

Scotia Diversified Monthly Income Fund

? Guide to this Document

Benchmark
Morningstar CAN Bal 50/50
CAD

Fund Category
Canadian Neutral Balanced

Morningstar Rating™
★★★★

Investment Objective

The fund's objective is to provide regular monthly income and some capital appreciation. It invests primarily in a diversified portfolio of income generating securities such as: dividend paying common shares, preferred shares, investment grade bonds, convertible debentures, mortgages, high yield bonds, asset-backed and mortgage-backed securities, income trust units.

Reasons for Investing

- ▶ A monthly stream of cash flow to supplement current income needs and the potential for some capital appreciation.
- ▶ Typically uses three primary sources of income to generate cash flow: Canadian bonds, mortgages and conservative higher dividend-paying equities.
- ▶ Balancing exposure to two main asset classes reduces overall volatility, making it suitable for a conservative investor seeking measured stock and bond exposure.

Risk Rating



Time Horizon Medium-Long term

Fund Essentials

Inception Date	June 2005
Total Assets \$Mil	2,049.62
Min. Initial Inv.(\$)	500
Min. Additional Inv.(\$)	50
Income Distribution	Monthly
Capital Distribution	Monthly
MER %	1.44
NAV \$ as of 12-31-2011	9.86

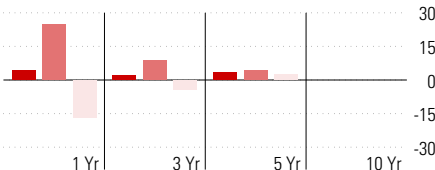
Series Options

Series	Load Structure	Currency	Fund Code
A	No Load	CAD	BNS339
F	No Load	CAD	BNS539
Adv	Deferred Sales	CAD	BNS939
Adv	Front End	CAD	BNS739
Adv	Low Load	CAD	BNS839

Portfolio Manager Oscar Belaiche
Goodman & Company,
Investment Counsel

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

Performance Analysis as of 12-31-2011



Best/Worst Periods (%)	1 Yr	3 Yr	5 Yr	10 Yr
Avg.	4.1	2.0	3.5	—
Best	25.0	8.7	4.4	—
Worst	-16.7	-4.1	2.3	—
No. of Periods	67	43	19	—
% Positive	79.1	81.4	100.0	—

Trailing Returns (%)	1 Mth	3 Mth	6 Mth	1 Yr	2 Yr	3 Yr	5 Yr	10 Yr
Fund	1.3	2.9	-1.8	0.3	4.6	8.7	2.7	—
Benchmark	0.0	3.0	-0.7	0.5	6.3	10.6	4.2	7.1
Quartile	1	3	2	2	2	2	1	—

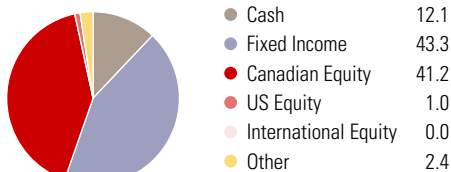
Calendar Year Returns (%)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Fund	—	—	—	—	—	5.7	2.6	-13.5	17.4	9.2	0.3
Benchmark	-2.2	-2.1	16.4	10.9	15.4	10.7	6.8	-14.9	19.7	12.4	0.5
Quartile	—	—	—	—	—	4	2	1	2	2	2

Distributions (\$/unit)

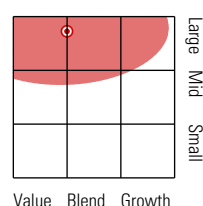
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total	—	—	—	—	0.18	0.37	0.37	0.50	0.36	0.36	0.36
Income	—	—	—	—	0.18	0.33	0.34	0.50	0.36	0.36	0.36
Capital Gains	—	—	—	—	—	0.04	0.03	—	—	—	—

Portfolio Analysis as of 11-30-2011

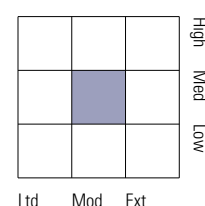
Composition



Equity Style



Fixed Income Style



Top Ten Holdings

	% Assets
Canada Hsg Tr No 1 15-09-2015	5.0
Toronto-Dominion Bank	4.7
Ontario Prov Cda 6.5% 08-03-2029	4.2
Bank of Nova Scotia	3.7
Mortgages - Conventional	3.4
Quebec Prov Cda MTN Cds 4.25% 01-12-2021	3.0
CIBC	2.2
Royal Bank of Canada	2.2
Ontario Prov Cda 4% 02-06-2021	1.9
TransCanada Corp	1.8

Total Number of Portfolio Holdings

Total Number of Stock Holdings	45
Total Number of Bond Holdings	81
Total Number of Other Holdings	19
Total Number of Underlying Holdings	145

Top 5 Sector Allocation

	% Assets
Financials	40.6
Energy	30.7
Telecommunications Services	10.9
Materials	9.3
Utilities	4.7

Fixed Income Breakdown

	% Bond
Government Bonds	33.8
Corporate Bonds	35.3
Other Bonds	0.0
Mortgage Backed Securities	9.1
ST Investments (Cash & Other)	21.8
Asset Backed Securities	0.0

Scotia Diversified Monthly Income Fund

Portfolio Advisor Overview

Manager Bio



Oscar Belaiche

Manager Since 2011-11-1

Goodman & Company, Investment Counsel

Oscar is Vice-President and Portfolio Manager at Goodman & Company, Investment Counsel Ltd. He joined GCICL in 1997 and currently heads Dynamic's awardwinning Equity Income team, managing over \$8.0 billion in assets. Oscar graduated in 1980 with an Honours B.A. in Business Administration from the University of Western Ontario. He has his Chartered Financial Analyst designation and is a Fellow of the Institute of Canadian Bankers.

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

Canadian equity markets had a difficult start to the fourth quarter, reaching their lows for the year in early October. While a significant recovery took place in the weeks that followed, based on optimism that European policy makers were making progress on a resolution to their debt struggles, it was short-lived. Slowing growth in China raised concerns for the resource-based Canadian economy while improving economic data released in the US gave US securities a lift over the quarter. These developments however were overshadowed by the problems in Europe, which remained the primary focus of the market. In this environment, equities outperformed bonds. Scotia Diversified Monthly Income Fund delivered a return of 2.9% over the period, outperforming its blended benchmark, which returned 2.2%. During the quarter there was a portfolio management change which came into effect at the beginning of November. As a result of the transitioning that took place the portfolio's cash level was increased to 10%. Bonds rose to represent 49% of the Fund at quarter-end. Two of the underlying funds which comprise the fixed income component of the

portfolio, Scotia Canadian Income Fund and Scotia Canadian Corporate Bond Fund were the most significant contributors to returns. On a sector level among equities exposure to names in telecommunication services and infrastructure provided a boost to returns. Specific holdings which contributed positively were BCE Inc., Rogers Communications and energy infrastructure firm Enbridge Inc. The Fund's allocation to materials and consumer discretionary securities detracted from performance. Positions in Potash Corporation of Saskatchewan, Teck Resources Limited and Magna International were detractors. Potash and Teck were subsequently sold from the portfolio. By the end of the quarter the financials weighting had been reduced, as any holdings in insurance companies were eliminated. In the current low growth environment interest rates will likely stay low for some time because of the de-leveraging process that is being played out. This should continue to be beneficial for dividend-paying securities and the portfolio will focus on owning quality companies that pay sustainable dividends.

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.