



# Management Report of Fund Performance

December 31, 2008

Steadyhand Savings Fund

# Steadyhand Savings Fund

## Annual Management Report of Fund Performance (December 31, 2008)

This annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-888-888-3147, by writing to us at Steadyhand Investment Funds Inc., 1747 West 3<sup>rd</sup> Avenue, Vancouver, BC, V6J 1K7 or by visiting our website at [www.steadyhand.com](http://www.steadyhand.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Unitholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

### Investment Objective and Strategies

The fundamental investment objective of the Savings Fund is to provide a stable level of current income and capital preservation through investing in a portfolio of Treasury Bills and short-term debt instruments issued by Canadian corporations and the government.

Given the fund's emphasis on capital preservation, it is managed conservatively. The portfolio's average term to maturity will not exceed 90 days, and the portfolio adviser only invests in debt instruments with high credit ratings.

### Risk

The primary risks associated with an investment in the fund are interest rate risk and credit risk. The other risks are outlined in the simplified prospectus. There were no changes to the fund over the reporting period that affected its overall level of risk.

### Results of Operations

Over the year, the fund's net assets increased to \$3.8 million as of December 31, 2008, from \$3.0 million at the end of 2007. This increase was attributable to net sales of approximately \$733,000.

The fund advanced 2.5% in 2008. Over the same period, the DEX 91 Day T-Bill Index gained 3.3%. The fund's return is net of fees, whereas the return of the index does not include any costs or fees. This is the primary reason why the fund underperformed the index.

Over the year, the Bank of Canada lowered its key interest rate by 2.75%, to 1.5%. Because the fund invests in short-term debt instruments, its yield dropped accordingly. At the end of 2007, the fund had a yield of 4.5%. By the end of 2008, the yield had dropped to 1.4%.

The central banks were busy over the year as global economic growth deteriorated. Coordinated actions around the globe led to a great deal of stimulus being pumped into the financial system in the wake of a painful period of asset de-leveraging.

By year-end, the U.S. Federal Reserve had dropped its key policy rate to a range of 0% to 0.25%, representing a drop of over 5% in a little over a year. Similarly, the Bank of Canada cut its key lending rate to its lowest level in 50 years. Both banks have shown a commitment to do whatever it takes to shore up the lending markets and the financial system in general.

The portfolio advisor, Connor, Clark & Lunn (CC&L), invested the majority of the fund's assets in corporate notes over the year. At the beginning of the year, roughly 64% of the fund's assets were invested in corporate notes, with the remaining 36% invested in government notes. By year-end, the fund's weighting in corporate notes was brought down slightly, to 54%, with the balance of the fund invested in government notes.

There were no unusual trends in revenues or expenses over the reporting period.

### **Recent Developments**

The U.S. Federal Reserve and the Bank of Canada embarked on a short-term interest rate cutting campaign early in the year, slashing rates by 2.25% and 1.25%, respectively, over the first four months of 2008. This was followed by a brief pause in the second and third quarters of the year over heightened concerns of a lasting rise in inflation. In the final quarter of the year, however, both banks slashed rates again to historically low levels in what was one of the most volatile periods ever in the capital markets. As credit markets froze up, large coordinated interest rate cuts and massive central bank liquidity injections were introduced.

With the sharp drop in short-term rates late in the year, money market instruments are now providing some of the lowest yields on record. In fact, yields on 3-month T-bills in the U.S. briefly fell into negative territory in the fourth quarter.

In the current environment, the portfolio advisor (CC&L) thinks that the Bank of Canada will continue to edge policy rates lower in line with deteriorating economic circumstances particularly during the first half of 2009. They will continue to adjust the term of the portfolio on a tactical basis as they also expect volatility to remain high.

CC&L doesn't anticipate making many fundamental changes in the credit structure and will maintain notable exposure to bank and commercial paper; however, they will be opportunistic in increasing or decreasing exposure to bank paper depending on the spreads over Canada Treasury Bills.

There were no changes over the reporting period to the manager, portfolio advisor, accounting policies or investment review committee of the fund.

### **Related Party Transactions**

#### ***Management Fees***

Steadyhand Investment Funds Limited Partnership is the manager of the Fund. The Fund pays a fee of 0.65% (at an annual rate) to the manager and portfolio adviser, in aggregate, for managing the Fund and providing the Fund with administrative services including fund accounting and unitholder record keeping. This fee is calculated daily and paid monthly based on the net asset value of units of the Fund. The manager pays all of the Fund's operating expenses (and is not reimbursed by the Fund for such expenses) with the exception of brokerage charges. For the year ended December 31, 2008, the Fund paid gross fees of \$19,399 to the manager.

As at December 31, 2008, Steadyhand Investment Funds Inc. and its affiliates, subsidiaries, officers and directors owned 199,501 units, or 52.9% of the total fund units.

## 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 since the date that it was seeded. This information is derived from the Fund's audited annual financial statements.

<b>The Fund's Net Asset Value (NAV) per Unit</b>	<b>Dec 31, 2008</b>	<b>Dec. 31, 2007</b>
<b>Net Asset Value, beginning of year<sup>1,3</sup></b>	<b>10.00</b>	<b>10.00</b>
<b>Increase (decrease) from operations</b>		
Total revenue	0.31	0.43
Total expenses	(0.05)	(0.04)
Realized gains (losses) for the period	-	-
Unrealized gains (losses) for the period	-	-
<b>Total increase (decrease) from operations<sup>1</sup></b>	<b>0.26</b>	<b>0.39</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.26)	(0.39)
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total distributions for the period<sup>2</sup></b>	<b>(0.26)</b>	<b>(0.39)</b>
<b>Net asset value, end of the period</b>	<b>10.00</b>	<b>10.00</b>

<sup>1</sup>Net asset value 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.

<sup>2</sup>Distributions were paid in cash/reinvested in additional units of the Fund, or both.

<sup>3</sup>This information is derived from the Fund's audited annual financial statements as at December 31, 2008 and 2007 and the net assets presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in Note 2 of the notes to the financial statements.

<b>Ratios and Supplemental Data</b>	<b>Dec. 31, 2008</b>	<b>Dec. 31, 2007</b>
Net assets (000's) <sup>1</sup>	\$3,773	\$3,040
Number of units outstanding <sup>1</sup>	377,290	303,956
Management expense ratio <sup>2</sup>	0.65%	0.65%
Management expense ratio before waivers or absorptions	0.67%	0.70%
Portfolio turnover ratio <sup>3</sup>	-	-
Trading expense ratio <sup>4</sup>	-	-
Transactional net asset value, end of the period	\$10.00	\$10.00

<sup>1</sup>The information is provided as at December 31 of the period shown.

<sup>2</sup>Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

<sup>3</sup>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 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.

<sup>4</sup>The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

## Past Performance

The performance information shown assumes that all distributions made by the investment fund in the periods shown were reinvested in additional units of the fund. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past performance does not necessarily indicate how the fund will perform in the future.

### *Year-by-Year Returns*

The bar chart below shows the fund's annual performance for each of the year's shown, and illustrates how the fund's performance has changed from year to year. The chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.



The fund first offered units for sale in April 2007.

### *Annual Compound Returns*

The following table shows the fund's annual compound total return for the past one-year, three-year, and five-year periods ended on December 31, 2008, and since the inception of the fund, compared with the DEX 91 Day T-Bill Index.

	<b>1 YR</b>	<b>3 YR</b>	<b>5 YR</b>	<b>Since Inception</b>
Steadyhand Savings Fund	2.5%	N/A	N/A	3.2%
DEX 91 Day T-Bill Index	3.3%	3.9%	3.3%	3.9%

The DEX 91 Day T-Bill Index measures the performance attributable to 91 day treasury bills.

A discussion of the relative performance of the fund as compared to the indices can be found in the Results of Operations section.

