



NEWS, VIEWS AND INVESTMENT STRATEGIES FROM YOUR SCOTIABANK TEAM

ECONOMIC UPDATE

Challenges to global recovery remain

But widespread signs indicate recession is easing

Better-than-expected results by some financial and economic indicators have helped brighten the recent economic picture and, despite ongoing weakness in some sectors, the downturn appears to be losing intensity globally.

Surprising bright spots include slowing jobless rates in the United States and Canada, attributable largely to self-employment, public-sector hiring, and moderating private-sector job cuts. In the US also, the completion of the so-called “stress tests” affirming the strength of US-based banks is a positive development toward stability in the world economy and financial markets. Further, signs that the crisis is stabilizing include talk of how to unwind the extraordinary policies put in place to counter the crisis; an important step for many governments will include cutting back deficits.

Despite encouraging economic trends, however, Scotiabank economists expect a sluggish and uneven recovery for North America through 2010 and persistent challenges for other economies.

Mexico, meanwhile, is countering the devastating effects of the H1N1 flu pandemic

through fiscal relief for the all-important tourism sector, which represents 8.7 per cent of the country’s GDP.

The vulnerability of Mexico and Central America to the US slowdown is evident in declining economic activity. Yet Scotiabank analysis shows the apparent fall in industrial output may be less severe than it seems: in El Salvador, Panama and Mexico, economic activity peaked early in 2008 and the year-to-year comparisons today exaggerate the extent of the slowdown. Moreover, Mexico has picked up some industrial activity as North American car makers shift some assembly lines to this more cost-effective centre.

In the Caribbean community there are heightened worries about the ability of some nations to weather the recession, given concurrent high levels of inflation and unemployment. These concerns were voiced by presenters to a Caricom gathering in early June. That pessimism, underscored the importance of the declaration of joint efforts on the economy, energy and security – along with recognition of the region’s importance to the world economy – at April’s Summit of the Americas. This historic meeting brought US president Barack Obama and other world leaders to Port-of-Spain, Trinidad, to build solidarity in the fight against the global economic downturn.

In this edition

You already appreciate the stability of the deposits you hold with Scotiabank – we all value the peace of mind of knowing our hard-earned savings are secure with one of the world’s TOP TEN BANKS*. But did you know there are other asset classes which offer the potential for safety and income? In fact, bonds and bond mutual funds can provide a predictable and steady income and should be a solid foundation in any portfolio. In this edition of *investment advisor*, find out how bond mutual funds can add income and stability to your investment plan.

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Scotiabank US Dollar Bond Fund

A simple way to add stability and diversification

No matter how big or how modest your investment portfolio, asset class diversification – splitting your holdings among equities, fixed income and cash – is important for managing overall risk in your portfolio. But while most of us understand the potential for gains and losses that come with stock investing, and also recognize the tradeoff between relatively low returns and safety when it comes to our cash holdings, the possibilities offered by bonds are less widely recognized.

A conservative investment with proven results

Indeed, the role of bonds in a portfolio may be more important than ever, as interest rates hover around all-time lows and the returns from bank deposits and money-market mutual funds continue to challenge income-seeking investors. As an option for fixed income, Scotiabank US Dollar Bond Fund offers a high degree of stability and safety. Here are some more reasons to consider Scotiabank

US Dollar Bond Fund as a core holding in your investment portfolio:

Professional management: The relationship among changing interest rates, shifts in the economy and bond prices can be complex. For instance, when interest rates go up, bond prices fall; and when rates fall, bond prices tend to increase. With years of experience managing fixed-income investments, the Fund Manager at the helm of Scotiabank US Dollar Bond Fund understands how to manage market conditions for optimum returns.

Income and potential for capital gains: The bonds held by the Fund generate a steady stream of interest income within the Fund. When rolled into an investor's existing investment strategy of asset allocation, the interest earnings within the Fund compound to boost portfolio growth. Plus, there's potential for capital gains from rising bond prices.

