

## **Part 2A of Form ADV: Firm Brochure**

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**March 31, 2019**

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**This brochure provides information about the qualifications and business practices of Hillsdale Investment Management Inc. If you have any questions about the contents of this brochure, please contact us at (416) 913-3900 and/or at [info@hillsdaleinv.com](mailto:info@hillsdaleinv.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Hillsdale Investment Management Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## Item 2 – Material Changes

### March 31, 2019

An item is considered material if there is a substantial likelihood that a reasonable investor or client would consider the information to be important.

Below is a summary of material changes since the last annual update of this brochure on March 31, 2018.

- a) Hillsdale's net Assets under Management ("AUM") grew by 30.7% in 2018, from \$1,434.8 million to \$1,875.4 million.
- b) Effective March 1, 2019 management and performance fee rates were amended in various Funds. For details please refer to Item 5 *Fees and Compensation*.
- c) Effective March 1, 2019 the Hillsdale Global Long/Short Equity Fund was renamed the Hillsdale Global Equity Fund. The fund became a long-only equity fund investing in global securities.
- d) Effective March 1, 2019 Hillsdale changed the names of the following funds to better describe their underlying investment objectives and strategies. In addition to providing increased clarity, the new names conform more closely with industry norms. The name changes were:
  - The Hillsdale Canadian Performance Equity Fund was renamed the **Hillsdale Canadian Small Cap Equity Fund**;
  - The Hillsdale US Performance Equity Fund was renamed the **Hillsdale US Small Cap Equity Fund**;
  - The Hillsdale Global Performance Equity Fund was renamed the **Hillsdale Global Small Cap Equity Fund**; and
  - The Hillsdale Enhanced Income Fund was renamed the **Hillsdale Global Income Fund**.
- e) Effective March 1, 2019 Hillsdale amended the investment objectives of the Canadian Small Cap Equity Fund, the Canadian Micro Cap Equity Fund, the US Small Cap Equity Fund, the Global Small Cap Equity Fund, the Global Equity Fund, the Canadian Core Equity Fund and the Canadian Long/Short Equity Fund. The amendments were to better align the investment objectives with the manner in which Hillsdale manages the assets of each Fund. For details please refer to Item 8 *Methods of Analysis, Investment Strategies and Risk of Loss*.
- f) Effective March 1, 2019 Hillsdale amended the investment restrictions and various other terms of the Hillsdale Canadian Funds. The amendments were to better reflect the manner in which Hillsdale manages the assets of each Fund, to standardize the series of Units offered and to update outdated provisions, statutory references and other items. For details please refer to Item 8 *Methods of Analysis, Investment Strategies and Risk of Loss*.

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*\* This has been provided to assist readers in understanding the brochure.*

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## Glossary of Key Terms Used

The following terms are used throughout this brochure to simplify references:

**“Hillsdale”** means Hillsdale Investment Management Inc., which is the company registered with the SEC.

**“HAMI”** means Hillsdale Asset Management International Ltd., a wholly owned subsidiary of Hillsdale. It is not registered with the SEC. It was incorporated in the Cayman Islands.

**“Fund”** means any pooled fund managed by Hillsdale or HAMI.

**“Hillsdale Canadian Funds”** means the following pooled funds in Canada managed by Hillsdale:

- Hillsdale Canadian Core Equity Fund (the “CCE Fund”)
- Hillsdale Canadian Long/Short Equity Fund (the “CLS Fund”)
- Hillsdale Global Equity Fund (the “GE Fund”)
- Hillsdale Canadian Small Cap Equity Fund (the CSC Fund”)
- Hillsdale Canadian Micro Cap Equity Fund (the “CMC Fund”)
- Hillsdale US Small Cap Equity Fund (the “USC Fund”)
- Hillsdale Global Small Cap Equity Fund (the “GSC Fund”)
- Hillsdale Global Income Fund (the “GI Fund”)

**“Hillsdale Offshore Funds”** means any Fund managed by HAMI. HAMI has the following fund outside Canada:

- **“U.S. Fund”** means the Hillsdale Canadian Long/Short Equity Fund LLC, a limited liability company organized under the laws of the State of Delaware in May 2005.

#### 4. *Advisory Business*

Hillsdale offers discretionary investment management services to a range of individuals and institutions, primarily in Canada but also in the United States and elsewhere. These disciplined, active investment management services specialize in equities, alternatives, ESG and customized mandates. The investment services provided primarily encompass Canadian, U.S. and Global Equities with a focus on producing high quality investment strategies and delivering client service excellence.

Hillsdale also provides non-discretionary model portfolio recommendations to certain clients or their appointed overlay managers or other financial institutions that may offer to their clients exposure to, or instruments based on, Hillsdale's recommendations (collectively the "Overlay Manager"). Model portfolio recommendations may relate to the same strategy or strategies that are also offered or utilized through discretionary accounts, including Hillsdale's proprietary accounts. The Overlay Manager retains full investment discretion to utilize the model portfolio recommendations for investing their client accounts and may deviate from Hillsdale's recommendations. The Overlay Manager will determine the timing and the manner of executing a purchase or sale with respect to the model portfolio recommendations.

Hillsdale is a privately-owned Canadian corporation incorporated on January 5, 1996 in Ontario, Canada. It is controlled approximately 80% by its employees and 20% by a U.S. private investor. The principal owner, i.e. holder of more than 25% of equity, is A. Christopher Guthrie, director, President and CEO and Chief Investment Officer. Hillsdale's staff is comprised of professionals educated in finance, mathematics, physics, computer engineering, accounting and business, together combining decades of experience in the specification, design, portfolio management and marketing of specialized equity products. A large proportion of the staff hold the Chartered Financial Analyst (CFA) designation.

Hillsdale provides the investment management services to investors through the offering of the Hillsdale Canadian Funds and directly to clients via separate accounts, including acting as sub-advisor to a fund established by a client. The services may be subject to minimum account sizes at Hillsdale's discretion.

Hillsdale has appointed SGGG Funds Services Inc. ("SGGG") to provide all fund accounting and valuation services and to be the registrar for the Hillsdale Canadian Funds. The custodian and prime broker for the CCE Fund, CLS Fund, CSC Fund, CMC Fund, USC Fund and GI Fund is BMO Nesbitt Burns Inc., a subsidiary of the Bank of Montreal. The custodian for the GSC Fund and GE Fund is RBC Investor Services Trust, a subsidiary of the Royal Bank of Canada.

Hillsdale will hold securities on its corporate books in proprietary accounts for cash management purposes and for the purpose of developing and testing new investment strategies before recommending them to clients.

Hillsdale Asset Management International Inc. (HAMI), a currently inactive subsidiary of Hillsdale Investment Management Inc, was incorporated in the Cayman Islands on May 13, 2005 under the Companies Law (2004 Revision). It provided discretionary investment management services to investors outside of Canada. HAMI provided these investment management services to Hillsdale Offshore Funds, including the now inactive U.S. Fund which was offered to specified U.S. investors.

When HAMI is active, Hillsdale acts as sub-advisor to the Hillsdale Offshore Funds. **Since HAMI is inactive and does not have any clients it is not discussed any further in this document.**

Hillsdale is registered with the Securities and Exchange Commission of the United States of America as an investment adviser. Hillsdale is also registered with the Central Bank of Ireland as an Investment Manager.

In Canada, Hillsdale's primary regulator is the Ontario Securities Commission. Hillsdale is registered in Canada with the various provincial securities commissions as indicated in the table below.

Provincial Security Commission	Portfolio Manager	Exempt Market Dealer	Investment Fund Manager
Ontario	✓	✓	✓
British Columbia		✓	
Alberta		✓	
Saskatchewan	✓	✓	
Manitoba	✓	✓	
Quebec	✓	✓	✓
New Brunswick	✓	✓	
Newfoundland & Labrador	✓	✓	✓

Hillsdale provides its advisory services through a quantitative approach. In a quantitative approach, stocks are selected for investment or sale based on selected factors that the manager believes indicate whether the price of a stock is going to rise or fall. Hillsdale focuses its research effort on isolating long-term drivers of stock price performance and stock price volatility. Hillsdale manages portfolios consisting primarily of publicly traded equity securities as data is readily available to allow for analysis. Please also refer to Item 8 – *Methods of Analysis, Investment Strategies and Risk of Loss* for more details.

Hillsdale may tailor its advisory services to specific client requirements when it is managing a separate client account. Hillsdale agrees on the investment mandate and terms with the client in advance of managing the account. The agreement is documented in a contract. A mandate may impose restrictions or conditions on the management of the account.

Hillsdale does not tailor its advisory services for investors in the Funds since the Funds have defined mandates.

Hillsdale does not currently provide portfolio management services to any wrap fee programs.

As at December 31, 2018 Hillsdale provided investment management services on approximately USD\$1,875.4 million of net investor assets, of which \$1,688.9 million was managed on a discretionary basis.

## 5. *Fees and Compensation*

Hillsdale earns management fees and incentive or performance fees for its services. We have provided fee schedules in the sections below.

All fees are payable in arrears.

Fees earned from the Funds are generally deducted from the assets of the Funds. For some institutional clients invested in the Funds, fees may be billed separately from the Fund, in arrears.

Fees earned from the Funds are generally not negotiable. However, Hillsdale may enter into side letters with certain clients in the Funds, now or in the future, in its sole discretion. These clients may be charged management and/or performance fees at lower rates than the standard rates in exchange for a larger investment, a longer initial lock-up or other reasons. In addition, Hillsdale may grant certain investors additional liquidity rights in exchange for redemption charges. Upon specific request, some clients may be granted such things as increased transparency, notice of certain events (e.g. change in ownership or control) and more frequent reporting. Hillsdale determines the terms of any side letters on a case by case basis.

The fees for the management of separate institutional and private client accounts are negotiated and vary with each relationship. They are documented in the contract with the client. The fees are payable in arrears and are billed separately from the account.

The Funds and separate client accounts must pay all brokerage and transaction costs associated with their activities, including research, brokerage commissions, dealer spreads, financing charges and related transactional fees and expenses, interest expenses and dividends payable with respect to securities sold short. Additional expenses may be charged as determined by Hillsdale. Please see Item 12 - *Brokerage Practices* for additional detail.

