund's agent enter into such transactions for the Fund with reputable and well-established Canadian and foreign brokers, dealers and institutions. The agent is required to maintain internal controls, procedures and records including a list of approved third parties based on generally accepted creditworthiness standards, transaction and credit limits for each third party, and collateral diversification standards. Each day, the agent will determine the market value of both the securities loaned by the Fund under a securities lending transaction or sold by the Fund under a repurchase transaction and the cash or collateral held by the Fund for such transactions. If on any day the market value of the cash or collateral is less than 102% of the market value of the borrowed or sold securities, on the next day the borrower will be required to provide additional cash or collateral to the Fund to make up the shortfall.

## **Securities Lending**

In order to generate additional returns, the Manager may lend securities included in the Portfolio to securities borrowers acceptable to the Fund pursuant to the terms of a securities lending agreement between the Fund and such borrower (each a "Securities Lending Agreement"). Under a Securities Lending Agreement (i) 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, (ii) the securities loans must qualify as "securities lending arrangements" for the purposes of the Tax Act, and (iii) the Fund will receive collateral security. The terms of each Securities Lending Agreement will comply with the conditions for securities lending transactions set out in section 2.12 of NI 81-102. See "Risk Factors – Securities Lending".

## Foreign Currency Hedging

The Portfolio includes securities which are denominated in currencies other than the Canadian dollar (any such currencies being “foreign currencies”) and, accordingly, the Fund will be exposed to foreign currency risk. The Manager, on behalf of the Fund, does not currently intend to hedge its exposure to foreign currencies back to the Canadian dollar; however it may hedge all or part of such foreign currency exposure from time to time. The decision as to whether the Fund’s exposure to foreign currencies will be hedged back to the Canadian dollar, and the amount of such exposure to be hedged, will depend on such factors as prevailing exchange rates, the Manager’s economic outlook for the healthcare sector in Canada and globally and a comparison of the costs associated with such hedging transactions against the benefits expected to be obtained therefrom. See “Risk Factors – Foreign Currency Exposure” and “Risk Factors – Hedging Risks”.

## DECLARATION OF TRUST AND DESCRIPTION OF UNITS

The beneficial interest in the net assets and net income of the Fund is divided into two classes of units: Class A Units and Class U Units. The Fund is authorized to issue an unlimited number of units of each class. The Class A Units are designed for investors wishing to make their investment in Canadian dollars and the Class U Units are designed for investors wishing to make their investment in U.S. dollars. Each Unit entitles the holder to the same rights and obligations as a Unitholder and no Unitholder is entitled to any privilege, priority or preference in relation to any other holder of Units, subject to Unitholders of each class being entitled to distributions or redemptions based on the NAV of the Units of a particular class. Each Unitholder is entitled to one vote for each Unit held and is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net realized capital gains, if any. On the redemption of Units, however, the Fund may in its sole discretion, designate as payable to redeeming Unitholders any capital gains of the Fund incurred by it to fund the payment of the redemption price. On termination or liquidation of the Fund, the Unitholders of record are entitled to receive on a pro rata basis all of the assets of the Fund remaining after payment of all debts, liabilities and liquidation expenses of the Fund. Unitholders will have no voting rights in respect of securities held by the Fund.

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

The Declaration of Trust provides that the Fund will only issue additional Units following the initial Offering of Class A Units and Class U Units (other than pursuant to any warrants or rights issued by the Fund to existing Unitholders, or any distribution reinvestment plan which may be established by the Fund): (i) for net proceeds per Unit of a class of not less than 100% of the NAV per Unit of that class most recently calculated prior to setting the subscription price for such issuance, (ii) by way of Unit distributions or any offering of rights, warrants or options to acquire Units to all Unitholders, (iii) with the approval of Unitholders voting together and voting separately as a class by Extraordinary Resolution (defined below under “Declaration of Trust and Description of Units – Matters Requiring Unitholder Approval”), or (iv) pursuant to a distribution reinvestment plan. Immediately after a *pro rata* distribution of Units of a class to all Unitholders of that class in satisfaction of any non-cash distributions allocable *pro rata* to that class, the number of outstanding Units of that class will be consolidated such that each Unitholder will hold, after the consolidation, the same number of Units of that class as the Unitholder held before the non-cash distribution, except in the case of a non-resident Unitholder to the extent tax was required to be withheld in respect of the distribution. Subject to the foregoing, the Fund may allot and issue additional Units and

additional classes of units and other securities of the Fund at such time or times, and in such manner, as the Manager in its sole discretion shall determine.

### **Purchase for Cancellation**

The Declaration of Trust provides that the Fund may, in its sole discretion, from time to time, purchase (in the open market or by invitation for tenders) Units for cancellation subject to applicable law and stock exchange requirements, based on the Manager's assessment that such purchases are accretive to Unitholders, in all cases at a price per Unit not exceeding the most recently calculated NAV per Unit immediately prior to the date of any such purchase of Units. It is expected that these purchases will be made as normal course issuer bids through the facilities and under the rules of the TSX or such other exchange or market on which the Units are then listed.

### **Take-over Bids**

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

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

### **Meetings of Unitholders**

A meeting of Unitholders may be convened by the Manager at any time and must be convened if requisitioned by the holders of not less than 25% of the Units then outstanding by a written requisition specifying the purpose of the meeting. Not less than 21 days and not more than 50 days' notice will be given of any meeting of Unitholders. The quorum at any meeting of all Unitholders is two Unitholders present in person or by proxy holding not less than 5% of the outstanding Units, except for the purpose of any meeting called by Unitholders to consider item (c) under "Declaration of Trust and Description of Units – Matters Requiring Unitholder Approval" in which case the quorum shall be Unitholders holding 25% of the outstanding Units. If no quorum is present at any meeting when called, the meeting, if called on the requisition of Unitholders, will be terminated and otherwise will be adjourned for not less than 10 days and at the adjourned meeting the Unitholders then present in person or represented by proxy will form the necessary quorum. At any meeting of Unitholders, each Unitholder will be entitled to one vote for each Unit registered in the Unitholder's name.

The Fund does not intend to hold annual meetings of Unitholders.

## **Matters Requiring Unitholder Approval**

Any matter to be considered at a meeting of Unitholders, other than certain matters requiring the approval by a resolution passed by the affirmative vote of at least 66 2/3% of the votes cast either in person or by proxy at a meeting of Unitholders called for the purpose of considering such resolution (an “Extraordinary Resolution”) as set out below, will require the approval of Unitholders by a resolution passed by holders of not less than 50% of the Units voting thereon at a meeting duly convened for the consideration of such matter.

In addition to matters that require Unitholder approval pursuant to NI 81-102, certain matters will require the approval of Unitholders by Extraordinary Resolution. The following matters may be undertaken only with the approval by an Extraordinary Resolution:

- (a) a change in the investment objective or investment restrictions of the Fund, unless such change is necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;
- (b) any change in the basis of the calculation of a fee or expense charged to the Fund by the Trustee or the Manager in a way that will result in an increase in charges to the Fund;
- (c) a change of the Trustee of the Fund, other than a change resulting in an affiliate of such person assuming such position or a change to a registered trust company;
- (d) a reorganization (other than a Permitted Merger, as defined below) with, or transfer of assets to, another entity if the Fund ceases to continue after the reorganization or transfer of assets;
- (e) a reorganization (other than a Permitted Merger) with, or acquisition of assets of, another entity if the Fund continues after the reorganization or acquisition of assets and the transaction would be a material change to the Fund; or
- (f) a termination of the Fund, other than as described under “Termination of the Fund”.

In addition, the Manager may, without obtaining Unitholder approval, merge the Fund (a “Permitted Merger”) with another fund or funds in accordance with applicable laws. If the Manager determines that a merger is a Permitted Merger, the Manager can effect the merger, including any required changes to the Declaration of Trust, without seeking Unitholder approval for the merger or such amendments. If a decision is made to merge, the Manager will send Unitholders written notice at least 60 days prior to the proposed effective date thereof disclosing details of the proposed merger. While the funds to be merged will have similar investment objective, the funds may have different investment strategies, guidelines and restrictions and, accordingly, the units of the merged funds will be subject to different risk factors.

The Unitholders will also be permitted to vote on any modification, amendment, alteration or deletion of rights, privileges or restrictions attaching to the Units which would have a material adverse effect on the interest of the Unitholders. No amendment may be made to the Declaration of Trust which would have the effect of reducing the expenses reimbursable to the Manager or terminating the Manager unless the Manager, in its sole discretion, consents.

## **Amendments to the Declaration of Trust**

The Trustee at the request of the Manager may, without the approval of or notice to Unitholders, amend the Declaration of Trust for certain limited purposes specified therein, including to:

- (a) remove any conflicts or other inconsistencies which may exist between any terms of the Declaration of Trust and any provisions of any law or regulation applicable to or affecting the Fund;
- (b) make any change or correction in the Declaration of Trust which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained therein;
- (c) bring the Declaration of Trust into conformity with applicable laws, rules and policies of Canadian securities regulators or with current practice within the securities industry, provided that any such amendment does not adversely affect the pecuniary value of the interests of the Unitholders;
- (d) maintain the status of the Fund as a “mutual fund trust” for the purposes of the Tax Act or to respond to amendments to the Tax Act or to the interpretation thereof;
- (e) change the name of the Fund;
- (f) provide added protection or benefit to Unitholders;
- (g) divide the capital of the Fund into one or more series of Units and to establish the attributes of each series, provided that the rights of existing Unitholders are not changed in an adverse manner;
- (h) create one or more new class or classes of units of the Fund having rights or privileges inferior to or equal to the outstanding units of any class and make amendments to the Declaration of Trust related thereto, provided that the rights of existing Unitholders are not changed in an adverse manner;
- (i) terminate the Fund without Unitholder approval as set forth under the heading “Termination of the Fund”; and
- (j) make any changes to effect a Permitted Merger.

Except for changes to the Declaration of Trust that require the approval of Unitholders or changes described above that do not require approval of or prior notice to Unitholders, the Declaration of Trust may be amended from time to time by the Trustee, at the request of the Manager. These amendments made by the Trustee without the consent of Unitholders must be disclosed in the next regularly scheduled report to Unitholders. Such amendments may be made only if they will not materially adversely affect the interest of any Unitholder.

The Manager may also amend the Declaration of Trust without the consent of the Unitholders for the purpose of changing the Fund’s taxation year-end as permitted under the Tax Act or providing the Fund with the right to acquire Units from any Unitholder for the purpose of maintaining the status of the Fund as a “mutual fund trust” for purposes of the Tax Act.

### **Distributions**

The Manager may determine to pay a cash distribution to Unitholders. Such determination will be based upon prevailing market conditions and cash flow generated from the Portfolio. There can be no assurance that the Manager will make any such declaration relating to cash distributions or repurchase of Units.

If, in any taxation year, after payment of any distributions paid on the Units, there would otherwise remain in the Fund additional net income or net realized capital gains, the Fund will pay or make payable, on the last day of that taxation year to Unitholders of record on that date, a special distribution of such portion of the remaining net income and net realized capital gains on the Units as is necessary to ensure, to the extent permitted under the Tax Act, that the Fund will not be liable for income tax thereon under Part I of the Tax Act for such taxation year. However, if in a particular taxation year, the Fund is considered to be a “SIFT trust” (as defined in the Tax Act), it will generally not be entitled to deduct any amount in respect of its “non-portfolio earnings” (as defined in the Tax Act), and may be liable to income tax under Part I of the Tax Act thereon. Such distributions may be made in Units and/or cash. A distribution payable in Units will increase the aggregate adjusted cost base to the Unitholders of their Units. Immediately following payment of such distribution in Units, the number of Units outstanding will be automatically consolidated such that the number of Units outstanding will be equal to the number of Units outstanding immediately prior to such payment, except in the case of a non-resident Unitholder to the extent tax was required to be withheld in respect of the distribution. See “Income Tax Considerations”.

