

**Performance Review**

- The fourth quarter of 2018 handed investors some of the worst monthly returns in a decade or longer as financial market volatility returned with a vengeance, weighing on sentiment. Canadian economic growth moderated further, while US growth crested from a cycle peak of over 4% in bolstered by tax reform and very loose financial conditions. The US Federal Reserve (Fed) raised rates in December, while the Bank of Canada (BoC) held steady. Yields fell precipitously in the fourth quarter as inflation expectations collapsed, along with the trend in oil prices.
- For the quarter, the fund's Series F shares returned 0.30%, and its benchmark, the FTSE Canada Universe Bond Index, returned 1.76%.

**QUARTERLY KEY PERFORMANCE DRIVERS**

| <b>HELPED</b> | The fund's foreign currency allocation lifted performance as the US dollar strengthened against the Canadian dollar. Over the quarter, we took advantage of that strength to reduce US-dollar exposure. We also exited the position in British pounds and trimmed Australian-dollar exposure.   |
|---------------|---|
|               | US carry and US yield curve positioning added to relative performance.  |
|               | Derivative hedges (mainly put options on credit spreads) added to fund performance.   |
| <b>HURT</b>   | Security selection was the largest detractor over the review period. Weakness was evident in all credit sectors and accelerated in the fourth quarter, notably in the fund's investment-grade financial securities. We attribute the recent sharp weakness in credit to technical issues and increasing volatility rather than an abrupt change in corporate fundamentals and are positioned for a return of normalized market liquidity. |
|               | Asset allocation also detracted, mainly due to the fund's underweight positions in federal bonds along with overweight positions in corporate credit, which underperformed.   |
|               | Yield curve and duration positioning slightly detracted from performance over the quarter. The Fund's overweight exposure to longer-term maturities weighed on relative results as the yield curve continued to flatten, with short-term maturities outperforming middle- and longer-term maturities.   |

**Outlook & Strategy**

- We expect both US and Canadian economic growth will continue to moderate given the impact from previous interest rate increases, and as late-cycle fiscal stimulus dissipates. Other financial uncertainties, combined with rising political and geopolitical risks following a period of remission, are additional potential weights on activity.
- Credit valuations have improved significantly with spread widening in the fourth quarter, but more spread widening is possible should volatility remain elevated. Nonetheless, we continue to favour corporate bonds, with a bias to higher-quality credits given their better risk-adjusted return potential and additional interest carry.

**Fund Details**

|                |                                 |
|----------------|---------------------------------|
| Inception Date | 08/01/1986                      |
| Benchmark      | FTSE Canada Universe Bond Index |

**Fund Description**

This Fund seeks high current income and some long-term capital appreciation by investing primarily in Canadian federal and provincial government and corporate bonds, debentures and short-term notes. The Fund maintains an overweighted position in high-quality corporate and provincial issues and an underweighted position in Canadian federal bonds. The Fund may invest in foreign securities.

**Performance Data**

Performance (%) as of 12/31/2018

|  | 1 Month | 3 Mths | YTD   | 1 Yr  | 3 Yrs | 5 Yrs | 10 Yrs | Since Inception |
|--|---------|--------|-------|-------|-------|-------|--------|-----------------|
| Series A                                     | 0.84    | 0.16   | -0.60 | -0.60 | 1.86  | 2.67  | 3.47   | 4.04            |
| Series F                                     | 0.89    | 0.30   | -0.00 | -0.00 | 2.55  | 3.40  | 4.23   | 6.53            |
| FTSE Canada Universe Bond Index <sup>1</sup> | 1.36    | 1.76   | 1.41  | 1.41  | 1.86  | 3.55  | 4.16   | 5.21            |

Indicated rates of return include changes in unit or share value and reinvestment of all distributions and dividends and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Please refer to the prospectus for further details. **For details on the respective series inception dates, please consult the Fund Facts or simplified prospectus for the fund.** Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. **Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.**

**Investment Team**

**Darcy Briggs, CFA**  
Years with Firm 13  
Years Experience 25

**Thomas O’Gorman, CFA**  
Years with Firm 8  
Years Experience 29

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