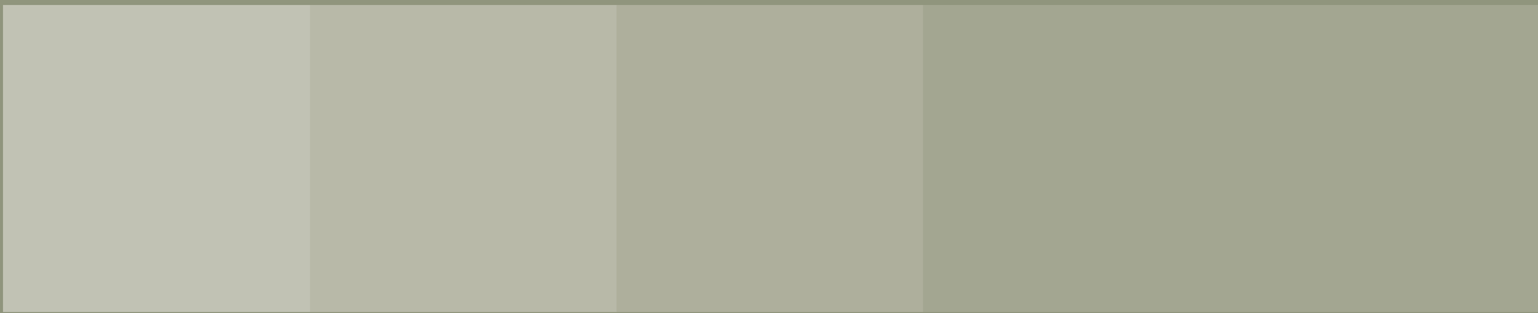
Investment Portfolio Quarterly



Insightful Perspectives

Spring 2015

ScotiaMcLeod®

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Executive Summary

Q1/15 Quarterly Comments

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

It has been a positive start to the year for global equities as the MSCI World Index advanced +1.82% over the quarter with equity benchmarks across the globe reaching new all-time highs. Although equity markets have moved higher quarter-over-quarter, it has not been achieved without relatively volatile periods. Events adding to the volatility included: The euro-zone gearing up to begin their quantitative easing program, the possibility of a Greek exit, global oil supply glut, continued geopolitical tensions and a divergence in central bank policy. The Federal Reserve and Bank of England are moving towards a tightening monetary policy while most other central banks around the globe, including European Central Bank, Bank of Canada, Reserve Bank of Australia and People's Bank of China, anticipate further easing in 2015. The move higher in the U.S. dollar against most major currencies has also played a significant role in Q1 returns, although since the mid-March Fed meeting, in which the Fed reiterated their more dovish tone, the USD surge has begun to reverse course.

The appreciation of the USD has impacted relative returns in North American equity markets with the S&P/TSX Composite Index outperforming the S&P 500 by +1.41% on a strictly price return basis yet has underperformed by -6.25% on a USD currency basis. Both the Canadian and U.S. markets pushed higher over the quarter as Fed Chair Janet Yellen maintained her relatively dovish tone further delaying the likelihood of a rate hike in June. In mid-March, the Fed removed the term "patient" from the FOMC statement which increases the flexibility on the timing of the first rate hike, while at the same time lowering the forecast for the projected path of the Fed Funds rate. Fed Chair Yellen led the market to believe that the FOMC remains relatively cautious on the overall outlook for the economy with concern surrounding low inflation expectations and growth as well as the strength in the USD. The U.S. equity markets took kindly to the relatively dovish tone alongside the U.S. Treasury market as investors interpreted the tone as a sign a rate hike is likely farther away than originally anticipated. U.S. bond yields have also been pushed lower with the European carry trade as European investors move money into the US bond market to escape negative yields in Europe. The Canadian bond market followed in similar fashion to the US's after the Bank of Canada shocked the market in late January with an unexpected cut to the overnight rate from 1.00% to 0.75% sending Canadian bond yields and the CADUSD to the lowest levels in five years. The Bank's policy action was intended to provide insurance to mitigate the downside risks to the Canadian economy caused by lower oil prices. Although the bond market almost immediately began pricing in a further cut to 0.50%, yields have backed-up since as Governor Poloz reiterated in remarks afterwards that further policy decisions will be contingent on the extent to which forecasts for a pick-up in the economy over 2015H2 onward materialize.

The trend lower in yields was also witnessed across the pond as the European Central Bank geared up its quantitative easing program in January. The quantitative easing program was larger-than-expected with combined monthly purchases of 60 billion euros in both public and private sector securities until September 2016 which amounts to purchases of at least 1.1 trillion euros over 18 months. Mr. Draghi's package of asset purchases includes bonds issued by national governments and EU institutions, such as the European Commission, are intended to boost the Eurozone's weak economy and to ward off potential deflation. The QE program has led to negative short-term yields across most major European bond markets in turn leading to a further depreciation of the euro against the U.S. dollar as European investors look to purchase US bonds. Quantitative easing has also helped to drive European equity markets higher with the EuroStoxx rallying +18.22% to its highest level in over 5 years alongside gains in the DAX in Germany (+22.03%), CAC in France (+17.81%) and the FTSE in the UK (+3.15%).

Asian-Pacific markets also continued to trend higher with the Nikkei and Shanghai Index up +10.06% and +15.87%, respectively. The slowing Chinese economy has led to further monetary easing by the People's Bank of China throughout the quarter. On March 1, China's central bank lowered the interest rates on one-year loans and deposits by 25 basis points to 2.5%; the second rate cut since November last year. The central bank is expected to cut interest rates at least once more this year with the potential for additional cuts if the economy remains weak. The central bank also cut the reserve requirement ratio by 0.5% to 19.5% trimming the amount of cash reserves lenders must hold at the central bank, in a bid to boost lending to small businesses and the rural economy. In addition, China set its 2015 growth target "at around 7 percent" in early March – it's lowest target in 11 years – after posting its slowest annual growth rate in 24 years in 2014. The slowdown in the Chinese housing sector is expected to add further pressure on the Chinese central bank to soften monetary policy as the housing sector in China accounts for approximately 15% of China's economy. The Chinese central bank governor Zhou Xiachuan has insured markets that Chinese authorities are willing to take action to keep the economy on track.

In currency and commodities, the strength in the USD and weakness in oil prices have been key drivers to global equity markets. Over the quarter, the DXY Index, which averages the exchange rates between the USD and major world currencies, appreciated to its highest level in over 10 years as the Federal Reserve moves closer to raising interest rates while most other central banks are looking to cut short-term interest rates to stimulate growth. WTI crude oil prices continued to fluctuate, reaching a high of $55.11 on January 2nd to a low of $42.03 on March 18th, as investors digested crude oil figures and ongoing geopolitical tensions. U.S. crude inventory levels reached an all-time high of 467 million barrels while U.S. production levels remain at multi-decade highs feeding some investor speculation that a global supply glut will continue to put further downside pressure on oil prices. On the other hand, other investors focused on data released over the quarter that showed a significant drop in drilling activity since late last year along with forecasts that showed production growth is likely to flat line by June fueling investor sentiment that oil prices are likely to have reached a bottom. Global geopolitical tensions also added to price volatility as the Ukrainian and Russian conflict continued, Saudi Arabia launched air strikes in Yemen and Iran and the U.S. stepped up rhetoric surrounding the need for a deal on Iran's nuclear program over the quarter. Almost all other commodities declined over the quarter; Gold (-0.19%), Copper (-2.96%), Soybeans (-5.56%), Wheat (-13.92%) and Corn (-7.27%), with the exception of Silver which gained +6.18%.

