

SENTRY SELECT MBS ADJUSTABLE RATE INCOME FUND II

2010 ANNUAL INFORMATION FORM

March 16, 2011

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SENTRY SELECT MBS ADJUSTABLE RATE INCOME FUND II

Note that certain terms used in this Annual Information Form are defined in the Glossary found at the end of this Annual Information Form.

1. SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This Annual Information Form may contain forward-looking information relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. Forward-looking information can often be identified by forward-looking words such as “anticipate”, “believe”, “expect”, “goal”, “plan”, “intend”, “estimate”, “may” and “will” or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. By its nature, forward-looking information requires us to make assumptions which include, among other things that (i) Sentry Select MBS Adjustable Rate Income Fund II (the “Trust”) will have sufficient capital under management to effect its investment strategies, (ii) the investment strategies will produce the results intended by Sentry Select Capital Inc. (“Sentry”), (iii) the markets will react and perform in a manner consistent with the investment strategies and, (iv) if any forward purchase and sale agreement is entered into by the Trust, it would include terms similar to the initial Forward Agreement (as defined below). Forward-looking information is subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking information will not prove to be accurate. We caution readers of this Annual Information Form not to place undue reliance on our forward-looking information as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking information.

Actual results may differ materially from management’s expectations as projected in such forward-looking information for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Trust may invest and the risks detailed from time to time in the Trust’s offering documentation. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking information to make decisions with respect to investing in the Trust, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking information. Due to the potential impact of these factors, Sentry does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless required by applicable law.

2. NAME, FORMATION AND HISTORY OF THE TRUST

The Trust is an investment trust established under the laws of Ontario pursuant to a declaration of trust dated as of March 29, 2005, amended and restated as of April 30, 2007, further amended effective as of July 1, 2007 and as further amended and restated as of January 1, 2009, June 16, 2009 and September 25, 2009 (the “Declaration of Trust”). Prior to January 1, 2009, the manager and trustee of the Trust was Sentry Select Capital Corp. (“SSCC”). Effective

January 1, 2009, Sentry became the trustee (the “Trustee”) and manager (the “Manager”) of the Trust.

MBS GP, Inc. (the “General Partner”), a wholly-owned subsidiary of SSCC, is the general partner of Mortgage-Backed Securities Limited Partnership (the “Partnership”).

The custodian of the Trust’s assets is State Street Trust Company Canada (the “Custodian”). The Trust’s principal office is 130 King Street West, The Exchange Tower, Suite 2850, Toronto, Ontario, M5X 1A4. The fiscal year end of the Trust is December 31.

The Trust completed its initial public offering on April 19, 2005 with the placement of 31,000,000 trust units of equal value at a price of \$10.00 per Unit for total gross proceeds of \$310,000,000. An additional 1,275,000 Units were issued pursuant to the exercise of an over-allotment option on May 2, 2005 at a price of \$10.00 per Unit for total gross proceeds of \$12,750,000 (the initial public offering and the over-allotment option, collectively, the “Offering”).

At a special meeting of unitholders of each of Mortgage-Backed Securities Trust (“MBS Trust”) and MBS Adjustable Rate Income Fund (collectively, the “Terminating Funds”), held on April 4, 2007, the unitholders of the Terminating Funds approved mergers of the Terminating Funds with the Trust (the “Mergers”).

The Mergers became effective on April 5, 2007. Pursuant to the Mergers, the Terminating Funds transferred all of their assets to the Trust in exchange for Units of the Trust and the assumption by the Trust of all the liabilities of the Terminating Funds. The Terminating Funds distributed these Units to the unitholders in connection with the winding up of the Terminating Funds. In connection with the Mergers, the Manager reduced its management fee, effective July 1, 2007 by 20%, from 0.125% to 0.100% of the net asset value multiplied by the Partnership Leverage Factor (assuming a debt-to-equity ratio of 9:1, this percentage would be 1.00% of the net assets of the Partnership). Similarly, the General Partner reduced its fee effective April 5, 2007 by 20%, from 0.125% to 0.100% of the gross leveraged assets of the Partnership (assuming a debt-to-equity ratio of 9:1, this percentage would be 1.00%).

On April 30, 2007, the Declaration of Trust was amended and restated to establish an Independent Review Committee (“IRC”) for the Trust and appoint its first members in accordance with National Instrument 81-107 - *Independent Review Committee for Investment Funds* (“NI 81-107”).

On July 1, 2007, the Declaration of Trust was amended in order to reduce the management fee by 20% in connection with the Mergers.

At a special meeting of unitholders of Sentry Select FIDAC U.S. Mortgage Trust (“FIDAC Trust”) held on February 28, 2008, unitholders of FIDAC Trust approved the merger of FIDAC Trust with the Trust (the “FIDAC Merger”).

The FIDAC Merger became effective on March 7, 2008. Pursuant to the FIDAC Merger, FIDAC Trust transferred all of its assets to the Trust in exchange for Units of the Trust. Each

unitholder of FIDAC Trust received Units of the Trust having the same aggregate net asset value as the units of FIDAC Trust as of the close of business on March 6, 2008.

On May 16, 2008, Fixed Income Discount Advisory Company (“FIDAC”), the investment manager of the Partnership provided notice to SSCC of its resignation as investment manager of the Partnership. Pacific Income Advisors, Inc. (“PIA” or the “Investment Manager”), an investment advisory firm founded in 1986 and located in Santa Monica, California, was engaged as investment manager to the Partnership pursuant to an investment management agreement made as of June 13, 2008 agreement (the “Investment Management Agreement”).

On January 1, 2009, the Declaration of Trust was further amended and restated to reflect the change in the trustee and manager of the Trust from SSCC to Sentry.

On March 24, 2009, the Manager announced that it would seek approval of holders of Units of the Trust (“Unitholders”) for certain amendments to the Declaration of Trust (the “Amendments”). If approved, the Amendments would allow the Trust to: (i) provide monthly redemption rights for the Trust’s Unitholders; (ii) invest directly into the Partnership; (iii) redesignate the outstanding Units as “Class X Units” and authorize the creation of new classes of Units; (iv) eliminate the requirement to obtain the prior permission of the applicable securities regulatory authorities in order to impose a temporary suspension of the right to redeem Units; and (v) eliminate the Trust’s mandatory market purchase program. The Manager also proposed that the Units be de-listed from the Toronto Stock Exchange (the “TSX”).

On May 19, 2009, notice was given to holders of record on May 8, 2009 that a special meeting of Unitholders would be held on June 8, 2009 (the “Meeting”) to seek Unitholder approval for the Amendments. A management information circular in respect of the Meeting was filed on May 11, 2009.

On June 8, 2009, the Manager announced that Unitholders had approved the Amendments and, as such, the Amendments would become effective and the Units would be de-listed from trading on the TSX. Following the implementation of the Amendments, Unitholders would be able to redeem their Units on a monthly basis at net asset value per Unit. The first redemption date was July 31, 2009.

On June 16, 2009, the Units were voluntarily delisted from trading on the TSX.

On June 16, 2009 and September 25, 2009 the Declaration of Trust was amended and restated to give effect to the Amendments approved at the Meeting.

Restructuring of Trust

On February 17, 2011, the Manager announced that it will seek Unitholder approval to restructure the Trust such that, among other things: (i) the Trust would become administered as an open-end mutual fund in compliance with NI 81-102; (ii) the Trust’s investment objectives and investment restrictions would be changed; (iii) the structure of the management fees paid by the Trust to the Manager would be changed; (iv) the existing Class X Units and Class A Units of the Trust would be consolidated, to be named Class X Units; and (v) the existence of the Trust would be extended beyond 2015 (collectively, the “Restructuring”). A special meeting of

Unitholders is to be held on March 17, 2011 to consider the Restructuring, or alternatively, the termination of the Trust. Should the Restructuring be approved by Unitholders, it is expected to become effective on or about March 25, 2011. Should the Unitholders elect to terminate the Trust, such termination would occur on or about March 25, 2011.

If the Restructuring is approved, it is proposed that effective March 25, 2011 the Manager be paid only that portion of the management fee that the Manager pays directly to investment dealers as a servicing fee for a period of five years. To that end, the management fee payable to the Manager by the Trust in respect of the Class X Units (as consolidated with the Class A Units) of the Trust will be set at 0.40% per annum of the monthly average of the daily class net asset value per unit of the assets of the Trust.

It is further proposed that effective April 1, 2016 the management fees in respect of the Class X Units be increased to 2.25% per annum of the monthly average of the daily class net asset value per unit of the assets of the Trust, of which 1.25% will be paid by the Manager to investment dealers as a servicing fee to bring it in line with the management fees and servicing fees of other equity funds within the Sentry Group of Funds.

Should the Restructuring be approved, the Trust's current investment objectives would be changed to mandate that the Trust seek a balance of current income and long-term capital appreciation by investing primarily in a diversified portfolio of dividend-paying U.S. equity securities, including common and preferred shares and, to a lesser extent, interest bearing securities, such as bonds, bills or banker's acceptances.

On February 17, 2011, the Manager announced that it will no longer accept purchase orders for Class A and Class F Units of the Trust until such time as the Trust's Units are qualified for distribution under a simplified prospectus (should the Restructuring be approved by Unitholders), which is expected to occur on or about May 27, 2011. At such time, it is expected that the Trust will offer Series A, Series F and Series I units of the Trust with applicable fees similar to those of other equity funds within the Sentry Group of Funds.

The Manager has recently received notice from BNY Mellon Alternative Investment Services Inc. ("BNY Mellon"), the custodian and administrator of the Partnership, that they are terminating the existing administration and accounting services agreement with the Partnership effective March 31, 2011. The Manager has to date been unsuccessful in locating an administrator to replace BNY Mellon and does not expect to do so on a cost effective basis.

If neither the Restructuring nor the proposed termination of the Trust be approved by Unitholders at the special meeting on March 17, 2011, the Partnership will liquidate its investment portfolio in advance of the March 31, 2011 termination of its administration agreement with BNY Mellon.

3. INVESTMENT OBJECTIVES, STRATEGIES AND RESTRICTIONS

The Trust

Investment Objectives

The Trust has the following investment objectives:

- (a) to provide Unitholders with a tax efficient stream of monthly cash distributions; and
- (b) to preserve the Net Asset Value of the Trust.

Cash distributions from the Trust are not fixed and may vary from month to month. However, distributions in any year are targeted to approximate the average 10-Year U.S. Treasury Note yield for that year plus 3%.

The Manager determines and announces prior to each calendar quarter an anticipated distribution amount (the "Anticipated Distribution") for the following quarter based on prevailing market conditions and the Trust's estimate of distributable cash flow for the following quarter.

Investment Strategy

In the past, in order to meet its investment objectives, the Trust obtained exposure to the performance of the Partnership by virtue of one or more forward purchase and sale agreements (collectively, the "Forward Agreement") with a Canadian Schedule I Bank (the "Counterparty"). The Trust invested the net proceeds of the initial public offering in a portfolio of common shares of Canadian public companies (the "Common Share Portfolio") and entered into a Forward Agreement with a Counterparty. Under this structure, the Trust obtained exposure to the Partnership through MBS Investment Trust II which held a direct interest in the Partnership. Under the Forward Agreement, the Trust was entitled to purchase additional securities or sell securities in the Common Share Portfolio from time to time for additional securities and to fund monthly distributions, redemptions and repurchases of Units and its operating expenses at amounts that reflected the monthly yield or value of MBS Investment Trust II as described in more detail under "Forward Agreement" below. MBS Investment Trust II invested solely in limited partnership interests of the Partnership. As a result, Unitholders' returns correlated with the net returns realized by the MBS Investment Trust II on its investment in the Partnership.

The Trust has significant tax losses which can be used to make distributions to Unitholders in a tax efficient manner without incurring the cost of a Forward Agreement. Accordingly, the original Forward Agreement was terminated effective September 25, 2009. During the time that these losses are available to the Trust, it does not intend to enter in to another Forward Agreement. Should these losses no longer be available, the Trust may enter into a Forward Agreement. The Trust may invest directly in the Partnership.

As well, the Trust maintained, and will continue to maintain, a currency hedge pursuant to a swap agreement or foreign exchange agreement which minimizes the effects of changes in the Canadian dollar Net Asset Value of the Trust which would otherwise occur because of any change in the value of the U.S. dollar relative to the Canadian dollar.

Forward Agreement

Under the Forward Agreement, the Trust was entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses. In the case of securities sold to fund monthly distributions and expenses, the purchase price payable by the Counterparty was calculated by reference to the monthly yield of a notional investment (the "Notional Investment") at the time of the closing of the Offering of an amount equal to the U.S. dollar equivalent of the net proceeds of the Offering in the MBS Investment Trust II. In the case of securities sold to fund the redemption or repurchase of Units (including at the Termination Date (as defined below)), the purchase price payable by the Counterparty was calculated by reference to the value of the Notional Investment in MBS Investment Trust II. The Notional Investment was reduced proportionately to reflect the redemption and repurchase of Units. MBS Investment Trust II invested in limited partnership interests of the Partnership.

The Forward Agreement included a currency hedge which minimized the effects of changes in the Net Asset Value of the Trust which would otherwise occur because of any change in the value of the U.S. dollar relative to the Canadian dollar.

Under the terms of the Forward Agreement, the Trust and the Counterparty agreed that their settlement obligations under the Forward Agreement with respect to the Common Share Portfolio securities would be discharged, at the election of the Trust, either by physical delivery of the Common Share Portfolio securities by the Trust to the Counterparty against cash payment or by the making of cash payments between the parties. The amount payable by the Counterparty for physical delivery of the Common Share Portfolio may have been more or less than the original subscription price of the Units. If the Trust elected physical delivery of the Common Share Portfolio under the Forward Agreement, the Counterparty would have to pay to the Trust on or about the Termination Date as the purchase price for the Common Share Portfolio an amount equal to the Canadian dollar equivalent of the redemption proceeds for a corresponding investment in MBS Investment Trust II plus or minus an amount reflecting the impact of the currency hedge. Common Share Portfolio securities or other acceptable securities were pledged to and were held by the Counterparty as security for the obligations of the Trust under the Forward Agreement.

