



Management's Report on Fund Performance of

INVESTMENT GRADE TRUST

For the year ended June 30, 2009

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

Management's Report of Fund Performance

FOR THE YEAR ENDED JUNE 30, 2009

DISCLOSURE

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.

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.

CORPORATE STRUCTURE

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.

INVESTMENT OBJECTIVES AND STRATEGY OF THE FUND

The Fund's investment objectives are:

- (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.

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:

- (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.

Management's Report on Fund Performance

continued

**INVESTMENT
OBJECTIVES
AND
STRATEGY
OF THE FUND****(continued)**

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.

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.

The Investment Advisor actively monitors the Capital Repayment and Distribution Portfolios on behalf of the Unitholders.

RISK

An investment in Units is subject to certain risk factors, including:

- (i) there can be no assurance that the Fund will be able to achieve its capital repayment objective or its distribution objective;
- (ii) the Net Asset Value ("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 were to occur and 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;

Management's Report on Fund Performance

continued

RISK**(continued)**

- (vii) a court could find the general anti-avoidance rule ("GAAR") contained in the *Income Tax Act (Canada)* 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;
- (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;
- (xix) the possibility of the Bond Trust being unable to acquire or dispose of illiquid securities or that the bond markets in general become illiquid; and
- (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.

Management's Report on Fund Performance

continued

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 year ended June 30, 2009 were \$1,010,504. The increase in Net Assets from operations for the Fund was \$3,488,211 (or \$0.55 per Unit). There were distributions of \$2,964,312 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 \$54,715,172 (\$9.23 per Unit) as at June 30, 2009. This represents a 9.5% decrease in the Net Assets over the period of which \$6,264,260 was due to redemptions and \$2,964,312 was due to the distributions, being partially offset by \$3,488,211 from operations.

RECENT DEVELOPMENTS

In the past year, the global financial markets have experienced substantial upheaval. Triggered by the bankruptcy of Lehman Brothers, this upheaval resulted in trillions of dollars of losses and massive government bailouts of banks worldwide. The Fund's counterparty, UBS AG, announced losses in excess of \$50 billion in 2008 and received billions of dollars in guarantees from the Swiss government.

As the after-effects of these shocks have begun to subside, we have seen a strong recovery in global markets, led by financial stocks. Nonetheless, some sectors - such as the auto industry - have continued to struggle, particularly in the United States. World economies have experienced significant damage and are expected to take several years to fully recover.

The Fund has managed to weather this storm relatively well, with its Net Asset Value per unit increasing from \$8.96 to \$9.23. All of the credits in the Capital Repayment Portfolio remain intact. It has, however, experienced its first default in the Distribution Portfolio, with the bankruptcy of Visteon Corporation occurring in June of 2009. This will have the effect of reducing the Fund's annual revenue by \$0.0495 per unit.

It is expected that the semi-annual distributions of \$0.25 per unit will continue until the end of 2010. The Fund has managed to contain its costs (other than some regulatory required fees) but the number of units shrinks after each annual redemption. As a result, the expenses per unit are increasing which reduces the amount available for distribution. As well, the Visteon default will reduce the interest earned on the Swap Contract. Therefore it is anticipated that the distributions in 2011 and 2012 will need to be reduced substantially, or possibly eliminated in order that the full principal is returned to unitholders on December 31, 2012.

Management's Report on Fund Performance

continued

RECENT DEVELOPMENTS**(continued)***Adoption of new accounting standards*

On July 1, 2008, the Fund adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation" and Section 1535, "Capital Disclosures". Sections 3862 and 3863 establish standards for the comprehensive disclosure and presentation requirements for financial instruments. The standards include new requirements to quantify certain risk exposures and to provide sensitivity analysis for certain risks. There is no impact on the net assets or the results of operations as a result of these new standards. The detailed risks of investing in the Fund are disclosed in Note 8 of the financial statements. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed; see Note 9 of the financial statements.

