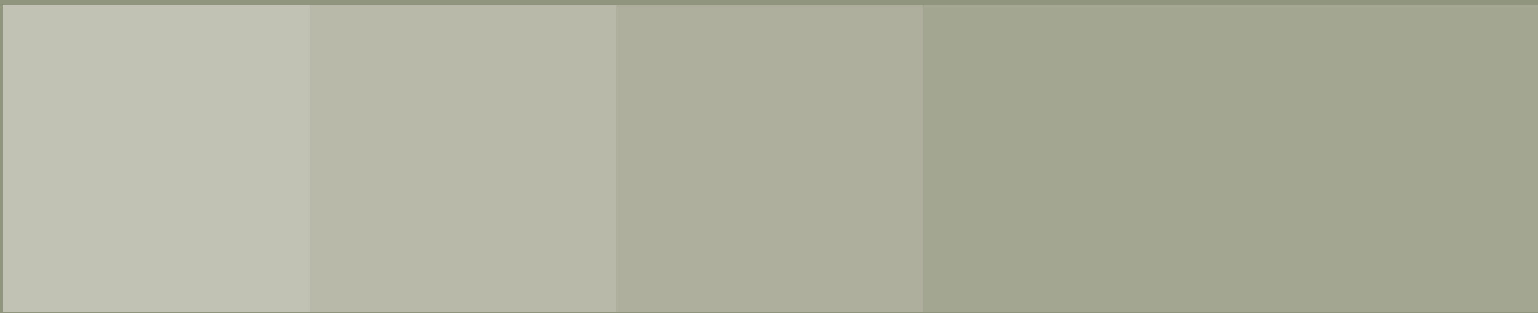
Investment Portfolio Quarterly



Insightful Perspectives

Winter 2015

ScotiaMcLeod®

Contents

	Page
Executive Summary	
Q4/14 Quarterly Comments	2
Portfolio Strategy	
Winter 2015 Strategy Update	4
Economic and Market Outlook	
Inflation Expectations & Currency Risks Still Support A Fed Hike By Mid-2015	10
Top 10 Canadian Stock Picks for 2015	15
Top 10 U.S. Stock Picks for 2015	19
Financial Planning	
Staying Financially Fit during Turbulent Times	21
Guided Portfolios	
Canadian Income Plus	22
Canadian Core	25
U.S. Core	28
North American Dividend	32
Core-Plus Fixed Income	35

Executive Summary

Q4/14 Quarterly Comments

Shane Jones — Chief Investment Officer & Co-Head, Portfolio Advisory Group

The fourth quarter was mixed for equity markets around the globe as crude oil prices weighed heavily on commodity driven economies and further global unrest triggered a risk-off appetite. The MSCI World Index was able to return modest gains over the quarter (+0.66%) led by strong returns on Shanghai, Nikkei and S&P 500 Index constituents, as the Shanghai and Nikkei indexes generated the highest returns for a second consecutive quarter. Global markets were turbulent as oil prices plummeted ~40% through the quarter, which benefitted countries with net oil imports (U.S. and China) and hurt countries with net oil exports (Canada and Russia).

As volatility increased across global markets, investors flocked to the safety of the calmer U.S. economy, which drove U.S. equities higher and Treasury yields lower. The uncertainty caused by the large drop in energy prices was beneficial for the S&P 500, driving it to new all-time highs within the quarter and helping it finish with a return of +4.39%. After a strong start to 2014, the TSX Composite Index lost ground over the U.S. due to energy prices plummeting ~50% since mid-June, leading to an overall gain of only +7.42% (-1.7% in USD terms) compared to the S&P500 Index's +11.39% USD price-only return in 2014. The newly-emboldened risk-off appetite in the market has pushed investors into safe-haven assets, sending the U.S. and Canadian yield curves lower. The U.S. 10-year Treasury yield broke through the 2% level for a brief moment in October before rebounding to end the year at 2.17%, losing ~86 basis points on the year, as U.S. economic data continued to come in strong. The U.S. economy added an additional 252,000 jobs in December, pushing the total number of created jobs in 2014 to nearly 3 million jobs, the strongest calendar-year payroll tally since 1999, which in turn brought the unemployment level down to 5.6%. As strong U.S. economic figures continue to be released, investors will continue to focus on the Fed's tone, attempting to get a better sense of the timing of the next interest rate move. As noted in the December FOMC minutes, the Fed expects that inflation will likely remain muted and possibly decline in the near term due to the decline in energy prices; this could cause normalization to begin when core inflation is slightly below the targeted 2% level, and there's a reasonable degree of confidence that it will move back towards 2% over time.

European markets were mixed over the quarter as headline economic figures came in softer-than-expected across many European countries including France, the U.K. and Germany. The Eurozone has faced further downward pressure on inflation with plummeting oil prices over the quarter and through the latter half of 2014. ECB President Mario Draghi has signaled that the ECB could start large-scale government-bond purchases as deflationary pressure mount with the annual average inflation figure coming in at 0.9% for 2014, well below the 2% target level. Through the quarter, the DAX in Germany gained 3.50% in Euro terms, while the CAC in France lost 3.87% in Euro terms and the FTSE in the UK dropped 1.14% in GBP terms. Market participants will be focused on headline inflation figures heading into 2015 as the ECB is set to meet on Jan. 22.

Asia-Pacific markets had another strong quarter with the Nikkei and Shanghai Index as the top two country-benchmark performers worldwide for a second consecutive quarter, posting returns of +7.90% and +36.84% (in local currency terms), respectively. Depreciation of the Japanese yen was primarily responsible for the strong performance of Japanese equities as the Bank of Japan unexpectedly expanded its monetary stimulus program at the end of October. The surge in China's Shanghai Index in the fourth quarter can be highly attributable to a policy change from China's central bank, which decided to cut interest rates in November. Following the interest rate cut, the Shanghai Index has soared to multi-year highs as investors anticipate further economic stimulus to promote growth. Manufacturing PMI fell back below the 50 threshold in December, fueling investor optimism that the Peoples Bank of China will increase stimulus. In addition to an interest rate cut, China's central bank is now allowing direct trading between Hong Kong and the Shanghai Index, known as the "Stock Connect Scheme," which has increased the amount of retail flow through China's main index, thus pushing stock prices higher.

The focus in the commodity market over the fourth quarter remained on oil and its seemingly never-ending bottom. The CRB Index fell -17.44% in the quarter, led by the sell-off in oil (which dropped -41.56% in Q4, or -49.44% in the latter half of 2014). The volatility in the oil market was exacerbated by OPEC's decision to not cut oil production levels, currently at 30MM bbl/d, sending the price through the US$70/bbl mark in November, to eventually close out the year below US$55/bbl. As a result of lower oil prices, Russia is being hurt due to its nature as a net oil exporter. Although natural gas has not fallen as much as oil, it has come off -29.90% in the last quarter, as milder temperatures have lowered the demand for natural gas. Along with crude oil and natural gas, gold (-2.33%), silver (-8.76%), and copper (-6.21%) also declined in the quarter as global growth forecasts were revised lower and the USD strengthened. Global uncertainty and lower oil prices have also sparked increased demand for safe-haven assets, which in turn has caused the U.S. dollar to appreciate in value against most major currencies, especially against those of commodity-driven countries, such as Canada and Australia. Unlike material and resource commodities, agricultural commodities returned positive results; soybeans (+10.08%), wheat (+20.23%) and corn (+19.04%) all rose through the quarter.

Looking ahead into 2015, it is expected that global growth will modestly outpace growth in 2014, as low oil prices should boost consumer and business spending, contributing to a strong growth outlook for the U.S. Although oil prices are expected to remain low through mid-2015, with further downside risk in the near-term as oil prices look to bottom-out and stabilize, prices are expected to rebound in the second half of the year. Lower oil prices should eventually stimulate increased spending by consumers due to lower spending at the pumps. The Eurozone should continue to see fluctuations in economic data as the ECB tries to fight off deflationary pressures with unconventional stimulus packages. Additionally, the Eurozone is facing further pressure with Greek elections on the horizon after the Greek government failed to avert an early general election, reviving the contentious debate over whether austerity measures are the way to cure Greece's economic woes. The Greek election may bring into sharp relief the political differences across Eurozone countries. China's growth momentum will continue to be a focus for markets heading into 2015, as investors watch for signs of the Peoples Bank of China potentially adding stimulus to maintain the nation's economic growth above a 7% annual rate. The market focus in 2015 is expected to be on central bank talk across the globe (Federal Reserve, Bank of Canada, European Central Bank, Peoples Bank of China, Bank of Japan and Bank of England), with respect to monetary policy changes.

Here are some of the highlights of what our Winter 2015 Investment Portfolio Quarterly (IPQ) offers:

- Scotiabank GBM Portfolio Strategy Team provides their Winter 2015 Strategy Update report.
- Scotiabank Economist Derek Holt discusses how the uncertain factors of currency markets and inflation readings could impact the Fed's rate hike decision, which the Scotiabank Economics department thinks will happen sooner rather than later.
- The ScotiaMcLeod Portfolio Advisory Group discusses their top 10 Canadian and U.S. stock picks for 2015, and briefly reviews the performance of last year's top 10 picks for both markets.
- The Financial Planning & Advisory Services department talks about how to stay financially fit during these turbulent and tough economic times.
- In conclusion Warren Hastings, Caroline Escott and Andrew Mystic provide their quarterly review and commentary on the performance of the Guided Portfolios.

We hope you all enjoy the Winter 2015 version of the IPQ and recommend you contact your ScotiaMcLeod Advisor with regard to any ideas presented here which interest you, or to review your investment portfolio.

Portfolio Strategy

Winter 2015 Strategy Update

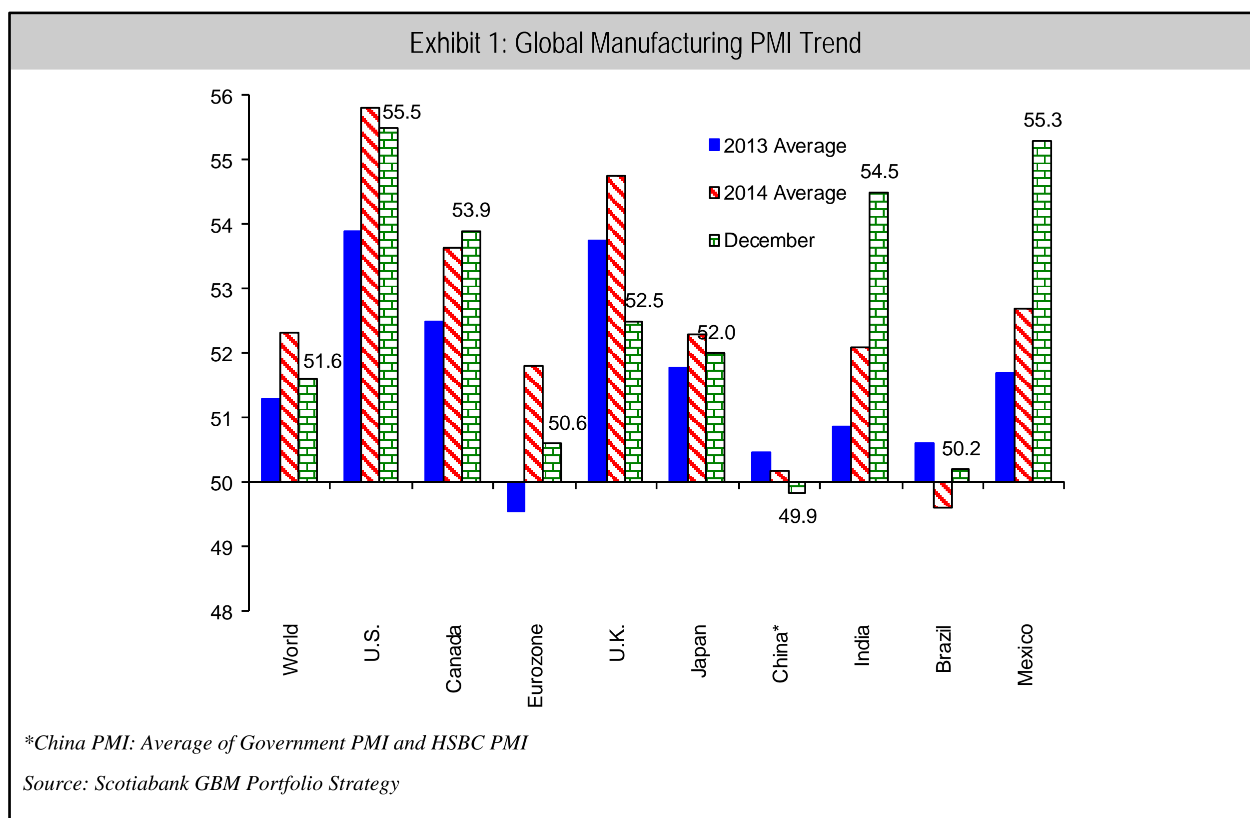
Vincent Delisle, CFA — Portfolio Strategist, Scotiabank Global Banking and Markets

Asset Mix: Divergence and Discrimination

The 2015 Game Plan. Diverging monetary policy should be the main driver of portfolio returns in 2015, with U.S. dollar strength extending for a second consecutive year. We believe accommodative monetary conditions, lower oil/gasoline prices, and robust U.S. consumer/business demand will support mid-single digit earnings growth in the United States in 2015. In contrast, Canadian earnings momentum is expected to struggle with lower crude oil prices and we expect a mid-single digit EPS decline in 2015. Rising volatility should accompany the start of Federal Reserve rate increases, resulting in more tactical opportunities throughout the year.

PMI watch. The World PMI index slipped to 51.6 in December with numerous regions showing a loss of momentum in the latter part of 2014. North America stands out favourably on manufacturing momentum with the U.S., Canada, and Mexico December surveys among the strongest in the world. India shines among developing countries (54.5 PMI), far exceeding momentum witnessed in China and Brazil. The U.S. ISM index came in at 55.5 in December, showing a slight loss of speed going into 2015. See Exhibits 1 and 2.

