ScotiaFunds®

Scotia U.S. $ Balanced Fund

Annual Management Report of Fund Performance

For the period ended December 31, 2018

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling toll-free 1-800-268-9269, by writing to us at 1832 Asset Management L.P., 1 Adelaide Street East, 28th Floor, Toronto, ON, M5C 2V9 or by visiting our website at www.scotiafunds.com or SEDAR at www.sedar.com.

Securityholders may also contact us using one of these methods to request a copy of the investment fund's interim financial statements, proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

1832 Asset Management L.P. is the manager (the "Manager") of the fund. In this document, "we", "us", "our" and the "Manager" refer to 1832 Asset Management L.P. and the "Fund" refers to Scotia U.S. $ Balanced Fund.

The term "net asset value" or "net asset value per unit" in this document refers to the net asset value determined in accordance with Part 14 of National Instrument 81-106 – Investment Fund Continuous Disclosure ("National Instrument 81-106"); while the term "net assets" or "net assets per unit" refers to total equity or net assets attributable to unitholders of the Fund as determined in accordance with International Financial Reporting Standards ("IFRS").

Caution Regarding Forward-Looking Statements

Certain portions of this report, including, but not limited to, "Recent Developments", may contain forward-looking statements about the Fund and the underlying funds, as applicable, including statements with respect to strategies, risks, expected performance events and conditions. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", "projects" and similar forward-looking expressions or negative versions thereof.

In addition, any statement that may be made concerning future performance, strategies or prospects and possible future action by the Fund is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future general economic, political and relevant market factors, such as interest rates, foreign exchange rates, equity and capital markets, and the general business environment, in each case assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be unforeseeable. Accordingly, current assumptions concerning future economic and other factors may prove to be incorrect at a future date.

Forward-looking statements are not guarantees of future performance and actual results or events could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, such as interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government relations, unexpected judicial or regulatory proceedings and catastrophic events. We stress that the above mentioned list of important factors is not exhaustive. Some of these risks, uncertainties and other factors are described in the Fund's simplified prospectus, under the heading "Specific risks of mutual funds".

We encourage you to consider these and other factors carefully before making any investment decisions. Forward-looking statements should not be unduly relied upon. Further, you should be aware of the fact that the Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next management report of fund performance, and that the forward-looking statements speak only to the date of this management report of fund performance.

Investment Objective and Strategies

The Fund's objective is to provide long term capital growth and current income in U.S. dollars. It invests primarily in a combination of fixed income and equity securities that are denominated in U.S. dollars.

The Fund uses an asset allocation approach by investing in a diversified portfolio primarily consisting of fixed income and equity securities denominated in U.S. dollars. The Fund's asset mix will vary according to the portfolio advisor's view of market and economic conditions. Investment analysis for the equity component of the Fund's portfolio follows a bottom-up approach, which emphasizes careful company specific analysis. This means evaluating the financial condition and management of each company, its industry and the overall economy. For fixed income securities, the portfolio advisor will analyze the financial and managerial prospects for a particular company, the condition of credit markets, the yield curve, and when needed, conduct management interviews with companies to evaluate management capabilities.

The Fund may invest a portion of its assets in U.S. dollar denominated securities of issuers located outside the U.S. The Fund's investments across different countries and regions may vary from time to time, depending upon the portfolio advisor's view of specific investment opportunities and macro-economic factors. The Fund may also invest from time to time in securities not denominated in U.S. dollars.

The Fund can invest up to 100% of its assets in foreign securities.

Risk

The risks associated with investing in the Fund are as described in the simplified prospectus. There were no material changes to the Fund over its last completed financial year that affected the overall level of risk of the Fund.

Results of Operations

For the year ended December 31, 2018 (the "period"), the Series A units of the Fund returned −5.6%. Fund returns are reported net of all management fees and expenses, unlike the returns of the Fund's benchmark, which is based on the performance of an index that does not pay fees or incur expenses.

