

FUND DESCRIPTION

This Fund is designed as a mid-term, broad market investment grade US dollar denominated bond fund. It invests primarily in US dollar denominated securities and obligations issued or guaranteed by foreign governments and/or agencies, and corporations.

Investment objective: The objective of this Fund is to earn income and provide some potential for capital gains.

Inception date: January 1, 1993.

FUND ADVISOR:

Scotia Asset Management is manager for mutual fund trust, private client, fee based and institutional mandates with assets that exceed \$39 billion.

FUND QUICK FACTS:

Mgmt Fee: 0.75%

NAV: US\$ 2.3854

AUM: US\$ 12,899,633.25

Bench Mark: Merrill Lynch Corporate & Government Bond Index

Fund Code: SBF 102

Number of Holdings: 33

SALES CHARGES

A front-end load may apply.

ASSET CLASS

Income.

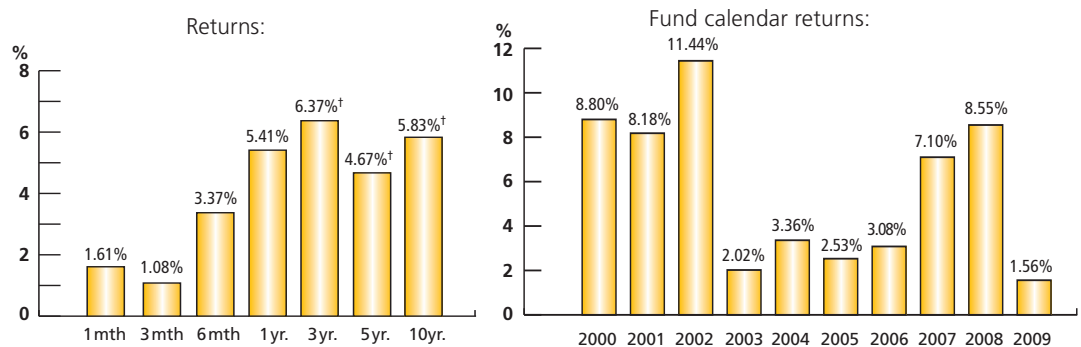
MARKET COMMENTARY

The fund posted a return of -0.21% for the quarter, roughly matching its benchmark return of -0.23%. Corporate credit spreads continued their march tighter in the fourth quarter despite the predominance of downgrades in the rating actions. The Fund's weighting in corporate credit was neutral versus its benchmark however it was significantly underweight in lower rated names and the volatile financial sector, both of which performed strongly in the quarter. Yields rose across the entire yield curve in the fourth quarter with the most pronounced move occurring in December. The portfolio was well positioned to benefit from the steepening and the rising rate environment which prevailed over the quarter.

Given the litany of risks that remain in the US economy, short rates are expected to remain at the Federal Reserve's near zero interest rate policy for a while still. However, with the extreme steepness we now have in the yield curve we have moved to a more neutral stance. In the credit space we will continue to focus on boosting yield by underweighting US Treasuries but we will stay focussed on quality to preserve capital.

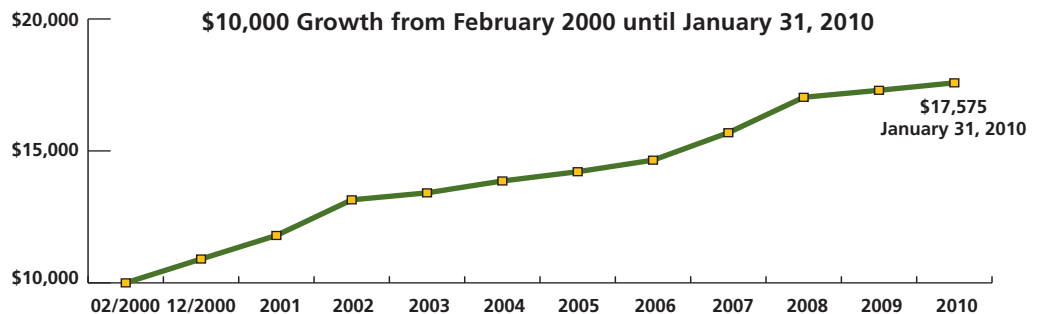
FUND PERFORMANCE

The Fund's return was 1.61% for the month, compared to Merrill Lynch Corporate & Government Bond Index, which also returned -1.61%



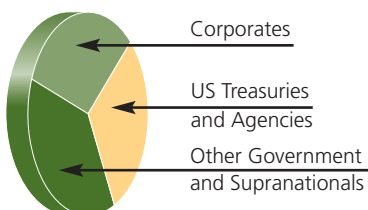
Since Inception (Jan.'93): 5.22%[†]

Net Asset Values and performance figures are net of all Fund expenses.



PORTFOLIO BREAKDOWN[^]

ASSET CLASS	Fund%	Index/ Benchmark%
US Treasuries and Agencies	30.3	60.2
Other Government and Supranationals	37.9	7.4
Corporates	31.8	32.4
Total	100.0	100.0



10 LARGEST HOLDINGS:

10 LARGEST HOLDINGS:	Fund %
US Treasury NTS 03/11	9.4
Kreditanstalt fur Wiederaufbau NT	4.9
Inter Amern Dev BK Global	4.1
Nova Scotia Prov CDA	4.0
Intl BK for Recon + DEV	4.0
Export Development Canada	3.9
US Treasury BDS	3.9
US Treasury BDS	3.8
US Treasury N/B	3.7
New Brunswick Prov CDA	3.6

Average weight to maturity (years):

1- 3 years 38% 3 - 5 years 21% 5 - 10 years 23% 10 + 18%

Important information about Scotiabank Mutual Funds is contained in the Funds' prospectus. Copies are available from Scotiabank and Scotiastore branches and should be read carefully before investing. Share values and investment returns for the Funds will fluctuate. Past performance is not indicative of future performance. Scotiabank Mutual Funds are not insured by, nor guaranteed by, The Bank of Nova Scotia. * Standard and Poor's, S&P and S&P 500 are trademarks of The McGraw-Hill Companies and have been licensed for use by The Bank of Nova Scotia and its subsidiary companies.

* Trademark of The Bank of Nova Scotia, used under licence. † Average annual compound rate of return. ^ As of December 31, 2009. (02/10)