Pinnacle American Core-Plus Bond Fund

ScotiaMcLeod™

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.scotiamcleod.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 American Core-Plus Bond Fund.

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 achieve long-term returns and to provide income as well as capital growth by investing primarily in a portfolio of U.S. government corporate bonds and mortgage pass through securities. The fund may invest in the U.S. dollar denominated emerging markets, non-investment grade debt and non-U.S. investment grade sovereign and corporate debt. As well, the fund's investments may also include short-term instruments, cash equivalents, U.S. denominated asset-backed securities and mortgage-backed securities. The fund's investments in bonds will have an average credit rating of at least single A.

Up to 20% of the net asset value of the fund may be invested in U.S. denominated non-investment grade (high yield and emerging market) bonds. Up to 20% of the net asset value of the fund may be invested in non-U.S. government agency and corporate bonds. At least 80% of the net asset value of the fund will consist of investment grade securities. Investments in non-U.S. dollar denominated securities and non-investment grade securities will be made tactically based on the portfolio advisor's evaluation of interest rate differences using fundamental bottom-up research.

Risk

The overall risks of investing in the fund remain as discussed in its simplified prospectus. The fund remains suitable for investors who want a high level of regular interest income and U.S. dollar exposure, who can accept low to moderate risk, and who are investing for at least three years.

Results of Operations

Over the review period, the fund returned 15.20% compared to 31.64% return for the Barclays Capital Aggregate Bond Index (formerly the Lehman Brothers Aggregate Bond Index) and a 6.41% return for the DEX Universe Bond Index. In contrast to the indices, the fund's return is after the deduction of expenses paid by the fund.

2008 has proved difficult with many unimaginable and unprecedented outcomes. The credit crisis went from an isolated U.S. housing-related problem to a global counterparty and confidence shock that had far reaching implications. The extended reach of the dire credit conditions has changed the complexion of the global economy significantly. The continuing rapid contraction of credit and simultaneous de-leveraging by banks, investors, businesses, and consumers has been nothing short of disastrous for financial assets and the global economy.

Witnessing the sudden contraction in virtually all major economies in the second half of 2008 has forced global policy makers to coordinate policy rates in order to dampen the drawdown in activity. For example, the downdraft of equities and the rapid de-leveraging forced the U.S. Congress to act and eventually approve a $700 billion Troubled Asset Relief Program (TARP) with the objective to maintain solvency at U.S. financial institutions by buying distressed assets. By the end of the fourth quarter of 2008, in response to conditions within the U.S. and abroad, the U.S. Federal Reserve (Fed) lowered interest rates to near zero and adopted a quantitative easing policy to help support credit markets.

Throughout the year, other notable events included regulators taking control (conservatorship) of mortgage titans Fannie Mae and Freddie Mac, the U.S. government taking a majority ownership stake in insurance giant AIG, Lehman Brothers filing for bankruptcy, the Federal Deposit Insurance Corporation (FDIC) seizing the largest U.S. thrift, Washington Mutual,

and also negotiated another bank marriage in the case of Wachovia. The policy actions throughout the year simply represented a series of ad hoc responses to the crisis at hand. It was not until the end of the year that the market began to feel policy makers were finally gaining some traction.

During the period, U.S. government securities led the way, generating a 13.7% total return, as demand for high quality safe haven assets persisted throughout the year. Investment grade corporate bonds were down 5%, which represented the largest divergence of returns in the index's history. High yield bonds performed even worse, down 26% for the year, largely in anticipation of increasing default rates and worse than expected recoveries.

The fund's underperformance in 2008 was due to the significant overweight position in structured products and significant underweight position in government securities. Almost all bonds that lacked the protection of the U.S. government underperformed considerably. U.S. Emerging Market Debt, which was less volatile in the first half of the year, suffered during the third and fourth quarters. Additionally, the U.S. dollar regained all of its losses from the previous two quarters and actually appreciated versus all major currencies except for the Japanese Yen and Swiss Franc.

During the year, the fund's significant underweight to government bonds detracted from performance, as U.S. Treasuries were the clear asset class of choice. Long-dated U.S. Treasuries performed best, as the Fed indicated that it may purchase longer dated U.S. Treasuries in the open market.

Other detractors to the fund's performance included the fund's slight overweight exposure to Mortgage-Backed Securities (MBS) and Asset-Backed Securities (ABS). The primary driver of underperformance was exposure to the non-agency sector of the market. Prime super-seniors bonds continued to get marked down as even high quality assets moved into the distressed universe. Rising delinquencies, falling home prices, and increasing loss estimates for prime collateral left distressed buyers to be the marginal buyers in the sector forcing prices lower.

