

# **BLUMONT CANADIAN FUND**

## **SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

For the period ended June 30, 2010

This semi-annual Management Report of Fund Performance contains financial highlights but does not contain the complete semi-annual financial statements for BluMont Canadian Fund (the "Fund"). If you have not received a copy of the semi-annual financial statements with the Management Report of Fund Performance, you may obtain a copy of the semi-annual financial statements, at no cost, by calling 866.473.7376, by writing to us at BluMont Capital Corporation, 70 University Avenue, Suite 1200, P.O. Box 16 Toronto, Ontario M5J 2M4 or by visiting our website at [www.blumontcapital.com](http://www.blumontcapital.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 relating to the Fund.

### **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 achievements 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 to be 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.

Although the Fund believes it has a reasonable basis for making the forecasts or projections included in this 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.

The above list of important factors affecting forward-looking information is not exhaustive, and reference should be made to the other risks discussed in the Fund's filings with Canadian securities regulatory authorities. The forward looking information is given as of the date of this Management Report of Fund Performance, and the Fund undertakes no obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

## **Management Discussion on Fund Performance**

### **Investment Objective and Strategies**

The Fund aims to achieve superior capital appreciation over both short and long-term horizons primarily by investing in Canadian equity securities. The Fund may invest in companies of any capitalization size.

The Fund will seek to achieve its objective primarily by investing in equity securities of Canadian companies, which BluMont Capital Corporation (“BluMont Capital”), in its capacity as portfolio manager (“Portfolio Manager”), believes to have the potential for exceptional returns, encompassing both larger and smaller capitalization companies. The Fund may invest in bonds and other debt instruments from time to time, if determined to be appropriate by BluMont Capital. The Fund will not specialize in any one industry other than to concentrate investments in those industries that BluMont Capital believes offer the best opportunities for exceptional returns at each stage of the economic and market cycle. At the discretion of BluMont Capital, the Fund may also invest in options, including put options (i.e. the option to sell) or call options (i.e. the option to purchase) either in respect of a specific security or in respect of a stock exchange index as a means to reduce volatility.

The Fund may take short positions, mostly in equity securities, in total not exceeding 20% of the net asset value of the Fund. Short positions will be initiated opportunistically, targeting companies with, in the opinion of BluMont Capital, inferior business prospects, poor management track records or severely deteriorated financial prospects.

The Fund may hold cash or invest in short-term securities for the purpose of preserving capital and/or maintaining liquidity, based upon BluMont Capital’s ongoing evaluation of current and anticipated economic and market conditions. The Fund may also invest in foreign securities of the same type and characteristics as described above.

### **Investment Risk**

The risks of investing in the Fund remain as stated in the Fund’s simplified prospectus. The principal risks associated with the Fund are stock market risk, specific issuer risk, short selling risk, foreign security risk, currency risk and liquidity risk.

The Fund is suitable for clients seeking medium to long-term growth (through capital appreciation) who have a moderate risk tolerance level.

### **Results of Operations**

For the six month period ended June 30, 2010, the Fund delivered a loss of 1.0% while its benchmark, the S&P/TSX Total Return Index, delivered a loss of 2.6% over the same period.

As at June 30, 2010, 84.1% of the Fund’s net assets were held in Canadian equities, 0.3% in US equities, 1.2% in global equities, and the remaining 14.4% in cash. During the period, the Fund was overweight in materials, specifically gold, as compared to the benchmark, and has benefitted from gold’s steady climb. The Fund’s largest contributor during the period – Detour Gold– returned 32.3% over the period.

Although the year started off shaky for financial markets, largely due to fears of an overheated economy in China and the possibility of new banking regulation in the US, investor confidence improved in February and led to a significant gain throughout the next few months. During this period, the Fund increased its exposure to the consumer discretionary sector from 2.6% to 6.8%, and to the energy sector from 14.6% to 22.1%.

In May however, the Greek debt crisis became a significant concern to the global recovery as investors realized that substantial obstacles remain. The Fund took a more defensive stance in early May and more than doubled its cash position from 5.7% to 12.0%. As uncertainty reigned in the markets, the Fund benefitted from its large position in gold holdings. We also continued to hold defensive stocks during the 6 month period – such as BCE Inc. and Metro Inc. – as protection against future market volatility. Not only are these securities less volatile than the market, they generate returns through high dividend yields.

The markets continued their slide in June, as fear and uncertainty climbed. The benchmark lost 3.7% in June, while the Portfolio lost 3.1%. Our overweight position in gold paid off this month as gold was the only sector that showed gains during the period.

