# Annual Management Report of Fund Performance

December 31, 2008

Galileo Global Active/Passive Fund

# Management Discussion of Fund Performance

## INVESTMENT OBJECTIVE AND STRATEGIES

The Fund invests using a combination of a passive investment strategy and an active investment strategy. The passive portion of the portfolio is invested in 50 largest exchange-listed U.S. stocks and the 50 largest developed-country American Depository Receipts (ADRs) or global shares listed on major U.S. stock exchanges. These 100 stocks are all equally weighted. Shaunessy & Company Ltd. of Calgary, Alberta is the portfolio sub-advisor for this passive portion.

The remaining 40% of the portfolio is invested primarily in shares of companies around the world that are expected to profit from future economic growth. Galileo Global Equity Advisors Inc. is the portfolio advisor for this 40% of the Fund's portfolio. The allocation of this portion of the portfolio among sectors and countries is generally determined by where the portfolio manager finds the best investment opportunities.

As part of its strategy, the Fund may engage in short selling as a result of special relief it obtained from the Canadian securities regulators and engage in securities lending as permitted by securities regulators.

## RISK

The Passive portfolio remains fully invested in the 100 largest capitalized US and International companies in the manner described above. The active portfolio continues to have a significant cash and cash equivalents position to protect the Fund against the wild swings in the global stock markets. These 100 large companies are all traded in US dollars and have been negatively impacted by the upsurge in the value of the Canadian dollar. The Fund did not participate in any short selling or securities lending during 2008.

Investors in the Fund should have a long-term investment horizon.

## RESULTS OF OPERATIONS

The Fund had slightly positive net sales for the year. The primary cause of the decrease in assets of the Fund was due to negative performance of the Fund. Interest income declined from 2007 as the Fund held significant interest bearing securities at the beginning of 2007, prior to investing 60% of the portfolio in the 100 largest companies. The Fund has not held as much interest bearing securities in 2008. The dividends increased significantly in 2008, as the average portfolio was larger in 2008 than in 2007 and the active portion of the portfolio held more dividend yielding securities.

The Fund performance for 2008 was (36.41%) and (35.74%) for the Class A and Class F units of the Fund respectively. The Fund's benchmark, the S&P Global 100 in Canadian Dollars had a return of (23.64%) for the same period.

The active portion of the Fund dragged down the performance of the Fund as a whole and was primarily responsible for the underperformance relative to the benchmark. The active portion of the Fund was invested in smaller sized companies and small cap indexes mostly lagged larger cap indexes globally. There was a flight to liquidity, where investors parked their money in larger well known, highly traded and therefore liquid securities to the detriment of less well know, smaller and less liquid securities.

## RECENT DEVELOPMENTS

The Fund's Manager has called a special meeting of unitholders for May 15$^{th}$,at which unitholders will vote on whether to merge this Fund into the Galileo Small Mid Cap Fund. The Fund has been given exemptive relief from the regulators to invest in the BetaPro family of closed end funds.

This annual management report of fund performance contains financial highlights but does not contain the complete financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-866-912-2288, by writing to us at Galileo Funds Inc., TD Canada Trust Tower, Suite 4730, 161 Bay Street, PO Box 205, Toronto, ON M5J 2S1, or by visiting our website at www.galileofunds.ca, or SEDAR at 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.

## RELATED PARTY TRANSACTIONS

Galileo Funds Inc., the Fund's Manager and Trustee, is a wholly owned subsidiary of Galileo Global Equity Advisors Inc., which is the Fund's Portfolio Advisor. Galileo Funds Inc. receives management fees based on the average net assets of the Fund. The management fees are used to pay for sales and commissions, the investment management of the Fund and other general administration. For the period ended December 31, 2008, the total management fees charged by Galileo Funds Inc. to the Fund was $37,143 (2007 - $33,682).

