



**RavenSource Fund Independent Review Committee  
2012 Report to Securityholders**

Dear Securityholder,

In response to National Instrument 81-107 and to provide an arms-length vehicle to deal with matters that involve potential conflicts of interest between the Fund and the Manager, the RavenSource Fund established and maintains an Independent Review Committee (“IRC”).

Under NI 81-107, the IRC reviews potential conflict of interests referred to us by the Manager and makes approvals and recommendations on whether a course of action achieves a fair and reasonable result for the RavenSource Fund. The scope of our review will include whether the policies and procedures of the Manager related to conflicts of interest is effective and adequate.

We are pleased to continue to serve the interests of the Funds and to publish the annual report to securityholders of the RavenSource Fund that describes the mandate of the IRC and its activities for the financial year ending December 31<sup>st</sup>, 2012.

Michael Siskind

Chair of the RavenSource Fund Independent Review Committee  
March 26, 2013

## **RavenSource Independent Review Committee 2012 Report to Securityholders**

The Independent Review Committee (IRC) for RavenSource Fund (the “Fund” or “RavenSource”) annually reports to the security holders its activities for each financial year. The IRC held its annual meeting on November 29<sup>th</sup>, 2012 and the following report summarizes the activities of the IRC in 2012.

### **Members of the Independent Review Committee**

- Michael Siskind (Chair)
- Michael Gardiner
- David Magahey

The committee has reviewed, and is satisfied with the independence of its members, the compensation of the members, and the effectiveness of the committee. There were no changes to the composition of the IRC in 2012.

During the 2012 IRC annual meeting, the Manager recommended that the Term section of the IRC Charter be amended to extend the maximum term of office for the IRC members from two years to three years and to add a provision allowing the Manager to waive the limit of two consecutive terms. The rationale behind the recommendation was that the Fund is well served to have continuity on the IRC in order to retain institutional knowledge. After discussion and consideration, the IRC approved this recommendation.

### **Ownership of securities by IRC Members**

#### *In the Fund*

As at December 31, 2012, the members of the IRC did not beneficially own, directly or indirectly, in aggregate above ten (10%) per cent of the units in any series or class of the Fund.

#### *In the Manager*

As at December 31, 2012, none of the members of the IRC beneficially owned, directly or indirectly, any securities of the Manager.

#### *In any service provider*

As at December 31, 2012, Mr. Michael Gardiner beneficially owned 7,200 common shares of Bank of Montreal and Mr. David Magahey beneficially owned 180 common shares of Bank of Montreal. Bank of Montreal provides Prime Brokerage and custodian services for the Fund.

None of the members of the IRC beneficially owned, directly or indirectly, any securities of a person or company providing services to the Fund or to Stornoway Portfolio Management Inc. (the “Manager”), the manager of the Fund, other than noted above.

### **Compensation and Indemnities**

The aggregate compensation paid to the IRC by the Fund for 2012 was \$5,800.

At least annually, the IRC will review its compensation, giving consideration to the following:

## **RavenSource Independent Review Committee 2012 Report to Securityholders**

1. the best interests of the Fund and its securityholders;
2. the nature and complexity of the Fund;
3. the nature and extent of the workload of each member of the IRC, including the commitment of time and energy of each member; and
4. industry best practices, including industry averages and surveys on compensation paid to the IRCs of Canadian investment funds.

For 2013, the IRC has deemed that the existing level of compensation for its normal course activities is fair and reasonable. However, commencing on January 1st, 2013, IRC members will be compensated \$600 per meeting for any additional meetings other than the annual meeting that occur during the year. Additional meetings will include conference calls to review potential conflicts of interest brought to the IRC's attention for review.

### **Conflicts of Interest**

The IRC discussed the Fund's investment in Specialty Foods Group ("SFG"). Mr. Reid is on the board of directors of SFG. Both RavenSource and another investment fund that the Manager manages have investments in Specialty Foods Group in the form of equity warrants. The IRC is satisfied that no conflict exists for the investment.

In late July 2012, the Manager informed the IRC that SFG, one of the Fund's investee companies, was poised to make a number of critical strategic decisions regarding its future direction and asked the Manager to enter into an agreement to provide, among other things, strategic advice and analysis in exchange for a fee ("SFG Service Agreement"). To allow the IRC to consider potential conflict of interest issues, Manager distributed the proposed SFG Service Agreement along with its own internal Policy and Procedures on Conflicts of Interest re Services to and Fee Revenue from Investees (the "**Policy**"). The Policy addresses the event where the Manager receives fees from a company which the funds that it manages has an investment.

On August 1<sup>st</sup>, 2012, a meeting of the IRC was convened to determine whether a conflict of interest would exist if SFG Service Agreement was executed and the Policy was implemented and adhered to. In arriving at its decision that no conflict of interest existed, the IRC relied on the Policy which requires the Manager to pass along the benefit of all fees received from the investee companies to the Fund by the way of reducing / waiving an equivalent amount of fees that the Manager currently charges the Fund. As such, it was the IRC's opinion that the Policy will achieve a fair and reasonable result for the Fund in such situations and will ensure that the interests of the Manager are aligned with those of the Fund. Going forward, the IRC requires, as a standing instruction, that SPM follow the Policy, as a way to manage potential conflicts of interest that may arise when the Manager earns fees from investee companies.

In November 2012, the Fund's Manager recommended that the Fund change its Prime Broker and Custodian of Fund Property from TD Securities to the Bank of Montreal. The recommendation was presented to the IRC for review to ensure that it did not pose a conflict of interest. On

## **RavenSource Independent Review Committee 2012 Report to Securityholders**

review, the IRC deemed the recommendation and appointment of Bank of Montreal free of conflicts of interest, after which, the recommendation was presented to and approved by the Fund's Trustee, Computershare Trust Company. After receiving the necessary approvals, the transfer of the Fund's property to Bank of Montreal commenced and was completed on November 23, 2012.

For the period ending December 31<sup>st</sup>, 2012, the IRC is not aware of any instance where the Manager acted in a conflict of interest matter referred to the IRC, that was contrary to the IRC's recommendation.

The IRC is required to report to the OSC any instance where the Manager did not meet a condition imposed by the IRC in its recommendation or approval. We report that no such situation existed in 2012.

### **Standing Instructions**

The IRC has issued standing instructions to the Manager that requires it to comply with all of its policies and procedures in respect to the conflict of interest matters, and to report to the IRC as to its compliance thereof. The standing instructions require the Manager to comply with the following policies and procedures:

- the investment committee – ethical Chinese walls
- Statement of Policies on Related Registrants and Connected Issuers
- Privacy Policy
- Fairness in Allocation Policy
- Complaints Process
- Investment Decision Process
- Trading Process – order execution
- trading process - trade dispute resolution process
- NAV calculation Error correction policy
- Trading process - best order execution
- Net Asset Value and performance calculation policy
- Personal Trading Policy
- Restricted Trading Policy
- Proxy Voting process
- Soft dollar and commission Policy
- Early warning and insider reporting policy
- Referral arrangements policy
- Selection and oversight of third party service providers Policy
- Conflicts of Interest Policy
- Conflicts of Interest re Services to and Fee Revenue from Investees

For the period ending December 31<sup>st</sup>, 2012, the IRC, relying upon the representations of the Manager, was not aware of any instance in which the Manager acted contrary to any conditions imposed by the IRC in its standing instructions.