

# ScotiaFunds® Simplified Prospectus

January 15, 2014

# 2014

## Income Funds

Scotia Conservative Income Fund (Series A units)

No securities regulatory authority has expressed an opinion about these units. It is an offence to claim otherwise.

The ScotiaFunds and the units they offer under this simplified prospectus are not registered with the U.S. Securities and Exchange Commission. Units of the funds may be offered and sold in the United States only in reliance on exemptions from registration.



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# Introduction

In this document,

*fund, funds, portfolio or portfolios* means a mutual fund that is offered for sale under this simplified prospectus;

*Manager, we, us, and our* refer to 1832 Asset Management L.P.;

*Scotiabank* includes The Bank of Nova Scotia (Scotiabank) and its affiliates, including The Bank of Nova Scotia Trust Company (Scotiabank Trust), 1832 Asset Management L.P., Scotia Securities Inc. and Scotia Capital Inc. (including ScotiaMcLeod® and Scotia iTRADE®, each a division of Scotia Capital Inc.);

*ScotiaFunds* refers to all of our mutual funds and the series, thereof, which are offered under separate simplified prospectuses under the ScotiaFunds® brand and includes the Scotia mutual funds offered under this simplified prospectus;

*Tax Act* means the *Income Tax Act* (Canada); and

*underlying fund* refers to a mutual fund (either a ScotiaFund or other mutual fund) in which a fund invests.

This simplified prospectus (“Simplified Prospectus”) contains selected important information to help you make an informed investment decision about the fund and to understand your rights as an investor. It’s divided into two parts. The first part, from pages 1 to 7, contains specific information about the fund offered for sale under this simplified prospectus. The second part, from pages 8 to 22, contains general information that applies to the fund offered for sale under this simplified prospectus and the risks of investing in mutual funds generally, as well as the names of the firms responsible for the management of the fund.

Additional information the fund is available in its annual information form, its most recently filed Fund Facts, its most recently filed annual and interim financial statements and its most recently filed annual and interim management reports of fund performance. These documents are incorporated by reference into this simplified prospectus. That means they legally form part of this simplified prospectus just as if they were printed in it.

You can get a copy of the fund’s annual information form, its most recently filed Fund Facts, financial statements and management reports of fund performance at no charge by calling 1-800-268-9269 (416-750-3863 in Toronto) for English, or 1-800-387-5004 for French, or by asking your mutual fund representative. You’ll also find these documents on our website at [www.scotiafunds.com](http://www.scotiafunds.com).

These documents and other information about the funds are also available at [www.sedar.com](http://www.sedar.com).

# Fund specific information

The fund offered under this simplified prospectus is part of the ScotiaFunds family of funds. The fund has been established as a mutual fund trust. The fund is associated with an investment portfolio having specific investment objectives. Each unit of a series represents an equal, undivided interest in the portion of the fund's net assets attributable to that series. ScotiaFunds offers a number of series of units. The funds offer one or more of units of the fund. The Scotia Conservative Income Fund only offers Series A units which are available to all investors.

## About the fund description

On the following pages, you'll find detailed descriptions of the fund to help you make your investment decisions. Here's what each section of the fund descriptions tells you:

### Fund details

This section gives you some basic information about the fund, such as its start date and its eligibility for registered plans, including Registered Retirement Savings Plans ("RRSPs"), Registered Retirement Income Funds ("RRIFs"), Registered Education Savings Plans ("RESPs"), Registered Disability Savings Plans ("RDSPs"), Life Income Funds ("LIFs"), Locked-in Retirement Income Funds ("LRIFs"), Locked-in Retirement Savings Plans ("LRSPs"), Prescribed Income Funds ("PRIFs") and Tax-Free Savings Accounts ("TFSA's").

The fund offered under this simplified prospectus is, or are expected to be, qualified investments under the Tax Act for registered plans. In certain cases, we may restrict purchases of units of certain funds by certain registered plans.

### What does the fund invest in?

This section tells you the fund's fundamental investment objectives and the strategies it uses in trying to achieve those objectives. Any change to the fundamental investment objectives must be approved by a majority of votes cast at a meeting of unit-holders called for that purpose.

### About derivatives

Derivatives are investments that derive their value from the price of another investment or from anticipated movements in interest rates, currency exchange rates or market indexes. Derivatives are usually contracts with another party to buy or sell an asset at a later time and at a set price. Examples of derivatives are options, forward contracts, futures contracts and swaps.

- *Options* generally give holders the right, but not the obligation, to buy or sell an asset, such as a security or currency, at a set

price and a set time. Option holders normally pay the other party a cash payment, called a premium, for agreeing to give them the option.

- *Forward contracts* are agreements to buy or sell an asset, such as a security or currency, at a set price and a set time. The parties have to complete the deal, or sometimes make or receive a cash payment, even if the price has changed by the time the deal closes. Forward contracts are generally not traded on organized exchanges and are not subject to standardized terms and conditions.
- *Futures contracts*, like a forward contract, are agreements to buy or sell an asset, such as a security or currency, at a set price and a set time. The parties have to complete the deal, or sometimes make or receive a cash payment, even if the price has changed by the time the deal closes. Futures contracts are normally traded on a registered futures exchange. The exchange usually specifies certain standardized terms and conditions.
- *Swaps* are agreements between two or more parties to exchange principal amounts or payments based on returns on different investments. Swaps are not traded on organized exchanges and are not subject to standardized terms and conditions.

The fund can use derivatives as long as it uses them in a way that's consistent with the fund's investment objectives and with Canadian securities regulations. The fund may use derivatives to hedge its investments against losses from changes in currency exchange rates, interest rates and stock market prices. The fund may also use derivatives to gain exposure to financial markets or to invest indirectly in securities or other assets. This can be less expensive than buying securities or assets directly.

When a fund uses derivatives for purposes other than hedging, it holds enough cash or money market instruments to fully cover its positions, as required by securities regulations.

### Investing in other mutual funds

The fund may, from time to time, invest some or all of its assets in other mutual funds ("underlying funds") that are managed by us or one of our affiliates or associates, including other ScotiaFunds, or by third party investment managers. When deciding to invest in other mutual funds, the portfolio advisor may consider a variety of criteria, including management style, investment performance and consistency, risk attributes and the quality of the underlying fund's manager or portfolio advisor.

## **Funds that engage in repurchase and reverse repurchase transactions**

The fund may enter into repurchase or reverse repurchase agreements to generate additional income from securities held in a fund's portfolio. When a mutual fund agrees to sell a security at one price and buy it back on a specified later date (usually at a lower price), it is entering into a repurchase transaction. When a mutual fund agrees to buy a security at one price and sell it back on a specified later date (usually at a higher price), it is entering into a reverse repurchase transaction. For a description of the strategies the fund uses to minimize the risks associated with these transactions, see the discussion under *Repurchase and reverse repurchase transaction risk*.

## **Funds that lend their securities**

The fund may enter into securities lending transactions to generate additional income from securities held in a fund's portfolio. A mutual fund may lend securities held in its portfolio to qualified borrowers who provide adequate collateral. For a description of the strategies the fund uses to minimize the risks associated with these transactions, see the discussion under *Securities lending risk*.

## **Funds that engage in short selling**

Mutual funds may be permitted to engage in a limited amount of short selling under securities regulations. A "short sale" is where a fund borrows securities from a lender which are then sold in the open market (or "sold short"). At a later date, the same number of securities are repurchased by the fund and returned to the lender. In the interim, the proceeds from the first sale are deposited with the lender and the mutual fund pays interest to the lender. If the value of the securities declines between the time that the fund borrows the securities and the time it repurchases and returns the securities, the fund makes a profit for the difference (less any interest the fund is required to pay to the lender). In this way, the mutual fund has more opportunities for gains when markets are generally volatile or declining.

## **What are the risks of investing in the fund?**

This section tells you the risks of investing in the fund. You'll find a description of each risk in *Specific risks of mutual funds*.

