BAB Trust

Annual Report
September 30, 2013

Management Report of Fund Performance

This annual management report of fund performance for **BAB Trust** (the "Fund") contains financial highlights but does not contain the complete annual financial statements of the Fund. **The annual financial statements and accompanying notes are attached to this report.**

You can obtain a copy of the annual financial statements at no cost by writing to Aston Hill Capital Markets Inc. (formerly "Connor, Clark & Lunn Capital Markets Inc.") (the "Manager") to the following address: Aston Hill Capital Markets Inc., 77 King Street West, Suite 2110, PO Box 92, Toronto, Ontario, M5K 1G8 or calling 1-800-513-3868 or visiting the Manager's website at www.astonhill.ca or by visiting www.sedar.com.

Securityholders 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.

Note that any reference to "Net Assets" or "Net Assets per Unit" or "GAAP Net Assets" means that the value was determined in accordance with the Canadian Generally Accepted Accounting Principles "GAAP" for financial statements purposes. Also, any reference to "Net Asset Value" or "Net Asset Value per Unit" or "Transactional NAV" means that the value was determined for valuation and transactional purposes in accordance with the Canadian Securities Administrators. An explanation of the difference between both values can be found in Note 3 to the financial statements.

Investment Objectives and Strategy

The Fund is an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement (the "Trust Agreement") between the Manager of the Fund and RBC Investor Services Trust (formerly "RBC Dexia Investor Services Trust") (the "Trustee") dated January 28, 2010. The Fund's principal office is located at 77 King Street West, Suite 2110, Toronto, Ontario, M5K 1G8. The fiscal year-end of the Fund is September 30. The Fund has one class of Units.

The Fund's investment objectives are to:

(i) provide the Unitholder with distributions; and

(ii) maximize total return for the Unitholder, while seeking to reduce risk.

In order to achieve the Fund's investment objectives, Nuveen Asset Management (the "Sub-Advisor"), the Fund's Sub-Advisor, actively manages its Portfolio. The Portfolio includes a minimum of 80% Build America Bonds (measured at the time of purchase), with the remainder of the Portfolio, if any, to be comprised of other Permissible Securities ("Permissible Securities" means U.S. Treasury Securities, U.S. Government Agency Securities, other Investment Grade (measured at time of purchase) municipal obligations and cash and cash equivalents). The Fund may also use derivatives for hedging purposes only.

Build America Bonds are bonds issued by U.S. state and local governments to finance capital projects that meet essential needs such as public schools, roads, water and transportation infrastructure, bridges, ports and public buildings, among others, pursuant to the American Recovery and Reinvestment Act of 2009 or other related, similar or successor legislation. Many Build America Bonds are general obligation bonds, which are backed by the full faith and taxing power of the governments issuing them. Most issuers of Build America Bonds receive a subsidy from the U.S. federal government equal to 35% of the interest paid to investors, which allows such issuers to issue bonds that pay interest rates that are competitive with the rates typically paid by private bond issuers. This form of government bond, with the credit going to the issuer, makes the bonds attractive to entities that pay no U.S. income tax, such as pension plans and non-U.S. investors, as well as to investors seeking potential high rates of interest income.

Risk

There were no changes in the risk exposure of the Fund for the year ended September 30, 2013.

For full disclosure of risks associated with an investment in the Fund's units, please refer to the Prospectus dated January 28, 2010 or to the Fund's most recent Annual Information Form. Both are available at www.sedar.com.

Recent Developments

Future accounting changes

The Canadian Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) had originally planned to adopt International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB), effective January 1, 2011. Subsequently, the AcSB deferred the adoption of IFRS for investment companies, which include investment funds. Investment companies may continue to apply existing GAAP standards until fiscal years beginning on or after January 1, 2014.

The Manager is reviewing and developing its IFRS changeover plan by performing an impact assessment and identifying differences between existing Canadian GAAP and IFRS. Management has also been monitoring developments in IFRS and has been assessing the likely impacts on accounting policies, implementation decisions, internal controls, information systems and training.

In May 2011, the IASB issued IFRS 13 Fair Value Measurement, which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. The standard allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread.

On July 24, 2013, the IASB voted tentatively to defer the mandatory adoption date of IFRS 9, Financial Instruments and that the mandatory effective date should be left open pending finalization of the project. Early adoption will continue to be permitted. This follows an agreement by the IASB and FASB to re-deliberate their proposals on the classification and measurement of financial instruments.

As the revised standard was scheduled to be completed in 2013, the Fund may now choose to adopt IAS 39, Financial Instruments: Recognition and Measurement instead, given the uncertainty about the timing and future development of IFRS 9. The Manager will decide the appropriate course of action for the Fund prior to completion of the September 2015 financial statements.

Other than the potential impact of IFRS 13 as described above, the Manager has currently not identified any changes that will impact net assets per Unit as a result of the changeover to IFRS. The impact of IFRS on other accounting policies and implementation decisions will mainly be in the areas of presentation and disclosures in the financial statements of the Fund. However, this present determination is subject to change resulting from the issuance of new standards or interpretations of existing standards.

Sale of Connor, Clark & Lunn Capital Markets Inc.

Connor, Clark & Lunn Financial Group and the principals of the Manager entered into a sale transaction to sell to Aston Hill Financial Inc. ("Aston Hill") shares in the Manager, Connor, Clark & Lunn Capital Markets Inc. (the "Company"). The terms of the transaction involved Aston Hill purchasing 80% of the Company from Connor, Clark & Lunn Financial Group, Neil Murdoch (President and Chief Executive Officer) and Darren Cabral (Chief Financial Officer). Neil Murdoch and Darren Cabral hold the remaining 20% of the Company not owned by Aston Hill. Completion of the sale transaction occurred on August 15, 2013. The business acquired by Aston Hill included the management agreement related to this Fund.

Results of Operations

Caution regarding forward-looking statements

The analysis in the document includes forward-looking statements. The use of any of the words anticipate, may, will, expect, estimate, should, believe and similar expressions are intended to identify forward-looking statements. Such statements reflect the opinion of the Portfolio Manager regarding factors that might be reasonably expected to affect the performance and the distribution on units of the Fund and are based on information available at the time of writing. The Portfolio Manager believes that the expectations reflected in these forward-looking statements and in the analysis are reasonable but no assurance can be given that these expectations or the analysis will prove to be correct and accordingly, they should not be unduly relied on. These statements speak only as of the date of this report. Actual events and outcomes may differ materially from those described in these forward-looking statements or analysis.

The Sub-Advisor's Commentary (November 2013)

The U.S. Economy and Inflation

The U.S. economy has several factors working in its favor:

- There is less fiscal drag from governments, as revenues at all levels of government have increased, and federal spending starts growing again following the implementation of the sequester. Total federal spending increased from an annual rate of $3.843 trillion in the first quarter of 2013 to $3.905 trillion in the second quarter, which is only slightly below the peak of $4.004 trillion in 2011 Q2.

- As a result of defaults, tighter lending standards, and greater reluctance to assume debt, total household debt has declined. As a percentage of gross domestic product, household debt has dropped from 100.0% in the second quarter 2009 to 83.6% in the first quarter of 2013, and debt service as a percentage of disposable income has fallen from 13.2% to 10.5%.

