

# Scotia Mortgage Income Fund

**?** Guide to this Document

## Investment Objective

The fund's objective is to provide regular interest income. It invests primarily in high quality mortgages on residential properties in Canada.

## Reasons for Investing

- Exposure to unique asset class by holding mortgages purchased from the Bank of Nova Scotia via Scotia Mortgage Corporation.
- Mortgages are guaranteed to be re-purchased by Bank of Nova Scotia at par in the event of a default, making it a low risk income option.
- Provides diversification when held in a portfolio of other fixed income and equity funds.

## Risk Rating



**Time Horizon** Medium to long term

## Fund Essentials

|                          |               |
|--------------------------|---------------|
| Inception Date           | November 1992 |
| Total Assets \$Mil       | 236.71        |
| Min. Initial Inv.(\$)    | 500           |
| Min. Additional Inv.(\$) | 50            |
| Income Distribution      | Monthly       |
| Capital Distribution     | Annually      |
| MER %                    | 1.86          |
| NAV \$ as of 12-31-2011  | 10.84         |

## Series Options

| Series | Load Structure | Currency | Fund Code |
|--------|----------------|----------|-----------|
| A      | No Load        | CAD      | BNS361    |
| F      | No Load        | CAD      | BNS561    |

**Portfolio Manager** Kevin Pye  
Goodman & Company,  
Investment Counsel

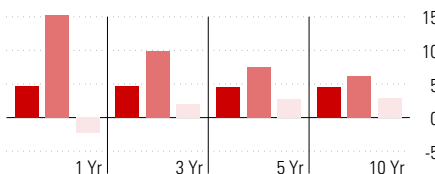
**Management Company** Scotia Asset Management  
**Telephone** 800 268-9269  
**Web Site** www.scotiafunds.com

**Benchmark**  
DEX ST Bond

**Fund Category**  
Canadian Short Term Fixed  
Income

**Morningstar Rating™**  
★★★

## Performance Analysis as of 12-31-2011



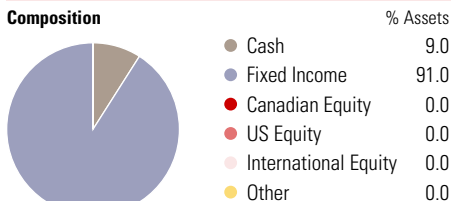
| Best/Worst Periods (%) | 1 Yr | 3 Yr  | 5 Yr  | 10 Yr |
|------------------------|------|-------|-------|-------|
| Avg.                   | 4.6  | 4.7   | 4.5   | 4.5   |
| Best                   | 15.3 | 9.8   | 7.5   | 6.2   |
| Worst                  | -2.3 | 1.9   | 2.8   | 2.9   |
| No. of Periods         | 218  | 194   | 170   | 110   |
| % Positive             | 98.6 | 100.0 | 100.0 | 100.0 |

| Trailing Returns (%) | 1 Mth | 3 Mth | 6 Mth | 1 Yr | 2 Yr | 3 Yr | 5 Yr | 10 Yr |
|----------------------|-------|-------|-------|------|------|------|------|-------|
| Fund                 | 0.3   | 0.3   | 0.6   | 1.0  | 1.0  | 1.9  | 2.8  | 2.9   |
| Benchmark            | 0.5   | 0.5   | 2.8   | 4.7  | 4.1  | 4.3  | 5.1  | 4.8   |
| Quartile             | 3     | 2     | 4     | 4    | 4    | 4    | 3    | 3     |

| Calendar Year Returns (%) | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------------------------|------|------|------|------|------|------|------|------|------|------|------|
| Fund                      | 8.2  | 3.5  | 3.4  | 3.7  | 1.9  | 2.6  | 2.2  | 5.9  | 3.9  | 1.0  | 1.0  |
| Benchmark                 | 9.4  | 6.3  | 5.1  | 5.1  | 2.4  | 4.0  | 4.1  | 8.6  | 4.5  | 3.6  | 4.7  |
| Quartile                  | 1    | 3    | 3    | 2    | 2    | 3    | 4    | 2    | 2    | 4    | 4    |

| Distributions (\$/unit) |      |      |      |      |      |      |      |      |      |      |      |
|-------------------------|------|------|------|------|------|------|------|------|------|------|------|
| Total                   | 0.52 | 0.47 | 0.45 | 0.34 | 0.29 | 0.30 | 0.38 | 0.37 | 0.32 | 0.19 | 0.17 |
| Income                  | 0.48 | 0.47 | 0.45 | 0.34 | 0.29 | 0.30 | 0.38 | 0.37 | 0.32 | 0.19 | 0.17 |
| Capital Gains           | 0.04 | —    | —    | —    | —    | —    | —    | —    | —    | —    | —    |