In order to permit the Trust to fund distributions as well as redemptions of Units by Unitholders from time to time, payment for purchases of Units in the market and expenses of the Trust, the terms of the Forward Agreement provided that the Forward Agreement could be partially settled prior to the Termination Date by the Trust either in cash or by tendering to the Counterparty securities of the Common Share Portfolio.

The payment obligations of the Counterparty under a Forward Agreement were determined by reference to the net distributions received on the Notional Investment in MBS Investment Trust II and the value of that Notional Investment from time to time. The Counterparty may have chosen to enter into transactions in order to hedge its exposure under the terms of the Forward Agreement to the economic performance of MBS Investment Trust II. There was no assurance that the Counterparty would maintain a hedge or would do so with respect to the full amount or term of the Forward Agreement. The Trust was exposed to the credit risk associated with the Counterparty in respect of the Forward Agreement.

It is expected that any Forward Agreement entered into by the Fund in the future will generally contain similar features as described above.

MBS Investment Trust II

MBS Investment Trust II is an investment trust that is established under the laws of the Province of Ontario pursuant to a declaration of trust dated March 29, 2005. MBS Investment Trust II will terminate on or about April 30, 2015 (or such later date upon which the Trust terminates) if not terminated earlier in accordance with its terms.

SSCC acts as trustee of MBS Investment Trust II. Sentry is the manager of MBS Investment Trust II.

Units of MBS Investment Trust II are redeemable at the demand of its unitholders.

MBS Investment Trust II's distribution policy is to pay monthly distributions to its unitholders equal to the distributions received from its investment in the Partnership. In addition, MBS Investment Trust II will distribute all of its net income and net realized capital gains earned in each fiscal year to ensure that it is not liable for income tax under the *Income Tax Act* (Canada) (the "Tax Act").

MBS Investment Trust II is restricted to, among other things:

- (a) investing in limited partnership interests of the Partnership;
- (b) investing in limited partnership units of a limited partnership subject to the same investment restrictions as the Partnership;
- (c) investing directly in securities subject to the same investment restrictions as the Partnership; and
- (d) holding cash in interest bearing accounts, short-term government debt or investment grade corporate debt.

As of December 31, 2010, the Trust did not have any exposure to MBS Investment Trust II, as the Trust was investing directly in the Partnership. The Trust may, at any time in the future, gain exposure to the Partnership through an investment in MBS Investment Trust II.

The Partnership

The Partnership was established on March 28, 2003 under the laws of the State of Delaware. The general partner of the Partnership is MBS GP, Inc., a Delaware corporation and a wholly-owned subsidiary of SSCC. The directors and officers of the General Partner are employees of SSCC. As at December 31, 2010, the Trust was the only limited partner of the Partnership. PIA acts as investment manager of the Partnership.

Investments of the Partnership

The Partnership uses the proceeds from the sale of limited partnership interests, including the proceeds from repurchase agreements, to invest in a portfolio of mortgage-backed securities issued by U.S. agencies having an Implied AAA rating (the “Portfolio”). The Partnership’s investment strategy, which includes the use of what the Investment Manager believes is an appropriate amount of leverage, is to generate net income for distribution from (i) earnings on the equity portion of the Portfolio used to purchase Securities (as defined below) plus (ii) the spread between the interest income on the leveraged portion of the Portfolio and the cost of repurchase agreements used to finance this portion of the Portfolio (see “Investment Objectives, Strategies and Restrictions – The Partnership Agreement – Leverage”). The Investment Manager seeks to enhance returns while limiting exposure to interest rate risk and credit risk.

The Portfolio

The Portfolio consists of:

- (a) AAA rated mortgage-backed securities issued by U.S. agencies commonly known as Ginnie Mae, Fannie Mae and Freddie Mac, including mortgage pass-through certificates, collateralized mortgage obligations and other securities representing interests in or obligations backed by pools of U.S. residential mortgage loans; and
- (b) to a limit of an aggregate of 10% of the Portfolio, (i) other mortgage-backed securities which are rated AAA by one or more U.S. Nationally Recognized Statistical Ratings Organizations, (ii) debentures issued by Fannie Mae, Freddie Mac and Federal Home Loan Bank System and (iii) U.S. Treasury securities, (collectively, the “Securities”).

If neither the Restructuring nor the proposed termination of the Trust be approved by Unitholders at the special meeting on March 17, 2011, the Partnership will liquidate its investment portfolio in advance of the March 31, 2011 termination of its administration agreement with BNY Mellon.

The Partnership Agreement

The Partnership is governed by a limited partnership agreement (the “Partnership Agreement”) between the General Partner and the Trust as the sole limited partner. If a new Forward Agreement is added at any point of time in the future then new limited partners may be added to the Partnership. The Partnership Agreement provides that the General Partner has unlimited liability for the debts and obligations of the Partnership and that the limited partners shall be liable for the debts and obligations of the Partnership only to the extent of their respective investment in the Partnership.

The management of the Partnership is vested exclusively in the General Partner. The General Partner may delegate or assign any of its duties or authorities, including the discretionary management of the assets of the Partnership to a third party. 99.99% of the income of the Partnership will be allocated to the limited partners in proportion to their capital accounts and

0.01% of the income of the Partnership will be allocated to the General Partner. Income earned by the Partnership in any month will be distributed within 15 days after the end of the month.

The Partnership has the following investment objectives:

- (a) to provide limited partners of the Partnership with a stream of monthly cash distributions that in any year will be targeted to approximate: (i) the average 10-Year U.S. Treasury Note yield for that year plus 3.50%, (ii) an amount equal to 0.125% of the gross leveraged assets of the Partnership, plus (iii) 0.82% of the net asset value of the Partnership; and
- (b) to preserve the net asset value of the capital account of limited partners.

Limited partnership interests in the Partnership may be withdrawn and, subject to the acceptance by the General Partner, new limited partnership interests may be acquired in each case at their net asset value, upon 10 Business Days' notice.

The General Partner may be removed with the approval of the limited partners holding 66⅔% of the interest in the Partnership.

Investment Restrictions of the Partnership

The Partnership Agreement contains investment restrictions to the effect that the Partnership may not:

- (a) invest in securities other than (i) mortgage-backed securities issued or guaranteed by Ginnie Mae, Fannie Mae or Freddie Mac which carry an AAA rating or an Implied AAA Rating; (ii) mortgage-backed securities other than those described in (i) provided that such securities carry an AAA rating; (iii) debentures issued by Fannie Mae, Freddie Mac or Federal Home Loan Bank System; or (iv) securities issued by the U.S. Treasury;
- (b) invest more than an aggregate of 10% of the Portfolio in the securities described in items (ii), (iii) and (iv) of clause (a) above;
- (c) enter into any Repurchase Agreement (as defined below) or other debt obligation under the terms of which the timing and amount of payments to be made by the Partnership are determined in large part by the timing and amount of payments or projected payments (including, but not limited to, principal or interest) on the MBS, CMOs or similar securities purchased or held by the Partnership;
- (d) purchase or hold securities that pay interest that is not eligible for the "portfolio interest" exemption from U.S. withholding tax as set forth in Section 881(c) of the Code;
- (e) act as a "dealer in stocks or securities", as defined in Treasury Regulation Section 1.864-2(c)(2)(iv);
- (f) purchase or hold any securities that constitute a "United States real property interest" as defined in Section 897 of the Code (including, without limitation, any loan or other debt

instrument that includes the direct or indirect right to share in the appreciation of, or the gross or net proceeds or profit generated by, an interest in U.S. real property);

- (g) purchase or hold securities or instruments that are properly characterized as equity for U.S. federal income tax purposes;
- (h) purchase or sell derivatives other than interest rate caps and swaps;
- (i) invest in securities for which a market quotation is not readily available or which are not widely held and actively traded;
- (j) engage in a “trade or business within the United States” within the meaning of the Code;
- (k) purchase or sell commodities or commodity contracts;
- (l) participate in oil and gas or similar ventures;
- (m) invest for the purpose of exercising control over management of any issuer;
- (n) purchase real estate; and
- (o) act as an underwriter except to the extent that the Partnership may be deemed to be an underwriter in connection with the sale of Securities in its Portfolio.

If a percentage restriction on investment or use of assets set forth above is adhered to at the time of the transaction, later changes to the market value of the investment or the total assets of the Partnership will not be considered a violation of the restriction.

The foregoing investment restrictions may not be changed without the approval of limited partners holding all of the limited partnership interests in the Partnership. The declaration of trust of MBS Investment Trust II provides that the trustee thereof may not give such approval or vote in favour of a change without the approval of the Unitholders, expressed by a resolution passed by two-thirds of the votes cast at a meeting of Unitholders called for such purpose, unless such changes are necessary to ensure compliance with all applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time.

Leverage

The Partnership borrows for the purpose of making investments in accordance with its investment strategies and investment restrictions and pledges its assets to secure such borrowings. To effect such borrowings in a cost-efficient manner, the Partnership enters into master repurchase agreements with various major financial institutions (the “Repurchase Agreements”). A repurchase agreement is a current sale of a security with a concurrent agreement by the Partnership to repurchase such security at a later date at a higher fixed price reflective of the cost of funds for the term of the agreement. The borrowing via Repurchase Agreements is collateralized by the Securities in the Portfolio. The U.S. Federal Reserve Bank uses repurchase agreements to manage adjustments in bank reserves. While it is impossible to determine an overall volume figure for the repurchase agreement market, the Investment Manager believes that it is the largest and most liquid market for financing U.S. Government

securities. In addition, the Investment Manager believes that the use of Repurchase Agreements is the most cost-efficient method of borrowing for the Partnership. The Partnership may also borrow from other sources from time to time.

The Partnership has established repurchase agreement credit lines with several financial institutions. The Partnership will use these repurchase agreement credit lines to purchase Securities for the Portfolio, with these Securities being used to secure such borrowing. It is anticipated that over the life of the Portfolio, all of the assets of the Partnership may be used as collateral for Repurchase Agreements. The Investment Manager targets to operate the Partnership with a debt-to-equity ratio of between 4:1 and 10:1. If at any time the Partnership's debt-to-equity ratio exceeds 12:1, the Investment Manager will, in a timely manner, take all commercially reasonable steps as are necessary to reduce the Partnership's debt-to-equity ratio to 12:1 or less.

The Investment Manager uses several risk management models, including proprietary models and models that are widely used by the investment management community. The Investment Manager has set capital investment guidelines that are incorporated into its portfolio management system. The Portfolio is monitored daily to ensure that it is operating within the guidelines. Reviews will be conducted at least yearly to review the risk reward profile of the market and the capital investment guidelines. Key measures of risk include but are not limited to, duration, convexity, prepayments, coupon reset caps, cash-flow and leverage. The Portfolio is analyzed to determine its performance in a wide range of interest rate scenarios. In addition, price volatility levels are monitored daily. Trading positions may be adjusted in response to changing risk measures and price volatility levels. In addition, the Investment Manager will supply reports, evaluations, analyses, statistical data and other information on request to the General Partner.

The use of leverage to enhance returns to the Partnership may result in losses or a decrease in net cash distributions from the Partnership. It may also require liquidation of investments to comply with the terms of the Repurchase Agreements, which may adversely affect the returns earned by the Partnership.

Interest Rate Caps and Swaps

The Partnership may purchase interest rate caps. Purchasing interest rate caps enables the Partnership to hedge against the risk of the coupon rates on the Partnership's adjustable rate mortgage-backed securities and Floaters reaching their caps during periods of rising interest rates. The Partnership may also enter into interest rate swaps. Interest rate swaps are intended to enable the Partnership to mitigate the risk of the cost of its variable-rate liabilities increasing at a faster rate than the earnings on its Portfolio during a period of rising interest rates. The Partnership will not purchase interest rate caps or interest rate swaps unless the unsecured commercial paper, senior debt or claims-paying ability of the counterparty is rated either A-1 or A or better by Standard & Poor's or either P-1 or A or better by Moody's.

Management of the Partnership

The General Partner

The General Partner is a wholly-owned subsidiary of SSCC, established under the laws of the State of Delaware. The financial interest of the General Partner in the Partnership is 0.01% of the income of the Partnership.

The Investment Manager

PIA acts as investment manager to the Partnership pursuant to the Investment Management Agreement entered into with SSCC and assigned to Sentry and the General Partner. Prior to June 16, 2008, FIDAC was the investment manager to the Partnership.

PIA is an independent, employee-owned investment advisory firm founded in 1986 and located in Santa Monica, California. PIA manages approximately \$4.5 billion in fixed-income assets for institutional and private clients worldwide.

Investment Management Agreement

The services provided by the Investment Manager pursuant to the Investment Management Agreement, subject to the restrictions of the Partnership Agreement and the statements relating to the Partnership's investment objectives as set out in the Partnership Agreement, include, among other services: (i) managing the investment and reinvestment of all assets, now or hereafter acquired by the Partnership, including determining what securities and other investments are to be purchased or sold for the Partnership and executing transactions accordingly; (ii) negotiating credit terms on behalf of the Partnership, including without limitation negotiating, executing and delivering on behalf of and as agent for the Repurchase Agreements and providing the use of proprietary software of the Investment Manager.

Under the Investment Management Agreement, the Investment Manager is required to discharge its duties in a manner that is fair and reasonable to the Partnership, act honestly and in good faith with a view to the best interest of Sentry, the General Partner, the Partnership, and the limited partners of the Partnership and, in connection therewith, exercise the same care, diligence and skill that a reasonably prudent portfolio manager would exercise in comparable circumstances.

There may be difficulty in enforcing any legal rights against the Investment Manager because it is resident outside Canada and all or a substantial portion of its assets are situated outside Canada.