## Summary of Investment Portfolio as at December 31, 2008

<b>Portfolio Allocation</b>	
<b>Short Term Paper</b>	% of Net Assets
Corporate Notes	56.7%
Government Notes	43.7%
	<u>100.4%</u>
<b>Cash, Short-term Notes &amp; Other Assets</b>	<u>(0.4)%</u>
<b>Total</b>	<u><u>100.0%</u></u>

<b>Top 25 Holdings</b>	
	% of Net Assets
Government of Canada 0.797% (02/05/09)	21.2%
Province of Ontario Treasury Bill 1.202% (01/07/09)	18.5%
Toronto-Dominion Bank B/A 2.419% (02/11/09)	5.3%
Royal Bank of Canada 2.150% (01/19/09)	4.0%
Government of Canada 1.503% (02/19/09)	4.0%
HSBC Bank of Canada B/A 2.550% (02/02/09)	4.0%
Toyota Credit Canada C/P 2.561% (04/24/09)	3.9%
Bank of Nova Scotia BDN 2.799% (01/12/09)	2.6%
GE Capital Canadian Fund C/P 3.349% (01/12/09)	2.6%
Canadian National Railway 3.130% (01/20/09)	2.6%
Transcanada Pipelines C/P 2.999% (01/22/09)	2.6%
Province of Quebec P/N 2.250% (02/03/09)	2.6%
John Deere Ltd. C/P 2.400% (02/10/09)	2.6%
Honda Canada Finance C/P 2.799% (02/05/09)	2.6%
Terasen Gas Inc C/P 2.901% (02/05/09)	2.6%
Enbridge Inc. C/P 3.050% (02/06/09)	2.6%
National Bank of Canada 1.829% (03/02/09)	2.6%
Canadian Imperial Bank of Commerce 2.640% (02/13/09)	2.6%
Diversified Trust C/P 2.800% (03/20/09)	2.6%
Bank of Montreal BDN 3.200% (06/02/09)	2.6%
CIBC B/A 2.170% (11/10/09)	2.6%
Care Trust Series A C/P 3.479% (01/14/09)	1.3%
Smart Trust C/P 4.000% (06/22/09)	1.3%
Cash and cash equivalents	0.3%

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. Quarterly updates are available (60 days after each quarter end) upon request.



# Management Report of Fund Performance

December 31, 2008

Steadyhand Income Fund

# Steadyhand Income Fund

## Annual Management Report of Fund Performance (December 31, 2008)

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-888-888-3147, by writing to us at Steadyhand Investment Funds Inc., 1747 West 3<sup>rd</sup> Avenue, Vancouver, BC, V6J 1K7 or by visiting our website at [www.steadyhand.com](http://www.steadyhand.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Unitholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

### Investment Objective and Strategies

The fundamental investment objective of the Income Fund is to provide a reasonably stable level of income, modest capital growth, and some long-term preservation of capital.

The fund invests primarily in bonds, but also holds a significant portion of its assets in Real Estate Investment Trusts (“REITs”), income trusts and other income-producing securities for added yield and diversification. The bond portion of the fund is primarily invested in medium to high quality corporate and government bonds of Canadian and foreign issuers. The fund may also invest in derivatives for hedging purposes to protect against losses or for non-hedging purposes as a substitute for direct investment or to generate income.

### Risk

The primary risks associated with an investment in the fund are interest rate risk, credit risk and market risk. The other risks are outlined in the simplified prospectus. There were no significant changes to the fund over the reporting period that affected its overall level of risk.

### Results of Operations

Over the year, the fund's net assets increased to \$14.5 million as of December 31, 2008, from \$6.9 million at the end of 2007. This increase was attributable to net sales of \$9.0 million. The value of the fund's securities declined over the period, which had a negative impact on the fund's asset growth.

The fund declined 8.9% in 2008. Over the same period, the DEX Universe Bond Index gained 6.4% while the S&P/TSX Capped Composite Index lost 33.0%. The fund underperformed the bond index largely due to its heavy weighting in corporate bonds (which underperformed their government counterparts by a substantial margin), and its exposure to income-equities (which include income trusts, dividend-paying equities and real estate investment trusts), which had a miserable year. At the end of December, roughly 70% of the fund's assets were invested in fixed income securities, with 30% invested in income-equities.

Capital markets remained on edge throughout the year over lingering fears of a deep economic slowdown. One of the defining features of 2008 was a crippled credit market. Widespread declines in asset values led to huge write-downs in the banking sector, and financial institutions became increasingly reluctant to lend money, even to one another. Governments around the world stepped in with massive stimulus packages in the second half of the year, but it wasn't enough to “unclog” the capital arteries.

Fixed income investors showed a sharp aversion to risk throughout the year. Government bonds were the only refuge, and investors ran hard and fast to the safety of Treasury Bills. Yields on government

bonds declined dramatically while corporate bond spreads widened to new, and in many cases, never-before-seen highs. At the end of the year, the yield on the Government of Canada benchmark 10-year bond was 2.7% (down from 4.0% at the beginning of the year).

The difference in yield between government and high-quality corporate bonds was substantial at year-end. For example, 10-year bonds issued by the big Canadian banks had yields that were nearly 400 basis points (4%) higher than their government counterparts. South of the border, spreads reached closer to 600 basis points on some investment grade bonds. We haven't seen a pricing environment like this since the Great Depression.

The portfolio advisor, Connor, Clark & Lunn (CC&L), had a significant portion of the fund – roughly 43% of its total assets – invested in corporate bonds at year-end. By comparison, corporate bonds represent 27% of the DEX Universe Bond Index. As a group, these securities had one of their worse years on record, relative to government bonds. This exposure decreased over the year due to the group's poor performance (slightly more than half of the fund's assets were invested in corporate bonds at the end of 2007), but the advisor is not wavering on their stance on these securities. In particular, the fund continues to have significant exposure to financial issuers with strong credit ratings in anticipation of a return to more normal credit conditions.

Approximately 25% of the fund was invested in government bonds at the end of 2008. This was a slight increase from the end of 2007, when these securities comprised 22% of the fund. Federal and provincial bonds performed well over the year and they provide valuable diversification and stable income for the portfolio, but their capital growth potential is likely to be muted going forward given their already low yields.

As the year came to a close, roughly 30% of the fund's assets were invested in income-equities, as mentioned. The fund's exposure to these securities was increased throughout the year (at the end of 2007, they made up 26% of the fund's assets), as the advisor believes that they represent good value at current levels. More specifically, CC&L purchased several financial stocks late in the year as the valuations and dividend yields on a number of equities became very attractive.

These securities weighed heavily on performance over the year as trusts and equities in general suffered large setbacks and there were no areas of the market immune to the sell-off.

The fund's pre-fee yield at the end of the year was 7.4% (versus 6.2% at the end of 2007), which continues to represent an attractive advantage over government bonds.

There were no unusual trends in redemptions, sales, revenues or expenses over the reporting period.

## **Recent Developments**

The credit crunch that emerged in the summer of 2007 turned into a full-blown crisis in 2008. Many financial institutions either met their demise or had to be bailed out by the government, and the lending markets froze up. Government bonds were the only safe haven, despite their low yields, while spreads on high-quality corporate bonds widened to near-historic levels. Several equity markets lost a third to a half of their value as a massive de-leveraging process took place.

In this challenging environment, little went right for the fund, which has an emphasis on credit (corporate bonds) and a strategic position in income-equities. It is the portfolio advisor's view, however, that this could be a once-in-a-lifetime buying opportunity. When the banking system finally gets back on track – which we are starting to see with the narrowing of inter-bank lending rates – corporate spreads should tighten and prices should rebound. While CC&L has been calling for this to happen for quite some time now, bond investors have been much slower to move back into the credit market than anticipated.

The advisor feels the reward/risk opportunities in the corporate bond market are as good as they've ever seen. Accordingly, they have maintained a significant portion of the fund's assets in these securities. They believe that if spreads don't decline in a meaningful way as a result of the Federal Reserve's policy easing, the government will start a direct buying program similar to what they did in the mortgage-backed security (MBS) market, where yields have now come down considerably.