As we approach the summer months and move into the latter half of the year markets will be focused on any rhetoric from Federal Reserve voting members in an attempt to get a better sense as to the timing of a rate hike. Data figures will also be a key driver for equity markets as investors speculate on how the data will impact central bank monetary policy decisions in 2015.

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

- Scotiabank GBM Portfolio Strategy Team provides their Spring 2015 Strategy Update report.
- Scotiabank Economics' Derek Holt explains why fears of a replay of 1937 – when the Federal Reserve prematurely tightened monetary policy and stocks plunged – are exaggerated.
- ScotiaMcLeod Portfolio Advisory Group's Tara Quinn discusses the effects of lower interest rates on rate resets
- The Financial Planning & Advisory Services department discusses US estate tax implications of owning a US recreational property
- In conclusion, ScotiaMcLeod Portfolio Advisory Group's 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 Spring 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

Spring 2015 Strategy Update

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

- We are lowering 2015/2016 TSX and S&P 500 EPS forecasts to C$815/C$950 and US$118/US$128, respectively. Targets are reduced to 14,800 (TSX) and 2,150 (S&P500).
- **Asset Mix.** Reducing equity exposure (-5% to 60%) and raising cash to 10% (+5% change vs. Q1). U.S. and Canada exposure is lowered. Recommended tactical asset mix now stands at 60% equities (neutral versus our benchmark), 30% Bonds (-10% UW), and 10% Cash (OW).
- **Global equity pair trades unchanged:** U.S. over Canada, Europe/Japan over U.S., and EM-Asia over EM-LatAm (Mexico over Brazil).

Index Targets – Quarterly Update

In light of lower earnings forecasts for the 2015-2016 horizon, we are reducing our index price targets. Our 12-18 month TSX target moves to 14,800 (from 15,000) while the S&P 500 target is lowered to 2,150 (from 2,225). In Latin America, our Bolsa target is unchanged at 46,000, but our Bovespa target is lowered to 55,000 from 56,000, as is our IPSA target to 4,100 from 4,200. As discussed in our recent Global Valuation Monitor update (March 25), global equities have benefitted from notable P/E expansion in the last 6-months, but we believe this trend could reverse in the latter part of 2015 as Fed rate hikes trigger volatility. We reiterate our view that the S&P 500 should outperform the Americas in US$ returns in 2015.

Exhibit 1: Scotiabank GBM Portfolio Strategy Index Targets and Earnings Forecasts

Forecasts	2012	2013	2014	2015E	2016E
	Equity (Year End)				
S&P/TSX	12,434	13,622	14,632	**14,800** ↓	
EPS	825	809	893	**815** ↓	**950** ↓
S&P 500	1,426	1,848	2,059	**2,150** ↓	
EPS	100	107	117	**118** ↓	**128** ↓
Mexico Bolsa	43,706	42,727	43,146	**46,000**	
Brazil Bovespa	60,952	51,507	50,007	**55,000** ↓	
Chile IPSA	4,301	3,699	3,851	**4,100** ↓	

Source: Scotiabank GBM Portfolio Strategy estimates

Asset Mix: Raising Cash to 10%, Equities Down to Neutral

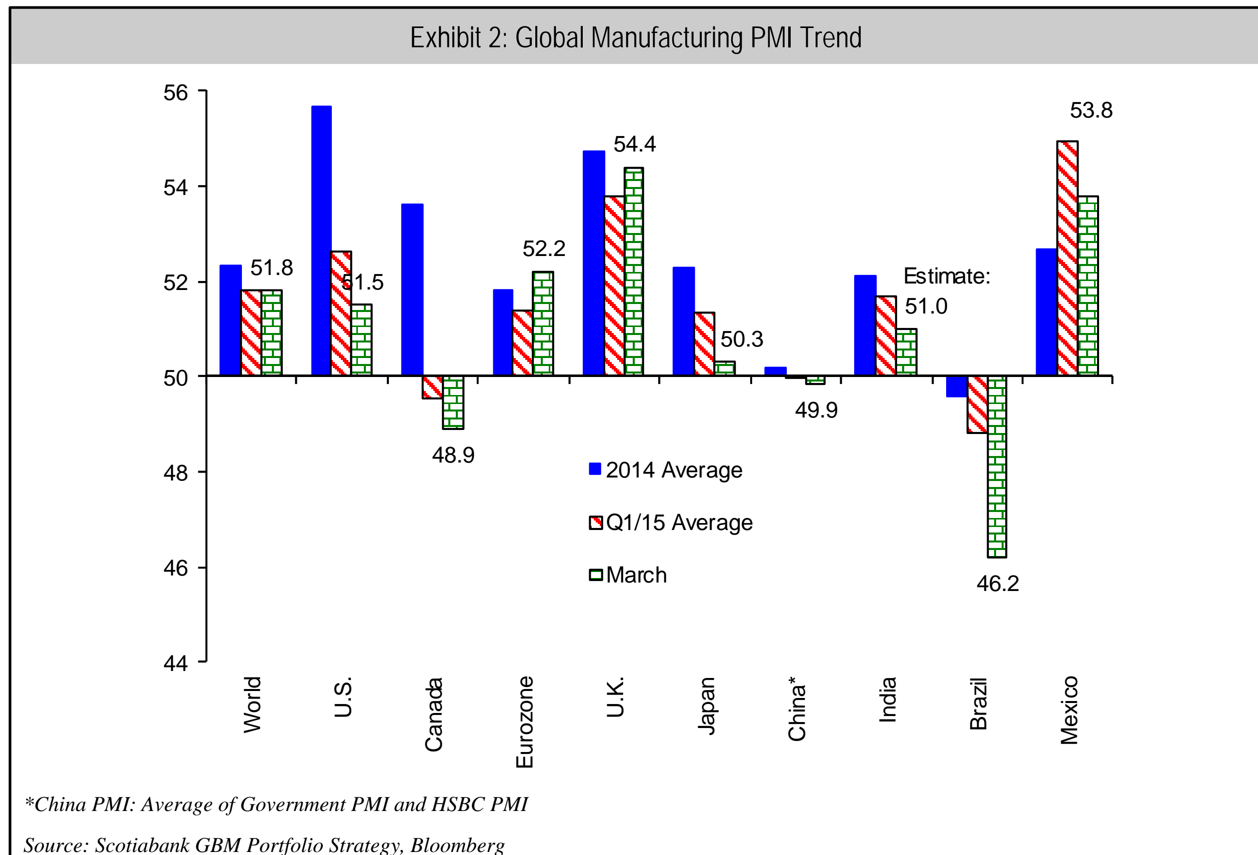
Market dynamics deteriorated in the latter part of March and we believe volatility could increase in Q2. The VIX index bottomed at 13 in late March (4-month low) and it could rebound towards the upper end of its 6-month range (26). Investors are getting some comfort in a delayed Fed policy normalization response, but we view the Fed's communication strategy as negatively impacting the risk-reward outlook for three reasons. For one, the U.S. economic surprise index's pronounced Q1 slide is unlikely to persist. Any upturn in US and global macro data in Q2 could alter the Fed's dovish narrative. In addition, the friendly US inflation trend may reverse as the positive downward push from gasoline stabilizes or reverses. Core inflation was up 1.7% YoY in February and further payroll gains could ignite wage pressure. Finally, recent P/E expansion could reverse when Fed rate hikes start.

We are reducing our equity exposure (-5% to 60%; neutral) and raising cash to 10% (+5% change versus Q1). U.S. and Canada exposure is lowered. Our recommended tactical asset mix now stands at 60% equities (neutral versus our benchmark), 30% Bonds (-10% UW), and 10% Cash (OW). See Exhibit 4 on next page.

