

# Ark StoneCastle Stable Income Class

## Management Report of Fund Performance

June 30, 2011

This semi annual management report of fund performance is an analysis and explanation that is intended to complement Redwood Asset Management Inc. mutual fund financial statements. The report contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-877-313-7011, by visiting our website at [www.arkfunds.ca](http://www.arkfunds.ca) or SEDAR at [www.sedar.com](http://www.sedar.com) or by writing to us at: Redwood Asset Management Inc., 120 Adelaide Street West, Suite 2400, P.O. Box 23, Toronto, Ontario M5H 1T1. Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting record or quarterly portfolio disclosure.

### Management Discussion of Fund Performance

#### Investment Objective and Strategies

The objective of the Fund is to to achieve income and long term capital growth by investing in primarily income oriented equities, income trusts, Canadian convertible and fixed income securities and other Canadian income producing securities. Shareholder approval is required prior to a change in the fundamental investment objective of the Fund.

The Portfolio Adviser uses a top down approach to set asset allocation and a bottom up approach to set individual security selection. The Fund has the ability to invest primarily in money market instruments, equities, fixed income securities, convertible securities, mutual funds, ETFs and cash. The portfolio adviser will seek to identify and select for the Fund the best risk return opportunities it finds available across the capitalization spectrum. In adverse market, economic and/or political conditions, the portfolio adviser may invest the Fund's assets in cash or cash equivalent securities

The Fund's portfolio turnover rate may be greater than 70%. This means the Fund may frequently trade the securities in its portfolio, and may have implications for you as an investor:

- the Fund may earn taxable capital gains, which may be passed on to you
- your returns may be reduced by the higher trading costs associated with frequent trading.

The Fund may only invest in securities of other mutual funds if, among other things,

- the other fund is subject to National Instrument 81-102
- the investment objective of the other fund is consistent with the Fund's investment objective
- at the time the Fund purchases securities of the other fund, the other fund holds no more than 10% of the market value of its net assets in securities of another fund (subject to those exceptions provided in National Instrument 81-102)
- the securities of the other fund are qualified for distribution in the same jurisdiction as the Fund
- no management fees or portfolio management fees are payable by the Fund that would duplicate a fee payable by the other fund
- if the underlying mutual fund is managed by the Manager, no sales or redemption fees are paid by the Fund in respect of investment in the underlying mutual fund
- no sales or redemption fees are payable by the Fund in respect of investment in the underlying mutual fund if such fees duplicate a fee payable by an investor in the Fund

## **Related- Party Transactions**

### **Management Fee**

The Fund pays management fees at an annual rate of up to 2.50% of average net assets of Series A and up to 1.25% of Series F. This fee relates to the portfolio advisory services the Fund received during the year. The management fee is calculated and accrued daily based on the average net asset value of that Series of units of the Fund and is paid on the last day of each month.

## Financial Highlights (unaudited)

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the period ended June 30, 2011. Per share data is derived from the Fund's financial statements. The net assets per share presented in the financial statement differs from the net asset value per share used in calculating purchase and redemption prices for the fund, due to differences in valuation techniques of certain investments.

Ratio and supplemental data is derived from the Fund's net asset value.

### The Fund's Net Assets per Share - Series A (\$) <sup>(1)</sup>

	<b>June</b>	<b>Dec</b>
	<b>2011</b>	<b>2010</b>
<b>Net Assets, beginning of period</b>	<b>\$ 10.00</b>	<b>\$ 10.00</b>
<b>Increase (decrease) from operations:</b>		
Total revenue	0.16	0.00
Total expenses	(0.21)	-
Realized losses for the period	0.03	-
Unrealized gain for the period	(0.11)	-
<b>Total Decrease from operations</b> <sup>(2)</sup>	<b>\$ (0.13)</b>	<b>\$ 0.00</b>
<b>Distributions:</b>		
From income (excluding dividends)	-	-
From dividends	(0.10)	-
From capital gains	-	-
Return of capital	-	-
<b>Total Annual Distributions</b> <sup>(2)</sup>	<b>(0.10)</b>	<b>-</b>
<b>Net Assets, end of period</b>	<b>\$ 9.77</b>	<b>\$ 10.00</b>

<sup>(1)</sup> This information is derived from the Fund's audited annual financial statements. The net assets per share presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

<sup>(2)</sup> 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.

<sup>(3)</sup> This Fund started on September 20, 2010

## Ratios and Supplemental Data (unaudited)

Series A	2011	2010 <sup>(6)</sup>
Total net asset value (\$) (000's) <sup>(1)</sup>	613	434
Number of units outstanding <sup>(1)</sup>	62,776	43,399
Management expense ratio <sup>(2)</sup>	4.27%	0.00% <sup>(5)</sup>
Management expense ratio before waivers or absorption	4.27%	0.00% <sup>(5)</sup>
Trading expense ratio <sup>(3)</sup>	0.36%	0.00% <sup>(5)</sup>
Portfolio turnover rate <sup>(4)</sup>	280.28%	0.00%
Net asset value per unit (\$)	9.77	10.00

<sup>(1)</sup> The information is provided as at December 31 of the period shown.

<sup>(2)</sup> Management expense ratio is based on total expenses (excluding broker commission and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

<sup>(3)</sup> 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.

