ScotiaFunds®

Scotia Private International Core Equity Pool

(formerly Scotia International Equity 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 or 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 International Core Equity 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 long-term capital growth. It invests primarily in a broad range of equity securities of companies located outside of North America. The fund generally won't invest more than 20% of its assets in emerging markets.

The portfolio advisor uses fundamental analysis to identify investments that have the potential for above-average growth over the long term. This involves evaluating the financial condition and management of each company, as well as its industry and the economy. The fund's assets are diversified by industry and company to help reduce 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 the growth potential of investing in equity securities of companies located outside of North America, who can accept higher risk and who are investing for the long term.

Results of Operations

Over the review period, the fund returned −10.61% compared to a −9.55% return for the MSCI Europe, Australasia and Far East (EAFE) Index (in Canadian dollars). In contrast to the index, the fund's return is after the deduction of fees and expenses.

Over the review period, global equity markets were volatile, as geopolitical events and macroeconomic news heavily impacted investor sentiment. Political unrest in the Middle East and North Africa, the Japanese earthquake and tsunami, flooding in Thailand, and the European sovereign debt crisis drove equity market returns over much of 2011. These events resulted in investors seeking the relative "safety" of more defensively oriented and/or dividend-oriented companies.

The fund underperformed its benchmark over the period. The fund held underweight positions in the weaker financials and industrials sectors. Nevertheless, four of the five most significant individual detractors from fund performance over the period came from those sectors; specifically, Credit Suisse Group, BNP Paribas, Hong Kong Exchanges and Clearing Limited, and Komatsu Ltd.

The two most significant individual detractors from fund performance over the period were ArcelorMittal S.A. and Credit Suisse Group. While Credit Suisse has little direct sovereign debt exposure, the company's profitability was impacted by regulatory requirements in its investment banking unit and a risk-averse, low interest rate environment in its wealth management business. The share price of ArcelorMittal dropped on lower economic growth expectations in Europe and China, and the holding was sold from the portfolio in September 2011.

Contributors to the fund's relative performance over the period from a sector perspective included the consumer discretionary and information technology sectors. ARM Limited and SAP AG were among the most significant contributors to fund performance from these sectors.

The two most significant individual contributors to fund performance over the period were defensively positioned companies: Fresenius Medical Care AG & Co. KGaA and British American Tobacco. Fresenius Medical Care has experienced strong market share growth in its diabetes products, as the disease has

become more prevalent in emerging markets. With little market penetration in Asia for dialysis services, the portfolio advisor believes there is significant growth potential, and Fresenius is already the market leader in the region. British American Tobacco has benefited from its leadership position in its market, as well as pricing power and a healthy balance sheet.

Over the review period, the fund experienced net redemptions of $32,268,590.

Recent Developments

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

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

The portfolio advisor believes the market environment continues to be dominated by uncertainty and concern about the future of Europe's economy. The portfolio advisor believes a successful resolution to the European financial crisis would help strengthen investor confidence in global financial markets; however, the core issue of a lack of united fiscal and monetary policy in the region persists.

The fund currently has fewer holdings linked to the European economy than in previous periods, reflecting the portfolio advisor's uncertain outlook for the region. While the portfolio advisor has been mindful of maintaining exposure to more defensively positioned companies, certain factors that could negatively impact global progress have not occurred, including a rapid economic decline in China and a recession in the U.S.

Looking ahead to 2012, the portfolio advisor is hopeful that the economic environment will improve in Europe. Meanwhile, the portfolio advisor believes many of the obstacles facing the region are already reflected in company valuations, which appear compelling. The portfolio advisor will continue to evaluate opportunities one stock at a time, and balance the fund accordingly across the portfolio's three investment categories: attractive values, consistent earners, and emerging franchises.

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 of 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 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[1]

Series M Units

		2011	2010	2009	2008	2007
Net Assets, beginning of year	$	7.98	8.01	7.22	12.25	13.02
Increase (decrease) from operations:						
Total revenue	$	0.18	0.19	0.23	0.36	0.29
Total expenses	$	(0.04)	(0.06)	(0.05)	(0.05)	(0.07)
Realized gains (losses) for the period	$	0.05	(1.02)	(4.32)	(2.73)	(0.14)
Unrealized gains (losses) for the period	$	(0.99)	0.90	4.71	(2.28)	(0.79)
Total increase (decrease) from operations[2]	$	(0.80)	0.01	0.57	(4.70)	(0.71)
Distributions:						
From net investment income (excluding dividends)	$	–	–	(0.22)	–	–
From dividends	$	(0.16)	(0.17)	–	(0.48)	(0.21)
From capital gains	$	–	–	–	–	–
Return of capital	$	–	–	–	–	–
Total Annual Distributions[3]	$	(0.16)	(0.17)	(0.22)	(0.48)	(0.21)
Net assets at December 31st of year shown[4]	$	6.97	7.98	8.01	7.22	12.25

