



**Class A-1 Income, 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 interim 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 & Strategies

The investment objectives of the Class A-1 Income (the “Fund”) are to generate a stable stream of income by investing in (i) cash or cash equivalent positions, (ii) fixed income investments, (iii) dividend paying common shares, (iv) convertible preferred shares and preferred equity securities, and (v) a covered option writing program.

To achieve its investment objectives, the Fund invests in five major income producing strategies in the financial markets. These include:

- cash or cash equivalent securities including treasury bills issued by the Government of Canada, money market exchange traded funds, or cash on deposit;
- fixed income securities, guaranteed investment certificates and mortgage-backed securities of all terms to maturity issued by Canadian federal or provincial governments, foreign governments, municipalities, chartered banks, trust and other issuers operating in and/or outside Canada;
- dividend paying common shares of Canadian and foreign issuers selected from a generally recognized index of Canadian equity markets and U.S. equity markets and may employ derivatives such as put and call options to hedge the equity positions or to provide additional income;
- convertible preferred securities or preferred equity securities of Canadian and foreign issuers selected from a generally recognized index of Canadian equity markets and U.S. equity markets and may employ derivatives such as put and call options to hedge or to provide additional income; and
- an option writing program, where Croft will write covered call options or cash secured put options on blue chip Canadian stocks or exchange traded funds listed on the TSX or blue chip U.S. companies or U.S. exchange traded funds listed on the New York Stock Exchange or Nasdaq.

This Fund may also invest in convertible fixed income securities of domestic or foreign corporations selected from a generally recognized index of U.S. and Canadian markets and in American depository receipts trading on the New York Stock Exchange or NASDAQ.

This Fund is not intended to be a complete investment program and may only be suitable if you are seeking long-term capital appreciation and can tolerate a low level of investment risk.

## 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 suitable for investors who seek long-term capital appreciation and who can tolerate a low level of investment risk.

## **Results of Operations**

The Fund had net subscriptions of approximately \$4.8 million for the 6 month period ending June 30, 2009, as compared to \$5.8 million the previous 6 months.

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 continues to be invested.

## **Recent Developments**

Credit market risk shrank significantly in the second quarter, as concerted fiscal and monetary action by governments and central banks around the world began to restore confidence among lending institutions. By the end of the quarter, the interest rate differential between three-month US Treasury bill futures and three-month Eurodollar futures, a widely followed measure of credit risk, had narrowed to 42.74 basis points (bps) from a high of 464 bps last fall and from around 100 bps at the end of the first quarter.

Although the threat of deflation and concern about the health of the banking system began to fade through the quarter, central banks maintained administered interest rates at historic lows, between 0% and 0.25% in the US and Canada. Sentiment improved as the US government's "stress tests" on the nation's largest banks yielded better results than expected. While the yield curve began to steepen in an early sign of economic recovery, rising long-term Treasury yields also implied increased risk that early signs of economic recovery might be choked off as mortgage rates touched 4% for the first time since last October.

The DEX Universe Bond Index, ended the second quarter flat on a quarter-over-quarter basis. However, the S&P/TSX Preferred Share Index gained 11% in the first quarter, as Canadian bank and other preferred shares gained ground in the second-quarter equity market rally lending support to the PIE Income Fund's performance. Similarly the Fund's exposure to large-cap stocks and income trusts helped offset flat performance in the fixed-income sector.

## **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.

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

	Class A-1 Series A	Class A-1 Series F	Class A-1 Series I
<b>DATA PER UNIT</b>			
Net asset Value, beginning of year	\$ 10.23	\$ 10.20	\$ 10.26
<b>Increase (decrease) from operations:</b>			
total revenue	\$ 0.21	\$ 0.16	\$ 0.18
total expenses	-\$ 0.13	-\$ 0.13	-\$ 0.05
realized gains (losses) for the period	\$ 0.07	\$ 0.04	\$ 0.06
unrealized gains (losses) for the period	\$ 0.16	\$ 0.24	\$ 0.21
Total increase (decrease) from operations (1)			
Total from investment operations	\$ 0.31	\$ 0.31	\$ 0.40
<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 shc	\$ 10.54	\$ 10.51	\$ 10.66
average units	111,290.07	510,318.17	188,658.88

**RATIOS/ SUPPLEMENTAL DATA**

	2009	2009	2009
Total net assets at end of period (000's) (1)	\$ 2,626	\$ 5,724	\$ 2,779
Average net assets	\$ 1,154,709	\$ 5,242,667	\$ 1,965,688
Number of (units/shares) outstanding (1)	249,200	544,642	260,828
Management expense ratio (2)	2.40%	2.40%	0.84%
Management expense ratio before waivers or absorptions	2.40%	2.40%	0.84%
Portfolio turnover rate(3)	39.73%	39.73%	39.73%
Trading expense ratio(4)	0.07%	0.07%	0.07%
Closing market price or pricing NAV	10.54	10.51	10.66
Annual rate of return	3.03%	3.04%	3.90%

**CALCULATION FOR PORTFOLIO TURNOVER RATE**

Portfolio purchases, less t-bills	\$ 4,479,300	\$ 4,479,300	\$ 4,479,300
Proceeds on portfolio sales, less t-bills	\$ 1,926,556	\$ 1,926,556	\$ 1,926,556
Weighted average portfolio (mkt)	\$ 4,849,431	\$ 4,849,431	\$ 4,849,431
Portfolio turnover rate	39.73%	39.73%	39.73%

- (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 as of June 30, 2009

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 A-1 Income

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

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CASH & CASH EQUIVALENTS	32.11%
ISHARES CD DEX UNI BD ETF	33.85%
CLAYMORE S&P CDN PF ETF	24.27%
ISHARES CDN S&P/TSX 60 ETF	9.77%
TOTAL	100.00%

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#### Portfolio Composition by Category

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CASH & CASH EQUIVALENTS	32.11%
CANADIAN BONDS	33.85%
PREFERRED SHARES	24.27%
CANADIAN EQUITY	9.77%
	100.00%

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*The summary of investment portfolio may change due to ongoing portfolio transactions 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  
Thronhill, 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, 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.