The Funds and separate client accounts are also obligated to pay their own operating expenses, including applicable taxes, as described in the offering documents or investment management agreement. These include administrator fees, legal and audit fees, taxes (if any), bookkeeping charges, registrar's fees, distribution costs, filing fees or other regulatory fees, the cost of all services required in connection with the provision of information to investors and all other costs relating to the formation, organization and administration of the Funds. Additional expenses may be charged as determined by Hillsdale.

Hillsdale does not charge fees for the sale of investment products.

For the Hillsdale Canadian Funds, management and performance fees are due and payable at the end of the month in which they are earned.

Management fees are charged at the annualized rates shown in the table below on the portion of the net assets attributable to the series and are accrued daily.

Performance fees are charged at the rates shown in the table below of the performance increase attributable to the series, as defined in the applicable offering memorandum. For the CLS Fund a performance fee is earned only if the value of the CLS Fund at the end of the month is greater than the value of the CLS Fund at the last date on which a performance fee was paid, i.e. the NAVPU is greater than the High-Water Mark or HWM. The payment of a performance fee establishes a new HWM that must be subsequently exceeded in order for Hillsdale to earn another performance fee. For the remaining Hillsdale Canadian Funds, a performance fee is earned only if the value of the Canadian

Fund at the end of the month is higher than the greater of the HWM and the cumulative change in the benchmark index since inception of the applicable series of the Canadian Fund. Performance fees are accrued daily.

Hillsdale may charge short term trading or redemption fees at the rates shown in the table below. Hillsdale has full discretion as to whether or not to charge the fee. Hillsdale deducts this fee from the redemption amount payable to the investor.

Hillsdale acts as trustee for the Hillsdale Canadian Funds and earns a trustee fee of CAD\$5,000 per annum for each fund. These fees are deducted from the assets of the Funds.

*(continued following page)*



**Hillsdale Canadian Long/Short Equity Fund (“CLS Fund”), Hillsdale Canadian Small Cap Fund (“CSC Fund”), Hillsdale US Small Cap Equity Fund (“USC Fund”) and Hillsdale Global Small Cap Fund (“GSC Fund”)**

**USC Fund and GSC Fund** – Series A.U\$, F.U\$, I.U\$, J.U\$, P.U\$, Z.U\$ – Purchase in U.S. dollars. Series A.CA\$.U\$H, F.CA\$.U\$H, I.CA\$.U\$H, J.CA\$.U\$H, P.CA\$.U\$H, Z.CA\$.U\$H – Purchase in Canadian dollars. Currency exposure to U.S. dollars hedged. Series A.CA\$, F.CA\$, I.CA\$, J.CA\$, P.CA\$, Z.CA\$ – Purchase in Canadian dollars. Currency exposure to U.S. dollars **not** hedged.

**CLS Fund and CSC Fund** - Series A.CA\$, F.CA\$, I.CA\$, J.CA\$, P.CA\$, Z.CA\$ – Purchase in Canadian dollars.

Series of Units	Management Fees p.a.	Performance Fees	Redemption Fees
A.CA\$/A.CA\$.U\$H/A.U\$- restricted to accredited investors or a minimum investment of \$50,000	2018 – 2.00% Effective March 1, 2019 1.90%	20%	Short term trading fee of up to 2% if redeemed within 90 days
F.CA\$/F.CA\$.U\$H/F.U\$ - restricted to purchases through fee-based advisors, same purchase minimums as Series A.CA\$/A.CA\$.U\$H/A.U\$	1.25%	20%	Short term trading fee of up to 2% if redeemed within 90 days
I.CA\$/I.CA\$.U\$H/I.U\$ - restricted to a minimum investment of \$2,000,000	1.00%	20%	Redemption fee of up to 1% if redeemed within one year
J.CA\$/J.CA\$.U\$H/J.U\$ – restricted to a minimum investment of \$25,000,000. <b>New series effective March 1, 2019.</b>	0.75%	20%	Redemption fee of up to 1% if redeemed within one year
P.CA\$/P.CA\$.U\$H/P.U\$ - restricted to a minimum investment of \$2,000,000. <b>New series effective March 1, 2019.</b>	1.50%	None	Redemption fee of up to 1% if redeemed within one year
V.CA\$ - restricted to minimum investment of \$50,000,000 - <b>CSC Fund only</b>	Institutional investors as negotiated.	Institutional investors as negotiated.	Institutional investors as negotiated.
W.CA\$ - restricted to minimum investment of \$100,000,000 - <b>GSC Fund only</b>	Institutional investors as negotiated.	Institutional investors as negotiated.	Institutional investors as negotiated.
Z.CA\$/Z.CA\$.U\$H/Z.U\$ – For institutional investors, and interfund investments to avoid duplication of fees	Institutional investors as negotiated. None on interfund investments from other Hillsdale funds.	Institutional investors as negotiated. None on interfund investments from other Hillsdale funds.	Institutional investors as negotiated. None on interfund investments from other Hillsdale funds.

**Hillsdale Canadian Micro Cap Equity Fund (“CMC Fund”)**

Series of Units	Management Fees p.a.	Performance Fees	Redemption Fees
A.CA\$- restricted to accredited investors or a minimum investment of \$50,000 effective March 1, 2019 (2018 - \$150,000)	2.50%	20%	Short term trading fee of up to 2% if redeemed within 90 days

F.CA\$ - restricted to purchases through fee-based advisors, same purchase minimums as Series A.CA\$	1.75%	20%	Short term trading fee of up to 2% if redeemed within 90 days
I.CA\$ - restricted to a minimum investment of \$2,000,000	1.50%	20%	Redemption fee of up to 1% if redeemed within one year
J.CA\$ – restricted to a minimum investment of \$25,000,000	1.25%	20%	Redemption fee of up to 1% if redeemed within one year
P.CA\$ – restricted to a minimum investment of \$2,000,000 effective March 1, 2019 (2018 - \$1,000,000)	2.00%	None	Redemption fee of up to 1% if redeemed within one year
Z.CA\$ – For institutional investors, and interfund investments to avoid duplication of fees	Institutional investors as negotiated. None on interfund investments from other Hillsdale funds.	Institutional investors as negotiated. None on interfund investments from other Hillsdale funds.	Institutional investors as negotiated. None on interfund investments from other Hillsdale funds.
<b>Hillsdale Global Equity Fund (“GE Fund”) effective March 1, 2019 (formerly Hillsdale Global Long/Short Fund)</b>			
<b>Series of Units</b>	<b>Management Fees p.a.</b>	<b>Performance Fees</b>	<b>Redemption Fees</b>
A.CA\$/A.CA\$.USH/A.U\$- restricted to accredited investors or a minimum investment of \$50,000	2018 – 2.00% Effective March 1, 2019 1.75%	20%	Short term trading fee of up to 2% if redeemed within 90 days
F.CA\$/F.CA\$.USH/F.U\$ - restricted to purchases through fee-based advisors, same purchase minimums as Series A.CA\$/A.CA\$.USH/A.U\$	2018 – 1.25% Effective March 1, 2019 1.00%	20%	Short term trading fee of up to 2% if redeemed within 90 days
I.CA\$/I.CA\$.USH/I.U\$ - restricted to a minimum investment of \$2,000,000	2018 – 1.00% Effective March 1, 2019 0.75%	20%	Redemption fee of up to 1% if redeemed within one year
J.CA\$/J.CA\$.USH/J.U\$ – restricted to a minimum investment of \$25,000,000. <b>New series effective March 1, 2019.</b>	0.50%	20%	Redemption fee of up to 1% if redeemed within one year
P.CA\$/P.CA\$.USH/P.U\$ - restricted to a minimum investment of \$2,000,000. <b>New series effective March 1, 2019.</b>	1.25%	None	Redemption fee of up to 1% if redeemed within one year

**Hillsdale Investment Management Inc.**

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Z.CA\$/Z.CA\$.U\$/Z.U\$ – For institutional investors, and interfund investments to avoid duplication of fees	Institutional investors as negotiated. None on interfund investments from other Hillsdale funds.	Institutional investors as negotiated. None on interfund investments from other Hillsdale funds.	Institutional investors as negotiated. None on interfund investments from other Hillsdale funds.
<b>Hillsdale Canadian Core Equity Fund (“CCE Fund”)</b>			
<b>Series of Units</b>	<b>Management Fees p.a.</b>	<b>Performance Fees</b>	<b>Redemption Fees</b>
A.CA\$- restricted to accredited investors or a minimum investment of \$150,000	2018 – 2.00% Effective March 1, 2019 1.50%	2018 – None Effective March 1, 2019 20%	Short term trading fee of up to 2% if redeemed within 90 days
F.CA\$ - restricted to purchases through fee-based advisors, same purchase minimums as Series A.CA\$	2018 – 1.00% Effective March 1, 2019 0.75%	2018 – None Effective March 1, 2019 20%	Short term trading fee of up to 2% if redeemed within 90 days
I.CA\$ - restricted to a minimum investment of \$2,000,000	0.50%	2018 – None Effective March 1, 2019 20%	Redemption fee of up to 1% if redeemed within one year
J.CA\$ – restricted to a minimum investment of \$25,000,000	2018 – 0.35% Effective March 1, 2019 0.25%	2018 – None Effective March 1, 2019 20%	Redemption fee of up to 1% if redeemed within one year
K – restricted to a minimum investment of \$25,000,000. <b>Series removed effective March 1, 2019.</b>	0.20%	20.0%	Redemption fee of up to 1% if redeemed within one year
P.CA\$ - restricted to a minimum investment of \$2,000,000. <b>New series effective March 1, 2019.</b>	1.00%	None	Redemption fee of up to 1% if redeemed within one year
Z.CA\$ – For institutional investors, and interfund investments to avoid duplication of fees	Institutional investors as negotiated. None on interfund investments from other Hillsdale funds.	Institutional investors as negotiated. None on interfund investments from other Hillsdale funds.	Institutional investors as negotiated. None on interfund investments from other Hillsdale funds.
<b>Hillsdale Global Income Fund (“GI Fund”)</b>			
<b>Series of Units</b>	<b>Management Fees p.a.</b>	<b>Performance Fees</b>	<b>Redemption Fees</b>
A.CA\$- restricted to accredited investors or a minimum investment of \$50,000 effective March 1, 2019 (2018 - \$25,000)	2018 – 2.00% Effective March 1, 2019 1.90%	2018 – 20% Effective March 1, 2019 none	Short term trading fee of up to 2% if redeemed within 90 days

F.CA\$ - restricted to purchases through fee-based advisors, same purchase minimums as Series A.CA\$	1.25%	2018 – 20% Effective March 1, 2019 none	Short term trading fee of up to 2% if redeemed within 90 days
I.CA\$ - restricted to a minimum investment of \$2,000,000	1.00%	2018 – 20% Effective March 1, 2019 none	Redemption fee of up to 1% if redeemed within one year
J.CA\$ – restricted to a minimum investment of \$25,000,000. <b>New series effective March 1, 2019.</b>	0.75%	None	Redemption fee of up to 1% if redeemed within one year
Z.CA\$ – For institutional investors, and interfund investments to avoid duplication of fees	Institutional investors as negotiated. None on interfund investments from other Hillsdale funds.	Institutional investors as negotiated. None on interfund investments from other Hillsdale funds.	Institutional investors as negotiated. None on interfund investments from other Hillsdale funds.

