

Part 2A of Form ADV: Firm Brochure

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March 31, 2016

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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 . 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.

Item 2 – Material Changes

March 31, 2016

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, 2015.

- a) The investment restrictions of the Hillsdale Enhanced Income Fund were amended effective September 1, 2015 to allow it to use derivatives for non-hedging purposes as a substitute for direct investment. Further details are provided in Item 8 – *Methods of Analysis, Investment Strategies and Risk of Loss*.
- b) Hillsdale started a new fund, the Hillsdale Global Performance Equity Fund, effective December 1, 2015. Further details are provided in Item 8 – *Methods of Analysis, Investment Strategies and Risk of Loss*.
- c) Effective December 1, 2015 Hillsdale appointed SGGG Fund Services Inc. (“SGGG”) to provide all fund accounting and valuation services and to be the registrar for the Hillsdale Canadian Funds. SGGG replaced Citigroup Fund Services Canada Inc. (“Citigroup”). The change was made due to Citigroup deciding to exit its business in Canada that provided these services.

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

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
- Hillsdale Canadian Long/Short Equity Fund
- Hillsdale Global Long/Short Equity Fund
- Hillsdale Canadian Performance Equity Fund
- Hillsdale Canadian Micro Cap Equity Fund
- Hillsdale US Performance Equity Fund
- Hillsdale Global Performance Equity Fund
- Hillsdale Enhanced Income 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. 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 Weider Health and Fitness of Los Angeles, California. 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. Ten of the staff hold the Chartered Financial Analyst (CFA) designation.

In Canada Hillsdale provides these investment management services to investors through the Hillsdale Canadian Funds and directly to clients. 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.

Hillsdale provides discretionary investment management services directly to clients, subject to minimum account sizes at Hillsdale's discretion. These services may be either the management of a specific account or by acting as sub-advisor to a fund established by the client.

HAMI was incorporated in the Cayman Islands on May 13, 2005 under the Companies Law (2004 Revision). It provides discretionary investment management services to investors outside of Canada. HAMI provides these investment management services to Hillsdale Offshore Funds, including the U.S. Fund which is offered to specified U.S. investors. HAMI is currently inactive.

Hillsdale acts as sub-advisor to Hillsdale Offshore Funds under contract with HAMI.

The U.S. Fund is currently inactive.

HAMI previously engaged Admiral Administration Ltd. in the Cayman Islands to provide all fund accounting, valuation and administration services for Hillsdale Offshore Funds. As the Hillsdale Offshore Funds are inactive there is no administration contract currently in place.

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

Hillsdale is registered with the Securities and Exchange Commission of the United States of America as an investment adviser.

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	✓	✓	

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 publicly 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 of December 31, 2015 Hillsdale provided discretionary investment management services on approximately USD\$754,780,000 of investor assets. There are no assets managed on a non-discretionary basis.

5. *Fees and Compensation*

Hillsdale and HAMI earn management fees and incentive or performance fees for their 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 and HAMI may enter into side letters with certain clients in the Funds now or in the future. These clients may be charged management fees at lower rates than the standard rates in exchange for a longer initial lock-up or other reasons. In addition, Hillsdale and HAMI 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 and HAMI determine 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 but not limited to research, brokerage commissions, dealer spreads, financing charges and related transactional fees and expenses, interest expenses and dividends payable with respect to securities sold short. 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. These include, but are not limited to, 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.

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

U.S. and International

The following fee schedule applies to the U.S. Fund:

Class A investors

Management Fee – Annualized rate of 2% of the portion of the U.S. Funds' net assets attributable to Class A Units.

Incentive Fee – 20% of the U.S. Funds' net new appreciation as defined in the offering document.

Class B investors

Management Fee – Annualized rate of 1.5% of the portion of the U.S. Funds' net assets attributable to Class B Units.

Incentive Fee – 20% of the U.S. Funds' net new appreciation as defined in the offering document.

Incentive fees are earned only if the value of the funds at the end of the quarter is greater than the value of the funds at the last date on which an incentive fee was paid, thereby exceeding the High Water Mark or HWM. The payment of an incentive fee establishes a new HWM that must be subsequently exceeded in order for HAMI to earn another incentive fee.