### **Termination of the Fund**

The Fund does not have a fixed termination date. However, the Fund may be terminated at any time upon not less than 90 days’ written notice by the Manager provided that the prior approval of Unitholders has been obtained by a majority vote at a meeting of Unitholders called for that purpose. In addition, the Manager may, in its discretion, after 60 days’ written notice to Unitholders, terminate the Fund without the approval of Unitholders if, in the opinion of the Manager, the NAV of the Fund is reduced so that it is no longer economically feasible to continue the Fund. Upon termination, the net assets of the Fund will be distributed to Unitholders on a pro rata basis. The date of termination of the Fund is the “Termination Date”.

Upon termination of the Fund, the net assets of the Fund (after all liabilities of the Fund have been satisfied or appropriately provided for) will be distributed pro rata to the Unitholders. Prior to the Termination Date, the Manager will, to the extent practicable and other than in the event that the Fund is terminated pursuant to a merger, combination or other consolidation, convert the assets of the Fund to cash. The Manager may, in its discretion and upon not less than 30 days’ prior written notice to Unitholders by press release, extend the Termination Date by a maximum of 180 days if the Manager would be unable to convert all the Fund’s assets to cash and the Manager determines that it would be in the best interests of the Unitholders to do so. Should the liquidation of certain securities not be practicable or should the Manager consider such liquidation not to be appropriate prior to the Termination Date, such securities may be distributed to Unitholders in kind rather than in cash subject to compliance with any securities or other laws applicable to such distributions. In the case of termination pursuant to a merger, combination or other consolidation, the distribution may be made in the securities of the resulting or continuing investment fund. Following any such distribution, the Fund will be dissolved.

## **REDEMPTION OF UNITS**

### **Annual Redemptions**

Units may be redeemed on the second last Business Day (as defined below) of July (the “Annual Redemption Date”) in any year. Units must be properly surrendered for redemption at least 30 days prior to an Annual Redemption Date in each year. Unitholders whose Units are redeemed on the Annual Redemption Date will receive a redemption price per Unit equal to 100% of NAV per Unit of the applicable class on an Annual Redemption Date (less any costs associated with the redemption including brokerage costs).

Payment of the redemption price will be made in cash on or before the 15th day following the Annual Redemption Date, subject to the Manager's right to suspend redemptions in certain circumstances. Concurrently with the payment of the redemption price, the Fund may allocate and designate as payable to the redeeming Unitholder a cash distribution in the amount of the net realized capital gains of the Fund incurred by it to fund the payment of the redemption price. Any such allocation and designation will reduce the redemption price otherwise payable to the redeeming Unitholder. The NAV per Unit will vary depending on a number of factors. See "Risk Factors".

### **Monthly Redemptions**

In addition to the annual redemption right, Unitholders may surrender Units at any time for redemption on the second last Business Day (a "Business Day" being a day other than a Saturday, Sunday or statutory holiday in Toronto, Ontario or any other day the Toronto Stock Exchange is not open for trading) in a month (a "Monthly Redemption Date"), subject to certain conditions. In order to effect such a redemption, the Units must be surrendered by no later than 5:00 p.m. (Toronto time) on the date which is the last Business Day of the month preceding the Monthly Redemption Date.

Unitholders surrendering a Class A Unit for redemption on a Monthly Redemption Date will receive a redemption price equal to the lesser of (a) 95% of the "weighted average trading price" of the Class A Units on the principal market on which the Class A Units are quoted for trading (currently the TSX) during the 15 trading days preceding the applicable Monthly Redemption Date; and (b) the "closing market price" of the Class A Units on the principal market on which the Class A Units are quoted for trading on the applicable Monthly Redemption Date (the "Monthly Redemption Amount" less, in each case, any costs associated with the redemption, including brokerage costs).

Unitholders surrendering a Class U Unit for redemption on a Monthly Redemption Date will receive in U.S. dollars an amount equal to the U.S. dollar equivalent of the product of (i) the Monthly Redemption Amount and (ii) a fraction, the numerator of which is the most recently calculated NAV per Unit of a Class U Unit and the denominator of which is the most recently calculated NAV per Unit of a Class A Unit, less any costs associated with the redemption, including brokerage costs. For such purpose, the Fund will utilize the WM/Reuters closing spot U.S. dollar/Canadian dollar exchange rate (or, if for any reason this rate of exchange is not available, such other published rate selected by the Manager) current at, or as nearly as practicable to, the Monthly Redemption Date in respect of a monthly redemption of Class U Units.

Notwithstanding the Monthly Redemption Amount formula above, at no time will the Monthly Redemption Amount be greater than the NAV per Unit as determined on the Monthly Redemption Date for each Unit being redeemed on such Monthly Redemption Date.

Payment of the redemption price will be made in cash on or before the 15th day following such Monthly Redemption Date, subject to the Manager's right to suspend redemptions in certain circumstances. Concurrently with the payment of the redemption price, the Fund may allocate and designate as payable to the redeeming Unitholder a cash distribution in the amount of the net realized capital gains of the Fund incurred by it to fund the payment of the redemption price. Any such allocation and designation will reduce the redemption price otherwise payable to the redeeming Unitholder. See "Risk Factors".

### **Exercise of Redemption Right**

A Unitholder who desires to exercise redemption privileges must do so by causing a CDS Participant to deliver to CDS on behalf of the Unitholder a written notice of the Unitholder's intention to redeem Units by no later than 5:00 p.m. (Toronto time) on the applicable notice date specified above. A Unitholder who desires to redeem Units should ensure that the CDS Participant is provided with notice of his, her or its



intention to exercise his, her or its redemption privilege sufficiently in advance of the notice deadline so as to permit the CDS Participant to deliver notice to CDS by the required time. The form of redemption notice will be available from a CDS Participant or CDS. Any expense associated with the preparation and delivery of redemption notices will be for the account of the Unitholder exercising the redemption privilege.

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

Any redemption notice delivered by a CDS Participant regarding a Unitholder’s intent to redeem 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 redemption privilege to which it relates shall be considered, for all purposes, not to have been exercised thereby. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with a Unitholder’s instructions will not give rise to any obligations or liability on the part of the Fund, the Trustee or the Manager to the CDS Participant or to the Unitholder.

### **Suspension of Redemptions**

The Manager may suspend the redemption of Units or payment of redemption proceeds: (i) during any period when normal trading is suspended on stock exchanges or other markets on which securities owned by the Fund are listed and traded, if these securities represent more than 50% by value or underlying market exposure of the total assets of the Fund without allowance for liabilities and if these securities are not traded on any other exchange that represents a reasonably practical alternative for the Fund or (ii) with the consent of the securities regulatory authorities. The suspension may apply to all requests for redemption received prior to the suspension, but for which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders who have requested redemptions shall have and shall be advised that they have the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first Business Day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. If, due to a suspension of redemptions, the Fund is unable to pay for all of the Units properly surrendered for redemption on or before a date on which the payment in respect of redemptions is to be made, it will redeem such Units as soon as practicable after the date on which it is able to do so. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by the Manager shall be conclusive.

### **Non-resident Unitholders**

The Fund was not established and shall not be maintained primarily for the benefit of one or more non-resident persons within the meaning of the Tax Act. At no time may non-residents of Canada and partnerships (other than “Canadian partnerships” as defined in the Tax Act) be the beneficial owners of more than 50% of the units of the Fund (on a number of units or fair market value basis) and the Trustee shall inform the registrar and transfer agent of this restriction. The Trustee may require a declaration as to the jurisdiction in which a beneficial owner of units of the Fund is resident and, if a partnership, as to its status as a “Canadian partnership”. If the Trustee becomes aware, as a result of requiring such declarations

as to beneficial ownership or otherwise, that the beneficial owners of 40% or more of the units of the Fund then outstanding (on a number of units or fair market value basis) are, or may be, non-residents and/or partnerships (other than “Canadian partnerships”), or that such a situation is imminent, the Trustee may make a public announcement thereof and the Trustee may send a notice to such non-resident persons and partnerships, chosen in inverse order to the order of acquisition or in such manner as the Trustee may consider equitable and practicable, requiring them to dispose of their units of the Fund or a portion thereof to residents of Canada within a specified period of not less than 30 days. If the persons receiving such notice have not disposed of the specified number of units of the Fund or provided the Trustee with satisfactory evidence that they are not non-residents or partnerships (other than “Canadian partnerships”) within such period, the Trustee may redeem or, on behalf of such persons, dispose of such units of the Fund. Upon such redemption or sale, the affected persons shall cease to be beneficial owners of units of the Fund and their rights shall be limited to receiving the redemption price or the net proceeds of sale of such units of the Fund.

Notwithstanding the foregoing, the Manager may determine not to take any of the actions described above if the Manager has been advised by legal counsel that the failure to take any of such actions would not adversely impact the status of the Fund as a mutual fund trust for purposes of the Tax Act or, alternatively, may take such other action or actions as may be necessary to maintain the status of the Fund as a mutual fund trust for purposes of the Tax Act.

## **CALCULATION OF NET ASSET VALUE**

### **Valuation of Assets**

The NAV of the Fund on a particular date will be equal to the value of the total assets of the Fund less the aggregate value of the liabilities of the Fund, in each case expressed in Canadian dollars. The Manager will review and, if satisfactory, approve the valuation and will, from time to time, consider the appropriateness of the valuation policies adopted by the Fund, as such policies are modified from time to time in the discretion of the Manager, acting reasonably, and in the best interests of Unitholders.

### **Net Asset Value**

The NAV per Unit on any particular date shall be calculated on each Business Day (each such day a “Valuation Date”). The NAV per Unit for each class of Units of the Fund is determined as at 4:00 pm (Toronto time) on each Valuation Date. Such values are also calculated as of December 31<sup>st</sup> in each year (if not otherwise a Valuation Date) for the purposes of the distribution of net income and net realized capital gains of the Fund to Unitholders. The Net Asset Value of the Fund and of each class are also calculated as of any such other day or days as determined from time to time by the Manager.

The Net Asset Value per Unit of any class of Units of the Fund on a Valuation Date will be obtained by dividing (i) the then fair market value of the assets of the Fund less the aggregate amount of its accrued liabilities, including any income, net realized capital gains or other amounts made payable to Unitholders on or before such Valuation Date, in each case attributable to that class of Units, by (ii) the total number of Units of the class outstanding at the time the calculation is made on the Valuation Date. The estimated operating expenses shall be accrued to the date as of which the NAV is being determined. The result is adjusted to a maximum of four decimal places.

### **Valuation Policies and Procedures of the Fund**

In determining the NAV at any time:

- (a) the value of any cash on hand or on deposit, bills and demand notes, accounts receivable, prepaid expenses, dividends and distributions receivable, other receivables and interest accrued and not yet received, shall be deemed to be the full amount thereof, provided that: (i) the value of any security which is a debt obligation which, at the time of acquisition, had a remaining maturity of one year or less shall be the amount paid to acquire the obligation plus the amount of any interest accrued on such obligation since the time of acquisition (for this purpose, interest accrued will include amortization over the remaining term to maturity of any discount or premium from the face value of an obligation at the time of its acquisition); (ii) any interest or other amount due in respect of an obligation in respect of which an issuer has ceased paying interest on or has otherwise defaulted shall be excluded from such calculation; and (iii) if the Manager has determined that any such deposit, bill, demand note or receivable is not otherwise worth the full amount thereof, the value thereof shall be deemed to be such value as the Manager reasonably determines to be the fair value thereof;
- (b) the value of any security which is listed or traded upon a stock exchange (or if more than one, on the stock exchange in which the security primarily trades, as determined by the Manager) shall be determined by taking the latest available sale price of recent date on the stock exchange in which the security primarily trades, or lacking any recent sales or any record thereof, the simple average of the latest available ask price and the latest available bid price (unless in the opinion of the Manager any such price does not reflect the value thereof and in which case the Manager will value such securities on such reasonable basis as it may determine to be appropriate), as at the day as of which the NAV is being determined, all as reported by any means in common use, or by using such price as may otherwise be prescribed by applicable regulations or rules (including pursuant to International Financial Reporting Standards if so required);
- (c) the value of any security, which is not listed or traded on a stock exchange or the resale of which is restricted by reason of a representation, undertaking or agreement by the Fund (or by the Fund's predecessor in title) or by law shall be determined on the basis of such price or yield equivalent quotations (which may be public quotations or may be obtained from major market makers) as the Manager reasonably determines best reflects fair value;
- (d) the value of a forward contract shall be the gain or loss with respect thereto that would be realized if, on the day as of which NAV is being determined, the position in 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;
- (e) margin paid or deposited in respect forward contracts shall be reflected as an account receivable, and margin consisting of assets other than cash shall be noted as held as margin;
- (f) the value of any bonds, debentures and other debt obligations will be determined by taking the average of the bid and ask prices quoted by a major dealer or recognized information provider in such securities at consistent times on a Valuation Date. Short-term investments including notes and money market instruments will be valued at cost plus accrued interest;
- (g) if the day as of which NAV is being determined is not a Business Day, then the securities comprising the Portfolio and other Fund property will be valued as if such day were the preceding Business Day;
- (h) the value of all assets of the Fund quoted or valued in terms of foreign currency, the value of all funds on deposit and contractual obligations payable to the Fund in foreign currency and the value of all liabilities and contractual obligations payable by the Fund in foreign currency shall be

determined using the prevailing rate of exchange as determined by the Manager, on the day as of which NAV is being determined; and