## 6. *Performance Based Fees and Side-by-Side Management*

As outlined in Item 5 – *Fees and Compensation*, Hillsdale can earn incentive or performance fees for managing client assets on some client accounts. These fees are in addition to management fees. Hillsdale also manages accounts that are charged only a management fee.

When an advisor manages accounts that are charged a performance fee as well as accounts that are not charged a performance fee there is potentially a conflict of interest. This is due to the fact that the advisor may have an incentive to favour accounts that are charged a performance fee in hopes of earning greater revenues.

Hillsdale has implemented policies and procedures that serve to reduce this potential conflict. The key aspects are summarized below.

The Funds managed by Hillsdale generally carry performance or incentive fees (as described in Item 5 – *Fees and Compensation*), with the exception of the Global Income Fund and Series P.CA\$/P.CA\$.U\$/P.U\$ Units of the other Hillsdale Canadian Funds. Given this situation Hillsdale generally does not have an incentive to favour any one pooled fund over another. Separate institutional and private client accounts may also be subject to performance or incentive fees. Each Fund or separate client account has a specifically defined investment mandate or strategy which will determine its investments separately from other Funds or accounts, subject to overlapping strategies as discussed below.

Hillsdale also reduces potential conflicts by managing all discretionary strategies for its clients through a proprietary integrated platform that is used for the selection of securities. Through the portfolio management process stocks are ranked and trading decisions made across several portfolios in order to meet the objectives for each portfolio. The ranking system does not employ relative profitability to Hillsdale as a factor; it only ranks securities based on specific security related factors. A given strategy may be employed across several accounts. When this happens the trades for the various accounts are aggregated and traded together for efficiency. When executing trades, no preference is shown for one strategy over another. The resulting executed trades are allocated pro-rata on a trade size weighted basis across the originating accounts. Please see Item 12 – *Brokerage Practices* for additional detail.

Through these processes portfolio selection decisions are not influenced by account profitability and all accounts participating in a given strategy share equally in trading results.

Side-by-side management may also affect instances where Hillsdale provides model portfolio recommendations to an Overlay Manager. Trades placed by the Overlay Manager may be subject to timing differences which may result in the Overlay Manager's clients receiving prices that are less favourable than the prices obtained by Hillsdale for its clients. Because Hillsdale does not control the Overlay Manager's execution of transactions, Hillsdale cannot attempt to control the market impact of such transactions to the same extent that it would for its discretionary clients.

## 7. *Types of Clients*

Hillsdale provides investment advice to a range of clients, including the following:

- a) Pooled investment vehicles – These will include both funds established by Hillsdale and instances where Hillsdale acts as a sub-advisor to funds, including private funds, public funds and registered investment companies, established by other managers;
- b) Pension and profit-sharing plans;
- c) Trusts, estates and charities;
- d) Corporations and other business entities; and
- e) Individuals, typically high net worth individuals.

We have outlined below the requirements for opening or maintaining accounts.

### *Funds*

The Canadian dollar is the functional currency of the CLS Fund, CSC Fund, CMC Fund, CCE Fund and GI Fund. Units in these funds are offered in Canadian dollars. Such Units are offered as Series A.CA\$, F.CA\$, I.CA\$, J.CA\$, P.CA\$, V.CA\$, W.CA\$ and Z.CA\$ Units.

The United States dollar is the functional currency of the USC Fund, GSC Fund and the GE Fund. Units in these funds are offered as follows:

- Series A.U\$, F.U\$, I.U\$, J.U\$, P.U\$, Z.U\$ Units may be purchased in U.S. dollars.
- Series A.CA\$.U\$H, F.CA\$.U\$H, I.CA\$.U\$H, J.CA\$.U\$H, P.CA\$.U\$H, Z.CA\$.U\$H Units may be purchased in Canadian dollars. The currency exposure of Units of these series to the U.S. dollar is hedged by Hillsdale. There are costs associated with such currency hedging and there is no assurance that Hillsdale will be able to completely eliminate the effect of currency fluctuations.
- Series A.CA\$, F.CA\$, I.CA\$, J.CA\$, P.CA\$, Z.CA\$ Units may be purchased in Canadian dollars. The currency exposure of Units of these series to the U.S. dollar is **not** hedged by Hillsdale.

Hillsdale may, in its sole discretion, establish additional series of Units to those described above.

In the discussion below references to Series A, Series F, Series I, Series J, Series P, Series V, Series W and Series Z Units are to the series of a fund in general, as outlined above, irrespective of currency.

Hillsdale offers units in the Hillsdale Canadian Funds for sale in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, Newfoundland and Labrador and New Brunswick on the basis of the “accredited investor” exemption and the “minimum amount” exemption from the prospectus requirements (National Instrument 45-106 *Prospectus and Registration Exemptions*; sections 2.3 and 2.10) and, where applicable, the registration requirements of applicable securities legislation.

If the purchaser qualifies as an accredited investor in these provinces the minimum initial investment for Series A Units, Series F Units and Series Z Units of the funds is \$50,000. Hillsdale may accept subscriptions in lesser amounts in its sole discretion.

For purchasers other than individuals, e.g. corporations, trusts and similar entities, who do not qualify as accredited investors the minimum initial investment for Series A Units, Series F Units and Series Z Units purchased under the minimum amount exemption is \$150,000.

The minimum initial investment for Series I Units and Series P Units of the funds is \$2,000,000. The minimum initial investment for Series J Units is \$25,000,000. The minimum initial investment for Class V Units of the CSC Fund is \$50,000,000. The minimum initial investment for Class W Units of the GSC Fund is \$100,000,000. Hillsdale has full discretion to accept subscriptions in lesser amounts for all of these series.

Certain international and qualified U.S. investors are permitted to invest (directly or indirectly) in the Hillsdale Canadian Funds. In general U.S. investors may invest in the Hillsdale Canadian Funds if they meet the requirements of “accredited investor” and/or “qualified purchaser” as defined in U.S. legislation and regulations.

Such investments are subject to Canadian federal income tax considerations, primarily withholding taxes on distributions. More details are provided in the appropriate Hillsdale Canadian Funds’ offering memorandums and related addendums.

U.S. and international investors must contact Hillsdale to discuss any possible investments. An offer to invest can only be made to qualified investors through the offering documents.

#### Separately Managed Accounts

Hillsdale also manages client portfolios, for both individuals and institutions, in separate or managed accounts on a discretionary basis. The managed account investments may include units in Funds managed by Hillsdale, or due to size considerations may be managed utilizing a modification of one or more of the strategies of the Funds. Managed accounts may also be managed using a specific strategy agreed with the client, either by Hillsdale directly managing securities positions or by Hillsdale providing model portfolio recommendations to an Overlay Manager.

For individuals the minimum account size is \$500,000. For institutional investors the minimum account size is \$25,000,000. Hillsdale may accept mandates to manage lesser amounts.

## **8. *Methods of Analysis, Investment Strategies and Risk of Loss***

### **Methods of Analysis**

Hillsdale's investment philosophy is the result of decades of experience in the meticulous application of fundamental, quantitative and capital market data to the process of investment decision-making. It is based on a belief that a measurable, rational, evidence-based process leads to superior investment results.

Consistent with this investment philosophy, Hillsdale's strategies are based on a disciplined and systematic approach to investment decision making. All funds use a proprietary, dynamic, multi-factor, multi-frequency ranking approach to security selection and for the control of risk in the portfolio. Inputs are collected from over 30 source databases on over 40,000 companies daily. Securities are reviewed regularly for their adherence to specific decision rules.

Hillsdale's investment methodology is based on a cycle of continuous improvement, adaptation and iteration utilizing a proprietary platform of over 50 years of clean data, investment applications, simulation software and financial modelling systems. The investment process is fully integrated across research and security selection processes, portfolio construction and optimization risk and factor monitoring and performance measurement and evaluation reporting. All components of the process are connected through various feedback loops. The process is adaptable, repeatable and risk-aware.

Hillsdale's proprietary methodology follows a very deliberate, on-going and open process:

1. Define the strategy objectives in terms of return objective, total and/or active risk budget and bull and bear capture;
2. Select predictive factors in multiple frequencies;
3. Determine factor weights through scoring, simulation and stress testing;
4. Evaluate and set risk tolerances;
5. Rebalance portfolio holdings daily, weekly or monthly to meet objectives and stay within risk tolerances;
6. Evaluate on-going performance against objectives;
7. Monitor the market environment for conditions outside of test period;
8. Review the strategy annually; and
9. Modify the strategy if required.

### **Investment Strategies**

Outlined below is a summary of the investment objectives and strategies for the Hillsdale Canadian Funds, effective as of March 1, 2019. References to an Underlying Fund are to another Hillsdale Canadian Fund, i.e. an interfund investment.

An investor should read the applicable offering document in detail and consult their independent advisors before investing.

The investment objective and strategies for separately managed accounts will be specific to the account, as contracted with the client.



