

No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this offering memorandum. Any representation to the contrary is an offence. This is a risky investment. See Item 8 “Certain Risk Factors”.



Picton Mahoney Diversified Strategies Fund

## AMENDED AND RESTATED OFFERING MEMORANDUM

Date: March 31, 2016

### The Issuer

Name: **PICTON MAHONEY DIVERSIFIED STRATEGIES FUND**

Head Office: Address: 33 Yonge Street, Suite 830  
Toronto, Ontario  
M5E 1G4  
Phone Number: (416) 955-4108  
E-mail address: [service@pictonmahoney.com](mailto:service@pictonmahoney.com)  
Fax Number: (416) 955-4100

Currently Listed  
or Quoted?  
Reporting Issuer?  
SEDAR Filer?

No. **These securities do not trade on any exchange or market.**  
No.  
No.

### The Offering

Securities Offered: Class A and Class F units (the “Units”) of Picton Mahoney Diversified Strategies Fund (the “Fund”).

Price per Security: Class Net Asset Value per Unit as at the first Valuation Date following the date on which a subscription is received (the “Subscription Price”).

Minimum Offering: **There is no minimum. You may be the only purchaser.**

Maximum Offering: There is no maximum to the number of Units offered. **Funds available under the offering may not be sufficient to accomplish our proposed objectives.**

Minimum Subscription Amount: \$25,000 for Class A and Class F Units.

Payment Terms: Certified cheque or wire transfer together with sales commission (if any) payable to your Dealer, in the amount of the Subscription Price.

Proposed Closing Date(s): Units will be offered on a continuous basis from the date of this Offering Memorandum, unless extended by the Manager, with closings to occur on the last business day of each week.

Income Tax Consequences: There are important tax consequences to these securities. See Item 6.

Selling Agent(s): None.

### Resale Restrictions

You will be restricted from selling your securities for an indefinite period. See Item 10. You may redeem your securities in certain circumstances. See Item 5.3.

### Purchasers’ Rights

You have two (2) business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this offering memorandum, you have the right to sue either for damages or to cancel the agreement. See Item 11.

<b>ITEM 1. USE OF AVAILABLE FUNDS .....</b>	<b>3</b>
1.1 NET PROCEEDS .....	3
1.2 USE OF AVAILABLE FUNDS .....	3
1.3 REALLOCATION .....	3
<b>ITEM 2. BUSINESS OF THE FUND .....</b>	<b>3</b>
2.1 STRUCTURE .....	3
2.2 OUR BUSINESS .....	3
2.3 DEVELOPMENT OF BUSINESS .....	3
2.4 INVESTMENT APPROACH, OBJECTIVE AND INVESTMENT STRATEGIES .....	3
2.5 PICTON UNDERLYING FUNDS – INVESTMENT OBJECTIVES AND STRATEGIES .....	5
2.6 RISK MANAGEMENT AND INVESTMENT RESTRICTIONS .....	24
2.7 MATERIAL AGREEMENTS .....	25
2.8 FEES AND EXPENSES .....	28
<b>ITEM 3. DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS .....</b>	<b>31</b>
3.1 COMPENSATION AND SECURITIES HELD .....	31
3.2 MANAGEMENT EXPERIENCE .....	32
3.3 PENALTIES, SANCTIONS AND BANKRUPTCY .....	32
3.4 INTEREST IN UNDERLYING FUND .....	33
<b>ITEM 4. CAPITAL STRUCTURE .....</b>	<b>33</b>
4.1 AUTHORIZED AND ISSUED CAPITAL .....	33
4.2 LONG-TERM DEBT SECURITIES .....	33
4.3 PRIOR SALES .....	34
<b>ITEM 5. SECURITIES OFFERED .....</b>	<b>34</b>
5.1 TERMS OF SECURITIES .....	34
5.2 SUBSCRIPTION PROCEDURE .....	35
5.3 REDEMPTION OF UNITS .....	36
5.4 DETERMINATION OF NET ASSET VALUE .....	37
5.5 DISTRIBUTIONS .....	39
<b>ITEM 6. INCOME TAX CONSEQUENCES AND ELIGIBILITY FOR INVESTMENT .....</b>	<b>40</b>
6.1 TAXATION OF THE FUND .....	40
6.2 TAXATION OF UNITHOLDERS .....	41
6.3 ELIGIBILITY FOR INVESTMENT .....	42
<b>ITEM 7. COMPENSATION PAID TO SELLERS AND FINDERS .....</b>	<b>42</b>
<b>ITEM 8. CERTAIN RISK FACTORS .....</b>	<b>43</b>
<b>ITEM 9. REPORTING OBLIGATIONS .....</b>	<b>48</b>
<b>ITEM 10. RESALE RESTRICTIONS .....</b>	<b>48</b>
10.1 GENERAL STATEMENT .....	48
10.2 RESTRICTED PERIOD .....	48
<b>ITEM 11. PURCHASER’S RIGHTS .....</b>	<b>49</b>
<b>ITEM 12. FINANCIAL STATEMENTS .....</b>	<b>52</b>
<b>ITEM 13. DATE AND CERTIFICATE .....</b>	<b>53</b>
<b>ITEM 14. APPENDIX A .....</b>	<b>54</b>

## **ITEM 1. USE OF AVAILABLE FUNDS**

### **1.1 Net Proceeds**

It is not possible to determine accurately what the net proceeds of the Offering will be as this is a continuing offering and the Subscription Price will vary depending on what the Class Net Asset Value is at the time each Unit is purchased. The Fund sells Units on a continuous basis, with closings to occur on the last business day of each week.

### **1.2 Use of Available Funds**

The Fund intends to use the net proceeds from the sale of the Units to purchase its respective portfolio of securities in accordance with such Fund's stated objective. See Item 2.4 for a detailed description of the Fund's stated objective.

### **1.3 Reallocation**

The Fund intends to spend the net proceeds as stated. The Fund does not intend to reallocate funds.

## **ITEM 2. BUSINESS OF THE FUND**

### **2.1 Structure**

The one (1) fund offered herein is:

#### **Picton Mahoney Diversified Strategies Fund**

The Fund is an open-ended trust established under the laws of the Province of Ontario by an amended and restated master declaration of trust dated as of March 9, 2015, as amended, restated or supplemented from time to time (the "Trust Declaration"). Picton Mahoney Asset Management acts as the trustee and the manager (the "Trustee", the "Manager" or "Picton Mahoney") of the Fund pursuant to the Trust Declaration. The office of the Fund and of the Manager is located at 33 Yonge Street, Suite 830, Toronto, Ontario M5E 1G4. The Fund is permitted to issue trust units ("Units") in an unlimited number of classes pursuant to the Trust Declaration. The description of provisions of the Trust Declaration contained herein is subject to and qualified in its entirety by the Trust Declaration.

### **2.2 Our Business**

The Fund is an investment fund that invests in assets in accordance with the investment objectives, strategies and restrictions described herein.

### **2.3 Development of Business**

The Fund commenced business on December 31, 2009. The Fund has expanded its business through the sale of Units. As of March 31, 2016, there were approximately 1,110,799.549 Class A Units, 1,757,727.527 Class F Units and 510,376.903 Class I Units of the Fund outstanding.

### **2.4 Investment Approach, Objective and Investment Strategies**

#### **Investment Approach**

Picton Mahoney utilizes an investment process that combines a quantitative approach with fundamental analysis. The Manager believes this combination creates a highly disciplined and repeatable investment process and is the key to successful investing. The Manager employs a multi-factor model that emphasizes factors that have shown to be effective at differentiating between strong and weak performing investment opportunities. These factors include: fundamental change, valuation, growth, default probability, asset volatility and quality. The Manager typically has a

shorter investment horizon than other types of fund managers and seeks to generate returns over a short to intermediate time horizon.

### **Investment Objective**

The investment objective of the Fund is to provide consistent long-term capital appreciation and to provide holders of Units (“Unitholders”) with an attractive risk-adjusted rate of return.

### **Investment Strategies**

The Fund will be managed in accordance with the investment approach and the following strategies:

#### ***Fund Investments***

The Fund may invest in units of other funds for which the Manager is the manager and/or portfolio manager in accordance with applicable securities law and with regulatory orders it has obtained. The Fund may be invested in underlying funds (the “Underlying Funds”) that employ a variety of strategies, including but not limited to:

- Picton Mahoney Market Neutral Equity Fund
- Picton Mahoney Long Short Equity Fund
- Picton Mahoney 130/30 Alpha Extension Canadian Equity Fund
- Picton Mahoney Global Market Neutral Equity Fund
- Picton Mahoney Global Long Short Equity Fund
- Picton Mahoney Income Opportunities Fund
- Picton Mahoney Long Short Emerging Markets Fund
- Picton Mahoney Long Short Global Resource Fund
- Picton Mahoney Premium Fund
- Picton Mahoney Long Short US SMid Cap Fund
- Picton Mahoney Special Situations Fund
- Picton Mahoney Concentrated Opportunistic Long Short Fund
- Picton Mahoney World 130/30 Canadian Equity Fund
- (the “Picton Underlying Funds”)

The Picton Underlying Funds are funds for which the Manager is the manager and/or portfolio manager. The Fund may invest, in accordance with applicable securities law and with regulatory orders it has obtained, all, or less than all, its assets in the Picton Underlying Funds and other Underlying Funds also managed by Picton Mahoney that may be established in future.

Such investment in a Picton Underlying Fund, which may result in the Fund holding units representing more than 10% of either the votes attaching to the outstanding units of a Picton Underlying Fund or the outstanding units of that Picton Underlying Fund, may only be made if the Manager determines that an investment in a Picton Underlying Fund is consistent with the investment objectives, investment strategies and investment restrictions of the Fund and in the best interests of the Fund. The investment by the Fund in units of a Picton Underlying Fund will not result in any duplication of management fees and performance fees to the Fund or the investors of the Fund and the Manager will not receive any management fees or performance fees in respect of the units of the Picton Underlying Fund to be purchased by the Fund.

The Manager reserves the right to change, add additional, or adjust the allocation of the Underlying Funds, from time to time, without notice to investors.

To the extent that the Fund invests in Picton Underlying Funds and other Underlying Funds also managed by Picton Mahoney that may be established in future, it will invest in class I units of each Underlying Fund which will be charged no management or performance fee. As such, the investment by the Fund in units of a Picton Underlying Fund will not result in any duplication of management fees or performance fees to the Fund or the investors of the Fund and the Manager will not receive any management fees or performance fees in respect of the units of the Picton Underlying Fund to be purchased by the Fund.

At the sole discretion of the Manager, the Fund may invest directly in a portfolio of securities similar to those of the Underlying Funds.

## **2.5 Picton Underlying Funds – Investment Objectives and Strategies**

The Fund may be invested in Underlying Funds that employ a variety of strategies, including but not limited to:

### ***2.5.1 Picton Mahoney Market Neutral Equity Fund***

#### **Investment Objective**

The investment objective of the Picton Mahoney Market Neutral Equity Fund (the “Market Neutral Fund”) is to provide consistent long-term capital appreciation and to provide holders of units with an attractive risk-adjusted rate of return with less volatility than traditional equity markets and low correlation to major equity markets.

#### **Investment Strategies**

The Market Neutral Fund will be managed in accordance with the investment approach and the following strategies:

##### ***Investing Long in Securities***

Making long investments in securities of companies identified as attractive investment candidates by the Manager’s investment process.

##### ***Short Selling Securities***

Short selling of securities of companies identified as unattractive investments by the Manager’s investment process and/or to hedge the market exposure of the Market Neutral Fund’s long positions.

##### ***Pairs Trading***

Taking short positions from time to time in securities of one issuer while taking a long position in securities of another issuer in an attempt to gain from the relative valuation differences between the two issuers. A pairs trade will be made when the Manager feels the long position will appreciate in value when compared to the short position.

##### ***Private Placements and IPOs***

Participating in initial public offerings, secondary offerings, and private financings (including special warrant financings) in existing publicly traded issuers. The Market Neutral Fund shall not invest in any private placements by a private company.

##### ***Derivatives***

The Market Neutral Fund may use derivatives to reduce or hedge against various risks including currency exchange risk associated with its foreign investments, and to obtain investment exposures on positions consistent with its investment objective, strategies and risk management. The derivatives that the Market Neutral Fund may use in this regard are clearing corporation and over-the-counter (OTC) options or forwards. The Market Neutral Fund may also employ various option strategies to increase its income return including, but not limited to, covered call and put writing.

##### ***Managing Long and Short Positions***

Managing the relative weightings of long and short positions to achieve the Market Neutral Fund’s investment objective.

In order to achieve its investment objective, the Market Neutral Fund will be structured so that it generally possesses minimal equity market exposure. That is, on average, over an entire market cycle, the Manager expects the Market Neutral Fund will possess a net 0% long exposure with a forecasted market risk, or market beta, of approximately 0.0.

On average, over time, the Manager expects that, for every \$100 invested, the Market Neutral Fund shall be constructed as follows:

\$100 Cash =      \$100 stock bought long  
                         (\$100) stock sold short  
                         \$100 cash or money market

As illustrated above, the Market Neutral Fund invests an amount approximately equal to its net asset value in cash or money market instruments. The Market Neutral Fund is expected on average to generate approximately 1.0 times this amount by selling securities short and using the cash raised from the shorted securities to buy other securities. The Manager intends to periodically rebalance the portfolio so that, after each rebalancing, the value of the long positions is approximately equal to the Market Neutral Fund's borrowing obligations in connection with the short positions.

### ***Leverage***

The Market Neutral Fund is authorized to borrow in order to increase its investment leverage. On a position by position basis, margin requirements of the applicable exchange will be adhered to by the Market Neutral Fund. On average, over time the Market Neutral Fund expects to utilize leverage of two times its net assets, at the time of investment.

## **2.5.2    *Picton Mahoney Long Short Equity Fund***

### **Investment Objective**

The investment objective of the Picton Mahoney Long Short Equity Fund (the "Long Short Fund") is to provide holders of units consistent long-term capital appreciation and to provide holders of units with an attractive risk-adjusted rate of return.

### **Investment Strategies**

The Long Short Fund will be managed in accordance with the investment approach and the following strategies:

#### ***Investing Long in Securities***

Making long investments in securities of companies identified as attractive investment candidates by the Managers investment process.

#### ***Short Selling Securities***

Short selling of securities of companies identified as unattractive investments by the Manager's investment process and/or to hedge the market exposure of the Long Short Fund's long positions.

#### ***Pairs Trading***

Taking short positions from time to time in securities of one issuer while taking a long position in securities of another issuer in an attempt to gain from the relative valuation differences between the two issuers. A pairs trade will be made when the Manager feels the long position will appreciate in value when compared to the short position.

#### ***Private Placements and IPOs***

Participating in initial public offerings, secondary offerings, and private financings (including special warrant financings) in existing publicly traded issuers. The Long Short Fund shall not invest in any private placements by a private company.

### ***Derivatives***

The Long Short Fund may use derivatives to reduce or hedge against various risks including currency exchange risk associated with its foreign investments, and to obtain investment exposures on positions consistent with its investment objective, strategies and risk management. The derivatives that the Long Short Fund may use in this regard are clearing corporation and over-the-counter (OTC) options or forwards. The Long Short Fund may also employ various option strategies to increase its income return including, but not limited to, covered call and put writing.

### ***Managing Long and Short Positions***

Managing the relative weightings of long and short positions to achieve the Long Short Fund's investment objective.

In order to achieve its investment objective, the Long Short Fund will be structured so that it generally possesses positive but not full equity market exposure. That is, on average, over an entire market cycle, the Manager expects the Long Short Fund will possess a 50% net long exposure to the equity market. The Manager may alter the net market exposure of the Long Short Fund depending on the Manager's expectations of the direction of the overall equity markets within a permitted range of 150% net long exposure and 50% net short exposure.

### ***Leverage***

The Long Short Fund is authorized to borrow in order to increase its investment leverage. On a position by position basis, margin requirements of the applicable exchange will be adhered to by the Long Short Fund.

## ***2.5.3 Picton Mahoney 130/30 Alpha Extension Canadian Equity Fund***

### **Investment Objective**

The investment objective of the Picton Mahoney 130/30 Alpha Extension Canadian Equity Fund (the "Alpha Extension Fund") is to provide long-term capital appreciation and to provide holders of units with an attractive risk-adjusted rate of return with similar volatility to the traditional equity market.

### **Investment Strategy**

The Alpha Extension Fund will be managed in accordance with the investment approach and the following strategies:

#### ***Investing Long in Securities***

Making long investments in securities of companies identified as attractive investment candidates by the Manager's investment process.

#### ***Short Selling Securities***

Short selling of securities of companies identified as unattractive investments by the Manager's investment process and/or to hedge the market exposure of the Alpha Extension Fund's long positions.

#### ***Pairs Trading***

Taking short positions from time to time in securities of one issuer while taking a long position in securities of another issuer in an attempt to gain from the relative valuation differences between the two issuers. A pairs trade will be made when the Manager feels the long position will appreciate in value when compared to the short position.

### ***Private Placements and IPOs***

Participating in initial public offerings, secondary offerings, and private financings (including special warrant financings) in existing publicly traded issuers. The Alpha Extension Fund shall not invest in any private placements by a private company.

### ***Derivatives***

The Alpha Extension Fund may use derivatives to reduce or hedge against various risks including currency exchange risk associated with its foreign investments, and to obtain investment exposures on positions consistent with its investment objective, strategies and risk management. The derivatives that the Alpha Extension Fund may use in this regard are clearing corporation and over-the-counter (OTC) options or forwards. The Alpha Extension Fund may also employ various option strategies to increase its income return including, but not limited to, covered call and put writing.

### ***Managing Long/Short Positions and Leverage***

Managing the relative weightings of long and short positions to achieve the Alpha Extension Fund's investment objective.

In order to achieve its investment objective, the Alpha Extension Fund will be structured so that it generally possesses 100% net equity market exposure. That is, on average, over an entire market cycle, the Manager expects the Alpha Extension Fund will possess a net 100% long exposure with a forecasted market risk, or market beta, of approximately 1.0.

On average, over time, the Manager expects that, for every \$100 invested, the Alpha Extension Fund shall be constructed as follows:

\$100 Cash =       \$130 stock bought long  
                         (\$30) stock sold short

resulting in a gross market exposure of 160%. The Manager may alter the gross market exposure of the Alpha Extension Fund depending on the Manager's expectations of the overall equity markets within a permitted range of 180% and 140% gross market exposure. On a position by position basis, margin requirements of the applicable exchange will be adhered to by the Alpha Extension Fund.

### ***2.5.4 Picton Mahoney Global Market Neutral Equity Fund***

#### **Investment Objective**

The investment objective of the Picton Mahoney Global Market Neutral Equity Fund (the "Global Market Neutral Fund") is to provide consistent long-term capital appreciation and to provide holders of units with an attractive risk-adjusted rate of return with less volatility than traditional equity markets and low correlation to major equity markets.

#### **Investment Strategies**

The Global Market Neutral Fund will be managed in accordance with the investment approach and the following strategies:

#### ***Investing Long in Securities***

Making long investments in securities of companies identified as attractive investment candidates by the Manager's investment process.



### ***Short Selling Securities***

Short selling of securities of companies identified as unattractive investments by the Manager's investment process and/or to hedge the market exposure of the Global Market Neutral Fund's long positions.

### ***Pairs Trading***

Taking short positions from time to time in securities of one issuer while taking a long position in securities of another issuer in an attempt to gain from the relative valuation differences between the two issuers. A pairs trade will be made when the Manager feels the long position will appreciate in value when compared to the short position.

### ***Private Placements and IPOs***

Participating in initial public offerings, secondary offerings, and private financings (including special warrant financings) in existing publicly traded issuers. The Global Market Neutral Fund shall not invest in any private placements by a private company.

### ***Derivatives***

The Global Market Neutral Fund may use derivatives to reduce or hedge against various risks including currency exchange risk associated with its foreign investments, and to obtain investment exposures on positions consistent with its investment objective, strategies and risk management. The derivatives that the Global Market Neutral Fund may use in this regard are options, swaps, CFDs (Contracts for Difference), futures or forwards. The Global Market Neutral Fund may also employ various option strategies to increase its income return including, but not limited to, covered call and put writing.

### ***Managing Long and Short Positions***

Managing the relative weightings of long and short positions to achieve the Global Market Neutral Fund's investment objective.

In order to achieve its investment objective, the Global Market Neutral Fund will be structured so that it generally possesses minimal equity market exposure. That is, on average, over an entire market cycle, the Manager expects the Global Market Neutral Fund will possess a net 0% long exposure with a forecasted market risk, or market beta, of approximately 0.0.

On average, over time, the Manager expects that, for every \$100 invested, the Global Market Neutral Fund shall be constructed as follows:

\$100 Cash =      \$100 stock bought long  
                         (\$100) stock sold short  
                         \$100 cash or money market

As illustrated above, the Global Market Neutral Fund invests an amount approximately equal to its net asset value in cash or money market instruments. The Global Market Neutral Fund is expected on average to generate approximately 1.0 times this amount by selling securities short and using the cash raised from the shorted securities to buy other securities. The Manager intends to periodically rebalance the portfolio so that, after each rebalancing, the value of the long positions is approximately equal to the Global Market Neutral Fund's borrowing obligations in connection with the short positions.

### ***Leverage***

The Global Market Neutral Fund is authorized to borrow in order to increase its investment leverage. On a position by position basis, margin requirements of the applicable exchange will be adhered to by the Global Market Neutral Fund. On average, over time the Global Market Neutral Fund expects to utilize leverage of two times its net assets, at the time of investment.

### ***2.5.5 Picton Mahoney Global Long Short Equity Fund***

#### **Investment Objective**

The investment objective of the Picton Mahoney Global Long Short Equity Fund (the “Global Long Short Fund”) is to provide consistent long-term capital appreciation and to provide holders of units with an attractive risk-adjusted rate of return.

#### **Investment Strategies**

The Global Long Short Fund will be managed in accordance with the investment approach and the following strategies:

##### ***Investing Long in Securities***

Making long investments in securities of companies identified as attractive investment candidates by the Managers investment process.

##### ***Short Selling Securities***

Short selling of securities of companies identified as unattractive investments by the Manager’s investment process and/or to hedge the market exposure of the Global Long Short Fund’s long positions.

##### ***Pairs Trading***

Taking short positions from time to time in securities of one issuer while taking a long position in securities of another issuer in an attempt to gain from the relative valuation differences between the two issuers. A pairs trade will be made when the Manager feels the long position will appreciate in value when compared to the short position.

##### ***Private Placements and IPOs***

Participating in initial public offerings, secondary offerings, and private financings (including special warrant financings) in existing publicly traded issuers. The Global Long Short Fund shall not invest in any private placements by a private company.

##### ***Derivatives***

The Global Long Short Fund may use derivatives to reduce or hedge against various risks including currency exchange risk associated with its foreign investments, and to obtain investment exposures on positions consistent with its investment objective, strategies and risk management. The derivatives that the Global Long Short Fund may use in this regard are options, swaps, CFDs (Contracts for Difference), futures or forwards. The Global Long Short Fund may also employ various option strategies to increase its income return including, but not limited to, covered call and put writing.

##### ***Managing Long and Short Positions***

Managing the relative weightings of long and short positions to achieve the Global Long Short Fund’s investment objective.

In order to achieve its investment objective, the Global Long Short Fund will be structured so that it generally possesses positive but not full equity market exposure. That is, on average, over an entire market cycle, the Manager expects the Global Long Short Fund will possess a 50% net long exposure to the equity market. The Manager may alter the net market exposure of the Global Long Short Fund depending on the Manager's expectations of the direction of the overall equity markets within a permitted range of 150% net long exposure and 50% net short exposure.

### ***Leverage***

The Global Long Short Fund is authorized to borrow in order to increase its investment leverage. On a position by position basis, margin requirements of the applicable exchange will be adhered to by the Global Long Short Fund.

## **2.5.6 *Picton Mahoney Income Opportunities Fund***

### **Investment Objective**

The investment objective of the Picton Mahoney Income Opportunities Fund (the "Income Opportunities Fund") is to maximize total return, consisting of interest and dividend income and capital appreciation and to provide holders of units with monthly distributions targeted at 5% for 2016. See "Monthly Distribution" below.

### **Monthly Distribution**

The Income Opportunities Fund intends to make monthly distributions (the "Monthly Distribution") to holders of units of record of the Income Opportunities Fund on the last Business Day prior to the last Valuation Date of each month. Monthly Distributions will be paid on a business day designated by the Manager that will be no later than the 15<sup>th</sup> day of the following month (each, a "Monthly Distribution Payment Date"). The Income Opportunities Fund does not have a fixed Monthly Distribution but will determine and announce each January an expected distribution amount for the following twelve months. The Monthly Distribution for 2016 is targeted to be \$0.0362 per Class A Unit, \$0.0386 per Class F Unit, USD\$0.0375 per Class UA Unit and USD\$0.0379 per Class UF Unit.

Subject to applicable securities legislation, Monthly Distributions will be automatically reinvested in additional units or fractions of units of the Income Opportunities Fund at the class net asset value per unit. The Manager reserves the right to change such policy, and may elect to have the distributions paid in cash.

It is expected that distributions to holders of units will be characterized as capital gains, dividends and other income. If the return on the Income Opportunities Fund (including net realized capital gains from the sale of securities) is less than the amount necessary to fund the Monthly Distributions, the Manager will return a portion of the capital of the Income Opportunities Fund to holders of units to ensure the distribution is paid and, accordingly, class net asset value per unit will be reduced. There can be no assurance that the Income Opportunities Fund will be able to achieve its Monthly Distribution objective or make payments on any Monthly Distribution Payment Date. A holder of units may elect to have Monthly Distributions received from the Income Opportunities Fund paid in cash by notifying the Manager.

Amounts distributed on the units of the Income Opportunities Fund that represent returns of capital are generally non-taxable to a holder of units but reduce the holder of unit's adjusted cost base of the units for tax purposes.