The fund's significant overweight in Investment Grade Credit also detracted from performance. Specifically, exposure to capital securities issues by Resona Bank, XL Capital and Ameriprise Financial were among the hardest hit, as investors demanded higher return for subordination. Elsewhere, the fund's exposure in five year Rio Tinto securities were also among the worst performers as the failed BHP deal put refinancing pressure on the firm.

The fund's slight overweight in emerging markets contributed negatively to performance. Emerging markets suffered dramatically with risk aversion trade, which began early in the last quarter of 2008. Pressured by a continued fall in commodity prices and further unwinding in the levered community, emerging market assets underperformed. Emerging market U.S. dollar corporates underperformed their sovereign counterparts, as investors sought the safety of liquidity and started to worry about global refinancing risk. Emerging markets currencies suffered under the flight to the U.S. dollar and movement out of levered carry trades.

A significant overweight to the high yield sector also detracted from performance. The high yield sector suffered the most during the last quarter of 2008. Weak fundamentals and a closed primary market continued to plague the sector, as investors questioned the survival of the most highly leveraged companies. Exposure to autos and leveraged buyout (LBO) financed deals were among the hardest hit holdings in the fund.

Conversely, the fund's significant overweight in Non-U.S. dollar government securities had a positive impact on performance. The continually evolving central bank policy decisions and broad risk environment led to very large swings in cross market interest rate spreads and dramatic currency volatility. The fund's exposure to German and United Kingdom curves relative to the U.S. added to performance inside of five years, but lagged significantly in the 10 and 15 year space. The fund's exposure to the Japanese Yen helped offset the underperformance from its European duration exposure.

During the period, the fund experienced net redemptions of $31,718,025. The fund's year over year interest income increased 178% due to realized gains on short term notes, which are classified as income.

Recent Developments

Looking forward to 2009, the portfolio advisor believes that drastic risk aversion is in its infancy stages of reversing. The portfolio advisor notes numerous small signs of improvement in the market's capacity to take risk, evidenced by the LIBOR-OIS spread, Agency Spreads, Credit spreads and Equities, which are all significantly off their lows. The portfolio advisor believes that while the willingness to take risk is not coinciding with better economic data, the technicals are looking supportive.

Beyond risk appetite, the portfolio advisor expects financial assets to be supported by the combination of an expanding Fed balance sheet and forthcoming broad based stimulative fiscal policy. The portfolio advisor recognizes that continued spread tightening, and in general, risk appetite will require an improvement in the global economic data. The portfolio advisor views the implemented policies as a strong foundation for improving fundamentals as the markets progress through 2009.

Looking forward, the portfolio advisor will continue to hold onto the fund's significant overweight in credit, as they feel this sector offers good long term value. The portfolio advisor will also continue to reduce the fund's outright currency risk as they believe the primary opportunities within the Group of Ten (G-10) countries have shifted from owning the currencies to owning the bonds, as interest rates have significantly lagged the move in U.S. Treasuries.

The portfolio advisor believes the best rate opportunities relative to the U.S. will be in the United Kingdom, Europe and Australia. The portfolio advisor feels that currencies are likely

to be range bound as market uncertainty will continue to dominate. The portfolio advisor believes that the Japanese Yen has appreciated significantly and will no longer provide the same safe haven as it did prior to the vast de-leveraging. The portfolio advisor will look to maintain relatively small exposures to G-10 currencies in the fund going forward, and will add to these positions as they see opportunities arise.

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, Trustee and Principal Distributor of the fund.

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	$	6.95	7.96	7.91	8.41	8.76
Increase (decrease) from operations:						
Total revenue	$	0.59	0.21	0.43	0.36	0.31
Total expenses	$	(0.04)	(0.03)	(0.04)	(0.03)	(0.03)
Realized gains (losses) for the period	$	(0.05)	(0.41)	(0.36)	(0.46)	(0.26)
Unrealized gains (losses) for the period	$	0.37	(0.61)	0.44	(0.10)	(0.11)
Total increase (decrease) from operations[2]	$	0.87	(0.84)	0.47	(0.23)	(0.09)
Distributions:						
From income (excluding dividends)	$	(0.62)	(0.19)	(0.37)	(0.31)	(0.31)
From dividends	$	–	–	–	–	–
From capital gains	$	–	–	–	–	–
Return of capital	$	–	–	–	–	–
Total Annual Distributions[3]	$	(0.62)	(0.19)	(0.37)	(0.31)	(0.31)
Net assets at December 31st of year shown	$	7.33	6.95	7.97	7.91	8.41

(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]	$	43,288	66,802	58,942	45,466	41,749
Number of units outstanding (000's)[1]		5,887	9,593	7,399	5,745	4,965
Management expense ratio[2]	%	0.54	0.37	0.50	0.34	0.35
Management expense ratio before waivers or absorptions[2]	%	0.54	0.37	0.52	0.34	0.35
Trading expense ratio[3]	%	–	–	–	–	–
Portfolio turnover rate[4]	%	264.92	425.69	376.13	419.63	573.39
Net asset value per unit	$	7.35	6.96	7.97	7.91	8.41

(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.