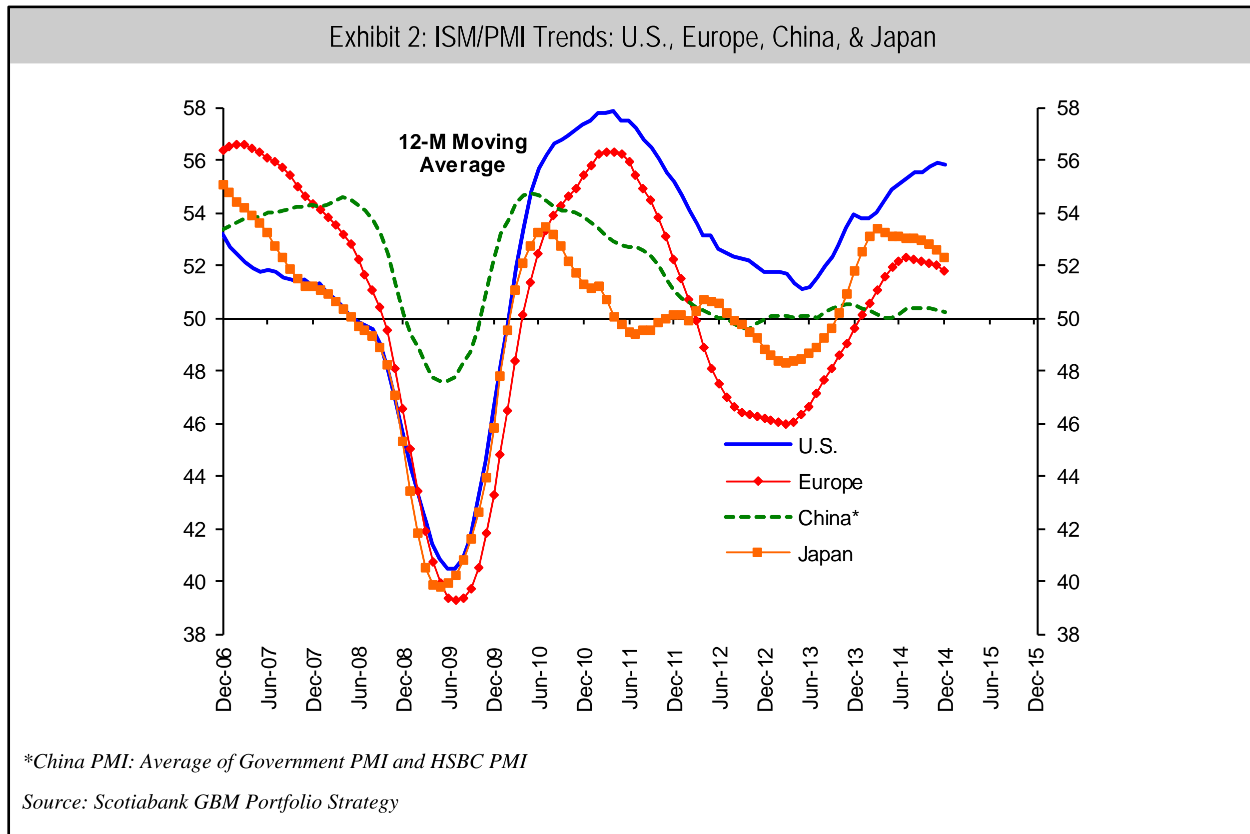
Exhibit 1: Global Manufacturing PMI Trend



**China PMI: Average of Government PMI and HSBC PMI*

Source: Scotiabank GBM Portfolio Strategy

Exhibit 2: ISM/PMI Trends: U.S., Europe, China, & Japan



**China PMI: Average of Government PMI and HSBC PMI*

Source: Scotiabank GBM Portfolio Strategy

Asset Mix. Our U.S. asset mix bias entering 2015 is for an equity-over-bond preference and we expect the S&P 500 to outperform bonds. For Canada, the outlook is more clouded and we believe TSX gains will remain challenged in a sub-70 WTI environment. Our recommended tactical asset mix for Q1/15 (versus a neutral benchmark) stands at +5% equities, -10% bonds, and +5% cash. The lack of near-term equity overweight (OW) conviction stems from diverging asset mix perspectives in the United States (positive) and Canada (negative).

Global Equities & SAGE. Exhibit 4 highlights regional and country preferences based on the Scotiabank Allocation for Global Equity (SAGE). Measures of valuations, growth, momentum, and manufacturing (PMI) are incorporated in our global quantitative screen. Based on our January 2015 SAGE, the United States (#6 out of 44) remains top-ranked among the 44 MSCI World countries while Canada's ranking is slipping. India and China continue to get top rankings from SAGE, while all Latin American countries fare poorly. Rankings in Western Europe are modestly improving, but the main countries are still ranked UW. Japan stands out favourably versus Australia and Europe. In terms of pair trades, the bias entering 2015 is to favour a United States over Canada, Japan over Europe, and EM-Asia over EM-LatAm (Mexico over Brazil) strategy. For additional information on global allocation, please refer to the monthly SAGE Update – Global Country Ranking report.

Exhibit 3: Scotiabank GBM Asset Mix – January 2015 Update

	Asset Mix	
	Benchmark	**Recommended**
Equities	**60%**	**65%**
Canada (TSX)	*5%*	*6%*
U.S. (S&P 500)	*22%*	*28%*
Western Europe	*14%*	*8.5%*
Pacific (Japan/Australia)	*10%*	*12%*
EM Asia	*6%*	*8%*
LatAm	*3%*	*2.5%*
Bonds	**40%**	**30%**
Government	*30%*	*19%*
Corporate	*10%*	*11%*
Cash (91-D Tbills)	**0%**	**5%**

Source: Scotiabank GBM Portfolio Strategy

Exhibit 4: Global Equity Model – Tactical Recommendations January 2015

	Recommendation	Value	Growth	Momentum	Economic
North America	**OW**	**--**	**=**	**++**	**+++**
U.S.	Large OW	--	+	++	++
Canada	OW	-	--	+	+++
Western Europe	**Neutral**	**=**	**=**	**=**	**=**
Pacific	**UW**	**+**	**+**	**=**	**-**
Japan	Large OW	+	++	=	++
Australia	Large UW	+	-	=	--
Emerging Asia	**Neutral**	**-**	**+**	**+**	**=**
China	Large OW	++	++	+	-
Korea	Large UW	+	-	--	=
Taiwan	OW	+	+++	+	--
India	Large OW	--	+	+++	+++
Emerging LatAm	**Large UW**	**-**	**-**	**-**	**=**
Brazil	UW	++	--	--	+
Mexico	UW	--	=	-	++
Chile	Large UW	=	-	-	---
Colombia	Large UW	=	--	---	---
Peru	Large UW	--	--	+	++

Source: Scotiabank GBM Portfolio Strategy

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Strategic Edge Portfolio – January Update

The Strategic Edge Portfolio (SEP) is our large cap Canadian equity model portfolio. The SEP combines our sector strategy views, rankings from our quantitative SQoRE model, and the fundamental recommendations provided by Scotiabank GBM Equity Research analysts. The SEP (+14.4% in 2014) outperformed the TSX (+10.6%; total return) for the eight consecutive year in 2014. We have been using the SEP to highlight our overall Canadian equity strategy views since 2005 and the SEP is edging the TSX by 462bp and 368bp on an annualized basis over the last 5 years and since inception (nearly 10 years), respectively.

See Exhibit 5 for historical SEP performance.

Exhibit 5: Strategic Edge Portfolio Performance (Total Return)

31-Dec-14	Performance -- Total Return (%)			SEP Value Added (bp) vs.	
Period	**SEP**	**S&P/TSX**	**S&P/TSX 60**	**S&P/TSX**	**S&P/TSX 60**
December	0.56%	-0.44%	-0.65%	100	121
3-M	2.3%	-1.5%	-0.4%	375	264
6-M	4.0%	-2.0%	0.1%	605	393
YTD	14.4%	10.6%	12.3%	385	213
1-Yr	14.4%	10.6%	12.3%	385	213
	CAGR (%)				
3-Yr	14.8%	10.2%	11.2%	455	359
5-Yr	12.1%	7.5%	7.3%	462	485
Inception (June-05)	10.8%	7.1%	7.4%	368	338
	Annual (%)				
2005	13%	15%	15%	-156	-211
2006	16%	17%	19%	-144	-334
2007	11%	10%	11%	156	25
2008	-28%	-33%	-31%	495	312
2009	42%	35%	32%	704	1016
2010	24%	18%	14%	648	1025
2011	-5%	-9%	-9%	328	364
2012	9%	7%	8%	223	135
2013	21%	13%	13%	777	751
2014	14%	11%	12%	385	213

Source: Scotiabank GBM Portfolio Strategy; Bloomberg.

TSX/SEP Strategy. The structure of the portfolio remains unchanged. In line with our macro thesis (U.S. cyclical sector bias, risk of higher yields, stronger USD, underweight resources) and quant ranking updates, our TSX strategy is focused on Financials (Life Insurance over Banks), Lumber, Industrials-Transport, Staples, Technology, and Discretionary-Autos. For our January update, HBC, DDC, and AC move in while CTC/A and SLW move out.

Please refer to Exhibit 6 on the next page for SEP details and changes. Changes have been made as of December 31, using end-of-day closing prices.

Exhibit 6: Strategic Edge Portfolio (As at December 31, 2014)

December 31, 2014		Weighting		December	
Sector / Company		SE Portfolio	S&P/TSX	Performance	Recommendation
S&P/TSX (price-only)				**-0.8%**	
Cash (XSB Short Term Bond ETF)		**2.9%**	**0.0%**	**0.0%**	**+2.9%**
Financials		**35.8%**	**35.7%**	**-3.2%**	**+0.1%**
RY	ROYAL BANK OF CANADA	7.5%	6.3%	-3.5%	
TD	TD BANK	6.7%	5.6%	-3.7%	
BNS	BANK OF NOVA SCOTIA	5.2%	4.4%	-5.9%	
CM	CIBC	3.4%	2.2%	-6.2%	
IGM	IGM FINANCIAL	1.2%	0.2%	-2.5%	
GWO	GREAT-WEST LIFECO	1.7%	0.5%	-0.7%	
MFC	MANULIFE FINANCIAL	3.8%	2.3%	-2.6%	
SLF	SUN LIFE FINANCIAL	2.5%	1.4%	-1.2%	
IFC	INTACT FINANCIAL	1.6%	0.6%	5.6%	
BAM/A	BROOKFIELD ASSET MANAGEMENT	2.2%	1.8%	1.3%	
Staples		**7.2%**	**3.7%**	**7.9%**	**+3.5%**
MRU	METRO INC	1.8%	0.4%	4.4%	
SAP	SAPUTO	1.6%	0.5%	5.3%	
PJC/A	JEAN COUTU GROUP	1.2%	0.1%	4.9%	
ATD/B	ALIMENTATION COUCHE TARD	2.6%	1.1%	20.2%	
Telecom & Media		**4.3%**	**4.9%**	**-1.4%**	**-0.6%**
SJR/B	SHAW COMMUNICATIONS	0.6%	0.7%	1.6%	
QBR/B	QUEBECOR INC-B	1.3%	0.2%	3.0%	
BCE	BCE INC	2.4%	2.4%	-0.1%	
Utilities & Pipelines		**5.1%**	**9.5%**	**-2.1%**	**-4.4%**
FTS	FORTIS INC	1.1%	0.6%	-4.1%	
PPL	PEMBINA PIPELINE	1.3%	0.8%	8.7%	
ENB	ENBRIDGE	2.7%	2.8%	13.8%	
Discretionary		**6.9%**	**6.4%**	**2.2%**	**+0.4%**
MG	MAGNA	2.7%	1.4%	2.9%	
HBC	HUDSON'S BAY CO	1.2%	0.2%	1.6%	*New Addition*
DOL	DOLLARAMA	1.8%	0.4%	10.9%	*CTC/A Out*
GIL	GILDAN	1.2%	0.4%	-0.6%	
Technology		**4.9%**	**2.3%**	**4.9%**	**+2.6%**
OTC	OPEN TEXT CORP	1.7%	0.5%	-0.1%	
CSU	CONSTELLATION SOFTWARE	1.7%	0.4%	4.2%	
GIB/A	CGI GROUP	1.4%	0.7%	6.1%	
Healthcare		**0.0%**	**3.5%**	**0.7%**	**-3.5%**
	No Stocks in Sector				
Energy (Ex-Pipelines)		**11.9%**	**14.6%**	**-0.1%**	**-2.7%**
ARX	ARC RESOURCES	1.2%	0.4%	-7.0%	
CCO	CAMECO	1.1%	0.4%	-10.4%	
PD	PRECISION DRILLING	0.5%	0.1%	-4.9%	
ECA	ENCANA	1.3%	0.7%	-10.3%	
CNQ	CANADIAN NATURAL RESOURCES	3.1%	2.1%	-5.4%	
BTE	BAYTEX ENERGY CO	0.2%	0.2%	-20.1%	
SU	SUNCOR	3.9%	2.9%	2.2%	
MEG	MEG ENERGY	0.5%	0.2%	4.5%	
Materials		**10.5%**	**10.6%**	**0.7%**	**-0.2%**
Mining - Gold, Precious, Base Metals		***2.8%***	***6.7%***	***-0.5%***	***-3.9%***
YRI	YAMANA GOLD	0.2%	0.2%	12.7%	
G	GOLDCORP	0.7%	1.0%	-4.2%	*SLW Out*
DDC	DOMINION DIAMOND	1.0%	0.1%	12.0%	*New Addition*
LUN	LUNDIN MINING	0.9%	0.2%	5.0%	
Chemicals & Forest Products		***7.6%***	***3.9%***	***3.1%***	***+3.7%***
WFT	WEST FRASER TIMBER	1.9%	0.2%	11.9%	
CFP	CANFOR CORP	1.6%	0.1%	7.9%	
POT	POTASH CORP SAS	2.6%	1.9%	4.5%	
AGU	AGRIUM	1.5%	0.9%	-0.3%	
Industrials		**10.7%**	**8.7%**	**-0.6%**	**+2.0%**
CNR	CANADIAN NATIONAL RAILWAY	4.2%	3.6%	-1.7%	
CP	CANADIAN PACIFIC	2.6%	1.9%	1.4%	
WJA	WESTJET AIRLINES	1.4%	0.2%	3.4%	
AC	AIR CANADA	1.4%	0.2%	6.2%	*New Addition*
CAE	CAE INC	1.0%	0.2%	-0.4%	

Source: Scotiabank GBM Portfolio Strategy; Bloomberg.

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U.S. Sector Portfolio – January Update

U.S. equity strategy. Exhibit 7 highlights our S&P 500 sector allocation which is based on our top-down fundamental views and is influenced by our quantitative ranking model (SQoRE S&P Top 50). In the U.S., we are OW Technology, Financials, Industrials, Discretionary; UW Energy, Utilities, Telecom, and Staples. We will continue to use this U.S. sector model portfolio to highlight our pure-play sector views, but we would also direct readers to the SQoRE S&P Top 50 List shown in exhibit 8.

Exhibit 7: U.S. Sector Portfolio (as at December 31, 2014)

	Weighting (%)		Return (%)	January-15	Change
Sector	**Portfolio**	**S&P 500**	**December**	**Recommendation**	**From Prior**
Technology	21.7%	19.7%	-1.7%	2.0%	-
Financials	18.6%	16.6%	1.6%	2.0%	-
Industrials	11.4%	10.4%	-0.3%	1.0%	-
Discretionary	13.1%	12.1%	0.8%	1.0%	+1.0%
Materials	2.7%	3.2%	-0.9%	-0.5%	-0.5%
Energy	6.4%	8.4%	0.3%	-2.0%	-
Health Care	14.2%	14.2%	0.3%	0.0%	-
Telecom	1.8%	2.3%	-6.2%	-0.5%	-0.5%
Staples	8.8%	9.8%	-1.4%	-1.0%	-
Utilities	1.2%	3.2%	3.2%	-2.0%	-
S&P 500			**-0.4%**		

Source: Scotiabank GBM Portfolio Strategy; Bloomberg.

