

## Investment Objective

The ScotiaMcLeod U.S. Core Guided Portfolio is designed for growth oriented investors seeking consistent long-term rates of return from a portfolio of high quality American companies. This portfolio includes companies offering market leadership, unique franchises and a strong management team combined with an attractive trend in profitability. Diversification is achieved by investing in 15 to 20 companies broadly distributed across the four major sectors - interest sensitive, consumer, industrial and commodity/basic. The companies in the U.S. Strategy portfolio are for the most part selected from the S&P 500 although an appropriate company outside of this index can be included.

## Selection Criteria

Our selection process for companies to be included within this portfolio is based on both a top-down and bottom-up approach. Given the emphasis on diversification across a broad cross-section of industries, we review various economic and industry forces that result in an emphasis or de-emphasis of a specific sector. The weighting allocated to each sector will be monitored in accordance with this broad view and will be adjusted as fundamentals change. In order to qualify for inclusion in the U.S. Core Portfolio, specific companies must satisfy a variety of fundamental and quantitative investment criteria. The company must have a positive fundamental rating from our U.S. research providers as well as attractive relative earnings growth and valuation, and a strong (or improving) balance sheet. While not specifically required, at least a modest dividend policy is viewed favourably.

The tables below provide our current selections, portfolio composition, dividends, yields, earnings, price targets and return potential. Short profiles of each stock are also provided.

## Composition & Target Returns

Company Name	Sector	Rating *	Risk Ranking	Recent Price	Div.	Target Price	Div. Yield	Target ROR
Freeport-mcmoran Copper & Gold Inc. (FCX)	Basic Materials		Medium	U\$ 46.48	U\$ 1.00	U\$ 54.00	2.2 %	18.3 %
Mcdonalds Corp (MCD)	Consumer Discretionary		Low	\$ 100.01	\$ 2.80	\$ 109.00	2.8 %	11.8 %
Nike Inc (NKE)	Consumer Discretionary		Medium	\$ 103.50	\$ 1.44	\$ 107.00	1.4 %	4.8 %
Pepsico Inc (PEP)	Consumer Staples		Low	\$ 66.66	\$ 2.06	\$ 69.10	3.1 %	6.8 %
Marathon Pete Corp (MPC)	Energy		Medium	\$ 43.98	\$ 1.00	\$ 47.20	2.3 %	9.6 %
Occidental Pete Corp Del (OXY)	Energy		Medium	\$ 102.63	\$ 1.84	\$ 120.60	1.8 %	19.3 %
Exxon Mobil Corp (XOM)	Energy		Low	\$ 84.92	\$ 1.88	\$ 92.00	2.2 %	10.6 %
Metlife, Inc. (MET)	Financials		Low	U\$ 37.63	U\$ 0.74	U\$ 46.80	2.0 %	26.3 %
State Str Corp (STT)	Financials		Medium	\$ 42.57	\$ 0.72	\$ 47.25	1.7 %	12.7 %
Mckesson Corp (MCK)	Health Care		Low	\$ 80.80	\$ 0.80	\$ 96.50	1.0 %	20.4 %
Pfizer Inc (PFE)	Health Care		Low	\$ 21.20	\$ 0.80	\$ 24.00	3.8 %	17.0 %
Fluor Corp New (FLR)	Industrials		Medium	\$ 59.86	\$ 0.50	\$ 70.00	0.8 %	17.8 %
General Electric (GE)	Industrials		Low	U\$ 19.02	U\$ 0.68	U\$ 21.30	3.6 %	15.6 %
Waste Mgmt Inc Del (WM)	Industrials		Low	\$ 35.37	\$ 1.36	\$ 33.40	3.8 %	-1.7 %
Apple Inc. (AAPL)	Technology		Low	U\$ 0.00	U\$ 572.00	0.0 %	n.a.	
Intel Corp (INTC)	Technology		Low	\$ 26.74	\$ 0.84	\$ 27.60	3.1 %	6.4 %
Microsoft Corp (MSFT)	Technology		Low	\$ 30.24	\$ 0.80	\$ 31.60	2.6 %	7.1 %
Oracle Corp (ORCL)	Technology		Low	\$ 29.11	\$ 0.24	\$ 32.90	0.8 %	13.8 %
At&t Inc. (T)	Telecommunication Services		Medium	U\$ 29.95	U\$ 1.76	U\$ 31.40	5.9 %	10.7 %
Southern Co (SO)	Utilities		Low	\$ 44.30	\$ 1.89	\$ 45.70	4.3 %	7.4 %
<b>Total Portfolio</b>							<b>2.5%</b>	<b>12.3%</b>

## Stocks at a Glance

Apple Inc. is one of the world's largest makers of personal computers and related peripherals, mobile communications, and consumer products, such as the Mac family of computers, iPod digital music player, the iPad tablet, and the iPhone smartphone, for sale primarily to the business, creative, education, government, and consumer markets. It also sells operating systems, utilities, languages, developer tools, and database software. Apple operates an online store as well as over 300 retail outlets, in the United States, Canada, and overseas.

