

Tactical Bond Strategy

As of June 30, 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?

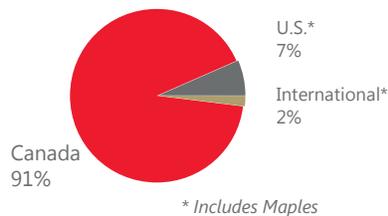
- Active management can produce superior risk adjusted returns for fixed income investors.
- Value added through foreign exposure, discrete currency hedging and tactical positioning.
- Multiple strategies are used to diversify risk.
- Strategies are flexible and responsive to market conditions.

Portfolio characteristics

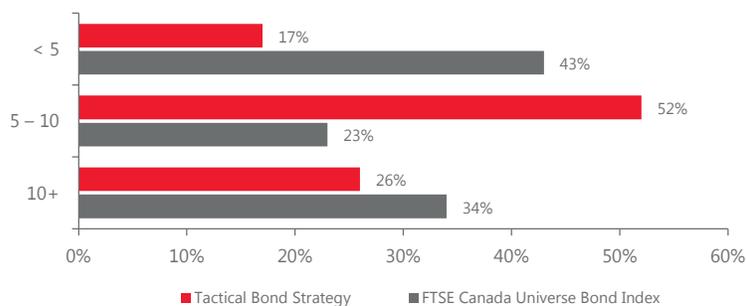
Top 5 issuers (%)

Government of Canada	39.4
Province of Ontario	8.7
Province Of Quebec	3.2
TD Bank	2.9
U.S. Treasury	2.4
Total	56.6

Geographic allocation



Term distribution (years)



Bond rating	Tactical Bond Strategy	FTSE Canada Universe Bond Index
AAA*	47%	38%
AA	14%	37%
A	28%	13%
BBB & Below	11%	12%
Total	100%	100%

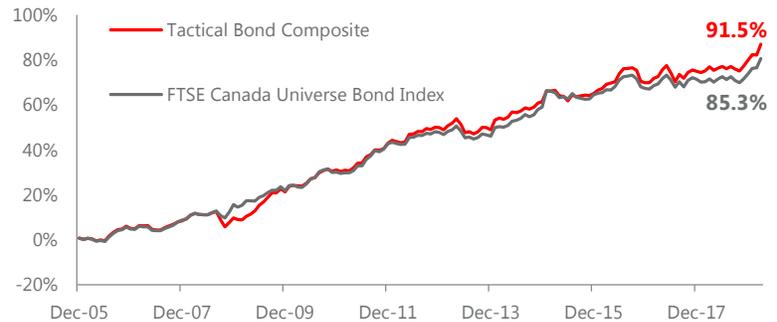
* Excludes cash

Highlights

Inception	January 1, 2005
Liquidity	Segregated: Daily / Pooled: Weekly
Holdings	95
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	0.95	2.35	6.41	6.41	8.08	3.23	4.11	3.84	5.19
Benchmark	0.91	2.51	6.52	6.52	7.37	2.66	3.88	3.50	4.53
Value add	+0.04	-0.17	-0.11	-0.11	+0.71	+0.57	+0.23	+0.35	+0.66

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%	5%	-
Federal Bonds	0-100%	42%	35%
Provincial Bonds	0-100%	17%	37%
Corporate Bonds	0-60%	34%	28%
Real Return Bonds & US TIPs	0-25%	2%	-
Canadian Exposure	80-100%	91%	100%
Foreign Exposure*	0-20%	9%	-
Hedges & Derivatives	0-100%	88%	-
Yield	-%	2.03%	2.13%
Duration	+/- 2 years	6.51 years	8.02 years
Average Credit Rating	Min BBB-	AA-	AA
Number of issues	-	95	1,459

Source: 1832 AM, FTSE Global Debt Capital Markets

* Includes Maples

Scotia Institutional Asset Management™

Performance returns for the Scotia Tactical Bond Composite ("Strategy") are included to demonstrate how an investment fund with a similar investment strategy performed over the time period indicated. Periods of more than one year are annualized. Portfolio characteristics are of the Scotia Institutional Tactical Bond Fund. There is no guarantee that the Strategy would have invested in the same holdings as the Fund, and actual performance would have been different due to differences in underlying holdings and inception periods. The indicated rates of return are reported net of trading expenses but before the deduction of management fees. Past performance is no indicator of future performance.