The income-equity portion of the fund underwent some changes of note late in the year. As the income trust structure is set to be phased out in 2011, the portfolio advisor began to shift more of the fund's assets from trusts to dividend-paying equities. In the fourth quarter, CC&L purchased shares in a handful of financial and media companies, including TD Bank, CIBC, Power Corp., Manulife Financial and Thomson Reuters, among others. These stocks all have healthy dividend yields and low valuations. Combined, income trusts and equities comprised 24% of the portfolio as we closed out the year. The advisor may further eliminate some of the fund's trust holdings in favour of dividend-paying equities on an opportunistic basis.

Like equities, real estate investment trusts had a challenging year. The REIT market dropped nearly 40% in 2008. The fund's holdings in the sector weren't spared, notably Calloway REIT, Dundee REIT and H&R REIT, which all lost significant ground. As a group, REITs made up 6% of the portfolio at the end of the year (as compared to 10% at the end of 2007). These securities will continue to be watched closely, as CC&L is seeing a lot of value in the sector.

The fund paid quarterly distributions of \$0.10/unit at the end of March, June and September, and paid a distribution of \$0.12/unit in December, to bring its total distributions for the year to \$0.42/unit. Going forward, the fund is well positioned to continue to pay stable distributions.

It has been a trying time for corporate bond investors. However, CC&L is confident that the tide will eventually turn. And there are signs that the situation is starting to improve. Absolute yields on investment grade bonds started to decline late in the year and TED and LIBOR spreads narrowed in fairly dramatic fashion due to central bank policy easing.

When the appetite for risk improves and investors start once again looking beyond government bonds, high-quality corporate bonds and income-equities will be due for a healthy rebound. The fund is positioned to benefit from such a shift in sentiment.

There were no material changes over the reporting period to the manager, portfolio advisor, accounting policies or investment review committee of the fund.

## **Related Party Transactions**

### ***Management Fees***

Steadyhand Investment Funds Limited Partnership is the manager of the fund. The Manager provides the Fund with investment management services, including fund accounting and unitholder record keeping. In return, the Manager receives a management fee based on the net assets of the Fund, calculated on a daily basis. The annualized net management fee for the units of the Fund is 1.00%. The Fund paid the Manager \$100,291 of its net assets as management fees for the year. The Fund does not reimburse the Manager for operating costs incurred in administering the Fund. The Manager paid all operating expenses except brokerage charges.

The Fund does not directly or indirectly pay fees, sales commissions or trailing commissions, nor does it provide any non-monetary benefits to registered dealers for distributions of units of the Fund. If a broker charges you a commission or fee, that is a matter between you and the dealer.

As at December 31, 2008, Steadyhand Investment Funds Inc. and its affiliates, subsidiaries, officers and directors owned 510,262 units, or 30.2% of the total fund units.

## 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 since the date of inception. This information is derived from the Fund's audited annual financial statements.

<b>The Fund's Net Asset Value (NAV) per Unit</b>	<b>Dec. 31, 2008</b>	<b>Dec. 31, 2007</b>
<b>Net Asset Value, beginning of year<sup>1,3</sup></b>	<b>9.80</b>	<b>10.00</b>
<b>Increase (decrease) from operations</b>		
Total revenues	0.60	0.52
Total expenses	(0.08)	(0.07)
Realized gains (losses) for the period	(0.07)	0.04
Unrealized gains (losses) for the period	(1.33)	(0.24)
<b>Total increase (decrease) from operations<sup>1</sup></b>	<b>(0.88)</b>	<b>0.25</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.41)	-
From dividends	-	-
From capital gains	(0.01)	(0.40)
Return of capital	-	(0.05)
<b>Total distributions for the period<sup>2</sup></b>	<b>(0.42)</b>	<b>(0.45)</b>
<b>Net asset value, end of the period</b>	<b>\$8.52</b>	<b>\$9.80</b>

<sup>1</sup>Net asset value 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.

<sup>2</sup>Distributions were paid in cash/reinvested in additional units of the Fund, or both.

<sup>3</sup>This information is derived from the Fund's audited annual financial statements as at December 31, 2007 and the net assets presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in Note 2 of the notes to the financial statements.

<b>Ratios and Supplemental Data</b>	<b>Dec. 31, 2008</b>	<b>Dec. 31, 2007</b>
Net assets (000's) <sup>1</sup>	\$14,464	\$6,907
Number of units outstanding <sup>1</sup>	1,692,588	704,432
Management expense ratio <sup>2</sup>	1.00%	1.00%
Management expense ratio before waivers or absorptions	1.05%	1.03%
Portfolio turnover ratio <sup>3</sup>	157.00%	372.33%
Trading expense ratio <sup>4</sup>	0.12%	0.11%
Transactional net asset value per unit	\$8.55	\$9.82

<sup>1</sup>The information is provided as at December 31 of the period shown.

<sup>2</sup>Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

<sup>3</sup>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 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.

<sup>4</sup>The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

## Past Performance

The performance information shown assumes that all distributions made by the investment fund in the periods shown were reinvested in additional units of the fund. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past performance does not necessarily indicate how the fund will perform in the future.

### **Year-by-Year Returns**

The bar chart below shows the fund's annual performance for each of the year's shown, and illustrates how the fund's performance has changed from year to year. The chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.



The fund first offered units for sale in April 2007.

### **Annual Compound Returns**

The following table shows the fund's annual compound total return for the past one-year, three-year, and five-year periods ended on December 31, 2008, and since the inception of the fund, compared with the DEX Universe Bond Index and the S&P/TSX Capped Composite Index.

	<b>1 YR</b>	<b>3 YR</b>	<b>5 YR</b>	<b>Since Inception</b>
Steadyhand Income Fund	-8.9%	N/A	N/A	-3.5%
DEX Universe Bond Index	6.4%	4.7%	5.5%	5.4%
S&P/TSX Capped Composite Index	-33.0%	-4.8%	4.2%	-15.6%

The DEX Universe Bond Index measures the performance of the broad Canadian investment-grade bond market. The S&P/TSX Capped Composite Index is a market capitalization index that measures the price movement and dividend income in the common shares of the largest companies listed on the Toronto Stock Exchange, with any individual investment capped at 10%.

A discussion of the relative performance of the fund as compared to the indices can be found in the Results of Operations section.

## Summary of Investment Portfolio as at December 31, 2008

<b>Portfolio Allocation</b>	
<b>Bonds</b>	<b>% of Net Assets</b>
Federal Bonds	20.0%
Provincial Bonds	5.0%
Corporate Bonds	41.8%
Mortgage Backed Securities	1.5%
	<u>68.3%</u>
<b>Equities</b>	
Energy	4.4%
Materials	0.1%
Industrials	6.7%
Consumer Discretionary	2.5%
Consumer Staples	0.3%
Health Care	1.9%
Financials	11.4%
Telecommunication Services	2.6%
	<u>29.9%</u>
<b>Cash, Short-Term Notes &amp; Other Assets</b>	<u>1.8%</u>
<b>Total</b>	<u><u>100.0%</u></u>

<b>Top 25 Holdings</b>	
	<b>% of Net Assets</b>
Canada Housing Trust No.1 3.550% (03/15/09)	5.4%
Canada Housing Trust No.1 4.650% (12/15/09)	4.1%
Government of Canada 5.750% (06/01/29)	3.3%
Canada Housing Trust No.1 3.600% (06/15/13)	2.1%
Canadian Imperial Bank of Commerce 5.000% (09/10/12)	2.0%
Reliance LP C/P 7.300% (04/03/13)	1.9%
CML Healthcare Income Fund	1.9%
Canada Housing Trust No.1 3.550% (09/15/10)	1.9%
Boardwalk REIT	1.8%
GE Capital Canada C/P 5.530% (08/17/17)	1.8%
Hydro Quebec 5.000% (02/15/45)	1.6%
Province of Ontario 4.500% (03/08/15)	1.6%
Toronto Dominion Bank 5.763% (12/18/2106)	1.4%
Bank of Montreal 5.050% (09/03/13)	1.4%
Royal Bank of Canada C/P 5.060% (07/17/13)	1.4%
Manulife Financial Corp.	1.4%
Yellow Pages Income Fund	1.3%
New Flyer Industries Income Fund	1.3%
Enerflex Systems Income Fund	1.3%
Goldman Sachs Group Inc. C/P 5.200% (04/19/22)	1.3%
Toronto Dominion Bank C/P 4.779% (12/14/2105)	1.2%
Morgan Stanley C/P 4.900% (02/23/17)	1.2%
Government of Canada 5.000% (06/01/37)	1.2%
HSBC Bank C/P 4.800% (04/10/22)	1.2%
Armtec Infrastructure Income Fund	1.2%

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# Management Report of Fund Performance

December 31, 2008

Steadyhand Equity Fund

# Steadyhand Equity Fund

## Annual Management Report of Fund Performance (December 31, 2008)

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-888-888-3147, by writing to us at Steadyhand Investment Funds Inc., 1747 West 3<sup>rd</sup> Avenue, Vancouver, BC, V6J 1K7 or by visiting our website at [www.steadyhand.com](http://www.steadyhand.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Unitholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

### Investment Objective and Strategies

The fundamental investment objective of the Equity Fund is to provide long-term capital growth by investing primarily in a concentrated, yet well-diversified portfolio of North American equities. The fund also invests a small portion of its assets in overseas equities for added diversification.

