

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 Canadian Corporate 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 a high level of regular interest income and modest capital gains. It invests primarily in bonds issued by Canadian corporations. The fund can also invest up to 30% in foreign securities. It can invest anywhere in the world, but generally won't invest in emerging markets.

Securities with a maturity of one year or less will generally have a credit rating of R2 (low) or better 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 an approved rating agency. The fund can invest up to 25% of its

assets in securities that have a credit rating of no lower than B (low) by an approved rating agency.

The portfolio advisor analyzes credit risk to identify securities that offer higher yields at an acceptable level of risk. Interest rate and yield curve analysis are used to manage the fund's average term to maturity depending on market conditions. The credit quality of the fund's investments will vary depending on the economic cycle, industry factors, specific company situations and market pricing considerations to try to maximize returns while minimizing portfolio risk.

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, who can accept medium risk and who are investing for at least three years.

Results of Operations

Over the review period, the fund returned -0.1% compared to 6.4% for the DEX Universe Bond Index. In contrast to the index, the fund's return is after the deduction of fees and expenses. Any difference between the performance of Private Client units and the performance of the other class of the fund is solely 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 class.

Over the review period, corporate bonds' underperformance worsened in the final quarter of the year, following the failure of Lehman Brothers and the unprecedented volatility that resulted in higher risk premiums and dramatically reduced liquidity in global credit markets.

The primary drivers for the illiquidity in the credit markets has been the lack of confidence in the wholesale funding model coupled with risk managers reducing overall exposures across all issuers. After Bear Sterns was taken over by JPMorgan – with assistance from the Federal Reserve – it was widely believed that systemic risk to the financial system had been reduced. However, The U.S. Federal Reserve elected not to bail out the struggling Lehman Brothers, resulting in the largest bankruptcy filing in history. In the immediate aftermath of the Lehman bankruptcy filing, a large U.S. money market fund broke the \$1.00 Net Asset Value (NAV) because of an overweight holding in Lehman and the impact was severe on the global markets. Interbank lending essentially seized as banks hoarded cash to maintain capital levels. Ultimately, these events lead to 25 bank failures thus far in the U.S., according to the Federal Deposit Insurance Corporation (FDIC),

including the largest bank failure of them all – namely Washington Mutual.

Throughout this entire credit market crisis the portfolio advisor's strategy for the fund has been to remain defensive by focusing on superior credit quality and by ensuring that the fund is diversified. As a result, the fund was significantly overweight in the corporate bond component, which detracted from overall performance. Contributing to performance was the fund's underweight in the financials sector, which underperformed the index.

For the period, the fund experienced net sales of \$231,982,722. The fund's year over year interest income increased 81% and management fees increased 61% due to an increase in the fund's average net asset value of 84%.

Recent Developments

The portfolio advisor expects to remain cautious going forward. For 2009, the portfolio advisor expects risk factors to include, amongst others, the performance of the housing market in the U.S., the structure of any fiscal stimulus package by the new federal government in the U.S., the liquidity and funding capabilities of the global banks and the amount of deleveraging still to come.

Although liquidity remains thin and there is still heightened volatility, the portfolio advisor believes that numerous lending and capital guarantee programs introduced by federal governments globally should help to restore confidence and reduce systemic risk over time. The portfolio advisor expects to continue to focus on risk control and capital safety, but will seek to take advantage of relative value trading opportunities as they arise.

On June 4, 2008, the fund began to offer Class I units, which are only available to eligible institutional investors and other qualified investors.

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.

During the review period, we relied on standing instructions from the Independent Review Committee to proceed with the following types of transactions:

- purchases or sales of securities of an issuer from or to another investment fund managed by us (referred to as "Inter Fund Trading");
- investments in securities of an issuer during, or for 60 days after, the period in which Scotia Capital Inc., a related entity to the portfolio advisor, acted as an underwriter in the distribution of those securities; and
- trades in debt securities with Scotia Capital Inc. or parties related to the manager or the portfolio advisor, where Scotia Capital Inc. or such related parties act as principal.

