



**Annual Information Form  
dated June 29, 2021**

**Palos Equity Income Fund (Series A and F)**

No securities regulatory authority has expressed an opinion about these units and it is an offence to claim otherwise.

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## Name, Formation and History of the Fund

In this document, we use the following terms:

- **We, us, our**, the **Manager**, the **Portfolio Manager** and **Palos** refer to Palos Management Inc.;
- **You** refers to an individual investor and everyone who invests or may invest in the Fund;
- **Fund** refers to the Palos Equity Income Fund, the units of which are being offered by us under the simplified prospectus relating to this annual information form;
- **Trustee** refers to Computershare Trust Company of Canada;
- **Unitholders** refer to unitholders of the Fund;
- **Dealer** refers to both the dealer and the registered representative in your province who advises you on your investments, or the dealer that trades on the securities of Fund pursuant to your instructions without providing you with advice or recommendations (the latter being referred to hereinafter as “Discount Broker”). Unless otherwise specified, Dealer includes Discount Broker.

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**The Fund** is a mutual fund trust established under the laws of Québec pursuant to and governed by an amended and restated trust agreement dated as of November 24, 2010, as further amended and restated on January 7, 2011 and on July 15, 2011, and as further amended on February 24, 2012, and as further amended and restated on August 26, 2013 (the “**Trust Agreement**”). The Fund was initially settled as a unit trust pursuant to a trust agreement dated January 3, 2008 (the “**Original Trust Agreement**”). Prior to February 18, 2011 and commencing on January 3, 2008, the Fund was a mutual fund which distributed its securities pursuant to applicable prospectus exemptions. Effective November 24, 2010, the Unitholders of the Fund approved the amendment and restatement of the Original Trust Agreement which included, among other things, (i) the replacement of the original trustee, Mr. Hubert Marleau, by Palos Corporate Services Inc.; and (ii) the exchange, on a one to one basis effective November 24, 2010, of all of the issued and outstanding units of the Fund that had been authorized and issued pursuant to the Original Trust Agreement for an equivalent number of Series A Units of the Fund created pursuant to the Trust Agreement. The Trust Agreement was subsequently amended on January 7, 2011 in order to appoint BNY Trust Company of Canada as the trustee of the Fund. With the resignation of BNY Trust Company of Canada as Trustee of the Fund effective August 31, 2011, the Trust Agreement was amended and restated on July 15, 2011 (effective September 1, 2011) to appoint Computershare Trust Company of Canada as successor trustee to BNY Trust Company of Canada. Effective February 24, 2012, Series F Units of the Fund were created. On August 26, 2013, the Trust Agreement was amended to reflect the change to the Performance Fees paid to the Manager that took effect on January 1, 2014.

Palos is the investment fund manager and portfolio manager of the Fund. The Manager is a corporation formed under the laws of Québec in June 2001.

The Trustee of the Fund is Computershare Trust Company of Canada, which is a corporation formed pursuant to the *Canada Business Corporations Act* on February 29, 2000.

The registered offices of the Fund and the Manager are located at 1 Place Ville Marie, Suite 1670, Montréal, Québec, H3B 2B6.

The registered office of the Trustee is located at 100 University Avenue, 11<sup>th</sup> floor, Toronto, Ontario, M5J 2Y1.

This annual information form (the “**annual information form**”) contains details about the Fund. It is intended to be read along with the simplified prospectus and the fund facts of the Fund. If you have questions after reading these documents, please contact your Dealer or us.

## **Investment Restrictions**

The Fund is subject to certain standard investment restrictions and practices contained in securities legislation, including National Instrument 81-102 – *Investment Funds* (or in Québec, Regulation 81-102 *respecting Investment Funds*), as amended from time to time (“**NI 81-102**”) (or any successor instrument). The rules under NI 81-102 help to ensure that mutual funds investments are well diversified and relatively liquid and also help to ensure the proper administration of mutual funds. Except as set out below, the Fund adheres to, and is managed in accordance with, these standard investment restrictions and practices.

The fundamental investment objectives of the Fund are set out in the simplified prospectus of the Fund. Any change to the investment objectives of the Fund requires the approval of a majority of Unitholders at a meeting called for that purpose. The Manager may change the Fund’s investment strategies from time to time at its discretion.

## **Eligibility under the *Income Tax Act***

The Fund qualifies as a mutual fund trust as defined in the *Income Tax Act* (Canada) (the “**Tax Act**”) and is expected to continue to qualify at all times in the future. The Fund will not engage in any undertaking other than the investment of its funds in property (other than real property or an interest in real property) for the purposes of the Tax Act. Units of the Fund are qualified investments for trusts governed by registered retirement savings plans (RRSPs), registered retirement income funds (RRIFs), registered education savings plans (RESPs), deferred profit sharing plans (DPSPs), registered disability savings plans (RDSPs) and tax-free savings accounts (TFSA) (collectively, the “Registered Plans”).

Notwithstanding that units of the Fund may be qualified investments, a Unitholder will be subject to a penalty tax if the units of the Fund held in a TFSA, RRSP, RRIF, RDSP or RESP are a “prohibited investment” under the Tax Act. Units of the Fund will not be a “prohibited investment” for a trust governed by TFSA, RRSP, RRIF, RDSP or RESP, provided the holder of the TFSA or RDSP, the annuitant under the RRSP or RRIF or the subscriber of the RESP, as applicable, (i) deals at arm’s length with the Fund for purposes of the Tax Act, and (ii) does not have a “significant interest” as defined in the Tax Act in the Fund. In addition, the units of the Fund will generally not be a “prohibited investment” if the units of the Fund are “excluded property” as defined in the Tax Act.

## Description of Securities Offered by the Fund

The Fund is divided into units. The Fund is permitted to issue an unlimited number of series of units and may issue an unlimited number of units in each series, although the Manager reserves the right to limit subscriptions. Currently, the Fund offers two series of units of the Fund: “Series A Units” and “Series F Units”.

No Unitholder holds any assets of the Fund. Unitholders have those rights mentioned in this annual information form, in the simplified prospectus and as created in the Trust Agreement. The Fund derives its value from the portfolio assets held by it and the income earned in respect thereof. We calculate the net asset value (“NAV”) for the Fund’s Series A Units by taking the value of the assets attributable to the Series A Units, subtracting any liabilities attributable specifically to the Series A Units and subtracting the proportionate share of the Fund liabilities attributable to Series A Units and dividing the balance by the number of Series A Units investors hold. The same process is performed for each other series offered by the Fund. We calculate NAV at 4:00 p.m. (Eastern time) on each valuation day. A valuation day is each day that the Toronto Stock Exchange is open for a full day of business. The Fund is valued and may only be bought in Canadian dollars. The NAV of the Fund and for each series of units is determined as described under “Calculation of Net Asset Value” on page 9 and “Valuation of Portfolio Securities” on page 7.

Each holder of a whole unit of the Fund is entitled to one vote per unit at meetings of Unitholders of the Fund, other than meetings at which holders of one series of units of the Fund are entitled to vote separately as a series.

Subject to management fee distributions and rebates, all units of each series are treated equally with respect to distributions and on any liquidation or winding-up of the Fund based on the relative NAV of each series of the Fund.

All units of the Fund are fully paid and non-assessable when issued. Units of any series of the Fund may be switched at any time into units of another series of the Fund for which you qualify, or a series of another fund, in the event Palos creates additional funds (see “Switches” on page 11). Details and additional information relating to switching between (i) series of the Fund; and (ii) series of different funds, if any, are also available in the simplified prospectus of the Fund.

Fractions of units may be issued. Fractional units carry the rights and privileges, and are subject to the restrictions and conditions, applicable to whole units in the proportions which they bear to one unit; however, the holder of a fractional unit is not entitled to vote in respect of such fractional unit.