The Investment Management Agreement may be terminated by Sentry and the General Partner or by the Investment Manager by providing the other party to the Investment Management Agreement with no less than 60 days' written notice of such termination.

The Custodian

BNY Mellon acts as custodian of the assets of the Partnership pursuant to a custodian agreement as well as provides certain administrative and accounting services to the Partnership pursuant to an administration and accounting agreement.

The Manager has recently received notice from BNY Mellon is terminating the existing administration and accounting services agreement with the Partnership effective March 31, 2011. The Manager has to date been unsuccessful in locating an administrator to replace BNY Mellon and does not expect to do so on a cost effective basis.

Description of the Trust

Declaration of Trust

The Trust is an investment trust established under the laws of the Province of Ontario pursuant to the Declaration of Trust. The Trust currently qualifies as a mutual fund trust for the purposes of the Tax Act. The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Declaration of Trust which does not purport to be complete. Reference is made to the Declaration of Trust for a complete description of Units and the full text of its provisions.

Investment Restrictions of the Trust

The Declaration of Trust contains investment restrictions that provide that the Trust will not:

- (a) invest in securities other than “Canadian securities” for the purposes of the Tax Act, other than interests in the Partnership;
- (b) make any investment that would result in the Trust failing to qualify as a “unit trust” within the meaning of the Tax Act under the then current definition, which currently provides, among other requirements, that:
 - (i) at least 80% of the property of the Trust at all times must consist of any combination of (a) shares, (b) any property that, under the terms or conditions of which or under an agreement, is convertible into, is exchangeable for or confers a right to acquire shares, (c) cash, (d) bonds, debentures, mortgages, hypothecary claims, notes and other similar obligations, (e) marketable securities, (f) real property situated in Canada and interests in such property and (g) rights to and interests in any rental or royalty computed by reference to the amount or value of production from a natural accumulation of petroleum or natural gas in Canada, from an oil or gas well in Canada or from a mineral resource in Canada;
 - (ii) not less than 95% of the income from the Trust (determined without reference to subsections 49(2.1) and 104(6) of the Tax Act) for each year must be derived from, or from the disposition of, investments described in (i) above; and
 - (iii) not more than 10% of the Trust’s property may consist of bonds, securities or shares in the capital stock of any one corporation or debtor other than Her Majesty in Right of Canada or a province or a Canadian municipality;
- (c) hold securities of any non-resident corporation or trust or other entity (or of a partnership which holds such securities) if the Trust would be required to mark its investment in such

securities to market in accordance with proposed section 94.2 of the Tax Act or to include any significant amounts in income pursuant to proposed section 94.1 or 94.3 of the Tax Act, or invest in any interest in a non-resident trust other than an "exempt foreign trust" as defined in proposed section 94 of the Tax Act, as set forth in the proposed amendments to the Tax Act dealing with foreign investment entities and non-resident trusts released by the Minister of Finance (Canada) on November 9, 2006 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto).

4. DESCRIPTION OF THE UNITS

Units represent an equal and undivided beneficial interest in the Trust and are issued only as fully paid and non-assessable. There is no limit to the number of Units that may be issued in the Trust or in respect of any Class of the Trust. Fractional Units may be issued.

Units outstanding as of November 6, 2009 are designated as Class X, A and F Units. The Trustee has the sole discretion to determine whether the capital of the Trust is divided into one or more Classes of Units other than the Class X Units and the attributes which shall attach to each Class of Units.

Subject to applicable law, the Trust may at any time or times purchase Units for cancellation at prices not exceeding the most recently calculated Class Net Asset Value per Unit.

Acts Requiring Unitholder Approval

Pursuant to the Declaration of Trust, the following matters require the approval of two-thirds of the votes cast by Unitholders voting thereon (other than items (e), (f), (j) and (l), which require approval by a simple majority vote) at a meeting called and held for such purpose:

- (a) a change in the investment objectives of the Trust as described under "Investment Objectives, Strategies and Restrictions – the Trust – Investment Objectives";
- (b) a change in the investment restrictions of the Trust as described under "Investment Objectives, Strategies and Restrictions – Description of the Trust – Investment Restrictions of the Trust";
- (c) any change in the basis of calculating fees or other expenses that are charged to the Trust which could result in an increase in charges to the Trust other than a fee or expense charged by a person or company that is at arm's length to the Trust;
- (d) a change of the manager of the Trust, whether as a result of a Termination Event or otherwise, other than a change resulting in an affiliate of such person assuming such position;
- (e) except as described herein, a change in the trustee of the Trust, other than a change resulting in an affiliate of such person assuming such position;
- (f) a change in the auditors of the Trust;

- (g) a reorganization with, or transfer of assets to, a mutual fund trust, if
 - (i) the Trust ceases to continue after the reorganization or transfer of assets; and
 - (ii) the transaction results in Unitholders becoming securityholders in the mutual fund trust;
- (h) a reorganization with, or acquisition of assets of, a mutual fund trust, if
 - (i) the Trust continues after the reorganization or acquisition of assets;
 - (ii) the transaction results in the securityholders of the mutual fund trust becoming unitholders of the Trust; and
 - (iii) the transaction would be a significant change to the Trust;
- (i) except in certain circumstances as set forth under the heading “Termination of the Trust,” the termination of the Trust prior to the Termination Date;
- (j) an extension of the Trust beyond the Termination Date as described under “Termination of the Trust”;
- (k) an amendment, modification or variation in the provisions or rights attaching to the Units; and
- (l) a reduction in the frequency of calculating the Class Net Asset Value per Unit.

Sentry may, without the approval of or notice to Unitholders, amend the Declaration of Trust for certain limited purposes specified therein, including to:

- (a) remove any conflicts or other inconsistencies which may exist between any terms of the Declaration of Trust and any provisions of any law or regulation applicable to or affecting the Trust;
- (b) make any change or correction in the Declaration of Trust which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained therein;
- (c) bring the Declaration of Trust into conformity with applicable laws, rules and policies of Canadian securities regulators or with current practice within the securities industry, provided that any such amendment does not adversely affect the rights, privileges or interests of the Unitholders;
- (d) maintain, or permit the Trustee to take such steps as may be desirable or necessary to maintain, the status of the Trust as a “mutual fund trust” for the purposes of the Tax Act; or
- (e) provide added protection to Unitholders.

Except for changes to the Declaration of Trust which require the approval of Unitholders or changes described above which do not require approval of or prior notice to Unitholders, the Declaration of Trust may be amended from time to time by Sentry upon not less than 30 days' prior written notice to Unitholders.

Monthly Distributions

The Trust makes tax efficient monthly cash distributions to Unitholders of record on the last Business Day of each month. Such cash distributions are paid on or about the 15th day of the next month (before giving effect to redemptions and issuances to be implemented as of the applicable record date), *pro rata* in accordance with the number of Units then held. The amount of the monthly distributions will fluctuate from month to month and there can be no assurance that the Trust will make any distributions in any particular month or months.

Cash distributions from the Trust are not fixed and may vary from month to month. However, distributions in any year are targeted to approximate the average 10-Year U.S. Treasury Note yield for that year plus 3%.

The Manager determines and announces prior to each calendar quarter the Anticipated Distribution for the following quarter based on prevailing market conditions and the Trust's estimate of distributable cash flow for the following quarter.

The Trust's monthly distributions to Unitholders are paid in Canadian dollars and will correlate with the monthly distributions received by MBS Investment Trust II on its investment in the Partnership plus or minus the Currency Hedge Adjustment less (i) expenses of MBS Investment Trust II, (ii) any expenses of the Trust, (iii) approximately 0.50% per annum on the U.S. dollar value of the notional investment in MBS Investment Trust, and (iv) 0.25% per annum on the value of the Common Share Portfolio.

The Trust may also, in the discretion of the Manager, make other distributions in cash or in Units at any time in addition to the monthly or year-end distributions.

If, in any year after paying its monthly distributions, there remains in the Trust additional net income or net realized capital gains, the Trust intends, after December 14 but on or before December 31 of each year, to distribute such portion of the net income and net realized capital gains as is necessary to ensure that the Trust will not be liable for income tax under the Tax Act.

Each Unitholder is mailed annually, no later than March 31, information necessary to enable such Unitholder to complete an income tax return with respect to amounts paid or payable by the Trust in respect of the preceding taxation year of the Trust.

Redemption

Redemption of Units

Subject to any suspension of redemptions described below, Units may be surrendered each month during the period from the first day of the month until 4:00 p.m. (Toronto time) on the tenth Business Day before the last Business Day in the month (the "Notice Period") for redemption by the registered Unitholder to the Transfer Agent. Subject to certain conditions and

limitations outlined in the Declaration of Trust, Units surrendered for redemption by a Unitholder during a Notice Period will be redeemed on the Valuation Date.

Exercise of Redemption Right

The redemption right must be exercised by causing written notice to be given within the Notice Period and in the manner described below.

An owner of Units who desires to exercise his, her or its redemption right thereunder must do so by delivering a written notice (the "Redemption Notice") of the owner's intention to redeem Units to the Transfer Agent or to the Manager for direct purchases. An owner who desires to redeem Units should ensure that the Manager is provided with notice of his, her or its intention to exercise his, her or its redemption right within the Notice Period in order to receive the Class Net Asset Value per Unit calculated at that Valuation Date. A completed redemption request received for a requested Valuation Date, after the expiry of the Notice Period for that Valuation Date will receive the Class Net Asset Value per Unit price calculated at the next Valuation Date.

The Trustee may from time to time prescribe redemption procedures which are not inconsistent with the Declaration of Trust or any securities legislation. Notice of such redemption procedures will be given to Unitholders. Such procedures may include the establishment of: (i) any required method of transmission of a redemption request including any required forms for redemption requests; (ii) any required documentation or evidence relating to the authority of any person to submit a redemption request; (iii) any requirements for the surrender of certificates, if any, representing the Units to be redeemed; and (iv) a systematic redemption programme.

Redemption requests will be processed in the order in which they are received. Redemption requests specifying a forward date or specific price will not be processed, and redemption requests will not be processed before payment has been received for the Units which are the subject of the redemption request.

Redemption Price and Payment

Unitholders whose Units are redeemed on a Valuation Date will be entitled to receive a redemption price per Unit equal to 100% of the Class Net Asset Value per Unit determined as of the Valuation Date.

On or before the fifteenth day following the Valuation Date on which a Unitholder's Units are redeemed, the Trustee will make, or arrange for the Transfer Agent to make, payment of the redemption price per Unit in respect of the Units redeemed together with any unpaid distribution in respect of such Units which became payable on or before such Valuation Date less any amount required to be withheld under applicable law. Payments are made by cheque payable to the Unitholder sent by ordinary post addressed to the last address appearing on the register of Unitholders or by wire transfer or in such other manner as the Trustee determines.

Suspension of Redemptions

The Manager may direct the Trustee to suspend the redemption of Units or payment of redemption proceeds: (i) during any period when normal trading is suspended on a stock

exchange or other market on which securities owned by the Trust are listed and traded, if these securities represent more than 50% by value or underlying market exposure of the total assets of the Trust, without allowance for liabilities, and if these securities are not traded on any other exchange that represents a reasonably practical alternative for the Trust; or (ii) for any period not exceeding 30 days during which the Manager determines that conditions exist which render impractical the sale of the assets of the Trust or which impair the ability of the Trustee to determine the value of the assets of the Trust.

The suspension may, at the sole discretion of the Manager, apply to all requests for redemptions received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders making such requests shall be advised by the Manager of the suspension and that the redemption will be effected on the basis of the Class Net Asset Value per Unit determined on the first Business Day following the termination of the suspension. All such Unitholders shall have and shall be advised that they have the right to withdraw their requests for redemption in such circumstances.

The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist, provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Trust, any declaration of suspension made by the Manager shall be conclusive.

Purchase for Cancellation

Subject to applicable law, the Trust may at any time or times purchase Units for cancellation at prices not exceeding the most recently calculated Class Net Asset Value per Unit.

Securities Lending

In order to generate additional returns, the Trust may lend Common Share Portfolio Securities to securities borrowers acceptable to the Trust pursuant to the terms of a securities lending agreement between the Trust and any such borrower (each, a "Securities Lending Agreement"). Under a Securities Lending Agreement: (i) the borrower will pay to the Trust a negotiated securities lending fee and will make compensation payments to the Trust equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as "securities lending arrangements" for the purposes of the Tax Act; and (iii) the Trust will receive prescribed collateral security which it may pledge as security under any Forward Agreement (if applicable). The minimum level of collateralization in respect of a loan of Common Share Portfolio securities will be 105%. Except as provided above, the Trust has adopted the provisions of NI 81-102 with respect to lending Common Share Portfolio securities.

See also "Investment Objectives, Strategies and Restrictions – The Partnership Agreement – Leverage".

5. CALCULATION OF NET ASSET VALUE

The Net Asset Value of the Trust, on a particular date, will be equal to the aggregate value of the Trust Property on such date less the aggregate value of the Trust's liabilities on such date

including, but not limited to, management fees and amounts to be reimbursed to the Manager and compensation payable to, and the certain expenses related to the IRC, expressed in Canadian dollars. The Net Asset Value shall be determined by valuing, in accordance with the applicable rules, the investments held in the Trust, and adding the value of any other Trust Property as of such date and deducting from the total of the foregoing all liabilities of the Trust due or accrued as of such date including all income, net realized capital gains and other amounts payable to Unitholders on or before such date which have not been paid as of such date.

The Net Asset Value per Unit will be calculated as of 4:15 p.m. (Toronto time) on each Thursday during the year (or, if a Thursday is not a Business Day, then on the Business Day following such Thursday) and on the last Business Days of each month on each Valuation Date (the "Valuation Time"). If the Trust elects to have a December 15 year-end for tax purposes as permitted by the Tax Act, the Net Asset Value per Unit will also be calculated on December 15. Such information will be provided by Sentry to Unitholders on request by calling toll-free 1-888-730-4623 or through Sentry's Internet site at www.sentry.ca.

