Tactical Bond Strategy

As of March 31, 2019

Strategy description

Scotia Institutional Tactical Bond Fund invests with an objective to maximize total return by optimizing the risk/reward trade-off in changing market environments.

The Tactical Bond strategy's alpha is derived from core levers such as duration and yield curve positioning, sector allocation and security selection, but also complemented with non-core holdings such as foreign investments and modest currency exposure in order to enhance yield and maximize return in a risk-controlled framework.

The Tactical Bond strategy also integrates the notion of active and tactical management to a higher degree compared to more traditional bond solutions.

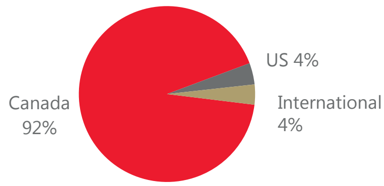
Why invest?

- Active management can produce superior risk adjusted returns for fixed income investors.
- Value added through foreign exposure, discrete currency hedging and tactical positioning.
- Multiple strategies are used to diversify risk.
- Strategies are flexible and responsive to market conditions.

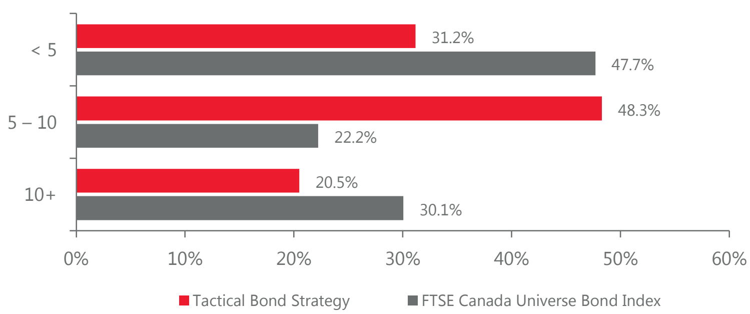
Portfolio characteristics

Top 5 issuers (%)	
Government of Canada	26.2
Province of Ontario	8.7
Province Of Quebec	3.6
Bank of Montreal	3.0
U.S. Treasury	3.0
Total	**44.5**

Geographic allocation



Term distribution (years)



Bond rating	Tactical Bond Strategy	FTSE Canada Universe Bond Index
AAA	46.9%*	38.8%
AA	18.6%	17.4%
A	25.1%	32.5%
BBB & Below	9.4%	11.3%
Total	**100%**	**100%**

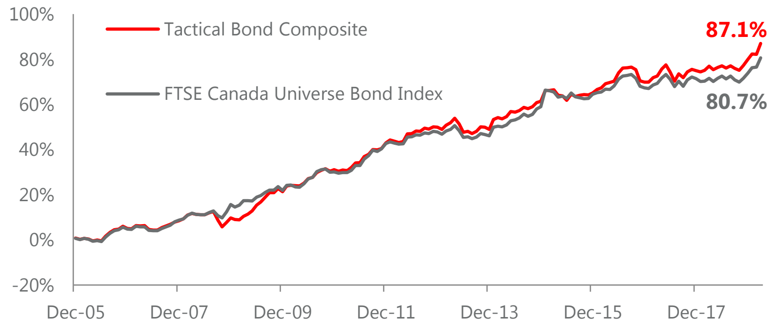
* Includes cash

Highlights

Inception	January 1, 2005
Liquidity	Segregated: Daily / Pooled: Weekly
Holdings	83
Currency	Discretionary hedging
Benchmark	FTSE Canada Universe Bond Index

Performance

Cumulative returns (%)



Compound returns (%)	1 mth	3 mth	6 mth	YTD	1 yr	3 yr	5 yr	7 yr	10 yr
Composite	2.68	3.97	6.31	3.97	5.70	3.42	4.02	3.90	5.41
Benchmark	2.35	3.91	5.74	3.91	5.27	2.70	3.77	3.46	4.41
Value add	**+0.33**	**+0.06**	**+0.57**	**+0.06**	**+0.43**	**+0.72**	**+0.24**	**+0.44**	**+1.01**

