

### A Prudent Approach to Yield Optimization

Our Bond portfolios are well diversified and composed of high-quality securities that have been thoroughly analyzed by our in-house research team. Bond management is based on three principles: 1) Capital preservation; 2) Yield optimization; 3) Conservative duration management.

Portfolio yield is optimized by a high concentration of non-cyclical corporate bonds. We take a global economic approach to determine the duration of the portfolio. The inherent risk from interest rate volatility is minimized by trading within a defined, conservative duration range.

### PORTFOLIO CONSTRUCTION

- The Fund may be invested up to 100% in corporate issues.
- The Fund will use the same credit rating scale as the benchmark Index.
- The average credit rating of all of the holdings is A or better.
- The maximum aggregate holdings of A or better rated corporate bonds of any one issuer is 10% of the total market value of the Fund.
- The maximum aggregate holdings of BBB rated bonds is 20% of the total market value of the Fund.
- Maximum 20% of the market value can be invested in foreign currency issues of Canadian borrowers.

### ANNUALIZED PERFORMANCE (%)

As of September 30, 2018	3 mos.	1 yr	3 yrs	5 yrs	7 yrs	10 yrs	15 yrs
JF Bond Fund	-0.8	1.8	2.0	3.4	3.4	4.9	4.7
FTSE TMX Canada Universe Bond	-1.0	1.7	1.6	3.3	2.9	4.4	4.6

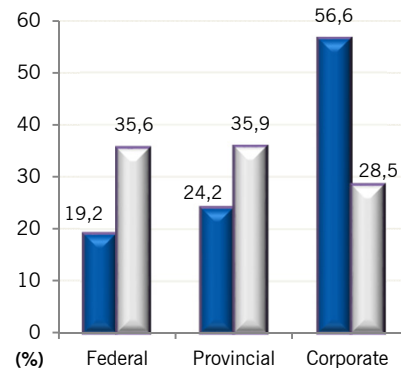
### CALENDAR YEAR PERFORMANCE (%)

To December 31 <sup>st</sup>	2017	2016	2015	2014	2013	2012	2011
JF Bond Fund	2.4	2.9	3.0	8.2	0.1	6.2	8.6
FTSE TMX Canada Universe Bond	2.5	1.7	3.5	8.8	-1.2	3.6	9.7

### REPRESENTATIVE BOND HOLDINGS

	Coupon	Maturity
Manulife Financial Capital Trust	7.4%	12/31/2019
407 International	6.5%	07/27/2029
Government of Canada	3.5%	12/01/2045
Muskrat Falls	3.6%	06/01/2029
Province of New-Brunswick	4.8%	09/26/2039

### SECTOR MIX

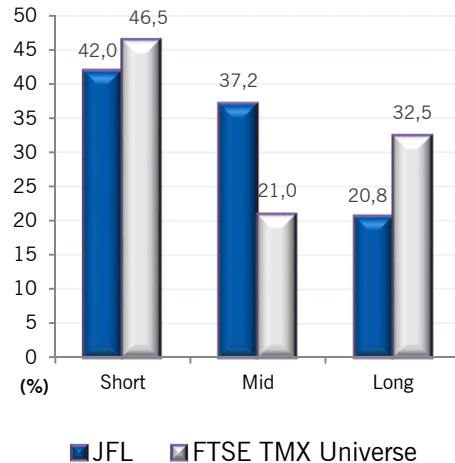


Inception Date	April 1, 1997
NAV per Unit	\$10.1206
Quarterly Distribution	\$0.070863
Fund Size (\$M)	\$369.4
Benchmark	FTSE TMX Canada Universe Bond

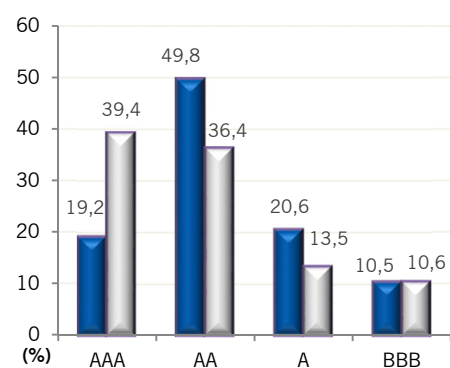
### PORTFOLIO CHARACTERISTICS

	Fund	Benchmark
Yield to Maturity (%)	3.0	2.9
Duration (yrs)	7.4	7.4
Term (yrs)	9.3	10.3

### TERM STRUCTURE



### CREDIT QUALITY



## MARKET & ECONOMIC REVIEW

The Canadian bond market posted one of its weakest quarters in recent years, declining -1.0% as global interest rates rose in response to decent economic growth and continued central bank interest rate increases in Canada and the US.