Unitholders can redeem all or any of their units at the NAV per unit for the series of units they own as described under “Redemption of securities” on page 11. All units are transferable without restriction. Transfers must be done in writing in a form acceptable to the Trustee or transfer agent and registrar, and pursuant to their reasonable requirements.

The Trustee may modify, alter or add to the provisions of the Trust Agreement without notice to Unitholders unless such amendment would constitute a “material change” for purposes of National Instrument 81-106 – *Investment Fund Continuous Disclosure* (or in Québec,

Regulation 81-106 *respecting Investment Fund Continuous Disclosure*), as amended from time to time (“**NI 81-106**”) (or any successor instrument), in which case the Trust Agreement may be amended on at least 21 days prior written notice to Unitholders or such longer period as may be required by applicable law.

The Fund does not hold regular meetings. Unitholders of the Fund are permitted to vote on all matters that require Unitholder approval under NI 81-102 or under the Trust Agreement. These matters include:

- the basis of the calculation of a fee or expense that is charged to the Fund or directly to its securityholders by the Fund or the Manager in connection with the holding of securities of the Fund is changed in a way that could result in an increase in charges to the Fund or to its securityholders;
- a fee or expense, to be charged to the Fund or directly to its securityholders by the Fund or the Manager in connection with the holding of securities of the Fund that could result in an increase in charges to the Fund or to its securityholders, is introduced;
- the Manager of the Fund is changed, unless the new manager is an affiliate of the current Manager;
- the fundamental investment objectives of the Fund are changed;
- the Fund decreases the frequency of the calculation of its net asset value per security;
- the Fund undertakes a reorganization with, or transfers its assets to, another issuer, if
  - the Fund ceases to continue after the reorganization or transfer of assets; and
  - the transaction results in the securityholders of the Fund becoming securityholders in the other issuer;
- the Fund undertakes a reorganization with, or acquires assets from, another issuer, if
  - the Fund continues after the reorganization or acquisition of assets;
  - the transaction results in the securityholders of the other issuer becoming securityholders in the Fund; and
  - the transaction would be a material change to the Fund;
- the Fund implements any of the following:
  - in the case of a non-redeemable investment fund, a restructuring into a mutual fund;
  - in the case of a mutual fund, a restructuring into a non-redeemable investment fund;
  - a restructuring into an issuer that is not an investment fund.
- any other matter which is required by the Trust Agreement or by the laws applicable to the Fund or by any agreement to be submitted to a vote of the Unitholders of the Fund.

Approval of these matters requires an affirmative vote of at least a majority of the Unitholders present or represented by proxy at a meeting called to consider these matters.

If approved by the independent review committee (“**IRC**”), the Fund may change its auditors by sending you a written notice of any such change at least 60 days before it takes effect. Likewise, if approved by the IRC, the Fund may merge with another mutual fund provided the merger fulfills the requirements of NI 81-102 and National Instrument 81-107 – *Independent Review Committee for Investment Funds* (or in Québec, Regulation 81-107 *respecting Independent Review Committee for Investment Funds*), as amended from time to time (“**NI 81-107**”) (or any successor instrument) relating to mutual fund mergers and you receive a written notice of the merger at least 60 days before it takes effect. In either case, no meeting of Unitholders of the Fund may be called to approve the change.

## **Valuation of Portfolio Securities**

The value of any security or property held by the Fund or any of its liabilities will be determined in the following way:

- 1) the value of any cash on hand, on deposit or on call loan, prepaid expenses, cash dividends and other distributions declared and interest accrued and not yet received, shall be deemed to be the face amount thereof, unless it is determined that any such deposit or call loan is not worth the face amount thereof, in which event the value thereof shall be deemed to be such value as we determine to be the fair value thereof;
- 2) the value of any bonds, debentures and other debt obligations shall be valued by taking the quoted market prices at the close of trading on the reporting date. Short-term investments including notes and money market instruments shall be valued at their fair value and that cost plus accrued interest will most often approximate the fair value;
- 3) the value of any security, index futures or index options which is listed on any recognized exchange shall be determined by the closing price at the valuation time or, if there is no closing sale price, the average between the closing bid and the closing ask price on the day on which the NAV of the Fund is being determined, all as reported by any report in common use or authorized as official by a recognized stock exchange; provided that if such stock exchange is not open for trading on that date, then on the last previous date on which such stock exchange was open for trading;
- 4) the value of any security or other asset for which a market quotation is not readily available shall be its fair market value as determined by us;
- 5) the value of any security, the resale of which is restricted or limited, shall be the fair value thereof. The Fund determines fair value of such security as being the lesser of the value thereof based on reported quotations in common use and that percentage of the market value of securities of the same class, the trading of which is not restricted or limited by reason of any representation, undertaking or agreement or by law, equal to the percentage that the Fund’s acquisition cost was of the market value of such securities at

the time of the acquisition; provided that a gradual taking into account of the actual value of the securities may be made where the date on which the restriction will be lifted is known;

- 6) purchased or written clearing corporation option, option on futures or over-the-counter options, debt-like securities and listed warrants shall be valued at the current market value thereof;
- 7) where a covered clearing corporation option, option on futures or over-the-counter option is written, the premium received by the Fund shall be reflected as a deferred credit which shall be valued at an amount equal to the current market value of the clearing corporation option, option on futures or over-the-counter option that would have the effect of closing the position. Any difference resulting from revaluation of such options shall be treated as an unrealized gain or loss on investment. The deferred credit shall be deducted in arriving at the NAV of the Fund. The securities, if any, which are the subject of a written clearing corporation, or over-the-counter option shall be valued at their then current market value;
- 8) the value of a futures contract, or forward contract, shall be the gain or loss with respect thereto that would be realized if, at the valuation time, the position in the futures contract, or the forward contract, as the case may be, 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;
- 9) margin paid or deposited in respect of futures contracts and forward contracts shall be reflected as an account receivable and margin consisting of assets other than cash shall be noted as held as margin;
- 10) the value of all assets of the Fund quoted or valued in a foreign currency and all liabilities and obligations of the Fund payable by it in foreign currency shall be converted into Canadian dollars by applying the rate of exchange obtained from the best available sources to the Manager, including but not limited to, the valuation agent or any of its affiliates;
- 11) all expenses or liabilities (including fees payable to the Trustee, if any) of the Fund shall be calculated on an accrual basis;
- 12) the non-public investments will be valued by the Manager (or any third party administrator which may be appointed by the Manager) at fair market value. In determining fair market value, the objective will be to establish what the transaction price would have been on the valuation day in an arm's length transaction motivated by normal business considerations. Fair market value will be estimated based on the results of a valuation technique that makes maximum use of inputs observed from markets, and relies as little as possible on inputs generated by the Manager. In addition, factors that market participants would consider in setting the price and that are consistent with accepted economic methods for pricing such financial instruments are used;



- 13) if any investment cannot be valued under the foregoing rules or if the foregoing rules are at any time considered to be inappropriate under the circumstances, then notwithstanding the foregoing rules, such valuation will be made in a manner deemed fair and reasonable.

Current market value means the most recently available sale price applicable to the relevant security on the principal exchange on which it is traded immediately preceding the valuation time on the valuation day, provided that, if no sale has taken place on a valuation day, the average of the bid and ask quotations immediately prior to the valuation time on the valuation day shall be used.

Although the value of the assets of the Fund is generally determined by following the valuation practices described above, the Manager has the discretion as outlined above to value the assets using other methods if it is determined that these practices are not appropriate in the circumstances; however, this discretion has not been exercised in the past three years. There can be no assurance that the Fund could obtain the fair value assigned to a security if it were to sell the security at the time at which the Fund determines its NAV per unit.

