



**frontier*Alt* Funds Management Limited**

# **Management Report of Fund Performance**

frontier*Alt* Opportunistic Bond Fund

**September 30, 2009**

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## **Annual Management Report of Fund Performance frontierAlt Opportunistic Bond Fund As at September 30, 2009**

*This Management Report of Fund Performance contains financial highlights but does not contain either interim or annual financial statements of the Fund. You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling (416)623-3173, by writing to us at frontierAlt Funds Management Limited, 350 Bay Street, Suite 1300, Toronto, Ontario, M5H 2S6 or by visiting our website at [www.frontieralt.com](http://www.frontieralt.com) or SEDAR at [www.sedar.com](http://www.sedar.com).*

*Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.*

### **Forward-Looking Information**

This Management Report of Fund Performance contains forward-looking information and statements relating, but not limited to, anticipated or prospective financial performance and results of operations of the Fund. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievement expressed or implied by the forward-looking information. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed forward-looking information. Without limiting the foregoing, the words “believes”, “anticipates”, “plans”, “intends”, “will”, “should”, “expects”, “projects”, and similar expressions are intended to identify forward-looking information.

The Manager of the Fund believes it has a reasonable basis for making the forecasts or projections included in this Interim Management Report of Fund Performance, however, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, the forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts and other forward-looking statements will not occur. These factors include, but are not limited to, those associated with the performance of the equity securities market, expectations about interest rates and factors incorporated by reference herein as risk factors.

Any forward-looking information presented in this Management Report of Fund Performance is solely the view of the Manager of the Fund at September 30, 2009, and is subject to change at any time without notice as markets and events warrant. The manager has no specific intention of updating any forward-looking information whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance, unless required by law.

## **Management Discussion of Fund Performance**

### **Investment Objectives and Strategies**

The Fund's principal investment objective is to provide investors with superior investment returns, having regard to safety of capital, by investing mainly in fixed income securities.

To meet its objective, the Fund invests primarily in government and stripped coupon bonds, as well as selected foreign bonds, in a manner consistent with the Fund's investment objectives. The Fund may also invest in investment-grade corporate bonds. The Fund's portfolio is actively managed, attempting to anticipate changes in interest rates in order to generate higher returns.

### **Risk**

Please see the simplified prospectus for a full discussion of the overall risk. The financial period saw no material changes affecting the overall level of risk.

### **Recent Developments**

The frontier*Alt* Opportunistic Bond Fund was established on May 30, 2006. On February 1, 2008, MAK, Allen & Day Capital Partners Inc. was appointed as portfolio manager to the Fund.

On February 11, 2008, the Fund's name changed from frontier*Alt* All Terrain Bond Fund to frontier*Alt* Opportunistic Bond Fund.

On July 3, 2009 Tralucant Asset Management Inc. was appointed as portfolio manager to the Fund. There have been no changes in the investment objectives of the Fund as a result of the changes in name or portfolio manager. Assets under management decreased from \$11.2 million to \$4.4 million during the period ended September 30, 2009.

### **Results from Operations**

The bond market was ripe with many opportunities, however, due to portfolio manager changes the portfolio held a significant position in cash in order to satisfy redemption requests. Despite the outflow, the value of the Fund was maintained and the portfolio managers ensured the objectives and mandates of the portfolio were met.

The net asset value from operations nearly tripled, increasing \$0.83 per unit in 2009 from 2008. Expenses were down by half from the previous year. The Fund realized gains of \$0.50 and unrealized gains of \$0.29, up substantially from the year before. Distributions to

unitholders also decreased as a result of expenses outweighing coupon payments from bonds held within the Fund.

The Fund current offers A, F and I series units. O-series is not available for purchase. There were no purchases made or units issued from I-series units in 2009.