The portfolio adviser looks for companies that have a history of profitability, a sustainable competitive advantage and are run by management teams that are committed to increasing shareholder value. As part of their investment process and discipline, the portfolio adviser invests in a maximum of 25 stocks.

### Risk

The primary risks associated with an investment in the fund are market risk, concentration risk, foreign market risk and currency risk. The other risks are outlined in the simplified prospectus. There were no material changes to the fund over the reporting period that affected its overall level of risk.

### Results of Operations

Over the year, the fund's net assets increased to \$17.1 million as of December 31, 2008, from \$5.5 million at the end of 2007. This increase was attributable to net sales of \$14.6 million over the year. The value of the fund's securities declined over the reporting period, which had a negative impact on its asset growth.

The fund declined 26.9% over the year. Over the same period, the S&P/TSX Composite Index dropped 33.0%, while the MSCI World Index declined 25.8% in Canadian dollar terms. The fund outperformed the S&P/TSX Composite Index due to the quality of its holdings as well as its notable exposure to U.S. and foreign equities, which at the end of the reporting period comprised 39% of the fund's total assets. The performance of the fund's foreign holdings was aided by the depreciation of the loonie, which dropped by 20% against the U.S. dollar over the year.

Equity markets around the globe suffered steep losses in 2008. There were few places to hide, as the sell-off in equities was widespread and indiscriminate. Many institutions and investors were forced to dump stocks at any price in order to shore up, or de-lever, their balance sheets. In particular, financial and commodity stocks fell hard in the second half of the year as the U.S. sub-prime fiasco further unraveled and the price of oil and other base commodities fell through the floor.

The S&P/TSX Composite Index's negative performance was largely driven by resource-related stocks. The price of a barrel of oil fell roughly 70% in the second half of the year, from \$140 at the end of June to

\$40 in mid-December. Energy stocks suffered large setbacks as a result, with the sector declining 50% in the second half of the year (the sector was down 36% over the year). Materials stocks suffered a similar fate, with the sector declining 42% over the last six months of the year, and 26% on the year as a whole. Combined, stocks in these sectors comprised 27% of the fund's equity holdings at year-end (down from 33% at the end of June), compared to 45% of the S&P/TSX Composite Index. The fund's exposure to resource and oil stocks was little changed from the beginning of the year, when they also comprised 27% of the fund's equities. The fund's holdings in Suncor Energy and Birchcliff Energy were particularly hard hit in the second half of the year, dropping nearly 60% and 67%, respectively. The fund had significantly less exposure to these sectors than the S&P/TSX Composite Index, which helped its performance versus the index.

Financial stocks had a challenging year as well, falling 36% in 2008 and dropping 27% over the last six months of the year. These stocks comprised nearly 29% of the S&P/TSX Composite Index at year-end, versus 19% of the fund's equity holdings. Aside from TD Bank, the fund has limited exposure to the Canadian banks. It does, however, have positions in TMX Group, Manulife Financial, Home Capital Group and HSBC. This strategic positioning was largely a neutral factor on performance, as the sector performed in line with the index.

The fund's holdings in consumer stocks such as Shoppers Drug Mart, Tim Hortons, CVS and Diageo held up well relative to the index over the year, and this contributed to the fund's outperformance. The manager likes the defensive nature, clean balance sheet, and strong cash flow of these stocks. The Consumer Staples sector was the best performing sector over the year (declining 6%). The fund held 16% of its assets in this sector at the end of December, whereas it represented less than 5% of the index.

The fund's portfolio advisor, CGOV, made a few changes to the portfolio over the year. Four new stocks were added (Birchcliff Energy, Research in Motion, Nintendo and Lincoln Electric), while five stocks were removed (Starbucks, Hanfeng Evergreen, Sony, BorgWarner and Nokia).

The addition of Lincoln Electric increased the fund's exposure to the Industrials sector over the latter half of the year. Another key holding in the sector, Ritchie Bros. Auctioneers, held in extremely well relative to the overall market and saw its weight in the fund increased. As a result, the Industrials sector's weight in the fund increased from 11% at the end of 2007 to 16% at the end of 2008.

The other changes of note in the fund's composition were in the Energy and Consumer Discretionary sectors. Energy stocks comprised 22% of the fund's equity holdings at mid-year, but this dropped to 15% at year-end due to the poor performance of stocks in the sector. Consumer Discretionary stocks comprised 14% of the fund at the end of 2007, but only 7% at the end of 2008. This was largely due to the removal of Starbucks in the second quarter of the year.

The fund's geographic profile was little changed over the calendar year. Its exposure to U.S. equities was increased in the second half of the year due to the beneficial currency movement (as previously noted) and the manager's purchase of additional shares in top holdings such as Compass Minerals and CVS, while its weighting in Canadian equities was slightly decreased. The fund's cash position was brought down from 9% at the end of June to roughly 6% at the end of December, which is also where it stood at the beginning of the year. This decrease during the latter half of the year was a reflection of the manager's view that valuations and sentiment represented an attractive buying opportunity.

There were no unusual trends in redemptions, sales, revenues or expenses over the reporting period.

### **Recent Developments**

2008 was a dismal year for equity markets around the globe. Stocks slumped en masse as global economic growth slowed and a recession was formally declared. The credit markets dried up and investors fled hard and fast to the safety of government bonds.

The S&P/TSX Composite Index was down 33%, and the MSCI World Index dropped 26% over the year. Much of the losses came in the last six months of the year, when the Canadian market (TSX) dropped 37%, and global markets (MSCI World) fell 19%.

Equity declines were widespread, with not a single sector of the Canadian market advancing over the year.

The portfolio is concentrated in companies that will lead as we come out of these tough times. These are businesses that are able to generate consistently strong cash flow as a result of a steady customer base, clean balance sheet and strong brand. And importantly, these are stocks that now trade at very low valuations. Rogers Communications, Research in Motion (RIM) and Cisco Systems are but a few examples.

The fund's composition was little changed over the course of the year. This is not to say that the manager has been sitting idle throughout all the volatility. A handful of 'lateral' changes were made to the portfolio in the second half of the year to take advantage of depressed share prices and to provide the fund with a little more exposure to leading growth businesses. RIM replaced Nokia, Sony was swapped for Nintendo, and BorgWarner was sold in favour of Lincoln Electric. The manager (CGOV) was not particularly disappointed with any of these companies, they simply felt there were better prospects elsewhere as some unique investment opportunities emerged late in the year.

At year-end, the fund held 24 stocks, which was one less than it held at the beginning of the year. The fund continues to be well diversified across a number of economic sectors. Its exposure to the Industrials and Consumer Staples sectors was increased over the second half of the year due to strong relative stock performance and the purchase of additional shares in existing holdings (including Shoppers Drug Mart, CVS, Ritchie Bros. Auctioneers, and Diageo). The manager may pare back some of the fund's defensive positions in coming quarters if they start to see better value in a more normal market environment.

Aside from the above-mentioned actions, CGOV did not make any notable changes to the strategic position of the fund. Portfolio turnover was low over the year, at 16.6%. This is consistent with the manager's focus of buying quality stocks for the long run.

