

PALOS

INVESTMENT FUNDS

PALOS EQUITY INCOME FUND

Independent Review Committee - Annual Report to Security holders

Date: March 28th, 2017

For the year ended December 31, 2016

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Introduction

The Palos Equity Income Fund (the “Fund”) Independent Review Committee (“IRC”) is pleased to present this report for the calendar year ending December 31, 2016. Palos Management Inc. (the “Manager”) has been very supportive in keeping the IRC fully updated of any potential or actual conflicts during the period. In addition, the Manager has provided the IRC with access to the Manager’s administrative personnel that enabled the committee to have meaningful oversight of the Manager’s fulfillment of its policies and procedures with a view to preventing any conflicts of interest.

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

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

This report covers the period beginning January 1, 2016 and ending December 31, 2016.

Composition of the IRC

Name of Member	Chairman	Date Member Joined IRC	Date Member Left IRC
Richard Guay	Yes	June 14, 2012	N/A
Eric-Paul Couture	No	June 4, 2013	September 28 th , 2016
Jacques Lemieux	No	July 11, 2014	N/A
Laurent Biron	No	September 28 th , 2016	N/A

Effective September 28, 2016, Mr. Eric-Paul Couture resigned as a member of the Committee, having reached the maximum length of his term. As a replacement, the Committee elected Mr. Laurent Biron. .

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Compensation Paid to IRC Members and Indemnities

For 2016, IRC members were each paid an annualized amount of \$4,000 for serving on the IRC. The Fund paid no indemnities to the members of the IRC in 2016.

In determining its compensation, the IRC relied on the advice provided by the Manager. Given the nature of the Funds, including the quantum of assets under management, the age of the Fund, and the complexity (or lack of complexity) of the conflict of interest issues the Manager expected to refer to the IRC, the Manager suggested an annual compensation of \$4,000 per IRC member.

Notwithstanding the Manager's recommendation, prior to 2016 the IRC determined that compensation of \$4,000 per IRC member per year was an appropriate level of compensation.

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

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

Other IRC Memberships

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

Relationships that could Compromise Independence

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

Securities Ownership

To the best knowledge of the members of the IRC, none of the members of the IRC own, directly or indirectly, any securities:

- in the Fund; or
- in the Manager.

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As at December 31, 2016, no member of the IRC beneficially owned, directly or indirectly, to the best of their knowledge, any securities of any class or series of voting or equity securities of a service provider to the Fund or the Manager.

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

To the best knowledge of the members of the IRC, at no point over the course of 2016 did the Manager act on a conflict of interest matter referred to the IRC for which the IRC did not give a positive recommendation or approval. In other words, to the best knowledge of the members of the IRC, the Manager's actions with respect to conflict of interest matters were always in accordance with the recommendations and approvals made by the IRC.

Furthermore, to the best knowledge of the members of the IRC, at no point over the course of 2016 did the manager act on a conflict of interest matter but did not meet a condition imposed by the IRC in its recommendation or approval.

Summary of Recommendations and Approvals

During 2016, the IRC provided the Manager with the following recommendations or approvals of standing instructions, as the case may be:

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

Richard Guay, Chairman
Independent Review Committee