

## **RIVUS BOND FUND SHAREHOLDER LETTER**

**April 16, 2010**

### **TO FELLOW SHAREHOLDERS:**

The recovery in the economy and in investor risk appetite continued its improving trend during the last six months, pausing only briefly at times. Both equity and all fixed income sectors except U.S. Treasuries exhibited positive returns during the period. The third estimate of fourth quarter GDP registered 5.6 percent growth and expectations for 2010 GDP have begun to increase from “below trend” to something closer to “normal”, which would be 3.5 to 4.5 percent annualized. Keys to validating this recovery trend remain employment and consumer confidence. Non-farm payrolls have grown in three of the last four months and March’s reading of 162,000 jobs created represents the highest level achieved since May 2007.

Consistent with increasing confidence over the improvement in the economy, U.S. Treasury yields increased meaningfully over the last six months. The ten-year Treasury increased 53 bps from 3.30% at the end of September and ended the March quarter at 3.83%. However, there was considerable volatility in yields during this period as market participants struggled with implications from lingering long wave structural issues in the economy that we discussed in the last shareholder letter against the short-term improvement in the economy resulting from the unprecedented monetary and fiscal policy response. The Federal Reserve continues to grapple with the appropriate timing and language needed to remove historically accommodative policy in a way that prevents a disorderly sell off in rates or stifles the nascent economic recovery. Market observers are placing greater emphasis on Fed statements as each nuance is pored over to determine when policy may change.

During the quarter the Board of Trustees of the Fund approved on behalf of the Rivus Bond Fund (BDF), the reorganization of the Hartford Income Shares Fund, Inc. (HSF) with and into BDF. The reorganization has also been approved by HSF’s Board of Directors. The reorganization will require BDF shareholder approval to issue additional shares to effect the reorganization pursuant to NYSE requirements which will be done by a subsequent proxy statement provided to all shareholders. If the requisite approval by each Fund’s shareholders is obtained, the Reorganization Agreement contemplates: (1) the transfer of the assets of HSF to BDF in exchange for shares of common stock of BDF that have an aggregate net asset value equal to the aggregate net asset value of the shares of common stock of HSF; (2) the assumption by BDF of the liabilities of HSF; (3) the distribution of shares of BDF to the shareholders of HSF; and (4) the complete liquidation of HSF. Each shareholder of HSF would receive shares of BDF equal in value to the shares of HSF held by that shareholder as of the closing date of the Reorganization.

As of March 31, 2010, the Fund had a Net Asset Value of \$19.10 per share. This represents a 5.40% increase from \$18.12 per share at September 30, 2009. On March 31, 2010, the Fund’s closing price on the New York Stock Exchange was \$17.12 per share, representing an 10.36% discount to Net Asset Value per share, compared with 11.31% discount as of September 30, 2009. The market trading discount remains elevated at 11.82% as of market close on April 16, 2010.

One of the primary objectives of the Fund is to maintain its high level of income. On March 10, 2010 the Board of Directors declared a dividend payment of \$0.2875 per share payable May 4, 2010 to shareholders of record on April 7, 2010. The dividend was unchanged from the prior quarter and has been for the last 21 quarters. On an annualized basis, including the pending dividend, the Fund has paid a total of \$1.15 per share in dividends, representing a 6.82% Dividend Yield based on the market price on April 16, 2010 of \$16.85 per share. The dividend is evaluated on a quarterly basis and is based on the income generation capability of the portfolio.

Another primary objective of the Fund is to deliver a competitive total return. The table below compares the performance of the Fund to the Barclays Investment Grade Credit Index benchmark and the Fund's Peer average:

**Total Return-Percentage Change (Annualized for periods longer than 1 year)  
In Net Asset Value Per Share with All Distributions Reinvested<sup>1</sup>**

	<b>6 Months to 03/31/10</b>	<b>1 Year to 03/31/10</b>	<b>3 Years to 03/31/10</b>	<b>5 Years to 03/31/10</b>	<b>10 Years to 03/31/10</b>
Rivus Bond Fund . . . . .	7.10%	31.31%	5.56%	4.71% <sup>2</sup>	5.90% <sup>2</sup>
Barclays Investment Grade Credit Index <sup>3</sup> . . . . .	3.33%	20.83%	6.00%	5.37%	6.72%
Peer Group Average <sup>4</sup> . . . . .	6.87%	34.92%	4.72%	4.96%	6.35%

<sup>1</sup> This is historical information and should not be construed as indicative of any likely future performance

<sup>2</sup> Source: Lipper Inc.

<sup>3</sup> Comprised primarily of US investment grade corporate bonds (Fund's Benchmark)

<sup>4</sup> Consists of a group of funds against which the Fund has historically compared itself

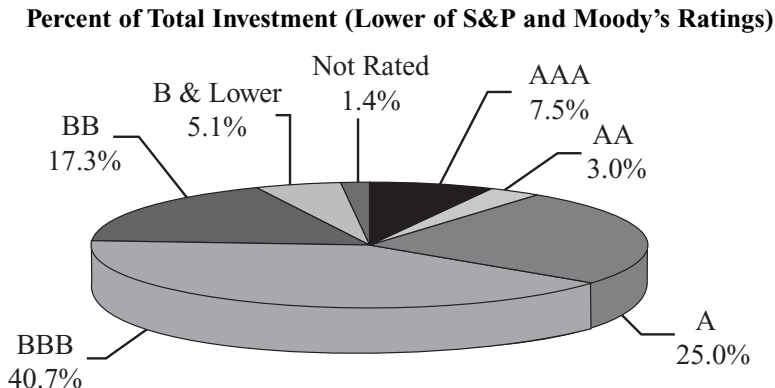
The Fund's performance for the 1-year, 3-year, 5-year and 10-year historical periods shown was negatively impacted by the 4.79% dilution of net asset value resulting from the rights offering during the September 2009 quarter. In addition to the impact from the September 2009 rights offering, the 10-year performance was also negatively impacted by the 4.5% dilution of net asset value resulting from the rights offering during the December 2003 quarter. Adjusting for the dilutive effects of both rights offerings, we estimate the return for the one-year period would have been approximately 37.83%, three-year annualized return would have been approximately 7.44%, five-year annualized return would have been approximately 5.71%, and ten-year annualized return would have been approximately 6.74%. The returns noted in the table above are actual returns as calculated by Lipper and PNC and do not adjust for dilution from the rights offerings. Past performance is not an indication of future results.

The Fund enjoyed strong returns for the period relative to both the benchmark and peers. Virtually all the significant sectors in the Fund experienced strong gains during this period. The Fund also enjoyed continued appreciation in new securities purchased over the past six to twelve months from a combination of trading, bond maturities, as well as the August 2009 rights offering proceeds. The Fund's High Yield exposure also delivered strong gains helping the overall performance. The returns look strong across the time periods, particularly after adjusting for the dilutive impact from both sets of rights offerings noted above.

Treasuries over the six-month period ended March 31, 2010 had a negative total return of -0.40% which is consistent with the increase in risk appetite in the market and a move away from Treasuries to risk assets. At the other end of the credit spectrum, this compares with a positive return of 23.43% for the High Yield index for the same period.

The Fund's performance will continue to be subject to the impact of trends in longer-term interest rates and to trends in relative yield spreads on corporate bonds due to the concentration of the funds investments in such bonds.

Consistent with our investment discipline, we continue to emphasize diversity and risk management within the bounds of income stability. The pie chart below summarizes the portfolio quality of the Fund's long-term invested assets as of March 31, 2010:



Please refer to the Schedule of Investments in the financial statements for details concerning portfolio holdings.

We would like to remind shareholders of the opportunities presented by the Fund's dividend reinvestment plan as detailed in the Fund's prospectus and referred to in the Shareholder Information section of this report. The dividend reinvestment plan affords shareholders a price advantage by allowing the purchase of shares at the lower of NAV or market price. This means that the reinvestment is at market price when the Fund is trading at a discount to Net Asset Value, as is currently the situation, or at Net Asset Value per share when market trading is at a premium to that value. To participate in the plan, please contact PNC Global Investment Servicing (U.S.) Inc., the Fund's Transfer Agent and Dividend Paying Agent, at 1-800-331-1710. The Fund's investment adviser, Cutwater Asset Management Corp., may be reached at 914-765-3272.

