



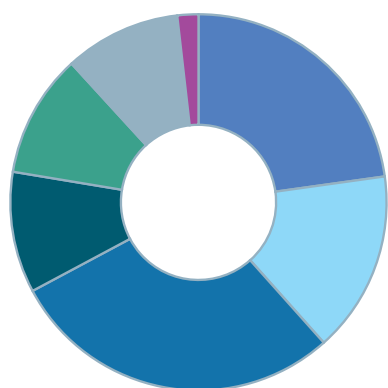
OBJECTIVE

The Nicola Bond Fund's objective is to provide clients of Nicola Wealth with a competitive level of interest income with minimum risk by investing primarily in Canadian investment-grade fixed income securities.

STRATEGY

The fund primarily invests in Canadian government and investment grade corporate bonds. The fund's overall bond duration, credit quality, and sector allocation may change at the manager's discretion. The fund may engage one or more sub-advisors to manage certain mandates that fit within the fund's fundamental objective. The underlying manager may short certain bonds and overall characteristics may be different from the FTSE TMX Canada Universe Bond Index.

Asset Mix as of December 31, 2018



- Arrow East Coast Investment Grade Fund: 22.8%
- Marret Investment Grade Hedge Strategies Fund: 15.6%
- Nicola Investment Grade: 28.8%
- PH&N Short-Term Bond & Mortgage Fund: 10.4%
- Sun Life Mid-Term Private Fixed Income: 10.6%
- Sun Life Short-Term Private Fixed Income: 10.0%
- Cash and Cash Equivalents: 1.8%

Stated in Canadian dollars

Key Statistics

Inception Date	August, 2011
Net Asset Value	\$249.1 Million
NAV Per Unit (Class O)	\$10.07
Number of Assets	29
Net Yield	3.6%
Trailing 12 Month Distribution	3.5%
Duration	2.1 years

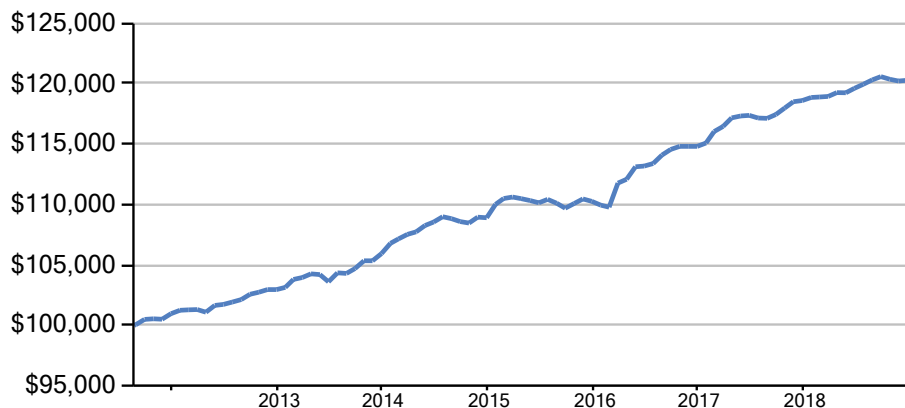
Calendar Year Returns

2018	1.4%
2017	3.3%
2016	4.1%
2015	1.2%
2014	2.8%

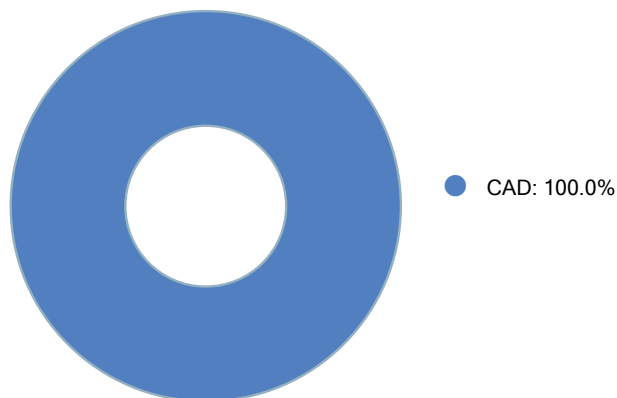
Returns for the period ending December 31, 2018

Year-to-Date	1.4%
1 Year	1.4%
3 Year	2.9%
5 Year	2.6%
10 Year	N/A
Since Inception	2.5%

\$100,000 Invested Since Inception



Currency Exposure



Commentary

In the quarter, Canadian government bond yields reversed course when equity and credit risk markets became volatile. The 10-year yield fell from 2.5% to 1.9% in Q4, and the 2-year yield from 2.2% to 1.8%. The Nicola Bond Fund, with low interest rate sensitivity, did not keep pace with the Canadian bond indices, returning -0.25% while the FTSE TMX Canada Universe Bond Index gained +1.4% in the fourth quarter. For the year, the Nicola Bond Fund still outperformed the bond universe, returning +1.4% versus +1.0% by the Index.

Much of the underperformance in the quarter was from the credit spread hedge fund East Coast Investment Grade Fund II (ECIG), which makes up 23% of the Nicola Bond Fund. ECIG returned -2.1% in the quarter from investment grade credit spreads widening. Its performance impacted the Nicola Bond Fund by approximately -0.5% (partially offset by gains in other component funds).

ECIG hedges out its interest rate sensitivity to focus on earning yield from the credit spread of Canadian investment grade bonds, varying its maturities and use of leverage in its portfolio based on the attractiveness of Canadian investment grade credit spreads.

In recent years, credit spreads have been narrow so ECIG has been defensive. As credit spreads have widened, we look for ECIG to reposition its portfolio and generate significantly higher yield income from the wider spreads than any negative returns incurred during the widening. ECIG's portfolio at year-end is now yielding 8%.

Overall, the Nicola Bond Fund has managed a positive return in 2018 while increasing its net yield to 3.7%, from 2.5% a year ago.

For more information on this fund's monthly performance, click [here](#).

Past performance is not indicative of future results. All investments contain risk and may gain or lose value. The YTD and 1 year return is a historical simple return. The 3, 5, 10 year and since inception returns are annualized compounded total returns. All returns are net of fund-level fees and expenses, including management fees and performance fees (if applicable). Please refer to the disclosure documents for important disclosure information including terms of redemption and limited liquidity. Nicola Wealth is registered as a Portfolio Manager, Exempt Market Dealer and Investment Fund Manager with the required provincial securities' commissions. Please speak with a Nicola Wealth advisor to discuss if this investment is right for you. Effective Jan. 1, 2019, the fund changed its name from the NWM Bond Fund.