Calendar returns (%)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Composite	2.79	3.05	2.86	2.28	8.45	-0.73	4.84	9.16	7.99	10.55
Benchmark	1.41	2.52	1.66	3.52	8.79	-1.19	3.60	9.67	6.74	5.41
Value add	**1.38**	**+0.53**	**+1.20**	**-1.24**	**-0.34**	**+0.46**	**+1.24**	**-0.51**	**+1.24**	**+5.14**

Comparative analysis	Tactical Bond Strategy Guidelines	Tactical Bond Strategy	FTSE Canada Universe Bond Index
Cash & Equivalents	0-30%	9.3%	-
Federal Bonds	0-100%	37.5%	35.1%
Provincial Bonds	0-100%	16.4%	35.4%
Corporate Bonds	0-60%	37.0%	27.1%
Real Return Bonds & US TIPs	0-25%	2.2%	-
Canadian Exposure	80-100%	92.4%	100%
Foreign Exposure	0-20%	7.6%	-
Hedges & Derivatives	0-100%	92.9%	-
Yield to Maturity*	-%	2.27%	2.32%
Duration	+/- 2 years	8.47 years	7.71 years
Average Credit Rating	Min BBB-	AA-	AA
Number of issues	-	83	1,484

Source: 1832 AM, FTSE Global Debt Capital Markets
*Total yield adjusted for futures

Scotia Institutional Asset Management™

Quarterly commentary (as of March 31, 2019)

Romas Budd, MBA, Vice President & Portfolio Manager, Fixed Income

The Canadian fixed income market generated robust returns in the first quarter of 2019 as the FTSE Canada universe bond index returned 3.91%. Interest rates around the globe fell as central banks hit the pause button on additional monetary tightening and markets started pricing interest rate cuts in 2019. The Bank of Canada announced on both January 9th and March 3rd their intentions to keep overnight interest rates on hold at 1.75%. However, the tone of their comments on future interest rate hikes changed dramatically between the two announcement dates as the Canadian economy showed signs of slowing down. Perhaps the largest disappointing Canadian economic release occurred on March 1st when it was announced that Q4 2018 GDP grew by 0.4% relative to expectations of 1% growth. The yield curves in Canada and the US have changed dramatically over the past year as long term interest rates have dropped due to expectations of slowing growth, while the front end of the curves have risen due to central bank rate hikes. The decline in long term interest rates during Q1 2019, along with tightening of credit spreads for corporate and provincial bonds, were large contributors to positive returns.

Within the Canadian fixed income market, those segments of the market that contained more duration and corporate or provincial spread generally fared better than those segments with short duration and government only exposures. The FTSE Canada Long Overall index was the best performing segment of the bond market as it returned 6.9% while the FTSE Short Federal Government index was higher by 1.4%.

The fund's long duration exposure had a positive impact on performance as yields declined. Curve positioning and security selection were positive contributors to relative performance. On the other hand, the fund's underweight exposure to provincial securities was a detractor to performance as spreads tightened during Q1 2019. Overall the fund generated benchmark-like return during Q1 2019. The fund currency positioning during Q1 2019 was fully hedged as there was no clear direction in global developed currencies.

After a two year bear market which ended in Oct 2018, we expect government of Canada bond yields to be sideways to lower in 2019. The global economy continues to be impacted by trade tensions, political tensions and the global consumer seems to be somewhat "tapped out". Central banks have generally pivoted to an easier interest rate stance but the rate hikes of 2017-2018 are still having an impact. We still expect that deflation may be a bigger issue rather than inflation for 2019.

Risk assets, including credit-based securities, are likely to underperform returns for the government bond market. A surprise for 2019 could be that returns for the bond market will trend better than most expect.

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.