If the Income Opportunities Fund's net income for tax purposes, including net realized capital gains, for any year exceeds the aggregate amount of the Monthly Distributions made in the year to holders of units, the Income Opportunities Fund will also be required to pay one or more special distributions in such year to holders of units as is necessary to ensure that the Income Opportunities Fund will not be liable for income tax on such amounts under the *Income Tax Act* (Canada) (the "Tax Act") (after taking into account all available deductions, credits and refunds).

There can be no assurance given as to the amount of targeted Monthly Distributions in the future.

## **Investment Strategies**

The Income Opportunities Fund will be managed in accordance with the investment approach and the following strategies:

### ***Investing Long in Securities***

Making long investments in securities of issuers identified as attractive investment candidates by the Manager's investment process. Eligible securities to include but not be limited to government bonds, investment grade corporate bonds, credit linked notes, high-yield bonds, asset backed securities, collateralized debt and loan obligations, government agency securities, bonds, convertible bonds, convertible debentures, preferred shares, bank loans, real estate investment trusts, master limited partnerships, equities, income trusts, Canadian royalty trusts, closed-end funds, exchange-traded funds.

### ***Short Selling Securities***

Short selling of securities of issuers identified as unattractive investments by the Manager's investment process and/or to hedge the market exposure of the Income Opportunities Fund's long positions. Eligible securities to include but not be limited to government bonds, investment grade corporate bonds, credit-linked notes, high-yield bonds, asset-backed securities, collateralized debt and loan obligations, government agency securities, bonds, convertible bonds, convertible debentures, preferred shares, bank loans, real estate investment trusts, master limited partnerships, equities, income trusts, Canadian royalty trusts, exchange-traded funds.

### ***Capital Structure Arbitrage***

A capital structure arbitrage trade combines a long position in an issuer's senior debt with a short position in its junior debt or common equity using a hedge ratio.

### ***Convertible Arbitrage***

A convertible arbitrage trade combines a long position in an issuer's convertible securities (convertible bonds, warrants, convertible preferred shares) with a short position in its common equity.

### ***Yield and Credit Curve Arbitrage***

Yield and credit curve trades combine a long position in an issuer's bond at one maturity with a short position in the bonds of the same issuer at a different maturity.

### ***Fixed Income Arbitrage***

Taking offsetting long and short positions in government bonds and investment grade corporate bonds, government agency securities, swap contracts, and futures and options on fixed income instruments that are mathematically, fundamentally, or historically interrelated.

### ***Pairs Trading***

Taking short positions from time to time in securities of one issuer while taking a long position in securities of another issuer in an attempt to gain from the relative valuation differences between the two issuers. A pairs trade will be made when the Manager feels the long position will appreciate in value when compared to the short position.

### ***Distressed Investments***

Taking long positions in securities (typically bonds and bank debt) that are in turnaround situations, default, under bankruptcy protection, or in distress and heading towards bankruptcy.

### ***Special Situations***

Taking long and short positions in securities impacted by event driven situations such as mergers, divestitures, restructurings or other issuer events.

### ***Private Placements and IPOs***

Participating in initial public offerings, secondary offerings, and private financings (including special warrant financings) in existing publicly traded and private issuers.

### ***Private Company Investments***

Taking long and short positions in private company debt offerings.

### ***Derivatives***

The Income Opportunities Fund may use derivatives to reduce or hedge against various risks including currency exchange risk associated with its foreign investments, and to obtain investment exposures on positions consistent with its investment objective, strategies and risk management. The derivatives that the Income Opportunities Fund may use in this regard are options, swaps, CFDs (Contracts for Difference), futures or forwards. The Income Opportunities Fund may also employ various option strategies to increase its income return including, but not limited to, covered call and put writing.

### ***Managing Long and Short Positions***

Managing the relative weightings of long and short positions to achieve the Income Opportunities Fund's investment objectives.

### ***Leverage***

The Income Opportunities Fund is authorized to borrow in order to increase its investment leverage. On average, over time the Income Opportunities Fund expects to utilize leverage of two to three times its net assets, up to a maximum of four times its assets, at the time of investment.

## ***2.5.7 Picton Mahoney Long Short Emerging Markets Fund***

### **Investment Objective**

The investment objective of the Picton Mahoney Long Short Emerging Markets Fund (the "Emerging Markets Fund") is to provide consistent long-term capital appreciation and to provide unitholders with an attractive risk-adjusted rate of return.

### **Investment Strategies**

The Emerging Markets Fund will be managed in accordance with the investment approach and the following strategies:

#### ***Investing Long in Securities***

Making long investments in securities of companies and ETFs identified as attractive investment candidates by the Manager's investment process.

#### ***Short Selling Securities***

Short selling of securities of companies and ETFs identified as unattractive investments by the Manager's investment process and/or to hedge the market exposure of the Emerging Markets Fund's long positions.

### ***Pairs Trading***

Taking short positions from time to time in securities of one issuer while taking a long position in securities of another issuer in an attempt to gain from the relative valuation differences between the two issuers. A pairs trade will be made when the Manager feels the long position will appreciate in value when compared to the short position.

### ***Private Placements and IPOs***

Participating in initial public offerings, secondary offerings, and private financings (including special warrant financings) in existing publicly traded issuers.

### ***Special Situations***

Taking long and short positions in securities impacted by event driven situations such as mergers, divestitures, restructurings or other issuer events.

### ***Capital Structure Arbitrage***

Combining a long position in an issuer's senior debt with a short position in its junior debt or common equity using a hedge ratio.

### ***Convertible Arbitrage***

Combining a long position in an issuer's convertible securities (convertible bonds, warrants, convertible preferred shares) with a short position in its common equity.

### ***Derivatives***

The Emerging Markets Fund may use derivatives to reduce or hedge against various risks including currency exchange risk associated with its foreign investments, and to obtain investment exposures on positions consistent with its investment objective, strategies and risk management. The derivatives that the Emerging Markets Fund may use in this regard are options, swaps, CFDs (Contracts for Difference), futures or forwards. The Emerging Markets Fund may also employ various option strategies to increase its return including, but not limited to, covered call and put writing.

### ***Managing Long and Short Positions***

Managing the relative weightings of long and short positions to achieve the Emerging Markets Fund's investment objective.

In order to achieve its investment objective, the Emerging Markets Fund will be structured so that it generally possesses positive but not full equity market exposure. That is, on average, over an entire market cycle, the Manager expects the Emerging Markets Fund will possess a 50% net long exposure to the equity market. The Manager may alter the net market exposure of the Emerging Markets Fund depending on the Manager's expectations of the direction of the overall equity markets within a permitted range of 150% net long exposure and 50% net short exposure.

### ***Leverage***

The Emerging Markets Fund is authorized to borrow in order to increase its investment leverage. On a position by position basis, margin requirements of the applicable exchange will be adhered to by the Emerging Markets Fund.

### **2.5.8 *Picton Mahoney Long Short Global Resource Fund***

#### **Investment Objective**

The investment objective of the Picton Mahoney Long Short Global Resource Fund (the “Global Resource Fund”) is to provide consistent long-term capital appreciation and to provide unitholders with an attractive risk-adjusted rate of return.

#### **Investment Strategies**

The Global Resource Fund will invest long and short in stocks, bonds, commodity forward contracts, and commodity futures, directly or indirectly, to provide consistent long-term capital appreciation. The Global Resource Fund will primarily invest in securities of companies engaged in or related to the energy, commodity and natural resource industries.

The Global Resource Fund will be managed in accordance with the investment approach and the following strategies:

##### ***Investing Long in Securities***

Making long investments in securities of issuers identified as attractive investment candidates by the Manager’s investment process.

##### ***Short Selling Securities***

Short selling of securities of issuers identified as unattractive investments by the Manager’s investment process and/or to hedge the market exposure of the Global Resource Fund’s long positions.

##### ***Pairs Trading***

Taking short positions from time to time in securities of one issuer while taking a long position in securities of another issuer in an attempt to gain from the relative valuation differences between the two issuers. A pairs trade will be made when the Manager feels the long position will appreciate in value when compared to the short position.

##### ***Special Situations***

Taking long and short positions in securities impacted by event driven situations such as mergers, divestitures, restructurings or other issuer events.

##### ***Capital Structure Arbitrage***

A capital structure arbitrage trade combines a long position in an issuer’s senior debt with a short position in its junior debt or common equity using a hedge ratio.

##### ***Convertible Arbitrage***

A convertible arbitrage trade combines a long position in an issuer’s convertible securities (convertible bonds, warrants, convertible preferred shares) with a short position in its common equity.

##### ***Private Placements and IPOs***

Participating in initial public offerings, secondary offerings, and private financings (including special warrant financings) in existing publicly traded and private issuers.

### ***Private Company Investments***

Taking long and short positions in private company offerings.

### ***Commodities***

Purchasing, holding, selling, or otherwise dealing in commodity forward contracts, commodity futures, financial futures or options on financial futures.

### ***Derivatives***

The Global Resource Fund may use derivatives to reduce or hedge against various risks including currency exchange risk associated with its foreign investments, and to obtain investment exposures on positions consistent with its investment objective, strategies and risk management. The derivatives that the Global Resource Fund may use in this regard may include but are not limited to warrants, options, swaps, CFDs (Contracts for Difference), futures or forwards. The Global Resource Fund may also employ various option strategies to increase its income return including, but not limited to, covered call and put writing.

### ***Managing Long and Short Positions***

Managing the relative weightings of long and short positions to achieve the Global Resource Fund's investment objectives.

### ***Leverage***

The Global Resource Fund is authorized to borrow in order to increase its investment leverage. On a position by position basis, margin requirements of the applicable exchange will be adhered to by the Global Resource Fund.

## **2.5.9 Picton Mahoney Premium Fund**

### **Investment Objective**

The investment objective of the Picton Mahoney Premium Fund (the "Premium Fund") is to provide consistent long-term capital appreciation and to provide unitholders with an attractive risk-adjusted rate of return.

### **Investment Strategies**

To achieve its objective, the Premium Fund will be managed in accordance with the investment approach. The Premium Fund will be managed using a variety of investment strategies in an effort to take advantage of profitable opportunities in the capital market. The Premium Fund will use derivatives as part of its investment program, and the majority of the Premium Fund's trading strategies are expected to be derivatives based.

The Premium Fund may invest, both long and short, in a variety of financial investments including equities, debt securities, exchange traded funds, currencies and commodities as well as futures, forwards, swaps and options on the same.

### ***Derivatives***

The Premium Fund may use derivatives to reduce or hedge against various risks including currency exchange risk associated with its foreign investments, and to obtain investment exposures on positions consistent with its investment objective, strategies and risk management. The derivatives that the Premium Fund may use in this regard include options, swaps, CFDs (Contracts for Difference), futures and forwards.



### ***Volatility Arbitrage***

Involves trading options on various securities (such as, but not limited to: equities, equity indices, fixed income instruments, futures), both listed and over-the counter, in conjunction with the underlying security in order to realize profits from the price movements (volatility) of both the option and the underlying security.

### ***Warrant Arbitrage***

Involves trading warrants in conjunction with the underlying securities (or other correlated securities or financial instruments) that in some cases have been borrowed and not yet purchased (i.e. short selling) in order to realize a profit from the price movements of both the warrant and the traded underlying or correlated securities.

### ***Overlay Strategies***

This category involves utilizing a variety of instruments to hedge overall equity, interest rate, commodity or other macro risks in the Premium Fund's portfolio.

### ***Investing Long in Securities***

Making long investments in securities identified as attractive investment candidates by the Manager's investment process.

### ***Short Selling Securities***

Short selling of securities identified as unattractive investments by the Manager's investment process and/or to hedge the market exposure of the Premium Fund's long positions.

### ***Pairs Trading***

Taking short positions from time to time in securities of one issuer while taking a long position in securities of another issuer in an attempt to gain from the relative valuation differences between the two issuers. A pairs trade will be made when the Manager feels the long position will appreciate in value when compared to the short position.

### ***Special Situations***

Taking long and short positions in securities impacted by event driven situations such as mergers, divestitures, restructurings or other issuer events.

### ***Capital Structure Arbitrage***

Combining a long position in an issuer's senior debt with a short position in its junior debt or common equity using a hedge ratio.

### ***Convertible Arbitrage***

Combining a long position in an issuer's convertible securities (convertible bonds, warrants, convertible preferred shares) with a short position in its common equity.

### ***Private Placements and IPOs***

Participating in initial public offerings, secondary offerings, and private financings (including special warrant financings) in existing publicly traded issuers.

### ***Managing Long and Short Positions***

Managing the relative weightings of long and short positions to achieve the Premium Fund's investment objective.

### ***Leverage***

The Premium Fund is authorized to borrow in order to increase its investment leverage. On a position by position basis, margin requirements of the applicable exchange will be adhered to by the Premium Fund.

### ***2.5.10 Picton Mahoney Long Short US SMid Cap Fund***

#### **Investment Objective**

The investment objective of the Picton Mahoney Long Short US SMid Cap Fund (“US SMid Cap Fund”) is to provide long-term capital appreciation and to provide unitholders with an attractive risk-adjusted rate of return with similar volatility to the traditional equity market.

#### **Investment Strategy**

The US SMid Cap Fund will be managed in accordance with the investment approach and the following strategies:

##### ***Investing Long in Securities***

Making long investments in securities of companies identified as attractive investment candidates by the Manager’s investment process.

##### ***Short Selling Securities***

Short selling of securities of companies identified as unattractive investments by the Manager’s investment process and/or to hedge the market exposure of the US SMid Cap Fund’s long positions.

##### ***Pairs Trading***

Taking short positions from time to time in securities of one issuer while taking a long position in securities of another issuer in an attempt to gain from the relative valuation differences between the two issuers. A pairs trade will be made when the Manager feels the long position will appreciate in value when compared to the short position.

##### ***Private Placements and IPOs***

Participating in initial public offerings, secondary offerings, and private financings (including special warrant financings) of existing publicly traded issuers. The US SMid Cap Fund shall not invest in any private placements by a private company.

##### ***Derivatives***

The US SMid Cap Fund may use derivatives to reduce or hedge against various risks including currency exchange risk associated with its foreign investments, and to obtain investment exposures on positions consistent with its investment objective, strategies and risk management. The derivatives that the US SMid Cap Fund may use in this regard are clearing corporation and over-the-counter (OTC) options or forwards. The US SMid Cap Fund may also employ various option strategies to increase its income return including, but not limited to, covered call and put writing.

##### ***Managing Long and Short Positions***

Managing the relative weightings of long and short positions to achieve the US SMid Cap Fund’s investment objective.

In order to achieve its investment objective, the US SMid Cap Fund will be structured so that it generally possesses positive but not full equity market exposure. That is, on average, over an entire market cycle, the Manager expects the US SMid Cap Fund will possess a 50% net long exposure to the equity market. The Manager may alter the net

market exposure of the US SMid Cap Fund depending on the Manager's expectations of the direction of the overall equity markets within a permitted range of 75% net long exposure and 25% net short exposure.

### ***Leverage***

The US SMid Cap Fund is authorized to borrow in order to increase its investment leverage. On a position-by-position basis, margin requirements of the applicable exchange will be adhered to by the US SMid Cap Fund.

## ***2.5.11 Picton Mahoney Special Situations Fund***

### **Investment Objective**

The investment objective of the Picton Mahoney Special Situations Fund (the "Special Situations Fund") is to provide long-term capital appreciation and income and to provide Unitholders with an attractive risk-adjusted rate of return with less volatility to the traditional equity market, with monthly distributions initially targeted for 2016 to be \$0.025 per Unit.

### **Monthly Distribution**

In accordance with the Special Situations Fund's investment objective to provide Unitholders with monthly distributions, the Special Situations Fund intends to make monthly distributions to Unitholders of record on the last business day prior to the last Valuation Date (as defined herein) of each month (the "Monthly Distribution"). Monthly Distributions will be paid on a business day designated by the Manager that will be no later than the 15th day of the following month. The Special Situations Fund does not have a fixed Monthly Distribution but will determine and announce each January, commencing in 2016, an expected distribution amount for the following twelve months. The Monthly Distribution for 2016 is targeted to be \$0.025 per Class A Unit and \$0.025 per Class F Unit. Subject to applicable securities legislation, Monthly Distributions will be automatically reinvested in additional Units of the Special Situations Fund or fractional Units of the Special Situations Fund at the Class Net Asset Value per Unit. Potential investors should keep this policy in mind when determining whether or not an investment in the Special Situations Fund is suitable for their particular circumstances. The Manager reserves the right to change such policy, and may elect to have distributions paid in cash. It is expected that distributions to Unitholders will be characterized as capital gains, dividends and other income. If the return on the Special Situations Fund (including net realized capital gains from the sale of securities) is less than the amount necessary to fund the Monthly Distributions, the Manager will return a portion of the capital of the Special Situations Fund to Unitholders to ensure the distribution is paid and, accordingly, the Net Asset Value per Unit will be reduced. A Unitholder may elect to have Monthly Distributions received from the Special Situations Fund paid in cash by notifying the Manager. If the Special Situations Fund's net income for tax purposes, including net realized capital gains, for any year exceeds the aggregate amount of the regular Monthly Distributions made in the year to Unitholders, the Special Situations Fund will also be required to pay one or more special distributions in such year to Unitholders as is necessary to ensure that the Special Situations Fund will not be liable for income tax on such amounts under the Tax Act (after taking into account all available deductions, credits and refunds). See "Canadian Federal Income Tax Considerations". There can be no assurance given as to the amount of targeted Monthly Distributions in the future.

### **Investment Strategy**

The Special Situations Fund will be managed in accordance with the investment approach and the following strategies:

#### ***Investing Long in Securities***

Making long investments in securities of issuers identified as attractive investment candidates by the Manager's investment process. Eligible securities to include but not be limited to government bonds, investment grade corporate bonds, credit linked notes, high yield bonds, stressed and distressed securities, asset backed securities, collateralized debt and loan obligations, government agency securities, bonds, convertible bonds, convertible debentures, preferred shares, bank loans, real estate investment trusts, master limited partnerships, equities, private equities and post-petition equities, income trusts, Canadian royalty trusts, exchange traded funds.

### ***Short Selling Securities***

Short selling of securities of issuers identified as unattractive investments by the Manager's investment process and/or to hedge the market exposure of the Special Situations Fund's long positions. Eligible securities to include but not be limited to government bonds, investment grade corporate bonds, credit linked notes, high yield bonds, stressed and distressed securities, asset backed securities, collateralized debt and loan obligations, government agency securities, bonds, convertible bonds, convertible debentures, preferred shares, bank loans, real estate investment trusts, master limited partnerships, equities, private equities and post-petition equity, income trusts, Canadian royalty trusts, exchange traded funds.

### ***Event Driven Investing***

Taking long or short positions in securities of an issuer subject to acquisitions, divestitures, restructurings, liability management exercises, share buy-backs, dividends and other equity friendly activity or other issuer events.

### ***Capital Structure Arbitrage***

A capital structure arbitrage trade combines a long position in an issuer's securities with a short position in other securities of the same issuer.

### ***Credit Curve Arbitrage***

Credit curve trades combine a long position in an issuer's bond at one maturity with a short position in the bonds of the same issuer at a different maturity.

### ***Pairs Trading***

Taking short positions from time to time in securities of one issuer while taking a long position in securities of another issuer in an attempt to gain from the relative valuation differences between the two issuers. A pairs trade will be made when the Manager feels the long position will appreciate in value when compared to the short position.

### ***Distressed Investments***

Taking long positions in securities (typically bonds and bank debt) that are in turnaround situations, default, under bankruptcy protection, or in distress and heading towards bankruptcy.

### ***Post-petition equity interest***

Taking long positions in equity securities of restructured companies and corporate bonds that are converted into post-petition equity of the company.

### ***Stressed Investments***

Taking long positions in securities (typically bonds and bank debt) that have a credit spread significantly in excess of the broad credit market.

### ***Debtor-In-Possession Financing***

Taking long positions in securities (typically bank debt or other secured securities) extended to companies going through restructuring to support a corporate restructuring.

### ***Claims and Payables***

Taking long positions in an issuer's claims or accounts payable securities that are in turnaround situations, default, under bankruptcy protection or in distress and heading towards bankruptcy.

### ***Activist Investments***

Taking long positions in securities with intent of negotiating with issuer management to affect a favourable outcome for the securities; such as negotiating an early tender of a bond or other liability management exercises.

### ***Credit-driven equity investing***

Taking long or short positions in equity securities of issuers where the bonds of the sector or the issuer may signal an investment opportunity in an issuer's equity securities.

### ***Private Placements and IPOs***

Participating in initial public offerings, secondary offerings, and private financings (including special warrant financings) in existing publicly traded and private issuers.

### ***Private Company Investments***

Taking long and short positions in private company debt offerings.

### ***Derivatives***

The Special Situations Fund may use derivatives to reduce or hedge against various risks including currency exchange risk associated with its foreign investments, and to obtain investment exposures on positions consistent with its investment objective, strategies and risk management. The derivatives that the Special Situations Fund may use in this regard are options, swaps, CFDs (Contracts for Difference), futures or forwards. The Special Situations Fund may also employ various option strategies to increase its income return including, but not limited to, covered call and put writing.

### ***Managing Long and Short Positions***

Managing the relative weightings of long and short positions to achieve the Special Situations Fund's investment objectives.

### ***Leverage***

The Special Situations Fund is authorized to borrow in order to increase its investment leverage up to a maximum of 4 times its net assets, at the time of investment.

## ***2.5.12 Picton Mahoney Concentrated Opportunistic Long Short Fund***

### **Investment Objective**

The investment objective of the Picton Mahoney Concentrated Opportunistic Long Short Fund (the "Concentrated Opportunistic Fund") is to provide long-term capital appreciation and to provide holders of Units ("Unitholders") with an attractive risk-adjusted rate of return with similar or lower annual volatility than the traditional equity markets.

### **Investment Strategy**

The Concentrated Opportunistic Fund will be managed in accordance with the investment approach and the following strategies:

#### ***Investing Long in Securities***

Making long investments in securities of companies identified as attractive investment candidates by the Manager's investment process.

### ***Short Selling Securities***

Short selling of securities of companies identified as unattractive investments by the Manager's investment process and/or to hedge the market exposure of the Concentrated Opportunistic Fund's long positions.

### ***Special Situations***

Taking long and short positions in securities impacted by event driven situations such as mergers, divestitures, restructurings or other issuer events

### ***Private Placements and IPOs***

Participating in initial public offerings, secondary offerings, and private financings (including special warrant financings) of existing publicly traded issuers. The Concentrated Opportunistic Fund shall not invest in any private placements by a private company.

### ***Derivatives***

The Concentrated Opportunistic Fund may use derivatives to reduce or hedge against various risks including currency exchange risk associated with its foreign investments, and to obtain investment exposures on positions consistent with its investment objective, strategies and risk management. The derivatives that the Concentrated Opportunistic Fund may use in this regard are clearing corporation and over-the-counter (OTC) options or forwards. The Concentrated Opportunistic Fund may also employ various option strategies to increase its income return including, but not limited to, covered call and put writing.

### ***Managing Long and Short Positions***

Managing the relative weightings of long and short positions to achieve the Concentrated Opportunistic Fund's investment objective. In order to achieve its investment objective, the Concentrated Opportunistic Fund's portfolio will be structured so that it generally possesses positive but not full equity market exposure. The Manager may alter the net market exposure of the Concentrated Opportunistic Fund depending on the Manager's expectations of the direction of the overall equity markets, as well as the portfolio's likely sensitivity to such direction, within a permitted range of 75% net long exposure and 25% net short exposure.

### ***Leverage***

The Concentrated Opportunistic Fund is authorized to borrow in order to increase its investment leverage up to a maximum of two times its assets. On a position-by-position basis, margin requirements of the applicable exchange will be adhered to by the Concentrated Opportunistic Fund.

## ***2.5.13 Picton Mahoney World 130/30 Canadian Equity Fund***

### **Investment Objective**

The investment objective of the Picton Mahoney World 130/30 Canadian Equity Fund (the "World 130/30 Fund") is to provide long-term capital appreciation and to provide holders of Units ("Unitholders") with an attractive risk-adjusted rate of return with similar volatility to the traditional equity market. The World 130/30 Fund targets consistent added-value above the global equity market as measured in Canadian Dollars.

### **Investment Strategy**

The World 130/30 Fund will be managed in accordance with the investment approach and the following strategies:

#### ***Investing Long in Securities***

Making long investments in securities of companies identified as attractive investment candidates by the Manager's investment process.

### ***Short Selling Securities***

Short selling of securities of companies identified as unattractive investments by the Manager's investment process and/or to hedge the market exposure of the Fund's long positions.

### ***Pairs Trading***

Taking short positions from time to time in securities of one issuer while taking a long position in securities of another issuer in an attempt to gain from the relative valuation differences between the two issuers. A pairs trade will be made when the Manager feels the long position will appreciate in value when compared to the short position.

### ***Private Placements and IPOs***

Participating in initial public offerings, secondary offerings, and private financings (including special warrant financings) in existing publicly traded issuers. The World 130/30 Fund shall not invest in any private placements by a private company.

### ***Derivatives***

The World 130/30 Fund may use derivatives to reduce or hedge against various risks including currency exchange risk associated with its foreign investments, and to obtain investment exposures on positions consistent with its investment objective, strategies and risk management. The derivatives that the World 130/30 Fund may use in this regard are options, swaps, CFD's (Contracts for Difference) futures and forwards. The World 130/30 Fund may also employ various option strategies to increase its income return including, but not limited to, covered call and put writing.

### ***Managing Long/Short Positions and Leverage***

Managing the relative weightings of long and short positions to achieve the World 130/30 Fund's investment objective. In order to achieve its investment objective, the Fund will be structured so that it generally possesses 100% net equity market exposure. That is, on average, over an entire market cycle, the Manager expects the World 130/30 Fund will possess a net 100% long exposure with a forecasted market risk, or market beta, of approximately 1.0.

On average, over time, the Manager expects that, for every \$100 invested, the World 130/30 Fund shall be constructed as follows:

\$100 Cash =      \$130 stock bought long  
                             (\$30) stock sold short

resulting in a gross market exposure of 160%. The Manager may alter the gross market exposure of the World 130/30 Fund depending on the Manager's expectations of the overall equity markets within a permitted range of 180% and 140% gross market exposure. On a position by position basis, margin requirements of the applicable exchange will be adhered to by the Fund.

