Tactical Bond Strategy

As of June 30, 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.

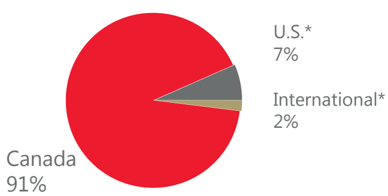
Why invest?

- 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

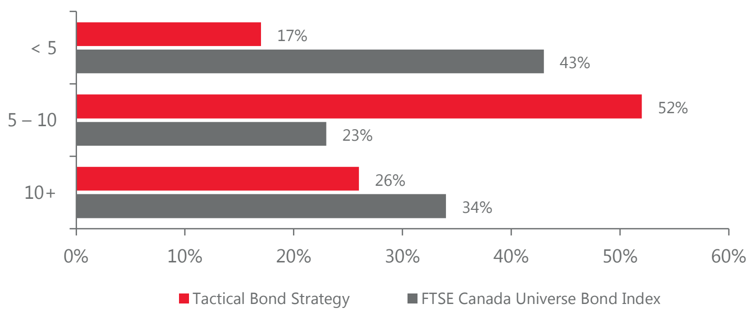
Top 5 issuers (%)	
Government of Canada	39.4
Province of Ontario	8.7
Province Of Quebec	3.2
TD Bank	2.9
U.S. Treasury	2.4
Total	**56.6**

Geographic allocation



** Includes Maples*

Term distribution (years)



Bond rating	Tactical Bond Strategy	FTSE Canada Universe Bond Index
AAA*	47%	38%
AA	14%	37%
A	28%	13%
BBB & Below	11%	12%
Total	**100%**	**100%**

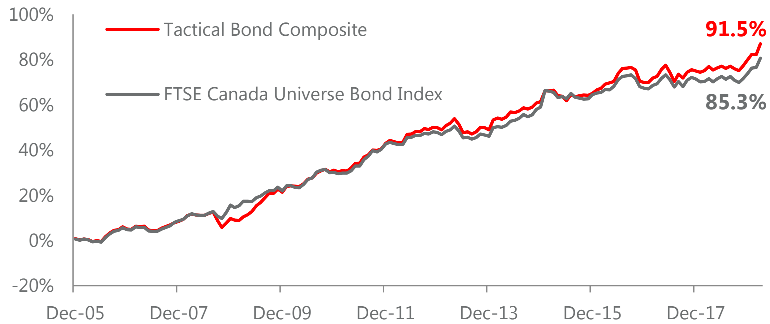
* Excludes cash

Highlights

Inception	January 1, 2005
Liquidity	Segregated: Daily / Pooled: Weekly
Holdings	95
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	0.95	2.35	6.41	6.41	8.08	3.23	4.11	3.84	5.19
Benchmark	0.91	2.51	6.52	6.52	7.37	2.66	3.88	3.50	4.53
Value add	**+0.04**	**-0.17**	**-0.11**	**-0.11**	**+0.71**	**+0.57**	**+0.23**	**+0.35**	**+0.66**

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%	5%	-
Federal Bonds	0-100%	42%	35%
Provincial Bonds	0-100%	17%	37%
Corporate Bonds	0-60%	34%	28%
Real Return Bonds & US TIPs	0-25%	2%	-
Canadian Exposure	80-100%	91%	100%
Foreign Exposure*	0-20%	9%	-
Hedges & Derivatives	0-100%	88%	-
Yield	-%	2.03%	2.13%
Duration	+/- 2 years	6.51 years	8.02 years
Average Credit Rating	Min BBB-	AA-	AA
Number of issues	-	95	1,459

Source: 1832 AM, FTSE Global Debt Capital Markets
* Includes Maples

Scotia Institutional Asset Management™

Quarterly commentary (as of June 30, 2019)

Romas Budd, MBA, BSc. Hons, Vice President & Senior Portfolio Manager, Fixed Income

The Canadian fixed income market continued to generate positive returns in the second quarter with the FTSE Canada Universe index posting its best first 6 months of the year since 1995, when 10-year interest rates were 9.1%. The index finished the quarter with a 2.5% return. The dovish tone of global central bankers along with disappointing economic performance drove down yields across the interest rate curve on a global basis. All points on the Canadian yield curve finished the quarter below the Bank of Canada's overnight rate of 1.75% as market participants anticipate a cut by the central bank in the upcoming year. The best performing segment of the Canadian fixed income market was the FTSE Long Term Overall Index as it generated a 4.8% return while the worst performing segment of the market was the FTSE Short Government Index as it rose only 0.6% in the quarter. Real return bonds underperformed relative to nominal bonds given the decline in inflation expectations that occurred during the quarter. Break-even inflation (market implied inflation based on the difference between nominal and real bonds) at the 10-year part of the curve declined by 17 basis points in the quarter to finish at 1.36%. Canadian investment grade credit spreads finished the quarter lower by 6 basis points and were relatively stable during the risk asset sell-off that occurred in May. High Yield credit spreads finished the quarter higher by 5 basis points, but experienced significant widening in May as they moved 80 basis points to top out at 4.85% before rallying back to finish the quarter at 4.2%. The FTSE Canada All Corporate Bond Index generated a 2.7% return in the quarter, slightly beating the broad market return.

The Fund's net short duration exposure had a negative impact on relative return as yields declined during the quarter. The underweight exposure to Provincial securities was also a detractor to relative performance as spreads tightened. These impacts were partially offset by positive contributions to relative performance from security selection. Overall, the Fund underperformed the benchmark during the second quarter.

Generating similar returns in the second half of the year will prove challenging for the Canadian fixed income market given the current low level of yields. As the market has currently discounted future interest rate cuts, any positive economic news or signs of inflation will likely give central bankers reason to pause on following through on their dovish rhetoric. With long-term interest rates so low and also below the bank of Canada's overnight rate, the front-end of the yield curve could provide investors with some safety from the impacts of a reversal in the direction of rates.

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.

$127 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 December 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.