<sup>(4)</sup>

The Fund's portfolio 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 buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

<sup>(5)</sup> Percentages are annualized.

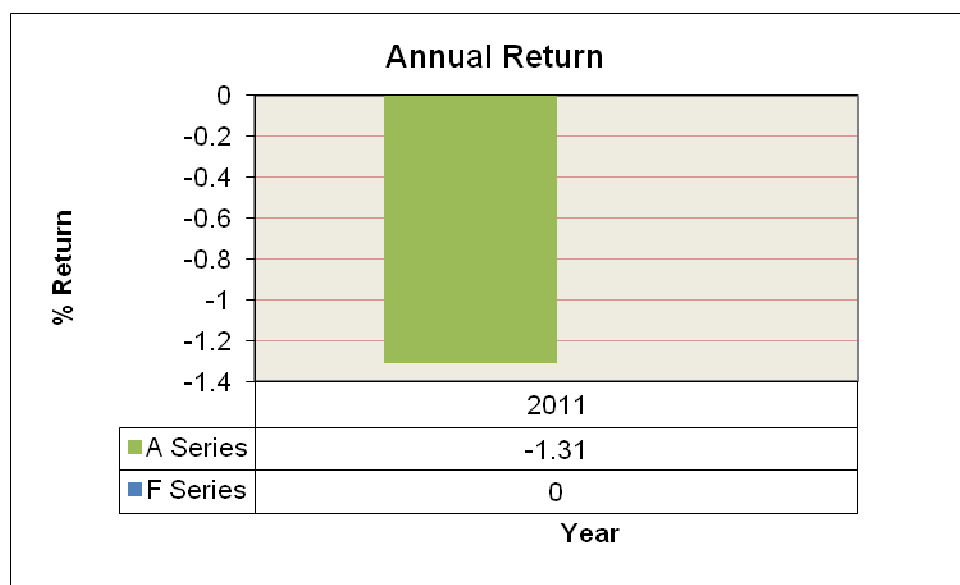
<sup>(6)</sup> This Fund started on August 13, 2009

## Past Performance

The Fund filed its first simplified prospectus on September 20, 2010. We are not permitted to disclose performance information for the Fund until units of the Fund have been offered under a simplified prospectus for 12 consecutive months.

## Year by Year Return

The following chart indicates the performance of each Series of the fund as of the inception date of September 20, 2010. The chart shows how much an investment made at the Fund's inception would have increased/decreased, in percentage terms, by the last day of each financial year.



## **Ark StoneCastle Stable Income Class Fund**

### **Summary of Investment Portfolio (Period ended June 30, 2011)**

#### **Asset Mix**

<b>Subgroups</b>	<b>% of Net Asset Value</b>
Telecom Services	6.26%
Materials	8.45%
Energy	18.50%
Utilities	9.26%
Health Care	5.64%
Fixed Income	4.73%
Industrials	5.94%
Financials	31.28%
Cash & Cash Equivalents	7.15%
Other Net Assets	2.63%

### **Top 25 Holdings**

<b>Issuer</b>	<b>% of Net Assets</b>
1 Intact Financial Corp	5.41
2 Mcan Mortgage Corp.	4.77
3 Neo Materials	4.73
4 Alaris Royalty	3.65
5 Keyera Corporation	3.56
6 RioCan REIT	3.38
7 Vermilion Energy	3.32
8 Parkland Fuel Corp.	3.23
9 Davies & Henderson	3.20
10 Manitoba Telecom	3.19
11 Veresen Inc.	3.16
12 Exchange Income Corp.	3.15
13 Canfor Pulp Products Inc	3.13
14 Superior Plus Corp.	3.10
15 Inter Pipeline Fund	3.10
16 Medicial Facilities	3.09
17 Primaris Retail REIT	3.08
18 BCE Inc.	3.08
19 Brookfield Rewable Power Fund	3.00
20 Chorus Aviation	2.98
21 Enerplus Corporation	2.97
22 Mullen Group Ltd.	2.97
23 Russel Metals Inc.	2.80
24 Royal Bank	2.69
25 CML Healthcare	2.58

### **Total Net Asset Value**

Total Net Asset Value of the Fund as at the end of June 30, 2011 was \$614,446.

The investments and percentages may have changed by the time you purchase shares of this Fund. The top 25 holdings are made available 60 days after the quarter-end, except for December 31, which is the fiscal year-end for the fund, when they are available after 90 days.

## **Corporate Information**

### **Corporate Address**

Redwood Asset Management Inc.  
120 Adelaide West, Suite 2400, P.O Box 23  
Toronto, Ontario M5H 1T1  
T 416.304.6800  
Toll-Free 1-877-313-7011  
F 416.304.6832

For additional information visit our website:  
[www.redwoodasset.caom](http://www.redwoodasset.caom)

### **Auditors**

Deloitte & Touche LLP  
Brookfield Place  
181 Bay Street  
Suite 1400  
Toronto, Ontario M5J 2V1

### **Legal Counsel**

Fasken & Martineau LLP  
333 Bay Street, Suite 2400  
Bay Adelaide Centre, Box 20  
Toronto, Ontario M5H 2T6