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## **Hillsdale Canadian Funds**

### ***Canadian Small Cap Equity Fund (“CSC Fund”)***

The investment objective of the CSC Fund is to provide Unitholders with a rate of return on capital in excess of the S&P/TSX SmallCap Total Return Index, with volatility generally similar to the Index.

The CSC Fund invests a minimum of 75% of its assets, either directly or indirectly through investments in ETFs or Underlying Funds, in a diversified selection of equity or equity-like securities of small capitalization issuers trading on Canadian stock exchanges. The CSC Fund does not hold positions in a single issuer, either through direct holdings or indirectly through investment in an Underlying Fund, which exceeds 5% of the CSC Fund’s Net Asset Value, except for ETFs or Underlying Funds. The CSC Fund limits its purchases of equity and equity-like securities of issuers in the S&P/TSX Composite Index so that the aggregate S&P/TSX Composite Index market weight, determined at the time of purchase of these issuers, will not exceed 10%. A maximum of 10% of the CSC Fund’s Net Asset Value may be invested in cash or Cash Equivalents, excluding any short-term cash due to contributions, redemptions, pending transaction or rebalancing.

### ***Canadian Micro Cap Equity Fund (“CMC Fund”)***

The investment objective of the CMC Fund is to provide Unitholders with a rate of return on capital in excess of the S&P/TSX SmallCap Total Return Index.

The CMC Fund invests a minimum of 75% of its assets, either directly or indirectly through investments in ETFs or Underlying Funds, in a diversified selection of equity or equity-like securities of issuers trading on Canadian stock exchanges which, at the time of purchase, have a market capitalization between \$25 million and \$300 million. The CMC Fund does not hold positions in a single issuer, either through direct holdings or indirectly through investment in an Underlying Fund, which exceeds 5% of the CMC Fund’s Net Asset Value, except for ETFs or Underlying Funds. The CMC Fund may use derivative instruments in order to protect against losses from declines in capital and for non-hedging purposes as a substitute for direct investment, provided that the total value of such transactions will not exceed 5% of its Net Asset Value; for greater certainty, such percentage limitations do not apply to derivatives used for purposes of currency hedging. A maximum of 20% of the CMC Fund’s Net Asset Value may be invested in cash or Cash Equivalents, excluding any short-term cash due to contributions, redemptions, pending transaction or rebalancing.

### ***US Small Cap Equity Fund (“USC Fund”)***

The investment objective of the USC Fund is to provide Unitholders with a rate of return on capital in excess of the Russell 2000 Total Return Index, with volatility generally similar to the Index.

The USC Fund invests a minimum of 75% of its assets, either directly or indirectly through investments in ETFs or Underlying Funds, in a diversified selection of equity or equity-like securities of small to medium capitalization issuers trading on U.S. stock exchanges. The USC Fund does not hold positions in a single issuer, either through direct holdings or indirectly through investment in an Underlying Fund, which exceeds 5% of the USC Fund’s Net Asset Value, except for ETFs or Underlying Funds. A maximum of 10% of the USC Fund’s Net Asset Value may be invested in cash or Cash Equivalents, excluding any short-term cash due to contributions, redemptions, pending transaction or rebalancing. The USC Fund may use derivative instruments in order to hedge foreign currency assets and liabilities.

### ***Global Small Cap Equity Fund (GSC Fund)***

The investment objective of the GSC Fund is to provide Unitholders with a rate of return on capital in excess of the MSCI All Country World Small Cap Total Return Index (Net), with volatility generally similar to the Index.

The GSC Fund invests a minimum of 75% of its assets, either directly or indirectly through investments in ETFs or Underlying Funds, in a diversified selection of equity or equity-like securities of small to medium capitalization issuers trading on global stock exchanges. The GSC Fund does not hold positions in a single issuer, either through direct holdings or indirectly through investment in an Underlying Fund, which exceeds 5% of the GSC Fund's Net Asset Value, except for ETFs or Underlying Funds. A maximum of 10% of the GSC Fund's Net Asset Value may be invested in cash or Cash Equivalents, excluding any short-term cash due to contributions, redemptions, pending transaction or rebalancing. The GSC Fund may use derivative instruments in order to hedge foreign currency assets and liabilities.

### ***Global Equity Fund ("GE Fund") (formerly Global Long/Short Equity Fund)***

The investment objective of the GE Fund is to provide Unitholders with a rate of return on capital in excess of the MSCI World Total Return Index (Net) within a controlled tracking error budget.

The GE Fund invests a minimum of 75% of its assets, either directly or indirectly through investments in ETFs or Underlying Funds, in a diversified selection of equity or equity-like securities of medium to large capitalization issuers trading on global stock exchanges. The GE Fund does not hold positions in a single issuer, either through direct holdings or indirectly through investment in an Underlying Fund, which differ from the issuer's weight in the MSCI World Index (Net) by more than plus or minus 3%, except in cases of impending delisting from the index where the weight may be 0% and impending addition to the index where the weight may exceed 3%, except for ETFs or Underlying Funds. A maximum of 10% of the GE Fund's Net Asset Value may be invested in cash or Cash Equivalents, excluding any short-term cash due to contributions, redemptions, pending transaction or rebalancing. The GE Fund may use derivative instruments in order to hedge foreign currency assets and liabilities.

### ***Canadian Core Equity Fund ("CCE Fund")***

The investment objective of the CCE Fund is to provide Unitholders with a rate of return on capital in excess of the S&P/TSX Composite Total Return Index within a controlled tracking error budget.

The CCE Fund invests a minimum of 90% of its assets, either directly or indirectly through investments in ETFs or Underlying Funds, in a diversified selection of equity or equity-like securities of medium to large capitalization issuers trading on Canadian stock exchanges. The CCE Fund does not hold positions in a single issuer, either through direct holdings or indirectly through investment in an Underlying Fund, which differ from the issuer's weight in the S&P/TSX Composite Index by more than plus or minus 3%, except in cases of impending delisting from the index where the weight may be 0% and impending addition to the index where the weight may exceed 3%, except for ETFs or Underlying Funds. A maximum of 5% of the CCE Fund's Net Asset Value may be invested in cash or Cash Equivalents, excluding any short-term cash due to contributions, redemptions, pending transaction or rebalancing. The Fund may use derivative instruments in order to protect against declines in capital. The CCE Fund may use derivative instruments in order to protect against losses from declines in capital and for non-hedging purposes as a substitute for direct investment, provided that the total value of such transactions will not exceed 2% of its Net Asset Value; for greater certainty, such percentage limitations do not apply to derivatives used for purposes of currency hedging.

### ***Global Income Fund (“GI Fund”)***

The investment objective of the Fund is to provide Unitholders with a stable income stream while attempting to protect against a decline in the value of their capital.

The GI Fund invests a minimum of 50% of its Total Assets, either directly or indirectly through investments in ETFs or Underlying Funds, in a diversified selection of equity and equity-like securities of at least 50 issuers trading on major global stock exchanges which, at the time of purchase, have a market capitalization of at least CAD\$50 million. The GI Fund invests a minimum of 20% of its Total Assets, either directly or indirectly through investment in ETFs or Underlying Funds, in a diversified selection of higher yielding corporate bonds, bank loans, government debt and other fixed income securities. At least 50% of the Total Assets of the GI Fund will be invested in securities with a minimum dividend or income yield of 4% per annum. The GI Fund does not hold positions in a single issuer, either through direct holdings or indirectly through investment in an Underlying Fund, which exceed 5% of the GI Fund’s Total Assets; for greater certainty this percentage limitation does not apply to holdings of issuers that are ETFs, Underlying Funds or derivatives instruments which are used for hedging purposes. The maximum direct exposure of the GI Fund to any individual country, other than Canada or the United States, will be 25% of its Total Assets. The GI Fund will use derivative instruments or inverse ETFs with the objective of reducing the equity exposure of the GI Fund and may use derivative instruments for the purposes of currency hedging; for greater certainty the investment percentage limitations for positions do not apply to such transactions. The GI Fund limits its use of Leverage to two times the GI Fund’s Net Asset Value. The GI Fund may use derivatives as a substitute for direct investment and may write covered call options or cash secured put options to enhance income, provided that the total value of such transactions will not exceed 5% of the GI Fund’s Net Asset Value. The GI Fund may invest up to 30% of its Net Asset Value in cash or Cash Equivalents, excluding any short-term cash due to contributions, redemptions, pending transactions or rebalancing.

### ***Canadian Long/Short Equity Fund (“CLS Fund”)***

The investment objective of the CLS Fund is to provide Unitholders with a rate of return on capital approximately equal to Canadian equities with a low correlation to, and volatility equal to or less than, the S&P/TSX Composite Total Return Index.

The CLS Fund invests a minimum of 75% of its Total Assets either directly or indirectly through investments in ETF’s or Underlying Funds, in a diversified selection of at least 50 equity or equity-like securities of issuers trading on Canadian stock exchanges which, at the time of purchase or short-sale, have a market capitalization of at least \$50 million. The CLS Fund maintains a Net Market Exposure between 20% and 70% at all times with aggregate short positions maintained at a minimum of 25% of its Total Assets. The CLS Fund does not hold positions in a single issuer, either through direct holdings or indirectly through investment in an Underlying Fund, which exceeds 5% of the Total Assets; for greater certainty this percentage limitation does not apply to holdings of issuers that are ETF’s or Underlying Funds. The CLS Fund may use derivative instruments in order to hedge foreign currency assets or liabilities. The CLS Fund may also use derivative instruments in order to protect against declines in capital and for non-hedging purposes as a substitute for direct investment, provided that the total value of such transactions does not exceed 5% of the CLS Fund’s Total Assets. Leverage is limited to a maximum of two times the CLS Fund’s Net Asset Value.

## **Risk of Loss**

It is important to note that investing in securities involves a number of risks. An investment should only be made after consultation with your independent qualified sources of investment and tax advice. An investment in funds or accounts managed by Hillsdale is speculative. Prospective investors should consider an investment in the Funds within the overall context of their investment policies. Investment policy considerations include, but are not limited to, setting objectives, defining risk/return constraints, considering time horizons, reviewing applicable laws and regulations, understanding tax consequences and assessing any preferences or circumstances unique to each investor. There is a risk that any investment could be lost entirely or in part. Only investors who do not require immediate liquidity of their investment and who can reasonably afford a substantial impairment or loss of their entire investment should consider investing.

