

Pinnacle American Large Cap Growth Equity Fund

Management Report of Fund Performance

(as at December 31, 2010)

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 (416 750-3863 in Toronto). You can also write to us at 40 King Street West, P.O. Box 4085, Stn. A, Scotia Plaza, Toronto, Ontario M5Z 2X6, or visit our website at www.scotiabank.com/pinnaclefunds or SEDAR at 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 refer to Scotia Asset Management L.P. ("SAM") and fund refers to the Pinnacle American Large Cap Growth Equity 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 achieve long-term returns through capital growth by investing primarily in large capitalization stocks of U.S. corporations. The fund's investments may also include up to 15% cash and cash equivalents and some non-U.S. securities.

To achieve its investment objectives, the fund uses a growth-oriented investment style that involves investing in companies that have higher than average earnings, sales or asset growth potential.

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 U.S. growth holding in a diversified portfolio, who can accept moderate risk, and who are investing for at least three years.

Results of Operations

Over the review period, the fund returned 12.15% compared to a 10.62% return for the Russell 1000 Growth Index and a 9.06% return for the S&P 500 Index (Total Return). 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 Class A units and the performance of the other classes of the fund is the result of the different management fees charged to, and operating expenses recovered from, each class. Please see "Past Performance" for the performance returns of the fund's other classes.

The fund's consumer discretionary shares contributed most to its absolute performance over the reporting period. The fund's stock selection in the materials sector were the leading contributors to its relative performance against the benchmark. In the chemicals industry, the fund's top-performing holdings included PPG Industries and Airgas, Inc. The fund also benefited from its underweight position in Monsanto Company. Metals and mining firms Freeport-McMoRan Copper & Gold Inc. and Newmont Mining Corp. both benefited from strong gold prices, and the fund's holdings in these companies contributed to its relative performance.

The fund's positions in the consumer discretionary sector also contributed to its relative performance. The largest individual contributor from this sector over the reporting period was a position in auto parts manufacturer BorgWarner Inc., which benefited from the rebound in the auto industry and demand for new turbo-diesel and gasoline direct-injection engines. Shares of fast-food retailer Chipotle Mexican Grill, Inc. benefited from the company's better-than-expected same-store sales and good growth dynamics.

The fund's holdings in the industrials and health care sectors also contributed to its relative outperformance. In the health care sector, the fund's positioning in pharmaceutical firms and health care providers were the strongest contributors to performance, and were led by fund holding Novo Nordisk A/S. The company's shares rose as a result of the success of Novo Nordisk's new line of diabetes therapies. In the industrials sector, the fund's positions in electrical equipment and road & rail firms were the top contributors to performance.

The fund's positions in the financials sector were the leading detractors from its relative performance. The fund's holdings in

capital market and insurance firms detracted most, along with its positions in commercial banks. The fund's holding in The Goldman Sachs Group, Inc. detracted from performance amid an ongoing government investigation into the company's conduct in the buildup to the financial crisis. Broker and asset manager Charles Schwab & Co, Inc. and commercial bank Wells Fargo & Co. were other notable detractors from fund performance, as was the fund's lack of exposure to the real estate investment trust sub-sector.

The fund's stock selection in the consumer staples sector also detracted from its relative performance. Drug retailer Walgreen Co. underperformed after issuing a cautious outlook, and despite the fact that the company reported positive results.

During the period, the fund experienced net redemptions of \$7,230,276.

Recent Developments

The portfolio advisor pursues the fund's long-term capital appreciation objective by remaining fully invested in large companies that exhibit sustainable improvement in their businesses. It is their belief that owning such companies will generate outperformance over time versus the Russell 1000 Growth Index and the other funds in the large-growth peer group.

The fund's sector and industry selection – as well as capitalization range allocations – are primarily the result of identifying what the portfolio advisor believes to be superior individual securities. As of December 31, 2010, they found opportunities in the health care sector, the fund's largest overweight position relative to the benchmark. The most notable sector underweights were information technology and industrials. Nevertheless, information technology shares remain the fund's single-largest sector allocation on an absolute basis, while the fund had no exposure to the small (at less than 1% of the index) utilities sector at the end of the period.