We expect US dollar gains to moderate for the remainder of 2015, but remain US$ bulls. Canadian relative economic underperformance supports the Bank of Canada's easing stance which should weigh on Canadian dollar. GDP momentum is expected to pick-up in the Eurozone, Japan, India, and the US, which could support a positive reversal in earnings revisions in the second half of 2015. MSCI AC World forward EPS estimates are down 10% in the last 6-months (-15% for Canada; -4.1% for S&P 500). China momentum continues to disappoint with GDP potentially missing the government's 7% objective, but any shift in monetary bias could end the dry spell for assets linked to China. In LatAm, Mexico's macro outlook remains attractive due to US export exposure and more limited commodity exposure versus South America.

PMI watch. First quarter manufacturing activity has improved in the Europe, but stalled in Asia and moderated in the U.S. The World PMI index averaged 51.8 in Q1, below the 2014 average, mainly on the U.S. ISM slide. Mexico stands out favorably, while Canada and Brazil are in contraction territory. See Exhibits 2 and 3.

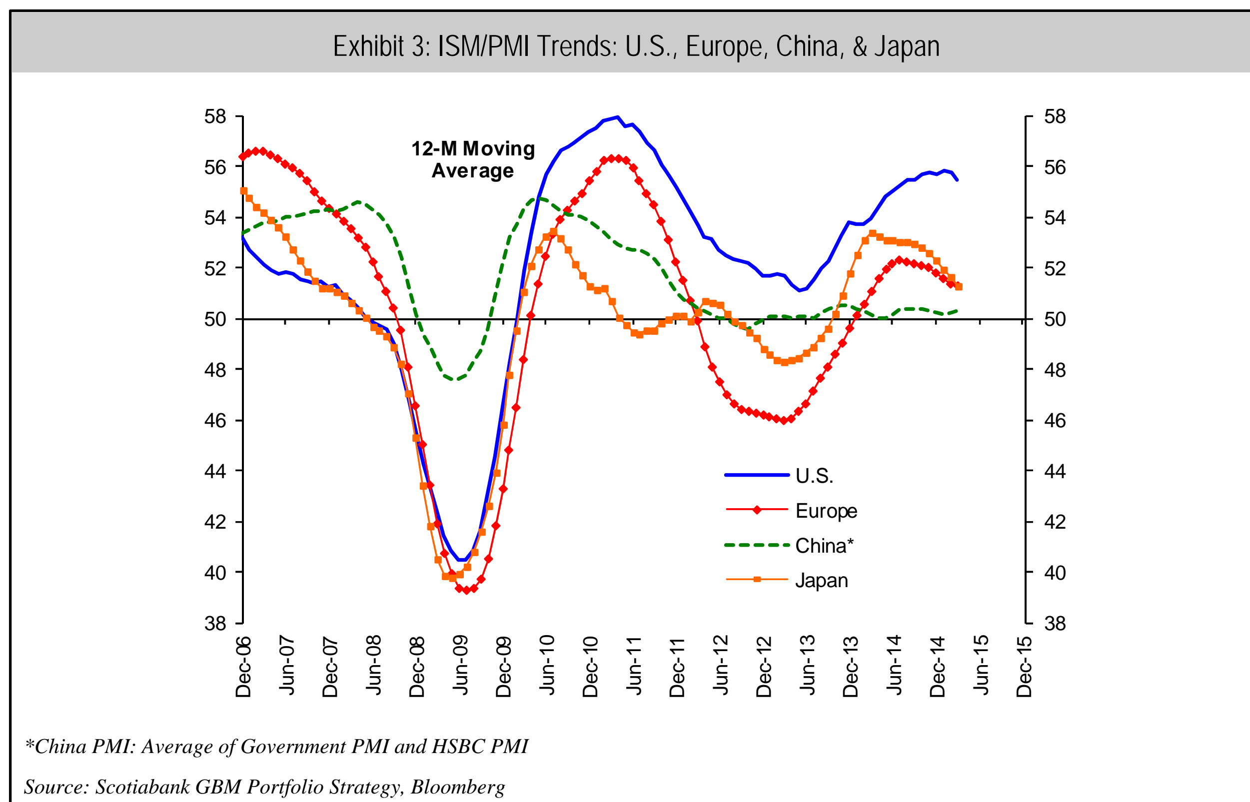
Exhibit 2: Global Manufacturing PMI Trend



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

Source: Scotiabank GBM Portfolio Strategy, Bloomberg

Exhibit 3: ISM/PMI Trends: U.S., Europe, China, & Japan



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

Source: Scotiabank GBM Portfolio Strategy, Bloomberg

Global Equities & SAGE. Exhibit 5 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 April SAGE update, the U.S. ranking continues to decline while Canada ranks in the bottom-tier of the MSCI World universe due to high valuations, poor momentum, negative earnings revisions, and a weaker PMI. Mexico is awarded the highest ranking within the Americas. Rankings in Western Europe continue to improve and we are seeing OW ratings in several countries. Japan remains near the top of our leaderboard, and EM-Asia continues to get top rankings. Brazil, Peru, and Colombia fare poorly in LatAm. Our recommended pair trades are unchanged: United States over Canada, EAFE over U.S., and EM-Asia over EM-LatAm (Mexico over Brazil). For additional information on global allocation, please refer to the monthly *SAGE Update – Global Country Ranking* report.

Exhibit 4: Scotiabank GBM Asset Mix – April 2015 Update

	Asset Mix		Change From
	Benchmark	Recommended	Last
Equities	**60%**	**60%**	**-5%**
Canada (TSX)	*5%*	*3%*	*-1%*
U.S. (S&P 500)	*22%*	*20%*	*-4%*
Western Europe	*14%*	*15%*	
Pacific (Japan/Australia)	*10%*	*12%*	
EM Asia	*6%*	*8%*	
LatAm	*3%*	*2%*	
Bonds	**40%**	**30%**	
Government	*30%*	*19%*	
Corporate	*10%*	*11%*	
Cash (91-D Tbills)	**0%**	**10%**	**+5%**

Source: Scotiabank GBM Portfolio Strategy

Exhibit 5: Global Equity Model – Tactical Recommendations April 2015

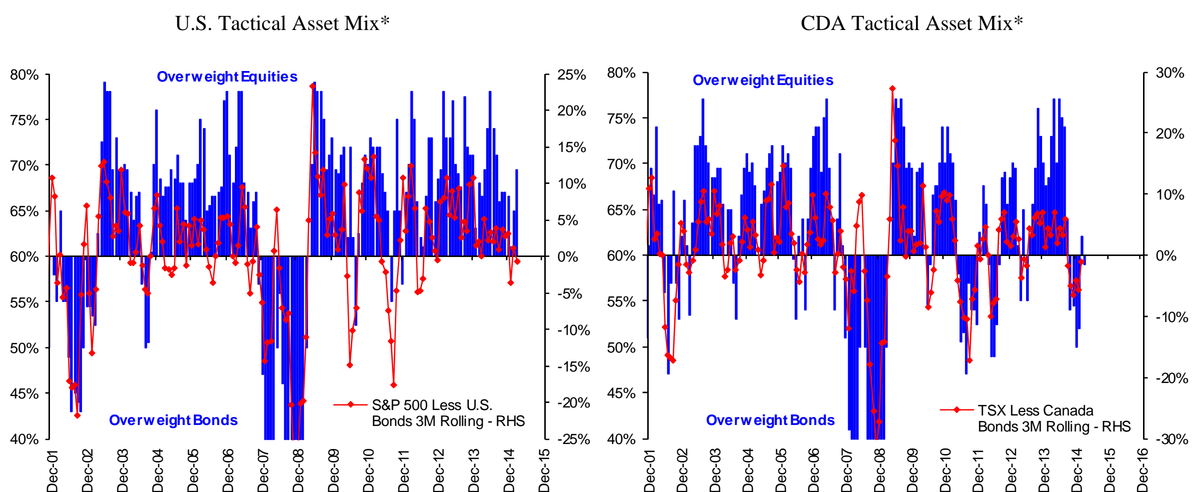
	Recommendation	Value	Growth	Momentum	Economic
North America	**Large UW**	**-**	**=**	**=**	**--**
U.S.	UW	--	+	++	--
Canada	Large UW	-	-	-	---
Western Europe	**Large OW**	**=**	**=**	**=**	**++**
Pacific	**OW**	**+**	**+**	**+**	**-**
Japan	Large OW	+	+++	+++	=
Australia	Large UW	+	=	-	--
Emerging Asia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

