ScotiaFunds®

Scotia Private Total Return Bond Pool

Annual Management Report of Fund Performance

For the period ended December 31, 2017

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling toll-free 1-800-268-9269, by writing to us at 1832 Asset Management L.P., 1 Adelaide Street East, 28th Floor, Toronto, ON, M5C 2V9 or by visiting our website at www.scotiafunds.com or SEDAR at www.sedar.com.

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

1832 Asset Management L.P. is the manager (the "Manager") of the fund. In this document, "we", "us", "our" and the "Manager" refer to 1832 Asset Management L.P. and the "Fund" refers to Scotia Private Total Return Bond Pool.

The term "net asset value" or "net asset value per unit" in this document refers to the net asset value determined in accordance with Part 14 of National Instrument 81-106 – Investment Fund Continuous Disclosure ("National Instrument 81-106"); while the term "net assets" or "net assets per unit" refers to total equity or net assets attributable to unitholders of the Fund as determined in accordance with International Financial Reporting Standards ("IFRS").

Caution Regarding Forward-Looking Statements

Certain portions of this report, including, but not limited to, "Recent Developments", may contain forward-looking statements about the Fund and the underlying funds, as applicable, including statements with respect to strategies, risks, expected performance events and conditions. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", "projects" and similar forward-looking expressions or negative versions thereof.

In addition, any statement that may be made concerning future performance, strategies or prospects and possible future action by the Fund is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future general economic, political and relevant market factors, such as interest rates, foreign exchange rates, equity and capital markets, and the general business environment, in each case assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be unforeseeable. Accordingly, current assumptions concerning future economic and other factors may prove to be incorrect at a future date.

Forward-looking statements are not guarantees of future performance and actual results or events could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, such as interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government relations, unexpected judicial or regulatory proceedings and catastrophic events. We stress that the above mentioned list of important factors is not exhaustive. Some of these risks, uncertainties and other factors are described in the Fund's simplified prospectus, under the heading "Specific risks of mutual funds".

We encourage you to consider these and other factors carefully before making any investment decisions. Forward-looking statements should not be unduly relied upon. Further, you should be aware of the fact that the Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next management report of fund performance, and that the forward-looking statements speak only to the date of this management report of fund performance.

Investment Objective and Strategies

The Fund's objective is to provide income and capital gains from an actively managed diversified portfolio of primarily Canadian fixed income securities.

The portfolio advisor invests in a diversified portfolio of fixed income securities, with the active management of interest rate and credit risk. The Fund will invest primarily in investment grade corporate bonds, but may also invest in other forms of debt and fixed income securities and debt-like instruments, including but not limited to:

- Federal, provincial and municipal government bonds;
- Real return and inflation protected bonds;
- Unrated securities;
- Other securities with a high level of current income such as income trusts, real estate investment trusts, convertible bonds and hybrid securities; and
- Private placements, loans and guaranteed mortgages.

The portfolio advisor will use a combination of investment strategies emphasizing fundamental and technical analytical techniques that have generally been developed by the portfolio advisor. Returns will be generated from both interest income and capital gains. Strategies to mitigate risk include active security selection, sector diversification, yield curve and duration management and portfolio diversification around interest rate volatility. Fixed income securities are actively traded in response to movements in the level of bond yields, the shape of the yield curve, the level of real yields and the level of credit spreads. Each trade is performed with consideration to the security's risk/reward profile.

The Fund can invest up to 49% of its assets in foreign securities.

Risk

The risks associated with investing in Fund are as described in the simplified prospectus. Effective November 14, 2017, the Manager has implemented a new Risk Classification Methodology recently mandated by the Canadian Securities Administrators, which is used to determine the investment risk level of the Fund. There are no changes to the investment risk level, investment objectives or strategies of the Fund as a result of the implementation.

Results of Operations

For the year ended December 31, 2017 (the "period"), the Series M units of the Fund returned 3.1%. Fund returns are reported net of all management fees and expenses, unlike the returns of the Fund's benchmark, which is based on the performance of an index that does not pay fees or incur expenses.

The Fund's broad-based benchmark, the FTSE TMX Canada Universe Bond Index, returned 2.5% during the same period. In accordance with National Instrument 81-106, we have included a comparison to this broad-based index to help you understand the Fund's performance relative to the general performance of the market.