## **Investment risk classification methodology**

A risk classification rating is assigned to the fund to provide you with information to help you determine whether the fund is appropriate for you. The fund is assigned a risk rating in one of the following categories: low, low to medium, medium, medium to high or high. The investment risk rating for each fund is reviewed

at least annually as well as if there is a material change in a fund's investment objective or investment strategies.

The methodology used to determine the risk ratings of the fund for purposes of disclosure in this simplified prospectus is based on a combination of the qualitative aspects of the methodology recommended by the Fund Risk Classification Task Force of the Investment Fund Institute of Canada and the Manager's quantitative analysis of a fund's historic volatility. The Manager takes into account other qualitative factors in making its final determination of each fund's risk rating. In particular, the standard deviation of each fund is reviewed. Standard deviation is a common statistic used to measure the volatility of an investment. Funds with higher standard deviations are generally classified as being more risky. Qualitative factors taken into account include key investment policy guidelines which may include but are not limited to regional, sectoral and market capitalization restrictions as well as asset allocation policies.

The Manager recognizes that other types of risk, both measurable and non-measurable, may exist and that historical performance may not be indicative of future returns and a fund's historic volatility may not be indicative of its future volatility.

The methodology that the Manager uses to identify the investment risk level of the fund is available on request at no cost by contacting us toll free at 1-800-268-9269 (416-750-3863 in Toronto) for English or 1-800-387-5004 for French or by email at [fundinfo@scotiabank.com](mailto:fundinfo@scotiabank.com) or by writing to us at the address on the back cover of this simplified prospectus.

## **Who should invest in this fund?**

This section can help you decide if the fund might be suitable for your portfolio. It's meant as a general guide only. For advice about your portfolio, you should consult your mutual fund representative. If you don't have a mutual fund representative, you can speak with one of our representatives at any Scotiabank branch or by calling a Scotia Securities Inc. office.

## **Distribution policy**

This tells you when the fund usually distributes any net income and capital gains, and where applicable, return of capital to unit-holders. The funds may also make distributions at other times.

Distributions on units held in registered plans and non-registered accounts are reinvested in additional units of the fund, unless you tell your mutual fund representative that you want to receive cash distributions. For information about how distributions are taxed, see *Income tax considerations for investors*.

### **Fund expenses indirectly borne by investors**

This is an example of how much the fund might pay in expenses. It is intended to help you compare the cost of investing in the fund with the cost of investing in other mutual funds. Each fund pays its own expenses, but they affect you because they reduce the fund's returns.

As the Scotia Conservative Income Fund (Series A units) is a new fund, expenses information is not available.



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## Income Funds

### Scotia Conservative Income Fund

The income fund aims to offer the potential for higher interest income than the cash equivalent funds. It invests primarily in high quality fixed income securities such as bonds, mortgages and dividend-paying shares. This fund is riskier than cash equivalent funds because it's more sensitive to changes in interest rates and the creditworthiness of issuers.

An income fund can add income potential to your portfolio. It is also a good choice if you want higher income in the medium to long term and can accept possible declines in the value of your investment in the short term.



# Scotia Conservative Income Fund

## Fund details

<b>Fund type</b>	Miscellaneous – Income & Real Property
<b>Start date</b>	Series A units: January 27, 2014
<b>Type of securities</b>	Series A units of a mutual fund trust
<b>Eligible for registered plans?</b>	Yes
<b>Portfolio advisor</b>	The Manager Toronto, Ontario

## What does the fund invest in?

### Investment objectives

The fund's objective is to provide income by investing primarily in fixed income securities. It invests primarily in a diversified mix of income mutual funds managed by us or by other mutual fund managers.

Any change to the fundamental investment objectives must be approved by a majority of votes cast at a meeting of unit-holders called for that purpose.

### Investment strategies

The fund is an asset allocation fund that allocates your investment between income oriented investment strategies.

The fund invests primarily in conservative underlying funds that invest in fixed income securities, such as but not limited to bonds issued by Canadian and U.S. federal, provincial and municipal governments; bonds and preferred shares issued by U.S. and Canadian investment grade corporations and non-investment grade corporations; and residential mortgages. Where the fund invests in underlying funds, the weightings of those mutual funds may be rebalanced periodically, at the discretion of the Manager, so as to allow the Manager to use an investment approach that manages risk and increases potential return to the fund. The fund may hold a portion of its assets in cash or money market instruments while seeking investment opportunities or for defensive purposes.

The average term to maturity of the fund's investments will vary, generally between 2 and 4 years, depending on market conditions. The manager adjusts the average term to maturity to try to maximize returns while minimizing interest rate risk.

The underlying funds in which the fund invests may change from time to time. Although up to 100% of the portfolio's assets may be invested in other mutual funds, the portfolio may hold a portion of its assets in cash or money market

instruments while seeking investment opportunities or for defensive purposes.

The fund can invest up to 100% of its assets in foreign securities.

The fund and underlying funds may also enter into securities lending, repurchase transactions and reverse repurchase transactions, to the extent permitted by securities regulations, to earn additional income. For more information about repurchase, reverse repurchase and securities lending transactions and how the fund limits the risks associated with them see *What are the risks? – Repurchase and reverse repurchase transaction risk*.

The fund and underlying funds managed by us may also engage in short selling on the conditions permitted by Canadian securities rules. In determining whether securities of a particular issuer should be sold short, the portfolio advisor utilizes the same analysis that is described above for deciding whether to purchase securities. Where the analysis generally produces a favourable outlook, the issuer is a candidate for purchase. Where the analysis produces an unfavourable outlook, the issuer is a candidate for a short sale. For a more detailed description of short selling and limits within which the underlying fund may engage in short selling, please refer to *What are the risks? – Short selling risk*.

Additional information is or will be set out in the annual information form and Fund Facts.

## What are the risks of investing in the fund?

The main risks of investing in this fund are:

- asset-backed and mortgage-backed securities risk
- credit risk
- currency risk
- derivatives risk
- foreign investment risk
- fund of funds risk
- interest rate risk
- issuer-specific risk
- liquidity risk
- repurchase and reverse repurchase transaction risk
- securities lending risk
- series risk

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- short selling risk
  - significant unitholder risk
  - U.S. withholding tax risk

You'll find details about each of these risks under *What is a mutual fund and what are the risks of investing in a mutual fund?*

### **Who should invest in this fund?**

This fund may be suitable for you if:

- you want income
- you can accept low to medium risk
- you're investing for the medium to long term

Please see *Investment Risk Classification Methodology* for a description of how we determined the classification of this Fund's risk level.

### **Distribution policy**

The fund intends to make a distribution by the last business day of each month, other than December. The final distribution will be made by the end of December. The distribution may consist of net income, net realized capital gains and/or return of capital. The amount of the distribution will change throughout the year as conditions change. If the amount distributed exceeds the net income and net realized capital gains of the fund for a year, the excess distribution will be a return of capital. A return of capital will reduce the adjusted cost base of your units.

Distributions on units held in registered plans and non-registered accounts are reinvested in additional units of the fund, unless you tell your mutual fund representative that you want to receive cash distributions.

### **Fund expenses indirectly borne by investors**

Fund expense information is not shown for the fund because the fund is less than one year old.

# What is a mutual fund and what are the risks of investing in a mutual fund?

For many Canadians, mutual funds represent a simple and affordable way to meet their financial goals. But what exactly is a mutual fund, why invest in them, and what are the risks?

## What is a mutual fund?

A mutual fund is an investment that pools your money with the money of many other people. Professional portfolio advisors use that money to buy securities that they believe will help achieve the fund's investment objectives. These securities could include stocks, bonds, mortgages, money market instruments, or a combination of these.

When you invest in a mutual fund, you receive units of the fund. Each unit represents a proportionate share of all of the mutual fund's assets. All of the investors in a mutual fund share in the fund's income, gains and losses. Investors also pay their share of the fund's expenses.

