

Tactical Bond Strategy

As of December 31, 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.

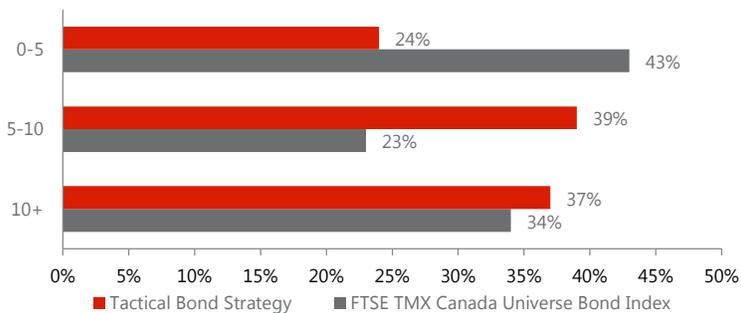
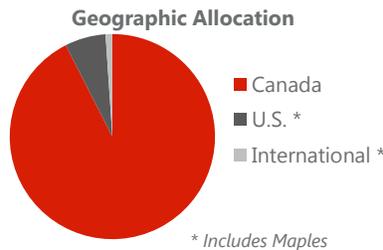
Why invest?

- 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	38.05
Province of Ontario	10.49
Province Of Quebec	4.69
TD Bank	2.85
RBC	2.20
Total	58.28



Bond rating	Tactical Bond Strategy	FTSE Canada Universe Bond Index
AAA*	45%	38%
AA	28%	36%
A	15%	14%
BBB & Below	12%	12%
Total	100%	100%

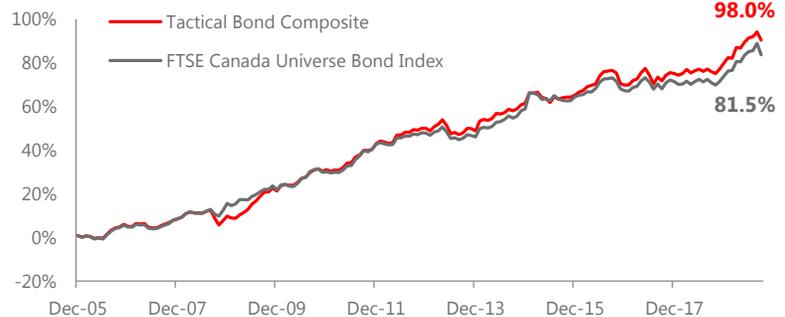
* Excludes cash

Highlights

Inception	January 1, 2005
Liquidity	Segregated: Daily / Pooled: Weekly
Holdings	92
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	-1.29	-1.00	-0.06	6.34	6.34	4.05	3.45	3.54	4.66
Benchmark	-1.19	-0.85	0.33	6.87	6.87	3.57	3.18	3.32	4.31
Value add	-0.10	-0.14	-0.39	-0.53	-0.53	0.48	0.28	0.22	0.35

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%	42%	35%
Provincial & Municipal Bonds	0-100%	20%	37%
Corporate Bonds	0-60%	34%	28%
Real Return Bonds & US TIPs	0-25%	1%	-
Canadian Exposure	80-100%	92%	100%
Foreign Exposure*	0-20%	8%	-
Hedges & Derivatives	0-100%	25.3%	-
Yield	-	2.21%	2.28%
Effective Duration	+/- 2 years	7.80 years	7.99 years
Average Credit Rating	Min BBB-	AA-	AA
Number of issues	-	92	1,488

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 December 31, 2019)

Romas Budd, MBA, BSc. Hons, 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 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. Global bonds also experienced negative returns in the quarter as the ICE BofA Global Broad Market index declined by 0.85%. 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%. As inflation expectations rose during the quarter, real return bonds outperformed nominal bonds and the FTSE Real Return index fell by 2%.

The Fund's curve positioning had a negative impact on performance as the Fund had an overweight exposure to the underperforming mid-section of the curve. The Fund's underweight exposure to provincial securities in the mid and long end of the curve was also a drag on performance as spreads tightened. These impacts were partially offset by positive duration positioning. The Fund was short duration early in the quarter as interest rates increased before duration was moved closer to benchmark. The team feels that the Canadian dollar is quite strong vs global currencies. In December, a few small currency positions were taken in the Fund notably in Australian dollar, Norwegian Krone, Swedish Krona and USD.

The 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%.

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.

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