



**Marret Investment Grade Bond Fund**  
**2010 Annual Management Report of Fund Performance**  
**March 28, 2011**

This annual management report of fund performance for Marret Investment Grade Bond Fund (the “Fund”) contains financial highlights but does not contain the complete annual financial statements of the Fund. This report should be read in conjunction with the annual financial statements of the Fund for the year ended December 31, 2010.

You may obtain a copy of the annual financial statements at your request, and at no cost, by collect calling 416-214-5800, by sending a request to Investor Relations, Marret Asset Management Inc., 200 King Street West, Suite 1902, Toronto, Ontario, M5H 3T4, or by visiting our website at [www.marret.com](http://www.marret.com) or SEDAR at [www.sedar.com](http://www.sedar.com). Unitholders may also contact us using one of these methods to request a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record, quarterly portfolio disclosure or independent review committee’s report.

### **The Fund**

The Fund is a closed-end investment fund managed by Marret Asset Management Inc. (the “Manager”). The units of the Fund trade on the Toronto Stock Exchange (“TSX”) under the symbol MIG.UN. Through a forward agreement (the “Forward Agreement”) between the Fund and the Bank of Nova Scotia (the “Counterparty”), the Fund is exposed to a portfolio of securities (the “Portfolio”) held by Marret IGB Trust. The Portfolio is comprised of debt securities that are generally rated at or above BBB- from Standard & Poor’s, or Baa3 or higher from Moody’s Investor Services, Inc., or a similar rating from a qualified rating agency (collectively, “Investment Grade Bonds”). The Counterparty has agreed to pay the Fund on October 31, 2014, the economic return provided by the Portfolio. The Portfolio is managed by the Manager.

### **Investment Objective and Strategies**

The Fund was created to achieve the following investment objectives: (i) to provide holders of units of the Fund with attractive monthly tax advantaged cash distributions, targeted to be 5% per year on the original issue price of \$12 per unit of the Fund, and (ii) to maximize total returns for holders of units of the Fund, consisting primarily of tax-advantaged distributions, while reducing risk and preserving capital, by obtaining exposure to the Portfolio, which is focused on Investment Grade Bonds. The principal investment strategy is to build a Portfolio composed primarily of select high quality, favourably valued, investment grade bonds that reflect the following fundamental tenets: (a) capital preservation, (b) focus on high quality credit investments, (c) liquidity and (d) full currency hedging.

The return to investors of the Fund is dependent on the return of the Marret IGB Trust’s portfolio pursuant to the Forward Agreement. As a result, this management report of the Fund performance includes discussion of the performance of Marret IGB Trust, where applicable.

## **Risks**

Risks associated with an investment in the units of the Fund are discussed in the Fund's prospectus dated September 29, 2009 (the "Prospectus"), which is available on the Fund's website at [www.marret.com](http://www.marret.com) or on SEDAR at [www.sedar.com](http://www.sedar.com). There has been no change in the Fund's stated investment strategy, and no changes to the Fund in 2010 that have materially affected the risks associated with an investment in the units of the Fund.

## **Leverage**

Through the Forward Agreement, the Fund is exposed to leverage of Marret HYS Trust. Leverage did not cause a material change in the risk associated with an investment in units of the Fund. An increase in leverage may cause an investment in units to become more risky should any event adversely affect the value of an investment held by the Funds as the impact would be magnified to the extent leverage is employed. The leverage of the Fund during the period was below the threshold as stated in the prospectus (other than for a temporary period, with immaterial impact) and did not result in a change in suitability of the investment from what was previously disclosed in the prospectus.

As indicated in the Fund's prospectus, the net exposure of Marret IGB Trust will not exceed 125%, on a daily marked-to-market basis, with net exposure calculated as the value of long security positions, excluding cash and cash equivalents, minus the absolute value of short positions, divided by the net asset value of Marret IGB Trust. At December 31, 2010, the Portfolio's net exposure was 114.9% of the net asset value of Marret IGB Trust.