For both Class A and Class B management fees are due and payable at the end of the month in which they are earned and performance fees are due and payable at the end of the quarter in which they are earned. If an investor redeems all or a portion of their investment within one year of the investment date, HAMI may charge an early redemption fee of up to 1% of the aggregate net asset value of the redemption. HAMI has full discretion as to whether or not to charge the fee. The applicability of a fee is determined on a first-in, first-out basis. HAMI deducts this fee from the redemption amount payable to the investor.

Canada

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 class.

Performance fees are charged at the rates shown in the table below of the performance increase attributable to the class, as defined in the applicable offering memorandum. For the Hillsdale Canadian Long/Short Equity Fund and the Hillsdale Global Long/Short Equity Fund a performance fee is earned only if the value of the Fund at the end of the month is greater than the value of the Fund at the last date on which a performance fee was paid, i.e. the 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 Fund at the end of the month is higher than the greater of the HWM and the cumulative change in the benchmark index.

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.

Hillsdale Canadian Long/Short Equity Fund, Hillsdale Canadian Performance Fund, Hillsdale Enhanced Income Fund, Hillsdale Global Long/Short Equity Fund, Hillsdale Global Performance Equity Fund and Hillsdale US Performance Equity Fund			
Class of Units	Management Fees p.a.	Performance Fees	Redemption Fees
A, A(C\$h)/A(C\$uh) - restricted to accredited investors or a minimum investment of \$150,000 for purchasers other than individuals	2.0%	20.0%	Up to 2% if redeemed within 90 days
F, F(C\$h)/F(C\$uh) - restricted to purchases through fee-based advisors, same purchase minimums as Class A	1.25%	20.0%	Up to 2% if redeemed within 90 days
A, F - Enhanced Income Fund		20% starting the later of October 22, 2010 or when the value has increased more than 25%	
I, I(C\$h)/I(C\$uh) - restricted to a minimum investment of \$2,000,000	1.0%	20.0%	Up to 1% if redeemed within one year
J/J(C\$h)/J(C\$uh) – restricted to a minimum investment of \$25,000,000 – Canadian Performance Equity Fund and Global Performance Equity Fund	0.75%	20.0%	Up to 1% if redeemed within one year
J/J(C\$h) – restricted to a minimum investment of \$25,000,000 – US Performance Equity Fund	0.75%	15.0%	Up to 1% if redeemed within one year
P – restricted to a minimum investment of \$2,000,000 - Canadian Performance Equity Fund	1.5%	None	None
Z/Z(C\$h)/Z(C\$uh) – restricted to interfund investments to avoid duplication of fees	None	None	None
Hillsdale Canadian Micro Cap Equity Fund			
Class of Units	Management Fees p.a.	Performance Fees	Redemption Fees
A- restricted to accredited investors or a minimum investment of \$150,000	2.50%	20%	Up to 2% if redeemed within 90 days
F - restricted to purchases through fee-based advisors, same purchase minimums as Class A	1.75%	20%	Up to 2% if redeemed within 90 days
I - restricted to a minimum investment of \$2,000,000	1.50%	20%	Up to 1% if redeemed within one year
J – restricted to a minimum investment of \$25,000,000	1.25%	20%	Up to 1% if redeemed within one year
P – restricted to a minimum investment of \$1,000,000	2.00%	None	Up to 1% if redeemed within one year

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Z – restricted to interfund investments to avoid duplication of fees	None	None	None
Hillsdale Canadian Core Equity Fund			
Class of Units	Management Fees p.a.	Performance Fees	Redemption Fees
A- restricted to accredited investors or a minimum investment of \$150,000	2.00%	None	Up to 2% if redeemed within 90 days
F - restricted to purchases through fee-based advisors, same purchase minimums as Class A	1.00%	None	Up to 2% if redeemed within 90 days
I - restricted to a minimum investment of \$2,000,000	0.50%	None	Up to 1% if redeemed within one year
J – restricted to a minimum investment of \$25,000,000	0.35%	None	Up to 1% if redeemed within one year
K – restricted to a minimum investment of \$25,000,000	0.20%	20.0%	Up to 1% if redeemed within one year
Z – restricted to interfund investments to avoid duplication of fees	None	None	None

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 all carry performance or incentive fees, with the exception of the majority of the classes of the Hillsdale Canadian Core Equity Fund. 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 the strategies for its clients through a proprietary integrated platform that is used for stock selection. 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 stocks based on specific stock 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 weighted average price 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.