## Why invest in mutual funds?

Mutual funds offer investors three key benefits: professional money management, diversification and accessibility.

- *Professional money management.* Professional portfolio advisors have the expertise to make the investment decisions. They also have access to up-to-the-minute information on trends in the financial markets, and in-depth data and research on potential investments.
- *Diversification.* Because your money is pooled with that of other investors, a mutual fund offers diversification into many securities that may not have otherwise been available to individual investors.
- *Accessibility.* Mutual funds have low investment minimums, making them accessible to nearly everyone.

## No guarantees

While mutual funds have many benefits, it's important to remember that an investment in a mutual fund isn't guaranteed. Unlike bank accounts or guaranteed investment certificates (GICs), mutual fund units aren't covered by the Canada Deposit Insurance Corporation (CDIC) or any other government deposit insurer, and your investment in the funds is not guaranteed by Scotiabank.

Under exceptional circumstances, a mutual fund may suspend your right to sell your units. See *Suspending your right to buy, switch and sell units* for details.

## What are the risks?

While everyone wants to make money when they invest, you could lose money, too. This is known as risk. Like other investments, mutual funds involve some level of risk. The value of a fund's securities can change from day to day for many reasons, including changes in the economy, interest rates, and market and company news. That means the value of mutual fund units can vary. When you sell your units in a fund, you could receive less money than you invested.

The amount of risk depends on the fund's investment objectives and the types of securities it invests in. A general rule of investing is that the higher the risk, the higher the potential for gains as well as losses. Cash equivalent funds usually offer the least risk because they invest in highly liquid, short-term investments such as treasury bills. Their potential returns are tied to short-term interest rates. Income funds invest in bonds and other fixed income investments. These funds typically have higher long-term returns than cash equivalent funds, but they carry more risk because their prices can change when interest rates change. Equity funds expose investors to the highest level of risk because they invest in equity securities, such as common shares, whose prices can rise and fall significantly in a short period of time.

## Managing risk

While risk is an important factor to consider when you're choosing a mutual fund, you should also think about your investment goals and when you'll need your money. For example, if you're saving for a large purchase in the next year or so, you might consider investing in a fund with low risk. If you want your retirement savings to grow over the next 20 years, you can probably afford to put more of your money in equity funds.

A carefully chosen mix of investments can help reduce risk as you meet your investment goals. Your mutual fund representative can help you build a portfolio that's suited to your goals and risk comfort level.

If your investment goals or tolerance for risk changes, remember, you can and should change your investments to match your new situation.

## Specific risks of mutual funds

The value of the investments a mutual fund holds can change for a number of reasons. You'll find the specific risks of investing in the fund in the individual fund description starting on page 5. This section tells you more about each risk. **To the extent that a**

**fund invests in underlying funds, it has the same risks as its underlying funds. Accordingly, any reference to a fund in this section is intended to also refer to any underlying funds that a fund may invest in.**

### **Asset-backed and mortgage-backed securities risk**

Asset-backed securities are debt obligations that are backed by pools of consumer or business loans. Mortgage-backed securities are debt obligations backed by pools of mortgages on commercial or residential real estate. To the extent that a fund invests in these securities, it will be sensitive to asset-backed and mortgage-backed securities risk. If there are changes in the market perception of the issuers of these types of securities, or in the creditworthiness of the parties involved, then the value of the securities may be affected. In the use of mortgage-backed securities, there is also a risk that there may be a drop in the interest rates charged on mortgages, a mortgagor may default on its obligations under a mortgage or there may be a drop in the value of the property secured by the mortgage.

### **Credit risk**

A fixed income security, such as a bond, is a promise to pay interest and repay the principal on the maturity date. There's always a risk that the issuer will fail to honour that promise. This is called credit risk. To the extent that a fund invests in fixed income securities, it will be sensitive to credit risk. Credit risk is lowest among issuers that have a high credit rating from a credit rating agency. It's highest among issuers that have a low credit rating or no credit rating. Issuers with a low credit rating usually offer higher interest rates to make up for the higher risk. The bonds of issuers with poor credit ratings generally have yields that are higher than bonds of issuers with superior credit ratings. Bonds of issuers that have poor credit ratings tend to be more volatile as there is a greater likelihood of bankruptcy or default. Credit ratings may change over time. Please see *Foreign investment risk* in the case of investments in foreign government debt.

### **Currency risk**

When a mutual fund buys an investment that's denominated in a foreign currency, changes in the exchange rate between that currency and the Canadian dollar will affect the value of the fund. When a mutual fund calculates its net asset value in U.S. dollars, changes in the exchange rate between U.S. dollars and an investment denominated in a currency other than U.S. dollars will affect the value of the fund.

### **Derivatives risk**

To the extent that a fund uses derivatives, it will be sensitive to derivatives risk. Derivatives can be useful for hedging against losses, gaining exposure to financial markets and making indirect investments, but they involve certain risks:

- Hedging with derivatives may not achieve the intended result. Hedging instruments rely on historical or anticipated correlations to predict the impact of certain events, which may or may not occur. If they occur, they may not have the predicted effect.
- It's difficult to hedge against trends that the market has already anticipated.
- Costs relating to entering and maintaining derivatives contracts may reduce the returns of a fund.
- A currency hedge will reduce the benefits of gains if the hedged currency increases in value.
- Currency hedging can be difficult in smaller emerging growth countries because of the limited size of those markets.
- Currency hedging provides no protection against changes in the value of the underlying securities.
- There's no guarantee that a liquid exchange or market for derivatives will exist. This could prevent a fund closing out its positions to realize gains or limit losses. At worst, a fund might face losses from having to exercise underlying futures contracts.
- The prices of derivatives can be distorted if trading in their underlying stocks is halted. Trading in the derivative might be interrupted if trading is halted in a large number of the underlying stocks. This would make it difficult for a fund to close out its positions.
- The counterparty in a derivatives contract might not be able to meet its obligations. When using derivatives, a mutual fund relies on the ability of the counterparty to the transaction to perform its obligations. In the event that a counterparty fails to complete its obligations, the mutual fund may bear the risk of loss of the amount expected to be received under options, forward contracts or other transactions in the event of the default or bankruptcy of a counterparty.
- Derivatives trading on foreign markets may take longer and be more difficult to complete. Foreign derivatives are subject to the foreign investment risks described below. Please see *foreign investment risk*.
- Investment dealers and futures brokers may hold a fund's assets on deposit as collateral in a derivative contract. As a result, someone other than the fund's custodian is responsible for the safekeeping of that part of the fund's assets.

- The regulation of derivatives is a rapidly changing area of law and is subject to modification by government and judicial action. The effect of any future regulatory changes may make it more difficult, or impossible, for a fund to use certain derivatives.

### **Foreign investment risk**

Investments issued by foreign companies or governments other than the U.S. can be riskier than investments in Canada and the U.S.

Foreign countries can be affected by political, social, legal or diplomatic developments, including the imposition of currency and exchange controls. Some foreign markets can be less liquid, are less regulated, and are subject to different reporting practices and disclosure requirements than issuers in North American markets. It may be more difficult to enforce a fund's legal rights in jurisdictions outside of Canada. In general, securities issued in more developed markets, such as Western Europe, have lower foreign investment risk. Securities issued in emerging or developing markets, such as Southeast Asia or Latin America, have significant foreign investment risk and are exposed to the emerging markets risks described above.

### **Fund-of-funds risk**

If a mutual fund invests in an underlying fund, the risks associated with investing in that mutual fund include the risks associated with the securities in which the underlying fund invests, along with the other risks of the underlying fund. Accordingly, a mutual fund takes on the risk of an underlying fund and its respective securities in proportion to its investment in that underlying fund. If an underlying fund suspends redemptions, the fund that invests in the underlying fund may be unable to value part of its portfolio and may be unable to process redemption orders.