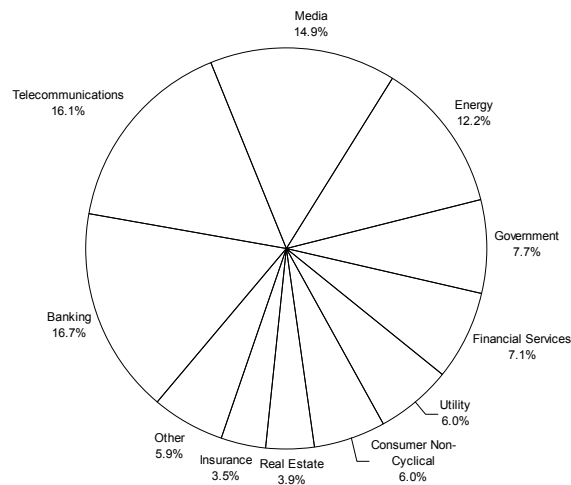
*Figures presented in this management report of fund performance are generally based on the Fund's calculation of its weekly net asset value ("Net Asset Value"), in accordance with the Fund's prospectus which may be calculated on a basis different from the application of Canadian Institute of Chartered Accountants ("CICA") Section 3855. In accordance with National Instrument ("NI") 81-106, certain figures are derived from the financial statements' calculation of net assets ("Net Assets") and are noted as such.*

## **Results of Operations**

### **Investment Portfolio**

As of December 31, 2010, Marret IGB Trust's portfolio included a total of 41 debt securities, which was comprised of 8 Government bonds and 33 corporate debentures. The Government bonds are spread hedges on specific corporate bonds or short positions to insulate the entire Portfolio from interest rate exposure. The corporate debt securities held by the Portfolio represent outright exposure to the North American corporate debt market as per the mandate of the Fund. Any U.S. dollar debt securities held in the Portfolio are fully hedged to Canadian dollars. The breakdown of the Portfolio by industry type is shown in the accompanying pie chart, and a detailed listing of the security holdings is provided in the financial statements. Consistent with its mandate, the Portfolio is concentrated yet diversified across industry sectors. As of December 31, 2010, the Portfolio had a yield to maturity of 5.62% and an average duration of 7.05 years.

Top 10 Industry Sectors



Calculated as a proportion of gross invested capital of Marret IGB Trust, excluding cash.

### Distributions

During the year ended December 31, 2010, the Fund made monthly cash distributions which totaled \$0.60 per unit.

### Liquidity and Capital Resources

Through the Forward Agreement, the Fund's performance is affected by leverage in Marret IGB Trust. Marret IGB Trust has a credit facility which provides the ability to borrow i) Canadian Dollars at a rate equal to the Bank of Canada Overnight Lending Rate plus a fixed percentage, and ii) U.S. Dollars at a rate equal to Federal Funds Overnight Rate plus a fixed percentage. The facility has been used by Marret IGB Trust to invest in additional portfolio investments. As at December 31, 2010, Marret IGB Trust had net borrowings of \$52.97 million under this facility, representing 16.84% of Net Assets of Marret IGB Trust. During the year ended December 31, 2010, the minimum and maximum amounts of net borrowings of Marret IGB Trust were \$3.34 million and \$105.59 million, respectively.

### Recent Developments

Interest rates continued their slow grind higher early in the New Year. Ten year Government of Canada bonds, which ended 2010 at 3.12%, closed the month at 3.28%. During the month, ten year Canadas briefly traded to 3.34%, breaching our projected interest rate band for the first quarter of 3.00%-3.30%. Continued optimism in the growth prospects for emerging markets, improving global manufacturing data and promising retail sales figures in North America all contributed to the moderate rise in interest rates. However, muted inflation data in both Canada and the United States along with a tempered economic outlook by the Federal Reserve and the Bank of Canada, allowed interest rates to pull back from their highs. Although these fundamentals played a critical role in the movement of interest rates during the month, sovereign debt concerns, geo-political events and government bond supply added further volatility to interest rate markets. We continue to expect that above-average volatility will be a major theme in markets this year.

From an economic fundamentals perspective, February's data continued to point to an improvement in growth prospects for the developed economies and continued strong growth in the emerging economies. Growth in the developed world is being led by a synchronized improvement in manufacturing. This growth, along with easy monetary policy and enhanced financial conditions, has boosted employment and increased consumer confidence. In North America in particular, the economy has moved closer to establishing a state of self-sustaining momentum. In the developing world, growth remains robust, but increasing inflationary pressures have resulted in monetary policy tightening which is expected to slow growth slightly in the second half of 2011.