After lagging the US Federal Reserve in its program to normalize interest rates, the Bank of Canada raised its target interest rate by 0.25% to 1.5%, matching the Federal Reserve's 0.25% increase. The European Central Bank (ECB) is likely keen to also move rates higher as it remains stuck in negative territory (-0.4%). It has already announced that it will phase out its asset purchase program by yearend. The Bank of Japan has allowed more flexibility around its yield control target and as a result its ten-year government bond yield rose from 0.02% to 0.12%. All together it is clear that central banks are unwinding the unprecedented liquidity expansion of the past decade.

## PORTFOLIO REVIEW

The bond fund outperformed the FTSE/TMX Universe return with most of the outperformance attributed to the shorter duration of the portfolio which reduced its downside to the increase in interest rates experienced during the quarter. Our overweight in corporate credit and in particular, senior Canadian bank deposit notes, was also a positive contributor to performance.

Canadian and U.S. 10-year government yields rose approximately 0.3% in the quarter. Corporate bonds recovered some of their underperformance earlier in the year. Their performance was consistent with the improved growth scenario and some late in the quarter stability in the emerging markets. Issuance remains robust with year-to-date levels likely to be close to record highs. Quality is weak, as you would expect late in the credit cycle, with loan covenants in particular favouring the borrower over the lender.

With the technical and fundamental backdrop for Canadian yields lining up following the meaningful sell-off in yields, we reduced the bond portfolio's underweight position in duration to neutral towards the latter portion of the quarter. Credit-spread weakness intra quarter provided the opportunity for the Fund to add to its exposure to senior Canadian deposit notes.

## INVESTMENT STRATEGY

The Bank of Canada raised rates in July, while the U.S. Federal Reserve waited until near quarter end. Central banks are trying to be reasonably transparent in terms of the pace of rate increases, while the general trend continues upward.

Most of the interest rate increase was attributable to the rise in real yields which reflected increased expectations for economic growth rather than rising inflation expectations. Overall, our growth expectations for Canada remain subdued due to the extreme leverage in the household sector and the concomitant sensitivity to higher interest rates. Markets have priced in some of this divergence in growth expectations with the US as the real yields in Canada are almost 0.3% lower. Our expectation is for a continued rise in short term interest rates globally, but we believe there is a limited amount of room for long term interest rates to rise particularly in Canada.

## INVESTMENT TEAM

Jarislowsky Fraser has a team-based approach that anchors a culture of collaborative decision-making. The Investment Strategy Committee (ISC), our central risk and investment oversight body, oversees the entire investment process to ensure that investment decisions adhere to the firm's long-standing philosophy and process.

The Bank of Nova Scotia (BNS) is the parent company of Jarislowsky, Fraser Limited. BNS securities held in the portfolio are related securities.

Returns for the JF Pooled Funds have been calculated using the net asset value (NAV), are gross of management fees and in Canadian dollars. Complete Investment Policy guidelines are available upon request.

JF Pooled Funds are only available to Canadian investors. Past performance is not a guide to future performance. Future returns are not guaranteed. Investment return and principal value of an investment in the fund will fluctuate so that an investor's shares when redeemed may be worth more or less than their original cost. This document is prepared by Jarislowsky, Fraser Limited (JFL) and is provided for information purposes only, it is not intended to convey investment, legal, tax or individually tailored investment advice. All opinions and estimates contained in this report constitute JFL's judgment as of the time of writing and are provided in good faith. All data, facts and opinions presented in this document may change without notification. No use of the Jarislowsky, Fraser Limited name or any information contained in this report may be copied or redistributed without the prior written approval of JFL.

Source: TD Securities, S&P, Bloomberg and FTSE TMX Global Debt Capital Markets Inc.