Hillsdale's investment strategies primarily focus on securities that are publicly traded on exchanges around the world. The risks outlined below are common across the strategies managed by Hillsdale. If a risk factor is specific to a Fund or group of Funds we have indicated that fact. This set of risk factors is not necessarily complete. Investors should refer to the offering document for their specific investment to review relevant risk factors.

### **A. No Guaranteed Return or Achievement of Investment Objectives**

There is no guarantee that an investment managed by Hillsdale will earn any positive return in the short or long term or that it will be able to achieve its investment objectives. The value of the account or Fund may increase or decrease depending on market, economic, political, regulatory and other conditions affecting the portfolio. An investment in an account managed by Hillsdale may be more volatile and riskier than some other forms of investment.

### **B. Reliance on Hillsdale**

The results from managing the accounts and Funds are highly dependent upon the expertise and abilities of Hillsdale. The loss of services of key personnel of Hillsdale could adversely affect the accounts. Investors have no right to take part in the management of the Funds except in limited circumstances as described in the applicable offering documents. Hillsdale is the trustee, investment fund manager and portfolio manager of the Hillsdale Canadian Funds.

### **C. Use of Leverage**

Leverage is used by the USC Fund, the CLS Fund and the GI Fund.

Leverage involves a Fund's purchase of securities using money borrowed from brokerage firms or banks against a pledge of the Fund's assets. A Fund will incur leverage if it purchases securities with a market value greater than the current net asset value of the Fund. While the use of borrowed funds may improve the return on invested capital when the portfolio increases in value, such use may also increase losses if the investment portfolio declines in value.

Hillsdale calculates and monitors leverage on a daily basis. Institutional account agreements between Hillsdale and the Fund custodians limit the use of margin by a Fund. The Custodian calculates and monitors each Fund's margin level on a daily basis.

#### **D. Use of Short Selling**

Short selling is used by the CLS Fund.

To transact a short sale, a Fund will borrow a security it does not own, sell the security, receive cash for the sale, and then subsequently buy back the security and return it to the lender. The Fund will realize a gain or loss on the transaction. If the security sold short declines in value, a Fund will realize a gain from the short sale. If the security rises in value, a Fund will realize a loss from the short sale. In theory, this exposes a Fund to the potential for unlimited loss because there is no limit on the price appreciation of any security sold short. Investments may also have to be sold to maintain sufficient cash cover, with the risk that such a sale would be made at an unattractive price. In addition, there is also no assurance that the lender of the security will not recall the security, thereby requiring a Fund to borrow the security elsewhere or to purchase the security.

Hillsdale monitors, calculates and if necessary rebalances the individual and aggregate short positions in a Fund regularly to take into account movements in the securities. This is done in order to limit the risk of short positions.

#### **E. Value of Underlying Securities**

The value of the securities owned by a Fund may be affected by such factors as investor demand, commodity prices, interest rates or currency exchange rates. Fluctuations in the market value of such securities may occur for a number of reasons beyond the control of Hillsdale. Investments in obligations of foreign entities and instruments denominated in foreign currencies involve risks not normally associated with domestic investments such as currency fluctuations.

#### **F. Concentration Risk**

The investment restrictions of the Funds limit a direct or indirect equity holding of a single issuer, either through direct holdings or indirectly through investment in an Underlying Fund, to a maximum percentage of each Fund's assets, generally 5%. Hillsdale monitors, calculates and if necessary rebalances the individual positions regularly to take into account movements in the securities to limit the risk of concentration. Investment restrictions for a separate account will depend on the agreement with the client.

The USC Fund intends to invest up to all of its assets in equity and equity-like securities of United States issuers trading on U.S. stock exchanges. The CSC Fund, CMC Fund and CCE Fund intend to invest up to all of their assets in equity and equity-like securities of Canadian issuers trading on Canadian stock exchanges. The GSC Fund intends to invest a significant portion of its assets in the USC Fund and the CSC Fund. The maximum direct exposure of the GI Fund to any individual country, other than Canada or the United States, will be 25% of its Total Assets.

#### **G. Liquidity**

Unitholders may not be able to liquidate their investment on a timely basis. Investments in the Funds are offered primarily to persons wishing to make a longer-term investment. There is no formal market for the Units and none is expected to develop. Under the terms of each Declaration of Trust and Trust Agreement, as applicable, the Units can only be redeemed and are non-transferable except by operation



of law. The Redemption Amount due with respect to Units is not payable for 10 Business Days after the Redemption Date. For Series I.CA\$ Units, Series I.U\$ Units, Series I.CA\$.U\$H Units, Series J.CA\$ Units, Series J.U\$ Units, Series J.CA\$.U\$H Units, Series P.CA\$ Units, Series P.U\$ Units and Series P.CA\$.U\$H Units;

- (i) Units can only be redeemed upon 90 days' prior written notice to Hillsdale or HAMI; and
- (ii) Payment of the Redemption Amount may be further delayed if Hillsdale, in its sole discretion, determines that effecting the redemption request would adversely impact the remaining Unitholders. In such a case payment of the Redemption Amount may be delayed from the originally requested date of redemption. Hillsdale may also suspend redemption in certain circumstances.

#### **H. Interest Rate Risk**

The value of fixed income securities in which some of the Funds, primarily the GI Fund, may invest directly or indirectly, will generally rise if interest rates fall (or if the markets expect an interest rate decrease) and, conversely, will generally fall if interest rates rise (or if the markets expect an interest rate increase). Changes in interest rates may also affect the general level of value of equity securities.

#### **I. Credit Risk**

Some of the Funds, primarily the GI Fund, may invest in fixed income securities directly or through the use of Exchange Traded Funds ("ETFs"). The majority of such investing is done through ETFs in order to control and reduce risk. The value of fixed income securities depends, in part, on the perceived ability of the government or company which issued the securities to pay the interest and to repay the original investments. Securities issued by issuers that have a low credit rating are considered to have a higher credit risk than securities issued by issuers with a high credit rating. In addition, although generally considered less volatile than equity markets, certain types of fixed income securities and certain market conditions may result in significant volatility in the value of one or more fixed income investments.

#### **J. Income Trust Investment Risk**

Real estate, royalty, income and other investment trusts, including ETFs, are investment vehicles in the form of trusts rather than corporations. To the extent that claims, whether in contract, in tort or as a result of tax or statutory liability, against an investment trust are not satisfied by the trust, investors, including a Fund, could be held liable for such obligations. Investment trusts generally seek to make this risk remote in the case of contract by including provisions in their agreements that the obligations of the investment trust will not be binding on investors personally. However, investment trusts could still have exposure to damage claims such as personal injury and environmental claims. Certain jurisdictions have enacted legislation to protect investors in investment trusts from the possibility of such liability. Whether such protection will extend to a Fund will depend on the particular investment.

## **K. Exchange Traded Fund (“ETF”) Risk**

The Funds may invest in ETFs that seek to provide returns similar to a particular benchmark market or industry sector index. ETFs may not achieve the same return as their benchmark market or industry sector indices due to differences in the actual weights of securities held in the ETF versus the weights in the relevant index and due to the operating and management expenses of the ETFs.

## **L. Suspension of Trading**

Securities exchanges typically have the right to suspend or limit trading in any investment traded on the exchange. A suspension would render it impossible to liquidate positions and could thereby expose a Fund to losses.

## **M. Derivatives Risk**

The Funds may use derivative instruments in order to protect against losses and for non-hedging purposes as a substitute for direct investment. The total value of such transactions is limited to a specified percentage of each Fund’s assets. Trading in derivative contracts is a specialized activity which may entail greater than ordinary investment risks. When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment to be hedged may prevent a Fund from achieving the intended hedge or expose it to the risk of loss.

## **N. Currency Exposure**

The value of an investment in a Fund may, when measured in the reporting currency for a Fund, be affected by fluctuations in the value of foreign currency assets and liabilities relative to the reporting currency. A Fund may, in accordance with the Fund strategy, hedge foreign currency assets or liabilities by entering into futures and/or forward contracts, swaps, options on the foregoing and other instruments in order to minimize foreign currency exposure. There are costs associated with currency hedging and there is no assurance that Hillsdale will be able to completely eliminate the effect of currency fluctuations.

## **O. Institutional Risk**

The custodian for the CLS Fund, CSC Fund, CMC Fund, USC Fund, GI Fund and CCE Fund is BMO Nesbitt Burns Inc. The custodian for the GSC Fund and GE Fund is RBC Investor Services Trust. Hillsdale may appoint another party pursuant to the applicable Declaration of Trust or Trust Agreement. The Custodian settles trades from other brokers.

The risks associated with assets being held by a custodian are primarily (i) the risk of the custodian becoming insolvent; and (ii) the risk of loss through custodian error. In using the custodial services of subsidiaries of large regulated Canadian banks, Hillsdale has sought to reduce the risk of loss or misappropriation of client assets. In addition, the relationship with the custodian and its activities are monitored daily through trading, reconciliations and other operational processes.

Assets of a Fund, particularly foreign securities, may be held by qualified foreign custodians in jurisdictions outside Canada in order to facilitate investing in such securities. These arrangements increase the risk of not being able to realize assets in the event of insolvency. The risk of such a loss is reduced by the fact that the qualified Canadian custodian is responsible for the selection and ongoing monitoring of all sub-custodians to ensure that they meet Canadian regulatory requirement standards and have appropriate levels of capital. The use of foreign custodians and their names are reported to Hillsdale regularly.

#### **P. Counterparty Risk**

The Funds are subject to the risk of the inability of counterparties to perform with respect to transactions, whether due to insolvency, bankruptcy or other causes. In such cases a Fund could suffer substantial losses. In an effort to mitigate such risks, Hillsdale attempts to limit transactions to counterparties which it believes are established, well-capitalized and creditworthy. Please refer to Item 12 – *Brokerage Practices* for additional comments with respect to this risk.

