

# Scotia Private Canadian Corporate Bond Pool

(formerly Scotia Canadian Corporate Bond Fund)

## Annual Management Report of Fund Performance

For the period ended December 31, 2011

This annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling toll-free 1 800 268-9269, or by asking your mutual fund representative. You can also write to us at Scotia Asset Management, Scotia Plaza, 52nd Floor, 40 King Street West, Toronto, Ontario M5H 1H1, or download from [www.scotiafunds.com](http://www.scotiafunds.com) or [www.sedar.com](http://www.sedar.com).

You may also contact us using one of these methods to request a copy of the fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

In this document, we, us, our and the Manager refers to Scotia Asset Management L.P. ("SAM") and fund refers to the Scotia Private Canadian Corporate Bond Pool.

*This report may contain forward-looking statements about the fund. Such statements are predictive in nature and depend upon or refer to future events or conditions and may include such words as "expects", "plans", "anticipates", "believes", "estimates" or other similar expressions. In addition, any statement regarding future performance, strategies, prospects, action or plans is also a forward-looking statement. Forward-looking statements are subject to known and unknown risks and uncertainties and other factors that may cause actual results, performance, events, activity and achievements to differ materially from those expressed or implied by such statements. Such factors include general economic, political and market conditions, interest and foreign exchange rates, regulatory or judicial proceedings, technological change and catastrophic events. You should consider these and other factors carefully before making any investment decisions and before relying on forward-looking statements. We have no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise.*

### Management Discussion of Fund Performance

#### Investment Objectives and Strategies

The fund's objective is to provide a high level of regular interest income and modest capital gains. It invests primarily in bonds issued by Canadian corporations. The fund can also invest up to 30% in foreign securities. It can invest anywhere in the world, but generally won't invest in emerging markets.

Securities with a maturity of one year or less will generally have a credit rating of R2 (low) or better by another approved rating agency. Securities with a maturity of more than one year must have a credit rating of BBB (low) or better by an approved rating agency. The fund can invest up to 25% of its

assets in securities that have a credit rating of no lower than B (low) by an approved rating agency.

The portfolio advisor analyzes credit risk to identify securities that offer higher yields at an acceptable level of risk. Interest rate and yield curve analysis are used to manage the fund's average term to maturity depending on market conditions. The credit quality of the fund's investments will vary depending on the economic cycle, industry factors, specific company situations and market pricing considerations to try to maximize returns while minimizing portfolio risk.

#### Risk

The overall risks of investing in the fund remain as discussed in its simplified prospectus. The fund remains suitable for investors who want a high level of regular interest income, who can accept medium risk and who are investing for the long term.

#### Results of Operations

Over the review period, the fund's Series M units returned 7.03% compared to a 9.68% return for the DEX Universe Bond Index, and a 6.99% return for the DEX Short-Mid Capped Corporate Bond Index. In contrast to the index, the fund's return is after the deduction of fees and expenses. Any difference between the performance of the Series M units and other series of the fund is the result of the different management fees charged to, and operating expenses recovered from, each series. Please see the "Past Performance" section for the performance returns of the fund's other series.

Over the review period, corporate credit spreads widened across the yield curve, as global macroeconomic and geopolitical events weighed on investor sentiment. These events included the Japanese earthquake and tsunami, ongoing European sovereign debt issues, political uncertainty in the Middle East and North Africa, the U.S. debt ceiling debate, and the subsequent Standard & Poor's credit rating downgrade of U.S. government debt. In addition, strong investor demand for Government of Canada and provincial bonds contributed to their strong outperformance over the year.

At just over \$82 billion, new debt issuance in Canada for 2011 was slightly below its 2010 level. Over the period, DBRS's (a credit rating agency) downgrade-to-upgrade ratio was 1.85x, equal to its historical long-term average. Default rates were near their all-time lows over the period despite the heightened global uncertainty and volatility surrounding the European sovereign debt concerns, which demonstrated the strength of corporate balance sheets.