The Manager is also the Trustee of the Fund and is responsible for certain aspects of the day-to-day administration. The Fund reimbursed the Manager for certain operating costs incurred in administering the Fund of approximately $48,977. The Manager absorbed approximately $79,835 of total expenses. Such absorptions may be terminated at any time without notice.

## 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 for the past 3 periods. This information is derived from the Fund's audited annual financial statements.

### Net Assets per Unit (3)

| **Class A** | **12/31/2008** | **12/31/2007** | **12/31/2006** |
|---|---|---|---|
| **Net assets, beginning of period (1)** | **$ 11.92** | **$ 12.30** | **$ 12.00** |
| **Increase (decrease) from operations:** | | | |
| Total revenue | 0.20 | 0.20 | 0.02 |
| Total expenses | (0.25) | (0.32) | (0.03) |
| Realized gains (losses) for the period | (2.66) | (0.46) | 0.04 |
| Unrealized gains (losses) for the period | (2.02) | (0.64) | 0.23 |
| **Total increase (decrease) from operations (1)** | **(4.73)** | **(1.22)** | **0.26** |
| **Distributions:** | | | |
| From income (excluding dividends) | - | - | - |
| From dividends | - | - | 0.01 |
| From capital gains | - | - | - |
| Return of capital | - | - | - |
| **Total annual distributions(2)** | **-** | **-** | **0.01** |
| **Net assets, end of period** | **$ 7.54** | **$ 11.92** | **$ 12.30** |

## FINANCIAL HIGHLIGHTS (cont'd)
## Net Assets per Unit [3] (cont'd)

| Class F | 12/31/2008 | 12/31/2007 | 12/31/2006 |
|---|---|---|---|
| **Net assets, beginning of period [1]** | **$ 12.09** | **$ 12.34** | **$ 12.00** |
| **Increase (decrease) from operations:** | | | |
| Total revenue | 0.20 | 0.18 | 0.03 |
| Total expenses | (0.15) | (0.19) | (0.02) |
| Realized gains (losses) for the period | (2.77) | (0.47) | 0.02 |
| Unrealized gains (losses) for the period | (1.78) | (0.61) | 0.31 |
| **Total increase (decrease) from operations [1]** | **(4.50)** | **(1.09)** | **0.34** |
| **Distributions:** | | | |
| From income (excluding dividends) | - | - | - |
| From dividends | - | - | 0.01 |
| From capital gains | - | - | - |
| Return of capital | - | - | - |
| **Total annual distributions[2]** | **-** | **-** | **0.01** |
| **Net assets, end of period** | **$ 7.73** | **$ 12.09** | **$ 12.34** |

(1) Net assets and distributions are based on 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.

(2) Distributions were reinvested in additional units of the Fund.

(3) This information is derived from the Fund's audited annual financial statements. The net assets per unit 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 the notes to the financial statements.

## FINANCIAL HIGHLIGHTS (cont'd)
## Ratios and Supplemental Data

| Class A | 12/31/2008 | 12/31/2007 | 12/31/2006 |
|---|---|---|---|
| Net asset value(1) | $ 1,026,827 | $ 1,385,017 | $ 153,262 |
| Number of units outstanding(1) | 134,922 | 115,722 | 12,453 |
| Management expense ratio(2) | 2.54% | 2.57% | 0.51% |
| Management expense ratio before waivers/absorptions | 5.89% | 6.57% | 13.13% |
| Trading expense ratio(4) | 1.29% | 1.53% | 1.63% |
| Portfolio turnover rate(3) | 214.45% | 331.93% | 10.06% |
| Net asset value per unit | $ 7.61 | $ 11.97 | $ 12.31 |

| Class F | 12/31/2008 | 12/31/2007 | 12/31/2006 |
|---|---|---|---|
| Net asset value(1) | $ 671,622 | $ 1,401,272 | $ 364,498 |
| Number of units outstanding(1) | 86,107 | 115,440 | 29,510 |
| Management expense ratio(2) | 1.49% | 1.52% | 1.18% |
| Management expense ratio before waivers/absorptions | 4.84% | 5.52% | 30.50% |
| Trading expense ratio(4) | 1.29% | 1.53% | 1.63% |
| Portfolio turnover rate(3) | 214.45% | 331.93% | 10.06% |
| Net asset value per unit | $ 7.80 | $ 12.14 | $ 12.35 |

(1) This information is provided at December 31 of the period shown, as applicable.