- Investment in capital goods has slowed since the start of the recession, which suggests the need for more investment, whether to expand capacity, or to replace obsolete plant and equipment. While real gross private domestic investment has recovered somewhat from an annual rate of $1.805 trillion in the third quarter of 2009, the 2013 Q2 reading of $2.525 trillion is still below the peak of $2.774 trillion reached in 2006 Q1.

- The index of manufacturing activity from the Institute for Supply Management (ISM) increased from 55.7 in August to 56.2 in September (where values above 50 indicate expansion). However, the services index fell from 58.6 to 54.4.

- The news from Europe has improved. After six consecutive quarters of declining real gross domestic product, the Eurozone countries reported growth of 0.3% in the second quarter. The composite purchasing managers index (manufacturing and services) for European countries increased to 52.2 in September from 51.5 in August.

On the other hand, the economy is weighed down by uncertainty over government policy as business leaders and investors wonder about how the shut-down will affect the economy, how the Affordable Care Act will affect the willingness of businesses to hire employees and the willingness of consumers to spend, and how the government will deal with the unsustainable burden created by entitlements, whether by reducing benefits or raising taxes or through a combination of the two.

Inflation is currently not a problem for the Federal Reserve. In August 2013 consumer prices were only 1.5% higher than in August 2012, and prices excluding food and energy were up just 1.8% year over year. At 56.5, the ISM's price index for manufacturers indicates modest increases in costs. Inflation expectations, however, edged up slightly during the quarter as the spread between 10-year Treasury yields and 10-year Treasury Inflation Protected yields widened from 2.0% to 2.2%. On balance, however, the combination of low inflation, anchored expectations for inflation, and persistently high unemployment suggests that the Federal Reserve will remain accommodative, maintaining a deliberate pace as it reduces its purchases of Treasuries and mortgage-back securities, and eventually stops those purchases and starts increasing short-term interest rates.

Portfolio Strategy and Performance

For the vast majority of the fiscal year, portfolio activity was relatively light. After transitioning the Portfolio in 2012 from largely non-index eligible holdings, to more actively traded index-eligible names, activity in the first nine months of the year was largely limited to relative value trades. A limited amount of cash needed to be raised to post collateral (via U.S. Treasury bills) during the calendar year second quarter. Most recently cash was raised to meet redemptions of approximately $4.4 million representing approximately 13% of the total market value of the Portfolio.

While the market value of the Portfolio was reduced by a meaningful amount, the overall structure of the portfolio did not materially change. At fiscal year-end, the allocation to General Obligation/Appropriation securities increased modestly from fiscal year-end 2012 to 39% of the Portfolio. Allocations to Toll Roads were down modestly to 13% while Water/Sewer and Public Power were largely unchanged at 17% and 14% respectively.

The average credit quality of the Portfolio remained at AA- using the highest rating of S&P, Moody's and Fitch. The duration of the Portfolio stood at 3.14 years at year-end.

Largely due to the hedge overlay, the Portfolio enjoyed a very solid year of outperformance relative to the Barclays Build America Bond Index. The Portfolio posted a total return of 0.80% versus -5.73% for the Build America Bond Index. While the overall performance of the Portfolio was negatively impacted by the FX hedge, this was more than offset by the value added through the interest rate hedge. The combined hedge overlay contributed 7.58% to the total return of the Portfolio. With a duration of just over three years compared to almost 12 years for the benchmark, the Portfolio was less sensitive to the rise in Treasury rates that took place over the course of the fiscal year. The yield on the 30-year Treasury increased by 87 basis points from a year ago closing at 3.69% on September 30.

The core portfolio underperformed the index during the period. Main drivers were the underweight to California General Obligation bonds, which enjoyed very solid performance relative to the balance of the market, and the credit quality allocation. As mentioned previously, to maintain a well-diversified portfolio, we have been significantly underweight California GOs, which represent over 15% of the benchmark.

The Portfolio has also been overweight AA-rated and BBB-rated bonds and underweight single-A rated securities. Over the last 12 months, single-A rated bonds have been the top performer, outperforming AA's by over 300 basis points and BBB's by 375.

For purposes of comparison, 12-month returns for selected indices are listed below (as measured in U.S. dollars). The Barclays Build America Bond Index, posting a -5.73% return, outperformed all but the Barclays Aggregate Index with its shorter duration:

- Barclays Build America Bond Index: -5.73%
- Barclays U.S. Aggregate: -1.68%
- Barclays U.S. Long Corporates: -6.48%
- Barclays U.S. Gov't Long: -10.43%

Credit Conditions

According to data from the Census Bureau, aggregate revenues of state and local governments have been increasing. During the 12 months ended June 30, 2013, state revenues were 6.9% higher than they had been in the 12 months ended June 30, 2012. State personal income tax revenue increased by 14.4%, but that includes income that was accelerated into 2012 in anticipation of higher tax rates in 2013. Revenue of local governments rose by 3.9% over the same period. The states have recorded year-over-year increases in revenues in every quarter since the fourth quarter of 2009.

Another factor working in favor of state and local governments has been the higher rates of return on pension assets. A survey of 42 major plans conducted by Pension & Investments found an average rate of return of 12.45% for the 12 months ended June 30, 2013. A similar survey by Wilshire Associates computed a median return of 12.61%.

Distressed Debt Newsletter (which counts draws on debt service reserves as a default, even if no payments to bondholders are missed) reports that the number of municipal defaults has fallen to 26 (on $7.1 billion) in the first eight months of 2013 from 144 in 2011 (on $28.8 billion), and 156 in 2012 (on $4.8 billion). Of the $7.1 billion in 2013, $6.4 billion is attributable to Detroit.

Standard & Poor's reports that, as of June 30, 2013, there were 201 outstanding bond deals in the S&P Municipal Bond Index that were in monetary default. The total par value of $6.7 billion represents less than 0.5% of the Index. Deals backed by land accounted for the greatest number of defaults (79 defaults with a par value of $1.46 billion), but bonds backed by corporations accounted from the greatest par value (51 defaults with a par value of $4.46 billion), largely due to the bankruptcy of American Airlines.

An investigation into the management of Detroit's public pension plans has uncovered dubious practices, such as bonus payments to pensioners and unrealistically high yields on annuities. These revelations may play a role in determining how losses should be apportioned among pension beneficiaries and creditors. Another point to keep in mind is that while reports in the media indicate that the emergency manager has proposed imposing losses of 90% on both pension beneficiaries and creditors, he is not proposing that retirees receive only 10% of their expected pensions. Rather, the pension plans would receive only 10% of the amount by which they are underfunded, which is somewhere between $600 million and $3.5 billion, on plans with combined assets in excess of $7.2 billion. A second point is that most of the city's non-enterprise fund debt is the $5.73 billion unfunded liability for retiree health benefits, compared to $1.45 for pension obligation certificates and approximately $900 million general obligation bonds and notes (the exact figure varies from document to document). There are questions about the nature of the city's obligation for retiree health and the extent to which costs could be reduced for those who qualify for Medicare.

