

# **Sceptre Pooled Investment Fund - Bond Section**

Financial Statements  
December 31, 2008

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February 19, 2009

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## Auditors' Report

### To the Unitholders of Sceptre Pooled Investment Fund - Bond Section

We have audited the statements of investment portfolio and net assets of the Sceptre Pooled Investment Fund – Bond Section (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 fund 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 fund 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

## Sceptre Pooled Investment Fund - Bond Section

Statements of Net Assets

As at December 31

	2008	2007
	\$	\$
<b>Assets</b>		
Investments at fair value	106,264,463	99,757,204
Cash	89,154	181,163
	<u>106,353,617</u>	<u>99,938,367</u>
Interest receivable	917,052	907,737
	<u>107,270,669</u>	<u>100,846,104</u>
<b>Liabilities</b>		
Accounts payable	11,806	11,994
Redemption payable	48,845	64,235
	<u>60,651</u>	<u>76,229</u>
<b>Net Assets and Unitholders' Equity</b>	<u>107,210,018</u>	<u>100,769,875</u>
Number of units outstanding	<u>183,552</u>	<u>178,284</u>
<b>Net Assets per unit</b>	<u>\$ 584.09</u>	<u>\$ 565.22</u>

## Sceptre Pooled Investment Fund - Bond Section

### Statements of Operations

For the years ended December 31

	2008	2007
	\$	\$
<b>Income</b>		
Interest	5,210,156	4,270,158
Securities lending income	11,359	8,400
	<u>5,221,515</u>	<u>4,278,558</u>
<b>Expenses</b>		
Audit fees	5,937	6,035
Custodial fees	7,436	6,401
Trustee fees	1,500	1,590
Other expenses	37,072	36,190
	<u>51,945</u>	<u>50,216</u>
<b>Net investment income for the year</b>	<u>5,169,570</u>	<u>4,228,342</u>
<b>Realized and unrealized gain (loss) on investments</b>		
Net realized gain (loss) on investments	104,938	(294,104)
Transaction costs	(27,728)	-
Change in unrealized depreciation in value of investments during the year	<u>(2,322,209)</u>	<u>(921,161)</u>
<b>Net loss on investments</b>	<u>(2,244,999)</u>	<u>(1,215,265)</u>
<b>Increase in net assets from operations</b>	<u>2,924,571</u>	<u>3,013,077</u>
<b>Increase in net assets from operations per unit</b>	<u>\$ 15.67</u>	<u>\$ 18.65</u>

## Sceptre Pooled Investment Fund - Bond Section

### Statements of Changes in Net Assets

For the years ended December 31

	2008	2007
	\$	\$
<b>Net assets at beginning of year</b>	<u>100,769,875</u>	<u>71,442,304</u>
<b>Increase in net assets from operations</b>	<u>2,924,571</u>	<u>3,013,077</u>
<b>Capital</b>		
Issue of 59,341 units (2007 - 65,600 units) on subscription	34,317,950	35,903,723
Redemption of 54,073 units (2007 - 17,391 units)	(30,802,378)	(9,589,229)
Capitalized distributions	<u>5,176,243</u>	<u>4,228,342</u>
<b>Net capital unit transactions</b>	<u>8,691,815</u>	<u>30,542,836</u>
<b>Distributions to unitholders</b>		
Net investment income	<u>(5,176,243)</u>	<u>(4,228,342)</u>
<b>Increase in net assets for the year</b>	<u>6,440,143</u>	<u>29,327,571</u>
<b>Net assets at end of year</b>	<u><u>107,210,018</u></u>	<u><u>100,769,875</u></u>

## Number of Units

	2008	2007
<b>Balance - beginning of year</b>	178,284	130,075
Units issued during the year	59,341	65,600
Units redeemed during the year	<u>(54,073)</u>	<u>(17,391)</u>
<b>Balance - end of year</b>	<u><u>183,552</u></u>	<u><u>178,284</u></u>