### ***Performance Benchmark Overlay***

It is expected that the World 130/30 Fund will be primarily invested in a portfolio consisting of long and short positions in Canadian listed securities constructed to provide long-term capital appreciation and an attractive risk adjusted rate of return with similar volatility to the Canadian equity market, targeting consistent added value above a Canadian equity market index as measured in Canadian Dollars. The World 130/30 Fund will use an overlay strategy to swap or exchange its exposure to the Canadian equity market index for exposure to a global equity market index as measured in Canadian Dollars. The overlay strategy may utilize a variety of instruments including options, swaps and futures. There can be no assurance that such overlay strategy will result in returns in excess of such global equity market index.

#### ***2.5.14 Investments by the Picton Underlying Funds in other funds managed by the Manager***

Each of the above Picton Underlying Funds may also invest in units of other funds for which the Manager is the manager and/or portfolio manager in accordance with applicable securities law and with regulatory orders it has obtained. Such investment, which may result in the Picton Underlying Fund holding units representing more than 10% of either the votes attaching to the outstanding units of a fund for which the Manager is the manager and/or portfolio manager or the outstanding units of such fund, may only be made if the Manager determines that such investment is consistent with the investment objectives, investment strategies and investment restrictions of the Picton Underlying Fund and in the best interests of the Picton Underlying Fund. It is expected that each Picton Underlying Fund will not invest more than 10% of its respective assets with respect to such investment. The investment by the Picton Underlying Fund in units of other funds for which the Manager is the manager and/or portfolio manager will not result in any duplication of management fees and performance fees to the Picton Underlying Fund or the investors of the Picton Underlying Fund and the Manager will not receive any management fees or performance fees in respect of the units of the other funds for which the Manager is the manager and/or portfolio manager to be purchased by the Picton Underlying Fund.

### **2.6 Risk Management and Investment Restrictions**

#### **Risk Management**

Picton Mahoney utilizes disciplined risk controlled quantitative techniques to construct portfolios. First, using historical analysis the Manager sets an expected volatility target for the Fund's portfolio. Second, the Manager jointly constructs a long and short portfolio to minimize unwanted risk exposures. The Manager controls for factors including: liquidity, size, sector exposure, industry exposure, position size, and company specific factors. The Fund's portfolio is reviewed and rebalanced on a regular and ongoing basis to maintain the risk reward target.

#### **Investment Restrictions**

The investment activities of the Fund will be conducted in accordance with certain restrictions, which include the following:

##### ***Sole Undertaking***

The Fund will not engage in any undertaking other than the investment of the Fund's assets in accordance with the Fund's investment objective and investment strategies.

##### ***Fixed Price***

The Fund will not purchase any security which may by its terms require the Fund to make a contribution in addition to the payment of the purchase price (other than pursuant to a permitted derivative transaction), provided that such restriction will not apply to the purchase of securities which are paid for on an instalment basis where the total purchase price and the amount of all such instalments are fixed at the time the first instalment is paid.

##### ***Interest of Manager***

Except as described herein, the Fund will not purchase securities from, or sell securities to, the Manager or any of its affiliates or any individual who is a partner, director or officer of any of them, any employee of the Manager or any portfolio managed by the Manager. As described herein, the Fund may invest in Class I Units of the Picton Underlying Funds, (such investments referred to as the "Fund of Fund Investments") and purchase units of other funds managed by the Manager, in accordance with applicable securities law and with regulatory orders it has obtained. It is expected that the Fund will not invest more than 10% of its assets in such other funds, but may do so if the Manager determines that it is in the best interest of the Fund.

##### ***Commodities***

The Fund will not purchase any physical commodity.



### ***Control Restrictions***

Except as described herein and as may be permitted by applicable securities laws or regulatory relief therefrom, the Fund will not purchase a security of an issuer if, immediately after the purchase, the Fund would hold securities representing more than 10% of either the votes attaching to the outstanding securities of that issuer or the outstanding equity securities of that issuer, or purchase a security for the purpose of exercising control over or management of the issuer of the security. If the Fund acquires a security other than as the result of a purchase and the acquisition results in the Fund exceeding the 10% limit described in this paragraph, the Fund will, as quickly as is commercially reasonable (and in any event within 90 days of the acquisition), reduce its holdings of those securities so that it does not hold securities exceeding such limits.

### ***Foreign Investment Proposals***

The Fund will not invest in (i) an interest in a trust (or partnership which holds such interest) which would require the Fund (or the partnership) to report income in connection with such interest pursuant to section 94.2 of the Tax Act; or (ii) the securities of any non-resident corporation, trust or other non-resident entity if the Fund would be required to include an amount in income pursuant to section 94.1 of the Tax Act.

## **2.7 Material Agreements**

The following is a description of all current and proposed material agreements relevant to the management, organization and administration of the Fund.

### **Trust Declaration**

The Fund was created pursuant to the Trust Declaration entered into by Picton Mahoney as the Manager and Trustee to facilitate the administration of the Fund. The Trust Declaration is the Fund's constating document and describes the terms and conditions respecting the issuance and redemption of Units, investment and valuation of the Fund's assets, determination and distribution of gains, management and administration of the Fund, duties of the Manager and Trustee, meetings of Unitholders and how the Trust Declaration can be terminated or amended. The following is a summary of the material provisions of the Trust Declaration, which does not purport to be complete. Please refer to the Trust Declaration for full particulars of these provisions. You may view a copy of the Trust Declaration by contacting the Manager at 33 Yonge Street, Suite 830, Toronto, Ontario, Canada M5E 1G4.

### ***The Manager***

Picton Mahoney is the Manager of the Fund and is responsible for the day-to-day business of the Fund, including the management of the Fund's investment portfolio. The Manager was formed under the laws of Ontario in 2004, to provide investment management services to the Canadian marketplace. The Manager is registered with the applicable securities regulatory authorities as an Investment Fund Manager, Exempt Market Dealer, Portfolio Manager and Commodity Trading Manager. The Manager carries out its advisory activities from 33 Yonge Street, Suite 830, Toronto, Ontario, Canada M5E 1G4.

Pursuant to the Trust Declaration, the Manager has authority to manage the business and affairs of the Fund and has authority to bind the Fund. The Manager will be responsible for managing the assets of the Fund, will have complete discretion to invest and reinvest the Fund's assets, and will be responsible for executing all portfolio transactions. The Manager may delegate its powers, including its investment advisory role, to third parties where, in the discretion of the Manager, it would be in the best interests of the Fund to do so. The Manager is required to exercise its powers and discharge its duties honestly, in good faith, and in the best interests of the Fund and to exercise the care, diligence and skill of a reasonable prudent person in comparable circumstances. Among its other powers, the Manager may establish the Fund's operating expense budgets and authorize the payment of operating expenses. For a discussion of the fees payable to the Manager, see Item 2.8 "Fees and Expenses".

The Trust Declaration provides that the Manager and certain affiliated parties have a right of indemnification from the Fund for legal fees, judgments and amounts paid in settlement incurred in carrying out their duties under the Trust Declaration, except in certain circumstances, including where there has been gross negligence, lack of good

faith or wilful default on the part of the Manager or the Manager has failed to fulfill its standard of care as set out in the Trust Declaration. In addition, the Trust Declaration contains provisions limiting the liability of the Manager.

Pursuant to the Trust Declaration, the Manager may resign upon 90 days' written notice to the Unitholders. The Manager must appoint a successor, which appointment must be approved by a majority of the Unitholders unless the successor is an affiliate of the Manager. If no successor Manager is appointed or if Unitholders fail to approve a successor, the Fund shall be terminated.

### ***The Trustee***

Picton Mahoney acts as the Trustee of the Fund pursuant to the Trust Declaration. The Trustee has those powers and responsibilities in respect of the Fund as described in the Trust Declaration. The Trustee is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Fund and to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Pursuant to the Trust Declaration, the Manager may remove the Trustee and appoint a successor trustee from time to time on 90 days' written notice or in certain other circumstances. The Trustee or any successor appointed pursuant to the terms of the Trust Declaration may resign upon 90 days' written notice to the Manager, who shall use its best efforts to appoint a successor trustee. If no successor Trustee is appointed, the Fund shall be terminated.

The Trust Declaration provides that the Trustee and its affiliates have a right of indemnification from the Fund, and to the extent that the assets of the Fund are insufficient to satisfy such right, from the Manager, for any claims arising out of the execution of its duties as trustee, except in cases of negligence, wilful default or bad faith on the part of the Trustee. In addition, the Trust Declaration contains provisions limiting the liability of the Trustee.

### ***Meetings of Unitholders***

The Fund will not hold regular meetings, however the Manager may convene a meeting of Unitholders, or a Class of Unitholders, as it considers appropriate or advisable from time to time. The Trustee must also call a meeting of Unitholders or of a Class of Unitholders on the written request of Unitholders holding not less than 50% of the outstanding Units (or Units of a Class with respect to a Class meeting) in accordance with the Trust Declaration, provided that in the event of a request to call a meeting of Unitholders made by such Unitholders, the Trustee shall not be obliged to call any such meeting until it has been satisfactorily indemnified by such Unitholders against all costs of calling and holding such meeting.

Units of a Class shall vote separately as a Class if the notice calling the meeting so provides.

Not less than 21 days' notice will be given of any meeting of Unitholders. The quorum at any meeting is two or more Unitholders present in person or by proxy representing not less than 10% of the Units, or Units of a Class, as applicable, then outstanding. If no quorum is present at such meeting when called, the meeting will be adjourned by the Manager to a date and time determined by the Manager, and at the adjourned meeting the Unitholders then present in person or represented by proxy will form the necessary quorum, if notice of the adjourned meeting is given.

Any consent of Unitholders under the Trust Declaration must be given by not less than 50% of the Units or Units of a Class, as applicable.

### ***Amendment of the Trust Declaration***

The Trust Declaration may be amended by the Manager, if the amendment is not a material change, is not one of the matters specified in the Trust Declaration as requiring Unitholders' approval, does not adversely affect the pecuniary value of the interest of any Unitholder or restrict any protection provided for the Trustee or increase the responsibilities of the Trustee. In addition, certain amendments which are necessary or desirable to bring the Trust Declaration into conformity with current practice, to comply with any law, regulation or policy requirement applicable to the Fund, to correct any ambiguity, error or omission in the Trust Declaration, or to enhance the rights of or protect the interests of the Unitholders, may be made by the Manager and the Trustee without any prior notice

to or approval of Unitholders. Without limiting the generality of the foregoing, the Manager and the Trustee may agree to amend the Trust Declaration to enhance rights of redemption or to adopt more stringent investment restrictions or make any other change required such that the Fund may be a qualified investment under any applicable legislative or regulatory requirements, if the Manager deems such qualification to be desirable.

The Class attributes set by the Manager may be amended without notice to Unitholders if the amendment, in the opinion of the Manager, is for the protection of or benefit to Unitholders of that Class.

Any amendment which cannot be made in accordance with the above may be made, at any time, by the Manager and the Trustee to take effect after not less than 90 days' written notice of such amendment to the Unitholders, or earlier with the consent of Unitholders as provided for in the Trust Declaration.

The Fund may be terminated on the occurrence of certain events stipulated in the Trust Declaration. The Manager may resign as manager of the Fund, and if no successor is appointed, the Fund will be terminated. On termination of the Fund, the Trustee will distribute the assets of the Fund in cash or in kind in accordance with the Trust Declaration.

### ***Conflict of Interest***

#### ***Services of the Manager not Exclusive to the Fund***

The services of the Manager and its partners, and their respective directors, officers, employees, agents and associates are not exclusive to the Fund. The Manager and its partners, and any of their respective directors, officers, employees, agents and associates may, at any time, engage in the promotion, management or portfolio management of any other fund or trust (including any Underlying Funds) and provide similar services to other investment funds and other clients and engage in other activities. While the Manager and its partners and their respective directors, officers, employees, agents and associates devote as much of their respective time and resources to the activities of the Fund as in their respective judgment is reasonably required, they will not be devoting their time exclusively to the affairs of the Fund. The Manager and its partners and their respective directors, officers, employees, agents and associates will therefore have conflicts of interest in allocating management time, services and functions among the Fund and such other persons for which it provides services (including any Underlying Funds). However, at all times, the Manager will ensure a fair and equitable allocation of its management time, services and functions between the Fund and any other such persons to whom it provides services.

#### ***Allocation of Investment Opportunities***

Investment decisions for the Fund will be made independently of those made for other clients and independently of investments of the Manager. On occasion, however, the Manager may make the same investment for the Fund and for one or more of its other clients (including any Underlying Funds). If the Fund and one or more of the other clients of the Manager are engaged in the purchase or sale of the same security, the transactions will generally be effected on an equitable basis. However, the Manager may determine from time to time that some investment opportunities are appropriate for certain investment management clients and not others, including the Fund, due to differing objectives, time horizons, liquidity needs or availability, tax consequences and assessments of general market conditions and of individual securities. The Manager may also occasionally determine it to be necessary to allocate limited investment opportunities among the Fund and any other funds or managed accounts under its responsibility (including any Underlying Funds), on a basis deemed appropriate by the Manager. Certain funds or managed accounts may therefore show a gain or a loss that would otherwise not be present within other funds or accounts managed by the Manager.

#### ***Conflicts of Interest Policy***

The Manager is an Exempt Market Dealer, an Investment Fund Manager, a Portfolio Manager and a Commodity Trading Manager. Additionally, the Fund may invest in units of the Underlying Funds for which the Manager is the manager and/or portfolio manager in accordance with applicable securities law and with regulatory orders it has obtained. As a result, there are potential conflicts of interest that could arise in connection with the Manager acting

in its capacities as Exempt Market Dealer, Investment Fund Manager, Portfolio Manager and Commodity Trading Manager and as the manager and/or portfolio manager of both the Fund and the Underlying Funds.

The Manager has adopted a conflict of interest policy to address and minimize those potential conflicts of interest. The policy states that the Manager will deal fairly, honestly and in good faith with all clients (including the Fund and the Underlying Funds) and not advantage one client over another. The securities laws of the Province of Ontario require securities dealers and advisers, when they trade in or advise with respect to their own securities or securities of certain other issuers to which they, or certain other parties related to them, are related or connected, to do so only in accordance with particular disclosure and other rules. These rules require dealers and advisers, prior to trading with or advising their customers or clients, to inform them of the relevant relationships and connections with the issuer of the securities. Clients and customers should refer to the applicable provisions of these securities laws for the particulars of these rules and their rights or consult with a legal adviser. The Fund is a related issuer and a connected issuer of the Manager within the meaning of applicable Canadian securities legislation.

### ***Interest of the Manager and Responsible Persons of Manager in Underlying Funds***

The Manager and its partners, and their respective directors, officers, employees, agents and associates of the Manager who have access to, or participate in formulating and making decisions on behalf of the Fund or advice to be given to the Fund (each, a “Responsible Person”) or affiliates of such Responsible Persons are also partners, directors or officers of the Underlying Funds.

The Fund’s investment in an Underlying Fund creates a potential conflict of interest for the Manager relating to the voting of the units of the Underlying Fund held by the Fund in that certain officers, directors and/or substantial security holders of the Manager may be a substantial security holder of the Manager and also may have a significant interest in the Underlying Fund. The Manager intends to address this potential conflict of interest by not voting any units of the Underlying Fund held by the Fund (should the requirement for a vote arise); rather, the Manager may make arrangements to permit Unitholders to exercise the votes attaching to the Fund’s investment in the Underlying Fund.

The investment by the Fund in units of an Underlying Fund will not result in any duplication of management fees and performance fees to the Fund or the investors of the Fund and the Manager will not receive any management fees or performance fees in respect of the units of the Underlying Fund to be purchased by the Fund. In executing a subscription agreement for Units, investors will acknowledge the multiple roles of the Responsible Persons and consent to the investment by the Fund in the units of any Underlying Funds.

### ***Liability of Unitholders***

To the full extent permitted by applicable law, no Unitholder will have any personal liability and no access will be had to the private property of any Unitholder for satisfaction of any obligation or claim arising out of any contract or obligation of the Fund or the Trustee or the Manager (See Item 8 “Certain Risk Factors – Liability of Unitholders”). The Trust Declaration provides that the Fund will indemnify, out of the property of the Fund, each Unitholder in the event any Unitholder is held personally liable.

## **2.8 Fees and Expenses**

### **Expenses**

The Manager paid for the costs of initially organizing the Fund and offering the Units, including the fees and expenses of legal counsel and the Fund’s auditors.

The Fund will pay for all routine and customary expenses relating to the Fund’s operations, including registrar and transfer agency fees and expenses, trustee fees (if any), custodian fees, auditing, legal and accounting fees, communication expenses, printing and mailing expenses, all costs and expenses associated with the sale of Units including securities filing fees (if any), expenses relating to providing financial and other reports to Unitholders and convening and conducting meetings of Unitholders, all taxes, assessments or other governmental charges levied against the Fund, interest expenses and all brokerage and other fees relating to the purchase and sale of the assets of

the Fund. In addition, the Fund will pay for expenses associated with ongoing investor relations and education relating to the Fund.

Each Class of Units is responsible for the expenses specifically related to that Class and a proportionate share of expenses that are common to all Classes of Units. The Manager shall allocate expenses to each Class of Units in its sole discretion as it deems fair and reasonable in the circumstances.

The Manager may from time to time waive any portion of the fees and reimbursement of expenses otherwise payable to it, but no such waiver affects its right to receive fees and reimbursement of expenses subsequently accruing to it.

### **Management Fee**

For providing its services to the Fund pursuant to the Trust Declaration, the Manager receives a management fee (the “Management Fee”) from the Fund attributable to the Class A Units and Class F Units, respectively. Each Class of Units is responsible for the Management Fee attributable to that Class.

The Class A Units are charged a Management Fee equal to 0.50% per quarter (2.00% per annum) of the Net Asset Value of the Class A Units, plus applicable taxes, calculated and accrued on each Valuation Date (as defined in Item 5.4), and payable on the last Valuation Date of each quarter.

The Class F Units are charged a Management Fee equal to 0.25% per quarter (1.00% per annum) of the Net Asset Value of the Class F Units, plus applicable taxes, calculated and accrued on each Valuation Date, and payable on the last Valuation Date of each quarter.

Other Classes of the Fund are charged such management fee, if any, as described in the applicable offering document or agreement relating to such Classes.

### **Performance Fee**

The Manager receives a performance fee (the “Performance Fee”) in respect of each of the Class A Units and Class F Units. The Performance Fee in respect of Class A Units and Class F Units shall be calculated and become a liability of the Fund on each Valuation Date and shall be payable at the end of each calendar quarter.

The Performance Fee in respect of each of the Class A Units and Class F Units, as the case may be, on a particular Valuation Date shall be equal to the product of (a) 20% of the positive difference between (i) the Adjusted Class Net Asset Value per Unit on the Valuation Date; and (ii) the greatest Class Net Asset Value per Unit on any previous Valuation Date (or the date Units of the Class were first issued, where no Performance Fee liability has previously arisen in respect of Units of the Class) (the “high water mark”); and (b) the number of Units outstanding on the applicable Valuation Date on which the Performance Fee is determined, plus applicable taxes. As used herein, Adjusted Class Net Asset Value per Unit on a Valuation Date means the Class Net Asset Value per Unit on the Valuation Date, without giving effect to any Performance Fee determined on such Valuation Date.

The Manager may make such adjustments to the Adjusted Net Asset Value per Unit of a Class and/or the applicable “high water mark” as are determined by the Manager to be necessary to account for the payment of any distributions on Units, any Unit splits or consolidations or any other event or matter that would, in the opinion of the Manager, impact upon the computation of Performance Fee. Any such determination of the Manager shall, absent manifest error, be binding on all Unitholders.

To the extent permitted by applicable securities legislation, the Manager will pay an amount equal to a portion of the Performance Fee, if any, to certain registered dealers (“Dealers”).

Other Classes of the Fund will be charged such performance fee, if any, as described in the applicable offering document or agreement relating to such Classes.

## **Fee Rebates**

To encourage large investments in the Fund and to be able to offer fees which are competitive for investments of that size, and in certain other circumstances, the Manager may from time to time reduce the Management Fee and/or the Performance Fee that it otherwise would be entitled to receive with respect to such an investor's investment in the Fund provided that the amount of the fee reduction is distributed (a "Fee Distribution") to such unitholder. Fee Distributions of the Fund, where applicable, will be computed on each Valuation Date and shall be payable quarterly, or at such other times as the Manager may determine, first out of net income and the net capital gains of the Fund and thereafter out of capital. Any such reduction in Management Fees and/or Performance Fees in respect of a large investment in the Fund will be negotiated by the Manager and the investor or the investor's Dealer and will be based primarily on the size of the investor's investment in the Fund and the total amount of services provided to the investor with respect to their investment in the Fund. The Manager may also reduce its fees to encourage investors to invest in a new fund. A qualified investor can choose to receive the Fee Distribution in cash or in additional Units. The amount of any Fee Distribution is income to the Unitholder receiving it, to the extent it is paid out of net income or net taxable capital gains of the Fund. See Item 6 "Income Tax Consequences and Eligibility for Investment" and Item 5.5 "Distributions".

## **The Underlying Fund Fees and Expenses**

For providing its services to the respective Underlying Funds, the Manager receives a management fee and a performance from the respective Underlying Funds attributable to the certain classes of units of the applicable Underlying Fund. However, any investment by the Fund into units of the respective Underlying Funds will not result in any duplication of management fees and performance fees to the Fund or the investors of the Fund as any investment by the Fund into units of the respective Underlying Funds will only be in a class of units of the applicable Underlying Fund that carries no management fees and performance fees. For greater certainty, the Manager will not receive any management fees or performance fees in respect of the units of the Underlying Fund to be purchased by the Fund. In addition, no sales charges or redemption fees are payable by the Fund in relation to its purchase or redemption of units of the Underlying Fund.

Each Underlying Fund will pay for all routine and customary expenses relating to the Underlying Fund's operations, including registrar and transfer agency fees and expenses, trustee fees (if any), custodian fees, auditing, legal and accounting fees, communication expenses, printing and mailing expenses, all costs and expenses associated with the sale of units of the Underlying Fund including securities filing fees (if any), expenses relating to providing financial and other reports to unitholders of the Underlying Fund and convening and conducting meetings of unitholders of the Underlying Fund, all taxes, assessments or other governmental charges levied against the Underlying Fund, interest expenses and all brokerage and other fees relating to the purchase and sale of the assets of the Underlying Fund. In addition, the Underlying Fund will pay for expenses associated with ongoing investor relations and education relating to the Underlying Fund.

The class of units of the Underlying Fund purchased by the Fund will be responsible for the above expenses specifically related to that class of units of the Underlying Fund and a proportionate share of expenses that are common to all classes of units of the Underlying Fund. As a result, Unitholders of the Fund which invests in an Underlying Fund will indirectly bear a proportionate share of such expenses of such Underlying Fund.

Copies of the offering memorandum, the most recent audited annual financial statements and the most recent unaudited semi-annual financial statements of the Underlying Funds in which the Fund is invested in will be made available to Unitholders free of charge upon request and may be inspected at the principal office of the Fund during normal business hours.

### ITEM 3. DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS

#### 3.1 Compensation and Securities Held

The name, municipality of residence, positions held and securities held of the directors and officers of Picton Mahoney, Manager and Trustee of the Fund are as follows:

<b>Name and Municipality of Principal Residence</b>	<b>Positions Held and the Date of Obtaining that Position</b>	<b>Compensation Paid by the Fund in the Most Recently Completed Financial Year and the Compensation Anticipated to be Paid in the Current Financial Year</b>	<b>Number, Type and Percentage of Securities Held<sup>1</sup></b>
David Picton Toronto, Ontario	President since September 2004, Member of the Executive Committee since April 2012	Nil	95,361.919 Units
Michael Mahoney Goodwood, Ontario	Managing Director since September 2004, Member of the Executive Committee since April 2012	Nil	406,573.793 Units
Art Galloway Toronto, Ontario	Chief Financial Officer since April 2005, Member of the Executive Committee since April 2012	Nil	873.281 Units
Andrew Ma Mississauga, Ontario	Chief Compliance Officer since September 2015	Nil	Nil

<sup>1</sup> As at March 31, 2016. As the Fund offers Units on a continuous basis, the number and percentage of securities held after completion of maximum offering cannot be determined.

### 3.2 Management Experience

The following table provides information about the principal occupation and past employment history of the directors and executive officers of Picton Mahoney.

<b>Name</b>	<b>Principal occupation and related experience</b>
David Picton Toronto, Ontario	President and Chief Executive Officer of Picton Mahoney. David Picton has 26 years of investment experience, including eight years as a top-ranked analyst and head of quantitative research at RBC Dominion Securities Inc. David has managed portfolios for Synergy Asset Management Inc. (“Synergy”) since 1997, including the Synergy Canadian Class. David is a graduate of the University of British Columbia with a Bachelor of Commerce Honours degree. He also received a Leslie Wong Fellowship from UBC’s prestigious Portfolio Management Foundation.
Michael Mahoney Goodwood, Ontario	Chief Risk Officer of Picton Mahoney. Michael Mahoney, a principal of Picton Mahoney, has 25 years of investment management experience. He began his investment career at the Alberta Treasury as a U.S. equities analyst. He later became a portfolio manager of U.S. and international equities at Genus Capital Management Inc. and a research manager at HSBC Asset Management Europe, a U.K.-based firm. He has managed global portfolios for Synergy since 1997. Michael is a CFA charterholder and has an MBA from the University of Alberta.
Arthur Galloway Toronto, Ontario	Chief Financial Officer, Chief Operating Officer and Corporate Secretary of Picton Mahoney. Arthur Galloway is responsible for company-wide financial operations, internal financial control and internal and external financial reporting. He is also responsible for the financial oversight and administration of Picton Mahoney’s alternative investment funds. Before joining Picton Mahoney, he spent ten years with Investors Financial Services, most recently as a Director, where his clients included numerous global asset management firms. He holds a Bachelor of Business degree in Finance from Brock University and is a CFA charterholder.
Andrew Ma Mississauga, Ontario	Chief Compliance Officer of Picton Mahoney. Prior to joining the Manager in 2014, Andrew was the Vice President of Compliance and Risk Management at Sprott Asset Management LP and led the compliance and risk management functions at Sprott. Andrew has over ten years of experience in the investment industry in various operational, compliance, risk management, and external audit roles. He holds a Master of Arts (Economics) degree and a Bachelor of Commerce degree from the University of Toronto, and is a holder of the Chartered Financial Analyst designation.