## **Portfolio Manager Commentary**

The bond market has continued to perform above expectations. We believe that the main reason behind the strength in bond prices is the fact that central banks around the world, have expressed their desire to stay the course on their record low administered rate policy, until such time as the economic recovery becomes more firmly entrenched. This stance has forced fixed income investors out of the yield curve, in their search for relatively high yields, with more confidence that low short term rates are likely to remain so for an extended period of time. There has also been an infusion of investment funds into longer term bonds from the developing nations, China and India in particular, enabling the heavy U.S. treasury calendar to be relatively easily absorbed.

There has also been very heavy corporate bond issuance. The equity market's rally has provided a positive environment for corporations wishing to borrow, since the default risk, in the eyes of lenders, appears to have diminished. The higher yields, relative to those of government bonds have resulted in narrowing of spreads, particularly for lower grade borrowers. These factors are likely to remain in place, but, we do not expect significant further narrowing of spreads.

The beginning of an economic recovery has not spooked the bond market, as it often does, since the length and strength of the expansion is still unclear, particularly for the U.S. The more drawn out the recovery becomes, the more likely short term rates will stay at historically low levels, adding support to the longer term bond market. Also, inflationary levels remain low, and are unlikely to rise soon as unemployment rates in the U.S. continue to rise into next year. High inflation has traditionally been the main enemy of the bond market, but this possibility seems remote as consumers struggle to regain their footing and developing countries continue to produce relatively cheap goods for export.

Nevertheless, the probability of significant future price appreciation for bonds is expected to be limited, if only due to the fact that yields are so low to begin with. However, with the world's central banks expected to hold the line on their administered rates due to the still fragile economy, we continue to maintain the duration of the portfolio above that of the market indices in order to collect the higher yields available out the curve.

Aggressive cuts in the over night discount rate contributed to the Fund's positive

performance, over the past year. This was also a breeding ground for many trading opportunities.

The Fund has slightly underperformed compared to the DEX Universe Total Return index over this past year, however, is still in positive territory despite the changes and challenges it faced. The performance of the Fund can be attributed to its declining size (AUM) due to redemptions and increased expenses.

### **New Accounting Policy or Adoption of New Accounting Standards**

On January 1, 2008, the Fund adopted CICA Section 3862, Financial Instruments – Disclosures (“Section 3862”) and CICA Section 3863, Financial Instruments – Presentation (“Section 3863”), replacing Section 3861. Section 3862 required enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Funds manage those risks. Section 3863 carries forward unchanged the presentation requirements of 3861 with respect to the financial instruments. Financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

The Fund also adopted CICA Section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity’s capital and how it is managed.

The Manager is on target to meet the deadline of January 1, 2011, for the changeover to International Financial Reporting Standards (“IFRS”). In addition, the Manager does not expect that net assets or net asset value per share will be impacted by the changeover to IFRS. Currently, the Manager expects that the impact of IFRS on the Fund’s financial statements will be additional disclosures and possible changes to their overall presentation.

### **Related Party Transactions**

The following arrangements result in fees paid by the Fund to frontier*Alt* Funds Management Limited or to companies affiliated with frontier*Alt* Funds Management Limited:

### **Management & Administration Services**

In consideration for management services for Series A units, the Fund paid \$86,508 (1.35%) per annum in management fees to frontier*Alt* Funds Management Limited. The Fund paid \$9,850 (0.85%) per annum for Series F units. The management fees with respect to Series I units, where applicable, are separately negotiated with the manager. All management fees are based on the Net Asset Value of the Fund. They are accrued daily and paid at month-end as a percentage of the daily net assets.

From the management fee, Tralucant Asset Management Inc. will receive fees of 0.40% per annum in its capacity as portfolio manager to the Fund. This became effective July 3, 2009.

The Fund paid \$53,415 to KeiData Back-office Solutions Inc. ("KeiData") for administration services. KeiData is an affiliate of frontier*Alt* Funds Management Limited.

## 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 for the past few years. The information is derived from the Fund's audited annual financial statements. The net asset per unit presented in the financial statements is equal to the net asset value calculated for fund pricing purposes. An explanation can be found in the notes to the financial statements.

