



**Class D-1 International Equity, a class of shares of  
PIE Portfolio Index Evolution Corporation**

**Management Report of Fund Performance  
For the period from January 1, 2009 through June 30, 2009**

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling (905) 695-7777 or toll-free at 1-877-249-2884, by writing to us at 218 Steeles Avenue East, Thornhill, Ontario, L3T 1A6, from your dealer, by e-mail at [info@croftgroup.com](mailto:info@croftgroup.com) or by visiting our website at [www.croftgroup.com](http://www.croftgroup.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Shareholders 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.

# **Management Discussion of Fund Performance**

## **Investment objectives**

The investment objectives of the Class D-1 International Equity (the “Fund”) are to provide long-term capital appreciation by investing primarily in securities and exchange traded funds that generally represent shares in European, Australasian and the Far East equity markets.

To achieve its investment objectives, this Fund invests primarily in securities and exchange traded funds that generally represent shares in European, Australasian and the Far East equity markets.

## **Risk**

Given the effective start date of the Fund versus the timing of this report the risks of investing in the Fund remain as outlined in the simplified prospectus. The principal risks associated with an investment in the Fund are: investment risk, equity risk class risk, foreign securities risk, foreign currency risk, industry and geographic concentration risk, use of options risk, portfolio turnover risk, counterparty risk, interest rate fluctuations risk, legal, tax and regulatory risk, conflicts of interest risk, broad authority of croft risk, derivative risk, securities lending repurchase and reverse repurchase transactions risk and other accounts risk as described in the Fund’s simplified prospectus.

This Fund is suitable for investors who are seeking long-term capital appreciation and who can tolerate a medium level of investment risk.

## **Results of Operations**

The Fund’s net assets were \$1,202,240 as at January 1<sup>st</sup>, 2009. The fund had net subscriptions of \$1.02 million over the period ending June 30<sup>th</sup> 2009.

The investment process commenced in December 2008 and assets continue to flow to the Fund. Ongoing reports should provide more detailed information as the portfolio is invested.

## **Recent Developments**

Even as North American and Asian markets responded to growing signals that the recession appeared to be bottoming, the slump continued throughout the 16-nation eurozone through most of the second quarter. Industrial production continued to languish and unemployment reached a 10-year high.

After record-setting first-quarter rates of contraction in both the eurozone and in the United Kingdom, some faint signs of easing began to appear in the second quarter, including an increase in the eurozone composite purchasing managers index and an rise in the UK’s services sector purchasing managers index to a growth reading.

Although the eurozone consumer price index turned negative in June, falling 0.1% annualized, the European Central Bank held its key interest rate steady 1% and affirmed its plans to launch a program to purchase low-risk bonds.

Among the developed Asian economies, Japan fared the worst after gross domestic product plunged a record 15% annualized in the first quarter of the year, according to preliminary figures. Although both consumer spending and business investment remained suppressed in the second quarter, both consumer confidence and industrial production had risen by June, suggesting that the Japanese recession may be easing. Even with interest rates effectively at zero, consumer prices dropped a record 1.1% from a year earlier.

Bucking the global trend, however, Australia’s gross domestic product grew 0.4% in the first quarter on both a monthly and annual basis, based mostly on a positive shift in trade.

Following the global trend, stock markets tracked by the MSCI MSCI Europe, Far East & Australasia Index of developed markets, rallied strongly from lows set in March. The Fund's key holding of the iShares MSCI EAFE Index Fund advanced 12% (in C\$) quarter over quarter. And both growth and small-cap holdings also contributed to Fund performance, as holdings of the iShares MSCI EAFE Growth Index Fund gained 9.8% and the iShares MSCI Value Index Fund grew 17% in the same period (both in C\$).

### **Related Party Transactions**

R.N. Croft Financial Group Inc. is the manager of the Fund (the "Manager"). The Manager may act either as the investment manager itself or hire an external investment manager to manage the investment portfolio of the Fund. In consideration for management services and investment advice provided the Fund pays management fees, calculated as a percentage based on the net asset value of the respective series of the Fund.

### **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. This information is derived from the Fund's audited annual financial statements. The Fund was launched effective November 25, 2008 and therefore contains less than one year of data.

**PIE Portfolio Index Evolution Corporation**  
**STATEMENTS OF FINANCIAL HIGHLIGHTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2009**

	Class D-1 Series A		Class D-1 Series F		Class D-1 Series I	
<b>DATA PER UNIT</b>						
Net asset Value, beginning of year	\$	10.47	\$	10.47	\$	10.09
<b>Increase (decrease) from operations:</b>						
total revenue	\$	0.14	\$	0.09	\$	0.10
total expenses	-\$	0.14	-\$	0.13	-\$	0.07
realized gains (losses) for the period	\$	0.21	\$	0.17	\$	0.20
unrealized gains (losses) for the period	-\$	0.69	-\$	0.60	-\$	0.62
Total increase (decrease) from operations (1)						
Total from investment operations	-\$	0.48	-\$	0.48	-\$	0.39
<b>Distributions:</b>						
From income (excluding dividends)	\$	-	\$	-	\$	-
From dividends	\$	-	\$	-	\$	-
From capital gains	\$	-	\$	-	\$	-
Return of capital	\$	-	\$	-	\$	-
<b>Total Annual Distributions</b>	\$	-	\$	-	\$	-
Net asset value at (insert last day of financial year) of year shown	\$	9.99	\$	9.99	\$	9.70

- (1) Net asset value and distributions are based on the actual number of (units/shares) outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of (units/shares) outstanding over the financial period.
- (2) Distributions were (paid in cash/reinvested in additional (units/shares) of the Fund), or both.