### **Interest rate risk**

Mutual funds that invest in fixed income securities, such as bonds, mortgages and money market instruments, are sensitive to changes in interest rates. In general, when interest rates are rising, the value of these investments tends to fall. When rates are falling, fixed income securities tend to increase in value. Fixed income securities with longer terms to maturity are generally more sensitive to changes in interest rates. Certain types of fixed income securities permit issuers to repay principal before the security's maturity date. There is a risk that an issuer will exercise this prepayment right after interest rates have fallen and the funds that hold these fixed income securities will receive payments of principal before the expected maturity date of the security and may need to reinvest these proceeds in securities that have lower interest rates.

### **Issuer-specific risk**

The market value of an individual issuer's securities can be more volatile than the market as a whole. As a result, if a single issuer's securities represent a significant portion of the market value of a fund's assets, changes in the market value of that issuer's securities may cause greater fluctuation in the fund's unit value than would normally be the case. A less-diversified fund may also suffer from reduced liquidity if a significant portion of its assets is invested in any one issuer. In particular, the fund may not be able to easily liquidate its position in the issuers as required to fund redemption requests.

Generally, mutual funds are not permitted to invest more than 10% of their assets in any one issuer. This restriction does not apply to investments in debt securities issued or guaranteed by the Canadian or U.S. government, securities issued by a clearing corporation, securities issued by mutual funds that are subject to the requirements of National Instrument 81-102 – *Mutual Funds* and National Instrument 81-101 – *Mutual Fund Prospectus Disclosure*, or index participation units issued by a mutual fund.

### **Liquidity risk**

Liquidity is a measure of how quickly an investment can be sold for cash at a fair market price. If a fund can't sell an investment quickly, it may lose money or make a lower profit, especially if it has to meet a large number of redemption requests. In general, investments in smaller companies, smaller markets or certain sectors of the economy tend to be less liquid than other types of investments. The less liquid an investment, the more its value tends to fluctuate.

### **Repurchase and reverse repurchase transaction risk**

Some mutual funds may enter into repurchase or reverse repurchase agreements to generate additional income. When a mutual fund agrees to sell a security at one price and buy it back on a specified later date from the same party with the expectation of a profit, it is entering into a repurchase agreement. When a mutual fund agrees to buy a security at one price and sell it back on a specified later date to the same party with the expectation of a profit, it is entering into a reverse repurchase agreement. Mutual funds engaging in repurchase and reverse repurchase transactions are exposed to the risk that the other party to the transaction may become insolvent and unable to complete the transaction. In those circumstances, there is a risk that the value of the securities bought may drop or the value of the securities sold may rise between the time the other party becomes insolvent and the time the fund recovers its investment. Mutual funds that engage in these transactions reduce this risk by holding, as collateral, enough of the other party's cash or securities to cover that party's repurchase or reverse repurchase



obligations. To limit the risks associated with repurchase and reverse repurchase transactions, the collateral held in respect of the repurchase or reverse repurchase obligations must be marked to market on each business day and be fully collateralized at all times with acceptable collateral which has a value at least equal to 102% of the securities sold or cash paid for the securities by the mutual fund. Prior to entering into a repurchase agreement, a mutual fund must ensure that the aggregate value of the securities of a mutual fund that have been sold pursuant to repurchase transactions, together with any securities loaned, does not exceed 50% of its total asset value at the time that the mutual fund enters into the transaction.

### **Securities lending risk**

Some mutual funds may enter into securities lending transactions to generate additional income from securities held in a mutual fund's portfolio. A mutual fund may lend securities held in its portfolio to qualified borrowers who provide adequate collateral. In lending its securities, a mutual fund is exposed to the risk that the borrower may not be able to satisfy its obligations under the securities lending agreement and the lending mutual fund is forced to take possession of the collateral held. Losses could result if the collateral held by the mutual fund is insufficient, at the time the remedy is exercised, to replace the securities borrowed. Mutual funds must receive collateral worth no less than 102% of the value of the loaned securities and borrowers must adjust that collateral daily to ensure this level is maintained. Prior to entering into a securities lending agreement, a mutual fund must ensure that the aggregate value of the securities loaned together with those that have been sold pursuant to repurchase transactions, does not exceed 50% of its total asset value.

### **Series risk**

Some mutual funds offer two or more series of units of the same fund. Although the value of each series is calculated separately, there's a risk that the expenses or liabilities of one series of units may affect the value of the other series. If one series is unable to cover its liabilities, the other series are legally responsible for covering the difference. We believe that this risk is very low.

### **Short selling risk**

Certain mutual funds may engage in a limited amount of short selling. A "short sale" is where a mutual fund borrows securities from a lender which are then sold in the open market (or "sold short"). At a later date, the same number of securities are repurchased by the mutual fund and returned to the lender. In the interim, the proceeds from the first sale are deposited with the lender and the mutual fund pays interest to the lender. If the value of the securities declines between the time that the mutual

fund borrows the securities and the time it repurchases and returns the securities, the mutual fund makes a profit for the difference (less any interest the mutual fund is required to pay to the lender). Short selling involves certain risks. There is no assurance that securities will decline in value during the period of the short sale sufficient to offset the interest paid by the mutual fund and make a profit for the mutual fund, and securities sold short may instead appreciate in value. The mutual fund also may experience difficulties repurchasing and returning the borrowed securities if a liquid market for the securities does not exist. The lender from whom the mutual fund has borrowed securities may go bankrupt and the mutual fund may lose the collateral it has deposited with the lender. Each mutual fund that engages in short selling will adhere to controls and limits that are intended to offset these risks by short selling only securities of larger issuers for which a liquid market is expected to be maintained and by limiting the amount of exposure for short sales. The mutual funds also will deposit collateral only with lenders that meet certain criteria for creditworthiness and only up to certain limits.

### **Significant unitholder risk**

Securities of mutual funds may be purchased and sold by large investors, including top funds. If a large investor redeems a portion or all of its investment from an underlying fund, that underlying fund may have to incur capital gains and other transaction costs in the process of making the redemption. In addition, some securities may have to be sold at unfavourable prices, thus reducing the underlying fund's potential return. Conversely, if a large investor were to increase its investment in an underlying fund, that underlying fund may have to hold a relatively large position in cash for a period of time until the portfolio adviser finds suitable investments, which could also negatively impact the performance of the underlying fund. Since the performance of the underlying fund may be negatively impacted, so may the investment return of any remaining investors in the underlying fund, including other top funds which may still be invested in the underlying fund.

### **U.S. withholding tax risk**

Generally, the Foreign Account Tax Compliance provisions of the U.S. Hiring Incentives to Restore Employment Act of 2010 (or "FATCA") impose a 30% withholding tax on "withholdable payments" made to a mutual fund, unless the mutual fund enters into a FATCA agreement with the U.S. Internal Revenue Service (the "IRS") (or is subject to an IGA as described below) to comply with certain information reporting and other requirements. Compliance with FATCA will require a mutual fund to request and obtain certain information from its investors and (where applicable) their beneficial owners (including information

regarding their identity, residency and citizenship) and to disclose such information and documentation to the IRS.