As developed economies experience a move to an organic economic growth trajectory and developing economies require a dampening of growth in order to keep inflationary expectations in check, it is clear that the path of interest rates globally is higher. We continue to maintain, however, that this path to higher rates will be gradual given that the foundation of the recovery is not broad-based and significant global headwinds via sovereign debt and geopolitical risks persist.

We believe the improvement in the growth outlook along with central bank caution in raising interest rates too quickly will act as a productive backdrop for corporate debt. Although investment grade corporate bond spreads have tightened significantly in the past eighteen months, we believe credit metrics, economic fundamentals and the current level of spreads are supportive of further tightening. In the U.S., the average spread on investment grade corporate bonds in the broad index averaged approximately 85 basis points between 2005 and 2007; this spread is currently around 140 basis points. However, we will continue to be mindful of both the immediate and longer term risks, which include the recent rise in oil prices, ongoing sovereign debt problems and the technical positioning of the market which is broadly long credit.

## **Related Party Transactions**

Related party transactions consist of services provided by the Manager to the Fund. Pursuant to the management agreement, the Manager receives a management fee from the Fund equal to 0.125% per annum of the Net Asset Value of the Fund (or 0.50% in total when combined with the management fee received from Marret IGB Trust), calculated and payable monthly in arrears, plus applicable taxes. The management fee is in consideration for providing management, portfolio management, and administrative services and facilities to the Fund. For the year ended December 31, 2010, the management fee earned was \$454,285 (\$1,837,529 when combined with the management fee earned by Marret IGB Trust).

## **Financial Highlights**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past two fiscal periods. This information is derived from the Fund's audited annual financial statements. The information in the following tables is presented in accordance with NI 81-106 and, as a result, does not act as a continuity of opening and closing Net Assets per unit. The increase (decrease) in Net Assets from operations is based on average units outstanding during the period, and all other numbers are based on actual units outstanding at the relevant point in time.

## The Fund's Net Assets per Unit <sup>(1)</sup>

| For the period ended December 31                                  | 2010      | 2009 <sup>(2)</sup> |
|---|-----------|---------------------|
| <b>Net Assets, beginning of period</b>                            | \$ 11.56  | \$ 12.00            |
| Initial issue expense   | \$ -      | \$ (0.44)           |
| Net Assets, beginning of period (net of issue expense)            | \$ 11.56  | \$ 11.56            |
| <b>Increase / (decrease) from operations:</b>                     |           |                     |
| Total revenue   | \$ -      | \$ -                |
| Total expenses  | \$ (0.05) | \$ (0.01)           |
| Realized gains / (losses) for the period                          | \$ 0.06   | \$ -                |
| Unrealized gains / (losses) for the period                        | \$ 1.07   | \$ 0.13             |
| <b>Total increase / (decrease) from operations <sup>(3)</sup></b> | \$ 1.08   | \$ 0.12             |
| <b>Distributions:</b>   |           |                     |
| From income   | \$ -      | \$ -                |
| From dividends  | \$ -      | \$ -                |
| From capital gains  | \$ -      | \$ -                |
| Return of capital   | \$ 0.60   | \$ 0.11             |
| <b>Total Distributions <sup>(4)</sup></b>                         | \$ 0.60   | \$ 0.11             |
| <b>Net Assets, end of period</b>                                  | \$ 12.04  | \$ 11.56            |

<sup>(1)</sup> This information is derived from the Fund's audited annual financial statements. The Net Assets per unit presented in the financial statements differs from the Net Asset Value calculated for weekly Net Asset Value purposes. The Net Assets per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities on that date and includes the valuation of securities at bid prices for securities held long and at ask prices for securities held short divided by the number of units then outstanding.

<sup>(2)</sup> Information presented is for the period from October 23, 2009 to December 31, 2009.

<sup>(3)</sup> Net Assets per unit and distributions per unit are based on the actual number of units outstanding at the relevant time. The increase (decrease) in Net Assets from operations per unit is based on the weighted average number of units outstanding over the fiscal period.

<sup>(4)</sup> Distributions to unitholders are based on the number of units outstanding on the record date for each distribution and were paid in cash.