The Fund outperformed the broad-based benchmark during the period. As spreads continued to tighten during 2017, the Fund benefitted from its overweight bias towards higher yielding investment grade corporate bonds over government bonds. The Fund also benefitted from taking profits from U.K. bond positions towards the end of the first quarter after a rally. Mid-year the Fund benefited from maintaining a defensive position, with a shorter duration profile and underweight position in the long end of the bond market. In June, the Fund was well positioned in the U.S. and benefitted from outperformance of the U.S. over Canada. In September, the Fund took advantage of higher bond yields and a shift in tone by the Bank of Canada and went neutral on the Canadian bond market. Both Credit and Provincial spreads narrowed as the year finished, and the yield curve continued to flatten. The Fund had exposure to both of these themes which benefitted the portfolio.

Fixed income markets had a volatile year even though credit markets ended up finishing strong in 2017. Within the U.S., interest rates finished relatively flat during the period but not without some volatility. The U.S. 10 Year Treasury fell from 2.44% to as low as 2.04% in September before finishing the year at 2.41%. The U.S. Federal Reserve increased the target range for overnight interest rates twice early in the year by 25 basis points each on strength in the labour market and an overall positive outlook for U.S. economic growth. They followed that with one more increase on December 14th after pausing during the summer months. Canadian interest rates tracked higher during the year but the 10-Year Government of Canada yield saw more volatility than the U.S. Falling as low as 1.39% in June, the 10-Year Government of Canada spiked to 2.06% in July, before falling through the summer months only to spike up to 2.13% during mid-September. As it started to dip towards the end of the year, a speech by Governor Poloz and a couple of media interviews shifted market sentiment again. The last jump in yields saw the 10-Year Government of Canada spike from 1.84% to 2.05% as the year finished off. In Canada, the Bank of Canada raised its rate twice, on July 12th and September 6th, respectively. With many expecting accelerating economic growth and higher inflation for the New Year, overall indices saw negative returns in the last month of 2017. However, a bull flattening of the credit curve helped dampen volatility, allowing index segments with longer duration like Provincials and Municipals to outperform. For the period, the long-term segments of AA, A and BBB Corporates along with Provincials posted positive at least +8% returns. Short and mid-Canada were the only subsectors for the year to finish with negative returns. Credit spreads continued to rally into the year-end with investors hungry for corporate bonds and higher yields. This was reflective in both the investment grade and high yield market where risk premiums approached the lowest levels since the financial crisis. The high yield index generated 7.5% in total returns for the year.

Duration was actively managed throughout the period, starting at 4.4 years, rising to 7.4 in the Fall and ending at 6.0, as long-term rates vacillated. Early in the year, Canadian exposure was lower than the index. This was increased in the summer once the next Bank of Canada rate hike was priced in, in order to take advantage of yields. U.S. exposure was reduced towards the end of the year in anticipation of higher U.S. yields in 2018. From a currency standpoint, early in 2017, the weaker U.S. dollar was a detractor to performance as the Canadian dollar reached a four month high relative to U.S. dollar, however, hedging the U.S. dollar later in the period helped protect the portfolio from U.S. dollar weakness. U.S. exposure was fully hedged mid-year, though 50% of the hedges were removed in December, in anticipation of modest improvement in the U.S. dollar vs. Canadian dollar.

The Fund's net asset value increased to $476.8 million at December 31, 2017, from $0.2 million at December 31, 2016. This change was composed of net sales of $463.6 million, investment performance of the Fund of $13.2 million and cash distributions of $0.2 million. The investment performance of the Fund includes income and expenses which vary year over year. The Fund's income and expenses changed compared to the previous year mainly as a result of fluctuations in average net assets, portfolio activity and changes in the Fund's income earning investments.

The Fund may make distributions at a rate determined by the Manager from time to time. If the aggregate amount of distributions exceeds the portion of net income and net realized capital gains, the excess will constitute a return of capital. The Manager does not believe that the return of capital distributions made by the Fund have a meaningful impact on the Fund's ability to implement its investment strategy or to fulfill its investment objective.

Recent Developments

IFRS 9, Financial Instruments

The final version of IFRS 9, Financial Instruments was issued by the International Accounting Standards Board ("IASB") in July 2014 and will replace IAS 39, Financial Instruments: Recognition and Measurement, related to the classification and measurement of financial assets and financial liabilities.

IFRS 9 relates to the classification and measurement of financial assets and financial liabilities in the Fund. The new standard is effective for the Fund for its fiscal year beginning January 1, 2018. The Manager has been evaluating the standard and has currently determined that the impact to the Fund will include additional disclosures related to changes to the classification of certain financial instruments to align with the classifications under IFRS 9. Adoption of the standard will not impact net assets attributable to holders of redeemable units.

Related Party Transactions

The Manager is a wholly-owned subsidiary of The Bank of Nova Scotia ("Scotiabank"). Scotiabank also owns, directly or indirectly, 100% of Scotia Securities Inc. and Tangerine Investment Funds Limited, each a mutual fund dealer, and Scotia Capital Inc. (which includes ScotiaMcLeod and Scotia iTRADE), an investment dealer.