We continue to hold positions in NAL Oil and Gas Trust with a 10.0% dividend yield, Labrador Iron Ore Royalty Corporation with a 5.7% dividend yield and BCE Inc. with a 5.5% dividend yield, as well as many others. While we think this strategy will allow us to weather the summer malaise, we think this might turn out to be the right strategy for the next few years of slow economic growth. In the present uncertain environment, many companies with healthy balance sheets might prefer to gradually increase dividends rather than embark on riskier growth strategies, especially if markets reward them for such behavior. This has not necessarily been the case in the past, but we are convinced that investors will eventually prefer 5% yields in the stock market over next to nothing returns in the bond market. We view the negative bond yields scenario as too pessimistic, as we subscribe to the “Muddle Through Slow Growth” scenario.

**Recent Developments**

In 2009, money was made by extremely beaten up companies returning to a fair valuation as investors regained confidence that the world wasn’t going to end. Significant money went into yield products as well, as the “bird in hand” theory appealed to those who had just watched their portfolio melt by 40-50%. Both trends have likely run their course however. The broad market looks fairly well valued and likely has a more limited upside this year. That said, some specific stocks have much more potential, hence the value of stock picking. On the yield side, the bonds and preferreds issued last year are trading above par and are susceptible to both rising interest rates and call risk. We feel that a focused portfolio with the flexibility to invest free of style boxes offers the best opportunity to add value in 2010.

**Related Party Transactions**

There are no related party transactions to report for the period ended June 30, 2010 other than management and related fees as discussed below.

**Management Fees**

The Manager receives a monthly management fee (the “Management Fee”), calculated as a percentage of the Fund’s net asset value as of the close of business on each business day. The Management Fee rate applicable to the Fund is 1.80% per annum. For the period ended June 30, 2010, Management Fees charged to the Fund equaled \$156,582. The Management Fee is paid in consideration of investment management and administration services. No breakdown of such services was specified in the management agreement. From this Management Fee, the Manager pays fees to the investment advisor (BluMont Capital, in its capacity as such) who provides portfolio management services to the Fund. A portion of the Management Fee paid by the Fund is for trailer fees paid to dealers whose clients hold units of the Fund. The trailer fees are a percentage of the net asset value of the Fund, calculated and payable monthly. The table below outlines the Fund’s annual Management Fees and trailer fees.

ANNUAL RATE (%)	Front-End Sales Charge	Deferred Sales Charge (“DSC”)
Management Fees	1.80%	1.80%
Trailer Fees (rate as % of Management Fees)	44.71%	5.46%

Note: Selling Concessions: Front-End 0-2%; DSC 5% for purchases prior to November 8, 2007

In addition, the Fund pays the Manager performance fees (“Performance Fees”) equal to 20% of the amount by which the Fund outperforms its benchmark, the S&P/TSX Total Return Index Value. Performance Fees will be payable in all circumstances where the performance of the Fund exceeds that of its benchmark, even in circumstances where the overall performance of the Fund has declined. Performance Fees will be calculated and accrued daily such that, to the extent possible, the unit price each day will reflect any Performance Fees payable as

at the end of such day. Performance Fees for the Fund will be calculated and accrued each day, but will only be payable following the end of the fiscal year of the Fund based on the actual annual performance of the Fund. For the period ended June 30, 2010, no Performance Fees were charged to the Fund.

If the performance of the Fund for the period being measured is less than the performance of its benchmark for such period (a "Return Deficiency"), then no Performance Fees will be payable until the performance of the Fund thereafter, relative to its benchmark, has exceeded the amount of the Return Deficiency.

The Manager incurs operating expenses on behalf of the Fund and charges these expenses to the Fund. For the period ended June 30, 2010, the Manager has, in its discretion, agreed to absorb \$95,059 of operating expenses associated with the Fund.

### Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance for the past five years. This information is derived from the Fund's financial statements, and is represented net of expenses which have been charged to the Fund.

#### THE FUND'S NET ASSETS PER UNIT

For the period ended June 30, 2010 and for the years ended December 31,

	2010	2009	2008	2007	2006
Net assets, beginning of period <sup>1</sup>	\$ <u>18.19</u>	\$ <u>15.45</u>	\$ <u>23.38</u>	\$ <u>21.60</u>	\$ <u>20.45</u>
Increase (decrease) from operations					
Total revenue	0.13	0.19	0.36	0.26	0.37
Total expenses	(0.26)	(0.42)	(0.56)	(0.86)	(0.80)
Realized gains (losses) for the year	0.85	(2.49)	0.20	3.13	2.26
Unrealized gains (losses) for the year	<u>(0.78)</u>	<u>5.67</u>	<u>(7.94)</u>	<u>0.24</u>	<u>(0.05)</u>
Total increase (decrease) from operations <sup>1</sup>	\$ <u>(0.06)</u>	\$ <u>2.95</u>	\$ <u>(7.94)</u>	\$ <u>2.77</u>	\$ <u>1.78</u>
Distributions <sup>2</sup>					
From capital gains	-	-	-	(0.87)	(0.54)
Total distributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>(0.87)</u>	<u>(0.54)</u>
Net assets, end of period <sup>1</sup>	\$ <u>18.04</u>	\$ <u>18.19</u>	\$ <u>15.45</u>	\$ <u>23.38</u>	\$ <u>21.65</u>