The applicable standing instructions require that investment decisions relating to the above types of transactions:

- are made free from any influence by us or any entity related to us and without taking into account any consideration relevant to us or any entity related to us;
- represent the business judgment of the portfolio advisor uninfluenced by any consideration other than the best interests of the fund;
- are in compliance with our policies; and
- achieve a fair and reasonable result for 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⁾

Class I Units

	2008*	2007	2006	2005	2004
Net Assets, beginning of year	\$ 9.86	-	-	-	-
Increase (decrease) from operations:					
Total revenue	\$ 0.26	-	-	-	-
Total expenses	\$ -	-	-	-	-
Realized gains (losses) for the period	\$ 0.01	-	-	-	-
Unrealized gains (losses) for the period	\$ (0.59)	-	-	-	-
Total increase (decrease) from operations⁽²⁾	\$ (0.32)	-	-	-	-
Distributions:					
From income (excluding dividends)	\$ (0.27)	-	-	-	-
From dividends	\$ -	-	-	-	-
From capital gains	\$ -	-	-	-	-
Return of capital	\$ -	-	-	-	-
Total Annual Distributions⁽³⁾	\$ (0.27)	-	-	-	-
Net assets at December 31st of year shown	\$ 9.28	-	-	-	-

* The start date for Class I units was June 11.

Scotia Private Client Units

	2008	2007	2006	2005	2004
Net Assets, beginning of year	\$ 9.78	10.06	10.08	10.24	10.10
Increase (decrease) from operations:					
Total revenue	\$ 0.50	0.48	0.48	0.51	0.56
Total expenses	\$ (0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Realized gains (losses) for the period	\$ 0.02	(0.11)	(0.03)	0.07	0.01
Unrealized gains (losses) for the period	\$ (0.55)	(0.14)	0.02	(0.15)	0.06
Total increase (decrease) from operations⁽²⁾	\$ (0.04)	0.22	0.46	0.42	0.62
Distributions:					
From income (excluding dividends)	\$ (0.48)	(0.46)	(0.47)	(0.50)	(0.52)
From dividends	\$ -	-	-	(0.08)	-
From capital gains	\$ -	-	-	-	-
Return of capital	\$ -	-	-	-	-
Total Annual Distributions⁽³⁾	\$ (0.48)	(0.46)	(0.47)	(0.58)	(0.52)
Net assets at December 31st of year shown	\$ 9.28	9.78	10.07	10.08	10.24

⁽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

Class I Units

	2008	2007	2006	2005	2004
Total net asset value (000's) ⁽¹⁾	\$ 152,620	-	-	-	-
Number of units outstanding (000's) ⁽¹⁾	16,404	-	-	-	-
Management expense ratio ⁽²⁾	% 0.01	-	-	-	-
Management expense ratio before waivers or absorptions ⁽²⁾	% 0.01	-	-	-	-
Trading expense ratio ⁽³⁾	% -	-	-	-	-
Portfolio turnover rate ⁽⁴⁾	% 73.33	-	-	-	-
Net asset value per unit	\$ 9.30	-	-	-	-

Scotia Private Client Units

	2008	2007	2006	2005	2004
Total net asset value (000's) ⁽¹⁾	\$ 1,260,583	1,262,014	648,191	535,675	404,781
Number of units outstanding (000's) ⁽¹⁾	135,488	128,841	64,386	53,121	39,540
Management expense ratio ⁽²⁾	% 0.08	0.09	0.09	0.11	0.14
Management expense ratio before waivers or absorptions ⁽²⁾	% 0.08	0.09	0.10	0.11	0.14
Trading expense ratio ⁽³⁾	% -	-	-	-	-
Portfolio turnover rate ⁽⁴⁾	% 73.33	98.19	79.31	165.28	30.91
Net asset value per unit	\$ 9.30	9.80	10.07	10.08	10.24

⁽¹⁾ This information is provided as at December 31 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 \$915,518. The management fee for each 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, 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 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.

