PALOS
INVESTMENT FUNDS

Simplified Prospectus
Dated June 19, 2017

Palos Equity Income Fund (Series A and F)

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

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PART A – GENERAL DISCLOSURE

Introduction

This simplified prospectus contains selected important information to help you make an informed decision and to help you understand your rights as an investor in the Fund. In this document, we use the following terms:

- **We**, **us**, **our**, the **Manager**, the **Portfolio Advisor** and **Palos** refer to Palos Management Inc.;

- **You** refers to an individual investor and everyone who invests or may invest in the Fund;

- **Fund** refers to a mutual fund established as mutual fund trust and in this document refers to Palos Equity Income Fund;

- **Unitholders** refers to unitholders of the Fund;

- **Dealer** refers to both the dealer and the registered representative in your province who advises you on your investments, or the dealer that trades on the securities of the Fund pursuant to your instructions without providing advice or recommendations (the latter being referred to hereinafter as "Discount Broker"). Unless otherwise specified, Dealer includes Discount Broker; and

- **Registered Plan** refers to each plan as defined under "Income tax considerations for investors" on page 22.

This simplified prospectus contains two sections. The first part, from pages 4 to 26, explains what mutual funds are, the different risks you could face when investing in mutual funds, and general information applicable about the Fund. The second part, from pages 27 to 37, contains specific information about the Fund described in this document.

Additional information about the Fund is available in the following documents:

- the Annual Information Form;
- the Fund's most recently filed Fund Facts;
- the Fund's most recently filed annual financial statements;
- any interim financial statements filed after those annual financial statements;
- the most recently filed annual management report of fund performance; and
- any interim management report of fund performance filed after that annual management report of fund performance.

These documents are incorporated by reference into this simplified prospectus, which means they legally form part of this simplified prospectus just as if they were printed in it. You can get a copy of these documents at your request and at no cost by calling (514) 397-0188 (or toll-free at 1 (855) PALOS88 (1-855-725-6788)), by e-mailing info@palos.ca, or by asking your Dealer. You will also find these documents on our website at www.palosmanagement.com. These documents and other information about the Fund are also available at www.sedar.com.

What is a mutual fund and what are the risks of investing in a mutual fund?

There are generally two legal forms for a mutual fund: a mutual fund trust or a mutual fund corporation. Both forms of mutual funds allow you to pool your savings with other investors that have the same investment objectives. A mutual fund trust issues "units" of the trust to people who invest in the trust and a mutual fund corporation issues "shares" of the corporation to people who invest in the corporation. Units and shares both represent an ownership interest in a mutual fund. The Fund is structured as a mutual fund trust.

A mutual fund brings together many different investors with similar goals. Each investor puts money into the mutual fund. A professional portfolio advisor uses that money to buy a variety of securities for the mutual fund, depending on the mutual fund's investment objectives. The portfolio advisor makes all the decisions about which securities to buy and when to buy and sell them. If the value of the securities falls, everyone shares in the loss. The size of your share depends on how many units you own. The more you put in, the more units or shares of the mutual fund you own and the greater your portion of the gains or losses will be. Mutual fund investors also proportionally share the mutual fund's expenses. Most mutual funds invest in securities like stocks, bonds and money market instruments. There are many advantages to investing in a mutual fund over investing in individual stocks, bonds and money market instruments on your own. Professional portfolio advisors have the skills and the time to do research and make decisions about which securities to buy, hold or sell. Owning several securities can improve long-term results because the ones that increase in value can compensate for those that do not. You can sell your units or shares back to the mutual fund at any time. With many other investments, your money is locked in or you have to find a specific buyer before you can sell. Mutual fund companies use sophisticated record keeping systems and send you regular financial statements, tax slips and reports.

Under exceptional circumstances, a mutual fund may suspend your right to sell your units or shares. See "Redemption of securities - Suspending your right to sell units" on page 14 for details.

While mutual funds have many advantages, it is important to remember that your investment in the Fund is not guaranteed. Unlike bank accounts or guaranteed investment certificates ("GICs"), mutual fund units or shares are not covered by the Canada Deposit Insurance Corporation or any other government deposit insurer.

As with most other investments, mutual funds come with a certain amount of risk. Mutual funds own different types of investments, depending upon their investment objectives. The value of these investments will change from day to day, reflecting changes in interest rates, economic conditions, markets and company news. As a result, the value of a mutual fund's units or shares may go up and down, and the value of your investment in a mutual fund may be more or less when you redeem it than when you purchased it.

The amount of risk depends on the investment objectives of the mutual fund you buy. Before you invest in a mutual fund, you need to decide what level of risk you are comfortable with. The answer depends in part on the kind of returns you expect. Generally, higher risk investments (for example, mutual funds that invest in equity securities) have a higher potential for gains and losses, while lower risk investments (for example, money market funds) have a lower potential for gains and losses.

Below are some of the most common risks that affect value. To find out which of these specific risks apply to the Fund, see the Fund description later in this document, starting on page 35.

Capital Erosion Risk

The Fund generally distributes income to its unitholders based on an amount that reflects the actual income earned by the Fund on an annual basis. The Fund may, however, pursuant to its distribution policy, distribute fixed amount to its unitholders whether or not the Fund actually earned that amount. In some cases, the distribution payment, whether or not such distribution is reinvested in units of the Fund, may exceed the actual income and capital gains of the Fund during that period. When this happens, the distributions of the Fund are considered a return of capital, and will reduce the NAV of the Fund (or the NAV per unit if the distributions are reinvested in the Fund) and can have taxation implications for unitholders. Over the long term, return of capital could eventually deplete the Fund of its assets.

Concentration risk

The Fund may hold significant investments in a few companies, rather than investing the Fund's assets across a large number of companies. In some cases, more than 10% of the net assets of the Fund may be invested in securities of a single issuer as a result of appreciation in value of that investment or the decline in aggregate value of other investments. In these circumstances, the investment portfolio of the Fund would be less diversified, and therefore potentially subject to larger changes in value, than other mutual funds which hold more broadly diversified investment portfolios.

Credit risk

When a company or government issues a fixed income security, it promises to pay interest and repay a specified amount on the maturity date. Credit risk is the risk that the company or government will not live up to that promise. Some companies and governments that borrow money, and the fixed income or debt securities they issue, are rated by specialized rating agencies. High-quality securities have high ratings, such as "A" or better. A rating of "A" or better indicates that an issuer's capacity to meet its financial commitments on those obligations is extremely strong. The riskiest fixed income securities are those with a low credit rating or no credit rating at all. These securities usually offer higher interest rates to compensate for the increased risk.

Currency risk

The Fund's assets and liabilities are valued in Canadian dollars. When mutual funds buy foreign securities, however, they are purchased with foreign currency. The U.S. dollar, for example, fluctuates in value against the Canadian dollar. While the mutual funds can benefit from changes in exchange rates, an unfavorable move may reduce, or even eliminate, any return on a U.S. investment. A mutual fund's ability to make distributions or process redemptions assumes the continuing free exchange of the currencies in which the mutual fund is invested. However, certain foreign governments sometimes restrict the ability to exchange currencies.

Depository receipt risk

Banks or other financial institutions, known as depositories, issue depository receipts that represent the value of securities issued by foreign companies. These receipts are most often known as ADRs (American Depository Receipts), GDRs (Global Depository Receipts), or EDRs (European Depository Receipts), depending on the location of the depository. Funds invest in depository receipts to indirectly own foreign securities without having to trade on the local markets. There is a risk that the value of the depository receipts may be less than the value of the foreign securities. This difference can result from several factors: fees and expenses related to the depository receipts; fluctuations in the exchange rate between the currency of the depository receipts and the currency of the foreign securities; differences in taxes between the jurisdiction of the depository receipts and that of the issuer of the foreign securities; and the impact of the tax treaty, if any, between the depository receipts and the foreign securities' jurisdictions. Also, a fund faces the risks that depository receipts may be less liquid, that the holders of depository receipts may have fewer legal rights than if they held the foreign securities directly, and that the depository may change the terms of a depository receipt, including terminating the depository receipt, in such a way that a fund is forced to sell at an inopportune time.

