



**Marret Investment Grade Bond Fund**  
**2010 Interim Management Report of Fund Performance**  
**August 27, 2010**

This interim management report of fund performance for Marret Investment Grade Bond Fund (the “Fund”) contains financial highlights but does not contain the complete interim financial statements of the Fund. This report should be read in conjunction with the interim financial statements of the Fund for the six months ended June 30, 2010.

You may obtain a copy of the interim 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., 150 King Street West, Suite 2304, Toronto, Ontario, M5H 1J9, or by visiting our website at [www.marret.ca](http://www.marret.ca) 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 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- by Standard & Poor’s, Baa3 or higher by Moody’s Investor Services, Inc., or a similar rating from a qualified rating agency. 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.ca](http://www.marret.ca) or on SEDAR at [www.sedar.com](http://www.sedar.com). While there has been no change in the Fund's stated investment strategy, the changes to the Fund in 2010 that have materially affected the risks associated with an investment in the units of the Fund are set out below.

## **Leverage**

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 minus the absolute value of short positions, excluding cash and cash equivalents, divided by the Net Asset Value of Marret IGB Trust. At June 30, 2010, the Fund's net exposure was 114.44% of the Net Asset Value of Marret IGB Trust. Any event which adversely affects the value of an investment held by the Fund will be magnified to the extent leverage is employed.

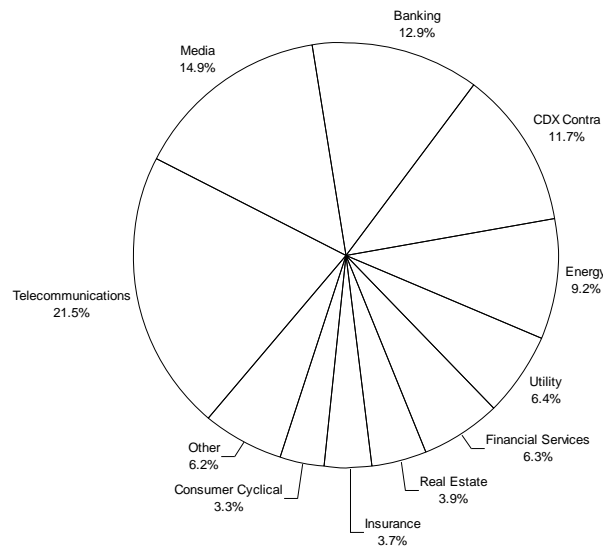
*All figures presented in this management report of fund performance are based on the Fund's calculation of its weekly net asset value ("Net Asset Value"), in accordance with the Fund's prospectus which may be calculated on a basis different from the application of Canadian Institute of Chartered Accountants ("CICA") Section 3855 for financial reporting purposes, except for the figures presented in the net assets per unit table, which can be found under Financial Highlights. In accordance with National Instrument ("NI") 81-106, the figures in this table must be derived from the financial statements ("Net Assets").*

## **Results of Operations**

### **Investment Portfolio**

As of June 30, 2010, Marret IGB Trust's portfolio included a total of 40 debt securities, which was comprised of 6 Government of Canada bonds, 1 U.S. Treasury bond, and 33 corporate bonds. The Government of Canada 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. The 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 June 30, 2010, the Portfolio had a yield to maturity of 5.71% and the unlevered Portfolio, which excludes cash, had an average duration of 6.86 years.

### Top 10 Industry Sectors



Calculated as a proportion of gross invested capital of the Fund, excluding cash.

### Distributions

During the six months ended June 30, 2010, the Fund made monthly cash distributions which totaled \$0.30 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 June 30, 2010, on a settlement date basis, Marret IGB Trust had borrowings of \$18.96 million under this facility, representing 5.61% of Net Assets of Marret IGB Trust. During the six months ended June 30, 2010, the minimum and maximum amounts of borrowings of Marret IGB Trust were \$17.52 million and \$85.15 million, respectively.

### Recent Developments

#### Ontario Sales Tax and GST Harmonization

Effective July 1, 2010, Ontario and British Columbia provincial sales tax were harmonized with the federal goods and service tax (GST), resulting in a federally administered tax ("HST"). Management fees and other service fees charged to the Fund were previously not subject to Retail Sales Tax (PST). Under the new place of supply rules, these services are subject to provincial sales tax. The HST is expected to have a significant impact as investment funds will not be entitled to recover this additional cost since funds are not currently able to recover the 5% GST.

### **International Financial Reporting Standards**

International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP for publicly accountable enterprises, which include investment funds and other reporting issuers. Under the general transition rules for publicly accountable enterprises the Fund would adopt IFRS for its fiscal period beginning January 1, 2011.