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 Funds. However, in January 2011, the Canadian Accounting Standards Board ("AcSB") decided to allow Investment Companies to defer the adoption of IFRS until the International Accounting Standard Board ("IASB") completes its investment company proposal. 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, 2013. In light of this decision, the Manager elected to defer the first-time adoption of IFRS until fiscal year beginning on or after January 1, 2013.

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 Funds' current

accounting policies and those the Fund expect 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 Funds.

The major qualitative impacts noted as of December 31, 2010 would be the addition of a statement of cash flow, the impact of classification of puttable instruments, accounting treatment for controlled investees, 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 Class 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 class of units of 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 classes 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 classes 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 cover).

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 into 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 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⁾

Class A Units

	2010	2009	2008	2007	2006
Net Assets, beginning of year	\$ 6.65	5.83	7.57	7.53	6.99
Increase (decrease) from operations:					
Total revenue	\$ 0.09	0.08	0.08	0.07	0.06
Total expenses	\$ (0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Realized gains (losses) for the period	\$ 0.40	(0.37)	(0.80)	0.24	0.02
Unrealized gains (losses) for the period	\$ 0.27	1.11	(0.95)	(0.22)	0.56
Total increase (decrease) from operations⁽²⁾	\$ 0.73	0.79	(1.70)	0.06	0.61
Distributions:					
From net investment income (excluding dividends)	\$ (0.06)	(0.05)	(0.04)	(0.04)	(0.03)
From dividends	\$ –	–	–	–	–
From capital gains	\$ –	–	–	–	–
Return of capital	\$ –	–	–	–	–
Total Annual Distributions⁽³⁾	\$ (0.06)	(0.05)	(0.04)	(0.04)	(0.03)
Net Assets at December 31st of year shown	\$ 7.40	6.65	5.83	7.57	7.54

Class F Units

	2010	2009*	2008	2007	2006
Net Assets, beginning of year	\$ 6.65	5.62	–	–	–
Increase (decrease) from operations:					
Total revenue	\$ 0.09	0.07	–	–	–
Total expenses	\$ (0.08)	(0.06)	–	–	–
Realized gains (losses) for the period	\$ 0.37	(0.11)	–	–	–
Unrealized gains (losses) for the period	\$ 0.35	1.07	–	–	–
Total increase (decrease) from operations⁽²⁾	\$ 0.73	0.97	–	–	–
Distributions:					
From net investment income (excluding dividends)	\$ –	(0.01)	–	–	–
From dividends	\$ –	–	–	–	–
From capital gains	\$ –	–	–	–	–
Return of capital	\$ –	–	–	–	–
Total Annual Distributions⁽³⁾	\$ –	(0.01)	–	–	–
Net Assets at December 31st of year shown	\$ 7.40	6.65	–	–	–

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

Class I Units

	2010*	2009	2008	2007	2006
Net Assets, beginning of year	\$ 6.87	–	–	–	–
Increase (decrease) from operations:					
Total revenue	\$ 0.03	–	–	–	–
Total expenses	\$ (0.01)	–	–	–	–
Realized gains (losses) for the period	\$ 0.15	–	–	–	–
Unrealized gains (losses) for the period	\$ 0.42	–	–	–	–
Total increase (decrease) from operations⁽²⁾	\$ 0.59	–	–	–	–
Distributions:					
From net investment income (excluding dividends)	\$ (0.01)	–	–	–	–
From dividends	\$ –	–	–	–	–
From capital gains	\$ –	–	–	–	–
Return of capital	\$ –	–	–	–	–
Total Annual Distributions⁽³⁾	\$ (0.01)	–	–	–	–
Net Assets at December 31st of year shown	\$ 7.44	–	–	–	–

* The start date for Class I Units was October 12.