(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 M Units

		2011	2010	2009	2008	2007
Total net asset value (000's)[1]	$	65,995	108,367	111,293	145,350	472,281
Number of units outstanding (000's)[1]		9,462	13,573	13,902	20,133	38,580
Management expense ratio[2]	%	0.50	0.53	0.53	0.37	0.41
Management expense ratio before waivers or absorptions[2]	%	0.50	0.53	0.53	0.38	0.41
Trading expense ratio[3]	%	0.07	0.25	0.18	0.12	0.13
Portfolio turnover rate[4]	%	26.12	152.13	86.62	52.22	51.98
Net asset value per unit	$	6.97	7.98	8.01	7.22	12.24

(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	0.30	–	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.

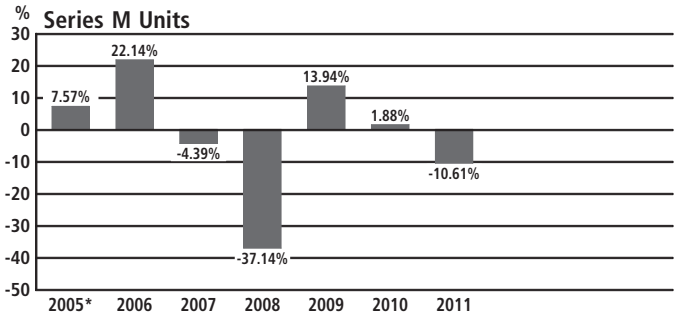
How the fund has performed in the past does not necessarily indicate how it will perform in the future.

On August 30, 2010, Thornburg Investment Management, Inc. was appointed as portfolio advisor to the fund. This changes 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.

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.



* Aug. 17 – Dec. 31

Annual Compound Returns

This table shows the fund's annual compound returns compared to the MSCI EAFE Index, for the periods shown ending December 31, 2011.

		1 year	3 year	5 year	10 year	since inception[1]
Series M Units	%	-10.61	1.24	-9.01	–	-3.08
MSCI EAFE Index	%	-9.55	1.43	-6.79	–	-0.88

[1] Inception Dates: Scotia Series M Units Aug. 17, 2005.

The MSCI EAFE Index is a free float-adjusted market capitalization index that measures developed market equity performance, excluding the U.S. and Canada. It consists of approximately 21 European, Australasian, and Far East country indices.

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.scotiafunds.com.

Geographic Mix[(1)]

	% of net asset value[(2)]
United Kingdom	25.0
Germany	13.1
Japan	11.2
France	8.7
Switzerland	8.6
United States	8.0
Hong Kong	5.3
Sweden	4.9
Denmark	2.9
Brazil	2.1
China	1.9
Australia	1.8
Others	1.5
Mexico	1.2

(1) 3.8% of the Pool's assets are held in Cash, Other Assets and Liabilities.
(2) Based on Pricing NAV.

Top Holdings

Issuer	% of net asset value[1]
SAP AG	3.0
Novo Nordisk AS, Class B	2.9
Standard Chartered PLC	2.9
BG Group PLC	2.7
Nestle SA	2.7
British American Tobacco PLC	2.6
Novartis AG	2.5
Teva Pharmaceutical Industries Ltd. ADR	2.5
LVMH Moet Hennessy Louis Vuitton SA	2.5
Tesco PLC	2.5
Adidas-Salomon AG	2.5
Schlumberger Limited	2.4
Hennes & Mauritz AB, Class B	2.3
Reckitt Benkiser Group PLC	2.3
Fresenius Medical Care AG & Co. KGaA	2.3
Carnival PLC	2.2
Kingfisher PLC	2.1
Vodafone Group PLC	2.1
Toyota Motor Corporation	2.1
Air Liquide SA	2.0
Assa Abloy AB Series B	2.0
Siemens AG	2.0
Komatsu Ltd.	2.0
Volkswagen AG Non-voting	1.9
Dassault Systemes SA	1.8
Total Net Asset Value (000's)	$65,995

[1] Based on Pricing NAV.