



**frontierAlt Funds Management Limited**

# **Interim Management Report of Fund Performance**

**frontierAlt Opportunistic Bond Fund**  
(Formerly frontierAlt All Terrain Bond Fund)

**March 31, 2008**

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## **Interim Management Report of Fund Performance frontierAlt Opportunistic Bond Fund As at March 31, 2008**

*This Interim Management Report of Fund Performance contains financial highlights but does not contain either interim or annual financial statements of the Fund. You can get copy of the interim or annual financial statements at your request, and at no cost, by calling (866) 745-5545 ext. 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 Interim Management Report of Fund Performance contains forward-looking information and statements relating, but not limited to, anticipated or prospective financial performance and results of operation 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, 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 Interim Management Report of Fund Performance is solely the view of the Manager of the Fund at March 31, 2008, and is subject to change at any time without notice as markets and events warrant.

## **Management Discussion of Fund Performance**

### **Investment Objectives**

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.

The fundamental investment objective may only be changed with the approval of a majority of unitholders at a meeting called for that purpose.

### **Investment Strategies**

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.

### **Results from Operations**

The frontier*Alt* Opportunistic Bond Fund was established on May 30, 2006. On February 1, 2008, MAK, Allen & Day Capital Partners was appointed as portfolio manager to the Fund. The portfolio manager change was made as a result of the retirement of the lead portfolio manager. Edward Jong, previously, co-portfolio manager assumed full responsibilities for the Fund. On February 11, 2008, the Fund's name changed from frontier*Alt* All Terrain Bond Fund to frontier*Alt* Opportunistic Bond Fund. There has been no change in the investment objectives of the Fund as a result of the change in name or portfolio manager. Assets under management as at March 31, 2008 were \$23.4 million.

### ***Portfolio Manager Commentary***

Although you cannot see the fins in the calm waters, the sharks are still lurking beneath. Given the past false hopes that the worse is behind, markets have adopted the same mindset again and have comforted themselves into wanting out of the safe haven securities. Perhaps this attitude can be summed up by the Federal Reserve's willingness to bailout anyone at all cost. Does this mean moral hazard is allowed a free pass once again? We think not.

Of the sharks lurking, swirls of concerns are still evident in the U.S. real estate environment, and its associated investments. Equity participants were fawning over the ability of UBS to raise \$15 billion in equity (while announcing a \$19 billion write-down), Lehman Brothers' over subscribed issuance of \$5 billion in capital, and Washington Mutual's 100% equity dilution. Our concern is such euphoria will be short lived once second quarter confessions are made.

Coincident to Lehman Brothers raising capital, Moody's downgraded 279 tranches of Alt-A transactions, with another 162 under review for downgrading – the day before! Before the new infusion of capital had time to get cozy, it is expected Lehman Brothers may face a \$2 billion write-down in the second quarter. Lastly, one of the stalwarts of the U.S. financial industry, Goldman Sachs increased its Level 3 assets (i.e. securities priced to a model, or commonly referred to in the industry as assets priced to “god knows what”) from \$69.2 billion in November 2007 to \$96.4 billion; representing 8.1% of their assets.

One of the engrained fears investors continue to exhibit, which remain a source of friction for fixed income, is inflation expectations. Our studies encourage us to believe this fear is overblown. First, a major component of U.S. CPI (and also in Canada) is Owners' Equivalent Rent, representing 30% of the statistical series. With real estate in recession, it is only a matter of time that OER exhibits the same deflationary characteristics. Also, with the likes of Sallie Mae experiencing funding issues, they are refusing student loans, which should discourage colleges and universities from raising tuition, which represents 3% of CPI. Couple this to the current Alt-A and Level 3 asset problems, strings of job losses, consumers relying on credit cards for funds, and University of Michigan sentiment at 26-year lows, relays a scene of economic malaise in a lower inflationary environment.

The Federal Reserve had to save Bear Stearns as it is integral to the proper functioning of the global financial wheel. Now that they have been saved, perception is that the Federal Reserve will stop at nothing; thus, boosting investor confidence, and boosting their appetite for risky assets that have been avoided for the past couple of quarters. As such, the Federal Reserve has been successful in restoring investor confidence. As for condoning moral hazard, it may not yet be the battle of the day; however, their intentions of enacting reforms that are anticipatory are useful as this is what is needed, but the reality is that this is a long drawn process.

The root of the economic and financial debacle remains embedded with housing. On that note, it was interesting that UBS had sold 40% of its \$27 billion Alt-A portfolio, and wrote down its value to 70 cents on the dollar (down from 100 cents on the dollar the previous quarter).