## SCEPTRE POOLED INVESTMENT FUND - BOND SECTION

### STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2008

	MATURITY DATE	COUPON RATE	NUMBER OF SHARES/ UNITS/FACE VALUE	AVERAGE COST (\$)	FAIR VALUE (\$)	% OF TOTAL
Cash				89,154	89,154	0.08
<b>Bonds and Debentures</b>						
<b>Government and Guaranteed</b>						
Canada Housing Trust No. 1	15-Jun-13	3.600%	3,100,000	3,116,790	3,283,426	
Canada Housing Trust No. 1	15-Dec-18	4.100%	300,000	299,688	319,479	
Government of Canada	1-Jun-11	6.000%	2,425,000	2,693,787	2,699,582	
Government of Canada	1-Jun-13	3.500%	3,200,000	3,423,618	3,445,056	
Government of Canada	1-Jun-14	3.000%	2,360,000	2,447,579	2,487,322	
Government of Canada	1-Jun-17	4.000%	1,485,000	1,601,417	1,652,077	
Government of Canada	1-Jun-29	5.750%	3,855,000	4,876,006	5,073,410	
Government of Canada	1-Jun-37	5.000%	2,530,000	2,893,190	3,234,757	
Inter-American Development Bank	26-Jan-26	4.400%	2,575,000	2,491,405	2,403,943	
Kommunalbanken AS	15-Feb-19	4.480%	450,000	448,068	452,106	
Financement-Quebec	1-Jun-34	5.250%	1,550,000	1,654,939	1,578,644	
Ontario Electricity Financial Corp.	17-Oct-14	10.000%	975,000	1,333,231	1,315,490	
Province of Alberta	16-Sep-16	5.930%	583,250	604,275	647,028	
Province of British Columbia	1-Dec-17	4.700%	900,000	939,645	945,882	
Province of British Columbia	18-Jun-37	4.700%	925,000	908,813	927,303	
Province of Manitoba	3-Dec-15	5.200%	590,000	629,981	642,492	
Province of Ontario	2-Dec-11	4.400%	5,970,000	6,144,406	6,319,005	
Province of Ontario	2-Dec-12	4.500%	4,750,000	4,834,189	5,071,384	
Province of Ontario	2-Jun-13	4.750%	1,450,000	1,493,471	1,561,737	
Province of Ontario	8-Mar-16	4.400%	1,775,000	1,762,872	1,847,402	
Province of Ontario	8-Sep-23	8.100%	1,850,000	2,515,075	2,531,855	
Province of Ontario	8-Mar-33	5.850%	1,875,000	2,117,205	2,141,644	
Province of Ontario	2-Jun-35	5.600%	750,000	791,650	842,438	
Province of Quebec	1-Dec-14	5.500%	2,720,000	2,901,800	3,015,908	
Province of Quebec	1-Oct-29	6.000%	3,165,000	3,569,576	3,551,161	
Province of Saskatchewan	3-Dec-15	4.250%	500,000	510,550	518,420	
Province of Saskatchewan	5-Sep-35	5.600%	825,000	919,628	930,212	
TCHC Issuer Trust	11-May-37	4.877%	720,000	708,971	677,268	
City of Toronto	27-Sep-16	4.500%	715,000	718,847	724,810	
Municipal Finance Authority of British Columbia	19-Apr-16	4.650%	875,000	894,344	901,355	
				<b>60,245,016</b>	<b>61,742,596</b>	<b>58.06</b>
<b>Corporate Bonds</b>						
407 International Inc.	14-Feb-36	5.750%	350,000	345,034	253,624	
Algonquin Credit Card Trust	15-Oct-10	4.449%	1,350,000	1,321,672	1,338,578	
Algonquin Credit Card Trust	15-Oct-10	4.799%	1,525,000	1,515,565	1,495,781	
Algonquin Credit Card Trust	15-Jun-12	4.562%	460,000	457,702	448,638	
Alliance Pipeline LP	30-Jun-15	7.230%	596,489	638,005	657,289	
Bank of Montreal	14-Mar-13	4.650%	250,000	250,553	252,563	
Bank of Montreal	10-Jun-15	5.180%	1,605,000	1,605,248	1,606,316	
Bank of Montreal	26-Sep-17	5.750%	500,000	510,033	445,960	
Bank of Nova Scotia	9-May-11	4.400%	2,135,000	2,135,693	2,173,237	
Bank of Nova Scotia	27-Mar-13	4.990%	485,000	482,570	468,030	
Bank of Nova Scotia	8-Apr-13	5.040%	1,200,000	1,207,380	1,244,484	
Bank of Nova Scotia	3-Oct-13	6.000%	200,000	199,472	199,262	
Brookfield Renewable Power Inc.	5-Nov-36	5.840%	800,000	746,111	568,904	