Exhibit 8: SQoRE S&P 500 Top 50 – January 2014 Recommendations

As at Dec. 31, 2014	SQoRE Ranking*	Style Contribution (Max +++; Min ---) Value	Growth	Momentum	Quality
ALL	1	+++	+++	+++	+++
TSO	2	+++	+++	+++	--
TRV	3	+++	+++	+	+++
PETM	4	+	+++	+++	++
NAVI	5	+++	Not Ranked	+++	+
AAPL	6	+++	+++	+++	++
AIZ	7	+++	+++	-	+++
AFL	8	+++	+	--	+++
PRU	9	+++	++	-	+++
LUV	10	+	+++	+++	--
ACE	11	+++	++	+	+++
EW	12	-	+	+++	+++
VLO	13	+++	+++	-	+
ABC	14	=	+++	+++	+++
MS	15	+++	+++	++	++
LNC	16	+++	+++	+	=
BAC	17	+++	+++	+	+
AET	18	+++	+++	+	++
MET	19	+++	+++	-	+++
EA	20	-	+++	+++	+
CB	21	+++	=	++	+++
UNM	22	+++	+	=	+++
XL	23	+++	+++	+	=
UNH	24	+	+++	+++	+++
TMK	25	+++	-	-	+++

As at Dec. 31, 2014	SQoRE Ranking*	Style Contribution (Max +++; Min ---) Value	Growth	Momentum	Quality
ESRX	26	+	+++	+++	+++
GLW	27	+++	+	+	+++
PFG	28	+++	+	-	+++
HIG	29	+++	+++	++	=
BBBY	30	+++	++	+	+++
AMP	31	+++	+++	++	+
WDC	32	++	+++	++	++
CI	33	++	+++	+	+
HD	34	+	+	+++	+++
RHI	35	-	+++	+++	+++
DPS	36	=	+++	+++	++
GILD	37	++	+++	++	-
ANTM	38	++	+++	=	+
STI	39	+++	++	=	+
DFS	40	+++	+	=	+
GME	41	+++	+	--	+
MU	42	++	+++	-	--
LRCX	43	+	+++	++	-
AIG	44	+++	++	-	-
PNC	45	+++	+	=	++
WFC	46	+++	=	=	++
HPQ	47	+++	=	=	++
KR	48	=	+++	++	+
M	49	+++	++	-	+
USB	50	+++	=	=	++

*Shaded Areas Highlight Improved Decile Ranking vs. Prior Month

Source: Scotiabank GBM Portfolio Strategy

Economic and Market Outlook

Inflation Expectations & Currency Risks Still Support A Fed Hike By Mid-2015

Derek Holt, MA, MBA, CFA – Vice-President, Scotiabank Economics

Frances Donald, MA – Financial Markets Economist

Dov Zigler, MA – Financial Markets Economist

- **A broad variety of measures for inflation expectations and currency risks still support Fed rate hikes by mid-year.**

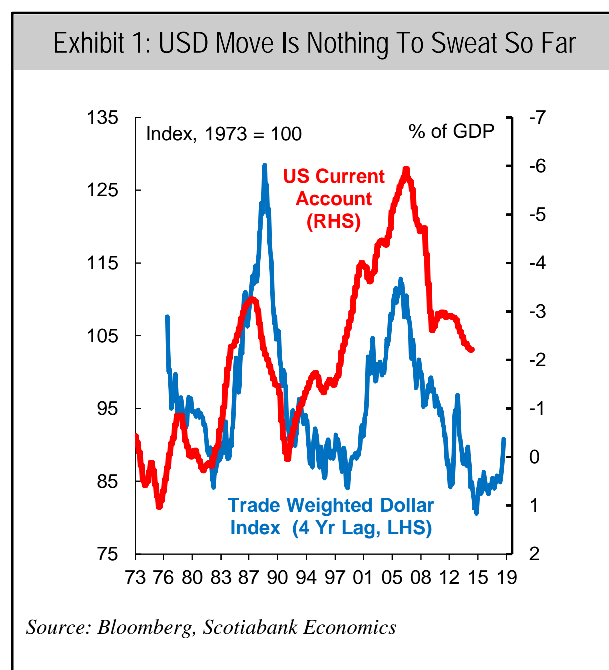
Growth in the US economy, the likely move considerably closer to full employment accompanied by a somewhat firmer picture for wage growth into early 2016, and financial market froth particularly in bonds all support policy tightening by the Federal Reserve sooner rather than later in our view. In this note, we address two additional sources of uncertainty: currency markets and inflation readings.

EURUSD Risks Alone Won't Stop The Fed In Its Tracks

The Federal Reserve outlook is susceptible to currency risks, but so far the USD on a real effective exchange rate basis is up by a fairly modest 13% since its low in mid-2011 and the effects on the current account position of the US economy will be spread over up to four years given historical correlations (Exhibit 1). Thus far what we have witnessed is not enough to re-write the outlook for the Federal Reserve.

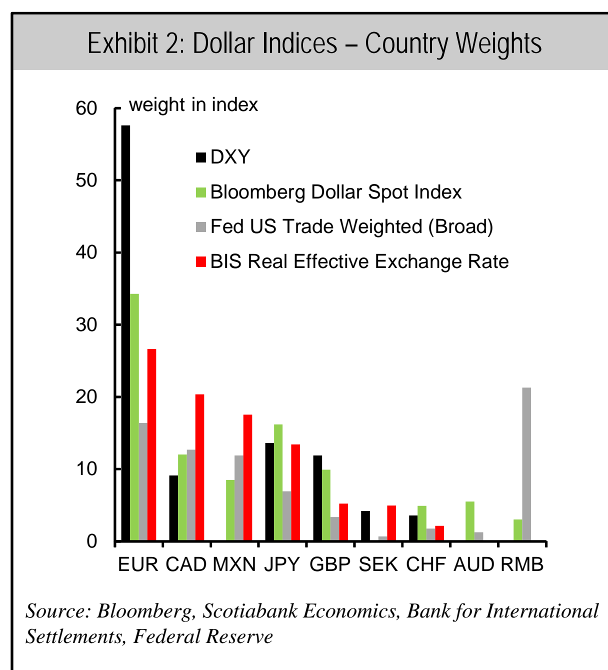
Should the EURUSD cross move downward toward parity, then the effects on the USD and Fed policy need to be judged in terms of the overall trade-weighted currency basket --- not one single cross. The Euro carries about a 27% weight in the Bank for International Settlements' (BIS) real effective exchange rate for the US, and a 16% weight in the Federal Reserve's broad trade-weighted USD that former Chairman Bernanke has referred to in the past, while other indices are too narrow in scope (Exhibit 2). Put another way, at least three-quarters of a broad basket of exchange rates versus the USD is affected by crosses other than the EURUSD.

Exhibit 1: USD Move Is Nothing To Sweat So Far



Source: Bloomberg, Scotiabank Economics

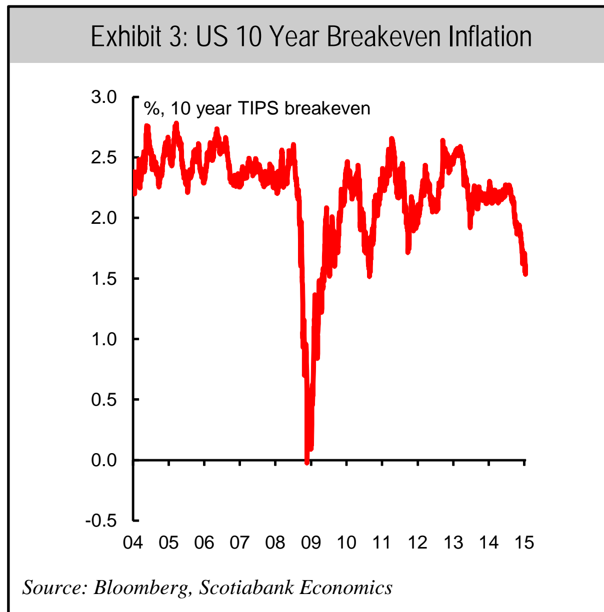
Exhibit 2: Dollar Indices – Country Weights



Source: Bloomberg, Scotiabank Economics, Bank for International Settlements, Federal Reserve

With the Chinese renminbi roughly pegged versus the USD and thus little affected by ECB actions, this part of the cross is neutral to the USD risks. Presumably the foreign currency halves of crosses like USDJPY or USDCAD or GBPUSD that matter to US trade would be driven mostly by factors other than ECB action. Within reason, we therefore do not view our Fed call as being overwhelmingly at risk by what the ECB may or may not do. We need a much bigger movement in the REER than what has been observed to date in order to cause more material effects on the current account balance of the US economy. What we treat more seriously is domestic inflation risks that are the focus of the rest of this paper.

Exhibit 3: US 10 Year Breakeven Inflation



Source: Bloomberg, Scotiabank Economics

A Balanced Approach To Inflation Expectations

Will softer US inflation readings nevertheless knock the Fed off course and delay policy rate hikes?

The key in this regard is to survey a variety of measures of inflation expectations. Forget the obsession with volatile near-term inflation readings that are bound to continue to follow gas prices lower in the short-term. Instead, look to what these metrics for inflation expectations are telling us by way of how price pressures are expected to pan out over time. While all of them have their pitfalls, on balance they point to reasonably resilient longer-run price pressures that support the Fed's tendency to look through near-term price readings.

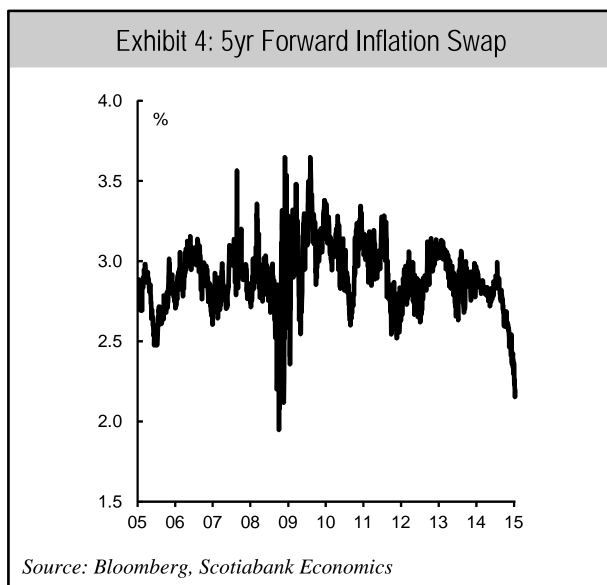
Ignoring this risks being caught by surprise over the course of the next year into 2016 when — as we think — US headline inflation will probably begin to spike higher. On headline, this will be partly caused by a reset on year-ago base effects that are currently comparing gas prices to higher levels in the past but by year-end into 2016 will be comparing to currently low levels. On core, there is a higher likelihood that lower gasoline prices will free up incomes to spend on other things and thus gradually reflate core prices over time than the opposite effect of lower gasoline prices feeding through core CPI by way of spillover effects on transportation and other costs.

If this is right, then it will cause an abrupt shift in the level and shape of the Treasury curve in response to inflation data and an FOMC that will focus on lagged effects of monetary policy into a 6-18 month forward environment. We think this is the approach the Federal Reserve's FOMC will take on January 28th and more so at the March FOMC meeting in support of hikes by or around mid-year.

1. Market-Based Measures Of Inflation Expectations

Among the possible market-based measures, we sample two of them that have fallen significantly, are difficult to read, and do not signal deflation risk.

One is the simple 10 year breakeven rate on Treasury Inflation Protected Securities (Exhibit 3). It has fallen sharply from about 2.28% last July to 1.57% now which is the lowest since 2010. This might be taken to mean that markets have backed off inflation expectations. A problem, however, is that this measure can encapsulate several things and not just what the market thinks about true inflation rates over the longer term but also liquidity distortions when safehaven flows disproportionately flow into nominal Treasuries relative to TIPS as well as inflation risk premia. Many would argue that some of the decline is due to truly lower inflation expectations but that much of it is driven by these other factors such that the decline exaggerates true market sentiment toward long-run price pressures.



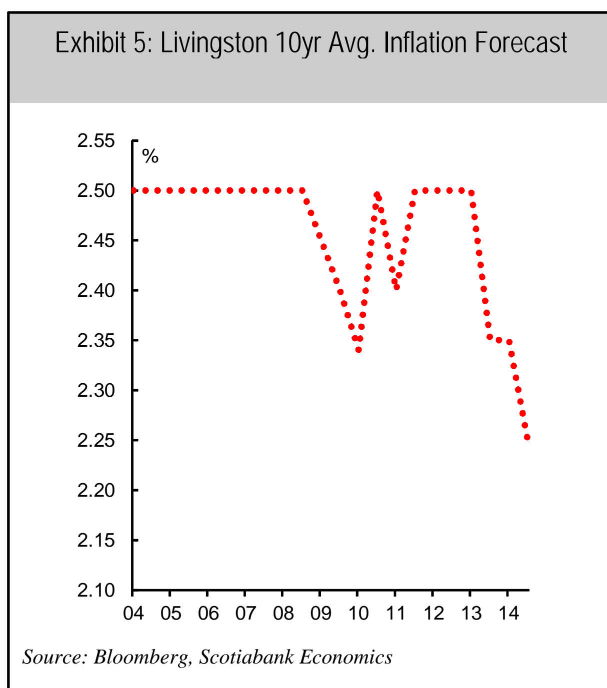
Source: Bloomberg, Scotiabank Economics

Enter an alternate measure – the five year forward inflation swap (Exhibit 4). This measure is less susceptible to the non-inflation distortions that affect 10 year TIPS breakevens and was proposed in a Federal Reserve working paper just going into the global crisis (here). It has also fallen fairly sharply from about 2.5% last summer to 1.75% now.

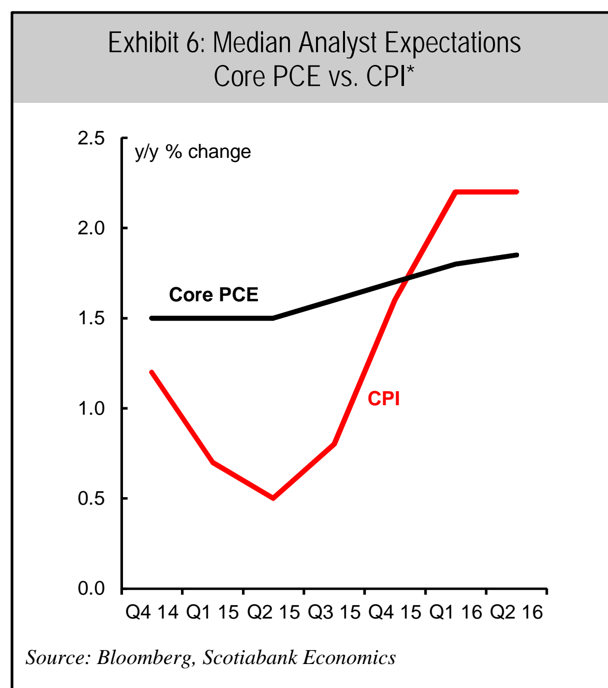
2. What Forecasters Expect

Market opinions are useful, but there's no evidence that markets necessarily get it more right than any other way of formulating expectations. What do professional forecasters think, subject to the same caveat? The oldest continuous survey of forecasters' expectations is produced semi-annually by the Philadelphia Fed (here). The Livingston Survey shows that the median forecast for the average inflation rate over the next ten years sits at 2.25% (Exhibit 5). That's below the 2.35% forecast as at last June, but not by much. So the consensus of forecasters lies generally in line with the Fed's reasoning more so than what market participants believe.

Samples of forecasters' opinions are hardly in short supply but generally reinforce each other. Another measure is the Bloomberg consensus of forecasts for headline CPI and the core price deflator for total consumer expenditures (core PCE). Exhibit 6 shows that this measure of consensus opinions expects CPI to rebound into year-end and next year and that core PCE inflation may rise over this period. Exhibit 7 compares Consensus Economics Inc's consensus call for inflation to Bloomberg's fresher sampling. Scotiabank Economics' forecasts are similar in the broad directions and we are a contributor to several consensus samples. Exhibit 8 looks at a different measure which is the quarter-over-quarter annualized rates rather than Exhibit 7 which looks at year-ago inflation rates. Each consensus measure has its pros and cons in terms of freshness and how inflation is measured but they all point upwards after a temporary lull in inflation pressures.