In determining the Net Asset Value of the Trust, at any time the Trustee will take into account the following:

- (a) the value of any Forward Agreement, currency swap agreement or derivative agreement shall be the gain or loss with respect thereto that would be realized if, at that time, the Forward Agreement, currency swap agreement or derivative agreement were to be closed out in accordance with its terms;
- (b) the value of any cash on hand or on deposit, prepaid expenses, cash distributions declared and interest accrued and not yet received, shall be deemed to be the face amount thereof, unless the Trustee determines that any such asset is not worth the face amount thereof, in which event the value thereof shall be deemed to be such value as the Trustee determines to be the fair value thereof;
- (c) MBS, bonds, debentures, notes, money market instruments and other debt securities shall be valued by taking the bid price at the Valuation Time;
- (d) any security that is listed or dealt in on a stock exchange shall be valued at the sale price applicable to a board lot last reported at the Valuation Time on the principal stock exchange on which such security is traded, or, if no sale price is available at that time, the last closing price quoted for the security, but if bid and ask quotes are available, at the average of the latest bid and ask price rather than at the last quoted closing price;
- (e) any security purchased, the purchase price of which has not been paid, shall be included for valuation purposes as a security held, and the purchase price, including brokers' commissions and other expenses, shall be treated as a liability of the Trust;
- (f) any security sold but not delivered, pending receipt of the proceeds, shall be valued at the net sale price;
- (g) Restricted Securities (as that term is defined in NI 81-102) shall be valued at the lesser of:

- (i) the value thereof based on reported quotations of such Restricted Securities in common use; and
 - (ii) that percentage of the market value of securities of the class or series of a class of which the Restricted Securities form part that are not Restricted Securities equal to the percentage that the Trust's acquisition cost was of the market value of such securities at the time of acquisition, but taking into account, if appropriate, the amount of time remaining until the Restricted Securities will cease to be Restricted Securities;
- (h) if any date on which Net Asset Value is determined is not a U.S. Business Day, then the property of the Trust will be valued as if such date were the preceding U.S. Business Day;
 - (i) if any investment cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the Trustee to be inappropriate under the circumstances, then notwithstanding the foregoing rules, the Trustee shall make such valuation as it considers fair and reasonable;
 - (j) the value of all assets of the Trust quoted or valued in terms of foreign currency, the value of all funds on deposit and contractual obligations payable to the Trust in foreign currency and the value of all liabilities and contractual obligations payable by the Trust in foreign currency shall be determined using the applicable rate of exchange current at, or as nearly as practicable to, the applicable date on which Net Asset Value is determined; and
 - (k) estimated operating expenses of the Trust shall be accrued to the date as of which the Net Asset Value is being determined.

The Class Net Asset Value of a Class of Units of the Trust on a Valuation Date is determined in accordance with the following calculation:

- (a) the Class Net Asset Value last calculated for that Class; plus
- (b) the increase in the assets attributable to that Class as a result of the issue of Units of that Class or the switch of Units into that Class since the last calculation; minus
- (c) the decrease in the assets attributable to that Class as a result of the redemption of Units of that Class or the switch of Units out of that Class since the last calculation; plus or minus
- (d) the proportionate share of the Change in Non Portfolio Assets attributable to that Class since the last calculation; plus or minus
- (e) the proportionate share of the Net Portfolio Transactions attributable to that Class since the last calculation; plus or minus
- (f) the proportionate share of market appreciation or depreciation of the Portfolio assets attributable to that Class since the last calculation; minus

- (g) any amounts to be paid by way of distributions including any extraordinary distributions to holders of Units of that Class since the last calculation; minus
- (h) any Class Expenses attributable to that Class since the last calculation; minus
- (i) the portion of the Common Expenses attributed to that Class.

A Unit of a Class of the Trust being issued or a Unit that has been switched as a Unit of a Class shall be deemed to become outstanding as of the next calculation of the applicable Class Net Asset Value following the time at which the applicable Class Net Asset Value per Unit that is the issue price or the switched basis of such Unit is determined and the issue price received or receivable for the issuance of the Unit shall then be deemed to be an asset of the Trust attributable to the applicable Class.

A Unit of a Class of the Trust being redeemed or a Unit that has been switched out of a Class shall be deemed to remain outstanding until immediately before the next calculation of the applicable Class Net Asset Value following the receipt by or on behalf of the Trustee of a redemption or switch request therefor in the manner provided in the relevant disclosure documents of the Trust and the determination of the applicable Class Net Asset Value per Unit that is the redemption price or switch basis of such Unit; thereafter, until paid, the redemption price of such Unit shall be deemed to be a liability of the Trust attributable to the applicable Class.

On any Valuation Date that a distribution is paid to Unitholders of a Class of Units, a second Class Net Asset Value shall be calculated for that Class, which shall be equal to the first Class Net Asset Value calculated on that Valuation Date minus the amount of the distribution.

The Class Net Asset Value of each Unit of a Class of Units of the Trust as at any particular time is the quotient obtained by dividing the applicable Class Net Asset Value as at such time by the total number of Units of that Class outstanding at such time. This calculation shall be made without taking into account any issuance, switch or redemption of Units of that Class to be processed by the Trust immediately after the time of such calculation on that Valuation Date. The Class Net Asset Value per Unit for each Class of Units of the Trust for the purpose of the issue, switch or redemption of Units shall be calculated on each Valuation Date by or under the authority of the Trustee as at such time on every Valuation Date as shall be fixed from time to time by the Trustee and the Class Net Asset Value per Unit so determined for each Class shall remain in effect until the time as of which the Class Net Asset Value per Unit for that Class is next determined.

6. PURCHASES AND TRANSFERS OF UNITS

The Declaration of Trust provides that the Trust will not issue additional Units following completion of the Offering, except (i) where the net proceeds per Unit are not less than the Class Net Asset Value per Unit calculated on the date of pricing of the offering, or (ii) by way of Unit distributions. Subject to the limitations set forth in the Declaration of Trust, such additional Units may be allotted and issued at such times, to such persons, at such subscription prices and on such other terms and conditions as the Manager in its sole discretion shall determine.

If Units of a Class are issued by way of Unit distributions to all Unitholders of such Class in satisfaction of any non-cash distribution, the number of outstanding Units of such Class may be immediately thereafter consolidated such that each Unitholder will hold after the consolidation the same number of Units of such Class as the Unitholder held before the non-cash distribution. In this case, where applicable, each certificate representing a number of Units before the non-cash distribution will be deemed to represent the same number of Units after the non-cash distribution and the consolidation of the applicable Class next determined by the Trustee after the receipt by the Trust of the purchase order as set forth in the relevant disclosure documents.

Prior to June 16, 2009, Units were listed on the TSX for trading under the symbol “MGS.UN”. The Units were voluntarily de-listed from trading on the TSX on June 16, 2009.

Units are distributed pursuant to exemptions from the prospectus requirements of applicable securities legislation and therefore, resale of such are subject to restrictions.

7. RESPONSIBILITY FOR TRUST OPERATIONS

The Manager

Pursuant to the Declaration of Trust, Sentry is the manager of the Trust. The Manager was incorporated on May 5, 2008. Prior to January 1, 2009, SSCC was the manager of the Trust. SSCC was incorporated on March 20, 1986. The Manager is presently engaged in the business of sponsoring and managing investment funds in Canada.

The Manager’s principal address is 130 King Street West, The Exchange Tower, Suite 2850, Toronto, Ontario, M5X 1A4. The Manager’s telephone number is (416) 861-8729, or toll free 1 888-730-4623, its email address is info@sentry.ca and its Internet site is www.sentry.ca.

As manager of the Trust, the Manager is responsible for acquiring the Common Share Portfolio and entering into any Forward Agreement on behalf of the Trust and for providing or arranging for required administrative services to the Trust including, without limitation: authorizing the payment of operating expenses incurred on behalf of the Trust; preparing financial statements and financial and accounting information as required by the Trust; ensuring that Unitholders are provided with financial statements (including interim and annual financial statements) and other reports as are required by applicable law from time to time; ensuring that the Trust complies with regulatory requirements and applicable stock exchange listing requirements; preparing the Trust’s reports to Unitholders and the Canadian securities regulatory authorities; determining the amount of distributions to be made by the Trust; negotiating contractual agreements with third-party providers of services, including registrars, transfer agents, auditors and printers; administering any Forward Agreement including partial or early settlement thereof; and arranging for any payment required on or about the Termination Date.

The Manager is required to exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of Unitholders, and in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent manager would exercise in similar circumstances.

The Manager may resign as manager of the Trust upon 60 days' notice to the Unitholders. If the Manager resigns it may appoint its successor but, unless its successor is an affiliate of the Manager, its successor must be approved by the Unitholders. If the Manager is in material default of its obligations under the Declaration of Trust and such default has not been cured within 30 days after notice of same has been given to the Manager, the Unitholders may remove the Manager and appoint a successor manager.

The Manager is entitled to fees for its services under the Declaration of Trust and will be reimbursed for all reasonable costs and expenses incurred by the Manager on behalf of the Trust. In addition, the Manager and each of its directors, officers, employees and agents will be indemnified by the Trust for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against the Manager or any of its officers, directors, employees or agents in the exercise of its duties as manager, if they do not result from the Manager's wilful misconduct, bad faith, negligence or breach of its obligations under the Declaration of Trust and the Trust has reasonable grounds to believe that the action or inaction that gave rise to the claim was in the best interests of the Trust.

The name, municipality and province of residence of each of the directors, applicable officers and senior management of the Manager and their principal occupations at, and within the five years preceding the date of this Annual Information Form, are as follows:

Name, Municipality and Province of Residence	Position held with Manager¹	Principal Occupation for the Last Five Years
JOHN F. DRISCOLL Toronto, Ontario	Chairman, Chief Executive Officer and Director	Chairman, Chief Executive Officer and Director, Sentry since January, 2011. Chairman, President, Chief Executive Officer and Director, Sentry from May, 2008 to January, 2011. Chairman, President, Chief Executive Officer and Director, SSCC since January, 2004. President and Chief Executive Officer, NCE Resources Group since September, 1990.

¹ Prior to January 1, 2009, the manager of the Trust was SSCC.

<p>J.A. (SANDY) McINTYRE Toronto, Ontario</p>	<p>Director, President and Chief Investment Officer</p>	<p>President and Chief Investment Officer, Sentry since January, 2011.</p> <p>Director, Sentry since December, 2009.</p> <p>Senior Vice-President and Chief Investment Officer, Sentry from May, 2008 to January, 2011.</p> <p>Senior Portfolio Manager, Sentry from May, 2008 to June, 2008.</p> <p>Senior Vice-President and Chief Investment Officer, SSCC from April, 2008 to January, 2009.</p> <p>Senior Vice-President and Senior Portfolio Manager, SSCC from June, 2006 to March, 2008.</p> <p>Senior Portfolio Manager, SSCC from August, 2000 to June, 2006.</p>
<p>SEAN DRISCOLL Toronto, Ontario</p>	<p>Director and Executive Vice-President</p>	<p>Executive Vice-President, since January, 2011.</p> <p>Director, Sentry since December, 2009.</p> <p>Vice-President, Corporate Development, Sentry from January, 2009 to January, 2011.</p> <p>Manager, Corporate Development, SSCC from November, 2007 to January, 2009.</p>
<p>RICHARD D'ARCHIVIO Vaughan, Ontario</p>	<p>Chief Financial Officer, Vice-President and Treasurer</p>	<p>Chief Financial Officer, Vice-President and Treasurer, Sentry since May, 2008.</p> <p>Chief Financial Officer, Vice-President and Treasurer, SSCC since January, 2008.</p> <p>Vice-President, Finance, SSCC from July, 2005 to December, 2007.</p>

<p>PHILIP YUZPE Toronto, Ontario</p>	<p>Chief Operating Officer</p>	<p>Chief Operating Officer, Sentry since January, 2011.</p> <p>Vice-President, Product Development & Corporate Strategy, Sentry from May, 2008 to January, 2011.</p> <p>Vice-President, Product Development & Corporate Strategy, SSCC from January, 2008 to January, 2009.</p> <p>Manager, Strategic Planning and Research, SSCC from October, 2006 to December, 2007.</p>
<p>RYAN CAUGHEY Toronto, Ontario</p>	<p>General Counsel and Corporate Secretary</p>	<p>General Counsel and Corporate Secretary, Sentry since January, 2009.</p> <p>Associate General Counsel and Corporate Secretary, Sentry from May, 2008 to January, 2009.</p> <p>Corporate Secretary, SSCC since January, 2009.</p> <p>Associate General Counsel and Corporate Secretary, SSCC from January, 2008 to January, 2009.</p> <p>Corporate Secretary and Legal Counsel, SSCC from December, 2006 to January, 2008.</p> <p>Legal Counsel, SSCC from July, 2006 to December, 2006.</p> <p>Lawyer, Osler, Hoskin & Harcourt LLP (law firm) from September, 2003 to June, 2006.</p>