Derivatives risk

The Fund may use derivatives as permitted by the Canadian securities regulatory authorities. A derivative is an investment whose value is based on the performance of other investments or on the movement of interest rates, exchange rates or market indexes. Derivatives are often used for hedging against potential losses because of changes in interest or foreign exchange rates. Derivatives also allow mutual funds to invest indirectly, for example to invest in the returns of a stock or index without actually buying the stock or all the stocks in the index. This would be done where it is cheaper for the Fund to buy and sell the derivative or the derivative is safer. Derivatives have their own special risks. Here are some of the common risks:

- hedging with derivatives may not always work and it could restrict the Fund's ability to increase in value;

- there is no guarantee that the Fund will be able to obtain a derivative contract when it needs to, and this could prevent the Fund from making a profit or limiting a loss;

- a securities exchange could impose limits on trading of derivatives, making it difficult to complete a contract;
- the other party in the derivative contract might not be able to honour the terms of the contract;
- the price of a derivative might not reflect the true value of the underlying security or index;
- the price of a derivative based on a stock index could be distorted if some or all of the stocks that make up the index temporarily stop trading;
- derivatives traded on foreign markets may be harder to close than those traded in Canada; and
- in some circumstances, investment dealers and futures brokers may hold some of the Fund's assets on deposit as collateral in a derivative contract. This increases risk because another party is responsible for the safekeeping of the assets.

Exchange traded funds risk

The Fund may invest some of its assets in exchange traded funds ("ETF") sold on exchanges in Canada or the United States. An investment in an ETF presents the same principal risks as an investment in a mutual fund. In addition to those risks, the ETF may also be subject to the following risks: the price at which the shares of the ETF are transacted on the exchange may be at a premium or at a discount to the ETF's net asset value per share; an active trading market for the ETF shares may not develop or be maintained; the exchange may halt trading of the ETF shares; the ETF may fail to track its reference index; and the ETF may not achieve the same return as its benchmark market or industry sector indices due to differences in the actual weightings of securities held in the ETF versus the weightings in the relevant index, and due to the operating and administrative expenses of the ETF. Investment in an ETF may involve duplication of management fees and certain other expenses, as the Fund indirectly bears its proportionate share of the ETF fees and expenses.

Foreign market risk

The Fund may invest in securities sold outside North America. The value of foreign securities, and the price of the units of the Fund, may fluctuate more than investments in companies whose securities are listed on a North American stock exchange because:

- companies outside North America are not subject to the regulations, standards, reporting practices and disclosure requirements that apply in Canada and the U.S.;
- some foreign markets may not have laws to protect investor rights;
- political instability, social unrest or diplomatic developments in foreign countries could affect the Fund's invested securities or result in their loss; and

- there is a chance that foreign securities may be highly taxed or that government-imposed exchange controls may prevent the Fund from taking money out of the country.

Interest rate risk

If the Fund invests in bonds and other fixed income securities, a significant influence on the Fund’s value will be changes in the general level of interest rates. The general level of interest rates is in part affected by the rate of inflation. If interest rates fall, the value of the Fund’s units will tend to rise. If interest rates rise, the value of the Fund’s units will tend to fall.

Investment trust risk

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

Large transaction risk

Units of the Fund may be purchased in large quantities by an investor or by another investment fund. These types of investors may make large purchases or redemptions in the Fund, due to their substantial investment in it. If these transactions are significant, they may impact the Fund’s cash flow, and the Fund may be required to alter its current investment portfolio by buying or selling a large portion of its investments. In the case where a large investor purchases units with cash, the Fund may temporarily have a higher than normal cash position until this cash can be invested. In the case of a large redemption, the Fund may be required to sell existing investments at unfavorable prices, or pay interest on borrowed money, if it does not have enough cash on hand to fund the redemption.

Liquidity risk

Liquidity is a measure of how easy it is to convert an investment into cash. An investment may be less liquid if it is not widely traded or if there are restrictions on the exchange where the trading takes place. Investments with low liquidity can have dramatic changes in value.

Market risk

Companies issue equities, or stocks, to help finance their operations and future growth. Investors who purchase these securities become part owners of these companies. The value of these securities varies according to how the market reacts to factors relating to the company, market activity, or the economy in general. For example, when the economy is expanding, the market tends to attach positive outlooks to companies and the value of their stocks tends to rise. The opposite is also true. For start-ups, resource companies and companies in emerging sectors, the risks and potential rewards are usually greater. Some of the products and services offered by technology companies, for example, can become obsolete as science and technology advance. In general, the greater the potential reward, the greater the risk.

Prepayment risk

Certain fixed income securities, including mortgage-backed or other asset-backed securities, can be prepaid before maturity. If a prepayment is unexpected or if it occurs faster than predicted, the fixed income security may pay less income and its value may decrease.

Sector risk

Some funds concentrate their investments in a certain sector or industry in the economy. This allows these funds to focus on that sector's potential, but it also means that they are riskier than mutual funds with broader diversification. Because securities in the same industry tend to be affected by the same factors, sector-specific funds tend to experience greater fluctuations in price. These funds must continue to follow their investment objectives by investing in their particular sector, even during periods when that sector is performing poorly.

Series risk

The Fund is available in more than one series of units. Each series has its own fees and expenses, which the Fund tracks separately. If, for any reason, the Fund cannot pay the expenses of one series, the Fund will be required to pay those expenses out of the other series' share of the assets. This could lower the investment return of the other series.

Short selling risk

The Fund may engage in a disciplined amount of short selling subject to certain restrictions under applicable securities law. There is no assurance that securities will decline in value during the period of the short sale sufficient to offset the interest paid by the Fund and make a profit for the Fund, and securities sold short may instead increase in value. The Fund may also experience difficulties repurchasing and returning the borrowed securities if a liquid market for the securities does not exist. The lender from whom the Fund has borrowed securities may go bankrupt and the Fund may lose the collateral it has deposited with the lender. When the Fund engages in short selling it will adhere to controls and limits that are intended to offset these risks by selling short only securities of larger issuers for which a liquid market is expected to be maintained and by limiting the amount of exposure for short sales. The Fund will also deposit collateral only with lenders that meet certain criteria for creditworthiness and only up to certain limits.

Specific issuer risk

The value of securities will vary positively and negatively with developments within the specific companies or governments that issue the securities. If the Fund has a significant portion of its assets in or exposed to any one issuer, it is possible that the Fund may experience reduced liquidity and diversification. Additionally, if the Fund holds significant investments in a few companies, changes in the value of the securities of those companies may increase the volatility of the net asset value of the Fund. The Fund is subject to certain concentration restrictions under applicable securities laws.

Tax information reporting risk

Pursuant to the recent Intergovernmental Agreement for the Enhanced Exchange of Tax Information under the Canada-US Tax Convention entered into between Canada and the US (the "IGA"), and related proposed Canadian legislation, the Fund and the Manager are required to report certain information with respect to Unitholders who are US residents and US citizens (including US citizens who are residents or citizens of Canada), and certain other "US Persons" as defined under the IGA (excluding registered plans such as RRSPs), to the Canada Revenue Agency ("CRA"). The CRA will then exchange the information with the US Internal Revenue Service pursuant to the provisions of the Canada-US Income Tax Treaty.

U.S. Investment Risk

Pursuant to new U.S. tax rules, unitholders of the Fund may be required to provide identity and residency information to the Fund, which may be provided to U.S. tax authorities in order to avoid a U.S. withholding tax being imposed on U.S. and certain non-U.S. source income and proceeds of disposition received by the Fund, or on certain amounts (including distributions) paid by the Fund to certain unitholders.

