

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 June 30, 2019	3 mos.	1 yr	3 yrs	5 yrs	7 yrs	10 yrs	15 yrs
JF Bond Fund	2.7	7.6	3.1	4.0	3.9	4.9	5.1
FTSE Canada Universe Bond	2.5	7.4	2.7	3.9	3.5	4.5	5.0

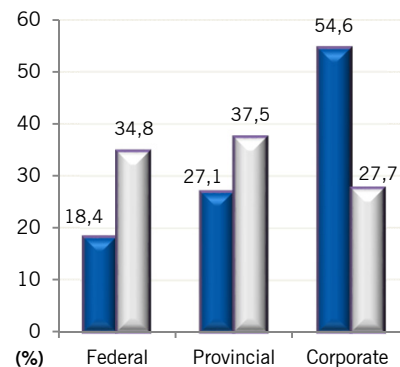
CALENDAR YEAR PERFORMANCE (%)

To December 31 st	2018	2017	2016	2015	2014	2013	2012
JF Bond Fund	1.2	2.4	2.9	3.0	8.2	0.1	6.2
FTSE Canada Universe Bond	1.4	2.5	1.7	3.5	8.8	-1.2	3.6

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
Canada Housing Trust	2.65%	12/15/2028
Province of Ontario	4.70%	06/02/2037

SECTOR MIX

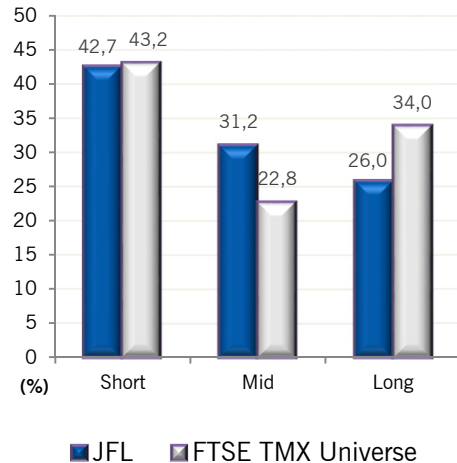


Inception Date	April 1, 1997
NAV per Unit	\$10.7351
Quarterly Distribution	\$0.073356
Fund Size (\$M)	\$383.3
Benchmark	FTSE Canada Universe Bond

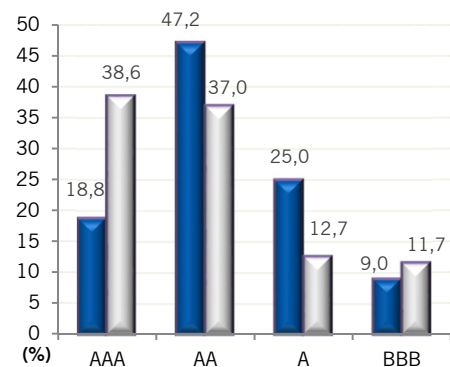
PORTFOLIO CHARACTERISTICS

	Fund	Benchmark
Yield to Maturity (%)	2.2	2.1
Duration (yrs)	7.7	8.0
Term (yrs)	10.2	10.9

TERM STRUCTURE



CREDIT QUALITY



MARKET & ECONOMIC REVIEW

The bond market posted strong returns in the second quarter as yields continued their descent in response to evidence of weakness in the global economy and anticipation of central bank interest rate cuts. Within the central banks' data dependency framework, we are not surprised that the Fed has shifted relatively quickly from a tightening to an easing bias. While economic momentum has moved meaningfully lower, driven by weakness in China, the Canadian economy has generally surprised to the upside. The pressure to lower interest rates is not as obvious in Canada when looking at the inflation and growth prospects for the economy, and it is a dubious proposition that households require more incentives for debt-fueled spending.

Corporate bonds outperformed government bonds in the second quarter as the rally continued. As with the first quarter, the driving force was central bankers' shift to a more dovish policy stance, improving the pricing of all financial assets and, in particular, the more credit sensitive ones in the bond market. The yield curve further inverted as the 3-month Treasury bill yield was unchanged at 1.66% while the 10-year Government of Canada bond yield declined 14bps to 1.47%. Some of the inversion was a result of central bank intervention, however, this could still be seen as a signal of weaker economic growth to come.

PORTFOLIO REVIEW

The portfolio outperformed the FTSE Universe Bond index in the second quarter and year-to-date. Despite a brief backup in yields to begin the quarter, Canadian yields ended the quarter lower on a sequential basis. The portfolio's shorter duration position relative to the duration of the benchmark index was a detraction from performance in the second quarter. Long bonds outperformed short- and mid-term bonds with the Canadian yield curve retracting some of the steepening experienced in the first quarter. Consequently, the more bulleted structure of the portfolio's holdings was a detraction to performance in the quarter. The portfolio's overweight position in corporate bonds was the key contributor to positive relative quarterly performance. Selected utility holdings did particularly well along with continued narrowing spread performance from financial corporate holdings.

INVESTMENT STRATEGY

Central bankers have indicated that they will pour fuel on the glowing embers of the expansion by reducing interest rates in order to keep it going.

There is an increasing potential for a significant shift in policy dynamics that could have a marked impact on the trajectory for inflation. We have viewed the aging demographics, digitization, globalization and increased debt levels as drivers of the subdued inflation environment of recent years. The one credible challenger to these deflationary pressures that has never fully been utilized is consistent fiscal deficit spending. Political winds seem to be changing on this practice, such that there is a real possibility fiscal policy will begin to dominate monetary policy. The ultimate end point will be a more inflationary environment, although there will be both fundamental and political obstacles to reach that point.

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.