- (i) the value of any security or other asset for which no published market exists, including securities in the Private Portfolio, will be determined by the Manager in accordance with the following:
  - (i) such securities or other assets will normally be carried at cost unless:
    - (1) there is an arm's length transaction which in the Manager's reasonable opinion establishes a different value, or
    - (2) a material change in the value of an issuer occurs, including as a result of a write-down of its assets on its audited balance sheet or the preparation of a valuation of the issuer or of a substantial portion of its assets by a qualified independent person, in which event the value will be increased or decreased, as appropriate, to the resulting fair value; and
  - (ii) if there is an arm's length bona fide enforceable offer to purchase all or a substantial portion of an issuer's outstanding securities or its assets, the Fund's securities will be valued based upon the proposed transaction price.

In calculating the NAV of the Fund, the Fund will generally value its investments based on the market value of its investments at the time the NAV of the Fund is calculated. If no market value is available for an investment of the Fund or if the Manager determines that such value is inappropriate in the circumstances (i.e., when the value of an investment of the Fund has been materially changed by effects occurring after the market closes), the Manager will value such investments using methods that have generally been adopted by the marketplace. Fair valuing the investments of the Fund may be appropriate if: (i) market quotations do not accurately reflect the fair value of an investment; (ii) an investment's value has been materially affected by events occurring after the close of the exchange or market on which the investment is principally traded; (iii) a trading halt closes an exchange or market early; or (iv) other events result in an exchange or market delaying its normal close. The risk in fair valuing an investment of the Fund is that the value of the investment may be higher or lower than the price that the Fund may be able to realize if the investment had to be sold.

### **Reporting of Net Asset Value**

The NAV per Unit for each class of Units will be calculated as of each Valuation Date. The NAV per Unit for each class of Units so determined will remain in effect until the time at which the next determination of NAV per Unit is made. The calculated NAV per Unit for each class of Units will be made available to Unitholders on request at no cost by calling (416) 362-4141 or through the Internet at [www.ldic.ca](http://www.ldic.ca).

### **Suspension of Calculation of Net Asset Value**

The Manager may suspend the calculation of the NAV and the NAV per Unit of each class of Units for the whole or any part of a period during which the right to redeem Units is suspended.

### **Information and Reports to Unitholders**

The fiscal year end of the Fund is December 31st. The Fund will deliver to Unitholders annual audited and interim unaudited financial statements of the Fund and other reports as from time to time are required by applicable law. Each Unitholder will be mailed annually, within the first 90 days of the year, information

necessary to enable such holder to complete a Canadian federal income tax return with respect to amounts paid or payable by the Fund in respect of the preceding taxation year of the Fund. See “Income Tax Considerations”.

Prior to any meeting of Unitholders, the Fund will provide to Unitholders, together with the notice of such meeting, all such information as is required by applicable law to be provided to such Unitholders.

## **RISK FACTORS**

An investment in the Fund involves risks. Certain risk factors relating to the Fund and the Units are described below. Additional risks and uncertainties not currently known to the Manager, or that are currently considered immaterial, may also impair the operations of the Fund. An investment in the Fund is appropriate only for investors who have the capacity to absorb a loss on their investment and who can withstand the effect of potentially having no distribution being paid in any period. As the value of the Units of the Fund will be based upon the value of the Portfolio, risks relating to the Portfolio will affect investors in the Fund. In addition to the conditions set out elsewhere in this annual information form, the following are certain risk factors and considerations related to the Fund which prospective investors should consider before purchasing Units:

### **No Assurances on Achieving Investment Objective**

There is no assurance that the Fund will be able to achieve its investment objective. Furthermore, there is no assurance that the Fund will be able to pay distributions in the short or long term, nor is there any assurance that the NAV will appreciate or be preserved. Changes in the weightings of securities held by the Fund in the Portfolio resulting from stock price movements can affect the overall yield to Unitholders.

### **Loss of Investment**

Investment in the Fund carries with it the possibility that the investor will experience an investment loss or that no distribution will be made at any time.

### **No Guaranteed Return**

There is no guarantee that an investment in the Fund will earn any positive return in the short or long term.

### **Equity Securities Risk**

Equity securities such as common shares or units of income trusts give the holder part ownership in the issuer. The value of an equity security changes with the fortunes of the issuer that issued it. General market conditions and the health of the economy as a whole can also affect equity prices. Further continued volatility or illiquidity could impair materially the profitability of these issuers.

The Fund will be subject to the risks inherent in investments in equity securities, including the risk that the financial condition of the issuers in which the Fund invests may become impaired or that the general condition of the stock markets may deteriorate. Equity securities are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in, and perceptions of, the issuers change. In addition, issuers of equity securities may reduce or eliminate dividends.

## **Illiquid Securities and Private Securities**

There is no assurance that an adequate market will exist for the securities held in the Portfolio, including Private Securities. The Fund cannot predict whether the securities held by it will trade at a discount to, a premium to, or at their fair value, if applicable. If the market for a specific security is particularly illiquid, the Fund may be unable to dispose of such securities or may be unable to dispose of such securities at an acceptable price. In addition, if the Manager is unable, or determines that it is inappropriate, to dispose of some or all of the securities held in the Portfolio prior to the date of the termination of the Fund, Unitholders may, subject to applicable laws, receive distributions of Portfolio securities in specie for which there may be an illiquid market or which may be subject to resale restrictions of indefinite duration.

Up to 20% of the Fund's total assets may be invested in Private Securities. The Fund's Private Securities will typically be held in companies that are small in size, and are therefore subject to greater risk based upon economic and regulatory changes. There is generally little or no publicly available information about such businesses, and the Manager must rely on the diligence of its employees and consultants to obtain the information necessary for its decision to invest in them. There can be no assurance that such diligence efforts will uncover all material information about these privately held businesses.

Investments in small companies may be riskier, more volatile and more vulnerable to economic, market and industry changes than investments in larger, more established companies. As a result, company valuations and share price changes may be more sudden or erratic than the prices of other equity securities, especially over the short term. Smaller companies may have more difficulty retaining qualified management or financing their business plans. They may not be able to raise debt or equity capital. Even when equity capital is available, investors are subjected to dilution risks. Smaller companies may have difficulty managing growth or be unable to implement their business strategy. Regulatory compliance costs may be more burdensome on small companies.

The valuation of the securities of private companies is not based upon a liquid market, and valuations of these securities may be substantially higher or lower than the valuation of the securities when and if they are traded in the public market. Therefore, the NAV of the Private Portfolio, and the Fund as a whole, may change substantially when such Private Securities become traded in the public market.

There can be no assurance that a public market will develop for any of the Private Securities or that the Fund will otherwise be able to realize a return of capital on the sale of such investments.

## **Fluctuations in Value of Securities Underlying Portfolio**

The value of the Units will vary according to the value of the securities of the Healthcare Issuers included in the Portfolio, which will depend, in part, upon the performance of such Healthcare Issuers. The performance of the Healthcare Issuers included in the Portfolio will be influenced by a number of factors which are not within the control of the Fund or the Manager, including materials and other commodity prices, operational risks relating to the specific business activities of the Healthcare Issuers, industry competition, uncertainty and costs of funding capital projects, development of new technology, protection of intellectual property, risks relating to infringement of third party intellectual property, interest rates, exchange rates, environmental, health and safety risks, political and economic risks, issues relating to government regulation and risks relating to operating in foreign jurisdictions.

## **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 and any dividends, distributions and net realized

capital gains paid thereon. Fluctuations in the market values of the securities comprising the Portfolio and fluctuations in the NAV per Unit may occur for a number of reasons beyond the control of the Manager and the Fund including factors that affect capital markets generally such as general economic and political conditions and factors unique to each issuer included in the Portfolio, such as changes in management, changes in strategic direction, achievement of strategic goals, mergers, acquisitions and divestitures, changes in distribution policies and other events that may affect the value of its securities. Some global economies have recently experienced a recession or diminished growth. No assurance can be given that such conditions will not continue or re-emerge, which may adversely affect the issuers in which the Fund from time to time may invest and the value of their securities included in the Portfolio.

### **Risk Related to Healthcare Issuers**

The Portfolio may be susceptible to factors affecting the healthcare and technology related industries and to greater risk and market fluctuations that an investment in a broader range of portfolio securities covering different economic sectors. Healthcare, technology, and technology related industries may also be subject to greater government regulation than many other industries. Accordingly, changes in government policies and the need for regulatory approvals may have a materially adverse effect on these industries. Additionally, these companies may be subject to risks of developing technologies, competitive pressures, as well as a relatively high risk of obsolescence caused by scientific and technological advances and are dependent upon consumer and business acceptance as new technologies evolve. The development of these industry-specific investments may differ from the general stock exchange trends.

### **Regulatory Risk**

The healthcare sector is highly regulated and is affected by changes in government funding. Investments in the healthcare sector may be substantially affected by changes in government policy, such as increased regulation, ownership restrictions, deregulation, reimbursement cuts or reduced government funding. There can be no assurance that future changes in government regulation of healthcare will not have a material adverse effect on the healthcare sector, which could in turn have an adverse effect on the investments of the Fund. Government funding may also be affected by legal challenges to current laws and regulations brought in various courts. Decisions by courts may be difficult to predict.

In addition, the formulation, manufacturing, packaging, labelling, handling, distribution, importation, exportation, licensing, sale and storage of the products and services of Healthcare Issuers are generally subject to extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints. Such laws, regulations and other constraints or new laws, regulations or constraints could lead to the imposition of significant penalties or claims and could negatively impact the business of Healthcare Issuers. Further, the adoption of new laws, regulations or other constraints or changes in the interpretations of such requirements may result in significant compliance costs or lead certain Healthcare Issuers to discontinue offering certain products and/or services, thereby impacting the business, financial condition, results of operations and cash flows of such Healthcare Issuers, which could in turn impact the funds available for dividends or distributions and could cause the market value of the securities of such Healthcare Issuers to decline.

### **Risks Related to Healthcare Issuers Operating in the Real Estate Sector**

Investments in Healthcare Issuers that operate in the real estate sector will be subject to the general risks associated with real property investments. Real property investments are affected by various factors, including changes in general economic conditions (such as the availability of long term mortgage funds) and in local conditions (such as oversupply of space or reduction in demand for real estate in the area), the attractiveness of the properties to tenants, competition from other available properties and various other

factors. The value of real property and any improvements thereto also may depend on the credit and financial stability of the tenants. The income of an issuer operating in the real estate sector that is available for payment to its unitholders or shareholders, as the case may be, would be adversely affected if a significant number of tenants were to become unable to meet their obligations, or if the issuer was unable to lease a significant amount of available space in its properties on economically favourable lease terms.

### **Sensitivity to Interest Rate Fluctuations**

It is anticipated that the market price for Units and the value of the Portfolio securities at any given time will be affected by the level of interest rates prevailing at such time. A rise in interest rates may have a negative effect on the market price of the Units. Unitholders who wish to redeem or sell their Units may, therefore, be exposed to the risk that the redemption price or sale price of the Units will be negatively affected by interest rate fluctuations. Increases in interest rates will also increase the Fund's costs of borrowing.

