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CAPITAL MARKETS

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**Build America Investment
Grade Bond Fund**

Annual Report
September 30, 2010

Build America Investment Grade Bond Fund Message to Unitholders

December 23, 2010

Dear Investor,

We are pleased to provide you with the first annual report for the Build America Investment Grade Bond Fund (the "Fund"). The Fund commenced operations on February 18, 2010. It 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 net asset value ("NAV") for Class A and F units at September 30, 2010 was \$22.54 and \$23.34 respectively, in addition to \$0.89 in distributions paid. This compares to the opening NAV of \$23.31 for Class A units after the deduction of agents' fees and issuance expenses.

The Sub-Advisor did a good job of getting the proceeds of the offering quickly invested in a high quality, well diversified portfolio. The Municipal bond market has been in the headlines for most of this year. State and local governments continue to feel the impact of the financial crisis. Thanks to the combination of a slowly improving economy and higher tax rates, the tax revenues of state governments have been improving. While state revenues have begun to recover, local revenues are starting to soften, with total revenues off by 0.1% from first half of 2009 to first half of 2010. Even with the recent decline, revenues were up 5.9% from 2008. The principal reason for the timing differences between state and local revenues is that states rely more heavily on revenues from income and sales taxes, which are immediately sensitive to changes in economic activity, whereas local governments rely more on property taxes, which accounted for 80% of all local revenues in calendar year 2009 and which respond with a lag to changing economic conditions as it takes time for real estate to be reassessed. The average credit rating of the bonds in the portfolio is AA and the Sub-Advisor continues to be comfortable with the credit quality of the portfolio.

There has been considerable uncertainty regarding whether the Build America Bond program will be extended beyond its scheduled maturity this month. While, in the long term, a cancellation of the program may cause a scarcity of the bonds and increase their value, in the short term it has caused issuers to flood the market with new bond issues in an attempt to beat the possible end of the program. The dramatic increase in supply has caused prices to drop.

When the Fund was launched the common view in the marketplace was that long term interest rates were going to go up. We (the Manager and the Sub-Advisor) were concerned with this view and put in place an interest rate hedge to protect against rising interest rates. Since launch long interest rates have dropped considerably and the hedge has caused a mark to market loss of approximately \$3.07 per unit. If, or perhaps when, long interest rates go up then this loss will move in the opposite direction.

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 total Portfolio held by BAB Trust. The Fund applied leverage in the range from nil% to 25% during the period from inception to September 30, 2010. The leverage factor as of September 30, 2010 was 24%.

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

The Canadian Accounting Standards Board ("CASB") previously confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. In June 2010, the CASB issued an exposure draft "Adoption of IFRSs by Investment Companies", proposing that investment companies currently applying Accounting Guideline 18 ("AcG 18") "Investment Companies" issued by the Canadian Institute of Chartered Accountants ("CICA"), defer the adoption of IFRS by one year to fiscal years beginning on or after January 1, 2012. In September 2010, the CASB approved the optional one year deferral from IFRS adoption for investment companies applying AcG 18.

The Fund will adopt IFRS on January 1, 2012. Management has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Funds. Management has presently determined that there will be no significant impact to NAV per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

Results of Operations

The Sub-advisor's Commentary

Market Conditions

Investment strategies focusing on Build America Bonds continue to enjoy robust demand. Since program inception, unit investment trusts and exchange traded funds have raised, in aggregate, just under \$4.0 billion while a number of closed-end funds have had successful raise-ups (a sponsor recently raised over \$1.0bn of common assets for a Build America Bonds only fund). The asset class for the year to date period continues to see healthy interest from non-traditional municipal

buyers such as taxable bond funds, sovereign wealth funds, life insurance companies, and endowment funds. On a third quarter offering for a New York City general obligation bond, a city official commented that fully half of the deal was sold to non-U.S. based buyers (a buyer base which did not exist prior to the advent of Build America Bonds).

While consensus views early in 2010 heavily leaned towards program extension, Congress has yet to act on making Build America Bonds a permanent feature of the municipal market. As we near year-end, it has become increasingly unclear if the Build America Bonds program will be extended. Given this uncertainty, and the continued favourable economics that the program currently affords, a new issue wave began to take hold early in the third quarter and continues to this point. Indeed, recently the PA Turnpike Commission sold \$600 million in Build America Bonds in August to cover two years of project financing and to lock in the 35% interest subsidy. The Commission's CFO stated: "We had been doing our financing annually...[but] we're taking full advantage of the 35% subsidy by doing it for two years".