## **Recent Developments**

### **Independent Review Committee**

Under the provision of National Instrument 81-107 – Independent Review Committee for Investment Funds (“NI 81-107”), which came into effect on November 1, 2006 is now required that all publicly offered investment funds, such as the Fund, establish an independent review committee (“IRC”) to whom the Manager is to refer all conflict of interest matters in order to obtain a recommendation or approval, as applicable. NI 81-107 further mandates that the IRC be composed of at least three independent members and requires that they conduct assessments and regularly report to the Manager and unitholders in respect of its duties. The Manager appointed its three persons IRC on May 1, 2007, but was not required to be in full compliance with NI 81-107 prior to November 1, 2007. The independent members of the Fund’s IRC are Andrew Jones (Chair), Zareer Pavri and Michael Singer.

### **Accounting Policy Change**

In the preparation of its financial statements from January 1, 2007 onwards, the Fund adopted CICA Handbook Section 3855, Financial Instruments-Recognition Measurement, which includes new requirements for both valuing securities and accounting for transaction costs such as brokerage commissions. The new requirements would also affect the calculation of the Fund’s net asset value for investor transaction purposes. The Canadian Securities Administrators (“CSA”) has proposed amendments to its regulations. If enacted, these amendments would allow the Fund to adopt Section 3855 without affecting the method by which the Fund’s net asset values are calculated. In the meantime, the CSA has granted all investment funds a temporary exemption from adopting this new accounting standard, leaving the calculation of the net asset value unchanged.

### **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 & Portfolio Management Services**

In consideration for management services, the Fund paid 1.35% per annum in management fees to frontier*Alt* Funds Management Limited. This management fee is based on the Net Asset Value of the Fund. It is accrued daily and paid at month-end as a percentage of the daily net assets.

From the management fee (1.35%), MAK, Allen & Day Capital Partners Inc., an affiliate of frontier*Alt* Funds Management Limited received fees of 0.40% per annum in its capacity as portfolio manager to the Fund. This became effective February 1, 2008.

## **Administration Services**

The Fund paid \$66,570 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 five years. The information is derived from the Fund's audited annual financial statements.

<b>Net Asset Value (NAV) per Unit Class A</b>	<b>Mar 2008</b>	<b>Sept 2007</b>	<b>Sept 2006</b>
<b>Net asset value, beginning of period</b>	\$ 10.12	\$ 10.75	\$ 10.00
<b>Increase (decrease) from operations:</b>			
Total revenue	0.24	0.45	0.10
Total expenses	(0.11)	(0.22)	(0.08)
Realized gains (losses)	0.10	(0.62)	0.12
Unrealized gains (losses)	0.05	(0.06)	0.50
<b>Total increase (decrease) from operations(1)</b>	0.28	(0.45)	0.64
<b>Distributions:</b>			
From income (excluding dividends)	(0.13)	(0.14)	(0.03)
From dividends	-	-	-
From capital gains	-	(0.10)	-
Return of capital	-	-	-
<b>Total distributions(2)</b>	(0.13)	(0.24)	(0.03)
<b>Net asset value, end of period</b>	\$ <u>10.27</u>	\$ <u>10.12</u>	\$ <u>10.75</u>

<b>Net Asset Value (NAV) per Unit Class F</b>	<b>Mar 2008</b>	<b>Sept 2007</b>	<b>Sept 2006</b>
<b>Net asset value, beginning of period</b>	\$ 9.85	\$ 10.36	\$ 10.00
<b>Increase (decrease) from operations:</b>			
Total revenue	0.23	0.28	0.11
Total expenses	(0.11)	0.14	(0.06)
Realized gains (losses)	0.10	(0.39)	0.11
Unrealized gains (losses)	0.05	(0.03)	0.17
<b>Total increase (decrease) from operations(1)</b>	0.27	(0.00)	0.33
<b>Distributions:</b>			
From income (excluding dividends)	(0.10)	(0.15)	(0.04)
From dividends	-	-	-
From capital gains	-	(0.09)	-
Return of capital	-	-	-
<b>Total distributions(2)</b>	(0.10)	(0.24)	(0.04)
<b>Net asset value, end of period</b>	\$ <u>10.05</u>	\$ <u>9.85</u>	\$ <u>10.36</u>

