CONNOR, CLARK & LUNN

CAPITAL MARKETS

2012

Build America Investment Grade Bond Fund

Annual Report

September 30, 2012

Build America Investment Grade Bond Fund Message to Unitholders

December 19, 2012

Dear Investor,

We are pleased to provide you with the annual report for the Build America Investment Grade Bond Fund (the "Fund") for the year ended September 30, 2012. The Fund was designed to provide investors with exposure to a portfolio comprised primarily of Investment Grade Build America Bonds actively managed by Nuveen Asset Management (the "Sub-Advisor"). The Fund's investment objectives are to (i) provide Unitholders with monthly tax-advantaged cash distributions, and (ii) maximize total return for Unitholders while seeking to reduce risk. Distributions are initially targeted to be $0.1198 per month per Unit consisting primarily of returns of capital, representing a yield on the Unit issue price of 5.75% per annum.

The Fund delivered a total return of 12.93% during the year which compares well against both the Barclays Build America Bond Index and the bond market in general. One reason for the Index's strong performance was its heavy weighting in State of California general obligation bonds. They represent approximately 15% of the Index and the bonds had a very strong second half. The Fund's exposure to these bonds is significantly less than the Index's weight. The Sub-advisor did a good job of outperforming through other names in the portfolio.

The credit quality of state issuers is expected to continue to improve as ongoing economic growth results in increased revenues. State tax revenue has grown for ten consecutive quarters with the most recent quarter showing 3.2% year over year growth. Local governments have started to see a recovery in property taxes but this progress is somewhat offset by the fact that they are receiving less in distributions from state governments.

Please check our website for future updates. We appreciate your investment in the Fund and look forward to continued strong performance by the Fund.

Yours truly,

W. Neil Murdoch
Chief Executive Officer
Connor, Clark & Lunn Capital Markets

Management Report of Fund Performance

This annual management report of fund performance for Build America Investment Grade Bond Fund (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 the Manager to the following address: Connor, Clark & Lunn Capital Markets Inc. (the "Manager"), Suite 300, 181 University Avenue, Toronto, Ontario M5H 3M7, or calling (416) 862-2020 or visiting the Manager's website at www.cclcapitalmarkets.com 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 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. 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 between the Manager of the Fund and RBC Dexia Investor Services Trust (the "Trustee") dated January 28, 2010. The Fund's principal office is at 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7. The fiscal year-end of the Fund is September 30. Beneficial interest in the net assets and net income of the Fund is divided into units of two classes, Class A Units ("the Class A Units") and Class F Units (the "Class F Units"). Class A Units are listed on the Toronto Stock Exchange under the symbol BAB.UN. Class F Units are not listed on a stock exchange but may be converted into Class A Units on a weekly basis. The principal differences between the Class A Units and the Class F Units are that the agents' fees payable with respect to the original issuance of the units were lower for the Class F Units, and that the service fee component of the manager's fee and the TSX listing fees are not paid by Class F Units.

The Fund's investment objectives are to:

(i) provide Unitholders with monthly tax-advantaged cash distributions, and

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

Distributions are initially targeted to be $0.1198 per month per Unit consisting primarily of returns of capital, representing a yield on the issue price of 5.75% per annum.

In order to achieve the Fund's investment objectives, the Fund obtained exposure, in a tax-efficient manner, to the performance of a portfolio (the "Portfolio") held by BAB Trust (the "BAB Trust" or the "Trust"). Nuveen Asset Management (the "Sub-Advisor"), the Trust's Sub-Advisor, actively manages the 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. 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.

The Fund does not invest directly in the BAB Trust, the Fund used the net proceeds of the initial public offering of its Class A and Class F Units to pre-pay its purchase obligations under a forward purchase and sale agreement (the "Forward Agreement") with The Bank of Montreal (the "Counterparty" or "BMO"). Under the Forward Agreement, the Fund will receive, on or before February 27, 2015, a specified portfolio consisting of securities of Canadian public issuers that are "Canadian securities" for the purposes of the Tax Act ("Canadian Securities") in an amount equal to the value of the BAB Trust. Partial settlements under the Forward Agreement are intended to ensure that Unitholders have economic exposure to the distributions effected by BAB Trust. A fee of 0.35% per annum, calculated with reference to the NAV of the BAB Trust, is payable to BMO under the Forward Agreement.

Risk

Changes in the risk exposure of the Fund occurred in the following areas:

Use of leverage

The Fund is entitled to employ leverage of up to 25% of the levered notional amount. The Fund applied leverage in the range from 22.06% to 25.17% during the year ended September 30, 2012 (21.65% to 25.08% during the year ended September 30, 2011). The leverage factor as of September 30, 2012 was 23.80% (September 30, 2011 – 24.95%). If the borrowed amount exceeds 25% of the levered notional amount, the leverage amount will be reduced to ensure the leverage ratio is not greater than 25%.

For full disclosure of risks associated with an investment in the Fund's units, please refer to the Prospectus dated January 28, 2010.

Recent Developments

Future accounting changes

On October 31, 2012, the IASB issued an amendment to IFRS 10 exempting investment entities from consolidating their controlled investments. The Fund qualifies as investment entity and measures all controlled investments at fair value with changes in fair value recognized through profit or loss.

On December 12, 2011, the Canadian Accounting Standards Board ("AcSB") extended the deferral of the mandatory International Financial Reporting Standards ("IFRS") changeover date for investment companies to fiscal year beginning on or after January 1, 2014.

On May 12, 2011, the International Accounting Standards Board issued IFRS 13 Fair Value Measurement, which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. It only applies when other IFRSs require or permit fair value measurement. 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. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. This may result in eliminating the difference between the net asset value per unit and net assets per unit under the current Canadian GAAP. The Manager is currently assessing the Fund's Unitholder structure and investments to determine the impact of these standards. The Manager has determined that there will likely be no material impact to the net asset value per unit from the changeover to IFRS.

Results of Operations

The Sub-Advisor's Commentary (November 2012)

Portfolio Strategy and Performance

After sustaining the economy through its faltering recovery over the last few years, the manufacturing sector showed signs of wavering toward the end of the reporting period, even as the housing sector is starting to reawaken after five years of slumber. The latest sign of trouble for manufacturing was the stunning -13.2% drop in durable goods order in August, the most significant drop over the past several months and a sharp reversal from the increases we witnessed earlier in the year. While most of the decline was attributed to a collapse in the notoriously volatile aircraft orders, the modest 1.1% gain in non-defense capital goods orders (excluding aircraft) was not enough to offset the downwardly revised -5.2% drop in July. Negative trends also emerged in other areas, as industrial production fell by -1.2% in August and manufacturing production off by -0.7%, figures which both been positive earlier in the year. Manufacturers eliminated -16,000 jobs in September after cutting -22,000 positions in August. This is a sharp shift from earlier in the year when manufacturing was perceived to be a potential bright spot in the economy. The manufacturing index of the Institute for Supply Management (ISM) also ended the period lower than where it begin: after some volatility and even a contraction below 50, it ended the reporting period at just 51.5.

On the positive side, it was also encouraging to hear that light vehicle sales began to rise in September to an annualized rate of 14.94 million units, the highest since March 2008. More generally, the increase of 114,000 in the number of nonfarm payroll jobs in September – from earlier May lows of 69,000 – makes the risk of recession seem a bit less likely. Still, signs of slowing in manufacturing are especially worrisome since gross domestic product grew by just 1.3% in the second quarter, and exports are under pressure due to weak economic conditions in Europe.

Meanwhile, signs of recovery in the housing market include the fact that building permits increased from an annual rate of 536,000 in February 2011 to 801,000 in August, and the Standard & Poor's Case-Shiller index of housing prices rose by 4.0% from January to July 2012 (for 20 cities, seasonally-adjusted). Improvement in the housing sector could help the economy in at least two ways: by providing more construction jobs and by easing the credit pressure on banks from nonperforming mortgage loans (which have fallen from 5.67% of bank assets in 2010Q1 to 4.00% in 2012Q2). Stronger bank balance sheets and stable or improving home prices should encourage more mortgage lending.