(2) Management expense ratio for each class of units is based on the total expenses of the Fund, incurred by or allocated to that class of units for the period shown, expressed as an annualized percentage of the daily average net asset value of that class during the period.

(3) 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 period. The higher a Fund's portfolio turnover rate in a period, the greater the trading costs payable by the Fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.

(4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

## MANAGEMENT FEES

The Fund pays an annual fee of 1.95% of the net asset value of Class A and 0.95% of the net asset value of Class F plus GST to the Fund Manager in consideration for the provision of management, distribution and Fund advisory services. This management fee is calculated as a percentage of the Fund's net asset value per class and is calculated and credited daily. The Fund is required to pay Goods and Services Tax (GST) on the management fee.

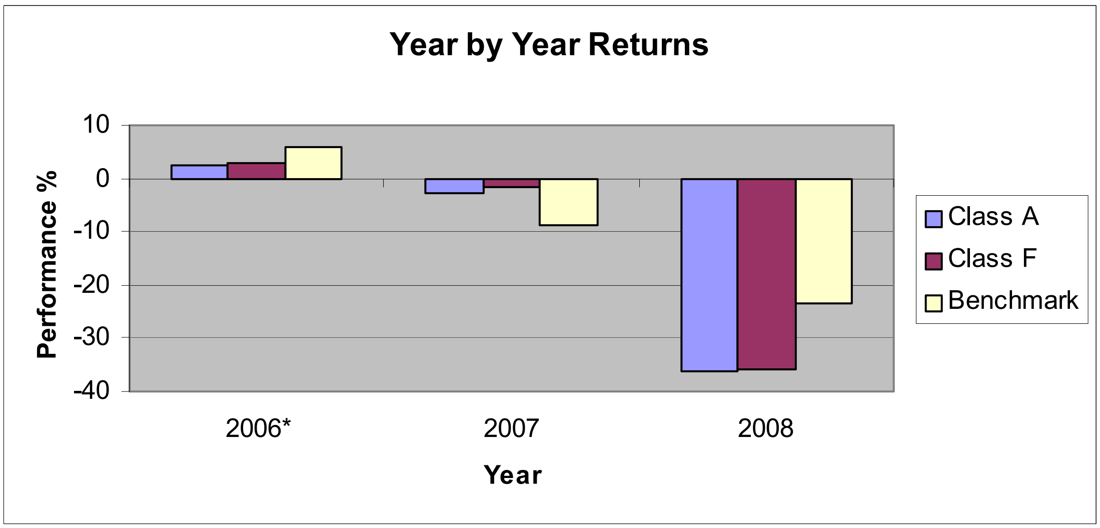
Of the management fees paid by the Fund to the Manager for the Class A units, approximately 108% was used to pay for sales and trailer commissions and 0% was for portfolio management services. Of the management fees paid by the Fund to the Manager for the Class F units, approximately 0% was used to pay for sales and trailer commissions and 100% was for portfolio management services.

## PAST PERFORMANCE

The performance information shown below assumes that all distributions made by the Fund in the period shown were reinvested in additional units of the Fund. The performance information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns or performance. It is important to note that the past performance of the Fund does not tell you how the Fund will perform in the future.

### Year-by-year Returns

The following bar chart indicates the Fund's historical annual returns, which will vary from period to period. It shows the percentage change in value of an investment from the first day to the last day of each fiscal period, as applicable.




* Return is for a partial year starting November 14th, 2006 (the date the Fund first became eligible for purchase via simplified prospectus).

