Portfolio Trust

Semi-Annual Management Report of Fund Performance

June 30, 2014

MANAGEMENT REPORT OF FUND PERFORMANCE

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

You can obtain a copy of the semi-annual financial statements at no cost by writing to the Manager, Aston Hill Capital Markets Inc., (formerly Connor, Clark & Lunn Capital Markets Inc.) to the following address: 77 King Street West, Suite 2110, 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.

INVESTMENT OBJECTIVES AND STRATEGIES

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 Investor & Treasury Services (the "Trustee") dated May 22, 2009. 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 December 31. The Fund is divided into units of one class.

The Fund's investment objectives are to:

(i) provide Unitholder with attractive cash distributions; and

(ii) return to Unitholder the original issue price of the Units upon termination of the Fund.

In order to achieve the Fund's investment objectives, Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager"), the Fund's Investment Manager, actively manages its Portfolio. The Portfolio consists of Innovative Tier 1 Capital Securities of the six largest Canadian banks. The Portfolio includes a minimum of 80% Canadian Bank Capital Securities. The Investment Manager may also invest up to 20% of the Portfolio (measured at the time of investment) in Bank Shares and Life Insurance Company Securities. The Fund may also invest in other securities issued by Canadian financial institutions, including subordinated debt, preferred shares and common shares.

On June 30, 2014, the Trust Agreement was amended to extend the termination date of the Fund from June 30 to December 31, 2014.

RISK

The risk profile of the Fund has not changed from the prior year. For full disclosure of risks associated with an investment in the Fund's units, please refer to the Prospectus dated May 27, 2009 and to the Fund's most recent Annual Information Form. Both are available at www.sedar.com.

RECENT DEVELOPMENTS

International Financial Reporting Standards (IFRS)

The Fund adopted IFRS as published by the International Accounting Standards Board (IASB) as of January 1, 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the CICA Handbook (Canadian GAAP). The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2013 and throughout all periods presented in its semi-annual financial statements, as if these policies had always been in effect. Note 14 to the semi-annual financial statements dated June 30, 2014 discloses the impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the year ended December 31, 2013 prepared under Canadian GAAP.

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 Investment Manager regarding factors that might be reasonably expected to affect the performance and the distributions on units of the Fund and are based on information available at the time of writing. The Manager and the Investment Manager believe 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.

Investment Manager Commentary (August 2014)

At the outset of the year, investor enthusiasm for most risky assets waned in response to uncertainty over a weather-related slowdown in North American economic activity, increased geopolitical tensions over the crisis in the Ukraine and rising concerns over China's shadow banking system. The economic situation changed quickly in the second quarter with financial markets across the board posting positive returns as several indicators confirmed that the US was recovering from a weather-induced soft patch. Company earnings results generally came in better than expected after expectations had been lowered to account for the winter weather while merger and acquisition activity reflected improving business confidence. Canadian statistics revealed that the consumer and manufacturing sectors were also faring well north of the border. In Europe, fears of deflation and lackluster growth led the European Central Bank (ECB) to implement unconventional policies to support growth. These actions drove interest rates lower across most developed countries. In China, data pointed to a stabilization of the manufacturing sector. Furthermore, Chinese authorities addressed concerns of an economic slowdown by announcing several targeted mini-stimulus programs. Overall market volatility remained low across both fixed income and equity markets despite the ebb and flow of geopolitical tensions.

On the Canadian front, fixed income markets also extended their gains from the first quarter. The relatively strong returns from the bond market appeared to have caught many investors by surprise. The Government of Canada 10-year bond yield declined by over 60 basis points, with the yield falling to 2.25%. Corporate credit spreads were also tighter over the period, while the yield curve flattened slightly.

The impressive financial results for Canadian banks continued as the industry reported double digit number in cash operating earnings due to solid performance from wealth management, higher than expected trading revenues and domestic Property & Commercial banking. Potential negative impact from exposure to Canadian real estate market continued to defy expectation with muted effect on earnings. By the end of the period, Common Capital ratios exceeded Basel III requirements in Canadian banks including TD Bank, the portfolio's largest exposure.

In the insurance sector, we saw a decline in the sensitivity related to equity markets and low interest rates towards the second half of the period. This translated into stronger results for life insurers and particularly for Manulife Financial, the most important insurance exposure in the portfolio. The company grew its earnings more significantly in the second quarter due to a combination of strong wealth management results and to increases in its insurance premiums. We remain very positive on the company, given it will benefit from its international exposure particularly in Asia.

During the second quarter, unit holders approved the extension of the Canadian Banc Income Fund's (the "Trust") termination date to June 28, 2019. There was also an amendment passed to broaden its parameters relating to geographic scope and the types of securities including soon-to-be-issued bonds that comply with the new Basel III regulatory requirements. These notes will eventually replace the older non-Basel III compliant securities, which are being phased out over several years.