Source: Scotiabank GBM Portfolio Strategy

Strategic Edge Portfolio – April 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 (+1.6%) lagged the TSX composite index in Q1 (+2.6%; total return). In the last six months and twelve months, the SEP is edging its benchmark by 289 bp and 424 bp, respectively. See Exhibit 7 on the next page for historical SEP performance.

Exhibit 6: U.S. & CDA Tactical Asset Mixes* (Equity Weighting Signal)



**Model Based on ISM, Risk-On/Risk-Off, LEI, Revision Ratio, P/E, S&P 500 200 Day MA*

Neutral = 60% Equity/40% Bond Split

Source: Scotiabank GBM Portfolio Strategy estimates, Bloomberg, Thomson Financial

Exhibit 7: Strategic Edge Portfolio Performance (Total Return)

31-Mar-15	Performance -- Total Return (%)			SEP Value Added (bp) vs.	
Period	**SEP**	**S&P/TSX**	**S&P/TSX 60**	**S&P/TSX**	**S&P/TSX 60**
March	-1.17%	-1.88%	-2.08%	71	91
3-M	1.6%	2.6%	2.4%	-94	-77
6-M	4.0%	1.1%	2.1%	289	192
YTD	1.6%	2.6%	2.4%	-94	-77
1-Yr	11.2%	6.9%	9.0%	424	219
	CAGR (%)				
3-Yr	13.5%	9.6%	10.4%	392	308
5-Yr	11.6%	7.4%	7.3%	418	432
Inception (June-05)	10.7%	7.2%	7.5%	348	321
	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. In synch with our asset mix update, we are raising cash in the SEP (+3% to 6%). Exposure to lumber is lowered but we remain OW the group. Our sector focus remains aligned with our macro view (improved EU/US growth, strong USD, Fed rate hikes) and quant model signals. We are OW Insurance, Chemicals/Fertilizers, Industrials-Transport, Staples, Technology, and Discretionary-Autos; MW Banks; UW Energy and Mining.

Please refer to Exhibit 8 on the next page for SEP details and changes. Changes have been made as of March 31, using end-of-day closing prices.

Exhibit 8: Strategic Edge Portfolio (As at March 31, 2015)

March 31, 2015		Weighting		March	
	Sector / Company	SE Portfolio	S&P/TSX	Performance	Recommendation
S&P/TSX (price-only)				**-2.2%**	
Cash (XSB Short Term Bond ETF)		**6.0%**	**0.0%**	**-0.2%**	**+6.0%** ↑
Financials		**34.3%**	**34.7%**	**-1.5%**	**-0.4%**
RY	ROYAL BANK OF CANADA	7.0%	5.9%	-2.5%	
TD	TD BANK	6.0%	5.4%	-1.1%	
BNS	BANK OF NOVA SCOTIA	4.5%	4.1%	-4.9%	
CM	CIBC	2.7%	1.9%	-4.0%	
IGM	IGM FINANCIAL	1.2%	0.2%	1.6%	
GWO	GREAT-WEST LIFECO	1.8%	0.6%	3.9%	
MFC	MANULIFE FINANCIAL	3.6%	2.3%	-1.2%	
SLF	SUN LIFE FINANCIAL	2.3%	1.3%	1.4%	
IFC	INTACT FINANCIAL	1.8%	0.7%	6.1%	
BAM/A	BROOKFIELD ASSET MANAGEMENT	2.5%	2.1%	0.0%	
REF-U	CANADIAN REAL ESTATE INV TRUST	0.9%	0.2%	-0.6%	
Staples		**5.2%**	**3.7%**	**-0.6%**	**+1.5%**
MRU	METRO INC	1.5%	0.5%	-1.2%	
SAP	SAPUTO	1.1%	0.5%	-4.2%	
ATD/B	ALIMENTATION COUCHE TARD	2.6%	1.1%	4.6%	
Telecom & Media		**3.7%**	**4.7%**	**-3.4%**	**-1.0%**
QBR/B	QUEBECOR INC-B	1.3%	0.2%	5.3%	
BCE	BCE INC	2.4%	2.4%	-2.0%	
Utilities & Pipelines		**5.0%**	**9.2%**	**-1.6%**	**-4.2%**
FTS	FORTIS INC	1.1%	0.6%	-2.5%	
PPL	PEMBINA PIPELINE	1.2%	0.7%	0.2%	
ENB	ENBRIDGE	2.7%	2.8%	5.5%	
Discretionary		**8.6%**	**6.6%**	**-1.1%**	**+2.0%**
MG	MAGNA	2.9%	1.5%	-0.2%	
TRI	THOMSON REUTERS	1.6%	0.9%	4.7%	
HBC	HUDSON'S BAY CO	1.3%	0.2%	-6.7%	
DOL	DOLLARAMA	1.6%	0.5%	13.2%	
GIL	GILDAN	1.3%	0.5%	-1.8%	
Technology		**6.0%**	**2.4%**	**-3.4%**	**+3.5%**
OTC	OPEN TEXT CORP	1.5%	0.4%	-8.2%	
CSU	CONSTELLATION SOFTWARE	1.9%	0.4%	4.0%	
CLS	CELESTICA	1.0%	0.1%	-4.3%	
GIB/A	CGI GROUP	1.7%	0.8%	2.7%	
Healthcare		**0.0%**	**5.3%**	**4.2%**	**-5.3%**
	No Coverage in Sector				
Energy (Ex-Pipelines)		**10.7%**	**14.2%**	**-0.9%**	**-3.5%**
ARX	ARC RESOURCES	1.0%	0.4%	-9.9%	
PD	PRECISION DRILLING	0.5%	0.1%	5.8%	
ECA	ENCANA	1.1%	0.6%	-13.2%	
CNQ	CANADIAN NATURAL RESOURCES	3.3%	2.3%	6.8%	
BTE	BAYTEX ENERGY CO	0.2%	0.2%	-1.9%	
SU	SUNCOR	3.9%	2.9%	-1.4%	
MEG	MEG ENERGY	0.6%	0.2%	-2.2%	
Materials		**10.4%**	**10.7%**	**-10.3%**	**-0.3%**
Mining - Gold, Precious, Base Metals		***3.7%***	***6.8%***	***-11.9%***	***-3.0%***
AEM	AGNICO EAGLE MINES	0.7%	0.4%	-12.2%	
G	GOLDCORP	1.2%	1.0%	-16.7%	
DDC	DOMINION DIAMOND	1.0%	0.1%	1.7%	
LUN	LUNDIN MINING	0.8%	0.2%	-6.2%	
Chemicals & Forest Products		***6.7%***	***4.0%***	***-7.3%***	***+2.7%*** ↓
WFT	WEST FRASER TIMBER	1.4%	0.2%	-4.8%	
CFP	CANFOR CORP	1.0%	0.1%	-11.7%	
POT	POTASH CORP SAS	2.5%	1.8%	-8.9%	
AGU	AGRIUM	1.8%	1.0%	-8.5%	
Industrials		**10.1%**	**8.5%**	**-1.2%**	**+1.7%**
CNR	CANADIAN NATIONAL RAILWAY	4.1%	3.7%	-1.8%	
CP	CANADIAN PACIFIC	2.7%	1.9%	-0.9%	
WJA	WESTJET AIRLINES	1.2%	0.2%	-0.2%	
AC	AIR CANADA	1.1%	0.2%	0.4%	
CAE	CAE INC	1.0%	0.2%	-2.1%	

Source: Scotiabank GBM Portfolio Strategy; Bloomberg.