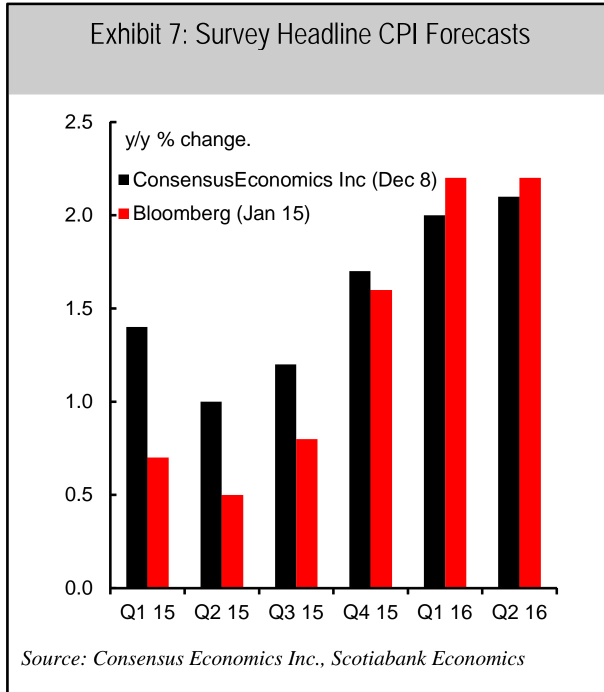
Source: Bloomberg, Scotiabank Economics



Source: Bloomberg, Scotiabank Economics

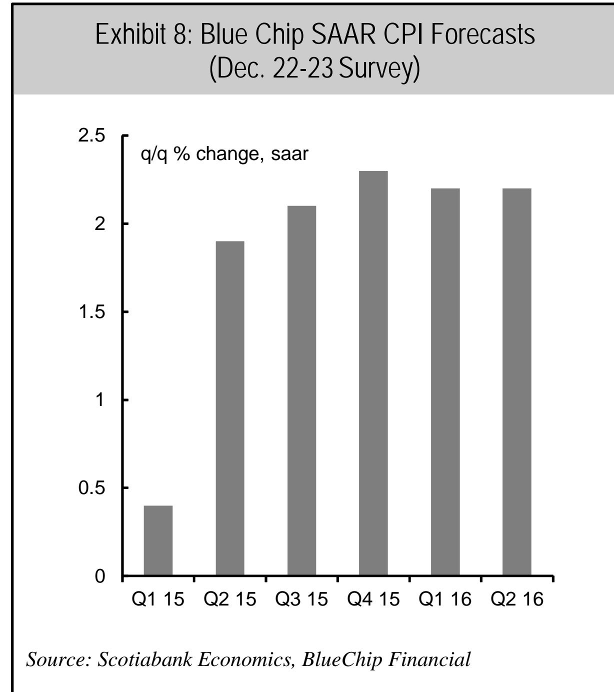
ScotiaMcLeod®

Exhibit 7: Survey Headline CPI Forecasts



Source: Consensus Economics Inc., Scotiabank Economics

Exhibit 8: Blue Chip SAAR CPI Forecasts (Dec. 22-23 Survey)



Source: Scotiabank Economics, BlueChip Financial

3. What Consumers Expect

So economists differ somewhat from markets in pricing inflation risk and it remains to be seen who will be right, but what does mainstreet think? Arguably this can be the most important of all since signs of significant disinflation or outright deflation risks reflected in consumer sentiment could be a more powerful influence on broad economic activity than anything that traders and economists think.

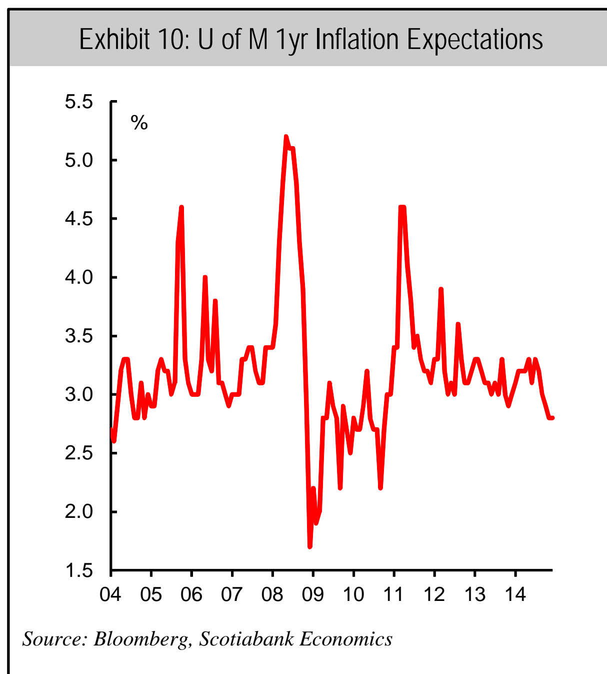
Exhibit 9: 1yr Consumer Inflation Expectations

Source: Conference Board, Bloomberg, Scotiabank Economics

We offer two measures starting with the Conference Board's 1 year consumer inflation expectations component to their consumer confidence measure. Well, this shows that inflation has long been parked on the moon at rates well above official measures, but the key here is to look at the changes in expectations at the margins. It may be unrealistically high and consistently so, but it has fallen only marginally since last summer and remains within a fairly stable long-run range (Exhibit 9).

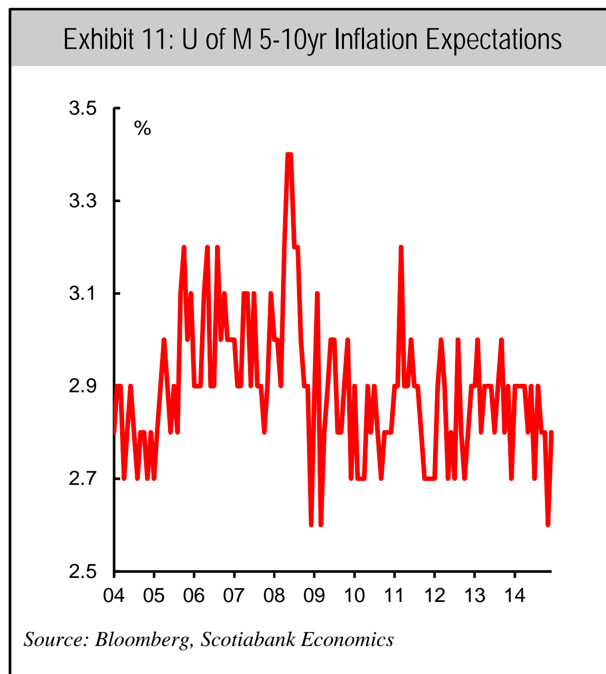
The University of Michigan's consumer sentiment gauge offers two measures of consumer inflation expectation over differing horizons. Note that this measure is more in line with reported inflation than the Conference Board's metric. The one-year forward UofM measure has fallen from about 3.25% last summer to 2.4% now and remains well above true inflation (Exhibit 10). The UofM's 5-10 year measure asks consumers what they think will happen to prices over the next 5-10 years and as such loosely lines up with the horizon of the 5 year forward inflation swap (above). This measure is volatile within a tight range and has budged only marginally over time (Exhibit 11).

Exhibit 10: U of M 1yr Inflation Expectations



Source: Bloomberg, Scotiabank Economics

Exhibit 11: U of M 5-10yr Inflation Expectations



Source: Bloomberg, Scotiabank Economics

In all, forecasters and consumers are signaling less worry about inflation downsides than markets, and even the latter source of expectations is not terribly worrisome. We're going through what will mostly transpire as a relative price shock to energy prices rather than generalized economy-wide de- or dis-inflation. The mechanics of evaluating a relative price shock differ markedly from a generalized move in economy-wide prices.

Fed Can't & Shouldn't Influence An Energy Price Drop

Indeed, a supply-side induced decline in energy prices — all else equal — usually carries time-limited influences on inflation and is a plus for US growth and thus should be expected to put upward pressure on growth rates and core inflation measures over time. For a central bank like the Federal Reserve to adopt a different tactic would essentially have it believing that its actions can influence oil and gas prices sustainably over time. We don't believe that they believe this to be true.

**Please note Economic data in this section is as at January 16th, 2015.*

Top 10 Canadian Stock Picks for 2015

Himalaya Jain, MBA, CFA – Director, Portfolio Advisory Group

Warren Hastings, CFA – Associate Director, Portfolio Advisory Group

Andrew Edelberg, CFA – Associate, Portfolio Advisory Group

- **The Canadian equity market will likely lag the U.S. in 2015, but a potentially strong second half recovery in the energy sector could tilt the scales in Canada's favour.**
    - This year's top 10 picks are (in alphabetical order): Brookfield Property Partners LP (BPY.un), Brookfield Renewable Energy Partners (BEP.un), Canadian Natural Resources (CNQ), Cenovus Energy (CVE), Empire Company (EMP.a), Linamar (LNR), Lundin Mining (LUN), Pembina Pipeline (PPL), Power Corp of Canada (POW), and Royal Bank of Canada (RY).
- **The 2014 list of top picks significantly outperformed the S&P/TSX Composite Index.**
    - Average gain of 24.05% for 2014's top 10 picks, 1662 bps of outperformance over the S&P/TSX Composite's 7.42% gain last year.

The Canadian equity market will likely lag the U.S. in 2015, but a potentially strong second half recovery in the energy sector could tilt the scales in Canada's favour

Consensus 2015 earnings growth expectations for the S&P/TSX Composite Index, which currently stand at 3.5% YoY, seem to be getting hit from multiple sides as analysts revise assumptions lower. The three most heavily weighted sectors, Financials, Energy, and Materials, account for almost 70% of the overall capitalization of the Index, and each is suffering from its own set of circumstances. Low bond yields are weighing down net interest margins for the banks, dramatically lower oil prices could result in up to 25% lower income for the energy sector, and few positive near-term catalysts exist for the materials sector. The good news in this rather somber outlook for 2015 is that equity prices seem to be already discounting these views, in our opinion. We think the biggest wildcard, and opportunity, in 2015 will be oil prices and energy sector. While we see few immediate catalysts to drive the sector higher, we expect oil prices to begin firming in the second half of 2015. With expectations for mid-single digit price appreciation for the TSX, our top 10 list for 2015 (see Exhibit 1) has a greater emphasis on dividend yield than in prior years.

Exhibit 1: Canadian Top 10 Picks for 2015

Company	Sector	Symbol	Price 31-Dec-14	Dividend	Dividend Yield	Bloomberg Consensus Target	Potential Total Return	Bloomberg Ratings Buy	Bloomberg Ratings Hold	Bloomberg Ratings Sell	Market Cap ($Bln)
Royal Bank of Canada	Financial - Bank	RY	80.24	3.00	3.7%	87.45	13%	10	11	0	116
Power Corporation of Canada	Financial - Diversified	POW	31.76	1.16	3.7%	34.64	13%	5	5	0	15
Brookfield Property Partners LP	Financial - Real estate	BPY.un	26.45	1.16	4.4%	28.94	14%	2	0	0	7
Cenovus Energy	Energy - Integrated	CVE	23.97	1.06	4.4%	28.02	21%	11	12	1	19
Canadian Natural Resources	Energy - E&P	CNQ	35.92	0.90	2.5%	44.25	26%	19	3	2	40
Pembina Pipeline	Energy - Infrastructure	PPL	42.34	1.74	4.1%	51.58	26%	8	5	1	14
Brookfield Renewable Energy Partners LP	Utilities	BEP.un	35.90	1.80	5.0%	37.34	9%	8	3	2	5
Empire Company	Consumer Staple	EMP.a	87.62	1.08	1.2%	90.15	4%	5	5	1	8
Linamar	Industrial	LNR	70.95	0.40	0.6%	75.43	7%	7	1	0	5
Lundin Mining	Materials- Base Metals	LUN	5.72	0.00	0.0%	7.54	32%	20	4	2	4
Average					3.0%		16.4%				23

Source: Bloomberg, ScotiaMcLeod, PAG.

With top line under pressure and emphasis on cost controls the Canadian banking sector will likely see 2015 earnings growth in the 4%-6%% range, well below the long run average. Within the bank group, Royal Bank's (RY) strong retail and capital markets franchises should allow for sector leading earnings growth in 2015. Power Corp's (POW) large discount to net asset value and improving fundamentals in its life insurance subsidiary make it a preferred pick. Despite a strong showing in 2014, we think Brookfield Property Partners (BPY.un) should outperform the real estate sector again as it continues to trade at a meaningful discount to net asset value and its U.S.-centric portfolio should benefit from improving fundamentals in that market.

Our previous year's top 10 list was spared much of the carnage in the energy sector because our three energy picks were defensive in nature (two midstream/pipelines and one integrated producer). With oil prices virtually halved, we see a brighter outlook for the energy sector in 2015. Our top 10 list this year includes three energy picks: an integrated producer (Cenovus, CVE), a senior E&P (Canadian Natural Resources, CNQ), and a midstream/pipeline company (Pembina Pipeline, PPL). Although we are more constructive on the sector at current levels, it is worth noting that our picks this year still have defensive qualities that should result in relatively less volatility.

Brookfield Renewable Energy Partners (BEP.un) and Empire (EMP.a), a utility and grocery chain, respectively, are low beta stocks whose defensive qualities should reduce portfolio volatility. We like BEP.un for expected dividend growth in early 2015, and EMP.a for a gradual return to same-store sales growth.

Our two growth picks are Linamar (LNR) and Lundin Mining (LUN). Linamar replaces Magna International (on our top 10 list in 2012, 2013, 2014) as we remain constructive on the auto sector but are concerned about the economic conditions in Europe (16% of Linamar's revenues are derived from Europe versus 42% for Magna). Lundin Mining is a base metal mining company (copper, zinc, nickel) with a clean balance sheet, attractive valuation, and above average production growth. The company's expected transition to free cash flow generation in 2015 could result in the implementation of a dividend this year.

The 2014 list of top picks significantly outperformed the S&P/TSX Composite Index

We entered 2014 with expectations for modest returns for the S&P/TSX Composite Index, and suggested that outperformance would come mainly from company specific attributes. Overall 2014 index returns were indeed modest (S&P/TSX Composite Index up 7.4%), but the three most heavily weighted sectors (Financials, Energy, Materials) were the worst performers, confirming that stock selection was the key to outperformance. Our top 10 picks last year delivered an average price-only return of 24% compared with the S&P/TSX Composite's 7.4%, a substantial outperformance of 1662 basis points. Nine of our 2014 picks ended in positive territory, and 8 of 10 outperformed the Index, many by a wide margin (see Exhibit 2).

Exhibit 2: Performance of 2014 Canadian Top 10 List

Company	Ticker	Price 12/31/13	Price 12/31/14	See notes	Change
Agrium	AGU	97.17	112.42	2	15.69%
Alimentation Couche-Tard	ATD/B	26.63	48.69		82.86%
Enbridge	ENB	46.41	59.74		28.72%
Intact Financial	IFC	69.37	83.85		20.87%
Magna International	MG	87.10	125.89		44.54%
Manulife	MFC	20.96	22.18		5.82%
Pembina Pipeline	PPL	37.42	41.98	1	12.19%
Suncor	SU	37.24	36.90		(0.91%)
TD Bank	TD	50.06	55.51		10.90%
WestJet Airlines	WJA	27.85	33.36		19.78%
Average price-only return for top 10 list					24.05% *
S&P / TSX Composite Index		13,621.5	14,632.4		7.42%
Outperformance (Underperformance)					*16.62%*

Notes:

1 - Closing price as of March 31, 2014, when removed from PAG recommended list

2 - Closing price as of November 24, 2014, when removed from PAG recommended list

* Top 10 list average return would have been 23.89% if all candidates were held until Dec 31, 2014

Source: Bloomberg, ScotiaMcLeod PAG.

The top performing stock on our 2014 list was Alimentation Couche-Tard (ATD.b), which we had chosen for its attractive valuation, non-CAD exposure, and its track record for accretive acquisitions. The stars did indeed align for the company in 2014 as its forward P/E multiple expanded 6 multiple points to the current 22.3x, it was added to the well-followed S&P/TSX 60 Index, and it announced a $2.0 billion acquisition of The Pantry (PTRY). While we like the company's business model and defensive qualities, the current valuation has prevented us from renewing it on this year's list.