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 or HAMI and instances where Hillsdale acts as a sub-advisor to funds 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.

U.S. and International

Investments in the U.S. Fund may be made by U.S. persons who qualify as “qualified purchasers” and as “accredited investors”, as these terms are defined in U.S. legislation and regulations.

The minimum initial or additional subscription in the U.S. Fund is \$500,000 for Class A Units and \$2,000,000 for Class B Units. HAMI has discretion to waive, lower or increase this amount.

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.

Canada

Hillsdale offers units in the Hillsdale Canadian Funds for sale in British Columbia, Alberta, Saskatchewan, Ontario, Québec 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 Class A Units, Class F Units and Class Z Units of the funds is \$50,000. Hillsdale may accept subscriptions in lesser amounts in its sole discretion.

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

The minimum initial investment for Class I Units and Class P Units of the funds is \$2,000,000, except for the Canadian Micro Cap fund where the Class P minimum is \$1,000,000. The minimum initial investment for Class J Units and Class K Units is \$25,000,000. Hillsdale has full discretion to accept subscriptions in lesser amounts for all of these classes.

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.

Other

Hillsdale will also directly manage accounts for investors under an investment management contract. These accounts may be a separate portfolio in a segregated account or some or all of a separate fund established by another 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 stems from 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, systematic and dynamic approach to investment decision making. A mainly quantitative approach to portfolio management is employed.

The underpinnings to Hillsdale's investment philosophy are both traditional and scientific, applying quantitative tools and techniques to fundamental equity research. Hillsdale believes that a measurable, evidence-based process leads to superior investment results.

Hillsdale uses a proprietary, dynamic, multi-factor, multi-frequency ranking approach to investment selection and for the control of risk in the portfolio. Inputs are largely fundamental, expectational and technical and are collected from over 30 source databases. Securities are reviewed regularly for their adherence to specific decision rules and for their contribution to increasing income and/or reducing risk. Securities with a low marginal contribution to risk-adjusted returns are sold and replaced with securities with the highest contribution then available.

Hillsdale's investment methodology is based on a cycle of continuous improvement utilizing a platform featuring proprietary databases, investment applications, simulation software and financial modelling systems. The investment process is fully integrated across research and security selection processes, portfolio construction and optimization techniques, the active portfolio, risk and factor monitoring and performance measurement and evaluation reporting. All components of the process are connected through various feedback loops. The process is dynamic, consistent, repeatable and risk controlled. The search for new variables and factors that either predict or control returns is ongoing. All new data items, data sources or algorithms resulting in either increased return or reduced risk are fed through to all applicable funds. All portfolio risk and return characteristics are monitored daily against pre-established tolerances and objectives. This way Hillsdale can evaluate if disparities in actual results are "random" or in need of corrective action.

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

1. Define the strategy objectives: Return, Total Risk Budget, 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, including the potential for adding new factors;
9. Modify the strategy as required.

Investment Strategies

Outlined below is a summary of the investment objectives and strategies for the Hillsdale U.S. and Canadian Funds. 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.

Hillsdale Offshore Funds

The U.S. Funds' investment objective is to seek a rate of return on capital in excess of Canadian equities over a three-year period with a low correlation to, and volatility equal to or less than, the S&P/TSX Composite Index. The U.S. Fund invests in, and sells short, a long portfolio and a short portfolio of securities. It invests a minimum of 80% of its Total Assets primarily a diversified selection of 50 to 200 selected Canadian corporations trading on major Canadian stock exchanges with at least CDN \$100 million market capitalization. The Fund maintains a Net Market Exposure between 30% and 70% at all times with aggregate short positions maintained at a minimum of 25% of its Total Assets. No equity holding of a single corporation or trust trading on a major Canadian stock exchange, either through direct holdings or indirectly through an investment in another investment fund, will exceed 5% of its Total Assets. The Fund may use derivative instruments, primarily exchange traded, in order to moderate its exposure to market risk. The total value of such transactions will not exceed 5% of its Net Asset Value. Leverage is limited to a maximum of two times the Fund's Net Asset Value.

