



Mulvihill

Hybrid Income Funds



Semi-Annual Report 2007

*Mulvihill S Split Fund*



## **Management Report on Fund Performance**

This report, prepared in accordance with National Instrument 81-106 (Investment Fund Continuous Disclosure), contains the financial highlights for the period ended June 30, 2007 of Mulvihill S Split Fund (the “Fund”). The June 30, 2007 unaudited semi-annual financial statements of the Fund are attached.

Copies of the Fund’s proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure may be obtained by calling 1-800-725-7172 toll-free, or by writing to the Fund at Investor Relations, 121 King Street West, Suite 2600, Toronto, Ontario, M5H 3T9, or by visiting our website at [www.mulvihill.com](http://www.mulvihill.com). You can also get a copy of the annual financial statements at your request and at no cost by using one of these methods.

# **Mulvihill S Split Fund**

## **Management Report on Fund Performance**

### **Summary of Investment Portfolio**

The composition of the portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update will be available on our website at [www.mulvihill.com](http://www.mulvihill.com).

### **Asset Mix and Portfolio Holdings**

June 30, 2007

	<b>% of Net Asset Value</b>
Financials	95%
Cash and Short-Term Investments	4%
Other Assets (Liabilities)	1%
	<b>100%</b>

**Management Report on Fund Performance**

**Results of Operations**

The net asset value for pricing purposes of the Fund at June 30, 2007 was \$24.15 compared to \$25.00 per unit at Fund inception on May 17, 2007. The Fund's Class A and Preferred Shares are listed on the Toronto Stock Exchange as SBN and SBN.PR.A respectively. The Class A Shares closed on June 29, 2007 at \$13.93 and the Preferred Shares closed at \$10.28 which, when combined, represent a 0.2 percent premium to the actual net asset value.

Distributions totalling \$0.10607 were paid to Class A Shareholders and \$0.06271 were paid to Preferred Shareholders during the period ended June 30, 2007. The Fund's total return for the period ended June 30, 2007, including reinvestment of distributions, was negative 2.7 percent. This compares favourably with the total return on The Bank of Nova Scotia shares during this period of negative 3.9 percent.

# Mulvihill S Split Fund

## Management Report on Fund Performance

### Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance from its inception date on May 17, 2007.

Information for the period ended June 30, 2007 is derived from the Fund's unaudited semi-annual financial statements.

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#### DATA PER UNIT

##### **Net Assets, beginning of period<sup>(1)</sup>**

##### INCREASE (DECREASE) FROM OPERATIONS

Total revenue

Total expenses

Realized gains (losses) for the period

Unrealized gains (losses) for the period

##### **Total Increase (Decrease) from Operations<sup>(2)</sup>**

#### DISTRIBUTIONS

##### **Class A Share**

From taxable income

##### **Preferred Share**

From taxable income

##### **Total Distributions<sup>(3)</sup>**

##### **Net Assets, end of period<sup>(1)</sup>**

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(1) Net Assets is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities excluding the liability for the Redeemable Preferred shares of the Fund on that date and including the valuation of securities at bid prices divided by the number of units then outstanding.

(2) Total increase (decrease) from operations consists of interest and dividend revenue, net of withholding taxes and foreign exchange gains (losses), less expenses excluding Preferred share distributions, and is calculated based on the weighted average number of units

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#### RATIOS/SUPPLEMENTAL DATA

##### Net Asset Value, excluding liability for Redeemable Preferred shares (\$millions)<sup>(4)</sup>

##### Net Asset Value (\$millions)<sup>(5)</sup>

Number of units outstanding

##### Management expense ratio<sup>(1)</sup>

##### Portfolio turnover rate<sup>(2)</sup>

##### Trading expense ratio<sup>(3)</sup>

Net Asset Value, per unit

Closing market price - Preferred

Closing market price - Class A

(1) Management expense ratio is the ratio of all fees and expenses, including goods and services taxes but excluding transaction fees and Class A share distributions, charged to the Fund to the average net asset value, excluding the liability for the Redeemable Preferred shares.

(2) Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments, excluding short-term investments, divided by the average value of the portfolio securities. The Fund employs an option overlay strategy which can result in higher portfolio turnover by virtue of option exercises, when compared to a conventional equity mutual fund.

# Mulvihill S Split Fund

## Management Report on Fund Performance

For June 30, 2007, the Net Assets included in the Data per Unit table is from the Fund's unaudited financial statements and calculated using bid prices while the Net Asset Value included in the Ratios/Supplemental Data table is for Fund pricing purposes and calculated using closing prices (see Notes 3 and 4 to the Financial Statements).