Future Accounting Changes

In February 2008, the CICA Accounting Standards Board confirmed that Canadian GAAP will be replaced by International Financial Reporting Standards ("IFRS") for Canadian enterprises with public accountability. These new standards are effective for the Fund beginning July 1, 2011. The Fund is currently assessing the impact of IFRS on its financial reporting.

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 to the Counterparty certain fees due under the Forward Agreement which totaled \$326,421 for the year ended June 30, 2009 (\$326,500 for the year ended June 30, 2008). The Manager, for its services, retains the net amount which totaled \$248,920 for the year ended June 30, 2009 (\$248,976 for the year ended June 30, 2008). 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, 2009 totaled \$99,498 (\$115,710 for the year ended June 30, 2008). As part of these expenses the Fund is paying a general overhead cost to First Paladin Inc. (a company under common control with the Manager) which varies depending on the costs incurred. The general overhead cost for the year ended June 30, 2009 was \$99,498 (\$99,954 for the year ended June 30, 2008).

Management's Report on Fund Performance

continued

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>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Net Assets per Unit, beginning of year	\$ 8.96	\$ 9.36	\$ 9.22
Initial adoption of new accounting policy	n/a	0.00	n/a
<u>Increase (decrease) from operations:</u>			
Total revenue	0.01	0.01	0.01
Total expenses	(0.16)	(0.15)	(0.12)
Realized gains (losses) for the year	0.15	(1.12)	2.23
Unrealized gains (losses) for the year	0.55	1.30	(1.48)
Total increase (decrease) from operations ⁽¹⁾	0.55	0.04	0.64
<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
Net Assets per Unit, end of year	\$ 9.23	\$ 8.96	\$ 9.36

- 1) Net Assets 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.

Management's Report on Fund Performance

continued

RATIOS AND
SUPPLEMENTAL
DATA

<i>Year ended June 30,</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Net Assets ⁽⁵⁾	\$ 54,715,172	\$ 60,455,533	\$ 70,197,062
Adjustment from bid to closing price ⁽⁵⁾	-	-	Not Applicable
Net Asset Value ⁽⁵⁾	\$ 54,715,172	\$ 60,455,533	\$ 70,197,062
Number of units outstanding	5,928,620	6,744,317	7,500,000
Net Asset Value per unit ⁽⁵⁾	\$ 9.23	\$ 8.96	\$ 9.36
Management expense ratio ⁽²⁾	1.93 %	1.63 %	1.28 %
Management expense ratio before waivers or absorptions	1.93 %	1.63 %	1.28 %
Portfolio turnover rate ⁽³⁾	- %	13.67 %	- %
Trading expense ratio ⁽⁴⁾	-	-	-
Closing market price	\$ 7.31	\$ 8.31	\$ 9.97

- 1) This information is provided as at June 30, 2009, 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 weekly average Net Asset Value 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 weekly average Net Asset Value during the period.
- 5) At June 30, 2009 and June 30, 2008 there is no difference between Net Asset Value (used for unitholder transaction purposes, calculated at last traded price for the day) and Net Assets (used solely for financial statement purposes, calculated at bid price for the day).

Management's Report on Fund Performance

continued

**MANAGEMENT
FEES**

The main costs for Investment Grade Trust are management fees and forward fees.

The total fees and expenses for the year ended June 30, 2009 were \$1,010,504, with the following breakdown.

