



Management's Report on Fund Performance of

INVESTMENT GRADE TRUST

December 31, 2008

Management's Report of Fund Performance

FOR THE SIX MONTHS ENDED DECEMBER 31, 2008

<p>DISCLOSURE</p>	<p>This management report of fund performance contains financial highlights but does not contain the financial statements of the investment fund. You can get a copy of the unaudited financial statements at your request, and at no cost, by calling 416-361-1212, by writing to us at Crown Hill Capital Corporation, 141 Adelaide Street West, Suite 1006, Toronto, Ontario, M5H 3L5 or by visiting our website at www.crownhill.ca or SEDAR at www.sedar.com.</p> <p>Holders of units (the “Unitholders” and the “Units”), may also contact us using one of these methods to request a copy of the investment fund’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.</p>
<p>CORPORATE STRUCTURE</p>	<p>Investment Grade Trust (the “Fund”) is an investment fund established under the laws of the Province of Ontario on January 28, 2003 (date of inception). At that time, the Fund completed an initial public offering (the “Offering”) of 7,200,000 units at \$10 per Unit. Subsequently an option granted to the agents was exercised for 300,000 units at \$10 per unit. The Fund's Units are listed on The Toronto Stock Exchange. The Fund will terminate operations on December 31, 2012 (the “Termination Date”) and the net assets will be distributed pro rata to Unitholders. Crown Hill Investment Corporation was both the Manager (the “Manager”) and Trustee of the Fund until June 6, 2008, at which time it was replaced by Crown Hill Capital Corporation. Crown Hill Asset Management Inc. is the investment advisor (the “Investment Advisor”) to the Fund.</p>
<p>INVESTMENT OBJECTIVES AND STRATEGY OF THE FUND</p>	<p>The Fund’s investment objectives are:</p> <ul style="list-style-type: none"> (i) to pay to Unitholders on or about December 31, 2012 (the “Termination Date”), an amount equal to \$10.00 per Unit and (ii) to provide Unitholders with a stable stream of tax-efficient semi-annual distributions of approximately \$0.25 per Unit. <p>To provide the Fund with the means to meet its investment objectives, the Fund manages its assets to provide exposure to two portfolios of debt securities as follows:</p> <ul style="list-style-type: none"> (i) the “Capital Repayment Portfolio”: a portfolio structured to pay, at the Termination Date, \$10.00 per Unit and consist primarily of debt securities issued or guaranteed by Provinces of Canada (comprising at least 75% of the Capital Repayment Portfolio) and by global financial institutions; and (ii) the “Distribution Portfolio”: a portfolio structured to pay approximately \$0.25 per Unit semi-annually commencing June 30, 2003 through to the Termination Date and consist of or provide exposure to debt securities issued by North American corporations considered investment grade, at the time of investment, by S&P or another recognized rating agency.