Sincerely,

Clifford D. Corso  
President

Mr. Corso's comments reflect the investment adviser's views generally regarding the market and the economy and are compiled from the investment adviser's research. These comments reflect opinions as of the date written and are subject to change at any time.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF THE RIVUS BOND FUND**

We have audited the accompanying statement of assets and liabilities of Rivus Bond Fund, including the schedule of investments, as of March 31, 2010, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of March 31, 2010 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Rivus Bond Fund as of March 31, 2010, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

**TAIT, WELLER & BAKER LLP**

**Philadelphia, Pennsylvania  
May 3, 2010**

**SCHEDULE OF INVESTMENTS**

**March 31, 2010**

	<u>Shares</u>	<u>Value (Note 1)</u>
<b>COMMON STOCK (0.06%)</b>		
<b>MEDIA (0.06%)</b>		
World Color Press, Inc. <sup>(a)</sup> .....	6,912	\$ 79,779
<b>TOTAL COMMON STOCK</b> (Cost of \$68,750) .....		<u>79,779</u>
	<b>Moody's/ Standard &amp; Poor's Rating<sup>(b)</sup></b>	<b>Principal Amount (000's)</b>
<b>CORPORATE DEBT SECURITIES (86.01%)</b>		
<b>AUTOMOTIVE (2.22%)</b>		
Ford Holdings, Inc., Gtd., 9.30%, 03/01/30 .....	B3/CCC	\$ 1,000
Ford Motor Co., Sr. Unsec. Notes, 8.90%, 01/15/32 .....	B3/CCC	500
Ford Motor Credit Co. LLC, Sr. Unsec. Notes, 7.00%, 10/01/13 .....	B1/B-	1,000
Goodyear Tire & Rubber Co., Sr. Unsec. Notes, 10.50%, 05/15/16 .....	B1/B+	250
		<u>2,785,359</u>
<b>CHEMICALS (1.52%)</b>		
Dow Chemical Co., Sr. Unsec. Notes, 8.55%, 05/15/19 .....	Baa3/BBB-	500
Grupo Petrotremex SA de CV, Sr. Unsec. Notes, 9.50%, 08/19/14, 144A .....	NA/BB	500
Nova Chemicals Co., Sr. Unsec. Notes, 6.50%, 01/15/12 .....	B1/B+	500
Westlake Chemicals, Gtd., 6.625%, 01/15/16 .....	Ba3/BB	250
		<u>1,902,370</u>
<b>DIVERSIFIED FINANCIAL SERVICES (19.26%)</b>		
American Express Co., Sr. Unsec. Notes, 7.00%, 03/19/18 .....	A3/BBB+	1,000
Bank of America Corp., Sub. Notes, 5.42%, 03/15/17 .....	A3/A-	1,000
BNP Paribas, Sub. Notes, 5.186%, 06/29/35, 144A <sup>(c),(d)</sup> .....	Baa1/A	1,000
Capital One Capital V, Co. Gty., 10.25%, 08/15/39 .....	Baa3/BB	1,500
Citigroup Capital XXI, Co. Gty., 8.30%, 12/21/37 <sup>(c),(d)</sup> .....	Ba1/BB-	500
Citigroup Inc., Sr. Unsec. Notes, 6.01%, 01/15/15 .....	A3/A	1,000
Citigroup, Inc., Unsec. Notes, 8.50%, 05/22/19 .....	A3/A	500
Cobank, ACB, Sub. Notes, 7.875%, 04/16/18, 144A .....	NR/A	500
Credit Agricole SA, 6.637%, 05/31/17, 144A <sup>(c),(d)</sup> .....	A3/A-	800
Export-Import Bank of Korea, Sr. Notes, 8.125%, 01/21/14 .....	A2/A	500
FleetBoston Financial Corp., Sub. Notes, 6.875%, 01/15/28 .....	A3/A-	500
General Electric Capital Corp., Sr. Unsec. Notes, 6.125%, 02/22/11 .....	Aa2/AA+	1,000
General Electric Capital Corp., Sr. Unsec. Notes, 6.875%, 01/10/39 .....	Aa2/AA+	1,000
GMAC, Inc., Co. Gty., 7.25%, 03/02/11 .....	B3/B	633
HSBC America Capital Trust II, Co. Gty., 8.38%, 05/15/27, 144A .....	NR/A-	2,500
HSBC Finance Corp., Sr. Unsec. Notes, 6.75%, 05/15/11 .....	A3/A	1,000
ICICI Bank Ltd., Sr. Unsec. Notes, 5.50%, 03/25/15, 144A .....	Baa2/BBB-	1,000
JP Morgan Chase Bank NA, Sub. Notes, 6.00%, 10/01/17 .....	Aa2/A+	1,000
Landesbank Baden-Wurttemberg, Sub. Notes, 6.35%, 04/01/12 .....	Aaa/NR	500
Merrill Lynch & Co. Inc., Notes, 6.875%, 04/25/18 .....	A2/A	1,000
Merrill Lynch & Co. Inc., Sub. Notes, 7.75%, 05/14/38 .....	A3/A-	500
National Agricultural Cooperative Federation, Sr. Notes, 5.00%, 09/30/14, 144A .....	A2/A	500
Sanwa Bank Ltd., Sr. Sub. Notes, 7.40%, 06/15/11 .....	Aa3/A	500
UBS PFD Funding Trust I, Co. Gty., 8.622%, 10/01/10 <sup>(c),(d)</sup> .....	Baa3/BBB-	1,000
UBS PFD Funding Trust V, Co. Gty., 6.243%, 05/15/16 <sup>(c),(d)</sup> .....	Baa3/BBB-	500
Wachovia Capital Trust III, Bank Gtd., 5.80%, 03/15/11 <sup>(c),(d)</sup> .....	Ba1/A-	1,000
Wells Fargo Capital XV, 9.75%, 09/26/13 <sup>(c),(d)</sup> .....	Ba1/A-	1,000
		<u>24,128,729</u>

The accompanying notes are an integral part of these financial statements.