Period ended  
June 2007<sup>(4)</sup>

\$	<b>25.00</b>
	0.22
	(0.08)
	0.02
	(0.86)
	<hr/> <b>(0.70)</b>
	(0.11)
	(0.06)
	<hr/> <b>(0.17)</b>
\$	<b>24.15</b>

outstanding during the period. The schedule is not intended to total to the ending net assets as calculations are based on the weighted average number of units outstanding during the period.

- (3) Distributions to shareholders are based on the number of shares outstanding on the record date for each distribution and were paid in cash.  
(4) For the period from inception on May 17, 2007 to June 30, 2007.

Period ended  
June 2007<sup>(5)</sup>

\$	<b>114.74</b>
\$	67.24
	<b>4,750,000</b>
	2.68% <sup>(4)</sup>
	0.00%
	0.13% <sup>(4)</sup>
\$	<b>24.15</b>
\$	<b>10.28</b>
\$	<b>13.93</b>

- (3) Trading expense ratio represents total commissions expressed as an annualized percentage of the daily average net asset value during the period.  
(4) Annualized.  
(5) For the period from inception on May 17, 2007 to June 30, 2007.  
(6) Net Asset Value is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities of the Fund on that date and including the valuation of securities at closing prices divided by the number of units then outstanding.

# **Mulvihill S Split Fund**

## **Management Report on Fund Performance**

### **Management Fees**

Mulvihill Capital Management (“MCM”) is entitled to fees under the Investment Management Agreement calculated monthly as 1/12 of 1.55 percent of the net asset value of the Fund at each month end, excluding the Preferred shares. Services received under the Investment Management Agreement include the making of all investment decisions and the writing of covered call options in accordance with the investment objectives, strategy and criteria of the Fund. MCM also makes all decisions as to the purchase and sale of securities in the Fund’s portfolio and the execution of all portfolio and other transactions.

Mulvihill Fund Services is entitled to fees under the Management Agreement calculated monthly as 1/12 of 0.10 percent of the net asset value of the Fund at each month end, excluding the Preferred shares. Services received under the Management Agreement include providing or arranging for required administrative services to the Fund.

### **Retraction Fee**

If a retraction of a Class A Share or Preferred Share occurs prior to July 2014, a retraction fee payable to MCM by the retracting shareholder will be deducted by MCM from the amount otherwise receivable by the retracting shareholder to compensate MCM, in part, for paying the Agents’ fees and expenses of the offering.

### **Recent Developments**

This Fund is a split share corporation offering an investment in the common shares of The Bank of Nova Scotia through its Class A Shares and Preferred Shares and raised total gross proceeds of \$118.8 million under the offering. The Class A Shares and the Preferred Shares are listed on the Toronto Stock Exchange under the symbols SBN and SBN.PR.A, respectively and began trading on May 17, 2007.

The Fund holds a portfolio of common shares of The Bank of Nova Scotia. Investors in the Class A shares will receive leveraged exposure to the performance of The Bank of Nova Scotia, including increases or decreases in the value of The Bank of Nova Scotia shares and increases or decreases in the dividends paid on The Bank of Nova Scotia shares. Investors in the Preferred shares will receive monthly distributions on a fixed, cumulative and preferential basis.

The investment objectives for the Class A Shares are: (i) to provide holders of Class A Shares with regular monthly cash distributions in an amount targeted to be 6.0% per annum on the net asset value of the Class A Shares and (ii) to provide holders of Class A Shares with the opportunity for leveraged growth in net asset value and distributions per Class A Share.

**Management Report on Fund Performance**

The investment objectives for the Preferred Shares are: (i) to provide holders of Preferred Shares with fixed cumulative preferential monthly cash distributions in the amount of \$0.04375 per Preferred Share (\$0.525 per year) representing a yield on the issue price of the Preferred Shares of 5.25% per annum and (ii) to return the issue price of \$10.00 per Preferred Share to holders of Preferred Shares at the time of redemption of such shares on December 1, 2014.

During the first six weeks of operations the Fund began the purchasing of The Bank of Nova Scotia shares for its investment portfolio. By June 30, 2007 the Fund had acquired an aggregate of 2.1 million shares. Approximately 95 percent of the total net asset value is comprised of The Bank of Nova Scotia shares.

