Scotia Asset Management™

Scotia Private American Core-Plus Bond Pool

(formerly Pinnacle American Core-Plus 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 asking your ScotiaMcLeod advisor or by calling toll-free 1 800 268-9269. 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.scotiabank.com/scotiaprivatepools 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., and fund refers to the Scotia Private American Core-Plus 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 achieve long-term returns and to provide income as well as capital growth by investing primarily in a portfolio of U.S. government and corporate bonds and mortgage pass through securities. The fund may invest in the U.S. dollar denominated emerging markets, non-investment grade debt and non-U.S. investment grade sovereign and corporate debt. As well, the fund's investments may also include short-term instruments, cash equivalents, U.S. denominated asset-backed securities and mortgage-backed securities. The fund's investments in bonds will have an average credit rating of at least single A.

Up to 20% of the net asset value of the fund may be invested in U.S. denominated non-investment grade (high yield and emerging market) bonds. Up to 20% of the net asset value of the fund may be invested in non-U.S. government agency and corporate bonds. At least 80% of the net asset value of the fund will consist of investment grade securities. Investments in non-U.S. dollar denominated securities and non-investment grade securities will be made tactically based on the portfolio advisor's evaluation of interest rate differences using fundamental bottom-up research.

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 and U.S. dollar exposure, who can accept medium risk, and who are investing for the medium to long term.

Results of Operations

Over the review period, the fund's Pinnacle Series units returned 8.46% compared to a 8.20% return for the Barclays Capital U.S. Aggregate Bond Index, and a 9.68% return for the DEX Universe Bond Index ($CAD Hedged). In contrast to the indices, the fund's return is after the deduction of expenses paid by the fund. Any difference between the performance of Pinnacle Series 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.

During the first half of the review period, inflation and economic growth fears resulted in heightened financial market volatility. Inflation was fuelled by higher commodity prices and an increasing money supply in developed economies. Geopolitical unrest in the Middle East and North Africa, and the devastating earthquake and tsunami in Japan, which resulted in global supply disruptions during the first half of the year, were followed by a shift in investor focus to the ongoing European sovereign debt crisis. The European Central Bank and the U.S. Federal Reserve Board (the "Fed") implemented new policies and programs in an effort to support domestic and global economic growth.

The fund's exposure to the euro contributed to performance, as that currency weakened dramatically near the end of the year. Top individual contributors to fund performance over the

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review period included Georgia-Pacific Corp. and the long-term bonds of Ecolab Inc.

The most significant detractors from fund performance included the fund's overweight positions in high-quality and emerging market credit. The portfolio advisor's security selection in high-quality developed market debt and emerging market sovereign debt also detracted from performance. The fund's positions in Mexico, Poland, and Brazil (held in local currencies) detracted from performance, as the U.S. dollar outperformed the currencies of those countries. Significant individual detractors from fund performance included MF Global Holdings Ltd. (2011) and Argentina Euro Discounts.

Over the review period, the fund experienced net sales of $56,417,316.

Recent Developments

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

The fund's duration is currently neutral relative to the index. The portfolio advisor is comfortable with the fund's exposure to risk, which was slightly increased late in the review period, but expects to adjust the fund's risk exposure in the coming period on an individual security and issuer level.

Moving into 2012, the portfolio advisor expects financial markets to continue to move largely in response to the ongoing European sovereign debt crisis. Other factors the portfolio advisor believes will impact markets in coming months include expectations for corporate earnings, which are beginning to show signs of slowing from their peak levels, as well as more clarity regarding a number of recently introduced U.S. economic policy reforms.

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. However, on December 12, 2011, the Canadian Accounting Standards Board ("AcSB") decided to allow Investment Companies to extend by one year the deferral of the mandatory adoption of IFRS until the International Accounting Standards Board ("IASB") finalize the guidance on investment entities. 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 is expected to meet the definitions under 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 and manager 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 Capital Inc. ("SCI"), 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 SCI. SCI, like other dealers, is 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 Scotia Private Pools website at www.scotiabank.com/scotiaprivatepools 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 for the past five years ended December 31, as applicable.

