Canadian Investment Grade Corporate Bond Strategy

As of March 31, 2019

Strategy description

Scotia Institutional Canadian Investment Grade Corporate Bond strategy seeks to achieve total return under a capital preservation philosophy through an actively managed and diversified portfolio of primarily investment grade Canadian corporate bonds.

The investment team maintains a well-diversified and liquid portfolio that invests in companies with the greatest potential of delivering strong risk adjusted returns. The team will seek to identify organizations that show improving fundamentals based upon independent credit analysis, while managing with a capital preservation philosophy.

Why invest?

- Active management can produce superior risk adjusted returns for fixed income investors.
- Value added through security selection, driven by independent fundamental credit analysis.
- Strategy is flexible and responsive to credit market conditions, prioritizing diversified and liquid security selection.

Portfolio characteristics

Asset allocation (%)	
Cash & Equivalents	0.9
Government/Provincial Bonds	14.6
Investment Grade Corporate Bonds	81.6
High Yield Bonds	2.9
Total	**100.0**

	Canadian IG Corporate Bond Strategy	FTSE Canada All Corporate Bond Index
Yield to Maturity	2.82%	2.93%
Coupon	3.34%	3.75%
Duration	6.24	6.35
Average Spread (bps)	121	130
Average Credit Rating	A	A
Number of Issuers	62	193

Bond rating (%)	Canadian IG Corporate Bond Strategy	FTSE Canada All Corporate Bond Index
AAA	16.1	2.1
AA	22.8	23.7
A	24.1	35.2
BBB	34.1	39.0
<BBB	2.9	0.0
Total	**100.0**	**100.0**

Highlights

Inception	March 1, 2013
Liquidity	Pooled: Daily
Holdings	151
Currency	Hedged
Benchmark	FTSE Canada All Corporate Bond Index

Performance

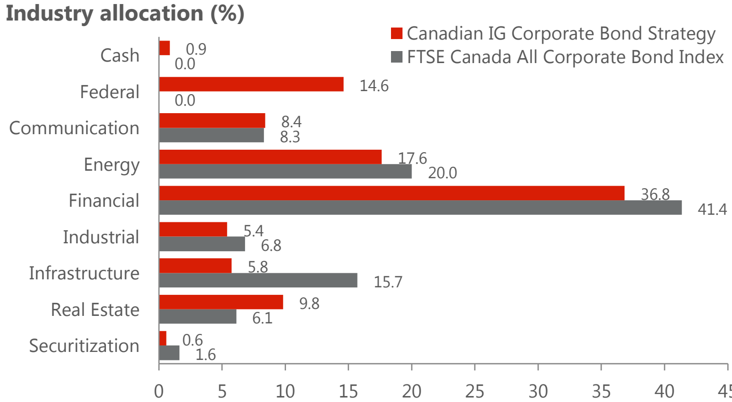
Compound returns (%)	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	Incept.
Composite	2.00	4.21	4.82	4.86	3.92	4.22	4.05
Benchmark	1.99	4.03	4.92	4.88	3.57	3.90	3.68
Value add	**0.01**	**0.19**	**-0.10**	**-0.01**	**0.35**	**0.32**	**0.38**

Calendar returns (%)	2019	2018	2017	2016	2015	2014
Composite	4.21	0.83	3.67	4.89	2.76	8.04
Benchmark	4.03	1.10	3.38	3.73	2.71	7.59
Value add	**0.19**	**-0.27**	**0.29**	**1.16**	**0.05**	**0.45**

Top 10 issuers (%)	
TD	6.4
Bank of Nova Scotia	6.1
Bank of Montreal	5.0
CIBC	4.2
BCE	3.2
Telus Corp	3.0
Brookfield Asset Mgt	2.7
Altagas	2.6
Royal Bank	2.5
Wells Fargo	2.5
Total	**38.2**