Purchases, switches and redemptions

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

You can sell your units of the Fund through your Dealer. Selling your units is also known as redeeming. Whether you are buying, selling or transferring units of the Fund, we base the transaction on the value of the units of the Fund. The price of a unit is called the net asset value or "NAV" per unit, or the unit value. We calculate the NAV per unit by taking the value of the assets attributable to a series of units, subtracting any liabilities attributable specifically to that series of units and subtracting the proportionate share of the Fund liabilities attributable to that series of units and dividing the balance by the number of units for that series that investors hold. The same process is performed for each series offered by the Fund.

We calculate the NAV at 4:00 p.m. (Eastern time) on each valuation day. A valuation day is each day that the Toronto Stock Exchange is open for a full day of business. The Fund is valued and units of the Fund may only be bought in Canadian dollars. When you place your order through a Dealer, the Dealer sends it to us.

Securities offered

The Fund is permitted to have an unlimited number of series of units and may issue an unlimited number of units of each series. The Fund currently offers two series of units of the Fund; “Series A Units” and “Series F Units”.

Series A Units are available to all investors and are more fully described in the section “Fund Details” below.

Series F Units are available to investors who participate in fee-based programs through their Dealer and whose Dealer has signed a Series F Agreement with us. Instead of paying sales charges, these investors pay an annual fee to their Dealer for investment advice and other services. Fee based programs are usually not offered by Discount Brokers. We do not pay any commission to Dealers who sell Series F Units, which means that we can charge a lower management fee.

Purchases

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

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

We may reject your purchase order within one business day of receiving it. If rejected, any monies sent with your order will be returned immediately, without interest, once the payment clears. If we accept your order but do not receive payment within three business days, we will redeem your units on the next business day. If the proceeds are greater than the payment you owe, the difference will belong to the Fund. If the proceeds are less than the payment you owe, your Dealer will be required to pay the difference and is entitled to collect this amount and any associated expenses from you. Note that starting on September 5, 2017, all Canadian Securities Administrators will adopt a shorter standard settlement cycle of two days after the trades. Consequently and if authorized under applicable securities laws, starting on September 5, 2017, we must receive payment no later than the second business day after a purchase order is received.

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

You don't pay any sales charge to the Manager when you purchase units of the Fund. You negotiate your sales charges, if any, directly with your Dealer. These sales charges typically range from 0% to 5% of the purchase price of the securities. The amount of sales charges you pay to your dealer will reduce the amount of money invested in the Fund.

Switches

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

Transferring to another Fund

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

You may have to pay your Dealer a fee of up to 2% of the value of the units you are transferring, which is deducted from the amount you transfer by redeeming a sufficient number of units. However, the transfer fee is negotiable. If you have held the units for 90 business days or less, you may also have to pay to the Fund a short-term trading fee.

Transfers are generally considered dispositions for tax purposes. If you hold your units outside a registered plan, you may realize a capital gain (or capital loss). For more information on the tax consequences, see "Income tax considerations for investors" on page 22.

Changing to another series

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

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

Changing units from one series to another series of the Fund is not a disposition for tax purposes except to the extent that units are redeemed to pay a short-term trading fee. If those redeemed units are held outside a registered plan, you may realize a capital gain (or capital loss). For more information on the tax consequences, see "Income tax considerations for investors" on page 22.

Redemption of securities

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

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

We will send you a confirmation once we have processed your order. We will send your payment within three business days of receiving your properly completed order. You will receive payment in Canadian dollars. Note that starting on September 5, 2017, all Canadian Securities Administrators will adopt a shorter standard settlement cycle of two days after the trades. Consequently and if authorized under applicable securities laws, starting on September 5, 2017, we must receive payment no later than the second business day after a purchase order is received.

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

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

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

If you hold your units in a non-registered account, you will realize a capital gain (or capital loss) when your units are sold. For more information on the tax consequences, see "Income tax considerations for investors" on page 22.

Suspending your right to sell units

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

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

- with the approval of securities regulators.

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

Short term trading

Redeeming or switching units of a mutual fund within 90 days after they were purchased, which is referred to as short-term trading, may have an adverse effect on other investors in the mutual fund because it can increase trading costs to the mutual fund to the extent the mutual fund purchases and sells portfolio securities in response to each redemption or switch request. An investor who engages in short-term trading also may participate in any appreciation in the net asset value of the mutual fund during the short period that the investor was invested in the mutual fund, which reduces the amount of the appreciation that is experienced by other, longer term investors in the mutual fund. Certain types of mutual funds (such as money market funds) are intended as short-term investments and therefore are not adversely affected by short-term trading.

The Fund may charge you a fee of up to 2% of the value of the units you redeem or switch if you engage in short-term trading. The short-term trading fee does not apply in certain circumstances, including: (a) switches to another series of units in the Fund; (b) redemption of units purchased by the reinvestment of distributions, if any; (c) reclassification of units from one series to another series of the Fund; or (d) redemptions initiated by the Manager. This fee is paid to the Fund and is in addition to any other fees that may apply. We may waive the short-term trading fee if the size of the trade was small enough or the short-term trade did not otherwise harm other investors in the Fund. We may also refuse to accept purchase orders from you and we have the discretion to redeem some or all of your units of the Fund if we believe you may continue to engage in short-term trading.

See “Fees and expenses – Fees and expenses payable directly by you - Short-term trading fees” on page 19 and “Short-term trading policies” in the annual information form for additional information.

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

Fees and Expenses

This table lists the fees and expenses that you may have to pay if you invest in the Fund. You may have to pay some of these fees and expenses directly. The Fund may have to pay some of these fees and expenses, which will therefore reduce the value of your investment in the Fund.

Generally, any changes to the basis of calculation of a fee or expense that is charged to the Fund or directly to its Unitholders by the Fund or the Manager in connection with holding units of the Fund that could result in an increase in those charges is subject to Unitholder approval. Subject to applicable securities law requirements, no Unitholder approval will be required if the Fund is at arm’s length to the person or company charging the fee or expense to the Fund and if written notice is sent to all Unitholders at least 60 days before the effective date of the change that could result in an increase in charges to the Fund.

Fees and expenses payable by the Fund	
Management Fees:	The Series A Units of the Fund are subject to an annual management fee of one and one-half percent (1.5%) of the NAV of the Series A Units payable monthly. The Manager will pay the Trailer Fees (see “Trailer Fee” on page 21) out of the Management Fees collected from the Fund with respect to Series A Units. The Series F Units of the Fund are subject to an annual management fee equal to three quarters of one percent (0.75%) of the NAV of the Series F Units payable monthly. No Trailer Fees are payable on Series F Units. The management fee is calculated as of the last business day of the preceding month, and calculated before payment of such management fee and without regard to any accrual of Performance Fees (see below), plus any applicable taxes payable in respect thereof. The management fee is payable to the Manager in advance within five days of the beginning of each month. The Manager is responsible for directing the affairs and managing the business of the Fund and for administering or arranging the day to day operations of the Fund. In consideration of the management fee, the Manager provides or arranges to provide the following management and administrative services to the Fund;

