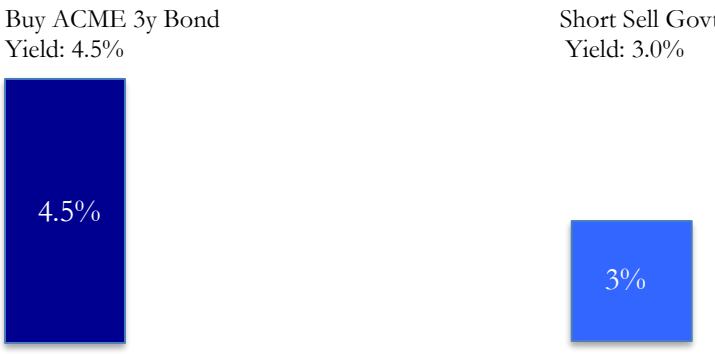
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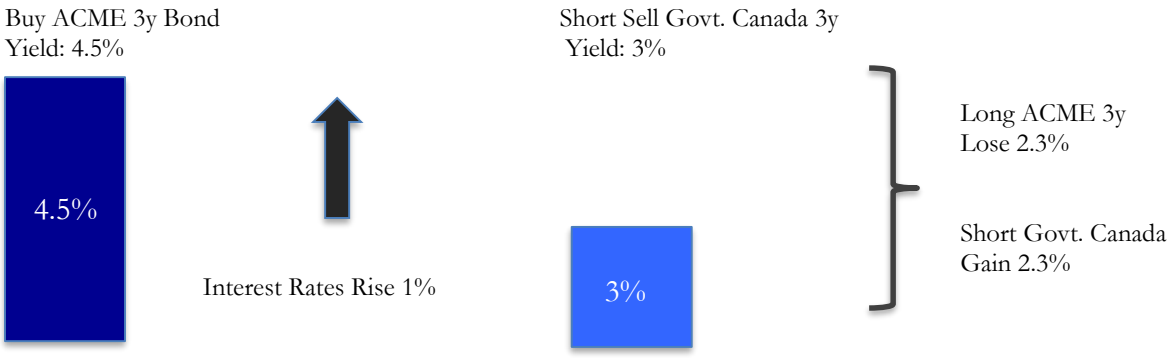
How Our Strategy Works.

Perhaps the best way to explain our strategy is with the help of a hypothetical example. In the interest of numerical simplicity, we will be using round numbers.

Let's begin with an ACME 3y investment-grade bond yielding 4.5.%. A traditional bond manager would purchase this bond in hopes of earning the 4.5% a year. Our approach is to buy the bond and simultaneously short sell the 3y Government of Canada bond.

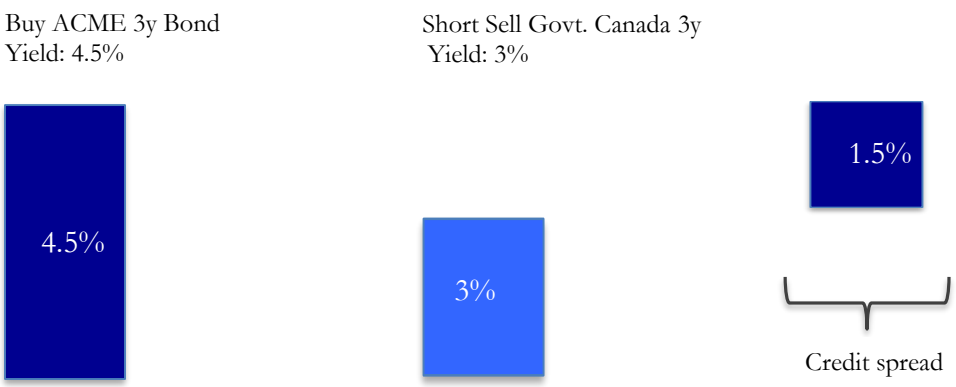


In doing so we have hedged the interest rate risk. When rates move higher or lower the impact on the two positions offset each other. So if interest rates were to rise 1% the loss on the corporate bond would be balanced with the gain on the short position.