The Fund's broad-based benchmarks, the Bloomberg Barclays U.S. Aggregate Bond Index (US$) and the S&P 500 Index (US$), returned 0.0% and −4.4%, respectively, during the same period. In accordance with National Instrument 81-106, we have included a comparison to broad-based indices to help you understand the Fund's performance relative to the general performance of the market, but caution that the Fund's mandate may be significantly different from the indices shown.

The Fund's blended benchmark, 50% Bloomberg Barclays U.S. Aggregate Bond Index (US$) and 50% S&P 500 Index (US$), returned −1.9% during the same period. We have included this comparison, which more closely reflects the market sectors and/or asset classes in which the Fund invests, to provide a more useful comparative to the performance of the Fund.

During the period the Fund underperformed its broad-based benchmark largely due to equity security selection within the Consumer Discretionary and Information Technology sectors and to a lesser extent Health Care.

Fixed income markets experienced another year of volatility driven by numerous macroeconomic factors (geopolitical tensions, U.S. election concerns, trade agreement discussions, plunging oil & commodity prices, equity market volatility and investor outflows). Within the U.S., the 10-year Treasury spiked at the start of the year after concerns of inflation led to an equity market sell-off. Yields rose further in May, as high as 3.11% before peaking for the year at 3.24% in November. From the second week of November equities fell while U.S. government bond prices rose in a risk-off trade, as investors sold equities and bought Treasuries. The last two months of the year saw a dramatic drop in the 10-year, falling to 2.68% on concerns of recession and Chinese and North American slowdown. The U.S. Federal Reserve continued on their path of Quantitative Tightening and raised rates four times by 25 Basis Points throughout the year, in March, June, September and December.

Investment grade credit spreads widened throughout the year in Canada and the U.S., while high yield spreads stayed flat before spiking from November onwards. The general trend was impacted by outflows in the latter half of the year in both investment grade and high yield bonds which didn't help ongoing concerns about general credit quality (absence of covenants, high leverage and high percentage of BBB bonds). For the first time in years, 2018 saw a dip in new issuance volumes for international corporate bond markets, potentially signalling a slowing in seemingly endless growth of corporate credit.

The U.S. equity market ended 2018 in negative territory. However, the return was positive once marked to Canadian dollars, due to the relative strength of the U.S. Dollar. While markets started the year off strong on continued economic strength, escalating trade tensions and concerns over interest rates hitting multi-year highs ushered in a bout of volatility that began in late-January and reverberated throughout the spring. However, further confirmation of economic strength alongside strong corporate earnings growth helped the market recover over the summer. After setting new all-time highs in September, volatility returned once again, sparked by the implementation of another round of tariffs on China alongside another push higher in interest rates. This led to a sharp and persistent sell off in U.S. equities that erased the earlier gains and retreated back into 2017 levels. The top performing sectors over the period were Health Care, Utilities and Real Estate. The worst performing sectors were Energy, Materials and Industrials.

The Fund's overall asset mix saw a decrease in U.S. equities and an increase in bonds and cash. Changes at the equity sector level included reducing Health Care and Financials and increasing Consumer Discretionary and Communication Services. Among fixed income holdings exposure to U.S. government bonds was increased. Fixed income securities were positive contributors to performance.

On an Equity sector level absolute performance of the Fund was detracted by exposure to the Financials, Industrials and Communication Services sectors. Positive contributors to absolute returns came from Health Care and Utilities. Among individual securities key detractors included Devon Energy Corp., Electronic Arts, and Applied Materials. Holdings in Amazon.com, Microsoft Corp. and Gilead Sciences had a positive impact on returns.

The Fund's net asset value decreased by 16.8% to $70.8 million at December 31, 2018, from $85.1 million at December 31, 2017. This change was composed of cash distributions of $0.1 million, investment performance of negative $4.2 million and net redemptions of $10.0 million. The investment performance of the Fund includes income and expenses which vary year over year. The Fund's income and expenses changed compared to the previous year mainly as a result of fluctuations in average net assets, portfolio activity and changes in the Fund's income earning investments.