### **Use of Derivative Instruments**

The Manager has appropriate policies and procedures in place for the use of derivatives in the Funds. The Manager's Chief Investment Officer administers such policies and procedures and they are reviewed on a periodic basis by the Manager's Chief Compliance Officer. Any use of derivatives by a Fund can only be made in accordance with the limitations and restrictions set out in applicable regulatory policies, and in particular in NI 81-102.

The Fund is subject to the full risk of its investment position in the securities comprising its Portfolio should the market price of such securities decline. The use of derivative instruments involves risks different from and possibly greater than the risks associated with investing directly in such securities and other traditional investments. Derivatives are subject to a number of risks described elsewhere in this annual information form, such as liquidity risk, interest rate risk, leveraging risk, and global financial market risk. Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index

The following are some examples of the risks associated with the use of derivatives: (a) liquidity risk - in the case of over-the-counter options and forward contracts, there is no guarantee that a market will exist for these investments when the Fund wants to close out its position; in the case of exchange traded options and futures contracts, there may be a risk of a lack of liquidity when the Fund wants to close out its position; (b) counterparty risk - the Fund could experience a loss if the other party to the derivative contract is unable to fulfill its obligations; (c) credit risk - if the Fund has an open position in an options contract with a dealer that goes bankrupt, the Fund could experience a loss; (d) interest rate risk - in circumstances where there is an interest rate hedge employed, total returns on the Portfolio may be higher with the hedge than without it when interest rates rise significantly, but total returns may be lower than it otherwise would be in a stable to falling interest rate environment.

### **Portfolio Concentration Risk**

The assets of the Fund will consist primarily of securities of Healthcare Issuers. Accordingly, diversification of the Fund's investments will be limited by sector, and the securities of such issuers are likely to be adversely impacted by any downturns in the global or local economy that impacts the healthcare sector where issuers in which the Fund has invested operate. Accordingly, this Portfolio concentration may have a negative impact on the value of the Units and the general risk of the Portfolio may be increased as a result of such sector concentration.



## **Reliance on the Manager**

The Manager is responsible for providing, or arranging for the provision of, management and administrative services including investment and portfolio management services required by the Fund and hedging the Portfolio. The Manager has discretion in the composition and reconstitution of the Portfolio. As such, there is inherent risk in the Portfolio selection process. Investors who are not willing to rely on the Manager should not invest in Units.

## **Trading at a Discount and Risks Relating to Redemptions**

The Class A Units may trade in the market at a discount to the NAV per Class A Unit and there can be no assurance that the Class A Units will trade at a price equal to the NAV per Class A Unit. Units will be redeemable at 100% of the NAV per Unit of the applicable class on an Annual Redemption Date (as defined under “Redemption of Units – Annual Redemptions”). The purpose of the annual redemption right is to reduce the discount at which Class A Units trade to the NAV per Class A Unit and to provide investors with the right to eliminate entirely any trading discount once per year. While the redemption right provides investors the option of annual liquidity, there can be no assurance that it will reduce trading discounts. If a significant number of Class A Units are redeemed, the trading liquidity of the Class A Units could be significantly reduced. The Manager has the ability to terminate the Fund if, in its opinion, it would be in the best interests of the Unitholders to do so. The Manager may also suspend the redemption of Units in the circumstances described under “Redemption of Units – Suspension of Redemptions”.

## **Taxation of the Fund**

If the Fund fails or ceases to qualify as a mutual fund trust under the Tax Act, the income tax considerations described under the heading “Income Tax Considerations” would be materially and adversely different in certain respects. There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the Canada Revenue Agency (“CRA”) respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the Unitholders.

Subject to the derivative forward agreement rules discussed below, in determining the Fund’s income for tax purposes, the Fund will treat gains or losses in respect of Portfolio securities as capital gains and losses. In general, gains and losses realized by the Fund from derivative transactions, including gains realized in connection with short sales, will be on income account except where such derivatives are used to hedge Portfolio securities held on capital account provided there is sufficient linkage, subject to the derivative forward agreement rules discussed below. In addition, subject to the derivative forward agreement rules discussed below, gains or losses in respect of foreign currency hedges entered into in respect of amounts invested in the Portfolio will likely constitute capital gains or capital losses to the Fund if the Portfolio securities are capital property to the Fund and there is sufficient linkage, and designations with respect to the Fund’s income and capital gains will be made and reported to Unitholders on this basis. CRA’s practice is not to grant advance income tax rulings on the characterization of items as capital gains or income and no advance income tax ruling has been requested or obtained. If these dispositions or transactions of the Fund are determined not to be on capital account, the net income of the Fund for tax purposes and the taxable component of distributions to Unitholders could increase. Any such redetermination by the CRA may result in the Fund being liable for unremitted withholding taxes on prior distributions made to Unitholders who were not resident in Canada for purposes of the Tax Act at the time of the distribution. Such potential liability may reduce the NAV and NAV per Unit of each class.

The Tax Act contains rules (the “derivative forward agreement rules”) regarding certain financial arrangements that seek to reduce tax by converting, through the use of derivative contracts, the return on an investment that would have the character of ordinary income to capital gains. The derivative forward

agreement rules are broad in scope and could apply to other agreements or transactions (including options and certain forward currency contracts). If the derivative forward agreement rules were to apply in respect of derivatives to be utilized by the Fund, the gains realized in respect of the property underlying such derivatives could be treated as ordinary income rather than capital gains. The Fund will not write covered call options or cash covered put options that would be subject to the derivative forward agreement rules.

The Fund will be a SIFT Trust for the purposes of the SIFT Rules (as those terms are defined below under “Income Tax Considerations”) if, at any time that a class of Units are listed or traded on a stock exchange or other public market as defined in the Tax Act, the Fund holds “non-portfolio property”. If the Fund is a SIFT Trust in a particular year, any “non-portfolio earnings” (as defined for the purposes of the Tax Act) will generally be subject to tax under Part I of the Tax Act, even if distributed in full to Unitholders. If the SIFT Rules were to apply to the Fund, they may have an adverse impact on the Fund including on the distributions received by Unitholders. Provided the Fund complies with its Investment Restrictions, it will not be considered to be a “SIFT Trust”.

The Fund intends to invest in foreign securities. Many foreign countries preserve their right under domestic tax laws and applicable tax conventions with respect to taxes on income and on capital (“Tax Treaties”) to impose tax on dividends and interest paid or credited to persons who are not resident in such countries. While the Fund intends to make its investments in such a manner as to mitigate the amount of foreign taxes incurred under foreign tax laws and subject to any applicable Tax Treaties, investments in selected foreign securities may subject the Fund to foreign taxes on dividends and interest paid or credited to the Fund or any gains realized on the disposition of such securities. Any foreign taxes incurred by the Fund will generally reduce the value of the Fund and amounts payable to Unitholders. To the extent that such foreign tax paid by the Fund exceeds 15% of the amount included in the Fund’s income from such investments, such excess may generally be deducted by the Fund in computing its net income for the purposes of the Tax Act. To the extent that such foreign tax paid does not exceed 15% of such amount and has not been deducted in computing the Fund’s income and, subject to the SIFT Rules, the Fund designates its income from a foreign source in respect of a Unitholder of the Fund, the Unitholder will, for the purposes of computing its foreign tax credits, be entitled to treat the Unitholder’s proportionate share of foreign taxes paid by the Fund in respect of such income as foreign taxes paid by the Unitholder. The availability of foreign tax credits to a Unitholder is subject to the detailed rules in the Tax Act.

### **Status of the Fund**

As the Fund will not be a “mutual fund” as defined under Canadian securities laws, the Fund is not subject to certain of the Canadian policies and regulations that apply to open-end mutual funds.

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

### **No Ownership Interest**

An investment in Units does not constitute an investment by Unitholders in the securities comprising the Portfolio. Unitholders will not own the securities held by the Fund.

### **Potential Conflicts of Interest**

The Manager and its directors and officers and their respective affiliates and associates may engage in the promotion, management or investment management of other accounts, funds or trusts which invest primarily in the securities held by the Fund in the Portfolio. Although none of the directors and officers of

the Manager will devote his or her full time to the business and affairs of the Fund, each director and officer of the Manager will devote as much time as is necessary to supervise the management of (in the case of the directors) or to manage the business and affairs of (in the case of officers) the Fund and the Manager, as applicable.

### **Global Financial Developments**

Global financial markets have experienced a sharp increase in volatility in the last several years. This has been, in part, the result of the revaluation of assets on the balance sheets of international financial institutions and related securities. This has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the issuers who borrow from them. While central banks as well as global governments have worked to restore much needed liquidity to the global economies, no assurance can be given that the combined impact of the significant revaluations and constraints on the availability of credit will not continue to materially and adversely affect economies around the world. No assurance can be given that this stimulus will continue or that, if it continues, it will be successful or these economies will not be adversely affected by the inflationary pressures resulting from such stimulus or central banks' efforts to slow inflation. Further, continued market concerns about the European sovereign debt crisis, economic growth in China, military conflicts in the Middle East, a reduction in quantitative easing by the U.S. Federal Reserve and matters related to the U.S. government debt limits, may adversely impact global equity markets. Some of these economies have experienced significantly diminished growth and some are experiencing or have experienced a recession. These market conditions and further volatility or illiquidity in capital markets may also adversely affect the prospects of the Fund and the value of the securities in the Portfolio.

### **Operating History**

The Fund has limited operating history. There is no assurance that the Fund will be able to successfully execute its investment strategy or operate profitably over the short or long-term. Investors will have to rely on the expertise and good faith of the Manager to carry on the business of the Fund.

### **No Public Market**

The Class A Units are listed on the TSX. There can be no assurance that an active public market in Class A Units will be sustained.

### **Changes in Legislation**

There can be no assurance that certain laws applicable to the Fund, including income tax laws, government incentive programs and the treatment of mutual fund trusts under the Tax Act, will not be changed in a manner which adversely affects the Fund or the Unitholders.

### **Foreign Currency Exposure**

The Portfolio will include securities denominated and paying distributions in foreign currencies, including the U.S. dollar. As the NAV will be calculated in Canadian dollars, to the extent the Fund's exposure to foreign currencies has not been hedged back to the Canadian dollar, the NAV will be affected by changes in the value of those foreign currencies against the Canadian dollar. The Fund may not be fully hedged at all times, distributions received on Portfolio securities may not be hedged, and any hedging strategy of the Fund may not be successful. Accordingly, no assurance can be given that the Fund will not be adversely impacted by changes in foreign exchange rates or other factors.

## **Use of Leverage by the Fund**

The use of leverage by the Fund may result in capital losses to Unitholders. If the value of the Portfolio decreases such that the amount borrowed by the Fund exceeds 20% of the NAV, the Fund may be required to sell assets in order to comply with such restriction. Such sales may be required to be done at prices which may adversely affect the value of the Portfolio and the returns to the Fund. The interest expense and banking and other fees incurred in respect of any loan facility entered into by the Fund will decrease the value of the assets of the Fund. In addition, the Fund may not be able to renew any borrowings on acceptable terms or at all. There can be no assurance that the borrowing strategy employed by the Fund will assist the Fund in achieving its objective.

## **Availability of Leverage**

The Fund's ability to achieve its investment objective is dependent on employing leverage. There can be no assurance that the Fund will be able to borrow on terms satisfactory to the Fund or at all, which may affect the total returns of the Portfolio.

## **Hedging Risks**

While the Fund's exposure to the U.S. dollar will not initially be hedged, the Manager, on behalf of the Fund, may hedge such exposure. The use of hedging involves special risks, including illiquidity and the possible default by the counterparty to any hedging transaction, which could result in the counterparty being unable to meet its obligations. In addition, the Fund's success in using hedging instruments is subject to the Manager's ability to predict correctly changes in the relationships of such hedging instruments to the Portfolio; there can be no assurance that the Manager's judgment in this respect will be accurate, with the risk that the use of hedges could result in losses greater than if the hedging had not been used. In addition, the costs associated with a hedging program may outweigh the benefits of the arrangements in such circumstances.