### 3.3 Penalties, Sanctions and Bankruptcy

No director, officer or person holding a sufficient number of securities of the Manager to affect materially the control of the Manager has, in the last 10 years:

- (a) been subject to any penalties or sanctions imposed by a court or by a regulatory authority;
- (b) been a director, senior officer or control person of any issuer that has been subject to any penalties or sanctions imposed by a court or by a regulatory authority while the director, officer or control person was a director, officer or control person of such issuer;
- (c) made any declaration of bankruptcy, voluntary assignment in bankruptcy or proposal under bankruptcy or insolvency legislation or been subject to any proceedings, arrangement or compromise with creditors or appointment of a receiver, receiver-manager or trustee to hold assets; or



- (d) been a director, senior officer or control person of any issuer that has made any declaration of bankruptcy, voluntary assignment in bankruptcy, proposal under bankruptcy or insolvency legislation, or been subject to any proceedings, arrangement or compromise with creditors or appointment of a receiver, receiver-manager or trustee to hold assets while the director, officer or control person was a director, officer or control person of such issuer; or
- (e) been subject to any cease trade order that has been in effect for a period of more than 30 consecutive days.

### **3.4 Interest in Underlying Fund**

Each of the above officer, directors and/or substantial securityholder of the Manager may each individually, or together in the aggregate, have a significant interest in an Underlying Fund through investments made in units of such Underlying Fund. In addition, each officer and/or director of the Manager may also be a substantial securityholder of the Manager.

As of the date of this Offering Memorandum, the directors and officers of the Manager do not hold, on an aggregate basis, a significant interest in any Picton Underlying Funds.

## **ITEM 4. CAPITAL STRUCTURE**

### **4.1 Authorized and Issued Capital**

An investment in the Fund is represented by Units. The Fund is permitted to have an unlimited number of classes of Units (each, a “Class”) having such terms and conditions as the Manager may determine. Additional Classes may be offered in future on different terms, including having different fee and dealer compensation terms and different minimum subscription levels. Each Unit of a Class represents an undivided ownership interest in the net assets of the Fund attributable to that Class of Units. The Fund will consult with its tax advisors prior to the establishment of each new Class to ensure that the issuance of Units of the Class will not have adverse Canadian tax consequences. Two (2) Classes of Units are offered under this Offering Memorandum.

**Class A Units** are designed for investors investing \$25,000 or more, who are not eligible to purchase Class F Units.

**Class F Units** are designed for investors who are enrolled in a dealer sponsored fee for service or wrap program and who are subject to an annual asset-based fee rather than commissions on each transaction or, at the discretion of the Manager, any other investor for whom the Manager does incur distribution costs, investing \$25,000 or more.

The Fund issues Class I Units, including to other funds managed by the Manager, which are not charged management or performance fees.

<b>Description of Security</b>	<b>Number authorized to be issued</b>	<b>Number outstanding as at March 31, 2016*</b>
Class A Units	Unlimited	1,110,799.549
Class F Units	Unlimited	1,757,727.527
Class I Units	Unlimited	510,376.903

\*As the Fund offers Units on a continuous basis, the number of Units of each Class after completion of maximum offering cannot be determined.

### **4.2 Long-term Debt Securities**

The Fund has no long-term debt.

### 4.3 Prior Sales

Type of Security Issued	Date of Issuance	Number of Securities Issued and/or Subscribed For	Average Price per Security	Total Funds Received
Class A Units	April 1, 2015 to March 31, 2016	107,493.013	\$14.283	\$1,535,344.48
Class F Units	April 1, 2015 to March 31, 2016	1,077,500.938	\$14.698	\$15,836,747.37

## ITEM 5. SECURITIES OFFERED

### 5.1 Terms of Securities

To date, the Fund has Class A Units and Class F Units, together with each future Class, are referred to collectively as the “Classes.”

Although the money invested by investors to purchase Units of any Class of the Fund is tracked on a Class by Class basis in the Fund’s administration records, the assets of all Classes of the Fund will be combined into a single pool to create one portfolio for investment purposes.

All Units of the same Class have equal rights and privileges. Each whole Unit of a particular Class is entitled to one vote at meetings of Unitholders where all Classes vote together, or to one vote at meetings of Unitholders where that particular Class of Unitholders votes separately as a Class.

The Manager, in its discretion, determines the number of Classes of Units and establishes the attributes of each Class, including investor eligibility, the designation and currency of each Class, the initial closing date and initial offering price for the first issuance of Units of the Class, any minimum initial or subsequent investment thresholds, any minimum redemption amounts or minimum account balances, valuation frequency, fees and expenses of the Class, sales or redemption charges payable in respect of the Class, redemption rights, convertibility among classes and any additional Class specific attributes. The Manager may add additional Classes of Units at any time without prior notice to or approval of Unitholders. No Class of Units will be created for the purpose of giving any Unitholder a percentage interest in the property of the Fund that is greater than the Unitholder’s percentage interest in the income of the Fund.

All Units of the same Class are entitled to participate *pro rata*: (i) in any payments or distributions (other than Fee Distributions described in Item 2.8 “Fees and Expenses”) made by the Fund to the Unitholders of the same Class; and (ii) upon liquidation of the Fund, in any distributions to Unitholders of the same Class of net assets of the Fund attributable to the Class remaining after satisfaction of outstanding liabilities of such Class. Units are not transferable, except by operation of law (for example, a death or bankruptcy of a Unitholder) or with the consent of the Manager. To dispose of Units, a Unitholder must have them redeemed.

Fractional Units carry the same rights and are subject to the same conditions as whole Units (other than with respect to voting rights) in the proportion which they bear to a whole Unit. Outstanding Units of any Class may be subdivided or consolidated in the Manager’s discretion on 21 days’ prior written notice. Units of a Class may be re-designated by the Manager as Units of any other Class having an aggregate equivalent Class Net Asset Value (as described in Item 5.4 “Determination of Net Asset Value”) if such re-designation is approved by the holder of the Units to be re-designated or with 30 days’ prior written notice.

## **5.2 Subscription Procedure**

### **Purchase of Units**

Investors may be admitted to the Fund or may acquire additional Units on a weekly basis as of the last Business Day (any day on which the Toronto Stock Exchange (“TSX”) is open for trading is hereinafter referred to as a “Business Day”) of each calendar week. The Units are being offered using the mutual fund order entry system FundSERV. Subscription for Units may be made directly through the Manager (in jurisdictions where it is registered to sell the securities) or from a distributor on the FundSERV network under the Manufacturer Code to Picton Mahoney “PIC” and the order code:

- “PIC600” for Class A Units
- “PIC601” for Class F Units

Funds in respect of any subscription will be payable by investors at the time of the subscription.

Investors who wish to subscribe for Units may do so by delivering a subscription agreement (substantially in the form of the subscription agreement accompanying the Offering Memorandum or such other form of subscription agreement as the Manager may approve) to the Manager, either directly (in jurisdictions where it is registered to sell the securities) or through Dealers or other persons permitted by applicable securities laws to sell Units, accompanied by a cheque, bank draft or, in the discretion of the Manager, wire transferred funds, in an amount equal to the purchase price on or before the last Business Day of the week. As required by National Instrument 45-106 Prospectus Exemptions, the subscription amount received from investors to whom Units will be issued will be held in trust until at least midnight on the second Business Day after the investors pay such funds to the Fund. Units will be offered at the Class Net Asset Value per Unit calculated as of the applicable Valuation Date. The Class Net Asset Value per Unit for subscriptions which are received and accepted by the Manager prior to 4:00 p.m. (Eastern time) on the last Business Day of a week will be calculated as of the Valuation Date for that week. Subscriptions which are received and accepted by the Manager after 4:00 p.m. (Eastern time) on the last Business Day of a week will be calculated as of the Valuation Date for the following week. See Item 5.4 “Determination of Net Asset Value”. All subscriptions for Units are to be forwarded by Dealers, without charge, the same day that they are received, to the Manager or purchased using the FundSERV network, as applicable.

The Manager reserves the right to accept or reject orders, whether made through the Manager or entered on the FundSERV network, and any monies received with a rejected order will be refunded forthwith, without interest, other compensation or deduction, after such determination has been made by the Manager. The Manager shall not accept subscriptions from and shall not direct the issuance or transfer of Units to: (a) any person who is or would be a “designated beneficiary” of the Fund, as such term is defined in Part XII.2 of the Tax Act, if, as a consequence thereof, the Fund would be liable for tax under Part XII.2 of the Tax Act; (b) a “financial institution”, as defined in the Tax Act for the purposes of the mark-to-market rules, if the Fund itself would be deemed to be a “financial institution” under such rules as a result of such subscription/issuance of Units; or (c) a non-resident of Canada, if in the opinion of the Manager, the issuance or transfer of a Unit to such person could create a material risk that the Fund could lose its status as a mutual fund trust under the Tax Act. If at any time the Manager becomes aware that Units are beneficially owned by one or more entities described above, the Fund may redeem all or such portion of the Units on such terms as the Manager deems appropriate in the circumstances. All subscriptions for and/or transfers of Units shall, if required by the Manager, be accompanied by evidence satisfactory to the Manager confirming that the investor making the subscription or transfer is not and will not be a “designated beneficiary” of the Fund. All subscriptions will be irrevocable. Fractional Units will be issued up to three decimal points.

A book-based system of registration is maintained for the Fund. Unit certificates will not be issued. The register for the Units is kept at the office of the Administrator.

### **Minimum Investment**

The minimum initial investment in the Fund is \$25,000 for the Class A Units and Class F Units and the Manager has the discretion to accept a lesser initial subscription, provided, in each case, that the issuance of Units in respect of such subscription shall otherwise be exempt from the prospectus requirements of applicable securities legislation.

Subsequent investments are subject to an additional minimum investment of \$5,000 for all Classes, or such lesser amount as the Manager may, in its sole discretion, determine subject to applicable securities legislation.

## **Distribution of Units**

Prior to April 30, 2016, Units of the Fund are offered under this Offering Memorandum only to investors resident in the Provinces of British Columbia, New Brunswick, Nova Scotia and Newfoundland and Labrador (the “Offering Jurisdictions”) pursuant to applicable exemptions from the prospectus requirements of the securities laws in the Offering Jurisdictions. Effective May 1, 2016, Units of the Fund are offered under this Offering Memorandum only to investors resident in the Provinces of British Columbia and Newfoundland and Labrador (the “Current Offering Jurisdictions”) pursuant to applicable exemptions from the prospectus requirements of the securities laws in the Current Offering Jurisdictions.

## **5.3 Redemption of Units**

### **How to Redeem Units**

Units may be surrendered to the Manager for redemption at any time. A Unitholder may have his or her Units redeemed as of the last Business Day of any calendar week (the “Redemption Date”) at the Class Net Asset Value per Unit as of the Redemption Date provided the Manager has received a notice of redemption in respect of such Units prior to 4:00 p.m. (Eastern time) on such Valuation Date, otherwise such Units will be redeemed on the next Valuation Date. Requests for redemption made to the Manager must be made in writing with the signature guaranteed by a Dealer, Canadian chartered bank, trust company, a member of a recognized stock exchange in Canada or otherwise guaranteed to the satisfaction of the Manager. If Units are registered in the name of an intermediary such as a Dealer, clearing agency or its nominee, redemption orders must be made through such intermediary. Requests for redemption will be accepted in the order in which they are received.

Where the Units which are the subject of the notice of redemption were purchased from a distributor on the FundSERV network, a request for redemption may also be entered on the FundSERV system in the calendar week in which the Redemption Date occurs, and payment of the redemption proceeds will be made using the FundSERV network. Where the Units which are the subject of the notice of redemption were purchased through the Manager, payment of the redemption proceeds will generally be made by cheque, bank draft or wire transfer. Subject to applicable law, redemption proceeds may be made in kind if in the Manager’s discretion circumstances do not permit a payment in cash. The Manager shall within three Business Days following the determination of the Class Net Asset Value per Unit for the applicable Redemption Date distribute an amount equal to the Class Net Asset Value per Unit determined as of the relevant Redemption Date. See Item 5.4 “Determination of Net Asset Value”. Any payment referred to above, unless such payment is not honoured, will discharge the Fund, the Trustee, the Manager and their agents from all liability to the redeeming Unitholder in respect of the payment and the Units redeemed.

### **Suspension of Redemptions**

The Manager may suspend the redemption of Units or a Class of Units, or payments in respect thereof, for any period during which (a) the Trustee is closed for business; (b) normal trading is suspended on any stock exchange, options exchange or futures exchange within or outside Canada on which securities which represent more than 50% of the underlying market exposure of the total assets of the Fund, without allowance for liabilities, are listed and traded; or (c) during any other period in which the Manager determines that conditions exist which render impractical the sale of assets or impair the ability to determine the value of any of the Fund’s assets. In addition, if the Manager has received requests to redeem 30% or more of the outstanding Units on a Redemption Date, payment of the redemption proceeds may be deferred for up to 90 days following the determination of the Net Asset Value for such Redemption Date. The redemption price will be adjusted by changes in the Net Asset Value per Unit of the Class during this suspension period and calculated on the Valuation Date as of when the redemption occurs.

Any suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders making redemption requests will (unless the suspension lasts for less than 48 hours) be advised by the Manager of the

suspension and that redemption requests previously received will be effected as of the first Valuation Date following the termination of the suspension. All such Unitholders will (unless the suspension lasts for less than 48 hours) be advised that they have the right to withdraw any requests for redemption previously submitted.

The suspension will terminate on the first day on which the condition giving rise to the suspension has ceased to exist, provided that no other condition under which a suspension is authorized to be imposed then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of a suspension of redemptions made by the Manager is conclusive. The Unitholder will receive payment of redemption proceeds based on the Class Net Asset Value per Unit on the Valuation Date that next follows the termination of the suspension.

### **Short-term Trading Deduction**

In order to protect the interest of the majority of investors in the Fund and to discourage short-term trading in the Fund, investors may be subject to a short-term trading deduction. If an investor redeems Units within 120 days of purchasing such Units, the Fund may deduct and retain, for the benefit of the remaining Unitholders in the Fund, five percent (5%) of the Class Net Asset Value of the Units being redeemed.

### **Mandatory Redemptions**

The Manager may in its discretion cause the Fund to redeem all or a portion of a Unitholder's Units by giving 30 days' prior written notice to the Unitholder, specifying the number of Units to be redeemed. For example, the Manager may cause the Units of any Unitholder to be redeemed if at any time as a result of redemptions the value of the Unitholder's investment in the Fund is less than the minimum initial subscription amount. In addition, the Manager may cause the Fund to redeem Units owned by a person or partnership that is a "designated beneficiary" without notice if the continued ownership of Units by such person or partnership could have adverse tax consequences to the Fund. In addition, the Fund may redeem Units as described above under Item 5.2 "Securities Offered - Subscription Procedure – Purchase of Units".

### **Resale Restrictions**

Units are not transferable except by operation of law or with the consent of the Manager. There is no formal market for the Units and none is expected to develop. Furthermore, this offering of Units is not qualified by way of prospectus and consequently, the resale of Units will be subject to restrictions under applicable securities legislation. Unitholders may not be able to resell Units and may only be able to redeem them. Redemptions of Units may be subject to the limitations described under "Redemption of Units" and "Purchase of Units". Investors are advised to seek legal advice prior to any resale of the Units.

## **5.4 Determination of Net Asset Value**

### **Valuation Dates**

The Fund's net asset value (the "Net Asset Value") is calculated as the value of the Fund's assets, less its liabilities, computed on a particular date in accordance with the Trust Declaration. The Administrator of the Fund (or such other person or entity designated by the Manager) will calculate the Net Asset Value of the Fund as of the last Business Day of each week, and such other days as the Trustee may determine, at the close of regular trading on the TSX, normally 4:00 p.m. (Eastern time) (each, a "Valuation Date"). The Fund will also be valued for reporting purposes only, on the last Business Day of the month on which the TSX is open for business, at the close of regular trading, normally 4:00 p.m. (Eastern time).

The Class Net Asset Value per Unit on a Valuation Date is obtained by dividing the value of the assets of the Fund less the amount of its liabilities, in each case attributable to that Class, by the total number of Units of the Class outstanding at the close of business on the Valuation Date and adjusting the result to a maximum of three decimal places.

## Valuation Principles

The Net Asset Value will be calculated by the Valuation Agent as of each Valuation Date by subtracting the amount of the liabilities of the Fund from the total assets of the Fund. The total assets of the Fund will be valued as follows:

- (a) the value of any cash on hand, on deposit or on call, prepaid expenses, cash dividends declared and interest accrued and not yet received, shall be deemed to be the face amount thereof, unless the Valuation Agent determines that any such deposit or call loan is not worth the face amount thereof, in which event the value thereof shall be deemed to be such value as the Valuation Agent determines to be the reasonable value thereof;
- (b) the value of any bonds, debentures, and other debt obligations shall be valued at bid prices from recognized pricing vendors on a Valuation Date at such times as the Valuation Agent, in its discretion, deems appropriate. Short-term investments including notes and money market instruments shall be valued at cost plus accrued interest;
- (c) the value of any security, index futures or index options thereon which is listed on any recognized exchange shall be determined by the closing sale price at the close of business on the Valuation Date or, if there is no sale price, the average between the closing bid and the closing asked price on the day on which the Net Asset Value of the Fund is being determined, all as reported by any report in common use or authorized as official by a recognized stock exchange; provided that if such stock exchange is not open for trading on that date, then on the last previous date on which such stock exchange was open for trading;
- (d) the value of any security which is traded over-the-counter will be priced at the average of the last bid and asked prices quoted by a major dealer or recognized information provider in such securities;
- (e) the value of any security or other asset for which a market quotation is not readily available shall be its fair market value as determined by the Valuation Agent;
- (f) the value of any security, the resale of which is restricted or limited, shall be the lesser of the value thereof based on reported quotations in common use and that percentage of the market value of securities of the same class, the trading of which is not restricted or limited by reason of any representation, undertaking or agreement or by law, equal to the percentage that the Fund's acquisition cost was of the market value of such securities at the time of acquisition; provided that a gradual taking into account of the actual value of the securities may be made where the date on which the restriction will be lifted is known;
- (g) purchased or written clearing corporation options, options on futures, over-the-counter options, debt like securities and listed warrants shall be valued at the current market value thereof;
- (h) where a covered clearing corporation option, option on futures or over-the-counter option is written, the premium received by the Fund shall be reflected as a deferred credit which shall be valued at an amount equal to the current market value of the clearing corporation option, option on futures or over-the-counter option that would have the effect of closing the position. Any difference resulting from revaluation of such options shall be treated as an unrealized gain or loss on investment. The deferred credit shall be deducted in arriving at the Net Asset Value. The securities, if any, which are the subject of a written clearing corporation option, or over-the-counter option shall be valued at their then current market value;
- (i) the value of a futures contract, or a forward contract, shall be the gain or loss with respect thereto that would be realized if, at 4:00 p.m. (Eastern time), the position in the futures contract, or the forward contract, as the case may be, were to be closed out unless daily limits are in effect in which case fair value shall be based on the current market value of the underlying interest;

- (j) the value of the securities of an investment fund shall be the net asset value or similar value of the securities of the investment fund as provided by the manager, administrator or party acting in a similar capacity of the investment fund and available to the Valuation Agent as of a time proximate to the close of business on the date on which the Net Asset Value is being calculated, whether or not the securities of such investment fund are listed or dealt with on a stock exchange. If a net asset value or similar value of the investment fund as of a time reasonably proximate to the close of business on the date on which the Net Asset Value is being calculated is not available to the Valuation Agent, the value shall be based on an estimate provided by the Manager or in such other manner as the Valuation Agent shall determine;
- (k) margin paid or deposited in respect of futures contracts and forward contracts shall be reflected as an account receivable and margin consisting of assets other than cash shall be noted as held as margin;
- (l) all securities, property and assets of the Fund valued in a foreign currency and all liabilities and obligations of the Fund payable by the Fund in foreign currency shall be converted into Canadian funds by applying the rate of exchange obtained from the best available sources to the Valuation Agent, including, but not limited to, the Valuation Agent or any of its affiliates;
- (m) all expenses or liabilities (including fees payable to the Manager) of the Fund shall be calculated on an accrual basis; and
- (n) the value of any security or property to which, in the opinion of the Valuation Agent, the above valuation principles cannot be applied (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) shall be the fair value thereof determined in such manner as the Valuation Agent from time to time provides.

The Net Asset Value of the Fund and each Class are calculated in Canadian dollars. The Net Asset Value of the Fund and each Class are reported in Canadian currency. The Net Asset Value of the Fund and each Class may be reported in such other currencies as the Valuation Agent may from time to time determine, based on the current end of day rate or rates of exchange, as the case may be, reported by any report in common use.

The Valuation Agent is entitled to rely on any values or quotations supplied to it by a third party, including the Manager, and is not required to make any investigation or inquiry as to the accuracy or validity of such values or quotations. Provided the Valuation Agent acts in accordance with its standard of care, it shall be held harmless by the Fund and shall not be responsible for any losses or damages resulting from relying on such information.

## **5.5 Distributions**

The Fund intends to distribute sufficient net income (including net realized capital gains, if any) to Unitholders in each taxation year to ensure that the Fund is not liable for income tax under Part I of the Tax Act, after taking into account any loss carry forwards and capital gains refunds. All distributions (other than Fee Distributions) will be made on a *pro rata* basis within each Class to each registered Unitholder determined as of the close of business (prior to any subscriptions or redemptions) on the last Valuation Date prior to the date of the distribution.

Subject to applicable securities legislation, all distributions made by the Fund (net of any deductions or withholdings required by law) will be automatically reinvested in additional Units or fractions of Units at the Class Net Asset Value per Unit. Potential investors should keep this policy in mind when determining whether or not an investment in the Fund is suitable for their particular circumstances. The Manager reserves the right to change such policy, and may elect to have distributions paid in cash. Distributions paid in cash are expected to be paid within three Business Days after they have been declared.

The Manager may make such designations, determinations and allocations for tax purposes of amounts or portions of amounts which the Fund has received, paid, declared payable or allocated to Unitholder as distributions or redemption proceeds.

The costs of distributions, if any, will be paid by the Fund.

## **ITEM 6. INCOME TAX CONSEQUENCES AND ELIGIBILITY FOR INVESTMENT**

The following is, as of March 31, 2016 a summary of certain of the principal Canadian federal income tax considerations generally applicable to the acquisition, holding and disposition of Units by a Unitholder who acquires Units pursuant to this Offering Memorandum. This summary is applicable to a Unitholder who is an individual (other than a trust) and who, for the purposes of the Tax Act and at all relevant times is resident in Canada, deals at arm's length and is not affiliated with the Fund, and holds Units as capital property.

This summary assumes that none of the issuers of securities held by the Fund will be a foreign affiliate of the Fund or any Unitholder or a non-resident trust that is not an "exempt foreign trust" as defined in section 94 of the Tax Act. This summary also assumes that (i) the Fund will not be a "SIFT trust" for the purposes of the Tax Act, (ii) the Fund will, at all material times, constitute a "mutual fund trust" for the purposes of the Tax Act, and (iii) the Fund will not be required to include any amounts in income pursuant to section 94.1 or section 94.2 of the Tax Act.

This summary is based on the provisions of the Tax Act and the regulations thereunder, along with an understanding of the current published administrative and assessing practices of the Canada Revenue Agency (the "CRA"), all as of March 31, 2016, and all specific proposals to amend the Tax Act and the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to March 31, 2016 (the "Proposed Amendments"). This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations.

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

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

The Fund will be subject to tax in each taxation year under Part I of the Tax Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to Unitholders in the year. The Fund intends to deduct, in computing its income in each taxation year, the full amount available for deduction in each year and, therefore, provided the Fund makes distributions in each year of its net income and net realized capital gains as described under Item 5.5 "Distributions", it will generally not be liable in such year for any tax on its net income or profit under Part I of the Tax Act.

The Fund generally intends to account for gains and losses realized on transactions in derivatives on income account. However, the Fund may report certain share option transactions on capital account. Gains and losses realized on the disposition of shares held in long positions will generally be reported as capital gains and capital losses. Whether gains and losses realized by the Fund are on income or capital account will depend largely on factual considerations. The Fund has elected under section 39(4) of the Tax Act such that all gains and losses realized by the Fund on "Canadian securities" will be deemed to be capital gains and losses. Whether the Fund will be entitled to the benefit of such election, if it is not a "mutual fund trust" for purposes of the Tax Act at any particular time, will depend on factual considerations.

The Fund will be required to include in income for each taxation year all interest that accrues to it to the end of the taxation year or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing the Fund's income for a preceding taxation year. Where the Fund transfers a debt security to a transferee who becomes entitled to interest that accrued on the security prior to the transfer, such accrued interest will generally be included as interest in computing the Fund's income. The Fund will also be



required to include in income any taxable dividends received on shares of corporations and generally any other income earned on its investments.

In computing its income for tax purposes the Fund may deduct reasonable administrative and other expenses incurred to earn income, generally including interest payable by the Fund on money borrowed to purchase securities. The Fund may generally deduct the costs and expenses of the offering of Units under this Offering Memorandum that are paid by the Fund at a rate of 20% per year, pro-rated where the Fund's taxation year is less than 365 days.

The Fund's portfolio may include securities which are not denominated in Canadian dollars. The cost and proceeds of disposition of securities, dividends, interest and all other amounts will be determined for the purposes of the Tax Act in Canadian dollars at the exchange rate prevailing at the time of the transaction, as more particularly determined in accordance with section 261 of the Tax Act. Accordingly, the Fund may realize gains or losses by virtue of the fluctuation in the value of foreign currencies relative to Canadian dollars.