AT&T Corp. is the leading telecommunications company in the U.S. with 50 million access lines mostly in the mid and western US, a 60% ownership interest in Cingular Wireless (a joint venture with BellSouth), and one of the world's most advanced and powerful global backbone networks. AT&T has participated in the recent consolidation trend in the U.S. telecommunications market. In November 2005 SBC Communications acquired AT&T and adopted the AT&T brand. In March 2006, the new company wasted no time in taking further steps to consolidate the industry making an all-stock offer to acquire BellSouth Corp. The breakdown of revenue attributable to each business segment consists of: wireline 57%, wireless 36%, advertising and publishing 7%.

ExxonMobil Corp. is the world's largest publicly traded integrated oil and gas company. The company's international operations include exploration and production of oil and gas, electric power generation, and coal and mineral operations. ExxonMobil also manufactures and markets fuels, lubricants, and chemicals. The holding in this portfolio resulted from the prior position in XTO Energy Inc. which Exxon acquired in an all share transaction as of June 28, 2010.

Fluor Corporation is a construction and engineering company that also provides design, procurement, maintenance, outsourcing, and project management services to government and industrial customers all over the world. In addition to the oil and gas industry which represents almost 60% of their business, Fluor's customer base includes chemicals and petrochemicals, life sciences, manufacturing, mining, telecommunications, power projects, and transportation infrastructure. Broken down by revenue contribution, Industrial and Infrastructure amounts to 15%, Global Services 12%, Power 9%, and Government is the smallest contributor at almost 6%. Fluor Corp. has financial strength, a solid history of profitability, and a revenue mix that is diversified not only by business offering, but also by geography as the company is a multinational with almost half of its revenues coming from outside the United States.

Freeport-McMoRan Copper & Gold (FCX) is a leading international mining company with headquarters in Phoenix, Arizona. FCX operates large, long-lived, geographically diverse assets with significant proven and probable reserves of copper, gold and molybdenum. Freeport acquired Phelps Dodge in early 2007 and in the process created the world's largest copper producer. Proved and probable reserves are about 75 billion pounds of copper, 41 million ounces of gold, and 1.9 million pounds of molybdenum. The addition of Freeport is based on our positive long-term view on the metals market driven by growing demand from China and India and potential supply constraints. The valuation remains attractive given the company's high quality

reserve position, long-term organic growth prospects, and low cost production. The breakdown of revenue attributable to each business segment consists of: refined copper products 53%, copper in concentrates 27%, molybdenum 10%, and gold 10%.

General Electric Co. (GE) is one of the largest and most diversified conglomerates in the world with operations segmented into six key areas of endeavour: Aviation (12% of revenue, 16% of forecast 2011 net income); Healthcare (12%, 13%); Transportation (includes locomotives and mining equipment) (3%, 3%); Energy Infrastructure (energy, oil & gas, and water) (29%, 33%); GE Capital (includes commercial loans & leases, fleet management, credit cards etc) (34%, 27%); Home & Business Solutions (includes home appliances and lighting) (7%, 2%). Not unlike many multi-national companies in the S&P500 Index, 53% of GE's revenue is generated outside of the United States.

Intel Corp. (INTC) designs, manufactures, and sells computer components and related products. The company's major products include integrated circuits including chips or microprocessors, embedded processors, flash memory products, graphic components, network and communications products, and digital imaging products. Intel is the top player in the semiconductor space with about 80% market share for processors used in desktop and notebook computers, as well as computer servers. Other markets served include communications, industrial automation, military, and other electronic equipment.

Marathon Petroleum (MPC) is the fifth largest transportation fuels refiner in the U.S. and the largest refiner in the Midwest. MPC's refining, marketing and transportation business is concentrated primarily in the Midwest, Gulf Coast and Southeast regions of the U.S. As per the company's website, MPC operations include a six-plant refining network, a comprehensive terminal and transportation system, and extensive wholesale and retail marketing operations. This includes both the Marathon brand and MPC's wholly owned retail marketing subsidiary, Speedway LLC, the nation's fourth largest chain of company-owned and operated retail gasoline and convenience stores. Marathon Pipe Line LLC (MPL) manages one of the largest petroleum pipeline networks in the U.S., based on total volume delivered. MPL operates pipeline systems that move crude oil from production fields, other pipeline companies and offshore platforms to MPC refineries, other refineries and other pipeline systems. MPL also operates pipeline systems that move refined products from refineries to product terminals.