## **Risks of Short Sales and Margin Purchases**

The Fund will engage in short selling only within certain controls and limitations and pursuant to applicable securities legislation. Securities legislation imposes the following conditions and limits on the Fund's short-selling activities. Securities will be sold short only for cash. A security sold short shall not be: (i) a security that the mutual fund is otherwise not permitted to purchase at the time of the short sale transaction; (ii) an illiquid asset; or (iii) a security of an investment fund unless the security is an index participation unit. At the time securities of a particular issuer are sold short by the Fund, (i) the Fund has borrowed or arranged to borrow from a borrowing agent the security that is to be sold under the short sale transaction; (ii) the aggregate market value of all securities of that issuer sold short will not exceed 5% of the net asset value of the Fund and (iii) the aggregate market value of all securities sold short by the Fund will not exceed 20% of the net asset value of the Fund. The Fund will also hold cash cover (as defined in NI 81-102) in an amount, including a Fund's assets deposited with borrowing agents as security in connection with short sale transactions, that is at least 150% of the aggregate market value of all securities it sold short on a daily marked-to-market basis. No proceeds from short sales will be used by the Fund to purchase long positions other than cash cover.

The Fund may engage in short selling securities or maintain short positions to a maximum of 10% of the NAV, provided that such 10% limit does not apply to short sales of securities or short positions maintained for purposes of hedging (as defined in NI 81-102) the Portfolio's exposure to the equity securities to be received by the Fund in connection with the exercise of the right to acquire such securities pursuant to a conversion or in connection with the exercise by the issuer of the right to issue such securities at maturity.

A short sale of a security may expose the Fund to losses if the price of the security sold short increases because the Fund may be required to purchase such securities in order to cover its short position at a higher price than the price at which such securities were sold short. The potential loss on the short sale of securities is unlimited, since there is no limit on how much the price of a security will appreciate before the short position is closed out. In addition, a short sale entails the borrowing of the security in order that the short sale may be transacted. There is no assurance that the lender of the security will not require the security to be repaid before the Fund wishes to do so, thereby requiring the Fund to borrow the security elsewhere or purchase the security in the market at an unattractive price, which particularly may be the case with respect to units of income trusts where it is expected that fewer units will be available for borrowing and then only at a higher cost. In the event that numerous lenders of the security in the market simultaneously recall the same security, a “short-squeeze” may occur, whereby the market price of the borrowed security may increase significantly. In addition, the borrowing of securities entails the payment of a borrowing fee. There is no assurance that a borrowing fee will not increase during the borrowing period, adding to the expense of the short sale strategy. In addition, there is no assurance that the security sold short can be repurchased due to supply and demand constraints in the marketplace.

Purchasing securities on margin exposes the Fund to the risk of increased losses if the value of the securities purchased on margin decreases sufficiently, as the Fund will be required to repay its securities dealer for the margin used to purchase securities and may therefore be required to sell assets in order to maintain the margin requirements of its trading account. In addition, if the value of securities purchased on margin exceeds 10% of the NAV, the Fund may sell assets in order to comply with its investment restrictions. In either case, such sales may be required to be done at prices which may adversely affect the value of the Portfolio and the returns to the Fund.

### **Securities Lending**

The Fund may engage in 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 should the collateral be insufficient to reconstitute the portfolio of loaned securities. In addition, the Fund will bear the risk of loss of any investment of cash collateral.

### **General Risk of Investing in Debt Instruments**

Generally, debt instruments will decrease in value when interest rates rise and increase in value when interest rates decline. The NAV will fluctuate with interest rate changes and the corresponding changes in the value of the securities in the Portfolio. The value of debt instruments also is affected by the risk of default in the payment of interest and principal and price changes due to such factors as general economic conditions and an issuer’s creditworthiness. Debt instruments may not pay interest or their issuers may default on their obligations to pay interest and/or principal amounts. Certain of the debt instruments that may be included in the Portfolio from time to time may be unsecured, which will increase the risk of loss in case of default or insolvency of the issuer. Global financial markets have experienced significant volatility in the last few years that has generally contributed to a reduction in liquidity and the availability of credit, enhancing the likelihood of default by some issuers due to diminishing profitability or an inability to refinance existing debt.

### **Foreign Market Exposure**

The Portfolio may, at any time, include securities of issuers established in jurisdictions outside Canada or the United States. Although most such issuers will be subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to Canadian and U.S. companies, some issuers may not

be subject to such standards and, as a result, there may be less publicly available information about such issuers than there would be with respect to a Canadian or U.S. company. Volume and liquidity in some foreign stock markets may be less than in Canada and the U.S. and, at times, volatility of price may be greater than in Canada or the U.S. As a result, the price of such securities may be affected by conditions in the market of the jurisdiction in which the issuer is located or its securities are traded.

## **RESPONSIBILITY FOR OPERATIONS**

### **The Manager**

LDIC Inc. is the manager, trustee, and portfolio adviser of the Fund and will perform the management functions, including the investment management functions, for the Fund pursuant to the Declaration of Trust. LDIC was incorporated on October 15, 1998 pursuant to the laws of the Province of Ontario. LDIC is an independent Canadian investment fund manager that has approximately \$518.2 million in assets under management as of February 29, 2020. LDIC's clients are corporations, trusts, estates, pension funds, foundations, high net worth individuals and industry professionals. LDIC employs a flexible investment style with a value-oriented bias reflecting the realities of the Canadian market and the recognition that differing investment approaches are more suitable for particular market cycles. The principal office of the Manager is located at The Exchange Tower, 130 King Street West, Suite 2130, P.O. Box 399, Toronto, Ontario, M5X 1E2.

Pursuant to the Declaration of Trust, the Manager is responsible for all investment decisions of the Fund in accordance with the investment objective, strategies and restrictions and for arranging for the execution of all portfolio transactions, and for managing and administering the day-to-day business and affairs of the Fund. The Manager may delegate certain of its powers to third parties, where, in the discretion of the Manager, it would be in the best interests of the Fund to do so. The Manager's duties include, without limitation: authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements and financial and accounting information as required by the Fund; ensuring that Unitholders are provided with financial statements (including semi-annual and annual financial statements) and other reports as are required by applicable law from time to time; ensuring that the Fund complies with regulatory requirements and applicable stock exchange listing requirements; preparing or causing to be prepared the reports of the Fund to Unitholders and the Canadian securities regulatory authorities; as applicable, determining the timing and amount of distributions to be made by the Fund; and negotiating contractual agreements with third party providers of services, including registrars, transfer agents, auditors and printers. The Manager will also monitor the Fund's investment strategy and ensure compliance with the Fund's investment restrictions.

Pursuant to the Declaration of Trust, the Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Fund and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. The Declaration of Trust provides that the Manager will not be liable in any way for any default, failure or defect in the Portfolio held by the Fund if it has satisfied the duties and the standard of care, diligence and skill set forth above. The Manager will incur liability, however, in cases of willful misconduct, bad faith, negligence, disregard of the Manager's standard of care or by any material breach or default by it of its obligations under the Declaration of Trust.

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

The Manager will be reimbursed by the Fund for all reasonable costs and expenses incurred by the Manager on behalf of the Fund as described under “Fees and Expenses”. In addition, the Manager and each of its directors, officers and employees will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced, or other claim that is made against the Manager, or any of its directors, officers or employees, in the exercise of its duties as Manager, except those resulting from the Manager’s wilful misconduct, bad faith, negligence, disregard of the Manager’s standard of care or material breach or default by the Manager of its obligations under the Declaration of Trust.

Unless the Manager resigns or is removed as described below, the Manager will continue as manager of the Fund until the termination of the Fund. The Manager may resign if the Fund is in material breach or default of the provisions of the Declaration of Trust and if capable of being cured, any such breach or default has not been cured within 30 days’ notice of such material breach or default to the Fund. The Manager is deemed to have resigned if the Manager: (i) becomes bankrupt or insolvent; (ii) ceases to be resident in Canada for the purposes of the Tax Act or carry out its functions of managing the Fund in Canada; or (iii) no longer holds the licenses, registrations or other authorizations necessary to carry out its obligations and is unable to obtain them within a reasonable period after their loss. The Manager may resign as manager of the Fund upon 60 days’ notice to the Unitholders. The Manager may not be removed other than by a meeting of the Unitholders. In the event that the Manager is in material breach or default of the provisions of the Declaration of Trust and, if capable of being cured, any such breach or default has not been cured within 30 days’ notice of such breach or default to the Manager, the Trustee shall give notice thereof to Unitholders and Unitholders may direct the Trustee to remove the Manager and appoint a successor manager of the Fund.

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

The names, municipalities of residence, positions held with the Manager and principal occupations of the directors and officers of the Manager are listed in the following table.

<b><u>Name and Municipality of Residence</u></b>	<b><u>Position with the Manager</u></b>	<b><u>Principal Occupation</u></b>
Michael B. Decter Toronto, Ontario	Chairman, Chief Executive Officer, Chief Investment Officer and Director	Chief Executive Officer and Chief Investment Officer of LDIC.
Beryl McCallum Toronto, Ontario	President, Chief Compliance Officer and Director	President and Chief Compliance Officer of LDIC.
Ron E. Bailey Winnipeg, Manitoba	Director	President of Ron Bailey and Associates Inc.
Graham Scott Toronto, Ontario	Director	President of Graham Scott Strategies Inc.

During the past five years, all the directors and executive officers of the Manager have held the principal occupations noted opposite their respective names with their current employer or a predecessor company. The directors of the Manager will hold office until their successors are duly elected or appointed.

### **The Portfolio Manager**

The following portfolio manager of the Manager will be principally responsible for the investment management of the Fund. During the past five years, the individual named below has been employed by the Manager.

**Name**

Michael B. Decter  
Toronto, Ontario

**Position with Manager**

Chairman, Chief Executive Officer, Chief  
Investment Officer and Director

Investment decisions by the above named portfolio manager is not subject to oversight, approval or ratification of a committee.

**The Trustee**

LDIC Inc. will also act as the trustee of the Fund pursuant to the provisions of the Declaration of Trust. The Trustee is responsible for certain aspects of the day-to-day management of the Fund as described in the Declaration of Trust. The principal office of the Trustee is located at The Exchange Tower, 130 King Street West, Suite 2130, P.O. Box 399, Toronto, Ontario, M5X 1E2.

**Duties and Services to be Provided by the Trustee and Details of the Declaration of Trust**

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

The Trustee or any successor trustee may resign upon 60 days' written notice to the Manager or such lesser notice as the Manager may accept. The Trustee may be removed in certain circumstances with the approval of a majority of the votes cast at a meeting of Unitholders called for such purpose. The Trustee shall be removed if the Trustee is no longer resident in Canada for purposes of the Tax Act, ceases to carry on its functions of managing the Fund in Canada, or ceases to exercise the main powers and discretions of the trustee in respect of the Fund in Canada. Any such resignation or removal shall become effective only upon the acceptance of the appointment of a successor trustee. If the Trustee resigns or is removed, its successor may be appointed by the Manager. If the Trustee is removed by the Unitholders, the appointment of its successor must be approved by Unitholders. If, after the resignation or removal of the Trustee, no successor has been appointed within 90 days, the Trustee, the Manager or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor trustee.

**Remuneration of Members of the Independent Review Committee**

Messrs. Lekstrom, Hogg and Jennings have been appointed as members of an independent review committee (the "Independent Review Committee") and are paid an annual fee of \$9,000 in the aggregate. The aggregate compensation paid by the Fund to each of the Independent Review Committee members for the period ended December 31, 2019 was \$3,000. The aggregate amount of expenses reimbursed to the each of the Independent Review Committee members for the period ended December 31, 2019 was \$nil.



## **CONFLICTS OF INTEREST**

To the knowledge of the Manager, as at February 29, 2020, the directors and officers of the Manager, in aggregate, did not own beneficially, either directly or indirectly: (a) more than 10% of the outstanding Units of the Fund; (b) any class of voting or equity securities of the Manager; or (c) any class of voting or equity securities of any person or company that provides services to the Fund or to the Manager.