## **Calculation of Net Asset Value**

The purchase and redemption price of securities of any series of units of the Fund is based on the NAV per unit for that specific series determined after the receipt of a purchase or redemption order. The NAV per unit for a series of units is calculated by taking the value of the assets attributable to that series, subtracting any liabilities attributable specifically to that series and subtracting the proportionate share of the Fund liabilities attributable to that series and dividing the balance by the number of units of that series investors hold. The NAV is calculated at 4:00 p.m. (Eastern time) on each valuation day. A valuation day is each day that the Toronto Stock Exchange is open for a full day of business. The Fund is valued and may only be bought in Canadian dollars.

The NAV per security of the Fund is made available to the public, at no cost, on [www.globefund.com](http://www.globefund.com) or [www.morningstar.ca](http://www.morningstar.ca).

## **Purchases and Switches**

Units of the Fund are offered for sale on a continuous basis through Dealers. Individuals must be of majority age in their province of residence in order to purchase units and may hold such units in trust for a minor. Purchase orders must be placed with Dealers registered in an investor's province.

The Fund currently offers Series A Units and Series F Units.

Series A Units of the Fund are available to all investors. There are no fees payable by an investor to the Fund or the Manager in connection with the purchase of Series A Units of the Fund or, with the exception of a short-term trading fee, if applicable, upon redemption of same. If you buy Series A Units of the Fund, you will pay to your Dealer the sales charges negotiated between you and your Dealer.

Series F Units are available to investors who hold a fee-based account through their Dealer or their Portfolio Manager and who have signed a Series F Agreement.

Discount Brokers do not usually offer fee-based programs. We do not pay any commission to Dealers who sell Series F Units, which means that we charge a lower management fee.

## ***Purchases***

You can buy units of the Fund, transfer from the Fund to another fund (in the event Palos creates another prospectus qualified mutual fund) or change units of one series to another series of the Fund through a qualified Dealer. Transferring, which involves moving money from one investment to another, is also known as switching.

You can purchase units of the Fund through Dealers who will send us your order. The series of units of the Fund are qualified for distribution in all Canadian provinces pursuant to the simplified prospectus. Your order must be in the proper form and include all necessary supporting documents. Your Dealer is responsible for sending us your order by courier, priority post or telecommunications facility without cost to you.

If we receive your properly completed order before 4:00 p.m. (Eastern time) on a valuation day, we will process it using that day's NAV per unit. If we receive your order after that time, we will use the NAV per unit on the next valuation day. The valuation day used to process your order is called the "trade date". Your Dealer or we will send you a confirmation of your order once we have processed your order. A confirmation shows details of your transaction, including the name of the Fund, the number and series of units you bought, the purchase price, the trade date and the amount of sales charges, if any. We do not issue certificates of ownership for units of the Fund.

We may reject your purchase order within one business day of receiving it. If rejected, any money sent with your order will be returned immediately, without interest, once the payment clears. If we accept your order but do not receive payment within two business days, we will redeem your units on the next business day. If the proceeds are greater than the payment you owe, the difference will belong to the Fund. If the proceeds are less than the payment you owe, your Dealer will be required to pay the difference and is entitled to collect this amount and any associated expenses from you.

The minimum initial investment in Series A Units or Series F Units must be at least \$1,000. Each additional investment in Series A Units or Series F Units must be at least \$500. If the value of your Series A Units or Series F Units in the Fund is less than \$500, we can sell your units and send you the proceeds. We will give you 30 days' notice first. The Manager reserves the right to change the minimum investment level required at its discretion.

You pay no sales charge to the Manager or the Fund when you purchase units of the Fund. For Series A Units, you negotiate your sales charges, if any, directly with your Dealer. The amount of sales charges you pay to your Dealer will reduce the amount of money invested in the Fund.

## **Switches**

You may switch your units of the Fund between the different series of units offered, subject to the rules and criteria mentioned below. There are currently no additional funds in respect of which you may switch your units.

### **Transferring to Another Fund**

In the event Palos creates additional prospectus qualified mutual funds, you may transfer from the Fund to another prospectus qualified mutual fund by contacting your Dealer. Give your Dealer the name of the Fund and the series of units you hold, the dollar amount or number of units you want to transfer and the name of the fund and the series to which you are transferring. You may transfer your units of the Fund to units of another series of another prospectus qualified fund only if you are eligible to buy that other series. There are currently no additional funds in respect of which you may switch your units. There is no guarantee that Palos will create additional funds.

You may have to pay your Dealer transfer fees for the transfer of your Units to another prospectus qualified mutual fund, which are deducted from the amount you transfer by redeeming a sufficient number of units. However, the transfer fees are negotiable. If you have held the units for 90 business days or less, you may also have to pay to the Fund short-term trading fees.

Transfers are generally considered dispositions for tax purposes. If you hold your units outside a registered plan, you may realize a capital gain (or capital loss). For more information on the tax consequences, see "Income tax considerations" on page 23.

### **Switching Units for Units of Another Series**

You will generally be able to switch your units of one series to units of another series of the Fund by contacting your Dealer. You will be able to switch units into a different series of units only if you are eligible to buy that other series.

If we determine that you are no longer eligible to hold Series F Units of the Fund or if you move your account to a dealer that has not entered into a Series F Agreement with us, we will switch you to Series A Units of the Fund.

Changing units from one series to another series of the Fund is generally not a disposition for tax purposes except to the extent that units are redeemed to pay a short-term trading fee. If those redeemed units are held outside a registered plan, you may realize a capital gain (or capital loss). For more information on the tax consequences, see "Income tax considerations" on page 23.

## **Redemption of Securities**

To sell your units, send your instructions to your Dealer. Your Dealer will forward us your redemption order on the same day the Dealer received it from you. Once we receive your order, you cannot cancel it.

If we receive your redemption order before 4:00 p.m. (Eastern Time) on any valuation day, your redemption price will be based on the applicable NAV per unit applicable to the series of units you are redeeming on that date. Otherwise, your redemption price will be based on the applicable NAV per unit on the next valuation day. There are no redemption fees payable when you redeem your units, other than the short-term trading fee, if applicable.

We will send you a confirmation once we have processed your order. We will send your payment within two business days of receiving your properly completed order. You will receive payment in Canadian dollars.

If the registered owner of the units is a corporation, partnership, agent, fiduciary, trustee or surviving joint owner, we may require additional information. If you are unsure whether you need to provide a signature guarantee or additional information, check with your Dealer or us. If we don't receive all of the documentation we need from you to complete the redemption order within 10 business days of the trade date, we must reissue units of the same series to you (unless you are no longer eligible for Series F units, in which case we would reissue you Series A units).

If the issue price is greater than the redemption price for the units of that series, your Dealer will be required to pay the difference and the associated costs. Your Dealer may require you to reimburse the amount paid. If the issue price is less than the redemption price for the units of that series, the difference belongs to the Fund.

We reserve the right to redeem all of the units that you hold, if your investment in the Fund falls below \$500. We will give you 30 days' notice first. In addition, we reserve the right to redeem, without notice, units owned by a non-resident of Canada if the continued ownership of such non-resident could cause the Fund to be unable to obtain or to lose its status as a mutual fund trust for the purposes of the Tax Act. We also intend to observe all redemption policies that may be implemented from time to time by industry participants, such as FundSERV, the provider of the transaction system used by mutual funds in Canada.

If you hold your units in a non-registered account, you may realize a capital gain (or capital loss) when your units are sold. For more information on the tax consequences, see "Income tax considerations" on page 23.

