

Management Report of Fund Performance

(as at December 31, 2008)

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the fund. You can get a copy of the annual financial statements at your request, and at no cost, by asking your ScotiaMcLeod advisor or by calling toll-free 1 800 530-0197 (416 506-8404 in Toronto). You can also write to us at 40 King Street West, P.O. Box 4085, Stn. 'A' Scotia Plaza, Toronto, Ontario M5Z 2X6, or by visiting our website at www.scotiacleod.com or SEDAR at www.sedar.com.

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

In this document, we, us, and our refers to ScotiaMcLeod, a division of Scotia Capital Inc. and fund refers to the Pinnacle Balanced Income Portfolio.

This report may contain forward-looking statements about the fund. Such statements are predictive in nature and depend upon or refer to future events or conditions and may include such words as "expects", "plans", "anticipates", "believes", "estimates" or other similar expressions. In addition, any statement regarding future performance, strategies, prospects, action or plans is also a forward-looking statement. Forward-looking statements are subject to known and unknown risks and uncertainties and other factors that may cause actual results, performance, events, activity and achievements to differ materially from those expressed or implied by such statements. Such factors include general economic, political and market conditions, interest and foreign exchange rates, regulatory or judicial proceedings, technological change, and catastrophic events. You should consider these and other factors carefully before making any investment decisions and before relying on forward-looking statements. We have no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise.

Management Discussion of Fund Performance

Investment Objectives and Strategies

The fund's objective is to generate current income and long-term capital growth, with a bias towards income. It is an asset allocation fund that invests primarily in a mix of equity and income mutual funds, allocating your investment between three asset classes: bonds, Canadian equities and foreign equities. The weightings can vary by no more than 10% above or below the following targets: 70% bonds, 21% Canadian equities and 9% foreign equities.

Risk

The fund indirectly has the same risks as the underlying funds that it holds. It takes on the risks of an underlying fund in

proportion to its investment in that fund. The overall risks of investing in the fund remain as discussed in its simplified prospectus.

The fund remains suitable for investors who want a balanced holding, which is well diversified by asset class, investment style, geography and market capitalization, who can accept medium risk, and who are investing for at least three years.

Results of Operations

Over the review period, the fund returned -7.79% compared to a -1.64% return for a blended index consisting of 50% DEX Universe Bond Index, 20% Barclays Capital Aggregate Bond Index (formerly the Lehman Brothers Aggregate Bond Index), 21% S&P/TSX Composite Index, 2.5% S&P 500 Index and 6.5% Morgan Stanley Capital International (MSCI) Europe, Australasia and the Far East (EAFE) Index and a 6.41% return for the DEX Universe Bond Index. In contrast to the blended index, the fund's return is after the deduction of fees and expenses paid by the fund.

2008 experienced the worst year for equity and credit markets since the Great Depression, as the financial crisis spread to the real economy and nearly every asset class recorded significant price declines. The deterioration of housing, employment, and credit markets in the U.S. slowed down global economic growth, both in developed and emerging economies. This resulted in most equity markets experiencing severe declines for the year. The Canadian market (S&P/TSX Composite Index) declined by 33%, while the U.S. market (S&P 500 Index) declined by 21.2%, international markets (MSCI EAFE Index) declined by 28.78% and emerging markets (MSCI Emerging Markets Index) declined by 41.4%, all in Canadian dollar terms. In general, value stocks outperformed growth stocks and large cap stocks outperformed small cap stocks in 2008. In the fixed income markets, investors fled to the safety of sovereign bonds, which drove yields down to the lowest levels in 50 years. The drop in government yields pushed corporate bond spreads much higher, which resulted in the largest return variance between credit and sovereign debt on record. The DEX Universe Bond Index returned 6.41% for 2008, while the DEX Universe All Corporate Index returned 0.23% for the same period.

The portfolio's investment in fixed income added to the overall returns; however, it could not compensate for the negative returns from exposure to the world equity market, which detracted from the portfolio's performance in 2008. The fund benefited from its investment in fixed income with the Pinnacle Income Fund and the Pinnacle American Core-Plus Bond Fund returning 5.66% and 15.2%, respectively. Among the equity funds in the portfolio, the Pinnacle Global Equity Fund, which returned -23.77% in 2008, was able to outperform its

benchmark return of -25.37%. The fund's performance was negatively impacted by the underperformance of the Pinnacle High Yield Income Fund (-13.35% vs. 5.25%) due to poor security selection, the Pinnacle Canadian Growth Equity Fund (-40.18% vs. -33.0%) due to their exposure to junior companies, and the Pinnacle International Small to Mid Cap Value Equity Fund (-41.04% vs. -34.54%) due to their stock selection in the Financials and Industrial sectors.

Through ongoing rebalancing of the underlying funds, the fund maintained its long-term asset allocation during the period, providing investors with consistent exposure to both equity and bond markets.

During the period, the fund experienced net redemptions of \$328,395. The fund's year over year income increased 56% due to distribution increases in the underlying funds held.