The Fund may derive income or gains from investments in countries other than Canada and, as a result, may be liable to pay foreign income or profits tax to such countries. To the extent such foreign tax paid by the Fund exceeds 15% of the amount included in the Fund's income from such investments, such excess may generally be deducted by the Fund in computing its income for purposes of the Tax Act. To the extent that such foreign tax paid does not exceed 15% of such foreign source income and has not been deducted in computing the Fund's income, the Fund may designate a portion of its foreign source income in respect of a Unitholder so that such income and a portion of the foreign tax paid by the Fund may be regarded as foreign source income of, and foreign tax paid by, the Unitholder for the purposes of the foreign tax credit provisions of the Tax Act.

The Tax Act provides for a special tax on "designated income" of certain trusts that are not mutual fund trusts and that have "designated beneficiaries". The Trust Declaration contains certain restrictions that would prevent persons who would be designated beneficiaries of the Fund from owning Units when the Fund is not a mutual fund trust. Accordingly it is expected that the special tax on designated income will not apply to the Fund.

The Fund may be subject to alternative minimum tax in any taxation year throughout which the Fund is not a mutual fund trust for purposes of the Tax Act.

## **6.2 Taxation of Unitholders**

A Unitholder will generally be required to include in computing income for a taxation year the amount of the Fund's net income for the taxation year, including net realized taxable capital gains, paid or payable to the Unitholder (whether in cash or in Units) in the taxation year. Net income (or losses) including capital gains (or capital losses) realized by the Fund in a taxation year in respect of a particular Class of Units must be netted against losses (or gains) or capital losses (or gains) realized by the Fund in that year in respect of all other classes of Units, in accordance with the rules provided in the Tax Act, to determine the net income and net capital gains of the Fund as a whole for that year. This netting may result in income and/or capital gains allocations to a particular Class of Units that differ from those that would result if such Units had been issued by a separate trust having only one class and series of units. The non-taxable portion of the Fund's net realized capital gains paid or payable to a Unitholder in a taxation year will not be included in the Unitholder's income for the year. Any other amount in excess of the Fund's net income for a taxation year paid or payable to the Unitholder in the year will not generally be included in the Unitholder's income. Such amount, however, will generally reduce the adjusted cost base of the Unitholder's Units, except to the extent such amount is the non-taxable portion of a capital gain of the Fund the taxable portion of which was designated to the Unitholder. To the extent that the adjusted cost base of a Unit would be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder's adjusted cost base of Units will be increased by the amount of such deemed capital gain.

Provided that appropriate designations are made by the Fund, such portion of (i) the net realized taxable capital gains of the Fund, (ii) the foreign source income of the Fund and foreign taxes eligible for the foreign tax credit, and (iii) taxable dividends received by the Fund on shares of taxable Canadian corporations, as is paid or payable to a Unitholder will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the gross-up and dividend tax credit rules contained in the Tax Act will apply.

The Class Net Asset Value per Unit will reflect any income and gains of the Fund that have accrued at the time Units are acquired. Accordingly, a Unitholder who acquires Units may become taxable on the Unitholder's share of income and gains of the Fund that accrued before the Units were acquired.

On the disposition or deemed disposition of a Unit, the Unitholder will realize a capital gain (or capital loss) to the extent that the Unitholder's proceeds of disposition (other than any amount payable by the Fund which represents an amount that is otherwise required to be included in the Unitholder's income as described above) exceed (or are exceeded by) the aggregate of the adjusted cost base of the Unit and any reasonable costs of disposition. For the purpose of determining the adjusted cost base of Units of a particular Class, the cost of the newly acquired Units will be averaged with the adjusted cost base of all Units of the Class owned by the Unitholder as capital property before the acquisition. If the Fund distributes property in kind, a Unitholder's proceeds of disposition would generally be equal to the aggregate of the fair market value of the distributed property and the amount of any cash received, less any capital gain realized by the Fund on the disposition. Based on published administrative positions of the CRA, a re-designation of Units of a particular Class to another Class should not result in a disposition of the Units.

One-half of any capital gain ("taxable capital gain") realized on the disposition of Units will be included in the Unitholder's income and one-half of any capital loss realized may be deducted from taxable capital gains in accordance with the provisions of the Tax Act.

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

### **6.3 Eligibility for Investment**

Provided the Fund qualifies as a "mutual fund trust" for purposes of the Tax Act, Units will be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts. Investors should consult the Manager as to whether the Fund qualifies as a "mutual fund trust" at any particular time.

Notwithstanding the foregoing, if Units are "prohibited investments" for a tax-free savings account, a registered retirement savings plan or a registered retirement income fund, the holder of the tax-free savings account, or the annuitant of the registered retirement savings plan or the registered retirement income fund, as the case may be, (each a "Plan Holder") will be subject to a penalty tax as set out in the Tax Act. A "prohibited investment" includes (but is not limited to) a unit of a trust which does not deal at arm's length (for purposes of the Tax Act) with the Plan Holder, or in which the Plan Holder, either alone or together with persons with whom the Plan Holder does not deal at arm's length (for purposes of the Tax Act), owns Units that have a value equal to 10% or more of the value of the trust's outstanding units. Plan Holders should consult their own tax advisors with respect to whether Units are "prohibited investments" for their tax-free savings accounts, registered retirement savings plans or registered retirement income funds and the tax consequences of Units being acquired or held by trusts governed by such accounts, plans or funds.

## **ITEM 7. COMPENSATION PAID TO SELLERS AND FINDERS**

Units will be distributed in the Offering Jurisdictions through Dealers, including the Manager (only in British Columbia), and such other persons as may be permitted by applicable law. In the event of such distribution, Dealers (other than the Manager) will be entitled to the compensation described below.

### **Sales Commissions**

In the event of a Dealer sale, a sales commission of up to 5.00% may be deducted from the purchase order and paid by the investor to the Dealer. The remaining amount will be invested in the Fund. Sales commissions may be negotiated between the Dealer and the investor. Units issued on a reinvestment of distributions as described under Item 5.5 "Distributions" will not be subject to a sales commission.

No deferred sales charge option is available.

### **Servicing Fees**

The Manager will pay servicing commissions to Dealers whose clients have purchased Class A Units and remain invested in the Fund during the relevant quarter. The servicing commission, expressed as an annual percentage of the Class Net Asset Value per Unit, is 1.00% for Class A Units. The servicing commissions will be paid on a quarterly basis in arrears. The Manager does not pay servicing commissions in respect of Class F Units. Servicing commissions may be modified or discontinued by the Manager at any time.

### **Performance-Based Servicing Fees**

The Manager will pay an amount equal to a portion of its Performance Fee to Dealers with client assets invested in Class A Units and Class F Units. Dealers will be paid an amount equal to 10% of the Manager's Performance Fee attributable to their clients' investment in Class A Units and Class F Units. The foregoing payment shall be to the extent permitted by applicable securities legislation.

The purpose of the performance-based servicing fee of the Fund is to ensure that the Manager, the Dealer, its representatives and investors all have a common interest in the Fund performing well. The Manager at its discretion may calculate and pay performance-based servicing fees of the Fund on a more or less frequent basis, or may modify, discontinue, or otherwise differentiate this fee among dealers at any time and from time to time.

The Manager may pay an amount equal to a portion of its Performance Fee, if any, with respect to other Classes of the Fund, as described in the applicable offering document or agreement relating to such Classes, to the extent permitted by applicable securities legislation.

## **ITEM 8. CERTAIN RISK FACTORS**

There are certain risks associated with an investment in the Fund. Investors should consider the following risk factors in evaluating the merits and suitability of an investment in the Fund.

The Fund is expected to invest in the Underlying Funds, and the Underlying Funds may invest in other funds for which the Manager is the manager and/or portfolio manager. Therefore, the return of the Fund will be affected by the risks described herein associated with an investment not only in the Fund, to the extent applicable, but also in the Underlying Funds and any other funds for which the Manager is the manager and/or portfolio manager that the Underlying Funds invest in.

In addition to the Fund, the following risk factors may apply to one or more, or all, of the Underlying Funds and any other funds for which the Manager is the manager and/or portfolio manager that the Underlying Funds invest in.

### **No Assurance of Achieving Investment Objectives**

There is no assurance that the Fund will be able to accomplish its objectives. An investment in the Fund is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

### **Operating History and Illiquidity of Units**

The Fund is an investment trust formed on December 31, 2009. An investment in the Fund entails a degree of risk.

There is not now, and there is not likely to develop, any market for the resale of the Units. Approval of the transfer by the Manager and satisfaction of certain requirements specified in the Trust Declaration would be required before any transfer may occur. In addition, the Units are offered pursuant to prospectus and registration exemptions and, accordingly may not be transferred unless appropriate exemptions are available. The Units are subject to limited redemption rights which may be suspended or postponed in certain circumstances.

## **General Economic and Market Conditions**

The success of the Fund's activities may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of the Fund's investments. Unexpected volatility or illiquidity may impair the Fund's profitability or result in losses.

## **Foreign Market Exposure**

The Fund will, at any time, include securities established in jurisdictions outside Canada and the United States. Although most of such issuers will be subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to similar Canadian and U.S. issuers, some issuers may not be subject to such standards and, as a result, there may be less publicly available information about such issuers than a Canadian or U.S. issuer. Other risks include the application of foreign tax law, changes in governmental administration or economic or monetary policy, and the effect of local market conditions on the availability of public information. Investments in foreign markets carry the potential exposure to the risk of political upheaval, acts of terrorism and war, all of which could have an adverse impact on the value of such securities.

## **Foreign Currency Exposure**

Securities included in the Fund may be valued in or have exposure to currencies other than the Canadian dollar and, accordingly, each Class Net Asset Value will, when measured in Canadian dollars, be affected by fluctuations in the value of such currencies relative to the Canadian dollar. However, the Manager may hedge the Canadian dollar exposure to the foreign currency in whole or in part. There can be no assurance that gains or losses on currency hedging transactions will be matched in timing or characterization with losses and gains on the securities valued in foreign currencies in which the Fund invests.

## **Leverage**

The Manager is generally making investment decisions for assets that exceed the Net Asset Value of the Fund. As a result, if the Manager's investment decisions are incorrect, the resulting losses will be more than if investments were made solely in an unleveraged long portfolio as is the case in most conventional equity mutual funds. In addition, leveraged investment strategies can also be expected to increase the Fund's turnover, transaction and market impact costs, interest and securities lending expenses and other costs and expenses.

## **Underlying Fund Investments**

Several factors may result in the returns of the Fund not being equal to the Underlying Funds invested in by the Fund, including, but not limited to, the timing of an investor's investment relative to when the Fund is able to purchase units of the Underlying Funds.

## **Derivatives Risk**

The Fund's use of derivatives involves risks different from and possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks, such as liquidity risk, interest rate risk, market risk, credit risk, leveraging risk, counterparty risk and management risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. When the Fund invests in a derivative instrument, it could lose more than the initial amount invested.

## **Risk of Short Sales**

Short sales entail certain risks, including the risk that a short sale of a security may expose the Fund to losses if the value of the security increases. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Fund of buying those securities to cover the short position. In addition, a short sale by the Fund requires the Fund to borrow securities in

order that the short sale may be transacted. There is no assurance that the lender of the securities will not require the security to be paid back by the Fund before the Fund wants to do so, possibly requiring the Fund to borrow the security elsewhere or purchase the security on the market at an unattractive price. Moreover, the borrowing of securities entails the payment of a borrowing fee. The borrowing fee may increase during the borrowing period, adding to the expense of the short sale strategy. There is also no guarantee that the securities sold short can be repurchased by the Fund due to supply and demand constraints in the equity markets. Finally, in order to maintain the appropriate ratios between the long portfolio and the short portfolio of the Fund, the Manager may be required to buy or sell short securities at unattractive prices.

### **Counterparty Risk**

The Fund may enter into customized financial instrument transactions that are subject to the risk of credit failure or the inability of, or refusal by, the counterparty to perform its obligations with respect to such customized financial instrument transactions, which could subject the Fund to substantial losses.

### **Use of a Prime Broker**

Some or all of the assets of the Fund may be held in one or more margin accounts due to the fact that the Fund may from time to time sell securities short. The margin accounts may provide less segregation of customer assets than would be the case with a more conventional custody arrangement. The prime broker may also lend, pledge or hypothecate the assets of the Fund in such accounts, which may result in a potential loss of such assets. As a result, the assets of the Fund could be frozen and inaccessible for withdrawal or subsequent trading for an extended period of time if the prime broker experiences financial difficulty. In such case, the Fund may experience losses due to insufficient assets of the prime broker to satisfy the claims of its creditors. In addition, the possibility of adverse market movements while its positions cannot be traded could adversely affect the total return to the Fund.

### **Portfolio Turnover**

The Manager adjusts the proportions of investments held in the Fund on a relatively frequent basis. In order to do so, the Manager actively trades on a frequent ongoing basis, such that the operation of the Fund may result in a high, annual portfolio turnover rate. The amount of leverage that the Fund operates at also exaggerates the turnover rate of the Fund. The Manager has not placed any limit on the rate of portfolio turnover, and portfolio securities may be sold without regard to the time that they have been held when, in the opinion of the Manager, investment considerations warrant such action. The high rate of portfolio turnover of the Fund involves correspondingly greater expenses than a lower turnover rate (e.g., greater transaction costs such as brokerage fees and market impact costs), and the greater the chance that a Unitholder receiving distributions of income or capital gains from the Fund in a year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

### **Liquidity of Investments**

The Fund's investments may be subject to liquidity constraints because of insufficient depth or volume on the trading markets for the securities the Fund is or has invested in, or the securities may be subject to legal or contractual restrictions on their resale. Each securities exchange typically has the right to suspend or limit trading and/or quotations in all of the securities that it lists. The Fund may not be able to trade securities when it wants to do so or to realize what it perceives to be the securities' fair market value in the event of a trade. The trading of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other trading expenses than do trades of securities that are eligible for trading on securities exchanges or on over-the-counter markets or securities that are listed and hence more liquid. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

### **Income Arising on a Change in Investment Strategies**

If the investment strategy of the Fund is altered such that the Fund disposes of the Underlying Funds and acquires an alternate portfolio of securities (a "New Portfolio Acquisition"), the Fund will be subject to tax in respect of any income, including net taxable capital gains, arising on the disposition of the Underlying Funds in the taxation year in which the disposition occurs. The amount of the distributions made by the Fund to Unitholders in the year of a New

Portfolio Acquisition may be materially higher than the amount of the distributions made to Unitholders during other taxation years of the Fund. An increase in the distributions made by the Fund to Unitholders may result in a material increase in the tax liabilities of a Unitholder in a particular taxation year. However, the Fund does not intend to distribute additional cash to Unitholders in the year in which a New Portfolio Acquisition occurs. Accordingly, Unitholders will generally be required to use funds from other sources to satisfy the increased tax liabilities that may be attributable to the occurrence of a New Portfolio Acquisition.

### **Class Risk**

Since the Fund may have multiple Classes of Units, each Class will be charged, as a separate Class, any expenses such as management fees and servicing commissions that are specifically attributable to that Class. However, all other expenses of the Fund generally will be allocated among the Classes of Units by the Manager in a fair and equitable manner, and a creditor of the Fund may seek to satisfy its claims from the assets of the Fund, as a whole, even though its claims relate only to a particular Class of Units.

### **Incentive Fee to the Manager**

To the extent described in this Offering Memorandum, the Manager receives a Performance Fee in respect of each of the Class A Units and Class F Units based upon the appreciation, if any, in the Class Net Asset Value of the Class A Units and Class F Units. However, the Performance Fee theoretically may create an incentive for the Manager to make investments that are riskier than would be the case if such fee did not exist. In addition, because the Performance Fee is calculated on a basis that includes unrealized appreciation of the Fund's assets, it may be greater than if such compensation were based solely on realized gains.

### **Lack of Management Control by Unitholders**

Investors will become Unitholders. The Unitholders will not take part in the management or control of the Fund's business, which is the sole responsibility of the Manager. The Manager will have wide latitude in making investment decisions. The Manager, in certain circumstances, also has the right to dissolve the Fund. The Unitholders have certain limited voting rights, including the right to amend the Trust Declaration under certain circumstances, but do not have any authority or power to act for or bind the Fund. The Manager may require a Unitholder, at any time, to withdraw, in whole or in part, from the Fund.

### **Early Termination**

In the event of the early termination of the Fund, the Fund would distribute to the Unitholders *pro rata* their interest in the assets of the Fund available for such distribution, subject to the rights of the Trustee or Manager to retain monies for costs and expenses. Certain assets held by the Fund may be illiquid and might have little or no marketable value. In addition, the securities held by the Fund would have to be sold by the Fund or distributed in kind to the Unitholders. It is possible that at the time of such sale or distribution certain securities held by the Fund would be worth less than the initial cost of such securities, resulting in a loss to the Unitholders.

### **Effects of Substantial Redemptions**

Substantial redemptions by Unitholders within a short period of time could require the Manager to arrange for the Fund's positions to be liquidated more rapidly than would otherwise be desirable, which could adversely affect the value of the remaining Units. In addition, regardless of the period of time in which redemptions occur, the resulting reduction in the Fund's assets could make it more difficult to generate a positive rate of return or recoup losses due to a reduced equity base.

### **Conflicts of Interest**

The Manager, its directors and officers and affiliates and associates may engage in the promotion, management or investment management of any other fund or trust which invests primarily in securities to be held in the Fund, and may provide similar services to other investment funds with investment objectives and strategies similar to that of the Fund and other funds and clients and engage in other activities. Although none of the directors or officers of the

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

### **Liability of Unitholders**

The Fund is a unit trust and, as such, the Unitholders do not receive the protection of statutorily mandated limited liability as in the case of shareholders of most Canadian corporations. There is no guarantee, therefore, that Unitholders could not be made party to legal actions in connection with the Fund. However, the Trust Declaration provides that no Unitholder, in its capacity as such, will be subject to any personal liability whatsoever, in tort, contract or otherwise, to any person in connection with the Fund's property or the obligations or the affairs of the Fund and all such persons shall look solely to the Fund's property for satisfaction of claims of any nature arising out of or in connection therewith and the Fund's property only shall be subject to levy or execution. Pursuant to the Trust Declaration, the Fund will indemnify and hold harmless out of the Fund's assets each Unitholder from any costs, damages, liabilities, expenses, charges and losses suffered by a Unitholder resulting from or arising out of such Unitholder not having limited liability.

In any event, it is considered that the risk of any personal liability of Unitholders is minimal and remote in the circumstances, in view of the anticipated equity of the Fund, and the nature of its activities, and the Manager intends to conduct the Fund's operations in such a way to minimize any such risk. In the event that a Unitholder should be required to satisfy any obligation of the Fund, such Unitholder will be entitled to reimbursement from any available assets of the Fund.

The prime brokerage agreement between the Fund and its prime broker(s) provides that no unitholder shall be held to have any personal liability under the prime brokerage agreement and that no recourse shall be had to such unitholder's private property for any obligations of the Fund under the prime brokerage agreement.

### **Taxation of the Fund**

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

Under special rules contained in the Tax Act, trusts that constitute "SIFT trusts" (as defined in the Tax Act) will generally be precluded from deducting certain amounts that would otherwise be deducted for tax purposes if they were paid or become payable to Unitholders in a particular taxation year. If the Fund were found to be a "SIFT trust", the amounts available to be distributed by the Fund to Unitholders could be materially reduced.

A Fund may be subject to loss restriction rules contained in the Tax Act (the "Loss Restriction Rules"). If a Fund experiences a "loss restriction event" (i) the Fund will be deemed to have a year-end for tax purposes (which would result in an allocation of the Fund's net income and net realized capital gains at such time to Unitholders so that the Fund is not liable for income tax on such amounts) and (ii) the Fund will be deemed to realize any unrealized capital losses and its ability to carry forward losses will be restricted. Generally a fund will have a loss restriction event when a person becomes a "majority-interest beneficiary" of the Fund or a group of persons becomes a "majority-interest group of beneficiaries" of the Fund, as those terms are defined in the Loss Restriction Rules.

### **US FATCA Compliance**

Under U.S. tax rules, Unitholders may be required to provide identity and residency information to the Fund, which may be provided by the Fund to U.S. tax authorities, in order to avoid a 30% U.S. withholding tax ("FATCA Withholding Tax") being imposed on certain U.S. source income and on sale proceeds received by the Fund. In certain circumstances, the Fund may be required to withhold a 30% tax from distributions it pays to Unitholders who have not provided the required information.

However, the governments of Canada and the United States have entered into an Intergovernmental Agreement (“IGA”) which establishes a framework for cooperation and information sharing between the two countries and may provide relief from FATCA Withholding Tax provided that (i) the Fund complies with the terms of the IGA and the Canadian legislation implementing the IGA (the “Canadian IGA Legislation”) and (ii) the government of Canada complies with the terms of the IGA. The Fund will endeavor to comply with the requirements imposed under the IGA and the Canadian IGA Legislation. Accordingly, the Fund anticipates that Unitholders may be required to provide identity, residency and other information to the Fund, which (in the case of specified U.S. persons or specified U.S.-owned non-U.S. persons) will be provided by the Fund to the CRA and from the CRA to the IRS. However, the Fund may be subject to FATCA Withholding Tax if it cannot satisfy the applicable requirements under the IGA or the Canadian IGA Legislation or if the Canadian government is not in compliance with the IGA and if the Fund is otherwise unable to comply with the relevant US legislation. Any such tax would reduce the Fund’s distributable cash flow and NAV.

## **Change of Law**

There can be no assurance that applicable laws, or other legislation, legal and statutory rights will not be changed in a manner which adversely affects the Fund and its Unitholders. There can be no assurance that income tax, securities, and other laws or the interpretation and application of such laws by courts or government authorities will not be changed in a manner which adversely affects the distributions received by the Fund or by the Unitholders.

**THE FOREGOING LIST OF “CERTAIN RISK FACTORS” DOES NOT PURPORT TO BE A COMPLETE ENUMERATION OR EXPLANATION OF THE RISKS INVOLVED IN AN INVESTMENT IN THE FUND. PROSPECTIVE UNITHOLDERS SHOULD READ THE ENTIRE OFFERING MEMORANDUM AND CONSULT WITH THEIR OWN ADVISORS BEFORE DECIDING TO SUBSCRIBE.**

## **ITEM 9. REPORTING OBLIGATIONS**

### **Reporting to Unitholders**

The fiscal year-end of the Fund is December 31<sup>st</sup>. Unitholders will be sent audited annual financial statements within 90 days of the Fund’s fiscal year-end and unaudited semi-annual financial statements within 60 days of June 30<sup>th</sup>, or as otherwise required by law. Additional interim reporting to Unitholders will be at the discretion of the Manager. The Fund may enter into other agreements with certain Unitholders which may entitle such Unitholders to receive additional reporting. Unitholders will receive the applicable required tax form(s) within the time required by applicable law to assist Unitholders in making the necessary tax filings. The Fund is relying on the exemption pursuant to section 2.11 of National Instrument 81-106 – *Investment Fund Continuous Disclosure*, not to file its financial statements with the Ontario Securities Commission.

## **ITEM 10. RESALE RESTRICTIONS**

### **10.1 General Statement**

The securities offered under this Offering Memorandum and acquired by investors will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade these securities unless you comply with an exemption from the prospectus and registration requirements under securities legislation. In addition, no Unit may be transferred without the approval of the Manager. Investors are advised to seek legal advice prior to any resale of the Units.

You may redeem your Units with the Fund in accordance with the Trust Declaration. See Item 5.2 “Redemption of Units”.

### **10.2 Restricted Period**

Unless permitted under securities legislation, you cannot trade your Units before the earlier of the date that is four (4) months and a day after the date the Fund becomes a reporting issuer in any province or territory of Canada.



## **ITEM 11. PURCHASER'S RIGHTS**

If you purchase these securities you will have certain rights, some of which are described below. For information about your rights you should consult a lawyer.

1. **Two Day Cancellation Right** - You can cancel your agreement to purchase these securities. To do so, you must send a notice to the Manager by midnight on the 2nd Business Day after you sign the agreement to buy the securities.

### **2. Statutory and Contractual Rights of Action in the Event of a Misrepresentation**

The following summaries of statutory or contractual rights of action for damages or rescission will apply to a purchase of Units. The applicable securities legislation in certain jurisdictions provides purchasers, or requires purchasers be provided, with remedies for rescission or damages, or both, if this Offering Memorandum or any amendment to it contains a misrepresentation. However, these remedies must be exercised within the time limits prescribed. Purchasers should refer to the applicable legislative provisions, which may be subject to change after the date of this Offering Memorandum, for the complete text of these rights and/or consult with a legal advisor.

In this section "misrepresentation" means:(i) an untrue statement of material fact, or (ii) an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

If a misrepresentation is contained in a record incorporated by reference in, or deemed incorporated into, the Offering Memorandum, or amendment thereto, the misrepresentation is deemed to be contained in the Offering Memorandum or amendment thereto.

The rights of action to cancel the agreement or for damages described herein are in addition to and without derogation from any right you may have at law are subject to the express provisions of securities legislation in the province where you resided and the rules, regulations and other instruments thereunder. The following additional provisions apply to statutory or contractual rights of action for damages or rescission will apply to a purchase of Units by purchasers in the provinces listed below:

#### **British Columbia**

If there is a misrepresentation in this Offering Memorandum you have a statutory right to sue:

- (a) the Fund to cancel your agreement to buy these Units; or
- (b) for damages against the Fund and every person who signed this Offering Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, in an action for damages, the amount you recover will not exceed the price you paid for your Units and will not include any part of the damages the Fund proves does not represent the depreciation in value of the Units resulting from the misrepresentation. The Fund has a defence if it proves you knew of the misrepresentation when you purchased the Units.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence the action to cancel the agreement within 180 days after you signed the agreement to purchase the Units. You must commence your action for damages within the earlier of 180 days after learning of the misrepresentation and three years the date of the transaction that gave rise to the cause of action.

