



NEWS, VIEWS AND INVESTMENT STRATEGIES FROM YOUR SCOTIABANK TEAM

ECONOMIC TRENDS

Rising cost of food a growing global concern

Food prices have increased by an average of 40 per cent worldwide since mid-2007 and 83 per cent in the past three years. With the price of many staples such as wheat and rice hitting record highs and governments in some poor nations forced to raise interest rates, levels of concern are rising about food shortages and the effects on inflation worldwide. What's behind this escalating trend?

The difference between supply and demand makes for higher prices. At the same time, policies to promote ethanol and other so-called biofuels also deplete supply since crops needed to produce these forms of energy compete for land that would otherwise be used to grow food. Extreme weather conditions, especially drought in major wheat-producing countries are also contributing to lower food supplies.

Some attempts at relief – the introduction of export bans and taxes by some exporting countries have exacerbated the problem. Higher food prices are also being driven by commodity-based speculation among buyers.

What can be done now?

The need to take action on food shortages is clear. Recent United Nations' recommendations include boosting harvests through the urgent supply of seeds and fertilizer to poorer nations, implementing more equitable international trade policies and setting policy guidelines on biofuel production.



Meanwhile, the International Monetary Fund is moving to provide financial assistance and is also calling for developing countries to step up efforts at domestic food production. For even the most seasoned market watchers, the potentially tragic social implications of this issue further reinforces the need for an investment strategy.

In this edition

Inflation, including rising costs for energy and food, is emerging as a major global concern currently. At the same time, the continuing economic slowdown in many developed nations and high volatility in financial markets have left many investors wondering what's next.

But for many of us, the greatest concern revolves around the human impact of high food prices, especially as they affect our neighbours in some developing regions of the world. To help put this important issue in perspective, this edition of Investment Advisor looks at the forces affecting food prices, including the views of Scotiabank experts on investing in these complex times.

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Scotiabank Global Growth Fund

An investment for turbulent times

You already know that one of the best ways to protect your investments against market volatility is through diversification. With Scotiabank Global Growth Fund, investors get immediate diversification on many levels, including by industry sectors and geography.

Research and experience define management team

As Fund Advisor, AllianceBernstein L.P. uses a superior investment process and applies proven risk controls to achieve strong long-term results. The firm is research driven with expertise that spans global and local investment products and extends to every major market in the world. The management team builds

on the firm's value-oriented philosophy and well-defined investment process, with research from more than 265 analysts operating in 12 countries. Members of the Investment Policy Group have an average of 21 years of industry experience and 14 years with the firm.

Finding value in any market

The company has managed global value equities since 1992 and has overseen Scotiabank Global Growth Fund since 1998. Based on a bottom-up stock selection process, the management team uses deep research to distinguish companies whose low values are the result of temporary stress, from businesses that deserve their depressed

Top 10 Country Allocation of Scotiabank Global Growth Fund

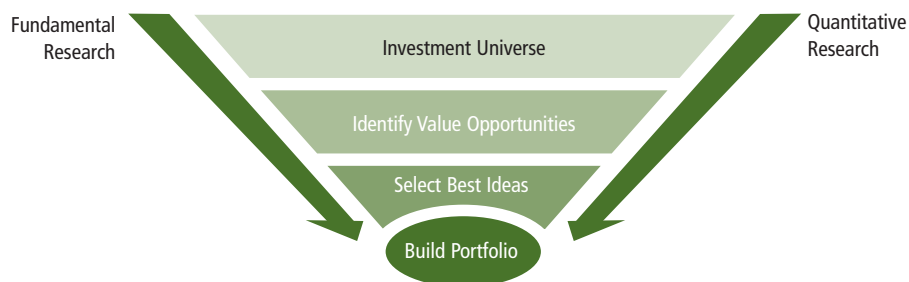
as of June 30, 2008	Fund %
UNITED STATES	47.00
UNITED KINGDOM	10.52
JAPAN	10.27
FRANCE	5.17
CANADA	4.89
GERMANY	4.38
SWITZERLAND	3.42
AUSTRALIA	3.28
ITALY	1.82
SPAIN	1.97

stock-market valuations. This approach identifies investments that are mispriced relative to their true values or long-term earnings prospects. These stocks may be undervalued because of investors' tendency to overreact to near-term events and the mistaken belief that current market conditions – good or bad – will persist.

Security selection begins with a universe of approximately 2,700 companies from around the world. These companies are screened to find the best investment opportunities using the AllianceBernstein L.P. value philosophy. Then, based on fundamental and quantitative research, the Investment Policy Group selects the most promising investments for inclusion in the Scotiabank Global Growth Fund.

Investment Process Overview

Explicit Marriage of Fundamental and Quantitative Research



Rigorous risk control is built into the investment process

The importance of risk control may be highlighted in turbulent times but AllianceBernstein L.P. integrates risk management into every step of the investment process at all times. The firm's risk control framework includes a dedicated Risk Advisory Group of senior investment professionals who meet quarterly and monitor risk control processes on an ongoing basis.

Risk control measures for Scotiabank Global Growth Fund include:

- monitoring quantitative tracking error ranges on the portfolio;
- limits on the portfolio's exposure to individual stocks;
- limits on the proportion of assets invested in particular countries and sectors;
- an internally developed portfolio attribution system.



Why bonds belong in your portfolio

Portfolio manager Shane Stuck oversees the Scotiabank US Dollar Bond Fund. He is a member of the Fixed Income team at Scotia Cassels Investment Counsel Ltd. and has extensive experience in global and US bond markets as well as in international currency markets. In the past he has worked in the Bank of Canada's open market operations (the division responsible for discretionary intervention in domestic securities markets) and with major investment firms in New York. Here, he offers his views on the role of bonds in an investment portfolio.

