Tactical Bond Strategy

As of August 31, 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.

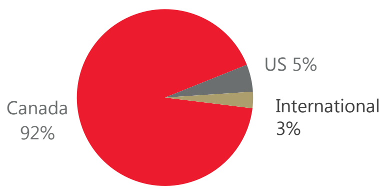
Why invest?

- 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.

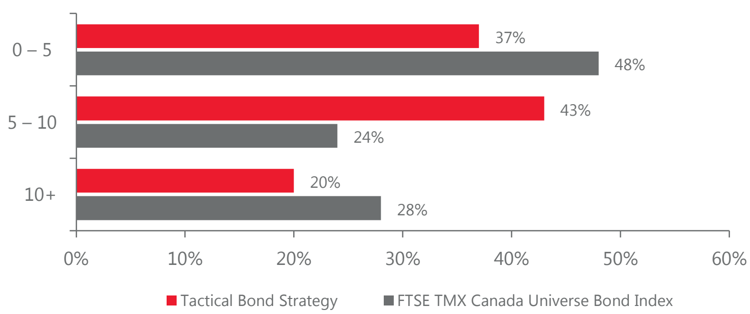
Portfolio characteristics

Top 5 issuers (%)	
Government of Canada	22.2
Province of Ontario	12.8
Province Of Quebec	7.0
Province Of Manitoba	4.2
Royal Bank Of Canada	3.6
Total	**49.8**

Geographic allocation



Term distribution (years)



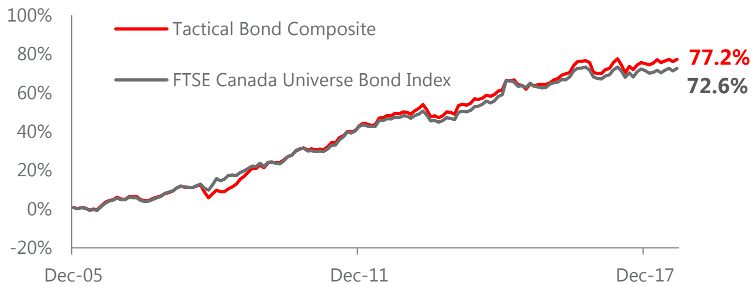
Bond rating (%)	Tactical Bond Strategy	FTSE Canada Universe Bond Index
AAA	32.3	39.6
AA	19.4	17.3
A	38.8	31.9
BBB	9.5	11.2
Total	**100.0**	**100.0**

Highlights

Inception	December 1, 2005
Strategy AUM	$588 MM
Liquidity	Segregated: Daily / Pooled: Weekly
Holdings	93
Currency	Discretionary hedging
Benchmark	FTSE Canada Universe Bond Index

Performance

Cumulative returns (%)



Compound returns (%)	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	7 yr	10 yr
Composite	0.60	0.45	1.13	2.08	2.71	3.79	3.65	4.64
Benchmark	0.75	0.58	1.28	1.30	1.84	3.57	3.32	4.34
Value add	**0.17**	**-0.25**	**0.33**	**1.48**	**1.07**	**0.23**	**0.28**	**0.31**

Calendar returns (%)	YTD 2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Composite	1.21	3.05	2.86	2.28	8.45	-0.73	4.84	9.16	7.99	10.55
Benchmark	0.62	2.52	1.66	3.52	8.79	-1.19	3.60	9.67	6.74	5.41
Value add	**0.76**	**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 & Floating Rate Notes	0-30%	2.6%	-
Federal Bonds	0-100%	23.9%	35.7%
Provincial Bonds	0-100%	28.7%	34.2%
Corporate Bonds	0-60%	44.8%	28.2%
Real Return Bonds & US TIPs	0-25%	-	-
Canadian Exposure	80-100%	92.0%	100%
Foreign Exposure	0-20%	7.8%	-
Hedges & Derivatives	0-100%	87.5%	-
Yield to Maturity*	-%	2.35%	2.75%
Duration	+/- 2 years	7.07 years	7.48 years
Average Credit Rating	Min BBB-	AA-	AA
Holdings	-	93	1480

Source: 1832 AM, FTSE Global Debt Capital Markets
* Total yield adjusted for futures

Scotia Institutional Asset Management™

Portfolio commentary (as of August 31, 2018)

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

July was a relatively quiet month in bond markets as interest rates, yields, and credit spreads traded in a narrow range until the month-end. Yields rose in the last week as the Canada curve yield increased 13-15 bps and the FTSE Canada Universe Bond Index returned -0.74 for the month. We saw a modest rise in Canadian bond yields with the Bank of Canada rate hike. Markets were initially buoyed by the fact that the Bank appeared to be in no repeat, despite having a bias to tighten further. The "no rush" sign was seen in uncertainties surrounding trade, lingering disquiet about housing and household debt and sluggish wage growth. The spreads of the provincial bonds improved given the strong fiscal funding position and fairly modest primary market activity in the month. Ontario provincial bonds had a lack of issuance in July following the election, although this should change in the coming months. During the month, Canadian yields started to underperform the US.

Performance this month was driven mainly by our duration positioning. During the early range-bound periods of the month we added value by trading the range tactically. When yields broke through the range at month-end we positioned our duration defensively to take advantage.

With the Canadian bond market underperformance also we started migrating some of our short duration to US.

The US saw a shrinking output gap, a low jobless rate (that's primed to move lower), and inflation rates that are poised to push above the FOMC's 2% target, which all argue for higher yields. Coupled with a surging supply to fund trillion-dollar deficits, and Fed redemptions, this could lift the compression pressure on term premiums, partially offset by flight-to-liquidity flows and yield-starved investors.

We expect that going forward we should see underperformance in the US due to increased supply on the corporate and Treasury side. September is just around the corner, and a lot of issuance is expected after the summer months.

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:

Trevor Boose, MBA, CFA, Institutional Business Development • trevor.boose@scotiabank.com • 416.350.3299

Ontario (head office): 1 Adelaide Street East, 23rd Floor, Toronto, ON M5C 2V9

* 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.