**SCHEDULE OF INVESTMENTS — continued**

	Moody's/ Standard & Poor's Rating <sup>(b)</sup>	Principal Amount (000's)	Value (Note 1)
<b>ENERGY (11.47%)</b>			
Anadarko Petroleum Corp., Sr. Unsec. Notes, 5.95%, 09/15/16	Baa3/BBB-	\$ 700	\$ 762,630
Apache Corp., Sr. Unsec. Notes, 7.70%, 03/15/26	A3/A-	500	593,414
Florida Gas Transmission Co., LLC, Sr. Unsec. Notes, 9.19%, 11/01/24, 144A	Baa2/BBB	150	185,574
Gaz Capital SA, Notes, 8.125%, 07/31/14, 144A	Baa1/BBB	500	559,375
KazMunaiGaz Finance Sub BV, Co. Gty., 11.75%, 01/23/15, 144A	Baa2/BB+	500	642,500
Nabors Industries, Inc., Co. Gty., 9.25%, 01/15/19	Baa1/BBB+	500	621,940
NiSource Finance Corp., Co. Gty., 10.75%, 03/15/16	Baa3/BBB-	250	317,786
ONEOK Partners LP, Sr. Notes, 8.625%, 03/01/19	Baa2/BBB	375	463,067
Petrobras International Finance Co., Sr. Unsub. Notes, 6.125%, 10/06/16	Baa1/BBB-	500	538,613
Petroleos Mexicanos, Co. Gty., 8.00%, 05/03/19	Baa1/BBB	250	293,125
Petroleos Mexicanos, Co. Gty., 6.00%, 03/05/20, 144A	Baa1/BBB	750	768,750
Petroleum Co. of Trinidad & Tobago, Ltd., Sr. Unsec., 9.75%, 08/14/19, 144A	Baa3/BBB	500	568,750
Pride International, Inc., Sr. Unsec. Notes, 8.50%, 06/15/19	Ba1/BBB-	500	565,000
SEACOR Holdings, Inc., Sr. Notes, 7.375%, 10/01/19	Ba1/BBB-	1,000	1,029,353
Shell International Finance BV, Co. Gty., 4.30%, 09/22/19	Aa1/AA	1,000	985,998
Sunoco Logistics Partners Operations LP, Co. Gty., 5.50%, 02/15/20	Baa2/BBB	335	336,744
Transocean, Inc., Sr. Unsec. Notes, 7.50%, 04/15/31	Baa2/BBB+	500	586,259
Valero Energy Corp., Sr. Unsec. Notes, 10.50%, 03/15/39	Baa2/BBB	500	642,136
Weatherford International, Inc., Co. Gty., 6.80%, 06/15/37	Baa1/BBB+	600	615,762
Western Atlas, Inc., Sr. Unsec. Notes, 8.55%, 06/15/24	A2/A	2,539	3,285,877
			<u>14,362,653</u>
<b>FOOD AND BEVERAGE (0.12%)</b>			
Bunge Ltd. Finance Corp., Co. Gty., 8.50%, 06/15/19	Baa2/BBB-	125	145,314
<b>GAMING, LODGING &amp; LEISURE (0.50%)</b>			
Wynn Las Vegas LLC, 6.625%, 12/01/14	Ba3/BB+	500	498,750
Wynn Las Vegas LLC, 7.875%, 11/01/17, 144A	Ba2/BB+	125	127,188
			<u>625,938</u>
<b>HEALTHCARE (1.46%)</b>			
Boston Scientific Corp., Sr. Unsec. Notes, 6.00%, 01/15/20	Ba1/BBB-	500	472,346
Fresenius US Finance II, Inc., Co. Gty, 9.00%, 07/15/15, 144A	Ba1/BB	250	278,750
Inverness Medical Innovations, Inc., Sr. Sub. Notes, 9.00%, 05/15/16	B3/B-	150	153,000
Life Technologies Corp., Sr. Notes, 6.00%, 03/01/20	Ba1/BBB-	350	358,356
Monsanto Co. (Pharmacia Corp.), Sr. Unsec. Notes, 6.50%, 12/01/18	A1/AA	500	567,529
			<u>1,829,981</u>
<b>INDUSTRIAL (2.88%)</b>			
Arrow Electronics, Inc., Sr. Unsec. Notes, 6.00%, 04/01/20	Baa3/BBB-	500	504,478
Belden, Inc., Sr. Sub. Notes, 7.00%, 03/15/17	Ba2/B+	250	246,250
Holcim US Finance Sarl & Cie SCS, Co. Gty., 6.00%, 12/30/19, 144A	Baa2/BBB	1,000	1,038,495
L-3 Communications Corp., Co. Gty., 6.125%, 07/15/13	Ba2/BB+	250	253,750
L-3 Communications Corp., Co. Gty., 6.375%, 10/15/15	Ba2/BB+	1,000	1,026,250
Sealed Air Corp., Sr. Notes, 7.875%, 06/15/17, 144A	Baa3/BB+	500	542,913
			<u>3,612,136</u>
<b>INSURANCE (8.16%)</b>			
AIG SunAmerica Global Finance VI, Sr. Sec. Notes, 6.30%, 05/10/11, 144A	A1/A+	1,000	1,029,891
AIG SunAmerica, Inc., Sr. Unsec. Notes, 8.125%, 04/28/23	A3/A-	750	770,499
American International Group, Inc., 8.175%, 05/15/38 <sup>(c),(d)</sup>	Ba2/BBB	1,000	845,000
Hartford Financial Services Group, Inc., Sr. Unsec. Notes, 6.00%, 01/15/19	Baa3/BBB	500	512,029
Liberty Mutual Group, Inc., Co. Gty., 10.75%, 06/15/38, 144A <sup>(c),(d)</sup>	Baa3/BB	1,000	1,120,000
Lincoln National Corp., 6.05%, 04/20/17 <sup>(c),(d)</sup>	Ba1/BBB	500	416,250

The accompanying notes are an integral part of these financial statements.

**SCHEDULE OF INVESTMENTS — continued**

	Moody's/ Standard & Poor's Rating <sup>(b)</sup>	Principal Amount (000's)	Value (Note 1)
<b>INSURANCE — continued</b>			
Massachusetts Mutual Life Insurance Co., Notes, 8.875%, 06/01/39, 144A . . . . .	A1/AA-	\$ 500	\$ 636,918
Metlife Capital Trust X, 9.25%, 04/08/33, 144A <sup>(c),(d)</sup> . . . . .	Baa2/BBB	500	562,500
MetLife, Inc., Jr. Sub. Notes, 10.75%, 08/01/39 . . . . .	Baa2/BBB	500	644,476
Penn Central Corp., Sub. Notes, 10.875%, 05/01/11 <sup>(e)</sup> . . . . .	WR/NR	1,500	1,544,970
Prudential Financial, Inc., Jr. Sub. Notes, 8.875%, 06/15/18 <sup>(c),(d)</sup> . . . . .	Baa3/BBB+	1,000	1,122,500
Travelers Cos., Inc., Jr. Sub. Notes, 6.25%, 03/15/17 <sup>(c),(d)</sup> . . . . .	A3/BBB	500	492,178
XL Capital Europe PLC, Gtd., 6.50%, 01/15/12 . . . . .	Baa2/BBB+	500	526,510
			<u>10,223,721</u>
<b>MEDIA (8.91%)</b>			
CBS Corp., Co. Gty., 8.875%, 05/15/19 . . . . .	Baa3/BBB-	350	422,801
Comcast Corp., Gtd., 7.05%, 03/15/33 . . . . .	Baa1/BBB+	2,000	2,150,852
Harcourt General, Inc., Sr. Debs., 8.875%, 06/01/22 . . . . .	WR/BBB+	2,000	2,289,038
Interpublic Group of Cos., Inc., Sr. Unsec. Notes, 10.00%, 07/15/17 . . . . .	Ba2/B+	500	565,625
News America Holdings, Inc., Co. Gty., 7.90%, 12/31/95 . . . . .	Baa1/BBB+	1,400	1,563,724
Time Warner, Inc., Sr. Unsec. Notes, 9.15%, 02/01/23 . . . . .	Baa2/BBB	3,000	3,895,575
Viacom, Inc., Co. Gty., 7.875%, 07/30/30 . . . . .	Baa3/BBB-	250	275,511
World Color Press, Inc., Escrow Notes, —%, 12/01/49 . . . . .	WR/NR	1,000	—
			<u>11,163,126</u>
<b>MINING (2.97%)</b>			
Anglo American Capital, Co. Gty., 9.375%, 04/08/19, 144A . . . . .	Baa1/BBB	500	636,856
Barrick North America Finance LLC, Co. Gty., 6.80%, 09/15/18 . . . . .	Baa1/A-	500	570,300
Freeport-McMoran C&G, Sr. Unsec. Notes, 8.375%, 04/01/17 . . . . .	Ba2/BBB-	500	556,250
Newmont Mining Corp., Co. Gty., 6.25%, 10/01/39 . . . . .	Baa2/BBB+	500	499,986
Teck Cominco Ltd., Sr. Unsec. Notes, 6.125%, 10/01/35 . . . . .	Ba1/BB+	1,000	912,500
Vale Overseas Ltd., Co. Gty., 6.25%, 01/23/17 . . . . .	Baa2/BBB+	500	542,095
			<u>3,717,987</u>
<b>PAPER (1.50%)</b>			
Abitibi-Consolidated, Inc., Sr. Unsec. Notes, 8.85%, 08/01/30 <sup>(f)</sup> . . . . .	WR/NR	500	123,750
Smurfit Capital Funding PLC, Co. Gty., 7.50%, 11/20/25 . . . . .	Ba2/BB	2,000	1,750,000
			<u>1,873,750</u>
<b>REAL ESTATE INVESTMENT TRUST (REIT) (5.77%)</b>			
AvalonBay Communities, Inc., Sr. Unsec. Notes, 6.10%, 03/15/20 . . . . .	Baa1/BBB+	500	531,480
Duke Realty LP, Sr. Unsec. Notes, 6.50%, 01/15/18 . . . . .	Baa2/BBB-	500	499,976
Duke Realty LP, Sr. Unsec. Notes, 8.25%, 08/15/19 . . . . .	Baa2/BBB-	500	557,645
Federal Realty Investment Trust, Sr. Unsec. Notes, 5.40%, 12/01/13 . . . . .	Baa1/BBB+	750	793,623
Federal Realty Investment Trust, Sr. Unsec. Notes, 5.65%, 06/01/16 . . . . .	Baa1/BBB+	210	209,857
Federal Realty Investment Trust, Sr. Unsec. Notes, 6.20%, 01/15/17 . . . . .	Baa1/BBB+	290	296,940
First Industrial LP, Sr. Unsec. Notes, 7.50%, 12/01/17 . . . . .	Ba3/BB	200	169,400
Liberty Property LP, Sr. Notes, 7.50%, 01/15/18 . . . . .	Baa2/BBB	1,000	1,054,690
Mack-Cali Realty Corp., Sr. Unsec. Notes, 7.75%, 08/15/19 . . . . .	Baa2/BBB	665	733,309
Nationwide Health Properties, Inc., Sr. Unsec. Notes, 6.00%, 05/20/15 . . . . .	Baa2/BBB	500	525,700
Simon Property Group LP, Sr. Unsec. Notes, 6.125%, 05/30/18 . . . . .	A3/A-	750	775,914
WEA Finance, LLC, Co. Gty., 6.75%, 09/02/19, 144A . . . . .	A2/A-	500	533,542
WEA Finance, LLC, Sr. Notes, 7.125%, 04/15/18, 144A . . . . .	A2/A-	500	540,921
			<u>7,222,997</u>

The accompanying notes are an integral part of these financial statements.

