

# **ABC Fully Managed Fund**

Financial Statements  
**December 31, 2008**

March 31, 2009

## **Auditors' Report**

### **To the Unitholders of ABC Fully Managed Fund**

We have audited the statements of net assets and investment portfolio of **ABC Fully Managed Fund** (the Fund) as at December 31, 2008 and the statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Trustee and the Manager. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Trustee and the Manager, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and the results of its operations and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants, Licensed Public Accountants**

# ABC Fully Managed Fund

## Statement of Net Assets

As at December 31, 2008

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	2008	2007
	\$	\$
<b>Assets</b>		
<b>Investments</b> - at fair value (cost - \$98,329,888; 2007 - \$133,849,736)	75,110,557	126,960,230
<b>Cash</b>	1,472,644	3,006,153
<b>Due from unitholders</b>	2,562,850	276,907
<b>Interest and dividends receivable</b>	564,140	368,496
	<hr/>	<hr/>
	79,710,191	130,611,786
	<hr/>	<hr/>
<b>Liabilities</b>		
<b>Distributions payable to unitholders</b>	22,065	58,311
<b>Management fee payable</b>	136,688	231,620
<b>Due to unitholders</b>	1,751,733	1,851,095
<b>Accrued liabilities</b>	267	351
	<hr/>	<hr/>
	1,910,753	2,141,377
	<hr/>	<hr/>
<b>Net Assets</b>	77,799,438	128,470,409
	<hr/>	<hr/>
<b>Unitholders' Equity</b>		
14,143,008 (2007 - 14,966,905) units issued and outstanding (note 7)	77,799,438	128,470,409
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<b>Net assets per unit</b>	5.50	8.58
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Approved on Behalf of the Trustee, RBC Dexia Investor Services Trust

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Trustee

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Trustee

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

# ABC Fully Managed Fund

## Statement of Operations

For the year ended December 31, 2008

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	2008	2007
	\$	\$
<b>Investment income</b>		
Dividends (net of foreign withholding taxes of \$119,565; 2007 - \$143,237)	1,702,147	2,047,300
Interest and other income	3,798,054	5,033,425
	<hr/>	<hr/>
	5,500,201	7,080,725
	<hr/>	<hr/>
<b>Expenses (note 5)</b>		
Management fee	2,268,422	3,282,887
Transaction costs (note 2)	153,502	187,528
Transaction and cash management fees	23,914	8,966
Interest	18,636	14,365
	<hr/>	<hr/>
	2,464,474	3,493,746
	<hr/>	<hr/>
<b>Net investment income for the year</b>	3,035,727	3,586,979
<b>Net realized gain (loss) on sale of investments and foreign exchange (note 9)</b>	(26,133,654)	4,181,683
<b>Change in unrealized gain (loss) on foreign currency translation</b>	7,810	(6,513)
<b>Change in unrealized depreciation in value of investments</b>	<hr/>	<hr/>
	(16,329,825)	(23,127,528)
<b>Decrease in net assets from operations</b>	<hr/>	<hr/>
	(39,419,942)	(15,365,379)
<b>Decrease in net assets from operations per unit (note 2)*</b>	<hr/>	<hr/>
	(2.80)	(0.99)

\*Based on average units outstanding during the year.

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

**ABC Fully Managed Fund**  
Statement of Changes in Net Assets  
For the year ended December 31, 2008

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	2008	2007
	\$	\$
<b>Decrease in net assets from operations</b>	<u>(39,419,942)</u>	<u>(15,365,379)</u>
<b>Capital unit transactions</b>		
Proceeds on sale of units issued for cash	6,401,740	6,857,013
Distributions to unitholders:		
Net investment income	(3,093,179)	(3,756,606)
Net realized capital gains	-	(2,594,461)
Reinvestments	3,022,476	11,790,245
Redemptions	<u>(17,582,066)</u>	<u>(32,636,327)</u>
	<u>(11,251,029)</u>	<u>(20,340,136)</u>
<b>Decrease in net assets during the year</b>	(50,670,971)	(35,705,515)
<b>Net assets - Beginning of year</b>	<u>128,470,409</u>	<u>164,175,924</u>
<b>Net assets - End of year</b>	<u>77,799,438</u>	<u>128,470,409</u>