While the year over year change in the consumer price index was a modest 1.7% in August, a sharp increase in gasoline prices helped boost prices in August by 0.6%. Excluding food and energy, prices rose by 0.1% in August and by 1.9% over the last year, a trend that has eased somewhat over the past six months. In September average hourly earnings were 1.8% higher than they were a year ago. The ISM's prices paid index for manufacturers dipped in June below 50%, but otherwise remained above the crucial 50% mark, and rose to 58.1% in September. The Federal Reserve's accommodative monetary policy and the recent upturn in energy costs have temporarily pushed expectations for inflation higher as the spread between 10-year Treasury yields and 10-year inflation-protection securities fluctuated over the past six months, but ended up at about 2.4%.

Portfolio Strategy and Performance

For the past year, portfolio activity was relatively muted. The Fund primarily pursued a strategy of shifting the portfolio from non-index eligible holdings – holdings which are less liquid in nature and holdings that management believes will underperform on a going forward basis – to only index-eligible holdings. By the end of the reporting period, the Fund had successfully pared non-index holdings to effectively zero. Over the past year, the Fund primarily sold bonds to fund the annual tender, or to raise cash to meet collateral calls when US Treasuries rose in value. When that collateral was released, however, the Fund was active as a buyer of bonds and established new positions and add odd-lot positions to existing holdings in names such as AA rated Indianapolis, AA rated Indiana general obligation bonds, AA rated North Carolina Turnpikes, and A rated State of Illinois.

Given the relatively limited amount of Fund activity over the past several quarters, the overall structure of the Fund was little changed. As of September 30, the Fund's allocation to general obligation / appropriation debt was 35% of assets; toll roads: 19%; water/sewer: 16%; public power: 13%; with airport, dedicated tax and transportation each under 5%. The Fund marginally increased its exposure to general obligation bonds (with purchase of Indianapolis GO) while decreasing exposure to public power. The Fund's average credit rating ended at AA-, using the highest of Moody's, S&P and Fitch.

The Fund posted a positive return of 12.93% per Class A Unit for the year. Net asset value was up $1.42 per unit for the period, moving from $22.57 to $23.99. In addition to the capital appreciation, the Fund made unitholder distributions of $1.44 per unit for the year.

The Barclays Build America Bond Index slighted outperformed most other long dated broad fixed income indices, returning 11.91% for year, with only Long Corporates generating a higher return:

- Barclays Build America Bond Index: 11.91%
- Barclays U.S. Aggregate: 5.16%
- Barclays U.S. Long Corporates: 15.01%
- Barclays U.S. Gov't Long: 6.41%

For the year, the Fund outperformed the Barclays Build America Bond index (12.93% vs. 11.20%). The interest rate hedge and foreign currency both marginally hurt performance, and the underlying municipal bond portfolio also underperformed for the period. The Barclays BAB Index has an approximate 15% weighting to State of California general obligation bonds. During the last several months of the year in particular, the credit spread of California GOs compressed significantly more than other index bonds, leading to meaningful outperformance for the name. In order to remain diversified, the Fund's exposure to California GOs is significantly less than the Index's weight; as a result, however, the Fund has sought to make up performance in other names in the portfolio.

Credit Conditions

While many individual states, municipalities and school districts continue to deal with daunting fiscal challenges, the aggregate figures for state and local governments throughout the United States are not as dismal as the newspaper headlines might suggest. The following table summarizes data compiled by the U.S. Census Bureau regarding tax revenues of state and local governments. For the four quarters through June 2012, total state revenues were 3.5% higher than in the year earlier period, and local revenues were up 3.1% from a year ago. Compared to the revenues collected at the depths of the recession, during the year ended June 30, 2008, total state tax revenues have increased 1.2%, while local tax revenues were up by 17.1%.

Tax Revenue, 4 Qtrs through 6/30/12				
	Change from 4 Qtrs through 6/30/11			
	Total	Personal Income	Sales	Property
State	3.5%	4.5%	2.4%	
Local	3.1%			1.4%
	Change from 4 Qtrs through 6/30/08			
	Total	Personal Income	Sales	Property
State	1.2%	-3.1%	0.1%	
Local	17.1%			18.2%

A report from the U.S. Census Bureau on state-administered pension plans for the fiscal year ended June 30, 2011 revealed that contributions to the retirement plans increased by 8.1% from fiscal 2010, with government contributions rising by 10.7% and employee contributions increasing by 3.0%. Government contributions totaled $72 billion, while employees contributed $34 billion. The growth in contributions closely matched the 8.2% increase in benefit payments.

The Census Bureau's report also illustrated the demographic challenge facing pension plans. In 1991 the ratio of active employees to beneficiaries was 3.0 to 1. By 2001, the ratio had fallen to 2.5 to 1, and by 2011 it was down to 1.8 to 1. In some states the problem is more severe; in Michigan the ratio is 1.1 to 1.

In September the California legislature approved changes to the state's pension plans for new employees. The maximum salary on which pensions will be based will be limited to $110,000 for those who also qualify for Social Security and $130,000 for those who do not qualify. The retirement age for full benefits will rise from 50 to 57 for public safety employees and from 55 to 67 for other employees.

In 2010 the Center for Retirement Research at Boston College published a study of the performance of pension obligation bonds (POBs), which demonstrated the risks associated with issuing such bonds after a period of strong performance by the stock market. From the date of issuance until the stock market peaked in 2007, the cumulative returns on pension assets were less than the interest costs of POBs issued between 1997 and 2001. Through mid-2009, when the stock market was beginning its recovery, returns were less than costs for bonds issued between 1997 and 2008. These findings do not bode well for the City of Fort Lauderdale, Florida, which, in the same week when the Dow Jones Industrial average reached the highest it has been since December 2007, approved plans to sell $340 million taxable pension obligation bonds.

According to another report from the Center for Retirement Research, the ratio of pension assets to liabilities for 126 public pension plans fell to 75% in 2011 from 76% in 2010, 87% in 2007 and 103% in 2001, based on the rates of return assumed by the plan sponsors. If liabilities are discounted at a 5% rate, the ratio of assets to liabilities is estimated to drop to 50%. The annual required contribution to pension plans rose to 15.7% of payroll costs in 2011 versus 13.6% in 2010 and 6.1% in 2002. Actual contributions were only 79% of the required amounts, whereas they had equaled 86% in 2006 and 100% in 2001.

While people sometimes use the term "general obligation" to refer to various forms of tax-supported debt, the importance of finer distinctions has become clearer in the last few years. The strongest commitments have a pledge of full faith and taxing power without limitation as to rate or amount together with a statutory lien on tax revenues. Other bonds may have a full faith and credit pledge, but not a lien on tax revenues. Still other bonds may be obligations payable from the general fund but without a pledge to raise taxes if necessary. Then there are the bonds, or certificates of participation, which are backed by a municipality's promise to make rental payments under a lease. In these situations, it is important to evaluate how essential the facilities are to the operations of the government.

These distinctions have proven important in the case of Vallejo, California and its plan of reorganization. While the City had no general obligation bonds outstanding, holders of bonds backed by special revenues from incremental taxes and the water system are being paid in full; holders of certificates of participation for essential facilities agreed to restructure the debt, but they will recover all their principal; however, holders of leases on nonessential property, which in one case consisted of undeveloped land, restructured the debt at a significant loss. Likewise, the lack of essentiality was a key consideration in the decision of the Vadnais, Minnesota, in September to stop making lease payments on a sports facility.

Policies at the state level can also have a great impact on the creditworthiness of local governments. On one hand, Rhode Island in July 2011 passed legislation which grants to all general obligation debt a statutory first lien on tax revenue and state aid. This provision gave the City of Central Falls considerable leverage in its negotiations with public employee unions, retirees and other creditors. On the other hand, the State of California has transferred responsibilities to the counties, diverted revenues from redevelopment agencies to schools to reduce its obligation to fund education, and has stood by this summer while Stockton, San Bernardino and Mammoth Lakes filed for bankruptcy in rapid succession.

The Stockton bankruptcy may bring some clarity to the question of the relative priority of pension obligations and obligations to bondholders. When denying a request to prevent the City from suspending health care payments for retirees, the judge noted that the U.S. Constitution forbids states from impairing contracts, whereas the U.S. Congress is not prevented from altering contracts, which is what the federal bankruptcy law is designed to do.

Capital transactions

On February 18, 2010, the Fund completed an initial public offering pursuant to the prospectus dated January 28, 2010 (the "Prospectus"). $30,000,000 was raised through the issue of 1,200,000 Class A Units and $1,767,500 was raised through the issue of 70,700 Class F Units.