See accompanying notes to the financial statements

## SCEPTRE POOLED INVESTMENT FUND - BOND SECTION

### STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2008

	MATURITY DATE	COUPON RATE	NUMBER OF SHARES/ UNITS/FACE VALUE	AVERAGE COST (\$)	FAIR VALUE (\$)	% OF TOTAL
<b>Corporate Bonds (Continued)</b>						
Canada Capital Auto Receivables Asset Trust	17-Jan-09	4.393%	500,000	498,919	499,175	
Canada Capital Auto Receivables Asset Trust	17-Jan-09	4.863%	300,000	298,763	299,316	
Canada Capital Auto Receivables Asset Trust	17-Sep-09	4.445%	775,000	772,580	771,265	
Canada Capital Auto Receivables Asset Trust	17-Sep-09	4.775%	350,000	347,750	341,992	
Canada Capital Auto Receivables Asset Trust	17-Apr-10	4.579%	1,585,000	1,577,418	1,524,279	
Canada Capital Auto Receivables Asset Trust	17-Apr-10	4.918%	225,000	223,420	211,667	
Canadian Imperial Bank of Commerce	2-Sep-10	4.950%	950,000	956,114	971,793	
Canadian Imperial Bank of Commerce	6-Jun-13	5.150%	1,150,000	1,144,342	1,100,539	
Citigroup Inc.	24-May-22	5.160%	2,250,000	2,173,274	1,432,643	
Credit Agricole SA	11-Aug-16	5.500%	1,100,000	1,061,391	532,939	
CU Inc.	26-May-38	5.580%	200,000	200,000	171,424	
Enbridge Inc.	18-Jun-32	7.200%	65,000	55,263	57,708	
Finning International Inc.	3-Sep-13	5.160%	775,000	776,166	744,620	
Ford Floorplan Auto Securitization Trust	15-Nov-09	4.610%	775,000	773,040	770,962	
FortisAlberta Inc.	21-Apr-36	5.400%	200,000	199,852	160,130	
GE Capital Canada Funding Co.	28-Sep-12	4.375%	800,000	791,714	761,008	
GE Capital Canada Funding Co.	1-Jun-16	5.100%	800,000	807,779	734,200	
GE Capital Canada Funding Co.	22-Oct-37	5.730%	450,000	446,470	349,385	
Greater Toronto Airports Authority	28-Feb-11	4.400%	1,545,000	1,540,091	1,548,863	
Greater Toronto Airports Authority	30-Jan-12	6.250%	520,000	565,949	540,140	
Greater Toronto Airports Authority	1-Jun-17	4.850%	525,000	501,884	480,018	
Greater Toronto Airports Authority	4-Jun-31	7.100%	170,000	159,103	166,422	
Greater Toronto Airports Authority	2-Feb-34	6.470%	170,000	150,654	153,899	
Great-West Lifeco Inc.	24-Nov-31	6.740%	120,000	107,500	100,790	
Hydro One Inc.	12-Nov-13	5.000%	140,000	140,228	144,271	
Hydro One Inc.	1-Jun-32	6.930%	340,000	432,047	364,123	
IGM Financial Inc.	9-May-11	6.750%	165,000	174,326	172,209	
JPMorgan Chase & Co.	22-Feb-16	5.058%	950,000	941,453	854,877	
Manulife Financial Capital Trust	30-Jun-12	6.700%	1,025,000	1,101,945	1,012,874	
Morgan Stanley	23-Feb-17	4.900%	1,160,000	1,137,678	859,108	
National Bank of Canada	15-Nov-13	5.550%	815,000	819,456	774,120	
National Bank of Canada	30-Jun-20	7.447%	80,000	80,000	61,121	
NAV Canada	24-Feb-16	4.713%	980,000	979,844	971,131	
Nova Scotia Power Inc.	25-Aug-33	6.950%	65,000	79,396	60,667	
Royal Bank of Canada	6-Jun-13	5.000%	1,500,000	1,493,499	1,443,990	
Royal Bank of Canada	17-Jul-13	5.060%	1,225,000	1,224,792	1,270,166	
Royal Bank of Scotland	12-May-16	5.370%	800,000	795,144	556,512	
Scotiabank Capital Trust	31-Dec-36	5.650%	335,000	287,597	192,484	
Shoppers Drug Mart	3-Jun-13	4.990%	470,000	470,050	471,161	
Sun Life Financial Inc.	1-Jun-16	4.950%	610,000	604,949	526,753	
Suncor Energy Inc.	22-May-18	5.800%	180,000	155,392	161,959	
Talisman Energy Inc.	27-Jan-11	4.440%	605,000	603,391	592,864	
Telus Corp.	15-Apr-15	5.950%	150,000	153,002	145,320	
Terasen Gas Inc.	25-Sep-36	5.550%	350,000	348,186	290,448	
Terasen Gas Inc.	13-May-38	5.800%	150,000	149,514	128,957	
Thomson Reuters Corp.	15-Jul-11	5.250%	625,000	623,531	622,369	
Toronto Dominion Bank	13-Feb-13	4.854%	1,095,000	1,101,736	1,132,744	
Toronto Dominion Bank	2-Apr-15	5.480%	240,000	243,096	226,632	
Toronto Dominion Bank	9-Jul-18	5.828%	600,000	600,000	545,400	
Toronto Dominion Bank, Tier IIA	14-Dec-16	4.779%	1,290,000	1,255,579	999,002	
TransCanada Pipelines Ltd.	20-Aug-13	5.050%	325,000	324,574	324,155	
TransCanada Pipelines Ltd.	9-Dec-30	6.500%	130,000	104,199	109,305	
Wells Fargo Financial Canada Corp.	27-Aug-12	6.050%	350,000	365,682	356,377	
				<b>44,334,760</b>	<b>40,948,942</b>	<b>38.50</b>