There were no changes over the reporting period to the manager, portfolio advisor, accounting policies or investment review committee of the fund.

## **Related Party Transactions**

### ***Management Fees***

Steadyhand Investment Funds Limited Partnership is the manager of the fund. The fund pays a fee of 1.35% (at an annual rate) to the manager and portfolio adviser, in aggregate, for managing the fund and providing the fund with administrative services including fund accounting and unitholder record keeping. This fee is calculated daily and paid monthly based on the net asset value of units of the fund. The manager pays all of the fund's operating expenses (and is not reimbursed by the fund for such expenses) with the exception of brokerage charges. For the period ending December 31, 2008, the fund paid gross fees of \$122,382 to the manager.

As at December 31, 2008, Steadyhand Investment Funds Inc. and its affiliates, subsidiaries, officers and directors owned 9,250 units, or 0.4% of the total fund units.

## 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 since the date of inception. This information is derived from the Fund's audited annual financial statements.

<b>The Fund's Net Asset Value (NAV) per Unit</b>	<b>Dec. 31, 2008</b>	<b>Dec. 31, 2007</b>
<b>Net Asset Value, beginning of year<sup>1,3</sup></b>	<b>10.23</b>	<b>10.00</b>
<b>Increase (decrease) from operations</b>		
Total revenue	0.20	0.19
Total expenses	(0.09)	(0.10)
Realized gains (losses) for the period	(0.67)	(0.27)
Unrealized gains (losses) for the period	(2.20)	0.52
<b>Total increase (decrease) from operations<sup>1</sup></b>	<b>(2.76)</b>	<b>0.34</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.01)	-
From dividends	(0.02)	(0.05)
From capital gains	-	(0.03)
Return of capital	-	-
<b>Total distributions for the period<sup>2</sup></b>	<b>(0.03)</b>	<b>(0.08)</b>
<b>Net asset value, end of the period</b>	<b>7.43</b>	<b>10.23</b>

<sup>1</sup>Net asset value 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.

<sup>2</sup>Distributions were paid in cash/reinvested in additional units of the Fund, or both.

<sup>3</sup>This information is derived from the Fund's unaudited semi-annual financial statements as at December 31, 2008 and 2007 and the net assets presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in Note 2 of the notes to the financial statements.

<b>Ratios and Supplemental Data</b>	<b>Dec. 31, 2008</b>	<b>Dec. 31, 2007</b>
Net assets (000's) <sup>1</sup>	\$17,121	\$5,500
Number of units outstanding <sup>1</sup>	2,297,242	537,288
Management expense ratio <sup>2</sup>	1.35%	1.35%
Management expense ratio before waivers or absorptions	1.40%	1.38%
Portfolio turnover ratio <sup>3</sup>	16.63%	34.77%
Trading expense ratio <sup>4</sup>	0.05%	0.13%
Transactional net asset value per unit	\$7.45	\$10.24

<sup>1</sup>The information is provided as at December 31 of the period shown.

<sup>2</sup>Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

<sup>3</sup>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 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.

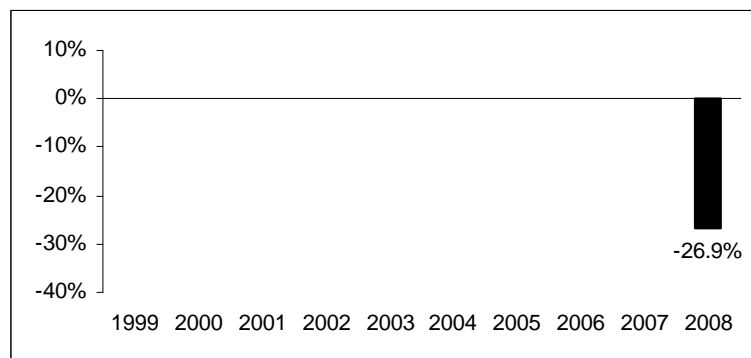
<sup>4</sup>The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

## Past Performance

The performance information shown assumes that all distributions made by the investment fund in the periods shown were reinvested in additional units of the fund. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past performance does not necessarily indicate how the fund will perform in the future.

### Year-by-Year Returns

The bar chart below shows the fund's annual performance for each of the year's shown, and illustrates how the fund's performance has changed from year to year. The chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.



The fund first offered units for sale in April 2007.

### Annual Compound Returns

The following table shows the fund's annual compound total return for the past one-year, three-year, and five-year periods ended on December 31, 2008, and since the inception of the fund, compared with the S&P/TSX Capped Composite Total Return Index and the MSCI Daily Total Return Net World Index ("MSCI World Index").

	1 YR	3 YR	5 YR	Since Inception
Steadyhand Equity Fund	-26.9%	N/A	N/A	-14.1%
S&P/TSX Capped Composite Index	-33.0%	-4.8%	4.2%	-15.6%
MSCI World Index (\$CDN)	-25.8%	-6.4%	-1.4%	-21.0%

The S&P/TSX Capped Composite Total Return Index is a market capitalization index that measures the price movement and dividend income in the common shares of the largest companies listed on the Toronto Stock Exchange, with any individual investment capped at 10%. The MSCI World Index is a market capitalization index that measures the price movement and dividend income in the common shares of the world's largest companies.

A discussion of the relative performance of the fund as compared to the indices can be found in the Results of Operations section.

### Summary of Investment Portfolio as at December 31, 2008

#### Portfolio Allocation

Equities	% of Net Assets
Energy	13.8%
Materials	11.1%
Industrials	14.8%
Consumer Discretionary	2.7%
Consumer Staples	15.0%
Health Care	3.1%
Financials	18.2%

Information Technology	10.0%
Telecommunication Services	5.5%
	<u>94.2%</u>
<b>Cash, Short-term Notes &amp; Other Assets</b>	<u>5.8%</u>
<b>Total</b>	<u><u>100.0%</u></u>

### Top 25 Holdings

	% of Net Assets
Compass Minerals International Inc.	6.5%
CVS Corp.	5.7%
Rogers Communications Inc. Class B	5.5%
Diageo PLC, ADR	5.3%
Ritchie Bros. Auctioneers Inc.	4.7%
Potash Corp. of Saskatchewan	4.6%
Canadian Oil Sands Trust	4.1%
Toronto-Dominion Bank	4.1%
Shoppers Drug Mart Corp.	3.9%
TMX Group Inc.	3.9%
Manulife Financial Corp.	3.8%
Nintendo Co.	3.8%
Cisco Systems Inc.	3.7%
Lincoln Electric Holdings Inc.	3.7%
Cash and cash equivalents	3.7%
Suncor Energy Inc.	3.5%
Pason Systems Inc.	3.5%
Administaff Inc.	3.4%
HSBC Holdings PLC	3.3%
Idexx Laboratories Inc.	3.1%
Home Capital Group Inc.	3.1%
CAE Inc.	3.0%
Birchcliff Energy Ltd.	2.7%
Tim Hortons Inc.	2.7%
Research in Motion	2.5%

The summary of investment portfolio may change due to ongoing portfolio transactions of the fund. Quarterly updates are available (60 days after each quarter end) upon request.



# Management Report of Fund Performance

December 31, 2008

Steadyhand Global Equity Fund

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## Annual Management Report of Fund Performance (December 31, 2008)

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Unitholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

### Investment Objective and Strategies

The fundamental investment objective of the Global Equity Fund is to provide long-term capital growth by investing in a concentrated, yet well-diversified portfolio of equities around the globe, with a focus on the developed world.

The portfolio adviser looks for companies that have a proven ability to generate strong and stable cash flows, can be expected to gain market share over the long term, and trade at reasonable valuations. Stocks are not included in the fund by reference to their weight in an index or by their market capitalization. The manager simply looks for the best risk-adjusted opportunities.

### Risk

The primary risks associated with an investment in the fund are foreign market risk, concentration risk and currency risk. The other risks are outlined in the simplified prospectus. There were no changes to the fund over the reporting period that affected its overall level of risk.