To the knowledge of the Manager, as at February 29, 2020, the directors and senior officers of the Manager, in aggregate, did not own beneficially, either directly or indirectly: (a) more than 10% of the outstanding Units of the Fund; (b) any class of voting or equity securities of the Manager; or (c) any class of voting or equity securities of any person or company that provides services to the Fund or to the Manager.

To the knowledge of the Manager, as at February 29, 2020, the members of the Independent Review Committee of the Fund did not own beneficially, directly or indirectly, in aggregate: (a) more than 10% of the outstanding Units of the Fund; (b) any class of voting or equity securities of the Manager; or (c) any class of voting or equity securities of any person or company that provides services to the Fund or to the Manager.

BMO Nesbitt Burns Inc., Scotia Capital Inc., Canaccord Genuity Corp., GMP Securities L.P., Mackie Research Capital Corporation, Salman Partners Inc., Desjardins Securities Inc., Dundee Securities Ltd., Global Securities Corporation, Industrial Alliance Securities Inc., Laurentian Bank Securities Inc., and PI Financial Corp. (collectively, the “Agents”) acted as agents in connection with the Fund’s initial public offering. The Manager is the promoter of the Fund and will administer the operations of the Fund pursuant to the management agreement between the Manager and the Trustee on behalf of the Fund, respecting the management and administration of the Fund by the Manager, and receives fees therefor.

The services of the Manager and its affiliates are not exclusive to the Fund and nothing in the Declaration of Trust prevents the Manager or any of its affiliates from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies or criteria are similar to those of the Fund) or from engaging in other activities.

The Declaration of Trust acknowledges that the Manager may provide services to the Fund in other capacities, provided that the terms of any such arrangements are no less favourable to the Fund than those which would be obtained from arm’s length parties for comparable services.

Securities held by the Fund may also be held by other funds or clients for which the Manager or its affiliates provide investment advice. Because of different investment objectives or other factors, a particular security may be bought for one or more funds or clients when one or more other funds or clients are selling the same security. If opportunities for purchase or sale of securities for the Fund or for other funds or clients for which the Manager renders investment advice arise for consideration at or about the same time, transactions in such securities will be effected, insofar as feasible, for the respective funds or clients on an equitable basis, in accordance with the Manager’s trade allocation policy in effect from time to time, as applicable.

## **FUND GOVERNANCE**

### **Board of Directors of the Manager**

The board of directors (the “Board”) of the Manager has oversight responsibility for the overall stewardship of the Trustee’s business and affairs. The Board also has a mandate setting out its duties and responsibilities. The Board consists of four directors, two of whom are independent. The Board believes that this number of directors is appropriate for the Manager. All directors of the Manager except for directors who are also

senior officers of the Manager are compensated by the Fund. Compensation is considered appropriate given the risk and responsibilities placed on each director. The Board is responsible for developing the Fund's approach to governance issues and for proposing new nominees to the Board (should the need arise) and has not assigned these responsibilities to a committee. An independent director may engage outside advisors at the Fund's expense subject to the approval of the independent directors.

### **Independent Review Committee**

The Independent Review Committee has been established by the Fund in accordance with National Instrument 81-107 *Independent Review Committee for Investment Funds* ("NI 81-107") and is comprised of three members, each of whom is independent. The members of the Independent Review Committee are Blair Lekstrom, Ian Hogg & Matthew Jennings. The Independent Review Committee deals with conflict of interest matters presented to it by the Manager in accordance with NI 81-107. The Manager is required under NI 81-107 to identify conflicts of interest inherent in its management of the Fund and the other investment funds managed by it, and request input from the Independent Review Committee on how it manages those conflicts of interest. NI 81-107 also requires the Manager to establish written policies and procedures outlining its management of those conflicts of interest. The Independent Review Committee will provide its recommendations or approvals, as required, to the Manager with a view to the best interests of the Fund. The Independent Review Committee will report annually to Unitholders as required by NI 81-107. The reports of the Independent Review Committee will be available free of charge from the Manager on request by contacting the Manager at info@ldic.ca.

The members of the Independent Review Committee are paid an annual fee for serving on the Independent Review Committee. The annual fee payable to the members of the Independent Review Committee is currently \$3,000 in the aggregate. Expenses incurred by the members of the Independent Review Committee in connection with performing their duties are also the responsibility of the investment funds, including the Fund.

Except as described in this annual information form, there are no policies, practices or guidelines relating to business practices, sales practices, risk management controls and internal conflicts of interest.

The Fund has policies and procedures in place relating to monitoring, detection and deterrence of short term trading by investors. The Fund will monitor the price and trading volume of the security on a regular basis.

### **Proxy Voting Policies and Procedures**

In 2019, the Fund did not hold securities in other funds. However, should the Fund acquire voting securities in another fund, the Manager will vote the securities held by the Fund. In voting proxies on behalf of the fund, the Manager must do so in a manner consistent with the best interests of the Fund and its securityholders.

The Manager is required to vote (or decide to refrain from voting), or cause to be voted, all shares or other voting securities of the Fund, provided that the Manager receives the proxy and related materials from the issuer or otherwise in sufficient time to cast such vote. Where the Custodian (as defined under "Auditors, Registrar and Custodian") of the Fund must vote such securities in accordance with the instructions of the Manager, the Manager shall ensure that instructions are provided to the Custodian in accordance with its corporate action requirements in this regard.

The Manager's proxy voting policies and procedures set out various considerations that the Manager will address when voting, or refraining from voting, proxies, including that:

- (a) the Manager will generally vote with management on routine matters such as electing corporate directors, appointing external auditors and adopting or amending management compensation plans unless it is determined that supporting management's position would not be in the best interests of Unitholders;
- (b) the Manager will address on a case-by-case basis, non-routine matters, including those business issues specific to the issuer or those raised by shareholders of the issuer with a focus on the potential impact of the vote on the Fund's NAV;
- (c) the Manager has the discretion whether or not to vote on routine or non-routine matters. In cases where the Manager determines that it is not in the best interests of Unitholders to vote, the Manager will not be required to vote; and
- (d) proxies associated with Portfolio securities are received and voted by the Manager on behalf of the Fund in accordance with the Manager's proxy voting policies and procedures.

Situations may exist in which, in relation to proxy voting matters, the Manager may be aware of an actual, potential or perceived conflict between its own interests and the interests of securityholders. The Manager will, prior to the vote deadline date, review any such matter, and will take necessary steps to ensure that the proxy is voted in accordance with what the Manager believes to be the best interests of the securityholders. Where the Manager is aware of such a conflict, in order to maintain impartiality, the Manager may choose to seek out and follow the voting recommendation of an independent proxy research and voting service, or refer the matter to the Independent Review Committee of the Funds.

The policies and procedures that the Manager follows when voting proxies relating to portfolio securities held by the Funds are available on request, at no cost, by calling the Manager (collect) at (416) 362-4141, by emailing the Manager at [info@ldic.ca](mailto:info@ldic.ca) or by writing to the Manager at The Exchange Tower, 130 King Street West, Suite 2130, P.O. Box 399, Toronto, Ontario, M5X 1E2.

The Fund shall prepare a proxy voting record for the period ending on June 30th of each calendar year, and complete such record by August 31st of the year. Upon request made by a securityholder, the Fund will deliver a copy of its proxy voting record to such securityholder without charge. The proxy voting record is also available on the Manager's website at [www.ldic.ca](http://www.ldic.ca).

## **FEES AND EXPENSES**

### **Management Fee**

The Manager is entitled to be paid a management fee (the "Management Fee") by the Fund at an annual rate of 1.25% of the NAV of the Fund, plus applicable taxes, provided that the management fee payable to the Manager shall not be paid in respect assets of the Fund invested in the securities of any investment funds (including mutual funds) managed by the Manager or an affiliate of the Manager. The Management Fee payable to the Manager will be calculated and accrue daily and be payable monthly in arrears based on the average NAV for that month. The Management Fee will be paid in cash.

Pursuant to the Declaration of Trust, the Manager is responsible for all investment decisions of the Fund in accordance with the investment objective, strategies and restrictions and for arranging for the execution of all portfolio transactions, and for managing and administering the day-to-day business and affairs of the Fund. The Manager's duties include, without limitation: authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements and financial and accounting information as required by the Fund; ensuring that Unitholders are provided with financial statements (including semi-

annual and annual financial statements) and other reports as are required by applicable law from time to time; ensuring that the Fund complies with regulatory requirements and applicable stock exchange listing requirements; preparing or causing to be prepared the reports of the Fund to Unitholders and the Canadian securities regulatory authorities; as applicable, determining the timing and amount of distributions to be made by the Fund; and negotiating contractual agreements with third party providers of services, including registrars, transfer agents, auditors and printers. The Manager will also monitor the Fund's investment strategy and ensure compliance with the Fund's investment restrictions.

### **Performance Fee**

The Manager will receive a performance fee (the "Performance Fee") from the Fund in respect of investments in the Private Portfolio including, for the purpose of calculating the Performance Fee, securities of private issuers in the Private Portfolio that have become publicly traded and public securities received on the disposition of securities of a private issuer in the Private Portfolio. The amount of the Performance Fee shall be determined as of the date of disposition (the "Determination Date") for cash proceeds for each such investment. The Performance Fee in respect of each investment will be equal to 20% of the amount by which the cash proceeds of disposition exceed 106% of the Threshold Amount (as defined below) calculated on a cumulative annual basis plus applicable taxes. Where an investment is held for a portion of any year, the calculation of the required 106% return for that year is made on a partial year basis.

The Performance Fee shall be calculated and accrue daily and be paid upon each Determination Date; however, no Performance Fee shall be paid in respect of any dispositions of securities of private issuers in the Private Portfolio unless on the Determination Date the proceeds of disposition of the investment exceed 107% of the original book value of the investment (the "Threshold Amount").

### **Operating Expenses**

The Fund will pay for all expenses incurred in connection with the operation and management of the Fund. In addition to the fees and expenses referenced elsewhere in this annual information form, it is expected that these expenses will include, without limitation: (a) financial reporting costs, and mailing and printing expenses for periodic reports to Unitholders and other Unitholder communications including marketing and advertising expenses; (b) any taxes payable by the Fund; (c) fees (if any) payable to the Trustee for acting as trustee of the Fund; (d) fees payable to the Fund's custodian; (e) fees payable to the Fund's valuation agent; (f) fees payable to the registrar and transfer agent and for the Units for performing certain financial, record-keeping, Unitholder reporting and general administrative services; (g) costs and fees payable to any agent, legal counsel, actuary, valuation agent, technical consultant, accountant and auditor of the Fund and costs and expenses payable to any investment advisor or investment counsel; (h) ongoing regulatory filing fees, stock exchange fees, listing fees and other fees; (i) any expenses incurred by the Fund in connection with any legal proceedings in which the Manager participates on behalf of the Fund or any other acts of the Manager in connection with the protection of the Fund property or of any investment included therein; (j) the fees and other expenses of members of the Independent Review Committee (as defined under "Fund Governance – Independent Review Committee"), as well as premiums for insurance coverage for such members of the Independent Review Committee and for directors and officers of the Manager, which fees will be paid on a pro rata basis by the Fund and other applicable investment funds managed by the Manager and, in the case of the Independent Review Committee, of which the same individuals form the independent review committee; (k) any expenditures which may be incurred upon the termination of the Fund; (l) consulting fees including website maintenance costs and expenses associated with the preparation of tax filings; and (m) other administrative expenses, including the expenses of the Manager. The aggregate annual amount of these fees and expenses is estimated to be \$200,000 per annum. The Fund also will be responsible for all commissions and other costs of securities transactions, debt service and costs relating to

borrowings by the Fund, including under the Loan Facility, and any extraordinary expenses which it may incur from time to time.

## INCOME TAX CONSIDERATIONS

The following is a summary, as of the date hereof, of certain of the principal Canadian federal income tax considerations generally applicable to the acquisition, holding and disposition of Units by a Unitholder who acquired Units pursuant to a past offering of the Units. This summary is applicable to a Unitholder who is an individual (other than a trust) and who, for the purposes of the Tax Act and at all times, is resident in Canada, deals at arm's length and is not affiliated with the Fund, and holds his or her Units as capital property.

