



Management's Report on Fund Performance of

INVESTMENT GRADE TRUST

For the year ended June 30, 2008

26,934,730 BND.UN \$75,900,000

Management's Report of Fund Performance

FOR THE YEAR ENDED JUNE 30, 2008

DISCLOSURE	<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 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>
CORPORATE STRUCTURE	<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>
INVESTMENT OBJECTIVES AND STRATEGY OF THE FUND	<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

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continued

<p>INVESTMENT OBJECTIVES AND STRATEGY OF THE FUND</p> <p>(continued)</p>	<p>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.</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;

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RISK**(continued)**

- (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;
- (vii) 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;
- (viii) reliance on the Manager, the Investment Advisor and key personnel;
- (ix) possible changes in tax or other legislation;
- (x) legal and statutory rights;
- (xi) the potential liability of Unitholders;
- (xii) potential conflicts of interest; and
- (xiii) status of the Fund;
- (xiv) 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;
- (xv) risks of investing in debt securities;
- (xvi) risks associated with interest rate hedging;
- (xvii) sensitivity of market price of Units to interest rates;
- (xviii) foreign market exposure; and
- (xix) the possibility of the Bond Trust being unable to acquire or dispose of illiquid securities.
- (xx) 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, 2007. Total expenses, inclusive of investment management fees, forward fees, general & administrative costs and interest expense, for the year ended June 30, 2008 were \$1,052,839. The increase in Net Assets from operations for the Fund was \$318,423 (or \$0.04 per Unit). There were distributions of \$3,372,158 to Unitholders.

A Unitholder meeting was called for November 2007. The Unitholder servicing expense of \$12,772 and the majority of the increase in legal fees from the previous reporting period (\$63,595 – 2008, versus \$11,851 – 2007) were costs associated with the arrangement of this meeting.

The Fund's Net Assets decreased from \$70,197,062 (\$9.36 per Unit) as at June 30, 2007, the end of the previous fiscal year, to \$60,455,533 (\$8.96 per Unit) as at June 30, 2008. This represents a 13.9% decrease in the Net Assets over the period of which \$6,687,794 was due to redemptions and \$3,372,158 was from the distributions.

RECENT DEVELOPMENTS

The current slowdown in the global economy is being driven by two main factors. One is the high cost of energy, primarily due to record high oil prices and the other is the repercussion of the over inflated residential housing market in the United States (and to a lesser extent several other countries).

In Canada, the high price of oil has continued to accelerate the economy in Alberta, but has had the effect of maintaining upward pressure on the Canadian dollar, thereby punishing the manufacturing sector in Ontario and Quebec. The high price of oil has also caused a change in automobile buying patterns with movement away from large SUVs toward more fuel-efficient vehicles. This has resulted in major losses in the North American auto sector.

The past year has been terrible for the global and domestic fixed income markets. The events in the last six months of 2007 continue to have repercussions in 2008. The meltdown in the sub prime mortgage market in the United States has resulted in a cascade of write-downs across the global financial system. In Canada, the asset-backed commercial paper market seized up in August 2007, resulting in significant losses for a number of financial institutions and investors. While an omnibus agreement has been put in place, it has locked-in billions of dollars into long term assets. In the United States and globally, many large banks have taken multi-billion dollar write-downs. This has affected the Fund in two ways; the first has been a significant widening in corporate and interbank swap spreads; and the second has been a series of major write-downs at the Fund's counterparty, UBS AG.

The widening in corporate spreads directly reduces the price of the bonds in the Distribution Portfolio and to a lesser degree the Capital Repayment Portfolio. In the Manager's view, corporate spreads had been too tight relative to the risk free rate, so some of this widening was to be expected. The widening in the interbank swap spreads in late 2007, however, came as a surprise. The banks had begun charging each other substantially higher rates in taking on counterparty risk. These higher rates increased their hedging costs and generally their cost of doing business. The major losses and recapitalization at the Fund's counterparty UBS AG, has also increased UBS

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RECENT DEVELOPMENTS**(continued)**

AG's hedging costs. The higher hedging costs at UBS AG has reduced the price of the derivative contracts with them.

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 in these markets have indirectly affected the Fund. We do not believe that this will result in any losses, but these issues will likely continue having an effect on the net asset value of the Fund.

The Trustee called a Unitholder meeting for November 2007. The purpose of the meeting was to determine whether Unitholders would be in favour of converting the Trust into a corporate structure.