Total revenue	0.37	0.44	0.45	0.10
Total expenses	(0.41)	(0.22)	(0.22)	(0.08)
Realized gains (losses)	0.50	(0.24)	(0.62)	0.12
Unrealized gains (losses)	<u>0.29</u>	<u>(0.06)</u>	<u>(0.06)</u>	<u>0.50</u>
<b>Total increase (decrease) from operations(1)</b>	0.75	(0.08)	(0.45)	0.64
<b>Distributions:</b>				
From income (excluding dividends)	(0.10)	(0.25)	(0.14)	(0.03)
From dividends	-	-	-	-
From capital gains	-	-	(0.10)	-
Return of capital	-	-	-	-
<b>Total distributions(2)</b>	<u>(0.10)</u>	<u>(0.25)</u>	<u>(0.24)</u>	<u>(0.03)</u>
<b>Net asset value, end of period</b>	\$ <u>10.05</u>	\$ <u>9.66</u>	\$ <u>10.12</u>	\$ <u>10.75</u>

<b>Net Asset Value (NAV) per Unit Class F</b>	<b>Sept 2009</b>	<b>Sept 2008</b>	<b>Sept 2007</b>	<b>Sept 2006</b>
<b>Net asset value, beginning of period</b>	\$ 9.41	\$ 9.85	\$ 10.36	\$ 10.00
<b>Increase (decrease) from operations:</b>				
Total revenue	0.33	0.52	0.28	0.11
Total expenses	(0.36)	(0.19)	0.14	(0.06)
Realized gains (losses)	0.44	(0.28)	(0.39)	0.11
Unrealized gains (losses)	<u>0.25</u>	<u>(0.07)</u>	<u>(0.03)</u>	<u>0.17</u>
<b>Total increase (decrease) from operations(1)</b>	0.66	(0.02)	(0.00)	0.33
<b>Distributions:</b>				
From income (excluding dividends)	(0.08)	(0.27)	(0.15)	(0.04)
From dividends	-	-	-	-
From capital gains	-	-	(0.09)	-
Return of capital	-	-	-	-
<b>Total distributions(2)</b>	<u>(0.08)</u>	<u>(0.27)</u>	<u>(0.24)</u>	<u>(0.04)</u>
<b>Net asset value, end of period</b>	\$ <u>9.85</u>	\$ <u>9.41</u>	\$ <u>9.85</u>	\$ <u>10.36</u>

<b>Net Asset Value (NAV) per Unit Class I</b>	<b>Sept 2008</b>	<b>Sept 2007</b>
<b>Net asset value, beginning of period</b>	\$ 10.00	\$ 10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.40	0.29
Total expenses	(0.11)	(0.05)
Realized gains (losses)	-	(0.40)
Unrealized gains (losses)	-	(0.04)
<b>Total increase (decrease) from operations(1)</b>	<u>0.29</u>	<u>(0.20)</u>
<b>Distributions:</b>		
From income (excluding dividends)	(0.30)	(0.11)
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total distributions(2)</b>	<u>(0.30)</u>	<u>(0.11)</u>
<b>Net asset value, end of period</b>	<u>\$ -</u>	<u>\$ 10.00</u>

(1) Net asset value 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/reinvested in additional units of the Fund, or both.

#### **Ratios and Supplemental Data**

<b>For the periods ended</b>	<b>Sept 2009</b>	<b>Sept 2008</b>	<b>Sept 2007</b>	<b>Sept 2006</b>
Net assets Class A (000's) (1)	\$ 3,782	\$ 8,668	\$ 20,538	\$ 2,710
Number of units outstanding	376,265	896,920	2,029,291	252,055
Management expense ratio (2)	4.08%	2.22%	2.15%	3.21%
Management expense ratio before waivers or absorptions	4.08%	2.74%	2.50%	3.21%
Portfolio turnover rate (3)	172.39%	941.43%	437.26%	195.80%
Trading expense ratio (4)	0.00%	0.00%	0.00%	0.00%
Net assets Class F (000's) (1)	\$ 621	\$ 2,522	\$ 5,203	\$ 1,748
Number of units outstanding	63,019	267,975	528,026	168,671
Management expense ratio (2)	3.67%	1.88%	1.37%	3.81%
Management expense ratio before waivers or absorptions	3.67%	2.45%	1.60%	3.81%
Portfolio turnover rate (3)	172.39%	941.43%	437.26%	195.80%
Trading expense ratio (4)	0.00%	0.00%	0.00%	0.00%