For the first three quarters, a total of \$77.4bn was issued – \$27.3bn in the first quarter, and \$26.8bn and \$23.3bn for the second and third quarters, respectively. Since program inception, and through the end of the third quarter, Build America Bonds issuance has totalled \$138 billion. On a year-to-date basis, Build America Bonds issuance has totalled approximately 25% of the total municipal bond market.

Fund Performance

During the invest-up, we found particular value in non-benchmark deals (i.e., those deals less than \$250 million in size and therefore not eligible for inclusion in the Barclays Aggregate bond index), which, in our estimation, provided meaningful incremental yield versus equivalently rated benchmark names. With respect to sourcing investments, we had a fairly even balance between purchasing credits in the new issue market and the secondary market. Where possible, we favoured buying names in the primary market where new issue concessions were, at times, meaningful.

As expected, the initial portfolio had significant exposure to general obligation / appropriation bonds. In addition, and as anticipated, dedicated tax and water/sewer bonds rounded out the larger sector exposures for the fund with higher education, airport, toll roads, and healthcare bonds constituting smaller relative positions. With respect to credit quality, on a weighted average basis and using the highest published rating of Moody's, S&P and Fitch, the fund at invest-up was AA-. Following the rating re-calibrations by both Moody's and Fitch, the fund average credit rating improved one notch, to AA.

Following the invest-up period, the fund has focused on both improving credit quality, and where possible, adding to the fund's distribution. As interest rates have generally fallen since the invest-up, the fund has been required to post additional cash collateral to our interest rate swap counterparty (the fund's duration shortening hedge produced a loss during the performance period due to continued decline in longer dated interest rates – see below).

For the full performance period (February 18th through end of the third quarter), the Barclays Build America Bond index posted a total return of 15.4%, which was better than the Barclays Aggregate but trailed the Corporate and Government indices for the period (below):

- Barclays U.S. Aggregate: 6.7%
- Barclays U.S. Long Corporates: 16.3%
- Barclays U.S. Gov't Long: 18.6%

The net asset value of the Fund's Class A Units has [marginally] decreased from fund inception, moving from a net new issue price of \$23.31 per Class A Unit to \$22.54 with unitholders receiving a total of \$0.89 per unit in distributions. While the cash Build America Bonds held in the portfolio have materially outperformed the index, the fund as a whole underperformed due to the duration shortening hedges. Though the hedge has had a negative impact over the short term, we expect it to benefit fund performance over an extended period if long interest rates ultimately rise.

Future Outlook

Although continued uncertainty regarding extension of the Build America Bonds program has caught many market participants by surprise, we continue to expect that the Build America Bonds program will be extended and that such an extension will likely be passed before the end of 2010. The most relevant extension proposal comes from Max Baucus, Chair of the Senate Finance Committee - he has proposed extending the program for one year at a 32% subsidy, which is lower than the current 35% federal government subsidy. His proposal is purported to be revenue neutral, which is aimed at placating deficit hawks.

The House of Representatives passed a two year program extension prior to the fall recess. In light of support from President Obama and strong lobbying efforts by market participants, as well as the continued stresses faced by municipal issuers and the economy as a whole, we believe that there is sufficient force pushing for extension of the program to make it happen. Nevertheless, we expect a relatively heavy flow of Build America Bonds issuance prior to year end, as issuers hasten to market to lock in the 35% Build America Bonds subsidy.

Municipal Credit Conditions

At the beginning of the performance period, we witnessed an overall state tax revenue decline, but at a slower pace than in prior years. For all of calendar year 2009, total state tax revenue was -11.3% lower than in 2008, according to the Census Bureau. Local tax revenues, however, increased by 2.6%. While increases in tax rates had been a factor in helping states cope with the effects of the recession, reductions in expenditures have played a greater role. A report from the National Association of State Budget Officers indicated that the states have enacted budget cuts equal to 8.9% of planned expenditures for fiscal 2010 while raising taxes by an amount equal to 3.8% of revenues.

As the period progressed, we noted that although meaningful fiscal hurdles remain, the budgetary statistics for municipal governments have begun to show some signs of improvement. During the first quarter of 2010 (data is lagged one quarter), current receipts of state and local governments exceeded expenditures for the first time since the third quarter of 2007.

Towards the end of the performance period, due in part to a slowly improving economy and higher tax rates, tax revenues of state governments have generally improved. From the first half of 2009 to first half of 2010, the Census Bureau reported that state revenues have increased by 1.6% (although they are still down -13.4% from the first half of 2008).

While state governments have broadly shown some signs of a credit recovery, local governments have not fared as well: total revenues at the local level were down by -0.1% in first half 2010, compared to the same period in 2009. Nonetheless, even with this recent decline, revenues are still 5.9% higher than where they were in 2008.

