Scotia Cassels Short-Mid Government Bond Fund

ScotiaFunds™

Management Report of Fund Performance
(as at December 31, 2008)

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 (416 750-3863 in Toronto) for English, or 1 800 387-5004 for French or by asking your mutual fund representative. You can also write to us at 40 King Street West, P.O. Box 4085, Stn. A, Scotia Plaza, Toronto, Ontario M5Z 2X6, 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 and our refers to Scotia Securities Inc. and fund refers to the Scotia Cassels Short-Mid Government Bond Fund.

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 regular interest income and modest capital gains. It invests primarily in:

- bonds and treasury bills issued or guaranteed by Canadian federal, provincial and municipal governments or any agency of such governments
- money market instruments of Canadian issuers. These include commercial paper, bankers' acceptances, asset-backed or mortgage-backed securities and guaranteed investment certificates.

Securities with a maturity of one year or less will generally have a credit rating of R1 (low) or better by Dominion Bond Rating Service Limited (DBRS), or an equivalent rating 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 DBRS, or an equivalent rating by another approved rating agency.

The average term to maturity of the fund's investments will vary, depending on market conditions. The portfolio advisor adjusts the average term to maturity to try to maximize returns while minimizing interest rate risk. The portfolio advisor uses interest rate and yield curve analysis to select individual investments and manage the fund's average term to maturity. It analyzes credit risk to identify securities that offer the potential for higher yields at an acceptable level of risk.

The fund can invest up to 30% of its assets in foreign securities.

Risk

The overall risks of investing in the fund are as discussed in its simplified prospectus. The fund is suitable for investors who want regular interest income, who can accept low to medium risk and who are investing for at least three years.

Results of Operations

Over the review period, the fund returned 8.7% versus 6.4% for the broad based DEX Universe Bond Index and 10.9% for the blended index, consisting of 50% DEX Short Government Bond Index and 50% DEX Mid Government Bond Index. In contrast to the indices, the fund's return is after the deduction of fees and expenses.

During the year, the fund provided positive returns in an environment where massive amounts of capital were lost worldwide. However, the fund underperformed the index over the course of the year, attributable almost exclusively to the unprecedented widening of spreads of provincial bonds relative to Government of Canada debt yields, which occurred primarily in the second half of 2008.

The seeds of the credit market volatility in 2008 were sown in the latter half of 2007. Since then, the scope and scale of the fallout from the deleveraging that has occurred were foreseen by very few market analysts. The crisis in credit markets that ensued globally served to freeze capital flows to the point that government intervention was required to stave off a major collapse. The resulting flight to quality pushed government bond yields to, in some cases, historic lows, while credit spreads were pushed to historic highs.

For the fund, the initial widening of credit spreads was viewed as an opportunity to capture what were, at that time, wide spreads not seen for years. The fund's weighting in provincial bonds was increased near the end of the second quarter. This resulted in a significant overweight position versus that of the index. Provincial spreads traded in a narrow range through the beginning of August, with the fund benefiting from the higher yields afforded by the increased provincial holdings.

From early August, provincial spreads drifted modestly higher until the middle of September when the failure of Lehman Brothers set off a chain of events which resulted in government intervention in the credit markets. Credit spreads moved higher throughout the rest of the year, as one firm after another was rumoured to be in financial difficulty. It was in this environment that the fund's overweight position in provincial bonds resulted in the bulk of the underperformance for the year. Furthermore, the fund's allocation to federal government debt, which was held largely in government guaranteed Canada Housing Trust bonds, detracted from performance. Despite the guarantee, spreads on these bonds widened along with those of corporate issues and their performance suffered.

For the period, the fund experienced net sales of $134,086,984.

Recent Developments

The outlook for 2009 is uncertain at best. While the U.S. economy has officially been declared to have been in a recession since the end of 2007, the multitude of government backstop and support programs announced have yet to be fully implemented. Any noticeable effect on that economy will not likely be seen until the middle of 2009 at the earliest. Furthermore, new stimulus programs have yet to be announced by governments worldwide. The global deleveraging that is currently underway, both at the corporate and individual levels, poses a challenge to how these government programs are designed to stimulate the economy. However, it would be unrealistic to assume that there will be no, or little, desired effect.

The fund is currently positioned neutral to the index for both duration and yield curve exposure. The portfolio advisor does not anticipate making any changes to these measures well into 2009. The primary deviation from the benchmark, the overweight in provincial bonds, is also expected to be held well into 2009. The current market environment provides for poor liquidity generally. The portfolio advisor does not plan to exacerbate this problem by reducing provincial exposure with sales into a fragile market. They deem it prudent to keep the very high yields which these assets are currently offering versus the lower yield of federal government bonds, and expect spreads to stabilize in the near term. With the potential for spread narrowing, they look to realize excess returns in the longer term.

Future Accounting Changes

The Canadian Accounting Standards Board confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles for publicly accountable enterprises, which includes investment funds. We have commenced development of a changeover plan to meet the implementation date. The key elements of the plan will include identifying differences between the fund's current accounting policies and those it 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.

Related Party Transactions

We are the manager of the fund. The Bank of Nova Scotia, the parent company of the manager, earns fees as a result of providing custodial services, including safekeeping and administrative services to the fund.

Scotia Cassels Investment Counsel Limited, a wholly-owned subsidiary of The Bank of Nova Scotia, and an affiliate of the manager, provides portfolio management services to the fund. These fees are paid out of the management fees paid to the manager and are not a separate expense paid by the fund.