	• Portfolio management: including portfolio security selection and investment; negotiation and use of derivative instruments; execution of portfolio transactions including selection of market, dealer, broker or counterparty; negotiation of brokerage commissions. • Compliance: compliance with all applicable legislation in connection with the Fund and the issuance of Fund securities; completing and filing documents required by the securities regulators; reviewing and enforcing compliance processes and procedures with respect to the Fund. • Accounting: reviewing, reconciling and approving reports from the external fund administrator; and preparing financial statements and supporting documents for the Fund. • Customer servicing: responding to client and investment advisors inquiries concerning the Fund. • Administrative: preparation and sending of all documents to security holders; preparation and holding of Fund meetings (if applicable), and any other services for the provision of information to security holders. • Other services: providing technical infrastructure, including front office and portfolio management systems and third party independent research; office accommodation, facilities and personnel allocated to the Fund. Certain of these services provided to the Fund include the provision of services which generate expenses for the Fund, which are listed under the heading "Operating Expenses" below. These costs constitute operating expenses of the Fund and are paid by the Fund or by the Manager on behalf of the Fund and are reimbursed by the Fund. These operating expenses are in addition to the management fee payable by the Fund to the Manager. The remaining expenses, relating to the management and administrative services provided by the Manager to the Fund as well as the remuneration of the portfolio advisor for its services, are paid by the Manager from its management fee received from the Fund.
Performance Fees:	The Fund shall pay the Manager a performance fee equal to 20% of the amount by which the Fund outperforms its benchmark, the S&P/TSX Composite Index over a calendar year. This amount is based upon a comparison of the cumulative total return of the Fund against the cumulative total return of the S&P/TSX Composite Index. The Manager will calculate the cumulative total return of the Fund, including dividends, interest and realized gains, net of all losses. Performance Fees are calculated and accrued daily, for purposes of calculating the NAV used for purchases and redemptions. The Performance Fees are not payable if the cumulative total return of the Fund is negative. In the event that the cumulative total return of the Fund is positive but

	the cumulative total return S&P/TSX Composite Index is negative, then the performance fee will be the lesser of 20% of the amount by the which the Fund outperforms its benchmark and the cumulative total return of the Fund. The S&P/TSX Composite Index is an index of the equity prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. With approximately 95% coverage of the Canadian equities market, it is the primary gauge for Canadian-based, Toronto Stock Exchange listed companies. Only stocks listed on Toronto Stock Exchange are considered for inclusion in this index. Only securities which are Canadian incorporated, established in the case of income trusts, or formed in the case of limited partnerships, under Canadian federal, provincial, or territorial jurisdictions are eligible. Stocks are assessed based on their float adjusted market capitalization. A company's float adjusted market capitalization is calculated by removing control blocks of 10% or more. Only stocks that are actively and regularly traded are considered for inclusion in the index. A stock's liquidity is measured relative to liquidity thresholds. The S&P/TSX Composite Index is designed to offer the representation of a broad benchmark index. The S&P/TSX Composite is maintained by the S&P Canadian Index Committee, which comprises a team of seven, including four members from Standard & Poor's, and three from the Toronto Stock Exchange.
Operating Expenses:	On-going operating expenses incurred by the Fund may include: • Brokerage commissions and fees and any other costs of executing investments including derivatives* • Taxes, including sales taxes and capital taxes • Income taxes* and foreign withholding taxes* • Transfer agency and registrar fees • Regulatory filing and other fees • Accounting, audit and legal fees and expenses • Interest expense • Safekeeping and custodial fees • Annual and semi-annual reports, prospectuses and other reports and investor communications • Fees and expenses payable in connection with the Independent Review Committee • Annual Trustee fee • Other expenses, such as bank charges. ** These operating expenses are not included in the calculation of the Fund's management expense ratio ("MER").* Each series of units is responsible for the operating expenses that

	relate specifically to that series and for its proportionate share of the operating expenses that are common to all series of units of the Fund. The Manager may, in some cases and at its absolute discretion, absorb a portion of the Fund's operating expenses. The Fund may have costs associated with portfolio transactions, including brokerage commissions to purchase and sell portfolio securities and research and execution costs, if any. Although these costs are paid for by the Fund (and therefore indirectly by the Unitholders) they are not considered to be operating expenses of the Fund and are not included in the "MER" of the Fund. These costs are disclosed as a percentage of the daily average net assets of the Fund, in each of the Fund's management reports of fund performance and in each Fund Facts for each series of the Fund, as a ratio called the trading expense ratio. The members of the Fund's Independent Review Committee ("IRC") are each paid $4,000 per annum. The IRC is ultimately responsible for setting reasonable compensation for its members. Each year the IRC determines and discloses its compensation in its annual report to Unitholders of the Fund.
Derivatives Transactions Costs:	The Manager may use a variety of derivatives, such as options, forward contracts and swaps for different purposes including to hedge against foreign currency risk in the Fund. The Fund is responsible for paying the transaction costs associated with these derivative contracts. For more details on how the Fund uses derivatives, please refer to the appropriate section on page 34.
Fees and expenses payable directly by you	
Sales Charges:	You negotiate your sales charges for the Series A Units, if any, directly with your Dealer. These sales charges typically range from 0% to 5% of the purchase price of the securities.
Short-Term Trading Fees:	We may charge you a short-term trading fee of up to 2.00% of the total amount you redeem, if you sell or transfer your units within 90 days of buying them. We will redeem a sufficient number of units to pay the short-term trading fee. This fee does not apply in certain circumstances, including: (a) switches to another series of units in the Fund; (b) redemption of units purchased by the reinvestment of distributions, if any; (c) reclassification of units from one series to another series of the Fund; or (d) redemptions initiated by the Manager. We may also refuse to accept further purchase orders from you. We will adopt policies on short-term trading mandated by regulation, if and when implemented by securities regulators. These

	policies will be adopted without amendment to the simplified prospectus or notice to you, unless otherwise required by securities laws. The short-term trading fee is in addition to any other fees you would otherwise be subject to under this simplified prospectus.
Transfer Fee	You may have to pay your Dealer a fee of up to 2% of the value of the units you are transferring to a different Palos fund (in the event Palos offers other funds), which is deducted from the amount you transfer by redeeming a sufficient number of units. However, the transfer fee is negotiable with your Dealer.
Investment Advisory Fees:	Investors in Series F Units may be charged an investment advisory fee by their Dealer (which usually does not apply to Discount Brokers). The amount of the investment advisory fee is to be negotiated between you and your Dealer.
Other Fees:	Duplicate tax receipt – $10.00.

Impact of sales charges

There are no fees payable by an investor to the Fund in connection with the initial purchase of units of the Fund or, with the exception of a short-term trading fee, if applicable, upon redemption of same. Neither the Fund nor the Manager charge you a sales charge, however your Dealer may charge you a sales charge when you purchase Series A Units. You negotiate your sales charges, if any, directly with your Dealer. These sales charges typically range from 0% to 5% of the purchase price of the securities.

There is no sales charge to buy Series F units of the Fund, but Series F Units investors generally have to pay their Dealer a separate fee for the advice and services provided by the Dealer. Discount Brokers usually do not offer fee based programs.

The following table shows the amount of sales charges that you would have to pay assuming that you made an investment of $1,000 in the Fund, if you held that investment for one, three, five or ten years and redeemed immediately before the end of that period, and assuming that your Dealer charged you a sales charge of 5%.

	At time of purchase	1 Year	3 Years	5 Years	10 Years
Sales charge for Series A	$50	---	---	---	---
Sales charge for Series F	---	---	---	---	---

Dealer compensation

Sales commissions

If you buy Series A Units, the sales commission, if any, is negotiable between you and your Dealer. The Manager is not entitled to any fee or compensation as a result of the payment by you of any sales commission to your Dealer.

There is no sales commission payable on purchase of Series F Units of the Fund. Investors in Series F Units will generally be required to pay their Dealer a fee to participate in a fee-based program. Discount Brokers do not usually offer fee-based programs.

Transfer fees

You may have to pay your Dealer a fee of up to 2.00% of the value of the units you are transferring to a different Palos fund (in the event Palos offers other funds), which is deducted from the amount you transfer by redeeming a sufficient number of units.

Investment advisory fees

When you invest in Series F Units, you may be charged an investment advisory fee by your Dealer for the services provided to you by your Dealer (which usually does not apply to Discount Brokers). The amount of the investment advisory fee is to be negotiated between you and your Dealer. See "Fees and expenses" above.

Trailer Fee

We may pay Dealers a Trailer Fee of up to 0.75% for ongoing services they provide to investors, including investment advice, account statements and newsletters for Series A Units. We also pay the Trailer Fee to your Discount Broker if you purchased the Series A Units through your discount brokerage account.