The Trustee believed that it was appropriate to offer this opportunity to Unitholders and believed that the resulting structure would prove beneficial to them. When the Trustee realized that holders of a sufficient number of Units did not wish to proceed with this conversion it promptly canceled the meeting.

Change in accounting policy

For financial reporting purposes, on July 1, 2007, the Fund adopted a new accounting policy as per the Canadian Institute of Chartered Accountant's Handbook Section 3855, Financial Instruments: Recognition and Measurement, on a retroactive basis without restatement of prior periods. The Fund now values its securities at closing bid price (rather than using the last traded price). Transaction costs, if any, are now charged to the results of operations (rather than purchase costs being added to the cost of securities purchased and sales costs being deducted from sales proceeds).

The effect of the initial adoption of this new accounting policy, using the closing bid price as at June 30, 2007, did not result in a change in the Net Assets of the Fund at the beginning of the year. The change in recording of transaction costs had no impact since the Fund does not pay brokerage commissions or other transaction costs.

For the purpose of calculating and reporting Net Assets and Net Asset Value ("NAV") per Unit (other than for financial reporting purposes) the Canadian Securities Administrators have granted temporary relief to investment funds from complying with Section 3855, until September 30, 2008, to permit review of the suitability of these financial reporting requirements for purposes other than the financial statements, such as the purchase and redemption price of an investment fund.

At June 30, 2008 and 2007 there was no difference between Net Assets and Net Asset Value per Unit calculated at the current year's last traded price for the day ("Transactional") and at the current year's bid price for the day ("GAAP"). Any adjustment to the fair value of the securities in the investment portfolio by changing from Transactional Net Assets to GAAP Net Assets was offset by a change in the fair value of the Forward Agreement.

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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 \$326,500 for the year ended June 30, 2008 (\$325,606 for the year ended June 30, 2007). The Manager, for its services, retains the net amount which totaled \$248,976 for the year ended June 30, 2008 (\$254,108 for the year ended June 30, 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 year ended June 30, 2008 totaled \$115,710 (\$90,969 for the year ended June 30, 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 year ended June 30, 2008 was \$99,954 (\$76,792 for the year ended June 30, 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 three years. The information is derived from the Fund's annual audited financial statements.

<i>Year ended June 30,</i>	2008	2007	2006
GAAP NAV per Unit ⁽³⁾, beginning of year	\$ 9.36	\$ 9.22	\$ 10.23
Initial adoption of new accounting policy	0.00	n/a	n/a
<u>Increase (decrease) from operations:</u>			
Total revenue	0.01	0.01	0.02
Total expenses	(0.15)	(0.12)	(0.13)
Realized gains (losses) for the year	(1.12)	2.23	(0.47)
Unrealized gains (losses) for the year	1.30	(1.48)	0.07
Total increase (decrease) from operations ⁽¹⁾	0.04	0.64	(0.51)
<u>Distributions:</u>			
From income (excluding dividends)	-	-	-
From dividends	-	-	-
From capital gains	-	-	-
Return of capital	0.50	0.50	0.50
Total annual distributions ⁽²⁾	0.50	0.50	0.50
GAAP NAV per Unit ⁽³⁾, end of year	\$ 8.96	\$ 9.36	\$ 9.22

- 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.
- 3) See Change in Accounting Policy under Recent Developments.

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RATIOS AND
SUPPLEMENTAL DATA

<i>Year ended June 30,</i>	2008	2007	2006
GAAP Net Assets ⁽⁵⁾	\$ 60,455,533	\$ 70,197,062	\$ 69,138,148
Adjustment from bid to closing price ⁽⁵⁾	\$ -	n/a	n/a
Transactional Net Assets ⁽⁵⁾	\$ 60,455,533	n/a	n/a
Number of units outstanding	6,744,317	7,500,000	7,500,000
Transactional NAV per unit ⁽⁵⁾	\$ 8.96	n/a	n/a
Management expense ratio ⁽²⁾	1.63 %	1.28 %	1.64 %
Management expense ratio before waivers or absorptions	1.63 %	1.28 %	1.64 %
Portfolio turnover rate ⁽³⁾	13.67 %	Not applicable	Not applicable
Trading expense ratio ⁽⁴⁾	Not applicable	Not applicable	Not applicable
Closing market price	\$ 8.31	\$ 9.97	\$ 10.10

- 1) This information is provided as at June 30, 2008, June 30, 2007 and June 30, 2006.
- 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) See Change in Accounting Policy under Recent Developments. At June 30, 2008 there is no difference between Transactional Net Assets and GAAP Net Assets.

