

Canadian Investment Grade Corporate Bond Strategy

As of September 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	1.5
Government/Provincial Bonds	10.6
Investment Grade Corporate Bonds	84.7
High Yield Bonds	3.1
Total	100.0

	Canadian IG Corporate Bond Strategy	FTSE Canada All Corporate Bond Index
Yield to Maturity	2.69%	2.73%
Coupon	3.54%	3.33%
Duration	6.61	6.67
Average Spread (bps)	123	124
Average Credit Rating	A	A-
Number of Issuers	68	193

Bond rating (%)	Canadian IG Corporate Bond Strategy	FTSE Canada All Corporate Bond Index
AAA	10.8	1.1
AA	23.6	25.2
A	20.0	31.4
BBB	42.4	42.1
<BBB	3.1	0.2
Total	100.0	100.0

Highlights

Inception	March 1, 2013
Liquidity	Pooled: Daily
Holdings	167
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	-0.58	1.17	3.83	8.83	3.62	4.42	4.33
Benchmark	-0.54	1.09	3.80	8.91	3.48	4.14	3.98
Value add	-0.04	0.08	0.02	-0.08	0.14	0.28	0.35

Calendar returns (%)	2019	2018	2017	2016	2015	2014
Composite	8.20	0.83	3.67	4.89	2.76	8.04
Benchmark	7.98	1.10	3.38	3.73	2.71	7.59
Value add	0.22	-0.27	0.29	1.16	0.05	0.45

Top 10 issuers (%)

Bank of Montreal	6.5
BCE	5.2
Bank of Nova Scotia	4.8
TD	4.0
Royal Bank	3.5
Fairfax Financial	3.3
CIBC	3.1
Telus Corp	2.9
Brookfield Asset Mgt	2.8
Choice Properties	2.8
Total	39.0

Top 10 holdings (%)

Bank Of Nova Scotia 2.98% 17-apr-2023	3.1
Bank Of Montreal 2.85% 06-mar-2024	2.2
Enbridge Inc 6.625 12-apr-2078/2028	1.9
Choice Properties Reit 3.546% 10-jan-2025	1.6
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
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	17.6

Industry allocation (%)



Sources: Bloomberg, FTSE Global Debt Capital Markets

 **Scotia Institutional Asset Management™**

Quarterly commentary (as of September 30, 2019)

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



Fixed income markets provided positive returns to investors in the third quarter as concerns about slowing economic growth, increased market volatility and actions of global central banks drove yields lower across the curve. Yields on global developed market bonds continued their decline in the third quarter that started at the beginning of 2019. The Bank of Canada held overnight interest rates steady over the course of the quarter, which stood out among other global central banks that provided monetary stimulus in the form of rate cuts and expanded quantitative easing. As with the end of the previous quarter-end, the entire Canadian yield curve provided yields that were lower than the Bank of Canada overnight rate of 1.75%. The FTSE Canada Universe Bond index rose by 1.2% in the quarter with most of the returns being generated by a drop in interest rates as credit spreads generally remained stable over the course of the quarter. Corporate investment grade credit

slightly underperformed the broad market as the FTSE Canada All Corporate Bond index returned 1.1%. The underperformance relative to the broad Canadian bond market was due to the lower level of interest rate sensitivity of the corporate market.

Overall the strategy outperformed the benchmark during the third quarter. Security selection was the largest contributor to relative performance followed by curve positioning. The carry component of return slightly detracted relative performance. From a sector allocation perspective, overweighting Federal securities and underweighting the financial sector were the largest contributors to relative performance. On the other hand, the underweight in the infrastructure sector was the largest detractor to relative performance during the quarter.

In response to growing uncertainties and slowing global growth, the Fed cut the overnight rate by 50 basis points during the third quarter. At quarter end, investors continue to price in future rate cuts with increasing expectations that the Fed will cut rates one more time before year end. Thus far, risk assets have largely responded positively to the Fed's rate cuts as investors have been conditioned since the Global Financial Crisis to buy risk assets in response to accommodative monetary policy. However, as the economic cycle ages, and growth slows, we question whether such risk taking behaviour is warranted. Being late in the credit cycle warrants caution since timing a market downturn is always a difficult task. 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, tangible/strategic assets, and sustainable capital structures.

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.

\$142 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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