

Canadian Investment Grade Corporate Bond Strategy

As of June 30, 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	2.5
Government/Provincial Bonds	13.1
Investment Grade Corporate Bonds	81.1
High Yield Bonds	3.3
Total	100.0

	Canadian IG Corporate Bond Strategy	FTSE Canada All Corporate Bond Index
Yield to Maturity	2.64%	2.69%
Coupon	3.48%	3.33%
Duration	6.50	6.59
Average Spread (bps)	115	119
Average Credit Rating	A	A
Number of Issuers	61	191

Bond rating (%)	Canadian IG Corporate Bond Strategy	FTSE Canada All Corporate Bond Index
AAA	15.0	1.3
AA	23.6	25.9
A	18.8	30.9
BBB	39.3	41.7
<BBB	3.3	0.1
Total	100.0	100.0

Highlights

Inception	March 1, 2013
Liquidity	Pooled: Daily
Holdings	160
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	0.91	2.62	6.95	7.27	3.84	4.36	4.32
Benchmark	1.06	2.68	6.82	7.24	3.65	4.08	3.96
Value add	-0.15	-0.06	0.13	0.03	0.19	0.28	0.35

Calendar returns (%)	2019	2018	2017	2016	2015	2014
Composite	6.95	0.83	3.67	4.89	2.76	8.04
Benchmark	6.82	1.10	3.38	3.73	2.71	7.59
Value add	0.13	-0.27	0.29	1.16	0.05	0.45

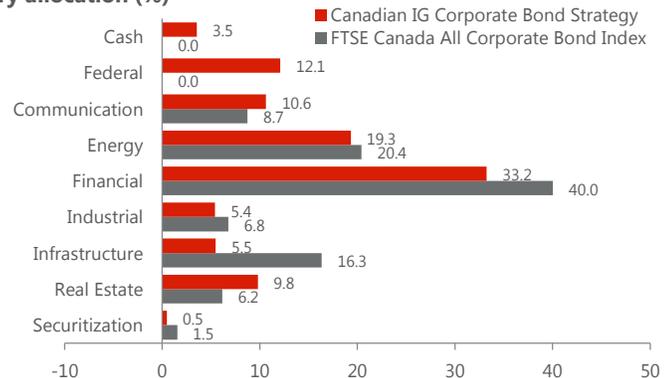
Top 10 issuers (%)

Bank of Montreal	5.6
Bank of Nova Scotia	4.8
BCE	4.8
TD	4.0
CIBC	3.4
Fairfax Financial	3.3
Royal Bank	3.1
Telus Corp	3.0
Brookfield Asset Mgt	2.8
Choice Properties	2.8
Total	37.7

Top 10 holdings (%)

Bank Of Nova Scotia 2.98% 17-apr-2023	3.1
Bank Of Montreal 2.85% 06-mar-2024	2.2
Choice Properties Reit 3.546% 10-jan-2025	1.7
Bank Of Montreal 3.4% 23-apr-2021	1.6
CIBC 2.04% 21-mar-2022	1.6
TD Bank 3.005% 30-may-2023	1.5
Enbridge Inc 6.625 12-apr-2078/2028	1.5
Fairfax Finl Hldgs Ltd 4.25% 06-dec-2027	1.4
Bell Canada 3.8% 21-aug-2028	1.4
Canadian Imperial Bank 1.9% 26-apr-2021	1.3
Total	17.4

Industry allocation (%)



Sources: Bloomberg, FTSE Global Debt Capital Markets



Quarterly commentary (as of June 30, 2019)

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



The Canadian fixed income market continued to generate positive returns in the second quarter with the FTSE Canada Universe index positing its best first 6 months of the year since 1995 when 10-year interest rates were 9.1%. The index finished the quarter with a 2.5% return. The dovish tone of global central bankers along with disappointing economic performance drove down yields across the interest rate curve on a global basis. Within Canada, all points on the yield curve finished the quarter below the Bank of Canada's overnight rate of 1.75% as market participants anticipate a cut by the central bank in the upcoming year. Canadian investment grade credit spreads finished the quarter lower by 6 bps and were relatively stable during the risk asset sell-off that occurred in May. High Yield credit spreads finished the quarter higher by 5 bps but did experience significant widening in May as they moved 80 bps to top out at 4.85% before rallying back to finish the quarter at 4.2%. The FTSE Canada All Corporate Bond index generated a 2.7% return in the quarter, slightly beating the broad market return.

The Canadian Investment Grade Corporate Bond strategy returned 2.6%, performing in line with its benchmark during the quarter. Security selection overall was a relatively flat contributor towards performance, though there were a few notable contributors during the period. For Credit Canada served as the top positive contributor as Ford's spreads had largely lagged the rally YTD and the strength of the company's balance sheet outweighed fears of a slowdown in the auto sector. The top detractor was TransAlta as the issuer was downgraded one notch by S&P, resulting in mark-to-market losses. We continue to believe the credit securities of TransAlta are cheap, considering the company's strategic power generating assets and ongoing efforts to deleverage. We view the downgrade as an opportunity to increase exposure at attractive valuations.

Given our view that we are in a late cycle environment, our positioning continues to remain 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 or irreplaceable assets, and sustainable capital structures. We have not chased speculative issuers with poor risk/reward profiles that have recently tapped 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.

\$126 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:

Trevor Boose, MBA, CFA, Institutional Business Development • trevor.boose@scotiabank.com • 416.350.3299

Ontario (head office): 1 Adelaide Street East, 23rd Floor, Toronto, ON M5C 2V9

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