The Fund's Net Assets per Unit(1)

Pinnacle Series Units

		2011	2010	2009	2008	2007
Net Assets, beginning of year	$	8.61	8.11	7.33	6.95	7.96
Increase (decrease) from operations:						
Total revenue	$	0.32	0.23	0.36	0.59	0.21
Total expenses	$	(0.03)	(0.03)	(0.04)	(0.04)	(0.03)
Realized gains (losses) for the period	$	0.11	0.46	0.93	(0.05)	(0.41)
Unrealized gains (losses) for the period	$	0.31	0.12	(0.18)	0.37	(0.61)
Total increase (decrease) from operations(2)	$	0.71	0.78	1.07	0.87	(0.84)
Distributions:						
From net investment income (excluding dividends)	$	(0.26)	(0.24)	(0.33)	(0.62)	(0.19)
From dividends	$	(0.00)	–	–	–	–
From capital gains	$	(0.05)	–	–	–	–
Return of capital	$	–	–	–	–	–
Total Annual Distributions(3)	$	(0.31)	(0.24)	(0.33)	(0.62)	(0.19)
Net Assets at December 31st of year shown(4)	$	9.02	8.61	8.11	7.33	6.95

Series F Units

		2011	2010	2009*	2008	2007
Net Assets, beginning of year	$	8.81	8.29	7.34	–	–
Increase (decrease) from operations:						
Total revenue	$	0.33	0.22	0.22	–	–
Total expenses	$	(0.09)	(0.08)	(0.06)	–	–
Realized gains (losses) for the period	$	0.11	0.55	0.98	–	–
Unrealized gains (losses) for the period	$	0.33	0.01	(0.11)	–	–
Total increase (decrease) from operations(2)	$	0.68	0.70	1.03	–	–
Distributions:						
From net investment income (excluding dividends)	$	(0.21)	(0.19)	(0.15)	–	–
From dividends	$	(0.00)	–	–	–	–
From capital gains	$	(0.05)	–	–	–	–
Return of capital	$	–	–	–	–	–
Total Annual Distributions(3)	$	(0.26)	(0.19)	(0.15)	–	–
Net Assets at December 31st of year shown(4)	$	9.21	8.81	8.29	–	–

* The start date for Series F Units was February 17.

Series I Units

		2011	2010	2009*	2008	2007
Net Assets, beginning of year	$	8.87	8.31	7.36	–	–
Increase (decrease) from operations:						
Total revenue	$	0.33	0.24	0.25	–	–
Total expenses	$	(0.01)	(0.02)	(0.03)	–	–
Realized gains (losses) for the period	$	0.11	0.50	0.83	–	–
Unrealized gains (losses) for the period	$	0.34	0.04	0.02	–	–
Total increase (decrease) from operations[2]	$	0.77	0.76	1.07	–	–
Distributions:						
From net investment income (excluding dividends)	$	(0.29)	(0.23)	(0.14)	–	–
From dividends	$	(0.00)	–	–	–	–
From capital gains	$	(0.05)	–	–	–	–
Return of capital	$	–	–	–	–	–
Total Annual Distributions[3]	$	(0.34)	(0.23)	(0.14)	–	–
Net Assets at December 31st of year shown	$	9.30	8.87	8.31	–	–

* The start date for Series I Units was January 22.

(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

Pinnacle Series Units

		2011	2010	2009	2008	2007
Total net asset value (000's)[1]	$	27,479	24,025	27,474	43,288	66,802
Number of units outstanding (000's)[1]		3,041	2,786	3,383	5,887	9,593
Management expense ratio[2]	%	0.31	0.38	0.54	0.54	0.37
Management expense ratio before waivers or absorptions[2]	%	0.31	0.38	0.73	0.54	0.37
Trading expense ratio[3]	%	–	–	–	–	–
Portfolio turnover rate[4]	%	487.15	471.01	347.09	264.92	425.69
Net asset value per unit	$	9.03	8.62	8.12	7.35	6.96

Series F Units

		2011	2010	2009	2008	2007	2006
Total net asset value (000's)[1]	$	118	81	81	–	–	–
Number of units outstanding (000's)[1]		13	9	10	–	–	–
Management expense ratio[2]	%	1.00	0.92	0.92	–	–	–
Management expense ratio before waivers or absorptions[2]	%	3.86	3.98	6.44	–	–	–
Trading expense ratio[3]	%	–	–	–	–	–	–
Portfolio turnover rate[4]	%	487.15	471.01	347.09	–	–	–
Net asset value per unit	$	9.22	8.83	8.30	–	–	–