A significant contributor to the fund's relative performance was its higher weighted average yield. The benchmark's yield in the seven- to 10-year range of the yield curve declined, which contributed to fund performance (as the fund had an over-weight exposure to seven- to 10-year issues).

The portfolio advisor's security selection contributed to fund performance over the period, as the fund had zero exposure to Yellow Media Inc., which was downgraded to non-investment-grade status after rating agencies began to question the sustainability of the company's business and financial model.

Over the period, the portfolio advisor sold corporate issues the portfolio advisor believed were expensive, and began building a sizeable position in provincial bonds. Provincial bonds delivered the highest returns in the benchmark over 2011 and contributed to fund performance. The fund's exposure to the infrastructure sector was increased over the period, as the portfolio advisor began to add more defensive, higher-rated credit exposure at what the portfolio advisor considered attractive spreads. This increase contributed to fund performance over the period, as these spreads widened less than the overall market.

During the period, the portfolio advisor lowered the fund's duration relative to the benchmark in anticipation of a rising interest rate environment. This repositioning was a significant detractor from fund performance as the Standard & Poor's downgrade of U.S. government debt, the deepening European sovereign debt crisis, and the start of the U.S. Federal Reserve Board's "Operation Twist" all resulted in further rate declines.

The telecommunications sector detracted from fund performance over the period. Rogers Communications Inc., TELUS Corp., and BCE Inc. all launched new deals, which were primarily funded by investors through the selling of shorter-dated debt. This put pressure on spreads and detracted from fund performance.

Over the review period, the fund experienced net sales of \$288,332,984.

### **Recent Developments**

Effective November 24, 2011, the designation of the units of the fund has been changed from 'class' to 'series'; namely, Class I became Series I, and Manager Class became Series M.

Effective January 27, 2012, the sub-advisor to the fund, Goodman & Company, Investment Counsel Ltd., changed its name to GCIC Ltd.

Effective April 30, 2012, PricewaterhouseCoopers LLP will become the auditor of the fund replacing Ernst & Young LLP.

The portfolio advisor expects credit fundamentals in North America to remain strong in the near term. Consequently, the portfolio advisor expects default rates to remain low, even if the economy continues to underperform.

Credit spreads are relatively wide and the portfolio advisor believes they may remain so until there is a resolution to the

European sovereign debt crisis. Therefore, the portfolio advisor believes corporate bonds are an excellent value, but anticipates spreads will continue to be volatile in the short term. Given the strong underlying credit fundamentals and the volatile, frequently illiquid credit markets, the portfolio advisor will remain an opportunistic buyer of high-quality issues.

### **Future Accounting Changes**

Effective January 1, 2011, International Financial Reporting Standards ("IFRS") replaced Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises, which include the Fund. On December 12, 2011, the Accounting Standards Board ("AcSB") made the decision to extend the deferral of the mandatory adoption of IFRS by investment companies for an additional year to January 1, 2014. This extends the previous two-year deferral of IFRS to three years as compared to other publicly accountable entities. The deferral is to provide time for the International Accounting Standards Board ("IASB") to finalize its guidance on investment entities and that a final standard could be issued after January 1, 2013, the previously established changeover date for investment companies in Canada. Entities currently applying Accounting Guideline 18, "Investment Companies" can continue to apply existing Canadian standards in Part V of the CICA Handbook – Accounting until fiscal years beginning on or after January 1, 2014. In light of this decision, the Manager will defer the first-time adoption of IFRS until fiscal year beginning on or after January 1, 2014.

The Manager has commenced the development of a changeover plan to meet the implementation date. The key elements of the plan include identifying differences between the Fund's current accounting policies and those the Fund expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on the Net Assets or Net Asset Value of the Fund.

On August 25, 2011, the IASB issued an exposure draft proposing that investment entities will be exempted from consolidating their controlled investments under IFRS 10. The Fund expects to meet the proposed criteria to qualify as investment entities and would measure all controlled investments at fair value with changes in fair value recognized through profit or loss. In light of this exposure draft, the major qualitative impacts noted as of December 31, 2011 would be the addition of a statement of cash flows, the impact of classification of puttable instruments, the impact of reporting future income tax assets or liabilities when applicable, and additional note disclosures.