The Fund may make distributions at a rate determined by the Manager from time to time. If the aggregate amount of distributions exceeds the portion of net income and net realized capital gains, the excess will constitute a return of capital. The Manager does not believe that the return of capital distributions made by the Fund have a meaningful impact on the Fund's ability to implement its investment strategy or to fulfill its investment objective.

Recent Developments

IFRS 9, Financial Instruments

The Fund has adopted IFRS 9, Financial Instruments in the current reporting period commencing January 1, 2018. The adoption of IFRS 9 has been applied retrospectively and does not result in a change to the classification or measurement of financial instruments, in either the current or prior period.

The impact to the Fund will include additional disclosures related to changes to the classification of certain financial instruments to align with the classifications under IFRS 9. Adoption of the standard does not impact net assets attributable to holders of redeemable units.

Portfolio Manager Change

Effective March 4, 2019, Derek Amery joined as an additional portfolio manager of the Fund and effective June 1, 2019, will replace Michael McHugh as a portfolio manager of the Fund.

Related Party Transactions

The Manager is a wholly-owned subsidiary of The Bank of Nova Scotia ("Scotiabank"). Scotiabank also owns, directly or indirectly, 100% of Scotia Securities Inc. and Tangerine Investment Funds Limited, each a mutual fund dealer, and Scotia Capital Inc. (which includes ScotiaMcLeod and Scotia iTRADE), an investment dealer.

The Manager, on behalf of the Fund, may enter into transactions or arrangements with other members of Scotiabank or certain other companies that are related or connected to the Manager (each a "related party"). All transactions between the Fund and the related parties are in the normal course of business and are carried out at arm's length terms.

The purpose of this section is to provide a brief description of any transaction involving the Fund and a related party.

Management Fees

The Manager is responsible for the day-to-day management and operations of the Fund. Certain series of the Fund pay the Manager a management fee for its services as described in the "Management Fee" section later in this document. The management fee is an annualized rate based on the net asset value of each series of the Fund, accrued daily and paid monthly.

Fixed Administration Fees and Fund Costs

The Manager pays the operating expenses of the Fund, other than Fund Costs, in exchange for the payment by the Fund of a fixed rate administration fee (the "Fixed Administration Fee") to the Manager with respect to each series of the Fund. The expenses charged to the Fund in respect of the Fixed Administration Fee are disclosed in the Fund's financial statements. The Fixed Administration Fee is equal to a specified percentage of the net asset value of a series, calculated and paid in the same manner as the management fees for the Fund. Further details about the Fixed Administration Fee can be found in the Fund's most recent simplified prospectus.

In addition, each series of the Fund is responsible for its proportionate share of certain operating expenses ("Fund Costs"). Further details about Fund Costs can be found in the Fund's most recent simplified prospectus.

The Manager, at its sole discretion, may waive or absorb a portion of a series' expenses. These waivers or absorptions may be terminated at any time without notice.

Distribution Services

Certain registered dealers through which units of the Fund are distributed are related parties to the Fund and the Manager. The Manager may pay a trailing commission, which is negotiated with dealers, to dealers for their financial advisors in respect of the assets of their clients invested in securities of the Fund. The Manager may also pay trailing commissions to dealers for securities purchased or held through discount brokerage accounts.

Other Fees

The Manager, or its affiliates, may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, custody, brokerage, foreign exchange or derivatives transactions. The Manager, or its affiliates, may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies.

Independent Review Committee

The Manager has established an independent review committee (the "IRC") in accordance with National Instrument 81-107 – Independent Review Committee for Investment Funds ("NI 81-107") with a mandate to review and provide recommendations or approval, as required, on conflict of interest matters referred to it by the Manager on behalf of the Fund. The IRC is responsible for overseeing the Manager's decisions in situations where the Manager is faced with any present or perceived conflicts of interest, all in accordance with NI 81-107.