Quarterly commentary (as of June 30, 2019)

Romas Budd, MBA, BSc. Hons, 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 posting 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. All points on the Canadian 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. The best performing segment of the Canadian fixed income market was the FTSE Long Term Overall Index as it generated a 4.8% return while the worst performing segment of the market was the FTSE Short Government Index as it rose only 0.6% in the quarter. Real return bonds underperformed relative to nominal bonds given the decline in inflation expectations that occurred during the quarter. Break-even inflation (market implied inflation based on the difference between nominal and real bonds) at the 10-year part of the curve declined by 17 basis points in the quarter to finish at 1.36%. Canadian investment grade credit spreads finished the quarter lower by 6 basis points and were relatively stable during the risk asset sell-off that occurred in May. High Yield credit spreads finished the quarter higher by 5 basis points, but experienced significant widening in May as they moved 80 basis points 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 Fund's net short duration exposure had a negative impact on relative return as yields declined during the quarter. The underweight exposure to Provincial securities was also a detractor to relative performance as spreads tightened. These impacts were partially offset by positive contributions to relative performance from security selection. Overall, the Fund underperformed the benchmark during the second quarter.

Generating similar returns in the second half of the year will prove challenging for the Canadian fixed income market given the current low level of yields. As the market has currently discounted future interest rate cuts, any positive economic news or signs of inflation will likely give central bankers reason to pause on following through on their dovish rhetoric. With long-term interest rates so low and also below the bank of Canada's overnight rate, the front-end of the yield curve could provide investors with some safety from the impacts of a reversal in the direction of rates.

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:

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

* 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.

© Copyright 2019, 1832 Asset Management L.P. All rights reserved.

™ Trademark of The Bank of Nova Scotia, used under license. Scotia Institutional Asset Management is a division of 1832 Asset Management L.P. 1832 Asset Management L.P. is a limited partnership, the general partner of which is wholly owned by The Bank of Nova Scotia.

This document has been prepared by 1832 Asset Management LP for information purposes only, and is not to be distributed or reproduced without the consent of 1832 Asset Management L.P. Views expressed regarding a particular investment, economy, industry or market sector should not be considered an indication of trading intent of any of the investment funds managed by 1832 Asset Management LP. These views are not to be relied upon as investment advice nor should they be considered a recommendation to buy or sell. These views are subject to change at any time based upon markets and other conditions, and 1832 Asset Management L.P. is not responsible to update such views. Information contained in this document, including information relating to interest rates, market conditions, tax rules, and other investment factors are subject to change without notice, and 1832 Asset Management L.P. is not responsible to update this information. To the extent this document contains information or data obtained from third party sources, it is believed to be accurate and reliable as of the date of publication, but 1832 Asset Management L.P. does not guarantee its accuracy or reliability. Nothing in this document is or should be relied upon as a promise or representation as to the future. The indicated rates of return are calculated in Canadian dollars and are reported net of all trading expenses but are determined before the deduction of the management and other fees which are charged at the account level. More information regarding the calculation of fund returns, the calculation of performance composites and the use of representative mandates or proxy returns is available 1832 Asset Management LP Inc. upon request. This information is provided for general information purposes only, is not intended to provide personal investment advice and does not take into account the specific objectives, personal, financial, legal or tax situation, or particular needs of any specific person. No information contained herein constitutes a recommendation to buy, hold or sell any security, financial product or instrument discussed therein. The information contained herein neither is nor should be construed as an offer or a solicitation of an offer by Scotia Institutional Asset Management to buy or sell securities. You should not undertake any investment or portfolio assessment or other transaction on the basis of this publication, but should first consult your qualified advisors before taking any action based upon the information contained in this publication.