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

## ABC Fully Managed Fund

Statement of Investment Portfolio

As at December 31, 2008

Description	Coupon Rate	Maturity Date	Number of shares, units or par value	Cost \$	Fair value \$	Percent of net assets %
<b>Bonds</b>						
<b>Corporate Bonds</b>						
Blue Note Mining Inc.*	11.00%	31-Mar-12	3,000,000	3,000,000	1,350,000	
Frontera Copper Corp.*	10.00%	15-Jun-10	4,000,000	3,324,000	1,600,000	
NOVA Chemicals Corporation, Senior Notes	7.85%	30-Aug-10	2,000,000	1,984,200	1,950,440	
<b>Total Bonds</b>				<b>8,308,200</b>	<b>4,900,440</b>	<b>6.3</b>
<b>Common Stocks</b>						
<b>Energy</b>						
Avenir Diversified Income Trust			350,000	3,673,758	1,778,000	
Essential Energy Services Trust			750,000	4,678,394	772,500	
Nexen Inc.			100,000	793,750	2,132,000	
Talisman Energy Inc.			450,000	2,691,416	5,481,000	
<b>Total Energy</b>				<b>11,837,318</b>	<b>10,163,500</b>	<b>13.06</b>
<b>Materials</b>						
Canam Group Inc., Class A			375,000	4,051,283	2,493,750	
<b>Total Materials</b>				<b>4,051,283</b>	<b>2,493,750</b>	<b>3.21</b>
<b>Industrials</b>						
Babcock & Brown Air Limited (ADR)			137,500	3,168,203	1,127,105	
Seaspan Corp.			200,000	5,167,678	2,185,077	
TerraVest Income Fund			750,000	5,894,469	2,205,000	
<b>Total Industrials</b>				<b>14,230,350</b>	<b>5,517,182</b>	<b>7.09</b>
<b>Consumer Staples</b>						
George Weston Ltd.			37,500	1,989,000	2,236,500	
<b>Total Consumer Staples</b>				<b>1,989,000</b>	<b>2,236,500</b>	<b>2.87</b>
<b>Financials</b>						
American National Insurance Co.			30,000	3,244,040	2,710,607	
Bank of Montreal			75,000	2,249,250	2,341,500	
E-L Financial Corp. Ltd.			10,000	2,772,257	4,100,000	
Equitable Group Inc.			150,000	3,223,515	1,749,000	
Huntingdon Real Estate Investment Trust			2,000,000	4,191,208	380,000	
Kansas City Life Insurance Co.			75,000	4,438,500	3,922,028	
Lakeview Hotel Real Estate Investment Trust			900,000	3,247,195	720,000	
Lanesborough Real Estate Investment Trust			750,000	3,808,878	1,687,500	
Manulife Financial Corp.			100,000	1,940,000	2,076,000	
Morguard Corp.			175,000	3,594,500	3,087,000	
Royal Bank of Canada			62,500	2,203,125	2,250,000	
Toronto-Dominion Bank			50,000	2,000,250	2,171,000	
<b>Total Financials</b>				<b>36,912,718</b>	<b>27,194,635</b>	<b>34.96</b>
<b>Funds</b>						
UBS (Canada) U.S.S Cash Management Fund, Series A			111,477	12,263,252	13,761,967	
UBS Cash In Action Fund			88,426	8,842,583	8,842,583	
<b>Total Funds</b>			<b>199,903</b>	<b>21,105,835</b>	<b>22,604,550</b>	<b>29.05</b>
<b>Total Equities</b>				<b>90,126,504</b>	<b>70,210,117</b>	<b>90.24</b>
<b>Total Investments</b>				<b>98,434,704</b>	<b>75,110,557</b>	<b>96.54</b>
<b>Transaction Costs (Note 2)</b>				<b>(104,816)</b>	<b>-</b>	<b>-</b>
<b>Other Net Assets</b>					<b>2,688,881</b>	<b>3.46</b>
<b>Total Net Assets</b>				<b>98,329,888</b>	<b>77,799,438</b>	<b>100.00</b>

\*Denotes a manually priced security using a fair-valuation model (note 2).