This summary is based on the current provisions of the Tax Act and the regulations thereunder, along with an understanding of the current published administrative and assessing practices of the CRA and all specific proposals to amend the Tax Act and the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "Tax Proposals"). This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, nor does it take into account, other Federal, provincial, territorial or foreign income tax legislation or considerations. There can be no assurance that the Tax Proposals will be enacted in the form publicly announced or at all.

This summary is also based on the assumption that the Fund will at no time be subject to the tax for SIFT Trusts as set out in the Tax Act.

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

### Status of the Investment Fund

This summary is based on the assumptions that the Fund qualifies and will continue to qualify at all times as a "unit trust" and a "mutual fund trust" within the meaning of the Tax Act, that the Fund validly elected under the Tax Act to be a mutual fund trust from the date it was established, and that the Fund will, at no time, be reasonably considered to be established or maintained primarily for the benefit of non-resident persons unless, at that time, substantially all of its property consists of property other than "taxable Canadian property" within the meaning of the Tax Act (if the definition of such term were read without reference to paragraph (b) of that definition).

To qualify as a mutual fund trust, among other things, (i) the Fund must be a Canadian resident "unit trust" for purposes of the Tax Act, (ii) the only undertaking of the Fund must be (a) the investing of its funds in property (other than real property or interests in real property or an immovable or a real right in an immovable), (b) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property) or of any immovable (or real right in immovables) that is capital property of the Fund, or (c) any combination of the activities described in (a) and (b), and (iii) the Fund must comply with certain minimum requirements respecting the ownership and dispersal of a particular class of Units

(the “minimum distribution requirements”). In this regard, the Manager intends to (i) cause the Fund to qualify as a unit trust throughout the existence of the Fund, and (ii) ensure that the Fund’s undertakings conform with the above-mentioned restrictions for mutual fund trusts. The Manager has no reason to believe that the Fund has not, and will not, comply with the minimum distribution requirements at all material times.

If the Fund were not to qualify as a mutual fund trust at all times, the income tax considerations described below would, in some respects, be materially and adversely different.

Provided that the Fund qualifies as a “mutual fund trust” within the meaning of the Tax Act at all times, the Units will be “qualified investments” under the Tax Act for trusts governed by registered retirement savings plans (“RRSPs”), registered retirement income funds (“RRIFs”), deferred profit sharing plans, registered disability savings plans (“RDSPs”), registered education savings plans (“RESPs”) and tax-free savings accounts (“TFSAs”) (each, a “Registered Plan”). See “Income Tax Considerations – Taxation of Registered Plans” for the consequences of holding Units in Registered Plans.

The income tax treatment of the Fund (and Unitholders in respect of their investment in Units) will depend on whether the Fund is a “SIFT trust” for purposes of the Tax Act (a “SIFT Trust”). The Fund will be a SIFT Trust, and will be subject to the special provisions in the Tax Act that govern the taxation of SIFT Trusts (the “SIFT Rules”), for a taxation year of the Fund if, at any time in that year, the Fund holds one or more “non-portfolio properties” (as defined in the Tax Act). For this purpose, in any given taxation year, “non-portfolio properties” of the Fund will generally include (but are not limited to) a security (as defined for the purposes of the SIFT Rules) of an issuer resident in Canada if, at any time in that taxation year, the Fund held securities of such issuer that had a fair market value greater than 10 percent of the “equity value” (as defined in the SIFT Rules) of the issuer. It is expected that certain Private Portfolio investments in Canadian resident corporations (or other issuers) may constitute “non-portfolio properties”. Provided the Fund complies with its Investment Restrictions, it will not be considered to be a “SIFT Trust”.

### **Taxation of the Fund**

The Fund will be subject to tax in each taxation year under Part I of the Tax Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it is entitled to deduct, and does deduct, in respect of amounts paid or payable to Unitholders in the year. The Fund intends to deduct, in computing its income in each taxation year, such amount as will be sufficient to ensure, to the extent permitted under the Tax Act, that the Fund will not be liable for non-refundable income tax under Part I of the Tax Act for each year. Provided that (i) the Fund does not realize any “non-portfolio earnings” (as defined in the Tax Act) in a taxation year in which it is a SIFT Trust, and (ii) the Fund makes distributions to Unitholders in such taxation year of its income, including its net realized taxable capital gains, as described under “Distributions”, it will generally not be liable in such year for non-refundable income tax under Part I of the Tax Act. However, if the Fund is a SIFT Trust in a taxation year, it will not be entitled to deduct any part of amounts payable to Unitholders in respect of its “non-portfolio earnings” (as defined in the Tax Act), and the Fund will generally be liable to tax under Part I of the Tax Act in respect of such amounts, in accordance with the SIFT Rules, at a combined federal and provincial tax rate comparable to that applicable to a corporation. In general, the “non-portfolio earnings” of the Fund for a taxation year of the Fund in which the Fund is a SIFT Trust will include the Fund’s income (other than taxable dividends received by the Fund) and net realized taxable capital gains from “non-portfolio properties”.

In computing its income for a taxation year, the Fund will be required to include the amount of all dividends received (or deemed to have been received) in the year in respect of Portfolio securities. The Fund will be required to include in its income for each taxation year in respect of debt obligations held by the Fund all

interest that accrues to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year. Upon the actual or deemed disposition of a debt obligation, the Fund will be required to include in computing its income for the year of disposition all interest that accrued on such debt obligation from the last interest payment date to the date of disposition except to the extent such interest was included in computing the Fund's income for that or another taxation year and such income inclusion will reduce the proceeds of disposition for purposes of computing any capital gain or loss.

In determining the income of the Fund, gains or losses realized upon dispositions of Portfolio securities of the Fund will generally constitute capital gains or capital losses of the Fund in the year realized unless the Fund is considered to be trading or dealing in securities or otherwise carrying on an investment business of buying and selling securities or the Fund has acquired the securities in a transaction or transactions considered to be an adventure or concern in the nature of trade. The Fund will purchase the Portfolio with the objective of earning distributions and income from the Portfolio securities over the life of the Fund and will take the position that gains and losses realized on the disposition thereof are capital gains and capital losses. In addition, the Fund has made an election under subsection 39(4) of the Tax Act so that all of its Portfolio securities that are "Canadian securities" (as defined in the Tax Act), including Canadian securities acquired in connection with short sales, will be deemed to be capital property to the Fund.

Gains and losses made through derivative securities and in respect of short sales of securities (other than "Canadian securities", as defined in the Tax Act) will generally be treated as being on income account except where the derivative is used to hedge securities held on capital account provided there is sufficient linkage and subject to the derivative forward agreement rules discussed below.

The Fund may enter into transactions denominated in currencies other than the Canadian dollar, including the acquisition of Portfolio securities and the writing of covered call options and cash covered put options. The cost and proceeds of disposition of securities, dividends and all other amounts are determined for the purposes of the Tax Act in Canadian dollars using the appropriate exchange rates determined in accordance with the detailed rules in the Tax Act. The amount of income, gains and losses realized by the Fund may be affected by fluctuations in the value of foreign currencies relative to the Canadian dollar. Subject to the derivative forward agreement rules discussed below, gains or losses in respect of currency hedges entered into in respect of amounts invested in the Portfolio and in respect of covered call options in respect of Portfolio securities and cash covered put options will likely constitute capital gains and capital losses to the Fund if the Portfolio securities are capital property to the Fund provided there is sufficient linkage.

Premiums received on covered call options and cash covered put options written by the Fund that are not exercised prior to the end of a 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 of buying and selling securities or the Fund has engaged in a transaction or transactions considered to be an adventure or concern in the nature of trade. The Fund will purchase the Portfolio with the objective of earning dividends and income thereon over the life of the Fund and will write covered call options with the objective of increasing the yield on the securities beyond the dividends or income received on such securities and will write cash covered put options to increase returns and to reduce the net cost of purchasing securities upon the exercise of such cash covered put options. Based on the foregoing and in accordance with the CRA's published administrative practices, transactions undertaken by the Fund in respect of options on the securities in the Portfolio will be treated and reported by the Fund as arising on capital account. Premiums received by the Fund on covered call options (and cash covered put options) that 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, the Tax Act provides that such capital gain may be reversed.

The derivative forward agreement rules target certain financial arrangements that seek to reduce tax by converting, through the use of derivative contracts, the return on an investment that would have the character of ordinary income to capital gains. The derivative forward agreement rules are broad in scope and could apply to other agreements or transactions (including certain options and forward currency contracts). If the derivative forward agreement rules were to apply in respect of derivatives to be utilized by the Fund, the gains realized in respect of the property underlying such derivatives could be treated as ordinary income rather than capital gains. The Fund will not write covered call options or cash covered put options that would be subject to the derivative forward agreement rules.

The Fund will be entitled for each taxation year throughout which it is a mutual fund trust to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized capital gains by an amount determined under the Tax Act based on the redemptions of Units during the year (“capital gains refund”). In certain circumstances, the capital gains refund in a particular taxation year may not completely offset the tax liability of the Fund for such taxation year which may arise upon the sale of securities in connection with redemptions of Units.

In computing its income for tax purposes, the Fund may deduct reasonable administrative and other expenses incurred to earn income, including interest payable on any loan facility entered into by the Fund generally to the extent borrowed funds are used to purchase Portfolio securities. The Fund may not deduct interest payable on any loan facility entered into by the Fund to the extent that borrowed funds are used to fund redemptions. The Fund may generally deduct rateably over a five year period (subject to reduction in any taxation year that is less than 365 days) agents’ fees and other expenses of past offerings that are paid by the Fund and not reimbursed. Any losses incurred by the Fund may not be allocated to Unitholders but may generally be carried forward and back and deducted in computing the taxable income of the Fund in accordance with the detailed rules and limitations in the Tax Act.

The Fund will derive income or gains from investments in securities of companies resident in countries other than Canada. Foreign taxes may be levied on dividends or interest paid by foreign issuers of, or gains derived from the disposition of, the securities held by the Fund as part of the Portfolio. To the extent that such foreign tax paid by the Fund exceeds 15% of the amount included in the Fund’s income from such investments such excess may generally be deducted by the Fund in computing its net income for the purposes of the Tax Act. To the extent that such foreign tax paid does not exceed 15% of such amount and has not been deducted in computing the Fund’s income, subject to the application of the SIFT Rules, the Fund may designate in respect of a Unitholder a portion of its foreign source income which can reasonably be considered to be part of the Fund’s income distributed to such Unitholder so that such income and a portion of the foreign tax paid by the Fund may be regarded as foreign source income of, and foreign tax paid by, the Unitholder for the purposes of the foreign tax credit provisions of the Tax Act.

With respect to an issuer that is a trust resident in Canada whose units are included in the Portfolio and held as capital property for the purposes of the Tax Act, and that is not subject in a taxation year to tax under the SIFT Rules, the Fund is required to include in its income such portion of the net income and the taxable portion of net realized capital gains of such issuer as is paid or becomes payable to the Fund in the year, notwithstanding that certain of such amounts may be reinvested in additional units of the issuer. Provided that appropriate designations are made by the issuer, any net taxable capital gains realized by the issuer, any foreign source income of the issuer and any taxable dividends received by the issuer from taxable Canadian corporations that are paid or become payable to the Fund will effectively retain their character as such in the hands of the Fund.

The Fund is generally required to reduce the adjusted cost base of the units of such an issuer that is a trust resident in Canada to the extent that all amounts paid or payable in a year by such issuer to the Fund exceed the sum of the amounts included in the income of the Fund for the year plus the Fund’s share of the non-



taxable portion of capital gains of such issuer for the year, the taxable portion of which was designated in respect of the Fund for the year. To the extent that the adjusted cost base to the Fund of the units of such issuer would otherwise be less than zero, the negative amount is deemed to be a capital gain realized by the Fund and the Fund's adjusted cost base of such units is increased by the amount of such deemed capital gain to zero.