## Ratios and Supplemental Data (based on Net Asset Value)

| For the period ended December 31                | 2010           | 2009 <sup>(1)</sup> |
|---|----------------|---------------------|
| Total Net Asset Value                           | \$ 314,317,559 | \$ 325,381,384      |
| Number of Units Outstanding                     | 26,107,324     | 28,150,000          |
| Management Expense Ratio ("MER") <sup>(2)</sup> | 1.32%          | 4.68%               |
| Trading Expense Ratio <sup>(3)</sup>            | 0.00%          | 0.00%               |
| Portfolio Turnover Rate <sup>(4)</sup>          | 0.00%          | 0.56%               |
| Net Asset Value per Unit                        | \$ 12.04       | \$ 11.56            |
| Closing Market Price                            | \$ 12.05       | \$ 12.27            |

<sup>(1)</sup> Information presented is for the period from October 23, 2009 to December 31, 2009.

<sup>(2)</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) of the Fund and Marret IGB Trust for the stated period, including interest expense and issuance costs, and is expressed as an annualized percentage of daily average Net Asset Value of the period. The Management Expense Ratio excluding Issue Expenses for the period ended December 31, 2009 was 0.97%.

<sup>(3)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average Net Asset Value of the Fund during the period.

<sup>(4)</sup> The Fund's portfolio turnover rate indicates how actively the Fund's Portfolio Manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of investments during the period. The portfolio turnover ratio for Marret IGB Trust is 451.37% (2009 - 40.2%).

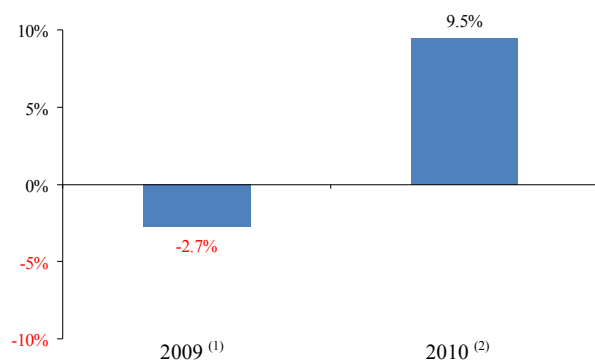
## Past Performance

The following chart and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on Net Asset Value per unit and assumes that cash distributions made by the Fund in the periods shown were reinvested (at Net Asset Value per unit) in additional units of the Fund.

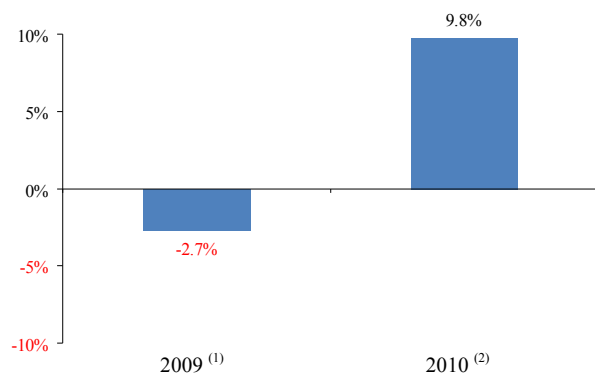
### Year-by-Year Returns

The bar charts show the Fund's total return for the overall Portfolio, long Portfolio positions and short Portfolio positions for the fiscal periods from inception to December 31, 2010. The charts show, in percentage terms, how an investment held on the first day of each period would have changed by the last day of the period.

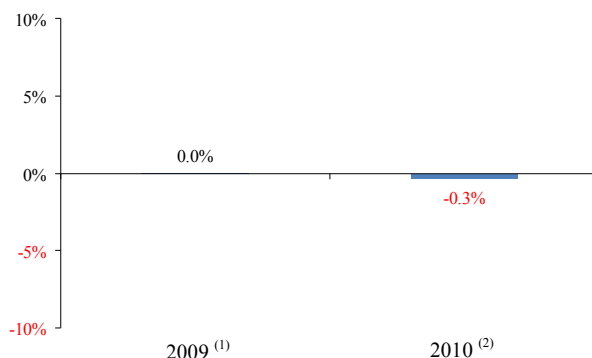
#### Overall Portfolio



#### Long Positions



#### Short Positions



<sup>(1)</sup> Period from October 23, 2009 (Fund inception) to December 31, 2009.

<sup>(2)</sup> Period from January 1, 2010 to December 31, 2010.