**SCHEDULE OF INVESTMENTS — continued**

	Moody's/ Standard & Poor's Rating <sup>(b)</sup>	Principal Amount (000's)	Value (Note 1)
<b>RETAIL &amp; RESTAURANT (1.21%)</b>			
Autonation, Inc., Co. Gty., 7.00%, 04/15/14 .....	Ba2/BB+	\$ 250	\$ 258,750
Darden Restaurants, Inc., Sr. Unsec. Notes, 7.125%, 02/01/16 .....	Baa3/BBB	500	560,278
Levi Strauss & Co., Sr. Unsec. Notes, 8.875%, 04/01/16 .....	B2/B+	500	522,500
Limited Brands, Inc., Sr. Notes, 8.50%, 06/15/19, 144A .....	Ba1/BB	150	167,250
			<u>1,508,778</u>
<b>TELECOMMUNICATIONS (8.41%)</b>			
Deutsche Telekom International Finance BV, Gtd., 8.75%, 06/15/30 .....	Baa1/BBB+	2,000	2,561,420
Frontier Communications Corp., Sr. Unsec. Notes, 8.125%, 10/01/18 .....	Ba2/BB	500	500,000
GTE Corp., Co. Gty., 6.94%, 04/15/28 .....	Baa1/A	1,500	1,574,837
NII Capital Corp., Co. Gty., 10.00%, 08/15/16, 144A .....	B1/BB-	500	547,500
Qwest Corp., Sr. Unsec. Notes, 7.20%, 11/10/26 .....	Ba1/BBB-	1,000	962,500
Qwest Corp., Sr. Unsec. Notes, 7.25%, 10/15/35 .....	Ba1/BBB-	500	482,500
Sprint Capital Corp, 8.75%, 03/15/32 .....	Ba3/BB-	1,000	927,500
Valor Telecommunications Enterprises Finance Corp., Co. Gty., 7.75%, 02/15/15 .....	Baa3/BB+	1,000	1,022,500
Verizon Global Funding Corp., Sr. Unsec. Notes, 7.75%, 12/01/30 .....	A3/A	1,646	1,958,610
			<u>10,537,367</u>
<b>TRANSPORTATION (3.83%)</b>			
BNSF Funding Trust I, Co. Gty., 6.613%, 01/15/26 <sup>(c),(d)</sup> .....	Baa2/BBB	250	242,813
Erac USA Finance, Co., Co. Gty., 7.00%, 10/15/37, 144A .....	Baa2/BBB+	1,500	1,546,415
Federal Express Corp., Sr. Unsec. Notes, 9.65%, 06/15/12 .....	Baa2/BBB	1,750	2,006,690
GATX Corp., Notes, 4.75%, 10/01/12 .....	Baa1/BBB+	500	521,903
Stena AB, Sr. Unsec. Notes, 7.00%, 12/01/16 .....	Ba2/BB+	500	478,750
			<u>4,796,571</u>
<b>UTILITIES (5.82%)</b>			
Avista Corp., 5.95%, 06/01/18 .....	Baa1/BBB+	500	532,033
Avista Corp., 5.125%, 04/01/22 .....	Baa1/BBB+	500	501,864
Dominion Resources, Inc., Sr. Unsub., Series 07-A, 6.00%, 11/30/17 .....	Baa2/A-	500	545,251
FPL Group Capital, Inc., Co. Gty., Series D, 7.30%, 09/01/17 <sup>(c),(d)</sup> .....	A3/BBB	500	505,000
Hydro-Quebec, Gtd., 8.25%, 04/15/26 .....	Ba2/A+	1,550	1,987,102
MidAmerican Funding LLC, Sr. Sec. Bonds, 6.927%, 03/01/29 .....	A3/BBB+	500	548,241
Ohio Power Co., Sr. Unsec. Notes, 6.00%, 06/01/16 .....	Baa1/BBB	500	548,039
Ohio Power Co., Sr. Unsec. Notes, 5.375%, 10/01/21 .....	Baa1/BBB	1,000	1,020,796
Old Dominion Electric Coop., Sec. Bonds, 6.25%, 06/01/11 .....	A3/AAA	500	525,706
Toledo Edison Co., 7.25%, 05/01/20 .....	Baa1/BBB	500	578,134
			<u>7,292,166</u>
<b>TOTAL CORPORATE DEBT SECURITIES</b> (Cost of \$99,303,859) .....			<u>107,728,943</u>
<b>ASSET BACKED SECURITIES (0.54%)</b>			
CPS Auto Trust, Series 2007-C, Class A3, 5.43%, 05/15/12, 144A .....	Aa3/AAA	262	265,227
Option One Mortgage Loan Trust, Series 2007-FXD2, Class 2A1, 5.90%, 03/25/38 .....	Aa3/AAA	349	337,322
Sierra Receivables Funding Co., Series 2009-1A, Class A1, 9.79%, 12/22/25, 144A .....	Aaa/AAA	67	69,108
<b>TOTAL ASSET BACKED SECURITIES</b> (Cost of \$677,855) .....			<u>671,657</u>
<b>COMMERCIAL MORTGAGE-BACKED SECURITIES (6.68%)</b>			
American Tower Trust, Series 2007-1A, Class AFX, 5.42%, 04/15/37, 144A .....	Aaa/AAA	700	740,250
Banc of America Commercial Mortgage, Inc., Series 2006-2, Class AM, 5.774%, 05/10/45 <sup>(c)</sup> .....	NA/A	1,440	1,259,011
CW Capital Cobalt, Ltd., Series 2007-C2, Class A3, 5.484%, 04/15/47 <sup>(c)</sup> .....	Aaa/NA	500	455,566

The accompanying notes are an integral part of these financial statements.