The Fund's portfolio posted positive results for the first half as Tier One Capital continued on their spread tightening however; it lagged its benchmark due to smaller interest rate sensitivity.

Our base case economic scenario continues to be one of modest economic growth in a low-inflation environment marked by simulative monetary policy. We expect the recovery to persist based on recent leading economic releases that show signs of growing positive momentum.

We expect monetary policy to continue to diverge at the global level. On one end, we have the ECB and the Bank of Japan prepared to keep introducing measures to pursue economic growth. On the other side, we have the Bank of England suggesting that interest rates may have to rise "sooner than the markets expect". In the middle, we have the Bank of Canada (BoC) and the US Federal Reserve (Fed). In our view, the BoC has little appetite to raise rates but may be forced to do so if inflation targets are at risk and the Fed will become increasingly vigilant in assessing the adequacy of its monetary policy. For the first time in many years, we see the possibility of a Fed rate hike within a 12 month horizon; the probability is still quite low and lies outside of our base case scenario.

We still expect overall rates to remain within our forecasted 2.25% to 3.00% for the Government of Canada 10-year yield. However, given that we are at the bottom of the range, should economic data validate a stronger economy and should there be any signs of inflationary pressures, we would expect yields to move towards the upper limit. Nevertheless, we are still of the view that the path to higher overall rates will be slow given the levels of global debt that exists in the system. Our outlook for credit remains positive and we expect the strong fundamentals in financials to advantage the portfolio in the context of a slight upward pressure in overall rates.

Capital transactions

The Fund is authorized to issue an unlimited number of redeemable, transferable single 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 June 9, 2009, the Fund completed an initial non-public offering pursuant to the Prospectus dated May 27, 2009. $90,662,497 was raised through the issue of 3,851,560 Units. The Units were issued at $23.54 per Unit.

During the six months period ended June 30, 2014, the Fund redeemed 4,047 Units for net payment of $107,000 (the Fund redeemed 233,755 Units for net payment of $6,420,000 during the six months period ended June 30, 2013).

Distributions

The Fund pays distributions if, as and when declared by the Fund from time to time. The Fund declared $2,143,000 in distributions during the six months period ended June 30, 2014 (the Fund declared $2,815,000 in distributions during the six months period ended June 30, 2013).

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 six months period ended June 30, 2014.

RELATED PARTY TRANSACTIONS

Management Fees

The Manager receives a management fee from the Fund equal in the aggregate to 0.25% per annum of the applicable Net Asset Value, calculated and payable monthly in arrears, plus applicable taxes.

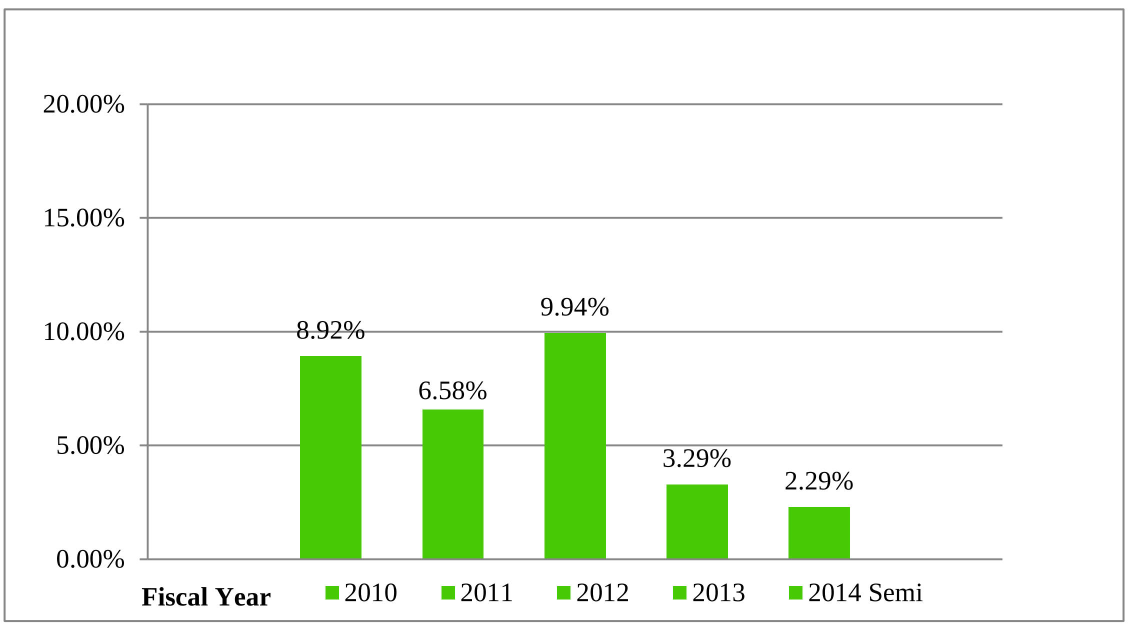
The management fees charged to the Fund during the six months period ended June 30, 2014 were $64,253 plus applicable taxes ($93,044 plus applicable taxes during the six months period ended June 30, 2013).