**Year-By-Year Returns and Annual Total Return**

The Fund has been operational for less than one year. No year-by-year returns or annual total returns have been calculated.

**Related Party Transactions**

Mulvihill Capital Management Inc. (“MCM”) manages the Fund’s investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an Investment Management Agreement made between the Fund and MCM dated April 26, 2007.

Mulvihill Fund Services Inc. (“Mulvihill”) is the Manager of the Fund pursuant to a Management Agreement made between the Fund and Mulvihill dated April 26, 2007, and as such, is responsible for providing or arranging for required administrative services to the Fund. Mulvihill is a wholly-owned subsidiary of MCM. These parties are paid the fees described under the Management Fees section of this report.

**Forward-Looking Statements**

This report may contain forward-looking statements about the Fund. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also forward-looking. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to any divergence between what is anticipated and what actually occurs, including, but not limited to, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technology change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

The above-mentioned list of important factors is not exhaustive. You should consider these and other factors carefully before making any investment decisions and you should avoid placing undue reliance on forward-looking statements. While the Fund currently anticipates that subsequent events and developments may cause the Fund’s views to change, the Fund does not undertake to update any forward-looking statements.

## **Mulvihill S Split Fund**

### **Management's Responsibility for Financial Reporting**

The accompanying financial statements of S Split Fund (operating as Mulvihill S Split Fund) (the “Fund”) and all the information in this semi-annual report are the responsibility of the management of Mulvihill Fund Services Inc. (the “Manager”) and have been approved by the Board of Directors (the “Board”).

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this semi-annual report is consistent with those of the other Hybrid Income Funds financial statements

The Manager is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Audit Committee meets periodically with management and external auditors to discuss internal controls, the financial reporting process, various auditing and financial reporting issues, and to review the annual report, the financial statements and the external auditors’ report. Deloitte & Touche LLP, the Fund’s independent auditors, has full and unrestricted access to the Audit Committee and the Board.

The Fund’s independent auditors have not performed a review of these Interim Financial Statements in accordance with standards established by Canadian Institute of Chartered Accountants.



John P. Mulvihill  
Director  
Mulvihill Fund Services Inc.



Sheila S. Szela  
Director  
Mulvihill Fund Services Inc.

August 2007

# Mulvihill S Split Fund

## Financial Statements

### Statement of Financial Position

June 30, 2007 (Unaudited)

	2007
<hr/>	
<b>ASSETS</b>	
Investments at fair value (cost - \$113,267,804)	<b>\$ 109,257,716</b>
Short-term investments (cost - \$4,713,364)	4,713,364
Cash	315
Interest receivable	9,428
Dividends receivable	945,680
<b>TOTAL ASSETS</b>	<b>\$ 114,926,503</b>
<hr/>	
<b>LIABILITIES</b>	
Accrued management fees	\$ 155,880
Accounts payable and accrued liabilities	56,263
Redeemable Preferred shares	47,500,000
	<hr/>
	47,712,143
<hr/>	
<b>EQUITY</b>	
Class A shares	71,247,164
Deficit	(4,032,804)
	<hr/>
	67,214,360
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 114,926,503</b>
<hr/>	
<b>Number of Units Outstanding</b>	<b>4,750,000</b>
<hr/>	
<b>Net Assets per Unit</b>	
Preferred share	\$ 10.0000
Class A share	14.1504
	<hr/>
	\$ 24.1504
<hr/>	

# Mulvihill S Split Fund

## Financial Statements

### Statement of Operations and Deficit

For the period from inception on May 17, 2007 to June 30, 2007 (Unaudited)

	2007
<b>REVENUE</b>	
Interest	\$ 101,792
Dividends	945,680
	<hr/>
Net realized gains on derivatives	110,000
<b>Total Net Realized Gains</b>	<hr/> 110,000
<b>TOTAL REVENUE</b>	<hr/> 1,157,472
<b>EXPENSES</b>	
Management fees	236,255
Service fees	41,574
Administrative and other expenses	27
Transaction fees (Note 3)	71,692
Custodian fees	4,751
Audit fees	3,227
Director fees	2,708
Legal fees	2,131
Shareholder reporting costs	926
Goods and services tax	15,192
<b>TOTAL EXPENSES</b>	<hr/> 378,483
<b>Net Realized Income before Distributions</b>	778,989
Preferred share distributions	<hr/> (297,872)
<b>Net Realized Income</b>	481,117
Unrealized depreciation of investments during the period	<hr/> (4,010,088)
<b>Total Unrealized Depreciation</b>	<hr/> (4,010,088)
<b>NET LOSS FOR THE PERIOD</b>	<hr/> \$ (3,528,971)
<b>NET LOSS PER CLASS A SHARE</b> (based on the weighted average number of Class A Shares outstanding during the period of 4,672,222)	<hr/> \$ (0.7553)
<b>DEFICIT</b>	
Balance, beginning of period	\$ -
Net loss for the period	(3,528,971)
Distributions on Class A Shares	(503,833)
<b>BALANCE, END OF PERIOD</b>	<hr/> \$ (4,032,804)