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

# ABC Fully Managed Fund

Notes to Financial Statements

December 31, 2008

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## 1 Organization

The ABC Fully Managed Fund (the Fund) was established under the laws of the Province of Ontario by a trust deed dated February 19, 1988 between I. A. Michael Investment Counsel Ltd. (the Manager) and RBC Dexia Investor Services Trust (the Trustee).

The ABC Fully Managed Fund is a diversified Canadian balanced fund. The investment objective of the Fund is to maintain a long-term asset mix of 50% fixed income and 50% Canadian equities; however, the Fund retains sufficient flexibility in its portfolio mix of stocks versus bonds to take advantage of periodic investment opportunities.

The Fund commenced operations on February 22, 1988. These financial statements have been prepared as at the year ended December 31, 2008.

## 2 Summary of significant accounting policies

These financial statements, prepared in accordance with Canadian generally accepted accounting principles (GAAP), include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates. The following is a summary of significant accounting policies followed by the Fund:

### Adoption of new accounting standards

CICA Handbook Sections 3862 and 3863

On January 1, 2008 the Fund adopted the CICA Handbook Section 3862 – “Financial Instruments – Disclosures” and Section 3863 – “Financial Instruments – Presentation.” The new sections replace Section 3861, “Financial Instruments - Disclosure and Presentation,” revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements. These new standards place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

Adoption of the new standards will impact the Fund’s disclosures provided but will not affect the Fund’s results of operations or financial position. Refer to Note 10 for a discussion on Financial Risk Management.

CICA Handbook Section 1535

Section 1535, “Capital Disclosures” establishes standards for disclosing information about an entity’s capital and how it is managed. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Fund. Refer to Note 7 for a discussion of the Fund’s capital and how it is managed.

# ABC Fully Managed Fund

Notes to Financial Statements

December 31, 2008

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## Valuation of investments

Effective January 1, 2007 the provisions of Section 3855 were applied retroactively without restatement of prior periods. The adoption of Section 3855 results in the use of different valuation methods for certain instruments.

The valuation methods adopted pursuant to Section 3855, which are discussed below, differ from methods used by the Fund in striking its net asset value (NAV) used in the processing of unitholder transactions during the year. The NAV continues to be computed following the Fund's previous valuation policies for actively traded securities, which are that the listed securities are valued at the last reported sales price on the principal exchange on which the security trades.

For financial statement purposes, the fair value of the Fund's investments is determined as follows:

- a) Investments are recorded at fair value, established by the closing bid price for long positions and the closing asking price for short positions on the recognized stock exchange on which they are principally traded. Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques using observable market inputs on such basis and in such manner as may be approved by the Manager, in accordance with Section 3855 methodologies.
- b) Bonds are valued at bid prices where available. Securities not listed on any exchange are valued in the same manner as above, based on any available public quotation in common use or at a price estimated to be the fair value thereof, on such basis and in such manner as may be approved by the Manager, in accordance with Section 3855 methodologies.

Refer to Note 8 for a comparison of the net assets per unit, used for financial reporting purposes, and the net asset value (NAV) per unit.

## Unobservable inputs

The current value of certain securities may be estimated using valuation techniques based on assumptions that are not supported by observable market inputs. Under such circumstances, securities are held and reported in the financial statements at their fair value estimated through the use of fair valuation financial models. The impact of changes in the assumptions used in the financial models may have the effect of reducing or increasing net assets for the reporting period. As at December 31, 2008, securities with an aggregate fair value of \$2,950,000 (3.79% of net assets) were priced using fair valuation models.

## Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include: fees and commissions paid to agents, advisers, brokers and dealers; levies by regulatory agencies and securities exchanges; and transfer taxes and duties. Transaction costs are expensed and are included in transaction costs in the Statement of Operations. Prior to the adoption of Section 3855, transaction costs were capitalized and included in the cost of purchases or deducted from proceeds from sale of

# ABC Fully Managed Fund

Notes to Financial Statements

December 31, 2008

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investments. The change in accounting for transaction costs has no impact on the Fund's NAV or results of operations. The embedded transaction costs in the cost of investment portfolio as at December 31, 2008 are disclosed in the Statement of Investment Portfolio.

## **Investment transactions**

Investment transactions are accounted for on the trade date basis (the date the order to buy or sell is executed).

