Canadian Investment Grade Corporate Bond Strategy

As of August 31, 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	6.9
Investment Grade Corporate Bonds	89.8
High Yield Bonds	3.1
Total	**100.0**

	Canadian IG Corporate Bond Strategy	FTSE TMX Canada Corporate Bond Index
Yield to Maturity	3.36%	3.29%
Coupon	3.44%	3.72%
Duration	6.12	6.26
Average Spread (bps)	120	114
Average Credit Rating	A	A
Number of Issues	63	193

Bond rating (%)	Canadian IG Corporate Bond Strategy	FTSE TMX Canada Corporate Bond Index
AAA	8.4	2.3
AA	28.8	24.1
A	25.7	35.4
BBB	34.0	38.2
<BBB	3.1	0.0
Total	**100.0**	**100.0**

Highlights

Inception	March 1, 2013
Strategy AUM	$483 MM
Liquidity	Pooled: Daily
Holdings	154
Currency	Hedged
Benchmark	FTSE Canada Corporate Bond Index

Performance

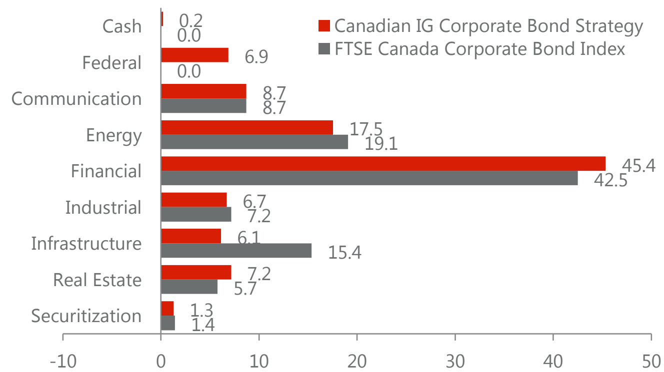
Compound returns (%)	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	Incept.
Composite	0.83	0.84	1.21	1.69	3.35	4.34	4.34
Benchmark	0.82	0.74	1.26	1.80	2.90	3.94	3.94
Value add	**0.00**	**0.10**	**-0.05**	**-0.11**	**0.45**	**0.41**	**0.41**

Calendar returns (%)	YTD 2018	2017	2016	2015	2014
Composite	0.96	3.53	4.95	2.97	8.10
Benchmark	1.03	3.38	3.73	2.71	7.59
Value add	**-0.07**	**0.15**	**1.22**	**0.26**	**0.51**

Top 10 issuers (%)	
TD	7.6
Bank of Nova Scotia	6.7
CIBC	6.7
Royal Bank	6.2
Bank of Montreal	5.1
BCE	3.5
Telus Corp	2.9
Enbridge	2.9
TransCanada	2.8
Veresen	2.3
Total	**46.7**

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
Enbridge Inc 5.375 27-sept-2077/2027	2.0
TD Bank 3.005% 30-may-23	2.0
Toronto-dominion Bank 1.909% 18-jul-23	1.8
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 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 June 30, 2018)

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

After a significant sell-off in February, risk assets appeared to settle-down somewhat during the second quarter. North American markets generally absorbed several geo-political events with ease and the Fed hiked rates by 25 bps, representing the 7th hike since December 2015 and bringing the Federal Funds Target Rate to 2.00%. Finally, towards the end of the quarter we witnessed a pick-up in trade war rhetoric which we suspect will continue to dominate headlines over the summer. During the quarter, investment grade spreads remained under pressure and continued to slip wider following the first quarter sell-off. In general, investors continue to shun rate-sensitive investment grade bonds in return for shorter duration products with less rate-sensitivity.

Our positioning remains generally defensive and weighted towards higher-quality issuers. We note that valuations have improved since the beginning of the year and as a result, we have opportunistically recycled capital into bonds where we felt valuations supported a risk/reward relationship that was skewed in our favour. In general, the funds remain positioned with duration shorter than benchmarks to mitigate the impact of rising rates.

Looking forward to the second half of 2018, we do believe the potential for new-issuance supply to pick up on the back of a strong M&A pipeline. President Trump will continue to dominate the headlines, with the ongoing Russia/Cohen investigation, border immigration dispute, and global trade rhetoric. As the summer draws to a close, we expect investors will increasingly focus on the US midterm elections slated for November 6th, 2018. More hikes from the Fed are likely on the way although investors will continue to debate whether we see one or two more hikes in the second half of 2018. With respect to the Bank of Canada, we believe Stephen Poloz will have to maintain pace with the Fed, although the impact of a rising rate environment on over-leveraged Canadian consumers remains concerning. There are plenty of risks for the markets to consider through the balance of 2018 and when all of the above is coupled with the impact of central bank balance sheet normalization, the potential for market turbulence in the second half of 2018 remains high.

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.