Magna International (MG), which has been on our top 10 list for three consecutive years (for a combined price appreciation of 270%!), was the second best performer. A recovery in U.S. auto sales to pre-recession levels has lifted Magna's top line and margins. While valuation remains relatively attractive (10.6x NTM P/E, 6.2x NTM EV/EBITDA) and prospects for further traction in its U.S. business exists, we are concerned about its European operations which account for over 40% of revenue. It is for this latter reason that Magna did not make our 2015 list, and was replaced with Linamar (LNR) instead.

We did not foresee the collapse in oil prices and the broad energy sector in 2014. Though our 2014 list was overweight energy (3 picks out of 10), we were fortunate in selecting defensive names that held up very well. Suncor (SU), the worst performer among our 2014 picks, declined 0.9% in 2014 while other oil producers witnessed material drops in share price. Our other two energy picks, Enbridge (ENB) and Pembina (PPL), are inherently more defensive due to their limited commodity price exposure. After a burst out of the gate, we recommended taking profit on PPL at the end of March 2014 after the stock appreciated 12%. PPL would go on to gain as much as 41% during the year but then declined amidst the energy sector sell-off and has returned almost to where it was at the end of March. Due to a visible growth pipeline and reasonable valuation, PPL has made it back to our 2015 list.

Within the financial sector, TD Bank (TD) and Manulife (MFC) turned in respectable performance that was in line with our expectations. Intact Financial (IFC), a home and auto insurer, pulled ahead due to consistent earnings improvement and lower interest rate sensitivity compared with TD and MFC.

Agrium (AGU) and WestJet (WJA) proved to be solid picks, though they oscillated between loss and gain territory throughout the year. We recommended taking profit on AGU in late-November, and the stock has traded modestly below our selling price since.

Top 10 U.S. Stock Picks for 2015

Marco Martin – International Equity Consultant, Portfolio Manager, Portfolio Advisory Group

Caroline Escott – Director, Portfolio Manager, Portfolio Advisory Group

- **U.S. equities outperformed every other developed market in 2014 with a third straight year of double digit gains. The U.S. equity market will likely lead the world in 2015 with the rebound of the U.S. economy and the rise of the consumer.**
  - This year's top 10 picks are (in alphabetical order): Celgene Corp. (CELG), Citigroup Inc. (C), CVS Health Corp. (CVS), EOG Resources Inc. (EOG), Google Inc. (GOOGL), McKesson Corp. (MCK), Ryder System Inc. (R), SanDisk Corp. (SNDK), Simon Property Group Inc. (SPG), Starbucks Corp. (SBUX).
- **The 2014 list of top picks significantly outperformed the S&P 500 Index.**
  - Average gain of 16.75% for 2014's top 10 picks, 536 bps of outperformance over the S&P 500 Index's 11.39% gain last year.

Our stock picks for 2015 have a cyclical orientation, which is aligned with our view that global economic growth will likely accelerate throughout the year. Most of the companies on our list are trading at discounts to their peers, and we believe offer compelling upside potential.

U.S. Top 10 Picks for 2015 – Concensus Data *

Company	Ticker	Dec. 31, 2014	Dividend	Yield	Bloomberg Consensus Target	Potential Total Return	Bloomberg ratings			Market Cap. (millions)
							Buy	Hold	Sell	
CELGENE CORP	CELG	$111.86	$0.00	0.0%	$120.50	8%	25	3	1	$89,343
CITIGROUP INC	C	$54.11	$0.04	0.1%	$60.52	12%	22	11	2	$163,926
CVS HEALTH CORP	CVS	$96.31	$1.40	1.5%	$102.67	8%	23	5	0	$110,408
EOG RESOURCES INC	EOG	$92.07	$0.67	0.7%	$106.26	16%	34	6	0	$50,455
GOOGLE INC-CL A	GOOGL	$530.66	$0.00	0.0%	$645.21	22%	46	11	0	$358,420
MCKESSON CORP	MCK	$207.58	$0.96	0.5%	$228.91	11%	20	2	1	$48,134
RYDER SYSTEM INC	R	$92.85	$1.48	1.6%	$102.54	12%	13	4	0	$4,925
SANDISK CORP	SNDK	$97.98	$1.20	1.2%	$110.97	14%	30	8	1	$21,619
SIMON PROPERTY GROUP INC	SPG	$182.11	$5.20	2.9%	$197.90	12%	22	6	0	$57,241
STARBUCKS CORP	SBUX	$82.05	$1.28	1.6%	$90.85	12%	25	6	0	$61,398
Average				1.0%		13%				

* U.S. Dollar

Source: Bloomberg, ScotiaMcLeod PAG.

Our previous top ten lists traditionally had placed emphasis in U.S. multinationals, but this year we include three companies that are primarily exposed to the rebound of the U.S. economy and the rise of the consumer. These companies are CVS Health, Simon Property Group and Ryder. Our recommendation to buy EOG Resources is driven largely by the stock's attractive valuation, strong balance sheet and cash flow generation, the expectation of a rebound in oil prices and the belief the shares will be re-valued as the industry recovers from oversold levels. We are more optimistic on U.S. Financials generally, and Citigroup is benefitting from improving asset quality, resurgence in lending, expanding interest spreads and high levels of capital. We have also included a Biotech company for the second year in a row, Celgene, whose core business is performing very well as the company is capturing a growing share of the expanding market for molecular biology. Its focus is helping patients fight Cancer and HIV. From a thematic perspective, exposure to the rise in consumer spending, we are including Starbucks and Simon Property Group. Starbucks is well positioned to continue delivering strong growth results and margin expansion. Simon continues to deliver solid results and has raised its guidance in several occasions, given continued tenant demand for its premium assets.

U.S. equities outperformed every other developed market in 2014 with a third straight year of double digit gains. In 2014, the DOW and the S&P 500 reached new all-time highs as earnings grew and the valuation multiples expanded further. The S&P 500 delivered a strong 21.74% gain in Canadian dollar terms (11.39% in USD), outperforming the TSX Composite Index by 14.3%. Within the S&P 500, mixtures of defensive and cyclical sectors have outperformed. However, we expect that cyclical sectors will lead the market through 2015.

Companies worth mentioning include Royal Caribbean and CVS Health Corp., which achieved returns of 73.8% and 34.6% respectively. Both Royal Caribbean and CVS Health Corp. benefited from strong sales and undervalued positions. The two largest underperformers were Halliburton and Qualcomm. Halliburton reported strong earnings thru the year and made bid to acquire its competitor Baker Hughes. However, with a rapid decline in oil prices that position went from being up 45% in the year to down 22.5%. Qualcomm end up flat as it reported a weaker than expected Q4 and also issued guidance for FY15 below expectations as the issues in China are expected to persist into 2015 and there is still a lack of clarity on the situation.

Performance of 2014 U.S. Top 10 List

Company	Ticker	Price 12/31/13	Price 12/31/14	See notes	Change
HALLIBURTON CO	HAL	50.75	39.33		(22.5%)
QUALCOMM INC	QCOM	74.25	74.33		0.1%
ROYAL CARIBBEAN CRUISES LT	RCL	47.42	82.43		73.8%
EMC CORP/MA	EMC	25.15	29.74		18.3%
CITIGROUP INC	C	52.11	54.11		3.8%
CVS HEALTH CORP	CVS	71.57	96.31		34.6%
JPMORGAN CHASE & CO	JPM	58.48	62.58		7.0%
GILEAD SCIENCES INC	GILD	75.10	94.26		25.5%
RYDER SYSTEM INC	R	73.78	92.85		25.8%
UNITED TECHNOLOGIES CORP	UTX	113.80	115.00		1.1%
Average price-only return for top 10 list					16.8%
S&P 500 Index		1,848.4	2,058.90		11.4%
Outperformance					***5.4%***

Notes:

Source: Bloomberg, ScotiaMcLeod PAG.

Financial Planning

Staying Financially Fit during Turbulent Times

Financial Planning & Advisory Services

Overview

Financial planning is the key to staying fit during turbulent times. It is the process of creating a roadmap for your financial future. A written financial plan shows you where you are currently, where you want to go and how you will get to your final destination. A solid financial plan will focus on achieving your goals – short and long term – using a number of different strategies along the way.

So what should you do during a declining market to stay financially fit? The answer is quite simple – stick to your plan. During this time of market volatility meet with your Wealth Advisor and review your financial plan to ensure you are still on track to meeting your goals; such as retirement, children's education or other life events. If you don't have a plan with clearly defined goals, we strongly suggest you create one with a professional that covers all planning aspects including investment, estate, retirement, tax and insurance planning. We will help fine-tune your investment portfolio during turbulent times to ensure you can meet your stated goals.

Here are some basic strategies to consider during a declining market to help you stay on track to meeting your goals.

Stay Focused

Try not to make impulsive decisions based on emotions. Stick to your financial plan and think about the long-term picture. When you hear about a downward trend of the market your immediate reaction might be to sell long-term equities to avoid further loss. While this is a tempting strategy; do not give in to your temptations. By remaining invested you give your portfolio the opportunity to recover any paper losses in the long run.

Maintain a Diversified Portfolio

Look at your existing investments and determine whether your funds have been allocated appropriately and according to your varying goals. A diversified portfolio consisting of stocks, bonds and cash investments tends to minimize risks. Revisit your portfolio periodically with your Wealth Advisor so that you can take advantage of the declining market and rebalance your portfolio.

Continue Regular Contributions

By making regular contributions to your investment plans you will mitigate short-term investment risks in a volatile marketplace. When you invest on a regular basis, not only are you contributing consistently but you are also benefiting by purchasing more with the same contribution amount. In a declining market you will be able to buy more investment units at a lower price. Moreover, if you meet the necessary requirements, you can also discuss borrowing to invest with your Wealth Advisor.

Work with a Trusted Financial Advisor

Organizing your finances is not an easy task and may seem fairly daunting, especially during turbulent economic times. You might feel overwhelmed to make investment decisions or you might want to go over your investment strategy with a professional. Your Wealth Advisor and their team of experts have the necessary experience and expertise to help you focus your priorities, allocate your funds properly and to select the specific financial products that will meet your financial objectives.

Contact your ScotiaMcLeod Wealth Advisor today.

ScotiaMcLeod Canadian Income Plus Guided Portfolio

Warren Hastings – Associate Director, Portfolio Advisory Group

Performance Update

During Q4F14, the portfolio delivered a total return including dividends of +0.3%*, exceeding the benchmark (Dow Jones Canada Select Dividend index) total return of -1.0%.

We hold three banks in the portfolio, with Toronto-Dominion Bank (TD) and Royal Bank of Canada (RY) generating virtually identical returns (+1.3% and +1.2%, respectively). After selling off in mid-October, similar to the broader equity market, the shares of both banks staged a rally into late November, only to sell off in December as Canadian banks reported quarterly results. RY's Q4F14 earnings were roughly in line with estimates, resulting in little change to analysts' F15 estimates. However, after TD reported an approximately 7% earnings miss in Q4F14 (related to weakness in the bank's U.S. segment), analysts saw fit to trim their forecasts. Bank of Nova Scotia (BNS) had a total return of -3.4% in the quarter, hampered by a restructuring announced in early November, emerging markets exposure, a slight (1%) earnings miss in Q4F14, and an uninspiring outlook for the next couple of quarters.

The portfolio's only insurance name, Manulife Financial Corp. (MFC), generated a +3.7% total return (POW has insurance exposure but was only added in late November, as noted in the Changes section below). MFC shares were volatile during the quarter, touching a low of $19.46 on October 15 as investors rushed into safe-haven bonds, driving yields lower (negative for lifeco earnings) before rebounding 18% to $23.01 on December 5. The shares were little impacted by benign Q3F14 EPS (a penny shy of the $0.40 consensus estimate). The portfolio's sole real estate holding, Brookfield Property Partners (BPY.un), was the best-performing financial, delivering a +13.5% total return supported by a higher NAVPU (Q3F14 IFRS NAVPU +2.5% QOQ) and an increased distribution growth target.

The portfolio has three telecom and cable holdings, of which Shaw Communications (SJR/B-TSX) once again provided the best total return (+15.3%). Shaw was also the portfolio's best-performing equity during the quarter. After reporting better than expected earnings results on October 23, the shares moved sharply higher, potentially supported by investors seeking a "safe haven" from the volatile energy and resource sectors and/or as an alternative to the increasingly competitive and politically fraught Canadian wireless industry. TELUS Corp. (T) was the second-best telco/cable equity, delivering a +10.6% total return. The shares staged a strong rally from mid-October to mid-November, likely supported by funds flow away from more volatile sectors of the market, a Q3F14 earnings beat, and a 5% dividend boost. Rogers (RCI/B-TSX) delivered its only positive quarterly return of 2014 at +8.9%. Despite weak Q3F14 results that missed expectations and an outlook clouded by the potential emergence of a recapitalized fourth national wireless service provider, the shares performed admirably, particularly in November as investors sought equities with more defensive characteristics.

The energy sector was severely challenged in the quarter by the decline in crude oil prices (WTI -42% in US$ terms). We took steps to reduce the portfolio's downside risk and enhance dividend sustainability, notably by switching from Baytex (BTE-TSX) into Cenovus (CVE-TSX) as described in the Changes section below. Our remaining energy E&P exposure was of sufficiently high quality in our estimation to warrant maintaining positions. Of these two names, PrairieSky (PSK) was the best performer, declining 12% and outperforming the S&P/TSX Oil & Gas E&P subindex (-30% total return) by a wide margin. This was likely a result of PSK's best-in-class balance sheet (no debt), relatively low payout ratio, and royalty business model (few opex or capex commitments). PSK also announced the equity-financed acquisition of Range Royalty LP during the quarter and with it, a 2% dividend increase. Crescent Point Energy Corp. (CPG-TSX) slightly underperformed (-32%) the subindex as investors contemplated the sustainability of CPG's dividend. While the company's payout ratio is higher than those of the portfolio's other E&P holdings, CPG has admirably and deliberately maintained a low leverage ratio over the years (one of the upsides of

equity financed acquisitions) along with a strong hedge book, supporting cash flow and the monthly distribution. CPG's track record (it has never cut its dividend, even during the 2008/2009 downturn) also bolstered the case for holding the shares. The portfolio's more defensive energy holdings comprise midstream and pipeline companies. Of these, only one, Enbridge (ENB-TSX), was held throughout the quarter and delivered a very respectable +12.2% total return. Investors bid up the shares after the company announced in early December a significant "drop down" restructuring of its Canadian oil pipeline assets and an increase in its target EPS payout ratio, paving the way for accelerated dividend growth. The final energy equity in the portfolio, midstream company Pembina Pipeline Corporation (PPL-TSX), was added during the quarter as we switched out of TransCanada Corporation (TRP-TSX) as described in the Changes section below.

Brookfield Renewable Energy Partners (BEP.un-TSX) is the only utility held in the portfolio and delivered a +6.4% total return. The units pulled back in late November/early December along with the broader equity market but otherwise traded in a fairly narrow range. During the quarter, BEP.un announced the acquisition of a portfolio of Brazilian renewable power assets with an enterprise value of US$935M.

Changes:

We made three switch trades within the portfolio during the quarter. On November 6, we removed Baytex and added Cenovus, making a parallel shift within the energy sector into a more defensive name (lower leverage) to capture much of the upside that could come from a stabilization in crude oil prices while mitigating further downside potential and enhancing the portfolio's dividend sustainability. This trade generated a +25% relative return. On November 24, we removed Agrium (AGU) and added Power Corp. (POW), a trade that generated a positive relative return of +2.8%. We took advantage of a run-up in AGU shares related to news an activist investor had taken a stake in the company and flooding of a Russian potash mine, seeing better value in POW and improving fundamentals within the Power Group of companies (GWO and IGM). Finally, on Dec. 8, we switched out of TransCanada Corp. (TRP) and into Pembina Pipeline Corp. (PPL) This proved to be our only losing switch trade of the quarter (-1.5% relative return), but we still believe the rationale was sound – PPL had a superior growth profile, similar valuation, and a better dividend yield, and yet its shares had underperformed the peer group.