<p>ANDREW GUY Toronto, Ontario</p>	<p>Vice-President, Chief Risk and Compliance Officer</p>	<p>Vice-President, Chief Risk and Compliance Officer, Sentry since July, 2010.</p> <p>Vice-President, Sentry from November, 2009 to July, 2010.</p> <p>Chief Compliance Officer, Sentry from January, 2009 to July, 2010.</p> <p>Portfolio Manager, Sentry from May, 2008 to November, 2009.</p> <p>Portfolio Manager, SSCC from July, 2006 to January, 2009.</p> <p>Senior Investment Analyst, SSCC from January, 2006 to June, 2006.</p>
<p>DENNIS MITCHELL Brampton, Ontario</p>	<p>Deputy Chief Investment Officer and Senior Portfolio Manager</p>	<p>Deputy Chief Investment Officer and Senior Portfolio Manager, Sentry, since January, 2011.</p> <p>Vice-President and Senior Portfolio Manager, Sentry from January, 2010 to January, 2011.</p> <p>Portfolio Manager, Sentry from May, 2008 to January, 2010.</p> <p>Portfolio Manager, SSCC from February, 2007 to January, 2009.</p> <p>Senior Research Analyst, SSCC from September, 2006 to January, 2007.</p> <p>Research Analyst, SSCC from May, 2005 to August, 2006.</p>
<p>RHONDA KLATIK Vancouver, British Columbia</p>	<p>Vice President, National Sales and Managing Director, Sentry Mutual Funds</p>	<p>Vice-President, National Sales and Managing Director, Sentry Mutual Funds, Sentry since March, 2009.</p> <p>Vice-President, Western Canada Sales, Sentry from January, 2009 to March, 2009.</p> <p>Vice-President, Western Canada Sales, SSCC from May, 2007 to January, 2009.</p> <p>Regional Vice-President, Western Canada Sales, SSCC from June, 2003 to May, 2007.</p>

<p>BRIAN MCOSTRICH Oakville, Ontario</p>	<p>Vice-President, Marketing and Investor Relations</p>	<p>Vice-President, Marketing and Investor Relations, Sentry since May, 2008. Vice-President, Marketing and Investor Relations, SSCC from May, 2008 to January, 2009. Vice-President, Marketing, SSCC from March, 2004 to May, 2008.</p>
<p>WOLFGANG KRUNING Toronto, Ontario</p>	<p>Vice-President, Dealer Relations</p>	<p>Vice-President, Dealer Relations, Sentry since December, 2010. Vice-President, International Dealer Relations, Sentry from May, 2008 to December, 2010. Vice-President, International Dealer Relations, SSCC from June, 2006 to January, 2009. Vice-President, Dealer Relations, SSCC from December, 2005 to May, 2006.</p>
<p>BRUCE TUCKER Toronto, Ontario</p>	<p>Vice-President, Trading</p>	<p>Vice-President, Trading, Sentry since August, 2008. Vice-President, Trading, SSCC from February, 2007 to January, 2009. Senior Trader, SSCC from January, 2005 to January, 2007.</p>
<p>GRAEME LLEWELLYN Toronto, Ontario</p>	<p>Vice-President, Finance</p>	<p>Vice-President, Finance, Sentry since July, 2010. Director, Investment Finance, Sentry from May, 2008 to July, 2010. Director, Investment Finance, SSCC from December, 2007 to January, 2009. Senior Manager, Investment Finance, SSCC from March, 2006 to December, 2007.</p>

<p>KEVIN MacLEAN Oakville, Ontario</p>	<p>Vice-President and Senior Portfolio Manager</p>	<p>Vice-President and Senior Portfolio Manager, Sentry since May, 2008.</p> <p>Vice-President and Senior Portfolio Manager, SSCC from July, 2006 to January, 2009.</p> <p>Senior Portfolio Manager, SSCC from August, 2004 to June, 2006.</p>
<p>MICHAEL SIMPSON Markham, Ontario</p>	<p>Vice-President and Senior Portfolio Manager</p>	<p>Vice-President and Senior Portfolio Manager, Sentry since May, 2008.</p> <p>Vice-President and Senior Portfolio Manager, SSCC from February, 2008 to January, 2009.</p> <p>Senior Portfolio Manager, SSCC from January, 2006 to January, 2008.</p>
<p>SHANE STUCK Toronto, Ontario</p>	<p>Vice-President and Senior Portfolio Manager</p>	<p>Vice-President and Senior Portfolio Manager, Sentry since January, 2010.</p> <p>Director, Fixed Income Derivatives and Currency, Scotia Asset Management from February, 2007 to January, 2010.</p>
<p>LAURA LAU Toronto, Ontario</p>	<p>Senior Portfolio Manager</p>	<p>Senior Portfolio Manager, Sentry since May, 2008.</p> <p>Senior Portfolio Manager, SSCC from July, 2006 to January, 2009.</p> <p>Portfolio Manager, SSCC from May, 2004 to June, 2006.</p>
<p>ANDREW MCCREATH Toronto, Ontario</p>	<p>Senior Portfolio Manager</p>	<p>Senior Portfolio Manager, Sentry since February, 2009.</p> <p>Senior Portfolio Manager, Sentry Investments Inc. since August, 2008.</p> <p>President & Chief Executive Officer, Waterfall Investments Inc. from April, 2004 to July, 2008.</p>

<p>MASON GRANGER Toronto, Ontario</p>	<p>Portfolio Manager</p>	<p>Portfolio Manager, Sentry since February, 2009.</p> <p>Portfolio Manager, SSCC from June, 2008 to January, 2009.</p> <p>Executive Director, Resource Group of Middlefield Capital Corp. from January, 2005 to June, 2008.</p>
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The Investment Manager

PIA acts as investment manager to the Partnership pursuant to the Investment Management Agreement entered into with SSCC and assigned to Sentry and the General Partner. Prior to June 16, 2008, FIDAC, was the investment manager to the Partnership.

PIA is an independent, employee-owned investment advisory firm founded in 1986 and located in Santa Monica, California. PIA manages approximately \$4.5 billion in fixed-income assets for institutional and private clients worldwide.

As of December 31, 2010, the name and municipality of residence of each of the Investment Manager's officers and senior employees involved with the Partnership and their principal occupations are as follows:

Name and Municipality of Residence	Position held with Investment Manager
<p>Lloyd McAdams Los Angeles, CA</p>	<p>Chairman of the Board and Chief Investment Officer</p>
<p>Heather Baines Los Angeles, CA</p>	<p>President and Chief Executive Officer</p>
<p>Thad Brown Westlake Village, CA</p>	<p>Chief Operating and Compliance Officer, Corporate Secretary and Treasurer</p>
<p>Joseph McAdams Los Angeles, CA</p>	<p>Senior Vice President Director of Bond Portfolio Management</p>

Lloyd McAdams, CFA, CEBS
Chairman of the Board and Chief Investment Officer

Lloyd McAdams has been the Chairman of the Board and Chief Investment Officer of PIA since its formation. Before joining PIA, Mr. McAdams held the positions of President of Security Pacific Investment Managers, Inc., Senior Vice President of Trust Company of the West, and an Investment Officer with the State of Tennessee. Mr. McAdams has served as a Board member of the California Public Employees Retirement System (CALPERS). Mr. McAdams is also the Chairman and CEO of Anworth Mortgage Asset Corp, a NYSE listed company that manages a

portfolio of mortgage backed securities for its shareholders. He is a Chartered Financial Analyst Charter Holder, and a Certified Employee Benefit Specialist. B.S. in Statistics, Stanford University; M.B.A., University of Tennessee.

Heather U. Baines

President and Chief Executive Officer

Ms. Baines is President and Chief Executive Officer of PIA. She is also the Executive Vice President of Anworth Mortgage Asset Corporation, a real estate investment trust listed on the New York Stock Exchange. Ms. Baines is a graduate of Antioch College where she earned a Bachelor of Arts degree in Business. She previously served as Director and Senior Vice President for Security Pacific Investment Managers, Inc.

Thad M. Brown, CPA, CFP[®], IACCPsm

Chief Operating and Compliance Officer, Corporate Secretary and Treasurer

Mr. Brown is the Chief Operating and Compliance Officer, Corporate Secretary and Treasurer of PIA. He began his career with Touche Ross & Co., Certified Public Accountants and in 1987 associated with Provident Investment Counsel, Pasadena, California becoming their Chief Operating Officer. Mr. Brown studied Business Management and Finance at Metropolitan State College of Denver, graduating magna cum laude and completed a Master's Degree in Tax Law from the University of Denver. He is a Certified Public Accountant, received the Personal Financial Specialist designation from the American Institute of Certified Public Accountants, the CFP[®] designation from the CFP Board and the Investment Adviser Certified Compliance Professional (IACCPsm) designation from National Regulatory Services.

Joseph E. McAdams, CFA

Senior Vice President, Director of Bond Portfolio Management

Mr. McAdams is a Portfolio Manager and specializes in mortgage-backed securities. Since joining PIA in 1998, Joe's responsibilities have included mortgage-backed and asset-backed security research and managing fixed income trading and the Bond Strategy Group. Mr. McAdams' investment experience began with Donaldson, Lufkin & Jenrette in New York as a mortgage-backed security analyst and trader. Mr. McAdams earned his Bachelor's degree magna cum laude from The Wharton School of the University of Pennsylvania with dual concentrations in Finance and Real Estate and additionally holds a Master's degree in Economics from the University of Chicago.

Trustee

Sentry is the trustee of the Trust under the Declaration of Trust and, as such, is responsible for certain aspects of the day-to-day administration of the Trust as described in the Declaration of Trust, including calculating Net Asset Value, net income and net realized capital gains of the Trust and executing instruments on behalf of the Trust.

The Trustee may resign upon 60 days' notice to Unitholders. The Trustee may be removed with the approval of a simple majority vote cast at a meeting of Unitholders called for such purpose or by the Manager (if the Manager is then not the Trustee), if the Trustee has committed certain events of bankruptcy or insolvency or is in material breach or default of its obligations under the Declaration of Trust which breach has not been cured within 30 days after notice thereof has been given to the Trustee. Any such resignation or removal shall become effective only upon the acceptance of appointment by a successor. If the Trustee resigns, its successor may be appointed by the manager. The successor must be approved by Unitholders if the Trustee is removed by Unitholders. If no successor has been appointed within 60 days, the Trustee or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor.

The Declaration of Trust provides that the Trustee shall not be liable in carrying out its duties under the Declaration of Trust except where it is in breach of its obligations under the Declaration of Trust or where the Trustee fails to act honestly and in good faith, and in the best interests of Unitholders to the extent required by laws applicable to corporate trustees, or to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. In addition, the Declaration of Trust contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee, or any of its officers, directors, employees or agents, in respect of certain liabilities incurred by it in carrying out its duties.

The Trustee is entitled to receive fees from the Trust as described under "Fees and Expenses". The Trustee is entitled to be reimbursed for all expenses and liabilities which are properly incurred by the Trustee in connection with the activities of the Trust.

Custodian

The Custodian, a trust company organized under the laws of Canada, acts as custodian of the assets of the Trust pursuant to a custodian agreement (the "Custodian Agreement") and has the power to appoint sub-custodians. The Custodian also provides certain accounting services to the Trust pursuant to an accounting services agreement (the "Accounting Services Agreement"). Pursuant to the Custodian Agreement and the Accounting Services Agreement, the Custodian also carries out, on behalf of the Trustee, certain aspects of the day-to-day administrations of the Trust, including calculating Net Asset Value, net income and net realized capital gains of the Trust and maintaining the books and records of the Trust concerning the assets of the Trust that are under its custodianship. Both the Accounting Services Agreement and the Custodian Agreement may be terminated by either Sentry or the Custodian by an instrument in writing delivered or mailed, such termination to take effect not sooner than 90 days after the date of such delivery, unless a different period is agreed to in writing by the parties.

The Custodian's principal office is located in Toronto, Ontario.

Auditor

The auditors of the Trust are Deloitte & Touche LLP, Toronto, Ontario.

Registrar and Transfer Agent

International Financial Data Services (Canada) Ltd. in Toronto, Ontario, is the registrar and transfer agent for the Units. Prior to June 16, 2009, Computershare Investor Services Inc. was the registrar and transfer agent for the Units.

Other Service Providers

SSCC provides certain day-to-day administrative services to the Manager pursuant to an administrative services agreement dated January 1, 2009. The members of the board of directors of SSCC are John F. Driscoll (Chairman), H. Garfield Emerson, Hon. Michael A. Meighen, N. Frank Potter, Simon B. Scott and Donald J. Worth.

8. CONFLICTS OF INTEREST

To the knowledge of the Manager, as at March 14, 2011, no person beneficially owns either directly or indirectly, or exercises control or direction over, more than 10% of the outstanding Units.

To the knowledge of the Manager, as at March 14, 2011, the directors and senior officers of the Manager beneficially owned, in the aggregate, directly or indirectly, less than 10% of the outstanding Units.

To the knowledge of the Manager, as at March 14, 2011, the members of the Manager's IRC beneficially owned, in the aggregate, directly or indirectly, less than 10% of the outstanding Units.

Independent Review Committee

The Trust's IRC, established pursuant to NI 81-107, has three members. The IRC reviews conflict of interest matters referred to it by the Manager, including any related policies and procedures, and provides recommendations or approvals, as applicable, to the Manager regarding whether the proposed action of the Manager in respect of a conflict of interest matter achieves a fair and reasonable result for the Trust. With respect to certain conflict of interest matters, the IRC may also issue standing instructions. The Manager is not required to refer a conflict of interest matter nor its proposed action to the IRC if the Manager complies with the terms of a standing instruction that is in effect.

The Trust's IRC is currently comprised of the following members: Michael Gourley (Chair), David Gavsie and Marie Rounding. The Chair of the IRC receives \$50,000 per annum, and each other member of the IRC receives \$40,000 per annum, as compensation for their services. In addition, each member of the IRC is paid \$1,500 for each IRC meeting that he or she attends. This compensation is in connection with their services for all investment funds managed by Sentry, including the Trust. For the financial year of the Trust ended December 31, 2010, the aggregate amount of fees and expenses paid to members of the IRC for all investment funds managed by Sentry was \$188,524.56.

Conflicts of Interest

The management services of Sentry under the Declaration of Trust are not exclusive and nothing in the Declaration of Trust prevents Sentry from providing similar management services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Trust) or from engaging in other activities.

The investment management services of PIA under the Investment Management Agreement are not exclusive and nothing in the Investment Management Agreement prevents PIA from providing similar services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Trust) or from engaging in other activities. Investments in securities purchased by the Investment Manager on behalf of the Partnership and other investment funds or trusts managed by the Investment Manager or investment funds or trusts for which PIA provides investment management services will be allocated to the Partnership and such other investment funds or trusts on a *pro rata* basis according to the size of the order and the applicable investment restrictions and policies of the Partnership and the other investment funds or trusts.