The Manager has presently determined that there will be no quantitative impact on the Net Asset Value per Unit of each Fund Series resulting from the changeover to IFRS. However, this present determination is subject to change resulting from the issuance of new standards or new interpretations of existing standards.

## Related Party Transactions

We are the trustee, manager, registrar and transfer agent of the fund. The fund pays us a management fee, which may vary for each series of units of the fund. The Bank of Nova Scotia (“Scotiabank”), the parent company of the manager, earns fees for providing custodial services, including safekeeping and administrative services and unitholder record-keeping services to the fund.

Our affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. We, or our affiliates, may earn a foreign exchange spread when unitholders switch between units of funds denominated in different currencies. The fund also maintains bank accounts and over-draft provisions with Scotiabank for which Scotiabank may earn a fee.

For certain series of units of the fund, Scotia Securities Inc., a wholly-owned subsidiary of Scotiabank, is the principal distributor for which it is paid a trailer commission by SAM. Units of the funds are also distributed through brokers and dealers, including Scotia Capital Inc. (“SCI”), DWM Securities Inc. (“DWMI”) and Dundee Private Investors Inc. (“DPII”) which are wholly-owned subsidiaries of Scotiabank. SCI, DWMI and DPII, like other dealers, are paid a trailer commission by SAM for distributing certain series of units of the fund. Trailer commissions are paid by SAM out of the management fees it receives from the fund and are based on the average value of assets held by each dealer.

SAM has established an independent review committee (“IRC”) which acts as an impartial and independent committee to review and provide recommendations or, in certain cases, approvals respecting any conflict of interest matters referred to it by SAM. The IRC prepares, at least annually, a report of its activities to unitholders of the fund. The report is available on the ScotiaFunds website at [www.scotiafunds.com](http://www.scotiafunds.com) or at the unitholder’s request at no cost by contacting SAM (see front page).

SAM and the fund relied on standing instructions from the IRC in respect of one or more of the following types of transactions:

- Investing in or holding securities of related issuer, including Scotiabank;
- Trades in securities with SCI or parties related to the manager or the portfolio advisor, where SCI or such related parties act as principal;
- Investing in securities of an issuer during, or for 60 days after, the period in which SCI, or a related entity to the portfolio advisor, acted as an underwriter in the offering of those securities; and
- Purchases or sales of securities from or to another investment fund managed by us (referred to as “Inter Fund Trading”).

The applicable standing instructions require that investment decisions relating to the above types of transactions (i) are made free from any influence by us or any entity related to us and without taking in account any considerations relevant to us or any entity related to us; (ii) represent the business judgment of the portfolio advisor uninfluenced by any consideration other than the best interests of the funds; (iii) are in compliance with our policies; and (iv) achieve a fair and reasonable result for the fund.

From time to time, the fund may enter into portfolio securities transactions with SCI or other dealers in whom Scotiabank has a significant interest (the “Related Dealers”). These Related Dealers may earn commissions or spreads provided that such trades are made on terms and conditions that are comparable to non-related brokers or dealers.

## Financial Highlights

The following tables show selected key financial information about the fund and are intended to help you understand the fund’s financial performance over each of the past five years ended December 31.

### The Fund’s Net Assets per Unit<sup>(1)</sup>

#### Series I Units

	2011	2010	2009	2008*	2007
Net Assets, beginning of year	\$ 10.28	10.12	9.28	9.86	-
<b>Increase (decrease) from operations:</b>					
Total revenue	\$ 0.49	0.50	0.50	0.26	-
Total expenses	\$ -	-	-	-	-
Realized gains (losses) for the period	\$ (0.02)	0.05	(0.08)	0.01	-
Unrealized gains (losses) for the period	\$ 0.27	(0.02)	0.80	(0.59)	-
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	\$ 0.74	0.53	1.22	(0.32)	-
<b>Distributions:</b>					
From net investment income (excluding dividends)	\$ (0.49)	(0.51)	(0.51)	(0.27)	-
From dividends	\$ -	-	-	-	-
From capital gains	\$ -	-	-	-	-
Return of capital	\$ -	-	-	-	-
<b>Total Annual Distributions<sup>(3)</sup></b>	\$ (0.49)	(0.51)	(0.51)	(0.27)	-
<b>Net assets at December 31st of year shown<sup>(4)</sup></b>	\$ 10.52	10.28	10.12	9.28	-

\* The start date for Series I units was June 9.

