

Scotia U.S. \$ Bond Fund

Guide to this Document

Investment Objective

The fund's objective is to provide a high level of interest income. It invests primarily in bonds and treasury bills that are denominated in U.S. dollars and are issued by Canadian federal, provincial and municipal governments, Canadian corporations and supranational entities, such as the World Bank.

Reasons for Investing

- ▶ One of the few U.S. dollar denominated income funds in the Canadian marketplace.
- ▶ Great alternative for "snowbird" investors, offering regular U.S. dollar interest income at low to medium risk.
- ▶ Invests primarily in investment grade corporate and government securities.

Risk Rating



Time Horizon Medium to long term

Fund Essentials

Inception Date	November 1991
Total Assets \$Mil	130.29
Min. Initial Inv.(\$)	500
Min. Additional Inv.(\$)	50
Income Distribution	Monthly
Capital Distribution	Annually
MER %	1.77
NAV \$ as of 12-31-2011	11.62

Series Options

Series	Load Structure	Currency	Fund Code
A	No Load	USD	BNS359
F	No Load	USD	BNS559

Portfolio Manager Nicholas Van Sluytman
Goodman & Company,
Investment Counsel

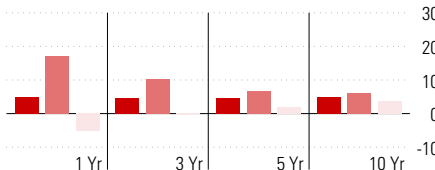
Management Company Scotia Asset Management
Telephone 800 268-9269
Web Site www.scotiafunds.com

Benchmark
BarCap Global Aggregate TR
USD

Fund Category
Global Fixed Income

Morningstar Rating™
N/A

Performance Analysis as of 12-31-2011



Best/Worst Periods (%)	1 Yr	3 Yr	5 Yr	10 Yr
Avg.	4.8	4.7	4.7	4.9
Best	17.2	10.3	6.6	6.0
Worst	-5.3	-0.3	2.0	3.7
No. of Periods	230	206	182	122
% Positive	86.5	99.0	100.0	100.0

Trailing Returns (%)	1 Mth	3 Mth	6 Mth	1 Yr	2 Yr	3 Yr	5 Yr	10 Yr
Fund	0.7	-0.2	5.9	7.6	5.6	4.4	5.2	4.2
Benchmark	0.7	0.2	1.2	5.6	5.6	6.0	6.5	7.2
Quartile	—	—	—	—	—	—	—	—

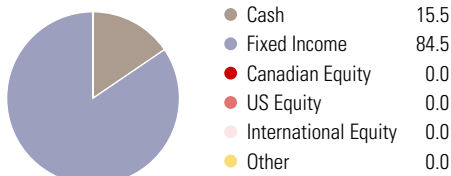
Calendar Year Returns (%)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Fund	7.6	10.7	2.3	1.7	0.4	1.9	6.9	6.0	1.9	3.7	7.6
Benchmark	1.6	16.5	12.5	9.3	-4.5	6.6	9.5	4.8	6.9	5.5	5.6
Quartile	—	—	—	—	—	—	—	—	—	—	—

Distributions (\$/unit)

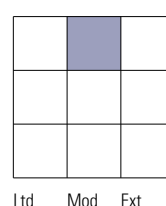
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total	0.42	0.42	0.38	0.37	0.39	0.39	0.39	0.36	0.31	0.21	0.18
Income	0.39	0.42	0.38	0.37	0.39	0.39	0.39	0.36	0.31	0.21	0.18
Capital Gains	0.03	—	—	—	—	—	—	—	—	—	—

Portfolio Analysis as of 11-30-2011

Composition



Fixed Income Style



Credit Quality

Credit Quality	%
High	89.6
Medium	4.6
Low	0.0
NR/NA	5.9

Top Ten Holdings

Top Ten Holdings	% Assets
US Treasury Bond 4.375% 15-05-2041	8.6
Ontario Prov Cda 1.6% 21-09-2016	7.4
Quebec Prov Cda 7.5% 15-09-2029	6.3
Manitoba Prov Cda 2.125% 22-04-2013	5.2
Ontario Prov Cda 4.4% 14-04-2020	4.1
Ontario Prov Cda 4% 07-10-2019	3.7
Inter Amern Dev Bk 3% 22-04-2014	3.6
British Columbia Prv Cda 7.25% 01-09-2036	3.3
BC (Prov Of) 4.3% 30-05-2013	3.1
Quebec Prov Cda 2.75% 25-08-2021	3.0

Total Number of Portfolio Holdings

Total Number of Portfolio Holdings	62
Total Number of Stock Holdings	0
Total Number of Bond Holdings	44
Total Number of Other Holdings	18
Total Number of Underlying Holdings	62