McDonald's Corporation is the leading global foodservice retailer with more than 31,400 local restaurants serving more than 58 million people in 118 countries every day. More than 75% of McDonald's restaurants worldwide are owned and operated by independent local franchisees and affiliates, the balance are company operated. McDonald's is a true multinational with foreign operations contributing about 65% of company sales and 50% of profits. Strong growth overseas as well as new product introductions have been driving results. The fast food giant and some analysts like to refer to the golden arches as recession resistant but an investment in MCD also provides leverage to an economic recovery as it will benefit from any increase in discretionary spending by consumers.

McKesson Corporation is the largest pharmaceuticals distributor in the United States,

delivering prescription and generic drugs along with health and beauty products to retail and institutional pharmacies throughout the U.S. and Canada. The company is also a medical supplies wholesaler in North America, accounting for about 4% of revenues, providing medical and surgical equipment to alternate health care sites such as doctors' offices and surgery centres. As a result of a deliberate acquisition strategy McKesson has a growing health care technology solutions business that currently represents only 3% of revenues but close to 18% of operating income in the last fiscal year. About 7% of annual revenues are generated outside the U.S., mostly in Canada, but also in Israel and some European countries. MCK is attractive as it represents a diversified way to play the defensive pharmaceutical space without specific drug development costs or regulatory risk.

MetLife, Inc. is a global financial services company providing insurance and investment products to both individual and institutional customers. The company offers individual and group insurance, annuity, retirement, and savings products and services. MetLife is one of the largest insurance companies in the U.S. with high brand recognition. The stock offers a steady earnings profile, a conservative balance sheet and an attractive valuation. The breakdown of revenue attributable to each business segment consists of: institutional 42%, individual 30%, reinsurance 11%, international 11%, and auto and home 6%. Microsoft Corp. was founded in 1975 and develops, manufactures, licenses, and supports software for various business and personal computing devices around the world. Microsoft has a unique asset in its customer base that includes over 1 billion Windows users providing a platform upon which to build and sell products and services for existing consumers. The company recently commenced deploying one of the strongest pipelines of new product releases in recent years that should generate revenue and earnings growth for the next few years. The stock is appropriate for conservative investors looking for technology exposure, consistent earnings growth, above average dividend yield and an attractive valuation. The breakdown of revenue attributable to each business segment consists of: business division 31%, client 28%, server and tools 22%, entertainment devices and division 14%, online services business 5%.

Nike Inc. was founded in 1964, but got its name with the introduction of athletic footwear called Nike, named after the Greek goddess of victory. The company has grown to become a \$16.3 Billion manufacturing, marketing, and sales organization that caters largely to the athletic market, and is now embarking on a specialty retail strategy that is targeted to leverage its world renowned iconic brand name. The breakdown of revenue attributable to each business segment consists of: footwear 52%, apparel 28%, other business 14%, and equipment 6%.

Oracle Corporation supplies software for enterprise information management. The Company offers databases and relational servers, application development and decision support tools, and enterprise business applications. Oracle's software runs on network computers, personal digital assistants, set-top devices, personal computers, workstations, minicomputers, mainframes, and massively parallel computers. Through organic growth and through a number of high-profile acquisitions, Oracle enlarged its share of the software market. By 2007 Oracle ranked third on the list of largest software companies in the world, after Microsoft and IBM. Subsequently it became larger than IBM after its acquisition of Hyperion and of BEA. The breakdown of revenue attributable to each business segment

consists of: software 80%, and services 20%.

Occidental Petroleum is an international oil and gas exploration and production company with operations in the United States, Middle East/North Africa and Latin America regions. OXY is the fourth largest U.S. oil and gas company based on market capitalization. In the U.S, OXY is the largest oil producer in Texas, the largest natural gas producer in California, and has additional production in Kansas, Oklahoma and New Mexico. The company also operates in the Middle East and Latin America. In addition to their now-separate midstream energy business, Occidental has a chemical operation (OxyChem) that manufactures vinyls and specialty chemical products.

