Canadian Investment Grade Corporate Bond Strategy

As of June 30, 2018

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.

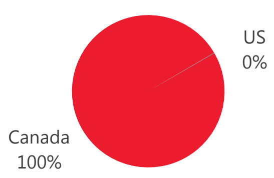
Why invest?

- 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	0.2
Government/Provincial Bonds	7.6
Investment Grade Corporate Bonds	89.6
High Yield Bonds	2.7
Total	**100.0**

Geographic allocation



	Canadian IG Corporate Bond Strategy	FTSE TMX Canada Corporate Bond Index
Yield to Maturity	3.30%	3.23%
Coupon	3.40%	3.77%
Duration	6.13	6.27
Average Spread (bps)	122	117
Average Credit Rating	A	A-
Number of Issues	62	193

Bond rating (%)	Canadian IG Corporate Bond Strategy	FTSE TMX Canada Corporate Bond Index
AAA	9.1	2.3
AA	17.4	15.2
A	36.7	43.8
BBB	34.1	38.7
<BBB	2.7	0.0
Total	**100.0**	**100.0**

Highlights

Inception	March 1, 2013
Strategy AUM	$480 MM
Liquidity	Pooled: Daily
Holdings	155
Currency	Hedged
Benchmark	FTSE TMX Canada Corporate Bond Index

Performance

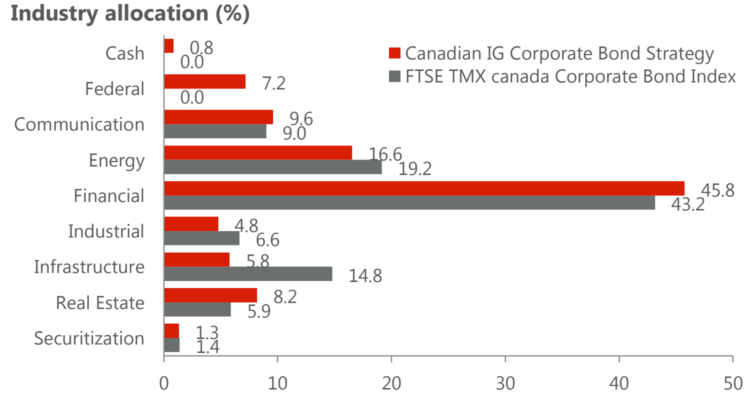
Compound returns (%)	1 mth	3 mth	6 mth	1 yr	3 yr	Incept.
Composite	0.41	0.32	0.53	1.09	3.15	3.76
Benchmark	0.41	0.42	0.70	1.21	2.75	3.36
Value add	**0.00**	**-0.09**	**-0.17**	**-0.11**	**0.40**	**0.40**

Calendar returns (%)	YTD 2018	2017	2016	2015	2014
Composite	0.53	3.53	4.95	2.97	8.10
Benchmark	0.70	3.38	3.73	2.71	7.59
Value add	**-0.17**	**0.15**	**1.22**	**0.26**	**0.51**

Top 10 issuers (%)	
TD	7.7
CIBC	6.7
Bank of Nova Scotia	6.7
Royal Bank	6.0
Bank of Montreal	4.7
Telus Corp	3.4
BCE	3.3
Choice Properties	2.9
Enbridge	2.8
TransCanada	2.8
Total	**47.0**

Top 10 holdings (%)	
Bank Of Nova Scotia 2.98% 17-apr-23	4.0
Canadian Imperial Bank 1.9% 26-apr-21	2.7
Royal Bank Of Canada 2.35% 09-dec-19	2.6
Canadian Imperial Bank 2.04% 21-mar-22	2.4
Bank Of Montreal 3.4% 23-apr-21	2.1
TD Bank 3.005% 30-may-23	2.0
Enbridge Inc 5.375 27-sep-2077/2027	1.9
Td Bank 1.909% 18-jul-23	1.9
Wells Fargo & Company 2.509% 27-oct-23	1.4
Royal Bank Of Canada 2.86% 04-mar-21	1.4
Total	**22.5**

Industry allocation (%)



Sources: Bloomberg, FTSE TMX Global Debt Capital Markets

Scotia Institutional Asset Management™

Performance returns for the Scotia Canadian Investment Grade Corporate 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 Investment Grade Corporate Bond Fund. There is no guarantee that the Strategy would have invested in the same holdings as the Fund, and actual performance would have be 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.

Portfolio commentary (as of March 31, 2018)

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

The year started much where it left off as continued investor complacency pushed many risk assets to all-time high valuations by the end of January. As incoming Federal Reserve Chair Jerome Powell took over from Janet Yellen in early February, volatility finally returned to markets with the VIX spiking on only his 2nd day in office on February 6th. In a painful lesson, investors in several short-volatility ETFs learned the hard way that a one-day doubling of the VIX could result in forced liquidations of their funds, many of which suffered catastrophic losses. As the quarter progressed, investors increasingly adopted a "shoot first, ask questions later" approach, keeping markets under pressure and volatility elevated. Fears of a trade-war between the U.S. and China materialized, inflation risks increased, and market darlings Facebook, Amazon, and Google sold off on user privacy-related issues and concerns over increased regulatory scrutiny. Worth noting is the increase in Libor through the quarter. Libor is used as an underlying benchmark for trillions of dollars' worth of loans and since the end of 2017, 3-month Libor has increased more than 61bps to over 2.31%. This increase reflects higher rate expectations, capital flows, and increased T-Bill issuance to fund growing deficits. A higher Libor rate increases the cost of capital for U.S. corporations but should be more than offset by the lower tax rate regime implemented by the current U.S. administration.

The return of the Canadian Investment Grade Corporate Bond Strategy was 0.2% in the 1st quarter of the year, while its benchmark, the FTSE TMX Canada Corporate Bond Index, returned 0.28% as credit spreads were relatively unchanged during the period. The portfolio's curve positioning favoured the belly of the curve in the 5 to 10 year area and underweight the longer 10+ maturities. This positioning was a detractor from performance as the long yields fell and outperformed the market. Security selection was also a slight detractor from performance. Top issuer contributors relative to the benchmark during the quarter included Fortis Inc, which was avoided in the strategy, while positions in Canadian Oil Sands and Bank of Nova Scotia were positive credit selections. Detractors to performance included overweight positions in Aimia, Enbridge and TransCanada Pipelines.

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.

$128 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 June 30, 2018. 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.