(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 provisions of Section 3855 have been applied retroactively without restatement of periods prior to December 31, 2007. 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**Class A Units**

	2010	2009	2008	2007	2006
Total net asset value (000's) ⁽¹⁾	\$ 35,471	42,436	49,017	72,626	64,870
Number of units outstanding (000's) ⁽¹⁾	4,793	6,379	8,399	9,585	8,602
Management expense ratio ⁽²⁾	% 0.55	0.52	0.45	0.43	0.50
Management expense ratio before waivers or absorptions ⁽²⁾	% 0.71	0.75	0.45	0.43	0.51
Trading expense ratio ⁽³⁾	% 0.07	0.15	0.10	0.11	0.15
Portfolio turnover rate ⁽⁴⁾	% 92.12	122.64	124.47	135.13	143.23
Net asset value per unit	\$ 7.40	6.65	5.84	7.58	7.54

Class F Units

	2010	2009	2008	2007	2006
Total net asset value (000's) ⁽¹⁾	\$ 66	38	-	-	-
Number of units outstanding (000's) ⁽¹⁾	9	6	-	-	-
Management expense ratio ⁽²⁾	% 1.22	1.18	-	-	-
Management expense ratio before waivers or absorptions ⁽²⁾	% 5.25	7.24	-	-	-
Trading expense ratio ⁽³⁾	% 0.07	0.15	-	-	-
Portfolio turnover rate ⁽⁴⁾	% 92.12	122.64	-	-	-
Net asset value per unit	\$ 7.41	6.65	-	-	-

Class I Units

	2010	2009	2008	2007	2006
Total net asset value (000's) ⁽¹⁾	\$ 3,926	-	-	-	-
Number of units outstanding (000's) ⁽¹⁾	528	-	-	-	-
Management expense ratio ⁽²⁾	% 0.73	-	-	-	-
Management expense ratio before waivers or absorptions ⁽²⁾	% 0.73	-	-	-	-
Trading expense ratio ⁽³⁾	% 0.07	-	-	-	-
Portfolio turnover rate ⁽⁴⁾	% 92.12	-	-	-	-
Net asset value per unit	\$ 7.44	-	-	-	-

⁽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

No management fees are charged to the Class A 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 Class I units.

The management fees charged to the Class F units in 2010 for the period ended December 31, 2010 totalled \$616. The management fee for this class 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. Approximately 100% of the total management fees we received from the Class F units of the fund in 2010 for the period ended December 31, 2010 are 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 units of the fund outside of a registered plan, you will be taxed on these distributions, or performance.

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

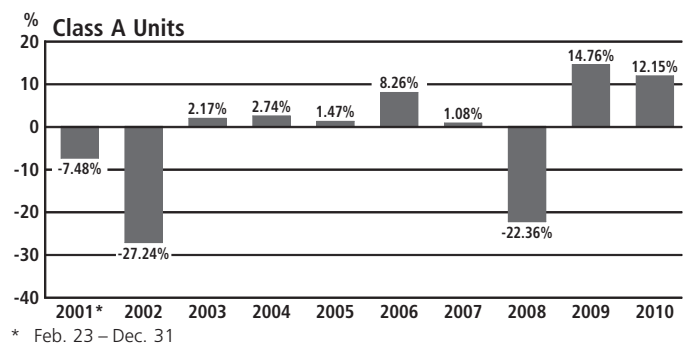
How the fund has performed in the past does not necessarily indicate how it will perform in the future.