### **Suspending your Right to Sell Units**

Securities regulations allow us to temporarily suspend your right to sell your units and postpone payment of your sale proceeds:

- during any period when normal trading is suspended on any exchange on which securities or derivatives that make up more than 50% of the Fund's value or its underlying market exposure are traded, provided those securities or derivatives are not traded on any other exchange that is a reasonable alternative for the Fund, or
- with the approval of securities regulators.

We will not accept orders to buy any series of units of the Fund during any period when we have suspended investors' rights to sell any series of units of the Fund.

## **Short Term Trading Fees**

We may charge you a short-term trading fee of up to 2.00% of the total amount you redeem, if you sell or transfer your units within 90 business days of buying them. We will redeem a sufficient number of units to pay the short-term trading fee. This fee does not apply if you transfer your units of one series to a different series of the same Fund, if applicable. We may also refuse to accept further purchase orders from you.

We will adopt policies on short-term trading mandated by regulation, if and when implemented by securities regulators. These policies will be adopted without amendment to the simplified prospectus or notice to you, unless otherwise required by securities laws.

## **Responsibility for Fund Operations**

### ***Investment Fund Manager and Portfolio Manager of the Fund***

Palos Management Inc.  
1 Place Ville Marie Suite 1670  
Montréal, Québec H3B 2B6  
(514) 397-0188  
info@palos.ca  
www.palos.ca

The Manager has been granted the exclusive power to manage and administer the business and affairs of the Fund pursuant to an investment and fund management agreement (the “**Management Agreement**”) dated July 15, 2011 between the Trustee on behalf of Fund and the Manager, which became effective on September 1, 2011, as amended on February 24, 2012, and as further amended on August 26, 2013. Palos acts as both the investment fund manager and the portfolio advisor to the Fund.

Charles Marleau is the co-founder of Palos and is also the lead portfolio manager since July 2010. Mr. Marleau was previously president of Palos until June 2021. Between September 2001 and July 2010, Mr. Marleau acted as senior analyst, associate portfolio manager and senior trader of the Fund. Mr. Marleau is responsible for managing and trading the portfolio securities of the funds managed by Palos and also supervises the Fund’s administration. Mr. Marleau graduated from McGill University with a Bachelor’s degree in Economics and completed the Chartered Investment Manager designation. He is a member of the Independent Review Committee of an investment fund of Goldman & Company, Investment Counsel Inc. and serves on the board of directors of numerous private companies.

The Manager is responsible for the day-to-day activities of the Fund, including management of the investment portfolio, the establishment of investment policies and guidelines and the provision of investment analysis relating to the Fund. The Manager will also provide investment advisory and portfolio management services to the Fund pursuant to the Management Agreement. Decisions regarding the purchase and sale of securities and the execution of transactions for the Fund will be made by the Manager in accordance with and subject to the

terms of the Management Agreement. In addition, the Manager provides the office space and facilities, clerical help, bookkeeping and the internal accounting services required by the Fund. Record keeping and transfer agency services, distribution crediting services and all Unitholder servicing requirements are also furnished by or on behalf of the Manager.

Under the Management Agreement, Palos shall act at all times honestly, in good faith and in the best interests of the Fund and its Unitholders, and to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Either party may terminate the Management Agreement, without payment of any penalty, including in the following circumstances:

- i. the other party has ceased to carry on business, become bankrupt or insolvent, resolved to wind up or liquidate or if a receiver of any of the assets of the other party is appointed;
- ii. the other party has committed any material breach of the terms of the Management Agreement or any relevant law, and has not remedied such breach within 30 days after written notice requiring the material breach to be remedied;
- iii. the assets of the other party have become subject to seizure or confiscation by any public or governmental organization;
- iv. the other party has lost any registration, license or other authorization required by it to perform the services described in the Management Agreement; or
- v. the Trust Agreement and the Fund are terminated.

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

The name and municipality of residence of each of the directors and executive officers of the Manager and their principal occupation during the past five years are as follows:

<b>Name and Municipality of Residence</b>	<b>Position with Manager</b>	<b>Principal Occupation</b>
Charles Marleau Beaconsfield, Québec	Director	Portfolio Manager, Palos Management Inc.
Philippe Marleau Westmount, Québec	President, Director and Ultimate Designated Person	President, Palos Management Inc.
Alain Lizotte Laval, Québec	Chief Financial Officer	Chief Financial Officer, Palos Management Inc.
Martin Picard Montréal, Québec	Vice-President, Legal Affairs and Chief Compliance Officer	Vice-President, Legal Affairs and Chief Compliance Officer, Palos Management Inc.

With the exception of Me Martin Picard, who held the position of Senior Legal Adviser with the Autorité des marchés financiers from 2014 until 2021, during the past five years, all of the

directors and officers of the Manager listed above have held their present principal occupations (or similar positions with their present employer or its affiliates).

### ***Trustee***

The Trustee, Computershare Trust Company of Canada, has been appointed as the trustee of the Fund pursuant to the Trust Agreement. In its capacity as trustee, the Trustee is responsible for the business of the Fund and must carry out the terms of the Trust Agreement. The Trustee may resign as trustee of the Fund by giving 60 days prior written notice to Unitholders. If a successor trustee can be found and agrees to accept the appointment, such successor trustee will assume the duties and obligations of the incumbent trustee within the relevant period. If a successor trustee cannot be found or is not appointed by investors in accordance with the provisions of the Trust Agreement, then the Fund will be terminated at the expiry of the relevant period.

The Trustee delegated the task of administering the Fund to the Manager pursuant to the Management Agreement.

### ***Brokerage Arrangements***

Decisions as to the purchase and sale of portfolio securities and decisions as to the execution of all portfolio transactions, including selection of market, dealer or broker and the negotiation, where applicable, of commissions, are made by and the responsibility of Palos.

In effecting portfolio transactions, Palos seeks to obtain the best combination of price and execution with respect to portfolio transactions for the Fund. The best net price, giving effect to brokerage commissions, spreads and other costs, is normally an important factor in this decision, but a number of other factors are considered as they are deemed relevant. These factors may include, but are not limited to:

- Palos' knowledge of negotiated commission rates and spreads currently available;
- the nature of the security being traded;
- the size and type of transaction;
- the nature and character of the markets for the security to be purchased or sold;
- the desired timing of the trade;
- the existing and expected activity in the market for the particular security;
- confidentiality, execution, clearance and settlement capabilities as well as the reputation and perceived soundness of the broker-dealer selected;
- the portfolio advisor's knowledge of actual or apparent operational problems of any broker-dealer;
- the broker-dealer's execution services rendered on a continuing basis and in other transactions; and
- the reasonableness of spreads or commissions.

Palos may also consider the quality of research provided by executing brokers or dealers and its usefulness in the management of accounts. When appropriate under its discretionary authority and consistent with its duty to seek best execution, Palos may direct brokerage transactions for

client accounts to broker-dealers who provide Palos with research and brokerage products and services.

Broker-dealers typically provide a bundle of services including research and execution of transactions. The research provided can be either proprietary (created and provided by the broker-dealer, including tangible research products as well as access to analysts and traders) or third-party (created by a third party, but provided by a broker-dealer). Palos may use soft dollar commission arrangements to acquire either type of research.

Palos makes decisions as to the purchase and sale of the Fund's portfolio securities and decisions as to the execution of portfolio transactions, including the selection of market, dealer and the negotiation, where applicable, of commissions. Palos regularly compares the order execution delivered by various dealers. The primary factor in Palos' decision to use a dealer is the quality of its trade execution. Palos may receive as a result of placing trades with certain dealers, "order execution goods and services" or "research goods and services" as defined in *Regulation 23-102 Respecting Use of Client Brokerage Commissions*. Palos makes a good faith determination that the goods and services received on behalf of the Fund benefit the Fund and the Fund's unitholders because the goods and services received either reduce the expenses charged to the Fund or provide Palos with a valuable research tool.