Recent Developments

No changes were made to the target weighting of the underlying funds during the period. The fund is scheduled to be rebalanced and optimized during the second quarter of 2009.

While the focus of the fund is to provide suitable asset allocation for the longer term, the portfolio advisors of the underlying funds are very focused on positioning their funds to benefit in the near term from either macroeconomic developments or bottom up stock selections.

Future Accounting Changes

The Canadian Accounting Standards Board confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles for publicly accountable enterprises, which includes investment funds. We have commenced development of a changeover plan to meet the implementation date. The key elements of the plan will include identifying differences between the fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on the net assets or net asset value of the fund.

Related Party Transactions

We are the Manager, Portfolio Advisor and Trustee of the fund. As Manager, we receive management fees as disclosed below under the heading *Management Fees*.

During the period, the fund invested in units of the following funds: Pinnacle Income Fund, Pinnacle American Core-Plus Bond Fund, Pinnacle Canadian Growth Equity Fund, Pinnacle Canadian Value Equity Fund, Pinnacle High Yield Income Fund, Pinnacle Global Equity Fund, Pinnacle International Small to Mid Cap Value Equity Fund and Pinnacle Canadian Mid Cap Equity Fund. These funds are managed by us. The fund, however, did not pay any management fees in relation to these investments.

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 for the past five years ended December 31, as applicable.

The Fund's Net Assets per Unit⁽¹⁾

	2008	2007	2006	2005*	2004
Net Assets, beginning of year	\$ 9.86	10.53	10.19	10.00	-
Increase (decrease) from operations:					
Total revenue	\$ 0.50	0.35	0.40	0.28	-
Total expenses	\$ (0.23)	(0.26)	(0.25)	(0.17)	-
Realized gains (losses) for the period	\$ (0.14)	0.31	0.32	0.37	-
Unrealized gains (losses) for the period	\$ (0.88)	(0.66)	0.31	(0.02)	-
Total increase (decrease) from operations⁽²⁾	\$ (0.75)	(0.26)	0.78	0.46	-
Distributions:					
From income (excluding dividends)	\$ (0.21)	(0.06)	(0.09)	(0.03)	-
From dividends	\$ (0.07)	(0.03)	(0.03)	(0.02)	-
From capital gains	\$ (0.04)	(0.36)	(0.16)	(0.20)	-
Return of capital	\$ -	-	-	-	-
Total Annual Distributions⁽³⁾	\$ (0.32)	(0.45)	(0.28)	(0.25)	-
Net assets at December 31st of year shown	\$ 8.78	9.86	10.53	10.19	-

* The start date for the fund was April 22.

⁽¹⁾ This information is derived from the fund's audited financial statements. The net assets per security presented in the financial statements differs from the net asset value calculated for fund pricing purposes. This difference is due to the requirements of generally accepted accounting principles ("GAAP"), including CICA Handbook Section 3855, and may result in a different valuation of securities held by the fund in accordance with GAAP than the market value used to determine net asset value of the fund for the purchase, switch and redemption of the fund's units ("Pricing NAV"). The pricing NAV per unit at the end of the period is disclosed in Ratios and Supplemental Data.

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

⁽³⁾ Distributions were paid in cash/reinvested in additional units of the fund, or both.

Ratios and Supplemental Data

	2008	2007	2006	2005	2004
Total net asset value (000's) ⁽¹⁾	\$ 9,083	10,165	7,249	2,152	-
Number of units outstanding (000's) ⁽¹⁾	1,035	1,030	688	211	-
Management expense ratio ⁽²⁾	% 2.70	2.80	2.68	2.67	-
Management expense ratio before waivers or absorptions ⁽²⁾	% 2.96	3.34	3.77	7.04	-
Trading expense ratio ⁽³⁾	% 0.10	-	-	-	-
Portfolio turnover rate ⁽⁴⁾	% 52.02	38.21	18.59	8.00	-
Net asset value per unit	\$ 8.78	9.87	10.53	10.19	-

⁽¹⁾ This information is provided at December 31st of the year shown.

⁽²⁾ Management expense ratio is based on total expenses, excluding commissions and other portfolio transaction costs, for the stated period and is expressed as an annualized percentage of the daily average net asset value during the period including underlying funds' MER's.

⁽³⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of the daily average net asset value during the period from underlying funds.

⁽⁴⁾ The fund's portfolio turnover rate indicates how actively the fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is

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

Management Fees

The management fees charged to the fund in 2008 totalled \$177,665. The management fee is calculated as a percentage of its daily net asset value and is accrued daily. The management fees cover the costs of managing the fund, allow us to provide or arrange to provide investment analysis, recommendations and investment decision making for the fund, allow us to make brokerage arrangements for the purchase and sale of the fund's portfolio securities and to provide or arrange to provide other services. Approximately 29.30% of the total management fees we received from the fund for the year ended December 31, 2008 is attributable to the costs of investment management, administration and profit. The management fees are also used to fund commission payments and other compensation paid to registered dealers and brokers (collectively "distribution related costs") for units of the fund purchased and held by investors. The distribution related costs were approximately 70.70% of the total management fees we received from the fund during the year ended December 31, 2008.