The IRC may also approve certain mergers between the Fund and other funds, and any change of the auditor of the Fund. Subject to any corporate and securities law requirements, no security holder approval will be obtained in such circumstances, but you will be sent a written notice at least 60 days before the effective date of any such transaction or change of auditor. In certain circumstances, security holder approval may be required to approve certain mergers.

The IRC has five members, Carol S. Perry (Chair), Stephen J. Griggs, Simon Hitzig, Heather A. T. Hunter and Jennifer L. Witterick, each of whom is independent of the Manager.

The IRC prepares and files a report to the securityholders each fiscal year that describes the IRC and its activities for securityholders as well as contains a complete list of the standing instructions. These standing instructions enable the Manager to act in a particular conflict of interest matter on a continuing basis provided the Manager complies with its policies and procedures established to address that conflict of interest matter and reports periodically to the IRC on the matter. This report to the secur ityholders is available on the Manager's website or, at no cost, by contacting the Manager.

The compensation and other reasonable expenses of the IRC will be paid out of the assets of the Fund as well as out of the assets of the other investment funds for which the IRC may act as the independent review committee. The main components of compensation are an annual retainer and a fee for each committee meeting attended. The chair of the IRC is entitled to an additional fee. Expenses of the IRC may include premiums for insurance coverage, travel expenses and reasonable out-of-pocket expenses.

The Fund received the following standing instructions from the IRC with respect to related party transactions:

- Paying brokerage commissions and spreads to a related party for effecting security transactions on an agency and principal basis on behalf of the Fund;
- Purchases or sales of securities of an issuer from or to another investment fund managed by the Manager;
- Investments in the securities of issuers for which a related underwriter acted as an underwriter during the distribution of such securities and the 60-day period following the completion of such distribution;
- Executing foreign exchange transactions with a related party on behalf of the Fund;
- Purchases of securities of a related party;
- Entering into over-the-counter derivatives on behalf of the Fund with a related party;
- Outsourcing products and services to related parties which can be charged to the Fund;
- Acquisition of prohibited securities as defined by securities regulations;
- Trading in mortgages with a related party.

The Manager is required to advise the IRC of any breach of a condition of the standing instructions. The standing instructions require, among other things, that the investment decision in respect to a related party transaction: (a) is made by the Manager free from any influence by an entity related to the Manager and without taking into account any consideration to any associate or affiliate of the Manager; (b) represents the business judgment of the Manager uninfluenced by considerations other than the best interests of the Fund; and (c) is made in compliance with the Manager's written policies and procedures. Transactions made by the Manager under the standing instructions are subsequently reviewed by the IRC to monitor compliance.

The Fund relied on IRC standing instructions regarding related party transactions during the period.

Financial Highlights

The following tables show selected key financial information about each series of the Fund and are intended to help you understand the Fund's financial performance for the periods indicated. The information on the following tables is based on prescribed regulations and as a result, is not expected to add down due to the increase (decrease) in net assets from operations being based on average units outstanding during the period and all other numbers being based on actual units outstanding at the relevant point in time. Footnotes for the tables are found at the end of the Financial Highlights section.

The Fund's Net Assets per Unit (U.S.)($)[1]

		Increase (decrease) from operations:					Distributions:					
For the period ended	Net Assets, beginning of period	Total revenue	Total expenses	Realized gains (losses) for the period	Unrealized gains (losses) for the period	Total increase (decrease) from operations[2]	From net investment income (excluding dividends)	From dividends	From capital gains	Return of capital	Total distributions[3]	Net Assets, end of period[1]
Series A												
Dec. 31, 2018	**11.12**	**0.24**	**(0.24)**	**(0.29)**	**(0.30)**	**(0.59)**	**–**	**(0.01)**	**(0.49)**	**–**	**(0.50)**	**9.99**
Dec. 31, 2017	10.77	0.22	(0.23)	0.14	0.20	0.33	–	–	–	–	–	11.12
Dec. 31, 2016	10.36	0.20	(0.25)	(0.25)	0.79	0.49	–	–	(0.10)	–	(0.10)	10.77
Dec. 31, 2015	11.39	0.32	(0.27)	0.61	(1.24)	(0.58)	–	(0.06)	(0.38)	–	(0.44)	10.36
Dec. 31, 2014	11.10	0.23	(0.26)	0.17	0.14	0.28	–	–	–	–	–	11.39