The Manager is responsible for payment of the investment management fees out of these management fees.

PAST PERFORMANCE

The following bar chart and table shows the semi-annual performance for the six months period ended June 30, 2014 assuming all the distributions made by the Fund during the periods shown were reinvested. The performance information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns or performance. The 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. Past performance is not necessarily indicative of future performance.

Year-by-Year Returns



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 and unaudited semi-annual financial statements:

The Fund's Net Assets per Unit:	**2014[(1)]**	**2013**	**2012**	**2011**	**2010**
Net Assets, beginning of period	**26.65**	**27.40**	**26.45**	**26.26**	**25.51**
Unit issue expense [(2)]		–	–	–	–
Increase (decrease) from operations:					
Total revenues	0.73	1.55	1.54	1.55	1.70
Total expenses	(0.03)	(0.07)	(0.07)	(0.07)	(0.06)
Realized gains (losses) for the period	(0.16)	0.71	0.32	0.12	1.65
Unrealized gains (losses) for the period	0.08	(1.21)	0.71	0.10	(1.02)
Total increase (decrease) from operations [(3)]	**0.62**	**0.98**	**2.50**	**1.70**	**2.27**
Distributions:					
From income (excluding dividends)	(1.02)	(0.96)	(1.59)	(1.57)	(2.26)
From dividends	–	–	–	–	–
From capital gains	–	–	–	–	–
Return of capital	(0.41)	(0.68)	–	–	–
Total Distributions [(4)]	**(1.43)**	**(1.64)**	**(1.59)**	**(1.57)**	**(2.26)**
Net Assets, end of period [(5)]	**26.40**	**26.65**	**27.40**	**26.38**	**26.26**

(1) Results for the six months period ended June 30, 2014.
(2) Issue expenses of $7,401,147 incurred in connection with the 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.
(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 2,489,546 units outstanding as of June 30, 2014 (December 31, 2013 – 3,272,291 units).
(4) The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on the Fund's tax return.
(5) This is not a reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data:	**2014[(1)]**	**2013**	**2012**	**2011**	**2010**
Net asset value (000's)	65,729	66,455	96,830	124,626	127,230
Number of units outstanding	2,489,526	2,493,593	3,533,400	4,712,269	4,830,152
Management expense ratio (annualized) [(2)]	0.26%	0.27%	0.25%	0.26%	0.23%
Management expense ratio before waivers or absorptions (annualized) [(2)]	0.26%	0.27%	0.25%	0.26%	0.23%
Portfolio turnover rate [(3)]	0.00%	5.21%	0.00%	5.28%	114.24%
Trading expense ratio [(4)]	0.00%	0.00%	0.00%	0.00%	0.00%

(1) Results for the six months period ended June 30, 2014.
(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.

SUMMARY OF INVESTMENT PORTFOLIO

As at June 30, 2014

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

	% of NAV
Portfolio by Category	
Corporate Bonds	71.6%
Short-term Investments	5.8%
Cash	0.1%
Futures Contracts	0.4%
Other Assets Net of Other Liabilities	22.2%

Top 25 Holdings	**% Rate**	**Maturity date**	**% of NAV**
Toronto Dominion Capital Trust (CATS III)	7.2%	Dec/31/2018	30.2%
National Bank of Canada Asset Trust	7.2%	Jun/30/2018	24.6%
Manulife Financial Capital Trust (MACS II)	7.4%	Dec/31/2019	11.2%
Short-term Investments			5.8%
Royal Bank of Canada Capital Trust (TRUCS V)	6.8%	Jun/30/2018	5.6%
Future Contracts			0.4%
Cash			0.4%
Total Net Assets Value			

CORPORATE INFORMATION

Independent Review Committee

John Crow
Chairman

C. Scott Browning

Robert Falconer

Joseph H. Wright

Directors and Senior Officers of the Manager

W. Neil Murdoch
Director and Chief Executive Officer

Darren Cabral
Director and Chief Financial Officer

Eric Tremblay
Director and Chairman

Michael J. Killeen
Director

Larry W. Titley
Director

Manager

Aston Hill Capital Markets Inc.

Investment Manager

Connor, Clark & Lunn Investment Management Ltd.

Transfer Agent and Trustee

Computershare Trust Company of Canada

Custodian

RBC Investor Services Trust

Auditors

PricewaterhouseCoopers LLP

Website

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