#### **New Brunswick**

The applicable securities legislation in the Province of New Brunswick provides as follows:

- (a) in an action for cancellation or damages, the defendant will not be liable if it proves that you purchased the security with knowledge of the misrepresentation;
- (b) in an action for damages, the defendant is not liable for all or any portion of the damages that it proves do not represent the depreciation in value of the security as a result of the misrepresentation relied upon;
- (c) in no case shall the amount recoverable under the right of action described herein exceed the price at which the security was offered to you.

You are not able to enforce a right of cancellation unless action is commenced no later than 180 days after the date of the transaction that gave rise to the cause of action and in the case of any action, other than an action for cancellation, you must commence such action before the earlier of (i) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action, and (ii) six years after the date of the transaction that gave rise to the cause of action.

The right of action for cancellation or damages described herein is conferred by section 150 of the *Securities Act* (New Brunswick).

### **Newfoundland and Labrador**

The applicable securities legislation in the Province of Newfoundland and Labrador provides as follows:

In an action for cancellation or damages, the defendant is not liable if you had knowledge of the misrepresentation. In an action for damages, the defendant is not liable for all or any portion of the damages that it proves do not represent the depreciation in value of the security as a result of the misrepresentation relied upon and the amount recoverable under the right of action shall not exceed the price at which the security was offered to you.

No person or company, other than the Fund, is liable if the person proves that:

- (a) the Offering Memorandum was sent to you without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable notice to the Fund that it was sent without the person's or company's knowledge or consent;
- (b) on becoming aware of any misrepresentation in the Offering Memorandum, the person or company proves they withdrew the person's or company's consent to the Offering Memorandum, and gave reasonable notice to the Fund of the withdrawal and the reason for it;
- (c) with respect to any part of the Offering Memorandum purporting to be made on the authority of an expert, the person or company proves they had no reasonable grounds to believe and did not believe that there had been a misrepresentation or the relevant part of the Offering Memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert, or
- (d) with respect to any part of the Offering Memorandum not purporting to be made on the authority of an expert unless the person or company did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation, or believed there had been a misrepresentation.

The right of action for cancellation or damages described herein is conferred by section 130.1 of the *Securities Act* (Newfoundland and Labrador).

Pursuant to section 138 of the *Securities Act* (Newfoundland and Labrador), you are not able to enforce a right of cancellation unless action is commenced no later than 180 days after the date of the transaction that gave rise to the cause of action and any other action must be commenced by the earlier of:

- (i) 180 days after you first knew of the facts giving rise to the cause of action, or
- (ii) three years after the date of the transaction that gave rise to the cause of action.

### **Nova Scotia**

The applicable securities legislation in the Province of Nova Scotia provides as follows:

- (a) in an action for cancellation or damages, the defendant will not be liable if it proves that you purchased the security with knowledge of the misrepresentation;
- (b) in an action for damages, the defendant is not liable for all or any portion of the damages that it proves do not represent the depreciation in value of the security as a result of the misrepresentation relied upon;
- (c) in no case shall the amount recoverable under the right of action described herein exceed the price at which the security was offered.

In addition no person or company other than the Fund is liable if the person or company proves that

- (a) the Offering Memorandum or the amendment to the Offering Memorandum was sent or delivered to you without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent;
- (b) after delivery of the Offering Memorandum or the amendment to the Offering Memorandum and before you purchased the securities, on becoming aware of any misrepresentation in the Offering Memorandum, or amendment to the Offering Memorandum, the person or company withdrew the person's or company's consent to the Offering Memorandum, or amendment to the Offering Memorandum, and gave reasonable general notice of the withdrawal and the reason for it; or
- (c) with respect to any part of the Offering Memorandum or amendment to the Offering Memorandum purporting (i) to be made on the authority of an expert, or (ii) to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that (iii) there had been a misrepresentation, or (iv) the relevant part of the Offering Memorandum or amendment to the offering memorandum (A) did not fairly represent the report, opinion or statement of the expert, or (B) was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Furthermore no person or company other than the Fund is liable with respect to any part of the Offering Memorandum or amendment to the Offering Memorandum not purporting (a) to be made on the authority of an expert; or (b) to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company (c) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation; or (d) believed that there had been a misrepresentation.

You can't commence an action to enforce these rights later than 120 days after the date on which payment was made for the security or after the date on which the initial payment for the security was made where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to, or concurrently with, the initial payment.

The right of action for cancellation or damages described herein is conferred by section 138 of the *Securities Act* (Nova Scotia).

**ITEM 12. FINANCIAL STATEMENTS**

The audited annual Financial Statements for the period ended December 31, 2015 are attached hereto and form part hereof.

# DIVERSIFIED STRATEGIES FUND



**THINK AHEAD.  
STAY AHEAD.**

## INDEPENDENT AUDITOR'S REPORT

---

### To the Unitholders of

**Picton Mahoney Market Neutral Equity Fund**

**Picton Mahoney Long Short Equity Fund**

**Picton Mahoney Global Market Neutral Equity Fund**

**Picton Mahoney Global Long Short Equity Fund**

**Picton Mahoney Diversified Strategies Fund**

**Picton Mahoney Income Opportunities Fund**

**Picton Mahoney Long Short Global Resource Fund**

**Picton Mahoney Long Short Emerging Markets Fund**

**Picton Mahoney Premium Fund**

**Picton Mahoney Special Situations Fund**

(collectively the Funds)

We have audited the accompanying financial statements of each of the Funds, which comprise the statements of financial position, comprehensive income (loss), changes in net assets attributable to holders of redeemable units and cash flows as at and for the periods indicated in note 1, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements of each of the Funds in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial statements of each of the Funds based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in each of our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements of each of the Funds present fairly, in all material respects, the financial position, financial performance and cash flows of each of the Funds as at and for the periods indicated in note 1 in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**

Toronto, Ontario

March 30, 2016

## A MESSAGE FROM THE PRESIDENT

---

Dear fellow investor,

Just as we suspected at this time last year, 2015 was a year of noticeable de-synchronization in global economic and market fortunes. One of the unfortunate natural by-products of a de-synchronized global backdrop is that mixed signals abound, continually challenging the beliefs of market participants. For instance, as 2015 winds down, cross-currents are readily apparent in a number of areas:

- Credit markets appear to be capitulating, but financial conditions are still favorable.
- Equity indices are near their all-time highs, but market breadth is the weakest it has been since 2007.
- The Fed has initiated a tightening cycle, yet disinflationary forces appear to be everywhere.
- European economic data is improving, but Emerging Markets (EM) growth continues to disappoint.
- The meltdown in commodities is decimating some while providing a tailwind to others.

As we enter 2016, we expect these mixed signals to continue to be the norm, not the exception. The question in our minds at the time of writing this is whether the goldilocks economic environment will re-emerge and be supportive for stocks or whether markets will be roiled by an accident. One thing is clear: 2016 could prove to be an even greater test of investors' mettle than 2015.

Looking back on 2015, global economic data and risk asset performance left much to be desired. Economic surprise indices spent the vast majority of the year in negative territory and the underperformance of the global high yield market became a big story in the second half of the year. 2015 saw a surprise fall in 30-year German government bonds (one of the "safest" assets) in May, the significant devaluation of the Chinese Yuan spurring widespread global market volatility in August, and continued pressures related to ongoing low oil prices (keenly felt here at home). As we closed the year, we also witnessed the first rate hike by the US Fed in six years, despite soft economic data.

As surprising as it is frustrating, cash was one of the best performing asset classes in 2015 when you examine everything in USD terms—and that is with interest rates around zero for most of the year. In this environment, we remained true to our authentic hedge approach, focusing on minimizing the impact of market volatility while generating solid risk-adjusted returns.

There is a time for offence and a time for defence. 2015 was all about defence for us, as we believed it prudent to err on the conservative side in our portfolios in order to protect capital. We also took the opportunity to add to our bench strength internally, welcoming a new Portfolio Manager and Market Risk Analyst to the investment team as well as introducing a portfolio stress testing service for our advisor partners (to help them better identify sensitivities within their model portfolios). Finally, we made it possible for more Canadians to add defence to their portfolios by launching Fortified Funds, a family of mutual funds that makes hedge-like risk management benefits available to more investors.

While we believe a goldilocks environment that supports risk assets is the highest probability outcome in 2016, there are a number of things about the current investing environment that worry us, namely USD strength; a possible unintended acceleration in US inflation; and further deterioration in Emerging Markets (especially China). Whatever the markets bring for 2016, we believe better volatility management can help clients stay ahead while still staying invested.

Thank you for entrusting us with growing and protecting your wealth in these volatile times. We are honoured by the privilege of your partnership. Should you have any questions about your investments with us, please reach out to our Client Service team at 416-955-4108.

Thank you for your ongoing support and partnership.

Sincerely,



David Picton  
President  
Picton Mahoney Asset Management

# PICTON MAHONEY DIVERSIFIED STRATEGIES FUND

## STATEMENTS OF FINANCIAL POSITION

As at

	December 31, 2015 \$	December 31, 2014 \$
<b>Assets</b>		
<b>Current assets</b>		
Long positions at fair value*	46,828,011	44,269,663
Cash	429,643	254,602
Deposits with brokers for securities sold short	134,116	-
Distributions receivable from underlying funds	1,179,172	-
Subscriptions receivable	77,393	103,000
Dividends receivable	6,970	-
	<u>48,655,305</u>	<u>44,627,265</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Short positions at fair value**	1,459,089	19,497
Accrued liabilities	17,852	22,620
Management fee payable	34,637	43,104
Redemptions payable	-	3,000
Payable for investments purchased	-	218,427
Dividends payable	4,093	-
	<u>1,515,671</u>	<u>306,648</u>
<b>Net Assets Attributable to Holders of Redeemable Units</b>	<u>47,139,634</u>	<u>44,320,617</u>
<b>Net Assets Attributable to Holders of Redeemable Units per Class</b>		
Class A	15,741,022	19,441,684
Class F	25,621,993	17,314,309
Class I	5,776,619	7,564,624
<b>Number of Units Outstanding</b>		
Class A	1,218,049	1,402,102
Class F	1,876,969	1,196,506
Class I	600,080	739,048
<b>Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Class A	12.92	13.87
Class F	13.65	14.47
Class I	9.63	10.24
*Long positions, at cost	45,681,006	40,755,716
**Proceeds on investments sold short	(1,451,152)	(6,949)

Approved on behalf of the Manager

David Picton

Arthur Galloway



President



CFO

The accompanying notes are an integral part of the financial statements.

## STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31

	2015 \$	2014 \$
<b>Income</b>		
Net gains (losses) on investments and derivatives		
Interest for distribution purposes	92,148	2,135
Dividends	344,497	-
Distributions from underlying funds	1,293,873	606,675
Net realized gain (loss) on investments and options	1,734,178	2,385,382
Change in unrealized appreciation (depreciation) on investments and options	(2,350,385)	(666,381)
Interest and borrowing expense	(20,405)	(7,338)
Dividend expense	(30,791)	-
Net gains (losses) on investments and derivatives	<u>1,063,115</u>	<u>2,320,473</u>
Other income		
Foreign currency gain (loss) on cash and other assets and liabilities	(154,790)	3,581
Total Income	<u>908,325</u>	<u>2,324,054</u>
<b>Expenses</b>		
Management fee (Note 10)	549,477	539,617
Performance fee (Note 10)	299,996	427,176
Administrative fees	25,571	23,627
Audit fees	4,967	5,653
Legal fees	791	796
Securityholder reporting fees	33,425	31,550
Harmonized sales tax	76,376	82,899
Withholding taxes	4,361	-
Transaction costs	36,700	20,457
Total Expense before Manager Absorption	<u>1,031,664</u>	<u>1,131,775</u>
Less: Expenses Absorbed by Manager	-	-
Total Expense after Manager Absorption	<u>1,031,664</u>	<u>1,131,775</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>	<u>(123,339)</u>	<u>1,192,279</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Class</b>		
Class A	(38,511)	422,292
Class F	(274,423)	583,557
Class I	189,595	186,430
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Class A	(0.03)	0.33
Class F	(0.21)	0.46
Class I	0.33	0.27



# PICTON MAHONEY DIVERSIFIED STRATEGIES FUND

## STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

For the years ended December 31

	2015 \$	2014 \$
<b>Net Assets Attributable to Holders of Redeemable Units at Beginning of Year</b>		
Class A	19,441,684	16,261,528
Class F	17,314,309	14,722,237
Class I	7,564,624	-
	<u>44,320,617</u>	<u>30,983,765</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>		
Class A	(38,511)	422,292
Class F	(274,423)	583,557
Class I	189,595	186,430
	<u>(123,339)</u>	<u>1,192,279</u>
<b>Redeemable Unit Transactions</b>		
Proceeds from redeemable units issued		
Class A	1,863,522	4,341,793
Class F	15,893,368	8,339,969
Class I	530,000	7,378,194
	<u>18,286,890</u>	<u>20,059,956</u>
Reinvestments of distributions to holders of redeemable units		
Class A	981,068	-
Class F	1,499,393	-
Class I	471,096	-
	<u>2,951,557</u>	<u>-</u>
Redemption of redeemable units		
Class A	(5,525,673)	(1,583,929)
Class F	(7,309,685)	(6,331,454)
Class I	(2,507,600)	-
	<u>(15,342,958)</u>	<u>(7,915,383)</u>
<b>Net Increase (Decrease) from Redeemable Unit Transactions</b>	<u>5,895,489</u>	<u>12,144,573</u>
<b>Distributions to Holders of Redeemable Units</b>		
Capital gains		
Class A	(981,068)	-
Class F	(1,500,969)	-
Class I	(471,096)	-
	<u>(2,953,133)</u>	<u>-</u>
<b>Net Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>	<u>2,819,017</u>	<u>13,336,852</u>
<b>Net Assets Attributable to Holders of Redeemable Units at End of Year</b>		
Class A	15,741,022	19,441,684
Class F	25,621,993	17,314,309
Class I	5,776,619	7,564,624
<b>Net Assets Attributable to Holders of Redeemable Units at End of Year</b>	<u>47,139,634</u>	<u>44,320,617</u>

## STATEMENTS OF CASH FLOWS

For the years ended December 31

	2015 \$	2014 \$
<b>Cash Flow from Operating Activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	(123,339)	1,192,279
Adjustments for:		
Net realized (gain) loss on investments and options	(1,734,178)	(2,385,382)
Change in unrealized (appreciation) depreciation on investments and options	2,350,385	666,381
(Increase) decrease in deposits with brokers for securities sold short	(134,116)	-
(Increase) decrease in distributions receivable	(1,179,172)	119,532
(Increase) decrease in dividends receivable	(6,970)	-
Increase (decrease) in dividends payable	4,093	-
Increase (decrease) in other payable and accrued liabilities	(13,235)	(60,216)
Purchase of long positions	(31,786,210)	(24,907,279)
Proceeds from sales of long positions	28,285,672	13,201,050
Repurchase of investments sold short	(2,335,426)	(420,714)
Proceeds on investments sold short	3,882,574	716,391
<b>Net Cash Generated (Used) by Operating Activities</b>	<u>(2,789,922)</u>	<u>(11,877,958)</u>
<b>Cash Flows from Financing Activities</b>		
Distributions to holders of redeemable units, net of reinvested distributions	(1,576)	-
Proceeds from redeemable units issued	18,312,497	20,003,356
Amount paid on redemption of redeemable units	(15,345,958)	(7,937,629)
<b>Net Cash Generated (Used) by Financing Activities</b>	<u>2,964,963</u>	<u>12,065,727</u>
Net increase (decrease) in cash	175,041	187,769
Cash (overdraft), beginning of period	254,602	66,833
<b>Cash (Overdraft), End of Period</b>	<u>429,643</u>	<u>254,602</u>
<b>Items classified as operating activities:</b>		
Interest received, net of withholding tax	92,148	2,135
Distributions from underlying funds	114,701	726,207
Interest and borrowing expense paid	(19,347)	(7,338)
Dividends paid	(26,698)	-

The accompanying notes are an integral part of the financial statements.

# PICTON MAHONEY DIVERSIFIED STRATEGIES FUND

## SCHEDULE OF INVESTMENT PORTFOLIO

As at December 31, 2015

No. of shares/units/ Face value	Security Description	Average cost (\$)	Fair value (\$)	No. of shares/units/ Face value	Security Description	Average cost (\$)	Fair value (\$)
<b>LONG POSITIONS (99.4%)</b>				<b>Industrials (0.3%)</b>			
<b>Canadian Equities (95.9%)</b>				1,100	Aecon Group Inc.	15,383	16,929
<b>Consumer Discretionary (0.3%)</b>				2,650	Air Canada	33,032	27,057
170	Canadian Tire Corporation Limited, Class A	20,345	20,087	1,450	Cargojet Inc.	38,125	37,425
750	Cogeco Inc.	43,283	38,438	4,550	Chorus Aviation Inc.	26,208	26,163
1,650	Magna International Inc.	17,680	17,342	900	Hardwoods Distribution Inc.	15,308	16,182
720	Quebecor Inc., Class B	24,544	24,394	1,200	Magellan Aerospace Corporation	17,882	19,320
740	Whistler Blackcomb Holdings Inc.	15,776	18,463	3,050	Stuart Olson Inc.	17,593	17,355
		121,628	118,724			163,531	160,431
<b>Consumer Staples (0.2%)</b>				<b>Information Technology (0.1%)</b>			
1,600	Cott Corporation	23,626	24,384	350	Open Text Corporation	22,823	23,219
1,300	Liquor Stores NA Limited	18,768	10,881				
1,900	The North West Company Inc.	52,638	54,473	<b>Materials (0.2%)</b>			
		95,032	89,738	650	Agnico Eagle Mines Limited	26,155	23,641
<b>Energy (0.6%)</b>				1,500	Canam Group Inc.	16,536	20,835
2,650	ARC Resources Limited	58,096	44,255	1,150	Chemtrade Logistics Income Fund	21,117	20,539
2,400	EnCana Corporation	23,115	16,872	1,570	Dominion Diamond Corporation	31,978	22,200
2,900	Freehold Royalties Limited	30,480	31,494	1,950	Tahoe Resources Inc.	27,580	23,341
2,063	Husky Energy Inc.	51,820	29,525			123,366	110,556
450	Keyera Corporation	17,791	18,117	<b>Investment Funds* (92.9%)</b>			
2,330	Parkland Fuel Corporation	50,382	54,266	451,623	Picton Mahoney 130/30 Alpha Extension Canadian Equity Fund, Class I Units	7,101,442	5,840,205
950	Peyto Exploration & Development Corporation	29,183	23,627	760,668	Picton Mahoney Income Opportunities Fund, Class I Units	8,954,429	8,090,770
1,450	Suncor Energy Inc.	51,013	51,794	88,049	Picton Mahoney Emerging Markets Fund, Class I Units	1,438,209	1,638,882
2,300	Veresen Inc.	37,252	20,378	649,652	Picton Mahoney Global Long Short Equity Fund, Class I Units	9,473,452	11,780,590
		349,132	290,328	317,155	Picton Mahoney Market Neutral Equity Fund, Class I Units	4,240,026	4,523,968
<b>Financials (0.8%)</b>				418,763	Picton Mahoney Global Market Neutral Equity Fund, Class I Units	5,216,773	5,757,994
1,250	Artis Real Estate Investment Trust	15,553	16,000	45,079	Picton Mahoney Long Short Equity Fund, Class I Units	732,543	728,622
220	Boardwalk Real Estate Investment Trust	10,483	10,439	99,337	Picton Mahoney Long Short Global Resource Fund, Class I Units	1,206,447	1,109,066
2,750	Dream Global Real Estate Investment Trust	26,947	23,815	225,289	Picton Mahoney Long Short US SMID Cap Fund, Class I Units	2,720,401	2,900,391
2,250	Echelon Financial Holdings Inc.	29,956	29,543	155,269	Picton Mahoney Premium Fund, Class I Units	1,520,567	1,427,155
1,530	Guardian Capital Group Limited, Class A	27,363	27,861			42,604,289	43,797,643
1,450	H&R Real Estate Investment Trust	31,740	29,073	<b>Telecommunication Services (0.1%)</b>			
2,250	Manulife Financial Corporation	49,009	46,665	8,400	AXIA NetMedia Corporation	27,443	26,460
3,250	OneREIT	10,238	10,790	530	Rogers Communications Inc., Class B	23,867	25,292
650	Power Financial Corporation	21,767	20,677			51,310	51,752
4,150	Pure Multi-Family REIT LP	29,391	29,796	<b>Utilities (0.3%)</b>			
700	Sun Life Financial Inc.	29,469	30,205	5,150	Capstone Infrastructure Corporation	15,985	18,695
850	The Toronto-Dominion Bank	44,462	46,104				
3,100	Tricon Capital Group Inc.	33,845	28,086				
2,550	WPT Industrial Real Estate Investment Trust	36,252	42,329				
		396,475	391,383				
<b>Health Care (0.1%)</b>							
1,400	Medical Facilities Corporation	20,857	20,146				

PICTON MAHONEY ASSET MANAGEMENT | 7

# PICTON MAHONEY DIVERSIFIED STRATEGIES FUND

## SCHEDULE OF INVESTMENT PORTFOLIO

As at December 31, 2015

No. of shares/units/ Face value	Security Description	Average cost (\$)	Fair value (\$)	No. of shares/units/ Face value	Security Description	Average cost (\$)	Fair value (\$)
(570)	Great-West Lifeco Inc.	(20,927)	(19,682)	(850)	iShares Dow Jones US		
(360)	Industrial Alliance Insurance and Financial Services Inc.	(15,046)	(15,887)		Telecommunications Sector Index Fund	(32,237)	(33,993)
(2,350)	InterRent Real Estate Investment Trust	(15,230)	(15,416)	(310)	iShares Dow Jones US Real Estate Index Fund	(30,608)	(32,344)
(275)	Onex Corporation	(18,978)	(23,326)	(230)	iShares MSCI Emerging Markets ETF	(11,559)	(10,284)
(270)	Royal Bank of Canada	(19,849)	(20,021)	(380)	Market Vectors Pharmaceutical ETF	(30,530)	(34,474)
		(166,306)	(167,566)	(600)	Consumer Staples Select Sector SPDR Fund	(36,456)	(42,081)
<b>Information Technology (-0.1%)</b>				(300)	Technology Select Sector SPDR Fund	(14,977)	(17,849)
(810)	The Descartes Systems Group Inc.	(16,135)	(22,550)	(460)	Industrial Select Sector SPDR Fund	(31,196)	(33,873)
(240)	Enghouse Systems Limited	(12,401)	(17,842)	(500)	SPDR S&P 500 ETF Trust	(125,503)	(141,613)
		(28,536)	(40,392)	(130)	SPDR S&P Biotech ETF	(11,104)	(12,655)
<b>Materials (0.0%)</b>				(300)	SPDR S&P Regional Banking ETF	(16,547)	(17,469)
(8,350)	Torex Gold Resources Inc.	(10,354)	(10,521)	(300)	SPDR S&P Transportation ETF	(20,280)	(17,857)
<b>Telecommunication Services (-0.1%)</b>				(550)	Utilities Select Sector SPDR Fund	(31,526)	(33,066)
(450)	BCE Inc.	(24,384)	(24,057)			(433,700)	(472,137)
(500)	TELUS Corporation	(20,949)	(19,130)	<b>Israel (0.0%)</b>			
		(45,333)	(43,187)	(100)	Check Point Software Technologies Limited	(10,302)	(11,305)
<b>Utilities (-0.1%)</b>				<b>Total Global Equities - Short</b>			
(900)	Capital Power Corporation	(21,195)	(15,993)			(673,076)	(728,314)
(800)	Canadian Utilities Limited, Class A	(31,629)	(25,552)	<b>Options (-0.1%)</b>			
(400)	Fortis Inc.	(15,196)	(14,964)	<b>Total Written Options - Refer to Appendix A</b>			
		(68,020)	(56,509)			(18,308)	(25,337)
<b>Total Canadian Equities - Short</b>				<b>Total Short Positions</b>			
		(759,768)	(705,438)			(1,451,152)	(1,459,089)
<b>Global Equities (-1.5%)</b>				<b>Transaction Costs</b>			
<b>United States (-0.5%)</b>						(11,947)	-
(50)	Aetna Inc.	(7,220)	(7,509)	<b>TOTAL INVESTMENT PORTFOLIO (96.2%)</b>			
(170)	AptarGroup Inc.	(13,925)	(17,156)		Other Assets Net of Liabilities (3.8%)		1,771,319
(120)	Cavium Inc.	(10,361)	(10,953)	<b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (100.0%)</b>			
(200)	Coty Inc., Class A	(7,629)	(7,121)				47,139,634
(110)	Deere & Company	(11,708)	(11,654)	<p><i>*The Picton Mahoney Diversified Strategies Fund holds 2.61%, 1.12%, 5.70%, 11.52%, 1.94%, 1.38%, 0.42%, 19.84%, 24.22%, and 11.31% of the net assets of Picton Mahoney 130/30 Alpha Extension Canadian Equity Fund, Picton Mahoney Income Opportunities Fund, Picton Mahoney Emerging Markets Fund, Picton Mahoney Global Long Short Equity Fund, Picton Mahoney Global Market Neutral Equity Fund, Picton Mahoney Market Neutral Equity Fund, Picton Mahoney Long Short Equity Fund, Picton Mahoney Long Short Global Resource Fund, Picton Mahoney Long Short US Small Mid Cap Fund, and Picton Mahoney Premium Fund, respectively. Picton Mahoney Asset Management acts as the trustee and manager for all of the funds listed above.</i></p>			
(260)	H.B. Fuller Company	(13,190)	(13,172)				
(350)	Knowles Corporation	(7,185)	(6,481)				
(250)	Leidos Holdings Inc.	(12,905)	(19,538)				
(200)	Nucor Corporation	(11,049)	(11,196)				
(320)	Oshkosh Corporation	(19,065)	(17,355)				
(10)	Priceline Group Inc.	(14,663)	(17,710)				
(220)	Super Micro Computer Inc.	(7,283)	(7,490)				
(80)	The Boeing Company	(14,761)	(16,068)				
(120)	The Walt Disney Company	(16,264)	(17,516)				
(270)	The WhiteWave Foods Company	(16,373)	(14,593)				
(70)	Varian Medical Systems Inc	(7,500)	(7,857)				
(220)	W.R. Grace & Company	(26,679)	(30,435)				
(100)	Workday Inc.	(11,314)	(11,068)				
		(229,074)	(244,872)				
<b>Index Equivalents (-1.0%)</b>							
(210)	Consumer Discretionary Select Sector SPDR Fund	(20,116)	(22,797)				
(130)	iShares 20+ Year Treasury Bond ETF	(21,061)	(21,782)				

**APPENDIX A**  
**OPTIONS (0.0%)**

Issuer	Option Type	Number of Options	Strike	Expiry	Average Cost \$	Fair Value \$
Standard & Poor's 500 Index	Call Option	20	\$2,160	December, 2015	7,928	-
Standard & Poor's 500 Index	Put Option	5	\$1,925	January, 2016	2,791	4,341
Standard & Poor's 500 Index	Put Option	11	\$2,015	January, 2016	20,653	32,088
					<u>23,444</u>	<u>36,429</u>
<b>Total Purchased Options</b>					<b>31,372</b>	<b>36,429</b>
Standard & Poor's 500 Index	Written Call Option	(18)	\$2,200	December, 2015	(2,354)	-
Standard & Poor's 500 Index	Written Put Option	(16)	\$1,970	January, 2016	(15,954)	(25,337)
<b>Total Written Options</b>					<b>(18,308)</b>	<b>(25,337)</b>

# PICTON MAHONEY DIVERSIFIED STRATEGIES FUND

## FUND SPECIFIC NOTES

As at December 31, 2015

### 1. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The following tables illustrate the classifications of the Fund's financial instruments within the fair value hierarchy as at December 31, 2015 and 2014.

