

# Scotia U.S. \$ Money Market Fund

## Interim Management Report of Fund Performance

For the period ended June 30, 2011

This interim management report of fund performance contains financial highlights, but does not contain either interim or annual financial statements of the fund. You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling toll-free 1 800 268-9269 (416 750-3863 in Toronto), or by asking your mutual fund representative. 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.scotiafunds.com](http://www.scotiafunds.com) or [www.sedar.com](http://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. ("SAM") and fund refers to the Scotia U.S. \$ Money Market 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

#### Results of Operations

Over the review period, the fund returned 0.02% compared to a 0.05% return for the Merrill Lynch 0-3 Months U.S. T-Bill Index (both in U.S. dollars). In contrast to the index, the fund's return is after the deduction of fees and expenses.

Over the first two months of the review period, the economy gradually improved, with gross domestic product results that were greater than expected and with few signs of worrisome core Consumer Price Index (CPI) numbers (CPI measure the rate of inflation). Political unrest in the Middle East and North Africa caused oil prices to rise to record levels and, as a result, the Canadian dollar strengthened to a three-year high of

US\$1.029. It then appeared increasingly likely that the Bank of Canada (BoC) would hold its key overnight lending rate at 1%.

In March 2011, the economy started to gather momentum, which was soon tempered by the global implications of the tragic earthquake and tsunami in Japan. Greece's sovereign debt was downgraded at the end of April and, subsequently, the same occurred in Spain the following month. As quantitative easing in the U.S. came to a close at the end of June, demand for short-term Treasury bills heightened dramatically.

Over the period, investors anticipated the U.S. Federal Reserve Board (Fed) would maintain interest rates at their low levels, and investors began to search for higher yields in longer term securities. The portfolio advisor increased the fund's yield by investing in three- to six-month securities in April 2011.

Interest rates have decreased over the past six months. One month T-bills started at 5.75 basis points (bps) and closed to a mere 0.75 bps. In addition, one year T-bills fell by 8.5 bps from 18.5 bps to 10.0 bps. By extending the term during the first couple of months, the portfolio advisor was able to pick up yield above the benchmark.

The other major contributor to the fund's performance was the 20% position in higher yielding floating rate notes (FRNs).

Over the review period, the fund experienced net sales of U.S. \$6,836,510.

#### Recent Developments

On April 1, 2011, Scotia Asset Management L.P. appointed Goodman & Company, Investment Counsel Ltd. ("GCICL"), an affiliate of the Manager, as sub-advisor to the fund. As sub-advisor, GCICL provides investment advice and makes investment decisions for the fund.

Over the period, the portfolio advisor increased the fund's average term from the minimum range of 30- to 50-days to a neutral position of 50- to 70-days. Over the period, the portfolio advisor purchased securities in the two-month area of the market and, to increase the yield of the fund, the one-year area.

Over the period, the portfolio advisor replaced only a small number of maturing FRNs with longer term FRNs, as there was a lack of new issuance and limited inventory. It was advantageous to hold FRNs over the period, as FRNs outperformed relative to U.S. Treasury bills in the three-month area. The fund's one- to three-year FRN exposure decreased from 32% to 20% of fund assets over the period. The yield of the fund decreased from 37 basis points (bps) to 28 bps over the period, which was substantially higher than the benchmark's two-month yield. In comparison, the benchmark's Treasury bills

declined 0.75 bps over the period, from an already low level of 2.25 bps to 1.5 bps by the end of the period.

Looking ahead, the portfolio advisor anticipates that the Fed will keep its overnight rate at 0.25% for some time and, therefore, continues to hold the average term of the fund at a neutral position.

### **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, in January 2011, the Canadian Accounting Standards Board (“AcSB”) decided to allow Investment Companies to defer the adoption of IFRS until the International Accounting Standards 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 will 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 fund’s 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 Fund.

The major qualitative impacts noted as of December 31, 2010 would be the addition of a statement of cash flows, 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, manager, registrar and transfer agent of the fund. The fund pays us a management fee, which may vary for each class of units of the fund. The Bank of Nova Scotia (“Scotiabank”), the parent company of the manager, earns fees for of 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 classes of units of the fund, Scotia Securities Inc., 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 Scotia Capital Inc. (“SCI”), DWM Securities Inc. (“DWMI”) and Dundee Private Investors Inc. (“DPII”) which are wholly-owned subsidiaries of Scotiabank. SCI, DWMI and DPII, like other dealers, are 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](http://www.scotiafunds.com) 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 over each of the past five years ended December 31, as applicable, and for the six months ended June 30, 2011. This information is derived from the fund's audited annual financial statements and unaudited interim financial statements, as applicable.