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<p>INVESTMENT OBJECTIVES AND STRATEGY OF THE FUND</p> <p>(continued)</p>	<p>The Fund gains exposure to the performance of the Capital Repayment Portfolio and the Distribution Portfolio of the Bond Trust through a forward purchase and sale agreement (the "Forward Agreement") with UBS AG, a major global financial institution (the "Counterparty"). The return to Unitholders will be dependent upon the return on the Capital Repayment Portfolio and the Distribution Portfolio by virtue of the Forward Agreement. The Fund invested a portion of the proceeds of the offering of Units in a portfolio of common shares of Canadian public companies (the "Common Share Portfolio") and entered into the Forward Agreement with the Counterparty pursuant to which the Counterparty agreed to pay to the Fund on or about the Termination Date as the purchase price for the Common Share Portfolio an amount equal to 100% of the redemption proceeds of a corresponding number of units of the Bond Trust.</p> <p>The Fund will partially settle the Forward Agreement prior to the Termination Date in order to fund semi-annual distributions as well as redemptions of Units by Unitholders, purchases of Units in the market by the Fund and expenses of the Fund.</p> <p>The Investment Advisor actively monitors the Capital Repayment and Distribution Portfolios on behalf of the Unitholders.</p>
<p>RISK</p>	<p>An investment in Units is subject to certain risk factors, including:</p> <ul style="list-style-type: none"> (i) there can be no assurance that the Fund will be able to achieve its capital repayment objective or its distribution objective; (ii) the NAV per Unit will vary according to, among other things, interest rates, the overall performance of the debt markets, the value of the securities in the Capital Repayment Portfolio and the Distribution Portfolio and distributions paid on the Units; (iii) Units may trade in the market at a premium or discount to the NAV per Unit and there can be no assurance that Units will trade at a price equal to the NAV per Unit; (iv) counterparty risks associated with the Forward Agreement; (v) counterparty risks associated with securities lending; (vi) the fact that if, contrary to the advice of counsel to the Fund, or as a result of a change of law, physical settlement of the Forward Agreement the character and timing of the gain under the Forward Agreement were other than a capital gain on the sale of the securities thereunder, after-tax returns to Unitholders could be reduced;

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RISK**(continued)**

- (vii) the fact that if, contrary to the advice of counsel to the Fund, or as a result of a change of law, physical settlement of the Forward Agreement the character and timing of the gain under the Forward Agreement were other than a capital gain on the sale of the securities thereunder, after-tax returns to Unitholders could be reduced;
- (viii) a court could find the general anti-avoidance rule ("GAAR") contained in the Tax Act to apply and, therefore, re-characterize the distributions received by the Unitholders as income derived from the bond portfolios held by the Bond Trust rather than capital gains and return of capital thereby reducing the after-tax returns to Unitholders. In the opinion of counsel, GAAR should not apply;
- (ix) reliance on the Manager, the Investment Advisor and key personnel;
- (x) possible changes in tax or other legislation;
- (xi) legal and statutory rights;
- (xii) the potential liability of Unitholders;
- (xiii) potential conflicts of interest; and
- (xiv) status of the Fund;
- (xv) there is no guarantee that the Capital Repayment Portfolio and the Distribution Portfolio will earn any return and the Capital Repayment Portfolio and the Distribution Portfolio could be subject to losses;
- (xvi) risks of investing in debt securities;
- (xvii) risks associated with interest rate hedging;
- (xviii) sensitivity of market price of Units to interest rates;
- (xix) foreign market exposure; and
- (xx) the possibility of the Bond Trust being unable to acquire or dispose of illiquid securities.
- (xxi) reliance on UBS AG and CIBC Mellon to provide the Manager with weekly pricing information.

Currently, the Manager believes that the main risk with investing in the Fund is risk factor (xv), the risks of investing in debt securities, and in particular the credit risks in the Distribution Portfolio. In the event that one of the credits in the Distribution Portfolio was to default, there would be a reduction in distributions to Unitholders.

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RESULTS OF OPERATIONS

The Fund's current fiscal year began on July 1, 2008. Total expenses, inclusive of investment management fees, forward fees, general & administrative costs and interest expense, for the period ended December 31, 2008 were \$555,726. The decrease in Net Assets from operations for the Fund was \$6,616,888 (or \$0.98 per Unit). There were distributions of \$1,482,155 to Unitholders.

The Fund's Net Assets decreased from \$60,455,533 (\$8.96 per Unit) as at June 30, 2008, the end of the previous fiscal year, to \$46,092,230 (\$7.77 per Unit) as at December 31, 2008. This represents a 23.8% decrease in the Net Assets over the period of which \$6,264,260 was due to redemptions and \$1,482,155 was from the distributions.