Since the date of the last annual information form, Palos has entered into brokerage transactions whereby client brokerage commissions were directed to a dealer in return for the provisions of goods and services other than order execution. These goods and services include, among other things, software for market data or database feeds.

None of these goods or services was provided by an affiliated entity of Palos.

The name of any third party that provided a good or service paid for with soft dollars will be provided upon request by contacting Palos at (514) 397-0188 (or toll-free at 1 (855) PALOS88 (1-855-725-6788)) or by e-mailing info@palos.ca.

### ***Custodian***

The custodian holds the assets of the Fund in safekeeping. The custodian of the Fund is National Bank Independent Network ("**NBIN**"), a division of National Bank Financial Inc., pursuant to a custodial services agreement dated June 29, 2012 (the "**Custodian Agreement**"). The custodian is independent of Palos. Where the Fund effects a short sale, the Fund may deposit assets as security with its custodian or dealer from whom the Fund borrowed the securities forming part of the short sale. The custodian will also act as custodian for any derivatives in which the Fund may invest – see "Fund Governance – Policy on the use of derivatives" on page 22 below.

### ***Auditor***

The auditor of the Fund is PricewaterhouseCoopers LLP of Montréal, Québec, since August 27, 2012.



## ***Transfer Agent and Registrar***

Independent of the Manager, SGGG Funds Services Inc. (“**SGGG**”) is the transfer agent and registrar of the Fund. SGGG maintains the register of securities of the Fund at its principal office in Toronto, Ontario. SGGG keeps track of owners of units of the Fund, processes purchases and redemption orders, issues investor account statements and trade confirmations and issues annual tax reporting information. SGGG is also responsible for providing administrative services to the Fund, including fund valuation and NAV calculation, Performance Fee calculation and financial reporting services. The Manager continues to be responsible for the services provided by SGGG.

## **Conflicts of Interest**

### ***Principal Holders of Securities***

To the knowledge of the Manager, as at the date hereof, no person or company owns, beneficially or of record, directly or indirectly, more than 10% of the units of the Fund.

The Manager is a corporation and is a wholly-owned subsidiary of Palos Capital Corporation. To the knowledge of the Manager, as at the date hereof, the following persons own, beneficially or of record, directly or indirectly, more than 10% of the issued and outstanding voting securities of Palos Capital Corporation: (i) The Marleau Capital Corporation Inc. (53.6%); (ii) Sopamy Consulting Inc. (27.1%); and (iii) Gus Kan Inc. (11.4%). To the knowledge of the Manager, as at the date hereof: (i) Mr. Philippe Marleau and Mr. Charles Marleau each beneficially owns 50% of the voting securities of The Marleau Capital Corporation Inc.; (ii) the Hanna Family Trust is the beneficial owner of all of the voting securities of Sopamy Consulting Inc; (iii) and Mr. Thomas Kaneb is the beneficial owner of all voting securities of Gus Kan Inc. Gus Kan Inc. is the beneficial owner of all voting securities of 98065 Ontario Inc., which itself owns 1.8% of the securities of Palos Capital Corporation. As such, Mr. Thomas Kaneb indirectly owns a total of 13.2% of the securities of Palos Capital Corporation.

To the knowledge of the Manager, as of the date hereof, the directors and officers of the Manager, in aggregate, own, beneficially or of record, directly or indirectly, 29.5% of the issued and outstanding voting securities of the Manager.

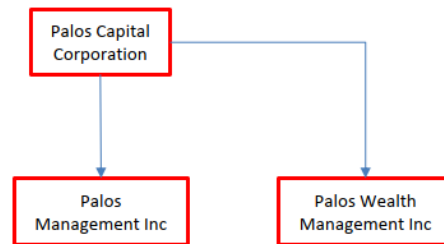
To the knowledge of the Manager, as of the date hereof, the directors and senior officers of the Manager, in aggregate, do not own, beneficially or of record, directly or indirectly, any voting securities of any person or company that provides services to the Fund or the Manager, other than as disclosed above.

The members of the IRC do not own, beneficially or of record, directly or indirectly, in aggregate: (a) any class of voting or equity securities of the Manager; (b) more than 10% of any class of voting securities of any person or company that provides services to the Fund or the Manager; or (c) more than 10% of the units of the Fund.

## ***Affiliated Entities***

Palos Management is the investment fund manager and the Portfolio Manager of the Fund. Palos Wealth Management Inc. (“PWM”) is an affiliate of Palos Management, registered as a portfolio manager and is authorized to act as discretionary portfolio manager for investors holding units of the Fund.

Disclosure of the amount of fees received from the Fund by each affiliated entity of the Manager is contained in the audited financial statements of the Fund.



## **Fund Governance**

The Trustee has the ultimate and overriding authority to manage and direct the activities and affairs of the Fund, subject to applicable law and the Trust Agreement. The Trustee has delegated certain powers of administration to the Manager pursuant to the Management Agreement. The Manager has adopted formal written policies with respect to business practices, risk management controls and internal conflicts of interest.

The Manager has a written Internal Control and Compliance Manual (the “**Manual**”) that is annually revised by the Manager, approved by the Board of Directors of the Manager and signed on an annual basis by all of the Manager’s employees. The Manual addresses topics such as the opening of client accounts, the management of client accounts, anti-money laundering practices, insider trading, calculation of fund performance, complaint handling procedures, supervision of employees, obligations to the regulator, financial reporting, insurance, advertising, maintenance of client privacy and proxy voting policies and procedures. The Manual also sets out the Manager’s risk management framework, which includes a detailed breakdown of liquidity risk, leverage risk, market risk, counterparty credit risk and operational risk. The Manager also has a detailed business continuity plan in the case of a catastrophe or other type of business interruption. With regards to managing conflicts of interest, the Fund has a detailed policy that sets out certain specific prohibitions, as well as a general policy against entering into any relationships which could cause a conflict of interest. All employees of the Manager are prohibited from accepting any gifts or compensation which could influence their decision-making and from engaging in outside activities which could compromise their decision-making. The Manager has also established an Independent Review Committee in accordance with NI 81-107. Where the Manager is facing any conflict of interest matter, as such term is defined under Regulation 81-107, it submits the conflict of interest matter along with the Manager’s proposed actions in order to address such matter to the IRC whose mandate is to provide an approbation

or a recommendation to the effect that the Manager’s proposed action achieves a fair and reasonable result for the Fund in accordance with Regulation 81-107.

With regard to sales practices, the Manager complies with National Instrument 81-105 *Mutual Fund Sales Practices*.

### ***Independent Review Committee***

In accordance with NI 81-107 (or any successor instrument), the Manager has established an IRC to provide impartial approvals or recommendations on conflicts of interest matters related to the operations of the Fund.

The IRC is composed of three individuals, each of whom is independent of the Fund, the Manager and its affiliates. The current members of the IRC, and their principal occupations, are as follows:

<b>Name</b>	<b>Principal Occupation</b>
Richard Guay – Chairman of the IRC	Licensed Real Estate Agent Immeubles Trans-Immo Inc.
Laurent Biron	Vice President, Sales in Quebec Sprott Asset Management
Jacques Lemieux	Strategic Advisor

The IRC became fully operational on January 7, 2011. The IRC has adopted a written charter that includes its mandate, responsibilities and functions, and the policies and procedures it will follow when performing its functions.

