

Tactical Bond Strategy

As of April 30, 2018

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?

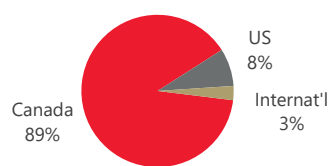
- Active management can produce superior risk adjusted returns for fixed income investors.
- Value added through foreign exposure, discrete currency hedging and tactical positioning.
- Multiple strategies are used to diversify risk.
- Strategies are flexible and responsive to market conditions.

Portfolio characteristics

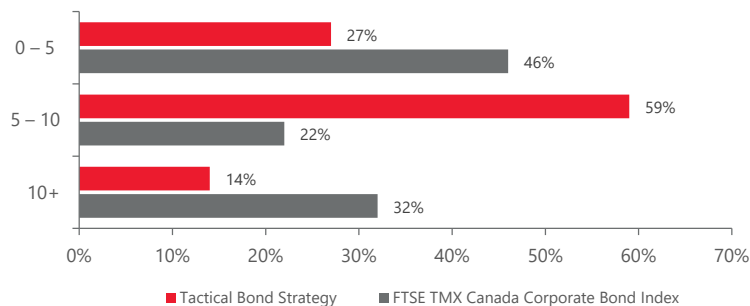
Top 5 issuers (%)

Government of Canada	19.6
Province of Ontario	12.5
Province of Alberta	12.2
Province of Manitoba	4.9
Bank of Nova Scotia	2.7
Total	51.9

Geographic allocation



Term distribution (years)



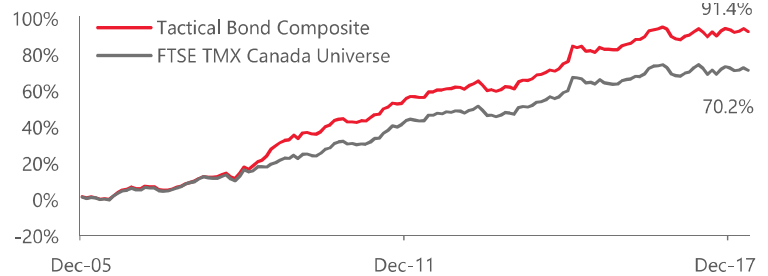
Bond rating (%)	Tactical Bond Strategy	FTSE TMX Canada Corporate Bond Index
AAA	25.9	40.5
AA	12.1	15.2
A	49.6	33.4
BBB	10.6	11.0
Total	100.0	100.0

Highlights

Inception	December 1, 2005
Strategy AUM	\$587 MM
Liquidity	Segregated: Daily / Pooled: Weekly
Holdings	85
Currency	Discretionary hedging
Benchmark	FTSE TMX Canada Corporate Bond Index

Performance

Cumulative returns (%)



Compound returns (%)	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	7 yr	10 yr
Composite	-0.86	0.19	-0.23	-0.03	1.94	3.09	4.14	5.52
Benchmark	-0.86	0.04	-0.39	-0.93	1.39	2.48	3.82	4.34
Value add	0.00	0.15	0.16	0.90	0.55	0.61	0.32	1.18

Calendar returns (%)	YTD 2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Composite	-0.51	2.69	1.96	4.85	9.45	-0.50	3.91	9.08	6.85	13.30
Benchmark	-0.76	2.52	1.66	3.52	8.79	-1.19	3.60	9.67	6.74	5.41
Value add	0.25	0.17	0.29	1.33	0.66	0.69	0.31	-0.60	0.10	7.89

Comparative analysis

	Tactical Bond Strategy Guidelines	Tactical Bond Strategy	FTSE TMX Canada Universe Bond Index
Cash & Floating Rate Notes	0-30%	1.8%	-
Federal Bonds	0-100%	25.4%	36.6%
Provincial Bonds	0-100%	31.8%	33.6%
Corporate Bonds	0-60%	41.0%	27.9%
Real Return Bonds & US TIPs	0-25%	-	-
Canadian Exposure	80-100%	89%	100%
Foreign Exposure	0-20%	11%	-
Hedges & Derivatives	0-100%	98.9%	-
Yield to Maturity	-	2.88%	2.70%
Duration	+/- 2 years	7.28 years	7.26 years
Average Credit Rating	Min BBB-	A+	AA
Holdings	-	85	1471

Source: 1832 AM, FTSE TMX Global Debt Capital Markets

Scotia Institutional Asset Management™

Portfolio commentary (as of April 30, 2018)

Romas Budd, MBA, Vice President & Portfolio Manager, Fixed Income



April saw a big move in interest rates in both the US and Canadian bond markets, driven by the acceleration of global economic expansion, rising commodity prices and an upward drift of mid-term inflation expectations. The 10-year US Treasury moved above 3.00% in mid-April for the first time since the taper tantrum, retesting highs from 2013 before retreating, while the Canadian 10-year rose 23 bps from 2.09% to 2.32% at month-end.

The Fed officials raised interest rates in March and have penciled in two more increases this year. The focus is now on returning policy rates to a neutral range (closer to 2.5 to 3%) to prevent the economy from overheating. Like the Fed, the Bank of Canada is expected to tighten policy further. In April, the BoC kept its policy rates stable amid slower economic growth, trade policy risks and tougher mortgage rules.

The main theme continues to be the flattening of both the US and Canadian yield curves. In April, the spreads on the US and Canada's 30-year less 10-year term bond yields (10-30's) have narrowed from 23bps to 16bps, and from 14bps to 9bps, respectively. Forced buyers (insurance companies, pension funds and passive funds) along with the Treasury's focus on increasing issuance in bills and shorter-dated coupon maturities have created relative scarcity at the long end of the curve and a premium at the short end to absorb the extra supply. Though this is an ongoing theme, we hasten against putting too much interpretation into what a potential inverted yield curve means for markets at this stage.

During the last month, we reduced our neutral portfolio duration as we saw upward pressure in bond yields. Our exposure to credit remains influenced by our view that we are in late stages of the credit cycle and that valuation remains expensive relative to post financial crisis levels. While we maintain an overweight relative to benchmark, our exposures are concentrated in short to mid-term part of the curve with a bias to higher quality credits.

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.

\$124 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 March 31, 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.

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