## **Basis for recognizing income**

Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Realized gains and losses on the sale of investments and unrealized appreciation or depreciation in the value of investments are calculated with reference to the average cost of the related investments. Distributions received from investment trusts are recorded as income, capital gains or a return of capital, based on the best information available to the Manager. Due to the nature of these investments, actual allocations could vary from this information. Distributions from investment trusts treated as a return of capital reduce the average cost of the underlying investment trust. Distributions received from mutual funds are recognized in the same form in which they are received from the underlying funds.

## **Unit valuation**

Fund units are issued and redeemed on a continuing basis at the NAV per unit. NAV per unit is determined on the last day of the month and on any other day selected by the Trustee (the valuation date), at the close of trading on a day that the Toronto Stock Exchange is open for trading, and remains in effect until the time at which the next determination of the NAV per unit is made. The unit valuation is made by dividing the total value of the Fund's net assets by the total number of units outstanding in the Fund.

## **Foreign currency exchange**

Currency conversions are made at the appropriate daily US dollar noon rate as quoted by the Bank of Canada. Revenue and expenses and investment transactions in currencies other than Canadian dollars are translated into Canadian dollars at the rate of exchange prevailing on the dates of such transactions. Investments in securities at fair value, other assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at year-end.

## **Forward and spot foreign currency contracts**

The Fund may enter into forward and spot foreign currency contracts to protect certain securities and related receivables and payables against fluctuations in future foreign exchange rates. A forward foreign currency contract is an agreement to buy or sell a currency of a different country on a specified future date at a specified rate. Risks associated with such contracts include the movement in the value of foreign currencies relative to the Canadian dollar and the ability of the counterparty to perform.

The fair value of the forward foreign currency contracts will fluctuate with changes in currency exchange rates. Forward foreign currency contracts are valued based on procedures established by and under the general

# ABC Fully Managed Fund

## Notes to Financial Statements

December 31, 2008

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supervision of the Fund's Trustee and the change in fair value is recorded by the Fund as unrealized appreciation or depreciation of foreign currency translation. As at December 31, 2008, the Fund had no open forward foreign currency contracts (2007 - nil).

### **Increase (decrease) in net assets from operations per unit**

Increase (decrease) in net assets from operations per unit is based on the weighted average number of units outstanding for the year.

### **Future changes in accounting standards not yet adopted**

At December 31, 2008 the Manager has developed a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants (CICA) for changeover to International Financial Reporting Standards (IFRS). The key elements of the plan include disclosures of the qualitative impact in the 2008 annual financial statements, the disclosures of the quantitative impact, if any, in the 2009 financial statements and the preparation of the 2011 financial statements in accordance with IFRS with comparatives. The Manager has presently determined that there will likely be no impact to net asset value per unit from the changeover to IFRS. The impact of IFRS on accounting policies and implementation decisions will mainly be in the areas of additional note disclosures in the financial statements of the Fund.

## **3 Fair Value**

The Fund's financial instruments may include equity instruments, bonds, short-term investments (collectively referred to as investments), currency forward contracts, cash, interest and dividends receivable, due to and from unitholders, receivables for securities sold, payables for securities purchased, distributions payable and accrued liabilities. Investments and currency forward contracts are valued at fair value using the policies described in Note 2. All other financial instruments are carried at amortized cost. The fair value of financial instruments other than investments and currency forward contracts closely approximates their carrying values, given their short-term maturities.

## **4 Income taxes**

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and, accordingly, is subject to taxes on its income, including net realized capital gains, for the fiscal year, which is not paid or payable to its unitholders as at the end of the fiscal year. It is the intention of the Manager that all annual net investment income and sufficient net taxable capital gains realized will be distributed to unitholders on a calendar year basis such that Canadian income taxes payable by the Fund under present legislation will be minimized.

The Fund has \$25,035,844 (2007 - \$39,793) of capital losses available to offset capital gains in future years.

# ABC Fully Managed Fund

Notes to Financial Statements

December 31, 2008

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## 5 Expenses

The Fund is charged a monthly management fee by the Manager. The monthly fee is calculated at the rate of one-twelfth of 2% of the NAV of the Fund on the monthly valuation date plus GST. This fee covers all expenses of the Fund except brokerage and portfolio transaction charges, taxes and interest incurred by the Fund.