Jacques Lemieux is a lawyer and has been a member of the Quebec Bar since 1993. He holds a License in Civil Law (LL.L.) and a Bachelor’s Degree in Common Law (LL.B.); he also obtained a Bachelor’s degree in Biological Science (Microbiology concentration) (B.Sc.) and a Master’s in Business Administration (MBA). He is also a Certified Corporate Director (ICD.D) from the Institute of Corporate Directors of the Rotman School of Management at the University of Toronto. He has more than 25 years of diversified professional experience in business law, including as a partner in national and international law firms, where he advised a diverse group of clients made up of local and foreign entrepreneurs, businesses and institutions, both private and public corporations, regarding mergers and acquisitions, technology transfers, financing, the implementation of strategic alliances, joint ventures and outsourcing, both in Canada and abroad. He has also advised numerous boards of directors on various governance matters and is also a director and a member of several board committees (HR, Audit, Governance) for corporations, both private and public, as well as NPOs. Mr. Lemieux is a member of the Institute of Corporate Directors, Governor of the Quebec Bar Foundation and currently sits on the board of directors of private businesses and the Conseil des Entreprises Privées en Santé et Mieux-Être.

Richard Guay is currently a real estate broker representing clients in the residential, commercial and industrial sectors. In addition, he acts as a consultant with regards to matters involving human resources, taxation and issues regarding the establishment and management of trusts. Prior to becoming a real estate broker, Mr. Guay worked in the trust sector for over 28 years

where he acted for mutual fund trusts, among other types of clients. Mr. Guay also worked as the general manager of a large Canadian financial institution for over ten years.

Laurent Biron is currently the Director, Province of Quebec of Ninepoint Partners, a position he has held since August 2017. Ninepoint was established as a result of the management buyout of Sprott Asset Management in August 2017. At that time, he was Vice President, Sales in Quebec for Sprott Asset Management since December 2013. Prior to that, for 7 years he was with NexGen Financial Corporation. Mr. Biron has been working with advisors in the province of Quebec for the last 20 years, since he started as a Senior Consultant with Standard Life Mutual Funds. Mr. Biron brings to his clients a good understanding of the different tax issues that could arise in a client's portfolio and a good knowledge of the private debts sector. Mr. Biron spent 3 years in Bermuda where he dealt with different corporate structures in insurance, investments and hedge funds. Laurent Biron is a CPA holder and started as a US tax accountant with Ernst & Young LLP in Montreal. Mr. Biron also holds the Derivative Market Specialist (DMS), Chartered Investment Manager (CIM), Fellow of the Canadian Securities Institute (FCSI) designations.

In accordance with NI 81-107, the mandate of the IRC is to consider and provide approbations, recommendations or the refuse to provide approbations or recommendations the Manager's proposed actions on conflicts of interest matters which the Manager submits to the IRC when managing the Fund. The Manager is required under NI 81-107 to identify conflicts of interest matters inherent in its management of the Fund, and request input from the IRC on how it manages those conflicts of interest, as well as on its written policies and procedures outlining its management of those conflicts of interest.

The Manager must refer its proposed course of action in respect of any such conflict of interest matters to the IRC for its review. Certain matters require the IRC's prior approval, but in most cases the IRC will provide a recommendation to the Manager as to whether or not, in the opinion of the IRC, the Manager's proposed action achieves a fair and reasonable result for the Fund. For recurring conflict of interest matters, the IRC can provide the Manager with standing instructions.

The members of the IRC are indemnified by the Manager and the Fund, in keeping with NI 81-107. The costs and expenses of the IRC are paid by the Fund. However, the Manager has arranged for a director and officer liability insurance policy in respect of the IRC members and their related activities. The IRC members will be indemnified by the Manager for matters or amounts not covered under that insurance policy. The IRC members are not responsible for the investments made by the Fund, or for the performance of the Fund. While the Manager does not currently manage any other funds that require an IRC, the members of the IRC may serve in a similar capacity in respect of other investment funds managed by the Manager in the event the Manager creates other funds that would require an IRC. The IRC members set their own compensation in accordance with NI 81-107. In addition, the IRC has the authority, pursuant to NI 81-107, to retain independent counsel or other advisors, at the expense of the Fund, if the members deem it necessary to do so.

The IRC prepares, at least annually, a report of its activities for Unitholders of the Fund which is available on our website at [www.palos.ca](http://www.palos.ca) or upon request by any investor, at no cost, by calling: (514) 397-0188 (or toll-free at 1 (855) PALOS88 (1-855-725-6788)) or e-mailing to: [info@palos.ca](mailto:info@palos.ca) or on SEDAR at [www.sedar.com](http://www.sedar.com).

Certain matters relating to the Fund may not be acted upon except with the consent of the Unitholders. These matters include a change in the Manager (except to an affiliate), any change in the fundamental investment objectives and any other matter required by law to be put to a vote of Unitholders. Unitholder approval will not be required for a change in the auditors of the Fund provided the IRC has approved such change and Unitholders receive notice 60 days in advance of any such change in auditors. Subject to the specific provisions and criteria of NI 81-102, Unitholder approval will not be required for the Fund's reorganization with or transfer of assets to another mutual fund managed by the Manager or an affiliate of the Manager provided the IRC has approved such reorganization, Unitholders receive notice 60 days in advance of any such reorganization and Unitholders of the Fund become Unitholders in the other mutual fund. These provisions only apply to the terminating fund.

### ***Policies on Proxy Voting***

It is the Manager's standing policy to monitor corporate actions and vote proxies in accordance with the best interests of the Fund and the Unitholders of the Fund. The Manager has adopted proxy voting guidelines (the "Proxy Voting Guidelines") that provide that the portfolio manager will generally vote the securities in the Fund in the best interests of the Unitholders of the Fund, if the Manager feels the participation in the vote will provide value to the Unitholders, or it has a chance to influence the result of the vote. The Proxy Voting Guidelines provide that routine, uncontested matters to be considered at annual general meetings will generally be ignored or voted in accordance with management's recommendations, as long as, in the opinion of the Manager, there is sufficient accountability, transparency, and alignment of management and shareholder interests. More complex, non-routine matters (i.e. certain issues related to the compensation and liability of directors, amendments to the constating documents of an issuer, share and debt issuances, related party transactions, reorganizations, restructurings, shareholder proposals and proposals relating to corporate social responsibility) will be decided on a case-by-case basis, and voted on if the Manager feels the participation in the vote will provide value to the Unitholders, or it has a chance to influence the result of the vote. From time to time, the Manager may also assume an "activist" role in the proxy voting context. For example where an issuer (securities of which are held in the Fund's investment portfolio) disregards Unitholders concerns or interests in connection with a substantive matter (e.g. a proposed merger) facing that issuer, the Manager may take an "activist" role in relation to that matter if such activism is believed to benefit the Unitholders of the Fund. Such issues will be actively voted upon on a case-by-case basis based upon the merits of each situation. The Manager reviews the proxy voting record of the Fund on a quarterly basis to ensure that its policies and procedures are followed.

If a vote relating to any of the portfolio securities of the Fund presents a conflict of interest between the interests of the Unitholders and those of the Manager, or any affiliate or associate of the Manager or the Fund, the Manager will refer the matter to the IRC for review.

The policies and procedures that the Fund follows when voting proxies relating to securities held by the Fund are available on request free of charge from the Manager by calling: (514) 397-0188 (or toll-free at 1 (855) PALOS88 (1-855-725-6788)) or e-mailing to [info@palos.ca](mailto:info@palos.ca). The Fund's proxy voting record for the most recent period ended June 30 of each year is available free of charge to any Unitholder upon request at any time after August 31 of that year. The proxy voting record will also available on the Manager's website at [www.palos.ca](http://www.palos.ca).