On March 11, 2010, the Agents exercised an over-allotment option in respect of 73,820 Class A Units, raising a further $1,845,500.

Agents' fees and other issue expenses totalled $2,294,936. The Manager reimbursed the fund with the amount $73,815 to account for issue expenses above the 1.5% limit of gross proceeds of the offering (as per the Fund's Prospectus terms and conditions).

During the year ended September 30, 2012, $1,958,637 was paid to redeem 81,990 of Class A Units, and $16,031 was paid to redeem 700 of Class F Units ($2,897,134 was paid to redeem 122,092 of Class A Units, and $444,252 was paid to redeem 18,000 of Class F Units during the year ended September 30, 2011). There were 2,200 Class F Units converted into 2,312 Class A Units for the amount of $53,249 (17,100 Class F Units were converted into 17,947 for the amount of $407,456 during the year ended September 30, 2011).

Net Assets

The net assets per unit is calculated as the value of the prepaid amount to the counterparty under the forward agreement plus any other investments held by the Fund, plus the value of any gain or loss on the Forward Agreement, less any net liabilities of the Fund, divided by the number of units outstanding.

On September 30, 2012, the prepaid amount to counterparty under forward agreement was $29,553,543. Since the Fund can at any time terminate the Forward Agreement with the Counterparty in exchange for the value of the BAB Trust, the value of the Forward Agreement to the Fund is equal to the value of the BAB Trust less the value of the prepaid amount to counterparty under forward agreement. On September 30, 2012 the value of the unrealized gain on forward agreement was $6,101,639. Other liabilities net of other assets in the Fund totalled $8,679,011 leaving net assets of $26,976,171. This amount is assigned to Class A and Class F Unitholders using an allocation percentage that takes into consideration any class level specific expenses. On September 30, 2012 the GAAP Net Assets per unit was $23.99 per each Class A Unit and $25.39 per each Class F Unit.

Leverage

The Fund's exposure to the securities in the BAB Trust's Portfolio through the Forward Agreement may be increased to 25% of levered notional amount or total assets (being the net asset value of BAB Trust) (tested daily) for the purposes of adding leverage to the Portfolio and such other short term funding purposes as may be determined by the Investment Manager from time to time and in accordance with the Investment Strategy. The use of leverage has the potential to enhance or reduce returns.

During the year ended September 30, 2012, the Fund had bank indebtedness balance from $8,485,000 to $9,130,000 or 22.06% to 25.17% of the levered notional amount ($9,130,000 to $9,820,000 or 21.65% to 25.08% of the levered notional amount during the year ended September 30, 2011). The related interest expense during the same period was $178,021 ($194,910 during the year ended September 30, 2011). At September 30, 2012, the borrowed balance was $8,485,000 ($9,130,000 at September 30, 2011).

Market repurchases

The Trust Agreement provides that the Fund may, in its sole discretion, from time to time, purchase (in the open market or by invitation for tenders) Class A Units for cancellation subject to applicable law and stock exchange requirements, based on the Manager's assessment that such purchases are accretive to Unitholders, in all cases at a price per Class A Unit not exceeding the most recently calculated Net Asset Value per Class A Unit immediately prior to the date of any such purchase of Units.

During the year ended September 30, 2012, the Fund did not purchase any units for cancellation (no units were purchased for cancellation during the year ended September 30, 2011).

Distributions

The Fund pays monthly distributions initially at $0.1198 per Unit. The Fund paid an initial distribution of $0.1669 for unitholders with record date March 31, 2010 for the period from February 18, 2010 (commencement of operation) to March 31, 2010.

The Fund has made all its scheduled distributions during the year ended September 30, 2012, paying $1.44 per Class A Unit and $1.44 per Class F Unit ($1.44 per Class A Unit and $1.44 per Class F Unit during the year ended September 30, 2011).

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, 2012.

Related Party Transactions

Management Fees

In consideration for management services and investment advice, the Manager receives a Management Fee from the Fund and BAB Trust equal in the aggregate to 0.80% per annum of the applicable Net Asset Value, (0.30% from the Fund and 0.50% from the BAB Trust), calculated and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund and BAB Trust on a combined basis during the year ended September 30, 2012 were $230,418 ($259,317 during the year ended September 30, 2011). The Manager is responsible for payment of the sub-advisory fees out of these management fees.

Service Fees

The Fund pays to the Manager a Service Fee (calculated quarterly and paid as soon as practicable after the end of each calendar quarter); solely with respect to the Class A Units, equal to 0.30% per annum of the Net Asset Value attributable to the Class A Units, plus applicable taxes. The Service Fee is applied by the Manager to pay a service fee in an equivalent aggregate amount, plus applicable taxes, to brokers based on the number of Class A Units held by clients of such brokers at the end of the relevant quarter. No Service Fee is payable in respect of the Class F Units.

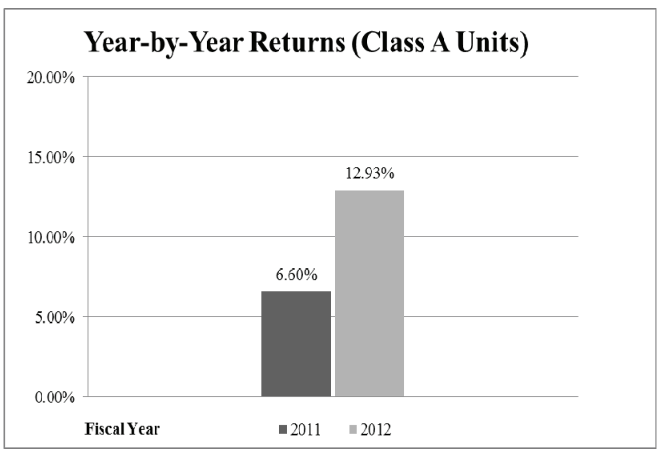
The service fees charged to the Fund during the year ended September 30, 2012 were $79,345 ($93,311 during the year ended September 30, 2011).

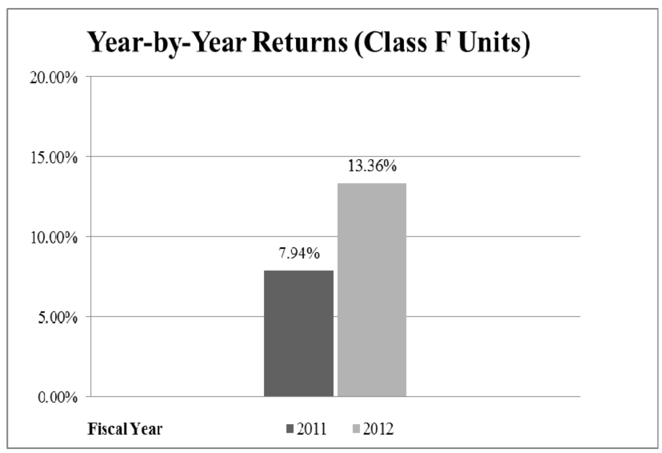
Past Performance

The following bar charts and table show the Fund's annual performance of the Class A Units and the Class F Units by showing both annual returns by fiscal year and annualized compound returns from inception assuming all the distributions made by the fund during the periods shown were reinvested. Past performance is not necessarily indicative of future performance.

Year-by-Year Returns

The following bar charts and table show the Fund's annual performance for the years shown. These bar charts show, 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.





(*) No return is available for the period from February 18, 2010 (commencement of operations) to September 30, 2010 due to the Fund not existing for 12 consecutive months prior to September 30, 2010 year end.

Annual Compound Returns

	Past Year	Since Inception (1)
Based on NAV (Class A Units)	12.93%	7.51%
Based on share price (Class A Units)	14.91%	3.94%
Based on NAV (Class F Units)	13.36%	8.27%
Barclays Build America Bond Index	11.91%	17.37%

(1) Annualized for the period from February 18, 2010 (commencement of operations) to September 30, 2012.

