

# 2009 Semi-Annual Management Report of Fund Performance

for the period ended June 30, 2009

## Skylon Global Capital Yield Trust



This semi-annual management report of fund performance contains financial highlights but does not contain the complete semi-annual or annual financial statements of the investment trust. You can get a copy of the semi-annual or annual financial statements at your request, and at no cost, by calling 1-800-268-9374, by writing to us at CI Investments Inc., 2 Queen Street East, Twentieth Floor, Toronto, ON M5C 3G7 or by visiting our website at [www.ci.com](http://www.ci.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the investment trust's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

# SKYLON GLOBAL CAPITAL YIELD TRUST

*Management Report of Fund Performance for the six months ended June 30, 2009*

## RESULTS OF OPERATIONS

(All figures refer to Net Assets, except rates of return, which refer to Net Asset Value.)

The value of the Trust increased by \$0.2 million to \$7.3 million from December 31, 2008 to June 30, 2009. The Trust paid distributions totaling \$0.3 million while the portfolio's performance increased net assets by \$0.5 million. The Trust's six-month return was 6.5%, as compared to the benchmark's return of 26.1% in Canadian dollars for the same period. The benchmark is a combination of the J.P. Morgan Emerging Markets Bond Index Global - C\$ (50%) and the Merrill Lynch U.S. High Yield Master II Index - US\$ (50%).

The following commentary pertains to the results of operations of the Skylon Global High Yield Trust - "the Trust".

Risk appetites returned to financial markets in the first six months of 2009, despite a rocky start in January and February. Valuations of corporate bonds, mortgages and other asset-backed securities generally recovered to levels last seen before the financial crisis of last fall, though risk premiums for many assets still remained elevated compared to historical norms.

Uncertainty arising from potential burden sharing between the public and private sectors clouded financial markets in the first quarter. Particularly in the U.S., limited demand by private investors to share the burden of recapitalizing the banking system and stimulating the economy added pressure to prices of riskier asset classes, which pulled down valuations on even high-quality assets. Liquidity injections by central banks and government programs helped bolster markets in the second quarter.

Corporate bonds rallied strongly for the year-to-date, far outpacing government bonds. Performance was best in the lower quality tiers, where credit premiums on some bonds plunged by more than 1,000 basis points (about 10%) from the start of the year. Lower risk premiums for high-yield credits prompted a flood of new issuance in the second quarter. High-grade credit premiums narrowed by 200 to 300 basis points. Investment-grade bonds of banks and financial institutions outperformed the broader market in the second quarter as some banks began to wean themselves off government aid. Several major banks were able to sell bonds without government guarantees.

Credit premiums on emerging market (EM) bonds also narrowed sharply, helping produce gains in both local and external EM markets. The patterns were similar to U.S. credit markets, with lower tier credits benefiting the most.

Government bonds of most developed economies fared better than more volatile U.S. Treasuries during the second quarter and year-to-date. Investor anxiety about fiscal imbalances and potential inflation was especially acute in the U.S.

Although the Trust underperformed its blended benchmark for the period, absolute performance was positive. The main detractors to performance included a lower-than-benchmark allocation to emerging markets, which outperformed developed countries, and an underweight allocation to high-yield bonds, where spreads rallied up to 1000 basis points.

The Trust benefited from a small allocation to U.S. agency mortgages, where spreads rallied during the first half of 2009.

## RECENT DEVELOPMENTS

We expect monetary and fiscal stimulus, along with a rebuilding of inventories will be the key drivers for global economies for the rest of 2009. These positive effects will begin to fade in 2010, even as consumer spending is constrained by very high debt levels. A W-shaped recovery pattern will likely set in, consistent with the muted growth rates PIMCO expects for developed economies over a secular time frame. Higher interest rates are unlikely before the summer of 2010 given this forecast.

Growth rates in developed economies are likely to be lower over the next three to five years as more regulation and higher taxes will restrain the growth of output. While government involvement was clearly necessary to stabilize the financial system, the global economy is now highly vulnerable to policy mistakes. These could include protectionism, mismanagement of public finances and the overriding of investors' contract rights.

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Emerging economies should grow faster than the developed world. There will be a continued shift in the balance of economic power away from developed economies toward important emerging countries. The latter will divide into two groups. Countries with fiscal and economic imbalances will return to the old paradigm that alternates between austerity and instability. Those in a stronger financial condition, such as China, will maintain their development breakout phase, though not at the torrid pace of recent years.

## **Future Accounting Standards**

### *"International Financial Reporting Standards"*

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for all publicly accountable profit-oriented enterprises. IFRS will replace Canadian Generally Accepted Accounting Principles ("GAAP"). IFRS becomes effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

At June 30, 2009, the Manager is taking the following steps to transition to IFRS:

- Identification of areas where changes in disclosure will be required under IFRS standards.
- Identification of operational areas impacted by the adoption of IFRS.
- Identification of major differences between current accounting policies and IFRS standards.
- Assessment of impact, if any, on net asset value per unit.
- Assessment of current reporting systems and their readiness for IFRS implementation.
- Implementation of an IFRS transition plan.