On August 4, 2017, Industrial Alliance Insurance and Financial Services Inc. completed its acquisition of HollisWealth including HollisWealth Advisory Services Inc. (collectively, "HollisWealth"), a related party of the Manager. As such, HollisWealth ceased to be a related party.

The Manager, on behalf of the Fund, may enter into transactions or arrangements with other members of Scotiabank or certain other companies that are related or connected to the Manager (each a "related party"). All transactions between the Fund and the related parties are in the normal course of business and are carried out at arm's length terms.

The purpose of this section is to provide a brief description of any transaction involving the Fund and a related party.

Management Fees

The Manager is responsible for the day-to-day management and operations of the Fund. Certain series of the Fund pay the Manager a management fee for its services as described in the "Management Fee" section later in this document. The management fee is an annualized rate based on the net asset value of each series of the Fund, accrued daily and paid monthly.

Fixed Administration Fees and Other Fund Costs

The Manager pays the operating expenses of the Fund, other than Other Fund Costs, in exchange for the payment by the Fund of a fixed rate administration fee (the "Fixed Administration Fee") to the Manager with respect to each series of the Fund. The expenses charged to the Fund in respect of the Fixed Administration Fee are disclosed in the Fund's financial statements. The Fixed Administration Fee is equal to a specified percentage of the net asset value of a series, calculated and paid in the same manner as the management fees for the Fund. Further details about the Fixed Administration Fee can be found in the Fund's most recent simplified prospectus.

In addition, each series of the Fund is responsible for its proportionate share of certain operating expenses ("Other Fund Costs"). Further details about Other Fund Costs can be found in the Fund's most recent simplified prospectus.

The Manager, at its sole discretion, may waive or absorb a portion of a series' expenses. These waivers or absorptions may be terminated at any time without notice.

Custodial Services

During the period, Scotiabank, as the custodian of the Fund, earned a fee for providing custody and related services. The custodian held investments of the Fund in safekeeping to ensure that they were used only for the benefit of the investors of the Fund. The custodian fee was paid by the Manager, in exchange for the Fixed Administration Fee received from the Fund.

On October 2, 2017, State Street Trust Company Canada replaced Scotiabank in its capacity as custodian of the Fund.

Other Fees

The Manager, or its affiliates, may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, custody, brokerage, foreign exchange and derivatives transactions. The Manager, or its affiliates, may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies.

Independent Review Committee

The Manager has established an independent review committee (the "IRC") in accordance with National Instrument 81-107 – Independent Review Committee for Investment Funds ("NI 81-107") with a mandate to review and provide recommendations or approval, as required, on conflict of interest matters referred to it by the Manager on behalf of the Fund. The IRC is responsible for overseeing the Manager's decisions in situations where the Manager is faced with any present or perceived conflicts of interest, all in accordance with NI 81-107.

The IRC may also approve certain mergers between the Fund and other funds, and any change of the auditor of the Fund. Subject to any corporate and securities law requirements, no securityholder approval will be obtained in such circumstances, but you will be sent a written notice at least 60 days before the effective date of any such transaction or change of auditor. In certain circumstances, securityholder approval may be required to approve certain mergers.

The IRC has five members, Carol S. Perry (Chair), Brahm Gelfand, Simon Hitzig, D. Murray Paton and Jennifer L. Witterick, each of whom is independent of the Manager.

The IRC prepares and files a report to the securityholders each fiscal year that describes the IRC and its activities for securityholders as well as contains a complete list of the standing instructions. These standing instructions enable the Manager to act in a particular conflict of interest matter on a continuing basis provided the Manager complies with its policies and procedures established to address that conflict of interest matter and reports periodically to the IRC on the matter. This report to the securityholders is available on the Manager's website or, at no cost, by contacting the Manager.

The compensation and other reasonable expenses of the IRC will be paid out of the assets of the Fund as well as out of the assets of the other investment funds for which the IRC may act as the independent review committee. The main components of compensation are an annual retainer and a fee for each committee meeting attended. The chair of the IRC is entitled to an additional fee. Expenses of the IRC may include premiums for insurance coverage, travel expenses and reasonable out-of-pocket expenses.

