

Discussion and Analysis

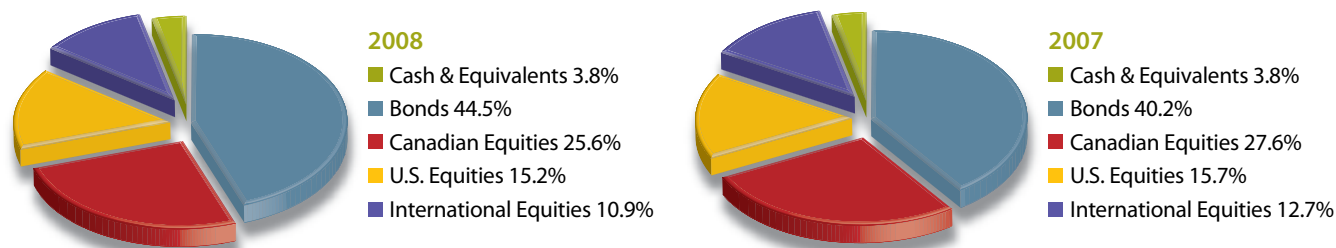
INVESTMENT PORTFOLIO SUMMARY

KBSH Capital Management operates as an independent wholly-owned subsidiary of CI Financial Income Fund. KBSH is one of Canada's most established and highly regarded investment counsellors and has been providing portfolio management services to pension funds, foundations, endowments, institutions, and private individuals for over 25 years. The overall portfolio underperformed the benchmark in 2008. Most of the oil companies in our portfolio have performed poorly in a period of rapidly declining oil prices. The strong US component performance was primarily due to the solid contribution from both the health care and Consumer sectors. Returns in the fixed income markets were polarized.

We believe that corporate bonds offer the best risk adjusted returns in the near term, so we continue to maintain a significant investment there. It should be noted that the portfolio is of a very high quality with a negligible risk of a default in any one security.

Strategically, the portfolio is slightly light in equities versus its benchmark. We are convinced that the portfolio is properly positioned to take advantage of 2009.

The following pie charts show the asset mix of the portfolio as at December 31, 2008, and figures for December 31, 2007 are included for comparison:



The rates of return for the total portfolio for one, two, three, four, five and ten years and rates of return for each of the asset classes and the corresponding benchmark are detailed below.

AS OF DECEMBER 31, 2008	1 YEAR(%)	2 YEAR(%)	3 YEAR(%)	4 YEAR(%)	5 YEAR(%)	10 YEAR(%)
NOVA SCOTIA PUBLIC SERVICE LONG TERM DISABILITY PLAN	-16.13%	-7.72%	-1.40%	-2.03%	3.04%	3.95%
Benchmark	-14.30%	-6.20%	-0.40%	2.40%	NA	NA
CANADIAN EQUITIES	-37.68%	-18.07%	-8.06%	-0.17%	-2.86%	4.34%
S&P/TSX	-33.00%	-14.22%	-4.80%	1.73%	4.16%	5.34%
U.S. EQUITIES	-16.50%	-13.97%	-4.55%	-2.52%	-1.63%	-0.40%
S&P 500 (Cdn.\$)	-21.92%	-16.43%	-6.85%	-4.80%	-3.24%	-3.60%
INTERNATIONAL EQUITIES	-34.17%	-18.28%	-5.34%	-0.65%	-0.78%	-0.23%
MSCI EAFE (Cdn.\$)	-29.43%	-18.27%	-5.39%	-1.65%	1.01%	-1.13%
FIXED INCOME	4.27%	3.78%	4.13%	4.30%	4.71%	5.70%
Scotia Capital Universe Bond	6.41%	5.04%	4.71%	5.14%	5.54%	5.99%

Source: KBSH Capital Management