Overall, the outlook for state governments in particular is a modestly optimistic one. State budget officers assume that revenues will continue to improve, although at a modest pace. A recent survey by the National Conference of State Legislatures found that 40 of the 47 states that responded expect total tax revenues in fiscal 2011 to be at least 1% higher than they were in fiscal 2010. States expecting the largest increases typically attribute the anticipated growth to higher tax rates. These projections signify a belief that the worst is over for state revenues. Taxpayers and those who utilize government services certainly hope that such a belief will be validated in the months ahead.

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).

None of the Class A Units were redeemed during the period from February 18, 2010 (commencement of operation) to September 30, 2010. During the same period, 7,100 Class F Units were converted into 7,341 Class A Units for the amount \$170,905.

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, 2010, the prepaid amount to counterparty under forward agreement was \$39,857,178. 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, 2010 the value of the unrealized gain on forward agreement was \$566,210. Other liabilities net of other assets in the Fund totalled \$10,067,816 leaving net assets of \$30,355,571. 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, 2010 the GAAP Net assets per unit was \$22.54 per Class A Units and \$23.34 per Class F Units.

Leverage

The Fund's exposure to the securities in the BAB Trust's Portfolio through the Forward Agreement may be increased to 25% of the Total Assets (being the NAV 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. At September 30, 2010, the Fund had borrowed \$9,820,000 under its banking facility.

Liquidity and Capital Resources

As at September 30, 2010, both the Fund and the BAB Trust held cash and short-term investments of \$4,823,904 on a combined basis.

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 period from February 18, 2010 (commencement of operation) to September 30, 2010, the Fund did not purchase any units for cancellation.

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 also paid monthly distributions of \$0.1198 per unit for the period from April 1, 2010 to September 30, 2010 for total distributions of \$1,190,877 or \$0.89 per unit.

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 period from February 18, 2010 (commencement of operation) to September 30, 2010.

Related Party Transactions

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 during the period from February 18, 2010 (commencement of operation) to September 30, 2010 were \$61,290 and \$97,536 from BAB Trust. The Manager is responsible for payment of the sub-advisory fees out of these management fees

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, 2010 ⁽¹⁾
Net Assets, beginning of period	25.00
Increase (decrease) from operations:	
Total revenues	—
Total expenses	(0.32)
Unit issue expense ⁽²⁾	(1.70)
Realized gains (losses) for the period	0.02
Unrealized gains (losses) for the period	0.42
Total increase (decrease) from operations ⁽³⁾	(1.58)
Distributions:	
From income (excluding dividends)	—
From dividends	—
From capital gains	—
Return of capital	(0.89)
Total Distributions ⁽⁴⁾	(0.89)
Net Assets, end of period ⁽⁵⁾	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 over the financial period.

⁽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, 2010 ⁽¹⁾
Net asset value (000's)	28,871
Number of units outstanding	1,281,161
Base management expense ratio (annualized) ⁽²⁾⁽³⁾	1.77%
Issue expenses ratio ⁽²⁾⁽³⁾	7.27%
Interest expense ratio (annualized) ⁽²⁾⁽³⁾	0.47%
Management expense ratio (annualized) ⁽³⁾	9.52%
Management expense ratio before waivers or absorptions (annualized) ⁽³⁾	9.52%
Portfolio turnover rate ⁽⁴⁾	0.00%
Trading expense ratio ⁽⁵⁾	0.00%
Net asset value per unit	22.54
Closing market price (TSX)	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.

Class F Units:

The Fund's Net Assets per Class F Unit:

	September 30, 2010 ⁽¹⁾
Net Assets, beginning of period	25.00
Increase (decrease) from operations:	
Total revenues	–
Total expenses	(0.29)
Unit issue expense ⁽²⁾	(0.99)
Realized gains (losses) for the period	0.02
Unrealized gains (losses) for the period	0.44
Total increase (decrease) from operations ⁽³⁾	(0.82)
Distributions:	
From income (excluding dividends)	–
From dividends	–
From capital gains	–
Return of capital	(0.89)
Total Distributions ⁽⁴⁾	(0.89)
Net Assets, end of period ⁽⁵⁾	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 over the financial period.

(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, 2010 ⁽¹⁾
Net asset value (000's)	1,484
Number of units outstanding	63,600
Base management expense ratio (annualized) ⁽²⁾⁽³⁾	1.46%
Issue expenses ratio ⁽²⁾⁽³⁾	4.11%
Interest expense ratio (annualized) ⁽²⁾⁽³⁾	0.47%
Management expense ratio (annualized) ⁽³⁾	6.04%
Management expense ratio before waivers or absorptions (annualized) ⁽³⁾	6.04%
Portfolio turnover rate ⁽⁴⁾	0.00%
Trading expense ratio ⁽⁵⁾	0.00%
Net asset value per unit	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.