## ***Policies on the Use of Derivatives***

The Fund is permitted to use derivatives from time to time as described in the Fund's simplified prospectus and in compliance with the requirements contained in NI 81-102 and in the Manager's written policies to that effect included in the Guide. The portfolio manager can carry out derivative transactions on behalf of the Fund, as permitted by securities regulations.

As regards derivatives, the Fund will primarily engage in writing (selling) covered call and covered put options. Furthermore, policies, procedures and guidelines regarding investing in options are compiled and reviewed annually by the Manager. The Manager records, values, monitors and reports internally on the options that are entered into the Fund's portfolio records. A monthly report is prepared identifying the Fund's option trading, if any, and the Fund's compliance with regulatory requirements. Exceptions are identified along with applicable corrective action undertaken.

Derivatives will not be used to create leverage within the Fund's portfolio unless permitted under NI 81-102. Charles Marleau will monitor the Fund's use of derivatives and will be responsible for ensuring that the Fund adheres to the limitations set out in this policy and in NI 81-102.

## ***Short Selling Risk Management***

The Fund may engage in short selling from time to time as described under "How the Fund engages in short selling" in the Simplified Prospectus.

Written policies and procedures relating to short selling by the Fund (including risk management procedures described under "Fund Governance" above) have been developed by the Manager. Any agreements, policies and procedures that are applicable to the Fund relating to short selling (including trading limits and controls in addition to those specified above) have been prepared and reviewed by senior management of the Manager. The decision to effect any particular short sale will be made by senior portfolio managers and reviewed and monitored as part of the Manager's ongoing compliance procedures and risk control measures.

## ***Short Term Trading Policies***

The Manager has policies and procedures in place to actively monitor, detect and deter inappropriate or excessive short-term trading. The Manager may amend such policies or procedures from time to time, without notice. All Unitholders of the Fund are subject to the short-term trading policies.

The Manager reviews all trades in units of the Fund to identify redemptions and switches that occur within 90 days of the purchase. Such trades are considered by the Manager to be short term trades and, where the Manager, in its discretion, deems the short-term trade to be inappropriate, the trades will be subject to such action as the Manager considers appropriate to deter the continuance of such behavior.

Such action may include the application of a short term trading fee of up to 2.00% and/or the rejection of future purchase orders. The short-term trading fee does not apply in certain circumstances, including: (a) if you switch to another series of units in the Fund, if any; (b) redemption of units purchased by the reinvestment of distributions, if any; (c) reclassification of units from one series to another series of the Fund; or (d) redemptions initiated by the Manager. In considering whether a short term trade is inappropriate, the Manager will generally consider the value of the transaction, the potential impact on the Fund, and the account activity.

Where the Manager identifies an inappropriate short term trade, the Manager will review the account to examine trading activity patterns. A letter will generally be sent to the account advisor, describing the Manager's policy in respect of short term trading and advising that the account has been flagged for an automatic fee application of 2.00% in the event of another trade or trades occurring within a 90 day period.

The Fund does not have any arrangements, formal or informal, with any person or company to permit short-term trading.

## **Income Tax Considerations**

This section describes the principal Canadian federal income tax considerations applicable to the Fund and to investors who are individuals resident in Canada (other than trusts), who deal with the Fund at arm's length, are not affiliated with the Fund and who hold securities of the Fund as capital property for tax purposes. This summary does not apply to a Unitholder that has entered or will enter into a "derivative forward agreement" or a "synthetic disposition arrangement" as these terms are defined in the Tax Act with respect to the units.

This summary takes into account the current provisions of the Tax Act and the regulations under the Tax Act, all proposals to amend the Tax Act and regulations publicly announced prior to the date hereof and the administrative practices and policies of the Canada Revenue Agency published in writing by it prior to the date hereof. This summary does not otherwise take into account or anticipate any change in law or administrative practice, whether by legislative, regulatory, administrative or judicial action. In addition, it does not take into account provincial or foreign tax considerations. This summary assumes that at all material times the Fund will qualify as a mutual fund trust and that the Fund will at no time be a "SIFT trust" as defined in the rules in the Tax Act relating to SIFT trusts and SIFT partnerships. This summary also assumes that the Fund has elected pursuant to subsection 39(4) of the Tax Act to have all Canadian securities owned by it deemed to be capital property.

This summary is also based on the assumptions that none of the issuers of the securities in the portfolio will be "foreign affiliates" (as defined in the Tax Act) of the Fund or of any Unitholder and that none of the securities in the portfolio will be a "tax shelter investment" within the meaning of section 143.2 of the Tax Act. Further, this summary assumes that none of the securities in the portfolio will be "offshore investment fund property" that would require the Fund to include amounts in the Fund's income pursuant to section 94.1 of the Tax Act, or an interest in a trust which would require the Fund to report income in connection with such interest pursuant to the rules in section 94.2 of the Tax Act, or an interest in a non-resident trust other than an "exempt foreign trust" as defined in section 94 of the Tax Act.

This summary is not intended to be exhaustive of all possible income tax considerations. You should consult your own tax adviser for advice with respect to the tax consequences of an investment in the Fund in your particular circumstances.

### ***Taxation of the Fund***

In each taxation year of the Fund, the net income and net realized capital gains, if any, of the Fund as would otherwise be taxable in the Fund will be payable to Unitholders and paid by the Fund in cash or reinvested in additional units of the Fund. Consequently, the Fund will not be liable for income tax under Part I of the Tax Act. Capital or income losses incurred by the Fund cannot be allocated to Unitholders but may, subject to certain limitations, be deducted by the Fund from its capital gains or net income realized in subsequent years.

All of the Fund's deductible expenses, including expenses common to all series of the Fund and expenses specific to a particular series of the Fund (including management and performance fees), will be taken into account in determining the income or loss of the Fund as a whole.

The Fund is required to compute net income and net realized capital gains in Canadian dollars for the purposes of the Tax Act. As a result, the Fund may realize income or capital gains by virtue of changes in the value of a foreign currency relative to the Canadian dollar.

The "suspended loss" rules in the Tax Act may prevent the Fund from recognizing capital losses on the disposition of securities in certain circumstances which may increase the amount of net realized gains of the Fund to be paid to Unitholders.

Generally, gains and losses from derivative transactions and short sales of securities other than Canadian securities will, for tax purposes, be on income account rather than capital account. Short sales of Canadian securities will be on capital account.

The higher the Fund's portfolio turnover rate in a year, the greater the chance the Fund will realize gains and losses in the year.

### ***Units Held in Registered Tax Plans***

If units are held in a Registered Plan, income (including dividends) and capital gains received from the Fund, and capital gains realized on selling or transferring the units of the Fund, generally will not be taxable in such Registered Plans, but any amounts withdrawn from such Registered Plans may be taxable at such time. Distributions from TFSAs are generally not taxable.

Holders of units should consult their own advisors as to whether the units of the Fund will be a prohibited investment for RRSP, RRIF, TFSA, RDSP or RESP in their particular circumstances.

Provided the Fund qualifies as a "mutual fund trust", as defined in the Tax Act, the units of the Fund are qualified investments under the Tax Act for Registered Plans. See "Eligibility under the Income Tax Act".



## ***Units Held in Nonregistered Accounts***

Unitholders must include in their income all net income and net taxable capital gains, if any, payable to them by the Fund (including by way of management fee distributions), whether paid by reinvestment in additional units or in cash. To the extent applicable, the Fund intends to make designations to ensure that the maximum portion of its dividends from taxable Canadian corporations (including deemed dividends), foreign income, net realized capital gains and foreign creditable tax will be received by Unitholders as dividends from taxable Canadian corporations, foreign income or taxable capital gains, as the case may be, or will be deemed to be paid by Unitholders in the case of foreign creditable tax.