Hillsdale Canadian Funds

Canadian Long/Short Equity Fund

The Canadian Long/Short Equity Fund's investment objective is to provide investors with a rate of return on capital in excess of Canadian equities over a three year period with a low correlation to, and volatility equal to or less than, the S&P/TSX Composite Index. The Canadian Long/Short Equity Fund invests a minimum of 80% of its Total Assets primarily in a diversified selection of at least 50 Canadian corporations and trusts trading on major Canadian stock exchanges with at least CAD\$50 million market capitalization at the time of purchase or short sale. The 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. No equity holding of a single corporation or trust trading on a major Canadian stock exchange, either through direct holdings or indirectly through an investment in another investment fund, will exceed 5% of its Total Assets. The Fund may use derivative instruments in order to protect against losses from changes in market indices and for non-hedging purposes as a substitute for direct investment. The total value of such transactions will not exceed 5% of its Total Assets. Leverage is limited to a maximum of two times the Fund's Net Asset Value

Global Long/Short Equity Fund

The investment objective of the Global Long/Short Equity Fund is to provide investors with a rate of return on capital in excess of global equities over a three year period with a low correlation to, and volatility equal to or less than, the MSCI World Index. The Global Long/Short Equity Fund invests primarily in a diversified selection of at least 50 corporations and trusts trading on major stock exchanges with at least USD\$50 million market capitalization at the time of purchase or short sale.

The 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. No equity holding of a single corporation or trust, either through direct holdings or indirectly through an investment in another investment fund, will exceed 5% of its Total Assets. The aggregate investment in corporations or trusts in any one country will not exceed 60% of the Fund's Total Assets. The Fund may use derivative instruments, in order to protect against losses from changes in market indices and for non-hedging purposes as a substitute for direct investment. The total value of such transactions will not exceed 5% of its Total Assets. Leverage is limited to a maximum of two times the Fund's Net Asset Value.

Canadian Core Equity Fund

The investment objective of the Canadian Core Equity Fund is to provide investors with a rate of return on capital in excess of the S&P/TSX Composite Total Return Index over a four-year period managed within a controlled tracking error budget with volatility similar to the market. The Canadian Core Equity Fund invests a minimum of 90% of its assets in a diversified selection of at least 50 corporations and trusts trading on major Canadian stock exchanges. Equity holdings of a single corporation or trust trading on a major Canadian stock exchange will be limited to its weight in the S&P/TSX Composite Index, plus or minus 3%, except in cases of impending delisting from the index where the weight may be 0%. The Canadian Core Equity Fund's equity holdings of a single corporation or trust trading on a major Canadian stock exchange that is not part of the S&P/TSX Composite Index will not exceed 3% of its assets, except in the case of impending inclusion in the index where the weight may be larger. The Canadian Core Equity Fund may use derivative instruments in order to protect against losses from changes in market indices and for non-hedging purposes as a substitute for direct investment. The total value of such transactions will not exceed 2% of its assets. Up to 5% of the Canadian Core Equity Fund's assets may be invested in cash or Cash Equivalents. The Canadian Core Equity Fund does not use leverage or engage in securities lending.

US Performance Equity Fund

The investment objective of the US Performance Equity Fund is to provide a rate of return on capital in excess of, and with volatility equal to or less than, the Russell 2000 Total Return Index. The Fund will invest a minimum of 75% of its assets in a diversified selection of small to medium capitalization U.S. corporations, trusts and limited partnerships trading on major U.S. stock exchanges. No equity holding of a single corporation, either through direct holdings or indirectly through an investment in another investment fund, will exceed 5% of the fund's Net Asset Value, except for ETF's where the limitation is 10%.