The Fund received the following standing instructions from the IRC with respect to related party transactions:

- Paying brokerage commissions and spreads to a related party for effecting security transactions on an agency and principal basis on behalf of the Fund;
- Purchases or sales of securities of an issuer from or to another investment fund managed by the Manager;
- Investments in the securities of issuers for which a related underwriter acted as an underwriter during the distribution of such securities and the 60-day period following the completion of such distribution;
- Executing foreign exchange transactions with a related party on behalf of the Fund;
- Purchases of securities of a related party;
- Entering into over-the-counter derivatives on behalf of the Fund with a related party;
- Entering into securities lending transactions with a related party;
- Outsourcing products and services to related parties which can be charged to the Fund;
- Acquisition of prohibited securities as defined by securities regulations;
- Trading in mortgages with a related party.

The Manager is required to advise the IRC of any breach of a condition of the standing instructions. The standing instructions require, among other things, that the investment decision in respect to a related party transaction: (a) is made by the Manager free from any influence by an entity related to the Manager and without taking into account any consideration to any associate or affiliate of the Manager; (b) represents the business judgment of the Manager uninfluenced by considerations other than the best interests of the Fund; and (c) is made in compliance with the Manager's written policies and procedures. Transactions made by the Manager under the standing instructions are subsequently reviewed by the IRC to monitor compliance.

The Fund relied on IRC standing instructions regarding related party transactions during the period.

Financial Highlights

The following tables show selected key financial information about each series of the Fund and are intended to help you understand the Fund's financial performance for the periods indicated. The information on the following tables is based on prescribed regulations and as a result, is not expected to add down due to the increase (decrease) in net assets from operations being based on average units outstanding during the period and all other numbers being based on actual units outstanding at the relevant point in time. Footnotes for the tables are found at the end of the Financial Highlights section.

The Fund's Net Assets per Unit[(1)]

		Increase (decrease) from operations:					Distributions:					
For the period ended	Net Assets, beginning of period ($)	Total revenue	Total expenses	Realized gains (losses) for the period	Unrealized gains (losses) for the period	Total increase (decrease) from operations[(2)]	From net investment income (excluding dividends)	From dividends	From capital gains	Return of capital	Total distributions[(3)]	Net Assets, end of period ($)[(1)]
Series M												
Dec. 31, 2017	**10.00**	**0.23**	**(0.01)**	**0.21**	**(0.09)**	**0.34**	**(0.18)**	**–**	**(0.16)**	**–**	**(0.34)**	**9.97**
Dec. 31, 2016*	10.00	0.01	(0.00)	–	–	0.01	(0.01)	–	–	–	(0.01)	10.00

* Start date for Series M was November 14.

(1) This information is derived from the Fund's audited annual financial statements. The net assets per unit presented in the financial statements may differ from the net asset value calculated for Fund pricing purposes. An explanation of these differences can be found in note 2 of the Fund's financial statements. The net asset value per unit at the end of the period is disclosed in Ratios and Supplemental Data.

(2) Net assets per unit and distributions per unit are based on the actual number of units outstanding for the relevant series at the relevant time. The increase (decrease) in net assets from operations per unit is based on the weighted average number of units outstanding over the period.

(3) Distributions were paid in cash or reinvested in additional units of the Fund.

Ratios and Supplemental Data

As at	Total net asset value (000's) ($)(1)	Number of units outstanding(1)	Management expense ratio ("MER") (%)(2)	MER before waivers or absorptions (%)(2)	Trading expense ratio (%)(3)	Portfolio turnover rate (%)(4)	Net asset value per unit ($)
Series M							
Dec. 31, 2017	**476,765**	**47,843,457**	**0.10**	**0.13**	**–**	**201.60**	**9.97**
Dec. 31, 2016	150	15,008	0.10	0.10	–	–	10.00

(1) This information is provided as at the period end of the years shown.
(2) The management expense ratio is based on total expenses (including sales tax, and excluding commissions and other portfolio transaction costs) of each series of the Fund and the underlying funds, where applicable, for the stated period and is expressed as an annualized percentage of the daily average net asset value during the period.
(3) The trading expense ratio represents total commissions and other portfolio transaction costs of the Fund and the underlying funds, where applicable, expressed as an annualized percentage of the daily average net asset value of the Fund during the period.
(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Management Fees

The management fee is an annualized rate based on the net asset value of each series of the Fund, accrued daily and paid monthly. The management fees cover the costs of managing the Fund, arranging for investment analysis, recommendations and investment decision making for the Fund, arranging for distribution of the Fund, marketing and promotion of the Fund and providing or arranging for other services.