See accompanying notes to the financial statements

## SCEPTRE POOLED INVESTMENT FUND - BOND SECTION

### STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2008

	MATURITY DATE	COUPON RATE	NUMBER OF SHARES/ UNITS/FACE VALUE	AVERAGE COST (\$)	FAIR VALUE (\$)	% OF TOTAL
<b>Mortgage Backed Securities</b>						
Merrill Lynch Financial Assets Inc.	12-Jun-11	4.510%	915,000	541,030	547,626	
Merrill Lynch Financial Assets Inc.	12-Sep-13	4.743%	650,000	349,978	354,735	
Merrill Lynch Financial Assets Inc.	12-Mar-14	4.169%	500,000	388,316	387,600	
Merrill Lynch Financial Assets Inc.	12-May-14	4.596%	800,000	689,349	692,886	
Merrill Lynch Financial Assets Inc.	12-Oct-16	4.809%	525,000	520,666	484,544	
Merrill Lynch Financial Assets Inc.	12-Nov-16	4.711%	1,175,000	1,174,970	1,105,534	
				<b>3,664,309</b>	<b>3,572,925</b>	<b>3.36</b>
<b>Total Bonds and Debentures</b>				<b>108,244,085</b>	<b>106,264,463</b>	<b>99.92</b>
<b>Transaction Costs</b>				<b>(1,651)</b>		
<b>Total Investment Portfolio Including Cash</b>				<b>108,331,588</b>	<b>106,353,617</b>	<b>100.00</b>

See accompanying notes to the financial statements

# **Sceptre Pooled Investment Fund - Bond Section**

Notes to Financial Statements

December 31, 2008

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## **1. Organization**

The Sceptre Pooled Investment Fund (the "Fund") was established under a Declaration of Trust dated May 4, 1983, as amended, with RBC Dexia Investor Services Trust as Trustee as a means by which assets of certain of the clients of Sceptre Investment Counsel Limited are pooled and jointly managed. Since fees are charged to the participants, no fees are charged to the fund by Sceptre Investment Counsel Limited, although the fund does bear certain administrative costs.