(1) This information is derived from the Fund's audited annual financial statements. The net assets per unit presented in the financial statements may differ from the net asset value per unit. An explanation of these differences can be found in note 2 of the Fund's financial statements. The net asset value per unit at the end of the period is disclosed in Ratios and Supplemental Data.

(2) Net assets per unit and distributions per unit are based on the actual number of units outstanding for the relevant series at the relevant time. The increase (decrease) in net assets from operations per unit is based on the weighted average number of units outstanding over the period.

(3) Distributions were paid in cash or reinvested in additional units of the Fund.

Ratios and Supplemental Data

As at	Total net asset value (000's) (U.S.)($)(1)	Number of units outstanding(1)	Management expense ratio ("MER") (%)(2)	MER before waivers or absorptions (%)(2)	Trading expense ratio (%)(3)	Portfolio turnover rate (%)(4)	Net asset value per unit (U.S.)($)
Series A							
Dec. 31, 2018	**70,821**	**7,091,207**	**1.94**	**1.95**	**0.18**	**334.28**	**9.99**
Dec. 31, 2017	85,101	7,653,164	1.93	1.93	0.10	186.02	11.12
Dec. 31, 2016	93,988	8,728,660	2.16	2.16	0.11	108.97	10.77
Dec. 31, 2015	101,736	9,824,271	2.16	2.16	0.08	110.66	10.36
Dec. 31, 2014	108,575	9,535,726	2.14	2.14	0.14	128.71	11.39

(1) This information is provided as at the period end of the years shown.
(2) The management expense ratio is based on the total expenses (including sales tax, and excluding commissions and other portfolio transaction costs) of each series of the Fund and a proportional share of underlying funds' expenses (mutual funds, ETFs and closed-end funds), where applicable, for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.
(3) The trading expense ratio represents total commissions and other portfolio transaction costs of the Fund and the underlying funds, where applicable, expressed as an annualized percentage of daily average net asset value of the Fund during the period.
(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Management Fees

The management fee is an annualized rate based on the net asset value of each series of the Fund, accrued daily and paid monthly. The management fees cover the costs of managing the Fund, arranging for investment analysis, recommendations and investment decision making for the Fund, arranging for distribution of the Fund, marketing and promotion of the Fund and providing or arranging for other services.

The breakdown of services received in consideration of management fees for each series, as a percentage of the management fees, are as follows:

	Management fees (%)	Dealer compensation (%)	Other† (%)
Series A	1.65	52.6	47.4

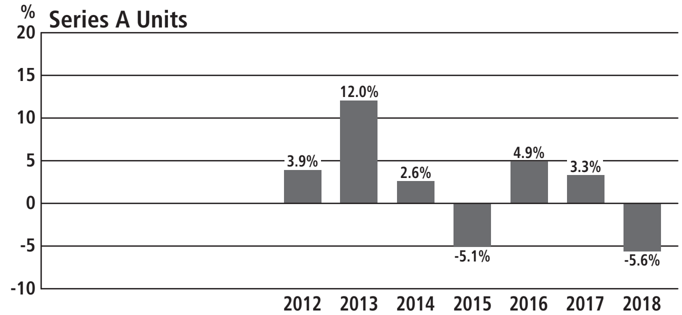
† Relates to all services provided by the Manager described above except dealer compensation.

Past Performance

The following shows the past performance for each series and will not necessarily indicate how the Fund will perform in the future. The information shown assumes that all distributions made by each series of the Fund in the periods shown were reinvested in additional units of the relevant series. In addition, the information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance.