**Assumes target weightings at the beginning of the measurement period and no subsequent rebalancing.*

Canadian Income Plus Guided Portfolio

Company Name	Symbol	Bloomberg Rating (#/5)	ScotiaMcLeod Risk Rating	Price 05-Jan-15	Dvd	Dvd Yield	Bloomberg Tgt Price	Target ROR	Target Ptf Wgt(%)
Consumer Discretionary									
SHAW COMMUNICATIONS INC-B	SJR/B	3.2	Medium	$31.47	$1.10	3.5%	$28.37	-6.4%	6.7%
Consumer Staples									
No Holdings									
Energy									
CENOVUS ENERGY INC	CVE	3.8	Medium	$23.29	$1.07	4.6%	$28.02	24.9%	6.7%
CRESCENT POINT ENERGY CORP	CPG	4.4	Medium	$25.82	$2.76	10.7%	$38.44	59.6%	6.7%
ENBRIDGE INC	ENB	4.1	Medium	$59.37	$1.86	3.1%	$61.80	7.2%	6.7%
PRAIRIESKY ROYALTY LTD	PSK	3.7	Medium	$29.86	$1.30	4.4%	$38.25	32.5%	6.7%
PEMBINA PIPELINE CORP	PPL	4.0	Medium	$41.99	$1.74	4.1%	$51.58	27.0%	6.7%
Financials									
BANK OF NOVA SCOTIA	BNS	3.6	Medium	$64.11	$2.64	4.1%	$73.19	18.3%	6.7%
ROYAL BANK OF CANADA	RY	4.0	Medium	$79.09	$3.00	3.8%	$88.01	15.1%	6.7%
TORONTO-DOMINION BANK	TD	4.3	Medium	$53.99	$1.88	3.5%	$59.54	13.8%	6.7%
BROOKFIELD PROPERTY PARTNERS	BPY-U	5.0	Medium	$27.03	$1.12	4.2%	$28.94	11.3%	6.7%
MANULIFE FINANCIAL CORP	MFC	4.7	Medium	$21.68	$0.62	2.9%	$25.40	20.0%	6.7%
POWER CORP OF CANADA	POW	4.0	Medium	$31.28	$1.16	3.7%	$34.64	14.5%	6.7%
Health Care									
No Holdings									
Industrials									
No Holdings									
Information Technology									
No Holdings									
Materials									
No Holdings									
Telecommunication Services									
ROGERS COMMUNICATIONS INC-B	RCI/B	3.3	Medium	$45.57	$1.83	4.0%	$45.11	3.0%	6.7%
TELUS CORP	T	3.7	Medium	$42.01	$1.60	3.8%	$42.74	5.5%	6.7%
Utilities									
BROOKFIELD RENEWABLE ENERGY	BEP-U	4.0	Medium	$36.98	$0.00	0.0%	$37.85	2.4%	6.7%
Cash									0.0%
Portfolio Average						4.0%		16.6%	

Source: Bloomberg.

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ScotiaMcLeod Canadian Core Guided Portfolio

Warren Hastings – Associate Director, Portfolio Advisory Group

Performance Update

During Q4F14, the portfolio delivered a total return including dividends of +2.1%*, exceeding the benchmark (S&P/TSX 60 Index) total return of -0.4%.

We hold three banks in the portfolio, with Toronto-Dominion Bank (TD) and Royal Bank of Canada (RY) generating virtually identical returns (+1.3% and +1.2%, respectively). After selling off in mid-October, similar to the broader equity market, the shares of both banks staged a rally into late November, only to sell off in December as Canadian banks reported quarterly results. RY's Q4F14 earnings were roughly in line with estimates, resulting in little change to analysts' F15 estimates. However, after TD reported an approximately 7% earnings miss in Q4F14 (related to weakness in the bank's U.S. segment), analysts saw fit to trim their forecasts. Bank of Nova Scotia (BNS) had a total return of -3.4% in the quarter, hampered by a restructuring announced in early November, emerging markets exposure, a slight (1%) earnings miss in Q4F14, and an uninspiring outlook for the next couple of quarters.

Amongst the portfolio's two insurance names held for the entirety of the quarter (POW has insurance exposure but was only added in late November, as noted in the Changes section below), Manulife Financial Corp. (MFC) and Intact Financial (IFC) once again traded places in terms of relative performance with IFC taking the lead in Q4 with a +16.3% total return (the best performer among the portfolio's financials holdings). The major driver was better than expected underwriting profitability in Q3F14, which led to a sizable earnings beat ($1.37 adjusted EPS versus $1.08 consensus estimate). MFC shares were volatile during the quarter, touching a low of $19.46 on October 15 as investors rushed into safe-haven bonds, driving yields lower (negative for lifeco earnings) before rebounding 18% to $23.01 on December 5. The shares were little impacted by benign Q3F14 EPS (a penny shy of the $0.40 consensus estimate) and over the course of the quarter generated a +3.7% total return. The portfolio's sole real estate holding, Brookfield Property Partners (BPY.un), was the second best financial, delivering a +13.5% total return supported by a higher NAVPU (Q3F14 IFRS NAVPU +2.5% QOQ) and an increased distribution growth target.

The portfolio has two telecom and cable holdings. Shaw Communications (SJR/B-TSX) once again provided the better total return (+15.3%). After reporting better than expected earnings results on October 23, the shares moved sharply higher, potentially supported by investors seeking a "safe haven" from the volatile energy and resource sectors and/or as an alternative to the increasingly competitive and politically fraught Canadian wireless industry. Rogers (RCI/B-TSX) delivered its only positive quarterly return of 2014 at +8.9%. Despite weak Q3F14 results that missed expectations and an outlook clouded by the potential emergence of a recapitalized fourth national wireless service provider, the shares performed admirably, particularly in November as investors sought defensive alternatives to more volatile sectors of the market.

The best performing name in the portfolio was once again its sole consumer staples holding, Couche-Tard (ATD/B), which generated a +36% total return (following +23% in Q3 2014!). December was ATD/B's best month of the quarter driven by the announcement of its acquisition of The Pantry (PTRY-US) and its inclusion in the S&P/TSX 60 index. The second best performer in the portfolio was the sole consumer discretionary holding, Magna International Inc. (MG-TSX), which generated a +18.8% total return. In the early part of October, the shares continued a slide that began in mid-September related to MG's announced cooperation with a Brazilian antitrust investigation and a deteriorating economic backdrop in Europe (where Magna derives ~40% of its revenue). However, this slide fully reversed itself over the balance of Q4/2014 as MG reported a convincing Q3F14 earnings beat and modestly increased guidance.

Both of the portfolio's industrial names, WestJet (WJA-TSX) and Canadian National Railway Co. (CNR-TSX), saw share price performance moderate in the fourth quarter of 2014 relative to the third, but returns remained in positive territory. WJA once again was the better of the two, generating a +6.6% total return supported by declining fuel prices, strong November traffic and load factor results, and several analyst

upgrades. This more than offset weakness tied to a modest Q3F14 earnings miss. CNR shares traded in a volatile, roughly $15 range during the quarter, but ultimately generated a +1.0% total return. Strong Q3F14 results and prospects of a sizable dividend increase in Jan/2015 helped propel shares in October and November. However, the shares reversed course and began to slide following OPEC's Nov. 27/2014 decision not to cut production, which precipitated further declines in crude oil prices and sparked investor concerns about the potential of CNR's crude-by-rail business, a key earnings growth driver.

The energy sector was severely challenged in the quarter by the decline in crude oil prices (WTI -42% in US$ terms). We took steps to reduce the portfolio's downside risk and enhance dividend sustainability, notably by switching from Baytex (BTE-TSX) into Cenovus (CVE-TSX) as described in the Changes section below. Our remaining energy E&P exposure was of sufficiently high quality in our estimation to warrant maintaining positions. Of these three names, Suncor (SU-TSX) was the best performer, declining 8% and outperforming the S&P/TSX Oil & Gas E&P subindex (-30% total return) by a wide margin. This was likely a result of SU's best-in-class balance sheet, relatively low payout ratio, and integrated business model. Canadian Natural Resources (CNQ-TSX) also outperformed the E&P subindex with a -17% total return, with a strong balance sheet and relatively low payout ratio supporting the shares, along with investor confidence in the scale advantages available to one of the world's largest independent producers. Crescent Point Energy Corp. (CPG-TSX) slightly underperformed (-32%) the subindex as investors contemplated the sustainability of CPG's dividend. While the company's payout ratio is higher than those of the portfolio's other E&P holdings, CPG has admirably and deliberately maintained a low leverage ratio over the years (one of the upsides of equity financed acquisitions) along with a strong hedge book, supporting cash flow and the monthly distribution. CPG's track record (it has never cut its dividend, even during the 2008/2009 downturn) also bolstered the case for holding the shares. The final energy equity in the portfolio, midstream company Pembina Pipeline Corporation (PPL-TSX), was added during the quarter as we switched out of TransCanada Corporation (TRP-TSX) as described in the Changes section below.

Emera (EMA-TSX) is the portfolio's only utility holding, and had its second best quarter of 2014 delivering a +11.4% total return after largely flat-lining for much of Q2 and Q3. Share price momentum continued in October after the company established a 6% dividend CAGR target over the next five years at the end of Q3. The shares likely also benefitted from the defensive nature of the utility sector, which outperformed the broader S&P/TSX by 651 bps during the quarter.

Returns in the materials space were mixed. On the one hand, Agrium Inc. (AGU-TSX) delivered a nearly 13% total return before we took advantage of the advance and switched into Power Corporation of Canada (POW-TSX) as noted in the Changes section below. On the other hand, Teck Resources Ltd. (TCK/B-TSX) slumped nearly 23% on a total return basis as met coal prices remained under pressure and copper prices weakened amidst ongoing uncertainty over Chinese economic growth prospects. Teck's 20% equity interest in the Fort Hills oil sands project, whose development will require substantial capital investment through 2017, likely also weighed on TCK/b shares during the quarter as oil prices plummeted, along with concerns about the company's dividend sustainability.

Changes

We made three switch trades within the portfolio during the quarter. On November 6, we removed Baytex and added Cenovus, making a parallel shift within the energy sector into a more defensive name (lower leverage) to capture much of the upside that could come from a stabilization in crude oil prices while mitigating further downside potential and enhancing the portfolio's dividend sustainability. This trade generated a +25% relative return. On November 24, we removed Agrium (AGU-TSX) and added Power Corp. (POW-TSX), a trade that generated a positive relative return of +2.8%. We took advantage of a run-up in AGU shares related to news an activist investor had taken a stake in the company and flooding of a Russian potash mine, seeing better value in POW and improving fundamentals within the Power Group of companies (GWO and IGM). Finally, on Dec. 8, we switched out of TransCanada Corp. and

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into Pembina Pipeline Corp. This proved to be our only losing switch trade of the quarter (-1.5% relative return), but we still believe the rationale was sound – PPL had a superior growth profile, similar valuation, and a better dividend yield, and yet its shares had underperformed the peer group.

**Assumes target weightings at the beginning of the measurement period and no subsequent rebalancing.*

Canadian Core Guided Portfolio

Company Name	Symbol	Bloomberg Rating (#/5)	ScotiaMcLeod Risk Rating	Price 05-Jan-15	Dvd	Dvd Yield	Bloomberg Tgt Price	Target ROR	Target Ptf Wgt(%)
Consumer Discretionary									
MAGNA INTERNATIONAL INC	MG	3.9	Medium	$126.84	$1.71	1.3%	$138.92	10.9%	5.0%
SHAW COMMUNICATIONS INC-B	SJR/B	3.2	Medium	$31.45	$1.10	3.5%	$28.37	-6.3%	5.0%
LINAMAR CORP	LNR	4.8	High	$69.39	$0.40	0.6%	$75.43	9.3%	5.0%
Consumer Staples									
EMPIRE CO LTD 'A'	EMP/A	3.7	Medium	$88.92	$1.08	1.2%	$90.15	2.6%	5.0%
Energy									
CENOVUS ENERGY INC	CVE	3.8	Medium	$23.30	$1.07	4.6%	$28.02	24.8%	5.0%
CANADIAN NATURAL RESOURCES	CNQ	4.4	Medium	$34.09	$0.90	2.6%	$43.55	30.4%	5.0%
CRESCENT POINT ENERGY CORP	CPG	4.4	Medium	$25.84	$2.76	10.7%	$38.44	59.4%	5.0%
SUNCOR ENERGY INC	SU	4.3	Medium	$35.63	$1.12	3.1%	$43.25	24.5%	5.0%
PEMBINA PIPELINE CORP	PPL	4.0	Medium	$41.99	$1.74	4.1%	$51.58	27.0%	5.0%
Financials									
BANK OF NOVA SCOTIA	BNS	3.6	Medium	$64.11	$2.64	4.1%	$73.19	18.3%	5.0%
TORONTO-DOMINION BANK	TD	4.3	Medium	$54.01	$1.88	3.5%	$59.54	13.7%	5.0%
ROYAL BANK OF CANADA	RY	4.0	Medium	$79.11	$3.00	3.8%	$88.01	15.0%	5.0%
MANULIFE FINANCIAL CORP	MFC	4.7	Medium	$21.67	$0.62	2.9%	$25.40	20.1%	5.0%
INTACT FINANCIAL CORP	IFC	4.0	Medium	$83.93	$1.92	2.3%	$82.46	0.5%	5.0%
BROOKFIELD PROPERTY PARTNERS	BPY-U	5.0	Medium	$27.03	$1.12	4.2%	$28.94	11.3%	5.0%
POWER CORP OF CANADA	POW	4.0	Medium	$31.26	$1.16	3.7%	$34.64	14.5%	5.0%
Health Care									
No Holdings									
Industrials									
CANADIAN NATL RAILWAY CO	CNR	3.6	Medium	$78.65	$1.00	1.3%	$82.99	6.8%	5.0%
Information Technology									
No Holdings									
Materials									
TECK RESOURCES LTD-CLS B	TCK/B	3.6	High	$15.52	$0.90	5.8%	$22.72	52.2%	2.5%
LUNDIN MINING CORP	LUN	4.4	High	$5.56	$0.00	0.0%	$7.58	36.3%	2.5%
Telecommunication Services									
ROGERS COMMUNICATIONS INC-B	RCI/B	3.3	Medium	$45.54	$1.83	4.0%	$45.11	3.1%	5.0%
Utilities									
EMERA INC	EMA	3.5	Medium	$38.92	$1.55	4.0%	$38.78	3.6%	5.0%
Cash									0.0%
Portfolio Average						3.4%		16.7%	

Source: Bloomberg.

ScotiaMcLeod U.S. Core Guided Portfolio

Caroline Escott – Portfolio Manager, Portfolio Advisory Group

Q4 Overview

Equities were very volatile in the fourth quarter with broad-based weakness in early October as the S&P 500 fell approximately 5.5% in the first two weeks of the quarter. The weakness was fuelled by increasing concerns about slowing global economic growth, particularly in the Eurozone, disinflationary pressures from falling oil prices, the end of the quantitative easing program in the U.S. and the spread of the Ebola virus. In addition, the IMF downgraded its forecast for global economic growth for this year and noted there was a 40% chance that the Eurozone could fall into recession. A surprise announcement by the Bank of Japan on October 31st with regards to the extension of its qualitative and quantitative easing program added support to risk assets through November with markets subsequently reaching new highs in early December, only to experience another 5% decline in mid-December. Overall, the S&P 500 delivered a relatively healthy total return of 4.9% in the quarter. After delivering better than market returns for the first three quarters of this year, unfortunately the US Core Guided Portfolio underperformed the benchmark in Q4 with a total return of 0.7%. The biggest detractor of performance for the portfolio was the Energy exposure. The sector declined 10.7% while the energy holdings in the portfolio fell 28.8%.