The breakdown of services received in consideration of management fees for each series, as a percentage of the management fees, are as follows:

	Management fees (%)	Dealer compensation (%)	Other† (%)
Series M	0.10	n/a	100.0

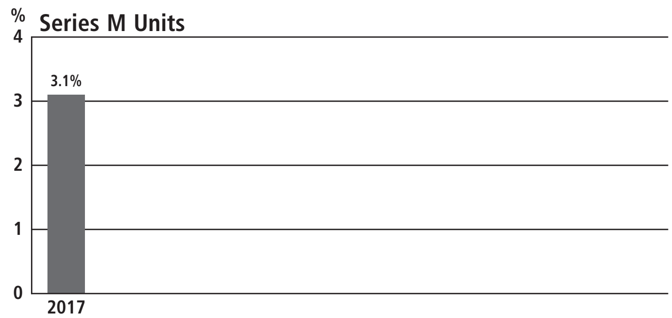
† Relates to all services provided by the Manager described above except dealer compensation.

Past Performance

The following shows the past performance for each series and will not necessarily indicate how the Fund will perform in the future. The information shown assumes that all distributions made by each series of the Fund in the periods shown were reinvested in additional units of the relevant series. In addition, the information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance.

Year-by-Year Returns

The following charts show the performance for each series of the Fund and illustrate how performance has varied from year to year. The charts show, in percentage terms, how much an investment held on the first day of each calendar year would have increased or decreased by the last day of each calendar year for that series.



Annual Compound Returns

The annual compound returns table below compares each series of the Fund's performance to one or more benchmarks. A benchmark is usually an index or a composite of more than one index. Fund returns are reported net of all management fees and expenses for all series, unlike the return of benchmarks which are based on the performance of an index that does not pay fees or incur expenses.

		One Year	Three Years	Five Years	Ten Years	Since Inception
Series M	%	3.1	–	–	–	2.8
FTSE TMX Canada Universe Bond Index	%	2.5	–	–	–	1.8

Index Descriptions

FTSE TMX Canada Universe Bond Index – This index is designed to be a broad measure of the Canadian investment-grade fixed income market including Government of Canada bonds, provincial bonds, municipal bonds and corporate obligations.

A discussion of the performance of the Fund as compared to its benchmark(s) is found in the Results of Operations section of this report.

Summary of Investment Portfolio

The Summary of Investment Portfolio may change due to ongoing portfolio transactions. A quarterly portfolio update is available to the investor at no cost by calling 1-800-268-9269, or by visiting www.scotiafunds.com, 60 days after quarter end, except for December 31, which is the calendar year end, when they are available after 90 days.

By Asset Type	% of net asset value[1]
Corporate Bonds	39.2
Provincial Bonds	27.6
Federal Bonds	25.3
Cash and Cash Equivalents	4.7
Other Net Assets (Liabilities)	1.7
Mortgage-Backed Securities	1.5

Top 25 Holdings

Issuer	% of net asset value[1]
Canadian Government Bond 1.00% Jun 01, 2027	23.3
Province of Ontario 2.60% Jun 02, 2027	6.2
Province of Ontario 2.80% Jun 02, 2048	6.2
Province of Quebec 3.00% Sep 01, 2023	5.9
Cash and Cash Equivalents	4.7
Queensland Treasury Corporation 2.75% Aug 20, 2027	3.6
Province of Alberta 2.55% Jun 01, 2027	3.2
Province of Ontario 2.60% Jun 02, 2025	2.5
Government of New Zealand 4.50% Apr 15, 2027	2.0
Bank of Nova Scotia, The 1.90% Dec 02, 2021	1.7
Canadian Imperial Bank of Commerce 1.64% Jul 12, 2021	1.5
Toronto-Dominion Bank, The 1.91% Jul 18, 2023	1.2
Westpac Banking Corporation (Floating Rate) 1.53% Mar 06, 2020	1.2
Wells Fargo & Company 2.09% Apr 25, 2022	1.0
Avnet Inc. (Callable) 4.63% Jan 15, 2026	1.0
International Bank for Reconstruction & Development 3.50% Jan 22, 2021	0.9
Apple Inc. (Callable) 3.25% Nov 23, 2025	0.8
Molson Coors International LP 2.75% Sep 18, 2020	0.8
Canadian Credit Card Trust II 1.83% Mar 24, 2020	0.8
Anheuser-Busch InBev Finance Inc. (Callable) 3.65% Nov 01, 2025	0.8
APT Pipelines Ltd. (Callable) 4.20% Dec 23, 2024	0.7
First Capital Realty Inc. 3.95% Dec 05, 2022	0.7
OMERS Realty Corporation 3.36% Jun 05, 2023	0.7
Toyota Credit Canada Inc. 2.80% Nov 21, 2018	0.6
Manufacturers Life Insurance Company, The (Callable) 2.81% Feb 21, 2019	0.6

(1) Based on the net asset value, therefore, weightings presented in the Schedule of Investments will differ from the ones disclosed above.