Summary of Investment Portfolio as of September 30, 2010

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 \$	% of NAV
Portfolio by Category		
Forward Agreement	40,423,387	133.2%
Cash and Short Term Notes	28,327	0.0%
Information Technology	7,776	0.0%
Other liabilities net of other assets of the Fund	(10,103,919)	(33.2)%
Top 25 Holdings		
Forward Agreement	40,423,387	133.2%
Cash and Short Term Notes	28,327	0.0%
Celestica Inc.	7,776	0.0%
Other liabilities net of other assets of the Fund	(10,103,919)	(33.2)%
Net asset value	30,355,571	

Investment portfolio of the BAB Trust

	Coupon Rate %	Maturity date	Fair value \$	% of NAV
Portfolio by Category				
United States of America Municipal Bonds			38,523,613	95.3 %
Cash and short-term notes			4,795,577	11.9 %
Other assets net of other liabilities			738,617	1.8 %
Foreign currency forward contracts			493,161	1.2 %
Interest rate swap			(4,127,581)	(10.2)%
			40,423,387	100.0%
Top 25 Holdings				
Cash and short term notes			4,795,577	11.9 %
Detroit City School District	7.75%	5/1/2039	1,184,540	2.9 %
Missouri Joint Municipal Utility Commission	6.89%	1/1/2042	1,178,129	2.9 %
County of Cuyahoga OH	8.22%	2/15/2040	1,155,847	2.9 %
San Francisco City & County Redevelopment Agency	8.41%	8/1/2039	1,152,636	2.9 %
Virgin Islands Water and Power Authority	6.85%	7/1/2035	1,144,945	2.7 %
County of Clark NV	6.82%	7/1/2045	1,137,577	2.8 %
Mississippi Development Bank	6.41%	1/1/2040	1,136,130	2.8 %
Jurupa Community Services District	7.19%	9/1/2040	1,132,448	2.8 %
City of Las Vegas NV	7.75%	9/1/2029	1,131,648	2.8 %
Contra Costa California Community College	6.50%	8/1/2034	1,121,061	2.8 %
County of Washoe NV	7.21%	2/1/2039	1,117,214	2.8 %
Metropolitan Transportation Authority	6.65%	11/15/2039	1,116,096	2.8 %
Coffee County Public Building Authority/TN	7.20%	6/1/2044	1,104,073	2.7 %
Metropolitan Water District of Southern California	6.54%	7/1/2039	1,099,261	2.7 %
Florida State Board of Education	5.90%	6/1/2039	1,098,943	2.7 %
Franklin County Convention Facilities Authority	6.64%	12/1/2042	1,097,825	2.7 %
City of Knoxville TN	6.30%	4/1/2045	1,096,543	2.7 %
Florida State Board of Education	6.58%	7/1/2029	1,094,460	2.7 %
Board of Governors of the University of North Carolina	6.73%	10/1/2039	1,094,296	2.7 %
American Municipal Power - Ohio Inc.	6.05%	2/15/2043	1,091,893	2.7 %
County of Seminole FL	6.44%	10/1/2040	1,090,285	2.7 %
Metropolitan Washington Airports Authority	8.00%	10/1/2047	1,086,284	2.7 %
Municipal Electric Authority of Georgia	6.66%	4/1/2057	1,084,038	2.7 %
New York City Municipal Water Finance Authority	6.45%	6/15/2041	1,083,874	2.7 %
Net asset value			40,423,387	

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.



Michael W. Freund
Director
Connor, Clark & Lunn Capital Markets Inc.

Toronto, Canada

December 23, 2010

December 23, 2010

PricewaterhouseCoopers LLP
Chartered Accountants
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Royal Trust Tower, Suite 3000
Toronto-Dominion Centre
Toronto, Ontario
Canada M5K 1G8
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Auditors' Report

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

We have audited the statements of investment portfolio and net assets of the Fund as at September 30, 2010 and the statements of operations, changes in net assets and surplus (deficit) and cash flows for the period from February 18, 2010 (commencement of operations) to September 30, 2010. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at September 30, 2010 and the results of its operations, changes in its net assets and surplus (deficit) and cash flows for the period from February 18, 2010 (commencement of operations) to September 30, 2010 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Build America Investment Grade Bond Fund