The sub-advisor considers 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 audited annual financial statements:

Class A Units:

The Fund's Net Assets per Class A Unit:

	September 30, 2012	September 30, 2011	September 30, 2010 (1)
Net Assets, beginning of period	22.57	22.54	25.00
Unit issue expense (2)	–	–	(1.70)
Increase (decrease) from operations:			
Total revenues	–	0.01	–
Total expenses	(0.51)	(0.49)	(0.32)
Realized gains (losses) for the period	0.55	0.46	0.02
Unrealized gains (losses) for the period	2.82	1.60	0.41
Total increase (decrease) from operations (3)	**2.86**	**1.58**	**0.11**
Distributions:			
From income (excluding dividends)	–	–	–
From dividends	–	–	–
From capital gains	–	–	–
Return of capital	(1.44)	(1.44)	(0.89)
Total Distributions (4)	**(1.44)**	**(1.44)**	**(0.89)**
Net Assets, end of period (5)	**23.99**	**22.57**	**22.54**

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

(2) Issue expenses of $2,223,027 were incurred in connection with the Class A Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes. The Manager reimbursed the fund with the amount $73,815 for issue expenses above the maximum allowable percentage of 1.5% of the gross proceeds of the initial public offering as prescribed in the Fund's prospectus dated January 28, 2010.

(3) 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 units outstanding of 1,167,407 over the financial period (2011 - 1,264,732).

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

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

Ratios and Supplemental Data (Class A Units):

	September 30, 2012	September 30, 2011	September 30, 2010 (1)
Net asset value (000's)	26,326	26,569	28,871
Number of units outstanding	1,097,338	1,177,016	1,281,161
Base management expense ratio (annualized) (2) (3)	1.54%	1.51%	1.77%
Issue expenses ratio (2) (3)	–	–	7.27%
Interest expense ratio (annualized) (2) (3)	0.63%	0.64%	0.47%
Management expense ratio (annualized) (3)	2.17%	2.15%	9.52%
Management expense ratio before waivers or absorptions (annualized) (3)	2.17%	2.15%	9.76%
Portfolio turnover rate (4)	0.00%	0.00%	0.00%
Trading expense ratio (5)	0.00%	0.00%	0.00%
Net asset value per unit (6)	23.99	22.57	22.54
Closing market price (TSX)	23.50	21.75	22.37

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

(2) A separate base management expense ratio has been presented to include the normal operating expenses and exclude the issue expense ratio: representing all agents' fees and unit issue expenses, and interest expense ratio: representing cost of leverage.

(3) 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. Unit issue expenses, representing all agents' fees and other offering expenses, which are one-time expenses, are not annualized.

(4) The Fund's turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund'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.

(5) 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.

(6) The net asset value (Transactional NAV) per unit is based on the last traded price for the day of the underlying portfolio, whereas the net assets per unit (GAAP Net Assets) is based on the closing bid prices of the underlying portfolio; hence the difference between the two amounts.

Class F Units:

The Fund's Net Assets per Class F Unit:

	September 30, 2012	September 30, 2011	September 30, 2010 [1]
Net Assets, beginning of period	23.73	23.34	25.00
Unit issue expense [2]	–	–	(0.99)
Increase (decrease) from operations:			
Total revenues	–	0.01	–
Total expenses	(0.46)	(0.44)	(0.29)
Realized gains (losses) for the period	0.58	0.47	0.02
Unrealized gains (losses) for the period	2.98	2.12	0. 50
Total increase (decrease) from operations [3]	**3.10**	**2.16**	**0.23**
Distributions:			
From income (excluding dividends)	–	–	–
From dividends	–	–	–
From capital gains	–	–	–
Return of capital	(1.44)	(1.44)	(0.89)
Total Distributions [4]	**(1.44)**	**(1.44)**	**(0.89)**
Net Assets, end of period [5]	**25.39**	**23.73**	**23.34**

(1) Results for the period from February 18, 2010 (commencement of operations) to September 30, 2010.
(2) Issue expenses of $71,909 were incurred in connection with the Class F Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes. The Manager reimbursed the fund with the amount $73,815 for issue expenses above the maximum allowable percentage of 1.5% of the gross proceeds of the initial public offering as prescribed in the Fund's prospectus dated January 28, 2010.
(3) 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 units outstanding of 25,837 over the financial period (2011 – 59,374).
(4) The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on estimates.
(5) This is not reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data (Class F Units):

	September 30, 2012	September 30, 2011	September 30, 2010 [1]
Net asset value (000's)	650	676	1,484
Number of units outstanding	25,600	28,500	63,600
Base management expense ratio (annualized) [2] [3]	1.20%	1.18%	1.46%
Issue expenses ratio [2] [3]	0.00%	0.00%	4.11%
Interest expense ratio (annualized) [2] [3]	0.63%	0.63%	0.47%
Management expense ratio (annualized) [3]	1.83%	1.81%	6.04%
Management expense ratio before waivers or absorptions (annualized) [3]	1.83%	1.81%	6.28%
Portfolio turnover rate [4]	0.00%	0.00%	0.00%
Trading expense ratio [5]	0.00%	0.00%	0.00%
Net asset value per unit [6]	25.39	23.73	23.34

(1) Results for the period from February 18, 2010 (commencement of operations) to September 30, 2010.
(2) A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio: representing all agents' fees and unit issue expenses, and Interest expense ratio: representing cost of leverage.
(3) 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. Unit issue expenses, representing all Agents' fees and other offering expenses, which are one-time expenses, are not annualized.
(4) The Fund's turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund'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.
(5) 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.
(6) The net asset value (Transactional NAV) per unit is based on the last traded price for the day of the underlying portfolio, whereas the net assets per unit (GAAP Net Assets) is based on the closing bid prices of the underlying portfolio; hence the difference between the two amounts.

Summary of Investment Portfolio as of September 30, 2012

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available at www.cclcapitalmarkets.com and at www.sedar.com.

Investment portfolio of the Build America Investment Grade Bond Fund

	Fair value CAD $	**% of NAV**
Portfolio by Category		
Derivative contracts	35,655,182	132.2%
Cash	13,482	0.0%
Information Technology	6,327	0.0%
Other Liabilities of the Fund	(8,698,820)	(32.2%)
Top 25 Holdings		
Prepaid forward agreement	35,655,182	132.2%
Cash	13,482	0.0%
Celestica Inc.	6,327	0.0%
Other liabilities of the Fund	(8,698,820)	(32.2%)
Net asset value	**26,976,171**	

The Fund obtained exposure to the performance of the portfolio held by BAB Trust through the Forward Agreement (see Investment Objective and Strategy). The following is the summary of investment portfolio for BAB Trust as of September 30, 2012:

Investment portfolio of the BAB Trust

	Coupon Rate %	Maturity date	Fair value $	% of NAV
Portfolio by Category				
United States of America State and Municipal Bonds			33,594,300	93.9 %
Short-term notes			1,789,915	5.0 %
Other assets net of other liabilities			524,276	1.5 %
Foreign currency forward contracts			359,740	1.0%
Cash			71,717	0.2 %
Interest rate swap			(684,766)	(1.9%)
Top 25 Holdings				
Los Angeles County California Public Works Financing	7.62%	08/01/2040	1,977,979	5.5 %
US Treasury Bills	0.57%	11/01/2012	1,789,915	5.0 %
New Jersey State Turnpike Authority	7.41%	01/01/2040	1,742,338	4.9 %
City of Chicago IL	6.74%	11/01/2040	1,468,615	4.1 %
County of Clark NV	6.82%	07/01/2045	1,408,677	4.0 %
Bay Area Toll Authority	6.79%	04/01/2030	1,404,047	3.9 %
South Carolina State Public Service Authority	6.45%	01/01/2050	1,336,482	3.7 %
Metropolitan Transportation Authority	6.65%	11/15/2039	1,336,353	3.7 %
Indianapolis Local Public Improvement Bond Bank	6.12%	01/15/2040	1,285,749	3.6 %
Chicago Illinois Wastewater Transmission	6.90%	01/01/2040	1,259,153	3.5 %
California State Public Works Board	8.36%	10/01/2034	1,250,386	3.5 %
Denver City & County School District No 1	5.66%	12/01/2033	1,238,244	3.5 %
Metropolitan Washington Airports Authority	8.00%	10/01/2047	1,219,175	3.4 %
Commonwealth Financing Authority	6.22%	06/01/2039	1,214,570	3.4 %
American Municipal Power - Ohio Inc.	6.05%	02/15/2043	1,203,985	3.4 %
City of New York	6.65%	12/01/2031	1,192,579	3.3 %
Municipal Electric Authority of Georgia	6.66%	04/01/2057	1,179,679	3.3 %
New York City Municipal Water Finance Authority	6.45%	06/15/2041	1,168,013	3.3 %
New Jersey Transportation Trust Fund Authority	6.10%	12/15/2028	1,133,237	3.2 %
North Texas Tollway Authority	6.72%	01/01/2049	974,396	2.7 %
Los Angeles California Department of Water & Power	5.72%	07/01/2039	924,765	2.6 %
Colorado Bridge Enterprise	6.08%	12/01/2040	829,143	2.3 %
Los Angeles California Department of Water & Power	6.60%	07/01/2050	719,131	2.0 %
Louisville & Jefferson County Metropolitan Sewer District	6.25%	05/15/2043	656,788	1.8 %
New York City Transitional Finance Authority	6.83%	07/15/2040	635,147	1.8 %
Net asset value			**35,655,182**	

Management's Responsibility for Financial Reporting

The accompanying financial statements of **Build America Investment Grade Bond Fund (the "Fund")** and all the information have been prepared by Connor, Clark & Lunn Capital Markets Inc. in its capacity as Manager of the Fund and have been approved by the Board of Directors of the Manager. The Fund's Manager is responsible for all the information and representations contained in these financial statements and other sections of the Annual Report.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgements made by the Manager. 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, appointed by the unitholders. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report is set out here in.