## Series M Units

	2011	2010	2009	2008	2007
Net Assets, beginning of year	\$ 10.29	10.13	9.28	9.78	10.06
<b>Increase (decrease) from operations:</b>					
Total revenue	\$ 0.49	0.51	0.51	0.50	0.48
Total expenses	\$ (0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Realized gains (losses) for the period	\$ (0.02)	0.05	(0.09)	0.02	(0.11)
Unrealized gains (losses) for the period	\$ 0.25	0.11	0.92	(0.55)	(0.14)
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 0.71</b>	<b>0.66</b>	<b>1.33</b>	<b>(0.04)</b>	<b>0.22</b>
<b>Distributions:</b>					
From net investment income (excluding dividends)	\$ (0.48)	(0.50)	(0.50)	(0.48)	(0.46)
From dividends	\$ -	-	-	-	-
From capital gains	\$ -	-	-	-	-
Return of capital	\$ -	-	-	-	-
<b>Total Annual Distributions<sup>(3)</sup></b>	<b>\$ (0.48)</b>	<b>(0.50)</b>	<b>(0.50)</b>	<b>(0.48)</b>	<b>(0.46)</b>
<b>Net assets at December 31st of year shown<sup>(4)</sup></b>	<b>\$ 10.52</b>	<b>10.29</b>	<b>10.13</b>	<b>9.28</b>	<b>9.78</b>

(1) This information is derived from the fund's audited annual financial statements. The net assets per security presented in the financial statements differs from the net asset value calculated for fund pricing purposes. This difference is due to the requirements of generally accepted accounting principles ("GAAP"), including CICA Handbook Section 3855, and may result in a different valuation of securities held by the fund in accordance with GAAP than the market value used to determine net asset value of the fund for the purchase, switch and redemption of the fund's units ("Pricing NAV"). The Pricing NAV per unit at the end of the period is disclosed in Ratios and Supplemental Data.

(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

(3) Distributions were paid in cash/reinvested in additional units of the fund, or both.

(4) The net assets per unit at period end is not a cumulative amount but, rather, the value of the fund's units, in accordance with GAAP, as at the fund's period end.

## Ratios and Supplemental Data

## Series I Units

	2011	2010	2009	2008	2007
Total net asset value (000's) <sup>(1)</sup>	\$ 853,692	635,012	312,878	152,620	-
Number of units outstanding (000's) <sup>(1)</sup>	80,993	61,593	30,820	16,404	-
Management expense ratio <sup>(2)</sup>	% 0.01	0.01	0.01	0.01	-
Management expense ratio before waivers or absorptions <sup>(2)</sup>	% 0.01	0.01	0.01	0.01	-
Trading expense ratio <sup>(3)</sup>	% -	-	-	-	-
Portfolio turnover rate <sup>(4)</sup>	% 54.93	61.97	93.46	73.33	-
Net asset value per unit	\$ 10.54	10.31	10.15	9.30	-

## Series M Units

	2011	2010	2009	2008	2007
Total net asset value (000's) <sup>(1)</sup>	\$ 1,743,161	1,613,897	1,610,154	1,260,583	1,262,014
Number of units outstanding (000's) <sup>(1)</sup>	165,340	156,502	158,570	135,488	128,841
Management expense ratio <sup>(2)</sup>	% 0.08	0.08	0.08	0.08	0.09
Management expense ratio before waivers or absorptions <sup>(2)</sup>	% 0.08	0.08	0.08	0.08	0.09
Trading expense ratio <sup>(3)</sup>	% -	-	-	-	-
Portfolio turnover rate <sup>(4)</sup>	% 54.93	61.97	93.46	73.33	98.19
Net asset value per unit	\$ 10.54	10.31	10.15	9.30	9.80

(1) This information is provided as at December 31st end of the year shown.