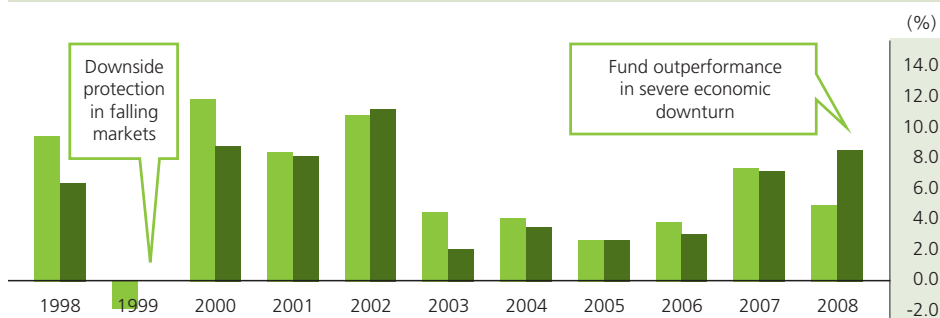
Affordable access to high-quality bonds: Holding a broad mix of bonds is more advantageous than investing in a single security. But for the average investor, high minimum investment requirements can be a barrier to a diversified bond portfolio. By contrast, a single investment in Scotiabank US Dollar Bond Fund, gives you access to a diversified mix of mid-term bonds issued by foreign governments, and/or agencies, and corporations.

Diversification to reduce risk within a fixed-income portfolio: If you already hold bonds or bond funds in your portfolio, you may have exposure to foreign government and corporate debt, including some from issuers in emerging markets. While such bonds may be good diversifiers and are likely to pay higher yields than bonds from issuers in developed markets, emerging market bonds are also generally riskier. At the same time, *local* bonds and bond funds have their own set of risk-return characteristics, due to the distinct economic conditions that define these markets.

An investment in Scotiabank US Dollar Bond Fund can effectively complement local, global and emerging market bond holdings. In fact, the Fund offers an excellent way to manage risk because it invests in a broad range of high-quality investments – especially those from issuers in the developed markets of US, Canada and Europe. Even better, because the Fund is denominated in US Dollars, you get an additional layer of protection against currency fluctuations and inflation in local markets.

Calendar-Year Returns

■ Fund Benchmark (ML US Corp & Govt Master TRUSD) ■ Scotia US Dollar Bond Fund Source: Morningstar Direct, December 2008



investment advisor

Bond basics: what you need to know about your bond investments

While investing in Scotiabank US Dollar Bond Fund is easy, it's important to understand the factors that contribute to the value of the Fund's holdings. When you purchase a bond directly or through an investment in a bond mutual fund, you are lending money to the corporation, government or other agency issuing the bond. In return, you, the lender, are entitled to receive interest payments. You may pay more or less than face value for a bond because bond prices move up and down with market forces. In addition, how much you earn as a bond holder, the interest rate on your principal – the original loan amount or face value of the bond – is dependent on a number of factors, including:

- **Credit quality:** There is a direct relationship between the quality of a

bond and the interest rate it pays. For example, an ultra-safe investment, such as a bond issued by a fiscally sound government or financially strong corporation will pay less than one issued by a lower-quality entity, which is deemed riskier and must offer higher yields to attract investors.

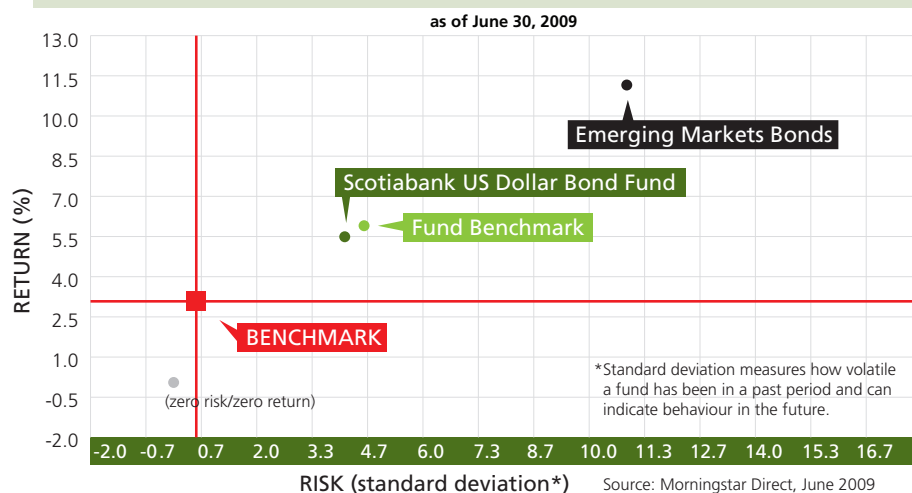
- **Investment ratings:** Bond ratings are grades assigned by independent research firms, based on objective analysis of the issuers. The ratings indicate quality by evaluating the bond issuer's financial strength and its ability to make regular interest payments and repay the bond's principal on time. Scotiabank US Dollar Bond Fund holds highly rated, "investment grade" bonds. By only investing in bonds with this rating or