The Declaration of Trust acknowledges that the Trustee may provide services to the Trust in other capacities, provided that the terms of any such arrangements are no less favourable to the Trust than those which would be obtained from parties which are at arm's length for comparable services. The Trustee may act as trustee of, and provide services to, income funds, including income funds in which the Trust has invested or may invest.

Certain directors of the Manager are insiders of certain income funds and as such, may from time to time have knowledge of undisclosed material information with respect to such income funds. If required by applicable legislation, the Trustee will consent to investments in such income funds. The Manager has implemented and maintains policies and procedures to prevent any such director from making or influencing investment decisions made by the Manager and to prevent the transmission of such information to those officers and employees of the Manager who make or participate in making such investment decisions including those made on behalf of the Trust.

9. GOVERNANCE OF THE TRUST

As the Trust is organized as an investment trust, the Trustee has the ultimate and overriding authority to manage and direct the business and affairs of the Trust, subject to applicable law and the Declaration of Trust. In its capacity as manager, Sentry manages the overall business and operations of the Trust.

Responsibility for the oversight of the Trust and ensuring the implementation of appropriate policies, procedures and guidelines rests with the board of directors of the Manager. The Manager has adopted a Code of Ethics for Personal Investing to ensure the fair treatment of the Trust and their investors when applicable "covered persons" make personal trades.

Senior management and internal compliance staff monitor compliance with all internal policies and procedures which are reviewed and updated at least annually.

Senior management ensures that the investment management activities of the Trust comply with the Trust's investment objectives and restrictions at meetings of the Investment Management Group ("Investment Management Group" is a group consisting of the portfolio managers and members of senior management). Derivative transactions on behalf of the Trust may be initiated only by authorized investment personnel approved by Sentry's Investment Committee (consisting of the Chief Investment Officer, the senior portfolio managers and representatives of the compliance and legal departments) who ensure that these individuals have the necessary proficiency to use derivatives. Derivative positions will be monitored daily to ensure compliance with all regulatory requirements, including cash cover requirements. As any use of derivatives by the Trust will be limited, the Manager will not conduct simulations to test the Common Share Portfolio under stress conditions. Senior management will also review any use of derivatives at meetings of the Investment Committee.

The Trust has no policies to monitor, detect, or deter short-term trades in the Units.

Proxy Voting Guidelines

The Manager's proxy voting guidelines can be summarized as follows:

Sentry believes the right to vote is one of the most effective tools for promoting good corporate governance. Promoting sound corporate governance policies in the companies in which Sentry invests is a responsibility it takes very seriously. Sentry sees strong corporate governance as an essential element in the realization of growth potential of companies which, ultimately, increases shareholder value.

Sentry has developed guidelines to illustrate how it intends to vote on both routine issues and on issues that are not routine and, in fact, may be potentially contentious. Generally, Sentry attempts to vote all proxies:

- on routine, or commonly raised issues, the portfolio manager for the investment fund will usually vote according to management's recommendations. This standing policy will be deviated from if Sentry believes there is sufficient and worthy reason to suspect that the management recommendation should not be supported in that it is not in the best interests of the shareholders of that particular company.
- on non-routine issues, and issues which may be potentially contentious, the matter is delegated to the portfolio manager for the investment fund for further consideration and, if necessary, the matter will be directed to the Investment Committee. At that time, the issue is reviewed in detail. It is then the Investment Committee's decision on whether to consult with, and obtain the opinion of, external industry experts or independent proxy research services. Ultimately, the Investment Committee is responsible for making the judgment as to how to vote or to refrain from voting.

Sentry's proxy voting guidelines are not viewed by it as a strict set of rules but, rather, are utilized as guidance regarding Sentry's treatment of most issues that result in a vote. Ultimately, these guidelines communicate Sentry's general voting practice on most matters.

The policies and procedures that the Manager follows when voting proxies relating to securities in the Common Share Portfolio are available on request, at no cost, by calling 1-888-730-4623 or by writing to Sentry Investments, 130 King Street West, The Exchange Tower, Suite 2850, Toronto, Ontario, M5X 1A4.

The Manager's proxy voting record for the most recent period ended June 30, 2010 is available free of charge to any Unitholder upon request at any time. The information is also available on the Manager's Internet site at www.sentry.ca.

10. FEES AND EXPENSES

Pursuant to the terms of the Declaration of Trust, the Trust pays the Manager an annual management fee of 0.100% of the published Net Asset Value of the Trust multiplied by a fraction, the numerator of which is the gross leveraged assets of the Partnership and the denominator of which is the net asset value of the Partnership, calculated and payable monthly, plus an amount equal to the Servicing Fee, plus applicable taxes.

The Trust pays for all expenses incurred in connection with the operation and administration of the Trust and MBS Investment Trust II. These expenses include, without limitation: (a) mailing and printing expenses for periodic reports to Unitholders; (b) fees payable to the Trustee for acting as trustee (except when the Manager is the Trustee); (c) fees payable to the Counterparty under any Forward Agreement, swap agreement or forex agreement; (d) fees payable to the Custodian for acting as custodian of the assets of the Trust; (e) banking fees and interest with respect to borrowing, including any fees associated with the use of Repurchase Agreements; (f) fees payable to the auditors and legal advisors of the Trust; (g) regulatory filing, stock exchange and licensing fees; (h) expenses incurred upon termination of the Trust; (i) commissions and out of pocket expenses payable to the agents in connection with the Offering; (j) commissions, brokerage fees and other fees relating to the implementation of transactions for the Trust's Portfolio; (k) any taxes payable by the Trust or to which the Trust may be subject; (l) any expenses of insurance and costs of all suits or legal proceedings in connection with the Trust or the Trust Property or to protect the Unitholders, the Trustee, the Manager, any Sub-Advisor, and the directors, officers, employees or agents of the Trustee, the Manager and any Sub-Advisor; (m) any expenses of indemnification of the Trustee, the Unitholders, the Manager or any Sub-Advisor, or their respective directors, officers, employees or agents; (n) expenses relating to the preparation, printing and mailing of information to Unitholders and relating to meetings of Unitholders; (o) legal, accounting and audit fees and fees and expenses of the Trustee, Custodian and Manager which are incurred in respect of matters not in the normal course of the Trust's activities; and (p) the compensation payable to, and the expenses of the IRC.

The amount payable by a Counterparty to the Trust under any Forward Agreement will be reduced by approximately 0.50% per annum on the U.S. dollar value of MBS Investment Trust II and 0.25% per annum on the value of the Common Share Portfolio.

The Trust has agreed to reimburse the Partnership for its *pro rata* share of the costs incurred by the Partnership in connection with the Partnership's compliance of the continuous disclosure requirement under Québec securities law.

Servicing Fee

The Manager will pay to registered dealers whose clients hold Class A and Class X Units, a servicing fee (the “Servicing Fee”) of the Class Net Asset Value per Unit for each Class A and/or Class X Unit held by the clients of such registered dealers (calculated and paid at the end of each month or quarter at the discretion of the dealer).

Trustees’ Fee

As the trustee and the manager are the same entity the Trustee does not receive a fee for its duties as trustee.

Fees and Expenses of the Partnership

The Partnership pays the General Partner a monthly fee payable at an annual rate of 0.100% of the gross leveraged assets of the Partnership (assuming a debt-to-equity ratio of 9:1 this percentage would be 1.00%). The General Partner is responsible for the payment of the investment management fee of the Investment Manager, which is based on the gross leveraged assets of the Partnership. The General Partner is also entitled to 0.01% of the income of the Partnership.

11. INCOME TAX CONSIDERATIONS

The following is, as of the date hereof, a general summary of the principal Canadian federal income tax considerations applicable under the Tax Act to an individual (other than a trust) who is a holder of Units and who, for the purposes of the Tax Act, is resident in Canada, deals at arm’s length, is not affiliated with the Trust and the agents and holds the Units as capital property.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the “Regulations”), all specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance prior to the date hereof (the “Proposed Amendments”), and the current administrative practices of the Canada Revenue Agency (the “CRA”). This summary assumes that the Proposed Amendments will be enacted as proposed, although there is no certainty of this. Except for the Proposed Amendments, this summary does not take into account or anticipate any changes in the law or in administrative practice, whether by way of legislative, governmental or judicial decision or action, nor does it take into account provincial or foreign tax legislation or considerations.

This summary assumes that the Trust will qualify as a “mutual fund trust” as defined in the Tax Act from the effective date of its creation and at all times thereafter. **In the event the Trust were not to qualify as a mutual fund trust at all times, the income tax consequences described below would be in some respects materially different.**

This summary is also based on the assumption that the Trust will at no time be a “SIFT trust” as defined in the SIFT Rules. The SIFT Rules are the provisions of the Tax Act providing for a tax on certain income earned by a specified investment flow through trust or partnership. Provided that the Trust does not hold “non-portfolio property” as defined in the SIFT Rules, it will not be

a SIFT trust. Based upon its investment objectives and investment restrictions, as described above, the Trust should not hold any “non-portfolio properties”.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable in respect of an investment in Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary according to the status of the Unitholder, the province or provinces in which the Unitholder resides or carries on business and, generally, the Unitholder’s own particular circumstances. Accordingly, the following description of income tax considerations is of a general nature only and is not intended to constitute advice to any particular Unitholder. **Prospective Unitholders should consult their own tax advisors with respect to the income tax consequences of investing in Units, based upon the prospective Unitholder’s particular circumstances.**

Taxation of the Trust

The Trust will be subject to tax under Part I of the Tax Act for a taxation year on the amount of its income for the year computed for tax purposes (including net taxable capital gains) less the portion thereof paid or payable to Unitholders in the year that it claims as a deduction. Provided the net income and net realized capital gains of the Trust are paid or payable to Unitholders in each year, and provided the Trust deducts, in computing its income, the full amount available for deduction in each year, the Trust will not generally be liable for income tax under Part I of the Tax Act.

The Trust will not realize any income, gain or loss as a result of entering into a Forward Agreement. Provided that the Common Share Portfolio consists of Canadian securities within the meaning of the Tax Act and the Trust elects in accordance with the Tax Act to have each of its Canadian securities treated as capital property, gains or losses realized by the Trust on the sale of Canadian securities will be taxed as capital gains or capital losses. The Trust has made an election under subsection 39(4) of the Tax Act so that all common shares that are Canadian securities will be deemed to be capital property. If the obligations of the Trust and the Counterparties under a Forward Agreement are settled by making cash payments, a payment made or received by the Trust may be treated as an income outlay or receipt, as applicable. If the Trust delivers securities in the Common Share Portfolio to the Counterparties in satisfaction of its obligations under a Forward Agreement and receives a payment from the Counterparties equal to the price stipulated in a Forward Agreement, the Trust will realize capital gains (or capital losses) equal to the amount by which such purchase price (less reasonable costs of disposition) exceeds (or is less than) the aggregate adjusted cost base of such securities.

In computing its income for tax purposes, the Trust may deduct reasonable administrative, interest and other expenses incurred by it for the purpose of earning income and generally may deduct over a five-year period the expenses incurred by it to issue Units pursuant to the Offering and not reimbursed.

Taxation of Unitholders

A Unitholder will generally be required to include in computing income for a taxation year, the Unitholder’s share of the net income of the Trust (including the taxable portion of any net capital gains) that is paid or becomes payable to the Unitholder in the taxation year, whether or not

reinvested in additional Units. Where an appropriate designation is made by the Trust, the portion of (a) any net taxable capital gains of the Trust, and (b) any taxable dividends received by the Trust on shares of taxable Canadian corporations, that is paid or becomes payable to a Unitholder will retain its character in the hands of the Unitholder. Thus, where an amount is designated to a Unitholder as taxable dividends from taxable Canadian corporations, the normal gross-up and dividend tax credit rules will apply, including the enhanced gross-up and dividend tax credit rules to the extent the amounts are designated as "eligible dividends" paid by Canadian corporations.

The non-taxable portion of any net capital gains of the Trust that is paid or becomes payable to a Unitholder in a year will not be included in computing the Unitholder's income for the year and will not reduce the adjusted cost base of the Units of the Unitholder. Any amount in excess of a Unitholder's share of the net income of the Trust (including any net capital gains) for a taxation year that is paid or becomes payable to the Unitholder in the year will not generally be included in computing the Unitholder's income for the year. However, the payment by the Trust of such excess amount will reduce the adjusted cost base of the Units of the Unitholder. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder's adjusted cost base will be increased by the amount of such deemed capital gain.

Upon a disposition or deemed disposition by a Unitholder of a Unit, whether on a sale, redemption, repurchase or otherwise, a capital gain (or capital loss) will be realized by the Unitholder to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Unit to the Unitholder immediately before the disposition. For the purposes of determining the adjusted cost base to a Unitholder of Units, the cost of any newly acquired Units will be averaged with the adjusted cost base of all Units owned by the Unitholder as capital property immediately before such acquisition. The cost of additional Units acquired as a distribution of income (including capital gains) will be equal to the amount of the distribution. A consolidation of Units following a distribution paid in the form of additional Units will not be regarded as a disposition of Units and will not affect the aggregate adjusted cost base to a Unitholder of Units.

Generally, one-half of any capital gain (a "taxable capital gain") realized by a Unitholder in a taxation year must be included in computing the income of the Unitholder for the year and one-half of any capital loss (an "allowable capital loss") realized by a Unitholder in a taxation year may be deducted from taxable capital gains realized by the Unitholder in the year in accordance with the rules in the Tax Act. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year, against taxable capital gains realized in those years, including taxable capital gains realized on the disposition of Units or amounts designated by the Trust to a Unitholder as taxable capital gains.

Alternative Minimum Tax

Amounts designated as taxable dividends from taxable Canadian corporations and net realized capital gains paid or payable to a Unitholder by the Trust or realized on the disposition of Units may give rise to a liability for alternative minimum tax.