The City of Stockton, California, proposed a restructuring plan that would require investors (or bond insurers, as the case may be) to accept some losses on bonds backed by leases of certain non-essential facilities (including an events center and parking facilities), while holders of leases on essential facilities would be unimpaired. In one instance, creditors would take possession of an office building, and, in another instance, creditors may assume control of golf courses.

The City of Richmond, California, announced its intention to use eminent domain powers to acquire mortgages that carry debt that exceeds the value of the single-family houses mortgaged. A company called Mortgage Resolution Partners (MRP) has contacted several cities to propose that the cities acquire the mortgages, paying 80% of the value of the property. The cities would then extinguish the loans and create new loans equal to 95% of the value of the property. MRP would split the profit with the city. So far, only Richmond has reached the stage of sending letters to mortgage-holders, asking them to tender their mortgages to the City for 80% of the value of the collateral. They would not seize mortgages held by the Federal National Mortgage Association or Government National Mortgage Association, only private label mortgages. Most of the loans that they are trying to buy are current in their payments.

There are several legal objections to such a use of eminent domain:

- It is illegal to seize property outside the jurisdiction of the government, and the loans are property held in trusts that are domiciled outside of California.
- Since the loans are held outside of California, this action could be deemed to be an interference with interstate commerce.
- The seizure must provide benefit for the general public, not just for a few individuals.
- Under the Contracts Clause of the U.S. Constitution, states and the subdivisions cannot grant relief to debtors in violation of existing contracts.

According to an article in the August 19, 2013 edition of Pensions & Investments, Thomas Perez, the U. S. Secretary of Labor, is refusing to release funds to transit agencies in California because of his view that California's Public Employees' Pension Reform Act, which was passed in September 2012, impedes collective bargaining rights. The power to withhold funding was granted to the Department of Labor under the Federal Transit Act. The state could lose $1.5 billion in grants this year. The pension reform act is projected to save the state $10.6 billion to $12.55 billion over the next 30 years. The state is negotiating with the DOL to try to resolve the dispute. One proposed solution is to exempt transit workers from the pension reform act.

Meanwhile, the State of California may have an excuse not to spend money that was approved by the voters as a result of a decision by a Superior Court judge in Sacramento, who ruled that the State of California has failed to meet requirements for funding and environmental reviews that were required by the ballot initiative that authorized the construction of the first phase of a bullet train project. One of the complaints was that the State has not identified the sources for the $31 billion needed to complete the segment that would link Fresno and Merced.

The California Public Employees' Retirement System (CalPERS) announced that it is lowering the assumed rate of return on its fixed income assets from 4.5% to 2.76%. Unless they change their asset allocation or the assumed rate of return on other asset classes, such as equity, the overall rate of return would fall from 7.50% to 7.25%. To put this assumption in perspective, a panel of the American Academy of Actuaries has concluded that the Pension Benefit Guaranty Corp. was justified in using a 3.28% discount rate when estimating the value of its liabilities for single-employer pension plans. They described that discount rate as "a reasonable level between the higher corporate bond yields used by private pension plans and lower Treasury securities rates considered to be 'risk-free.'" In accounting theory, if the promised pension benefits that have been earned for past service are considered to be "risk-free" for the beneficiaries, then the discount rate should be close to a risk-free rate. If the asset mix entails more risk, then the funding level should be higher to allow for the greater probability of not achieving the targeted rates of return.

Capital transactions

The Fund is authorized to issue an unlimited number of redeemable, transferable one class of units (the "Units"), each of which represents an equal, undivided interest in the net assets of the Fund, subject to the terms and conditions of the Trust Agreement.

On February 18, 2010, the Fund completed an initial offering pursuant to the Prospectus dated January 28, 2010. $29,666,219 was raised through the issue of 1,270,700 Units. The Units were issued at $23.35 per Unit.

During the year ended September 30, 2013, the Fund paid $4,360,985 to redeem 187,985 Units ($2,598,177 was paid to redeem 107,083 Units during the year ended September 30, 2012).

Distributions

The Fund pays distributions if, as and when declared by the Fund from time to time. The Fund declared $2,202,000 in distributions during the year ended September 30, 2013 ($2,361,000 during the year ended September 30, 2012).

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee of the Fund tabled no special reports and made no extraordinary material recommendations to management of the Fund during the year ended September 30, 2013.

Related Party Transactions

Management Fees

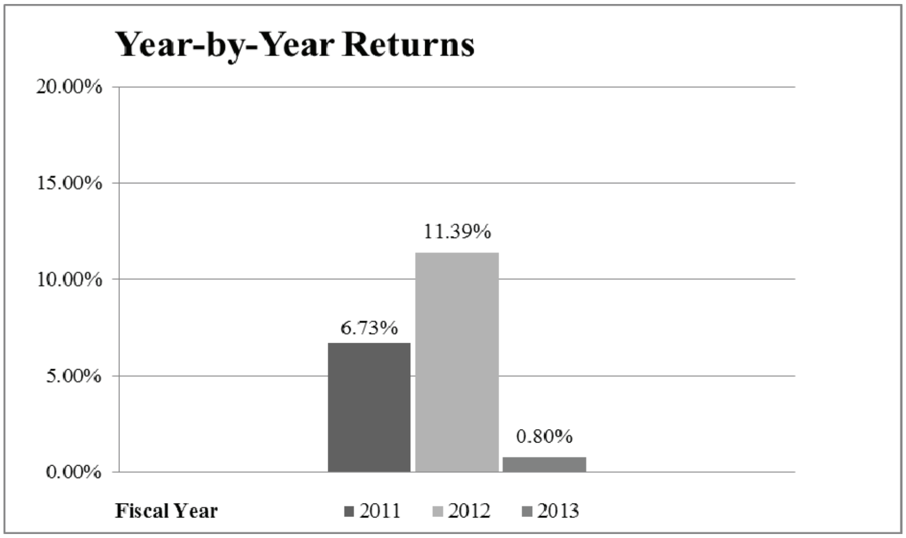
In consideration for management services and investment advice, the Manager receives a management fee from the Fund equal in the aggregate to 0.50% per annum of the applicable Net Asset Value, calculated and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund during the year ended September 30, 2013 were $129,323 plus applicable taxes ($122,953 plus applicable taxes during the year ended September 30, 2012).

The Manager is responsible for payment of the sub-advisory fees out of these management fees.

Past Performance

The following bar chart and table shows the Fund's annual performance by showing both annual returns by fiscal year and annualized compound returns from inception assuming all the distributions made by the Fund during the years shown were reinvested. The performance information does not take into account sales, redemptions, distributions or other option charges that would have reduced returns or performance. The bar chart shows, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period. Past performance is not necessarily indicative of future performance.



Annual Compound Returns

	Past Year	Past 3 Years	Since Inception (1)
Based on NAV	0.80%	6.21%	5.73%
Barclays Build America Bond Index	-5.73%	7.35%	9.61%

(1) Annualized for the period from February 18, 2010 (commencement of operations) to September 30, 2013.