The Bond Section of the Fund (the "Section") commenced operations on July 1, 1987 with a net asset value of \$100 per unit.

## **2. Significant Accounting Policies**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which include estimates and assumptions by management that may affect the reported amounts of assets, liabilities, income and expenses during the reporting periods. Actual results could vary from these estimates.

### **Adoption of New Accounting Standards**

On January 1, 2008, the Fund adopted CICA Handbook Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation". The new standards replaced Section 3861, "Financial Instruments – Disclosure and Presentation". These sections establish standards for the comprehensive disclosure and presentation requirements for financial instruments. The standards include new requirements to quantify certain risk exposures and to provide sensitivity analysis for certain risks. This standard will impact the Fund's disclosures provided but will not affect the Fund's net assets. Refer to Note 10 for new disclosures relating to adoption of the new requirements.

On January 1, 2007, the Fund adopted CICA Section 3855, "Financial Instruments – Recognition and Measurement" which establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires that bid prices (for investments held) and ask prices (for investments sold short) be used in determining the fair value of investments. Prior to the adoption of this standard, fair value was commonly based on the closing price of an investment for the day. For financial reporting purposes, on January 1, 2007, the Fund adopted the amended valuation policy for actively traded securities held by the Fund without retroactive restatement of prior periods.

# Sceptre Pooled Investment Fund - Bond Section

Notes to Financial Statements

December 31, 2008

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## Valuation of Investments

As a result of amendments made to National Instrument 81-106 by the Canadian Securities Administrators effective September 8, 2008, the Fund continues to use the close or last trade price as fair value of securities to determine the daily transactional Net Asset Value for purchases and redemptions by clients. This means the valuation method used to calculate the daily Net Asset Value to transact units of the Fund is not identical to the accounting policies used to determine the financial statement Net Assets. Any difference between the Net Asset Value per unit and Net Assets per unit is not significant and is disclosed in note 9.

The market value of investments as at the financial reporting period end is determined as follows:

- (i) Securities traded in an active market are valued at their bid prices through recognized public stock exchanges or through recognized investment dealers, on the valuation date. Securities with no available bid prices are valued at their closing sale prices.
- (ii) Securities not traded in an active market are valued using valuation techniques, on such basis and in such manner as established by the Manager.
- (iii) Short-term notes, treasury bills, bonds, asset backed securities and other debt instruments are valued at the bid quotations from recognized investment dealers.
- (iv) Underlying funds are valued each business day at the price calculated by the manager of such underlying fund in accordance with the relevant documents of such underlying fund.

## Financial Instruments

The Section classifies their financial assets and financial liabilities in the following categories: available-for-trading, loans and receivables and other financial liabilities at amortized cost.

The Section's financial instruments consist of cash, investments, receivables and payables. The carrying values of cash, receivables and payables approximate fair value due to their short term nature. The Section is exposed to various types of risks that are associated with its investment strategies, financial instruments, and markets in which it invests.

## Transaction Costs

Transaction costs are expensed. 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, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

# **Sceptre Pooled Investment Fund - Bond Section**

Notes to Financial Statements

December 31, 2008

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## **Investment Transactions**

Investment transactions are accounted for on the trade date.

## **Income Recognition**

Interest income is recorded on the accrual basis. Realized gains and losses on investments and unrealized appreciation or depreciation of investments are calculated with reference to the average cost of the related investments. Income includes income received from other pooled fund units.

