

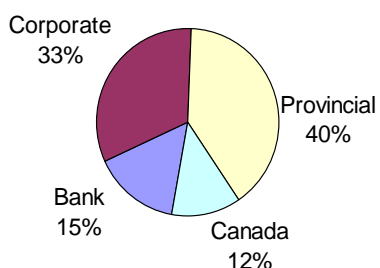
## Scotia Cassels Investment Counsel Limited Short Term Income Fund First Quarter 2009

### Strategy and Performance Review

The Pinnacle Short Term Income Fund returned 0.27% for the first quarter of 2009. During the quarter, Canadian economic growth continued on a downward spiral. In January, GDP declined by 0.7% led by weakness in construction and the auto industry. This was supported by a higher than expected unemployment rate of 7.7% for February, 2% higher than the last secular low of 5.8% in early 2008. Fortunately, core inflation for January and February continued to hold steady at 1.9%. In an effort to stimulate the economy, the Bank of Canada (BOC) initially cut the overnight rate by 50 basis points (bps) on January 20<sup>th</sup> to 1.0%. On March 3<sup>rd</sup>, the BOC lowered the rate by another 50 bps to a record low of 0.5%. The next move by the BOC will most likely be a program of credit and quantitative easing. This involves the BOC purchasing longer term fixed income securities, hopefully adding more liquidity into the financial system. Additionally, the Canadian dollar continued to depreciate relative to the US dollar, making a 4 ½ year low at US\$76.98 on March 9<sup>th</sup>.

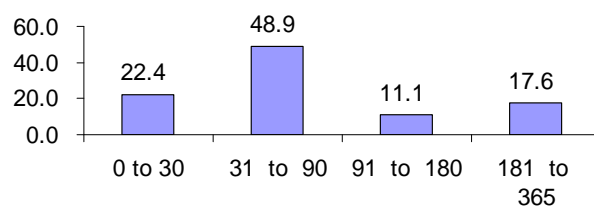
#### Portfolio Composition

March 31, 2008



#### Term To Maturity

March 31, 2008



### Market review

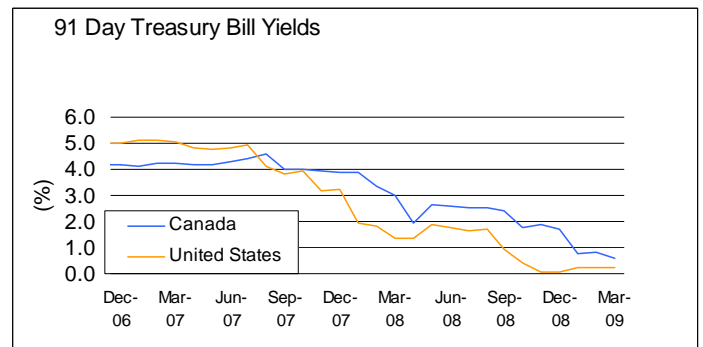
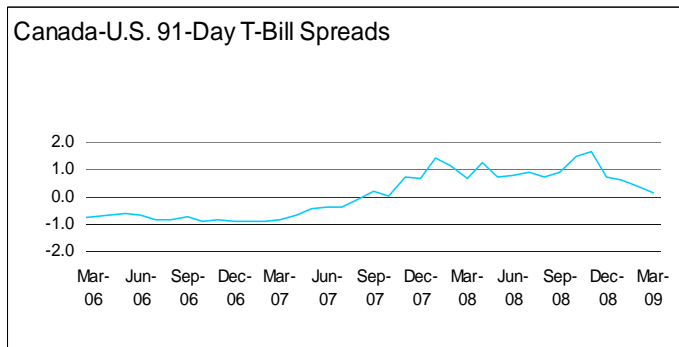
In the Canadian Treasury market, the three month T-bill yield declined steadily from 0.87% to 0.39% during the quarter. This resulted in the money market curve steepening slightly during January with the spread between one month and one year T-bills rising from 0.05% to 0.28%. Since then the spread has declined slightly to end at 0.23%.

The yields on Canadian banker acceptances and Canadian commercial paper have tightened substantially (by 135 bps and 150 bps respectively) due to better credit conditions. The credit spread between three month banker acceptances and T-bills declined from 118 to 31 bps for the quarter. At the same time, the difference between the spread of the three month commercial paper and T-bills tightened from 196 to 94 bps.

### The Pinnacle Program

In the United States, fourth quarter GDP was announced to have declined by 6.3%. Job losses continued to escalate from a 7.2% unemployment rate in December to 8.1% in February, the highest level since December 1983. To mitigate these economic effects, the Federal Reserve maintained the Federal funds rate at 0% to 0.25%. In addition, the Federal Reserve formally announced in mid March that it would begin purchasing approximately \$300 billion of longer-term treasuries, \$750 billion of agency mortgage-backed securities and a further \$100 billion in agency debt.

The three month US T-bill rate has increased 10 bps from 0.105% to 0.205% during this quarter. Simultaneously, the three month US commercial paper rate has backed up slightly from 0.68% to 0.88%. Credit spreads in the three month area have widened from 0.575% to 0.675% due partly to the continuation of the market's flight to quality. The US money market curve has slightly steepened from 24 to 27 bps between the one month and one year T-bills.



## The Pinnacle Program



## PINNACLE PORTFOLIO HIGHLIGHTS

### Market outlook

Over the next quarter we will continue with our “barbell” strategy which is to hold investments in the one month and six to eight month areas of maturity. We will also look to make investments with two to three months left to maturity in order to pick up yield when opportunities arise. To position the portfolio for the upcoming quarter, we have increased our positions in provincials and corporate paper. Also, the average term of the portfolio has been maintained around 80 days, slightly above neutral to its benchmark. We will continue to take advantage of higher yield product in the longer end of the yield curve when the money market yield curve steepens.

PORTFOLIO COMPOSITION	JUNE 2007	SEPT 2007	DEC 2007	March 2008	June 2008	Sept 2008	Dec 2008	Mar 2009
<b>% OF ASSETS INVESTED IN:</b>								
Canada	19.9%	28.1%	33.3%	15.1%	14.4%	16.9%	18.8%	11.9%
Provincial	33.2	26.5	23.1	36.6	37.1	34.3	32.6	39.8
Bank	17.1	13.3	22.3	14.4	20.2	23.3	8.5	8.8
Corporate	29.8	32.0	21.3	33.9	28.3	25.5	39.5	39.6
Cash	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.0
<b>TOTAL</b>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

### The Pinnacle Program