U.S. Sector Portfolio – March Update

U.S. equity strategy. Exhibit 9 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, Healthcare; UW Energy, Materials, 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 10.

Exhibit 9: U.S. Sector Portfolio (as at March 31, 2015)

	Weighting (%)		Return (%)	April-15	Change
Sector	**Portfolio**	**S&P 500**	**March**	**Recommendation**	**From Prior**
Technology	21.7%	19.7%	-3.4%	2.0%	-
Financials	18.2%	16.2%	-0.8%	2.0%	-
Industrials	11.4%	10.4%	-2.7%	1.0%	-
Discretionary	13.6%	12.6%	-0.6%	1.0%	-
Materials	2.7%	3.2%	-5.0%	-0.5%	-
Energy	6.0%	8.0%	-2.0%	-2.0%	-
Health Care	15.4%	14.9%	0.3%	0.5%	-
Telecom	1.3%	2.3%	-3.8%	-1.0%	-
Staples	8.7%	9.7%	-2.4%	-1.0%	-
Utilities	1.0%	3.0%	-1.3%	-2.0%	-
S&P 500			**-1.7%**		

Source: Scotiabank GBM Portfolio Strategy; Bloomberg.

Exhibit 10: SQoRE S&P 500 Top 50 – April 2015 Recommendations

As at Mar. 31, 2015	SQoRE Ranking*	Style Contribution (Max +++; Min ---) Value	Growth	Momentum	Quality	Sector	As at Mar. 31, 2015	SQoRE Ranking*	Style Contribution (Max +++; Min ---) Value	Growth	Momentum	Quality	Sector
VLO	1	+++	+++	+++	--	Energy	AMP	26	+++	+++	-	++	Financials
AET	2	++	+++	+++	++	Health Care	WDC	27	+++	+++	+	=	Technology
ABC	3	+	+++	++	+++	Health Care	EA	28	-	+++	+++	+	Technology
AFL	4	+++	+	=	+++	Financials	HSIC	29	--	+	+++	+++	Health Care
AAPL	5	+++	+++	+++	++	Technology	LRCX	30	++	+++	+++	-	Technology
TRV	6	+++	+++	+	++	Financials	PGR	31	+++	+++	=	+++	Financials
ALL	7	+++	+++	++	+++	Financials	NOC	32	++	+++	+++	++	Industrials
LNC	8	+++	+++	--	+++	Financials	PRU	33	+++	+	---	+++	Financials
XL	9	+++	+++	+	++	Financials	C	34	+++	+++	-	+	Financials
TSO	10	+++	+++	+++	---	Energy	HBAN	35	+++	+++	+	=	Financials
CI	11	+	+++	+++	+	Health Care	HAR	36	-	+++	+++	=	Discretionary
ANTM	12	++	+++	+++	+	Health Care	CB	37	+++	=	=	+++	Financials
KR	13	-	+++	+++	=	Staples	RHI	38	-	+++	++	+++	Industrials
TMK	14	+++	=	=	+++	Financials	LUV	39	++	+++	++	--	Industrials
ACE	15	+++	++	=	+++	Financials	NAVI	40	+++	Not Ranked	=	+	Financials
PFG	16	+++	+++	-	+++	Financials	HD	41	+	++	+++	++	Discretionary
GLW	17	+++	+	++	++	Technology	BBBY	42	+++	++	=	++	Discretionary
GM	18	+++	+++	+	--	Discretionary	HRS	43	++	+	+++	+	Technology
UNM	19	+++	++	--	+++	Financials	ESRX	44	=	+++	+	+++	Health Care
UNH	20	=	+++	+++	+++	Health Care	DPS	45	-	+	+++	+++	Staples
MET	21	+++	+++	---	+++	Financials	KSS	46	++	++	+	++	Discretionary
CVS	22	=	++	++	+++	Staples	M	47	+++	+++	-	++	Discretionary
SWKS	23	-	++	+++	-	Technology	DAL	48	++	+++	=	--	Industrials
HIG	24	+++	+	+	++	Financials	EW	49	--	=	+++	+++	Health Care
LOW	25	++	++	+++	+++	Discretionary	AIG	50	+++	++	--	-	Financials

*Shaded Areas Highlight Improved Decile Ranking vs. Prior Month

Source: Scotiabank GBM Portfolio Strategy

Economic and Market Outlook

Gradual Fed Rate Hikes Are Unlikely To Repeat The Policy Mistake Of 1937

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

As the Federal Reserve contemplates tighter monetary policy, are stocks at risk of crumbling like they did in the 1930s? As we forecast the Federal Reserve to raise its target rate to 0.75% by the end of 2015 and 2.25% by the end of next year, the potential market aftermath is among the key questions on investors' minds.*

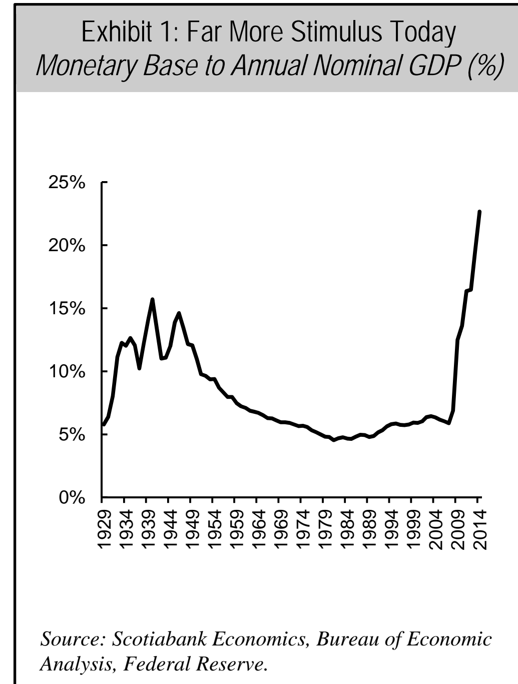
Recall that the Fed's premature tightening in 1937 contributed to a nearly 50% drop in the Dow Jones Industrials index from March 1937 to about one year later and it took until the end of WWII for stocks to regain their losses. Clearly there were many other factors to consider back then, but there are several reasons to doubt the same outcome today.

First, today's monetary policy stimulus is completely unprecedented. Witness *Exhibit 1* that compares the nominal dollar value of the US monetary base — one definition of the money supply with a very long history that reflects the size of the Federal Reserve's balance sheet — to nominal US GDP since 1929. Money supply is considerably larger now than it was in the 1930s and this reflects three rounds of quantitative easing policies.

Second, FOMC officials are not entertaining policies that would abruptly reverse unconventional stimulus. Asset sales are unlikely in our view versus gradually allowing Fed balance sheet run-off of maturing Treasuries next year and prepayments on MBS products perhaps later this year. The net effects will be an elevated Federal Reserve balance sheet relative to the size of the economy for years to come independent of movements in the fed funds target rate.