Canadian Performance Equity Fund

The investment objective of the Canadian Performance Equity Fund is to provide a rate of return on capital in excess of, and with volatility equal to or less than, the S&P/TSX Small Cap Index. The Fund invests a minimum of 75% of the assets in a diversified selection of small cap Canadian corporations and unit trusts trading on major Canadian exchanges. No equity holding of a single corporation, either through direct holdings or indirectly through an investment in another investment fund, will exceed 5% of the fund's Net Asset Value, except for ETF's where the limitation is 10%. The Fund limits its purchases of securities in the S&P/TSX Composite Index so that the aggregate market weight, determined at the time of purchase of these securities, does not exceed 10%.

Global Performance Equity Fund

The investment objective of the Global Performance Equity Fund is to provide a rate of return on capital in excess of, and with volatility equal to or less than, the MSCI All Country World Small Cap total Return Index (Net). The Fund invests a minimum of 75% of its assets, either directly or through investments in the Canadian Funds, in a diversified selection of small to medium capitalization corporations, trusts, limited partnerships and similar entities trading on major global stock exchanges. No equity holding of a single corporation, trust or limited partnership, either through direct holdings or indirectly through an investment in another investment fund, will exceed 5% of the Fund's Net Asset Value, except for ETF's and the Canadian Funds where the limitation does not apply.

Canadian Micro Cap Equity Fund

The investment objective of the Canadian Micro Cap Equity Fund is to provide investors with long term capital growth in excess of the S&P/TSX Small Cap Index over 5 years by investing primarily in Canadian equities of smaller capitalization companies. The Canadian Micro Cap Equity Fund invests a minimum of 75% of its assets in a diversified selection of small capitalization Canadian corporations and trusts with a market capitalization between \$25 million and \$250 million at the time of investment, trading on major Canadian stock exchanges. It will have no fewer than 20 holdings encompassing no less than 5 sectors. The Canadian Micro Cap Equity Fund may invest in inverse or double inverse ETFs in order to endeavour to protect against losses or in unleveraged ETFs to quickly gain exposure to market indices and sectors. It will not hold securities of a single corporation or trust, excluding ETFs, either through direct holdings or indirectly through investment in another investment fund, which will exceed 5% of its net asset value. Derivative instruments may be used in order to protect against losses from changes in market indices and for non-hedging purposes as a substitute for direct investment, provided that the total value of such transactions will not exceed 5% of 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 net asset value may be invested in cash or cash equivalents, however, at the sole discretion of Hillsdale, the Canadian Micro Cap Equity Fund may, on a short term basis due to adverse market, economic, political or other considerations, depart from the investment restrictions and invest a significant portion of its assets in cash or cash equivalents. The Canadian Micro Cap Equity Fund does not use leverage or engage in securities lending.

Enhanced Income Equity Fund

The investment objective of the Enhanced Income Equity Fund is to generate a stable income stream with the potential for capital gains. The Fund invests a minimum of 50% of its assets in equity and equity related securities, investment trusts and limited partnerships of at least 50 issuers listed on major global stock exchanges which, at the time of purchase, have a market capitalization of minimum CAD\$50 million. The Fund invests a minimum of 20% of its assets in higher yielding corporate bonds, bank loans, government debt and other fixed income securities, either directly or through the use of ETFs listed on major global stock exchanges. At least 50% of the assets of the Fund will be invested in securities with a minimum dividend or income yield of 4% per annum. The maximum direct exposure of the Fund to any individual country, other than Canada or the United States, will be 25% of its assets. The Fund will use derivative instruments or inverse ETFs with the objective of reducing the equity exposure of the Fund, and may use derivative instruments for the purposes of currency hedging; for greater certainty the investment percentage limitations do not apply to such transactions. The Fund limits its use of Leverage to two times the Fund's Net Asset Value. The 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 fund's Net Asset Value. The Fund will not hold securities of a single corporation, trust, or limited partnership, excluding ETFs, either through direct holdings or indirectly through investment in another investment fund, which will exceed 10% of its assets.

