Inside INNOVA
Solid. Stable. Considered.
Issue 14 • Volume 3

Running out of room

Scotia Corporate Class Funds can help fill the void.

Investing is more than just how much you make. It's also about how much you keep. A tax-smart investment approach using corporate class mutual funds can help you keep more of your money invested over the long term.

A familiar way to help postpone this tax bite is registered savings plans such as Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs).

These plans have contribution limits that restrict the ability to help investors with larger amounts to invest.

Options outside of your RRSP

Investing in mutual funds outside a registered plan comes with potential tax implications.

In a traditional mutual fund portfolio, rebalancing your portfolio can trigger an unwelcome tax bill as you shift from one type of fund to another.

For the right investor, corporate class funds can be an effective way to make your non-registered portfolio more tax efficient.

Update your financial plans. Pay your taxes later

With Scotia Corporate Class Funds, its different fund structure allows you to switch between funds to suit your changing financial goals and needs without immediate tax consequences—even if your investments have appreciated in value.

Let's face it, a lot can happen during your lifetime—new job, promotion, marriage, newborn, divorce, inheritance, buying a cottage. As your financial situation changes, you may want to update and rebalance your investment portfolio to reflect new goals and needs.

Here's a simple example: You may start your portfolio focused on growth to take advantage of long-term capital appreciation. But over time, you'll likely want to rebalance your portfolio to a more conservative mix of investments. As you near retirement, you'll likely adjust your portfolio to focus on preserving your accumulated wealth and generating income to fund your retirement needs.

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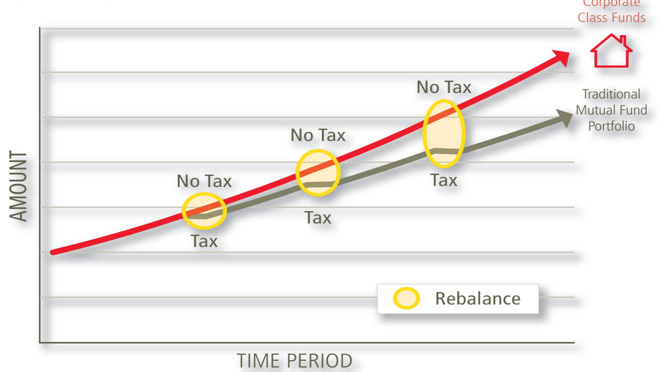
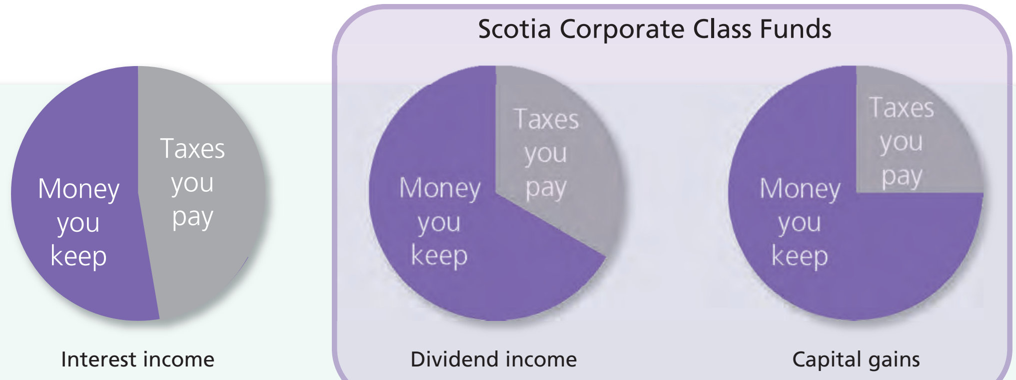
With tax-deferred switching and lower potential distributions, you keep more of your money growing in Scotia Corporate Class Funds.



For illustrative purposes only. This example contrasts the growth of a portfolio of corporate class funds with an identical portfolio of mutual fund trusts. Each portfolio uses the same investment strategy and is periodically rebalanced to a more conservative asset mix over a 20-year period. Assumes reinvestment of income and no transaction costs or taxes, unless otherwise indicated.

Scotia Corporate Class Funds now available in Scotia *INNOVA*™ Portfolio Solutions

- Scotia INNOVA Income Portfolio Class
- Scotia INNOVA Balanced Income Portfolio Class
- Scotia INNOVA Balanced Growth Portfolio Class
- Scotia INNOVA Growth Portfolio Class
- Scotia INNOVA Maximum Growth Portfolio Class



Not all investment income is taxed equally. Within corporate class funds, taxable distributions take the form of Canadian dividends or capital gains, which are more tax-advantageous.