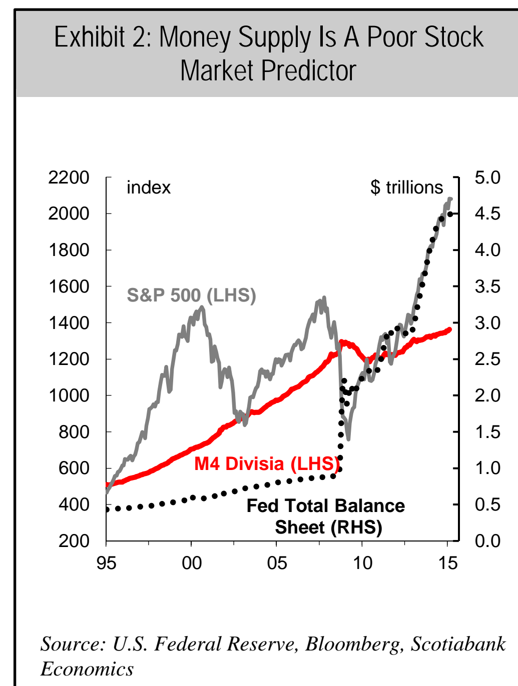
Third, there is a tenuous connection between the money supply and stock markets to begin with. *Exhibit 2* shows two measures of the money supply — the Fed's balance sheet which is a narrow definition, and M4-Divisia which is a very broad measure — and the S&P500 index. I have seen versions of this chart that begin in 2008 and show a tight connection. That version worries me as a potential example of biased sample selection. A fuller history of the relationship shows little obvious connection.

Exhibit 1: Far More Stimulus Today
Monetary Base to Annual Nominal GDP (%)



Source: Scotiabank Economics, Bureau of Economic Analysis, Federal Reserve.

Exhibit 2: Money Supply Is A Poor Stock Market Predictor

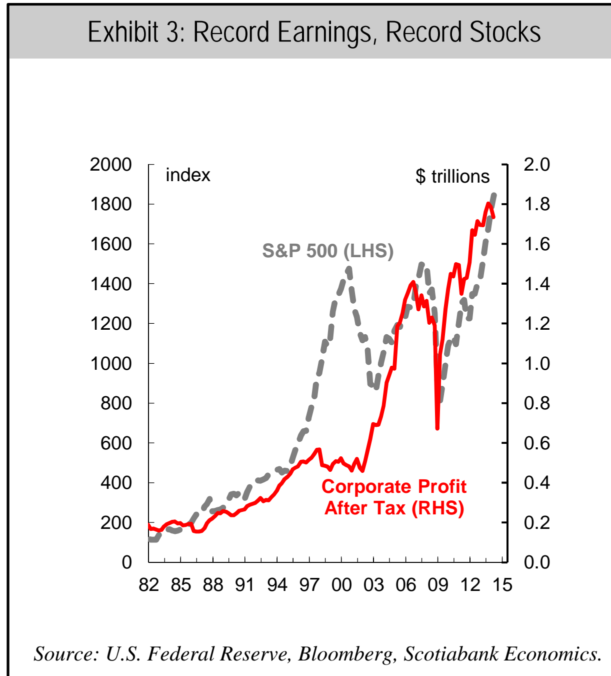


Source: U.S. Federal Reserve, Bloomberg, Scotiabank Economics

* *Data and forecasts in this article and exhibits are as at April 6, 2015*

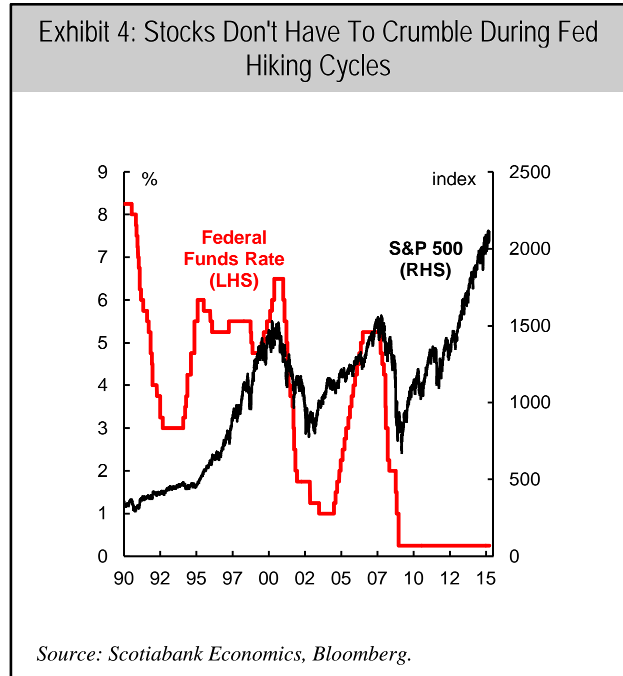
By far the better connection is with the earnings cycle (*Exhibit 3*). That indeed could be at risk, but we're hopeful that an improving global economy will lift top-line revenues and take over from operating leverage as a driver of the earnings cycle. *Exhibit 4* illustrates that stocks don't always fall during Fed hiking cycles.

Exhibit 3: Record Earnings, Record Stocks



Source: U.S. Federal Reserve, Bloomberg, Scotiabank Economics.

Exhibit 4: Stocks Don't Have To Crumble During Fed Hiking Cycles



Source: Scotiabank Economics, Bloomberg.

Preferred Shares

Rate Resets Negatively Affected by Lower Interest Rates

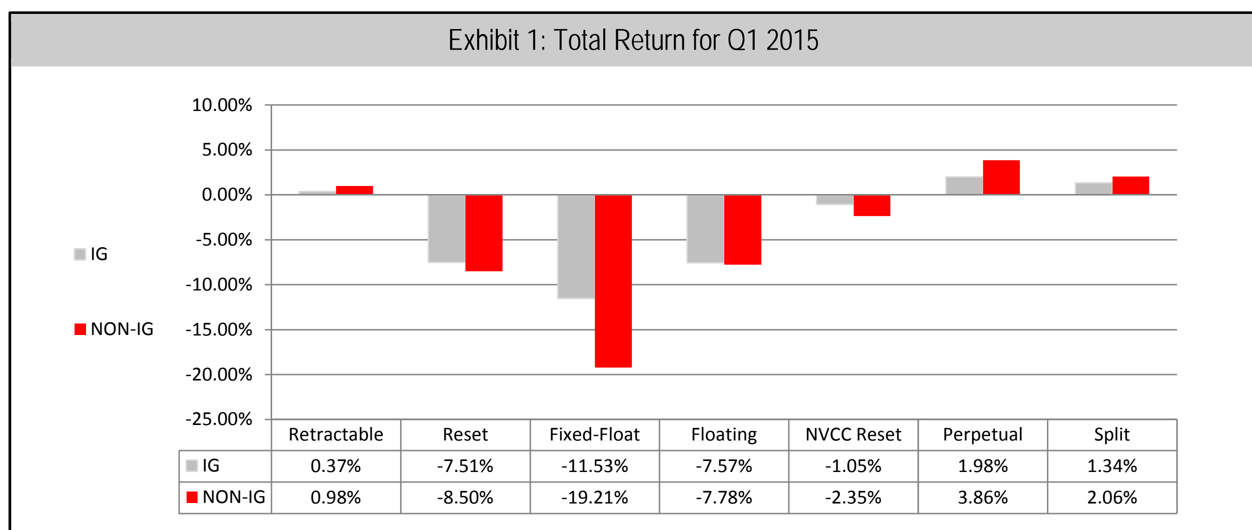
Tara Quinn, CFA, MBA – Director, Equity Hybrids, Portfolio Advisory Group

During the first quarter of 2015, the S&P/TSX Preferred Index declined by -6.00% (price return) or -4.86% on a total return basis. The majority of the price declines occurred in January (-5.63%) as the Bank of Canada surprised the market and cut the overnight rate to 0.75% from its previous level of 1.00%. In February and March the negative sentiment of the preferred share market continued providing two additional months of negative performance as investors adjusted to the new lower interest rate environment.