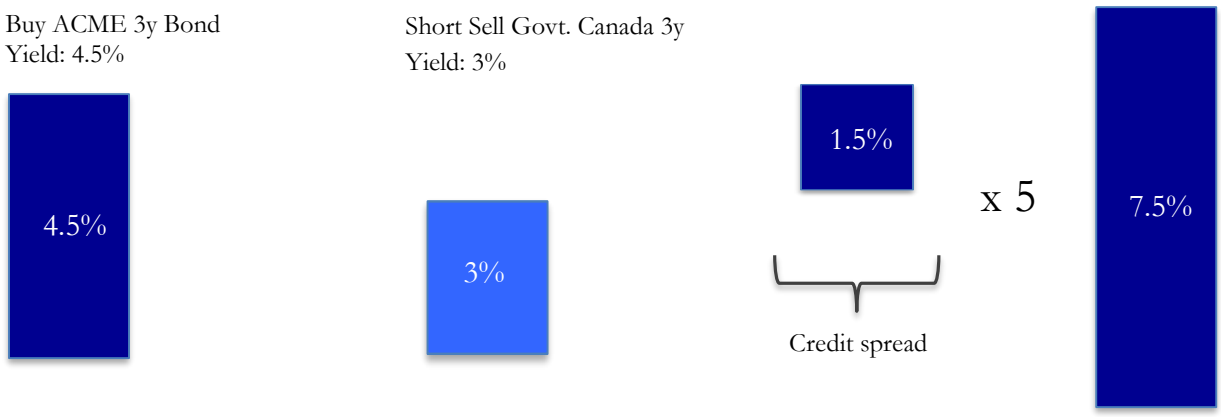
By hedging the interest rate exposure, we have also taken out one of the main drivers of bond volatility. Around 80% of fixed income returns can be explained by fluctuations in rates.

So with rate risk hedged, what we are left with is the credit exposure.



The 1.50% is ACME's 3y credit spread, the excess yield above the Government that they have to pay their bondholders. We believe this spread compensates investors well for the risks. Also relative to other asset classes, credit is less volatile.

Having isolated the risk where we see value, we apply modest leverage if and when appropriate.



With this methodology we can build a diversified portfolio of corporate credit with a target yield of between 7-9%.

On average the portfolio will consist of 80-100 issuers with the majority of the exposure to investment grade companies. These exposures are dynamically managed within a strict risk management infrastructure, where positions are adapted to the prevailing risks and opportunities.

In addition, we maintain a portion of the portfolio for active short term trading. Here we seek to capitalize on the inefficiencies of an opaque bond market, momentum, technicals, and the behaviour of other market participants.

The net effect of our strategy is the ability to treat credit as a distinct asset class. One which we feel has the ability to generate strong returns relative to the risks and volatility.

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What Are The Risks?

As the saying goes, no risk, no reward. The important thing is to understand the risks and determine if the potential rewards are sufficient for taking them on. With that in mind, below is a brief summary of the main risk factors of our strategy.*

Idiosyncratic Credit Risk

This is the risk that a particular corporation suffers a rapid deterioration in credit quality or a default. While these stories typically play out over time, an event such as corporate fraud could accelerate the process. Aside from continuously monitoring our positions, we have also implemented issuer concentration limits and stop losses to mitigate against this risk.

Systemic Credit Risk

Given the portfolio is typically long credit, the risk is that credit spreads widen sharply and quickly. To protect against this scenario we utilize quantitative risk management processes and qualitative analysis to determine the appropriate exposures based on market conditions.

Liquidity Risk

This is the risk of being unable to exit a position without taking a significant price concession. As former market makers, we have a deep understanding of the underlying liquidity of the securities we trade. Furthermore, we have processes to assist in determining the appropriate size of a position and to ensure that a sufficient portion of the portfolio is invested in highly liquid bonds.

* Please note that this is intended as a summary of the main market risk factors of the Fund. It is not a comprehensive nor complete list of all the risks associated with an investment in the Algonquin Debt Strategies Fund. For more information please refer to the Fund's Offering Memorandum.

IMPORTANT: The information contained in this document is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. This document is not, and does not constitute, an offer to sell or the solicitation, invitation or recommendation to purchase any securities. An offering memorandum containing important information relating to the Algonquin Debt Strategies Fund has been prepared. Copies of the offering memorandum may be obtained from Algonquin Capital Corporation. Investors should read the offering memorandum before making an investment decision.