> Continued from page 1

This fund structure also offers you other key advantages if you have a long time horizon and do not need regular cash flow from your investments.

Tax-savvy treatment to reduce your tax liability

Not all investment income is taxed equally. Within corporate class funds, taxable distributions, if any, are paid to all investors as either Canadian dividends or capital gains dividends, both of which are more tax-advantageous. This allows you to keep more money growing in your investment.

Defer taxes and grow

As well as reducing your immediate tax liability and leaving more of your money to grow, investing in corporate class funds lets you take advantage of compound growth. By being able to defer your taxes, you allow more of your investment to grow over time—creating a snowball effect.

When the tax man cometh

At some point, you're going to want to enjoy your lifetime of savings.

"Death, taxes and childbirth! There's never any convenient time for any of them," wrote Margaret Mitchell in her book Gone With the Wind.

While corporate class funds can't address the timing of life events, they do allow you to better manage the timing of taxable events.

Ideally, funds could be redeemed when you have reduced employment income and are in a lower marginal tax bracket such as during retirement.

And even in retirement, there are no time requirements to redeem corporate class funds, making them a potential complement to your Registered Retirement Income Fund.

Being smart about your taxes is always a good strategy. Corporate class funds are one way to help reduce your immediate tax bite outside of a registered plan while keeping more of what you make invested.

Speak with your Scotia advisor and a tax professional to determine what is suitable for your specific long-term investment goals. ■

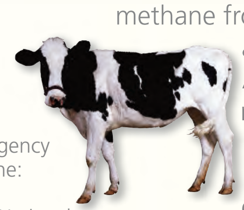
The Tax File

Let's Split

If you are a retiree, you can reduce your taxes by splitting up to 50% of your eligible pension income with your spouse.[1]

Don't Pass This Up!

Do you regularly ride the bus, train or subway to work? Keep your transit passes after they expire. They could be eligible for a non-refundable tax credit.[1]



Mad as a hatter

From 1784 to 1811, the British Government levied a 'wealth tax' on men's hats.[2]

Don't have a cow

In 2003, in an effort to comply with Kyoto Protocol, New Zealand proposed a tax that targeted the release of methane from farm animals, Apparently, this methane accounted for over 50% of the greenhouse gas emissions in that country.[3]

Sources: [1] Canada Revenue Agency Website, [2] British History Online: Journal of the House of Lords volume 37: 1783-1787 and [3] National Geographic News

Looking for regular cash flow

If you require consistent monthly cash flow from your investments, *Scotia INNOVA Portfolio Series T* can provide monthly income based on target payout rates (3%, 4% and 5%) for each Portfolio. *Scotia INNOVA Portfolio Series T* also offers a more tax efficient cash flow than traditional income-producing investments.

Not available in corporate class funds. Minimum investment amounts apply.

Words from the Wise

Pearls of wisdom from some of our top investment minds

"We are finding compelling opportunities in U.S. dividend-paying equities, which are trading at attractive valuations compared to their Canadian peers and offering broader diversification benefits in certain sectors."

Jason Gibbs, GCICL, Scotia Canadian Dividend Fund

"The current environment – devoid of clarity and rife with uncertainty – causes most investors to rein in their equity exposure or seek out more defensive holdings. We have found opportunities in the neglected areas, which tend to be cyclical industries /sectors that trend with the performance of the broader economy and business cycle."

Randell A. Cain, Herndon Capital Management, Scotia Private U.S. Value Pool

"Profit growth is likely to be scarce. Indeed, it already is. However, our investment process leads us to identify companies whose ability to grow their businesses and to earn high returns on capital may persist – even in difficult economic environments."

Ferrill Roll, Harding Loevner, Scotia Private Global Equity Pool

"Even with weakening macro conditions, we remain comfortable with our overweight positions in financials, consumer discretionary and information technology stocks, due to their attractive growth prospects, strong profitability and attractive valuations."

Pablo Salas, Trilogy Advisors, Scotia Private Emerging Markets Pool

"Canadian interest rates will probably rise slightly during the second half 2012, if credible steps are taken to stabilize the European bank/sovereign debt problems and encourage growth."

Romas Budd, GCICL, Scotia Canadian Income Fund

"Net issuance of bonds is negative in many fixed income sectors – at the same time the search for yield is unwavering, which is helping to contain credit sector spread volatility. We remain cautiously positioned, but are willing to take risk in names or sectors we find fundamentally attractive."