With rate resets comprising the majority of the preferred share market (~60%) the negative price performance of this type of preferred share contributed to the overall poor performance of the Index. Over the quarter the 5-year Government of Canada bond yield moved lower by -0.57% to its current level of ~0.76% (March 31, 2015). This benchmark yield acts as the base rate for rate resets which are extended and consequently new dividend rates have been much lower (up to 52%) than prior dividend rates. This move in 5-year yields put pressure on short-dated rate resets and also affected the price of longer dated resets as preferred shares tend to trade on a relative value basis. During the quarter, rate resets as indicated by the S&P/TSX Preferred Share Laddered Index fell -9.33% on a price basis and -8.41% on a total return basis.

Q1 2015	Total Return
S&P/TSX Preferred Share Index	-4.86%
iShares S&P/TSX Pref Index ETF (CPD)	-4.93%
Horizons Active Preferred Share ETF (HPR)	-4.13%
S&P/TSX Preferred Share Laddered Index	-8.41%
BMO S&P/TSX Laddered Pref Shr Index ETF (ZPR)	-8.20%

Breaking down the performance by type of preferred shares it was the perpetual preferred shares, which outperformed the market, which directly correlates to the 30-year Government of Canada bond yield movements (-0.35%) over the quarter.



	Retractable	Reset	Fixed-Float	Floating	NVCC Reset	Perpetual	Split
IG	0.37%	-7.51%	-11.53%	-7.57%	-1.05%	1.98%	1.34%
NON-IG	0.98%	-8.50%	-19.21%	-7.78%	-2.35%	3.86%	2.06%

The types of preferred shares which experienced the most downside in price over the quarter were those that have dividends which are reset based on current interest rate levels (rate resets, fixed-floating, & floating). The specific rate resets that suffered the most were those that reset with a lower dividend, have near-term reset dates, or had company specific news affecting performance.

How Moves in Underlying Interest Rates Affect Different Types of Preferred Shares

Preferred shares trade on a yield basis and prices/yields will fluctuate based on movements in the various underlying benchmark interest rates. Therefore it is important to understand what benchmark yield to watch to evaluate the different types of preferred shares.

Floating Rate Preferred Shares: This type of preferred share pays a monthly/quarterly dividend based on short-term interest rates (Prime or 90-Day T-Bills). Over the past quarter, the Prime rate was lowered to 2.85% from 3.00% and 90-Day T-bills ended the quarter at 0.55% down from 0.93% at the start of the year. With short-term interest rates lower, the dividends on floating rate preferred were also lowered and the prices dropped accordingly.

Straight Perpetual Preferred Shares: This type of preferred share pays a fixed quarterly dividend to holders indefinitely. With no maturity date, the price of this type of security moves inversely with moves in 30-year bond yields. As 30-year bond yields moved to 1.98% from 2.33% over the quarter, a high fixed dividend rate became attractive leading to pereptuals being the top performers as investors searched for dividend income.

Rate Reset Preferred Shares: This type of preferred share has its dividend reset every 5-years based on a predetermined spread above the 5-year Government of Canada bond yield. Over the past quarter, the 5-year Government of Canada bond yield moved down to 0.76% from 1.34% at the start of the year as the Bank of Canada reduced the overnight rate and concerns surrounding a potential further cut were priced into the market. This move in 5-year yields influenced the rate reset market and prices declined.

Thus far in 2015, there have been 4 rate resets which have been extended, and new dividend rates were announced as seen in the table below. Since the 5-year bond yield is much lower than when these securities were issued (2010), the new dividend rate is significantly lower and prices have dropped to reflect an appropriate yield based on lower dividends. On the back of these extensions, investors have become more aware of the likelihood that future dividend income has the potential to be lower and the prices of upcoming rate resets have started to reflect the lower interest rate environment. The rate resets that have been affected the most by the move in underlying interest rates are those that have a reset date in the next 12 months as there is less time for the 5-year bond yield to move higher. However, the entire rate reset market has moved lower based on the move in interest rates.

Reset Date	Ticker	Reset Spread	Initial Dividend	New Dividend	Div % Change	Percentage Fixed	Percentage Floating
31-Mar-15	FFH.PR.E	+2.16%	4.75%	2.91%	-38.74%	55.35%	44.65%
31-Mar-15	AIM.PR.A	+3.75%	6.50%	4.50%	-30.77%	57.30%	42.70%
26-Apr-15	BNS.PR.Y	+1.00%	3.85%	1.82%	-52.73%		
30-Apr-15	BRF.PR.A	+2.62%	5.25%	3.36%	-36.10%		

As rate resets are extended, holders have the option of converting into a floating rate preferred share. Looking at the securities that have extended approximately 44% of holders converted into the floating rate option while 56% chose to remain in the fixed dividend for the next 5 years.

Enbridge rate resets were among the worst performers during the quarter with returns ranging from -9% to -18% depending on the security. The selloff in Enbridge preferred shares has been influenced by the interest rate environment but also is due to company specific news. In December 2014, Enbridge announced the potential dropdown of assets to one of its subsidiaries and an increase in its common share dividend. In response to the news, the company was placed on CreditWatch by DBRS and CreditWatch

Negative by S&P citing the increase in payout ratio to approx. 75 – 85% in addition to the potential for a further dropdown of US assets to Enbridge Energy Partners. Since the announcement, credit spreads have widened on Enbridge Inc. preferred shares as these securities are now trading with yields comparable to non-investment grade (Pfd-3H) securities. The formal proposal of the dropdown contained no surprises and was consistent with the original message delivered in December. The restructuring is expected to be completed by mid-year at which time it is anticipated that the rating agencies will make a decision regarding the credit of the company. In the meantime, the Enbridge Inc. preferred shares will likely continue to be volatile and will also be influenced by peer companies (Veresen Inc. & Pembina Pipelines) coming to the market with new rate reset securities at wider spreads.

Redemptions and New Issuance

Supply and demand forces also influenced the preferred share market over the quarter. There was $1.07 billion worth of preferred share redemptions during the first quarter of 2015 and $2.73 billion of new issuance comprised entirely of rate resets. With the movement in underlying yields and hence pricing of preferred shares falling, demand for new issuance was moderate from both retail and institutional investors.

Furthermore the reset spreads on newly issued securities have been at wider levels than existing rate resets due to current market conditions. As a reminder, reset spreads are determined using the formula (initial dividend rate – underlying benchmark yield) and are a function of the market at time of issuance. With underlying benchmark yields dropping, as new issue hits the market, investors have been selling existing rate resets that have lower reset spreads and moving into the newly issued securities. Therefore, recent new issuance has influenced the price of existing rate resets especially those companies that have multiple rate resets outstanding.

Outlook for Remainder of 2015

The price swings seen in the preferred share market has caused unease for many retail investors due to the degree of negative returns experienced in a short time frame. The current negative sentiment towards the product and market is expected to continue in the near term as rate resets extend with lower dividend rates and investors evaluate macro-factors which affect the preferred share market. There are ten other rate reset preferred shares which have reset dates in 2015.