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MANAGEMENT FEES

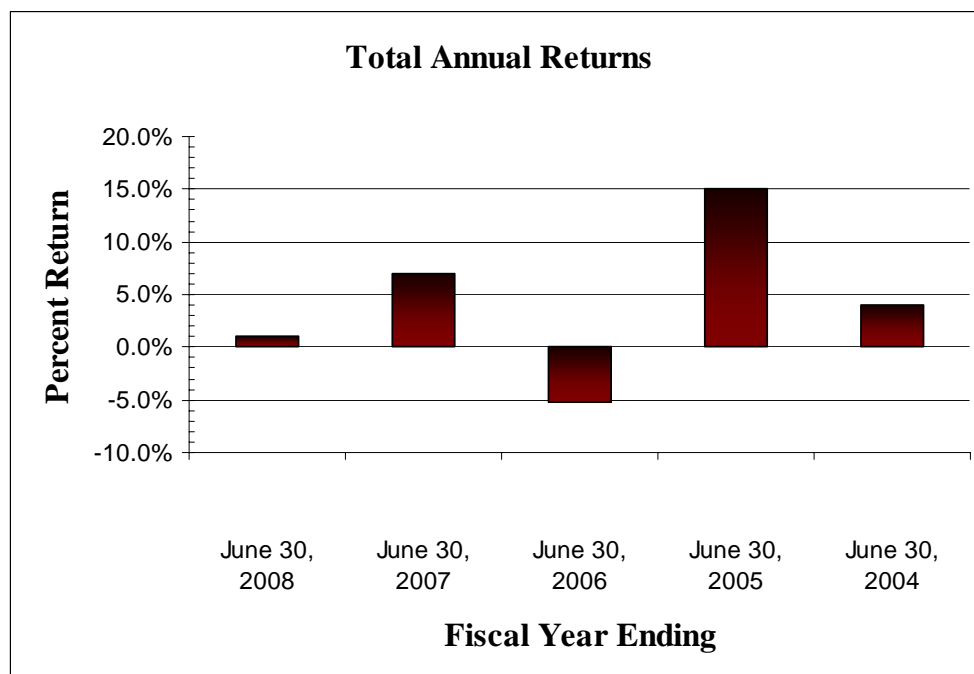
The main costs for Investment Grade Trust are management fees, and forward fees with some increases in administration, board and audit fees over the previous year.

The total fees and expenses for the year ended June 30, 2008 were \$1,052,839, with the following breakdown.

<i>Category</i>	<i>Amount Paid</i>	<i>Percent of Fees & Expenses</i>
Management fees	\$ 326,500	31.0 %
Forward agreement fees	248,976	23.7 %
Administrative expenses	115,710	11.0 %
Accounting and audit fees	58,907	5.6 %
Board and IRC fees	88,429	8.4 %
Insurance expense	56,935	5.4 %
Legal fees	63,595	6.0 %
Unitholder servicing expense	12,772	1.2 %
Custody, valuation and transfer fees	57,465	5.5 %
Regulatory and listing expenses	23,550	2.2 %

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

The following bar chart shows the Fund's annual performance for its past five full fiscal years. 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

In the Manager's view, the best benchmark for measuring the performance of the Fund is the Government of Canada June 2012 Bond. This bond has a similar duration to the Fund portfolios and like the Fund, will terminate in 2012. Differences in performance between the Fund and this bond will arise from difference in yield and the credit quality between the Distribution Portfolio and the government risk free rate. As can be seen in the following table, the Fund has underperformed the government bond.

	<i>1-Year</i>	<i>3-Year</i>	<i>Since Inception</i>
Investment Grade Trust	1.1 %	0.8 %	2.9 %
Government Of Canada Bond June 2012	5.9 %	4.3 %	6.1 %

