Scotia Funds™

Scotia US Dollar Bond Fund

Quarterly fund highlights

As of June 30, 2020

Market Review

Global policymakers collectively pledged in excess of U.S. $25 trillion or approximately29% of global GDP to help offset the economic impact of the COVID-19 pandemic. The gradual reopening of economies, better than expected economic data, and optimism of a vaccine, further bolstered investor sentiment, which resulted in strong gains in equity markets and narrower credit spreads in Q2. Yields on government bonds exhibited some volatility during the quarter, but they remained near record lows largely due to the expansionary monetary policy and quantitative easing by major central banks.

Fund Performance* and Positioning

The Fund had a net return of 3.6% during the second quarter of 2020, compared to a return of 2.9% for its benchmark, the Barclays US Aggregate Bond Index.

The Fund's positive return in this uncertain environment is attributed to its conservative investment philosophy, long-term orientation, diversified sources of return, top down and bottom up insights and an emphasis on risk management.

U.S. interest rate strategies that included duration, yield curve positioning and security selection contributed to performance relative to the benchmark. Credit spread strategies also contributed to relative performance, primarily due to narrower credit spreads. Contributions from corporate bonds, especially financials, positions in Agency and non-Agency mortgage backed securities (MBS), and a higher allocation to emerging markets external debt more than offset detractions from an underweight exposure to select taxable municipal bonds and a modest exposure to several emerging markets currencies.

The Fund has a lower overall duration than the benchmark, although it is higher for US government bonds compared to other developed regions, including the U.K. and Japan. The Fund also favors longer-term bonds but are mindful that quantitative easing by the Federal Reserve could anchor long-term yields in the near-term. As a result of this and other headwinds to inflation, the Fund has reduced its exposure to treasury inflation protected securities (TIPS).

Investment team

Judith Chan
Portfolio Manager
1832 Asset Management L.P.

Judith Chan serves as Portfolio Manager for Fund and ETF Portfolio Solutions programs that are offered by 1832 Asset Management. In working with the Oversight Committee, she is responsible for portfolio construction, asset allocation policy, and manager selection. Her team is also involved in the due diligence and day-to-day management of all portfolio solutions. With more than 15 years in the investment industry, she has held progressive roles in investment manager research and oversight, and portfolio construction. Judith has a Bachelor of Economics from Simon Fraser University in Vancouver, British Columbia and is a CFA Charterholder.

The Fund has a lower allocation than the benchmark to investment-grade corporate bonds due to the potential for an increase in credit spreads. The Fund has a bias to high quality holdings and increased its exposure to longer dated bonds. The Fund has diversified credit spread exposure with a bias to agency mortgage backed securities (MBS) given their attractive valuations and the fact that the sector is essentially government guaranteed, has better liquidity, and offers the potential for more resiliency in downturns.

The Fund currently has minimal exposure to foreign currencies but may increase its exposure to select currencies that provide attractive risk-reward opportunities.

Outlook

The pace of recovery is expected to be gradual and uneven and will affect various regions, industries, and individual securities differently. Constructing a resilient portfolio is key. The Fund's corporate bond exposure favours those companies that may "bend but not break" and have robust earnings despite a tepid macroeconomic environment. Valuations of fixed income markets are approximately fair and the Fund balances caution with conviction when assessing opportunities.

A full recovery to pre-crisis levels will likely take until 2022 as many sectors may operate below capacity due to social distancing, impaired global supply chains, the time needed to reallocate labour and capital, and the effect of the debt overhang on personal and corporate spending

*As of June 30, 2020, performance returns for the Scotia US Dollar Bond Fund are as follows: 1 month: 1.37%, 3 Mos: 3.65%, 6 Mos: 5.86%, YTD: 5.86%, 1 Yr: 6.92%, 3 Yrs: 3.85%, 5 Yrs: 2.64%, 10 Yrs: 1.85% and since inception (12/21/1992): 4.04%. Peformance returns for the BBG Barclays US Aggregate Bond USD benchmark are as follows: 1 month: 0.63%, 3 Mos: 2.90%, 6 Mos: 6.14%, YTD: 6.14%, 1 Yr: 9.12%, 3 Yrs: 5.62%, 5 Yrs: 4.58%, 10 Yrs: 4.10%.

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Legal disclaimer

Important information concerning the investment goals, risks, charges and expenses of investing in the mutual funds contained in the Portfolio are contained in the relevant prospectus. Investors should carefully consider these before investing. Copies are available from the financial institution where you are buying the portfolio and should be read carefully before investing. Commissions, management fees and expenses all may be associated with investing in mutual funds. Mutual funds are not guaranteed or covered by your local deposit insurance corporation, other government deposit insurer, the Bank of Nova Scotia, or its subsidiaries/affiliates. Their values change frequently, including the amount of income that you may receive (where applicable), and you may not get back the original amount you invested. Information on performance provided herein is subject to variation and is likely to change over time. Past performance may not be repeated and should not be treated as an indicator of future performance. The indicated rates of return are the historical annual compund total returns including changes in share value and reinvestment of all distributions and do not take into account sales charges or fees, redemptions, distributions or optional charges or income taxes payable by any security holder that would have reduced returns. The foregoing is for informational purposes only and is subject to change without notice. Always consult your professional tax and legal advisors with respect to your particular circumstances. Nothing herein is intended to constitute an offer or solicitation to transact business for products or services in any jurisdiction where such an offer or solicitation would be unlawful. This does not constitute an invitation to purchase or sell shares of the funds. Scotia Funds (formerly Scotiabank Mutual Funds) is the brand name under which the Scotiabank Group of Companies, including Scotiabank & Trust (Cayman) Ltd. and Scotia Investments Jamaica Limited, markets and distributes mutual funds. Scotia Global Asset Management is a business name used by the following legal entities of Scotiabank: Scotia Fondos S.A. de CV Sociedad Operadora de Sociedades de Inversión, Scotia Administradora General de Fondos Chile S.A., Scotia Fondos Sociedad Administradora de Fondos Mutuos S.A, Fiduciaria Colpatria S.A., Scotiabank & Trust (Cayman) Ltd., Scotia Investments Jamaica Ltd, Scotia Investments Trinidad and Tobago Limited ("SITTL"), Scotia Sociedad de Fondos de Inversión, S.A, and 1832 Asset Management L.P., a limited partnership, the general partner of which is wholly owned by Scotiabank. Scotia Global Asset Management offers a range of wealth management solutions, including mutual funds, and investment solutions for private clients, institutional clients and managed asset programs. Net asset value information of the Scotia Funds can be found on Bloomberg, in the Equities section, and on the Cayman Islands Stock Exchange (CSX),website www.csx.ky under "Scotiabank". Scotia Funds are regulated by the Cayman Islands Monetary Authority. TM Trademark of the Bank of Nova Scotia, used under license.