### The Fund's Net Assets per Unit<sup>(1)</sup>

#### Class A Units

	June 30 2011	December 31					(U.S.) 2006
		2010	2009	2008	2007	2006	
Net Assets, beginning of period	\$ 10.00	10.00	10.00	10.00	10.00	10.00	10.00
<b>Increase (decrease) from operations:</b>							
Total revenue	\$ 0.02	0.03	0.07	0.28	0.52	0.50	
Total expenses	\$ (0.02)	(0.02)	(0.06)	(0.11)	(0.11)	(0.11)	
Realized gains (losses) for the period	\$ -	-	-	-	-	-	
Unrealized gains (losses) for the period	\$ -	-	-	-	-	-	
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 0.00</b>	<b>0.01</b>	<b>0.01</b>	<b>0.17</b>	<b>0.41</b>	<b>0.39</b>	
<b>Distributions:</b>							
From net investments income (excluding dividends)	\$ 0.00	(0.01)	(0.01)	(0.17)	(0.41)	(0.39)	
From dividends	\$ -	-	-	-	-	-	
From capital gains	\$ -	-	-	-	-	-	
Return of capital	\$ -	-	-	-	-	-	
<b>Total distributions for period<sup>(3)</sup></b>	<b>\$ 0.00</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>(0.17)</b>	<b>(0.41)</b>	<b>(0.39)</b>	
<b>Net assets, end of period<sup>(4)</sup></b>	<b>\$ 10.00</b>	<b>10.00</b>	<b>10.00</b>	<b>10.00</b>	<b>10.00</b>	<b>10.00</b>	

<sup>(1)</sup> This information is derived from the fund's unaudited interim financial statements and 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 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> Distributions were paid in cash/reinvested in additional units of the fund, or both.

<sup>(4)</sup> 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

### Class A Units

	June 30 2011	December 31				
		2010	2009	2008	2007	2006
Total net asset value (000's) <sup>(1)</sup>	(U.S.) \$ 113,991	107,155	113,787	105,066	103,453	73,746
Number of units outstanding (000's) <sup>(1)</sup>	11,399	10,715	11,379	10,507	10,345	7,375
Management expense ratio <sup>(2)</sup>	% 0.26	0.27	0.58	1.09	1.10	1.11
Management expense ratio before waivers or absorptions <sup>(2)</sup>	% 1.14	1.13	0.70	1.16	1.22	1.25
Trading expense ratio <sup>(3)</sup>	% -	-	-	-	-	-
Portfolio turnover rate <sup>(4)</sup>	% -	-	-	-	-	-
Net asset value per unit	(U.S.) \$ 10.00	10.00	10.00	10.00	10.00	10.00

<sup>(1)</sup> This information is provided as at the period end of the year shown.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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.

<sup>(4)</sup> 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 maximum management fee is the maximum fee that can be charged to the Fund according to the Simplified Prospectus, any portion of which may not be charged at the discretion of the Manager. We opted to waive a portion of the management fee during the period. We may discontinue waiving fees and expenses at any time, without notice. We may charge the maximum management fee without notice to unitholders.

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. The breakdown of the services received in consideration of the management fees for each class, as a percentage of the management fees, are as follows:

	Maximum Management Fees (%)	Breakdown of Services	
		Dealer Compensation (%)	Other* (%)
Class A	1.00	94.29	5.71

\* 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 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.

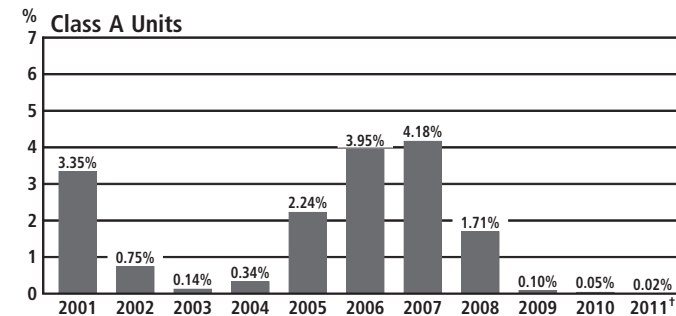
How the fund has performed in the past does not necessarily indicate how it will perform in the future.

On April 1, 2011, the Manager appointed Goodman & Company, Investment Counsel Ltd. as sub-advisor to the fund. 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 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, or by June 30, as applicable.



Returns in U.S.\$

<sup>†</sup> Jan. 1 – Jun. 30

## Summary of Investment Portfolio

(as at June 30, 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 calling 1 800 268-9269 (416 750-3863 in Toronto), or by visiting [www.scotiafunds.com](http://www.scotiafunds.com).

### Asset Mix

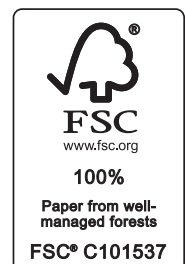
	% of net asset value <sup>(1)</sup>
Corporate Short Term Notes	23.9
Corporate Short Term Bonds	41.4
Provincial Short Term Notes	25.6
Provincial Short Term Bonds	8.8
Cash, other assets and liabilities	0.3

<sup>(1)</sup> Based on Pricing NAV.

### Top Holdings

Issuer	% of net asset value <sup>(1)</sup>
Cash and cash equivalents	99.9
<b>Total Net Asset Value (000's)</b>	<b>U.S. \$113,991</b>

<sup>(1)</sup> Based on Pricing NAV.



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