#### RATIOS AND SUPPLEMENTAL DATA<sup>7</sup>

For the period ended June 30, 2010 and for the years ended December 31,

	2010	2009	2008	2007	2006
Net asset value (000s)	\$15,260	\$17,219	\$12,546	\$20,458	\$20,449
Number of units outstanding	843,493	942,323	809,284	873,091	944,370
Management expense ratio <sup>3</sup>	2.73%*	2.73%	2.79%	3.70%	3.78%
Management expense ratio before waivers or absorptions <sup>4</sup>	3.88%*	4.08%	3.60%	3.72%	3.90%
Portfolio turnover rate <sup>5</sup>	98.95%	129.22%	139.14%	35.93%	74.54%
Trading expense ratio <sup>6</sup>	0.40%*	0.22%	0.34%	0.25%	0.22%

\*Ratios have been annualized.

1. The net assets per unit shown for all periods since January 1, 2007 are references to Net Assets determined in accordance with Canadian generally accepted accounting principles (“GAAP”) and are derived from the Fund’s financial statements. The Net Assets per unit shown for all periods prior to January 1, 2007 are references to the net asset value (“NAV”). The Net Assets presented in the financial statements may differ from the NAV calculated for fund pricing purposes. NAV is calculated using fair value measures as defined by National Instrument 81-106 (“NI 81-106”), where as Net Assets are calculated in accordance with Canadian GAAP. An explanation of these differences can be found in the notes to the financial statements. Net Assets 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 year. This table is not intended to be a reconciliation of beginning to ending net assets per unit.
2. Distributions were reinvested in additional units of the Fund.
3. Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of daily average net asset value during the year. The management expense ratio is calculated in accordance with Part 15 of NI 81-106 and therefore includes performance fees, which were previously reported separately as dollar amounts.
4. The Manager has absorbed certain expenses or waived certain fees otherwise payable by the Fund. The amount of expenses absorbed or waived is determined annually at the discretion of the Manager and the Manager can terminate the absorption or waiver at any time.
5. The Fund’s portfolio turnover rate can indicate how actively the investment advisor manages the portfolio of investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of its 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 the Fund.
6. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
7. Ratios and supplemental data, where applicable, are computed using the net asset value of the Fund.