Year-by-Year Returns

The following charts show the performance for each series of the Fund and illustrate how performance has varied from year to year. The charts show, in percentage terms, how much an investment held on the first day of each calendar year would have increased or decreased by the last day of each calendar year for that series.



Annual Compound Returns

The annual compound returns table below compares each series of the Fund's performance to one or more benchmarks. A benchmark is usually an index or a composite of more than one index. Fund returns are reported net of all management fees and expenses for all series, unlike the return of benchmarks which are based on the performance of an index that does not pay fees or incur expenses.

		One Year	Three Years	Five Years	Ten Years	Since Inception
Series A	%	-5.6	0.8	-0.1	–	1.5
Blended Benchmark*	%	-1.9	5.8	5.6	–	7.5
Bloomberg Barclays U.S. Aggregate Bond Index (US$)	%	0.0	2.1	2.5	–	2.7
S&P 500 Index (US$)	%	-4.4	9.3	8.5	–	12.3

* The Blended Benchmark is composed of 50% of Bloomberg Barclays U.S. Aggregate Bond Index (US$) and 50% of S&P 500 Index (US$).

Index Descriptions

Bloomberg Barclays U.S. Aggregate Bond Index (US$) – This is a broad-based index that measures the investment grade, U.S. dollar-denominated fixed-rate taxable bond market. The index includes treasuries, government-related and corporate securities, mortgage backed securities, asset backed securities and commercial mortgage backed securities.

S&P 500 Index (US$) – This index is designed to measure the performance of the broad U.S. economy through changes in the aggregate market value of 500 stocks representing all major industries.

A discussion of the performance of the Fund as compared to its benchmark(s) is found in the Results of Operations section of this report.

Summary of Investment Portfolio

The Summary of Investment Portfolio may change due to ongoing portfolio transactions. A quarterly portfolio update is available to the investor at no cost by calling 1-800-268-9269, or by visiting www.scotiafunds.com, 60 days after quarter end, except for December 31, which is the calendar year end, when they are available after 90 days.

By Industry	% of net asset value[1]
Federal Bonds	29.8
Corporate Bonds	12.6
Information Technology	9.9
Financials	8.6
Communication Services	7.6
Health Care	6.7
Consumer Discretionary	6.4
Consumer Staples	4.3
Industrials	4.2
Cash and Cash Equivalents	2.8
Utilities	2.0
Energy	1.9
Materials	1.7
Real Estate	1.4
Other Net Assets (Liabilities)	0.1

Top 25 Holdings

Issuer	% of net asset value[1]
United States Treasury Notes 2.25% Nov 15, 2027	4.2
United States Treasury Notes 2.13% Nov 30, 2023	3.8
United States Treasury Notes 1.63% Nov 15, 2022	3.8
Cash and Cash Equivalents	2.8
United States Treasury Notes 2.88% Aug 15, 2028	2.6
United States Treasury Notes 2.25% Nov 15, 2025	2.2
United States Treasury Notes 1.13% Feb 28, 2021	2.1
United States Treasury Notes 3.63% Feb 15, 2021	2.0
United States Treasury Notes 1.75% Oct 31, 2020	1.6
United States Treasury Notes 2.13% May 15, 2025	1.4
Walt Disney Company, The	1.4
Ecolab Inc.	1.4
Arthur J. Gallagher & Co.	1.4
Medtronic PLC	1.4
Fidelity National Information Service, Inc.	1.4
Verizon Communications Inc.	1.4
Danaher Corporation	1.4
Pfizer Inc.	1.4
Waste Management, Inc.	1.4
Jack Henry & Associates Inc.	1.4
Merck & Co., Inc.	1.4
Exelon Corporation	1.4
Aon PLC	1.4
Fiserv, Inc.	1.4
Marsh & McLennan Companies, Inc.	1.4

[1] Based on the net asset value, therefore, weightings presented in the Schedule of Investments may differ from the ones disclosed above.