For the periods ended	Sept 2008	Sept 2007
Net assets Class I (000's) (1)	\$ -	\$ 536
Number of units outstanding	-	53,584
Management expense ratio (2)	1.08%	1.56%
Management expense ratio before waivers or absorptions	1.65%	2.35%
Portfolio turnover rate (3)	941.43%	437.26%
Trading expense ratio (4)	0.00%	0.00%

- (1) This information is provided as at period end of the year shown.
- (2) Management expense ratio is based on total expenses for the stated period (including GST and interest, but excluding commissions and other portfolio transaction costs) and is expressed as an annualized percentage of daily average
- (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.

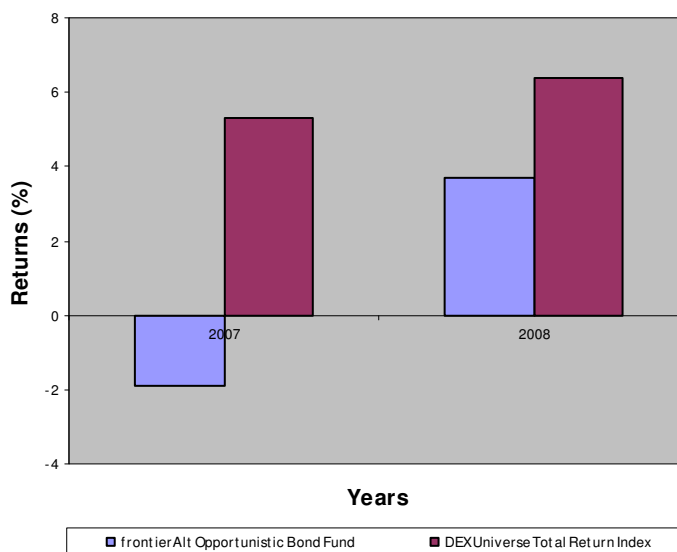
## Past Performance

The following charts show the past performance of the Fund and do not necessarily indicate how the Fund will perform in the future. The performance information assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund. Note that the performance does not take into account sales, redemption, distribution or the changes that would have reduced returns or performance.

## Year by Year Returns

The following chart shows the annual performance for the Fund for each year shown, indicating how the Fund's performance has varied from year to year. It shows, in percentage terms, how much an investment made on the first day of each year would have grown or decreased by the last day of each year.

### Calendar Returns



### Annual Compound Returns:

The following chart shows the annual compound total return for each period indicated (period ending September 30, 2008)

As at September 30, 2009	frontierAlt Opportunistic Bond Fund (%)	DEX Universe Bond Index (%)
3-month	(0.90)	2.70
6-month	(2.50)	4.00
1 Year	3.00	10.40
YTD	3.00	5.60
2 Year	1.60	7.40
3 Year	(2.10)	5.50
PSD*	(2.10)	5.50

\* September 30, 2006

## Summary of Investment Portfolio as at September 30, 2009\*:

<b>Sector Allocation</b>	<b>% of Net Assets</b>
Federal Bonds	89.6%
Cash	3.8%
Other assets less other liabilities	6.6%
	<u>100.0%</u>

<b>Top Holdings</b>	<b>% of Net Assets</b>
Government of Canada 5.00%, June 1, 2037	40.8%
Government of Canada 4.25%, June 1, 2018	25.1%
Government of Canada 3.50%, June 1, 2013	23.8%

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\* All holdings of the Fund are long positions. The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund and the next quarterly disclosure will be as at December 31, 2009.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.