The Trailer Fee is calculated daily and payable monthly based on the aggregate NAV of all Series A Units that had been sold by the particular Dealer which were outstanding at the time the NAV of the Series A Units was calculated in order to determine the Management Fee. Trailer Fees are paid out of the Management Fees collected by the Manager. We can change or cancel Trailer Fees at any time. See "Fees and expenses" starting on page 16.

Other kinds of dealer compensation

We may assist Dealers with certain of their direct costs associated with marketing mutual funds and by providing educational investor conferences and seminars about mutual funds. We may pay Dealers a portion of the costs of educational conferences, seminars, or courses that provide information about financial planning, investing in securities, mutual fund industry matters or mutual funds generally. We may provide Dealers with marketing materials about the Fund, other investment literature and permitted network system support. We may also provide Dealers non-monetary benefits of a promotional nature and of minimal value and we may engage in business promotion activities that could result in Dealers receiving non-monetary benefits. We can change the terms and conditions of these programs, or may stop them, at any time.

Dealer compensation from Management Fees

For the financial year ended December 31, 2016, Palos paid total cash compensation (sales commission, trailer fees and other support fees) to dealers who distribute securities of the Fund representing approximately 47.90% of the total management fees received by Palos from the Fund.

Income tax considerations for investors

This information is a general summary of how investing in the Fund can affect your taxes. It assumes that you are an individual Canadian resident (other than a trust), who deal with the Fund at arm's length, are not affiliated with the Fund and you hold your units as capital property or in a Registered Retirement Savings Plan (RRSP), Registered Education Savings Plan (RESP), Registered Retirement Income Fund (RRIF), deferred profit sharing plans (DPSPs), registered disability savings plans (RDSPs) or Tax Free Savings Account (TFSA) or, alternatively, in a Locked-in Retirement Account (LIRA), Locked-in Registered Retirement Savings Plan (LRSP), Locked-in Retirement Income Fund (LRIF) or Life Income Fund (LIF), to the extent that the LIRA, LRSP, LRIF or LIF are registered as a RRSP or an RRIF (collectively, "Registered Plans").

This summary does not apply to a Unitholder that has entered or will enter into a "derivative forward agreement" or a "synthetic disposition arrangement" as these terms are defined in the Tax Act with respect to the units

This summary assumes that the Fund qualifies as a "mutual fund trust" under the Tax Act (as defined below) at all times and that the Fund will at no time be a "SIFT trust" as defined in the rules in the Tax Act relating to SIFT trusts and SIFT partnerships. **This summary is not meant to be legal advice and may not cover all of the tax consequences that apply. You should consult your tax advisor for details about your individual situation.** This summary also assumes that the Fund has elected pursuant to subsection 39(4) of the *Income Tax Act* (the "Tax Act") to have all Canadian securities owned by it deemed to be capital property.

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

How your investment can earn money

The Fund earns money in the form of income and capital gains. Income includes the interest and dividends that the Fund earns on its investments and income from certain derivatives. Capital gains are earned when the Fund sells investments for more than their cost for tax purposes. The Fund may realize capital losses if it sells investments for less than cost.

Every year the Fund distributes to Unitholders enough of its net income and net realized capital gains to ensure that the Fund does not have to pay income tax on its income. In effect, the Fund flows all of its taxable income to Unitholders and it is treated as if you earned your share of it directly. The Fund may also distribute an amount in excess of your share of its net income and net realized capital gains – these excess amounts are returns of capital.

The size of a distribution (other than management fee distributions) you receive on the units of the Fund is in proportion to the number of units that you own. The higher the Fund's portfolio turnover rate, the greater the chance the Fund will make distributions of capital gains. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. In the description of the Fund we explain our distribution policy.

Some tax considerations for non-registered accounts

Securities held in non-registered accounts

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

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

When you purchase units of the Fund, a portion of the price paid may reflect income and capital gains of the Fund for the year. The amounts paid to you must be included in your income for tax purposes subject to the provisions of the Tax Act, even though the Fund earned these amounts before you owned the units. This could arise if you buy a unit before a distribution date, such as just before the year-end of the Fund.

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

Redeeming your units

You must also include in computing your income, one-half of any capital gains you realize from redeeming your units. You will have a capital gain if your sale proceeds are more than the adjusted cost base of your units and any reasonable costs of disposition. You may use any capital losses you realize to offset capital gains, subject to the detailed rules in the Tax Act.

The amount of capital gains of the Fund, if any, distributed to you when you redeem units, will reduce the amount of capital gain or increase the amount of capital loss on those units.

If you dispose of units of the Fund and you, your spouse or another person affiliated with you (including a corporation controlled by you) has acquired units of the Fund, within 30 days before or after you dispose of your units, which are considered to be substituted property, any capital loss you realize may be deemed to be a superficial loss. If so, you will not be able to recognize the loss and it will be added to the adjusted cost base to the owner of the units which are substituted property.

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

Calculating adjusted cost base

Your capital gain or loss for tax purposes is generally the difference between the amount you receive when you sell or switch your units and the adjusted cost base of those units.

You are responsible for keeping a record of the adjusted cost base of your investment. The aggregate adjusted cost base of your units of the Fund is made up of:

- the amount you paid to purchase your initial investment including any sales charges,
- the amount you paid for any additional investments including any sales charges, plus
- the amount of distributions (including management fee distributions), dividends and reductions of capital reinvested in additional units, minus
- any return of capital distributions or reductions of capital, minus
- the adjusted cost base of any previous unit redemptions.

The adjusted cost base per unit is equal to the aggregate adjusted cost base of all units you own divided by the total number of units you own.

Switching between funds and series

For tax purposes, switching units of the Fund for another fund is the same as redeeming the units for cash, and then reinvesting in units of the other fund. The same rules that apply for redeeming your units also apply to a switch between funds.

A switch of units from one series for units of another series of the same fund, however, is not a disposition for tax purposes and no capital gain or capital loss will be realized.

Units held in a Registered Plan

The units of the Fund are expected to be at all material times qualified investments under the Tax Act for Registered Plans. You should consult with you own tax advisor as to whether units of the Fund would be a prohibited investment under the Tax Act if held in your RRSP, RRIF, TFSA or, as a result of recent tax proposals in the 2017 federal budget, RDSP or RESP, in your particular circumstances.

If you hold units of the Fund in a Registered Plan, you pay no tax on distributions from the Fund on those units as long as you do not make a withdrawal from the plan.

When you redeem units of the Fund or switch units of the Fund to another fund, you generally do not pay tax on any capital gains that your Registered Plan realizes as long as you leave the proceeds in the plan.

When you withdraw money from a Registered Plan it will generally be subject to tax at your marginal tax rate. Withdrawals from a TFSA, however, are generally not subject to tax. The amount you receive on withdrawal will be reduced by any applicable tax withholdings.

You should be careful not to contribute more to your Registered Plan than that allowed under the Tax Act or you may be required to pay a penalty.

Trust loss restriction rules

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

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

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

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

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

Tax statements

You will receive written confirmation when you buy, sell or switch between funds, as the case may be. Your trade confirmation shows details of the trade including the name of the fund, the number of purchased/redeemed units and the purchase/redemption price.

You will also receive annual account statements, which summarize the trading activity in your account and the market value of your Fund holdings as at the date of the statement. If you hold units outside of a Registered Plan, we will send you a tax slip showing all distributions that have been earned by you. Each year, you will receive both the annual audited financial statements of the Fund for the financial year ended December 31 and interim unaudited financial statements of the Fund for the six-month period ended June 30.

What are your legal rights?

Securities legislation in some provinces gives you the right to withdraw from an agreement to buy mutual funds within two business days of receiving the simplified prospectus or Fund Facts, or to cancel your purchase within 48 hours of receiving confirmation of your order.

