Tactical Bond Strategy

As of September 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.

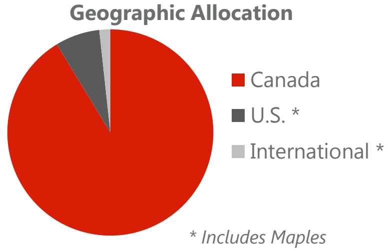
Why invest?

- 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.

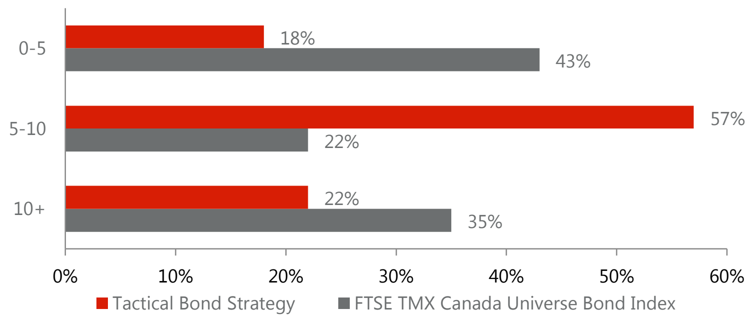
Portfolio characteristics

Top 5 issuers (%)	
Government of Canada	38.06
Province of Ontario	9.13
Province Of Quebec	4.84
Province of Alberta	3.01
TD Bank	3.00
Total	**58.04**

Geographic Allocation



** Includes Maples*



Bond rating	Tactical Bond Strategy	FTSE Canada Universe Bond Index
AAA*	45%	38%
AA	29%	37%
A	15%	13%
BBB & Below	11%	12%
Total	**100%**	**100%**

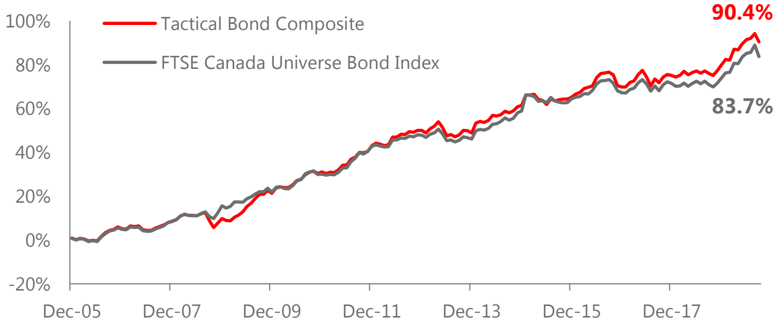
* Excludes cash

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	-0.54	0.94	3.31	7.41	9.83	3.06	4.10	3.74	4.80
Benchmark	-0.84	1.19	3.73	7.79	9.69	2.66	3.91	3.49	4.38
Value add	**+0.30**	**-0.25**	**-0.42**	**-0.38**	**+0.14**	**+0.40**	**+0.19**	**+0.25**	**+0.42**

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%	3%	-
Federal Bonds	0-100%	39%	35%
Provincial & Municipal Bonds	0-100%	20%	38%
Corporate Bonds	0-60%	36%	27%
Real Return Bonds & US TIPs	0-25%	2%	-
Canadian Exposure	80-100%	91%	100%
Foreign Exposure*	0-20%	8%	-
Hedges & Derivatives	0-100%	99.4%	-
Yield	-%	1.98%	2.12%
Effective Duration	+/- 2 years	6.11 years	8.10 years
Average Credit Rating	Min BBB-	AA-	AA
Number of issues	-	95	1,485

Source: 1832 AM, FTSE Global Debt Capital Markets
* Includes Maples

Scotia Institutional Asset Management™

Quarterly commentary (as of September 30, 2019)

Romas Budd, MBA, BSc. Hons, 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 yield curve. Yields on global developed market bonds continued their decline in the third quarter that started at the beginning of 2019. Relative to other 10-year global bonds, Canadian sovereign bonds underperformed other developed markets in the quarter, with the exception being Japan. The Bank of Canada (BofC) held 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 easy. As with the end of the previous quarter-end, the entire Canadian yield curve provided yields that were lower than the BofC 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. The best performing segment of the Canadian bond market was the Long Term Federal Government index which returned 2.8% during the quarter while the 30-year point of the yield curve posted the largest decline. The worst performing segment of the Canadian market was the FTSE Short Term Federal Bond index (+0.2%), as yields on the short end of the yield curve (<5 years) actually rose. Corporate investment grade credit slightly underperformed the broad market, with the FTSE Canada All Corporate Bond index returning 1.1%.

The Fund's net short duration exposure had a mild negative impact on performance as long yields declined. Curve positioning also detracted from performance. These impacts were partially offset by positive sector selection, as the Fund's underweight exposure to Provincial securities in the mid and long end of the curve was a positive contributor. On the international side, we have reduced the Fund's New Zealand exposure, which has been profitable for the Fund and we have initiated a small Norwegian Krone position as valuations became attractive at current levels.

We currently view the bond rally since Oct 2018 to be a cyclical rally which will not breach the interest rate lows of 2016. Especially in Canada, GDP growth and wage growth are outperforming both the BofC and consensus expectations. The Fed is likely to cut one more time before the end of the year, but the BofC is still on hold. At this time we do not see North America heading into recession and there are similarities to the 1998-99 and 1994-96 periods. We are positioned more conservatively going into Q4 2019 and expect bond rates to drift sideways to up for the remainder of the year. However, USA/China trade talks and the profile of "Brexit" could change the view.

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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* As at September 30, 2019 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.