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, as applicable.

The Fund's Net Assets per Unit[(1)]

Scotia Private Client Units

		2008	2007*	2006	2005	2004
Net Assets, beginning of year	$	10.07	10.00	–	–	–
Increase (decrease) from operations:						
Total revenue	$	0.44	0.02	–	–	–
Total expenses	$	(0.01)	–	–	–	–
Realized gains (losses) for the period	$	0.11	–	–	–	–
Unrealized gains (losses) for the period	$	0.36	0.07	–	–	–
Total increase (decrease) from operations[(2)]	$	0.90	0.09	–	–	–
Distributions:						
From income (excluding dividends)	$	(0.41)	–	–	–	–
From dividends	$	–	–	–	–	–
From capital gains	$	(0.07)	–	–	–	–
Return of capital	$	–	–	–	–	–
Total Annual Distributions[(3)]	$	(0.48)	–	–	–	–
Net assets at December 31st of year shown	$	10.46	10.07	–	–	–

* The start date of Scotia Private Client units was September 30.

(1) This information is derived from the fund's audited 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.

Ratios and Supplemental Data

Scotia Private Client Units

		2008	2007	2006	2005	2004
Total net asset value (000's)(1)	$	330,663	186,515	–	–	–
Number of units outstanding (000's)(1)		31,613	18,510	–	–	–
Management expense ratio(2)	%	0.11	0.01	–	–	–
Management expense ratio before waivers or absorptions(2)	%	0.11	0.02	–	–	–
Trading expense ratio(3)	%	–	–	–	–	–
Portfolio turnover rate(4)	%	187.17	26.54	–	–	–
Net asset value per unit	$	10.46	10.07	–	–	–

(1) This information is provided as 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 fees charged to the fund in 2008 for the period ending December 31, 2008 totalled $174,893. The management fee for the fund 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. 100% of the total management fees we received from the fund in 2008 for the period ending December 31, 2008 is attributable to the costs of investment management, 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.

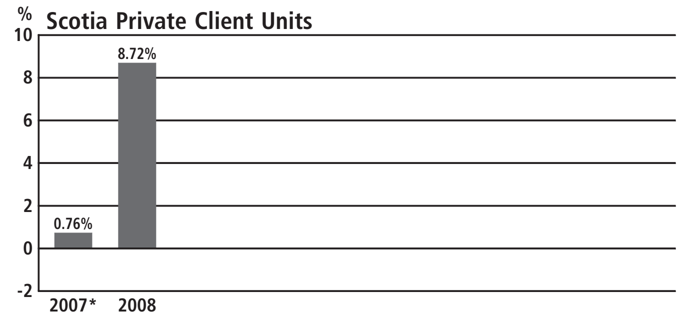
The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns.

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

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 each year would have increased or decreased by December 31 of that year.



* Dec. 14 – Dec. 31

Annual Compound Returns

This table shows the fund's annual compound returns compared to the broad based DEX Universe Bond Index and a blended index of 50% DEX Short Government Bond Index and 50% DEX Mid Government Bond Index, for the periods shown ending December 31, 2008.

		1 year	3 years	5 years	10 years	Since inception(1)
Scotia Private Client Units	%	8.72	–	–	–	8.78
DEX Universe Bond Index	%	6.41	–	–	–	6.51
Blended Index	%	10.91	–	–	–	10.24

(1) Inception Date: Scotia Private Client Units Dec. 14, 2007.

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.

The DEX Short Government Bond Index is a broad measure of investment grade bonds issued by the Government of Canada (including Crown Corporations) with remaining effective terms greater than 1 year and less than or equal to 5 years.

The DEX Mid Government Bond Index is a broad measure of investment grade bonds issued by the Government of Canada (including Crown Corporations) with remaining effective terms greater than 5 years and less than or equal to 10 years.

A discussion of the fund's performance relative to the broad based index is found under *Results of Operations*.

Summary of Investment Portfolio

(as at December 31, 2008)

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 an up to date list of portfolio holdings on a quarterly basis by calling 1 800 268-9269 (416 750-3863 in Toronto) for English, 1 800 387-5004 for French, or by visiting www.scotiafunds.com.

Sector Mix(1)

	% of net asset value(2)
Provincial Bonds	77.4
Government of Canada Bonds	19.7

(1) 2.9% of the fund's assets are held in cash, other assets and liabilities.
(2) Based on Pricing NAV.

Top Holdings

Issuer	% of net asset value(1)
Province of British Columbia 4.65% due Dec. 18, 2018	19.8
Canada Housing Trust 3.75% due Mar. 15, 2010	17.1
Province of Ontario 4.75% due Jun. 2, 2013	16.0
Province of Manitoba 4.80% due Dec. 3, 2014	9.2
Province of New Brunswick 4.50% due Feb. 4, 2015	8.3
Alberta Treasury Branch 4.40% due Dec. 3, 2012	6.3
Province of Quebec 6.00% due Oct. 1, 2012	5.7
Alberta Treasury Branch 3.85% due Jun. 3, 2013	4.1
Province of Quebec 4.50% due Dec. 1, 2017	2.9
Canada Housing Trust 3.6% due Jun. 15, 2013	2.6
Province of British Columbia 4.70% due Dec. 3, 2017	2.5
Province of Ontario 4.00% due May 19, 2010	2.5
Cash and cash equivalents	2.4
Top holdings total	99.4

(1) Based on Pricing NAV.