



PALOS EQUITY INCOME FUND

Independent Review Committee - Annual Report to Security holders

Date: January the 17th,2019

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Introduction

The Palos Equity Income Fund (the “Fund”) Independent Review Committee (“IRC”) is pleased to present this report for the calendar year ending December 31, 2018. Palos Management Inc. (the “Manager”) has been very supportive in keeping the IRC fully updated of any potential or actual conflicts during the period. In addition, the Manager has provided the IRC with access to the Manager’s administrative personnel that enabled the committee to have meaningful oversight of the Manager’s fulfillment of its policies and procedures with a view to preventing any conflicts of interest.

The mandate of the IRC is to review conflict of interest matters identified and referred to the IRC by the Manager and to give the Manager its approval or recommendation, depending on the nature of the conflict of interest matter. A “conflict of interest matter” is a situation where a reasonable person would consider the Manager or an entity related to the Manager to have an interest that may conflict with the Manager’s ability to act in good faith and in the best interests of the Fund. In each instance where a conflict of interest matter is identified and referred to the IRC, the main purpose of the IRC is to determine if the Manager’s proposed action achieves a fair and reasonable result for the Fund.

At least annually, the IRC reviews and assesses the adequacy and effectiveness of the Manager’s policies and procedures relating to conflict of interest matters in respect of the Fund, and conducts a self-assessment of the IRC’s independence, compensation and effectiveness.

This report covers the period beginning January 1, 2018 and ending December 31, 2018.

Composition of the IRC

Name of Member	Chairman	Date Member Joined IRC
Richard Guay	Yes	June 14, 2012
Jacques Lemieux	No	July 11, 2014
Laurent Biron	No	September 28 th , 2016

The mandate of Chairman by Mr. Guay has been reconducted November 29th, 2018.

Compensation Paid to IRC Members and Indemnities

For 2018, IRC members were each paid an annualized amount of \$4,000 for serving on the IRC. The Fund paid no indemnities to the members of the IRC in 2018.

In determining its compensation, the IRC relied on the advice provided by the Manager. Given the nature of the Funds, including the quantum of assets under management, the age of the Fund, and the complexity

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(or lack of complexity) of the conflict of interest issues the Manager expected to refer to the IRC, the Manager suggested an annual compensation of \$4,000 per IRC member.

Notwithstanding the Manager's recommendation, prior to 2018 the IRC determined that compensation of \$4,000 per IRC member per year was an appropriate level of compensation.

In all cases, the IRC considers the following criteria in determining its compensation:

- the best interests of the Fund;
- the size and complexity of the Fund;
- the commitment of time and energy that is expected from each IRC member to oversee the Fund;
- industry best practices; and
- the IRC's most recent annual self-assessment, as well as any recommendations about IRC compensation and expenses made by the Managers.

Other IRC Memberships

None of the members of the IRC serve on any other IRC of an investment fund that is a reporting issuer.

Relationships that could Compromise Independence

The IRC is of the opinion that none of its members is in relationship that may cause a reasonable person to question the member's independence. As such, it is not necessary for the IRC to describe the basis upon which it determined that a member is independent.

Securities Ownership

The IRC is not aware of any relationship during the Reporting Period that may have caused a reasonable person to question the independence of any Member. In particular, during the Reporting Period, none of the Members owned, individually or collectively, directly or indirectly more than 10% of:

- securities of Fund;
- securities of the Manager.

Also, during the Reporting Period, none of the Members owned, individually or collectively, directly or indirectly more than more than 1%, collectively, of the securities of any natural or legal person providing principal services¹ to the Fund or the Manager.

During the Reporting Period, the IRC reviewed and assessed, and was satisfied with, the independence of the Members and the effectiveness of the Members and the IRC.

¹ SGGG Fund Services Inc. – National Bank Independent Network - PricewaterhouseCoopers LLP, Fasken

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Actions of the Manager in Contravention of the Recommendations or Approval of the IRC

To the best knowledge of the members of the IRC, at no point over the course of 2018 did the Manager act on a conflict of interest matter referred to the IRC for which the IRC did not give a positive recommendation or approval. In other words, to the best knowledge of the members of the IRC, the Manager's actions with respect to conflict of interest matters were always in accordance with the recommendations and approvals made by the IRC.

Furthermore, to the best knowledge of the members of the IRC, at no point over the course of 2018 did the manager act on a conflict of interest matter but did not meet a condition imposed by the IRC in its recommendation or approval.

Summary of Recommendations and Approvals

During 2018, the IRC provided the Manager with the following recommendations or approvals of standing instructions, as the case may be:

- to monitor the fact that the Manager acts in a dual capacity as investment fund manager and as portfolio manager of the Fund;
- to ensure, in full compliance with National Instrument 23-102, that any transactions are not more costly to clients as a result of soft dollar agreements;
- to comply with the guidance provided by the Investment Funds Institute of Canada with respect to any potential Net Asset Value mispricings;
- to continue to follow the policy in the Compliance manual regarding the fairness in allocation of investment opportunities amount its clients and/or funds, as the case may be.
- to impose controls on gifts and other benefits that clients of the Manager could accept from service providers, dealers, management of issuers, or other suppliers; and
- to monitor the Fund to ensure that employees of the Manager are not able to trade on material non-public information, recognizing, in any case, that the nature of the Fund does not create significant opportunities for such trades.



Richard Guay, Chairman
Independent Review Committee