(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.

(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

No management fees are paid to us by the fund. Each unitholder pays, on a quarterly basis, a negotiated asset based fee for all services offered as part of the Pinnacle Program. These services include general management of the fund, portfolio advisory and distribution services, and investment management consulting services.

We pay up to 72% of the fee paid by each unitholder for distribution related services provided by dealers. At least 28% of the fee paid by each unitholder is attributable to the costs of investment management, administration and profit.

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.

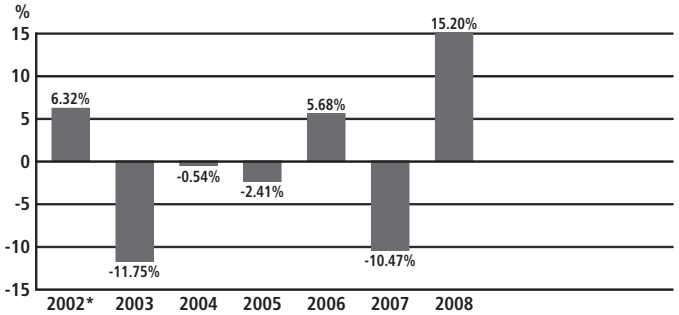
On November 1, 2007, the portfolio advisor to the fund changed from Delaware Investment Advisers to Logan Circle Partners,

L.P. This change in portfolio advisor could have materially affected the performance of the fund during the performance measurement periods.

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.



* Feb. 14 – Dec. 31

Annual Compound Returns

This table shows the fund's annual compound returns compared to the Barclays Capital Aggregate Bond Index (formerly the Lehman Brothers Aggregate Bond Index) and the DEX Universe Bond Index for the periods shown ending December 31, 2008.

		1 Year	3 Years	5 Years	Since Inception[1]
Pinnacle American Core-Plus Bond Fund	%	15.20	2.90	1.12	-0.12
Barclays Capital Aggregate Bond Index	%	31.64	7.72	3.68	1.32
DEX Universe Bond Index	%	6.41	4.71	5.54	10.10

[1] Feb. 14, 2002

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 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.

A discussion of the fund's performance relative to the 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.scotiamcleod.com.

Asset Mix[1]

	% of net asset value[2]
U.S. Dollar Bonds	91.1
European Euro Bonds	9.2
Japanese Yen Bonds	2.2
British Pound Bonds	1.5
Brazilian Real Bonds	0.7
Norwegian Krone Bonds	0.2
Swedish Krona Bonds	0.2
Australian Dollar Bonds	0.1
Equities	–

[1] (5.2)% 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]
Fannie Mae 5.50% Jan. 30, 2009	7.1
Cash and Cash Equivalents	4.7
Federal Republic of Germany 3.50% Jan. 04, 2016	2.9
Federal Republic of Germany 3.75% Jan. 04, 2017	2.5
Fannie Mae 5.00% TBA	1.7
Federal Republic of Germany 4.25% Jul. 04, 2018	1.5
Fannie Mae 5.00% TBA	1.5
Citigroup Mortgage Securities Inc. 5.50% Jan. 25, 2022	1.4
Ford Motor Credit Company 9.88% Aug. 10, 2011	1.4
General Motors Acceptance Corporation 5.85% Jan. 14, 2009	1.4
GMAC Mortgage Corporation Loan Trust 5.19% May. 25, 2035	1.3
Citigroup Mortgage Loan Trust Inc. 5.63% Apr. 25, 2037	1.1
Federal Republic of Germany 4.00% Jan. 04, 2037	1.1
Development Bank of Japan, The 1.70% Sep. 20, 2022	1.0
Government of France 4.00% Oct. 25, 2038	0.8
Washington Mutual Mortgage Pass-Through Certificates 5.29% Jun. 25, 2037	0.8
Chase Mortgage Finance Corporation 5.00% Sep. 25, 2018	0.8
Verizon Communications Inc. 8.75% Nov. 01, 2018	0.8
New Cingular Wireless Services Inc. 8.13% May. 01, 2012	0.8
Wachovia Capital Trust III 5.80% May. 15, 2042	0.8
Wachovia Bank NA 6.60% Jan. 15, 2038	0.8
Wells Fargo Mortagage Backd Securities Trust 5.50% Dec. 25, 2035	0.7
Banc of America Commercial Mortgage Inc. 5.63% Jul. 10, 2046	0.7
United Kingdom Treasury 5.00% Mar. 07, 2018	0.7
Federative Republic of Brazil 10.25% Jan. 10, 2028	0.7
Top holdings total	39.0

[1] Based on Pricing NAV.

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