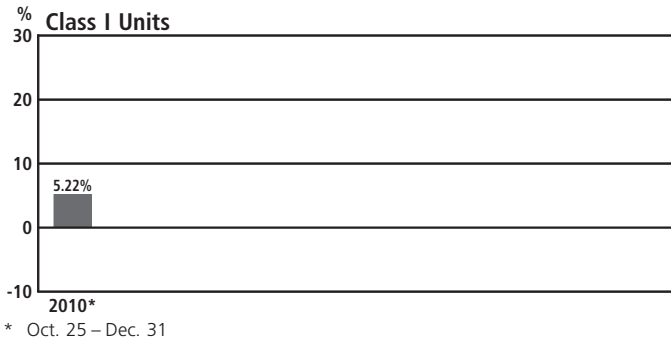
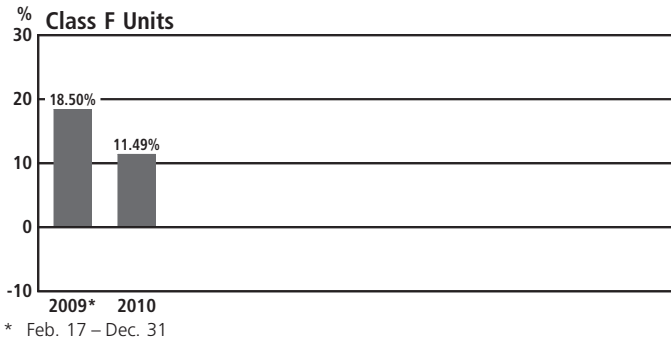
On December 2, 2002, the portfolio advisor to the fund changed from Dresdner RCM Global Investors, LLC to American Century Investment Management, Inc. This change in portfolio advisor could have materially affected the performance of the fund during the performance measurement periods.

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





Annual Compound Returns

This table shows the fund’s annual compound returns compared to the Russell 1000 Growth Index and the S&P 500 Index, for the periods shown ending December 31, 2010.

		1 year	3 year	5 year	10 year	Since Inception ¹
Class A Units	%	12.15	-0.02	1.81	-	-2.42
Russell 1000 Growth Index	%	10.62	-0.25	0.58	-	-3.13
S&P 500 Index	%	9.06	-2.64	-0.97	-	-1.99
Class F Units	%	11.49	-	-	-	15.64
Russell 1000 Growth Index	%	10.62	-	-	-	21.29
S&P 500 Index	%	9.06	-	-	-	19.80
Class I Units	%	-	-	-	-	5.22
Russell 1000 Growth Index	%	-	-	-	-	8.32
S&P 500 Index	%	-	-	-	-	4.19

¹ Inception Dates: Class A Units Feb. 23, 2001, Class F Units Feb. 17, 2009, Class I Units Nov. 1, 2010

The Russell 1000 Growth Index measures the performance of larger capitalization stocks within the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values.

The S&P 500 Index is an index of 500 stocks weighted by capitalization and representing all major U.S. industries. It is a broad measure of the U.S. economy.

A discussion of the fund’s performance relative to the Index is found under *Results of Operations*.

Summary of Investment Portfolio

(as at December 31, 2010)

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 contacting your ScotiaMcLeod advisor, by calling toll-free 1 800 268-9269 (416 750-3863 in Toronto) or by visiting www.scotiabank.com/pinnaclefunds.

Sector Mix⁽¹⁾

	% of net asset value ⁽²⁾
Information Technology	31.6
Consumer Discretionary	17.9
Industrials	10.7
Energy	10.4
Health Care	10.1
Consumer Staples	7.2
Materials	5.6
Financials	5.4

⁽¹⁾ 1.1% 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⁾
Apple Inc.	4.6
Exxon Mobil Corporation	4.4
Google Inc., Class A	2.7
Schlumberger Limited	2.6
Coca-Cola Company, The	2.6
Oracle Corporation	2.4
QUALCOMM Incorporated	2.2
EMC Corporation	1.9
United Parcel Service, Inc., Class B	1.8
Microsoft Corporation	1.8
Home Depot, Inc. The	1.7
Express Scripts, Inc., Class A	1.6
BorgWagner, Inc.	1.6
Costco Wholesale Corp.	1.6
International Business Machines Corporation	1.5
Target Corporation	1.5
Illinois Tool Works Inc.	1.5
Eaton Corporation	1.5
Rockwell Automation, Inc.	1.5
Accenture PLC	1.5
American Express Company	1.5
PPG Industries, Inc.	1.4
Covidien PLC	1.4
Crown Castle International Corp.	1.3
McDonald’s Corporation	1.3
Total Net Asset Value (000’s)	\$39,463

⁽¹⁾ Based on Pricing NAV.



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