### Annual Compound Returns

The following table shows the Fund's historical average annual compound returns compared with its benchmark the S&P Global 100 Index in Canadian Dollars for the periods shown ended December 31, 2008. The inception of the Fund was November 14, 2006. The S&P Global 100 Index is an index of the 100 largest stocks by capitalization globally.

| | 1-year | Since Inception |
|---|---|---|
| Class A | -36.41% | -19.26% |
| Class F | -35.74% | -18.33% |
| S&P Global 100 Index in CAD | -23.64% | -13.35% |

## SUMMARY OF INVESTMENT PORTFOLIO
**Portfolio breakdown as at December 31, 2008**

| Top 25 Positions | % of Net Assets* |
|---|---|
| Cash & cash equivalents | 11.6% |
| Goldcorp Inc. | 3.4% |
| Johnson & Johnson | 3.2% |
| Syngenta AG, ADR | 2.8% |
| Crescent Point Energy Trust | 2.8% |
| Pacific Rubiales Energy Corp 8.0% | 2.6% |
| H.J. Heinz Co. | 2.5% |
| Gran Tierra Energy | 1.9% |
| Jacobs Engineering Group Inc. | 1.4% |
| McDonald's Corp. | 1.3% |
| Wal-Mart Stores Inc. | 1.3% |
| Fluor Corp. | 1.3% |
| Zongshen PEM Power Systems Inc. | 1.3% |
| Exxon Mobil Corp. | 1.1% |
| Telefonica SA, ADR | 1.1% |
| Procter & Gamble Co. | 1.1% |
| Chevron Corp. | 1.0% |
| Amgen Inc. | 1.0% |
| Abbott Laboratories | 1.0% |
| Nestle SA, ADR, Registered | 1.0% |
| France Telecom SA, ADR | 1.0% |
| Oracle Corp. | 1.0% |
| IBM Corp. | 0.9% |
| Bayer AG, ADR | 0.9% |
| Pepsico Inc. | 0.9% |
| Aggregate % of top holdings | 49.4% |

| Sector Allocation | % of Net Assets* |
|---|---|
| Energy | 14.3% |
| Industrials | 13.4% |
| Health Care Services | 12.1% |
| Consumer Staples | 12.1% |
| Cash & cash equivalents | 11.6% |
| Financials | 9.9% |
| Information Technology | 8.1% |
| Telecommunication Services | 7.3% |
| Consumer Discretionary | 6.9% |
| Materials | 5.9% |
| Utilities | 1.6% |
| Other net assets | -3.2% |
| Total sector allocation | 100.0% |

| Geographic Allocation | % of Net Assets* |
|---|---|
| United States | 49.3% |
| Canada | 12.0% |
| Cash & cash equivalents | 11.6% |
| United Kingdom | 10.1% |
| Germany | 3.9% |
| Japan | 3.6% |
| France | 3.1% |
| Switzerland | 2.6% |
| Other | 7.0% |
| Other net assets | -3.2% |
| Total sector allocation | 100.0% |

* calculated as a percent of the net asset value of the Fund as at December 31, 2008.

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund and updates will be available on a quarterly basis.

## A NOTE ON FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. Such statements are generally identifiable by the terminology used, such as “plan”, “anticipate”, “believe”, “intent”, “expect”, “estimate” or other similar wording.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. We do not undertake, and specifically disclaim, any obligation to update or revise any forward-looking information, whether as a result of new information, future developments or otherwise.

# Galileo Funds

**Galileo Absolute Return Fund**
**Galileo Canadian Active/Passive Fund**
**Galileo Fund**
**Galileo Global Active/Passive Fund**
**Galileo Global Active/Passive Fund**
**Galileo Money Market Fund**
**Galileo Small/Mid Cap Fund**

Additional information about the Galileo Funds is available in the Funds' Prospectus, Annual Information Form and Annual and Semi Annual Financial Statements.

You can get a copy of any of these documents and other information about the Galileo Funds, such as information circulars and material contracts, are also available on our website at www.galileofunds.ca or at www.sedar.com. Some of this information is available on our website in English only.

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