### Results of Operations

Over the year, the fund's net assets increased to \$12.1 million as of December 31, 2008, from \$6.4 million at the end of 2007. This increase was attributable to net sales of \$8.2 million. The value of the fund's securities declined over the period, which had a negative impact on the fund's asset growth.

The fund declined 25.8% in 2008. Over the same period, the MSCI Daily Total Return Net World Index ("MSCI World Index") declined 25.8%. It was a sorry year for global equities, with markets around the world falling sharply as economic growth deteriorated. European and North American indices declined anywhere from 30-45% (in local currency), while most Asian and emerging markets fell even further. The Canadian dollar lost ground against most foreign currencies over the year, which helped dampen losses.

Although the fund matched the return of the index, its composition was markedly different and its performance came from different areas. Throughout the year, the fund maintained close to 20% of its equities in telecom stocks (at year-end, the Telecommunications Services sector made-up 19% of the fund's equity investments). This sector comprised roughly 6% of the MSCI World Index. These stocks have good cash flow and dividend yields and held up well relative to the overall market. The fund's heavy weighting in these stocks was a positive factor in its performance.

Health Care was another sector that made up a good chunk of the fund. Although positions in some of these stocks were trimmed or eliminated toward year-end, the fund held 15% of its equity assets in the sector at the end of December, and these stocks comprised closer to 20% of the fund throughout the first

three quarters of the year. The sector made up 12% of the MSCI World Index at year-end. The limited economic sensitivity of earnings in the sector meant that its risk/reward balance was attractive, and the fund's holdings in companies such as Novartis, Roche, and Johnson & Johnson were effective preservers of capital.

The fund's holdings in bank and insurance stocks were the greatest detractors from performance. The financial headlines were dire, and a number of institutions either collapsed or were rescued by government funds in the second half of the year as the extent of over-leveraging became apparent. Of note, Royal Bank of Scotland, AIG, Citigroup and Irish Life & Permanent weighed heavily on performance.

Technology and oil & gas stocks also had a rough year, and the fund's greater-than-market holdings in Dell, Cisco Systems, Intel, and Gazprom hurt performance. The portfolio advisor, Edinburgh Partners Limited (EPL), increased the fund's holdings in technology stocks as they saw a number of opportunities arise with the sharp pullback in share prices.

On balance, EPL positioned the portfolio quite defensively in 2008, with an emphasis on companies with strong balance sheets and cash flow, and low valuations. The advisor didn't make a lot of changes to the strategic positioning of the fund over the first nine months of the year, but turned more offensive in the fourth quarter and added some companies to the portfolio with better growth profiles. These included China Mobile, Baidu.com, Samsung, Fanuc and Abercrombie & Fitch.

One change of note to the fund's sector allocation came within the Information Technology sector. At the end of 2007, the sector comprised 13% of the fund's equities, whereas it made up 23% of the fund at December 31, 2008. This change is a reflection of the manager finding good value in select technology companies. Also, Health Care stocks were trimmed (as previously mentioned), with the sector's weight in the fund falling from 20% to 15% over the year, and the Financials sector dropped from 19% to 14% due to the poor performance of these stocks and some rebalancing in the sector.

From a geographic standpoint, the fund's profile was little changed over the year. Exposure to U.S. stocks remained largely unchanged at roughly 25% of the fund's equity investments. The weight of European stocks was decreased slightly (from 60% to 54%), with much of the reduction coming in the U.K. Asian stocks, on the other hand, saw their weight in the fund increase from 9% to 18%.

There were no unusual trends in redemptions, sales, revenues or expenses over the reporting period.

### **Recent Developments**

The sell-off in equities in 2008 was truly a world-wide phenomenon. Global economic growth slowed significantly with much of the world now in recession. Consumption declined and businesses and other financial entities swiftly de-levered their balance sheets.

The portfolio advisor believes that equity valuations largely reflect the expected economic scenario and they feel that markets are now, at worst, fair value. While there certainly seems to be some pockets of overvaluation, the risk/reward profile is now better than it has been in a while.

The fund continues to be well diversified across nine industry sectors, with notable holdings in technology, telecom, health care and financial stocks. With a greater sense that we're now bouncing along the bottom of the valley, EPL began tuning up the offense late in the year. This involved selling some of the fund's better-performing defensive holdings (telecom and pharmaceutical stocks) and adding stocks with more attractive growth profiles to the portfolio.

The advisor is seeing some enticing opportunities in areas where they previously had serious concerns. These include energy and commodities, industrials and consumer discretionary companies. EPL anticipates that they will further increase the fund's exposure to these areas in coming months.

At some point in 2009, we're likely to stop getting further shocks to the system and a number of stocks that have been sharply oversold should come back into favour. One area of increasing interest is the emerging markets. In this area, EPL has treaded with caution in the past, but they are starting to see opportunity in select stocks. China Mobile, Samsung and Baidu.com were added to the fund in the fourth quarter.

The Health Care and Telecommunication Services sectors, while not yet expensive, no longer stand out relative to other potential investments and the advisor expects that exposure to these stocks will gradually be reduced over the coming year.

Financial stocks caused the greatest difficulty for the portfolio in 2008. The next 12 months will likely remain uncertain, but the risk will diminish over time. As a sector, these stocks are very cheap and the survivors will stand to make considerable profits. This continues to be the area of greatest risk and opportunity in the fund. Over the course of the year, EPL sold some of the fund's holdings in the sector in which visibility was too unclear. These included: HBOS, Irish Life & Permanent, and AIG. Conversely, Aviva and UBS were among the stocks added to the portfolio.

The advisor saw the second half of the year as a great buying opportunity, and they brought the fund's cash position down from 18% at mid-year to 5% at the end of December. They purchased a number of new stocks and eliminated some troubled holdings, resulting in higher-than-normal portfolio turnover. All said, the fund held 40 stocks at the end of 2008, as compared to 38 at the end of 2007.

There were no changes over the reporting period to the manager, portfolio advisor, accounting policies or investment review committee of the fund.

## **Related Party Transactions**

### ***Management Fees***

Steadyhand Investment Funds Limited Partnership is the manager of the fund. The Manager provides the Fund with investment management services, including fund accounting and unitholder record keeping. In return, the Manager receives a management fee based on the net assets of the Fund, calculated on a daily basis. The annualized net management fee for the units of the Fund is 1.70%. This year, the Fund paid the Manager \$148,198 of its net assets as management fees. The Fund does not reimburse the Manager for operating costs incurred in administering the Fund. The Manager paid all operating expenses except brokerage charges.

The Fund does not directly or indirectly pay fees, sales commissions or trailing commissions, nor does it provide any non-monetary benefits to registered dealers for distributions of units of the Fund. If a broker charges you a commission or fee, that is a matter between you and the dealer.

As at December 31, 2008, Steadyhand Investment Funds Inc. and its affiliates, subsidiaries, officers and directors owned 6,794 units, or 0.4% of the total Fund units.

## 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 since the date of inception. This information is derived from the Fund's audited annual financial statements.

<b>The Fund's Net Asset Value (NAV) per Unit</b>	<b>Dec. 31, 2008</b>		<b>Dec.31, 2007</b>	
<b>Net Asset Value, beginning of year<sup>1,3</sup></b>	\$	<b>8.77</b>	\$	<b>10.00</b>
<b>Increase (decrease) from operations</b>				
Total revenue		0.24		0.18
Total expenses		(0.12)		(0.14)
Realized gains (losses) for the period		(0.63)		(0.11)
Unrealized gains (losses) for the period		(1.54)		(1.43)
<b>Total increase (decrease) from operations<sup>1</sup></b>		<b>(2.05)</b>		<b>(1.50)</b>
<b>Distributions:</b>				
From income (excluding dividends)		(0.07)		(0.03)
From dividends		-		-
From capital gains		-		-
Return of capital		-		-
<b>Total distributions for period<sup>2</sup></b>		<b>(0.07)</b>		<b>(0.03)</b>
<b>Net asset value, end of the period</b>		<b>6.44</b>		<b>8.77</b>

<sup>1</sup>Net asset value 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.

<sup>2</sup>Distributions were paid in cash/reinvested in additional units of the Fund, or both.