**Financial Statements**

**Statement of Changes in Net Assets**

For the period from inception on May 17, 2007 to June 30, 2007 (Unaudited)

	<b>2007</b>
NET ASSETS, BEGINNING OF PERIOD	\$ -
Net Realized Income before Distributions	778,989
Class A Share Capital Transactions	
Proceeds from units issued	71,247,164
Distributions	
Class A Shares	
From taxable income	(503,833)
Preferred Shares	
From taxable income	(297,872)
Total Distributions	(801,705)
Unrealized Depreciation of Investments During the Period	(4,010,088)
Changes in Net Assets during the Period	67,214,360
NET ASSETS, END OF PERIOD	\$ 67,214,360

**Statement of Changes in Investments**

For the period from inception on May 17, 2007 to June 30, 2007 (Unaudited)

	<b>2007</b>
Cost of Investments Purchased during the Period	\$ 113,157,804
Cost of Investments Sold during the Period	
Proceeds from sales	-
Net realized gains on sales	110,000
	(110,000)
Investments at Cost, End of Period	113,267,804
Unrealized depreciation of investments, end of period	(4,010,088)
INVESTMENTS AT FAIR VALUE, END OF PERIOD	\$ 109,257,716

# Mulvihill S Split Fund

## Financial Statements

### Statement of Investments

June 30, 2007 (Unaudited)

	Par Value/ Number of Shares	Average Cost	Fair Value	% of Portfolio
<b>SHORT-TERM INVESTMENTS</b>				
<b>Treasury Bills</b>				
Government of Canada, 4.30%				
- September 6, 2007	4,760,000	\$ 4,713,364	\$ 4,713,364	99.8 %
<b>Accrued Interest</b>			9,428	0.2 %
<b>TOTAL SHORT-TERM INVESTMENTS</b>		\$ 4,713,364	\$ 4,722,792	100.0 %
<b>INVESTMENTS</b>				
<b>Canadian Common Shares</b>				
<b>Financials</b>				
The Bank of Nova Scotia	2,101,511	\$ 113,303,596	\$ 109,026,391	99.8 %
<b>Total Canadian Common Shares</b>		\$ 113,303,596	\$ 109,026,391	99.8 %
<b>OPTIONS</b>				
<b>Purchased Put Options</b>				
(100 shares per contract)				
The Bank of Nova Scotia				
- September 2007 @ \$52	2,300	\$ 167,900	\$ 322,122	0.3 %
<b>Written Covered Call Options</b>				
(100 shares per contract)				
The Bank of Nova Scotia - July 2007 @ \$53	(1,000)	(43,000)	(19,657)	
The Bank of Nova Scotia - August @ \$54	(2,000)	(89,000)	(71,140)	
<b>Total Written Covered Call Options</b>		(132,000)	(90,797)	(0.1) %
<b>TOTAL OPTIONS</b>		\$ 35,900	\$ 231,325	0.2 %
Adjustment for transaction fees		(71,692)		
<b>TOTAL INVESTMENTS</b>		\$ 113,267,804	\$ 109,257,716	100.0 %

## **1. Basis of Presentation**

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The interim financial statements for the Fund have been prepared in accordance with Canadian generally accepted accounting standards (“GAAP”). However, not all disclosures required by GAAP for annual financial statements have been presented.

These interim financial statements follow the same accounting policies and method of application as those of the other Mulvihill Hybrid Income Funds with the exception of CICA handbook section 3855 which was adopted since inception of the Fund, as discussed below in Note 2.

## **2. Establishment of the Fund**

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Mulvihill S Split Fund (the “Fund”) is a mutual fund corporation established under the laws of the Province of Ontario on January 26, 2007. The Fund began operations on May 17, 2007.

The manager of the Fund is Mulvihill Fund Services Inc. (the “Manager”) and the Fund’s investment manager is Mulvihill Capital Management Inc. (the “Investment Manager”). RBC Dexia Investor Services acts as custodian of the assets of the Fund and is responsible for certain day-to-day administration of the Fund.