W. Neil Murdoch
President and Chief Executive Officer
Connor, Clark & Lunn Capital Markets Inc.

Darren Cabral
Vice President and Chief Financial Officer
Connor, Clark & Lunn Capital Markets Inc.

Toronto, Canada
December 19, 2012

December 19, 2012

Independent Auditor's Report

To the Unitholders of
Build America Investment Grade Bond Fund (the "Fund")

We have audited the accompanying financial statements of the Fund, which comprise the statement of investment portfolio as at September 30, 2012, the statements of net assets as at September 30, 2012 and 2011, and the statements of operations, changes in net assets and surplus and cash flow for the years then ended, 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 an 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
T: +1 416 863 1133, F: +1 416 365 8215

pwc

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at September 30, 2012 and 2011 and the results of its operations, the changes in its net assets and cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Build America Investment Grade Bond Fund

Statements of Net Assets

As at September 30, 2012 and 2011

	2012	2011
	$	$
Assets		
Cash	13,482	17,747
Investments at fair value (cost - $10,089; 2011 - $10,089)	6,327	6,813
Prepaid forward agreement (note 8)	35,655,182	36,587,250
	35,674,991	36,611,810
Liabilities		
Bank indebtedness (note 5)	8,485,000	9,130,000
Interest payable	14,027	14,940
Distributions payable	134,528	144,421
Accounts payable and accrued liabilities	63,702	73,013
Management fees payable	1,563	3,903
	8,698,820	9,366,277
Net assets and unitholders' equity	26,976,171	27,245,533
Net Assets		
Class A Units	26,326,115	26,569,336
Class F Units	650,056	676,197
	26,976,171	27,245,533
Units issued and outstanding (note 6)		
Class A Units	1,097,338	1,177,016
Class F Units	25,600	28,500
Net assets per unit		
Class A Units	23.99	22.57
Class F Units	25.39	23.73
Unitholders' equity		
Capital (note 6)	21,708,722	25,147,672
Surplus	5,267,449	2,097,861
	26,976,171	27,245,533

Approved on behalf of the Manager,
Connor, Clark & Lunn Capital Markets Inc.

W. Neil Murdoch

Director

Director

(See accompanying notes to financial statements)

Build America Investment Grade Bond Fund

Statements of Operations

For the years ended September 30, 2012 and 2011

	2012	2011
	$	$
Income		
Interest income	-	17
Other income	-	12,618
	-	12,635
Expenses		
Interest expense (note 5)	178,021	194,910
Forward fees (note 8)	129,792	140,541
Management fees (note 10)	91,481	102,255
Service fees (note 11)	79,345	93,311
Administration fees	26,815	22,869
Custodial and other unitholder fees	26,739	24,434
Audit fees	21,936	31,190
Transfer agent fees	15,824	15,563
Filing fees	10,767	13,253
Other	9,670	3,209
TSX fees	8,783	8,661
Printing and mailing fees	4,422	2,709
IRC fees	2,494	1,674
Legal fees	2,183	557
Registration fees	553	-
	608,825	655,136
Investment (loss)	(608,825)	(642,501)
Unrealized gain on investments		
Change in unrealized gain (loss) on investments	(486)	(963)
Change in unrealized gain (loss) on forward agreement (note 8)	3,368,094	2,167,337
	3,367,608	2,166,374
Realized gain on investments		
Net realized gain on forward agreement (note 8)	659,016	607,268
Net gain on investments	4,026,624	2,773,642
Increase in net assets from operations	3,417,799	2,131,141
Increase in net assets from operations		
Class A Units	3,337,774	2,003,177
Class F Units	80,025	127,964
Increase in net assets from operations per unit (*)		
Class A Units	2.86	1.58
Class F Units	3.10	2.16

(*) based on average number of 1,167,407 Class A Units (2011 - 1,264,732) and 25,837 Class F Units (2011 - 59,374) outstanding during the period

(See accompanying notes to financial statements)

Build America Investment Grade Bond Fund

Statements of Changes in Net Assets and Surplus

For the years ended September 30, 2012 and 2011

	Class A		Class F		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**	**$**	**$**
Increase (decrease) in net assets from operations	3,337,774	2,003,177	80,025	127,964	3,417,799	2,131,141
Distributions to unitholders from:						
Return of capital	(1,675,607)	(1,815,514)	(36,886)	(84,279)	(1,712,493)	(1,899,793)
Unitholders' transactions (note 6)						
Class F units converted to Class A	53,249	407,456	(53,249)	(407,456)	-	-
Payments on redemption/cancellation of units (note 6 & 7)	(1,958,637)	(2,897,134)	(16,031)	(444,252)	(1,974,668)	(3,341,386)
	(1,905,388)	(2,489,678)	(69,280)	(851,708)	(1,974,668)	(3,341,386)
Change in net assets during the year	(243,221)	(2,302,015)	(26,141)	(808,023)	(269,362)	(3,110,038)
Net assets - Beginning of year	26,569,336	28,871,351	676,197	1,484,220	27,245,533	30,355,571
Net assets - End of year	26,326,115	26,569,336	650,056	676,197	26,976,171	27,245,533
Surplus, beginning of year	1,982,892	138,685	114,969	15,614	2,097,861	154,299
Increase in net assets from operations	3,337,774	2,003,177	80,025	127,964	3,417,799	2,131,141
Cost of shares redeemed in excess of original issue price	(245,965)	(158,970)	(2,246)	(28,609)	(248,211)	(187,579)
Surplus, end of year	5,074,701	1,982,892	192,748	114,969	5,267,449	2,097,861

(See accompanying notes to financial statements)

Build America Investment Grade Bond Fund

Statements of Cash Flow

For the years ended September 30, 2012 and 2011

	2012	2011
	$	$
Operating Activities		
Increase (decrease) in net assets from operations	3,417,799	2,131,141
Items not affecting cash:		
Unrealized (gain) loss on investments	486	963
Unrealized (gain) loss on forward agreement	(3,368,094)	(2,167,337)
Net realized (gain) loss on forward agreement	(659,016)	(607,268)
Changes in non-cash working capital:		
Increase (decrease) in interest payable	(913)	(1,101)
Increase (decrease) in accounts payable and accrued liabilities	(9,311)	(6,007)
Increase (decrease) in management fees payable	(2,340)	(2,668)
Increase (decrease) in issue expense payable	-	(21,185)
Pre-settlements received by the Fund from the Counterparty under the forward agreement	4,959,177	6,610,742
Net cash flow provided by (used in) operating activities	4,337,788	5,937,280
Financing Activities		
Payments on redemption and cancellation of units (note 6)	(1,974,668)	(3,341,386)
Distributions paid to unitholders	(1,722,385)	(1,916,474)
Principal payments on bank indebtedness	(645,000)	(690,000)
Net cash flow provided by (used in) financing activities	(4,342,053)	(5,947,860)
Net increase (decrease) in cash	(4,265)	(10,580)
Cash - beginning of year	17,747	28,327
Cash - end of year	13,482	17,747

	2012	2011
Supplementary Information		
Interest paid	178,934	196,011

(See accompanying notes to financial statements)