The Manager pays all expenses relating to the management, operation and administration of the Fund, including bookkeeping charges; accounting, legal and audit fees; registry and transfer agency services; printing expenses and filing fees; all services required in connection with the provision of information to unitholders; and custodial charges. The Fund pays for brokerage fees; other fees and disbursements relating to the implementation of transactions for the portfolios of the Fund; any taxes payable by the Fund or to which the Fund may be subject; and any interest expenses incurred by the Fund.

## 6 Soft dollar commissions

The soft dollar commissions, if any, paid to brokers in connection with investment portfolio transactions for the year ended December 31, 2008 are not determinable. Soft dollar commissions relate to amounts paid in exchange for research or other services.

## 7 Unitholders' Equity

The Fund has no restrictions or specific capital requirements on the subscription and redemptions of units. In accordance with the objectives and the risk management policies outlined in the Financial Risk Management notes (Note 10), the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being managed by investing the majority of assets in investments that can be readily disposed.

The Fund is authorized to issue an unlimited number of units, which are sold and redeemable at the then current net asset value per share at the option of the unitholder. Unitholders have the right to require the Fund to repurchase their shares at the then current net asset value.

The following is a summary of the changes in the Fund's outstanding units during the year:

	2008	2007
Balance - Beginning of year	14,966,905	16,311,843
Issued for cash	1,071,438	679,253
Issued on reinvestment of distributions	427,237	1,215,363
Redeemed for cash	(2,322,572)	(3,239,554)
Balance - End of year	<u>14,143,008</u>	<u>14,966,905</u>

# ABC Fully Managed Fund

Notes to Financial Statements

December 31, 2008

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## 8 Comparison of net assets per unit and net asset value per unit

The primary reason for the difference between the net asset value and the net assets per unit is described in Note 2.

	2008		2007
Net assets per unit	\$ 5.50	\$	8.58
Net asset value per unit	5.57		8.63

## 9 Net realized gain (loss) on sale of investments and foreign exchange

	2008		2007
	\$		\$
Proceeds on sale of investments	96,174,054		84,300,947
Less: Cost of investments sold			
Investments owned - Beginning of year	133,849,736		148,864,648
Return of capital - Prior year adjustment	1,282,477		1,491,523
Investments purchased	85,864,176		63,722,753
Investments owned - End of year	(98,329,888)		(133,849,736)
Cost of investments sold	122,666,501		80,229,188
Realized gain (loss) on investments	(26,492,447)		4,071,759
Foreign exchange gain (loss)	358,793		109,924
Net realized gain (loss) on sale of investments and foreign exchange	(26,133,654)		4,181,683

## 10 Financial risk management

The Fund's financial instruments consist of cash, investments, short-term receivables and payables. As a result, the Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The most important risks include market risk (including interest rate risk, other price risk and currency risk), credit risk and liquidity risk. These risks and related risk management practices employed by the Fund are discussed below:

### Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency or interest rate risk). The investments of the Fund ("securities held for trading") are subject to normal market fluctuations and the risks inherent in investment in financial markets. The maximum risk resulting from financial instruments held by the

# ABC Fully Managed Fund

## Notes to Financial Statements

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Fund is determined by the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities within specified limits and the Fund's market price risk is managed through diversification of the investment portfolio. The Investment Manager monitors the Fund's overall market positions on a daily basis and positions are maintained within established ranges. Other price risk arising from underlying funds is considered negligible as the majority of the underlying funds' assets and liabilities are short-term in nature and therefore not subject to significant market fluctuations. At December 31, 2008, the overall market exposures were as follows:

	At December 31, 2008	
	Fair Value	% Net Assets
Securities held for trading	\$ 75,110,557	96.54%

If the S&P/TSX Composite index at December 31, 2008 had increased by 5%, with all other variables held constant, this would have increased net assets by approximately \$3,756,000. Conversely, if the S&P/TSX Composite index had decreased by 5% this would have decreased net assets by approximately \$3,756,000.

### Interest rate risk

The Fund's interest-bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarizes the Fund's exposure to interest rate risks.