RECENT DEVELOPMENTS

The last six months of 2008 was one of the worst periods for equity and bond investors since the Second World War. The collapse of the housing market in the United States triggered a freezing up of the global credit markets. Firms that had the largest exposure to those markets were either wiped out or required massive government bailouts. Banks, insurance companies and financial institutions that in July were thought to be indestructible have been annihilated. While the collapse began in the United States, it has now spread across the entire world. The price of oil and base metals have plummeted, the auto sector is on the verge of bankruptcy and every major government has passed massive stimulus spending bills.

The past year has been one of the worst years for the global and domestic fixed income markets since the Second World War. Corporate spreads have continued to widen, implying that there will be a substantial increase in defaults in 2009 and 2010. The Fund's counterparty, UBS AG, has continued to experience major write-downs causing further deterioration in their credit quality. On a positive note, the Swiss government has removed over \$60 billion of poor assets from UBS's balance sheet.

The widening in corporate spreads directly reduces the price of the bonds in the Distribution Portfolio and the Capital Repayment Portfolio. The financial institutions in the Capital Repayment Portfolio have seen the price of their bonds drop significantly. The capital injections by the U.S. and Swiss governments have helped stabilize them for now. The major losses and recapitalization at the Fund's counterparty UBS AG, has also increased UBS AG's hedging costs. The higher hedging costs at UBS AG have reduced the price of the derivative contracts with them. This has resulted in a decline in the net asset value of the Fund

Neither the Distribution Portfolio nor the Capital Repayment Portfolio has direct exposure to the U.S. real estate or sub prime markets. Nevertheless, the problems have now cascaded into the financial markets and the economy as a whole. The Fund has not experienced any defaults, however, under the current conditions it would not be surprising if they begin to occur in 2009. Since the Fund will mature at the end of 2012, the Fund's credit exposure is now approximately 83% to the Capital Repayment Portfolio and 17% to the Distribution Portfolio. By December 2012 this ratio would be 100% and 0% accordingly. This declining risk profile should help reduce the damage to Fund's net asset value in the event of defaults.

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**RELATED PARTY
TRANSACTIONS**

The Manager is entitled to an annual fee of \$562,500 plus applicable taxes, payable monthly in arrears. From this fee, the Manager is responsible to pay certain fees due under the Forward Agreement which totaled \$168,592 for the period ended December 31, 2008 (\$163,697 for the period ended December 31, 2007). The Manager, for its services, retains the net amount which totaled \$125,491 for the period ended December 31, 2008 (\$124,607 for the period ended December 31, 2007). All other expenses of the Fund are initially paid by the Manager, and the Manager is reimbursed by the Fund.

Administration expenses for the period ended December 31, 2008 totaled \$52,942 (\$62,336 for the period ended December 31, 2007). As part of these expenses the Fund is paying a general overhead cost to First Paladin Inc. (a company related to the Manager) which varies depending on the costs incurred. The general overhead cost for the period ended December 31, 2008 was \$49,770 (\$50,244 for the period ended December 31, 2007).

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FINANCIAL
HIGHLIGHTS

The following table shows selected key financial highlights of the Fund and is intended to help you understand the Fund's financial highlights for the past two and a half years. The information for the years ended June 30, 2007 and 2008 is derived from the Fund's annual audited financial statements and the information for the period ended December 31, 2008 is derived from the Fund's interim financial statements.

	<i>Six months ended December 31, 2008</i>	<i>Year ended June 30, 2008</i>	<i>Year ended June 30, 2007</i>
GAAP NAV per Unit, beginning of year	\$ 8.96	\$ 9.36	\$ 9.22
Initial adoption of new accounting policy	0.00	0.00	n/a
<u>Increase (decrease) from operations:</u>			
Total revenue	0.00	0.01	0.01
Total expenses	(0.08)	(0.15)	(0.12)
Realized gains (losses) for the year	0.08	(1.12)	2.23
Unrealized gains (losses) for the year	(0.98)	1.30	(1.48)
Total increase (decrease) from operations ⁽¹⁾	(0.98)	0.04	0.64
<u>Distributions:</u>			
From income (excluding dividends)	-	-	-
From dividends	-	-	-
From capital gains	-	-	-
Return of capital	0.25	0.50	0.50
Total annual distributions ⁽²⁾	0.25	0.50	0.50
GAAP NAV per Unit, end of year	\$ 7.77	\$ 8.96	\$ 9.36

- 1) NAV per Unit and distributions are based on the actual number of Units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of Units outstanding over the financial period.
- 2) Distributions were paid in cash.