The price of crude oil fell 48% last year, and has declined 37% since OPEC affirmed its output target on November 27. That decision seems to be aimed at preserving OPEC's market share for years to come, although it is negatively impacting revenues of OPEC members in the near-term. This decline in crude oil prices has sent shockwaves through global financial markets. The collapse of the Russian stock market and the ruble has been meaningful given the country's heavy reliance on crude exports.

While the rapid decline in crude oil is very negative for many countries (oil exporters), it's quite positive for the US economy given that 70% of US GDP is derived from consumer spending. This fall in energy prices and end-products (ie gasoline prices) is a windfall tax cut for U.S. households and global consumers, similar to a form of fiscal stimulus.

Outlook

We continue to have a positive outlook for the US economy and believe US equities will be one of the asset classes that perform well in 2015. U.S. economic data has been quite strong over the past few quarters, and the economy remains on fairly healthy footing. The household sector, which accounts for approximately 70% of GDP continues to strengthen, and is now stronger than it has been during this expansion. As we noted above, the collapse in the price of oil has been a windfall tax cut for U.S. consumers with economists suggesting that the decline in gasoline prices represents approximately $120 billion windfall for the consumer, which is equivalent to roughly 0.7% of GDP.

With the Federal Reserve ending its bond buying program in October, the market's focus is now squarely on the timing of the first rate hike by the U.S. Federal Reserve, which is expected to occur either late 2015 or early 2016.

We continue to recommend an overweight stance in equities but expect moderate gains over the next 1-2 years. However, we continue to recommend holding higher than average cash balances, with an aim of deploying this cash during instances of market volatility. While recent acceleration in the U.S. job market and other key economic barometers bode well for corporate earnings growth in the U.S., the weak outlook in Europe and continued strength in the US dollar may put some pressure on earnings estimates in the near-term. We are of the view that economic data in the U.S. will continue to improve, but with the recent changes to global economies, we could see additional volatility in the underlying data.

Performance Update

The financials delivered positive returns, although MetLife was only up 0.7% in the quarter, after trading in a wide range between $48 and $56 throughout the quarter. Banks and insurance companies generally underperformed the overall sector as the sector return was driven by Real Estate Investment Trusts (REITS), many of which delivered returns in excess of 15%. While the U.S. banks have reported weaker than expected results in Q3 and Q4, we continue to have a positive bias towards US financials and believe they will perform well in 2015 given the strong capital positions combined with leading market positions and attractive valuation levels.

Verizon (VZ) performed poorly in the quarter, falling 6.4% on concerns about increased competition in the wireless industry in the U.S. While the industry is facing some near-term pressure, VZ is very well positioned with industry leading assets, strong cash flow, and we believe the company will grow its dividend at a better than industry average.

Consumer Discretionary and Consumer Staples stocks performed well, with all of the positions outperforming the market. Royal Caribbean (RCL) was the best performing stock in the portfolio with a price return of 22.5%, followed closely by CVS Health (CVS) at 21.0%.

The performance within HealthCare was quite mixed, as Gilead (GILD) had a decline of 11.5%, which pulled the overall performance of the group down. On average, our holdings delivered a positive return of 2.6%, while the sector returned 7.5%. Gilead has subsequently recovered, but was initially impacted by news that Express Scripts had entered into an exclusive agreement with Abbvie for its Hepatitis C drug, causing concerns about Gilead's future sales of its Hepatitis C drug, Sovaldi. Gilead has since announced its own agreement with CVS Health and Aetna, alleviating investor fears about the future outlook for sales. In addition to Gilead's underperformance, Roche was also a detractor in the quarter, falling 8.1%.

Within our Industrial positions, the returns were very mixed with Union Pacific (UNP) leading on the upside with a return of 9.9% while Fluor Corp (FLR) led to the downside with a decline of 9.2% as the market remains concerned about the company's exposure to the oil gas industry (see additional commentary in the Changes section below).

There were five technology names in the portfolio in Q4, and similar to the Industrial positions, the performance of the technology positions was very mixed. Oracle (ORCL) was the leader by a wide margin, delivering a 17.5% return while Google (GOOG) was the laggard, declining 9.8% in the quarter. Google has been under pressure on concerns that it is losing market share to Yahoo and Facebook. While Google may continue to lose market share in the near-term as it has been the undoubted leader in its business and its not surprising that other players are starting to move into its space, we believe the company remains well positioned to deliver attractive results given its dominant market position. The company is well positioned to benefit from the continued growth in Core Search and the Mobile business, while trading at an attractive valuation.

The biggest detractor of performance in the portfolio was its Energy exposure, with the sector declining 11.3% while our energy holdings fell 28.8%, on average. The underperformance was largely driven by Halliburton (HAL), which fell 39% in the quarter, and also Apache (APA), which fell 33% in the quarter. While Anadarko (APC) also fell more than the sector, with a decline of 18.7%, it was the best performing energy stock in the portfolio. The sector's performance within the benchmark was helped significantly by a few stocks that returned positive double digit returns (21.9% from Tesoro and 10.4% from Kinder Morgan). Generally, the energy producers and services companies were the worst performers in the sector, while the refiners, integrateds and pipelines performed reasonably well, as they are less sensitive to commodity prices.

Changes:

In early October we sold half the Verizon (VZ) position and added to the existing Fluor (FLR) position. We felt the weakness in FLR had created an attractive opportunity to add to an underweight position. While the stock has continued to decline with the weakness in oil and gas prices, we believe the stock is currently pricing in a very conservative assumption and that it more than reflects the risk tied to the oil and gas exposure. The majority of FLR's oil and gas backlog are downstream projects, which are much less susceptible to movements in commodity prices. A competitor firm believes the current stock price appears to suggest that FLR is going to have 25% of its backlog cancelled, an assumption which we feel is too conservative.

On October 20th we reduced United Technologies (UTX) and Ryder Systems (R) and sold out of the General Electric (GE) position completely. This was done in order to raise cash balances and redistribute some of our Industrials exposure into Union Pacific (UNP) and Honeywell (HON), both of which offer attractive exposure to U.S. economic growth and provide additional diversification within the Industrials exposure.

On November 19th we shifted our Energy exposure to a more defensive position with the sale of Apache and a reduction in Halliburton and the addition of ConocoPhillips (COP). While COP has fallen with all energy stocks, it has outperformed APA and HAL since that trade was done, as we expected. HAL has declined 21.9%, APA has declined 19.4% while COP is down 13.8% since November 18th. COP is a more defensive energy company as it has completed the majority of its asset sales and is expected to generate above average returns on invested capital and strong operating cash flows. COP remains focused on shareholder returns and profitable volume growth.

On November 24th we reduced Comcast (CMCSA) and added a position in Walt Disney (DIS). While we continue to have a positive view of CMCSA, we reduced the position as we felt the stock could be at risk of increased volatility surrounding the regulatory review of the proposed merger between CMCSA and TWC. We believe that DIS offers similar exposure to the attractive media sector without the risk associated with the possible FCC reclassification of cable providers (net-neutrality). DIS is very well positioned within its peer group of media companies given its strong pipeline of branded films, strong momentum at the Parks and an unmatched Media Networks franchise.

U.S. Core Guided Portfolio

Company Name	Symbol	Bloomberg Rating (#/5)	ScotiaMcLeod Risk Rating	Price 05-Jan-15	Dvd	Dvd Yield	Bloomberg Tgt Price	Target ROR	Target Ptf Wgt(%)
Consumer Discretionary									
COMCAST CORP-CLASS A	CMCSA	4.6	Medium	$56.48	$0.90	1.6%	$64.14	15.1%	2.5%
ROYAL CARIBBEAN CRUISES LTD	RCL	4.2	Medium	$82.23	$1.20	1.5%	$81.19	0.2%	2.5%
HOME DEPOT INC	HD	4.2	Medium	$102.04	$1.88	1.8%	$106.38	6.1%	2.5%
WALT DISNEY CO/THE	DIS	4.3	Medium	$92.46	$1.15	1.2%	$97.60	6.8%	2.5%
Consumer Staples									
CVS HEALTH CORP	CVS	4.6	Medium	$94.49	$1.40	1.5%	$102.67	10.1%	5.0%
Energy									
ANADARKO PETROLEUM CORP	APC	4.7	High	$77.12	$1.08	1.4%	$104.33	36.7%	2.5%
HALLIBURTON CO	HAL	4.6	High	$38.35	$0.72	1.9%	$53.08	40.3%	2.5%
CONOCOPHILLIPS	COP	4.3	Medium	$66.45	$2.92	4.4%	$80.42	25.4%	2.5%
Financials									
CITIGROUP INC	C	4.1	High	$53.00	$0.04	0.1%	$61.00	15.2%	5.0%
JPMORGAN CHASE & CO	JPM	4.5	Medium	$61.39	$1.60	2.6%	$68.18	13.7%	5.0%
METLIFE INC	MET	4.5	Medium	$52.89	$1.40	2.6%	$61.47	18.9%	5.0%
Health Care									
CELGENE CORP	CELG	4.6	Medium	$112.37	$0.00	0.0%	$123.86	10.2%	2.5%
GILEAD SCIENCES INC	GILD	4.7	Medium	$93.67	$0.00	0.0%	$122.48	30.8%	2.5%
MCKESSON CORP	MCK	4.7	High	$208.13	$0.96	0.5%	$228.91	10.4%	5.0%
PFIZER INC	PFE	4.2	Medium	$31.17	$1.12	3.6%	$34.37	13.9%	2.5%
ROCHE HOLDING AG-GENUSSCHEIN	RHHBY	4.2	Medium	$34.34	$1.11	3.2%	$37.87	13.5%	2.5%
Industrials									
FLUOR CORP	FLR	4.7	Medium	$58.47	$0.84	1.4%	$78.90	36.4%	5.0%
UNION PACIFIC CORP	UNP	4.4	High	$115.99	$2.00	1.7%	$127.37	11.5%	2.5%
RYDER SYSTEM INC	R	4.5	High	$90.24	$1.48	1.6%	$102.54	15.3%	2.5%
UNITED TECHNOLOGIES CORP	UTX	4.5	Medium	$114.36	$2.36	2.1%	$124.81	11.2%	2.5%
HONEYWELL INTERNATIONAL INC	HON	4.6	Medium	$98.91	$2.07	2.1%	$109.32	12.6%	2.5%
Information Technology									
EMC CORP/MA	EMC	4.5	Medium	$29.56	$0.46	1.6%	$32.06	10.0%	5.0%
GOOGLE INC-CL C	GOOG	4.5	Medium	$520.08	$0.00	0.0%	$664.67	27.8%	5.0%
INTEL CORP	INTC	3.5	Medium	$36.31	$0.96	2.6%	$36.22	2.4%	2.5%
ORACLE CORP	ORCL	3.9	Medium	$44.16	$0.48	1.1%	$45.31	3.7%	2.5%
QUALCOMM INC	QCOM	4.2	Medium	$73.94	$1.68	2.3%	$80.09	10.6%	5.0%
Materials									
No Holdings									
Telecommunication Services									
VERIZON COMMUNICATIONS INC	VZ	4.2	Medium	$46.81	$2.20	4.7%	$53.19	18.3%	2.5%
Utilities									
No Holdings									
Cash									10.0%
Portfolio Average						1.5%		14.5%	

Source: Bloomberg

ScotiaMcLeod North American Dividend Guided Portfolio

Caroline Escott – Portfolio Manager, Portfolio Advisory Group

Q4 Overview

The North American Dividend Guided Portfolio generated a Canadian dollar total return of +1.1% during the quarter. Similar to the U.S. Core Portfolio, the returns were negatively impacted by the exposure to Energy, which was a large detractor from portfolio returns in the quarter. The S&P 500 delivered a total return of 4.4% in U.S. dollars, equating to an 8.2% return in Canadian dollars as the continued weakness in the Canadian dollar benefitted Canadian investors again this quarter. The S&P/TSX Composite Index fell in the quarter, declining 2.2% as Energy and Materials pulled the sector down. Overall, the North American Guided Portfolio underperformed the benchmark which saw a positive return of 4.1% in Canadian dollar terms.

Equities were very volatile in the fourth quarter with broad-based weakness in early October as the S&P 500 fell approximately 5.5% while the S&P/TSX 60 fell 7.2% (in local currency). The weakness in equity markets was fuelled by increasing concerns about slowing global economic growth, particularly in the Eurozone, disinflationary pressures from falling oil prices, the end of the quantitative easing program in the U.S. and the spread of the Ebola virus. In addition, the IMF downgraded its forecast for global economic growth for this year and noted there was a 40% chance that the Eurozone could fall into recession. A surprise announcement by the Bank of Japan on October 31th about the extension of its qualitative and quantitative easing program added support to risk assets through November with markets subsequently reaching new highs in late November in Canada and early December in the U.S. However, we saw another volatile move in December, as markets fell 5%-7% in the first few weeks of December, and then rallied into year-end. Overall, the S&P 500 delivered a relatively healthy total return of 4.4% in the quarter (U.S. dollars) while the S&P/TSX 60 fell 0.35%, on a total return basis. The U.S. market benefitted as funds flowed into the relative safety of the attractive U.S. economy, which drove U.S. equities higher and Treasury yields lower. In addition, the weakness in energy prices was negative for Canadian equities but positive for U.S. equities.

The price of crude oil fell 48% last year, and has declined 37% since OPEC affirmed its output target on November 27. That decision seems to be aimed at preserving OPEC's market share for years to come, although it is negatively impacting revenues of OPEC members (and all oil producing countries) in the near-term. This decline in crude oil prices has sent shockwaves through global financial markets over the past few months. The collapse of the Russian stock market and the ruble has been meaningful given that country's heavy reliance on crude exports.

While the rapid decline in crude oil is very negative for many countries (oil exporters), it's quite positive for the US economy given that 70% of US GDP is derived from consumer spending. This fall in energy prices and end-products (ie gasoline prices) is a windfall tax cut for U.S. households and global consumers, similar to a form of fiscal stimulus.

Outlook

We continue to have a positive outlook for the US economy and believe US equities will be one of the asset classes that perform well in 2015. U.S. economic data has been quite strong over the past few quarters, and the economy remains on fairly healthy footing. The household sector, which accounts for approximately 70% of GDP continues to strengthen, and is now stronger than it has been during this expansion. As we noted above, the collapse in the price of oil has been a windfall tax cut for U.S. consumers with economists suggesting that the decline in gasoline prices represents approximately $120 billion windfall for the consumer, which is equivalent to roughly 0.7% of GDP.

We continue to recommend an overweight stance in equities relative to other asset classes, but expect moderate gains over the next 1-2 years. We also continue to recommend holding higher than average cash balances, with an aim of deploying this cash during instances of market volatility. While recent acceleration in the U.S. job market and other key economic barometers bode well for corporate earnings

growth in the U.S., the weak outlook in Europe and continued strength in the US dollar may put some pressure on earnings estimates in the near-term. We have been of the view that economic data in the U.S. will continue to improve, but with the recent changes to global economies, we could see additional volatility in the underlying data.

Performance

Equity markets continued to see strong performance from the defensive sectors as Utilities, Consumer Staples, Health Care and Financials lead markets in Canada and the U.S. in the fourth quarter while Energy fell meaningfully in both countries. Materials fell 7.6% in Canada but were up modestly in the U.S. +1.2%, while Industrials fell modestly in Canada, -0.9% but delivered +10.1% in the U.S.