As at June 30, 2009, the Manager has determined that there is no expected impact to net asset value per unit as a result of the transition to IFRS.

### *Amendments to Section 3862, "Financial Instruments - Disclosures"*

Section 3862 was recently amended and requires publicly accountable enterprises to enhance their disclosures about fair value measurements and the liquidity risk of financial instruments. The amendments will be effective for annual financial statements relating to fiscal years ending after September 30, 2009, specifically December 31, 2009 financial statements of the Trust. These amendments have been made to address the need for increased consistency and comparability in fair value measurements, and to expand the disclosure surrounding fair value measurements, and do not have any impact on the net assets of the Trust.

## **RELATED PARTY TRANSACTIONS**

### **Manager**

CI Investments Inc. is the manager of the Trust and in consideration of management fees of \$0.01 million, provided management services required in the day-to-day operations of the Trust for the period.

### **Management Fees**

100% of the fees received for the period were used to pay for investment management and other general administration

### **Broker commissions**

During the period, the Trust paid no brokerage commissions to Blackmont Capital Inc., an affiliated company of CI Investments Inc.

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### FINANCIAL HIGHLIGHTS

The Trust's Net Assets per Unit table shows selected key financial information about the Trust and is intended to help you understand the Trust's financial performance for the periods indicated.

The Ratios & Supplemental Data shown below are based on Net Asset Values.

THE TRUST'S NET ASSETS PER UNIT (\$) <sup>(1)</sup>	Jun. 30 2009	Dec. 31 2008	Dec. 31 2007	Dec. 31 2006	Dec. 31 2005	Dec. 31 2004
Net assets, beginning of period <sup>(2)</sup>	22.49	29.06	29.95	30.03	30.83	29.87
<b>Increase (decrease) from operations:</b>						
Total revenue	–	0.03	0.03	0.02	0.02	–
Total expenses	(0.10)	(0.24)	(0.25)	(0.25)	(0.27)	(0.26)
Realized gains (losses) for the period	1.69	1.83	2.59	4.82	9.77	4.56
Unrealized gains (losses) for the period	(0.16)	(6.37)	(1.47)	(2.89)	(8.02)	(1.45)
Total increase (decrease) from operations <sup>(2)</sup>	1.43	(4.75)	0.90	1.70	1.50	2.85
<b>Distributions:</b>						
From income (excluding dividends)	–	–	–	–	–	–
From dividends	–	–	–	–	–	–
From capital gains	(0.91)	(1.37)	–	–	–	(1.16)
Return of capital	–	(0.44)	(1.81)	(1.81)	(2.28)	(0.65)
Total distributions <sup>(2)(3)</sup>	(0.91)	(1.81)	(1.81)	(1.81)	(2.28)	(1.81)
Net assets, end of period <sup>(2)</sup>	23.02	22.49	29.06	29.98	30.03	30.83
<b>RATIOS AND SUPPLEMENTAL DATA</b>						
Net asset value (\$000's) <sup>(7)</sup>	7,282	7,122	11,436	15,547	17,716	22,799
Number of units outstanding (000's)	316	316	393	519	590	740
Management expense ratio (%) <sup>(4)</sup>	2.03	2.00	1.98	2.07	2.41**	2.22
Portfolio turnover rate (%) <sup>(5)</sup>	15.49	57.50	26.46	75.99	153.60	23.11
Trading expense ratio (%) <sup>(6)</sup>	–	0.94	0.89	–	–	–
Net Asset Value per unit (\$) <sup>(7)</sup>	23.05	22.54	29.09	29.98	30.03	30.83
Closing market price (TSX) (\$)	20.10	18.30	27.50	28.50	29.75	29.70

(1) This information is derived from the Trust's unaudited semi-annual and audited annual financial statements. The net assets per unit presented in the financial statements differs from the net asset value calculated for fund pricing purposes. All explanation of these differences can be found in the notes to the financial statements.

(2) Net assets per unit and distributions per unit are based on the actual number of units outstanding at the relevant time. The increase (decrease) in net assets from operations per unit is based on the weighted average number of units outstanding over the fiscal period.

(3) Distributions were paid in cash.

(4) Management and operating expenses and management expense ratio information is based on total expenses charged to the Trust (excluding commissions and other portfolio transaction cost), and is expressed as an annualized percentage of daily average net asset value for the period.

(5) The Trust's portfolio turnover rate indicates how actively the Trust's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Trust buying and selling all of the securities in its portfolio once in the course of the fiscal period. The higher a Trust's portfolio turnover rate in a period, the greater the trading costs payable by the Trust in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a higher turnover rate and the performance of a Trust. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short term investments maturing in less than one year, by the average of the fair value of investments during the period.

(6) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value of the Trust during the period. The trading expense ratio is provided from 2005 onwards.