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RATIOS AND
SUPPLEMENTAL
DATA

	<i>Six months ended December 31, 2008</i>	<i>Year ended June 30, 2008</i>	<i>Year ended June 30, 2007</i>
GAAP Net Assets ⁽⁵⁾	\$ 46,092,230	\$ 60,455,533	\$ 70,197,062
Adjustment from bid to closing price ⁽⁵⁾	\$ -	-	n/a
Transactional Net Assets ⁽⁵⁾	\$ 46,092,230	60,455,533	n/a
Number of units outstanding	5,928,620	6,744,317	7,500,000
Transactional NAV per unit ⁽⁵⁾	\$ 7.77	8.96	n/a
Management expense ratio ⁽²⁾	2.01 %	1.63 %	1.28 %
Management expense ratio before waivers or absorptions	2.01 %	1.63 %	1.28 %
Portfolio turnover rate ⁽³⁾	0.09 %	13.67 %	Not applicable
Trading expense ratio ⁽⁴⁾	Not applicable	Not applicable	Not applicable
Closing market price	\$ 7.25	\$ 8.31	\$ 9.97

- 1) This information is provided as at December 31, 2008, June 30, 2008 and June 30, 2007.
- 2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average Net Assets during the period.
- 3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser 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 a 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 a fund.
- 4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average Net Assets during the period.
- 5) At December 31, 2008 there is no difference between Transactional Net Assets and GAAP Net Assets.

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MANAGEMENT FEES

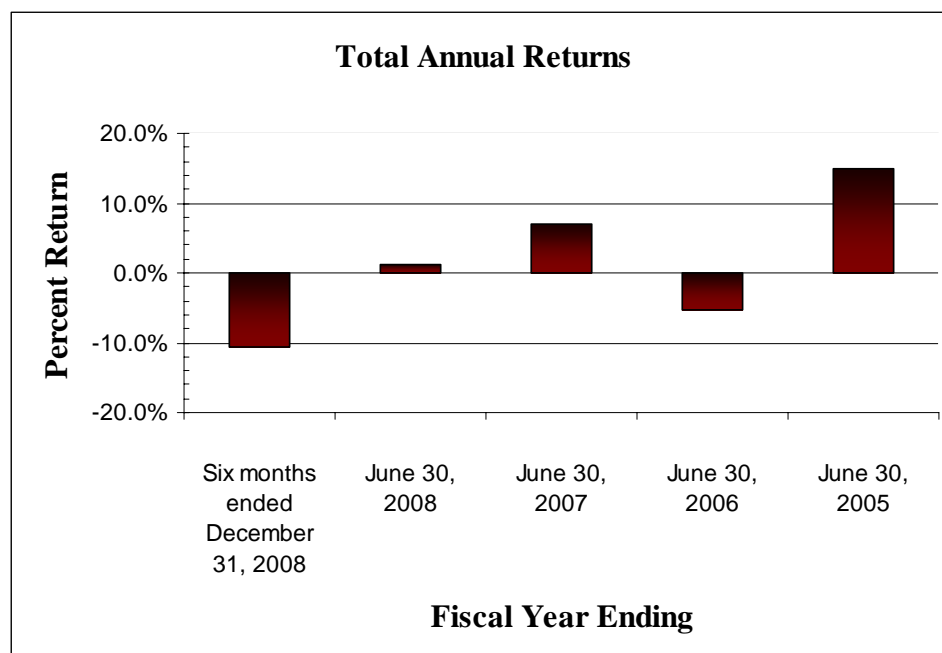
The main costs for Investment Grade Trust are management fees, and forward fees with some increases in administration, board and audit fees over the previous year.

