Canadian Investment Grade Corporate Bond Strategy

As of December 31, 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	1.2
Government/Provincial Bonds	5.9
Investment Grade Corporate Bonds	88.9
High Yield Bonds	4.0
Total	**100.0**

	Canadian IG Corporate Bond Strategy	FTSE Canada All Corporate Bond Index
Yield to Maturity	2.94%	2.80%
Coupon	3.73%	3.71%
Duration	6.57	6.56
Average Spread (bps)	123	109
Average Credit Rating	A-	A-
Number of Issuers	69	191

Bond rating (%)	Canadian IG Corporate Bond Strategy	FTSE Canada All Corporate Bond Index
AAA	5.7	1.1
AA	23.0	23.9
A	19.9	34.1
BBB	47.3	40.9
<BBB	4.0	0.0
Total	**100.0**	**100.0**

Highlights

Inception	March 1, 2013
Liquidity	Pooled: Daily
Holdings	161
Currency	Hedged
Benchmark	FTSE Canada All Corporate Bond Index

Performance

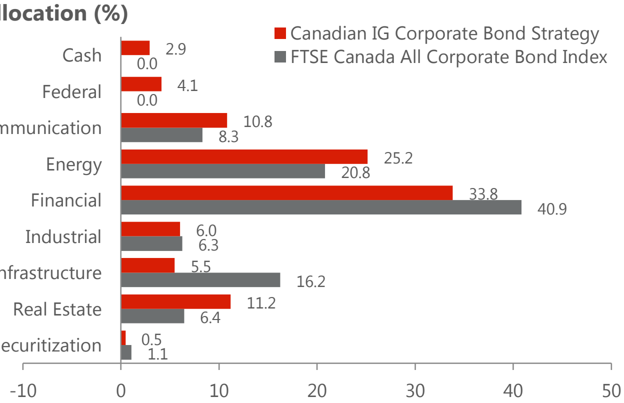
Compound returns (%)	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	Incept.
Composite	-0.45	0.09	1.26	8.29	4.22	4.06	4.19
Benchmark	-0.54	0.06	1.15	8.05	4.14	3.77	3.84
Value add	**0.09**	**0.02**	**0.11**	**0.24**	**0.08**	**0.29**	**0.35**

Calendar returns (%)	2019	2018	2017	2016	2015	2014
Composite	8.29	0.83	3.67	4.89	2.76	8.04
Benchmark	8.05	1.10	3.38	3.73	2.71	7.59
Value add	**0.24**	**-0.27**	**0.29**	**1.16**	**0.05**	**0.45**

Top 10 issuers (%)	
Bank of Montreal	5.9
BCE	5.1
Bank of Nova Scotia	4.7
TD	3.9
TransCanada	3.5
Royal Bank	3.5
Fairfax Financial	3.2
CIBC	3.1
Telus Corp	2.9
Enbridge	2.8
Total	**38.7**

Top 10 holdings (%)	
Bank Of Nova Scotia 2.98% 17-apr-2023	3.0
Enbridge Inc 6.625 12-apr-2078/2028	2.8
Bank Of Montreal 2.85% 06-mar-2024	2.2
SmartCentres REIT 3.526% 20-dec-2029	1.6
Choice Properties REIT 3.546% 10-jan-2025	1.6
Suncor Energy Ventures 4.5% 01-apr-2022	1.6
Bank Of Montreal 3.4% 23-apr-2021	1.6
CIBC 2.04% 21-mar-2022	1.5
TD Bank 3.005% 30-may-2023	1.5
Pembina Pipeline Corp 4.54% 03-apr-2049	1.4
Total	**18.8**

Industry allocation (%)



Sources: Bloomberg, FTSE Global Debt Capital Markets

Scotia Institutional Asset Management™

Quarterly commentary (as of December 31, 2019)

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

The Canadian fixed income market fell by 0.85% in the final quarter of the year as yields rose on a global basis. Canada 10Y rates rose by 34 bps in the quarter as the market perceived that further monetary stimulus from central bankers would not occur without evidence of significant economic troubles. The Federal Reserve in the US cut rates at its October 30th meeting but held rates stable on December 11th. Meanwhile, the Bank of Canada kept rates unchanged at both its October 30th and December 4th meetings, fearing that any additional stimulus would negatively impact already stretched consumer balance sheets in Canada. On a 1-year basis, the FTSE Canada Universe index rose by 6.9% as yields fell across the yield curve over the course of the year. The tightening of corporate credit spreads in both the fourth quarter and throughout the year was a positive contributor to index returns. Spreads tightened approximately 39 basis points throughout the year and by 13 bps in the fourth quarter, rebounding from the spread widening that occurred during the turbulent fourth quarter of 2018. Given the rise in rates during the quarter, the best performing segment of the Canadian investment grade bond market in the fourth quarter was the FTSE Short Term Corporate index as it gained 52 bps. Meanwhile, the FTSE Long Term Federal index was the worst performing segment of the Canadian fixed income market as it declined by 3.5%.

The strategy performed in line with the benchmark during the quarter, with credit selection serving as the largest contributor to relative performance followed by the carry component of return. These impacts were partially offset by negative curve and duration positioning. At the sector level, the neutral positioning in Energy, overweight in Real Estate and underweight in Financials relative to the benchmark were the primary contributors to relative credit performance. Meanwhile, the underweight position in Infrastructure during the fourth quarter was the largest detractor to relative credit performance.

Our outlook for the Canadian fixed income market is that returns will likely be muted relative to 2019, absent any significant negative economic event. Canadian 30Y interest rates hit all-time lows during 2019 while the Canadian 10Y yield finished the year at about the average rate over the past 5 years. Unless interest rates in Canada follow what has occurred in Europe and Japan, the return assumptions for fixed income exposure in Canada in the next year will be based on current yields. As at the end of the year the yield on the FTSE Canada Universe was 2.28%, while the FTSE Canada All Corporate Universe was yielding 2.80%.

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:

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 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.