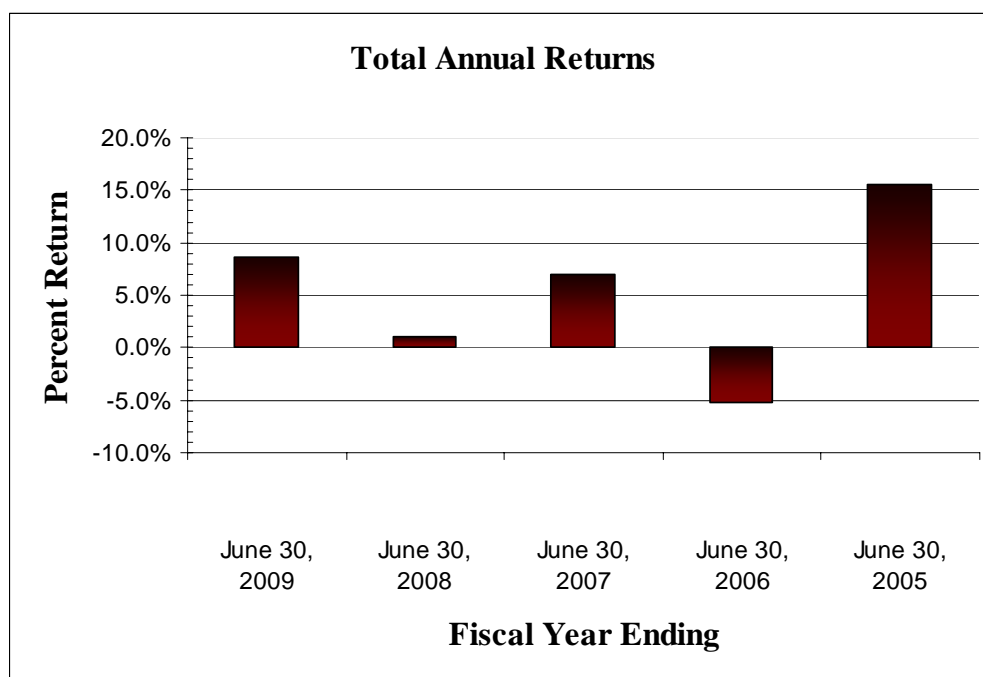
<i>Category</i>	<i>Amount Paid</i>	<i>Percent of Fees & Expenses</i>
Forward agreement fees	\$ 326,421	32.3%
Management fees	248,920	24.6%
Board and IRC fees	124,295	12.3%
Administrative expenses	99,498	9.8%
Custody, valuation and transfer fees	53,232	5.3%
Legal fees	44,598	4.4%
Insurance expense	32,561	3.2%
Audit fees	30,641	3.1%
Accounting fees	25,213	2.5%
Regulatory and listing expenses	22,887	2.3%
Unitholder servicing expense	2,238	0.2%

Management's Report on Fund Performance

continued

**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).

**ANNUAL
COMPOUND
RETURNS**

The benchmark index is the iShares CDN Bond Index Fund (TSX: XBB). Differences in the 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	8.6 %	5.2 %	4.7 %	3.4 %
iShares CDN Bond Index Fund	6.7 %	5.8 %	5.8 %	n/a

Management's Report on Fund Performance

continued

SUMMARY OF INVESTMENT PORTFOLIO

The following is a summary of the investment portfolio held by the Bond Fund as at June 30, 2009. 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	\$ 15,007,608	27.7%
2,494,000	Ontario Hydro	0.000%	2/6/2013	2,245,140	4.1%
4,200,000	Ontario Hydro	0.000%	2/18/2013	3,775,744	7.0%
1,500,000	Province of British Columbia	0.000%	6/18/2012	1,400,873	2.6%
4,500,000	Province of British Columbia	0.000%	8/23/2012	4,172,260	7.7%
4,000,000	Province of Ontario	0.000%	12/2/2012	3,637,228	6.7%
13,900,000	Province of Ontario	0.000%	1/13/2013	12,601,396	23.3%
7,200,000	Province of Quebec	0.000%	4/1/2012	6,732,744	12.4%
1,600,000	U.S. Credit Suisse First Boston	6.500%	1/15/2012	2,005,178	3.7%
800,000	U.S. Goldman Sachs Group	5.700%	9/1/2012	972,558	1.8%
1,600,000	U.S. Morgan Stanley Dean Witter	6.600%	4/1/2012	1,967,338	3.6%
12,584,000	UBS Default Contingency Swap	0.000%	12/31/2012	9,433,629	17.4%
				63,951,696	118.0%
Distribution Portfolio					
Par value in US \$					
738,000	Anthem Inc. (Wellpoint Inc.)	6.800%	8/1/2012	894,504	1.6%
165,000	AOL Time Warner Inc.	6.875%	5/1/2012	204,987	0.4%
729,000	AON Corp.	7.375%	12/14/2012	895,551	1.6%
217,000	Arvinmeritor Inc .	8.750%	3/1/2012	159,398	0.3%
154,000	CIT Group Inc.	7.750%	4/2/2012	107,111	0.2%
512,000	Coca Cola Enterprises Inc.	6.125%	8/15/2011	642,837	1.2%
164,000	Disney (Walt) Co.	6.375%	3/1/2012	209,171	0.4%
802,000	Electronic Data Systems	7.125%	10/15/2009	948,651	1.7%
247,000	Falconbridge Ltd.	7.350%	6/5/2012	305,942	0.6%
618,000	Ford Motor Credit Co.	7.375%	2/1/2011	649,729	1.2%
256,000	General Electric Capital Corp.	4.625%	9/15/2009	299,214	0.6%