**RATIOS/ SUPPLEMENTAL DATA**

	2009		2009		2009	
Total net assets at end of period (000's) (1)	\$	904	\$	916	\$	404
Average net assets	\$	509,668	\$	818,814	\$	293,818
Number of (units/shares) outstanding (1)		90,523		91,746		41,651
Management expense ratio (2)		2.49%		2.64%		0.97%
Management expense ratio before waivers or absorptions		2.49%		2.64%		0.97%
Portfolio turnover rate(3)		53.24%		53.24%		53.24%
Trading expense ratio(4)		0.15%		0.15%		0.15%
Closing market price or pricing NAV		10.15		10.15		9.86
Annual rate of return		-4.58%		-4.58%		-3.87%

**CALCULATION FOR PORTFOLIO TURNOVER RATE**

Portfolio purchases, less t-bills	\$	979,359	\$	979,359	\$	979,359
Proceeds on portfolio sales, less t-bills	\$	638,383	\$	638,383	\$	638,383
Weighted average portfolio (mkt)	\$	1,199,075	\$	1,199,075	\$	1,199,075
Portfolio turnover rate		53.24%		53.24%		53.24%

- (1) This information is provided as at June 30 of the year shown, as applicable.
- (2) Management expense ratio (MER) is based on the total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. In the period the fund is established, the management expense ratio is annualized from, January 1<sup>st</sup> 2009 to June 30<sup>th</sup>, 2009.
- (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. The trading expense ratio is provided from January 1<sup>st</sup> 2009 onwards.

## Investment Advisory and Management Fees

In consideration for management services and investment advice provided, the Fund pays a fee based on a percentage of its net asset value to the Manager. The management fee is calculated daily based on 1/365 of the net asset value of each series as set out below:

Series A	1.8%
Series F	1.8%
Series I	0.3%

## Past Performance

No past performance information for the Fund is presented as shares of the Fund have not been outstanding for a year as of the date of this report.

In accordance with policies issued by the Canadian Securities Administrators, it is the Manager's policy to report rates of return for series in existence greater than one year. The performance start date for each series represents the date of the first purchase of such series, excluding seed money.

## Summary of Investment Portfolio

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. Quarterly updates will be available upon request.

### PIE Portfolio Index Evolution Corporation Class D-1 Intl Equity

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#### Top Holdings as of June 30th 2009

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ISHARES MSCI EAFE GWT IND	19.72%
ISHARES MSCI EAFE INDX FD	32.24%
ISHARES MSCI EAFE S/C ETF	14.87%
ISHARES MSCI EAFE VAL IND	24.67%
Cash & Cash Equivalents	8.50%
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	100.00%

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#### Portfolio Composition by Category

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Intl Index Funds	91.50%
Cash & Cash Equivalents	8.50%
	<hr/>
	100.00%

*The summary of investment portfolio may change due to ongoing portfolio transaction and tactical re-balancing. Current quarterly updates are available upon request. Information about the underlying prospectus fund is available on the internet at [www.sedar.com](http://www.sedar.com)*

## **Additional Information**

### Manager

R.N. Croft Financial Group Inc.  
218 Steeles Avenue East  
Thornhill, Ontario  
L3T 1A6

### Custodian

NBCN Inc.  
250 Yonge Street, Suite 1900  
Toronto, Ontario  
M5B 2L7

### Registrar

The Investment Administration Solution Inc.  
330 Bay Street, Suite 400  
Toronto, Ontario  
M5H 2S8

### Auditors

MSCM LLP  
701 Evans Avenue, 8th Floor  
Toronto, Ontario  
M9C 1A3

## **Important Information regarding forward-looking statements:**

This report may contain forward-looking statements about the Fund, including its strategy, expected performance and future events. Forward-looking statements are predictive in nature and are made based upon management's view of current events and conditions and the effects they may have in the marketplace based on interpretation of current and historical data available to us at that time. Forward-looking statements are not guarantees of future performance and may be impacted by a number of factors which include, but are not limited to, economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, changes in government regulations, technological change, and catastrophic events.

Every effort has been made to ensure that the information provided in this report is accurate as of June 30<sup>th</sup>, 2009. However, the Fund cannot guarantee the accuracy of the completeness of this material. For additional information please refer to the Fund's simplified prospectus, annual information form and financial statements.