Series I Units

		2011	2010	2009	2008	2007	2006
Total net asset value (000's)[1]	$	163,114	102,712	41,371	–	–	–
Number of units outstanding (000's)[1]		17,527	11,561	4,968	–	–	–
Management expense ratio[2]	%	0.08	0.19	0.38	–	–	–
Management expense ratio before waivers or absorptions[2]	%	0.08	0.19	0.38	–	–	–
Trading expense ratio[3]	%	–	–	–	–	–	–
Portfolio turnover rate[4]	%	487.15	471.01	347.09	–	–	–
Net asset value per unit	$	9.31	8.88	8.33	–	–	–

(1) This information is provided at December 31st 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, allows 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.

No management fees are charged to the Pinnacle Series units. Each unitholder pays, on a quarterly basis, a negotiated asset based fee for all services offered as part of the Pinnacle Program. These services include general management of the fund, portfolio advisory and distribution services, and investment management consulting services. We pay up to 72% of the fee paid by each unitholder for distribution related services provided by dealers. At least 28% of the fee paid by each unitholder is attributable to the costs of investment management, administration and profit.

No management fees are charged to the Series I units.

The breakdown of services received in consideration of 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 F	0.75	–	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 units of 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.

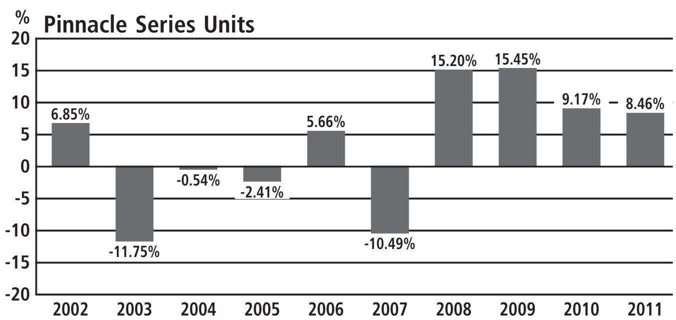
How the fund has performed in the past does not necessarily indicate how it will perform in the future.

On November 1, 2007, the portfolio advisor to the fund changed from Delaware Investment Advisers to Logan Circle Partners, L.P. This change could have materially affected the performance of the fund during the performance measurement periods.

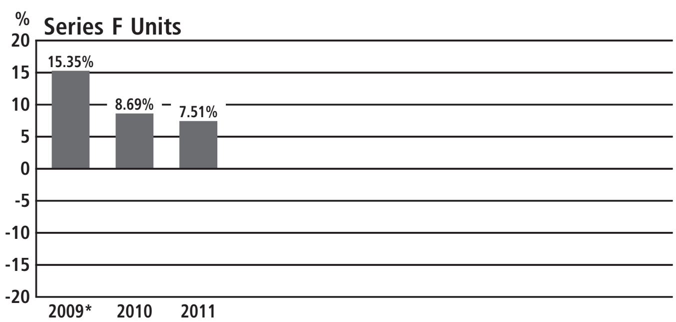
All rates of return are calculated based on Pricing NAV and are in Canadian dollars unless stated otherwise.

Year-by-Year Returns

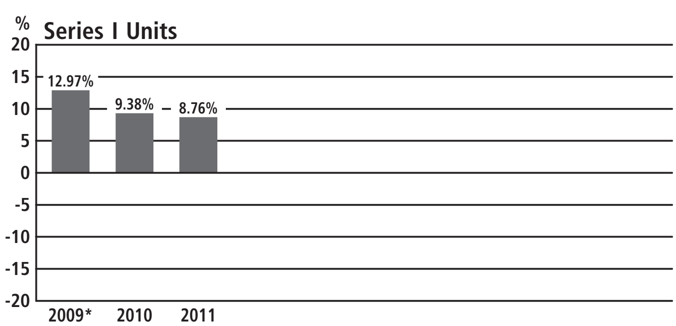
This chart shows the fund's annual performance, which changes from year to year. It shows in percentage terms how much an investment held on January 1, or held commencing from start of Series in each year, would have increased or decreased by December 31 of that year.