Withholdable payments include (i) certain U.S. source income (such as interest, dividends and other passive income) and (ii) gross proceeds from the sale or disposition of property that can produce U.S. source interest or dividends. The withholding tax applies to withholdable payments made on or after July 1, 2014 (or January 1, 2017 in the case of gross proceeds). The 30% withholding tax may also apply to any “foreign passthru payments” paid by a mutual fund to certain investors on or after January 1, 2017. The scope of foreign passthru payments will be determined under the U.S. Treasury regulations that have yet to be issued. Moreover, the foregoing rules and requirements may be modified by an intergovernmental agreement between Canada and the U.S. (the “Canada-U.S. IGA”), future U.S. Treasury regulations, or other guidance. Under the Canada-U.S. IGA, it is anticipated that a mutual fund will not have to enter into an individual agreement with the IRS but will have to comply with the terms of the Canada-U.S. IGA including registration requirements with the IRS and requirements to identify, and report certain information on accounts held by U.S. persons owning, directly or indirectly, an interest in the mutual fund, or report on accounts held by certain other persons or entities. By investing in the Fund and providing residency and identity information, through the dealer, the unitholder is deemed to consent to the Fund disclosing such information to the U.S. and/or Canadian tax authorities. Because the Canada-U.S. IGA has not yet been finalized, it is not possible to determine presently (i) whether the mutual fund will be able to comply and (ii) what impact, if any, the Canada-U.S. IGA will have on its investors. If a mutual fund is unable to comply with these requirements, the imposition of the 30% U.S. withholding tax may affect the net asset value of the mutual fund and may result in reduced investment returns to investors. It is possible that the administrative costs arising from compliance with FATCA and/or the Canada-U.S. IGA and future guidance may also cause an increase in the operating expenses of the mutual funds.

# Organization and management of the fund

<b>Manager</b>  1832 Asset Management L.P. Scotia Plaza 52nd Floor 40 King Street West Toronto, Ontario M5H 1H1	As manager, we are responsible for the overall business and operation of the funds. This includes: <ul style="list-style-type: none"> <li>• arranging for portfolio advisory services</li> <li>• providing or arranging for administrative services.</li> </ul> 1832 Asset Management L.P. is wholly-owned by The Bank of Nova Scotia.
<b>Trustee</b>  1832 Asset Management L.P. Toronto, Ontario	As trustee, we control and have authority over each fund's investments in trust for unitholders under the terms described in the master declaration of trust.
<b>Principal distributor</b>  Scotia Securities Inc. Toronto, Ontario	Scotia Securities Inc. is the principal distributor of the Series A units offered under this simplified prospectus. As principal distributor, Scotia Securities Inc. markets and sells the Series A units of the ScotiaFunds where they qualify for sale in Canada. We, or Scotia Securities Inc., may hire participating dealers to assist in the sale of the funds.
<b>Custodian</b>  The Bank of Nova Scotia Toronto, Ontario	The custodian holds the investments of the funds and keeps them safe to ensure that they are used only for the benefit of investors. The Bank of Nova Scotia is the parent company of 1832 Asset Management L.P.
<b>Registrar</b>  1832 Asset Management L.P. Toronto, Ontario	As registrar, we make arrangements to keep a record of all unitholders of the funds, process orders and issue tax slips to unitholders.
<b>Auditors</b>  PricewaterhouseCoopers LLP Toronto, Ontario	The auditor is an independent firm of Chartered Professional Accountants. The firm audits the annual financial statements of the funds and provides an opinion as to whether they are fairly presented in accordance with Canadian generally accepted accounting principles.
<b>Portfolio advisor</b>  1832 Asset Management L.P. Toronto, Ontario	The portfolio advisor provides investment advice and makes the investment decisions for the funds. You will find the portfolio advisor for each fund in the fund descriptions starting at page 5.  1832 Asset Management L.P. is wholly-owned by The Bank of Nova Scotia.
<b>Portfolio sub-advisors</b>	We have authority to retain portfolio sub-advisors. The sub-advisor provides investment advice and makes the investment decisions for certain of the funds.
<b>Independent Review Committee</b>	<p>In accordance with National Instrument 81-107 <i>Independent Review Committee for Investment Funds</i> ("NI 81-107"), we, as manager of the ScotiaFunds, have established an Independent Review Committee ("IRC"), with a mandate to review, and provide input on, our policies and procedures dealing with conflicts of interest in respect of the funds, and to review conflict of interest matters that we present to the IRC. The IRC currently has six members, each of whom is independent of the manager and any party related to the manager. The IRC will prepare, at least annually, a report of its activities for unitholders. This report will be available on or before March 31<sup>st</sup> of each year, at no charge, on the Internet at <a href="http://www.scotiabank.com">www.scotiabank.com</a>, or by requesting a copy by e-mail at <a href="mailto:fundinfo@scotiabank.com">fundinfo@scotiabank.com</a>. Additional information about the IRC, including the names of its members, is available in the funds' annual information form.</p> <p>In certain circumstances, your approval may not be required under securities legislation to effect a fund merger or a change in the auditor of a fund. Where the IRC is permitted under securities legislation to approve a fund merger in place of the unitholders, you will receive at least 60 days written notice before the date of the merger. For a change in the auditor of a fund, your approval will not be obtained, but you will receive at least 60 days written notice before the change takes effect.</p>

If the fund invests in underlying funds that are managed by us or our associates or affiliates, it will not vote any of the securities of those underlying funds. However, we may arrange for you to vote your share of those securities.

The fund has received an exemption from the Canadian Securities Administrators allowing it purchase equity securities of a Canadian reporting issuer during the period of distribution of the securities and for the 60-day period following the period of distribution (the



“Prohibition Period”) pursuant to a private placement notwithstanding that an affiliate or associate of the Manager, such as Scotia Capital Inc., acts as an underwriter or agent in the offering of equity securities. Any such purchase must be consistent with the investment objective of the particular fund. Further, the IRC of the fund must approve the investment in accordance with the approval requirements of NI 81-107 and such purchase can only be carried out if it is in compliance with certain other conditions.

In addition to the above exemptive relief, the fund may from time to time be granted exemptions from NI 81-102 to permit them to invest during the Prohibition Period in securities of an issuer, in which an affiliate or associate of the Manager, such as Scotia Capital Inc., acts as an underwriter or agent in the issuer’s distribution of securities of the same class, where the funds are not able to do so in accordance with NI 81-107 or the exemptive relief described above.

The fund has received an exemption from the Canadian Securities Administrators to permit the fund to invest in equity securities of an issuer that is not a reporting issuer in Canada during a distribution of the securities of the issuer, whether pursuant to a private placement of the issuer in Canada or in the United States or a prospectus offering of the issuer in the United States of securities of the same class, and for the 60-day period following the period of distribution, even if an affiliate of the Manager acts as underwriter in the private placement or prospectus offering, provided the issuer is at the time a registrant in the United States, the IRC approves of the investment and the purchase is carried out in compliance with certain other conditions.

# Purchases, switches and redemptions

Series A units of the ScotiaFunds are no-load. That means you don't pay a sales commission when you buy, switch or sell these units through us or our affiliates. Selling your units is also known as redeeming.

## How to place orders

You can open an account and buy, switch or sell the ScotiaFunds:

- by calling or visiting any Scotiabank branch;
- by calling or visiting an office of ScotiaMcLeod, or visiting online (and/or by calling) Scotia iTRADE; or
- through Scotia OnLine at [www.scotiabank.com](http://www.scotiabank.com), once you've signed up for this service. You may not redeem ScotiaFunds through Scotia OnLine – redemptions must be placed through a Scotiabank branch, either in person, by email, by fax or by telephone.

You can also open an account and place orders through other registered brokers or dealers. They may charge you a sales commission or other fee. Brokers and dealers must send orders to us on the same day that they receive completed orders from investors.

All transactions are based on the price of a fund's units – or its net asset value per unit (NAVPU). All orders are processed using the next NAVPU calculated after the fund receives the order.

## How we calculate net asset value per unit

We usually calculate the NAVPU of each series of each fund following the close of trading on the Toronto Stock Exchange (the TSX) on each day that the TSX is open for trading. In unusual circumstances, we may suspend the calculation of the NAVPU.

The NAVPU of each series of a fund is the current market value of the proportionate share of the assets allocated to the series, less the liabilities of the series and the proportionate share of the common expenses allocated to the series, divided by the total number of outstanding units in that series. Securities which trade on a public stock exchange are usually valued at their closing price on that exchange. However, if the price is not a true reflection of the value of the security, we will use another method to determine its value. This method is called fair value pricing and it will be used when a security's value is affected by events which occur after the closing of the market where the security is principally traded. Fair value pricing may also be used in other circumstances.