Fixed Income Breakdown

Fixed Income Breakdown	% Bond
Government Bonds	69.9
Corporate Bonds	14.4
Other Bonds	0.3
Mortgage Backed Securities	0.0
ST Investments (Cash & Other)	15.5
Asset Backed Securities	0.0

Geographic Allocation

Geographic Allocation	% Assets
Canada	80.7
United States	18.7
France	0.6

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Portfolio Advisor Overview

Manager Bio



Nicholas Van Sluytman

Manager Since 1991-11-27

Goodman & Company, Investment Counsel

Nicholas Van Sluytman is Vice President & Portfolio Manager at Goodman & Company, Investment Counsel, Ltd., the sub-advisor of the fund. Prior to joining GCICL, Nicholas was a member of the fixed income team at Scotia Asset Management (SAM) for over 20 years. Nicholas has a Bachelor of Arts degree (Economics & Political Science) from the University of Toronto and holds the Chartered Financial Analyst designation.

Additional Information

You can find additional information about each fund in its annual information form, its most recently filed annual and interim financial statements, and its most recently filed annual and interim management reports of fund performance.

You can get a copy of these documents, at no charge, by calling 1 800 268-9269 for English or 1 800 387-5004 for French, or from your dealer or broker. You can also download these documents from our website at www.scotiafunds.com, or from SEDAR at www.sedar.com.

Portfolio Advisor Quarterly Commentary as of 12-31-2011

Economic fundamentals largely took a back seat to the eurozone sovereign debt issues this past quarter.

However, the U.S. economy continued to bounce along with modest economic growth, as seen in declining jobless claims, rising employment and some firming of the housing market.

As the eurozone debt situation continued to deteriorate, risks increased accordingly. U.S. Treasury notes and bonds remained the preferred choice for investors looking to avoid the volatility in riskier assets. The yield on U.S. Treasury 10-year notes declined a modest four basis points over the quarter. Against this backdrop, Scotia U.S. \$ Bond Fund returned -0.2% over the quarter versus the benchmark Merrill Lynch Corporate & Quasi Government, Canadian Issuers, 1-10 Years Index, which returned 1.2% (both Fund and Index returns are in U.S. dollars). The Fund maintained its overweight exposure to Canadian provincial names, while remaining significantly underweight U.S. Treasuries and modestly underweight

corporates. This sector allocation was the primary factor in the Fund's performance versus the benchmark, as Treasuries outperformed all other sectors over the period. Entering the quarter, the Fund had a modest short duration position versus the Index, which was moved to neutral versus the benchmark early on, as cash flows into U.S. Treasuries kept rates from rising. Therefore, duration was a negligible factor in relative Fund performance. Curve positioning was kept close to neutral versus the benchmark throughout the period, and so there was also little impact on relative performance. Capital markets will continue to struggle between a focus on economic fundamentals and sovereign debt issues. A resolution to the latter is not anticipated for well into 2012. Cash flows are expected to gravitate toward assets that are deemed less risky, mainly U.S. and Japanese government debt, which will serve to keep interest rates low globally and yield curves relatively flat.

Disclosure

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IMPORTANT MUTUAL FUND INFORMATION

ScotiaFunds are available from Scotia Securities Inc., a corporate entity separate from, although wholly-owned by, The Bank of Nova Scotia, and other dealers. ScotiaFunds are managed by Scotia Asset Management L.P., Goodman & Company, Investment Counsel Ltd. is the portfolio sub-advisor of the fund. Scotia Asset Management L.P. and Goodman & Company, Investment Counsel Ltd. are each directly or indirectly, owned by The Bank of Nova Scotia.

Fund prices are provided for information purposes only. All information pertains to Class A units of the fund unless stated otherwise.

Units of the fund are only available for sale to residents of Canada, unless the laws of a foreign jurisdiction permit sales to its residents. Please contact your financial advisor for more details. The contents of this document should not be considered an offer to sell to, or a solicitation to buy mutual fund units from, any person in a jurisdiction where such offer or solicitation is considered unlawful.

Important information about the fund is contained in the Simplified Prospectus, which should be read carefully before investing. Commissions, trailing commissions, management fees and expenses may be associated with mutual fund investments. The performance data provided assumes reinvestment of distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. There can be no assurances that the fund will be able to maintain its net asset value per unit at a constant amount or that the full amount of your investment will be returned to you. Mutual funds are not covered by the Canada Deposit Insurance Corporation (CDIC) or by any other government deposit insurer. Past performance may not be repeated.

Scotia Asset Management L.P., as Manager of the ScotiaFunds, may compensate its staff and any appointed sub-distributor by regular payments based on the net asset value (NAV) of units held by investors. For further details, please refer to the Simplified Prospectus.