PepsiCo, Inc. is the number 2 carbonated soft-drink maker in the world with operations all over the globe, selling a wide range of food and beverage products in over 200 countries. The company operates in four major business groups: PepsiCo Beverages North America represents 23% of revenues and 25% of operating profits; Frito Lay North America, 30% and 40% respectively; Quaker Foods, 4% and 7%; and PepsiCo International (purveyor of both snacks and beverages) which represents 43% and 29%. Major brands of the company include Pepsi, Mountain Dew, Tropicana orange juice, Gatorade sports drinks, Aquafina water, Frito Lay, (the world's number 1 snack food maker), Lay's Doritos, Quaker Oats, and Rice-A-Roni to name a few. In 2010 the company acquired its two largest bottlers giving the company control over most of its North American bottling and distribution volume.

Pfizer Inc. is the world's largest research-based biomedical and pharmaceutical company. With corporate headquarters in New York, the company has major research and development locations in the both the United States and U.K. and is in the business of discovering, developing, manufacturing, and selling prescription medicines for both humans and animals. Some of Pfizer's top-selling products include treatments for high blood pressure and heart failure, osteoarthritis and rheumatoid arthritis, Alzheimer's disease, infectious diseases, epilepsy, depression, and anxiety. On January 26, 2009, Pfizer announced that they have entered into a definitive merger agreement with Wyeth in which 'Pfizer will acquire Wyeth in a cash-and-stock transaction. The combined company will create one of the most diversified companies in the global health care industry, with product offerings in numerous growing therapeutic areas, a strong product pipeline, and leading scientific and manufacturing capabilities.' This acquisition is accretive to earnings and strategically sound in that it addresses the fall off in revenue that PFE faces with the pending patent expiry of Lipitor and other remedies making them subject to generic competition. Lipitor is a cholesterol lowering medication that in 2006 became the best selling drug in pharmaceutical history. The acquisition also adds depth to the new product pipeline as well as merger synergies that PFE targets in the order of \$4 billion in annual cost savings.

Southern Co. is one of the largest electrical utility companies in the United States with generating capacity of almost 43,000 megawatts and provides electricity to over 4 million customers in the U.S. Southeast through various utility companies including Alabama Power, Georgia Power, Gulf Power in Florida, and Mississippi Power. The company has been operating for over 100 years and participates in both regulated and un-regulated (competitive) markets; power is produced by more than

280 coal, oil, gas and hydro generating units at 73 power plants. SO is also the parent company of SouthernLINC Wireless, a digital wireless communications provider to SO's four utility units. Other major subsidiaries and business units include Southern Nuclear, which operates three nuclear generating plants in Alabama and Georgia, and Southern Telecom, a fiber optic wholesaler in the Southeast.

State Street Corp. is one of the leading providers of institutional financial services ranging from custody to investment management. The company's core business provides mutual fund and pension fund back-office processing including accounting, foreign exchange, cash management, securities lending, as well as investment solutions for hedge funds, private equity, and other alternative risk products. STT is the third largest securities administrator in the world with more than \$11 trillion in assets under custody. In addition, the company also has a large asset management business that exceeds \$1.4 trillion in assets under management. The company has grown organically and also through acquisition. The business model for STT generates fee-based revenues by servicing client assets whether through delivering custody services or investment management through their asset management subsidiary State Street Global Advisors.

Waste Management Inc. is based in Houston, Texas and is the leading provider of comprehensive waste and environmental services in North America with services ranging from recycling and solid waste collection for both municipal, commercial, and large national industrial customers with hundreds of locations. With about 22,000 collection and transfer vehicles, the company has the largest trucking fleet in the waste industry and collects nearly 74 million tons of solid waste per year. With much of the waste collected by WMI going to its own landfills, a supporting network of transfer stations provides an important link for efficient disposal. WMI operates the largest network of landfills in its industry while managing the disposal of more than 116 million tons of waste per year. The weaker economic outlook in the U.S. suggests that earnings for more cyclically oriented Industrial companies will be under pressure, thus making Waste companies relatively less vulnerable. As commercial and construction volumes are highly correlated to Industrial Production, WMI will likely experience some volume declines from industrial customers; however, residential volumes, which represent 33% of total volumes, should be less variable. The breakdown of revenue attributable to each business segment consists of: collection 56%, landfill 20%, transfer 11%, recycling 8% and wheelabrator 5%.

The ScotiaMcLeod Guided Portfolios are model portfolios of equity and fixed income securities designed for individual investors. Managed by the firm's Portfolio Advisory Group, the guided portfolios include Canadian and U.S. equity portfolios and Canadian fixed income portfolios. The objective of the equity portfolios is to provide individual investors with superior investment returns for various investment objectives and levels of risk. The objective of the fixed income portfolios is to track the performance of the Scotia Capital Markets Bond Universe index and its components. For further information on the Guided Portfolios, please contact your ScotiaMcLeod Investment Executive.

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