## **Unit Valuation and Valuation Date**

Units are issued and redeemed on a continuous basis at their net asset value per unit. Net asset value per unit is determined daily as of the close of business on each day on which The Toronto Stock Exchange is open for trading. The unit valuation is made by dividing the total value of net assets by the total number of units outstanding. Units are not issued upon reinvestment of distributions to unitholders due to unit consolidation.

## **Foreign Exchange**

Currency conversions are made at the relevant daily rate based on London 4:00 PM GMT, as quoted by Reuters. The market value of investments in foreign funds is translated into Canadian dollars at the exchange rate prevailing at the period-end date. Purchases and sales of investment securities and income and expense transactions are translated at the rate of exchange prevailing on the date of such transactions.

## **Increase (Decrease) in Net Assets from Operations Per Unit**

Increase (decrease) in net assets from operations per unit in the Statements of Operations represents the net increase (decrease) in net assets from operations for the year, divided by the weighted average number of units outstanding during the year.

### **3. Income Taxes**

The Section qualifies as a Unit Trust as defined in the Income Tax Act (Canada). Pursuant to the terms of The Declaration of Trust establishing the Fund, the Section is deemed to distribute annually to the unitholders all of the net taxable income, including net realized gains on investment transactions and such distributions are immediately recontributed to the Section without any increase in the number of units outstanding. As the net income, including net realized gains, is paid or payable to the unitholders, under existing tax legislation it is taxable in the hands of the unitholders and not in the Section. Accordingly, no provision for Canadian income taxes on such income has been included in these financial statements.

## Sceptre Pooled Investment Fund - Bond Section

Notes to Financial Statements

December 31, 2008

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### 4. Related Party Transactions

The Section invests in other sections of the Fund. All sections of the Fund are under common control. As at December 31, 2008 and 2007 these investments were as follows:

Name	Fair Value	
	2008	2007
Sceptre Pooled Investment Fund -	\$	\$
Global Bond Section	-	2,429,458
<b>Total</b>	-	<b>2,429,458</b>

### 5. Commissions and Other Transaction Costs

The Section paid \$27,728 (2007 - \$nil) in brokerage commissions and other transaction costs for portfolio transactions during the year.

The Section paid \$27,607 (2007 - \$8,666) in soft dollar commissions during the year.

### 6. Loss Carryforwards

The net capital losses for tax purposes are available for carry forward indefinitely, and may be applied against net capital gains realized in the future.

As at December 31, 2008, the Section had no accumulated (2007-\$nil) non-capital losses and \$1,891,320 (2007 - \$1,979,908) net capital losses to carry forward.

### 7. Securities Lending

The aggregate market value of securities loaned and collateral held under securities lending transactions as at December 31, 2008 and 2007 are as follows:

	Outstanding Loans		Collateral Amount	
	2008	2007	2008	2007
Bond Section	\$ 25,931,315	\$ 27,722,614	\$ 27,565,369	\$ 29,802,333

The collateral held is in the form of Treasury Bills, Bankers' Acceptances and debt obligations of the Federal and Provincial Governments. The collateral held is not included in the Statement of Investment Portfolio.

### 8. Filing Exemption

National Instrument 81-106 Investment Fund Continuous Disclosure (the "rule") allows for Investment Funds categorized as non-reporting issuers to take advantage of an exemption to file annual and interim financial statements with the relevant regulatory authority as per Section 2.11 of the rule. The Fund, as a non-reporting issuer, is relying on this exemption and therefore does not make such filings.

# Sceptre Pooled Investment Fund - Bond Section

Notes to Financial Statements

December 31, 2008

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## 9. Comparison of Net Asset Value and Net Assets

The table below shows the difference between Net Asset Value per unit and Net Assets per unit.

	2008		2007	
	Net Assets Per Unit (\$)	Net Asset Value Per Unit (\$)	Net Assets Per Unit (\$)	Net Asset Value Per Unit (\$)
<b>As at December 31, 2008</b>				
Sceptre Pooled Investment Fund - Bond Section	584.09	584.74	565.22	565.60

## 10. Financial Instrument Risk

The Section's financial instruments consist of cash, investments, receivables and payables. As a result, the Section 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, credit risk, and liquidity risk. These risks and related risk management practices employed by the Section are discussed below.