Securities legislation in some provinces also allows you to cancel an agreement to buy mutual fund units and get your money back, or to make a claim for damages, if the simplified prospectus, annual information form, Fund Facts or financial statements misrepresent any facts about the Fund. These rights must usually be exercised within certain time limits.

For more information, refer to the securities legislation of your province or consult your lawyer.

PART B – SPECIFIC INFORMATION ABOUT THE FUND

Palos Equity Income Fund

Organization and management of the Fund

Manager and Portfolio Advisor Palos Management Inc. 1 Place Ville Marie Suite 1670 Montréal, Québec H3B 2B6 (514) 397-0188 info@palos.ca www.palos.ca	As the manager, Palos Management Inc. manages the overall activities of the Fund, including arranging for the provision of administration services and promoting sales of the Fund's securities through financial advisors or dealers in each province of Canada. We may engage third parties to perform certain services on our behalf. As portfolio advisor, Palos Management Inc. manages the investment portfolio of the Fund.
Trustee Computershare Trust Company of Canada Toronto, Ontario	The Fund is organized as a mutual fund trust. When you invest in the Fund, you are buying units of the trust. The Trustee holds title to the assets owned by the Fund on behalf of the Unitholders. The Trustee is not related to the Manager.
Custodian NBCN Inc. Toronto, Ontario	Independent of the Manager, the custodian has custody of the portfolio assets and carries out settlement of portfolio transactions. It may retain sub-custodians to hold, and settle transactions in, portfolio securities of the Fund both inside and outside Canada.
Transfer Agent and Registrar SGGG Funds Services Inc. Toronto, Ontario	Independent of the Manager, the transfer agent and registrar keeps track of owners of units of the Fund, processes purchases and redemption orders, issues investor account statements and trade confirmations and issues annual tax reporting information.

Auditor
PricewaterhouseCoopers LLP
Montréal, Québec

The auditor audits the annual financial statements of the Fund.

The auditor expresses an opinion as to whether the annual financial statements of the Fund are presented fairly in accordance with Canadian generally accepted accounting principles.

If approved by the IRC, the Fund may change its auditor by sending you a written notice of any such change at least 60 days before it takes effect. No meeting of Unitholders of the Fund is required to approve the change.

Independent Review Committee

The independent review committee, or IRC, provides independent oversight and impartial review on conflicts of interest, within the meaning of National Instrument 81-107 – *Independent Review Committee for Investment Funds (*or in Québec, Regulation 81-107 *respecting Independent Review Committee for Investment Funds*), involving the Fund. Among other matters, the IRC prepares, at least annually, a report of its activities for investors in the Fund which is available on our website at www.palos.ca or upon request by any investor, at no cost, by calling: (514) 397-0188 or e-mailing to: info@palos.ca. The IRC currently is comprised of three members, each of whom is independent of the Manager, its affiliates and the Fund. Additional information concerning the IRC, including the names of its members, and governance of the Fund is available in the Annual Information Form of the Fund. The costs of the IRC are paid by the Fund.

If approved by the IRC, we may merge the Fund into another mutual fund provided the merger fulfills the requirements of the Canadian securities regulators relating to the terminating fund and we send you a written notice of the merger at least 60 days before it takes effect. No meeting of security holders of the terminating Fund is required to approve the change.

Fund details

Fund Type:	Canadian Equity Balanced
Inception Date:	Series A Units : February 18, 2011[1] Series F Units : February 24, 2012
Securities Offered:	Series A and Series F Units
Eligibility for Registered Plans:	Qualified Investment for Registered Plans.

[1] Prior to this date and commencing on January 3, 2008, the Fund was a mutual fund which only distributed its units pursuant to applicable prospectus exemptions.

What does the Fund invest in?

Investment objectives

The primary objectives of the Fund are to: (i) provide long-term capital growth; (ii) provide an attractive and steady stream of income; and (iii) deliver trading-enhanced returns.

The Fund invests in a portfolio of primarily Canadian income-paying securities, such as equity securities of large-capitalization Canadian issuers that pay dividends or selected debt obligations that pay interest.

Before a change is made to the investment objectives of the Fund, the prior approval of Unitholders is required.

Investment strategies

The primary investment strategy employed by the Fund is to apply qualitative, quantitative and comparative research in order to build and manage a portfolio of select high-grade and undervalued dividend-paying equity securities and income-paying debt securities. This core portfolio of securities currently represents approximately 95% of the Fund's portfolio. The Fund holds no more than 25% of non-Canadian securities.

Fixed Income Securities

The debt investments held in the Fund are often convertible bonds. Convertible bonds are bonds that the holder can convert into common stock of the issuing company (or cash at an equivalent value) at a predetermined price. In selecting fixed income securities for the Fund (whether convertible or non-convertible), the Manager considers factors such as the bond's yield, risk of interest rate fluctuation, credit risk, the issuer's capital structure, credit spread (i.e. the difference between the yield offered by the bond and by a predetermined, risk-free bond, such as Bank of Canada treasury bills with a similar maturity), duration (the weighted average of the time periods until the bond's cash flows are received by the Fund, which measures the bond's price sensitivity to its yield). Typically, the Manager seeks out bonds with a high yield compared to their credit risk and relatively low duration. However, the Fund's overall bond portfolio may include bonds that are outside these parameters, depending on the components of the remainder of the portfolio, and whether the bonds have other features, such as a convertibility feature. When evaluating convertible bonds, the Manager engages in an analysis using the above factors, and also includes an analysis of features particular to convertible bonds, such as restrictive covenants, the volatility of the underlying stock, and the amount of time left until the conversion feature expires, if any. In valuing a convertible bond, therefore, the Manager engages in an analysis of the underlying stock volatility, the features of the particular bond, and a traditional analysis of the fixed income portion that takes into account the firm's credit profile, the ranking of the convertible within the capital structure and the bond's duration and yield.

Essentially, the Manager calculates the value of a convertible bond by calculating the present value of future interest and principal payments discounted at the cost of debt and adding the present value of the convertible component. The Manager then engages in a qualitative and quantitative analysis of a variety of factors, including the bond's duration, its credit risk, the firm's corporate management, macroeconomic factors including the likelihood of fluctuations in prevailing interest rates, and any particular clauses inherent in the convertible feature of the bond.

In some cases, the Manager's motivation for purchasing a convertible bond is to be able to engage in merger arbitrage (i.e. to make an educated guess about a company's likelihood of being purchased by another company at a price that is at a premium to the prevailing market price of the first company). Buying a convertible bond may allow the Fund to gain exposure to an issuer or to its securities that it might not otherwise be able to base on the Fund's investment parameters and restrictions. For example, because a convertible bond pays a distribution, it may be an appropriate investment to hold in the Fund's portfolio, even if the underlying stock would not, on its own, be an acceptable investment. However, the Fund can purchase the convertible bond and benefit from the coupon payments, while at the same time waiting for a merger to be announced.

Equity Securities

In selecting equity investments for the Fund, the Manager focuses on companies that, in its judgment, provide good value. The Manager believes that good value companies are likely to experience capital appreciation and/or increases in distributions to investors, and that these companies tend to have significant potential for growth of cash flow, increases of dividend distribution and stock buybacks.

In making the determination of what companies' stock present good value, the Manager typically focuses on a variety of financial ratios and metrics that provide relative points of reference that are transferable across companies and industries. The Manager primarily considers six financial ratios: earnings yield spread, debt vs. EBITDA, cash per share, return on equity, price to earnings, and free cash flow yield.

Earnings Yield

The earnings yield is the earnings per share for the most recent period (typically twelve months) divided by the current market price per share. The earnings yield (which is the inverse of the P/E ratio) shows the percentage of each dollar invested in the stock that was earned by the company. The Manager considers the differential between the earnings yield compared to the stock price versus the US Treasury Bond yield, sometimes called the earnings yield spread. A wide earnings yield spread represents good value, particularly as compared to bonds, and therefore presents a buying opportunity for the Manager.