**SCHEDULE OF INVESTMENTS — continued**

	Moody's/ Standard & Poor's Rating <sup>(b)</sup>	Principal Amount (000's)	Value (Note 1)
<b>COMMERCIAL MORTGAGE-BACKED SECURITIES — continued</b>			
Developers Diversified Realty Corp., Series 2009-DDR1, Class C, 6.223%, 10/14/22 .....	A2/A	\$ 500	\$ 508,988
JPMorgan Chase Commercial Mortgage Securities Corp., Series 2006-CB16, Class A4, 5.552%, 05/12/45 .....	Aaa/AAA	1,000	1,016,192
JPMorgan Chase Commercial Mortgage Securities Corp., Series 2007-CB20, Class A4, 5.794%, 02/12/51 <sup>(c)</sup> .....	Aaa/A+	880	877,945
LB-UBS Commercial Mortgage Trust, Series 2007-C1, Class A4, 5.424%, 02/15/40 .....	NA/A+	970	939,618
LB-UBS Commercial Mortgage Trust, Series 2007-C2, Class A3, 5.43%, 02/15/40 .....	NA/A+	1,375	1,323,209
Morgan Stanley Capital I, Series 2007-1Q16, Class A4, 5.809%, 12/12/49 .....	NR/A+	750	737,627
Wachovia Bank Commercial Mortgage Trust, Series 2006-C28, Class A3, 5.679%, 10/15/48 .....	Aaa/AAA	500	505,725
<b>TOTAL COMMERCIAL MORTGAGE-BACKED SECURITIES</b> (Cost of \$6,817,347)			<u>8,364,131</u>
<b>RESIDENTIAL MORTGAGE-BACKED SECURITIES (4.35%)</b>			
FHLMC Pool # A15675, 6.00%, 11/01/33 .....	Aaa/AAA	731	794,364
FHLMC Pool # B11892, 4.50%, 01/01/19 .....	Aaa/AAA	868	913,809
FNMA Pool # 754791, 6.50%, 12/01/33 .....	Aaa/AAA	954	1,051,310
FNMA Pool # 763852, 5.50%, 02/01/34 .....	Aaa/AAA	1,579	1,672,356
FNMA Pool # 889554, 6.00%, 04/01/38 .....	Aaa/AAA	671	713,057
GNSF Pool # 417239, 7.00%, 02/15/26 .....	Aaa/AAA	37	41,441
GNSF Pool # 780374, 7.50%, 12/15/23 .....	Aaa/AAA	19	21,478
Wells Fargo Mortgage Backed Securities Trust, Series 2007-10, Class 1A19, 6.00%, 07/25/37 .....	B2/NR	283	244,251
<b>TOTAL RESIDENTIAL MORTGAGE-BACKED SECURITIES</b> (Cost of \$5,081,221)			<u>5,452,066</u>
<b>MUNICIPAL BOND (0.41%)</b>			
State of California, Build America Bonds, GO, 7.625%, 03/01/40 .....	Baa1/A-	500,000	520,585
<b>TOTAL MUNICIPAL BOND</b> (Cost of \$508,505) .....			<u>520,585</u>
		<b>Shares</b>	
<b>PREFERRED STOCK (0.08%)</b>			
GMAC, Inc., 144A .....	Caa2/C	134	102,142
<b>TOTAL PREFERRED STOCK</b> (Cost of \$42,177) .....			<u>102,142</u>
<b>WARRANTS (0.03%)</b>			
World Color Press, Inc. Strike price @ 13.00, 07/20/14 <sup>(d)</sup> .....		3,917	20,564
World Color Press, Inc. Strike price @ 16.30, 07/20/14 <sup>(d)</sup> .....		3,917	11,751
<b>TOTAL WARRANTS</b> (Cost of \$9,922) .....			<u>32,315</u>
<b>TOTAL INVESTMENTS (98.16%)</b> (Cost \$112,509,636) .....			<u>122,951,618</u>
<b>OTHER ASSETS AND LIABILITIES (1.84%)</b> .....			<u>2,301,496</u>
<b>NET ASSETS (100.00%)</b> .....			<u>\$ 125,253,114</u>

<sup>(a)</sup> Non-income producing security.

<sup>(b)</sup> Ratings for debt securities are unaudited. All ratings are as of March 31, 2010 and may have changed subsequently.

<sup>(c)</sup> Variable rate security. Rate disclosed is as of March 31, 2010.

<sup>(d)</sup> Date shown is next call date.

<sup>(e)</sup> Security was valued using fair value procedures as of March 31, 2010.

<sup>(f)</sup> Security is in default.

The accompanying notes are an integral part of these financial statements.

## SCHEDULE OF INVESTMENTS — continued

144A Securities were purchased pursuant to Rule 144A under the Securities Act of 1933 and may not be resold subject to that rule except to qualified institutional buyers. At March 31, 2010, these securities amounted to 15.78% of net assets.

### Legend

Co. Gty. - Company Guaranty

Debs. - Debentures

FHLMC - Federal Home Loan Mortgage Corp.

FNMA - Federal National Mortgage Association

GNSF - Government National Mortgage Association (Single Family)

GO - General Obligation

Gtd. - Guaranteed

NA - Not Available

NR - Not Rated

Sec. - Secured

Sr. - Senior

Sub. - Subordinated

Unsec. - Unsecured

Unsub. - Unsubordinated

WR - Withdrawn Rating

The accompanying notes are an integral part of these financial statements.

## STATEMENT OF ASSETS AND LIABILITIES

March 31, 2010

### Assets:

Investment in securities, at value (amortized cost \$112,509,636) (Note 1) .....	\$ 122,951,618
Cash .....	725,947
Interest receivable .....	2,190,795
Prepaid expenses .....	23,759
<b>TOTAL ASSETS</b> .....	<u>125,892,119</u>

### Liabilities:

Securities Purchased .....	508,505
Payable to Investment Adviser .....	51,045
Accrued expenses payable .....	79,455
<b>TOTAL LIABILITIES</b> .....	<u>639,005</u>

Net assets: (equivalent to \$19.10 per share based on 6,558,571 shares of capital stock outstanding) .....

	\$ 125,253,114
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### NET ASSETS consisted of:

Par value .....	\$ 65,586
Capital paid-in .....	121,172,003
Accumulated net investment loss .....	(366,523)
Accumulated net realized loss on investments .....	(6,059,934)
Net unrealized appreciation on investments .....	10,441,982
	<u>\$ 125,253,114</u>

## STATEMENT OF OPERATIONS

For the year ended March 31, 2010

### Investment Income:

Interest .....	\$ 7,483,892
Dividends .....	9,329
Other income .....	16,250
<b>Total Investment Income</b> .....	<u>7,509,471</u>

### Expenses:

Investment advisory fees (Note 4) .....	\$ 530,796
Transfer agent fees .....	41,383
Trustees' fees .....	76,613
Audit fees .....	21,001
Legal fees and expenses .....	89,251
Reports to shareholders .....	35,209
Custodian fees .....	12,493
Insurance .....	18,486
NYSE fee .....	25,000
Miscellaneous .....	60,134
<b>Total Expenses</b> .....	<u>910,366</u>
<b>Net Investment Income</b> .....	<u>6,599,105</u>

### Realized and unrealized gain (loss) on investments (Note 1):

Net realized loss from security transactions .....

	(1,588,849)
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### Unrealized appreciation (depreciation) of investments:

Beginning of the year .....	(15,166,296)
End of the year .....	10,441,982
<b>Change in unrealized appreciation (depreciation) of investments</b> .....	<u>25,608,278</u>
<b>Net realized and unrealized gain on investments</b> .....	<u>24,019,429</u>

Net increase in net assets resulting from operations .....

	<u>\$ 30,618,534</u>
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The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CHANGES IN NET ASSETS

	<u>Year ended March 31, 2010</u>	<u>Year ended March 31, 2009</u>
<b>Increase (decrease) in net assets:</b>		
Operations:		
Net investment income . . . . .	\$ 6,599,105	\$ 5,196,073
Net realized loss from security transactions (Note 2) . . . . .	(1,588,849)	(1,712,861)
Change in unrealized appreciation (depreciation) of investments . . . . .	25,608,278	(14,402,008)
Net increase (decrease) in net assets resulting from operations . . . . .	<u>30,618,534</u>	<u>(10,918,796)</u>
Distributions:		
Distributions to shareholders from net investment income . . . . .	(6,593,096)	(5,643,833)
Capital Share Transactions:		
Gross proceeds from common share offering (Note 6) . . . . .	26,034,583	—
Dealer manager fee charged to paid-in capital in excess of par . . . . .	(976,297)	—
Common share offering cost charged to capital in excess of par . . . . .	(550,332)	—
Net proceeds from common share offering . . . . .	<u>24,507,954</u>	<u>—</u>
Increase (decrease) in net assets . . . . .	48,533,392	(16,562,629)
Net Assets:		
Beginning of year . . . . .	76,719,722	93,282,351
End of year . . . . .	<u>\$ 125,253,114</u>	<u>\$ 76,719,722</u>
Accumulated net investment loss . . . . .	<u>\$ (366,523)</u>	<u>\$ (670,085)</u>

The accompanying notes are an integral part of these financial statements.

## FINANCIAL HIGHLIGHTS

The table below sets forth financial data for a share of capital stock outstanding throughout each year presented.