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 risky 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 Canadian Funds. HAMI is the investment fund manager of the Offshore Funds.

C. Use of Leverage

Leverage is used by the Hillsdale U.S. Fund, the Hillsdale Canadian and Global Long/Short Equity Funds and the Hillsdale Enhanced Income 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 Hillsdale U.S. Fund and the Hillsdale Canadian and Global Long/Short Equity Funds.

To transact a short sale, a Fund will borrow a security it does not own, sell the security short, 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. Turnover

Hillsdale's trading activities for a Fund or account may be made on the basis of short-term market considerations. The portfolio turnover rate may be significant, potentially involving substantial brokerage commissions, related transaction fees and expenses and financing charges.

F. Concentration Risk

The investment restrictions of the Funds limit a direct or indirect equity holding of a single corporation or trust 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 US Performance Fund intends to invest up to all of its assets in securities of United States corporations, trusts and limited partnerships trading on major U.S. stock exchanges. The Canadian Performance Fund intends to invest up to all of its assets in securities of Canadian corporations and trusts trading on major Canadian stock exchanges. The Global Performance Fund intends to invest a significant portion of its assets in these two funds.

G. Liquidity

Investors 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. Under the terms of each Fund the investments in units or shares are non-transferable except as provided by the terms of the Fund. Various classes or series in the Funds can only be redeemed upon prior written notice to Hillsdale or HAMI, as specified in the applicable offering document. Payment of any redemption proceeds is additionally delayed for 3 to 10 days after the redemption date. With respect to certain Funds payment may be further delayed if Hillsdale, in its sole discretion, determines that effecting the redemption request would adversely impact the remaining investors. In such a case payment of redemption proceeds may be delayed from the originally requested date of redemption. Hillsdale may also suspend redemptions in the Funds in certain circumstances. There is no formal market for units of the Funds and none is expected to develop. Units can only be redeemed and are not transferable otherwise than by operation of law.

H. Interest Rate Risk

The value of fixed income securities in which some of the Funds 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 may invest in fixed income securities directly or through the use of Exchange Traded Funds ("ETFs"), futures and other derivative contracts. 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 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 and magnify returns by either a multiple or an inverse multiple of that benchmark or index. Investments in such ETFs are highly speculative and involve a high degree of risk. These exchange traded funds are also subject to increased volatility as they seek to achieve a multiple or inverse multiple of a benchmark or index. Such investments will generally be made in order to protect against declines in capital. There is no assurance that such hedging activity will be effective.

L. Smaller Companies Risk

With respect to the Canadian Micro Cap Equity Fund, the share price of smaller companies is usually more volatile than that of more established larger companies. Smaller companies may be developing new products which have not yet been tested in the marketplace or their products may quickly become obsolete. They may have limited resources, including limited access to funds or unproven management, and may trade less frequently and in smaller volume than shares of large companies. They may have few shares outstanding, so a sale or purchase of shares will have a greater impact on the share price. Such companies may be difficult to value accurately and may trade at a price significantly lower than their value.

M. 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.

N. 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.

O. Currency Exposure

A Fund may 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. Accordingly, the value of an investment in a Fund may, when measured in the reporting currency for a Fund, be affected by fluctuations of the foreign currency relative to the reporting currency. 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.

P. Institutional Risk

Institutions such as brokers and dealers have custody of the assets of the Funds. These firms may encounter financial difficulties that impair the operating capabilities or the capital position of a Fund. Hillsdale attempts to limit its transactions to brokers and dealers which it believes to be well-capitalized and established in an effort to mitigate such risks.

Q. 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.

R. Potential Conflicts of Interest

Hillsdale is required to satisfy its standard of care in exercising its duties with respect to the Funds. However, Hillsdale is not required to devote all of its time to its responsibilities relating to the Funds. 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. 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. Class Risk

The management and performance fees determined with respect to a particular class or series, as well as certain other operating expenses, are charged against the asset value of that class or series. However, all other expenses generally will be allocated among the various classes or 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 class or 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. 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.