Income Tax Consequences of the Restructuring

Liquidation of Partnership

The Partnership will liquidate its investment portfolio in advance of the March 31, 2011 termination of its administration agreement with BNY Mellon. The Partnership will realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of such securities exceed (or are exceeded by) their adjusted cost base, plus any reasonable costs of disposition. Such capital gains (or capital loss) and any taxable income arising in the terminal year of the Partnership will be allocated to the Trust. The Manager has advised counsel that the Trust is expected to have sufficient non-capital loss and net capital loss carryforwards available to it that it will not report any taxable income or net capital gains as a result of such dispositions.

Restructuring of Trust

If the Restructuring is approved, Unitholders will not be considered to dispose of their Units of the Trust by virtue of the Restructuring. Any capital loss and non-capital loss carryforwards not otherwise deducted by the Trust will remain and may be applied to reduce future taxable income. For the purposes of the Tax Act, the Trust will be considered to be the same trust after the restructuring as it was before the Restructuring. Currently, the Trust is a mutual fund trust for the purposes of the Tax Act and, so long as it continues to satisfy the dispersal requirements in the Tax Act, the Trust will continue to be a mutual fund trust under the Tax Act after implementation of the Restructuring. As long as the Trust is a mutual fund trust under the Tax Act it will be a qualified investment for registered retirement savings plans, registered retirement income funds and other plans required by the Tax Act to restrict their investments to qualified investments.

The SIFT Rules will apply to a mutual fund trust that is a SIFT trust. The Trust should not be a SIFT trust for the purposes of these rules because the Units have not been listed or traded on a stock exchange in the current taxation year and moreover the Trust should not hold “non-portfolio property” based on its investment objectives and investment restrictions.

Termination of Trust

If, instead, the Trust is terminated, its taxation year will end on its termination. The Trust will distribute a sufficient amount of its net income and net realized capital gains, if any, to Unitholders such that the Trust will not have any net income in its final taxation year. Unless Units are held in a registered plan, a Unitholder will receive a statement for tax purposes identifying his, hers or its share of the Trust’s income, if any, for the taxation year. It is expected that the Trust will not need to make a distribution of income or net capital gains because of the capital and non-capital loss carryforwards available.

If the Trust is terminated, any capital loss and non-capital loss carryforwards not otherwise deducted by the Trust will expire on the termination of the Trust.

Unitholders will be required to report a disposition of their Units on the termination of the Trust and will have proceeds of disposition equal to their pro rata share of the property of the Trust distributed to them. Unitholders will realize a capital gain (or a capital loss) equal to the amount

by which such proceeds of disposition exceed (or are exceeded by) the adjusted cost base of their Units and any reasonable costs of disposition.

Eligibility for Investment

Provided that the Trust qualifies as a mutual fund trust within the meaning of the Tax Act, the Units will be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts.

Provided that the holder of a tax-free savings account does not hold a significant interest (as defined in the Tax Act) in the Trust or any person or partnership that does not deal at arm's length with the Trust within the meaning of the Tax Act, and provided that such holder deals at arm's length with the Trust within the meaning of the Tax Act, the Units will not be prohibited investments for a trust governed by such tax-free savings account. Unitholders should consult their own tax advisors in this regard.

12. REMUNERATION OF TRUSTEE

The Trustee is entitled to receive fees from the Trust as described under "Fees and Expenses". The Trustee is entitled to be reimbursed for all expenses and liabilities which are properly incurred by the Trustee in connection with the activities of the Trust.

13. MATERIAL CONTRACTS

The following material contracts have been entered into by the Trust:

- (a) the amended and restated Declaration of Trust dated as of January 1, 2009; and
- (b) the amended and restated Custodian Agreement dated as of January 1, 2009.

Copies of the foregoing agreements may be inspected during business hours on any Business Day at the principal office of the Trust upon reasonable prior notice and are available on SEDAR at www.sedar.com.

14. LEGAL AND ADMINISTRATIVE PROCEEDINGS

The Manager is not aware of any material litigation outstanding, threatened or pending by or against the Trust or the Manager.

15. OTHER MATERIAL INFORMATION

Termination of the Trust

The Trust will terminate on April 30, 2015 (the "Termination Date"), whereupon any Forward Agreement will be settled, any non-cash assets of the Trust will be liquidated, and the net assets of the Trust will be distributed to Unitholders unless Unitholders determine to continue the Trust by a majority of the votes cast at a meeting of Unitholders called for such purpose. Immediately prior to the Termination Date, the Trustee will, to the extent possible, convert the assets of the

Trust to cash and the Trustee shall, after paying or making adequate provision for all of the Trust's liabilities, distribute the net assets of the Trust to Unitholders as soon as practicable after the Termination Date. A meeting of Unitholders to extend the Trust shall be held at least 30 days prior to the then scheduled Termination Date.

If the term of the Trust is extended beyond the Termination Date, Unitholders may redeem their Units on the Termination Date for the Class Net Asset Value per Unit as of that date.

At a special meeting to be held on March 17, 2011, unitholders have been asked to consider extending the Trust beyond the Termination Date. Alternatively, at the same special meeting, unitholders have been asked to consider the termination of the Trust. If approved, such termination would occur on or about March 25, 2011.

16. RISK FACTORS

An investment in Units is subject to certain risk factors, including but not limited to, the following:

Loss of Investment

An investment in the Trust is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment and who can withstand the effect of no distribution being paid in any period.

No Guaranteed Return

There is no guarantee that an investment in the Trust will earn any positive return in the short term or long term.

Redemptions

If holders of a substantial number of Units exercise their redemption right, the number of Units outstanding and the Net Asset Value of the Trust could be significantly reduced with the effect of increasing the management expense ratio of the Trust.

Status of the Trust

As the Trust is not a mutual fund as defined under Canadian securities laws, the Trust is not subject to the Canadian policies and regulations that apply to open-end mutual funds.

The Trust is not a trust company and is not registered under legislation of any jurisdiction governing trust companies as it does not carry on, nor does it intend to carry on, the business of a trust company. The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of the *Canada Deposit Insurance Corporation Act* (Canada) or any other legislation.

Potential Conflict of Interest

The directors and officers of the Manager and their affiliates and associates may engage in the promotion, management or investment management of any other fund or trust.

No Assurances on Achieving Objectives

There is no assurance that the Trust will be able to achieve its monthly distribution and capital preservation objectives. Furthermore, while the Manager will announce, from time to time, the Anticipated Distribution for a particular quarter, there is no assurance that distributions equal to the Anticipated Distribution will be paid and actual distributions may be materially less than Anticipated Distributions. There is no assurance that the Portfolio held by the Partnership will earn any return, which may have an indirect impact on the value of the Trust's interest in any Forward Agreement.

There is no assurance that the Trust will be able to pay distributions. The funds available for distribution to Unitholders will vary according to, among other things, the performance of the Portfolio and the interest rate spread between LIBOR and CDOR, currency fluctuations and partial settlement of any Forward Agreement prior to the Termination Date.

As a consequence of entering into a Forward Agreement, the Trust will forego the benefits of any increase in the value of the Common Share Portfolio in excess of the settlement price under the Forward Agreement.

Borrowing

The Partnership incurs leverage by borrowing against a substantial portion of the market value of its mortgage-backed securities. By incurring this leverage, the Partnership can enhance its returns. Nevertheless, this leverage, which is fundamental to the Partnership's investment strategy, also creates the following significant risks.

Leverage may cause substantial losses

Because of the Partnership's significant leverage, it may incur substantial losses if borrowing costs increase relative to interest earned on the Securities. Borrowing costs may increase for any of the following reasons:

- short-term interest rates increase;
- the market value of mortgage-backed securities decreases;
- interest rate volatility increases; or
- the availability of financing in the market decreases.

For example, if the total leverage of the Partnership is nine times the equity of the Partnership, a 10% decline in the value of the investments of the Partnership could result in all of the equity of the Partnership being lost. This leverage increases the exposure of the limited partners to losses

incurred by the Partnership on its investments, which will have an indirect impact on the value of the Trust's interest in a Forward Agreement.

Leverage may cause margin calls and defaults and force the Partnership to sell assets under adverse market conditions

Because of the Partnership's leverage, a decline in the value of the Partnership's MBS may result in its lenders initiating margin calls. A margin call means that the lender requires the Partnership to pledge additional collateral to re-establish the ratio of the value of the collateral to the amount of the borrowing. The Partnership's fixed-rate MBS generally are more susceptible to margin calls because increases in interest rates tend to affect negatively the market value of fixed-rate securities.

If the Partnership is unable to satisfy margin calls, the Partnership lenders may foreclose on its collateral. This could force the Partnership to sell its mortgage-backed securities under adverse market conditions.

The Partnership may exceed its target leverage ratios

The Investment Manager seeks to maintain the Partnership's ratio of debt-to-equity at between 4:1 and 10:1. The ratio may be at times above or below this amount, although if the debt-to-equity ratio exceeds 12:1, the Investment Manager is required in a timely manner to take all commercially reasonable steps as are necessary to reduce the Partnership's debt-to-equity ratio to 12:1 or less. If this ratio exceeds 12:1 at any time, the potentially adverse impact on the financial condition and the results of operations from the types of risks described in this section would likely be more severe.

The Partnership may not be able to achieve optimal leverage

The Partnership intends to use leverage as a strategy to increase the return to its investors. However, the Partnership may not be able to achieve its desired leverage for any of the following reasons:

- the Investment Manager determines that the leverage would expose the Partnership to excessive risk;
- lenders do not make funding available to the Partnership at acceptable rates; or
- lenders require that the Partnership provide additional collateral to cover its borrowings.

The Partnership may incur increased borrowing costs

Borrowing costs under Repurchase Agreements generally correspond to short-term interest rates such as LIBOR or a short-term Treasury Index, plus or minus a margin. The margins on these borrowings over or under short-term interest rates may vary depending upon:

- the movement of interest rates;

- the availability of financing in the market; or
- the value and liquidity of the MBS.

Performance of Securities

The Class Net Asset Value of the Units will vary according to the value of the Securities in which the Partnership invests.

Interest Rate Fluctuations

It is anticipated that the Class Net Asset Value of the Units at any given time will be affected by the level of interest rates prevailing at such time. A rise in interest rates may have a negative effect on the Class Net Asset Value of the Units.

If the interest payments on the Partnerships' borrowings increase relative to the interest the Partnership earns on its Securities, it may adversely affect the value of the Trust's interest in any Forward Agreement and thereby, the Trust's ability to make distributions.

The interest payments on the Partnership borrowings may increase relative to the interest it earns on its Adjustable MBS for various reasons discussed in this section.

Differences in timing of interest rate adjustments on mortgage-backed securities and borrowings may adversely affect profitability

The Partnership relies primarily on short-term borrowings to acquire MBS with long-term maturities. Accordingly, if short-term interest rates increase, this may adversely affect the Partnership's profitability.

Most of the MBS that the Partnership will acquire are adjustable rate MBS and Floaters. This means that their interest rates may vary over time based upon changes in an objective index that generally reflects short-term interest rates, such as LIBOR or the Treasury Index.

The interest rates on the Partnership borrowings similarly vary with changes in an objective index.

Nevertheless, the interest rates on the Partnership borrowings will generally adjust more frequently than the coupon rates on its Adjustable MBS. Accordingly, in a period of rising interest rates, the Partnership could experience a decrease in net income or a net loss because the interest rates on its borrowings adjust faster than the coupon rates on its Adjustable MBS.

Interest rate caps on mortgage-backed securities may adversely affect profitability

Adjustable MBS are typically subject to period and lifetime interest rate caps. Periodic interest rate caps limit the amount a coupon rate can increase during any given period. Lifetime interest rate caps limit the amount a coupon rate can increase through maturity of a MBS. The Partnership borrowings are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, the Partnership could experience a decrease in net income or a net loss

because the interest rates on the Partnership borrowings could increase without limitation while the coupon rates on its Adjustable MBS would be limited by caps.

Because the Partnership acquires fixed-rate securities, an increase in interest rates may adversely affect profitability

While the majority of the Partnership investments will consist of Adjustable MBS, it also invests in fixed-rate MBS. In a period of rising interest rates, the Partnership interest payments could increase while the interest it earns on its fixed-rate MBS would not change. This would adversely affect the Partnership profitability.

Change in Mortgage Prepayment Rates

The MBS in which the Partnership invests are backed by pools of mortgage loans.

The Partnership receives payments, generally, from the payments that are made on these underlying mortgage loans. When borrowers prepay their mortgage loans at rates that are faster than expected, this results in prepayments that are faster than expected on the MBS. These faster than expected prepayments may adversely affect the Partnerships' profitability.

The Partnership may purchase MBS that have a higher interest rate than the market interest rate at the time. In exchange for this higher interest rate, the Partnership will have to pay a premium over the par value to acquire the security. In accordance with accounting rules, the Partnership will amortize this premium over the term of the MBS. If the MBS is prepaid in whole or in part prior to its maturity date, however, the Partnership must expense the premium that was prepaid at the time of this prepayment. This adversely affects the Partnership's profitability.

Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayment rates also may be affected by conditions in the housing and financial markets, general economic conditions, and the relative interest rates on fixed-rate and adjustable rate mortgage loans.

Counterparty Risk

The Trust may enter into a Forward Agreement with the Counterparty pursuant to which the Trust is required to deliver to the Counterparty on the Termination Date the Common Share Portfolio in exchange for a payment in an amount equal to the redemption proceeds for a corresponding interest in MBS Investment Trust II. In entering into a Forward Agreement, the Trust is exposed to the credit risk associated with the Counterparty. Depending on the value of the Common Share Portfolio, the Trust's exposure to the credit risk of the Counterparty may be significant. In addition, the Counterparty may terminate a Forward Agreement in certain circumstances, in which case the Trust may not be able to meet its investment objectives. Furthermore, the possibility exists that the Counterparty or any guarantor of the obligations of the Counterparty pursuant to a Forward Agreement will default on their payment obligations under a Forward Agreement or that the proceeds of a Forward Agreement will be used to satisfy other liabilities of the Trust, which liabilities could include obligations to third party creditors if the Trust has insufficient assets, excluding the proceeds of a Forward Agreement, to pay its liabilities.