The Sub-Advisor considers the Barclays Build America Bond Index to be the most reliable/representative index for long investors in the Build America Bonds' sector. Barclays Build America Bond Index is the subset of the Barclays Capital Taxable Municipal Bond Index. The Index consists of all direct pay Build America Bonds that satisfy the rules of the Barclays Capital Taxable Municipal Index.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to aid in understanding the Fund's financial performance since inception. This information is derived from the Fund's annual financial statements:

The Fund's Net Assets per Unit:

	September 30, 2013	September 30, 2012	September 30, 2011	September 30, 2010 (1)
Net Assets, beginning of period	**24.12**	**23.08**	**23.04**	**23.35**
Increase (decrease) from operations:				
Total revenues	1.26	1.15	1.27	0.82
Total expenses	(0.15)	(0.10)	(0.10)	(0.07)
Realized gains (losses) for the period	0.64	(2.43)	0.65	0.44
Unrealized gains (losses) for the period	(1.50)	3.96	(0.22)	(0.85)
Total increase (decrease) from operations (2)	**0.25**	**2.58**	**1.60**	**0.34**
Distributions:				
From income (excluding dividends)	(0.25)	(1.51)	(0.47)	(0.75)
From dividends	–	–	–	–
From capital gains	–	–	–	(0.06)
Return of capital	(1.27)	–	(1.02)	–
Total Distributions (3)	**(1.52)**	**(1.51)**	**(1.49)**	**(0.81)**
Net Assets, end of period (4)	**22.83**	**24.12**	**23.08**	**23.04**

(1) Results for the period from February 18, 2010 (commencement of operations) to September 30, 2010.

(2) Net assets 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 1,450,967 units outstanding as of September 30, 2013 (September 30, 2012 – 1,561,136 units).

(3) The percentages used to allocate distributions among income, dividends, capital gain and return of capital are based on estimates.

(4) This is not a reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data:

	September 30, 2013	September 30, 2012	September 30, 2011	September 30, 2010 (1)
Net asset value (000's)	29,458	35,655	36,587	40,423
Number of units outstanding	1,290,278	1,478,263	1,585,346	1,754,643
Management expense ratio (annualized) (2)	0.62%	0.44%	0.43%	0.46%
Management expense ratio before waivers or absorptions (annualized) (2)	0.62%	0.44%	0.43%	0.46%
Portfolio turnover rate (3)	20.80%	41.24%	47.81%	68.37%
Trading expense ratio (4)	0.00%	0.00%	0.00%	0.00%
Net asset value per unit (5)	22.83	24.12	23.08	23.04

(1) Results for the period from February 18, 2010 (commencement of operations) to September 30, 2010.

(2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

(3) The Fund's turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities (including fixed income) in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.

(4) 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.

(5) The net asset value (Transactional NAV) per unit is based on the last traded price for the day of the underlying portfolio.

Summary of Investment Portfolio as of September 30, 2013

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available at www.astonhill.ca.

	Coupon Rate %	Maturity date	Fair value $	% of NAV
Portfolio by Category				
United States of America State and Municipal Bonds			26,950,684	91.4%
Interest rate swap			1,672,666	5.7%
Short-term investments			1,442,839	4.9%
Other assets net of other liabilities			474,752	1.7%
Cash			114,292	0.4%
Foreign currency forward contracts			(1,196,860)	(4.1%)
Top 25 Holdings				
Interest rate swap			1,672,666	5.7%
Short-term investments			1,442,839	4.9%
County of Clark NV Airport System Revenue	6.82%	07/01/2045	1,285,325	4.4%
City of Chicago IL Waterworks Revenue	6.74%	11/01/2040	1,272,905	4.3%
California State Public Works Board	8.36%	10/01/2034	1,250,982	4.2%
Los Angeles County Public Works Financing Authority	7.62%	08/01/2040	1,210,513	4.1%
Bay Area Toll Authority	6.79%	04/01/2030	1,205,084	4.1%
City of Chicago IL Wastewater Transmission Revenue	6.90%	01/01/2040	1,199,104	4.1%
Colorado Bridge Enterprise	6.08%	12/01/2040	1,163,775	4.0%
City of New York NY	6.65%	12/01/2031	1,147,873	3.9%
Metropolitan Washington Airports Authority	8.00%	10/01/2047	1,138,232	3.9%
Commonwealth Financing Authority	6.22%	06/01/2039	1,132,290	3.8%
New York City Municipal Water Finance Authority	6.45%	06/15/2041	1,128,207	3.8%
South Carolina State Public Service Authority	6.45%	01/01/2050	1,122,340	3.8%
Los Angeles Department of Water & Power	5.72%	07/01/2039	1,121,055	3.8%
American Municipal Power Inc.	6.05%	02/15/2043	1,116,456	3.8%
Denver City & County School District No. 1	5.66%	12/01/2033	1,107,395	3.8%
New Jersey Transportation Trust Fund Authority	6.10%	12/15/2028	1,106,593	3.8%
Illinois State Toll Highway Authority	6.18%	01/01/2034	766,272	2.6%
East Baton Rouge Sewerage Commission	6.09%	02/01/2045	748,194	2.5%
Louisville & Jefferson County Metropolitan Sewer District	6.25%	05/15/2043	609,831	2.1%
New York City Transitional Finance Authority	6.83%	07/15/2040	603,536	2.0%
Metropolitan Government of Nashville & Davidson County	7.43%	07/01/2043	601,721	2.0%
Indianapolis Local Public Improvement Bond Bank	6.12%	01/15/2040	600,436	2.0%
Dallas Convention Center Hotel Development Corporation	7.09%	01/01/2042	596,098	2.0%
Net asset value			**29,458,373**	

Management's Responsibility for Financial Reporting

The accompanying financial statements of **BAB Trust** (the "Fund") and all the information therein have been prepared by Aston Hill Capital Markets Inc. (formerly "Connor, Clark & Lunn Capital Markets Inc.") in its capacity as Manager of the Fund. The Fund's Manager is responsible for all the information and representations contained in these financial statements and other sections of the Annual Report. Management maintains appropriate process to ensure that relevant and reliable financial information is produced.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements are not precise since they include certain amounts based on estimates and judgements. The Manager has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has ensured that the other financial information presented in this Annual Report is consistent with the financial statements.

The financial statements have been audited by PricewaterhouseCoopers LLP on behalf of the Unitholder. They have audited the financial statements in accordance with the Canadian generally accepted auditing standards to enable them to express to the Unitholder their opinion on the financial statements. Their report is set below.

W. Neil Murdoch
President and Chief Executive Officer
Aston Hill Capital Markets Inc.

Darren N. Cabral
Vice President and Chief Financial Officer
Aston Hill Capital Markets Inc.