The total fees and expenses for the six months ended December 31, 2008 were \$555,726, with the following breakdown.

<i>Category</i>	<i>Amount Paid</i>	<i>Percent of Fees & Expenses</i>
Forward agreement fees	\$ 168,592	30.3 %
Management fees	125,491	22.6 %
Administrative expenses	52,942	9.5 %
Audit fees	18,304	3.3 %
Accounting fees	15,252	2.7 %
Board and IRC fees	59,428	10.7 %
Insurance expense	29,442	5.3 %
Legal fees	44,598	8.0 %
Unitholder servicing expense	1,330	0.2 %
Custody, valuation and transfer fees	29,526	5.3 %
Regulatory and listing expenses	10,821	1.9 %

PAST PERFORMANCE**Year-by-Year Returns**

The following bar chart shows the Fund's annual performance for its past four full fiscal years plus the six months ended December 31, 2008. These charts indicate, in percentage terms, how much an investment made on the first day of each financial period (if purchased at the NAV per Unit) would have grown by the last day of each period (if sold at the NAV per Unit).



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ANNUAL
COMPOUND
RETURNS

The benchmark index is the iShares CDN Bond Index Fund (TSX: XBB). Differences in performance between the Fund and the benchmark will arise from differences in credit quality and duration.

	<i>1-Year</i>	<i>3-Year</i>	<i>5-Year</i>	<i>Since Inception</i>
Investment Grade Trust	-7.50 %	-2.01 %	-1.77 %	1.14 %
iShares CDN Bond Index Fund	6.13 %	4.40 %	5.44 %	5.56 %

SUMMARY OF
INVESTMENT
PORTFOLIO

The following is a summary of the investment portfolio held by the Bond Trust as at December 31, 2008. The entire portfolio is subject to a cash flow smoothing swap. For more information, please consult the financial statements.

Par Value	Description	Coupon	Maturity	Fair Value	% of Net Assets
Capital Repayment Portfolio					
Par Value in CDN \$ (except as noted)					
16,000,000	Ontario Hydro	0.000%	4/15/2012	\$ 14,648,466	28.6 %
2,494,000	Ontario Hydro	0.000%	2/6/2013	2,211,036	4.3 %
4,200,000	Ontario Hydro	0.000%	2/18/2013	3,723,074	7.3 %
1,500,000	Province of British Columbia	0.000%	6/18/2012	1,363,468	2.7 %
4,500,000	Province of British Columbia	0.000%	8/23/2012	4,075,920	8.0 %
4,000,000	Province of Ontario	0.000%	12/2/2012	3,583,894	7.0 %
13,900,000	Province of Ontario	0.000%	1/13/2013	12,368,753	24.1 %
7,200,000	Province of Quebec	0.000%	4/1/2012	6,595,517	12.9 %
1,600,000	^{U.S} Credit Suisse First Boston	6.500%	1/15/2012	2,020,260	3.9 %
800,000	^{U.S} Goldman Sachs Group	5.700%	9/1/2012	941,713	1.8 %
1,600,000	^{U.S} Morgan Stanley Dean Witter	6.600%	4/1/2012	1,909,606	3.7 %
12,584,000	UBS Default Contingency Swap	0.000%	12/31/2012	8,988,146	17.5 %
				62,429,853	121.8 %

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SUMMARY OF
INVESTMENT
PORTFOLIO

(continued)