Management's Report on Fund Performance

continued

SUMMARY OF
INVESTMENT
PORTFOLIO

(continued)

Par Value	Description	Coupon	Maturity	Fair Value	% of Net Assets
Distribution Portfolio (continued)					
Par value in US \$					
749,000	Safeco Corp.	7.250%	9/1/2012	\$ 766,568	1.4 %
931,000	Sprint Capital Corp.	8.375%	3/15/2012	1,064,999	2.0 %
722,000	Sun Microsystems Inc.	7.650%	8/15/2009	839,543	1.5 %
633,000	Teco Energy Inc.	7.200%	5/1/2011	758,067	1.4 %
				8,746,272	16.1 %
Swap contract				(18,635,728)	(34.4)%
TOTAL INVESTMENTS				54,062,240	99.7 %
OTHER ASSETS LESS LIABILITIES				137,109	0.3 %
TOTAL NET ASSETS				\$ 54,199,349	100.0 %

Management's Report on Fund Performance

continued

SUMMARY OF
INVESTMENT
PORTFOLIO

(continued)

The following is a summary of the investment portfolio held by Investment Grade Trust as at June 30, 2009. For more information please consult the financial statements.

Number of Shares	Description	Fair Value	% of Net Assets
CANADIAN EQUITIES			
60,944	Barrick Gold Corp.	\$ 2,375,634	4.3 %
371,900	Bombardier Inc., Class 'B'	1,275,617	2.3 %
89,917	Brookfield Asset Management Inc., Class 'A'	1,783,315	3.3 %
400,000	COM DEV International Ltd.	1,148,000	2.1 %
41,667	Domtar (Canada) Paper Inc.	799,583	1.5 %
158,000	Forzani Group Ltd.	2,268,880	4.1 %
200,000	Ivanhoe Mines Ltd.	1,298,194	2.4 %
198,525	Kingsway Financial Services Inc.	661,088	1.2 %
102,540	MDS Inc.	632,245	1.2 %
37,661	Magna International Inc., Class 'A'	1,847,634	3.4 %
138,070	Nortel Networks Corporation	25,543	0.1 %
62,000	Onex Corp.	1,240,000	2.3 %
134,800	Open Text Corp.	4,626,103	8.4 %
66,178	Petro-Canada	2,959,268	5.4 %
48,710	Quebecor Inc., Class 'B'	964,458	1.8 %
31,278	Shoppers Drug Mart Corp.	1,562,650	2.8 %
TOTAL CANADIAN EQUITIES		25,468,212	46.6 %
CANADIAN BONDS			
Par Value			
\$600,000	Province of Ontario Strip Bond 12/02/2012	545,584	1.0 %
TOTAL INVESTMENTS		26,013,796	47.6 %
FORWARD AGREEMENT		28,731,137	52.5 %
		54,744,933	100.1 %
RECEIVABLE UNDER FORWARD AGREEMENT		1,550,000	2.8 %
LIABILITIES, NET OF OTHER ASSETS		(1,579,761)	(2.9)%
TOTAL NET ASSETS		\$ 54,715,172	100.0%

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