(2) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of the daily average net asset value during the period.

(3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of the daily average net asset value during the period.

(4) The 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 once in the course of the 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 chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

## Management Fees

The management fee for each series is calculated as a percentage of its daily net asset value and is accrued daily. The management fees cover the costs of managing the fund, allow us to arrange to provide investment analysis, recommendations and investment decision making for the fund, allow us to make brokerage arrangements for the purchase and sale of the fund's portfolio securities and to provide or arrange to provide other services. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, are as follows:

	Maximum Management Fees (%)	Breakdown of Services	
		Dealer Compensation (%)	Other* (%)
Series M	0.10	-	100

\* Includes all costs related to management, trustee, investment advisory services, general administration and profit.

## Past Performance

The performance shown assumes that all distributions made by the fund in the periods shown were reinvested in additional units of the fund. If you hold the fund outside of a registered plan, you will be taxed on these distributions.

The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns.

How the fund has performed in the past does not necessarily indicate how it will perform in the future.

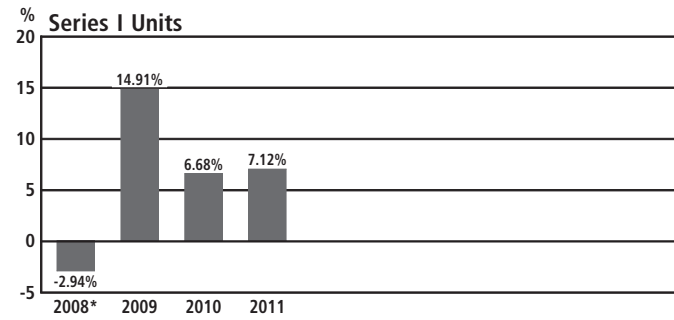
On April 1, 2011, the Manager appointed Goodman & Company, Investment Counsel Ltd. as sub-advisor to the fund. This

change could have materially affected the performance of the fund during the performance measurement periods.

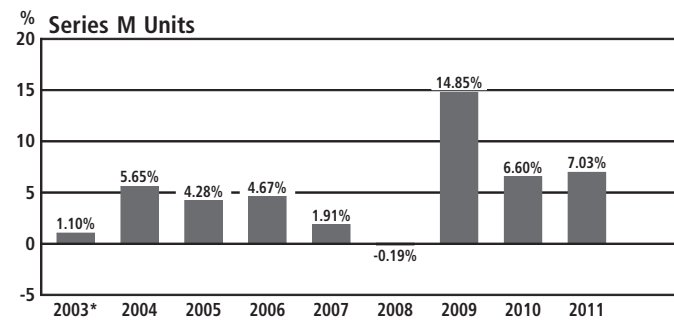
All rates of return are calculated based on Pricing NAV and are in Canadian dollars unless stated otherwise.

**Year-by-Year Returns**

This chart shows the fund's performance, which changes from year to year. It shows in percentage terms how much an investment held on January 1, or held commencing from start of series in each year, would have increased or decreased by December 31 of that year.



\* Jun. 9 – Dec. 31



\* Dec. 3 – Dec. 31

**Annual Compound Returns**

This table shows the fund's annual compound returns compared to the DEX Universe Bond Index, and the blended benchmark consisting of 50% DEX Short All Corporate Index and 50% DEX Mid All Corporate Index for the periods shown ending December 31, 2011.

		1 year	3 year	5 year	10 year	Since Inception
Series I Units	%	7.12	9.50	-	-	7.05
DEX Universe Bond Index	%	9.68	7.26	-	-	7.28
DEX Short-Mid Capped Corporate Bond Index	%	6.99	6.69	-	-	8.10
Series M Units	%	7.03	9.43	5.92	-	5.73
DEX Universe Bond Index	%	9.68	7.26	6.37	-	6.33
DEX Short-Mid Capped Corporate Bond Index	%	6.99	9.93	6.69	-	6.28

<sup>1</sup> Inception Dates: Scotia Series I Jun. 9, 2008, Series M Units Dec. 3, 2003

The DEX Universe Bond Index is a broad measure of the total return of Canadian bonds that have at least one year remaining to maturity. It includes approximately 900 Canadian federal, provincial, municipal and corporate bonds rated BBB or higher.