#### **Q. Information Technology Security**

As the use of technology has become more prevalent in the course of business, the Funds have become potentially more susceptible to operational risks through breaches in information technology security (“IT security”). A breach in IT security refers to both intentional and unintentional events that may cause a Fund to lose proprietary information or other information subject to privacy laws, suffer data corruption, or lose operational capacity. This in turn could cause a Fund to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures, and/or financial loss. IT security breaches may involve unauthorized access to a Fund’s digital information systems (e.g., through “hacking” or malicious software coding), but may also result from outside attacks such as denial-of-service attacks (i.e., efforts to make network services unavailable to intended users). In addition, IT security breaches of a Fund’s third-party service providers (e.g., trustee or manager, administrators, transfer agents, custodians and sub-advisors) or of issuers in which a Fund invests can also subject a Fund to many of the same risks associated with direct IT security breaches. As with operational risk in general, the Funds, through Hillsdale as trustee and manager, have established risk management systems designed to reduce the risks associated with IT security. However, there is no guarantee that such efforts will succeed, especially since the Funds do not directly control the IT security systems of issuers or third-party service providers.

#### **R. Potential Conflicts of Interest**

Hillsdale is required to satisfy its standard of care in exercising its duties with respect to the Funds and separately managed accounts. However, Hillsdale is not required to devote all of its time to its responsibilities relating to the Funds or accounts. Certain inherent conflicts of interest may arise from the fact that Hillsdale and its affiliates may carry on investment activities for other clients (which may have the same or similar investment objectives and strategies as a Fund) or on a proprietary basis in which a Fund will have no interest. Future investment activities of Hillsdale, including the establishment of other investment funds, may give rise to additional conflicts of interest.



Hillsdale and its affiliates may also engage in the promotion, management or investment management of any other fund or trust or engage in other activities. Directors and officers of Hillsdale may act as directors or officers of other entities that provide services to funds.

Since Hillsdale also manages investment portfolios for clients other than a given Fund it will be required to make choices as to the allocation of investment opportunities among its clients. Hillsdale will allocate such opportunities among its clients on a basis that is fair and reasonable to Funds and Hillsdale's other clients.

Hillsdale may invest a portion of the Fund's assets in other investment funds that are managed or advised by Hillsdale in accordance with applicable law ("Underlying Funds"). There will be no duplication of performance fees, management fees or any other fees in connection with any such investments.

For additional discussion with respect to potential conflicts of interest also refer to the following sections: (i) Item 6 – *Performance Based Fees and Side-by-Side Management*; (ii) Item 11 – *Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*; (iii) Item 12 – *Brokerage Practices*; (iv) Item 14 – *Client Referrals and Other Compensation*; and (v) Item 17 – *Voting Client Securities*.

#### **S. Series Risk**

The management and performance fees determined with respect to a particular series, as well as certain other operating expenses, are charged against the asset value of that series. However, all other expenses generally will be allocated among the various series of a Fund, and a creditor of a Fund may seek to satisfy its claims from the assets of a Fund as a whole, even though its claims relate only to a particular series of a Fund.

#### **T. Performance Fees**

Performance-based fees may create an incentive for Hillsdale to engage in investment strategies and make investments that are more speculative than would be the case in the absence of such fees. Please also refer to Item 6 – *Performance Based Fees and Side-by-Side Management*.

#### **U. Indebtedness**

A Fund may incur indebtedness, secured by the assets of the Fund, to facilitate redemption requests and for other short-term liquidity requirements, which may subject the Fund to higher current expenses.

#### **V. Fees and Expenses**

A Fund is obligated to pay management fees and other expenses regardless of whether a Fund realizes a profit. Under certain circumstances, a Fund may be subject to significant indemnification obligations in respect of Hillsdale and certain other parties. Investors should refer to the offering document for their specific investment for more detail.

**W. Potential Liability of Unitholders**

The Declaration of Trust or Trust Agreement, as applicable, of each of the Hillsdale Canadian Funds provides that no Unitholder shall be subject to any personal liability whatsoever in tort, contract or otherwise to any person in connection with the Trust Property or the obligations or affairs of the Fund and all such persons will look solely to the Trust Property for the satisfaction of claims of any nature arising out of or in connection therewith and the Trust Property only will be subject to levy or execution.

There is a risk, that is considered by Hillsdale to be remote, in the circumstances that a Unitholder could be held personally liable, notwithstanding the statement in the Declaration of Trust or Trust Agreement, for obligations of a Fund (to the extent that claims are not satisfied by the Fund). It is intended that each Fund's operations be conducted in such a way as to minimize any such risk. It is considered that the risk of any personal liability of Unitholders is minimal in view of the anticipated equity of the Funds. In the event that a Unitholder should be required to satisfy any obligation of the Funds, such Unitholder will be entitled to reimbursement from any available assets of the applicable Fund.

**X. Changes in Applicable Law**

Legal, tax and regulatory changes may occur that can adversely affect a Fund and its investors.

**Y. Lack of Certain Registration and Regulatory Protections**

The Funds are not qualified by a prospectus filed with any Canadian provincial or foreign securities regulatory authority or U.S. securities regulatory authority.

## **9.     *Disciplinary Information***

Neither Hillsdale nor its management persons have been subject to any criminal or civil actions in a domestic, foreign or military court of competent jurisdiction.

Neither Hillsdale nor its management persons have been subject to any administrative proceedings before the SEC, any other U.S. federal or state regulatory agency, or any Canadian or other foreign regulatory authority.

Neither Hillsdale nor its management persons have been subject to any proceedings before any self-regulatory organizations.

## ***10. Other Financial Industry Activities and Affiliations***

Neither Hillsdale nor its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Hillsdale has claimed exemption from registering as a commodity pool operator with the Commodity Futures Trading Commission (“CFTC”) in accordance with the regulations.

Neither Hillsdale nor its management persons recommend or select other investment advisers for our clients.

## ***11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading***

Hillsdale has adopted the Code of Ethics and Standards of Professional Conduct administered by the CFA Institute. The CFA Institute is a global not-for-profit association of investment professionals, including but not limited to portfolio managers, financial advisers and research analysts. Hillsdale has elected to have the CFA Institutes' Code of Ethics and Standards of Professional Conduct apply to supervisory persons, employees and consultants that are engaged by Hillsdale and are deemed "Access Persons", regardless of their status as a CFA charterholder.

A copy of Hillsdale's Code of Ethics and Standards of Professional Conduct is available free of charge by contacting (416) 913-3900 or [info@hillsdaleinv.com](mailto:info@hillsdaleinv.com).

Hillsdale participates or has an interest in client transactions in several ways. Such situations are not unusual in the alternative investments or investment fund industry. In order to maintain public and client confidence and respect, Hillsdale has adopted policies and procedures to assist it in identifying and minimizing any conflicts of interest that these situations may create. Disclosure of these inherent conflicts is the primary approach adopted.

Outlined below are activities in which Hillsdale engages that create potential conflicts of interest, together with a general description of how these conflicts are addressed.

- (a) As an advisor or portfolio manager Hillsdale recommends investments to clients and/or manage their investments on a discretionary basis. This includes the sale to clients of units in the various Funds for which it is a trustee or investment fund manager, portfolio manager and from which it earns fees. These roles create a conflict of interest when Hillsdale recommends clients invest in the Funds which it manages and from which it earns fees.

These conflicts are fully disclosed to clients in the applicable fund offering documents. These outline the fact that Hillsdale earns fees from the investments being recommended.

- (b) Hillsdale may invest in the Funds and in securities that it recommends to clients as it holds securities on its corporate books for cash management purposes and for portfolio development purposes ("Proprietary Accounts"). These activities could create a conflict of interest in allocating trades fairly when securities are purchased at the same time for both clients and corporate or personal accounts.

This conflict is addressed through Hillsdale's Fairness Policy, a copy of which is available upon request at no charge. The Fairness Policy of Hillsdale ensures that investment opportunities are allocated fairly among its clients, where such investments meet the agreed upon client investment mandate. The procedures include:

- Trades common to more than one strategy or account are aggregated for execution.
- After a trade is fully or partially completed the total amount, including commissions, is allocated pro-rata on a trade size weighted basis across the originating accounts.
- Hillsdale client trades have strict execution and allocation priority over trades for Hillsdale Proprietary Accounts.

(c) Hillsdale’s supervisory persons, employees and consultants may invest in securities recommended to clients. A conflict of interest is created if Hillsdale staff making such investments:

- Use any material non-public information for monetary or reputational gain. This includes “tipping”, the transmission of non-public information to others for use in their trading. This is illegal and is generally punishable under applicable Canadian securities legislation and U.S. federal securities laws, rules and regulations;
- Execute an advantageous personal trade for gain in advance of a trade in the same security for client portfolios, also known as “front-running”. This is illegal and is generally punishable under applicable Canadian securities legislation and U.S. federal securities laws, rules and regulations; and
- Use their position in the company to obtain special treatment or investment opportunities not generally available to the funds or the public.
- The use of client commission dollars to fund personal research or to secure preferential trades.
- The excessive use of company time and/or resources to support research or execution of personal trades.

This conflict is addressed through Hillsdale’s Code of Ethics and Standards of Professional Conduct policy and procedures, including the “Personal Trading Policy”. The Personal Trading Policy applies to all accounts where the Access Person is deemed to be the beneficial owner, including accounts owned by persons living in the same household. Generally, trades by an Access Person in publicly traded equity securities must be approved in advance by the Chief Compliance Officer or their designate. Any proposed acquisition of securities offered under a private placement or IPO must also be approved in advance. Trades will only be approved when the security is not being traded for client accounts. Compliance staff, on behalf of the Chief Compliance Officer, directly receive and review copies of Access Persons’ account statements and compares transactions against authorized trading activity.

Each Access Person must provide a quarterly signoff to the Chief Compliance Officer that all accounts and transactions have been reported. In addition, each Access Person must provide an annual signoff and acknowledgment of compliance with the Code of Ethics and Standards of Professional Conduct.

## 12. Brokerage Practices

Hillsdale is responsible for all decisions with respect to the purchase and sale of securities for the Hillsdale Canadian Funds, institutional separate accounts and private client managed accounts. These decisions include the selection of brokers and dealers to effect the transactions and the negotiation of brokerage commissions. This does not apply in the case of institutional accounts where Hillsdale provides recommendations with respect to a model portfolio to an Overlay Manager. Hillsdale has a fiduciary and professional obligation to its clients to act with the care, diligence and skill that a prudent portfolio manager would exercise in the circumstances and to exercise reasonable care when executing transactions for client portfolios in accordance with the declaration of trust, trust agreement or investment management agreement.