V. Changes in Applicable Law

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

W. 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 and HAMI have both claimed exemption from registering as a commodity pool operator with the Commodity Futures Trading Commission (“CFTC”) in accordance with the regulations.

Hillsdale has a wholly owned subsidiary, Hillsdale Asset Management International Ltd. (“HAMI”), incorporated in the Cayman Islands on May 13, 2005 under the Companies Law (2004 Revision). HAMI provides discretionary investment management services to investors outside of Canada. HAMI is currently inactive.

With respect to the Hillsdale Offshore Funds, HAMI acts as managing member of the U.S. Fund, a U.S. limited liability company. In this role HAMI is effectively the investment fund manager for the U.S. Fund. The U.S. Fund is currently inactive and does not have any investors.

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 developed by CFA Institute. CFA Institute is the primary professional organization for securities analysts, investment managers, and others in the investment industry. The Code and its Standards bind all CFA charter holders. Hillsdale has chosen to have these Standards apply to all supervisory persons, employees and consultants engaged by Hillsdale.

A copy of Hillsdale's Code of Ethics is available free of charge by contacting us at (416) 913-3900 or 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 and HAMI recommend 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 and HAMI earn 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. 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 is to ensure 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. Occasionally a trade for a client segregated account may be executed separately in order to reduce costs.
- After a trade is fully or partially completed the total amount, including commissions, is allocated pro-rata on a trade weighted average price basis across the originating accounts. In the event that an order is partially executed and allocated to accounts, client accounts will be filled first.

(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 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.

This conflict is addressed through Hillsdale's Personal Trading and Conflict of Interest Policy (the "Personal Trading Policy"), a copy of which is available upon request at no charge. Under this policy all supervisory persons, employees and consultants engaged by Hillsdale are deemed to be Access Persons and are required to comply with the 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 securities must be approved in advance by the Chief Compliance Officer or his designate. Any proposed acquisition of securities offered under a private placement must also be approved in advance. Trades will only be approved when the security is not being traded for client accounts. Compliance and Administration, on behalf of the Chief Compliance Officer, directly receives and reviews copies of Access Person account statements for review 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 the Personal Trading Policy and Code of Ethics.

12. Brokerage Practices

Hillsdale is responsible for all decisions with respect to the purchase and sale of securities for the Hillsdale Offshore Funds, the Hillsdale Canadian Funds, institutional segregated accounts and private client managed accounts. This includes the selection of brokers and dealers to effect the transactions and the negotiation of brokerage commissions. 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 investment 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 obligations under CFA Institute’s *Soft Dollar Standards*, as well as 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 Portfolio Signals & Alpha Forecasts (Proprietary Trading App)

- 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)
- Intra-day Technical Analysis & Pattern Recognition, Real-time news assessments.

A detailed quantitative post-trade analysis of the trading process facilitates the evaluation of best execution; every trade is associated to a signal price that is model-generated and to an arrival price from which the implementation shortfall is calculated. Once per quarter, the Director of Trading hosts a meeting with all PMs to discuss trading performance and review all frictional trading costs.

In selecting 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 or "CCA"). By utilizing CCAs, Hillsdale can execute trades with brokers that provide the best execution while accessing research that better complement Hillsdale's investment decision making structure. Activity with each broker is reviewed on a regular basis.

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.

Hillsdale uses client commission dollars to obtain order execution and research goods and services. This constitutes a benefit to Hillsdale as it therefore does not have to produce or pay for the goods and services. It could also be considered an incentive to execute a client transaction with a broker at a higher cost than would otherwise be the case. This potential conflict is addressed by Hillsdale through its Best Execution policy, including procedures for diversifying execution across various brokers and by contracting with some brokers solely for execution in order to reduce the overall commission expenditure. The usage of commissions is monitored and reviewed regularly by senior management.

Given Hillsdale's quantitative investment approach, research goods and services obtained are used by a common infrastructure to make investment decisions for all client accounts. The goods and services obtained with one client's commission dollars may thus effectively be used to service other client accounts. Order execution services are used for the benefit of all accounts managed by Hillsdale. Given the common infrastructure commission dollar benefits cannot be allocated to specific client accounts.