DEX Short All Corporate Index is a broad measure of investment grade bonds issued by Canadian corporations with remaining effective terms greater than 1 year and less than or equal to 5 years.

DEX Mid All Corporate Index is a broad measure of investment grade bonds issued by Canadian corporations with remaining effective terms greater than 5 years and less than or equal to 10 years.

Please see the "Results of Operations" section for a discussion of the fund's performance relative to the index.

**Summary of Investment Portfolio**

(as at December 31, 2011)

This is a breakdown of the fund's investments and a list of up to 25 of its largest holdings. The holdings will change as the portfolio advisor buys and sells securities. You can obtain a list of portfolio holdings on a quarterly basis by calling 1 800 268-9269, or by visiting [www.scotiainvestments.com](http://www.scotiainvestments.com).

**Sector Mix<sup>(1)</sup>**

	% of net asset value <sup>(2)</sup>
Corporate Bonds	91.8
Provincial Bonds	6.6

<sup>(1)</sup> 1.6% of the Pool's assets are held in Cash, Other Assets and Liabilities.

<sup>(2)</sup> Based on Pricing NAV.

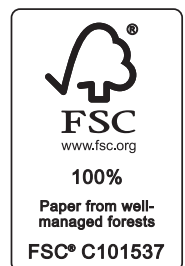
**Top Holdings**

Issuer	% of net asset value <sup>(1)</sup>
Province of Quebec 4.25% due Dec. 1, 2021	6.6
CIBC Capital Trust (callable) 9.98% due Jun. 30, 2108-(2019)	3.2
Bank of Montreal Capital Trust II (callable) 10.22% due Dec. 31, 2107	3.1
GE Capital Canada Funding Company 5.53% due Aug. 17, 2017	2.8
TD Capital Trust III (callable) 7.24% due Dec. 31, 2049-(2018)	2.5
Rogers Communications Inc. 5.34% due Mar. 22, 2021	2.5
Royal Bank of Canada 5.95% due Jun. 18, 2014	2.4
Greater Toronto Airports Authority 5.96% due Nov. 20, 2019	2.3
Bank of Nova Scotia, The (callable) 4.94% due Apr. 15, 2019	2.3
Bell Canada 4.40% due Mar. 16, 2018	2.2
Toronto-Dominion Bank, The (callable) 4.78% due Dec. 14, 2105-(2016)	2.2
National Australia Bank Limited 4.19% due Jul. 20, 2015	2.2
Teranet Holdings LP 4.81% due Dec. 16, 2020	2.2
Husky Energy Inc. 5.00% due Mar. 12, 2020	2.2
BRP Finance ULC 5.14% due Oct. 13, 2020	2.2
Bayerische Motoren Werke AG 3.22% due Mar. 28, 2013	2.1
Suncor Energy, Inc. 5.80% due May 22, 2018	2.1
Shaw Communications Inc. 5.65% due Oct. 1, 2019	2.1
Caterpillar Financial Services Limited 5.20% due Jun. 3, 2013	2.1
Daimler Canada Finance Inc. 3.16% due Apr. 14, 2014	2.1
HSBC Bank of Canada 3.56% due Oct. 4, 2017	2.0
EnCana Corporation 5.80% due Jan. 18, 2018	2.0
VW Credit Canada, Inc. 2.55% due Nov. 18, 2013	1.9
Scotiabank Tier I Trust (callable) 7.80% due Jun. 30, 2108	1.9
Great-West Lifeco Inc. 4.65% due Aug. 13, 2020	1.9
<b>Total Net Asset Value (000's)</b>	<b>\$2,596,853</b>

<sup>(1)</sup> Based on Pricing NAV.







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