In Canada, Hillsdale has a regulatory obligation under National Instrument 23-101 *Trading Rules* to use reasonable efforts to achieve “best execution” when executing trades for client portfolios. Hillsdale also has regulatory obligations under National Instrument 23-102 *Use of Client Brokerage Commissions* and under Section 28(e) of the *Securities and Exchange Act of 1934*, to ensure that commission dollars generated by its customer accounts are only used to obtain allowable order execution goods and services and research goods and services for the benefit of its clients. Client commissions used to purchase order execution and research goods and services are sometimes referred to as “soft dollars”.

Hillsdale has established a Best Execution Policy and a Commission Dollar Policy in order to meet these obligations. Copies of these policies are available upon request at no charge. Summary comments explaining these policies are outlined below.

Hillsdale’s policy is to at all times seek to obtain best execution in the management of client portfolios.

Best Execution refers to a trading process that the investment manager applies that seeks to maximize the value of a client’s portfolio given each client’s stated investment objectives and constraints. It seeks to add value by reducing frictional trading costs. This definition recognizes that Best Execution:

- Is intrinsically tied to portfolio-decision value and cannot be evaluated independently;
- Is a prospective, statistical, and qualitative concept that cannot be known with certainty ex ante;
- Has aspects that may be measured and analyzed over time on an ex post basis, even though such measurement on a trade-by-trade basis may not be meaningful in isolation; and
- Is interwoven into complicated, repetitive and continuing practices and relationships.

Best Execution does not necessarily mean the lowest commission on the transaction. It is defined as the most advantageous execution terms reasonably available under the circumstances. This includes the following elements:

- Price
- Speed of execution
- Certainty of execution, and
- Overall cost of the transaction.

In striving to obtain a best execution price, Hillsdale’s trading desk seeks to minimize implementation shortfall relative to both signal price and arrival price. Signal price is the model-generated “signal” price while arrival price is measured when the trade is received by the trading desk.

Tools to minimize implementation shortfall include:

- Integration of real-time portfolio signals & alpha forecasts (Hillsdale proprietary trading application)
- Electronic execution tools (direct-market access algorithms, electronic crossing networks, dark pools)
- High-touch trading (block trading, liquidity sourcing via broker/dealer institutional trading desk)
- Pre/Post trade analysis (Hillsdale proprietary cost analysis process)
- Intra-day technical analysis & pattern recognition, real-time news assessments

The trading desk has real-time access to portfolio signals (asset returns and risk forecasts), as well as security specific alpha forecasts with estimated trading costs integrated therein. Therefore, trading limits can be interpreted and modified in the context of changing market conditions. Any significant or unexpected movements in individual securities or sectors are examined, analyzed and discussed with Portfolio Managers.

Trades are executed using a dynamic blend of electronic trading (e.g. direct market access algorithms, electronic crossing networks) and high-touch trading (e.g. block trading and liquidity sourcing via broker/dealer institutional trading desks) in order to maximize access to potential market liquidity and minimize trading cost. Electronic trading and high-touch trading represent two complementary capabilities to access distinct sources (public vs. discretionary) of liquidity in the market.

In order to maximize trading efficiency and avoid potential predatory trading tactics, the trading desk employs price limits on the majority of trades, uses customized interactions with many broker execution algorithms, takes an active role in specifying marketplace when using passive orders and generally avoids using unconstrained schedule-based algorithms.

A detailed quantitative post-trade analysis of the trading process facilitates the evaluation of best execution. Once per quarter, the SVP Trading and Operations hosts a Best Execution Review meeting with the Portfolio Management team to discuss trading performance and review all frictional trading costs.

When directing brokerage transactions to a dealer involving client brokerage commissions, Hillsdale makes a good faith determination that the client or clients over time receive reasonable benefit from the use of the goods or services in relation to the amount of client brokerage commissions paid.

In selecting executing brokers, Hillsdale focuses on the execution capabilities of the broker, giving secondary consideration to the broker's responsiveness to Hillsdale's needs, the commission rate and the range of services that the broker can offer (including Client Commission Arrangements). Activity with each broker is reviewed on a regular basis.

In addition to trade execution services and research provided by a given broker, Hillsdale can also use client brokerage commissions to obtain third-party order execution and research goods and services via the use of Client Commission Arrangements (CCA). By utilizing CCAs, Hillsdale can execute trades with brokers that provide the best execution while accessing research that has significantly higher value to Hillsdale's investment decision making process and thus to Hillsdale's clients. Activity with each broker is reviewed on a regular basis.

Trades that are executed within the CCA are considered a "bundled" traded and would incur a higher commission than would be charged for execution-only services by a broker. The portion of the



brokerage commission that is in addition to execution-only service portion is used by the broker to pay for third-party order execution and research goods and services as directed by Hillsdale. This can be interpreted as a benefit to Hillsdale as it therefore does not have to produce or pay for the goods and services that are paid for by the brokerage commissions. The implications of this potential conflict is addressed by Hillsdale through its Best Execution and Commission Dollar policies, ensuring that Best Execution is the priority when determining an executing broker and strategy. The commissions generated via the use of CCAs is also regularly monitored and reviewed by senior management to ensure that there is a clear benefit to Hillsdale clients.

Given Hillsdale's quantitative investment approach, research and order execution goods and services obtained are used by a common infrastructure that enables investment decisions and benefits all client accounts. Given the common infrastructure, commission dollars generated by customer accounts are aggregated to obtain the research and order execution goods and services. Benefits are not allocated to specific client accounts. No goods or services are obtained from affiliates or related parties. The name of any broker or third party that has provided research or order execution goods and services will be provided upon request at no charge. Research and order execution goods and services include, but are not limited to, the following:

- (a) various data series and databases on factors affecting equities and other investments for markets in which investments are made;
- (b) financial models and simulation software to manipulate and analyse the data;
- (c) trading software, market data, pre/post trade analytics and trade execution consultant services;
- (d) analyses and reports concerning market, economic and political factors or trends, industries and/or specific companies;
- (e) consulting services to review and analyse data and other research obtained;
- (f) pricing data; and
- (g) proprietary research from brokers.

Hillsdale's choice of brokers does not include any consideration of whether or not Hillsdale receives client referrals.

Hillsdale does not routinely recommend, request, require or permit that clients provide direction as to the selection of a broker for executing transactions. In general Hillsdale's contracts with clients grant Hillsdale full discretion to select brokers to execute transactions.

As part of the portfolio management process Hillsdale will review several portfolios at the same time in order to determine if any trading activity is required. A given strategy may be employed across several accounts, or various strategies may indicate at the same time that a trade in a specific security should be made. When this happens the trades in a security for the various accounts will be aggregated and traded concurrently in bulk for efficiency. After a trade is fully or partially completed the total amount, including commissions, is allocated pro-rata on a trade size weighted basis across the originating accounts.

### 13. *Review of Accounts*

#### **Review of Funds & Institutional Segregated Accounts**

The Hillsdale Canadian Funds and large institutional segregated accounts are monitored daily, checking all portfolio risk and return characteristics against pre-established tolerances. Under the direction of the Chief Compliance Officer, Hillsdale has a daily monitoring system to ensure that the funds and segregated accounts are in compliance with their applicable investment restrictions. Some of the major control functions in the system include:

*Pre-Trade Compliance Verification* - The Pre-Trade Compliance Verification process within the Portfolio Investment Management System (“PIMS”) advises the portfolio manager (“PM”) if there are any trades that breach portfolio investment restrictions, categorized as “hard” and “soft” compliance rules (consistent with industry practice). If the PM decides to override the compliance rules, an email is sent to the Compliance and Trading teams, requiring an explanation from the PM before trade execution.

*Trading Activity* - Compliance has real-time access to view all trades that are being executed via PIMS. Trade Allocations details are sent to Brokers, Custodians and Fund Administrators via an automated FTP and email process.

*Post-Trade Compliance Verification* - This is performed daily within PIMS, ensuring that all portfolio investment restrictions are respected. On an automated basis the system checks all portfolios against account investment guidelines twice a day. Any violations generate an email to the entire Portfolio Management team, the CCO and Operations for review and follow-up. Any concerns are addressed with the respective PM, or if necessary are elevated to the CCO for resolution.

*Settlement* - Under National Instrument 24-101 *Institutional Trade Matching and Settlement* (NI 24-101) Hillsdale has policies and procedures in place to ensure that trades are matched and settled within specified timeframes. NI 24-101 applies to Canadian equities or instruments that are settled through the Canadian system. As part of the national trade matching system Canadian custodians have implemented reporting systems that show any unmatched trades between counterparties in the Canadian Depository for Securities (CDS) as the central clearing house and the custodian balances, which are updated daily based on trading data sent by Hillsdale. On a daily basis the Operations Analyst downloads the custodian reports of any unmatched trades in the morning and investigates items to try to ensure settlement within the regulatory deadlines, inputting notes as items are resolved. Any items found from custodian reports that are unmatched before deadline are also tracked on a separate spreadsheet. On a monthly and quarterly basis the Operations Analyst downloads the volumes of trading activity and prepares a summary for the quarter for review by the CCO. Any settlement issues with respect to non-Canadian securities are highlighted through the daily reconciliation process (see below).

*Reconciliations* – On a daily basis every morning reports are produced and distributed to Portfolio Management, Trading and Operations. These reports compare positions and activity in a portfolio as per Hillsdale’s PIMS to that reported by the custodian. This is based on a file received daily directly from the custodian. Any differences, on any key value (e.g. no. shares,

valuation etc.) appear on the report. Items requiring follow up are resolved by the Operations Analyst in conjunction with traders/portfolio managers and custodian. In addition to this analysis the independent fund administrator for Hillsdale's pooled funds (SGGG Fund Services Inc., "SGGG") reconciles positions and activity to the custodian as part of the fund accounting process.