<sup>3</sup>This information is derived from the Fund's audited annual financial statements as at December 31 and the net assets presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in Note 2 of the notes to the financial statements.

<b>Ratios and Supplemental Data</b>	<b>Dec. 31, 2008</b>	<b>Dec. 31, 2007</b>
Net assets (000's) <sup>1</sup>	\$12,113	\$6,441
Number of units outstanding <sup>1</sup>	1,876,919	734,527
Management expense ratio <sup>2</sup>	1.70%	1.70%
Management expense ratio before waivers or absorptions	1.70%	1.73%
Portfolio turnover ratio <sup>3</sup>	179.00%	65.61%
Trading expense ratio <sup>4</sup>	0.37%	0.45%
Transactional net asset value per unit	6.45	8.78

<sup>1</sup>The information is provided as at June 30 or December 31 of the period shown.

<sup>2</sup>Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

<sup>3</sup>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 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.

<sup>4</sup>The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

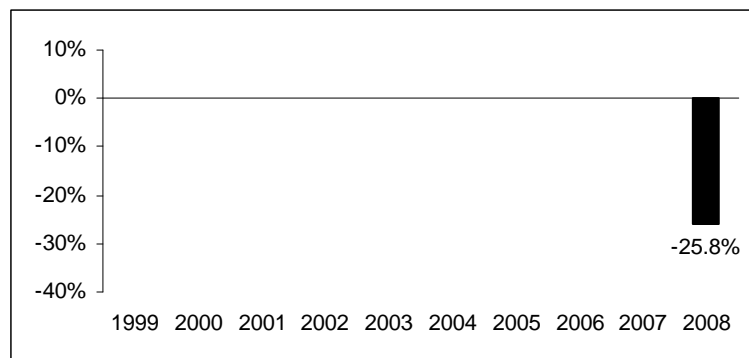
## Past Performance

The performance information shown assumes that all distributions made by the investment fund in the periods shown were reinvested in additional units of the fund. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past performance does not necessarily indicate how the fund will perform in the future.

### Year-by-Year Returns

The bar chart below shows the fund's annual performance for each of the year's shown, and illustrates

how the fund's performance has changed from year to year. The chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.



The fund first offered units for sale in May 2007.

### ***Annual Compound Returns***

The following table shows the fund's annual compound total return for the past one-year, three-year, and five-year periods ended on December 31, 2008, and since the inception of the fund, compared with the MSCI Daily Total Return Net World Index ("MSCI World Index").

	<b>1 YR</b>	<b>3 YR</b>	<b>5 YR</b>	<b>Since Inception</b>
Steadyhand Global Equity Fund	-25.8%	N/A	N/A	-20.3%
MSCI World Index (\$CDN)	-25.8%	-6.4%	-1.4%	-18.8%

The MSCI World Index is a market capitalization index that measures the price movement and dividend income in the common shares of the world's largest companies.

A discussion of the relative performance of the fund as compared to the indices can be found in the Results of Operations section.

## Summary of Investment Portfolio as at December 31, 2008

<b>Portfolio Allocation</b>	
<b>Global Equities</b>	% of Net Assets
Energy	8.0%
Industrials	7.7%
Consumer Discretionary	6.0%
Consumer Staples	3.1%
Health Care	13.8%
Financials	13.1%
Information Technology	22.0%
Telecommunication Services	17.9%
Utilities	3.4%
	<u>95.0%</u>
<b>Cash, Short-term Notes &amp; Other Assets</b>	<u>5.0%</u>
<b>Total</b>	<u>100.0%</u>

### Portfolio Allocation

<b>Top 25 Holdings</b>	
	% of Net Assets
Royal Trust Short-Term Investment Fund I	4.9%
Novartis AG, Registered Shares	4.0%
Cisco Systems Inc.	3.7%
Nokia Corp.	3.7%
Vodafone Group PLC	3.5%
E.ON AG	3.3%
GlaxoSmithKline PLC	3.3%
Roche Holding AG	3.3%
Sanofi-Aventis	3.2%
Unilever NV	3.1%
General Dynamics Corp.	2.8%
ENI SpA	2.8%
France Telecom SA	2.6%
Belgacom SA	2.6%
General Electric Co.	2.6%
China Mobile LT	2.5%
OAO Gazprom	2.4%
Baidu.com ADR	2.4%
Dell Inc.	2.4%
Telefonaktiebolaget LM Ericsson	2.3%
Yamaha Motor Co. Ltd.	2.3%
Intel Corp.	2.3%
TeliaSonera AB	2.3%
Fanuc	2.3%
SK Telecom Co., Ltd, ADR	2.3%

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. Quarterly updates are available (60 days after each quarter end) upon request.



# Management Report of Fund Performance

December 31, 2008

Steadyhand Small-Cap Equity Fund

# Steadyhand Small-Cap Equity Fund

## Annual Management Report of Fund Performance (December 31, 2008)

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-888-888-3147, by writing to us at Steadyhand Investment Funds Inc., 1747 West 3<sup>rd</sup> Avenue, Vancouver, BC, V6J 1K7 or by visiting our website at [www.steadyhand.com](http://www.steadyhand.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Unitholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

### Investment Objective and Strategies

The fundamental investment objective of the Small-Cap Equity Fund is to provide long-term capital growth by investing primarily in a concentrated portfolio of small and medium sized companies in Canada and the U.S., with an emphasis on Canadian equities.

The portfolio adviser looks for companies that have products or services that are easy to understand, proven track records of growing revenues, and experienced management teams.

### Risk

The primary risks associated with an investment in the fund are market risk, concentration risk and small capitalization risk. The other risks are outlined in the simplified prospectus. There were no material changes to the fund over the reporting period that affected its overall level of risk.

### Results of Operations

Over the year, the fund's net assets increased to \$9.3 million as of December 31, 2008, from \$3.4 million at the end of 2007. This increase was attributable to net sales of \$8.4 million. The value of the fund's securities declined over the reporting period, which had a negative impact on its asset growth.

The fund dropped 29.7% in 2008. Over the same period, the BMO Small Cap Blended Index lost 46.6% (its worst year on record). The fund outperformed the index due to its non-benchmark oriented composition. More specifically, its light weighting in energy and resource-related stocks helped performance. The fund's assets are concentrated in a relatively small number of holdings (at the end of the year, it held 16 stocks), and as such, its performance may noticeably deviate from that of the index.

The fund's outperformance over the year was largely driven by four of its top holdings: Stantec, Shoppers Drug Mart, The North West Company, and Vecima Networks. The manager, Wutherich & Company, purchased Stantec in the second quarter and by year-end, the stock had increased over 20% from its cost base and was the fund's second largest holding. It was one of the few stocks in the fund, and the market for that matter, to advance during the second half of the year. Shoppers Drug Mart, The North West Company and Vecima Networks all held up reasonably well in a challenging market environment.

The largest detractors from performance included Sterling Shoes Income Fund and Flint Energy Services. The fund's portfolio advisor, Wutherich & Company, sold Sterling Shoes in the fourth quarter, as its near-

term outlook had become too unclear to warrant a material weighting in the fund. Flint was also sold over concerns that the company's balance sheet had become too stretched.

Over the course of the year, four new stocks were added to the portfolio, while four were removed. The new additions included Canadian Helicopters Income Fund, Stantec, Winalta and Gennum. Conversely, Cervus LP, Gemcom, Sherritt International and Sterling Shoes Income Fund were sold.

Due to the extreme volatility in the market and the above-mentioned changes to the portfolio, the fund's exposure to a few industry sectors changed over the year. Of note, the weight of Consumer Discretionary stocks in the portfolio dropped from 34% of the fund's equities at the end of 2007 to 18% at the end of 2008. This was due to a few factors: Sterling Shoes was removed from the fund; and Easyhome and Glacier Media became smaller positions as their share prices dropped significantly. One sector that gained greater exposure was Industrials. At the beginning of the year, these stocks comprised 12% of the fund's equities, whereas at year-end, they represented 26% of the fund. This was due to the addition of three stocks in the sector (Canadian Helicopters, Stantec and Winalta).