* Feb. 14 – Dec. 31



* Feb. 17 – Dec. 31



* Jan. 22 – Dec. 31

Annual Compound Returns

This table shows the fund's annual compound returns compared to the Barclays Capital U.S. Aggregate Bond Index and the DEX Universe Bond Index for the periods shown ending December 31, 2011.

		1 year	3 year	5 year	10 year	Since Inception[1]
Pinnacle Series Units	%	8.46	10.99	7.11	–	3.13
Barclays Capital U.S. Aggregate Bond Index ($CAD Hedged)	%	8.20	6.90	7.84	–	2.95
DEX Universe Bond Index	%	9.68	7.27	6.36	–	6.51
Series F Units	%	7.51	–	–	–	12.48
Barclays Capital U.S. Aggregate Bond Index ($CAD Hedged)	%	8.20	–	–	–	7.80
DEX Universe Bond Index	%	9.68	–	–	–	7.81
Series I Units	%	8.76	–	–	–	11.61
Barclays Capital U.S. Aggregate Bond Index ($CAD Hedged)	%	8.20	–	–	–	7.42
DEX Universe Bond Index	%	9.68	–	–	–	7.83

[1] Inception Dates: Pinnacle Series Units Feb. 14, 2002, Series F Units Feb. 17, 2009, Series I Units Jan. 22, 2009

The Barclays Capital U.S. Aggregate Bond Index comprises of the Barclays Capital Government Corporate Bond Index, Barclays Capital Mortgage-Backed Securities Index and the Barclays Capital Asset Backed Securities Index, which include securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

The DEX Universe Bond Index is a broad measure of the total return of Canadian bonds that mature in more than one year. It includes approximately 900 Canadian federal, provincial, municipal and corporate bonds rated BBB or higher.

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 contacting your ScotiaMcLeod advisor, by calling toll-free 1 800 268-9269, or by visiting www.scotiabank.com/scotiaprivatepools.

Sector Mix(1)

	% of net asset value(2)
United States	81.5
Others	8.7
United Kingdom	1.8
Colombia	1.8
Mexico	1.5
Turkey	1.4
Argentina	1.2
Norway	1.1
Venezuela	1.0

(1) 0.0% of the Pool's assets are held in Cash, Other Assets and Liabilities.

(2) Base on Pricing NAV.

Top Holdings

Issuer	% of net asset value(1)
Cash and cash equivalents	24.9
Fannie Mae 4.50% due Dec. 1, 2099	7.9
Fannie Mae 5.00% due Dec. 1, 2099	3.7
United States Treasury Note 3.75% due Aug. 15, 2041	2.8
United States Treasury Note 2.00% due Nov. 15, 2021	2.7
Fannie Mae 4.00% due Dec. 1, 2099	2.7
Federal National Mortgage Association 6.00% due Dec. 1, 2099	2.0
Fannie Mae 5.00% due Dec. 1, 2099	1.8
Republic of Columbia 12.00% due Oct. 22, 2015	1.3
Federal National Mortgage Association 2.92% due Aug. 25, 2021	1.2
Federal Home Loan Mortgage Corporation 5.00% due Dec. 1, 2099	1.1
AmeriCredit Automobile Receivables Trust 2011-4 1.17% due May 9, 2016	1.1
Fannie Mae 3.50% due Dec. 1, 2099	1.0
Uruguay, Oriental Republic of 4.38% due Dec. 15, 2028	1.0
United Kingdom Treasury Gilt 5.00% due Mar. 7, 2018	0.9
Fannie Mae 3.00% due Dec. 1, 2099	0.9
FHLMC Multifamily Structured Pass Through Certificates 3.99% due May 25, 2021	0.8
Petróleos de Venezuela S.A. 5.00% due Oct. 28, 2015	0.8
Republic of Turkey 6.00% due Jan. 14, 2041	0.8
United States Treasury Note 3.75% due Aug. 15, 2041	0.7
NII Capital Corp. 7.63% due Apr. 1, 2016	0.7
United States Treasury Note 1.38% due Dec. 31, 2018	0.6
Federal Government Loan Mortgage Corporation 4.50% due Dec. 1, 2099	0.6
Government of Poland 5.25% due Oct. 25, 2017	0.6
NCUA Guaranteed Notes 1.84% due Oct. 7, 2020	0.6
Total Net Asset Value (000's)	$190,711

(1) Based on Pricing NAV.