Past Performance

The performance shown assumes that all distributions made by the fund in the periods shown were reinvested in additional units of the fund. If you hold units of the fund outside of a registered plan, you will be taxed on these distributions, or performance.

The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns.

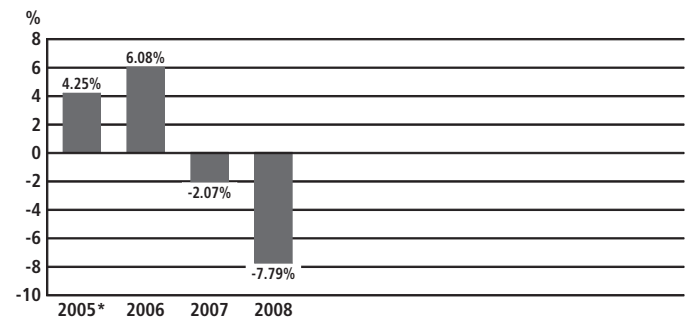
How the fund has performed in the past does not necessarily indicate how it will perform in the future.

All rates of return are calculated based on Pricing NAV and are in Canadian dollars unless stated otherwise.

Year-by-Year Returns

This chart shows the fund's annual performance, which changes from year to year. It shows in percentage terms how

much an investment held on January 1 in each year would have increased or decreased by December 31 of that year.



Annual Compound Returns

This table shows the fund's annual compound returns compared to a blended index of 50% DEX Universe Bond Index, 21% S&P/TSX Composite Index (Total Return), 20% Barclays Capital Aggregate Bond Index (formerly the Lehman Brothers Aggregate Bond Index), 2.5% S&P 500 Index and 6.5% MSCI EAFE Index and the DEX Universe Bond Index, for the periods shown ending December 31, 2008.

		1 Year	Since Inception ⁽¹⁾
Pinnacle Balanced Income Portfolio	%	-7.79	-0.03
Blended Index	%	-1.64	3.69
DEX Universe Bond Index	%	6.41	10.10

⁽¹⁾ Apr. 22, 2005

The DEX Universe Bond Index is a broad measure of the total return of Canadian bonds that mature in more than one year. It includes approximately 900 Canadian federal, provincial, municipal and corporate bonds rated BBB or higher.

The S&P/TSX Composite Index (Total Return) tracks the performance of some of the largest and most widely held stocks listed on the Toronto Stock Exchange. Prior to May 1, 2002, this index was called the TSE 300 Composite Index and it tracked the 300 largest companies listed on the Toronto Stock Exchange.

The Barclays Capital Aggregate Bond Index comprises of the Barclays Capital Government Corporate Bond Index (formerly the Lehman Brothers Government Corporate Bond Index), Barclays Capital Mortgage-Backed Securities Index (formerly the Lehman Brothers Mortgage-Backed Securities Index) and the Barclays Capital Asset Backed Securities Index (formerly the Lehman Brothers Asset Backed Securities Index), which include securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million.

The S&P 500 Index is an index of 500 stocks weighted by capitalization and representing all major U.S. industries. It is a broad measure of the U.S. economy.

The MSCI EAFE Index measures the performance of 60% of the companies listed in 20 countries in Europe, Australasia and the Far East. Companies are weighted by their market capitalization.

A discussion of the fund's performance relative to the blended index is found under *Results of Operations*.

Summary of Investment Portfolio

(as at December 31, 2008)

This is a breakdown of the fund's investments and a list of up to 25 of its largest holdings. The holdings will change as the portfolio advisor buys and sells securities. You can obtain an up to date list of portfolio holdings on a quarterly basis by contacting your ScotiaMcLeod advisor, by calling toll-free 1 800 530-0197 (416 506-8404 in Toronto) or by visiting www.scotiacleod.com.

Asset Mix⁽¹⁾

	% of net asset value ⁽²⁾
Fixed Income	67.3
Canadian Equity	21.4
International Equity	9.5

⁽¹⁾ 1.8% of the fund's assets are held in cash, other assets and liabilities.

⁽²⁾ Based on Pricing NAV.

Top Holdings

Issuer	% of net asset value ⁽¹⁾
Pinnacle Income Fund	40.8
Pinnacle American Core-Plus Bond Fund	19.4
Pinnacle Canadian Growth Equity Fund	10.3
Pinnacle High Yield Income Fund	7.0
Pinnacle Canadian Value Equity Fund	7.0
Pinnacle Global Equity Fund	5.3
Pinnacle International Small to Mid Cap Value Equity Fund	4.3
Pinnacle Canadian Mid Cap Equity Fund	4.1
Cash and Cash Equivalents	2.1
Top holdings total	100.3

⁽¹⁾ Based on Pricing NAV.

You can get a copy of the simplified prospectus and other information for the underlying funds by visiting www.scotiacleod.com or www.sedar.com.



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