	Year ended March 31,				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Per Share Operating Performance</b>					
Net asset value, beginning of year . . . . .	\$15.63	\$19.01	\$20.01	\$19.72	\$20.62
Net investment income . . . . .	1.19	1.06	1.10	1.09	1.10
Net realized and unrealized gain (loss) on investments . . . . .	<u>4.31</u>	<u>(3.29)</u>	<u>(0.95)</u>	<u>0.35</u>	<u>(0.85)</u>
Total from investment operations . . . . .	<u>5.50</u>	<u>(2.23)</u>	<u>0.15</u>	<u>1.44</u>	<u>0.25</u>
Capital share transaction:					
Dilution of the net asset value from rights offering (Note 6) . . . . .	<u>(0.88)</u>	—	—	—	—
Less distributions:					
Dividends from net investment income . . . . .	<u>(1.15)</u>	<u>(1.15)</u>	<u>(1.15)</u>	<u>(1.15)</u>	<u>(1.15)</u>
Total distributions . . . . .	<u>(1.15)</u>	<u>(1.15)</u>	<u>(1.15)</u>	<u>(1.15)</u>	<u>(1.15)</u>
Net asset value, end of year . . . . .	<u>\$19.10</u>	<u>\$15.63</u>	<u>\$19.01</u>	<u>\$20.01</u>	<u>\$19.72</u>
Per share market price, end of year . . . . .	<u>\$17.12</u>	<u>\$13.77</u>	<u>\$17.14</u>	<u>\$18.30</u>	<u>\$17.75</u>
<b>Total Investment Return <sup>(1)</sup></b>					
Based on market value . . . . .	33.60%	(13.62)%	(0.10)%	9.93%	3.52%
<b>Ratios/Supplemental Data</b>					
Net assets, end of year (in 000's) . . . . .	\$125,253	\$76,720	\$93,282	\$98,197	\$96,759
Ratio of expenses to average net assets . . . . .	0.85%	1.21%	0.88%	1.00%	0.90%
Ratio of net investment income to average net assets	6.16%	6.18%	5.66%	5.57%	5.42%
Portfolio turnover rate . . . . .	15.40%	21.46%	17.25%	25.90%	24.33%
Number of shares outstanding at the end of the year (in 000's) . . . . .	6,559	4,908	4,908	4,908	4,908

<sup>(1)</sup> Total investment return is calculated assuming a purchase of common shares at the market price on the first day and a sale at the market price on the last day of the period reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions. Past performance is not a guarantee of future results.

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

**Note 1 – Significant Accounting Policies** – The Rivus Bond Fund (the “Fund”), a Delaware statutory trust, is registered under the Investment Company Act of 1940, as amended, as a diversified closed-end, management investment company. The following is a summary of significant accounting policies consistently followed by the Fund in preparation of its financial statements. The policies are in conformity with generally accepted accounting principles within the United States of America (“GAAP”).

**A. Security Valuation** – In valuing the Fund’s net assets, all securities for which representative market quotations are available will be valued at the last quoted sales price on the security’s principal exchange on the day of valuation. If there are no sales of the relevant security on such day, the security will be valued at the bid price at the time of computation. Prices for securities traded in the over-the-counter market, including listed debt and preferred securities, whose primary market is believed to be over-the-counter, normally are supplied by independent pricing services. Securities for which market quotations are not readily available will be valued at their respective fair values as determined in good faith by, or under procedures established by the Board of Trustees. At March 31, 2010, Penn Central Corp. was valued using fair value procedures and represented 1.23% of net assets.

*Fair Value Measurements* – The Fund has adopted authoritative fair value accounting standards which establish an authoritative definition of fair value and set out a hierarchy for measuring fair value. These standards require additional disclosures about the various inputs and valuation techniques used to develop the measurements of fair value, a discussion in changes in valuation techniques and related inputs during the period and expanded disclosure of valuation levels for major security types. These inputs are summarized in the three broad levels listed below:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access.
- Level 2 – Observable inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.
- Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Fund’s own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

## NOTES TO FINANCIAL STATEMENTS — continued

Following is a description of the valuation techniques applied to the Fund's major categories of assets and liabilities measured at fair value on a recurring basis as of March 31, 2010.

	Total Market Value at 03/31/10	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
COMMON STOCK*	\$ 79,779	\$ 79,779	\$ —	\$ —
CORPORATE DEBT SECURITIES	107,728,943	—	106,183,973	1,544,970
ASSET BACKED SECURITIES	671,657	—	671,657	—
COMMERCIAL MORTGAGE-BACKED SECURITIES	8,364,131	—	8,364,131	—
RESIDENTIAL MORTGAGE-BACKED SECURITIES	5,452,066	—	5,452,066	—
MUNICIPAL BOND	520,585	—	520,585	—
PREFERRED STOCK	102,142	102,142	—	—
WARRANTS	32,315	32,315	—	—
TOTAL INVESTMENTS	\$122,951,618	\$ 214,236	\$121,192,412	\$ 1,544,970

\* See Schedule of Investments for industry breakout.

Following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determined fair value:

	Corporate Debt Securities (Market Value)
<b>Balance as of March 31, 2009</b>	\$ 1,288,500
Accrued discounts/premiums	(12,598)
Realized gain (loss)	—
Change in unrealized appreciation (depreciation)	269,068
Net purchases (sales)	—
Transfer in and/or out of Level 3	—
<b>Balance as of March 31, 2010</b>	<u>\$ 1,544,970</u>

**B. Determination of Gains or Losses on Sale of Securities** – Gains or losses on the sale of securities are calculated for financial reporting purposes and for federal tax purposes using the identified cost basis. The identified cost basis for financial reporting purposes differs from that used for federal tax purposes in that the amortized cost of the securities sold is used for financial reporting purposes and the original cost of the securities sold is used for federal tax purposes, except for those instances where tax regulations require the use of amortized cost.

**C. Federal Income Taxes** – It is the Fund's policy to continue to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable income to its shareholders. Therefore, no federal income tax provision is required.

Management has analyzed the Fund's tax positions taken on federal income tax returns for all open tax years (tax years March 31, 2006-2010), and has concluded that no provision for federal income tax is required in the Fund's financial statements. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

**NOTES TO FINANCIAL STATEMENTS — continued**

**D. Other** – Security transactions are accounted for on the trade date. Interest income is accrued daily. Premiums and discounts are amortized using the interest method. Paydown gains and losses on mortgage-backed and asset-backed securities are presented as an adjustment to interest income. Dividend income and distributions to shareholders are recorded on the ex-dividend date.

**E. Distributions to Shareholders and Book/Tax Differences** – Distributions of net investment income will be made quarterly. Distributions of any net realized capital gains will be made annually. Income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from GAAP. These differences are primarily due to differing treatments for amortization of market premium and accretion of market discount. In order to reflect permanent book/tax differences that occurred during the fiscal year ended March 31, 2010, the following capital accounts were adjusted for the following amounts:

<u>Undistributed (Overdistributed) Net Investment Income</u>	<u>Net Realized Gain/(Loss)</u>	<u>Accumulated Paid-In Capital</u>
\$297,553	\$(144,063)	\$(153,490)

Distributions during the fiscal years ended March 31, 2010 and 2009 were characterized as follows for tax purposes:

	<u>Ordinary Income</u>	<u>Return of Capital</u>	<u>Capital Gain</u>	<u>Total Distribution</u>
FY 2010	\$ 6,593,096	\$ —	\$ —	\$ 6,593,096
FY 2009	\$ 5,643,833	\$ —	\$ —	\$ 5,643,833

At March 31, 2010, the components of distributable earnings on a tax basis were as follows:

<u>Total*</u>	<u>Accumulated Ordinary Income</u>	<u>Capital Loss Carryforward</u>	<u>Post-October Loss</u>	<u>Net Unrealized Appreciation</u>
<u>\$4,015,525</u>	<u>\$349,870</u>	<u>\$(5,868,897)</u>	<u>\$(191,037)</u>	<u>\$9,725,589</u>

\* Temporary differences include book amortization and deferral of post-October losses, if any, which will be recognized for the tax year ending March 31, 2010.

As of March 31, 2010, the capital loss carryovers available to offset possible future capital gains were as follows:

<u>Amount</u>	<u>Expiration Date</u>
\$1,393,195	2011
47,236	2013
133,146	2015
787,376	2017
3,507,944	2018

During the year ended March 31, 2010, capital loss carryforwards in the amount of \$153,490 expired and could not be used.

**NOTES TO FINANCIAL STATEMENTS — continued**

At March 31, 2010, the following table shows for federal tax purposes the aggregate cost of investments, the net unrealized appreciation of those investments, the aggregate gross unrealized appreciation of all securities with an excess of market value over tax cost and the aggregate gross unrealized depreciation of all securities with an excess of tax cost over market value:

<u>Aggregate Tax Cost</u>	<u>Net Unrealized Appreciation</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized (Depreciation)</u>
\$113,226,029	\$9,725,589	\$12,042,240	\$(2,316,651)

The difference between book basis and tax-basis unrealized appreciation is attributable primarily to the differing treatments for amortization of market premium and accretion of market discount.

