

## 2010 Independent Review Committee Annual Report to Holders of Tradex Mutual Funds

This Annual Report by the Tradex Independent Review Committee (IRC) to holders of Tradex Mutual Funds is submitted in accordance with Section 4.4 of National Instrument 81-107.

The Tradex IRC consists of three Members as follows:

Michael Trevor Mace, Chair Ottawa, Ontario	Retired, formerly employed by Foreign Affairs and International Trade Canada, Government of Canada (and Canada's former ambassador to both Chile and Turkey).
Robert Allen Kilpatrick Ottawa, Ontario	Retired, formerly Chief Executive Officer Atomic Energy of Canada Limited (and a former Deputy Minister, Government of Canada).
Robert William Todd Ottawa, Ontario	Retired, formerly Manager, Special Projects, Corporate Secretariat, Human Resources and Social Development Canada, Government of Canada (and also a former Chief Advisor, Office of the Ethics Counsellor, Government. of Canada).

Each of the above individuals has served as a Member of the IRC since its inception on March 16, 2007. There have been no changes in IRC Members since its inception. Members of the Tradex IRC do not serve on any other IRC.

We draw to the attention of Tradex Mutual Fund investors that the three Members of the IRC are also members of the Board of Directors of Tradex Management Inc. (TMI). An IRC Member is considered to be "independent" if he/she has no material relationship that could reasonably be perceived to interfere with the member's judgment regarding a conflict of interest matter. In commenting on the legislation that mandates the creation of IRCs, the Canadian Securities Administrators (CSA) state the following:

"...One such example of when a member of the board of directors of a manager could be "independent" may be "owner-operated" investment funds, sold exclusively to defined groups of investors, such as members of a trade or professional association or co-operative organization, who directly or indirectly, own the manager. In the case of these investment funds, the CSA view the interests of the independent members of the board of directors of the manager and investors as aligned."

Given that TMI and the Tradex Group of Funds fall within this special category of investment fund groups, the decision was taken by the Board of Directors of TMI that the initial Members of its IRC would be existing independent directors of TMI. In this regard:

- The Tradex Funds are sold exclusively to a defined group of investors (public sector employees and their immediate family members).
- TMI is indirectly owned by its investors through the following structure:
  - TMI has share capital of 10 shares and each share is worth \$1.
  - There are 10 shareholders of TMI, each of whom holds a 10% interest in the company. (Thus, in aggregate the three Members of the IRC notionally own 30% of the Manager.) The 10 shareholders are the 10 directors of the company.
  - A shareholder on ceasing to be a director of TMI must transfer his or her share to the replacement director for consideration of \$1.
- Nine of the ten TMI directors are not employed by the company and are completely independent of the company's management team. All of these directors carry out their duties in the spirit of public service with the objective of ensuring that the company operates effectively and in the best interests of its investors.
- The 9 independent TMI directors receive an honorarium not to exceed \$6,000 per year for their services as directors. There is no other financial benefit in being an independent director of TMI. The management agreement between TMI and the three Tradex mutual funds states, "The Manager covenants and agrees not to declare or pay any dividends or make any other distributions to its shareholders."
- Finally, as described in the section "Fund Governance" of the 2010 Tradex Annual Information Form, "On an annual basis the Manager shall determine if it has any surplus funds after retaining sufficient funds to meet all operating, capital and regulatory requirements .... Forthwith, after the determination of any such surplus, such surplus funds shall be rebated pro rata to all of the mutual funds which are managed by the Manager based on the relative amounts of fees paid to the Manager by such mutual funds during the previous year."

Based on Tradex's governance structure and corporate philosophy, the IRC took the decision that its Members would receive no compensation in 2010 and 2011.

In 2010 total expenses associated with operating the IRC amounted to \$180.05.

Other than items covered under “standing instructions”, in 2010 the Manager brought only two potential conflict of interest matters to the attention of the IRC for review and recommendation. The first matter related to whether there were sufficient net earnings in 2010 to return any “surplus funds” to Tradex investors. The second matter related to increasing the honorarium for the Tradex Directors back to the level prior to 2009, when it was reduced due to the significant decline in equity markets. The IRC agreed with the Manager’s recommendation regarding both of these matters.

As in the past, in 2010 there were no instances of a breach of any of the manager’s policies or procedures of which the IRC is aware, or that it has reason to believe has occurred. Furthermore, there were no instances of a breach of a condition imposed by the IRC in a recommendation or approval it has provided to the manager, of which the IRC is aware, or that it has reason to believe has occurred.

In December, the IRC reviewed the standing instructions it had given to TMI earlier with respect to the Manager’s policies and procedures regarding the following items:

- Monitoring the services provided by portfolio managers to the Funds including any related party transactions between Phillips, Hager & North and Royal Bank of Canada regarding Tradex Equity Fund Limited
- Proxy voting policies
- Employee personal trading policies
- Outside business activities/accepting of payments/gifts and entertaining policies
- Fair value/fund valuation policies
- Fund operating expenses and expense allocation policies
- TMI’s policy with respect to investing its retained earnings (surplus funds)

In each case, the IRC confirmed its previously issued positive recommendation to the Manager regarding its policies and procedures and granted standing instructions to the Manager to proceed with its policies and procedures, subject to periodical reporting to the IRC.

\*\*\*\*\*

I hereby certify that this Report was delivered to the Board of Directors of Tradex Management Inc. in Ottawa on the 17 day of March 2011.

*Original signed by Michael T. Mace*

---

Michael T. Mace, Chair  
Tradex Independent Review Committee