Statement of Net Assets

As at September 30, 2010

	\$
Assets	
Cash	28,327
Investments at fair value (cost - \$10,089)	7,776
Forward agreement (note 8)	<u>40,423,387</u>
	<u>40,459,490</u>
Liabilities	
Bank indebtedness (note 5)	9,820,000
Interest payable	16,041
Distributions payable	161,102
Accounts payable and accrued liabilities	79,020
Issue expense payable	21,185
Management fees payable	<u>6,571</u>
	<u>10,103,919</u>
Net assets and unitholders' equity	<u>30,355,571</u>
Net Assets	
Class A Units	28,871,351
Class F Units	<u>1,484,220</u>
	<u>30,355,571</u>
Units issued and outstanding (note 6)	
Class A Units	1,281,161
Class F Units	63,600
Net assets per unit	
Class A Units	22.54
Class F Units	23.34
Unitholders' equity	
Capital (note 6)	30,201,272
Surplus	<u>154,299</u>
	<u>30,355,571</u>

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



Director



Director

Build America Investment Grade Bond Fund

Statement of Operations

For the period from February 18, 2010 (commencement of operations) to September 30, 2010

	\$
Income	
Interest income	242
Expenses	
Forward fees (note 8)	87,808
Management fees (note 10)	61,290
Service fees (note 11)	54,779
Interest expense (note 5)	90,855
Legal fees	42,992
Administration fees	30,540
Audit fees	14,663
Custodial and other unitholder fees	15,497
Transfer agent fees	9,333
Filing fees	11,600
TSX fees	5,122
Printing and mailing fees	4,122
IRC fees	2,105
Other	2,219
	<u>432,925</u>
Investment income (loss)	<u>(432,683)</u>
Unrealized gain (loss) on investments	
Unrealized gain (loss) on investments	(2,314)
Unrealized gain (loss) on forward agreement (note 8)	566,210
	<u>563,896</u>
Realized gain (loss) on investments	
Net realized gain (loss) on forward agreement (note 8)	23,348
Net realized gain (loss) on foreign exchange	(262)
	<u>23,086</u>
Net gain (loss) on investments	<u>586,982</u>
Increase (decrease) in net assets from operations	<u>154,299</u>
Increase (decrease) in net assets from operations	
Class A Units	138,685
Class F Units	15,614
Increase (decrease) in net assets from operations per unit ^(*)	
Class A Units	0.11
Class F Unit	0.23

^(*) based on average number of units of 1,269,340 for Class A Units and 68,368 for Class F Units outstanding during the period

Build America Investment Grade Bond Fund

Statement of Changes in Net Assets and Surplus (Deficit)

For the period from February 18, 2010 (commencement of operations) to September 30, 2010

	Class A \$	Class F \$	Total \$
Increase (decrease) in net assets from operations	<u>138,685</u>	<u>15,614</u>	<u>154,299</u>
Distributions to unitholders from:			
Return of capital	<u>(1,130,896)</u>	<u>(59,981)</u>	<u>(1,190,877)</u>
Unitholders' transactions (note 6)			
Proceeds from issuance of units	31,845,770	1,767,500	33,613,270
Agents' fees and issue expenses	(2,223,027)	(71,909)	(2,294,936)
Issue expenses funded by the manager	69,914	3,901	73,815
Class F units converted to Class A	<u>170,905</u>	<u>(170,905)</u>	<u>-</u>
	<u>29,863,562</u>	<u>1,528,587</u>	<u>31,392,149</u>
Change in net assets during the period	28,871,351	1,484,220	30,355,571
Net assets - Beginning of period	<u>-</u>	<u>-</u>	<u>-</u>
Net assets - End of period	<u>28,871,351</u>	<u>1,484,220</u>	<u>30,355,571</u>
Surplus (deficit), beginning of period	-	-	-
Increase (decrease) in net assets from operations	<u>138,685</u>	<u>15,614</u>	<u>154,299</u>
Surplus (deficit), end of period	<u>138,685</u>	<u>15,614</u>	<u>154,299</u>

(See accompanying notes to financial statements)

Build America Investment Grade Bond Fund

Statement of Cash Flow

For the period from February 18, 2010 (commencement of operations) to September 30, 2010