**F. Use of Estimates in the Preparation of Financial Statements** – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2 – Portfolio Transactions** – The following is a summary of the security transactions, other than short-term investments, for the year ended March 31, 2010:

	<u>Cost of Purchases</u>	<u>Proceeds from Sales or Maturities</u>
U.S. Government Securities	\$ —	\$ 2,057,749
Other Investment Securities	\$ 41,246,957	\$ 13,791,433

**Note 3 – Capital Stock** – At March 31, 2010, there were an unlimited number of shares of beneficial interest (\$0.01 par value) authorized, with 6,558,571 shares issued and outstanding.

**Note 4 – Investment Advisory Contract, Payments to Affiliated Persons and Trustee Compensation** – Cutwater Asset Management Corp. (formerly known as MBIA Capital Management Corp.) (“Cutwater”) serves as Investment Adviser to the Fund. Cutwater is entitled to a fee at the annual rate of 0.50% on the first \$100 million of the Fund’s month end net assets and 0.40% on the Fund’s month-end net assets in excess of \$100 million.

PNC Global Investment Servicing (U.S.) Inc. (“PNC”), a member of PNC Financial Services Group, provides accounting and administrative services to the Fund. The Investment Adviser has voluntarily agreed to pay these fees.

The Trustees of the Fund receive an annual retainer, meeting fees and out of pocket expenses for meetings attended. The aggregate remuneration paid to the Trustees by the Fund during the year ended March 31, 2010 was \$75,500. Certain officers of the Fund are also directors, officers and/or employees of investment adviser. None of the Fund’s officers receives compensation from the Fund.

## NOTES TO FINANCIAL STATEMENTS — continued

**Note 5 – Dividend and Distribution Reinvestment** – In accordance with the terms of the Automatic Dividend Investment Plan (the “Plan”), for shareholders who so elect, dividends and distributions are made in the form of previously unissued Fund shares at the net asset value if on the Friday preceding the payment date (the “Valuation Date”) the closing New York Stock Exchange price per share, plus the brokerage commissions applicable to one such share equals or exceeds the net asset value per share. However, if the net asset value is less than 95% of the market price on the Valuation Date, the shares issued will be valued at 95% of the market price. If the net asset value per share exceeds market price plus commissions, the dividend or distribution proceeds are used to purchase Fund shares on the open market for participants in the Plan. During the year ended March 31, 2010 the Fund issued no shares under this Plan.

**Note 6 – Rights Offering** – On August 7, 2009 the Fund completed its transferable rights offering. In accordance with the terms of the rights offering described in the Fund’s prospectus an additional 1,650,893 shares were issued at a subscription price of \$15.77 per share, making the gross proceeds raised by the offering \$26,034,583, before offering-related expenses. Dealer/manager fees of \$976,297 and offering costs of approximately \$550,332 were deducted from the gross proceeds making the net proceeds available for investment by the Fund \$24,507,954. The dilution impact of the offering was \$0.88 per share or 4.79% of the \$18.34 net asset value per share on August 7, 2009, the expiration and pricing date of the offering.

**Note 7 – New Accounting Pronouncement** – In January 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update “Improving Disclosures about Fair Value Measurements” that requires additional disclosures regarding fair value measurements. Certain required disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, and other required disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Management is currently evaluating the impact it will have on its financial statement disclosures.

**Note 8 – Subsequent Event** – Management has evaluated the impact of all subsequent events on the Fund through the date the financial statements were issued, and has determined that there were the following subsequent events:

On February 2, 2010, The PNC Financial Services Group, Inc. entered into a Stock Purchase Agreement (the “Stock Purchase Agreement”) with The Bank of New York Mellon Corporation (“BNY Mellon”). Upon the terms and subject to the conditions set forth in the Stock Purchase Agreement, which has been approved by the board of directors of each company, The PNC Financial Services Group, Inc. will sell to BNY Mellon (the “Stock Sale”) 100% of the issued and outstanding shares of PNC, an indirect, wholly-owned subsidiary of The PNC Financial Services Group, Inc.

The Stock Sale includes PNC, which provides accounting and administration services and PFPC Trust Company, which provides transfer agent services to the Fund. The sale is expected to close in the third quarter of 2010.

At a meeting of the Board of Trustees (the “Board”) of the Fund held on March 10, 2010, the Board approved a proposed transaction (the “Reorganization”) whereby the Fund, would acquire substantially all of the assets and liabilities of The Hartford Income Shares Fund, Inc. (“HSF”), a diversified closed-end management investment company, managed by Hartford Investment Financial Services, LLC in exchange for shares of beneficial interest of the Fund. The Reorganization is subject to the approval by the shareholders of HSF of the Reorganization and upon the approval by the shareholders of the Fund of the issuance of shares of the Fund sufficient to effect the Reorganization at a special meeting of the shareholders of the Fund. The Trustees believe the Reorganization is in the best interests of the shareholders of the Fund. The proposed Reorganization is expected to qualify as a tax-free reorganization, which means that the Reorganization will result in no income, gain or loss being recognized for federal income tax purposes by the Fund of its shareholders as a direct result of the Reorganization.

**SHAREHOLDER INFORMATION (Unaudited)**  
**ADDITIONAL INFORMATION REGARDING THE FUND'S TRUSTEES AND OFFICERS**

Name, Address and Age	Position Held With Fund	Principal Occupation During the Past 5 Years	Term of Office and Length of Time Served
W. Thacher Brown* 113 King Street Armonk, NY 10504 Born: December 1947	Trustee	Former President of MBIA Asset Management LLC, from July 1998 to September 2004; and Former President of 1838 Investment Advisors, LLC from July 1988 to May 2004.	Shall serve until the next annual meeting or until his successor is qualified. Trustee since 1988
Morris Lloyd, Jr. 113 King Street Armonk, NY 10504 Born: September 1937	Trustee	Retired; former Development Officer, Trinity College from April 1996 to June 2002.	Shall serve until the next annual meeting or until his successor is qualified. Trustee since 1989
Ellen D. Harvey 113 King Street Armonk, NY 10504 Born: February 1954	Trustee	Consultant with Lindsay Criswell LLC beginning July 2008. Principal with the Vanguard Group from January 2008 to June 2008; and Senior Vice President with Mercantile Safe-Deposit & Trust from February 2003 to October 2007.	Shall serve until the next annual meeting or until her successor is qualified. Trustee since 2010
Suzanne P. Welsh 113 King Street Armonk, NY 10504 Born: March 1953	Trustee	Vice President for Finance and Treasurer, Swarthmore College since 2002.	Shall serve until the next annual meeting or until her successor is qualified. Trustee since 2008
Clifford D. Corso* Cutwater 113 King Street Armonk, NY 10504 Born: October 1961	President	President and Chief Investment Officer, Cutwater Asset Management Corp.; Managing Director and Chief Investment Officer, MBIA Insurance Corporation; officer of other affiliated entities within the Cutwater Asset Management Corp.	Shall serve until death, resignation, or removal. Officer since 2005
Marc D. Morris* Cutwater 113 King Street Armonk, NY 10504 Born: March 1959	Treasurer	Director of Cutwater Asset Management Corp.; Director and officer of other affiliated entities within the Cutwater Asset Management Corp.	Shall serve until death, resignation, or removal. Officer since 2005
Leonard I. Chubinsky* Cutwater 113 King Street Armonk, NY 10504 Born: December 1948	Secretary	Deputy General Counsel of MBIA Insurance Corporation; officer of other affiliated entities within the Cutwater Asset Management Corp.	Shall serve until death, resignation, or removal. Officer since 2005
Richard J. Walz* Cutwater 113 King Street Armonk, NY 10504 Born: April 1959	Chief Compliance Officer	Officer of several affiliated entities within the Cutwater Asset Management Corp.	Shall serve until death, resignation, or removal. Officer since 2005

**SHAREHOLDER INFORMATION (Unaudited) – continued**  
**ADDITIONAL INFORMATION REGARDING THE FUND’S TRUSTEES AND OFFICERS**

<u>Name, Address and Age</u>	<u>Position Held With Fund</u>	<u>Principal Occupation During the Past 5 Years</u>	<u>Term of Office and Length of Time Served</u>
Robert T. Claiborne* Cutwater 113 King Street Armonk, NY 10504 Born: August 1955	Vice President	Officer of Cutwater Asset Management Corp.	Shall serve until death, resignation, or removal. Officer since 2006
Gautam Khanna* Cutwater 113 King Street Armonk, NY 10504 Born: October 1969	Vice President	Officer of Cutwater Asset Management Corp.	Shall serve until death, resignation, or removal. Officer since 2006

\* Denotes a trustee/officer who is an “interested person” of the Fund as defined under the provisions of the Investment Company Act of 1940. Mr. Brown is an “interested person” because he has an interest in MBIA Inc., the parent of the Fund’s Investment Adviser. Messrs. Corso, Morris, Chubinsky, Walz, Claiborne and Khanna are “interested persons” by virtue of being employees of the Fund’s Investment Adviser.