Debt to EBITDA

The Manager also considers a company's debt as a percentage of its earnings before interest, taxes, depreciation and amortization, or EBITDA. A low ratio indicates that the company is able to repay its debt and/or to take on additional debt, thus allowing it to finance expansion of operations or share buybacks. Conversely, a high debt/EBITDA ratio suggests that a firm may not be able to repay debt and interest as it comes due, which could potentially lead to a restructuring and/or bankruptcy of the company.

Cash per Share

Cash per share (sometimes known as free cash flow per share) is determined by dividing free cash flow by the total number of shares outstanding. It is a measure of a company's financial flexibility. More free cash flow allows a company to engage in a variety of transactions, such as repaying debt, paying and increasing dividends, buying back stock and facilitating the growth of the business. The amount of free cash flow per share can also be used to give a preliminary prediction concerning future share prices. For example, when a firm's share price is low and free cash flow is on the rise, the Manager believes that this is a positive indicator that earnings and share value will soon increase, because a high cash flow per share value means that earnings per share could potentially be high as well.

Return on Equity

Return on equity (sometimes known as return on net worth) is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested in common stock (preferred stock is generally excluded, as are the dividends paid on that stock). Net income is for the full fiscal year (before dividends paid to common stock holders but after dividends to preferred stock.) Shareholder's equity does not include preferred shares. The Manager uses return on equity to compare the profitability of a company to that of other firms in the same industry. If a given company's return on equity is particularly high compared to its peers, then the company may present good value and therefore may be a good buying opportunity.

Price to Earnings

Price to earnings, or P/E, is one of the most commonly used financial ratios. In general, a high P/E suggests that the market is expecting higher earnings growth in the future compared to companies with a lower P/E. However, a high P/E ratio may also imply that a company is overvalued. The Manager focuses on companies with low P/E ratios because a low P/E ratio implies that a significant component of the company's stock price is comprised of earnings, rather than market expectations for future growth. The Manager also recognizes that it is impossible to base a decision on the P/E ratio alone. The denominator (earnings) is based on an accounting measure of earnings that is susceptible to forms of manipulation, making the quality of the P/E only as good as the quality of the underlying earnings number.

Free Cash Flow Yield

The free cash flow yield is a measure of the free cash flow per share a company is expected to earn against its market price per share. As compared to the price to earnings ratio, the free cash flow yield is a more standardized measure that eliminates many of the problems involved in evaluating the quality of the earnings as reported by a company. Because free cash flow takes into account capital expenditures and other ongoing costs a business incurs to keep itself running, the Manager believes that the free cash flow yield is a more accurate representation of the returns shareholders receive from owning a business compared to the price to earnings ratio. In selecting equity investments, the Manager considers other factors beyond the financial ratios described above. The Manager also considers macroeconomic factors such as currency exchange rates, consumer demand, taxation policy, geopolitical factors that could affect commodity prices, and the quality of corporate management. The Manager recognizes that equity prices can be affected by a huge variety of factors, and that investing requires knowledge of a wide variety of disciplines. The Manager seeks to consider all of these factors while remaining focused on its core value investment philosophy.

In addition to the primary strategy, the Manager seeks to enhance returns through the following five targeted, short-term trading secondary strategies:

1. Pair trading, whereby the Manager identifies a security that is either undervalued or overvalued, and purchase (or sell) the security and simultaneously take the opposite action with regards to the security's index. For example, the Managers might identify the common equity of Bank ABC as being overvalued. The Manager would borrow a quantity of Bank ABC common equity and sell it "short", while simultaneously buying a security that represents the index in which Bank ABC trades in. This strategy effectively limits market risk from the pair trade;

2. Syndication trading, whereby the Manager invests in securities being offered in the market for the first time, while simultaneously selling the index "short". New issues are typically underpriced by a small amount in order to encourage investors to purchase the security. This strategy effectively eliminates market risk from the investment in the new issue;

3. Merger arbitrage, whereby the Manager trades in the equity of an acquirer in a merger while simultaneously taking the opposite action with regards to the security's index. The actual trade will depend on the Manager's view of whether the transaction is likely to be completed;

4. Statistical pair trading, whereby the Manager identifies securities that historically trade in tight correlation but that, for some reason, have become uncorrelated. The actual trading strategy will depend on the nature of the uncorrelation; and

5. Dividend capturing, whereby the Manager purchases a security just prior to the ex-dividend date and sell the security just after the dividend is paid. This strategy locks in a dividend payment while limiting risk.

The Fund may use derivatives only as permitted by securities regulations to earn additional income for the Fund. These transactions will be used in conjunction with the Fund's other investment strategies in a manner considered most appropriate to achieve the Fund's investment objectives and to create additional income for the Fund. For a description of how the fund uses derivatives please refer to "How the Fund uses derivatives" on page 34.

The Fund may engage in a disciplined amount of short selling subject to certain restrictions under applicable securities law. In determining whether securities of a particular issuer should be sold short, the Manager uses the same analysis that is described above for deciding whether to purchase the securities. The Fund will engage in short selling as a complement to the Fund's current primary discipline of buying securities with the expectation that they will appreciate in market value. For a more detailed description of short selling and the limits within which the Fund may engage in short selling, please refer to "How the Fund engages in short selling" on page 35.

The Fund may temporarily buy or sell exchange traded funds in order to mitigate systematic risk relating to the Fund's investment strategies. These funds will not be managed by the Manager or an affiliate or associate of the Manager. Other than because of changes in the relative value of the portfolio assets, at no time will the Fund's interest in any one exchange traded fund be more than 10%. The selection criteria employed by the Manager in respect of the exchange traded funds will be limited to specific funds corresponding to the applicable syndication trading or merger arbitrage investment strategy being implemented.

The Fund may, from time to time, engage in trading which results in a portfolio turnover rate greater than 70%. The higher the Fund's portfolio turnover rate in a year, the greater the chance that you will receive a capital gains distribution. Any gains realized would be offset by any losses realized on portfolio transactions. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

In each taxation year of the Fund, the net income and net realized capital gains, if any, of the Fund as would otherwise be taxable in the Fund will be payable to Unitholders and paid by the Fund in cash or reinvested in additional units of the Fund. The higher the Fund's portfolio turnover rate in a year, the greater the chance the Fund will generate gains and losses in the year. See "Income Tax Considerations for Investors" starting on page 22.

The Fund may choose to deviate from its investment objectives by temporarily investing a greater than usual portion of the portfolio in cash or fixed income securities during periods of market downturn or for other reasons. The Manager may actively trade the Fund's investments. This can increase trading costs, which lowers the Fund's returns. It also increases the possibility that you will receive distributions of capital gains if you hold the Fund in a non-registered account.

How the Fund uses derivatives

A derivative is an investment that derives its value from another investment - called the underlying investment. This could be a stock, bond, currency or market index. Usually, derivatives grant the right or require the holder to buy or sell a specific asset during a certain period of time at a pre-determined price. Some examples of derivatives that could be used by the Fund are covered call options and futures.

Covered call options are an options strategy whereby an investor holds a long position in an asset and writes (sells) call options on that same asset in an attempt to generate increased income from the asset. This is often employed when an investor has a short-term neutral view on the asset and for this reason will hold the asset long and simultaneously have a short position via the option to generate income from the option premium.

Futures are a financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. Futures contracts detail the quality and quantity of the underlying asset; they are standardized to facilitate trading on a futures exchange. Some futures contracts may call for physical delivery of the asset, while others are settled in cash. The futures markets are characterized by the ability to use very high leverage relative to stock markets.

Futures can be used either to hedge or to speculate on the price movement of the underlying asset. For example, a producer of corn could use futures to lock in a certain price and reduce its risk (hedge). On the other hand, anybody could speculate on the price movement of corn by going long or short using futures.