## Portfolio Analysis as of 11-30-2011



| Fixed Income Style | Credit Quality | %    |
|--------------------|----------------|------|
| High               | High           | 7.3  |
| Med                | Medium         | 0.0  |
| Low                | Low            | 0.0  |
|                    | NR/NA          | 92.7 |

Ltd Mod Ext

| Top Ten Holdings                          | % Assets |
|---|----------|
| Mortgages - Conventional                  | 91.0     |
| <b>Total Number of Portfolio Holdings</b> | <b>5</b> |
| Total Number of Stock Holdings            | 0        |
| Total Number of Bond Holdings             | 1        |
| Total Number of Other Holdings            | 4        |
| Total Number of Underlying Holdings       | 5        |

| Fixed Income Breakdown        | % Bond |
|-------------------------------|--------|
| Government Bonds              | 0.0    |
| Corporate Bonds               | 0.0    |
| Other Bonds                   | 0.0    |
| Mortgage Backed Securities    | 91.0   |
| ST Investments (Cash & Other) | 9.0    |
| Asset Backed Securities       | 0.0    |

| Geographic Allocation | % Assets |
|-----------------------|----------|
| Canada                | 100.0    |

# Scotia Mortgage Income Fund

## Portfolio Advisor Overview

### Manager Bio



**Kevin Pye**

**Manager Since** 2010-12-2

**Goodman & Company, Investment Counsel**

Kevin Pye is Vice President & Portfolio Manager at Goodman & Company Investment Counsel Ltd., the portfolio sub-advisor of the fund. Prior to joining GCICL, Kevin was Portfolio Manager, Fixed Income at Scotia Asset Management (SAM) where he was responsible for the management of institutional accounts with mandates that have an average term of 10 years or less. Kevin holds the CFA designation and has a B.A. from The University of Western Ontario, and an M.A. from Wilfrid Laurier University.

### 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](http://www.scotiafunds.com), or from SEDAR at [www.sedar.com](http://www.sedar.com).

### Portfolio Advisor Quarterly Commentary as of 12-31-2011

The financial crisis in Europe dominated headlines throughout the fourth quarter and fears of a sovereign debt default spread throughout the eurozone. Economists lowered forecasts for global economic growth. Bond yields were pushed significantly higher in many European countries, some leaders were forced to step aside and strict austerity measures were instituted to secure needed bailout funding. Investors sought out less risky assets, driving down bond yields in more stable countries like Canada, the U.S. and Germany. The mortgage yield curve was unchanged quarter-over-quarter, although there were small movements in rates within the period. Against this backdrop, Scotia Mortgage Income Fund returned 0.3% over the quarter versus the blended benchmark (33% one-year, 33% three-year and 33% five-year DEX Canada Mortgage Market Indexes) which returned 1.2%. The Fund maintained its average term at 2.2 years throughout the

quarter. There was an overweight exposure to two-year and three-year bonds, in an effort to provide yield while still remaining defensively positioned, if rates should rise. Rates are likely to remain lower for longer than previously anticipated, so new purchases have been focused further out on the mortgage curve to maximize the Fund's yield. There are reasons to be optimistic about 2012. The risk of an uncontrolled debt default in Europe has been greatly reduced, as there is both political will and systems in place to prevent such an occurrence. In addition, there have been recent bright spots in the U.S. job and housing markets – two key sectors that could significantly drive economic growth in 2012. As the economic fundamentals improve, bond yields may rise, putting upward pressure on mortgage rates. However, because there are still several risks to the outlook, there will not likely be any material changes to the Fund's strategy in the first quarter of 2012.

### 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.