	\$
Operating Activities	
Increase (decrease) in net assets from operations	154,299
Items not affecting cash:	
Unrealized (gain) loss on investments	2,314
Unrealized (gain) loss on forward agreement	(566,210)
Net realized gain (loss) on forward agreement	(23,348)
Changes in non-cash working capital:	
Increase (decrease) in interest payable	16,041
Increase (decrease) in accounts payable and accrued liabilities	79,020
Increase (decrease) in management fees payable	6,571
Increase (decrease) in issue expense payable	21,185
Net amount to Counterparty under Forward Agreement	(41,234,830)
Market value of Canadian Securities delivered by Counterparty under the forward agreement through partial pre-settlement	1,401,000
Purchase of investment portfolio	(10,089)
Net cash flow provided by (used in) operating activities	<u>(40,154,047)</u>
Financing Activities	
Proceeds from issuance of units	33,613,270
Unit issue costs	(2,294,936)
Issue expenses funded by the manager	73,815
Distributions paid to unitholders	(1,029,775)
Proceeds from bank indebtedness	10,150,000
Principal payments on bank indebtedness	(330,000)
Net cash flow provided by (used in) financing activities	<u>40,182,374</u>
Net increase (decrease) in cash	28,327
Cash - beginning of period	<u>-</u>
Cash - end of period	<u>28,327</u>

(See accompanying notes to financial statements)

Build America Investment Grade Bond Fund

Statement of Investments

As at September 30, 2010

	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	7,776	0.0%
Total Canadian common stocks				10,089	7,776	0.0%
Forward agreement:						
Investments held in BAB Trust under the forward agreement						
Foreign short-term notes						
U.S. Treasury Bills		12/16/2010	51,000	54,203	52,270	0.2%
U.S. Treasury Bills		10/28/2010	900,000	923,858	922,199	3.0%
U.S. Treasury Bills		1/13/2011	3,576,000	3,746,479	3,666,131	12.1%
				4,724,540	4,640,600	15.3%
Fixed Income						
United States of America Municipal Bonds (US\$)						
Mariemont City School District	6.30%	12/1/2040	500,000	528,413	535,848	1.8%
Board of Governors of the University of North Carolina	6.73%	10/1/2039	1,000,000	1,022,401	1,094,296	3.6%
Metropolitan Washington Airports Authority	7.46%	10/1/2046	200,000	218,118	220,205	0.7%
Mesa State College	6.75%	5/15/2042	250,000	253,637	280,868	0.9%
Los Angeles California Department of Water & Power	5.72%	7/1/2039	500,000	534,925	526,472	1.7%
North Texas Tollway Authority	6.72%	1/1/2049	500,000	577,882	559,971	1.8%
State of Illinois	6.63%	2/1/2035	1,000,000	1,019,506	1,008,699	3.3%
City of Marco Island FL	6.79%	10/1/2033	940,000	950,532	1,009,950	3.3%
Vista California Community Development Commission	8.57%	9/1/2037	1,000,000	1,028,849	1,055,509	3.5%
Okanogan County Public Utility District No 1	6.05%	12/1/2040	1,000,000	1,025,746	1,056,627	3.5%
Pennsylvania Turnpike Commission	6.38%	12/1/2037	1,000,000	1,013,893	1,071,533	3.5%
Henry Hospital District	6.90%	12/1/2034	1,000,000	1,026,852	1,076,508	3.5%
University Idaho	6.52%	4/1/2041	1,000,000	1,028,849	1,081,155	3.6%
New York City Municipal Water Finance Authority	6.45%	6/15/2041	1,000,000	1,036,253	1,083,874	3.6%
Municipal Electric Authority of Georgia	6.66%	4/1/2057	1,000,000	1,037,450	1,084,038	3.6%
Metropolitan Washington Airports Authority	8.00%	10/1/2047	1,000,000	1,031,151	1,086,284	3.6%
County of Seminole FL	6.44%	10/1/2040	1,000,000	1,028,849	1,090,285	3.6%
American Municipal Power - Ohio Inc.	6.05%	2/15/2043	1,040,000	1,021,706	1,091,893	3.6%
Florida State Board of Education	6.58%	7/1/2029	1,000,000	1,056,948	1,094,460	3.6%
City of Knoxville TN	6.30%	4/1/2045	1,000,000	1,019,890	1,096,543	3.6%
Franklin County Convention Facilities Authority	6.64%	12/1/2042	1,000,000	1,007,248	1,097,825	3.6%
Florida State Board of Education	5.90%	6/1/2039	1,000,000	1,003,708	1,098,943	3.6%
Metropolitan Water District of Southern California	6.54%	7/1/2039	1,000,000	1,073,962	1,099,261	3.6%
Coffee County Public Building Authority/TN	7.20%	6/1/2044	1,000,000	1,072,485	1,104,073	3.6%
Metropolitan Transportation Authority	6.65%	11/15/2039	1,000,000	1,018,038	1,116,096	3.7%
County of Washoe NV	7.21%	2/1/2039	1,000,000	1,065,950	1,117,214	3.7%
Contra Costa California Community College	6.50%	8/1/2034	1,000,000	1,011,204	1,121,061	3.7%
City of Las Vegas NV	7.75%	9/1/2029	1,000,000	1,080,449	1,131,648	3.7%
Jurupa Community Services District	7.19%	9/1/2040	1,000,000	1,049,703	1,132,448	3.7%
County of Clark NV	6.82%	7/1/2045	1,000,000	1,034,701	1,137,577	3.7%
San Francisco City & County Redevelopment Agency	8.41%	8/1/2039	1,000,000	1,076,901	1,152,636	3.8%
County of Cuyahoga OH	8.22%	2/15/2040	1,000,000	1,063,029	1,155,847	3.8%
Missouri Joint Municipal Utility Commission	6.89%	1/1/2042	1,000,000	1,076,247	1,178,129	3.9%
Detroit City School District	7.75%	5/1/2039	1,000,000	1,098,305	1,184,540	3.9%
Crawford Hospital District	6.75%	1/1/2031	500,000	509,601	548,748	1.8%
Metropolitan Government of Nashville & Davidson County	7.43%	7/1/2043	500,000	498,773	584,494	1.9%
Philadelphia School District	6.77%	6/1/2040	1,000,000	1,022,401	1,076,980	3.6%
Mississippi Development Bank	6.41%	1/1/2040	1,000,000	1,022,401	1,136,130	3.8%
Virgin Islands Water and Power Authority	6.85%	7/1/2035	1,000,000	1,011,205	1,144,945	3.9%
				36,258,161	38,523,613	126.9%
Total investments held in BAB Trust under the Forward Agreement				36,258,161	38,523,613	126.9%