The Fund may acquire and use derivatives that comply with its investment objectives and applicable securities regulations. More specifically, the Fund may use them to:

- hedge its investments against losses from factors like currency fluctuations, stock market risks and interest rate changes;

- invest indirectly in securities or financial markets, provided the investment is consistent with the Fund’s investment objectives; or

- generate additional income or returns on securities held in its portfolio through the sale of covered call options.

When the Fund uses derivatives for purposes other than hedging, it holds enough cash or money market instruments to fully cover its position in the derivative, as required by securities regulations.

Derivatives will not be used to create leverage within the Fund's portfolio unless permitted under NI 81-102. Should the Fund's portfolio manager decide to use derivatives, it will primarily engage in writing (selling) covered call and covered put options.

How the Fund engages in short selling

The Fund may engage in a disciplined amount of short selling subject to certain restrictions under applicable securities law. A "short sale" is where a mutual fund borrows securities from a lender and sells those securities in the open market. At a later date, the same number of securities are repurchased by the Fund and returned to the lender. In the interim, the proceeds from the first sale are deposited with the lender and the Fund pays compensation to the lender on the borrowed securities. If the value of the securities declines between the time that the Fund borrows the securities and the time it repurchases and returns the securities to the lender, the Fund will make a profit for the difference (less any compensation the Fund is required to pay to the lender). Selling short provides the Fund with more opportunities for profits when markets are generally volatile or declining. Securities will be sold short only for cash and the Fund will receive the cash proceeds within normal trading settlement periods for the market in which the short sale is made. The aggregate market value of all securities sold short by the Fund will not exceed 20% of its net assets on a daily marked-to-market basis. The Fund may deposit assets with lenders in accordance with industry practice in relation to its obligations arising under short sale transactions. The Fund also will hold cash cover in an amount, including the Fund's assets deposited with lenders, that is at least 150% of the aggregate market value of all securities it sold short on a daily marked-to-market basis. No proceeds from short sales will be used by the Fund to purchase long positions other than cash cover. The Manager will engage in short selling with the expectation of generating trading-enhanced returns for the Fund. At all times, the Manager and the Fund shall comply with the requirements, including the "cash cover" requirements, as specified in Regulation 81-102 *respecting Investment Funds*.

What are the risks of investing in the Fund?

This section shows the specific risks associated with an investment in the Fund. For an explanation of these risks, see "What is a mutual fund and what are the risks of investing in a mutual fund" starting on page 5.

The risks associated with an investment in the Fund are as follows:

- Capital erosion risk
- Credit risk
- Currency risk
- Derivatives risk
- Exchange traded funds risk
- Interest rate risk
- Investment trust risk
- Large transaction risk
- Liquidity risk
- Market risk
- Series risk

- Short selling risk
- Specific issuer risk
- Tax Information Reporting Risk

We identify the investment risk level of the Fund as an additional guide to help you decide whether the Fund is right for you. The investment risk level of this Fund is required to be determined in accordance with a standardized risk classification methodology that is based on the Fund's historical volatility as measured by the standard deviation of the returns of the Fund.

We determine the risk rating of the Fund by using the following process:

1. Performing a detailed review of the Fund to identify and assess all relevant risk factors;

2. Calculating various risk and return metrics for the Fund, including determining the standard deviation of the Fund's volatility;

3. Determining the risk classification of the Fund using the investment risk classification methodology prescribed by Appendix F Investment Risk Classification Methodology to National Instrument 81-102 - *Investment Funds* (or in Québec, Regulation 81-102 *respecting Investment Funds*); and

4. Determining the risk classification assigned to the Fund in step 3 is appropriate for the Fund and whether any adjustment is required in light of the qualitative factors identified in step 1.

As a result of the process, we expect the investment risk level for the Fund to be rated as medium.

Low	Low to Medium	Medium	Medium to High	High

Although monitored on a monthly basis, we review the investment risk level of the Fund on an annual basis.

You can obtain the standardized risk classification methodology used to identify the investment risk level of the Fund, at no cost, by calling us at (514) 397-0188 (or toll-free at 1 (855) PALOS88 (1-855-725-6788)) or by e-mailing info@palos.ca

Who should invest in the Fund?

This section tells you the type of investment portfolio or investor the Fund may be suitable for. This is meant as a general guide only. For advice about your own circumstances, you should consult your financial advisor.

Investing in the Fund is suitable for an investor with a medium to long-term investment horizon and who has a need for quarterly cash flow and who wishes to add the appreciation potential of equity securities to his or her portfolio. To invest in the Fund, investors should be able to accept a moderate degree of risk. The Manager has made this determination based on the following reasons:

1. the Fund achieves industry diversification by investing in a portfolio of securities that ranges across multiple industry sectors;

2. the Fund has the ability to take short positions, thus potentially mitigating the impact of a bear market;

3. the Manager actively manages the Fund's volatility (its "beta") so that it is less than the volatility of the S&P/TSX Composite Index; and

4. the Fund is managed with the intention of generating both income and capital gains.

Distribution policy

The Fund will endeavour to provide holders of its units with quarterly distributions. The actual amount of each quarterly distribution is determined by the Trustee, which has delegated this function to the Manager pursuant to an investment and fund management agreement dated July 15, 2011, as supplemented on February 24, 2012. The Manager may reassess the frequency or the level of distribution from time to time. If the portfolio earns less income or capital gains than the amount distributed, the difference is a return of capital to Unitholders and will reduce accordingly the adjusted cost base per unit. Over the long term, return of capital could eventually deplete the fund of its assets. Such quarterly distributions are paid in cash unless you ask in writing to have them reinvested in additional units of the series you hold or in another fund offered by us, if any. If the portfolio earns more income and capital gains in a year than the amount distributed, the excess will be payable to Unitholders at the end of the year. Such amount payable will be automatically reinvested in additional units of the series you hold of the Fund. For more information about distributions, see "Income tax considerations for investors" on page 22.

Fund expenses indirectly borne by investors

This section is an example of the expenses the Fund pays with respect to a specific series of units. The example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. While you do not pay these costs directly, they have the effect of reducing the Fund's returns. It assumes that the management expense ratio, or MER, of the Fund was the same throughout each period shown as it was during the last completed financial year, except with respect to the Performance Fee, as explained below. For more information about fees and expenses, see "Fees and expenses" starting on page 16.

Mutual funds pay for some expenses out of the fund's assets. That means investors in units of the Fund indirectly pay for these expenses through lower returns. The following table is intended to help you compare the cumulative cost of investing in the Fund with the cost of investing in other mutual funds. The information contained in the table is based on the management expense ratio of each series of units of the Fund for its last completed financial year.

This example assumes that: (i) you invest $1,000 in Series A Units or Series F Units of the Fund for the time periods indicated; (ii) your investment has a total annual return of 5%; and (iii) the Fund's management expense ratio for the Series A Units or Series F Units during the 10-year period remains the same as that incurred in its last financial year, excluding any Performance Fees paid in the last financial year which would not have been paid had the Fund earned a total return of only 5% in that financial year.

Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

	1 year	3 years	5 years	10 years
Series A Units ($)	$33.08	$101.07	$171.61	$359.69
Series F Units ($)	$31.42	$93.00	$157.07	$328.84

See "Fees and expenses" on page 16 for more information about the cost of investing in the Fund.

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

You can find additional information about the Fund in the annual information form, Fund Facts, management reports of fund performance and financial statements. These documents are incorporated by reference into this simplified prospectus. That means they legally form part of this document just as if they were printed in it.

You can get a copy of these documents at your request and at no cost, by calling (514) 397-0188 (or toll-free at 1 (855) PALOS88 (1-855-725-6788)) or by e-mailing info@palos.ca, or by asking your Dealer. These documents and other information about the Fund, such as information circulars and material contracts, are also available at the Manager's website at www.palos.ca or at www.sedar.com.

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