*Pricing/Valuations* – For Hillsdale's PIMS the main pricing sources are Bloomberg, Thomson Reuters and PC Quote, with data being received continuously throughout the day. As noted above with respect to Reconciliations, these values are compared daily to values reported by the account custodians, with an exception report of differences generated for Operations to review and follow-up. In addition, for all Hillsdale managed accounts, the day/day change in account value as reported by SGGG for the Hillsdale Canadian Funds, or reported by the separate account custodian, is compared to the change per Hillsdale's systems and an automated daily email is sent to Finance and Compliance staff for review showing the returns and differences. For the Hillsdale Canadian Funds all pricing and valuation is performed by SGGG as the independent fund administrator and their NAV reports are the official record. SGGG generally utilizes Bloomberg for pricing purposes. For separately managed accounts, custodian values are mainly used for valuation and performance reporting purposes, unless the data is not available or inaccurate due to transaction/cash flow timing issues.

*Performance Reporting* – On a monthly basis, Finance staff prepares and reviews returns, net and gross, for all strategies with comparisons to benchmarks, based on fund administrator, custodian and internal data/ Returns are compared to those calculated internally in PIMS and major differences are followed up. These are the official reported returns utilized for Hillsdale strategies.

For the Hillsdale Canadian Funds, unitholders receive regular written updates of a Fund's activities and performance directly from Hillsdale. The Series Net Asset Value Per Unit of Series A.CA\$ Units, Series A.CA\$.U\$H Units, Series A.U\$ Units, Series F.CA\$ Units, Series F.CA\$.U\$H and Series F.U\$, as applicable, are reported not less frequently than monthly, either by a statement mailed to the applicable unitholders, through the investment dealer holding the account, or distributed to financial and investment websites. Hillsdale can be contacted at 416-913-3900 or [info@hillsdaleinv.com](mailto:info@hillsdaleinv.com) to receive a selected list of websites where this information can be accessed. The Series Net Asset Value Per Unit of other series will be reported only to the unitholders and will not be reported in major newspapers or on websites.

Following each purchase of Units by a unitholder, each redemption of Units by a unitholder, and each distribution by the Funds to a unitholder, Hillsdale will send, or cause to be sent, a statement to the unitholder containing relevant information concerning such investment, redemption or distribution.

Hillsdale sends investors semi-annual unaudited comparative financial statements and annual audited comparative financial statements within 60 days of the end of the second quarter and within 90 days of year-end, respectively, for the Hillsdale Canadian Funds.

Hillsdale sends large institutional accounts a written Quarterly Performance Report ("QPR") reviewing the performance of the account. The QPR includes details of the portfolio and indicates that the transactions during the quarter are available on request. Hillsdale staff are available to discuss the report or the management of the account at the client's request. On at least an annual basis Hillsdale

will meet with the client to discuss the performance of the account. As the institutional clients have selected the custodian for the account they directly receive reports from the custodian.

#### **Review of Private Client Managed Accounts**

Hillsdale Private Client Services staff meet with or contact clients to review their investment portfolio and objectives at least annually. Hillsdale staff may meet with the client to review their plans more frequently at client requests, if the client advises us of a change in circumstances or if there is a major change in the markets.

A registered portfolio manager of Hillsdale reviews and approves all transactions before they are executed.

Private clients who have their accounts with a broker receive a statement directly from their broker at least quarterly, and monthly if there is activity in the account.

#### **Reviewers**

**A. Christopher Guthrie**, President and CEO, CIO, CFA

**Alfred Sum**, Senior Portfolio Manager, CFA

**Alex Etsell**, Portfolio Manager, CFA

**Amit Goel**, Head Private Client Services and Portfolio Manager, CFA

**Tony Batek**, Director of Research, Senior Portfolio Manager, CFA

**Selwyn Yuen**, Head of Research, Senior Portfolio Manager, CFA

All transactions are reviewed and approved by a portfolio manager.

## ***14. Client Referrals and Other Compensation***

Hillsdale does not participate in any arrangements whereby it receives compensation from somebody other than a client for providing advice to the client.

Hillsdale does not currently have any referral arrangements. A referral arrangement includes any arrangement under which Hillsdale agrees to pay or receive a referral fee. A referral fee means any form of compensation, direct or indirect, paid for the referral of a client to or from Hillsdale.

Canadian brokers may receive commissions for placing orders in Hillsdale Canadian Funds for their clients. Brokers may charge a front-end sales charge of up to 2% of the Series A.CA\$, Series A.CA\$.U\$H, Series A.U\$, Series I.CA\$, Series I.CA\$.U\$H and Series I.U\$ Units of the Hillsdale Canadian Funds. These commissions are paid by the broker's client.

In addition, in respect of Series A.CA\$, Series A.CA\$.U\$H and Series A.U\$ Units of the Hillsdale Canadian Funds, Hillsdale may pay brokers quarterly, in arrears, cash payments, known as "service fees" or "trailer fees". These fees consist of either:

- (i) a specified percentage rate per annum of the average daily net asset value of their clients' investment in the applicable Fund, with no participation in the Performance Fee; or
- (ii) a specified percentage rate per annum of the average daily net asset value of their clients' investment in the applicable Fund, plus up to 25% of the Performance Fee generated by their clients' investment in the applicable Fund and collected by Hillsdale.

The applicable percentage rate for trailer fees for a Fund is described in the offering memorandum. No service fees are paid in respect of any other series of Units of a Fund. The trailer fees are earned once a purchaser's purchase of Units has settled and continue for so long as such purchaser holds such Units.

## 15. Custody

All client funds and securities are held by independent custodians.

For the CCE Fund, CLS Fund, CSC Fund, CMC Fund, USC Fund and the GI Fund the custodian is BMO Nesbitt Burns Inc., a subsidiary of the Bank of Montreal.

For the GSC Fund and the GE Fund the custodian is RBC Investor Services Trust, a subsidiary of the Royal Bank of Canada.

For separate accounts managed for private clients, the custodian is National Bank Independent Network (NBIN), a division of and trade name used by National Bank Financial Inc. ("NBF Inc."). NBF Inc. is a subsidiary of National Bank of Canada, a major Canadian chartered bank with an investment grade credit rating. NBF Inc. is a registered investment dealer in Canada.

The custodians for large institutional segregated accounts are designated by the client.

Hillsdale is deemed to have custody of the client funds and securities in the Hillsdale Canadian Funds only. This is by virtue of the fact that Hillsdale has the authority and ability to withdraw cash and securities from the Funds. For other than normal trading activity, Hillsdale's controls require that any such withdrawals be approved by any two of the President & CEO, the Executive Vice-President Institutional Investment Services, the Director Research Services, the Senior Vice-President Finance and Compliance or the Senior Vice-President Trading and Operations. Hillsdale does not have any ability to access cash or securities in institutional segregated accounts or private client accounts at NBIN; it can only instruct portfolio transactions.

As indicated in Item 13 – *Review of Accounts*, investors in the Hillsdale Canadian Funds receive monthly statements from the independent fund administrators and annual audited financial statements. Private clients with accounts at NBIN managed by Hillsdale receive a statement directly from the custodian at least quarterly, and monthly if there is activity in the account.

Investors should always compare information received from the custodian or fund administrator to any information received from Hillsdale.

## ***16. Investment Discretion***

Hillsdale customarily accepts discretionary authority to manage securities accounts on behalf of clients.

The only restrictions on such authority are those established by the terms of the applicable Fund or contract with the client.

Investors in the Hillsdale Canadian Funds grant this authority by executing a power of attorney as part of the subscription agreement.

This authority is granted for other accounts by a signed contract or investment management agreement.

## 17. *Voting Client Securities*

Hillsdale has authority to vote client securities held in the Hillsdale Canadian Funds. As Hillsdale is responsible for all aspects of the operation of the Funds, investors in the Funds do not have any ability to direct voting for a particular security. This authority is given to Hillsdale by investors through the execution of a power of attorney as part of the subscription agreement.

Hillsdale will accept, via contract, authority to vote client securities in other managed accounts, if desired by the client. In such cases a client can provide instructions to direct voting in certain instances, although to-date none have done so.

Hillsdale has retained Institutional Shareholder Services Canada Corp. (“ISS”) to provide third-party proxy voting services for accounts managed by Hillsdale. ISS specializes in providing these services, which include analyzing proxies and issuing informed research and objective vote recommendations. Hillsdale reviews ISS’s proxy voting policies and procedures as they are updated. Hillsdale generally does not provide voting instructions to override ISS’s independent recommendations. We believe that this serves to lessen any potential conflicts of interest with clients and to ensure that votes are in their best interest.

ISS, on Hillsdale’s behalf, will vote proxies in accordance with its guidelines. These guidelines can vary between Canada, the U.S. and international companies. Hillsdale believes that voting proxies in accordance with the ISS guidelines is in the best interest of the Funds and managed accounts. In general, the guidelines reflect the following:

- ISS will vote in favor of routine corporate housekeeping proposals, including election of directors (where no corporate governance issues are implicated), selection of auditors, and increases in or reclassification of common stock.
- ISS will vote against proposals that make it more difficult to replace members of the issuer’s board of directors, including proposals to stagger the board, cause management to be overrepresented on the board, introduce cumulative voting, introduce unequal voting rights, and create supermajority voting.

For other proposals, ISS will review the proposal and assess whether it is in the best interests of investors, including the Funds or managed accounts. This assessment may take into account the following factors, among others:

- Whether the proposal was recommended by management, including ISS’s (on behalf of Hillsdale) opinion of management;
- Whether the proposal acts to entrench existing management; and
- Whether the proposal fairly compensates management for past and future performance.

Information on the proxy voting record for a particular Fund or account, as well as copies of the proxy voting policies and procedures are available upon request. Such information may be obtained at no charge by contacting Hillsdale.

If a client has not granted Hillsdale authority to vote securities in their account, the client will receive proxies and other solicitations directly from their custodian. In such cases clients should consult their own professional advisers if they have questions about a solicitation. Hillsdale does not provide advice in such instances.



## ***18. Financial Information***

Hillsdale does not solicit or require the prepayment of fees by clients.

Hillsdale is deemed to have custody of the client funds and securities in the Hillsdale Canadian Funds only. There are no financial conditions that are reasonably likely to impair Hillsdale's ability to meet its contractual commitments to clients.

Hillsdale has not been the subject of a bankruptcy petition at any time since its inception in 1996.

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