

Scotia Mortgage Income Fund

Benchmark
DEX ST Bond

Fund Category
Canadian Short Term Fixed
Income

Morningstar Rating™
★★★

Investment Objective

The fund's objective is to provide regular interest income. It invests primarily in high quality mortgages on residential properties in Canada. These mortgages are i) insured or guaranteed by Canadian federal or provincial governments, or their agencies, or ii) conventional first mortgages with loan-to-value ratios of no more than 75%, unless the excess is insured by an insurance company registered or licensed under federal or provincial legislation.

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 3 year or more

Fund Essentials

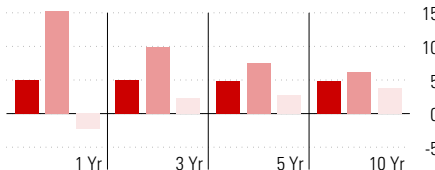
Inception Date	November 1992
Total Assets \$Mil	300.26
Min. Initial Inv.(\$)	500
Min. Additional Inv.(\$)	50
Income Distribution	Monthly
Capital Distribution	Annually
MER %	1.73
NAV \$ as of 10-31-2009	10.93

Class Options

Class	Load Structure	Currency	Fund Code
A	No Load	CAD	BNS361
F	No Load	CAD	BNS561

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

Performance Analysis as of 10-31-2009



Best/Worst Periods (%)	1 Yr	3 Yr	5 Yr	10 Yr
Avg.	5.0	4.9	4.8	4.8
Best	15.3	9.8	7.5	6.2
Worst	-2.3	2.3	2.8	3.9
No. of Periods	192	168	144	84
% Positive	98.4	100.0	100.0	100.0

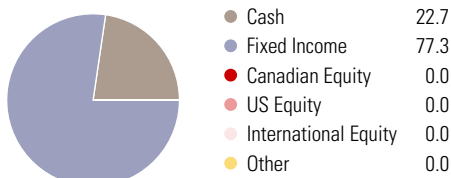
Trailing Returns (%)	1 Mth	3 Mth	6 Mth	1 Yr	2 Yr	3 Yr	5 Yr	10 Yr
Fund	-0.2	0.4	0.1	5.0	4.7	4.0	3.4	4.2
Benchmark	0.2	1.4	2.0	7.6	7.1	5.8	4.9	5.8
Quartile	4	4	4	3	2	3	2	2

Calendar Year Returns (%)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD
Fund	1.8	6.5	8.2	3.5	3.4	3.7	1.9	2.6	2.2	5.9	3.2
Benchmark	2.3	8.2	9.4	6.3	5.1	5.1	2.4	4.0	4.1	8.6	4.3
Quartile	2	3	1	3	2	2	2	3	4	2	2

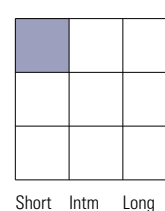
Distributions (\$/unit)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD
Total	0.50	0.50	0.52	0.47	0.45	0.34	0.29	0.30	0.38	0.37	0.30
Income	0.50	0.50	0.48	0.47	0.45	0.34	0.29	0.30	0.38	0.37	0.30
Capital Gains	—	—	0.04	—	—	—	—	—	—	—	—

Portfolio Analysis as of 09-30-2009

Composition



Fixed Income Style



Credit Quality

Credit Quality	%
High	22.7
Medium	0.0
Low	0.0
NR/NA	77.3

Geographic Allocation

Geographic Allocation	% Assets
Canada	100.0

Fixed Income Breakdown

Fixed Income Breakdown	% Bond
Government Bonds	0.0
Corporate Bonds	77.3
Other Bonds	0.0
Mortgage Backed Securities	0.0
ST Investments (Cash & Other)	22.7
Asset Backed Securities	0.0

Top Holdings

Top Holdings	% Assets
Mortgages - Conventional	77.3
Canadian T-Bill 10-12-2009	12.1
Canadian T-Bill 07-01-2010	4.2
Canadian T-Bill 26-11-2009	2.6
Canadian T-Bill 12-11-2009	2.5
Canadian T-Bill	0.7
Canada Govt T-Bills	0.5
Cash & Cash Equivalents	0.0

Total Number of Portfolio Holdings	8
Total Number of Stock Holdings	0
Total Number of Bond Holdings	1
Total Number of Other Holdings	7
Total Number of Underlying Holdings	8

Scotia Mortgage Income Fund

Portfolio Advisor Overview

Manager Bio



Nicholas Van Sluytman
Manager Since 1998-8-1
Scotia Asset Management

Nicholas has been with Scotia Asset Management since 1998. He is a member of the fixed income team and has responsibility for management of institutional accounts with mandates with average terms of less than ten years.

Nicholas has experience in all aspects of fixed income investing having received progressively more senior roles within the organization including Senior Money Market Trader and Senior Fixed Income Trader until assuming his current position as a Portfolio Manager.

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 09-30-2009

The return for Scotia Mortgage Income was 0.69% over the quarter versus the blended benchmark 33% 1-year, 33% 3-year and 33% 5-year DEX Canada Mortgage Market Index return of 1.83%.

During the third quarter, mortgage rates moved lower in Canada. One-year rates declined from 3.75% to 3.70%, three-year rates fell from 4.55% to 4.35%, while five-year rates moved from 5.85% to 5.49%. The drop in mortgage rates is primarily due to the tightening credit spreads for bank bonds and the intense competition for

mortgage business in the Canadian housing market. The portfolio advisor has maintained an average term for the fund of approximately 2.5 years throughout the period. However, with the overnight lending rate hovering close to zero per cent, the portfolio advisor believes that there is a good chance that this rate and other short-term interest rates will move higher. While he does not expect this to happen until well into 2010, he intends to gradually reduce the average term to maturity of the fund, in anticipation of rising interest rates.

Disclosure

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 ® Registered trademark of The Bank of Nova Scotia, used under licence.

IMPORTANT MUTUAL FUND INFORMATION

ScotiaFunds are managed by Scotia Asset Management LP, a corporate entity separate from, although wholly-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 LP, 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.