Toronto, Canada
December 19, 2013

pwc

December 19, 2013

Independent Auditor's Report

To the Unitholder of
BAB Trust (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statement of investment portfolio as at September 30, 2013, the statements of net assets as at September 30, 2013 and September 30, 2012, the statements of operations, changes in net assets and retained earnings and cash flows for the years ended September 30, 2013 and September 30, 2012, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
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pwc

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at September 30, 2013 and September 30, 2012 and the results of its operations, the changes in its net assets and retained earnings and its cash flows for the years ended September 30, 2013 and September 30, 2012 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

BAB Trust

Statements of Net Assets

As at September 30, 2013 and 2012

	2013	2012
Assets	**$**	**$**
Cash	114,292	71,717
Short-term notes (cost - $1,474,640; 2012 - $1,852,997)	1,442,839	1,789,915
Investments at fair value (cost - $25,205,978; 2012 - $28,842,675)	26,950,684	33,594,300
Interest receivable	500,773	553,039
Unrealized gain on interest rate swap contracts	1,672,666	-
Unrealized gain on foreign currency forward contracts	-	359,740
	30,681,254	36,368,711
Liabilities		
Unrealized loss on foreign currency forward contracts	1,196,860	-
Unrealized loss on interest rate swap contracts	-	684,766
Accounts payable and accrued liabilities	15,491	14,950
Management fees payable	10,530	13,813
	1,222,881	713,529
Net assets and unitholder's equity	29,458,373	35,655,182
Units outstanding (note 5)	1,290,278	1,478,263
Net assets per unit	22.83	24.12
Unitholder's equity (note 5)		
Unit Capital	27,042,732	33,085,971
Retained Earnings	2,415,641	2,569,211
Total Unitholder's equity	29,458,373	35,655,182

Approved on behalf of the Manager,
Aston Hill Capital Markets Inc.

W. Neil Murdoch

Director

Director

(See accompanying notes to financial statements)

BAB Trust

Statements of Operations

For the years ended September 30, 2013 and 2012

	2013	2012
	$	$
Income		
Interest income	1,832,760	1,787,902
Expenses		
Management fees (note 7)	129,323	122,953
Harmonized sales tax	65,263	18,378
Audit fees	11,220	10,695
Interest expense	5,547	2,019
Custodial and other unitholder fees	3,210	6,394
Other fees	2,313	1,323
Broker commission charges	71	-
	216,947	161,762
Investment income	1,615,813	1,626,140
Unrealized gain (loss)		
Change in unrealized (loss) on investments	(3,006,919)	(634,600)
Change in unrealized gain (loss) on foreign exchange	29,564	(371,404)
Change in unrealized gain (loss) on foreign currency forward contracts	(1,556,600)	2,538,728
Change in unrealized gain on interest rate swap contracts	2,357,432	4,663,621
	(2,176,523)	6,196,345
Realized gain (loss)		
Net realized gain on investments	750,730	1,481,484
Net realized (loss) on foreign exchange	(24,314)	(39,581)
Net realized gain (loss) on interest rate swap contracts	200,470	(5,237,279)
	926,886	(3,795,376)
Net gain (loss) on investments	(1,249,637)	2,400,969
Increase in net assets from operations	366,176	4,027,109
Increase in net assets from operations per unit *	0.25	2.58

*(Based on weighted average number of units outstanding during the period).

(See accompanying notes to financial statements)

BAB Trust

Statements of Changes in Net Assets and Retained Earnings

For the years ended September 30, 2013 and 2012

	2013	2012
	$	$
Increase in net assets from operations	366,176	4,027,109
Distributions to unitholder from: (note 6)		
Net investment income	(366,176)	(2,361,000)
Return on capital	(1,835,824)	-
	(2,202,000)	(2,361,000)
Unitholder's transactions (note 5)		
Payments on redemption of units	(4,360,985)	(2,598,177)
Change in net assets during the year	(6,196,809)	(932,068)
Net assets - Beginning of year	35,655,182	36,587,250
Net assets - End of year	29,458,373	35,655,182
Retained Earnings, beginning of year	2,569,211	1,104,584
Increase in net assets from operations	366,176	4,027,109
Cost of shares redeemed in excess of average price per unit (note 5)	(153,570)	(201,482)
Distributions to unitholder	(366,176)	(2,361,000)
Retained Earnings, end of year	2,415,641	2,569,211

(See accompanying notes to financial statements)

BAB Trust

Statements of Cash Flows

For the years ended September 30, 2013 and 2012

	2013	2012
	$	$
Operating Activities		
Increase in net assets from operations	366,176	4,027,109
Items not affecting cash:		
Unrealized loss on investments	3,006,919	634,600
Unrealized (gain) loss on short-term notes foreign exchange	(31,281)	367,141
Unrealized (gain) loss on foreign currency forward contracts	1,556,600	(2,538,728)
Unrealized (gain) on interest rate swap contracts	(2,357,432)	(4,663,621)
Net realized (gain) on investments	(750,730)	(1,481,484)
Changes in non-cash working capital:		
Decrease in interest receivable	52,266	101,857
Increase in accounts payable and accrued liabilities	541	51
(Decrease) in management fees payable	(3,283)	(1,527)
Purchase of investments	(6,867,917)	(15,011,615)
Proceeds on disposition of investments	11,633,701	22,972,173
Net cash flow provided by operating activities	6,605,560	4,405,956
Financing Activities		
Distributions to unitholder	(2,202,000)	(2,361,000)
Payments on redemption of units	(4,360,985)	(2,598,177)
Net cash flow (used in) financing activities	(6,562,985)	(4,959,177)
Net increase (decrease) in cash	42,575	(553,221)
Cash - beginning of year	71,717	624,938
Cash - end of year	114,292	71,717

Supplementary Information		
Interest paid	5,547	2,256

(See accompanying notes to financial statements)