Dividends from taxable Canadian corporations distributed by the Fund, other than capital gains dividends, whether paid by reinvestment in additional units or in cash, are eligible for a dividend tax credit through the gross-up and credit procedure applicable to dividends received from taxable Canadian corporations, including the enhanced gross-up and tax credit available for eligible dividends.

When Unitholders purchase units of the Fund, a portion of the price paid may reflect income and capital gains of the Fund for the year. The amounts paid to Unitholders must be included in their income for tax purposes subject to the provisions of the Tax Act, even though the Fund earned these amounts before the Unitholders owned the units. This could arise if a Unitholder buys a unit before a distribution date, such as just before the end of a fiscal quarter of the Fund or just before a dividend is declared.

If distributions by the Fund (including management fee distributions) in any year exceed the Fund's net income and net realized capital gains for the year, the excess amount paid to the Unitholder will not be included in his or her income but will reduce the adjusted cost base of his or her units by the excess amount paid to that Unitholder. If the adjusted cost base of your units of the Fund were to become negative, you would be deemed to realize a capital gain equal to that amount.

Where a Unitholder redeems or otherwise disposes of, or is deemed to dispose of, securities, generally a capital gain (or a capital loss) will be realized to the extent that the proceeds of disposition of the securities exceed (or are exceeded by) the aggregate of the adjusted cost base to the Unitholder of the securities and any reasonable costs of disposition. One-half of a capital gain must be included in computing the Unitholder's income under the Tax Act.

In certain situations where you dispose of units of the Fund and would otherwise realize a capital loss, the loss will be denied. This may occur if you, your spouse or another person affiliated with you (including a corporation controlled by you) has acquired units of the Fund within 30 days before or after you dispose of your securities, which are considered to be "substituted property". In these circumstances, your capital loss may be deemed to be a "superficial loss" and denied. The amount of the denied capital loss will be added to the adjusted cost base for the securities which are substituted property.

The adjusted cost base of units of the Fund to a Unitholder is, generally, the amount paid for units of the Fund, plus the amount of reinvested distributions or dividends on the units, minus the

capital returned in any distributions, minus the adjusted cost base of securities of the Fund previously redeemed. Unitholders should keep detailed records of the purchase costs, sales charges and dividends or distributions related to their securities.

Individuals are subject to an alternative minimum tax. Capital gains, capital gains dividends and Canadian dividends may give rise to liability for such minimum tax.

### ***Trust Loss Restriction Rules***

If the Fund experiences a “loss restriction event” (“LRE”) (i) the Fund will be deemed to have a year-end for tax purposes (which could result in the Fund being subject to tax unless it distributes its income and capital gains prior to such year-end), and (ii) the Fund will become subject to the loss restriction rules generally applicable to corporations that experience an acquisition of control, including a deemed realization of any unrealized capital losses and restrictions on their ability to carry forward losses.

Generally, the Fund will be subject to a LRE when a person becomes a “majority-interest beneficiary” of the Fund, or a group of persons becomes a “majority-interest group of beneficiaries” of the Fund, as those terms are defined in the Tax Act. Generally, a majority-interest beneficiary of the Fund will be a beneficiary who, together with the beneficial interests of persons and partnerships with whom the beneficiary is affiliated, has a fair market value that is greater than 50% of the fair market value of all the interests in the income or capital, in the Fund.

The Tax Act provides for an exception to the LRE rules with respect to the acquisition of equity of a trust that is a mutual fund trust or a quasi-mutual fund trust. The exception applies to exempt from the LRE where the LRE occurs due to the acquisition or disposition of equity of a mutual fund trust or a quasi-mutual fund trust where the following two conditions are met:

(i) such entity is, immediately before that time, an “investment fund”, as this term is defined in the Tax Act; and

(ii) the acquisition or the disposition, as the case may be, is not part of a series of transactions or events that includes the trust ceasing to be an “investment fund”.

### **Remuneration of Directors, Officers and Trustees**

No other remuneration, fees or reimbursement of expenses are paid by the Fund to the directors or officers of the Trustee. The Trustee is paid an annual fee for its services in such capacity, in addition to the reimbursement of proper disbursements on behalf of the Fund. Annual fees payable to the Trustee are negotiated between the Trustee and the Manager. The Fund paid the Trustee a fee of \$13,871 for its services in such capacity for the financial year ended December 31, 2020.

The IRC is ultimately responsible for setting reasonable compensation for its members. Each year the IRC determines and discloses its compensation in its annual report to investors in the Fund. The Fund paid the IRC members a fee of \$4,000 each for their services in such capacity for the

financial year ended December 31, 2020. The IRC has left its compensation unchanged for 2021 at \$4,000 per annum for each member.

## **Material Contracts**

The following contracts can reasonably be regarded as material to Unitholders of the Fund:

- Amended and Restated Trust Agreement dated August 26, 2013 between the Manager and the Trustee, as described under “Name, formation and history of the Fund” beginning on page 2.
- Management Agreement between the Manager and the Trustee, dated July 15, 2011, as amended on February 24, 2012, and as further amended on August 26, 2013, as described under “Responsibility for mutual fund operations” beginning on page 13.
- Custodian Agreement between National Bank Independent Network (“**NBIN**”), a division of National Bank Financial Inc., and the Manager on behalf of the Fund dated June 29, 2012, as described under “Responsibility for mutual fund operations” beginning on page 13.
- SGGG Administration Agreement between SGGG Funds Services Inc., the Fund and the Manager dated June 8, 2016, as described under “Responsibility for mutual fund operations” beginning on page 13.

Copies of these material agreements may be inspected during business hours at the principal office of the Manager.

## **Legal and Administrative Proceedings**

The Fund and the Manager are not involved in any material legal proceedings, nor is the Manager aware of existing or pending legal or arbitration proceedings involving the Fund or the Manager, other than with respect to the following:

On November 23, 2011, the Manager reached a settlement with the Autorité des marchés financiers whereby the Manager agreed to pay a monetary administrative penalty of \$26,500 for a failure by the Manager to include certain components of certain financial statements that were filed for the periods ending June 30, 2009, December 31, 2009 and June 30, 2010. The settlement relates to investment funds managed by the Manager and offered under statutory prospectus exemptions, including the Fund before it was offered to the public by simplified prospectus, and another investment vehicle.

## Certificate of the Fund

This Annual Information Form together with the Simplified Prospectus and the documents incorporated by reference into the Simplified Prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by the Simplified Prospectus, as required by the securities legislation of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador and do not contain any misrepresentations.

DATED June \_\_\_\_, 2021.

Palos Management Inc., duly authorized on behalf of the Trustee of  
Palos Equity Income Fund

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Philippe Marleau  
President

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Alain Lizotte  
Chief Financial Officer

## Certificate of the Manager and the Promoter

This Annual Information Form together with the Simplified Prospectus and the documents incorporated by reference into the Simplified Prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by the Simplified Prospectus, as required by the securities legislation of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador and do not contain any misrepresentations.

DATED June \_\_\_\_, 2021.

Palos Management Inc. as Manager and Promoter of  
Palos Equity Income Fund

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Philippe Marleau  
President, in his capacity as Chief  
Executive Officer

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Alain Lizotte  
Chief Financial Officer

On behalf of the Board of Directors of Palos Management Inc. as Manager and Promoter of  
Palos Equity Income Fund

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Charles Marleau  
Director

# PALOS

## **Palos Equity Income Fund (Series A Units and Series F Units)**

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

You can get a copy of these documents at your request and at no cost, by calling (514) 397-0188 (or toll-free at 1 (855) PALOS88 (1-855-725-6788)) or by e-mailing [info@palos.ca](mailto:info@palos.ca), or by asking your Dealer.

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

Manager of the Fund:

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