Jude Driscoll, Logan Circle Partners Investment Management, Scotia Private American Core-Plus Bond Pool

Portfolio Performance (as at June 30, 2012)

SCOTIA PORTFOLIOS	3 Mths	6 Mths	1 Yr	2 Yrs	3 Yrs	Since Inception
Scotia INNOVA™ Portfolios Series A						
Scotia INNOVA Income	0.66%	2.86%	4.27%	5.58%	6.03%	7.05%*
Scotia INNOVA Balanced Income	-0.15%	3.08%	2.46%	5.62%	5.90%	7.80%*
Scotia INNOVA Balanced Growth	-1.46%	3.05%	-0.24%	5.48%	5.50%	7.86%*
Scotia INNOVA Growth	-2.41%	3.05%	-2.37%	5.24%	5.04%	8.36%*
Scotia INNOVA Maximum Growth	-3.82%	3.29%	-5.54%	5.02%	4.44%	8.01%*
Scotia INNOVA™ Portfolios Series T						
Scotia INNOVA Income	0.66%	2.86%	4.28%	5.57%	–	4.84%**
Scotia INNOVA Balanced Income	-0.15%	3.09%	2.47%	5.62%	–	4.18%**
Scotia INNOVA Balanced Growth	-1.46%	3.05%	-0.23%	5.48%	–	3.14%**

* January, 2009

**January, 2010

ScotiaFunds are offered by Scotia Asset Management LP, a corporate entity separate from, although wholly-owned by, The Bank of Nova Scotia. Commissions, trailing commissions, management fees and expenses may be associated with mutual fund investments. Important information about ScotiaFunds is contained in the Funds' simplified prospectuses. Copies are available through all branches of The Bank of Nova Scotia. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns as at June 30, 2012 including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unit holder that would have reduced returns.

Building on diversification

– with real estate

When markets rise and fall most dramatically, diversification is most highly prized. Scotia INNOVA Portfolios' enhanced diversification goes beyond the typical allocation to fixed income and equities to include an additional asset class – real estate.

Real estate investments historically tend to rise and fall at different times in the market cycle than traditional fixed income and equity funds. The net impact is smoother returns overall.

Also, cash flows from real estate have durability, due to the multi-year contractual leases many real estate firms have with their tenants.

The unique and compelling attributes of Scotia Private Global Real Estate Pool should provide additional reassurance that INNOVA Portfolios' enhanced diversification can help provide steadier returns in all markets.

Scotia Private Global Real Estate Pool, managed by CBRE Clarion Securities, aims to identify undervalued real estate securities worldwide. With a 28-year track record, the firm has one of the deepest regional expertise of any real estate investment management team in the world. ■

A Look at the Markets

Economic recovery hits speed bump.

U.S. equity market declines on conflicting economic data


Sunny with clouds

The United States has been outperforming most equity markets and currencies, buoyed by strong corporate earnings, low interest rates and an investor friendly environment. Some recent economic data has shown some signs of slowing down, but are still directionally positive. Also, the U.S. housing market continues to stabilize and even shows signs of slight improvement.

Index Performance

3-Months (as of June 30, 2012)

▼ -7.0%	MSCI Emerging Markets Index
▼ -3.0%	Global equities (MSCI World Index) .
▼ -0.8%	U.S. market (S&P 500 Index)
▼ -5.7%	Canadian equities (S&P/TSX Composite Index)

Source: Bloomberg

Canadian equity market continues to lag behind global peers


Sunny with clouds

The Canadian equity market was weaker as anticipated lower demand from China and other major economies has impacted commodity prices. Although a decline or potential future decline in earnings would seem reasonable as a result, evidence shows operating earnings (profits net of expenses) have grown steadily for several years and that the trend will continue and strengthen.

Support of austerity may be diminishing


Cloudy

Germany is the source of economic strength for the euro zone and Europe as a whole. On one hand, Germany is influential in supplying financial assistance and outlining the terms with an emphasis on austerity. On the other hand, support for Germany's view may be fading as anti-austerity movement gathered momentum.

Situation in Europe may be spilling over into Asia


Cloudy

Growth expectations were lowered for China, India and other countries. The central banks of China, India, and Australia have all recently lowered their short-term rates in an attempt to provide stimulus. Similarly, Brazil has lowered their central bank rate twice since April.

Investor angst over ongoing sovereign debt problems


Thunderstorm

Similar to previous bailout provisions for other euro zone countries, skeptics perceived the relief for Spain and Italy to be too little and that more must be done in the future. Meanwhile, another potential market disruption was avoided as a result of the Greek elections held in mid-June. The prevailing pro-bailout New Democracy party was expected to form a coalition government in an attempt to keep Greece in the euro zone. ■

Outlook provided by Scotia Asset Management L.P., portfolio advisor to Scotia INNOVA Portfolios.

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