	Less than 1 month (\$)	1 - 3 months (\$)	3 months - 1 year (\$)	1 - 3 years (\$)	3 - 5 years (\$)	Total (\$)
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As at December 31, 2008

Interest rate exposure	-	-	-	3,550,440	1,350,000	4,900,440
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At December 31, 2008, should interest rates have decreased by 25 basis points with all other variables remaining constant, the increase in net assets for the year would amount to approximately \$12,000, arising substantially from the increase in fair values of debt securities, with a small portion affecting interest rate futures. Conversely, if interest rates had risen by 25 basis points, the decrease in net assets would amount to approximately \$12,000.

The Fund was exposed to indirect interest rate risk to the extent the underlying funds invest in debt-based securities and interest rate derivative instruments. Exposure to interest rate risk is managed at the underlying fund level. If prevailing interest rates had been raised or lowered by 25 basis points, assuming a parallel shift in the yield curve, with all other factors remaining constant, net assets would have decreased or increased by approximately \$56,500. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

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Notes to Financial Statements

December 31, 2008

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## Currency risk

The Fund holds financial assets and liabilities denominated in currencies other than the Canadian dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in other currencies will fluctuate due to changes in exchange rates. The Fund may enter into forward contracts to manage this risk.

As December 31, 2008, had the exchange rate between the Canadian dollar and the foreign currencies the fund is exposed to increased or decreased by 5%, with all other variables held constant, the increase or decrease respectively in net assets would approximately amount to values as disclosed in the table below.

### Exchange rate sensitivity - Foreign Currency Net Assets

	<b>Total Exposure (\$)</b>	<b>Percent of Net Assets</b>	<b>5% Increase</b>	<b>5% Decrease</b>
US Dollar	24,226,903	31.14%	1.56%	(1.56)%

The Fund was exposed to indirect currency risk to the extent the underlying funds invest in financial instruments denominated in foreign currencies. Exposure to currency risk is managed at the underlying fund level. Approximately 17.69% of the Fund's net assets were exposed to currency risk. If the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies, with all other factors remaining constant, net assets would have increased or decreased by approximately \$688,000. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

## Credit risk

Credit risk is the risk that a loss could arise when a security issuer or counterparty to a financial instrument is unable to meet its financial obligations. Financial instruments that potentially subject the Fund to a concentration of credit risk consist primarily of cash and cash equivalents, short-term investments, and long-term investments. The Fund limits its exposure to credit loss by placing its cash and cash equivalents and short-term investments with high credit quality government and financial institutions. To maximize the credit quality of its investments, the Fund's managers perform ongoing credit evaluations based upon factors surrounding the credit risk of customers, historical trends and other information.

As at December 31, 2008, the Fund's exposure to credit risk, represented by the credit rating of the underlying issuer, was as follows:

### Portfolio by rating category

<b>Rating</b>	<b>Percent of Net Assets</b>
	<b>2008</b>
B	2.51%
Unrated	3.79%
Total	<u>6.30%</u>

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All transactions in listed securities are settled upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The Fund was exposed to indirect credit risk to the extent the underlying funds invest in such instruments. Approximately 29.05% of the Fund's net assets were exposed to credit risk. This risk is managed at the underlying fund level.

## **Liquidity risk**

Liquidity risk is the risk that a Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund's exposure to liquidity risk is concentrated in the daily cash redemptions of units. The Fund invests primarily in securities that are traded in active markets and can be readily disposed. The Fund may, from time to time, invest in derivative contracts traded over the counter or in unlisted securities, which are not traded in an organized market and may be illiquid. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer. Investments held as at December 31, 2008 that may be subject to liquidity risk have been identified on the Statement of Investments. In addition, the Fund retains sufficient cash and cash equivalents to maintain liquidity. The underlying funds invest the majority of their assets in investments that are traded in an active market and can be readily disposed. Liquidity risk is considered negligible.

## **11 Comparative figures**

Certain 2007 comparative figures have been reclassified to conform with the financial statement presentation adopted per the current year.

## **12 Exemption from regulatory filing**

In accordance with Section 2.11(c) of National Instrument 81-106 (NI 81-106), I. A. Michael Investment Counsel Ltd., as administrator to the Fund, has provided notice to the securities regulatory authority that it is relying on the exemption granted by Section 2.11 of NI 81-106, whereby I. A. Michael Investment Counsel Ltd. will not be filing the annual financial statements for the Fund with the securities regulatory authority.