### *Market Risk*

The investments of the Section 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 Section 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 Section's market price risk is managed through diversification of the investment portfolio. The Investment Manager monitors the Section's overall market positions on a daily basis and positions are maintained within established ranges. Market risk is comprised of three components: market price risk, interest rate risk and foreign currency risk.

As at December 31, 2008, the Section's primary market risks are interest rate risk and to a small degree, currency risk. The Section is not exposed to market price risk as it holds no equities.

### *(a) Interest Rate Risk*

Interest rate risk arises from the possibility that changes in market interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Section invests in interest-bearing financial instruments. The Section is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. The Section's exposure to interest rate risk is concentrated in its investment in debt securities (such as bonds and debentures). Other assets and liabilities are short-term in nature and/or non-interest bearing.

## Sceptre Pooled Investment Fund - Bond Section

Notes to Financial Statements

December 31, 2008

The table below summarizes the Section's exposure to interest rate risk, categorized by earlier of contractual re-pricing or maturity dates.

	Less than 1 month	3 months - 1 year	1 - 5 years	More than 5 years	Total
	(\$)	(\$)	(\$)	(\$)	(\$)
Interest Rate Exposure	798,491	1,884,219	41,735,034	61,846,719	106,264,463

At December 31, 2008, if market interest rates changed by 25 basis points with all other variables remaining constant, the change in the Section's net assets for the period could have amounted to approximately \$1,663,000. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### *(b) Currency Risk*

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of the Section, will fluctuate due to changes in foreign exchange rates. As at December 31, 2008, the Section did not have any significant exposure to currency risk.

### *Credit Risk*

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The Section is subject to credit risk from its holdings of bonds. The Section limits its exposure to credit loss by investing in securities with high credit quality and by diversifying among a large number of issuers.

The Section invests in financial assets, which have an investment grade as rated primarily by Dominion Bond Rating Services and Standard & Poor's, Moody's. Ratings for securities that subject the portfolio to credit risk at December 31, 2008 are noted below:

Rating	As a % of Net Assets
AAA	34.64%
AA	32.47%
A	26.63%
BBB	5.38%
<b>Total</b>	<b>99.12%</b>

# Sceptre Pooled Investment Fund - Bond Section

Notes to Financial Statements

December 31, 2008

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All portfolio transactions are settled/paid for 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 are received by the broker. The trade will not settle if either party fails to meet its obligation.

The Section may engage in securities lending transactions with counterparties. Credit risk associated with these transactions is considered minimal as: the value of the collateral must be no less than 102% of the value of the loaned securities (where the amount of collateral is adjusted each trading day to make sure that the value of the collateral does not go below 102% minimum level); the collateral to be held may consist only of cash, qualified securities or securities that can be immediately converted into identical securities to those that are on loan; the Section cannot loan more than 50% of the total value of its assets through securities lending transactions; and the Section's total exposure to any one borrower in securities, derivative transactions and securities lending will be limited to 10% of the total value of the Section's assets.

## *Liquidity Risk*

Liquidity risk is the risk that the Section will encounter difficulty in raising funds to meet cash-flow commitments associated with financial instruments. The Section is exposed to daily cash redemptions of redeemable units. The units of the Section are redeemed on demand at the current Transactional NAV per unit at the option of the unitholder. Liquidity risk is managed by investing the majority of the Section's assets in investments that are traded in an active market and can be readily disposed of. In addition, the Section aims to retain sufficient cash and cash equivalent positions to maintain liquidity.

The Section's investments are considered readily realizable and highly liquid, therefore the Section's liquidity risk is considered minimal.

## **11. Future changes in accounting standards**

In February 2008, the Canadian Accounting Standards Board confirmed that the International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises effective January 1, 2011, which includes investment funds. Management has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Section'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 NAV of the Section. Management has presently determined that there will be no significant impact to Net Assets per Unit as a result of the changeover to IFRS.