Par Value	Description	Coupon	Maturity	Fair Value	% of Net Assets
Distribution Portfolio					
Par value in US \$					
738,000	Anthem Inc. (Wellpoint Inc.)	6.800%	8/1/2012	\$ 900,583	1.8 %
165,000	AOL Time Warner Inc.	6.875%	5/1/2012	195,687	0.4 %
729,000	AON Corp.	7.375%	12/14/2012	888,913	1.7 %
217,000	Arvinmeritor Inc .	8.750%	3/1/2012	144,659	0.3 %
154,000	CIT Group Inc.	7.750%	4/2/2012	151,652	0.3 %
512,000	Coca Cola Enterprises Inc.	6.125%	8/15/2011	633,982	1.3 %
164,000	Disney (Walt) Co.	6.375%	3/1/2012	215,716	0.4 %
802,000	Electronic Data Systems	7.125%	10/15/2009	1,006,529	2.0 %
247,000	Falconbridge Ltd.	7.350%	6/5/2012	316,756	0.6 %
618,000	Ford Motor Credit Co.	7.375%	2/1/2011	580,172	1.1 %
256,000	General Electric Capital Corp.	4.625%	9/15/2009	319,599	0.6 %
749,000	Safeco Corp.	7.250%	9/1/2012	842,058	1.6 %
931,000	Sprint Capital Corp.	8.375%	3/15/2012	919,456	1.8 %
722,000	Sun Microsystems Inc.	7.650%	8/15/2009	869,026	1.7 %
633,000	Teco Energy Inc.	7.200%	5/1/2011	732,642	1.4 %
				8,747,430	17.0 %
	Swap Contract			(19,928,943)	(38.9) %
				(11,181,513)	(21.9) %
	TOTAL INVESTMENTS			51,248,340	99.9 %
	OTHER ASSETS LESS LIABILITIES			28,299	0.1 %
	TOTAL NET ASSETS			\$ 51,276,639	100.0 %

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SUMMARY OF
INVESTMENT
PORTFOLIO

(continued)

The following is a summary of the investment portfolio held by Investment Grade Trust as at December 31, 2008. For more information please consult the financial statements.

Number of Shares	Description	Fair Value	% of Net Assets
CANADIAN EQUITIES			
609,944	Barrick Gold Corp.	\$ 2,722,978	5.9 %
371,900	Bombardier Inc., Class 'B'	1,643,798	3.6 %
89,917	Brookfield Asset Management Inc., Class 'A'	1,667,061	3.6 %
400,000	COM DEV International Ltd.	1,264,000	2.7 %
500,000	Domtar Inc.	955,000	2.1%
97,814	Enbridge Inc.	3,863,653	8.4 %
158,000	Forzani Group Ltd.	1,129,700	2.4 %
200,000	Ivanhoe Mines Ltd.	634,000	1.4 %
198,525	Kingsway Financial Services Inc.	1,274,531	2.8 %
102,540	MDS Inc.	769,050	1.7%
37,661	Magna International Inc., Class 'A'	1,379,146	3.0 %
138,070	Nortel Networks Corporation	44,182	0.1%
62,000	Onex Corp.	1,116,620	2.4 %
134,800	Open Text Corp.	4,941,768	10.7 %
66,178	Petro-Canada	1,760,997	3.8 %
48,710	Quebecor Inc., Class 'B'	956,177	2.1 %
31,278	Shoppers Drug Mart Corp.	1,502,282	3.3 %
78,918	Thomson Corp.	2,808,691	6.1 %
TOTAL CANADIAN EQUITIES		30,433,634	66.1 %
CANADIAN BONDS			
Par Value			
\$700,000	Province of Ontario Strip Bond 12/02/2012	627,620	1.3 %
TOTAL INVESTMENTS		31,061,254	67.4 %
FORWARD AGREEMENT		20,843,005	45.2 %
		51,904,259	112.6 %
RECEIVABLE UNDER FORWARD AGREEMENT		1,971,090	4.3 %
LIABILITIES NET OF OTHER ASSETS		(7,783,119)	(16.9) %
TOTAL NET ASSETS		\$ 46,092,230	100.0 %

This summary of the investment portfolio may change due to ongoing portfolio transactions of the Fund and a quarterly update is available.