(See accompanying notes to financial statements)

Build America Investment Grade Bond Fund

Statement of Investment Portfolio Continued

As at September 30, 2010

	Number of contracts	Maturity date	Contract price / rate \$	Fair value \$	Unrealized gain (loss) \$	% of Net Assets
Foreign currency forward contracts						
Counterparty: Bank of Montreal (S&P credit rating: A+)						
Bought CAD 42,186,015 sold USD 40,500,000	1	11/19/10	1.0416	42,679,176	493,161	1.6 %
Total foreign currency forward contracts					493,161	1.6 %
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+)	(16,000,000)	3-Month USD-LIBOR	4.77%	5/16/2040	(4,127,581)	(13.6)%
					(4,127,581)	(13.6)%
					Fair value \$	% of Net Assets
Other liabilities net of other assets of the BAB Trust					893,594	3.0 %
Net assets of the BAB Trust					40,423,387	133.2 %
Forward agreement ^(*)					40,423,387	133.2 %
Bank indebtedness					(9,820,000)	(32.4)%
Other liabilities net of other assets of the Fund					(255,592)	(00.8)%
Net assets of the Fund					30,355,571	100.0%

^(*) Equal to the total Net Assets of the BAB Trust

Build America Investment Grade Bond Fund

Notes to Financial Statements

September 30, 2010

1 Corporate activities

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 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.

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("CASB") previously confirmed that effective January 1, 2011, IFRS will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. In June 2010, the CASB issued an exposure draft "Adoption of IFRSs by Investment Companies", proposing that investment companies currently applying Accounting Guideline 18 ("AcG 18") "Investment Companies" issued by the Canadian Institute of Chartered Accountants ("CICA"), defer the adoption of IFRS by one year to fiscal years beginning on or after January 1, 2012. In September 2010, the CASB approved the optional one year deferral from IFRS adoption for investment companies applying AcG 18.

The Fund will adopt IFRS on January 1, 2012. Management has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Funds. Management has presently determined that there will be no significant impact to NAV per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

Valuation of investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded ("GAAP Net Assets"). 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 units ("Transactional NAV") based on the fair value of the investment fund's assets and liabilities (being the last traded price for the day).

There were no differences between the Transactional NAV and the GAAP Net assets as a result of the adoption of Section 3855.

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.

Build America Investment Grade Bond Fund

Notes to Financial Statements

September 30, 2010

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.

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.

Issue expenses

Issue expenses represent all agents' fees and other offering expenses. These expenses are capitalized and, therefore, included in the Statement Changes in Net Assets and Surplus (Deficit).

Increase (decrease) in net assets from operations per unit

This is calculated by dividing the value of the increase (decrease) in net assets from operations by the average number of units outstanding during the period.

4 Custodian

Pursuant to the Trust Agreement RBC Dexia Investor Services Trust ("the Custodian") (whose credit rating is AA- by S&P as of September 30, 2010) 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 the NAV of BAB Trust (being the aggregate value of the assets of the Fund or 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 NAV of BAB Trust.