**HOW TO GET INFORMATION REGARDING PROXIES**

The Fund has adopted the Adviser’s proxy voting policies and procedures to govern the voting of proxies relating to the voting securities of the Fund. You may obtain a copy of these proxy voting procedures, without charge, by calling (800) 765-6242 or on the Securities and Exchange Commission website at [www.sec.gov](http://www.sec.gov).

Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available, without charge, by calling (800) 765-6242 or on the SEC’s website at [www.sec.gov](http://www.sec.gov).

**QUARTERLY STATEMENT OF INVESTMENTS**

The Fund files a complete statement of investments with the Security and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission’s website at [www.sec.gov](http://www.sec.gov). The filed form may also be viewed and copied at the Commission’s Public Reference Room in Washington, D.C., information on the operation of the Commission’s Public Reference Room may be obtained by calling 1-800-SEC-0330. Additionally, the Fund makes the information on Form N-Q available to shareholders on its website at <http://www.cutwater.com/rivus-bond-fund-characteristics.aspx>.

**DIVIDEND REINVESTMENT PLAN**

The Fund has established a plan for the automatic investment of dividends and distributions pursuant to which dividends and capital gain distributions to shareholders will be paid in or reinvested in additional shares of the Fund. All shareholders of record are eligible to join the Plan. PNC acts as the agent (the “Agent”) for participants under the Plan.

Shareholders whose shares are registered in their own names may elect to participate in the Plan by completing an authorization form and returning it to the Agent. Shareholders whose shares are held in the name of a broker or nominee should contact such broker or nominee to determine whether or how they may participate in the Plan.

## **SHAREHOLDER INFORMATION (Unaudited) – continued**

Dividends and distributions are reinvested under the Plan as follows. If the market price per share on the Friday before the payment date for the dividend or distribution (the “Valuation Date”), plus the brokerage commissions applicable to one such share, equals or exceeds the net asset value per share on that date, the Fund will issue new shares to participants valued at the net asset value or, if the net asset value is less than 95% of the market price on the Valuation Date, then valued at 95% of the market price. If net asset value per share on the Valuation Date exceeds the market price per share on that date, plus the brokerage commissions applicable to one such share, the Agent will buy shares on the open market, on the New York Stock Exchange, for the participants’ accounts. If before the Agent has completed its purchases, the market price exceeds the net asset value of shares, the average per share purchase price paid by the Agent may exceed the net asset value of shares, resulting in the acquisition of fewer shares than if the dividend or distribution has been paid in shares issued by the Fund at net asset value.

There is no charge to participants for reinvesting dividends or distributions payable in either shares or cash. The Agent’s fees for handling of reinvestment of such dividends and distributions will be paid by the Fund. There will be no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or distributions payable either in shares or cash. However, each participant will be charged by the Agent a pro rata share of brokerage commissions incurred with respect to Agent’s open market purchases in connection with the reinvestment of dividends or distributions payable only in cash.

For purposes of determining the number of shares to be distributed under the Plan, the net asset value is computed on the Valuation Date and compared to the market value of such shares on such date. The Plan may be terminated by a participant by delivery of written notice of termination to the Agent at the address shown below. Upon termination, the Agent will cause a certificate or certificates for the full shares held for a participant under the Plan and a check for any fractional shares to be delivered to the former participant.

Distributions of investment company taxable income that are invested in additional shares generally are taxable to shareholders as ordinary income. A capital gain distribution that is reinvested in shares is taxable to shareholders as long-term capital gain, regardless of the length of time a shareholder has held the shares or whether such gain was realized by the Fund before the shareholder acquired such shares and was reflected in the price paid for the shares.

Plan information and authorization forms are available from PNC Global Investment Servicing (U.S.) Inc., P.O. Box 43027, Providence, RI 02940-3027.

## **PRIVACY POLICY**

The privacy of your personal financial information is extremely important to us. When you open an account with us, we collect a significant amount of information from you in order to properly invest and administer your account. We take very seriously the obligation to keep that information private and confidential, and we want you to know how we protect that important information.

We collect nonpublic personal information about you from applications or other forms you complete and from your transactions with us or our affiliates. We do not disclose information about you, or our former clients, to our affiliates or to service providers or other third parties, except as permitted by law. We share only the minimum information required to properly administer your accounts, which enables us to send transaction confirmations, monthly or quarterly statements, financials and tax forms. Even within Cutwater and its affiliated entities, only a limited number of people who actually service accounts will ever have access to your personal financial information. Further, we do not share information about our current or former clients with any outside marketing groups or sales entities.

## **SHAREHOLDER INFORMATION (Unaudited) — continued**

To ensure the highest degree of security and confidentiality, Cutwater and its affiliates maintain various physical, electronic and procedural safeguards to protect your personal information. We also apply special measures for authentication of information you request or submit to us on our Web site - [www.cutwater.com](http://www.cutwater.com).

### **NOTICE**

The Fund's Audit Committee adopted an audit committee charter on September 10, 2003. A copy of the audit committee charter was included as Appendix A to the Fund's proxy statement filed with the U.S. Securities and Exchange Commission in May, 2004, which is available on the SEC website: [www.sec.gov](http://www.sec.gov). A copy of the Fund's audit committee charter is also available to shareholders, free of charge, upon request by calling the Fund at 800-331-1710.

### **ANNUAL CERTIFICATION**

The Fund's CEO has submitted to the NYSE the required annual certification, and the Fund also has included the certifications of the Fund's CEO and CFO required by Section 302 of the Sarbanes-Oxley Act of 2002 in the Fund's Forms N-CSR filed with the Securities and Exchange Commission for the period of this report.

#### **HOW TO GET ASSISTANCE WITH SHARE TRANSFER OR DIVIDENDS**

Contact Your Transfer Agent:  
PNC Global Investment Servicing (U.S.) Inc.  
P.O. Box 43027, Providence, RI 02940-3027, or call 1-800-331-1710

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T R U S T E E S

W. THACHER BROWN  
MORRIS LLOYD, JR.  
ELLEN D. HARVEY  
SUZANNE P. WELSH

O F F I C E R S

CLIFFORD D. CORSO  
*President*  
MARC D. MORRIS  
*Treasurer*  
LEONARD CHUBINSKY  
*Secretary*  
RICHARD WALZ  
*Chief Compliance Officer*  
ROBERT T. CLAIBORNE  
*Vice President*  
GAUTAM KHANNA  
*Vice President*

I N V E S T M E N T   A D V I S E R

CUTWATER ASSET MANAGEMENT CORP.  
113 KING STREET  
ARMONK, NY 10504

C U S T O D I A N

PFPC TRUST COMPANY  
8800 TINICUM BOULEVARD  
PHILADELPHIA, PA 19153

T R A N S F E R   A G E N T

PNC GLOBAL INVESTMENT SERVICING (U.S.) INC.  
P.O. BOX 43027  
PROVIDENCE, RI 02940-3027  
1-800-331-1710

C O U N S E L

PEPPER HAMILTON LLP  
3000 TWO LOGAN SQUARE  
EIGHTEENTH & ARCH STREETS  
PHILADELPHIA, PA 19103

I N D E P E N D E N T   R E G I S T E R E D  
P U B L I C   A C C O U N T I N G   F I R M

TAIT, WELER & BAKER LLP  
1818 MARKET STREET  
SUITE 2400  
PHILADELPHIA, PA 19103

**rivus**

Managed by Cutwater Asset Management Corp.

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*March 31, 2010*