IA: What role do bonds play in a portfolio?

SS: Bonds are debt instruments issued by institutions. When you invest in a bond, whether through a bond mutual fund or by owning the bond outright, you are loaning money to the issuer in exchange for interest payments. So bonds can provide a source of regular income. In addition, bonds have the potential for growth through capital gains.

IA: Why is it important for an investor to have exposure to bonds?

SS: Bonds represent an important asset class that can balance stock market risk. In fact, the bond market is bigger than the stock market, bond prices tend to move in the opposite direction to stock prices, and may beat stocks in certain economic conditions. All these features make bonds excellent diversifiers in an investment portfolio.

IA: Why wouldn't an investor buy bonds rather than investing in a bond mutual fund?

SS: Bonds tend to be sold in large denominations that many investors couldn't afford. As well, by holding Scotiabank US Dollar Bond Fund, an investor gains exposure to a portfolio of high-quality bonds and gets the benefit of diversification.

IA: Like all Scotiabank Mutual Funds, Scotiabank US Dollar Bond Fund is denominated in US Dollars. How does this benefit investors?

SS: One of the strengths of the Fund's structure is the fact that it is denominated in US dollars. What exactly does this mean for a foreign-based investor? Over a longer term investment horizon, the advantages of a US dollar bond fund boil down to three key benefits. First, the investor should look at the fund as a component in a broader investment portfolio. In this context, the Fund offers the ability to gain exposure in the largest and most diversified bond market in the world and as an extension, offers the investor the ability to diversify their

investment risk exposure. One of the primary rules of investing is to maximize risk-adjusted returns through diversification. Second, the US dollar remains the key global reserve currency with several emerging market currencies and some developed countries as well, pegged or managed to their dollar valuation. As an investor in Latin America, the Caribbean, or Asia for that matter, the currency component of the fund may closely parallel the local currency movement. Finally, the global market has entered a period of heightened inflationary pressure which has been more pronounced in developing or fast growing economies. A US dollar fixed income component in an investment portfolio may act as a partial hedge against rising inflation.

Portfolio Manager Outlook

The outlook for the fund may best be described as a safe haven in the storm. The US bond market in broad terms returned about 1% in the first 6 months of 2008 – not stellar; however, viewed in a much more positive light when compared to the 11.9% *negative* return that US equities posted over the same time period*. While market volatility will remain in a heightened state, the fixed income market should maintain its moderate positive return path through the remainder of 2008. Given the relatively steep yield curve, the Fund will continue to look to add value through positioning on the curve while being selective in its credit exposure.

Top ten holdings of Scotiabank US Dollar Bond Fund

as of June 30, 2008	Fund %
U.S. TREASURY 4.25% (AUG 15/2013)	13.9
U.S. TREASURY 6.25% (AUG 15/2023)	5.1
PROV. OF NEW BRUNSWICK 7.6% (FEB 15/2013)	4.9
PROV. OF MANITOBA 7.5% (FEB 22/2010)	4.6
FNMA 5.125% (APR 15/2011)	4.5
PROV. OF ONTARIO 4.75% (JAN 19/2016)	4.3
KFW 4.5% (JUL 16/2018)	4.3
PROV. OF SASKATCHEWAN 7.375% (JUL 15/2013)	4.1
PROV. OF NOVA SCOTIA 8.875% (JUL 1/2019)	3.8
U.S. TREASURY 4.125% (MAY 15/2015)	3.7

*Past performance is not indicative of future returns.

Current events are certain to affect your investments. Here's how asset allocation can help you ride out the volatility.

A strategy for uncertain times



With so few things in life we can control – whether it's the threat of inflation and rising food prices or the unknowable direction of financial markets – it's natural to feel uncertainty. However, we know successful investors throughout history have shared an approach that doesn't involve panic or reactions to every market movement but relies instead on the proven benefits of asset allocation. Investing in a mix of stocks, bonds and cash is a prudent investment strategy for the simple reason that proper asset allocation can boost your portfolio returns and help reduce portfolio risk. Stocks, for instance, provide the highest

potential for long-term growth, while bonds work to anchor a portfolio with a steady stream of interest income. Diversification with suitable asset allocation is an effective way to protect your hard-earned money against inflation, such as rising food costs and energy costs – and ongoing stock market volatility.

In these times, putting that strategy to work is more important than ever.

With Scotiabank Asset Management Service (AMS) you can be confident your portfolio is on track.

Your investment time horizon, tolerance for risk and your objectives are all crucial to arriving at a recommended asset allocation for your portfolio. But sitting down with your Scotiabank Mutual Fund Representative to choose the proportion of investments best suited to your personal financial needs and goals is only the first step to achieving those objectives. Normal market movements can cause the value of the individual Mutual Funds in your portfolio to drift from their original weights and distort your asset mix.

With Scotiabank Asset Management Service (AMS) you will be confident the professional design and integrity of your portfolio is maintained. Here's how it works:

With a minimum investment of US\$5,000, every calendar quarter Scotiabank AMS will review your portfolio to ensure the weightings of the individual Scotiabank Funds do not deviate by more than 3% of their prescribed weightings. If any Fund experiences a drift of more than 3% in either direction, we will automatically rebalance your portfolio back to its original Fund allocations.

It's more important than ever to stay on track with your long-term plan. Speak with your Scotiabank Representative today for more information on how AMS can help you focus on long-term success.

Important information about Scotiabank Mutual Funds is contained in the Funds' prospectus. Copies are available from Scotiabank and Scotiastore branches and online at www.scotiabank.com, and should be read carefully before investing. Share values and

investment returns for the Funds will fluctuate. Past performance is not indicative of future performance. Scotiabank Mutual Funds are not insured by, nor guaranteed by, The Bank of Nova Scotia.

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