These changes don't reflect a shift in the portfolio advisor's investment strategy; rather, they were a product of the advisor selling companies that they were no longer comfortable with, and buying stocks that represented compelling long-term value.

The fund's cash position grew over the first half of the year, from 9% at the end of December 2007, to 16% at the end of June. The portfolio advisor, however, put some of this cash to work in the second half of the year, bringing the weighting back down to 10%.

There were no unusual trends in redemptions, sales, revenues or expenses over the reporting period.

### **Recent Developments**

Small-cap stocks had their worst year on record, as measured by the BMO Small Cap Blended Index. It was an extremely challenging environment, characterized by indiscriminate selling and a sharp aversion to risk. The illiquid nature of small-cap stocks exacerbated the declines in the market, as some investors had no choice but to liquidate positions at any cost.

The portfolio advisor's focus has been on balance sheet strength. With access to credit harder to come by, it's crucial for smaller companies to have reasonable cash reserves on hand if they want to survive an economic downturn and thrive as we come out of a recession. A number of the fund's holdings are on solid financial footing with no debt and plenty of cash (e.g., Gennum and Evertz Technologies). Yet, despite their attractive attributes and valuations, they continue to be overlooked. The portfolio advisor has been adding to these stocks on weakness and is confident that their true value will eventually be recognized.

The portfolio remains well diversified across seven industry sectors, but its exposure to these sectors is noticeably different than the index, particularly with regard to the Energy and Materials sectors (which combined comprised less than 15% of the fund's equities at year-end). The fund had limited exposure to Energy stocks over the course of the year, but this may change going forward. With oil retreating back to the \$40/barrel level (from \$145), the price of the commodity looks to be out of line. The portfolio advisor plans to re-evaluate their list of companies in the oil patch in the coming months. If this digging out west surfaces good value, Energy's role in the portfolio could be increased.

Turnover was fairly low in 2008, at 31%. Wutherich & Company took advantage of oversold conditions to add a few new companies to the portfolio, but they focused more on adding to some of the fund's existing holdings, many of which traded at depressed levels throughout the year. The advisor is seeing large

dislocations between the intrinsic value and stock price of a number of companies, and they are acting on their convictions. At the end of the year, the fund's top five holdings made up nearly 45% of the portfolio.

Canadian equities comprised the bulk of the portfolio throughout the year. At year-end, the fund held one U.S. stock (Hibbett Sports), out of 16 holdings in total. This was unchanged from the beginning of the year. However, the portfolio advisor may increase the fund's foreign exposure if they find the right opportunities in the U.S.

The small-cap market lost nearly half its value in 2008. After a drop of this extent, the foundation for a rebound has become that much stronger. Wutherich & Company hasn't seen as good value in the market since 2002, and they've been patient buyers when others have been forced to sell.

There were no changes over the reporting period to the manager, portfolio advisor, accounting policies or investment review committee of the fund.

## Related Party Transactions

### *Management Fees*

Steadyhand Investment Funds Limited Partnership is the manager of the fund. The fund pays a fee of 1.70% (at an annual rate) to the manager and portfolio adviser, in aggregate, for managing the fund and providing the fund with administrative services including fund accounting and unitholder record keeping. This fee is calculated daily and paid monthly based on the net asset value of units of the fund. The manager pays all of the fund's operating expenses (and is not reimbursed by the fund for such expenses) with the exception of brokerage charges. For the year ended December 31, 2008, the fund paid gross fees of \$109,021 to the manager.

As at December 31, 2008, Steadyhand Investment Funds Inc. and its affiliates, subsidiaries, officers and directors owned 122,596 units, or 10.7% of the total fund units.

## 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 since the date of inception. This information is derived from the Fund's audited annual financial statements.

<b>The Fund's Net Asset Value (NAV) per Unit</b>	<b>Dec. 31, 2008</b>	<b>Dec.31, 2007</b>
<b>Net Asset Value, beginning of year<sup>1,3</sup></b>	<b>11.69</b>	<b>10.00</b>
<b>Increase (decrease) from operations</b>		
Total revenue	0.26	0.19
Total expenses	(0.21)	(0.26)
Realized gains (losses) for the period	(0.81)	1.04
Unrealized gains (losses) for the period	(3.28)	0.70
<b>Total increase (decrease) from operations<sup>1</sup></b>	<b>(4.04)</b>	<b>1.67</b>
<b>Distributions:</b>		
From income (excluding dividends)	(0.03)	-
From dividends	(0.02)	(0.01)
From capital gains	-	(0.57)
Return of capital	-	-
<b>Total distributions for the period<sup>2</sup></b>	<b>(0.05)</b>	<b>(0.58)</b>
<b>Net asset value, end of the period</b>	<b>8.06</b>	<b>11.69</b>

<sup>1</sup>Net asset value 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.

<sup>2</sup>Distributions were paid in cash/reinvested in additional units of the Fund, or both.

<sup>3</sup>This information is derived from the Fund's audited annual financial statements as at December 31, and the net assets presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in Note 2 of the notes to the financial statements.

<b>Ratios and Supplemental Data</b>	<b>Dec. 31, 2008</b>	<b>Dec. 31, 2007</b>
Net assets (000's) <sup>1</sup>	\$9,475	\$3,503
Number of units outstanding <sup>1</sup>	1,148,850	296,841
Management expense ratio <sup>2</sup>	1.70%	1.70%
Management expense ratio before waivers or absorptions	1.77%	1.77%
Portfolio turnover ratio <sup>3</sup>	30.65%	35.17%
Trading expense ratio <sup>4</sup>	0.70%	0.94%
Transactional net asset value per unit	\$8.25	\$11.80

<sup>1</sup>The information is provided as at June 30 of the period shown.

<sup>2</sup>Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

<sup>3</sup>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 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.

<sup>4</sup>The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

## Past Performance

The performance information shown assumes that all distributions made by the investment fund in the periods shown were reinvested in additional units of the fund. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past performance does not necessarily indicate how the fund will perform in the future.

### Year-by-Year Returns

The bar chart below shows the fund's annual performance for each of the year's shown, and illustrates how the fund's performance has changed from year to year. The chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.



The fund first offered units for sale in April 2007.

### Annual Compound Returns

The following table shows the fund's annual compound total return for the past one-year, three-year, and five-year periods ended on December 31, 2008, and since the inception of the fund, compared with the BMO Small Cap Blended Index.

	1 YR	3 YR	5 YR	Since Inception
Steadyhand Small-Cap Equity Fund	-29.7%	N/A	N/A	-6.9%
BMO Small Cap Blended Index	-46.6%	-14.0%	-2.8%	-32.0%

The BMO Small Cap Blended Index measures the performance of small capitalization stocks in Canada.

A discussion of the relative performance of the fund as compared to the indices can be found in the Results of Operations section.

### Summary of Investment Portfolio as at December 31, 2008

Portfolio Allocation	
<b>Equities</b>	% of Net Assets
Energy	3.5%
Materials	9.0%
Industrials	23.3%
Consumer Discretionary	16.2%
Consumer Staples	15.5%
Information Technology	12.5%
Telecommunication Services	9.8%
	<hr/>
	89.8%
	<hr/>
<b>Cash, Short-term Notes &amp; Other Assets</b>	10.2%
	<hr/>
<b>Total</b>	100.0%
	<hr/> <hr/>

Top 25 Holdings	
	% of Net Assets
Cash & cash equivalents	11.6%
Stantec Inc.	10.7%
Vecima Networks Inc.	9.8%
North West Co. Fund	8.0%
Evertz Technologies Ltd.	7.5%
Shoppers Drug Mart Corp.	7.5%
Hanfeng Evergreen	6.5%
Glacier Ventures International Corp.	5.7%
Canadian Helicopters Income Fund	5.5%
easyhome Ltd.	5.3%
Badger Income Fund	5.3%
Hibbett Sports	5.2%
Genum Corp.	5.0%
Total Energy Services Trust	3.5%
Major Drilling Group International	2.5%
Winalta Inc.	1.8%
Flint Energy Services Ltd.	0.0%

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