

### 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 December 31, 2019	3 mos.	1 yr	3 yrs	5 yrs	7 yrs	10 yrs	15 yrs
JF Bond Fund	-0.6	7.6	3.7	3.4	3.6	4.7	4.8
FTSE Canada Universe Bond	-0.9	6.9	3.6	3.2	3.3	4.3	4.6

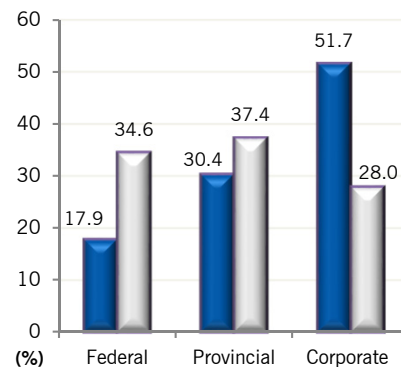
### CALENDAR YEAR PERFORMANCE (%)

To December 31 <sup>st</sup>	2019	2018	2017	2016	2015	2014	2013
JF Bond Fund	7.6	1.2	2.4	2.9	3.0	8.2	0.1
FTSE Canada Universe Bond	6.9	1.4	2.5	1.7	3.5	8.8	-1.2

### REPRESENTATIVE BOND HOLDINGS

	Coupon	Maturity
Royal Bank of Canada	2.03%	03/15/2021
CIBC	2.30%	07/11/2022
Canada Housing Trust	1.75%	06/15/2022
Government of Canada	2.75%	12/01/2048
Province of Ontario	4.70%	06/02/2037

### SECTOR MIX

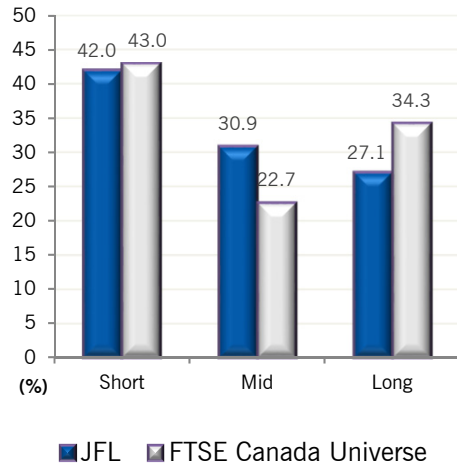


Inception Date	April 1, 1997
NAV per Unit	\$10.5459
Quarterly Distribution	\$0.076581
Fund Size (\$M)	\$380.0
Benchmark	FTSE Canada Universe

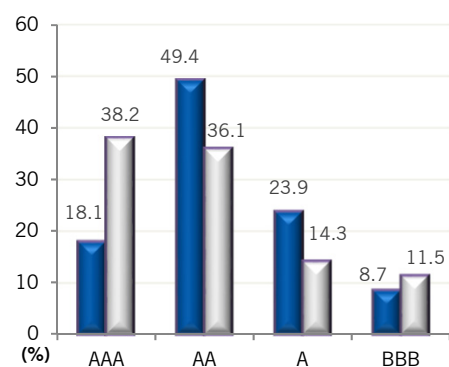
### PORTFOLIO CHARACTERISTICS

	Fund	Benchmark
Yield to Maturity (%)	2.3	2.3
Duration (yrs)	7.7	8.0
Term (yrs)	10.2	10.9

### TERM STRUCTURE



### CREDIT QUALITY



## MARKET & ECONOMIC REVIEW

Bond markets posted slight declines on the back of improving prospects for the global economy. Within the context of the strong gains this year, the pullback was minor. It was driven by the rise in yields in the fourth quarter as a result of fading expectations for economic weakness due to oncoming signs of recovery and another interest rate cut by the U.S. Federal Reserve Bank. The improved economic outlook fed directly into the outperformance of corporate and provincial bonds. In addition, foreign demand for North American corporate bonds remains strong as yields are attractive relative to Japanese and European levels. Underlying fundamentals for corporate bonds continue to deteriorate as leverage increases. On its own, increased leverage is not necessarily negative as long as the increased debt is used to fund productive investments. However, the numbers suggest that much of the debt is being used to fund the buyback of stock, which is more of a financial engineering exercise than an investment in future production.

The latest rise in yields naturally brings into question how high they can go. We expect some further increases, but absent a significant rise in inflation, the increase should be relatively limited. Economic growth, while recovering, is not expected to be strong and North American yields are unlikely to deviate too far from much lower European and Japanese levels. In addition, the elevated debt levels of corporations and Canadian households limits the room for interest rates to increase as the pain from the higher rates will be felt much sooner than within an economy that is less indebted.

## PORTFOLIO REVIEW

The Bond portfolio outperformed the FTSE Canada Universe benchmark for both the quarter and the year. Canadian corporate bonds outperformed federal bonds in the fourth quarter; and consequently the portfolio's overweight position in corporate bonds generated notable allocation performance. The portfolio's strong relative performance in the fourth quarter was enhanced by corporate bond selection in the infrastructure and industrial sectors, as well as solid security selection in the provincial bond sector. With the rise in yields in the fourth quarter, the portfolio's short duration position benefitted its relative performance. Similar to the fourth quarter, the portfolio's yearly positive relative performance was generated from its overweight allocation to corporate bonds, as well as security selection in infrastructure, industrials, and provincial bonds. The primary detraction from yearly performance was the portfolio's overweight and somewhat defensive position in the higher quality financial bonds.

## INVESTMENT STRATEGY

The performance of markets in 2019 epitomizes that of the past decade, where central banks were a dominant influence. The recent year would not have seen such strong returns had central banks not shifted from restrictive to stimulative stances.

It is unlikely that we will experience the same level of support from central banks in 2020, as economic momentum continues to recover and inflation pressures build in the short term. The U.S. Federal Reserve also seems more willing to let economic deflation persist for longer in order to make up for past misses in their inflation targets, effectively raising the bar for future interest rate hikes.

In the longer term, our expectations continue to be limited by secular headwinds. The trend rate of economic growth will continue to be modest even without the added uncertainty from protracted trade wars and Brexit negotiations. Central bank intervention will continue to be needed in the absence of truly significant fiscal policy stimulus.

## 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 Canada Global Debt Capital Markets Inc.