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 the NAV of the BAB Trust 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).

During the period from February 18, 2010 (commencement of operation) to September 30, 2010, the Fund had bank indebtedness balances between \$nil and \$10,150,000 or 0.00% to 25.0 % of the NAV of BAB Trust. The related interest expense including the charge on any unfunded leverage amount during the same period was \$90,855. At September 30, 2010, the borrowed balance is \$9,820,000.

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).

None of the Class A Units were redeemed during the period from February 18, 2010 (commencement of operation) to September 30, 2010. During the same period, 7,100 Class F Units were converted into 7,341 Class A Units for the amount \$170,905.

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, 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, and (ii) 100% of the Closing Market Price of a Class A Unit 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 period February 18, 2010 (commencement of operation) to September 30, 2010 are summarized as follows:

Build America Investment Grade Bond Fund

Notes to Financial Statements

September 30, 2010

	Number of units	
	Class A	Class F
Opening balance	–	–
Units issued	1,273,820	70,700
Class F Units converted to Class A Units	7,341	(7,100)
	<hr/>	<hr/>
Ending balance	<u>1,281,161</u>	<u>63,600</u>

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

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 period from February 18, 2010 (commencement of operation) to September 30, 2010, the Fund did not purchase any units for cancellation.

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, 2010). 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 period from February 18, 2010 (commencement of operation) to September 30, 2010 were \$87,808.

On September 30, 2010, the prepaid amount to counterparty under forward agreement was \$39,857,178. 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, 2010 the value of the unrealized gain on forward agreement was \$566,210. Other liabilities net of other assets in the Fund totalled \$10,067,816 leaving net assets of \$30,355,571. 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, 2010 the GAAP Net assets per unit was \$22.54 per Class A Units and \$23.34 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 also paid monthly distributions of \$0.1198 per unit for the period from April 1, 2010 to September 30, 2010 for total distributions of \$1,190,877 or \$0.89 per unit.

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 during the period from February 18, 2010 (commencement of operation) to September 30, 2010 were \$61,290 and \$97,536 from BAB Trust. The Manager is responsible for payment of the sub-advisory fees out of these management fees.

11 Service fee

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 for the period from February 18, 2010 (commencement of operation) to September 30, 2010 were \$54,779.

Build America Investment Grade Bond Fund

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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.

13 Broker commission charges and soft dollar services

There were \$nil of broker commissions paid during the period from February 18, 2010 (commencement of operation) to September 30, 2010 in connection with portfolio transactions. No contractual arrangements for soft dollar services exist in the broker commission charges.

14 Financial instruments

<u>Assets</u>	\$
Cash	28,327
Held for trading	40,431,163
Total assets	40,459,490
<u>Liabilities</u>	
Financial liabilities at amortized cost	10,103,919
Total liabilities	10,103,919

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 BAB Trust's financial instruments within the fair value hierarchy as at September 30, 2010:

Assets at fair value as at September 30, 2010	Level 1	Level 2	Level 3	Total
Equity	7,776	–	–	7,776
Short-term investments	–	4,640,600	–	4,640,600
Bonds	–	38,523,613	–	38,523,613
Interest rate swaps	–	(4,127,581)	–	(4,127,581)
Foreign currency forward contracts	–	493,161	–	493,161
Total	7,776	39,529,793	–	39,537,569

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 period from February 18, 2010 (commencement of operation) to September 30, 2010.

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.

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	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	4,640,600	–	–	38,523,613	500,937	43,665,150
Cash	–	–	–	–	183,304	183,304
Other assets	–	–	–	–	765,523	765,523
Liabilities	–	–	(9,820,000)	(4,127,581)	(310,825)	(14,258,406)
Net assets						30,355,571

As at September 30, 2010, 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 \$1,221,000 or \$588,000. 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 table below summarizes the Fund's exposure to foreign currencies as at September 30, 2010. 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.

	Monetary instruments \$	Non-monetary instruments \$	Derivative instruments \$	Total \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
US Dollar	43,164,213	–	(41,546,984)	1,617,229	5.3%	81,000

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, 2010.

The table below summarizes the Fund's exposure to credit risk as of September 30, 2010. 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, 2010 (% of NAV)
AAA	24.3%
AA+	21.9%
AA	6.9%
AA-	38.8%
A+	5.4%
A	16.2%
A-	5.4%
BBB+	5.5%
Not rated	5.5%
Total	129.9%

As at September 30, 2010, 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 (Starting 2011) (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 are due within three months.