Build America Investment Grade Bond Fund

Statement of Investment Portfolio

As at September 30, 2012

	Coupon Rate %	Maturity date	Number of shares / par value $	Average cost $	Fair value $	% of Net Assets
Investments						
Canadian common stocks						
Information Technology						
Celestica Inc.			900	10,089	6,327	0.0%
Total Canadian common stocks				10,089	6,327	0.0%
Forward agreement:						
Investments held in BAB Trust under the forward agreement						
Foreign short-term notes						
U.S. Treasury Bills(*)	0.57%	11/01/2012	1,820,000	1,852,997	1,789,915	6.6%
				1,852,997	1,789,915	6.6%
Fixed Income						
United States of America State and Municipal Bonds (US$)						
Denver City & County School District No 1	5.66%	12/01/2033	1,000,000	1,166,146	1,238,244	4.6%
State of Illinois	7.35%	07/01/2035	180,000	208,152	208,660	0.8%
County of Clark NV	6.88%	07/01/2042	200,000	192,729	225,293	0.8%
County of Cook IL	6.23%	11/15/2034	500,000	524,024	552,627	2.0%
State of Illinois	6.90%	03/01/2035	500,000	553,040	565,389	2.1%
Metropolitan Washington Airports Authority	7.46%	10/01/2046	500,000	531,150	585,210	2.2%
Dallas Texas Convention Center	7.09%	01/01/2042	500,000	582,546	597,367	2.2%
Metropolitan Government of Nashville & Davidson County	7.43%	07/01/2043	500,000	498,773	614,586	2.3%
Illinois State Toll Highway Authority	6.18%	01/01/2034	500,000	521,969	624,116	2.3%
New York City Transitional Finance Authority	6.83%	07/15/2040	485,000	518,511	635,147	2.4%
Los Angeles California Department of Water & Power	6.60%	07/01/2050	500,000	509,798	719,131	2.7%
Colorado Bridge Enterprise	6.08%	12/01/2040	650,000	668,438	829,143	3.1%
Los Angeles California Department of Water & Power	5.72%	07/01/2039	750,000	822,378	924,765	3.4%
North Texas Tollway Authority	6.72%	01/01/2049	730,000	865,636	974,396	3.6%
New Jersey Transportation Trust Fund Authority	6.10%	12/15/2028	1,000,000	1,032,412	1,133,237	4.2%
New York City Municipal Water Finance Authority	6.45%	06/15/2041	1,010,000	1,046,773	1,168,013	4.3%
Municipal Electric Authority of Georgia	6.66%	04/01/2057	1,030,000	1,070,274	1,179,679	4.4%
City of New York	6.65%	12/01/2031	1,000,000	1,003,351	1,192,579	4.4%
American Municipal Power - Ohio Inc.	6.05%	02/15/2043	1,040,000	1,021,706	1,203,985	4.5%
Metropolitan Washington Airports Authority	8.00%	10/01/2047	1,000,000	1,031,151	1,219,175	4.5%
California State Public Works Board	8.36%	10/01/2034	1,000,000	1,070,008	1,250,386	4.6%
Chicago Illinois Wastewater Transmission	6.90%	01/01/2040	1,000,000	1,016,807	1,259,153	4.7%
Indianapolis Local Public Improvement Bond Bank	6.12%	01/15/2040	1,000,000	1,314,017	1,285,749	4.8%
Metropolitan Transportation Authority	6.65%	11/15/2039	1,085,000	1,111,557	1,336,353	5.0%
South Carolina State Public Service Authority	6.45%	01/01/2050	1,000,000	1,012,438	1,336,482	5.0%
County of Clark NV	6.82%	07/01/2045	1,005,000	1,041,495	1,408,677	5.2%
City of Chicago IL	6.74%	11/01/2040	1,100,000	1,104,395	1,468,615	5.4%
New Jersey State Turnpike Authority	7.41%	01/01/2040	1,200,000	1,410,516	1,742,338	6.5%
Los Angeles County California Public Works Financing	7.62%	08/01/2040	1,500,000	1,507,280	1,977,979	7.3%
East Baton Rouge	6.09%	02/01/2045	250,000	266,332	275,738	1.0%
Metropolitan Government of Nashville & Davidson County	6.73%	07/01/2043	500,000	553,539	586,681	2.2%
Louisville & Jefferson County Metropolitan Sewer District	6.25%	05/15/2043	500,000	657,109	656,788	2.4%
Commonwealth Financing Authority	6.22%	06/01/2039	1,000,000	1,180,037	1,214,570	4.5%
Bay Area Toll Authority	6.79%	04/01/2030	1,120,000	1,228,188	1,404,047	5.2%
				28,842,675	33,594,300	124.6%
Total investments held in BAB Trust under the Forward Agreement				30,695,672	35,384,215	131.2%

(See accompanying notes to financial statements)

Build America Investment Grade Bond Fund

Statement of Investment Portfolio…. Continued

As at September 30, 2012

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 35,418,796 sold USD 35,600,000	1	11/23/2012	0.9949	359,740	1.3%
Total foreign currency forward contracts				359,740	1.3%

Interest rate swap Counterparty	Notional Amount US $	Fund receives floating rate index	Fund pays Fixed rate (Annualized)	Termination Date	Unrealized gain (loss) $	% of Net Assets
Bank of Montreal (S&P credit rating: A+)	(14,500,000)	3-Month USD-LIBOR	3.025%	05/30/2041	(684,766)	(2.5%)
					(684,766)	(2.5%)

	Fair value $	% of Net Assets
Other assets net of other liabilities of the BAB Trust	595,993	2.2 %
Net assets of the BAB Trust	35,655,182	132.2 %
Forward agreement (**)	35,655,182	132.2 %
Other liabilities net of other assets of the Fund	(8,685,338)	(32.2)%
Net assets of the Fund	26,976,171	100.0%

(*) Includes $383,741 of pledged securities as collateral for foreign currency forward contracts.

(**) Build America Investment Grade Bond Fund (the "Fund") obtained exposure to the performance of the portfolio held by BAB Trust through the Forward Agreement (see note 8); thus, the portfolio of BAB Trust is presented as part of this statement.

(See accompanying notes to financial statements)

1 Corporate activities

Build America Investment Grade Bond Fund (the "Fund") is an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement between 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 at 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7. The Fund commenced operation on February 18, 2010. The fiscal year-end of the Fund is September 30. The Fund is divided into units of two classes, Class A Units and Class F Units. Class A Units are listed on the Toronto Stock Exchange under the symbol BAB.UN. Class F Units are not listed on a stock exchange but may be converted into Class A Units on a weekly basis.

2 Investment objectives

The Fund's investment objectives as set out in the Prospectus dated January 28, 2010 are to:

(i) provide Unitholders with monthly tax-advantaged cash distributions, and

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

Distributions are initially targeted to be $0.1198 per month per Unit consisting primarily of returns of capital. In order to achieve the Fund's investment objectives, the Fund obtained exposure, in a tax-efficient manner, to the performance of a portfolio (the "Portfolio") held by BAB Trust (the "BAB Trust" or the "Trust"). Nuveen Asset Management (the "Sub-Advisor"), the Trust's Sub-Advisor, actively manages the 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. 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 held long on the recognized exchange on which it is principally traded ("GAAP 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 Fund calculates its daily Net Asset Value for the purchase and redemption of shares in accordance with part 14.2 of National Instrument 81-106 ("Transactional NAV" or "NAV") based on the fair value of the investment fund's assets and liabilities (being the last traded price for the day).

As at September 30, 2012 and September 30, 2011, there is no difference between the Transactional NAV and the GAAP Net Assets.

Cash

Cash includes 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. Dividend income is recognized at the time a security trades on an ex-dividend 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.

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 investment denominated in foreign currencies are included in the Statement of Operations in "Net realized gain (loss) on foreign exchange". Unrealized on foreign currency gains and losses on monetary assets and liabilities other than investment denominated in foreign currencies are included in the Statement of Operations in "Change in unrealized gain (loss) on foreign exchange".

Forward contract

Forward contracts entered into by the Fund are valued at an amount that is equal to the gain or loss that would be realized if the position were to be closed out, which is equivalent to the difference between the deliverable asset and the value of the asset to be received. Changes in the value of a forward contract or the assets deliverable under such a contract are included as unrealized gains or losses on investments.

Interest rate swap

In interest rate swap the Fund pays annualized fixed rate to the counterparty, while it receives floating rate index from the counterparty. All unrealized gains or losses arising from interest rate swap are recorded as part of change in unrealized gains or losses on investments.