### Annual Compound Returns

The following table shows the Fund's annual compound return for each period indicated, compared with the DEX Mid-Term Corporate Bond Index ("Investment Grade Index") and the S&P/TSX Composite Index ("Composite Index"). The Investment Grade Index comprises semi-annual pay fixed rate bonds denominated in Canadian dollars, with remaining terms greater than 5 years and less than 10 years, rated BBB or higher, issued by Canadian Federal, Provincial or Territorial corporations. The Composite Index tracks the performance of approximately 300 large stocks listed on the TSX. The Investment Grade Index and Composite Index are calculated without the deduction of fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

|  | Year ended        |                                |
|--|-------------------|--------------------------------|
|  | December 31, 2010 | Since Inception <sup>(1)</sup> |
| Marret Investment Grade Bond Fund <sup>(2)</sup> | 9.5%              | 5.4%                           |
| <i>Long positions</i>                            | 9.8%              | 5.7%                           |
| <i>Short positions</i> <sup>(3)</sup>            | -0.3%             | -0.3%                          |
| DEX Mid-Term Corporate Bond Index                | 8.2%              | 7.8%                           |
| Merrill Lynch Canadian Corporate Index           | 7.3%              | 7.0%                           |

<sup>(1)</sup> Period from October 23, 2009 (Fund inception) to December 31, 2010.

<sup>(2)</sup> Based on Net Asset Value per unit and assuming that distributions made by the Fund on its units in the periods shown were reinvested (at Net Asset Value per unit) in additional units of the Fund.

<sup>(3)</sup> Annual compound return for short positions does not include foreign currency hedging gains/losses.

## Summary of Investment Portfolio

As at December 31, 2010

| <b>Portfolio Composition <sup>(1)</sup></b>    |                                      | <b>Top 25 Holdings <sup>(2)</sup></b>     |                                      |
|--|--------------------------------------|---|--------------------------------------|
| <b>Category</b>                                | <b>Percentage of Net Asset Value</b> | <b>Security Name</b>                      | <b>Percentage of Net Asset Value</b> |
| Investment Grade Bonds Long                    | 126.0%                               | <b>Long Positions</b>                     |                                      |
| Canadian Government and Guaranteed Bonds Short | -3.9%                                | Goldman Sachs Group Inc 5.2% 19Apr2022    | 9.2%                                 |
| U.S. Treasury Bonds Short                      | -6.6%                                | Yellow Media Inc 5.71% 21April2014        | 7.0%                                 |
| Cash and Cash Equivalents                      | -16.8%                               | Bell Canada 6.1% 16Mar2035                | 6.5%                                 |
| Other assets (liabilities)                     | 1.3%                                 | Viterra Inc 5.95% 01Aug2020 144A          | 6.2%                                 |
| Total Net Asset Value (in \$ millions)         | 314.3                                | Shaw Communications Inc 5.65% 01Oct2019   | 5.6%                                 |
|  |                                      | Thomson Reuters Corp 6.5% 15Jul2018       | 5.6%                                 |
|  |                                      | Suncor Energy Inc 5.39% 26Mar2037         | 5.5%                                 |
|  |                                      | First Cap Realty Inc 5.85% 31Jan2017      | 5.3%                                 |
|  |                                      | Citigroup Fin Canada Inc 4.35% 08Mar2013  | 5.3%                                 |
|  |                                      | IGM Financial Inc 6% 10Dec2040            | 5.1%                                 |
|  |                                      | Bell Aliant Regional Com 5.52% 26Feb2019  | 4.9%                                 |
|  |                                      | First National Financial 5.07% 07May2015  | 4.8%                                 |
|  |                                      | Co-operators Financial S 5.778% 10Mar2020 | 4.8%                                 |
|  |                                      | Power Corporation Canada 7.57% 22Apr2019  | 4.5%                                 |
|  |                                      | Consumers Waterheater 5.25% 15Mar2013     | 4.5%                                 |
|  |                                      | Husky Energy Inc 5% 12Mar2020             | 4.2%                                 |
|  |                                      | Inter Pipeline Corridor 4.897% 03Feb2020  | 4.1%                                 |
|  |                                      | TransAlta Corp 6.4% 18Nov2019             | 3.7%                                 |
|  |                                      | Rogers Communications In 6.68% 04Nov2039  | 3.4%                                 |
|  |                                      | Groupe Aeroplan Inc 9% 23Apr2012          | 3.4%                                 |
|  |                                      | American Express Canada 4.853% 03Oct2014  | 3.3%                                 |
|  |                                      | Loblaw Companies Ltd 5.22% 18Jun2020      | 3.3%                                 |
|  |                                      | Cogeco Cable Inc 5.95% 09Jun2014          | 3.3%                                 |
|  |                                      | <b>Short Positions</b>                    |                                      |
|  |                                      | Cash and Cash Equivalents                 | -16.8%                               |
|  |                                      | Canadian Government 3.5% 01Jun2020        | -3.3%                                |
|  |                                      | <b>Total Portfolio Longs</b>              | 125.4%                               |
|  |                                      | <b>Total Portfolio Shorts</b>             | -10.5%                               |