ASSETS (LIABILITIES) AT FAIR VALUE AS AT DECEMBER 31, 2015				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Investment Funds	43,797,643	-	-	43,797,643
Equities - Long	2,993,939	-	-	2,993,939
Options - Long	36,429	-	-	36,429
Equities - Short	(1,433,752)	-	-	(1,433,752)
Options - Short	(25,337)	-	-	(25,337)
Total	45,368,922	-	-	45,368,922

ASSETS (LIABILITIES) AT FAIR VALUE AS AT DECEMBER 31, 2014				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Investment Funds	44,235,775	-	-	44,235,775
Options - Long	33,888	-	-	33,888
Options - Short	(19,497)	-	-	(19,497)
Total	44,250,166	-	-	44,250,166

### 2. OTHER PRICE RISK

Using Beta as a measure of the relationship of the Fund's performance versus its index, if the blended index of 30% S&P/TSX Composite Total Return Index, 30% MSCI World Index Total Return Index, and 40% ML Broad Market Total Return Index were to increase or decrease by 10%, net assets would have increased or decreased by approximately \$3,657,186 (December 31, 2014 - \$3,855,894). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### 3. CURRENCY RISK

Foreign currencies to which the Fund had exposure as at December 31, 2015 were as follows:

December 31, 2015 Currency	Financial Instruments			Percentage of Net Assets %
	Monetary \$	Non-Monetary \$	Total \$	
United States Dollar	(581,007)	896,085	315,078	0.7%
Euro	48,219	-	48,219	0.1%
Australian Dollar	40	-	40	0.0%
Hong Kong Dollar	15,597	-	15,597	0.0%
<b>Net Exposure</b>	<b>(517,151)</b>	<b>896,085</b>	<b>378,934</b>	<b>0.8%</b>

If the Canadian dollar had strengthened or weakened by 5% in relation to all other currencies held in the investment portfolio, net assets would have decreased or increased by approximately \$18,947. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

The Fund is exposed to indirect currency risk as certain underlying funds invest in financial instruments that are denominated in a currency other than Canadian dollars.

As at December 31, 2014, the Fund's direct exposure to currency risk is minimal given that the underlying funds held are valued in Canadian dollars which is the functional currency of the Fund.

FUND SPECIFIC NOTES (CONTINUED)

#### 4. INTEREST RATE RISK

As at December 31, 2015 and 2014, the interest rate risk is minimal given that the majority of the financial instruments held by the Fund are non-interest bearing. As certain underlying funds invest in interest-bearing financial instruments, the Fund is exposed to the indirect risk that the value of those instruments will fluctuate due to changes in the prevailing levels of market interest rates.

#### 5. CREDIT RISK

As of December 31, 2015 and December 31, 2014, the direct credit risk is minimal given that the Fund had no direct investments in debt instruments or derivatives. The Fund is exposed to indirect credit risk as certain underlying funds invest in debt instruments and derivatives.

#### 6. CONCENTRATION RISK

Jurisdiction	% of Net Assets	
	December 31, 2015	December 31, 2014
<b>Investment Funds</b>	92.9%	98.0%
<b>Equities</b>		
Canada	1.4%	0.0%
Guernsey	1.4%	1.7%
United States	1.2%	0.0%
Ireland	0.1%	0.0%
Bermuda	0.1%	0.0%
Switzerland	0.1%	0.0%
Marshall Islands	0.0%	0.0%
United Kingdom	0.0%	0.0%
France	0.0%	0.0%
Israel	0.0%	0.0%
Index Equivalents	-1.0%	0.0%
<b>Options</b>	0.0%	0.1%

#### 7. LIQUIDITY RISK

The tables below categorize the Fund's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amount in the tables are the contractual undiscounted cash flows.

December 31, 2015 Financial Liabilities	On Demand \$	< 3 months \$	> 3 months \$	Total \$
Short positions	1,459,089	-	-	1,459,089
Accrued liabilities and other payables	-	56,582	-	56,582
December 31, 2014 Financial Liabilities	On Demand \$	< 3 months \$	> 3 months \$	Total \$
Short positions	19,497	-	-	19,497
Redemptions payable	-	3,000	-	3,000
Accrued liabilities and other payables	65,724	218,427	-	284,151

# **PICTON MAHONEY DIVERSIFIED STRATEGIES FUND**

## **FUND SPECIFIC NOTES (CONTINUED)**

### **8. FINANCIAL INSTRUMENTS BY CATEGORY**

The following tables present the carrying amounts of the Fund's financial instruments by category as at December 31, 2015.

<b>Assets</b>	<b>Financial assets classified as held for trading \$</b>	<b>Financial assets designated at FVTPL \$</b>	<b>Financial assets at amortized cost \$</b>	<b>Total \$</b>
Long positions	36,429	46,791,582	-	46,828,011
Cash	-	-	429,643	429,643
Deposits with brokers for securities sold short	-	-	134,116	134,116
Distributions receivable from underlying funds	-	-	1,179,172	1,179,172
Subscription receivable	-	-	77,393	77,393
Dividends receivable	-	-	6,970	6,970
<b>Total</b>	<b>36,429</b>	<b>46,791,582</b>	<b>1,827,294</b>	<b>48,655,305</b>

<b>Liabilities</b>	<b>Financial liabilities classified as held for trading \$</b>	<b>Financial liabilities designated at FVTPL \$</b>	<b>Financial liabilities at amortized cost \$</b>	<b>Total \$</b>
Short positions	1,459,089	-	-	1,459,089
Accrued liabilities	-	-	17,852	17,852
Management fee payable	-	-	34,637	34,637
Dividends payable	-	-	4,093	4,093
<b>Total</b>	<b>1,459,089</b>	<b>-</b>	<b>56,582</b>	<b>1,515,671</b>

The following tables present the carrying amounts of the Fund's financial instruments by category as at December 31, 2014.

<b>Assets</b>	<b>Financial assets classified as held for trading \$</b>	<b>Financial assets designated at FVTPL \$</b>	<b>Financial assets at amortized cost \$</b>	<b>Total \$</b>
Long positions	33,888	44,235,775	-	44,269,663
Cash	-	-	254,602	254,602
Subscriptions receivable	-	-	103,000	103,000
<b>Total</b>	<b>33,888</b>	<b>44,235,775</b>	<b>357,602</b>	<b>44,627,265</b>

<b>Liabilities</b>	<b>Financial liabilities classified as held for trading \$</b>	<b>Financial liabilities designated at FVTPL \$</b>	<b>Financial liabilities at amortized cost \$</b>	<b>Total \$</b>
Short positions	19,497	-	-	19,497
Accrued liabilities	-	-	22,620	22,620
Management fee payable	-	-	43,104	43,104
Redemptions payable	-	-	3,000	3,000
Payable for investments purchased	-	-	218,427	218,427
<b>Total</b>	<b>19,497</b>	<b>-</b>	<b>287,151</b>	<b>306,648</b>



# **PICTON MAHONEY DIVERSIFIED STRATEGIES FUND**

## **FUND SPECIFIC NOTES (CONTINUED)**

### **9. NET GAINS ON INVESTMENTS AND DERIVATIVES**

The following tables present the net gains (losses) on investments and derivatives by category for the years ended December 31, 2015 and 2014.

December 31, 2015			
	Financial assets and liabilities classified as held for trading \$	Financial assets and liabilities designated at FVTPL \$	Total \$
Interest for distribution purposes	-	92,148	92,148
Dividends	-	344,497	344,497
Distribution from underlying funds	-	1,293,873	1,293,873
Net realized gain (loss) on investments and options	11,652	1,722,526	1,734,178
Interest and borrowing expense	-	(20,405)	(20,405)
Dividend expense	-	(30,791)	1,734,178
Change in unrealized appreciation (depreciation) on investments and options	(9,095)	(2,341,290)	(30,791)
<b>Total</b>	<b>2,557</b>	<b>1,060,558</b>	<b>1,063,115</b>

December 31, 2014			
	Financial assets and liabilities classified as held for trading \$	Financial assets and liabilities designated at FVTPL \$	Total \$
Interest for distribution purposes	-	2,135	2,135
Distributions from underlying funds	-	606,675	606,675
Net realized gain (loss) on investments and options	(59,328)	2,444,710	2,385,382
Interest and borrowing expense	-	(7,338)	(7,338)
Dividend expense	-	-	-
Change in unrealized appreciation (depreciation) on investments and options	7,124	(673,505)	(666,381)
<b>Total</b>	<b>(52,204)</b>	<b>2,372,677</b>	<b>2,320,473</b>

### **10. FUND UNIT TRANSACTIONS**

For the years ended December 31

	2015			2014		
	Class A	Class F	Class I	Class A	Class F	Class I
Units issued and outstanding as at January 1	1,402,102	1,196,506	739,048	1,202,649	1,052,926	-
Units issued	130,070	1,062,695	48,539	313,926	586,967	739,048
Units reinvested	75,778	109,665	48,871	-	-	-
Units redeemed	(389,901)	(491,897)	(236,378)	(114,473)	(443,387)	-
<b>Units issued and outstanding as at December 31</b>	<b>1,218,049</b>	<b>1,876,969</b>	<b>600,080</b>	<b>1,402,102</b>	<b>1,196,506</b>	<b>739,048</b>
<b>Weighted average number of units held during the year</b>	<b>1,240,498</b>	<b>1,329,460</b>	<b>567,749</b>	<b>1,294,016</b>	<b>1,259,339</b>	<b>685,370</b>

### **11. COMMISSIONS**

For the years ended December 31 (in \$'000)

	2015	2014
Brokerage commissions	37	20
Soft Dollar commissions	5	-

### **12. TAX LOSS CARRY FORWARDS**

As at December 31 (in \$'000)

	2015
Net capital losses carry forward	-
Non-capital losses carry forward	-

**THINK AHEAD.  
STAY AHEAD.**

A horizontal bar composed of several rectangular segments in varying shades of gray, spanning the width of the page.

## **PICTON MAHONEY ASSET MANAGEMENT CORPORATE INFORMATION**

### **Corporate Address**

#### **Picton Mahoney Asset Management**

33 Yonge Street, Suite. 830  
Toronto, Ontario  
Canada M5E 1G4

Telephone: 416.955.4108

Toll free: 1.866.369.4108

Fax: 416.955.4100

Email: [service@pictonmahoney.com](mailto:service@pictonmahoney.com)

[www.pictonmahoney.com](http://www.pictonmahoney.com)

### **Fund Administration & Transfer Agent**

#### **Picton Mahoney Funds**

C/O RBC Investor Services Trust,  
Shareholder Services  
155 Wellington Street West, 3<sup>rd</sup> Floor  
Toronto, ON M5V 3L3

### **Auditor**

#### **Pricewaterhousecoopers LLP**

18 York Street, Suite 2600  
Toronto, Ontario  
Canada M5J 0B2

### **Legal Counsel**

#### **McMillan LLP**

Brookfield Place, Suite 4400  
181 Bay Street  
Toronto, Ontario  
Canada M5J 2T3

# PICTON MAHONEY FUNDS NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2015

## 1. ESTABLISHMENT OF THE FUNDS

Picton Mahoney Market Neutral Equity Fund, Picton Mahoney Long Short Equity Fund, Picton Mahoney Global Market Neutral Equity Fund, Picton Mahoney Global Long Short Equity Fund, Picton Mahoney Diversified Strategies Fund, Picton Mahoney Income Opportunities Fund, Picton Mahoney Long Short Global Resource Fund, Picton Mahoney Long Short Emerging Markets Fund, Picton Mahoney Premium Fund, and Picton Mahoney Special Situations Fund (collectively “the Funds” and each “a Fund”) are open-ended trusts established under the laws of the Province of Ontario by a declaration of trust.

Each Fund is permitted to issue trust units (the “Units” and each a “Unit”) in an unlimited number of classes (the “Classes” and each a “Class”) to qualified investors in the provinces and territories of Canada (“Offering Jurisdictions”) pursuant to prospectus exemptions.

Name of the Fund	Fund Tax Structure	Series	Inception Date
Picton Mahoney Market Neutral Equity Fund Picton Mahoney Long Short Equity Fund	Open-ended trusts established under the laws of the Province of Ontario by the declaration of trust dated December 30, 2005 and as amended, March 30, 2007, restated and supplemented from time to time.	Class A Class F Class I	December 31, 2005 September 15, 2006 December 31, 2009
Picton Mahoney Global Market Neutral Equity Fund Picton Mahoney Global Long Short Equity Fund	Open-ended trusts established under the laws of the Province of Ontario by an amended and restated master declaration of trust dated October 31, 2007, and as amended, March 30, 2007, restated and supplemented from time to time.	Class A Class F Class I	October 31, 2007 October 31, 2007 February 15, 2008
Picton Mahoney Income Opportunities Fund	Open-ended trusts established under the laws of the Province of Ontario by the declaration of trust dated December 30, 2005 and as amended and restated as of December 31, 2009.	Class A Class F Class I Class UA Class UF	Class A, F, and I started on December 31, 2009; Class Class UA and UF started on January 30, 2015
Picton Mahoney Diversified Strategies Fund	Open-ended trusts established under the laws of the Province of Ontario by the declaration of trust dated December 30, 2005 and as amended and restated as of December 31, 2009.	Class A Class F Class I	All Series started on December 31, 2009
Picton Mahoney Long Short Global Resource Fund Picton Mahoney Long Short Emerging Markets Fund	Open-ended trust established under the laws of the Province of Ontario by an amended and restated master declaration of trust dated December 31, 2010 as amended, restated or supplemented from time to time.	Class A Class F Class I  Class A Class F Class I	All 3 series started on December 31, 2010  Inception date is September 21, 2011 and commencement date of all 3 series is September 30, 2011
Picton Mahoney Premium Fund	Open-ended trusts established under the laws of the Province of Ontario by the declaration of trust dated January 31, 2012 and restated and supplemented from time to time.	Class A Class F Class I	All 3 series started on October 12, 2012
Picton Mahoney Special Situations Fund	Open-ended trust established under the laws of the Province of Ontario by the declaration of trust dated March 9, 2015 and restated and supplemented from time to time.	Class A Class F Class I	All 3 series started on July 2, 2015

Picton Mahoney Asset Management acts as the trustee (the “Trustee”) and the manager (the “Manager”) of the Funds pursuant to the Trust Declaration. The Manager is responsible for the day-to-day business of the Funds, including the management of the Funds’ investment portfolios. The address of the Funds’ registered office is 33 Yonge Street, Suite 830, Toronto, Ontario, M5E 1G4. The financial statements are presented in Canadian dollars (CAD). These financial statements were authorized for issue by the Manager on March 30, 2016.

The Statements of Financial Position of each of the Funds are as at December 31, 2015 and 2014, as applicable. The Statements of Comprehensive Income (Loss), Statements of Changes in Net Assets Attributable to Holders of Redeemable Units and Statements of Cash Flows are for the years ended December 31, 2015 and 2014, except for Funds established during either

period, in which case the information provided relates to the years from the inception date to December 31, 2015 or 2014, as applicable.

The investment objective of the Picton Mahoney Market Neutral Equity Fund and the Picton Mahoney Global Market Neutral Equity Fund is to provide consistent long-term capital appreciation and to provide holders of Units (the “Unitholders”) with an attractive risk-adjusted rate of return with less volatility than traditional equity markets and low correlation to major equity markets. The investment objective of the Picton Mahoney Long Short Equity Fund, the Picton Mahoney Global Long Short Equity Fund, the Picton Mahoney Long Short Global Resource Fund and the Picton Mahoney Long Short Emerging Markets Fund is to provide consistent long-term capital appreciation and to provide Unitholders with an attractive risk-adjusted rate of return.

# PICTON MAHONEY FUNDS NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2015

The investment objective of the Picton Mahoney Income Opportunities Fund is to maximize total return, consisting of interest and dividend income and capital appreciation and to provide Unitholders with monthly distributions initially targeted for 2015 to be \$0.0403 per Unit for the Class A Units, \$0.0425 per Unit for the Class F Units, \$0.0481 per Unit for the Class I Units, USD \$0.04167 per Unit for the Class UA Units, USD \$0.04167 per Unit for the Class UF Units (2014 - monthly distributions of \$0.0425 per Unit for the Class A Units, \$0.0444 per Unit for the Class F Units and \$0.0492 per Unit for the Class I Units).

The investment objective of the Picton Mahoney Diversified Strategies Fund is to provide consistent long-term capital appreciation and to provide Unitholders with an attractive risk-adjusted rate of return.

The investment objective of the Picton Mahoney Premium Fund is to provide consistent long-term capital appreciation and to provide Unitholders with an attractive risk-adjusted rate of return.

The investment objective of the Picton Mahoney Special Situations Fund is to provide long-term capital appreciation and income to provide Unitholders with an attractive risk-adjusted rate of return with less volatility to the traditional equity market, with monthly distributions initially targeted for 2015 to be \$0.025 per Unit for each Class.

The Funds may invest, both long and short, in a variety of financial instruments including equities, debt securities, exchange traded funds, currencies and commodities as well as futures, forwards, credit default swaps, contracts for differences, and options.

## 2. BASIS OF PRESENTATION

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board (the "IASB").

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Funds.

### (a) Financial Instruments

The Funds classify their investments in debt and equity securities, and derivatives, as financial assets or financial liabilities at fair value through profit or loss.

This category has two sub-categories: financial assets or financial liabilities held for trading; and those designated at fair value through profit or loss at inception.

#### (i) Financial assets and liabilities held for trading

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives, including options, futures, foreign exchange forward contracts, credit default swaps, contracts for differences, and short sales are recognized as held for trading.

#### (ii) Financial assets and liabilities designated at fair value through profit or loss at inception ("FVTPL")

Financial assets and financial liabilities designated at fair value through profit or loss at inception are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated

on a fair value basis in accordance with the Fund's documented investment strategy. Long positions investments have been designated as FVTPL.

The Funds' obligation for net assets attributable to holders of redeemable units is presented at the redemption amount. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. As at December 31, 2015 and December 31, 2014, there was no difference between the Funds' net asset value for purposes of unitholder transactions and net assets for financial reporting.

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In the normal course of business, the Funds enter into various master netting agreements or similar agreements that do not meet the criteria for offsetting in the statement of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts.

The carrying values of cash, deposits with brokers, subscriptions receivable, receivable for investments sold, interest and other receivable, distributions receivable, dividends receivable, accrued liabilities, redemptions payable, payable for investments purchased, interest payable, dividends payable, and distributions payable approximate their fair values due to their short-term nature.

### (b) Fair Value Measurements

The Funds utilize a three tier hierarchy as a framework for disclosing fair value based on inputs used to value the Funds' investments. The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair values are classified as Level 1 when the related security or derivative is actually traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

### (c) Valuation of Investments and Derivatives

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets, which include equities, bonds, options, futures, and warrants are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

# PICTON MAHONEY FUNDS NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2015

Securities not listed on any recognized public securities exchange are valued in the same manner based on available public quotations from recognized dealers in such securities. If market quotations are not readily available, securities will be valued at fair value as determined in good faith by or under the supervision of the Manager. The cost of investments represents the amount paid for each security and is determined on an average cost basis.

The fair value of financial assets and liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs. Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Funds consider observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Investment fund units held as investments are valued at their respective Net Asset Values on the relevant valuation dates as reported by the investment fund manager, as these values are the most readily and regularly available.

Warrants, options, and futures that are not listed on any recognized public securities exchange are valued using the Black-Scholes model and based on observable market inputs.

Credit default swaps are agreements to mitigate credit risk exposure to certain issuing entities ("referenced entity") held by the Funds or to increase credit risk exposure to the referenced entity by creating a notional investment position for the Funds. Where a notional investment position is created, the credit risk exposure of the Funds is comparable to the exposure that would have resulted if the Funds were invested directly in the referenced entity. Under a credit default swap agreement, the protection buyer, whose intention is to reduce its credit risk exposure to the referenced entity, pays a premium to the protection seller, who assumes the credit risk of that entity defaulting. This premium is paid at regular intervals over the term of the swap agreement. In return for the premium paid, the protection buyer is entitled to receive from the protection seller full payment for a loss arising from a credit default event of the referenced entity. A credit default event may be triggered by bankruptcy, failure to pay or restructuring of the referenced entity. If a credit default event occurs, the swap may be settled by either the physical delivery of the bond for proceeds equal to par value, or a cash payment equal to the loss amount. Credit default swaps are valued daily based on dealer-supplied valuations determined using observable inputs.

Contracts for differences are valued on each valuation date based on the value of the referenced underlying financial instrument.

Forward currency contracts are valued on each valuation day based on the difference between the value of the contract on the date the contract originated and the value of the contract on the valuation day.

The difference between fair value and the average cost is shown as the change in unrealized appreciation (depreciation) on investments, options, futures, foreign exchange forward contracts, contracts for differences, and credit default swaps.

## (d) Impairment of financial assets

At each reporting date, the Fund assesses whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Fund recognizes an impairment loss as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. Impairment losses on financial assets at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

## (e) Cash

Cash is comprised of cash on demand deposit.

## (f) Investment Transactions and Income Recognition

Investment transactions are accounted for as of the trade date. Expenses are recorded on an accrual basis. Dividend income is recorded on the ex-dividend date. The interest for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by the Funds accounted for on an accrual basis. The Funds do not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized on a straight line basis. Realized gains and losses on sale of investments and unrealized appreciation and depreciation in investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds. Income, common expenses and gains (losses) are allocated to each Class of the Funds based on the Class' pro-rated share of total Net Asset Value.

Distributions received from investment fund holdings are recognized by the Funds in the same form in which they were received from the underlying funds and are recognized on the distribution date.

## (g) Valuation of Fund Units

Each Fund's Net Asset Value is calculated as the value of the Fund's assets, less its liabilities, computed on a particular date in accordance with the Fund's Trust Declaration. The administrator of the Funds (or such other person or entity designated by the Manager) will calculate the Net Asset Value of the Funds as of the last business day (any day on which the Toronto Stock Exchange ("TSX") is open for trading is hereinafter referred to as a "Business Day"), of each week at the close of regular trading on the TSX, normally 4:00 p.m. (Eastern time) (each, a "Valuation Date").

The Class Net Asset Value per Unit on a Valuation Date is obtained by dividing the value of the assets of a Class less the amount of its liabilities, in each case attributable to that Class, by the total number of Units of the Class outstanding at the close of business on the Valuation Date.

## (h) Foreign Currency Translation

The Funds' functional and presentation currency is Canadian dollars. The fair value of foreign investments and other assets and liabilities are translated into Canadian dollars at the exchange rates prevailing at the close of each valuation day. Purchases and sales of foreign securities and the related income and expenses are translated into Canadian dollars at rates of exchange prevailing on the respective dates of such transactions.

Foreign exchange gains and losses relating to cash and other assets and liabilities are presented as 'Foreign currency gain (loss) on cash and other assets and liabilities' and those relating to investments and derivatives are

# PICTON MAHONEY FUNDS NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2015

presented within 'Net realized gain (loss) on investments and options', 'Net realized gain (loss) on foreign exchange forward contracts, futures, contracts for difference, and credit default swaps' and 'Change in unrealized appreciation (depreciation) on investments, options, futures, foreign exchange forward contracts, contracts for difference, and credit default swaps'.

## (i) Increase (decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit

Increase (decrease) in net assets attributable to holders of redeemable units per unit of each Class of the Funds is determined by dividing the net increase in net assets attributable to holders of redeemable units from each Class of Units by the weighted average number of Units outstanding of that Class during the period.

## (j) Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealer, levies by regulatory agencies and securities exchange, and transfer taxes and duties. Such costs are expensed and included in "Transaction costs" in the Statements of Comprehensive Income.

## (k) Future Accounting Changes

### IFRS 9, Financial Instruments

The final version of IFRS 9, *Financial instruments*, was issued by the IASB in July 2014 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however is available for early adoption. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Funds are in the process of assessing the impact of IFRS 9 and have not yet determined when they will adopt the new standard.

## (l) Structured Entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Picton Mahoney has determined that all of the underlying funds in which the Funds invest are unconsolidated structured entities. In making this determination, Picton Mahoney evaluated the fact that decision making about the underlying funds' activities is not governed by voting or similar rights held by the Funds and other investors in any underlying funds.