Securities Lending

The Trust may engage in securities lending as described under “Description of the Units – Securities Lending”. Although the Trust will receive collateral for the loans and such collateral is marked to market, the Trust will be exposed to the risk of loss should the borrower default on its obligation to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities. The Partnership may also engage in securities lending, and is subject to the same risks described above.

Unable to Renew Borrowings

Since the Partnership relies primarily on short-term borrowings, its ability to achieve its investment objectives depends not only on its ability to borrow money in sufficient amounts and on favourable terms, but also on its ability to renew or replace on a continuous basis maturing short-term borrowings. If the Partnership is not able to renew or replace maturing borrowings, the Partnership would have to sell its assets under possibly adverse market conditions.

Changes in Status of the U.S. Agencies

A sizeable part of the Portfolio is invested in securities of Fannie Mae and Freddie Mac, both of whom benefit from a special relationship with the U.S. Government due to their classification as GSEs. There can be no guarantee that Fannie Mae or Freddie Mac will continue to maintain their GSE status. Elimination or modification of the various exemptions available to GSEs, or any alteration of the special relationship with the U.S. Government could require or cause Fannie Mae or Freddie Mac to change the nature and extent of their business activities, and could adversely affect their activities, financial condition and overall risk profile. If the ratings of any of the U.S. Agencies were reduced, there would be a negative impact on the Portfolio.

Foreign Currency Exposure

The Fund has a hedge against currency risk in the amount of the U.S. dollar currency exposure of the Trust; however, changes in the currency rates and short term U.S. and Canadian interest rates may have a materially adverse effect on the distributions to Unitholders.

To the extent that a Forward Agreement is in place and the net asset value of MBS Investment Trust II in U.S. dollar terms increases or decreases, the Trust will be underhedged or overhedged unless the Manager adjusts the hedge.

Caps and Swaps

The use of interest rate swaps, caps and floors and other derivative transactions may not insulate the Partnership from interest rate and prepayment risks.

Reliance on Management and Investment Manager

Unitholders are primarily dependent on the management of the Manager, the General Partner and the Investment Manager. Investors who are not willing to rely on the management of the Manager, the General Partner and the Investment Manager should not invest in the Units.

Key Personnel

There can be no assurance that certain key personnel will continue to be employees of the Manager throughout the Manager's term as manager of the Trust. Similarly, there can be no assurance that certain key personnel will continue to be employees of the Investment Manager throughout the Investment Manager's term as investment manager to the Trust.

Management Fee

While the optimal debt-to-equity ratio for the Partnership is estimated to average 4:1 to 10:1 over the life of the Trust, the management fee is calculated as a percentage of the Partnership's gross leveraged assets. As a result, the Manager and Investment Manager earn higher fees at higher levels of leverage.

Derivatives Risk

The Portfolio may use derivatives for any purpose including, among other things, as a substitute for taking a position in the underlying asset or as part of a strategy designed to reduce or increase exposure to other risks, such as interest rate or currency risk. The Portfolio's use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks, such as liquidity risk, interest rate risk, market risk, credit risk, leveraging risk, counterparty risk and management risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. When the Partnership invests in a derivative instrument, it could lose more than the principal amount invested.

Changes in United States Tax Legislation

There can be no assurance that the income tax laws of the United States relating to the availability of the portfolio interest exemption will not be changed in a manner which adversely affects the distributions received by members of the Partnership, which may have an indirect impact on the value of any Forward Agreement.

Changes in Canadian Tax Legislation

There can be no assurance that Canadian income tax laws and the treatment of mutual fund trusts under the Tax Act will not be changed in a manner which adversely affects the distributions received by the Unitholders.

Taxation of the Trust

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

The scope of the October 31, 2003 tax proposals announced by the Department of Finance and the announcement made by the Minister of Finance on February 23, 2005 that the Department of Finance would be developing an alternative proposal, both of which are intended to address the deductibility of losses, is uncertain. There can be no assurance that once the legislation is finalized that losses of the Trust may be denied with the result that the taxable amount of distributions to Unitholders could be increased.

If the Trust delivers securities in the Common Share Portfolio to the Counterparties in satisfaction of its obligations under any Forward Agreement and receives a payment from the Counterparties equal to the price stipulated in the Forward Agreement, the proceeds will be treated on account of capital. The CRA's practice is not to grant an advance income tax ruling on the characterization of items as capital gains or income and no advance ruling has been requested or obtained. If any transactions reported by the Trust on capital account were instead treated on income account, after-tax returns to Unitholders could be reduced and the Trust could be subject to non-refundable income tax from such transactions.

Nature of Units

The Units share certain attributes common to both equity securities and debt instruments. The Units are dissimilar to debt instruments in that there is no principal amount owing to Unitholders. The Units represent a fractional interest in the assets of the Trust. Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions.

GLOSSARY

10-Year U.S. Treasury Note	Debt obligation of the U.S. Treasury that has a 10 year maturity.
AAA rating	The highest ranking for medium and long-term debt granted by U.S. Nationally Recognized Statistical Ratings Organizations, which in the case of Standard & Poor's and Fitch is AAA and in the case of Moody's is Aaa.
Adjustable MBS	A mortgage-backed security the interest rate of which is not fixed.
Adjustable rate coupon	A coupon payment on a mortgage that adjusts to changes in an index, generally a short-term interest rate benchmark index such as LIBOR.
Business Day	Any day on which the Toronto Stock Exchange is open for business.
CDOR (Canadian Dollar Overnight Rate)	The average bid rate of interest for Canadian dollar bankers' acceptances.
CDS Participant	A participant in the CDS Clearing and Depository Services Inc.
Change in Non Portfolio Assets	For the Trust on a Valuation Date means: <ol style="list-style-type: none">the aggregate of all income accrued by the Trust on that Valuation Date, including cash dividends and distributions, interest and compensation; plus or minusany change in the value of any non portfolio assets or liabilities stated in any foreign currency accrued on that Valuation Date, including, without limitation, cash, accrued dividends or interest and any receivable or payables; plus or minusany gain or loss resulting from transfers of currencies accrued on that Valuation Date; plus or minusany other item accrued on that Valuation Date determined by the Trustee to be relevant in determining a Change in Non Portfolio Assets.
Class	Means each class of Units of the Trust.
Class Net Asset Value	Has the meaning described in "Calculation of Net Asset Value".
Class Net Asset Value per Unit	Has the meaning described in "Calculation of Net Asset Value".
Class Expenses	Means those expenses of the Trust that are attributable to a particular class of Units of the Trust other than Common Expenses.
Code	U.S. Internal Revenue Code of 1986, as amended.
Common Expenses	Means those expenses of the Trust other than Class Expenses.
Collateralized mortgage	A security which pools together mortgages and separates them

obligation or CMO	into short-, medium- and long-term positions (called tranches). Tranches are set up to pay different rates of interest depending upon their maturity. Interest payments are usually paid monthly. In “plain vanilla” CMOs, principal is not paid on the final tranche until the other tranches have been paid off. This system provides principal and interest in a more predictable manner.
Currency Hedge Adjustment	An amount initially equal to (a) the net proceeds of the Offering times the prevailing one month CDOR as determined in accordance with the Forward Agreement and calculated on an actual 365 day basis minus (b) the net proceeds of the Offering (in U.S. dollars) times the prevailing one month LIBOR as determined in accordance with the Forward Agreement and calculated on an actual 360 day basis plus 0.05% as converted into Canadian dollars at the then current exchange rate.
Fannie Mae	A common term for the Federal National Mortgage Association.
Fitch	Fitch, Inc.
Floater	A CMO with an adjustable rate coupon. Floaters may be backed by fixed or adjustable rate mortgages. Floaters are typically issued with lifetime caps on their coupon rate, which represent a ceiling beyond which the coupon rate may not be increased regardless of increases in the index to which it is geared.
Freddie Mac	A common term for the Federal Home Loan Mortgage Corporation.
Ginnie Mae	A common term for the Government National Mortgage Association.
GSEs	Government Sponsored Enterprises, an unofficial designation that reflects the special relationship Fannie Mae and Freddie Mac have with the U.S. Government.
gross leveraged assets	The total assets of the Partnership without deduction of its liabilities.
Implied AAA Rating	Mortgage backed securities that are not rated would have an implied AAA rating if debt securities of the same issuer or guarantor have an AAA rating (such as Freddie Mac or Fannie Mae) or if they are backed by the full faith and credit of the U.S. Government (such as Ginnie Mae).
Interest rate caps	Agreements with another party under which, in return for a premium paid by the Partnership, the other party agrees to make payments to the Partnership to the extent that interest rates exceed a specific rate.
Interest rate swaps	Agreements with another party to exchange interest rate exposure from floating rate to fixed rate or vice versa.
LIBOR (London Interbank	An interest rate charged among banks in London for short-term

Offered Rate)	loans denominated in a specified currency, which, unless otherwise specified, is assumed to be U.S. dollars.
MBS Investment Trust II	An investment trust that was established under the laws of the Province of Ontario pursuant to a declaration of trust dated March 29, 2005. Sentry is the trustee of MBS Investment Trust II. MBS Investment Trust II intends to invest in limited partnership interests of the Partnership.
Modified pass-through security	A guaranteed mortgage-backed security that entitles the holder to receive all interest and principal payments owed on a mortgage pool, net of certain fees, regardless of whether the mortgagors actually make mortgage payments when due. It is “modified” because if the amount collected from the borrowers is less than the amount due, the issuer modifies the pass-through to add on an amount from its own funds to make the payment complete.
Moody’s	Moody’s Investors Service, Inc.
Mortgage originators:	The primary mortgage lending institutions such as banks, thrifts, savings and loan institutions, credit unions, mortgage companies or state and local housing finance agencies.
Mortgage-backed security or MBS	A security that represents an undivided interest in a group of mortgages. Principal and interest from the individual mortgage loans are paid to the MBS holders.
Multi class pass-through securities	Equity interests in a trust composed of mortgage-backed loans or other mortgage-backed securities.
Net Asset Value	Has the meaning described in “Calculation of Net Asset Value”.
Net Portfolio Transactions	The impact of Portfolio transactions and the adjustments to the assets as a result of a stock dividend, stock split or other corporate action recorded on that Valuation Date.
NI 81-102	National Instrument 81-102 — <i>Mutual Funds</i>
Partnership Leverage Factor	A fraction, the numerator of which is the gross leveraged assets of the Partnership and the denominator of which is the net asset value of the Partnership calculated and payable monthly.
Portfolio Securities proportionate share	Securities that are held in the Portfolio. When used to describe a Unitholder's interest in any amount, means the portion of that amount obtained by multiplying that amount by a fraction, the numerator of which is the number of Units of a Class of the Trust registered in the name of that Unitholder and the denominator of which is the total number of Units of that Class of the Trust then outstanding.
SIFT Rules	Means the provisions of the Tax Act providing for a tax on certain income earned by a specified investment flow-through trust or a specified investment flow-through partnership.
Standard & Poor’s	Standard & Poor’s Rating Service, a division of The McGraw-

Hill Companies, Inc.

Termination Event	<p>In respect of the Trustee or the Manager means any of the following events:</p> <p>(a) the Trustee or the Manager, as the case may be, is in material default of its obligations under this Declaration of Trust and such default continues for 30 days from the date that the relevant party receives notice from the other party, requiring it to cure such material default;</p> <p>(b) the Trustee or the Manager, as the case may be, has been declared bankrupt or insolvent or has entered into liquidation or winding up, whether compulsory or voluntary (and not merely a voluntary liquidation for the purposes of amalgamation or reconstruction);</p> <p>(c) the Trustee or the Manager, as the case may be, makes a general assignment for the benefit of its creditors or otherwise acknowledges its insolvency; or</p> <p>(d) the assets of the Trustee or the Manager, as the case may be, have become subject to seizure or confiscation by any public or governmental authority.</p>
Transfer Agent	Means the registrar and transfer agent of the Units of the Trust.
Treasury Index	A monthly or weekly average yield of benchmark U.S. Treasury securities, as published by the U.S. Federal Reserve Board.
Trust Property	Means all of the property and assets of the Trust held in trust by the Trustee pursuant to this Declaration of Trust.
Unit	In reference to the Trust means an undivided interest in the net assets of the Trust or, when used in reference to a particular Class of Units, means an undivided interest in the assets of the Trust attributable to the applicable Class, and includes a fraction of a Unit.
U.S. Agencies	Ginnie Mae, Fannie Mae and Freddie Mac.
U.S. Nationally Recognized Statistical Ratings Organizations	A credit rating agency recognized by the U.S. Securities and Exchange Commission for the purpose of providing opinion on the creditworthiness of an entity and the financial obligations of the entity. The current list of 10 agencies includes Standard & Poor's, Moody's and Fitch, among others.
Valuation Date	The last Business Day of the month
Valuation Time	Means 4:15 p.m. (Toronto time) on each Thursday during the year (or, if a Thursday is not a Business Day, then on the Business Day following such Thursday) and on the last Business Days of each month.

SENTRY SELECT MBS ADJUSTABLE RATE INCOME FUND II

- Additional information about the Trust is available in the Trust's financial statements and management report of fund performance.
- You can get a copy of the Trust's financial statements, including a statement of portfolio transactions, at no cost by calling 1-888-730-4623, or from your dealer or by e-mail at info@sentry.ca.
- The financial statements, management reports of fund performance and other information about the Trust, such as information circulars and material contracts, are also available on the Manager's Internet Site at www.sentry.ca or at www.sedar.com.

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