BAB Trust

Statement of Investment Portfolio

As at September 30, 2013

Investments	Coupon Rate %	Maturity date	Number of shares / par value US $	Average cost $	Fair value $	% of Net Assets
Foreign short-term notes						
U.S. Treasury Bills*	0.12%	07/24/2014	1,405,000	1,474,640	1,442,839	4.9 %
				1,474,640	1,442,839	4.9 %
Fixed Income						
United States of America State and Municipal Bonds (US$)						
County of Clark NV Airport System Revenue	6.82%	07/01/2045	1,005,000	1,041,495	1,285,325	4.4 %
City of Chicago IL Waterworks Revenue	6.74%	11/01/2040	1,100,000	1,104,395	1,272,905	4.3 %
California State Public Works Board	8.36%	10/01/2034	1,000,000	1,070,008	1,250,982	4.2 %
Los Angeles County Public Works Financing Authority	7.62%	08/01/2040	1,000,000	1,004,853	1,210,513	4.1 %
Bay Area Toll Authority	6.79%	04/01/2030	990,000	1,085,630	1,205,084	4.1 %
City of Chicago IL Wastewater Transmission Revenue	6.90%	01/01/2040	1,000,000	1,016,807	1,199,104	4.1 %
Colorado Bridge Enterprise	6.08%	12/01/2040	1,000,000	1,112,402	1,163,775	4.0 %
City of New York NY	6.65%	12/01/2031	1,000,000	1,003,351	1,147,873	3.9 %
Metropolitan Washington Airports Authority	8.00%	10/01/2047	1,000,000	1,031,151	1,138,232	3.9 %
Commonwealth Financing Authority	6.22%	06/01/2039	1,000,000	1,180,037	1,132,290	3.8 %
New York City Municipal Water Finance Authority	6.45%	06/15/2041	1,010,000	1,046,773	1,128,207	3.8 %
South Carolina State Public Service Authority	6.45%	01/01/2050	1,000,000	1,012,438	1,122,340	3.8 %
Los Angeles Department of Water & Power	5.72%	07/01/2039	1,000,000	1,122,432	1,121,055	3.8 %
American Municipal Power Inc.	6.05%	02/15/2043	1,040,000	1,021,706	1,116,456	3.8 %
Denver City & County School District No. 1	5.66%	12/01/2033	1,000,000	1,166,146	1,107,395	3.8 %
New Jersey Transportation Trust Fund Authority	6.10%	12/15/2028	1,000,000	1,032,412	1,106,593	3.8 %
Illinois State Toll Highway Authority	6.18%	01/01/2034	655,000	700,344	766,272	2.6 %
East Baton Rouge Sewerage Commission	6.09%	02/01/2045	700,000	755,658	748,194	2.5 %
Louisville & Jefferson County Metropolitan Sewer District	6.25%	05/15/2043	500,000	657,109	609,831	2.1 %
New York City Transitional Finance Authority	6.83%	07/15/2040	485,000	518,511	603,536	2.0 %
Metropolitan Government of Nashville & Davidson County	7.43%	07/01/2043	500,000	498,773	601,721	2.0 %
Indianapolis Local Public Improvement Bond Bank	6.12%	01/15/2040	500,000	657,009	600,436	2.0 %
Dallas Convention Center Hotel Development Corporation	7.09%	01/01/2042	500,000	582,546	596,098	2.0 %
Metropolitan Washington Airports Authority	7.46%	10/01/2046	500,000	531,150	585,341	2.0 %
Metropolitan Government of Nashville & Davidson County	6.73%	07/01/2043	500,000	553,539	574,178	1.9 %
Las Vegas Valley Water District	7.01%	06/01/2039	500,000	670,633	559,721	1.9 %
Municipal Electric Authority of Georgia	6.66%	04/01/2057	530,000	550,724	550,887	1.9 %
State of Illinois	6.90%	03/01/2035	500,000	553,040	514,509	1.7 %
County of Cook IL	6.23%	11/15/2034	500,000	524,024	512,103	1.7 %
County of Clark NV Airport System Revenue	6.88%	07/01/2042	200,000	192,729	222,796	0.8 %
State of Illinois	7.35%	07/01/2035	180,000	208,153	196,932	0.7 %
				25,205,978	26,950,684	91.4 %
Total investments				26,680,618	28,393,523	96.3 %

Foreign currency forward contracts	Number of contracts	Maturity date	Contract price / rate $	Unrealized gain (loss) $	% of Net Assets
Counterparty: Bank of Montreal (S&P credit rating: A+)					
Bought CAD 27,691,160 sold USD 28,000,000	1	11/29/2013	0.9890	(1,196,860)	(4.1%)
				(1,196,860)	(4.1%)

Interest rate swap	Notional amount US $	Fund receives floating rate index	Fund pays Fixed rate (Annualized)	Termination Date	Unrealized gain (loss) $	% of Net Assets
Counterparty: Bank of Montreal (S&P credit rating: A+)	(13,000,000)	3-Month USD-LIBOR	3.025%	05/30/2041	1,672,666	5.7%
					1,672,666	5.7%

Other assets net of other liabilities	589,044	2.1 %
Net assets	29,458,373	100.0 %

* This is pledged as collateral for interest rate swaps and foreign currency forward contracts.

(See accompanying notes to financial statements)

1 Corporate activities

BAB Trust (the “Fund”) is an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement (the “Trust Agreement”) between Aston Hill Capital Markets Inc. (formerly “Connor, Clark & Lunn Capital Markets Inc.”) (the “Manager”) the Manager of the Fund and RBC Investor Services Trust (formerly “RBC Dexia Investor Services Trust”) (the “Trustee”) dated January 28, 2010. The Fund’s principal office is located at 77 King Street West, Suite 2110, Toronto, Ontario, M5K 1G8. The fiscal year-end of the Fund is September 30. The Fund commenced operations on February 18, 2010. The Fund has one class of units.

Connor, Clark & Lunn Financial Group and the principals of the Manager entered into a sale transaction to sell to Aston Hill Financial Inc. (“Aston Hill”) shares in the Manager, Connor, Clark & Lunn Capital Markets Inc. (the “Company”). The terms of the transaction involved Aston Hill purchasing 80% of the Company from Connor, Clark & Lunn Financial Group, Neil Murdoch (President and Chief Executive Officer) and Darren Cabral (Chief Financial Officer). Neil Murdoch and Darren Cabral hold the remaining 20% of the Company not owned by Aston Hill. Completion of the sale transaction occurred on August 15, 2013. The business acquired by Aston Hill included the management agreement related to this Fund.

2 Investment objectives

The Fund’s investment objectives are to:

(i) provide the Unitholder with distributions; and

(ii) maximize total return for the Unitholder, while seeking to reduce risk.

In order to achieve the Fund’s investment objectives, Nuveen Asset Management (the “Sub-Advisor”), the Fund’s Sub-Advisor, actively manages its Portfolio. The Portfolio includes a minimum of 80% Build America Bonds (measured at the time of purchase), with the remainder of the Portfolio, if any, to be comprised of other Permissible Securities (“Permissible Securities” means U.S. Treasury Securities, U.S. Government Agency Securities, other Investment Grade (measured at time of purchase) municipal obligations and cash and cash equivalents). The Fund may also use derivatives for hedging purposes only.

Build America Bonds are bonds issued by U.S. state and local governments to finance capital projects that meet essential needs such as public schools, roads, water and transportation infrastructure, bridges, ports and public buildings, among others, pursuant to the American Recovery and Reinvestment Act of 2009 or other related, similar or successor legislation. Many Build America Bonds are general obligation bonds, which are backed by the full faith and taxing power of the governments issuing them. Most issuers of Build America Bonds receive a subsidy from the U.S. federal government equal to 35% of the interest paid to investors, which allows such issuers to issue bonds that pay interest rates that are competitive with the rates typically paid by private bond issuers. This form of government bond, with the credit going to the issuer, makes the bonds attractive to entities that pay no U.S. income tax, such as pension plans and non-U.S. investors, as well as to investors seeking potential high rates of interest income.

3 Summary of significant accounting policies

Basis of presentation

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates. The following is a summary of the significant accounting policies of the Fund.

Valuation of investments

Investments are deemed to be categorized as “held for trading” in accordance with CICA 3855, Financial Instruments – Recognition and Measurement (“Section 3855”) and therefore, are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded (“GAAP Net Assets” or “net assets”). Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Manager on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers’ commissions and other transaction charges are immediately charged to net income in the period incurred. The Canadian Securities Administrators allow investment funds to calculate the daily net asset value for the purpose of processing Unitholder transactions using the last traded price for the day as fair value of financial instruments traded in an active market, which is referred to as a “Transactional NAV” or “NAV”. The Fund processes Unitholder transactions using Transactional NAV.

There were no differences between the Transactional NAV and the GAAP Net assets as at September 30, 2013 and 2012.

Cash and short-term investments

Cash and short-term investments include cash and cash equivalents with maturities of less than 90 days from the date of acquisition.