The Fund has developed a plan to meet the timetable published by Canadian Institute of Chartered Accountants for changeover to IFRS. Key elements of the plan include the determination of the qualitative impact and the quantitative impact, if any, on the Fund’s financial statements in accordance with IFRS. Based on the current evaluation of the differences between Canadian GAAP and IFRS, the adoption of IFRS is expected to have no impact on the calculation of net assets or net asset value. IFRS is expected to affect the overall presentation of financial statements and result in additional disclosure in the accompanying notes. However, the Manager’s assessment may change if new standards are issued or if the interpretations of current standards are revised.

In June 2010, the Canadian Accounting Standards Board published for comment an Exposure Draft proposing that investment companies, which include investment funds, can defer adoption of IFRS by one year. If the amendments proposed by the Exposure Draft are adopted, investment companies may continue to apply existing GAAP standards until fiscal years beginning on or after January 1, 2012.

### **Related Party Transactions**

Related party transactions consist of services provided by the Manager to the Fund. 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. For the six months ended June 30, 2010, the management fee earned was \$217,616 (\$871,822 when combined with the management fee earned from 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 year. This information is derived from the Fund’s audited annual and unaudited interim 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 6 months ended June 30, 2010	For the year ended Dec 31, 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	(0.02)	(0.01)
Realized gains (losses) for the period	0.01	-
Unrealized gains (losses) for the period	0.76	0.13
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>\$ 0.74</b>	<b>\$ 0.12</b>
<b>Distributions:</b>		
Return of capital	0.30	0.11
<b>Total Distributions <sup>(4)</sup></b>	<b>\$ 0.30</b>	<b>\$ 0.11</b>
<b>Net Assets, end of period</b>	<b>\$ 12.00</b>	<b>\$ 11.56</b>

<sup>(1)</sup> This information is derived from the Fund's audited annual and unaudited interim 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. An explanation of these differences can be found in the notes to the financial statements.

<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 were paid in cash.

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

	June 30, 2010	Dec 31, 2009 <sup>(1)</sup>
Total Net Asset Value	\$ 337,925,761	\$ 325,381,384
Number of Units Outstanding	28,150,000	28,150,000
Consolidation (Fund & Marret HYS Trust)		
Management Expense Ratio ("MER") <sup>(2)</sup>	1.22%	4.68%
MER excluding Issue Expense	1.22%	0.97%
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	\$ 12.00	\$ 11.56
Closing Market Price	\$ 11.69	\$ 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.

<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. The trading expense ratio for Marret IGB Trust is 0.00%

<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, and the greater the chance of an investor receiving taxable capital gains 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 231.40%.

### Expense Ratio

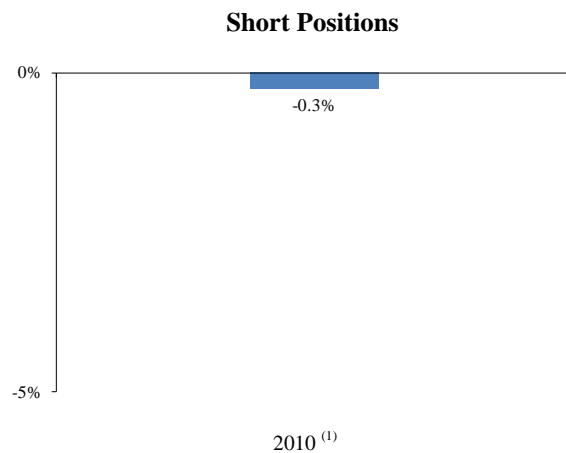
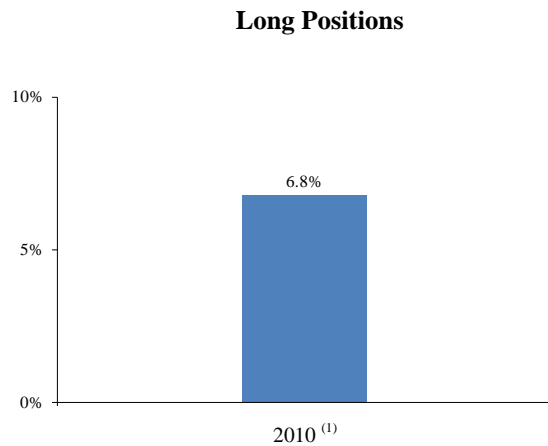
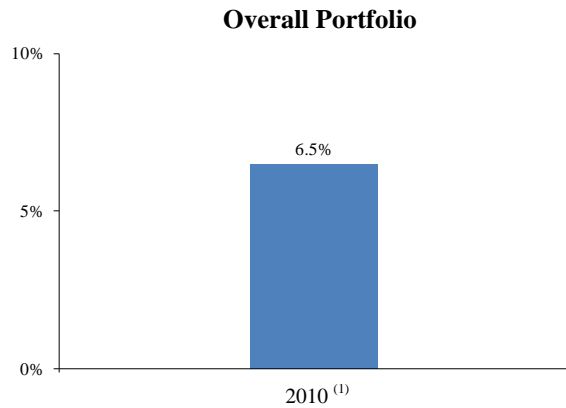
The consolidated MER of the Fund and Marret IGB Trust for the six months ended June 30, 2010 is 1.22%.