The Funds may invest in underlying funds whose investment objectives range from achieving short- to long-term income and capital growth potential. Underlying funds may use leverage in a manner consistent with their respective investment objectives. Underlying funds finance

their operations by issuing redeemable units which are puttable at the holder's option and entitle the holder to a proportionate stake in the respective fund's net assets. The Funds' interests in underlying funds as at December 31, 2015 and 2014, held in the form of redeemable units, are included at their fair value in the Statements of Financial Position, which represent the Funds' maximum exposure in these underlying funds. The Funds do not provide and have not committed to provide any additional significant financial or other support to the underlying funds. The change in fair value of each of the underlying funds during the periods is included in 'Change in unrealized appreciation (depreciation) on investments, options, futures, foreign exchange forward contracts, contracts for difference, and credit default swaps' in the Statements of Comprehensive Income (Loss).

Certain Funds invest in mortgage-related and other asset-backed securities. These securities include mortgage pass-through securities, collateralized mortgage obligations, commercial mortgage-backed securities, asset-backed securities, collateralized debt obligations and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. The debt and equity securities issued by these securities may include tranches with varying levels of subordination. These securities may provide a monthly payment which consists of both interest and principal payments.

Mortgage-related securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans.

As at December 31, 2015, the fair value of mortgage related and other asset-backed securities are listed on the Statement of Investment Portfolio of each Fund. This amount also represents the maximum exposure to losses at that date.

Certain Funds currently have interests in unconsolidated structured entities. The tables below illustrate those Funds' investment details in the underlying funds as on December 31, 2015 and 2014.

### Picton Mahoney Market Neutral Equity Fund

Underlying Funds	Fair Value of Fund's Investment (in 000s)	Underlying Fund's Net Assets (in 000s)
<b>As at December 31, 2015</b>		
iShares MSCI Spain Capped ETF	\$883	\$1,820,491
Picton Mahoney Global Market Neutral Equity Fund	\$47,060	\$232,851
Picton Mahoney Long Short Emerging Markets Fund	\$3,758	\$28,751
Picton Mahoney Long Short Global Resource Fund	\$276	\$5,589
<b>As at December 31, 2014</b>		
iShares MSCI Spain Capped ETF	\$442	\$1,834,935
Picton Mahoney Emerging Markets Fund	\$3,733	\$34,907
Picton Mahoney Global Market Neutral Equity Fund	\$42,846	\$276,860
Picton Mahoney Long Short Global Resource Fund	\$500	\$8,501

# PICTON MAHONEY FUNDS NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2015

Picton Mahoney Long Short Equity Fund		
Underlying Funds	Fair Value of Fund's Investment (in 000s)	Underlying Fund's Net Assets (in 000s)
As at December 31, 2015		
iShares MSCI Spain Capped ETF	\$353	\$1,820,491
Picton Mahoney Global Long Short Equity Fund	\$9,042	\$102,230
Picton Mahoney Long Short Emerging Markets Fund	\$942	\$28,751
Picton Mahoney Long Short Global Resource Fund	\$70	\$5,589
Picton Mahoney Long Short US SMID Cap Fund	\$4,207	\$11,973
As at December 31, 2014		
iShares MSCI Spain Capped ETF	\$140	\$1,834,935
Picton Mahoney Emerging Markets Fund	\$935	\$34,907
Picton Mahoney Global Long Short Equity Fund	\$8,200	\$88,841
Picton Mahoney Long Short Global Resource Fund	\$126	\$8,501

Picton Mahoney Global Market Neutral Equity Fund		
Underlying Funds	Fair Value of Fund's Investment (in 000s)	Underlying Fund's Net Assets (in 000s)
As at December 31, 2015		
Powershares S&P 500 Low Volatility Portfolio ETF	\$739	\$7,902,765
Picton Mahoney Premium Fund	\$2,564	\$12,621
As at December 31, 2014		
Powershares S&P 500 Low Volatility Portfolio ETF	\$770	\$6,131,086
WisdomTree Japan Hedged Equity Fund	\$428	\$13,694,765

Picton Mahoney Global Long Short Equity Fund		
Underlying Funds	Fair Value of Fund's Investment (in 000s)	Underlying Fund's Net Assets (in 000s)
As at December 31, 2015		
Powershares S&P 500 Low Volatility Portfolio ETF	\$182	\$7,902,765
Picton Mahoney Premium Fund	\$845	\$12,621
As at December 31, 2014		
Powershares S&P 500 Low Volatility Portfolio ETF	\$149	\$6,131,086
WisdomTree Japan Hedged Equity Fund	\$142	\$13,694,765

Picton Mahoney Diversified Strategies Fund		
Underlying Funds	Fair Value of Fund's Investment (in 000s)	Underlying Fund's Net Assets (in 000s)
As at December 31, 2015		
Picton Mahoney 130/30 Alpha Extension Canadian Equity Fund	\$5,840	\$224,002
Picton Mahoney Income Opportunities Fund	\$8,091	\$719,260
Picton Mahoney Emerging Markets Fund	\$1,639	\$28,751
Picton Mahoney Global Long Short Equity Fund	\$11,781	102,230
Picton Mahoney Market Neutral Equity Fund	\$4,524	\$418,393
Picton Mahoney Global Market Neutral Equity Fund	\$5,758	\$232,851
Picton Mahoney Long Short Equity Fund	\$729	\$171,783
Picton Mahoney Long Short Global Resource Fund	\$1,109	\$5,589
Picton Mahoney Long Short US Small Mid Cap Fund	\$2,900	\$11,973
Picton Mahoney Premium Fund	\$1,427	\$12,621

As at December 31, 2014		
Picton Mahoney 130/30 Alpha Extension Canadian Equity Fund	\$5,949	\$428,809
Picton Mahoney Emerging Markets Fund	\$1,648	\$34,907
Picton Mahoney Global Long Short Equity Fund	\$9,057	\$88,841
Picton Mahoney Global Market Neutral Equity Fund	\$3,900	\$276,860
Picton Mahoney Income Opportunities Fund	\$8,881	\$854,417
Picton Mahoney Long Short Equity Fund	\$3,311	\$210,197
Picton Mahoney Long Short Global Resource Fund	\$1,007	\$8,501
Picton Mahoney Long Short US Small Mid Cap Fund	\$2,797	\$8,404
Picton Mahoney Market Neutral Equity Fund	\$5,384	\$583,520
Picton Mahoney Premium Fund	\$1,517	\$11,592

Picton Mahoney Income Opportunities Fund		
Underlying Funds	Fair Value of Fund's Investment (in 000s)	Underlying Fund's Net Assets (in 000s)
As at December 31, 2015		
Picton Mahoney Premium Fund	\$4,692	\$12,621
Picton Mahoney Special Situations Fund	\$13,766	\$14,550
As at December 31, 2014		
BMO S&P/TSX Laddered Preferred Share Index ETF	\$27,940	\$1,148,334



# PICTON MAHONEY FUNDS NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2015

Picton Mahoney Long Short Global Resource Fund		
Underlying Funds	Fair Value of Fund's Investment (in 000s)	Underlying Fund's Net Assets (in 000s)
As at December 31, 2015		
iShares S&P/TSX Capped Energy Index ETF	\$144	\$934,980
Energy Select Sector SPDR Fund	\$143	\$11,496,181

As at December 31, 2014		
ETFS Palladium Trust	\$98	\$463,523
Market Vectors Gold Miners ETF	\$114	\$6,382,978
Market Vectors Junior Gold Miners ETF	\$83	\$1,760,432

Picton Mahoney Long Short Emerging Markets Fund		
Underlying Funds	Fair Value of Fund's Investment (in 000s)	Underlying Fund's Net Assets (in 000s)
As at December 31, 2015		
None	\$-	\$-
As at December 31, 2014		
None	\$-	\$-

Picton Mahoney Premium Fund		
Underlying Funds	Fair Value of Fund's Investment (in 000s)	Underlying Fund's Net Assets (in 000s)
As at December 31, 2015		
iShares MSCI Spain Capped ETF	\$589	\$1,820,491
As at December 31, 2014		
iShares MSCI Spain Capped ETF	\$562	\$1,834,935

Picton Mahoney Special Situations Fund		
Underlying Funds	Fair Value of Fund's Investment (in 000s)	Underlying Fund's Net Assets (in 000s)
As at December 31, 2015		
None	\$-	\$-

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

These financial statements, include estimates and assumptions by management that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the period. Actual results could differ from these estimates. The following discusses the most significant accounting judgments and estimates that the Funds have made in preparing the financial statements.

### Classification and measurement of investments and application of the fair value option

In classifying and measuring financial instruments held by the Funds, the Manager is required to make significant judgments about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39, Financial Instruments – Recognition and Measurement (IAS 39). The most significant judgments made include the determination that certain financial instruments are held-for-trading and that the fair value option can be applied to those which are not.

### Fair value measurement of derivatives and securities not quoted in an active market

Certain Funds hold financial instruments that are not quoted in active markets, including derivatives. Fair values of such instruments are determined using recognized valuation techniques and may be determined using reputable pricing sources or indicative prices from market makers.

Where no market data is available, the Funds may value positions using their own models, which are based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by the Manager, independent of the party that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Funds consider observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

## 5. FINANCIAL INSTRUMENTS RISKS

The Funds are exposed to various financial risks, including market risk (which includes currency risk, interest rate risk and price risk), credit risk and liquidity risk. The investment team reviews and rebalances the portfolios on a regular and ongoing basis to maintain the risk reward targets. Portfolios within each strategy are reviewed relative to each other and to their benchmark. Active industry and security allocations are analyzed. All investments may result in a risk of loss of capital.

Please refer to the Fund Specific Notes for details of the Fund's financial instruments risks.

### Price risk:

The Funds trade in financial instruments, taking positions in traded and over-the-counter instruments which may include derivatives. As of December 31, 2015 and December 31, 2014, the Funds held or had exposure to long and short equity positions in publicly traded companies whose securities are actively traded on a recognized public exchange. Equities are susceptible to price risk arising from uncertainties about future prices of those instruments (other than those arising from interest rate risk or currency risk).

Short sales entail certain risks, including the risk that a short sale of a security may expose the Funds to losses if the value of the security increases. A short sale creates the risk of a theoretically unlimited loss,



# PICTON MAHONEY FUNDS NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2015

in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Funds of buying those securities to cover the short position. In addition, a short sale by the Funds require the Funds to borrow securities in order that the short sale may be transacted. There is no assurance that the lender of the securities will not require the security to be paid back by the Funds before the Funds want to do so, possibly requiring the Funds to borrow the security elsewhere or purchase the security on the market at an unattractive price. Moreover, the borrowing of securities entails the payment of a borrowing fee. The borrowing fee may increase during the borrowing period, adding to the expense of the short sale strategy. There is also no guarantee that the securities sold short can be repurchased by the Funds due to supply and demand constraints in the equity markets. Finally, in order to maintain the appropriate ratios between the long portfolio and the short portfolio of the Funds, the Manager may be required to buy or sell short securities at unattractive prices. The maximum risk resulting for financial instruments held long is determined by the fair value of the instrument.

## Currency risk:

Currency risk is the risk that the cash and securities included in the Funds as well as due to and due from broker balances may be valued in or have exposure to currencies other than the Canadian dollar which is the functional currency of the Funds. The prices of the foreign securities that are denominated in foreign currencies and are converted to the Funds' functional currency for determining fair value and, accordingly, each Class Net Asset Value will be affected by fluctuations in the value of such foreign currencies relative to the Canadian dollar.

## Interest rate risk:

Interest rate risk arises when a fund invests in interest-bearing financial instruments and from the possibility that changes in the prevailing levels of market interest rates will affect future cash flows or fair values of such financial instruments. There is minimal fair value sensitivity to interest rate fluctuations on any cash and cash equivalents invested at short-term market interest rates. Market prices may also be affected by changes in market interest rates. Also, changes in the market interest rate may affect the borrowing expenses of the short positions held by the Funds.

## Credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Funds. All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation. However, there are risks involved in dealing with custodians or prime brokers who settle trades and in rare circumstances, the securities and other assets deposited with the custodian or broker may be exposed to credit risk with regard to such parties. In addition, there may be practical problems or time delays associated with enforcing the Fund's rights to its assets in the case of an insolvency of any such party.

## Liquidity risk:

Liquidity risk is the risk that a Fund will not be able to generate sufficient cash availability to execute its payment obligations. The Funds primarily invest in liquid securities that are readily realizable in an active market which is essential if the Funds are required to fund weekly redemptions in the course of operations. The Funds from time to time may invest

in restricted securities through private placements. However, this type of investment does not constitute a significant percentage of the Funds' Net Asset Values. The Funds may also maintain a cash reserve to accommodate normal-type redemptions. Bonds and equities sold short are due on demand. At the Manager's discretion, bonds and equities sold short can be repurchased to settle the liability immediately. Redeemable units are redeemable on a weekly basis at the holder's option. However, the Manager does not expect that the contractual maturity will be representative of the actual cash outflows, as holders of these instruments typically retain them for a longer period. All liabilities of the Funds, except bonds sold short and certain derivatives, are due within one year.

## 6. REDEEMABLE UNIT TRANSACTIONS

Each Fund is permitted to have an unlimited number of Classes of Units having such terms and conditions as the Manager may determine. Additional Classes may be offered in the future on different terms, including having different fee and dealer compensation terms and different minimum subscription levels. Each Unit of a Class represents an undivided ownership interest in the Net Asset Value of the Fund attributable to that Class of Units.

Investors may be admitted to the Funds or may acquire additional Units on a weekly basis as of the last business day of each calendar week. Units of the Funds are offered at the Class Net Asset Value per Unit calculated as of the applicable Valuation Date. The minimum initial investment in the Funds is \$25,000 for all Classes and the Manager has the discretion to accept a lesser initial subscription, provided, in each case, that the issuance of Units in respect of such subscription shall otherwise be exempt from the prospectus requirements of applicable securities legislation. Subsequent investments are subject to an additional minimum investment of CAD \$5,000 subject to applicable securities legislation.

The capital of the Funds is represented by issued redeemable Units with no par value. The Units are entitled to distributions, if any, and to payment of a proportionate share based on the Funds' Net Asset Value per Unit upon redemption. The Funds have no restrictions or specific capital requirements on the subscriptions and redemptions of Units other than as described above. The relevant movements are shown on the Statements of Changes in Net Assets Attributable to Holders of Redeemable Units and in the Fund Specific Notes of each Fund.

Class A Units are designed for investors investing CAD \$25,000 or more, who are not eligible to purchase Class F Units. Class F Units are designed for investors who are enrolled in a dealer sponsored fee for service or wrap program and who are subject to an annual asset based fee rather than commissions on each transaction or, at the discretion of the Manager, any other investor for whom the Manager does not incur distribution costs investing CAD \$25,000 or more.

For Picton Mahoney Income Opportunities Fund, Class UA Units and Class UF Units are also available. Class UA Units and Class UF Units can be purchased in U.S. dollars only (the U.S. dollar purchase option). Under the U.S. dollar purchase option, the Class Net Asset Value per Unit shall be converted from Canadian dollars to U.S. dollars using an exchange rate on the trade date of the applicable purchase order to determine the number of Class UA Units and/or Class UF Units the purchaser will receive. Class UA and Class UF Units are more suitable for investors who want to invest in the Fund in U.S. dollars and minimize the effect of the fluctuations in the exchange rate between the Canadian dollar and U.S. dollar.

Class I Units of each of the Funds are issued only to the Picton Mahoney Diversified Strategies Fund.

# PICTON MAHONEY FUNDS NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2015

Units may be surrendered to the Manager for redemption at any time. A Unitholder may have his or her Units redeemed as of the last Business Day of any calendar week (the "Redemption Date") at the Class Net Asset Value per Unit as of the Redemption Date provided the Manager has received a notice of redemption in respect of such Units prior to 4:00 p.m. (Eastern time) on such Valuation Date, otherwise such Units will be redeemed on the next Valuation Date. In order to protect the interest of the majority of investors in the Funds and to discourage short-term trading, investors may be subject to a short-term trading deduction. If an investor redeems Units within 120 days of purchasing such Units, the Funds may deduct and retain, for the benefit of the remaining Unitholders, five percent (5%) of the Class Net Asset Value of the Units being redeemed.

Under IFRS, IAS 32 requires that units or shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liability. This is applicable to all Funds. The Funds also have multiple series of units that carry different management fee rates and therefore do not have identical features. As all units are equally subordinate, the units also would not meet the requirements of IAS 32 to be classified as equity and are therefore classified as liabilities.

## 7. DISTRIBUTIONS

Each Fund intends to distribute sufficient net income and net realized capital gains, if any, to Unitholders in each calendar year to ensure that the Fund is not liable for income tax under Part I of the Income Tax Act (Canada) (the "Act"), after taking into account any loss carry forwards and capital gains refunds. Subject to applicable securities legislation, all annual distributions made by a Fund (net of any deductions or withholdings required by law) will be automatically reinvested in additional Units or fractions of Units of the Fund at the Class Net Asset Value per Unit. The Picton Mahoney Income Opportunities Fund also has a monthly distribution that can either be automatically reinvested in additional Units or fractions of Units of the Fund at the Class Net Asset Value per Unit or paid out in cash.

## 8. TAXATION

With the exception of Picton Mahoney Special Situations Fund, each Fund currently qualifies as a "mutual fund trust", and will be subject to tax in each taxation year under Part I of the Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to Unitholders in the year. Picton Mahoney Special Situations Fund currently qualifies as a "unit trust". Each Fund intends to deduct, in computing its income in each taxation year, the full amount available for deduction in each year and, therefore, provided the Fund makes distributions in each year of their net income and net realized capital gains as described under "Distributions", it will generally not be liable in such year for any tax on their net income or profit under Part I of the Act. As a result, the Funds do not record income taxes. Since the Funds do not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the Statements of Financial Position as a deferred income tax asset.

Non-capital losses have expiry periods of up to 20 years and can be offset against future taxable income. Net capital losses can be carried forward indefinitely and offset against future taxable capital gains.

The Funds currently incur withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the Statement of Comprehensive Income (Loss).

## 9. OPERATING EXPENSES

The Manager paid for the costs of initially organizing the Funds and offering the Units, including the fees and expenses of counsel. The Funds will pay for all routine and customary expenses relating to the Funds' operation, including registrar and transfer agency fees and expenses, trustee fees (if any), custodian fees, auditing, legal and accounting fees, communication expenses, printing and mailing expenses, all costs and expenses associated with the sale of Units including securities filing fees (if any), expenses relating to providing financial and other reports to Unitholders and convening and conducting meetings of Unitholders, all taxes, assessments or other governmental charges levied against the Funds, interest expenses and all brokerage and other fees relating to the purchase and sale of the assets of the Funds. In addition, the Funds will pay for expenses associated with ongoing investor relations and education relating to the Funds. With the exception of Class specific expenses, all other expenses are allocated to each of the Fund based on the Class' pro-rated share of total Net Asset Value of the Fund. The Manager may from time to time waive any portion of the fees and reimbursement of expenses otherwise payable to it, but no such waiver affects its right to receive fees and reimbursement of expenses subsequently accruing to it.

## 10. RELATED PARTY TRANSACTIONS

### (a) Management Fees

For providing its services to the Funds, the Manager receives a management fee (the "Management Fee") from each Fund attributable to the Class A Units and the Class F Units of the Funds. For Picton Mahoney Income Opportunities Fund, the Manager also receives a Management Fee attributable to the Class UA Units and the Class UF Units of this Fund. Management Fee charged to a Class of Units of a Fund is only borne by the holders of Units of that Class of the Fund.

The Class A Units of each Fund are charged a Management Fee equal to 0.50% per quarter (2.00% per annum) of the Net Asset Value of the Class A Units of the Fund; the Class F Units of each Fund are charged a Management Fee equal to 0.25% per quarter (1.00% per annum) of the Net Asset Value of the Class F Units of the Fund. For Picton Mahoney Income Opportunities Fund, Class UA is charged a Management Fee equal to 0.50% per quarter (2.00% per annum) of the Net Asset Value of the Class UA Units of the Fund; Class UF is charged a Management Fee equal to 0.25% per quarter (1.00% per annum) of the Net Asset Value of the Class UF Units of the Fund. Management Fees are calculated and accrued on each Valuation Date and payable on the last Valuation Date of each quarter. Class I Units of each Fund are not charged a Management Fee.

### (b) Performance Fees

Each Fund shall pay the Manager a performance fee (the "Performance Fee") in respect of each of the Class A Units and Class F Units of the Fund. For Picton Mahoney Income Opportunities Fund, the Fund shall also pay the Manager a Performance Fee in respect of each of the Class UA Units and Class UF Units of the Fund. Performance Fee in respect of each Class shall be calculated and become a liability of the Fund on each Valuation Date and shall be payable at the end of each calendar quarter.

With the exception of the Picton Mahoney Income Opportunities Fund, the Performance Fee in respect of each of the Class A Units and Class F Units, on a particular Valuation Date shall be equal to the product of (a) 20% of the positive difference between (i) the Adjusted Class Net Asset Value per Unit on the Valuation Date, (Adjusted Class Net Asset Value per Unit on a Valuation

## PICTON MAHONEY FUNDS NOTES TO THE FINANCIAL STATEMENTS

---

As at December 31, 2015

Date means the Class Net Asset Value per Unit on the Valuation Date, without giving effect to any Performance Fee determined on such Valuation Date) and (ii) the greatest Class Net Asset Value per Unit on any previous Valuation Date (or the date Units of the Class were first issued, where no Performance Fee liability has previously arisen in respect of Units of the Class) (the "high water mark"), and (b) the number of Units outstanding on the applicable Valuation Date on which the Performance Fee is determined.

For the calculation of the Performance Fee in respect of the Picton Mahoney Income Opportunities Fund, each of the Class A Units, Class F Units, Class UA Units, and Class UF Units include an Accrued Hurdle Amount per Unit on Valuation Date which must be included in the formula above. The Accrued Hurdle Amount per Unit on any Valuation Date is the accumulated Hurdle Amount per Unit since the last high water mark that occurred in the current financial year of the Fund. The Hurdle Amount per Unit is calculated and accrued on each Valuation Date and shall be equal to the product of (a) the Hurdle Rate equal to 5% per annum (prorated for the number of days in the year since the last Valuation Date), and (b) the Adjusted Class Net Asset Value per Unit on the applicable Valuation Date.

The Manager may make such adjustments to the Adjusted Net Asset Value per Unit of a Class and/or the applicable high water mark as are determined by the Manager to be necessary to account for the payment of any distributions on Units, any Unit splits or consolidations or any other event or matter that would, in the opinion of the Manager, impact upon the computation of Performance Fee. Any such determination of the Manager shall, absent manifest error, be binding on all Unitholders.

### **11. FILING EXEMPTION**

The Funds are relying on the exemption pursuant to section 2.11 of National Instrument 81-106, not to file their financial statements with the Ontario Securities Commission.

**THINK AHEAD.  
STAY AHEAD.**

A decorative horizontal bar consisting of several segments of varying shades of gray and black.

## **PICTON MAHONEY ASSET MANAGEMENT CORPORATE INFORMATION**

### **Corporate Address**

#### **Picton Mahoney Asset Management**

33 Yonge Street, Suite: 830  
Toronto, Ontario  
Canada M5E 1G4

Telephone: 416.955.4108

Toll free: 1.866.369.4108

Fax: 416.955.4100

Email: [service@pictonmahoney.com](mailto:service@pictonmahoney.com)

[www.pictonmahoney.com](http://www.pictonmahoney.com)

### **Fund Administration & Transfer Agent**

#### **Picton Mahoney Funds**

C/O RBC Investor Services Trust,  
Shareholder Services  
155 Wellington Street West, 3<sup>rd</sup> Floor  
Toronto, ON M5V 3L3

### **Auditor**

#### **Pricewaterhousecoopers LLP**

18 York Street, Suite 2600  
Toronto, Ontario  
Canada M5J 0B2

### **Legal Counsel**

#### **McMillan LLP**

Brookfield Place, Suite 4400  
181 Bay Street  
Toronto, Ontario  
Canada M5J 2T3

Information pertaining to the Picton Mahoney Funds is not to be construed as a public offering of securities in any jurisdiction of Canada. The offering of units of the Picton Mahoney Funds is made pursuant to their respective offering memorandum only to those investors in jurisdictions of Canada who meet certain eligibility or minimum purchase requirements. Important information about the Picton Mahoney Funds, including a statement of each fund's investment objective, is contained in their respective Offering Memorandum, a copy of which may be obtained from your dealer. Read the applicable Offering Memorandum carefully before investing. Unit values and investment returns will fluctuate.

**ITEM 13.        DATE AND CERTIFICATE**

Dated March 31, 2016.

**This offering memorandum does not contain a misrepresentation.**

**PICTON MAHONEY DIVERSIFIED STRATEGIES FUND ,  
by its Manager and Promoter,  
PICTON MAHONEY ASSET MANAGEMENT**

By: "David Picton"

David Picton

President (acting in the capacity  
of Chief Executive Officer)

By: "Arthur Galloway"

Arthur Galloway

Chief Financial Officer

By: "Michael Mahoney"

Michael Mahoney

Managing Director

**ITEM 14.****APPENDIX A****DIRECTORY****ISSUER**

Picton Mahoney Diversified Strategies  
Fund  
33 Yonge Street, Suite 830  
Toronto, Ontario  
M5E 1G4

**MANAGER AND TRUSTEE**

Picton Mahoney Asset Management  
33 Yonge Street, Suite 830  
Toronto, Ontario  
M5E 1G4

**PRIME BROKER**

Scotia Capital Inc.  
Scotia Plaza, 65<sup>th</sup> Floor  
40 King Street West  
Box 4085, Station “A”  
Toronto, Ontario  
M5W 2X6

Scotia Capital Inc. has no  
responsibility for the preparation or  
accuracy of this Offering  
Memorandum.

**AUDITORS**

PricewaterhouseCoopers LLP  
PwC Tower  
18 York Street  
Suite 2600  
Toronto, Ontario  
M5J 0B2

**FUND ADMINISTRATOR  
AND VALUATION AGENT**

RBC Investor Services Trust  
155 Wellington Street West, 2nd  
Floor  
Toronto, Ontario  
M5V 3L3

**LAWYERS**

McMillan LLP  
Brookfield Place, Suite 4400  
181 Bay Street  
Toronto, Ontario  
M5J 2T3