On May 17, 2007, the Fund issued 4,500,000 Class A Shares at a price of \$10.00 per share and 4,500,000 Preferred Shares at a price of \$15.00 per share for gross proceeds of \$112,500,000. On May 31, 2007 an additional 250,000 Class A Shares at a price of \$10.00 per share and 250,000 Preferred Shares at a price of \$15.00 per share were issued for gross proceeds of \$6,250,000. Total gross proceeds of the offering amounted to \$118,750,000.

## **3. New Accounting Standards**

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The Canadian Institute of Chartered Accountants issued new accounting standards relating to Financial Instruments which became effective since the inception of the Fund. The new standards require that the fair value of securities which are traded in active markets be measured based on bid price and transaction fees, such as brokerage commissions, incurred in the purchase or sale of securities by the Fund be charged to net income in the period incurred.

For financial reporting purposes, the investments have been valued using closing bid prices, and transaction fees have been expensed

# **Mulvihill S Split Fund**

## **Notes to Financial Statements**

June 30, 2007

as incurred and presented as a separate line item in the Statement of Financial Operations for the period ended June 30, 2007.

As a result of regulatory relief received from the Canadian Securities Administrators, on implementation of the new standards, the above changes will not impact the net asset value per unit used to transact units of the Fund which will continue to be based upon securities valued at the last sale price.

## **4. Net Asset Value and Net Assets**

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For financial statement reporting purposes, the Fund applies Canadian generally accepted accounting principles requiring the Fund to value its securities using bid price. However, pursuant to a temporary exemption provided by the Canadian securities regulatory authorities, the Fund can calculate its net asset value using last sale price.

The difference between the net asset value and the net assets reflected in the financial statements is as follows:

	June 30, 2007
Net Asset Value (for pricing purposes)	\$ 24.15
Difference	-
Net Assets (for financial statement purposes)	\$ 24.15

## **5. Normal Course Issuer Bid**

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Subsequent to June 30, 2007, the Toronto Stock Exchange accepted a normal course issuer bid filed by the Fund. Under the terms of the normal course issuer bid, the Fund proposes to purchase, if considered advisable, up to a maximum of 475,000 Class A Shares and 475,000 Preferred Shares, 10 percent of its public float as determined in accordance with the rules of the Exchange. The purchases would be made in the open market through facilities of the Exchange. The normal course issuer bid will remain in effect until the earlier of July 11, 2008 or until the Fund has purchased the maximum number of units permitted under the bid.

Unitholders may obtain a copy of the Notice of Intention to make a normal course issuer bid, without charge, by writing to Mulvihill Investors Services at: 121 King Street West, Suite 2600, Toronto, Ontario, M5H 3T9.

**Hybrid Income Funds  
Managed by Mulvihill Structured Products**

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**Mulvihill Platinum**

*Mulvihill Government Strip Bond Fund*  
*Mulvihill Pro-AMS U.S. Fund*  
*Mulvihill Pro-AMS 100 Plus (Cdn \$) Fund*  
*Mulvihill Pro-AMS 100 Plus (U.S. \$) Fund*  
*Mulvihill Pro-AMS RSP Split Share Fund*

**Mulvihill Premium**

*Mulvihill Core Canadian Dividend Fund*  
*Mulvihill Premium Canadian Fund*  
*Mulvihill Premium 60 Plus Fund*  
*Mulvihill Premium Canadian Bank Fund*  
*Mulvihill Premium Global Plus Fund*  
*Mulvihill Premium Split Share Fund*  
*Mulvihill Premium Global Telecom Fund*  
*Mulvihill S Split Fund*  
*Mulvihill Top 10 Canadian Financial Fund*  
*Mulvihill Top 10 Split Fund*  
*Mulvihill World Financial Split Fund*

**Mutual Funds Managed by  
Mulvihill Capital Management**

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*Mulvihill Canadian Money Market Fund*  
*Mulvihill Canadian Bond Fund*  
*Mulvihill Global Equity Fund*  
*Premium Global Income Fund*

**Head Office**

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Visit our website at [www.mulvihill.com](http://www.mulvihill.com) for additional information on all Mulvihill Hybrid Income Funds.

## **Mulvihill S Split Fund**

### **Notes**





[www.mulvihill.com](http://www.mulvihill.com)

**Mulvihill Structured Products**

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Mulvihill Capital Management Inc.

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for address changes.*