(1) Through the Forward Agreement, the Fund is exposed to the value of the investment portfolio of Marret IGB Trust. A summary of the investment portfolio of Marret IGB Trust is included above.

(2) The top 25 holdings of Marret IGB Trust, as a percentage of the Net Asset Value of Marret IGB Trust, have been presented in accordance with NI 81-106.

The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available within 60 days of each quarter end.

The prospectus and other information about Marret IGB Trust are available on the internet at [www.sedar.com](http://www.sedar.com) and at [www.marret.com](http://www.marret.com).

## 2010 Tax Information

The following information is applicable to unitholders who, for the purpose of the Income Tax Act (Canada), are resident in Canada and hold units as capital property outside of an RRSP, RRIF or DPSP. Unitholders should receive a T3 slip from their investment dealer providing this information.

T3 supplementary slips for holdings of the Fund will indicate Return of Capital in Box 42. The return of capital component is a non-taxable amount that serves to reduce the adjusted cost base of the Fund units.

The following table outlines the breakdown of the Fund's distributions declared in 2010 on a per unit basis.

| <b>Record Date</b> | <b>Payment Date</b> | <b>Return of Capital</b> | <b>Total Distribution</b> |
|--------------------|---------------------|--------------------------|---------------------------|
| 29-Jan-2010        | 12-Feb-2010         | \$ 0.05000               | \$ 0.05000                |
| 26-Feb-2010        | 12-Mar-2010         | 0.05000                  | 0.05000                   |
| 31-Mar-2010        | 14-Apr-2010         | 0.05000                  | 0.05000                   |
| 30-Apr-2010        | 14-May-2010         | 0.05000                  | 0.05000                   |
| 31-May-2010        | 14-Jun-2010         | 0.05000                  | 0.05000                   |
| 30-Jun-2010        | 15-Jul-2010         | 0.05000                  | 0.05000                   |
| 30-Jul-2010        | 16-Aug-2010         | 0.05000                  | 0.05000                   |
| 31-Aug-2010        | 15-Sep-2010         | 0.05000                  | 0.05000                   |
| 30-Sep-2010        | 15-Oct-2010         | 0.05000                  | 0.05000                   |
| 29-Oct-2010        | 12-Nov-2010         | 0.05000                  | 0.05000                   |
| 30-Nov-2010        | 14-Dec-2010         | 0.05000                  | 0.05000                   |
| 31-Dec-2010        | 17-Jan-2011         | 0.05000                  | 0.05000                   |
| <b>Total</b>       |                     | <b>\$ 0.60000</b>        | <b>\$ 0.60000</b>         |

*This information is of a general nature only and does not constitute legal or tax advice to any particular investor. Accordingly, investors are advised to consult their own tax advisors with respect to their individual circumstances.*

## Portfolio Manager

### Marret Asset Management Inc.

Marret Asset Management is a credit fixed income manager. The firm advises on over \$5 billion in high yield and investment grade corporate debt assets for institutional and retail clients. Marret is registered as a Portfolio Manager, Exempt Market Dealer and Commodity Trading Manager with the Ontario Securities Commission. The firm was founded in Toronto by Barry Allan and began operations in late 2001. Marret is 100% employee-owned and is committed to maintaining significant employee ownership in order to assemble the most qualified credit team and to achieve the best possible returns for clients.

## Portfolio Manager's Report

As the economy entered its second year of recovery from the 2008 recession, financial markets were buffeted by an unusual combination of geopolitical, macroeconomic and regulatory events. As a result, both interest rate and credit markets experienced a significant level of volatility during the year. Interest rates, which started the year tracking higher from historic lows the previous year, shifted gears early in the year. This rally in rates was due to doubts regarding the strength of the recovery and a possible double dip combined with concerns about deflation and European sovereign debt. Ten year Government of Canada yields, which temporarily climbed to 3.75% in March, rallied to 2.50% in October. They ended the year at 3.00%, well below their 3.60% starting point. Credit spreads were equally robust in their price

action impacted by an SEC investigation of Goldman Sachs, fears of bank financial stability and erratic stock markets. From a starting point of 95 basis points at the beginning of the year, the U.S. investment grade credit default index (CDX) widened to 132 basis points on these concerns. Credit spreads rallied back in the final quarter of the year with the CDX index closing tighter on a year over year basis at 78 basis points.