In order to obtain order execution and research goods and services Hillsdale typically enters into a CCA with a broker for the provision of goods and services by third parties. Such services may be written, oral or online. No services are obtained from affiliates or related parties. Research services include, but are not limited to, the following:

- various data series and databases on factors affecting equities and other investments for markets in which investments are made;
- financial models and simulation software to manipulate and analyse the data;
- financial publications, analyses and reports concerning market, economic and political factors or trends, industries and/or specific companies;
- consulting services to review and analyse data and other research obtained;
- pricing data; and

- (f) proprietary research from brokers.

Under a CCA some trades with the broker, as designated by Hillsdale's Director of Trading, will incur a higher commission than might otherwise be charged by another broker. A portion of this higher commission is used by the broker to pay for the third party order execution and research goods and services as directed by Hillsdale. Hillsdale has entered into CCAs with several brokers in order to ensure that it is enhancing its execution capabilities.

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 weighted average price basis across the originating accounts. In the event that an order is partially executed and allocated to accounts, client accounts will be filled first.

13. Review of Accounts

Review of Funds & Institutional Segregated Accounts

The Hillsdale Offshore and 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. The reports are reviewed daily and exceptions are discussed with portfolio management for correction. Compliance with the investment restrictions is verified at month-end through a process independent of the daily monitoring system. This report is reviewed by the Chief Operating Officer.

For the Hillsdale Offshore Funds the fund administrator reports the net asset value and the class net asset value per unit by a monthly statement mailed to the investors. Hillsdale provides regular updates of a Fund's activities and performance to investors. Hillsdale sends annual audited accounts of the Offshore Funds to investors. These are expected to be delivered to shareholders within 90 days of the end of each fiscal year or as promptly as possible thereafter. The Offshore Funds are currently inactive.

For the Hillsdale Canadian Funds the fund administrator reports the net asset value and the class net asset value per unit of Class A units, Class F units and Class I units not less frequently than monthly, either by a statement mailed to the investors, by information provided to their broker or on the internet. The net asset value and net asset value for other classes of units is reported only to investors in those classes by a mailed statement. Hillsdale provides regular updates of a Fund's activities and performance to investors. 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.

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.

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

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

Alfred Sum, 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 5% of the Class A and Class A(C\$) Units and up to 2% of the Class I Units and Class I(C\$) of the Hillsdale Canadian Funds. These commissions are paid by the broker's client.

In addition, in respect of Class A and Class A(C\$) 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) Up to 1% per annum of the aggregate market value of their client's investment in the applicable Fund; or
- (ii) Up to 0.75% per annum of the aggregate market value of their clients' investment in the applicable Fund, plus up to 25% of the performance fee generated by their clients' investment in the Fund and collected by Hillsdale.

15. Custody

All client funds and securities are held by independent custodians.

For the Hillsdale U.S. Fund there is currently no custodian as the Fund is inactive and does not have any assets. When the U.S. Fund recommences operation a contract will be entered into with an independent custodian.

For the Hillsdale Canadian Core Equity Fund, Hillsdale Canadian Long/Short Equity Fund, Hillsdale Canadian Performance Equity Fund, Hillsdale Canadian Micro Cap Equity Fund, Hillsdale US Performance Equity Fund, Hillsdale Global Performance Equity Fund and the Hillsdale Enhanced Income Fund the custodian is BMO Nesbitt Burns.

For the Hillsdale Global Long/Short Equity Fund the custodian is CIBC World Markets Inc.

For accounts managed for private clients the custodian is National Bank Correspondent Network (NBCN).

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 and Offshore Funds and in accounts managed for private clients. This is by virtue of the fact that Hillsdale has the authority and ability to withdraw cash and securities from the accounts. 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 or the COO & Senior Vice-President Administration and Compliance.

As indicated in Item 13 – *Review of Accounts* investors in the Hillsdale Canadian and Offshore Funds receive monthly statements from the independent fund administrators and annual audited financial statements. Private clients with accounts at NBCN 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 and Offshore 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 and Offshore 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 on an annual basis 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 and Offshore Funds and in accounts managed for private clients. 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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