higher, the Portfolio Manager ensures that more speculative, riskier bonds are excluded from the Fund.

- **Term to maturity:** This is the date on which the principal of your investment will be repaid by the issuer or borrower. Term is instrumental in determining the rate of return on the investment; it may be short, medium or long. Normally, long-term bonds pay a higher rate of return because an investor is assuming greater interest rate risk. In other words, the longer the term, the higher the rate due to the chance that rates will change and/or that future inflation may erode the bond's value.

10-Year Risk/Reward

	10-yr standard deviation*	10-yr mean return
■ Benchmark: ML US Treasury Bills 0-3 Mon TR USD	0.55	3.08
● Fund Benchmark: ML US Corp&Govt Master TR USD	4.58	5.90
● Emerging Markets Bonds: JPM EMBI Plus TR USD	10.90	11.16
● Scotiabank US Dollar Bond Fund: Scotiabank US Bond A Acc	4.08	5.47



Find out how to add income and stability to your portfolio with Scotiabank US Dollar Bond Fund – speak with your Scotiabank Mutual Funds Investment Advisor today!



investment advisor



Experience and prudence key to Fund Advisor's success

Before choosing a mutual fund, it's important to understand the Fund Advisor's experience, investment style and attitude to risk. Indeed, those qualities and credentials may seem especially important now, given the challenges of the current economic climate. For Scotiabank investors, there is good news on this front.

Scotia Cassels, Fund Advisor to Scotiabank US Dollar Bond Fund, Scotiabank Canadian Growth Fund and Scotiabank Money Market Fund, has been managing investments since 1877 and currently oversees \$24 billion in assets for mutual funds, private clients and institutional portfolios.

As well as having in-depth knowledge of different countries, currencies and global business sectors, Scotia Cassel's depth of experience spans equity, fixed

income and money market investing, and the Management Team knows well the importance of asset mix to long-term investment success.

Experience and prudence

Backed by strong research capabilities and with access to the global operations of Scotiabank, Scotia Cassels' commitment to prudent management and inherently conservative investment style are also positive reflections of the company's home base in Canada.

Over the course of the current economic crisis, Canada has continued to offer excellent opportunities to investors. In fact, the stability of Canada's financial markets are being looked to by other nations – including the United States – as proof that prudent regulation can and does work.

In managing the three Scotiabank Mutual Funds, Scotia Cassels draws on its insight on the Canadian marketplace to help the Funds to stable, consistent performance in any economic environment.

Scotiabank's strength recognized by independent report

We're proud of Scotiabank's long-standing history of service in the Caribbean and Latin America – it's likely one of the reasons you chose us as your Bank in the first place. But if you need another reason to believe in Scotiabank, consider this: a well-regarded international report recently rated Scotiabank as one of the world's most stable banks in terms of stability and performance during the financial crisis. Proud as we are, you can be sure we won't rest on our achievements – with this recognition, we are more committed than ever to ensuring we deserve your trust and respect.



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Add to the mix with Scotiabank Asset Management Service

You know that asset mix is crucial in determining the overall risk-return characteristics of your portfolio. After working with your Scotiabank Investment Advisor to determine and implement the right combination of Scotiabank Mutual Funds in your portfolio, you can ensure that asset mix remains optimal by adding

Scotiabank Asset Management Service (AMS) to your strategy.

AMS maximizes the benefits of diversification and enhances long-term growth potential by regularly rebalancing your portfolio to maintain the optimal asset mix. That way, your portfolio's potential for long-term growth isn't undermined by fluctuations in the market.

Important information about Scotiabank Mutual Funds is contained in the Funds' prospectus. Copies are available from Scotiabank and Scotiatrust 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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