Initial fees and expenses

The issue expenses and Agent's fees incurred in connection with the initial units issuance are deducted from the unit capital for accounting purposes.

Increase (decrease) in net assets from operations per unit

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

Valuation of a class

A separate net assets per unit is calculated for each class. The net assets of a class are computed by calculating the class' proportionate share of the assets and liabilities to all classes, less the liabilities attributable only to that class. Expenses directly attributable to a class are charged to that class. Other expenses, income, realized and unrealized gains and losses are allocated proportionately to each class based upon the relative net assets of each class.

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. Accrued interest and dividends receivable, amounts receivable for capital shares sold and securities sold, and other assets are designated as loans and receivables and reported at cost or amortized cost. Amounts payable for securities purchased and capital shares redeemed, other liabilities and accrued expenses are designated as other financials 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.

Accounting estimates

The preparation of financial statements in accordance with Canadian GAAP may require the Manager to make estimates and assumptions that affect the reporting amounts of assets and liabilities at the date of the financial statements and the amounts of income and expense reported during the periods. Actual results may differ from those estimates.

Future accounting changes

On October 31, 2012, the International Accounting Standards Board (the "IASB") issued an amendment to IFRS 10 exempting investment entities from consolidating their controlled investments. The Fund qualifies as investment entity and measures all controlled investments at fair value with changes in fair value recognized through profit or loss.

On December 12, 2011, the Canadian Accounting Standards Board (the "AcSB") extended the deferral of the mandatory International Financial Reporting Standards ("IFRS") changeover date for investment companies to fiscal year beginning on or after January 1, 2014.

On May 12, 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 disclosure about fair value measurements. It only applies when other IFRSs require or permit 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. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. This may result in eliminating the difference between the NAV per unit and net assets per unit under the current Canadian GAAP. The Manager is currently assessing the Fund's Unitholder structure and investments to determine the impact of these standards. The Manager has determined that there will likely be no material impact to the NAV versus net assets per unit from the changeover to IFRS.

4 Custodian

Pursuant to the Trust Agreement RBC Investor Services Trust (formerly "RBC Dexia Investor Services Trust") ("the Custodian") (whose credit rating is AA- by S&P as of September 30, 2012 and 2011) acts as custodian of the assets of the Fund. The Custodian is also responsible for certain aspects of the Fund's day-to-day operations, including calculating the Net Asset Value ("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.

5 Bank indebtedness

The Fund's exposure to the securities in the Portfolio, through the Forward Agreement, may be increased to 25% of levered notional amount (being the net asset value of BAB Trust) (tested daily) for the purposes of adding leverage to the Portfolio and such other short term funding purposes as may be determined by the Investment Manager from time to time and in accordance with the Investment Strategy. The use of leverage has the potential to enhance or reduce returns. Initially, the Fund is expected to employ leverage of 25% of levered notional amount.

The Fund entered into a letter of agreement (the "Credit Agreement"), between the Manager and the Bank of Montreal (the "Counterparty" or "BMO"), to borrow amounts up to 25% of levered notional amount as being part of the Forward Agreement (see note 8). Under the provisions of the Credit Agreement the Counterparty will also charge the

Fund a fee of 0.25% of any unfunded leverage amount (the difference between the maximum allowable leveraged amount and the actual funded leverage amount). If the borrowed amount exceeds 25% of the levered notional amount, the leverage amount will be reduced to ensure the leverage ratio is not greater than 25%.

During the year ended September 30, 2012, the Fund had bank indebtedness balance from $8,485,000 to $9,130,000 or 22.06% to 25.17% of the levered notional amount ($9,130,000 to $9,820,000 or 21.65% to 25.08% of the levered notional amount during the year ended September 30, 2011). The related interest expense during the same period was $178,021 ($194,910 during the year ended September 30, 2011). At September 30, 2012, the borrowed balance was $8,485,000 ($9,130,000 at September 30, 2011).

6 Unitholders' equity

The Fund is authorized to issue an unlimited number of redeemable, transferable units of Class A and Class F 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 public offering pursuant to the prospectus dated January 28, 2010. $30,000,000 was raised through the issue of 1,200,000 Class A Units and $1,767,500 was raised through the issue of 70,700 Class F Units.

On March 11, 2010, the Agents exercised an over-allotment option in respect of 73,820 Class A Units, raising a further $1,845,500.

Agents' fees and other issue expenses totalled $2,294,936. The Manager reimbursed the Fund with the amount $73,815 to account for other issue expenses above the 1.5% limit of gross proceeds of the offering (as per the Fund's Prospectus terms and conditions).

During the year ended September 30, 2012, $1,958,637 was paid to redeem 81,990 of Class A Units, and $16,031 was paid to redeem 700 of Class F Units ($2,897,134 was paid to redeem 122,092 of Class A Units, and $444,252 was paid to redeem 18,000 of Class F Units during the year ended September 30, 2011). There were 2,200 Class F Units converted into 2,312 Class A Units for the amount of $53,249 (17,100 Class F Units were converted into 17,947 for the amount of $407,456 during the year ended September 30, 2011).

Class A Units and Class F Units may be redeemed on an Annual Redemption Date, subject to certain conditions and, in order to effect such a redemption, the Units must be surrendered by no later than 5:00 p.m. (Toronto time) on the last Business Day of June in the year of redemption. Unitholders whose Units are redeemed on an Annual Redemption Date will receive a redemption price in an amount equal to 100% of the Net Asset Value per Unit of the relevant class less any costs associated with the redemption, including brokerage costs, and less any net realized capital gains to the Fund that are distributed to a Unitholder concurrently with the proceeds of disposition on redemption.

In addition to the annual redemption right, Class A Units and Class F Units may also be redeemed on a Monthly Redemption Date (the second last business day of each month other than the month of July), subject to certain conditions and, in order to effect such a redemption, the Units must be surrendered by no later than 5:00 p.m. (Toronto time) on the date which is the last Business Day of the month preceding the Monthly Redemption Date. Payment of the redemption price will be made on or before the Redemption Payment Date, subject to the Manager's right to suspend redemptions in certain circumstances. Concurrently with the payment of the proceeds of redemption, the Fund may pay to the redeeming Unitholder a cash distribution in the amount of the net realized capital gains of the Fund incurred by it to fund the payment of the redemption price. Unitholders surrendering a Class A Unit for redemption will receive a redemption price equal to the lesser of (i) 95% of the Market Price of a Class A Unit (the weighted average trading price on the TSX for the 10 trading days immediately preceding Monthly Redemption Date), and (ii) 100% of the Closing Market Price of a Class A Unit (the closing price on the TSX on Monthly Redemption Dates or, if there was no trade on the relevant Monthly Redemption Date, the average of the last bid and the last asking prices of the security on the TSX on Monthly Redemption Date) on the applicable Monthly Redemption Date less, in each case, any costs associated with the redemption, including brokerage costs, being the Monthly Redemption Amount. Unitholders surrendering a Class F Unit for redemption will receive an amount equal to the product of (i) the Monthly Redemption Amount and (ii) a fraction, the numerator of which is the most recently calculated Net Asset Value per Class F Unit and the denominator of which is the most recently calculated Net Asset Value per Class A Unit.

Changes in outstanding units during the years ended September 30, 2012 and 2011 are summarized as follows:

	Class A Units		Class F Units	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Opening balance	1,177,016	1,281,161	28,500	63,600
Units issued	–	–	–	–
Units redeemed	(81,990)	(122,092)	(700)	(18,000)
Class F Units converted to Class A Units	2,312	17,947	(2,200)	(17,100)
Ending balance	1,097,338	1,177,016	25,600	28,500

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

7 Market purchase program

The Trust Agreement provides that the Fund may, in its sole discretion, from time to time, purchase (in the open market or by invitation for tenders) Class A Units for cancellation subject to applicable law and stock exchange requirements, based on the Manager's assessment that such purchases are accretive to Unitholders, in all cases at a price per Class A Unit not exceeding the most recently calculated Net Asset Value per Class A Unit immediately prior to the date of any such purchase of Units.

During the year ended September 30, 2012, the Fund did not purchase any units for cancellation (no units were purchased for cancellation during the year ended September 30, 2011).