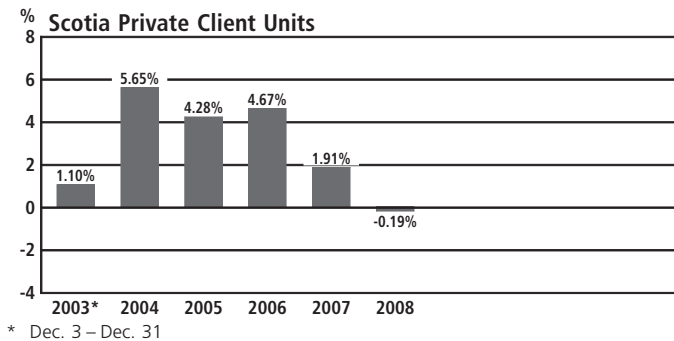
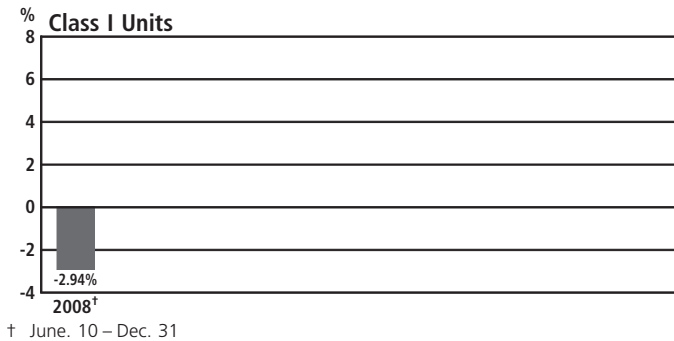
The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns.

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.



Annual Compound Returns

This table shows the fund's annual compound returns compared to the DEX Universe Bond Index, for the periods shown ending December 31, 2008.

		1 year	3 years	5 years	10 years	Since inception ⁽¹⁾
Scotia I Class Units	%	-	-	-	-	(2.94)
Scotia Private Client Units	%	(0.19)	2.11	3.44	-	3.61
DEX Universe Bond Index	%	6.41	4.70	5.54	-	14.61 ⁽²⁾

⁽¹⁾ Inception Date: Scotia Private Client Units Dec. 3, 2003, Class I Units June 9, 2008.

⁽²⁾ Returns: Class I Units (0.67)%, Private Client Units 14.61%.

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.

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, 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⁾
Corporate Bonds	87.0
Mortgage-Backed Securities	9.2
Federal Bonds	2.0
Provincial Bonds	0.5

⁽¹⁾ 1.3% 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⁾
Genesis Trust 4.00% due Mar. 15, 2010	2.8
Master Credit Card Trust 4.44% due Nov. 21, 2011	2.8
Toyota Credit Canada Inc. 5.05% Jul. 27, 2012	2.8
Manulife Financial Corporation 4.67% due Mar. 28, 2013	2.7
Honda Canada Finance Inc. 5.68% due Sep. 26, 2012	2.7
Brascan Power Corporation 4.65 % due Dec. 16, 2009	2.7
John Deere Credit Inc. 5.45% due Sep. 16, 2015	2.6
GE Capital Canada Funding Company 5.53% due Aug 17, 2017	2.6
HSBC Financial Corporation Ltd. 4.80% due Apr. 13, 2011	2.6
Bank of Montreal due 5.04% due Sep. 4, 2012	2.5
Suncor Energy Inc. 5.80% due May 22, 2018	2.5
Sun Life Financial Inc. (callable) 4.95% due Jun. 1, 2036-(2016)	2.5
Bank of America Corporation 5.45% due Sep. 17, 2014	2.4
Finning International Inc. 6.02% due Jun. 1, 2018	2.4
Golden Credit Card Trust 4.25% due Feb. 15, 2011	2.3
Toronto-Dominion Capital Trust (callable) 7.24% due Dec. 31, 2049-(2018)	2.3
Greater Toronto Airports Authority 6.25% due Jan. 30, 2012	2.3
Toronto-Dominion Bank, The (callable) 4.78% due Dec. 14, 2105-(2016)	2.2
Bank of Ireland (callable) 3.80% due Sep. 22, 2015-(2010)	2.1
Shaw Communications Inc. 7.50% due Nov. 20, 2013	2.1
Government of Canada 5.00% due Jun. 1, 2014	2.0
OMERS Realty Corporation 4.09% due Jun. 4, 2013	2.0
Bank of Montreal 5.45% due Jul. 17, 2017	2.0
Citigroup Inc. (callable) 4.65% due Oct. 11, 2022-(2017)	1.9
National Australia Bank Ltd. (callable) 4.55% due Sep. 21, 2016-(2011)	1.9
Top holdings total	59.7

⁽¹⁾ Based on Pricing NAV.

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