Income recognition

Income from investments is recognized on an accrual basis. Interest income is based on the number of days the investment is held during the period. All income, realized and unrealized net gains (losses) and transaction costs (apart from an insignificant amount of income arising from cash) are attributable to investments and derivatives, which are deemed held for trading. Realized gains (losses) are recorded on the transaction date they are incurred.

Expense recognition

Expenses that are directly attributable to the Fund are recorded on an accrual basis as incurred.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the end of the year. Purchases and sales of investments and income and expenses are translated into Canadian dollars at the exchange rate prevailing on the transaction dates.

Realized foreign currency gains and losses on monetary assets and liabilities other than investments denominated in foreign currencies are included in the Statements of Operations in “Net realized gain (loss) on foreign exchange”. Unrealized on foreign currency gains and losses on monetary assets and liabilities other than investments denominated in foreign currencies are included in the Statements of Operations in “Change in unrealized gain (loss) on foreign exchange”.

Foreign currency forward contracts

The Fund may enter into foreign currency forward contracts to hedge against exposure to foreign currency fluctuations. The carrying fair value of these contracts is the gain or loss that would be realized if the position were closed out on the valuation date and is recorded as an unrealized gain or loss. Upon closing of a contract, the gain or loss is recorded as a net realized gain or loss on foreign currency forward contracts.

Interest rate swap

The Fund may enter into interest rate swap contracts to hedge against interest rate fluctuations. The carrying value of these contracts is the gain or loss that would be realized if the position were closed out on the valuation date and is recorded as an unrealized gain or loss on interest rate swap contracts. Upon closing of a contract, the gain or loss is recorded as a net realized gain or loss on interest rate swap contracts.

Increase (decrease) in net assets from operations per unit

This calculation is based on the increase (decrease) in net assets from operations divided by the weighted average number of units outstanding during the period.

Designation of financial assets and liabilities

For the purpose of measuring and recognizing assets and liabilities, the following designations have been made: All investments, including derivatives, if any, are initially recognized at fair value and are designated as held for trading. Cash is reported at fair value. Interest receivable, unrealized gain on interest rate swap contracts and foreign currency forward contracts are designated as loans and receivables and reported at amortized cost. Accounts payable and accrued liabilities, management fees payable, unrealized loss on interest rate swap contracts and foreign currency forward contracts are designated as other financial liabilities and reported at amortized cost.

Related party transactions

All related party transactions occur in the normal course of operations and are recorded at an amount of consideration agreed to by the parties.

International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) had originally planned to adopt International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB), effective January 1, 2011. Subsequently, the AcSB deferred the adoption of IFRS for investment companies, which include investment funds. Investment companies may continue to apply existing GAAP standards until fiscal years beginning on or after January 1, 2014.

The Manager is reviewing and developing its IFRS changeover plan by performing an impact assessment and identifying differences between existing Canadian GAAP and IFRS. Management has also been monitoring developments in IFRS and has been assessing the likely impacts on accounting policies, implementation decisions, internal controls, information systems and training.

In May 2011, the IASB issued IFRS 13 Fair Value Measurement, which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. The standard allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread.

On July 24, 2013, the IASB voted tentatively to defer the mandatory adoption date of IFRS 9, Financial Instruments and that the mandatory effective date should be left open pending finalization of the project. Early adoption will continue to be permitted. This follows an agreement by the IASB and FASB to re-deliberate their proposals on the classification and measurement of financial instruments.

As the revised standard was scheduled to be completed in 2013, the Fund may now choose to adopt IAS 39, Financial Instruments: Recognition and Measurement instead, given the uncertainty about the timing and the future development of IFRS 9. The Manager will decide the appropriate course of action for the Fund prior to completion of the September 2015 financial statements.

Other than the potential impact of IFRS 13 as described above, the Manager has currently not identified any changes that will impact net assets per Unit as a result of the changeover to IFRS. The impact of IFRS on other accounting policies and implementation decisions will mainly be in the areas of presentation and disclosures in the financial statements of the Fund. However, this present determination is subject to change resulting from the issuance of new standards or interpretations of existing standards.

4 Custodian

Pursuant to the Trust Agreement, RBC Investor Services Trust (formerly “RBC Dexia Investor Services Trust”) (the “Custodian”) also acts as custodian of the assets of the Fund. The Custodian is responsible for certain aspects of the Fund’s day-to-day operations, including calculating Transactional NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. In consideration for these services, the Fund pays a fee to the Custodian. The Custodian is rated AA- by S&P as of September 30, 2013 and 2012.

5 Unitholder’s equity

The Fund is authorized to issue an unlimited number of redeemable, transferable one class of units (the “Units”), each of which represents an equal, undivided interest in the net assets of the Fund, subject to the terms and conditions of the Trust Agreement. All the Fund’s units are held by its sole unitholder (Bank of Montreal).

On February 18, 2010, the Fund completed an initial offering pursuant to the Prospectus dated January 28, 2010. The Fund raised $29,666,219 through the issue of 1,270,700 Units. The Units were issued at $23.35 per Unit.

During the year ended September 30, 2013, $4,360,985 was paid to redeem 187,985 Units ($2,598,177 was paid to redeem 107,083 Units during the year ended September 30, 2012).

Changes in outstanding units during the years ended September 30, 2013 and 2012 are summarized as follows:

	September 30, 2013	September 30, 2012
Balance – beginning of year	1,478,263	1,585,346
Units redeemed	(187,985)	(107,083)
Balance – end of year	1,290,278	1,478,263

The Unit Capital dollar amount represents the face value of the fund's Units minus any return on capital distributions. If the redemption price is lower than the average cost per unit, the difference is included in Contributed Surplus on the Statements of Net Assets. If the redemption price is greater than the average cost per unit, the difference is first charged to Contributed Surplus until the balance in Contributed Surplus is eliminated and the remaining amount is charged to Retained Earnings.

The Fund considers capital to include all units issued and outstanding. The Fund manages its capital in accordance with the objectives outlined in Note 2.

6 Distributions

The Fund pays distributions if, as and when declared by the Fund from time to time. The Fund declared $2,202,000 in distributions during the year ended September 30, 2013 ($2,361,000 during the year ended September 30, 2012).

7 Management fees

The Manager receives a management fee from the Fund equal in the aggregate to 0.50% per annum of the applicable net asset value, calculated and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund during the year ended September 30, 2013 were $129,323 plus applicable taxes ($122,953 plus applicable taxes during the year ended September 30, 2012).

The Manager is responsible for payment of the sub-advisory fees out of the above management fees.

8 Income taxes

The Fund is a financial institution for purposes of the "specified debt obligation" and "mark-to-market" rules contained in the Income Tax Act (Canada) at any time if more than 50% of the fair market value of all interests in the Fund are held at that time by one or more such financial institutions. The Fund will be subject to tax in each taxation year under Part I of the Income Tax Act (Canada) on the amount of its income for the year, including net realized gains, if any, less the portion thereof that it deducts in respect of the amount paid or payable to unitholders in the year. The Fund may also be subject to "minimum tax" under the Tax Act. It is the intention of the Manager that all annual net taxable income will be distributed to the unitholder on a calendar year basis such that Canadian income taxes payable by the Fund under present legislation will be eliminated. As a result thereof, and of the deduction of expenses in computing its taxable income, no provisions for income taxes are made in the financial statement.