The fund is valued in Canadian dollars.

## About the series of units

The fund offered under this simplified prospectus is available in Series A units only. Series A units are available to all investors.

## How to buy the funds

### Minimum investments

The minimum amounts for the initial and each additional investment in Series A units of the fund are shown in the table below. See *Pre-Authorized Contributions* for more details. We may change the minimum amounts for initial and subsequent investments in the fund at any time, from time to time, and on a case by case basis, subject to applicable securities legislation. If you buy, sell or switch units through non-affiliated dealers you may be subject to higher minimum initial or additional investment amounts.

Fund	Minimum initial investment		Minimum additional investment (including Pre-Authorized Contributions) <sup>1</sup>
	All accounts and all Scotia registered plans, except Scotia RRIFs	Scotia RRIFs	
Scotia Conservative Income Fund	\$500	\$5000	\$50

<sup>1</sup> If you choose to invest less frequently than monthly using Pre-Authorized Contributions (i.e. bi-monthly, quarterly, semi-annually or annually), the minimum amount for each investment will be determined by multiplying the amounts shown here by twelve and then dividing the sum by the number of investments you make over the course of one calendar year. For example, for most funds, if you choose to invest quarterly, the minimum investment for each quarter will be  $\$50 \times 12 \div 4$ , or \$150.

We can redeem your units if the value of your investment in any fund drops below the minimum initial investment.

## More about buying

- We can reject all or part of your order within one business day of the fund receiving it. If we reject your order, we'll immediately return any money received, without interest.
- We may reject your order if you've made several purchases and sales of a fund within a short period of time, usually 31 days. See *Short-term trading* for details.
- You have to pay for your units when you buy them. If we don't receive payment for your purchase within three business days after the purchase price is determined, we'll sell your units on the next business day. If the proceeds from the sale are more than the cost of buying the units, the fund will keep the difference. If the proceeds are less than the cost of buying the units, we must pay the shortfall. We may collect the shortfall and any related costs from the dealer or broker who placed the order, or from you, if you placed the order directly with us.

- Your broker, dealer or we will send you a confirmation of your purchase once your order is processed. If you buy units through pre-authorized contributions, you will receive a confirmation only for the initial investment and when you change the amount of your regular investment.

## How to switch funds

You can switch units of any series you purchased of a ScotiaFunds trust fund for units of the same or a different series of another ScotiaFunds trust fund, as long as you're eligible to hold the particular series of the ScotiaFund into which you switch. You can also at any time switch units of any series you purchased of a ScotiaFunds trust fund for shares of the same or a different series of a ScotiaFunds corporate fund, as long as you're eligible to hold the particular series of the ScotiaFund into which you switch. These types of switches will be considered a disposition for tax purposes and accordingly, you may realize a capital gain or loss. The tax consequences are discussed in "Income Tax Considerations for Investors" in this document.

When we receive your order, we'll sell units of the first fund and then use the proceeds to buy units or shares of the second fund. If you switch units within 31 days of buying them, you may have to pay a short term trading fee. See *Short term trading* for details.

## More about switching

- The rules for buying and selling units also apply to switches.
- You can switch between funds valued in the same currency.
- If you hold your units in a non-registered account, you are likely to realize a capital gain or loss. Capital gains are taxable.
- Your broker, dealer or we will send you a confirmation once your order is processed.

## How to sell your units

In general, your instructions to sell must be in writing, and your bank, trust company, broker or dealer must guarantee your signature. We may also require other proof of signing authority.

We'll send your payment to your broker or dealer within three business days of receiving your properly completed order. If you sell units within 31 days of buying them, you may have to pay a short-term trading fee. See *Short-term trading* for details.

You can also sell units on a regular basis by setting up an automatic withdrawal plan. See *Optional services* for details.

## More about selling

- You must provide all required documents within 10 business days of the day the redemption price is determined. If you don't, we'll buy back the units as of the close of business on the

10<sup>th</sup> business day. If the cost of buying the units is less than the sale proceeds, the fund will keep the difference. If the cost of buying the units is more than the sale proceeds, we must pay the shortfall. We can collect the shortfall and any related costs from the broker or dealer who placed the order, or from you, if you placed the order directly with us.

- Sell orders placed for a corporation, trust, partnership, agent, fiduciary, surviving joint owner or estate must be accompanied by the required documents with proof of signing authority. The sell order will be effective only when the fund receives all required documents, properly completed.
- If you hold your units in a non-registered account, you will experience a taxable disposition which for most unitholders is expected to result in a capital gain or loss.
- Your broker, dealer or we will send you a confirmation once your order is processed. If you sell units through the automatic withdrawal plan, you will receive a confirmation only for the first withdrawal.

## Suspending your right to buy, switch and sell units

Securities regulations allow us to temporarily suspend your right to sell your fund units and postpone payment of your sale proceeds:

- during any period when normal trading is suspended on any exchange on which securities or derivatives that make up more than 50% of the fund's value or its underlying market exposure are traded and there's no other exchange where these securities or derivatives are traded, or
- with the approval of securities regulators.

We will not accept orders to buy fund units during any period when we've suspended investors' rights to sell their units.

You may withdraw your sell order before the end of the suspension period. Otherwise, we'll sell your units at the NAVPU next calculated when the suspension period ends.

## Short-term trading fee

Short term trading by investors can increase a fund's expenses, which affects all investors in the fund, and can affect the economic interest of long-term investors. Short-term trading can affect a Fund's performance by forcing the portfolio advisor to keep more cash in the Fund than would otherwise be required. If you redeem, switch or reclassify securities of any series of a fund within 31 days of acquisition, we may, on behalf of the fund, in our sole discretion, charge a short-term trading fee of 2% of the net asset value of that series of securities redeemed, switched or reclassified. The short-term trading fee does not apply to:

- any of the Cash Equivalent Funds
- automatic rebalancing that is part of the service offered by the Manager;

- transactions not exceeding a certain minimum dollar amount, as determined by the Manager from time to time;
- trade corrections or any other action initiated by the Manager or the applicable portfolio advisor;
- transfers of units of one Fund between two accounts belonging to the same unitholder;
- regularly scheduled RRIF or LIF payments; and
- regularly scheduled automatic withdrawal plan payments.

Any formal or informal arrangements to permit short-term trading are described in the fund's annual information form. If securities regulations mandate the adoption of specified policies relating to short-term trading, the funds will adopt such policies if and when implemented by the securities regulators. If required, these policies will be adopted without amendment to this simplified prospectus of the funds' annual information form and without notice to you, unless otherwise required by such regulations.

## Optional services

This section tells you about the accounts, plans and services that are available to investors in the ScotiaFunds. Call us at 1-800-268-9269 (416-750-3863 in Toronto) for English or 1-800-387-5004 for French, or contact your Scotiabank branch for full details and application forms.

### Pre-Authorized Contributions

Following your initial investment, you can make regular pre-authorized contributions (PAC) to the funds you choose using automatic transfers from your bank account at any Canadian financial institution.

#### More about Pre-Authorized Contributions

- Pre-Authorized contributions are available for non-registered accounts, RRSPs, RESPs, RDSPs and TFSAs. See *Minimum investments* for more details.
- You can choose to invest weekly, bi-weekly, semi-monthly, monthly, bi-monthly, quarterly, semi-annually or annually.
- We'll automatically transfer the money from your bank account to the funds you choose.
- You can change how much you invest and how often you invest, or cancel the plan at any time by contacting your mutual fund representative.
- We can change or cancel the plan at any time.
- If you make purchases using pre-authorized contributions, you will receive a renewal simplified prospectus for the funds only if you request it. If you would like to receive a copy of a renewal prospectus along with any amendment, please contact us at 1-800-268-9269, or fax your request to or visit your nearest Scotiabank branch. The current prospectus and any amendments may be found at [www.sedar.com](http://www.sedar.com) or at [www.scotiafunds.com](http://www.scotiafunds.com). Although you do not have a statutory right to withdraw from a purchase of mutual fund units made under a pre-authorized contribution, you will continue to have a right of action for damages or rescission in the event a renewal prospectus contains a misrepresentation, whether or not you request a renewal prospectus.
- If a fund is merged into another mutual fund managed by the Manager, then any pre-authorized contribution plans and automatic withdrawal plans which were established for such fund prior to the merger will be automatically re-established in comparable plans with respect to the applicable continuing fund unless a unitholder advises otherwise.