Top 10 holdings (%)	
Bank Of Nova Scotia 2.98% 17-apr-2023	4.0
Bank Of Montreal 3.4% 23-apr-2021	2.1
CIBC 2.04% 21-mar-2022	2.0
TD Bank 3.005% 30-may-2023	1.9
TD Bank 1.909% 18-jul-23	1.8
CIBC 1.9% 26-apr-2021	1.7
Brookfield Asset Mgt. 3.8% 16-mar-2027	1.4
Altagas Ltd 4.12% 07-apr-2026	1.4
Wells Fargo & Co. 2.509% 27-oct-2023	1.4
Royal Bank Of Canada 2.86% 04-mar-2021	1.3
Total	**19.1**

Industry allocation (%)



Sources: Bloomberg, FTSE Global Debt Capital Markets

Scotia Institutional Asset Management™

Quarterly commentary (as of March 31, 2019)

Marc-André Gaudreau, CPA, CGA, CFA, Vice President & Senior Portfolio Manager, Fixed Income

While the fourth quarter of 2018 ended on a sour note, we have seen a large reversal in risk asset sentiment during the first quarter of 2019 with many risk asset classes more than regaining their fourth quarter drawdowns. The pace of the first quarter rally was fast and furious with several asset classes generating their best first quarter returns in more than a decade. North American credit markets were not left out of the fun, with Canadian Investment Grade returning +4.03%, US Investment Grade returning +5.00%, and US High Yield returning +7.38% during the quarter. The Canadian Investment Grade Corporate Bond strategy returned 4.21%, outperforming its benchmark due to strong security selection within the energy and real estate sectors, while an underweight position in financials also contributed positively towards performance.

Towards the end of the quarter, the 3 month T-Bill – 10 year Treasury yield curve inverted in the US, while a similar inversion also occurred in Canada. This indicator is much watched by market participants as yield curve inversions have historically preceded recessionary environments. Inversion occurs as bond investors lose confidence in the longer-term outlook for the economy and respond by buying longer-dated government bonds, reflecting their expectations that rate hikes will stop or reverse as the economy slows. The recent inversion of the yield curve received considerable attention from market pundits and all the various business news channels; however, the reality is that an inverted yield curve does not mean that a recession is imminent. The curve needs to invert and stay inverted for a significant period of time before a recession occurs and we note that there have been a few “false flags” in the past, notably in the mid-1990s. In our view, we view the recent inversion of the US yield curve as another metric confirming that the US is in a late-cycle environment, however, we recognize that a recession could be years away and do not view one to be imminent. Turning to Canada, we view the economic environment as less healthy than the US as Canadians are more leveraged than ever before and key economic engines such as the energy industry are showing signs of stress.

Given our views that we are in a late cycle environment, our positioning remains defensive with credit selection skewed towards higher quality issuers with strong cash flows and stable balance sheets. Our approach to credit selection has not changed. We prefer to invest in high quality companies, with strong competitive positioning, strategic/irreplaceable assets, and sustainable capital structures. We have avoided the speculative bets with poor risk/reward profiles that we have recently seen in the market, and point to some recent leveraged buyouts, with issuer-friendly covenants, as the types of highly speculative transactions that warrant caution and typically surface in a late-cycle environment.

About Scotia Institutional

Scotia Institutional Asset Management provides progressive and innovative investment solutions to meet the challenges facing institutional clients, including pension funds, non-profits, foundations and corporations.

$127 Billion assets under management*

Fixed Income

The Scotia Institutional Asset Management fixed income team offers a diverse set of fixed income capabilities and solutions, ranging from traditional benchmark-driven to absolute return strategies. We seek to deliver alpha over a full market cycle through the application of a capital preservation philosophy and distinctive investment processes designed to optimize the trade-off between reward and risk.

To complement the skills of our fixed income team, proprietary systems help identify, quantify and manage risks associated with the market. This combination of skills and technologies enables a proactive approach to protecting and growing our clients' capital.

For more information, please contact:

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* As at December 31, 2018 AUM is for 1832 Asset Management L.P., a limited partnership the general partner of which is wholly owned, directly and indirectly, by The Bank of Nova Scotia and is a manager of mutual funds and investment solutions for private clients, institutional clients and managed asset programs.