(7) The Canadian Securities Administrators ("CSA") amended section 14.2 of National Instrument 81-106 on September 5, 2008. The amended section 14.2 requires the net asset value of an investment fund to be calculated using the fair value of the fund's assets and liabilities. The adoption of Section 3855 resulted in a different valuation method for calculating daily net assets. For the purpose of processing unitholder transaction, net assets are calculated based on the closing market price (referred to as "Net Asset Value"), while for financial statement purposes net asset value is calculated based on bid/ask price (referred to as "Net Assets").

\*\*Expenses of the underlying fund used in the MER calculation are based on 2004 information, the last audited information available at the time of preparing this report.

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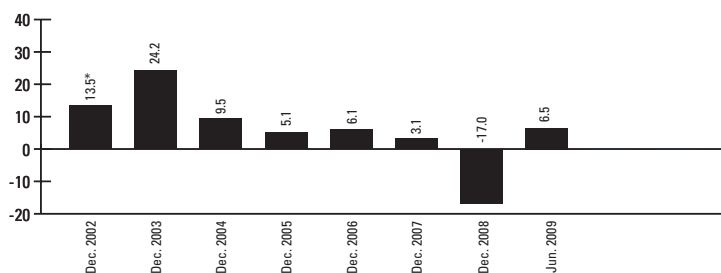
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## PAST PERFORMANCE

This section describes how the Trust has performed in the past. Remember, past returns do not indicate how the Trust will perform in the future. The information shown assumes that distributions made by the Trust in the periods shown were reinvested in additional units of the Trust. In addition, the information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance.

### Year-by-Year Returns

The following chart shows the Trust's semi-annual performance for the period ended June 30, 2009 and annual performance for each of the periods shown, and illustrates how the Trust's performance has changed from period to period. In percentage terms, the chart shows how much an investment made on the first day of each financial period would have grown or decreased by the last day of each financial period.



\*This figure is for the period from July 24, 2002 to December 31, 2002.

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## SUMMARY OF INVESTMENT PORTFOLIO as at June 30, 2009

Portfolio Breakdown*		Top 25 Holdings (excluding Cash & Equivalents)*	
Category	Percentage of Net Asset Value (%)	Security Name	Percentage of Net Asset Value (%)
<b>Long Positions:</b>			
U.S.A.	74.3	PIMCO Emerging Markets Bond Fund	30.1
Cash & Equivalents	14.1	PIMCO GIS High Yield Bond Fund	14.8
Colombia	3.8	PIMCO Developing Local Markets Fund	4.1
Panama	3.3	Republic of Colombia 7.375% 01/27/2017	3.8
Philippines	1.9	PIMCO Diversified Income Fund Institutional Accumulation	3.6
Interest Rate Swap Contracts	1.7	Freddie Mac MBS G04567 5.5% 07/01/2038	2.8
Other Assets	1.7	FNCL MBS No.933180 5.5% 11/01/2037	2.7
Mexico	1.5	Republic of Panama 6.7% 01/26/2036	2.0
Ireland	0.7	Republic of Philippines 6.375% 01/15/2032	1.9
<b>Total Long Positions:</b>	<b>103.0</b>	United Mexican States 8.3% 08/15/2031	1.6
<b>Short Positions:</b>		SLM Student Loan Trust 2008-09 2.59188% 04/25/2023	1.4
Short Option Contracts	-0.1	National Rural Utilities Cooperative Finance Corp., FRN 1.9825% 07/01/2010	1.4
Credit Default Swap Contracts	-2.9	Caterpillar Financial Services Ltd., FRN 1.35438% 06/24/2011	1.4
<b>Total Short Positions:</b>	<b>-3.0</b>	Republic of Panama 8.875% 09/30/2027	1.3
		General Electric Capital Corp. 6.875% 01/10/2039	1.3
		Mexico Government International Bond 5.625% 01/15/2017	1.2
		Altria Group Inc. 9.25% 08/06/2019	1.2
		Amgen Inc. 5.7% 02/01/2019	1.1
		Bank of America Corp. 0.98875% 06/22/2012	1.1
		United Mexican States 6.75% 09/27/2034	0.8
		America Movil SAB de C.V. 5.625% 11/15/2017	0.7
		Transneft, Series 144A 6.103% 06/27/2012	0.7
		General Motors Acceptance Corp. 7.25% 03/02/2011	0.6
		Goldman Sachs Group Inc. 1.43% 07/23/2009	0.4
		Williams Cos., Inc. 7.625% 07/15/2019	0.3

\* These are portfolio breakdowns and holdings of the underlying trust Skylon Global High Yield Trust. Skylon Global Capital Yield Trust is exposed to these portfolio breakdowns and holdings as a result of a forward agreement.

The summary of investment portfolio may change due to ongoing portfolio transactions and updates are available on a quarterly basis.

## A NOTE ON FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements about the Trust, its future performance, strategies or prospects, and possible future Trust action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective," and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Trust and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those

expressed or implied in any forward-looking statement made by the Trust. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchanges rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.