### Automatic Withdrawal Plan

Automatic withdrawal plans let you receive regular cash payments from your fund. The table below shows the minimum balance needed to start the plan and the minimum for each withdrawal.

Fund	Minimum balance to start the plan	Minimum for each withdrawal
Scotia Conservative Income Fund	\$5000	\$50

#### More about the automatic withdrawal plan

- The automatic withdrawal plan is only available for non-registered accounts.
- You can choose to receive payments monthly, quarterly, semi-annually or annually.
- We'll automatically sell the necessary number of units to make payments to your bank account at any Canadian financial institution or by cheque.
- If you sell units within 31 days of buying them, you may have to pay a short-term trading fee. See *Short-term trading* for details.
- If you hold your units in a non-registered account, you may realize a capital gain or loss. Capital gains are taxable.
- You can change the funds and the amount or frequency of your payments, or cancel the plan by contacting your mutual fund representative.
- We can change or cancel the plan, or waive the minimum amounts at any time.

If you withdraw more money than your fund units are earning, you'll eventually use up your investment.

#### Registered plans

Scotia RRSPs, RRIFs, RDSPs, LIRAs, LRSPs, LIFs, LRIFs, PRIFs, RESPs and TFSAs are available from your Scotiabank dealer or advisor. You can make lump-sum investments, or if you prefer, you can set up a regular investment plan using Pre-Authorized Contributions. See *Minimum investments* for the minimum investment amounts.

You can also hold units of the fund in self-directed registered plans with other financial institutions. You may be charged a fee for these plans.

# Fees and expenses

This section describes the fees and expenses you may have to pay if you invest in the fund. You may have to pay some of these fees and expenses directly. The fund may have to pay some of these fees and expenses, which may reduce the value of your investment. The fund is required to pay Goods and Services Tax (“GST”) or Harmonized Sales Tax (“HST”) on management fees and operating expenses in respect of each series of units, based on the residence for tax purposes of the investors of the particular series of units. GST is currently charged at a rate of 5%. Changes in existing HST rates, the adopting of HST by additional provinces, the repeal of HST by HST-participating provinces and changes in the breakdown of the residence of investors in each

series of units may therefore have an impact on the funds year over year.

The Manager is not required to seek securityholder approval for the introduction of, or a change in the basis of calculating, a fee or expense that is charged to the fund or charged directly to securityholders of the fund in a way that could result in an increase in charges to securityholders provided any such introduction, or change, will only be made if notice is sent to securityholders at least 60 days before the effective date of the change.

## Fees and expenses payable by the funds

### Management fees

Each fund pays us a management fee with respect to each series of units for providing general management services. The fee is calculated and accrued daily and paid monthly. The management fees cover the costs of managing the fund, arranging for investment analysis, recommendations and investment decision making for the fund, arranging for distribution of the funds, marketing and promotion of the funds and providing or arranging for other services. The maximum annual rates of the management fee, which are a percentage of the net asset value (“NAV”) for Series A units of the fund is as follows:

<b>Fund</b>	<b>Maximum Annual management fee (%)</b>
<i>Series A units</i>	
<b>Income Funds</b>	
Scotia Conservative Income Fund	1.10%

### Funds that invest in other funds

There may be fees and expenses payable by the underlying funds which are held by the Fund, in addition to the fees and expenses directly payable by the Fund. The fund indirectly bears its share of such fees and expenses. However, no management fees will be paid to the manager of an underlying fund by the Fund which, to a reasonable investor, would duplicate a fee payable by the underlying fund for the same service.

No sales or redemption fees are payable by a fund when it buys or sells securities of an underlying fund that is managed by us or one of our affiliates or associates of if the payment of these fees could reasonably be perceived as a duplication of fees paid by an investor in the fund.

### Operating expenses

Each series of a fund is allocated its own expenses and its proportionate share of the fund’s expenses that are common to all series. Operating expenses may include legal fees and other costs incurred in order to comply with legal and regulatory requirements and policies, audit fees, custodial fees, taxes, brokerage commissions, unitholder communication costs and other administration costs. Examples of other administrative costs include departmental expenses incurred and paid by the Manager which support the daily operation of the funds. These expenses also include the costs in connection with the operation of the IRC (such as the costs of holding meetings, insurance premiums for the IRC, and fees and expenses of any advisor engaged by the IRC), the fees paid to each IRC member, and the reasonable expenses associated with the performance of his or her duties as an IRC member. Currently, each member of the IRC is entitled to an annual retainer of \$37,500 (\$52,500 for the Chair), and a per meeting fee of \$1,500. Each ScotiaFund pays a proportionate share of the total compensation paid to the IRC each year and reimburses members of the IRC for expenses incurred by them in connection with their services as members of the IRC. The fund’s share of the IRC’s compensation will be disclosed in its financial statements. We may choose to absorb any of these expenses.

### Management expense ratio

The Fund pays all of the expenses relating to its operation and the carrying on of its activities, including: (a) management fees paid to the Manager for providing general management services; (b) operating expenses such as legal fees and other costs incurred in order to comply with legal and regulatory requirements and policies, audit fees, custodial fees, taxes, unitholder communication costs and other administration costs; and (c) all taxes. These expenses are expressed annually by each series of each Fund as its annual management expense ratio (“MER”) which are the total expenses of each series of the Fund for the year expressed as a percentage of the series of the Fund’s average daily net asset value during the year, calculated in accordance with applicable securities legislation. Portfolio transaction costs and derivatives transaction costs are not included in the MER.

## Fees and expenses payable directly by you

<b>Sales charges</b>	None
<b>Redemption fee</b>	None
<b>Switch fee</b>	None
<b>Short-term trading fee</b>	To discourage short-term trading, a fund may charge a fee of 2% of the amount you sell or switch, if you sell or switch your units within 31 days of buying them. For additional information please see <i>Short-term trading fee</i> .
<b>Registered plan fees</b>	A withdrawal or transfer fee of up to \$50 may apply.
<b>Other fees</b>	<ul style="list-style-type: none"><li>• Pre-Authorized Contributions: None</li><li>• Automatic Withdrawal Plan: None</li></ul>

### Impact of sales charges

Series A units of the fund are no-load. That means you don't pay a sales commission when you buy, switch or sell units of these ser-

ies through Scotia Securities Inc., Scotia McLeod or Scotia iTRADE. You may pay a sales commission or other fee if you buy, switch or sell units through other registered brokers or dealers.

## Dealer compensation

This section explains how we compensate brokers and dealers when you invest in Series A units of the fund.

### Sales commissions

We may pay Scotia Securities Inc. employees an up-front sales commission of up to 1% of the amount you invest.

### Trailing commissions

We may pay Scotia Securities Inc., ScotiaMcLeod or Scotia iTRADE employees or other brokers and dealers a trailing commission on Series A units. The fee is calculated daily and paid monthly and, subject to certain conditions, is based on the value of Series A units investors are holding of each fund sold by a broker or dealer at the following annual rates:

<b>Fund</b>	<b>Maximum annual trailing commission rate</b>
Scotia Conservative Income Fund	up to 0.50%

We also pay trailing commissions to the discount broker for securities you purchase through your discount brokerage account.