The performance in the North American Dividend Guided Portfolio was negatively impacted by the Energy exposure, specifically Baytex (BTE), Crescent Point (CPG) and Halliburton (HAL). Prior to being removed from the portfolio in mid-November, Baytex fell approximately 24%. While we removed the position at a loss, the stock continued to fall, and ended the quarter down 54.4%. CPG fell 33% while HAL declined 39%, or 36.8% in Canadian dollars. Energy was the worst performing sector by a large margin, down 16.6% in Canada and down 8.0% in the U.S.

The Consumer Discretionary and Consumer Staples positions were meaningful outperformers in the quarter. Unfortunately, the exposure to these two sectors was not enough to offset the weakness in Energy. CVS Health (CVS) delivered another stellar return, with a price return of 21.0% in the quarter (25.4% in Canadian dollars). The company continues to deliver attractive results, and we expect it will perform well again this year given its attractive position in the market and its diversified business model. The only Consumer Discretionary position in the portfolio, Home Depot (HD), also performed very well, up 14.4% in the quarter. This is a relatively new position, it was added in mid-September. With ongoing strength in the U.S. housing market, we expect HD will continue to deliver attractive results and returns for shareholders.

Within our HealthCare exposure, Abbvie (ABBV) performed well with a price return of 13.3%, Pfizer (PFE) delivered 5.3% while Johnson & Johnson (JNJ) declined 1.9%. The weakness is JNJ may be attributed to market concerns over sales of Olysio (Hepatitis C) and currency headwinds. However, we believe those issues are factored into analyst estimates and the current risk/reward profile for JNJ is attractive given its strong market position, attractive pipeline, reasonable valuation and dividend yield of 2.7%.

Financials performed reasonably well in Canada with a return of 1.0% and very well in the U.S. with a return of 10.6%, albeit much of the strength came from Real Estate Investment Trusts within the sector. The financial positions within the portfolio are skewed to banks and insurance companies, and as such did not perform as well as the sector. The one REIT position, Brookfield Property Partners (BPY.UN) did perform quite well with a price return of 12.3%. The Bank of Nova Scotia (BNS) holding was the only financial that declined, down 4.3%, whereas JP Morgan (JPM) was the leader with a return of 3.9%.

The Industrials positions performed reasonably well as many Industrials benefit from falling energy prices. General Electric (GE) was the only Industrial position that declined as it was hurt by falling energy prices given its exposure to the oil and gas sector and concerns that reduced activity levels could negatively impact GE results.

Outside of Energy, Verizon (VZ) was the biggest laggard with a decline of 6.4% in the quarter (-3.0% in Canadian dollars). VZ fell on concerns about increased competitive activity in the U.S. wireless industry. While the industry is facing near-term pressure, VZ is very well positioned with industry leading assets, strong cash flow, and we believe the company will grow its dividend at a better than industry average.

We also added to the Home Depot (HD) position in September, bringing it to a 4.0% weight. We continue to believe that the U.S. housing market will continue to recover and recent results from HD suggest pent-up demand for projects remain strong.

Changes

On October 9 we reduced Verizon (VZ) and used the proceeds to add further Health Care exposure in the portfolio with the purchase of Abbvie (ABBV). ABBV's new Hepatitis C drug was launched at the end of December, and is expected to show strong sales trends after receiving preferred status with Express Scripts, the largest pharmacy benefit manager in the U.S. In addition, ABBV's biggest drug, Humira (rheumatoid arthritis) is expected to deliver strong trends going forward.

On November 6, we removed Baytex (BTE) and added Prairie Sky (PSK), making a parallel shift within the energy sector into a more defensive name (lower leverage) to capture much of the upside that could come from a stabilization in crude oil prices while mitigating further downside potential and enhancing the portfolio's dividend sustainability. We subsequently sold the remainder of the Baytex position on November 17th.

North American Dividend Guided Portfolio

Company Name	Symbol	Bloomberg Rating (#/5)	ScotiaMcLeod Risk Rating	Price 05-Jan-15	Dvd	Dvd Yield	Bloomberg Tgt Price	Target ROR	Target Ptf Wgt(%)
Consumer Discretionary									
HOME DEPOT INC	HD	4.2	Medium	$102.08	$1.88	1.8%	$106.38	6.1%	4.0%
Consumer Staples									
ALTRIA GROUP INC	MO	3.8	Medium	$48.87	$2.08	4.3%	$48.80	4.1%	2.0%
Energy									
ARC RESOURCES LTD	ARX	4.0	Medium	$24.51	$1.20	4.9%	$30.61	29.8%	4.0%
CRESCENT POINT ENERGY CORP	CPG	4.4	Medium	$25.84	$2.76	10.7%	$38.44	59.4%	4.0%
SUNCOR ENERGY INC	SU	4.3	Medium	$35.61	$1.12	3.1%	$43.25	24.6%	4.0%
HALLIBURTON CO	HAL	4.6	Medium	$38.35	$0.72	1.9%	$53.08	40.3%	2.0%
PRAIRIESKY ROYALTY LTD	PSK	3.7	Medium	$29.86	$1.30	4.4%	$38.25	32.5%	2.0%
Financials									
BANK OF NOVA SCOTIA	BNS	3.6	Medium	$64.10	$2.64	4.1%	$73.19	18.3%	4.0%
BROOKFIELD PROPERTY PARTNERS	BPY-U	5.0	Medium	$27.03	$1.12	4.2%	$28.94	11.3%	4.0%
JPMORGAN CHASE & CO	JPM	4.5	Medium	$61.41	$1.60	2.6%	$68.18	13.6%	4.0%
METLIFE INC	MET	4.5	Medium	$52.90	$1.40	2.6%	$61.47	18.8%	4.0%
ROYAL BANK OF CANADA	RY	4.0	Medium	$79.10	$3.00	3.8%	$88.01	15.1%	4.0%
TORONTO-DOMINION BANK	TD	4.3	Medium	$54.03	$1.88	3.5%	$59.54	13.7%	4.0%
Health Care									
JOHNSON & JOHNSON	JNJ	4.1	Medium	$104.44	$2.80	2.7%	$110.79	8.8%	6.0%
PFIZER INC	PFE	4.2	Medium	$31.16	$1.12	3.6%	$34.37	13.9%	6.0%
ROCHE HOLDING AG-GENUSSCHEIN	RHHBY	4.2	Medium	$34.34	$1.11	3.2%	$37.87	13.5%	4.0%
ABBVIE INC	ABBV	4.4	Medium	$65.53	$1.96	3.0%	$73.14	14.6%	2.0%
Industrials									
BOEING CO/THE	BA	4.1	Medium	$129.21	$3.64	2.8%	$150.00	18.9%	6.0%
GENERAL ELECTRIC CO	GE	4.3	Medium	$24.72	$0.92	3.7%	$29.29	22.2%	4.0%
UNION PACIFIC CORP	UNP	4.4	High	$116.00	$2.00	1.7%	$127.37	11.5%	4.0%
UNITED TECHNOLOGIES CORP	UTX	4.5	Medium	$114.38	$2.36	2.1%	$124.81	11.2%	2.0%
Information Technology									
INTEL CORP	INTC	3.5	Medium	$36.33	$0.96	2.6%	$36.22	2.4%	4.0%
MICROSOFT CORP	MSFT	3.9	Medium	$46.48	$1.24	2.7%	$50.16	10.6%	4.0%
QUALCOMM INC	QCOM	4.2	Medium	$73.99	$1.68	2.3%	$80.09	10.5%	2.0%
Materials									
FREEPORT-MCMORAN INC	FCX	4.2	High	$22.32	$1.25	5.6%	$36.12	67.4%	2.0%
Telecommunication Services									
VERIZON COMMUNICATIONS INC	VZ	4.2	Medium	$46.82	$2.20	4.7%	$53.19	18.3%	2.0%
Utilities									
No Holdings									
Cash									6.0%
Portfolio Average						3.3%		17.3%	

Source: Bloomberg.

ScotiaMcLeod®

ScotiaMcLeod Core-Plus Fixed Income Guided Portfolio

Andrew Mystic, MA, MBA, CFA – Director, Portfolio Advisory Group

Andrew Edelberg, CFA – Associate, Portfolio Advisory Group

Investment Objective

The ScotiaMcLeod Core-Plus Fixed Income Guided Portfolio ("Portfolio") is designed for investors with a moderate to higher investment risk profile and who want to take a more active approach to managing their fixed income assets within a diversified portfolio. The objectives of the portfolio are to provide both a high level of current income, and a reasonable level of return to protect against future inflation. The overall goal of the portfolio is to exceed the performance of the DEX Universe Bond Index ("Index"). Typically, superior returns are not achieved every year; however, the goal is to achieve these rates of return over the long-term. Approximately 75% of the portfolio is invested in a 10-year bond ladder and 5% is invested in inflation-protected securities. These comprise the core holdings of the portfolio. The remaining 20% is allocated between two active value-added trade strategies that attempt to outperform the benchmark.

Performance Update

Q4/14 saw Canadian bonds continue to rally with yields falling between 0.01-0.36% across the curve as oil prices fell steeply and dampened Canadian growth prospects. In the US, bonds traded in more mixed fashion as expectations of a Fed rate hike – likely in the mid part of 2015 – left the front end of the US curve vulnerable with yields rising 0.01-0.12%. Benign inflationary prospects kept the long end of the US curve rallying firmly however with yields falling 0.10-0.45%. In the quarter the Core-Plus portfolio underperformed the index by 1.81% (0.89% vs. 2.70%). The portfolio's underperformance was primarily attributable to its defensive positioning with its duration being 2.71 years shorter than that of the index (4.65 vs. 7.36 years). With Scotia forecasts continuing to call for higher rates in Q4/14, we retained lower interest rate sensitivity within the portfolio including a significant underweighting of long bonds -23.3% (28.4% vs. 5.1%). For year-end 2014 the portfolio underperformed by 3.59% (5.20% vs. 8.79%). Again, this was primarily attributable to the portfolio's lower duration exposure throughout the year.

Outlook

The backdrop for bonds remains relatively constructive as a host of global risks remain pervasive. Although consensus forecasts continue to point to higher rates one year from now, there remain a number of issues that continue to be supportive of lower rates. They include: (1) The collapse in oil prices (2) Prospects for Quantitative Easing (QE) in Europe (3) Slower growth prospects for China (4) Geo-political risks (e.g. Russia, Iran) (5) Discord within the EU and the possibility that an austerity refuting party comes to power in Greece. On the Canadian economic scene, the fall in oil likely reduces growth prospects for Canada, although potential softness in the western provinces will likely be offset by the boost in manufacturing expected in the east as the Canadian dollar remains weaker. Net, net, although the recent strength seen in the US economy could lend itself to higher rates by year's end, headwinds in H1/15 are leaving us more constructive on fixed income, leaving us more likely to address our long standing underweight of long bonds. As well, these broader risks are ratcheting up our desire to migrate away from lower grade BBB rated credit and move towards more liquid corporates and governments. We believe that the provinces of Ontario and Quebec, in particular, could see some credit strengthening in 2015.

Exhibit 1: ScotiaMcLeod Core-Plus Fixed Income Guided Portfolio

Issuer Name	Coupon	Maturity or Call Date	Current Weighting	Total Return for Q4 2014	Total Return Year To Date
Core Positions					
Canadian Tire Corp	4.950%	Jun 1, 2015	6.7%	0.35%	1.66%
Saskatchewan	4.500%	Aug 23, 2016	6.9%	0.47%	1.54%
Canada Mortgage & Housing Corporation	4.350%	Feb 1, 2017	7.0%	0.66%	1.91%
British Columbia Municipal Finance	2.350%	Dec 3, 2018	7.3%	1.59%	3.83%
Quebec	4.500%	Dec 1, 2019	7.3%	2.03%	6.57%
Telus Corporation	5.050%	Jul 23, 2020	7.4%	2.12%	7.42%
Canada	3.250%	Jun 1, 2021	7.4%	2.30%	8.04%
Wells Fargo Canada Corporation	3.460%	Jan 24, 2023	7.5%	2.50%	10.64%
Ontario	2.850%	Jun 2, 2023	7.7%	3.70%	11.83%
Canada (1)	2.500%	Jun 1, 2024	7.1%	3.64%	5.21%
Canada RRB	3.000%	Dec 1, 2036	5.3%	0.01%	13.02%
Active Positions					
ALIMENTATION COUCHE-TARD *(2)*	3.319%	Nov 1, 2019	2.0%	1.79%	1.47%
FORD CREDIT CANADA (2)	7.500%	Aug 18, 2015	2.0%	0.56%	4.37%
SOBEYS INC (2)	3.520%	Aug 8, 2018	2.0%	1.35%	1.09%
ROYAL BANK OF CANADA (2)	2.820%	Jul 12, 2018	3.0%	1.23%	1.09%
FAIRFAX FINL HLDGS LTD (3)	7.500%	Aug 19, 2019	2.1%	1.31%	0.92%
HOME TRUST CASHABLE GIC (4)	1.750%	Oct 15, 2015	3.0%	0.00%	0.00%
EQUITABLE BANK CASHABLE GIC (4)	1.650%	Oct 15, 2015	3.0%	0.36%	0.36%
Cash			5.4%		
Returns for the ScotiaMcLeod Core-Plus Fixed Income Guided Portfolio			***100.0%***	***5.20%***	***8.79%***
Returns for the DEX Universe Bond Index				***2.70%***	***5.93%***

(1) - Position added on June 2nd, 2014
(2) - Position added on August 14th, 2014
(3) - Position added on August 28th, 2014
(4) - Position added on October 14th, 2014
(5) - Position added on October 14th, 2014

Source: ScotiaMcLeod Portfolio Advisory Group, Bloomberg, and PC-Bond

Notes

Notes

Notes

Important Disclosures – As at 01/27/2015

The author(s) of the report own(s) securities of the following companies.
Intact Financial Corporation, MG, Canadian Natural Resources Limited, Baytex Energy Corporation, WestJet Airlines Ltd., Brookfield Renewable Energy Partners LP, TransCanada Corporation, Celgene Corp, Citigroup Inc, SanDisk Corp, Halliburton Co, Qualcomm Inc, EMC Corp/Massachusetts, Gilead Sciences Inc, United Technologies Corp, Union Pacific Corp, Google Inc, General Electric Co, Intel Corp, Microsoft Corp, Boeing Co,

The supervisors of the Portfolio Advisory Group own securities of the following companies.
Bank of Nova Scotia,

Thomas C. O'Neill is a director of BCE Inc. and is Chairman of the Board of The Bank of Nova Scotia. **BCE Inc.**

Paul D. Sobey is a director of Empire Company Limited and is a director of The Bank of Nova Scotia. **Empire Company Limited**

Ronald Brenneman is a director of WestJet Airlines Ltd. and is a director of the Bank of Nova Scotia. **WestJet Airlines Ltd.**

Ronald Brenneman is a director of BCE Inc and is a director of the Bank of Nova Scotia. **BCE Inc.**

Scotia Capital Inc. is what is referred to as an "integrated" investment firm since we provide a broad range of corporate finance, investment banking, institutional trading and retail client services and products. As a result we recognize that we there are inherent conflicts of interest in our business since we often represent both sides to a transaction, namely the buyer and the seller. While we have policies and procedures in place to manage these conflicts, we also disclose certain conflicts to you so that you are aware of them. The following list provides conflict disclosure of certain relationships that we have, or have had within a specified period of time, with the companies that are discussed in this report.

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We have a three-tiered system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

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Ratings

Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Sector Outperform (SO)
The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

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The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

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The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.
Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

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High financial and/or operational risk, low predictability of financial results, high stock volatility.

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