## Past Performance

The following charts 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 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 actual (not annualized) six month return ended June 30, 2010 for the overall Portfolio, long Portfolio positions and short Portfolio positions. 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.



<sup>(1)</sup> Period from January 1, 2010 to June 30, 2010.

## Summary of Investment Portfolio <sup>(1)</sup>

As at June 30, 2010

<b>Portfolio Composition</b>		<b>Top 25 Holdings <sup>(2)</sup> (excluding cash &amp; cash equivalents)</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	121.1%	<b>Long Positions</b>	
Canadian Government and Guaranteed Bonds Long	5.5%	Goldman Sachs Group Inc 5.2% 19Apr2022	8.4%
U.S. Treasury Bonds Short	-1.4%	Yellow Media Inc 5.71% 21Apr2014	6.5%
Canadian Government and Guaranteed Bonds Short	-10.1%	Bell Canada 6.1% 16Mar2035	5.9%
Cash and Cash Equivalents	-15.0%	Thomson Reuters Corp 6.5% 15Jul2018	5.5%
		Canadian Government 5% 01Jun2037	5.5%
		Shaw Communications Inc 5.65% 01Oct2019	5.2%
		Rogers Communications In 5.8% 26May2016	5.1%
		First Cap Realty Inc 5.85% 31Jan2017	5.0%
		Citigroup Fin Canada Inc 4.35% 08Mar2013	4.9%
		TransAlta Corp 6.4% 18Nov2019	4.7%
		American Express Canada 4.853% 03Oct2014	4.6%
		Bell Aliant Regional Com 5.52% 26Feb2019	4.6%
		Loblaw Companies Ltd 5.22% 18Jun2020	4.6%
		Husky Energy Inc 5% 12Mar2020	4.5%
		First National Financial 5.07% 07May2015	4.5%
		Telus Corp 5.05% 04Dec2019	4.5%
		Co-Operators Financial S 5.778% 10Mar2020	4.5%
		Power Corporation Canada 7.57% 22Apr2019	4.2%
		Consumers Waterheater 5.25% 15Mar2013	4.2%
		Inter Pipeline Corridor 4.897% 03Feb2020	3.8%
		Suncor Energy Inc 5.39% 26Mar2037	3.4%
		Groupe Aeroplan Inc 9% 23Apr2012	3.2%
		Rogers Communications In 6.68% 04Nov2039	3.2%
		Cogeco Cable Inc 5.95% 09Jun2014	3.0%
		<b>Short Positions</b>	
		Canadian Government 3.5% 01Jun2020	-4.6%
		<b>Total Portfolio Longs</b>	126.6%
		<b>Total Portfolio Shorts</b>	-11.6%

<sup>(1)</sup> 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.

<sup>(2)</sup> The top 25 holdings of Marret IGB Trust have been presented in accordance with NI 81-106. Values are calculated on a trade date basis.

*The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available within 60 days of Q1 and Q3 end.*

## **Portfolio Manager**

### **Marret Asset Management Inc.**

Marret Asset Management is a credit fixed income manager. The firm advises on over \$4.5 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**

A considerable slowdown in global growth expectations combined with an increase in sovereign debt concerns have created significant volatility in both credit and interest rate markets over the past four months. This is in sharp contrast to the first quarter of 2010, when the global economic recovery appeared to be well established, risk assets were rallying, and the Bank of Canada was pointing to a tightening of monetary policy. This rather abrupt change in the macro-economic outlook has prompted a broad change in the portfolio composition. First, portfolio duration has been extended and we have employed leverage to add additional duration to the portfolio. Second, the risk dynamic of our credit exposure has been adjusted to reduce beta. The Fund is heavily underweight financials, specifically banks and overweight telecom, cable, energy and media. Third, the Fund's curve positioning has been modified with a bull flattening bias.

Throughout the period, interest rates have declined appreciably. Ten year Government of Canada bonds have rallied approximately 8 points or nearly 100 basis points. Ten year Canada yields are currently 2.85%. We believe that interest rates will continue to move lower with a target of 2.50% being a distinct possibility. This view is based on continued low inflation and supportive central bank policy. Although stocks have recovered about half of their May 2010 sell-off, this appears to be largely on a reduction in fear of the sovereign debt problems in Europe rather than due to an improving economic outlook. Accordingly, we believe that risk assets, stocks, commodities, credit and currencies are range-bound and have not entered a new bull phase.

As we enter the third quarter, the economic data globally continue to reinforce the slowing growth momentum story. Chinese industrial production is declining, U.S. employment and housing continue to weaken and even in Canada, a bastion of growth and stability, cracks are beginning to appear in our consumer spending and housing data. Within the context of this macroeconomic framework, we believe that the current portfolio positioning, namely, long duration with low beta corporate bonds continues to be warranted.

## **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

Lara Misner, CFA  
Vice President, Chief Financial  
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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