The Fund benefited from being structured with multiple tools to protect capital, enhance return and reduce volatility in adverse markets. All of these available tools were used actively during the course of the year to navigate changing and challenging market conditions. We were able to effectively deploy interest rate hedges in the first quarter of the year in order to protect against rising rates. Mid year as sovereign debt in Europe resulted in a significant “risk-off” theme we utilized the credit default index to hedge credit exposure. Most importantly, our ability to use a modest level of leverage was extremely productive in order to benefit from the very aggressive six month rally in interest rates which occurred from April to October. The portfolio was leveraged to its maximum limit with a combination of government and corporate bonds throughout this period.

In addition to our hedging tools, we continued to employ traditional duration management, curve positioning and credit selection techniques in order to optimize performance. From a credit perspective, we maintained our overweight positions in energy, cable and telecom for most of the year. The telecom and cable weightings were reduced modestly into year end on concerns about new issue supply in this sector as well as increased competition. We added exposure to agricultural services and media. The portfolio remained underweight financials relative to the index. We believe that Canadian financial spreads are fully valued within the context of the current macroeconomic environment. Our financial exposure is largely in a select number of U.S. companies.

Portfolio performance benefited from the combination of credit selection, duration management and hedging strategy, outlined above. Our returns were 130 and 220 basis points above the DEX Mid Corporate and the Merrill Lynch Canadian All Corporate bond indices, respectively, for the year. Looking forward into the New Year, we are confident that a global economic recovery is underway. However, this recovery continues to be supported by very low interest rates and has not yet become self-supporting. Economic fundamentals in North America have shown considerable improvement over the past two quarters. Currently, six of the eight economic indicators we track closely across the G10 countries are showing improving trends. This compares with only three which were “flashing green” at the end of August 2010. Only housing and consumer credit continue to be in negative territory. Accordingly, our outlook for credit remains cautiously positive. Our cautious optimism is due to the potential for global macro themes such as sovereign debt concerns and geopolitical risk to abruptly sideline the fragile economic recovery that appears to be taking hold. Along with these macro risks, the problems related to weak housing markets, increasing concerns about inflation and the reparation of bank balance sheets are additional speed bumps for credit. Accordingly, we remain long credit spreads, hedged versus interest rates, while employing some leverage to enhance returns based on our current outlook. However, we intend to keep the beta of the portfolio low focusing on sectors such as energy, telecom, cable and media. We continue to see value in these sectors from the perspective of valuation and underlying credit quality. Names in these sectors where credit curves still remain steep remain particularly attractive in our view.

In terms of interest rates, we believe that yields are headed moderately higher. We now target a 3.30% to 3.60% band for ten year Government of Canada bonds. Improving economic fundamentals, significant government bond supply, a drop in central bank and commercial bank buying are all likely to contribute to a further back-up in yields.

## **Forward-Looking Statements**

*Some of the statements contained herein including, without limitation, financial and business prospects and financial outlook may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may," "will," "should," "could," "anticipate," "believe," "expect," "intend," "plan," "potential," "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based on what management believes to be reasonable assumptions, we cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.*

## Corporate Information

### Independent Review Committee

John Anderson, CA

Richard Stone

Ross MacKinnon

### Directors and Officers

Barry Allan  
President, Director

Paul Sandhu  
Vice President, Director

David Gluskin  
Vice President, Director

Marcus Spain, CA  
Vice President, Chief Financial Officer

Lara Misner, CFA  
Vice President, Chief Compliance Officer

Dorothea Mell, CFA  
Vice President, Corporate Secretary

Adrian Prenc, CFA, FRM  
Vice President

### Trustee

Equity Transfer & Trust Company

### Transfer Agent & Registrar

Equity Transfer & Trust Company

### Custodian

CIBC Mellon Trust Company

### Prime Broker

TD Securities Inc.

### Auditors

PricewaterhouseCoopers LLP



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