8 Forward agreement

The Fund does not invest directly in the BAB Trust, the Fund used the net proceeds of the initial public offering of its Class A and Class F Units and bank borrowing to pre-pay its purchase obligations under a forward purchase and sale agreement (the "Forward Agreement") with The Bank of Montreal (the "Counterparty" or "BMO") (whose credit rating is A+ by S&P as of September 30, 2011). Under the Forward Agreement, the Fund will receive, on or before February 27, 2015, a specified portfolio consisting of securities of Canadian public issuers that are "Canadian securities" for the purposes of the Tax Act ("Canadian Securities") in an amount equal to the value of the BAB Trust on or before February 27, 2015. Partial settlements under the Forward Agreement are intended to ensure that Unitholders have economic exposure to the distributions effected by BAB Trust. A fee of 0.35% per annum, calculated with reference to the NAV of the BAB Trust, is payable monthly to BMO under the Forward Agreement. The Forward fees charged to the fund during the year ended September 30, 2012 were $129,792 ($140,541 during the year ended September 30, 2011).

On September 30, 2012, the prepaid amount to the counterparty under forward agreement was $29,553,543. On September 30, 2012 the value of the unrealized gain on forward agreement was $6,101,639. Other liabilities net of other assets in the Fund totalled $8,679,011 leaving net assets of $26,976,171. This amount is assigned to Class A and Class F Unitholders using an allocation percentage that takes into consideration any class level specific expenses. On September 30, 2012 the GAAP Net assets per unit was $23.99 per Class A Units and $25.39 per Class F Units.

9 Distributions

The Fund pays monthly distributions initially at $0.1198 per Unit. The Fund paid an initial distribution of $0.1669 for unitholders with record date March 31, 2010 for the period from February 18, 2010 (commencement of operation) to March 31, 2010.

The Fund has made all its scheduled distributions during the year ended September 30, 2012, paying $1.44 per Class A Unit and $1.44 per Class F Unit ($1.44 per Class A Unit and $1.44 per Class F Unit during the year ended September 30, 2011).

10 Management fees

The Manager receives a Management Fee from the Fund and BAB Trust equal in the aggregate to 0.80% per annum of the applicable Net Asset Value, (0.30% from the Fund and 0.50% from the BAB Trust), calculated and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund and BAB Trust on a combined basis during the year ended September 30, 2012 were $230,418 ($259,317 during the year ended September 30, 2011). The Manager is responsible for payment of the sub-advisory fees out of these management fees.

11 Service fees

The Fund pays to the Manager a Service Fee (calculated quarterly and paid as soon as practicable after the end of each calendar quarter); solely with respect to the Class A Units, equal to 0.30% per annum of the Net Asset Value attributable to the Class A Units, plus applicable taxes. The Service Fee is applied by the Manager to pay a service fee in an equivalent aggregate amount, plus applicable taxes, to brokers based on the number of Class A Units held by clients of such brokers at the end of the relevant quarter. No Service Fee is payable in respect of the Class F Units.

The service fees charged to the Fund during the year ended September 30, 2012 were $79,345 ($93,311 during the year ended September 30, 2011).

12 Income taxes

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and, accordingly, is subject to tax on its investment income, including net realized capital gains, for any calendar year in which its net investment income or sufficient net realized capital gains are not paid or payable to its unitholders as at the end of the calendar year. It is the intention of the Manager that all annual net investment income and sufficient net taxable capital gains will be distributed to unitholders on a calendar year basis such that Canadian income taxes payable by the Fund under present legislation will be minimized. 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 statements.

As at December 31, 2011, the Fund had no capital losses carry forward balance and had non–capital losses of $1,696,491 (as at December 31, 2010, the Fund had no capital losses carry forward balance and had non–capital losses of $943,715). Non–capital losses 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
2010	943,715	2030
2011	752,776	2031
Total	**1,696,491**	

13 Broker commission charges and soft dollar services

There were $nil of broker commissions paid during year ended September 30, 2012 ($nil during year ended September 30, 2011) in connection with portfolio transactions. No contractual arrangements for soft dollar services exist in the broker commission charges.

14 Financial instruments

	September 30, 2012	September 30, 2011
Assets	**$**	**$**
Cash	13,482	17,747
Held for trading	35,661,509	36,594,063
Total assets	**35,674,991**	**36,611,810**
Liabilities		
Financial liabilities at amortized cost	8,698,820	9,366,277
Total liabilities	**8,698,820**	**9,366,277**

For the purposes of categorization in accordance with CICA Section 3862, Financial Instruments - Disclosures, bank indebtedness, interest payable, distributions payable, management fees payable and accounts payable and accrued liabilities are deemed to be financial liabilities and reported at amortized cost.

The following table illustrates the classification of the combined Fund and BAB Trust's financial instruments within the fair value hierarchy as at September 30, 2012 and 2011:

Assets at fair value as at September 30, 2012	Level 1	Level 2	Level 3	Total
Equity	6,327	–	–	6,327
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	**6,327**	**35,743,955**	–	**35,750,282**

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)**

Assets at fair value as at September 30, 2011	Level 1	Level 2	Level 3	Total
Equity	6,813	–	–	6,813
Short-term investments	–	7,982,224	–	7,982,224
Bonds	–	35,475,200	–	35,475,200
Total	**6,813**	**43,457,424**	–	**43,464,237**

Liabilities at fair value as at September 30, 2011	Level 1	Level 2	Level 3	Total
Interest rate swaps	–	(5,348,387)	–	(5,348,387)
Foreign currency forward contracts	–	(2,178,988)	–	(2,178,988)
Total	–	**(7,527,375)**	–	**(7,527,375)**

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.

Equities: The Fund's long equity positions are classified as Level 1 as the security held is actively traded and a reliable quote is observable.

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, 2012 and 2011.

15 Financial instrument risk

The Fund obtained exposure to the performance of the portfolio held by BAB Trust through the Forward Agreement (see note 8) and therefore the risks associated with an investment in the Fund's units are best defined by describing the financial risks associated with an investment in the BAB Trust's portfolio.

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 table below summarizes 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, 2012:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	1,789,915	–	–	33,954,300	366,067	**35,750,282**
Cash	–	–	–	–	85,199	**85,199**
Other assets	–	–	–	–	553,039	**553,039**
Liabilities	–	–	(8,485,000)	(684,766)	(242,583)	**(9,412,349)**
Net assets						**26,976,171**

September 30, 2011:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	7,982,224	–	–	35,475,200	6,813	**43,464,237**
Cash	–	–	–	–	642,685	**642,685**
Other assets	–	–	–	–	654,896	**654,896**
Liabilities	–	–	(9,130,000)	(5,348,387)	(3,037,898)	**(17,516,285)**
Net assets						**27,245,533**

As at September 30, 2012, 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 $1,369,000 or $2,369,000 (September 30, 2011 - $340,000 or $675,000). In practise, 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, 2012 and 2011. 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 table below summarizes 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, 2012:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
US Dollar	35,455,377	–	(35,028,682)	426,694	1.6%	21,000

September 30, 2011:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
US Dollar	44,081,484	–	(41,160,840)	2,920,644	10.7%	146,000

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 on derivative instruments outstanding with counterparties represents the maximum credit risk exposure as at September 30, 2012.

The tables below summarize the Fund's exposure to credit risk as of September 30, 2012 and September 30, 2011. Amounts shown are based on the carrying value of short term notes and bonds and the unrealized gain on derivative instruments outstanding with counterparties.

Rating [1]	September 30, 2012 (% of NAV)
AA+	15.7%
AA	14.6%
AA-	42.0%
A+	25.9%
A	16.7%
A-	3.6%
BBB+	6.8%
BBB	4.5%
Total	129.9%

Rating [1]	September 30, 2011 (% of NAV)
AAA	33.6%
AA+	21.0%
AA	29.0%
AA-	9.8%
A+	13.8%
A	7.2%
A-	8.9%
BBB+	4.3%
Not rated	4.3%
Total	131.9%

As at September 30, 2012 and September 30, 2011, 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 daily cash redemptions from to its market purchase program which is limited to certain conditions (see note 7). The Fund is also exposed to unlimited annual anniversary redemptions on June 30 of every year, and monthly redemptions on the second last business day of each month other than the month of July (see note 6). 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 and cash equivalent positions to meet its daily cash requirements. All liabilities excluding the bank indebtedness, which is due upon termination of the Fund, are due within three months.