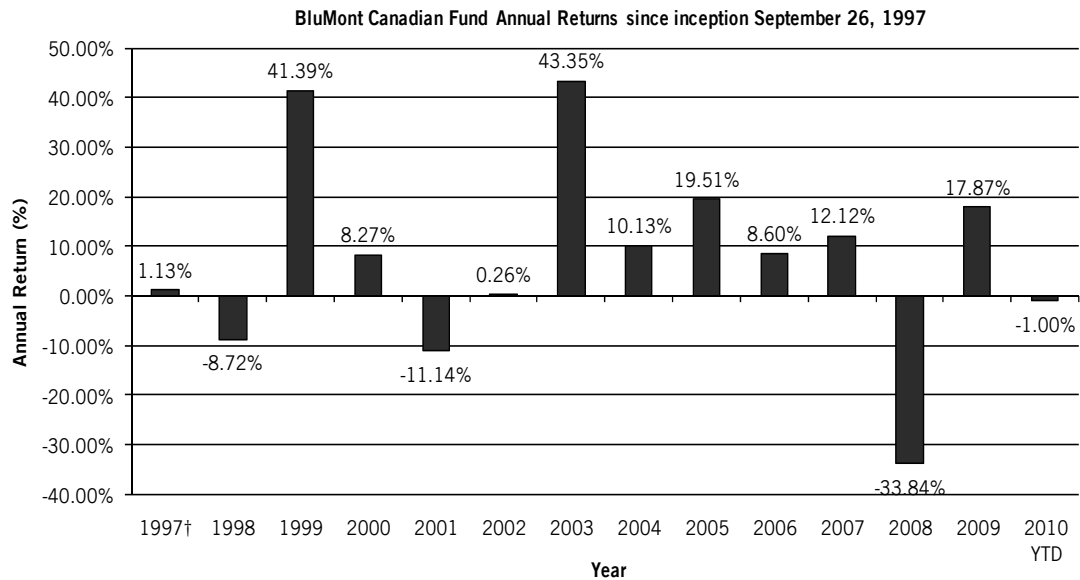
### **Past Performance**

The performance information shown below assumes that all distributions, if any, made by the Fund in the periods shown were reinvested in additional units of the Fund. If you hold the Fund outside a registered plan, you will be taxed on distributions. Distributions of income the Fund earns and capital gains it realizes are taxable in the year received whether received in cash or reinvested in additional units. No adjustment for potential tax consequences to an investor has been made to the performance information.

The indicated rates of return are historical annual compounded total returns including changes in unit value and do not take into account sale, redemption, distribution or other optional charges, that, if applicable, would have reduced returns or performance. The Fund is not guaranteed. Its value changes frequently and how the Fund has performed in the past does not necessarily indicate how it will perform in the future.

## Year-By-Year Returns

The bar chart below illustrates the Fund's annual performance for each of the years shown, and indicates how the Fund's performance has changed from year to year. It shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of the financial year.



†Return shown represents a partial year from inception on September 26, 1997 to December 31, 1997.

## Annual Compound Returns (Compound Performance)

The following table shows the annual compound total returns of the Fund, and for the S&P/TSX Total Return Index (a price weighted index of 300 of the largest, most widely-held stocks traded on the Toronto Stock Exchange) for the periods shown ended June 30, 2010). The Relative Performance returns show the performance of the Fund as compared to the benchmark S&P/TSX Total Return Index.

	1 Year	3 Year	5 Year	10 Year	Annualized Since Inception	Cumulative Total Return
BluMont Canadian Fund	12.08%	(7.44)%	1.46%	4.01%	6.50%	123.33%
S&P/TSX Total Return Index	11.95%	(3.88)%	5.45%	3.27%	6.45%	122.19%

## Summary of Investment Portfolio as at June 30, 2010

The summary of investment portfolio below includes information regarding the Fund as a whole. This summary may change due to ongoing portfolio transactions of the Fund and a quarterly update is available by contacting BluMont Capital at 866.473.7376 or by visiting BluMont Capital's website at [www.blumontcapital.com](http://www.blumontcapital.com) or SEDAR's website at [www.sedar.com](http://www.sedar.com).

<b>Top 25 Holdings*</b>	<b>% of Net Asset Value</b>	<b>Regional Weightings*</b>	<b>% of Net Asset Value</b>
<b>Long Positions</b>		<b>Long Positions</b>	
Detour Gold Corporation	5.3%	Canada	84.1%
BCE Inc.	4.3%	U.S.	0.3%
Canadian Imperial Bank of Commerce	3.5%	Global	1.2%
Paladin Labs Inc.	2.7%		
Metro Inc. 'A'	2.7%	<b>Short Positions</b>	
Canadian Western Bank	2.6%	Canada	(0.7)%
Pacific Rubiales Energy Corporation	2.4%	U.S.	-
Labrador Iron Ore Royalty Trust	2.3%	Europe	-
Arcan Resources Limited	2.3%		<b>% of Net Asset Value</b>
Dundee Precious Metals Inc. Warrants	2.2%	<b>Sector Weightings*</b>	
Osisko Mining Corporation	2.2%	<b>Long Positions</b>	
Rocky Mountain Dealership Inc.	2.1%	Basic Materials	24.3%
Magna International Inc. 'A'	2.1%	Energy	23.6%
Potash Corporation of Saskatchewan Inc.	1.9%	Information Technology	3.9%
iShares S&P/TSX Capped Financials Index Fund	1.9%	Financials	10.8%
Fortis Inc.	1.8%	Telecommunication Services	5.2%
Paramount Resources Limited	1.8%	Health Care	4.5%
IMRIS Inc.	1.8%	Consumer Staples	0.9%
Rainy River Resources Limited	1.8%	Consumer Discretionary	2.1%
Baytex Energy Trust	1.7%	Industrials	2.1%
Redknee Solutions Inc.	1.5%	Utilities	1.8%
Daylight Energy Limited	1.5%		
Legacy Oil + Gas Inc.	1.5%	<b>Short Positions</b>	
CI Financial Corporation	1.5%	Index Equivalents	(0.6)%
International Tower Hill Mines Limited	1.4%	Energy	(0.2)%
<b>Total</b>	<b>56.8%</b>		
<b>Total Net Asset Value</b>	<b>\$15,259,600</b>		

\*Excludes cash and cash equivalents