### Sales incentive programs

We may award prizes, such as cash or merchandise to Scotia Securities Inc. employees or branches for sales of fund units. We

estimate that the annual cost of these prizes will not be more than \$1 for each \$1,000 investment by a unitholder. The maximum value of any prize that may be awarded to an employee is \$1,000 each year. Members of Scotiabank may include sales of units of the funds in their general employee incentive programs. These programs involve many different Scotiabank products. We may offer other incentive programs, as long as Canadian securities regulators approve them.

The fund or their unitholders pay no charges for incentive programs.

### Equity interests

The Bank of Nova Scotia owns, directly or indirectly, 100% of Scotia Securities Inc. and Scotia Capital Inc. (which includes ScotiaMcLeod and Scotia iTRADE), HollisWealth Advisory Services Inc. Each of the above dealers may sell units of the funds.

### Dealer compensation from management fees

The cost of the sales and trailing commissions and sales incentive programs was approximately 46.69% of the total management fees we received from all of the ScotiaFunds during the financial year ended December 31, 2013.



# Income tax considerations for investors

This section is a summary of how investing in the fund can affect your taxes. It assumes that you're an individual (other than a trust), a Canadian resident, deal at arm's length with the fund and you hold your units as capital property. This summary assumes that the fund will qualify as a "mutual fund trust" within the meaning of the Tax Act at all material times. More detailed information is provided in the fund's annual information form. Because tax laws vary by province and territory and every investor's situation is different, we recommend that you get advice from a tax expert.

## How your investment can earn money

A fund earns money in the form of income and capital gains. Income includes the interest and dividends a fund earns on its investments and gains on certain derivatives. Capital gains are earned when a fund sells investments for a profit.

You earn money in the form of distributions when the fund pays you your share of the net income and net realized capital gains it has earned. In general, the fund will distribute enough of its net income and net realized capital gains each year to unitholders so it won't have to pay income tax.

You can also earn money in the form of a capital gain when you sell or switch your units for a profit. You can realize a capital loss if you sell or switch your units at a loss.

## How earnings are taxed

The tax you pay depends on whether you hold your units in a registered plan or in a non-registered account.

### Units held in a registered plan

If you hold units of a fund in an RRSP, RRIF, RDSP, RESP, TFSA or other registered plan, you pay no tax on distributions from the fund on those units or on any capital gains that your registered plan receives from selling or switching units. When you withdraw money from a registered plan (other than TFSA), it will generally be subject to tax at your marginal tax rate. You should consult with a tax expert about the special rules that apply to RESPs and RDSPs and whether an investment in the fund will be a prohibited investment for your RRSP, RRIF or TFSA under the current rules in the Tax Act, or as may be amended.

### Units held in a non-registered account

#### Distributions from the funds

If you hold units of a fund in a non-registered account, you must include your share of the fund's distributions of net income and

the taxable portion of its distributions of net realized capital gains (including any management fee distributions) in your income, whether you receive the distributions in cash or we reinvest them for you. In general, these distributions are taxable to you as if you received the income or gain directly.

Distributions, including management fee distributions, may include a return of capital. When a fund earns less income and capital gains than the amount distributed, the difference is a return of capital. A return of capital is not taxable, but will reduce the adjusted cost base of your units of the fund. If the adjusted cost base of your units is reduced to less than zero, you will be deemed to realize a capital gain to the extent of the negative amount and the adjusted cost base of your units will be increased to nil. You should consult a tax expert about the tax implications of receiving a return of capital.

The unit price of a fund may include income and/or capital gains that the fund has accrued or realized, but not yet distributed. If you buy units of a fund just before it makes a distribution, you'll be taxed on that distribution once it is made, even though the fund earned the amount before you owned it. For example, many funds make their only, or most significant, distribution of income and capital gains in December. If you buy units late in the year, you may have to pay tax on the income and capital gains the fund earned for the whole year. That means you'll end up paying tax on fund earnings that you had little or no benefit from.

We'll issue a tax slip to you each year that shows you how much of each type of income and return of capital the fund distributed to you in Canadian dollars. You can claim any tax credits that apply to those earnings. For example, if the fund's distributions include Canadian dividend income, you'll qualify for a dividend tax credit. The characterization of distributions made during the year will not be determined with certainty for Canadian tax purposes until the end of the fund's taxation year.

### Capital gains (or losses) you realize

In general, you must also include in computing your income one-half of any capital gains you realize from selling or switching your units. You will have a capital gain if your sale proceeds, less any costs of the sale, are more than the adjusted cost base of your units. You will have a capital loss if your sale proceeds, less any costs of the sale, are less than the adjusted cost base of your units. You may use capital losses you realize to offset capital gains, subject to detailed rules in the Tax Act.

If you dispose of units of a fund and you, or your spouse or another person affiliated with you (including a corporation con-



trolled by you) has acquired units of the same fund within 30 days before or after you dispose of the units (such newly acquired units being considered “substituted property”), your capital loss may be deemed to be a “superficial loss”. If so, you will not be able to recognize the loss and it would be added to the adjusted cost base to the owner of the units which are “substituted property”.

#### *Calculating adjusted cost base*

You must calculate your adjusted cost base for tax purposes in Canadian dollars and separately for each series of units of the fund that you own.

In general, the aggregate adjusted cost base of your units of a series of a fund equals:

- your initial investment, **plus**
- additional investments, **plus**
- reinvested distributions, **minus**
- any return of capital distributions, **minus**
- the adjusted cost base of any previous redemptions.

You should keep detailed records of the purchase cost of your investments and distributions you receive on those units so you can calculate their adjusted cost base. You may want to get advice from a tax expert.

#### **Portfolio turnover rate**

The fund discloses its portfolio turnover rate in its management report of fund performance. A 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 one time in the course of a year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year and the greater the likelihood that gains or losses will be realized by the fund. Any distribution of net income or the taxable portion of the net realized capital gains paid or payable by the fund to you, in a non-registered account, must be included in your income for tax purposes for that year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

## What are your legal rights?

Securities legislation in some provinces and territories gives you the right to withdraw from an agreement to buy mutual funds within two business days of receiving the simplified prospectus or Fund Facts, or to cancel your purchase within 48 hours of receiving confirmation of your order.

Securities legislation in some provinces and territories also allows you to cancel an agreement to buy mutual fund units and get your money back, or to make a claim for damages, if the simplified prospectus, annual information form, Fund Facts or financial statements misrepresent any facts about the mutual fund. These rights must usually be exercised within certain time limits.

For more information, refer to the securities legislation of your province or territory or consult your lawyer.

Additional information about each fund is available in its Annual Information Form, its most recently filed Fund Facts, its most recently filed annual and interim financial statements and its most recently filed annual and interim management reports of fund performance. These documents are incorporated by reference into this Simplified Prospectus. That means they legally form part of this Simplified Prospectus just as if they were printed in it.

You can get a copy of these documents, at your request and at no charge, by calling 1-800-268-9269 (416-750-3863 in Toronto) for English, or 1-800-387-5004 for French, or by asking 1832 Asset Management L.P.

You'll also find these documents on our website at [www.scotiafunds.com](http://www.scotiafunds.com).

These documents and other information about the funds, such as information circulars and material contracts, are also available at [www.sedar.com](http://www.sedar.com).

## **ScotiaFunds** **Simplified Prospectus**

### **Income Funds**

Scotia Conservative Income Fund (Series A units)

Managed by:  
1832 Asset Management L.P.  
Scotia Plaza  
52nd Floor  
40 King Street West  
Toronto, Ontario  
M5H 1H1

ScotiaFunds are managed by 1832 Asset Management L.P., a limited partnership the general partner of which is wholly owned by The Bank of Nova Scotia. ScotiaFunds are available through Scotia Securities Inc., and from other dealers and advisors including ScotiaMcLeod and Scotia iTRADE, which are divisions of Scotia Capital Inc. Scotia Securities Inc. and Scotia Capital Inc. are wholly owned by The Bank of Nova Scotia. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.



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