Under the SIFT Rules, each issuer in the Portfolio that is a "SIFT trust" as defined under the SIFT Rules (which generally includes income trusts, other than certain real estate investment trusts, the units of which are listed or traded on a stock exchange or other public market) is subject to a special tax in respect of (i) income from business carried on in Canada, and (ii) certain income and capital gains respecting "non-portfolio properties" (collectively, "Non-Portfolio Earnings"). Any Non-Portfolio Earnings that become payable by a SIFT trust are taxed in the hands of its unitholders as a taxable dividend from a taxable Canadian corporation and are deemed to be an "eligible dividend" for the purposes of the enhanced gross-up and tax credit rules under the Tax Act.

### **Taxation of Unitholders**

A Unitholder will generally be required to include, in computing income for the taxation year, the amount of the Fund's net income for the taxation year, including net realized taxable capital gains, paid or payable to the Unitholder in the taxation year, except to the extent that such amounts are not deductible by the Fund in computing its income by virtue of the SIFT Rules. Subject to the application of the SIFT Rules, the Fund intends to make designations so that the portion of any net realized taxable capital gains of the Fund that are distributed to Unitholders will be treated as taxable capital gains to Unitholders.

Under the Tax Act, the Fund is permitted to deduct in computing its income for a taxation year an amount that is less than the amount of its distributions of income for the year, to the extent necessary to enable the Fund to use, in that year, losses from prior years without affecting the ability of the Fund to distribute its income annually. Such amount distributed to a Unitholder but not deducted by the Fund will not be included in the Unitholder's income. However, the adjusted cost base of the Unitholder's Units will be reduced by such amount. The non-taxable portion of the Fund's net realized capital gains for a taxation year, the taxable portion of which was designated in respect of a Unitholder for the year, that is paid or becomes payable to the Unitholder in the year will not be included in computing the Unitholder's income for the year. Distributions by the Fund to a Unitholder in a taxation year of the Fund that are not deemed to be dividends under the SIFT Rules and that exceed the aggregate of (i) the Unitholder's share of the Fund's net income (including net realized taxable capital gains) for the year that is deducted by the Fund, and (ii) the non-taxable portion of the Fund's net realized capital gains for the taxation year, the taxable portion of which was designated in respect of the Unitholder in the year, will not be included in computing the Unitholder's income for the year, but will reduce the adjusted cost base of the Unitholder's Units. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder's adjusted cost base will be increased by the amount of such deemed gain to zero.

Subject to the application of the SIFT Rules, provided that appropriate designations are made by the Fund, the foreign source income of the Fund as is paid or becomes payable to a Unitholder and the amount of foreign taxes paid or deemed to be paid by the Fund, if any, and the taxable dividends received or deemed to be received by the Fund on shares of taxable Canadian corporations will effectively retain their character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. A Unitholder may be entitled to claim a foreign tax credit in respect of foreign taxes paid by the Fund in connection with foreign source income designated to such Unitholder in accordance with the detailed rules in the Tax Act.

To the extent that amounts received by a Unitholder are deemed to be a dividend from a taxable Canadian corporation, the gross-up and dividend tax credit rules applicable to taxable dividends received from taxable Canadian corporations will apply, including the enhanced gross-up and dividend tax credit applicable to eligible dividends.

Any loss of the Fund for purposes of the Tax Act cannot be allocated to, and cannot be treated as a loss of, a Unitholder.

On the disposition or deemed disposition of a Unit, a Unitholder will realize a capital gain (or capital loss) to the extent that the Unitholder's proceeds of disposition (net of any reasonable costs of disposition) exceed (or are less than) the adjusted cost base of the Unit. For the purpose of determining the adjusted cost base to a Unitholder of Units of a particular class, when a Unit of that class is acquired, the cost of the newly acquired Unit will be averaged with the adjusted cost base of all Units of that class owned by the Unitholder as capital property immediately before that time. For this purpose, the cost of Units that have been issued as an additional distribution will generally be equal to the amount of the distribution.

If, at any time, the Fund delivers Portfolio securities to any Unitholder upon a redemption of a Unitholder's Units on the termination of the Fund, the Unitholder's proceeds of disposition of the Units will generally be equal to the aggregate of the fair market value of the distributed property and the amount of any cash received, less any capital gain realized by the Fund on the disposition of such distributed property. The cost of any property distributed by the Fund in specie will generally be equal to the fair market value of such property at the time of the distribution, less any amount that is deductible as interest accrued on such property to the date of distribution and not yet due. Such distributed property may or may not be a qualified investment for Registered Plans. If such distributed property is not a qualified investment for Registered Plans, such Registered Plans (and, in the case of certain Registered Plans, the annuitants, beneficiaries or subscribers thereunder or holders thereof) may be subject to adverse tax consequences.

The Fund may allocate and designate as payable to a redeeming Unitholder any capital gains realized by the Fund to fund the payment of the redemption price. Any such allocations and designations will reduce the redemption price otherwise payable to the redeeming Unitholder and therefore the Unitholder's proceeds of disposition.

One-half of any capital gain (a "taxable capital gain") realized by a Unitholder on the disposition of Units, or a taxable capital gain designated by the Fund in respect of a Unitholder will be included in the Unitholder's income and one-half of any capital loss (an "allowable capital loss") realized must be deducted from taxable capital gains in accordance with the provisions of the Tax Act. Allowable capital losses for a taxation year in excess of taxable capital gains for that year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against taxable capital gains in accordance with the detailed provisions of the Tax Act.

In general terms, net income of the Fund paid or payable to a Unitholder that is designated as taxable dividends from taxable Canadian corporations or as net realized taxable capital gains, amounts received by a Unitholder from the Fund that are deemed to be a dividend from a taxable Canadian corporation, and taxable capital gains realized on the disposition of Units may increase the Unitholder's liability for alternative minimum tax.

Based on the Manager's understanding of the current published administrative policies and assessing practices of the CRA, a conversion of the Class U Units into Class A Units (or of the Class A Units into Class U Units) will likely be considered to constitute a disposition of the Class U Units (or the Class A Units) for the purposes of the Tax Act.

## **Taxation of Registered Plans**

Registered Plans will generally not be subject to tax under Part I of the Tax Act on amounts of income and capital gains received from the Fund or on capital gains realized on the disposition of Units, provided that the Units are qualified investments for the Registered Plan. See “Income Tax Considerations – Status of the Investment Fund”. Unitholders should consult their own advisors with respect to other tax considerations that are relevant to Registered Plans that invest in Units, including the taxation of amounts withdrawn from a Registered Plan.

## **Tax Implications of the Fund’s Distribution Policy**

The NAV per Unit will reflect any income and gains of the Fund that have accrued or have been realized but have not been made payable at the time Units are acquired. A Unitholder who acquires Units may become taxable on the Unitholder’s share of such income and gains of the Fund notwithstanding that such amounts may have been reflected in the price paid by the Unitholder for the Units. The consequences of acquiring Units late in a calendar year will generally depend on the amount of distributions throughout the year, if any, and whether one or more year-end special distributions to Unitholders are necessary late in the calendar year to ensure, to the extent permitted under the Tax Act, that the Fund will not be liable to income tax on such amounts under Part I of the Tax Act.

## **Eligibility for Investment**

As noted above, provided the Fund qualifies as a mutual fund trust within the meaning of the Tax Act at all times, the Units will be qualified investments under the Tax Act for Registered Plans.

Notwithstanding that Units may be qualified investments for a trust governed by a TFSA, an RRSP, an RRIF, an RDSP, or RESP, the holder of a TFSA or RDSP, the annuitant of an RRSP or RRIF, or the subscriber of an RESP, will be subject to a penalty tax if such Units are a “prohibited investment” for the particular TFSA, RRSP, RRIF, RDSP or RESP. Units will generally be a “prohibited investment” if the holder of the TFSA or RDSP, the annuitant of the RRSP or RRIF, or the subscriber of the RESP, as the case may be, (i) does not deal at arm’s length with the Fund for purposes of the Tax Act, or (ii) has a “significant interest” (within the meaning of the Tax Act) in the Fund. Generally, a holder, annuitant, or subscriber, as the case may be, will not have a significant interest in the Fund unless the holder, annuitant or subscriber, owns interests as a beneficiary under the Fund that have a fair market value of 10% or more of the fair market value of the interests of all beneficiaries under the Fund, either alone or together with persons and partnerships with which the holder, annuitant, or subscriber, does not deal at arm’s length. In addition, the Units generally will not be a “prohibited investment” if the Units are “excluded property” (as defined in the Tax Act). Holders of a TFSA or RDSP, annuitants of an RRSP or RRIF and subscribers of an RESP should consult their own tax advisors in regards to the application of these rules in their particular circumstances.

## **MATERIAL CONTRACTS**

Contracts material to investors in the securities offered by the Fund are:

- (a) the Declaration of Trust;
- (b) the Custodian Agreement (as defined below); and
- (c) the Registrar and Transfer Agency Agreement (as defined below).

Copies of these agreements may be inspected during business hours at the head office of the Trustee.

## **AUDITORS, REGISTRAR AND CUSTODIAN**

The auditors of the Fund are Ernst & Young LLP, at its principal offices in Toronto, Ontario. The address of the auditor is 222 Bay Street, Toronto, Ontario M5K 1J7. The auditors of the Fund may not be changed unless the Independent Review Committee has approved the change and Unitholders have received at least 60 days' notice before the effective date of the change.

RBC Investor Services Trust (the "Custodian") will be appointed as the custodian of the assets of the Fund and may employ sub-custodians as considered appropriate in the circumstances. Pursuant to an agreement (the "Custodian Agreement") dated April 12, 2013 (as amended and restated as of May 15, 2015 and amended June 30, 2015), the Custodian will provide safekeeping and custodial services in respect of the assets of the Fund. The address of the Custodian is 155 Wellington Street West, 10th Floor, Toronto, ON M5V 3L3.

The Custodian will hold, or direct its sub-custodians to hold, for the account of the Fund, all securities, collateral security and other non-cash property (other than securities which are in a book-based system). In carrying out its duties, the Custodian will be required to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances or at least the same degree of care that it would give to its own property of a similar kind under its custody. The Fund will indemnify and hold harmless the Custodian and its employees, officers and directors against any direct loss, liability, claim or expense suffered or incurred by the Custodian arising from or in connection with the performance of its duties under the Custodian Agreement in respect of the Fund, provided that such indemnity shall not extend to any loss, liability, claim or expense occasioned by or resulting from the fraud, wilful default, negligence, breach or wrongful act of the Custodian or any other indemnified party or breach by the Custodian of the standard of care set forth in the Custodian Agreement.

The Fund will pay the Custodian customary custodianship fees for its services as outlined in the Custodian Agreement. The Custodian Agreement may be terminated by either party on 60 days' notice, and immediately by either party on written notice if either party is declared bankrupt or becomes insolvent, the assets or the business of either party becomes liable to seizure or confiscation by any public or governmental authority, the Manager's powers and authorities to act on behalf of or represent the Fund have been revoked or terminated, or the Custodian ceases to be qualified under applicable laws.

The Manager reserves the right to appoint another custodian of the Fund from time to time in its sole discretion.

Equity Financial Trust Company was appointed as the registrar and transfer agent for the Units at its principal office in Toronto, Ontario, pursuant to a transfer agent, registrar and disbursing agent agreement dated June 23, 2015 (the "Registrar and Transfer Agency Agreement"). Equity Financial Trust Company provides services to the Fund from its offices in Toronto, Ontario.

## **ANNUAL INFORMATION FORM FOR THE FUND**

Fund: Healthcare Special Opportunities Fund

Manager: LDIC Inc.  
The Exchange Tower  
130 King Street West, Suite 2130  
Toronto, Ontario, M5X 1E2  
(416) 362-4141

Additional information about the Fund is available in the Fund's financial statements and the management reports of fund performance. The Fund will provide a copy of these documents to any person or company, upon request to the Trust located at LDIC Inc., 130 King Street West, Suite 2130, Toronto, Ontario, M5X 1E2 or the investor relations line at (416) 362-4141.

Copies of these documents may also be obtained at no cost direct from your dealer, or by email at [info@ldic.ca](mailto:info@ldic.ca).

Copies of these documents and other information about the Fund, such as information circulars and material contracts, are also available on the Fund's website at [www.ldic.ca](http://www.ldic.ca) or at [www.sedar.com](http://www.sedar.com).