SUMMARY
OF
INVESTMENT
PORTFOLIO

The following is a summary of the investment portfolio held by the Bond Trust as at June 30, 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	\$ 13,767,325	23.2 %
2,494,000	Ontario Hydro	0.000%	2/6/2013	2,070,679	3.5 %
4,200,000	Ontario Hydro	0.000%	2/18/2013	3,481,571	5.9 %
1,500,000	Province of British Columbia	0.000%	6/18/2012	1,282,064	2.2 %
4,500,000	Province of British Columbia	0.000%	8/23/2012	3,816,942	6.4 %
4,000,000	Province of Ontario	0.000%	12/2/2012	3,350,399	5.6 %
13,900,000	Province of Ontario	0.000%	1/13/2013	11,583,255	19.5 %
7,200,000	Province of Quebec	0.000%	4/1/2012	6,201,042	10.4 %
1,600,000	^{U.S} Credit Suisse First Boston	6.500%	1/15/2012	1,684,567	2.8 %
800,000	^{U.S} Goldman Sachs Group	5.700%	9/1/2012	814,186	1.4 %
1,600,000	^{U.S} Morgan Stanley Dean Witter	6.600%	4/1/2012	1,650,421	2.8 %
12,584,000	UBS Default Contingency Swap	0.000%	12/31/2012	8,535,279	14.4 %
				58,237,730	98.1 %

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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	\$ 775,007	1.3 %
165,000	AOL Time Warner Inc.	6.875%	5/1/2012	171,259	0.3 %
729,000	AON Corp.	7.375%	12/14/2012	761,553	1.3 %
217,000	Arvinmeritor Inc .	8.750%	3/1/2012	193,739	0.3 %
154,000	CIT Group Inc.	7.750%	4/2/2012	132,512	0.2 %
512,000	Coca Cola Enterprises Inc.	6.125%	8/15/2011	538,067	0.9 %
164,000	Disney (Walt) Co.	6.375%	3/1/2012	174,772	0.3 %
802,000	Electronic Data Systems	7.125%	10/15/2009	839,109	1.4 %
247,000	Falconbridge Ltd.	7.350%	6/5/2012	260,069	0.4 %
618,000	Ford Motor Credit Co.	7.375%	2/1/2011	508,814	0.9 %
256,000	General Electric Capital Corp.	4.625%	9/15/2009	261,811	0.4 %
749,000	Safeco Corp.	7.250%	9/1/2012	789,700	1.3 %
931,000	Sprint Capital Corp.	8.375%	3/15/2012	935,101	1.6 %
722,000	Sun Microsystems Inc.	7.650%	8/15/2009	753,088	1.3 %
633,000	Teco Energy Inc.	7.200%	5/1/2011	658,978	1.1 %
				7,753,579	13.0 %
	Swap Contract			(6,786,933)	(11.4) %
				966,646	1.6 %
TOTAL INVESTMENTS				59,204,376	99.7 %
OTHER ASSETS LESS LIABILITIES				151,037	0.3 %
TOTAL NET ASSETS				\$ 59,355,413	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 June 30, 2008. For more information please consult the financial statements.

Number of Shares	Description	Fair Value	% of Net Assets
CANADIAN EQUITIES			
117,334	Barrick Gold Corp.	\$ 5,469,404	9.0 %
371,900	Bombardier Inc., Class 'B'	2,755,779	4.6 %
89,917	Brookfield Asset Management Inc., Class 'A'	2,976,253	4.9 %
400,000	COM DEV International Ltd.	1,300,000	2.1 %
500,000	Domtar Inc.	2,745,000	4.5%
97,814	Enbridge Inc.	4,306,750	7.1 %
158,000	Forzani Group Ltd.	2,346,300	3.9 %
200,000	Ivanhoe Mines Ltd.	2,210,000	3.7 %
198,525	Kingsway Financial Services Inc.	1,749,005	2.9 %
102,540	MDS Inc.	1,697,037	2.8%
37,661	Magna International Inc., Class 'A'	2,285,269	3.8 %
138,070	Nortel Networks Corporation	1,155,646	1.9%
62,000	Onex Corp.	1,855,040	3.1 %
134,800	Open Text Corp.	4,393,132	7.3 %
66,178	Petro-Canada	3,755,602	6.2 %
48,710	Quebecor Inc., Class 'B'	1,373,622	2.3 %
31,278	Shoppers Drug Mart Corp.	1,748,127	2.9 %
78,918	Thomson Corp.	2,585,354	4.3 %
TOTAL CANADIAN EQUITIES		46,707,320	77.3 %
CANADIAN BONDS			
Par Value			
\$800,000	Province of Ontario Strip Bond 12/02/2012	668,727	1.1 %
TOTAL INVESTMENTS		47,376,047	78.4 %
RECEIVABLE UNDER FORWARD AGREEMENT		2,200,000	3.6 %
FORWARD AGREEMENT		12,648,093	20.9 %
LIABILITIES NET OF OTHER ASSETS		(1,768,607)	(2.9) %
TOTAL NET ASSETS		\$ 60,455,533	100.0 %

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