As at tax year end December 31, 2012, the Fund had capital losses of $1,566,273 (December 31, 2011 – $1,566,273), which may be carried forward indefinitely to reduce future capital gains and non-capital losses of $1,600,530 (December 31, 2011 – $nil), which will expire within the next twenty years as shown in the following table:

Year of the realized non-capital tax loss	Amount of tax loss	Expiry date
2012	1,600,530	2032
Total	**1,600,530**	

9 Broker commission charges and soft dollar services

There were $72 of broker commissions paid during the year ended September 30, 2013 in connection with portfolio transactions ($nil during the year ended September 30, 2012). No contractual arrangements for soft dollar services exist in the broker commission charges.

10 Financial instruments

	September 30, 2013	September 30, 2012
Assets	**$**	**$**
Cash	114,292	71,717
Held for trading	30,066,189	35,743,955
Loans and receivables	500,773	553,039
Total assets	**30,681,254**	**36,368,711**
Liabilities		
Held for trading	1,196,860	684,766
Financial liabilities at amortized cost	26,021	28,763
Total liabilities	**1,222,881**	**713,529**

For the purposes of categorization in accordance with CICA Section 3862, Financial Instruments – Disclosures, cash is reported at fair value while interest receivable is deemed to be loans and receivables and recorded at amortized cost. Similarly, management fees payable and accounts payable and accrued liabilities are deemed to be financial liabilities and reported at amortized cost.

The following tables illustrate the classification of the Fund's financial instruments within the fair value hierarchy as at September 30, 2013 and 2012:

Assets at fair value as at September 30, 2013	Level 1	Level 2	Level 3	Total
Short-term investments	–	1,442,839	–	1,442,839
Bonds	–	26,950,684	–	26,950,684
Interest rate swaps	–	1,672,666	–	1,672,666
Total	**–**	**30,066,189**	**–**	**30,066,189**

Liabilities at fair value as at September 30, 2013	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	–	1,196,860	–	1,196,860
Total	**–**	**1,196,860**	**–**	**1,196,860**

Assets at fair value as at September 30, 2012	Level 1	Level 2	Level 3	Total
Short-term investments	–	1,789,915	–	1,789,915
Bonds	–	33,594,300	–	33,594,300
Foreign currency forward contracts	–	359,740	–	359,740
Total	**–**	**35,743,955**	–	**35,743,955**

Liabilities at fair value as at September 30, 2012	Level 1	Level 2	Level 3	Total
Interest rate swaps	–	684,766	–	684,766
Total	**–**	**684,766**	–	**684,766**

Financial instruments are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

Bonds and short-term investments: Bonds and short-term investments are classified as Level 2 as they are valued using observable inputs, including interest rate curves, credit spreads and volatilities.

Interest rate swaps and foreign currency forward contracts: Contracts for which inputs, including interest rates, forward market rates and credit spreads are observable and reliable or for which unobservable inputs are determined not to be significant to fair value, are classified as Level 2.

There were no transfers among the three levels during the years ended September 30, 2013 and 2012.

11 Financial instrument risk

The Fund's activities expose it to a variety of financial risks. The Investment Manager may invest in derivatives for the purpose of hedging interest rate exposure. The Investment Manager also invests in foreign currency forward contracts to hedge the Fund's foreign exchange risk exposure.

Interest rate risk

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds and short-term notes. The Fund is exposed to the risk that the value of interest-sensitive financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. The tables below summarize the Fund's exposure to interest rate risks. It includes the Fund's assets and trading liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

September 30, 2013:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	–	–	–	26,950,684	–	**26,950,684**
Cash and short-term investments	1,442,839	–	–	–	114,292	**1,557,131**
Foreign currency forward contract	–	–	–	–	(1,196,860)	**(1,196,860)**
Interest rate swap	–	–	–	1,672,666	–	**1,672,666**
Other assets	–	–	–	–	500,773	**500,773**
Liabilities	–	–	–	–	(26,021)	**(26,021)**
Net assets						**29,458,373**

September 30, 2012:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	–	–	–	33,594,300	–	**33,594,300**
Cash and short-term investments	1,789,915	–	–	–	71,717	**1,861,632**
Foreign currency forward contract	–	–	–	–	359,740	**359,740**
Interest rate swap	–	–	–	(684,766)	–	**(684,766)**
Other assets	–	–	–	–	553,039	**553,039**
Liabilities	–	–	–	–	(28,763)	**(28,763)**
Net assets						**35,655,182**

As at September 30, 2013, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately $1,058,000 or $1,729,000 (September 30, 2012 – $1,369,000 or $2,369,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Currency risk

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's functional currency. The Fund is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates. The Statement of Investments identifies all securities denominated in foreign currencies.

The tables below summarize the Fund's exposure to foreign currencies as at September 30, 2013 and 2012. Amounts shown are based on the carrying values of monetary and non-monetary assets as well as the underlying principal amounts of foreign currency derivatives such as forward contracts. Other financial assets and liabilities that are denominated in foreign currencies do not expose the Fund to significant currency risk. The tables below summarize the Fund's significant exposure to foreign currencies and the approximate impact on net assets had the Canadian dollar ("CAD") weakened by 5% in relation to these currencies. If the Canadian dollar were to strengthen relative to these currencies, the opposite would occur. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

September 30, 2013:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
U.S. dollar	28,500,521	–	(28,781,120)	(280,599)	(1.0%)	(14,000)

September 30, 2012:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
U.S. dollar	35,455,377	–	(35,028,682)	426,695	1.2%	21,000

Credit risk

The Fund is exposed to the risk that a security issuer or counterparty will be unable to pay amounts in full when due. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of debt investments and unrealized gain (loss) on derivative instruments outstanding with counterparties represents the maximum credit risk exposure as at September 30, 2013 and 2012

The tables below summarize the Fund's exposure to credit risk as of September 30, 2013 and 2012. Amounts shown are based on the carrying value of short-term notes and bonds and the unrealized gain (loss) on derivative instruments outstanding with counterparties.

Rating	September 30, 2013 (% of NAV)
AA+	12.6%
AA	11.7%
AA-	35.9%
A+	17.5%
A	7.7%
A-	6.6%
BBB+	2.0%
BBB	3.9%
Total	97.9%

Rating	September 30, 2012 (% of NAV)
AA+	11.9%
AA	10.9%
AA-	31.8%
A+	19.6%
A	12.6%
A-	2.7%
BBB+	5.1%
BBB	3.4%
Total	98.0%

As at September 30, 2013 and 2012, no debt securities were contractually past due and no longer meeting interest payment obligations.

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

Liquidity risk

Liquidity risk is the risk of not being able to meet the Fund's cash requirements in a timely manner and includes the risk of not being able to liquidate assets at reasonable prices. This risk arises mainly from the Fund's exposure to unlimited annual redemptions in any given year; therefore, the Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed. In addition, the Fund retains sufficient cash positions to maintain liquidity. All liabilities are due within three months.

Other price risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Manager moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk resulting from financial instruments is equivalent to their fair value. The Fund's equity instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments. As at September 30, 2013 and 2012, other price risk was negligible as the Fund did not hold any equity instruments.