<b>Net Asset Value (NAV) per Unit Class I</b>	<b>Mar 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	0.24	0.29
Total expenses	(0.11)	(0.05)
Realized gains (losses)	0.10	(0.40)
Unrealized gains (losses)	0.05	(0.04)
<b>Total increase (decrease) from operations(1)</b>	<u>0.27</u>	<u>(0.19)</u>
<b>Distributions:</b>		
From income (excluding dividends)	(0.32)	(0.11)
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total distributions(2)</b>	<u>(0.32)</u>	<u>(0.11)</u>
<b>Net asset value, end of period</b>	<u>\$ 10.03</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

For the periods ended	Mar 2008	Sept 2007	Sept 2006
Net assets Class A (000's) (1)	\$ 17,753	\$ 20,538	\$ 2,710
Number of units outstanding	1,727,881	2,029,291	252,055
Management expense ratio (2)	2.32%	2.15%	3.21%
Management expense ratio before waivers or absorptions	2.65%	2.50%	3.21%
Portfolio turnover rate (3)	482.14%	437.26%	195.80%
Trading expense ratio (4)	0.00%	0.00%	0.00%
Net assets Class F (000's) (1)	\$ 3,910	\$ 5,203	\$ 1,748
Number of units outstanding	528,026	528,026	168,671
Management expense ratio (2)	1.80%	1.37%	3.81%
Management expense ratio before waivers or absorptions	2.12%	1.60%	3.81%
Portfolio turnover rate (3)	482.14%	437.26%	195.80%
Trading expense ratio (4)	0.00%	0.00%	0.00%

For the periods ended	Mar 2008	Sept 2007
Net assets Class I (000's) (1)	\$ 550	\$ 536
Number of units outstanding	54,880	53,584
Management expense ratio (2)	0.88%	1.56%
Management expense ratio before waivers or absorptions	1.21%	2.35%
Portfolio turnover rate (3)	482.14%	437.26%
Trading expense ratio (4)	0.00%	0.00%

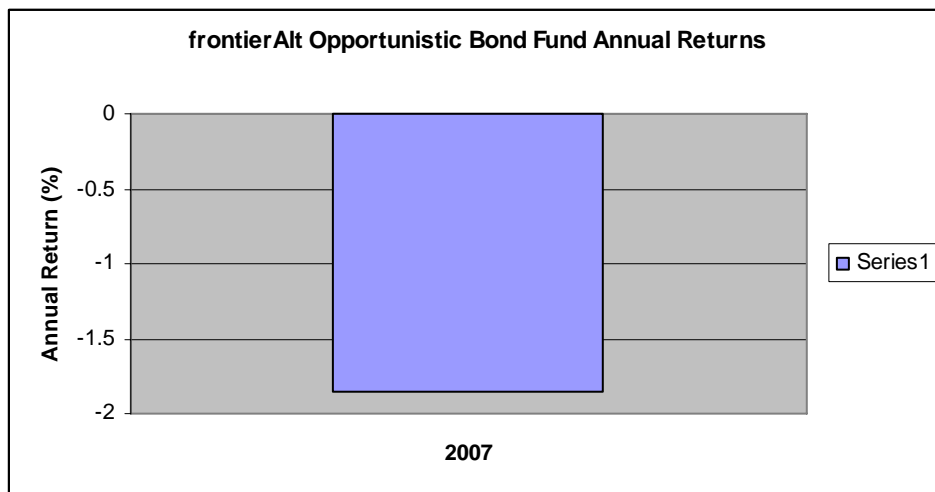
- (1) This information is provided as at period end of the year shown.
- (2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the
- (3) The Fund's portfolio turnover rate indicates how actively the 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
- (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.

### 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:



**Annual Compound Returns:**

The following chart shows the annual compound total return for each period indicated (period ending March 31, 2008)

2007	-1.85 %
Since Inception	4.08 %

## Summary of Investment Portfolio as at March 31, 2008:

<b>Sector Allocation</b>	<b>% of Net Assets</b>
Federal Bonds	70.4%
Provincial Bonds	19.3%
Cash	0.5%
Other assets less other liabilities	9.8%
	<u>100.0%</u>

<b>Top Holdings</b>	<b>% of Net Assets</b>
Government of Canada 3.75%, June 1, 2012	29.3%
Government of Canada 5.00%, June 1, 2037	13.8%
Province of Saskatchewan 4.50%, August 23, 2016	10.3%
Province of Saskatchewan 5.00%, March 5, 2037	9.1%
Government of Canada 4.00%, June 1, 2017	8.0%
Government of Canada Coupon, June 1, 2030	7.4%
Government of Canada Coupon, December 1, 2030	7.1%
Canada Mortgage Bond 4.55%, December 15, 2015	4.7%

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