Near term rate resets and floating rate preferred shares should experience price fluctuations that correspond to levels of underlying interest rates. Therefore, if the overnight rate and 5-year bond yields decline then prices on rate resets should decline, with near-term rate resets affected more than longer dated rate resets. Upcoming economic data will continue to be scrutinized and focus will remain on guidance and announcements from central bankers regarding the outlook of the economy.

Although there is the potential for price swings to continue in the preferred share market over the near term, having a longer term view is important as longer dated (+2018) rate resets still provide investors with good dividend income and allow time for the underlying base rate (5-year yields) to move higher before the dividend reset date.

As the yield/price of rate resets will continue to be influenced by moves in underlying yields, in order for the price of rate resets to improve from current levels the following needs to occur:

- Government of Canada bond yields need to move to a higher level
- Credit spreads on the company need to tighten from current levels
- Limited new issuance in the current wide spread environment.

As shown in this article there are a variety of different types of preferred shares which move based on moves in different underlying yields. It is important to understand the features associated with each particular issue and structure a portfolio based on your income needs and risk tolerance. Contact your ScotiaMcLeod Advisor to discuss the preferred share opportunities and recommendations for your portfolio.

Financial Planning

US Estate Tax Implications on Owning US Recreational Properties

Does US Estate Tax Impact You?

Sherry Zheng, Tax Director, Scotiabank

Overview

A growing trend amongst Canadian Snowbirds is owning US recreational properties for vacation purposes during the cold winter months. What Canadians may not be aware of is the potential to trigger US estate tax on these types of properties upon death.

Generally speaking, if a US recreational property is owned, there may be US estate tax charged on the fair market value of that property upon death. The maximum US estate tax rate is 40%, however, there is a basic exclusion amount of $5,430,000 in 2015 for US citizens and green card holders.

For Canadians who are non-residents of the US, the basic exemption amount will be adjusted proportionately to reflect the value of the property located in the US or with a US connection (US situs property) in relation to the value of the worldwide estate.

There are a variety of planning options for Canadians to hold US recreational properties that may effectively minimize both the US estate tax and Canadian income taxes. One should first determine whether they will have a US estate tax liability, and if so, how much. The next step would be to then determine which of the following common options has the lowest cost of implementation in relation to the overall tax savings.

Personal Ownership

In many cases, the simplest structure may serve the best purpose. It may make sense to simply acquire the recreational property personally if the US estate tax consequences are minimal. It also makes sense in many cases to place ownership of the US property in the name of the spouse with the lower net worth. It is important that the spouse use his or her own funds to purchase the property to avoid an adverse tax consequence resulting from the Canadian attribution rules.

Co-ownership

In general terms, the US estate tax liability will be divided among the co-owners, where there are multiple owners of a property. The IRS will usually allow a discount on the value of each co-owner's share of the property because it is usually more difficult to sell a partial interest in a property than to sell the entire property.

In addition, each co-owner has access to his or her own basic exclusion amount for US estate tax purposes. As a result, the aggregate US estate tax payable by the co-owners on the discounted value will be less than the total amount that would otherwise be payable by a single owner.

To implement this plan properly, all co-owners must fund their own share of the purchase price in order to avoid potential US gift tax issues when the property is sold in the future. While this ownership structure can significantly reduce US estate tax, it makes a future disposition of the property more complicated. All co-owners would have to agree to the disposition and be available to sign the legal documents for the transaction to be completed.

It is worth mentioning that it is generally not recommended that Canadians take title to US property as joint tenants with right of survivorship. Joint tenancy with right of survivorship provides that when the first joint tenant dies the survivor automatically receives the entire value of the property. While this form of ownership is beneficial in that it avoids probate in the state in which the property is located, it may result in a doubling of the US estate tax.

Residency Trust

It is becoming more and more popular to use a cross-border trust to hold US real estate in order to minimize US estate tax. If the trust is properly drafted, executed, and administered, this option will remove the value of the recreational property from the US taxable estate and will not result in adverse US or Canadian income tax consequences.

It is important that the settlor of the trust relinquish control and the settlor be neither the trustee nor a beneficiary of the trust. In addition to the original funding for the purchase of the real estate, the settlor will likely need to contribute additional amounts to the trust in order to fund the annual operating cost.

It is often recommended that the trust avoid earning rental income on the property held by the trust in order to avoid the US tax filing requirements and to ensure that no taxable benefits are triggered. Since the trust would not generate any income while it is holding the real estate, no annual Canadian or US income tax return filings will be required. Because of Canadian law, the trust will be deemed to have disposed of its property every 21 years, which may result in capital gains tax. However, this is still preferable to paying US estate tax.

Use of Life Insurance

A life insurance policy is a very common tool used to fund the US estate tax ability that an heir will have to pay on an individual's death. The amount of life insurance premium will depend on the age and the health of the owner. Accordingly, if there is an insurability issue, this may not be a cost-effective plan.

Insurance proceeds on a non-US citizen who is not a US resident are not considered "US property" for the US estate tax purposes. However, the proceeds are considered part of the individual's worldwide estate at death. As a result, the exclusion amount available to the decedent will be reduced. In addition, the premium is not tax deductible. Taking all that into consideration, it is still generally a cost-effective way of paying a US estate tax liability (just as it is in Canada for income taxes.)

Non-recourse Mortgage

A non-recourse mortgage is a mortgage that is secured only against the particular US property and not against the other assets of the borrower. If one already owns a US recreational property, this can be a very effective method to reduce US estate tax exposure. This is because the value of the US property included in the person's estate allows a deduction for a non-recourse mortgage and thus reduces the US estate tax exposure.

However, there are some negative aspects one must consider with this option as well. It may not be easy to obtain financing for the full value of the property through a financial institution and the interest rates on non-recourse mortgages are traditionally higher than the interest rates of conventional mortgages. In addition, real estate has traditionally appreciated in value. As such, there may be a need to obtain another non-recourse mortgage in future if the property value increases.

Summary

There are many different ways of dealing with US estate tax issues surrounding the ownership of US recreational properties. These are just some of the common options for Canadian residents who are neither US citizens nor green card holders.

However, if you are a US citizen or a green card holder, different tax planning may be required.

Before proceeding with any of the above tax planning options, it is crucial that a cross-border tax professional be consulted.

ScotiaMcLeod Canadian Income Plus Guided Portfolio

Warren Hastings – Associate Director, Portfolio Advisory Group

Performance Update

During Q1F15, the portfolio delivered a total return including dividends of +0.59%*, exceeding the benchmark's (Dow Jones Canada Select Dividend index) total return of -3.8%.

We hold three banks in the portfolio, all of which declined modestly during the quarter. The banks sold off sharply during the month of January, before partially recovering losses in February and March, trading in sympathy with the price of oil and also with long-term interest rates. Q1F15 bank earnings results, reported in late Feb/early March, painted a mixed picture for the group. Royal Bank of Canada (RY) reported better than expected Q1F15 operating EPS driven by surprising strength in its Capital Markets division, where geographic diversification helped the bank overcome slower growth in the domestic market. The Toronto-Dominion Bank's (TD) quarterly results were in line with consensus expectations, supported by strong earnings growth in the bank's U.S. P&C division. Of the three banks, Bank of Nova Scotia (BNS) was the only one to report an earnings miss, due to weakness within its Canadian Banking and International Banking segments. As expected, all three banks hiked their dividends in the quarter, reassuring given the importance of dividends to banks stocks' total return proposition in a subdued earnings growth environment.

Similar to Canadian bank stocks, Manulife Financial Corp. (MFC) shares declined in the month of January as long-term interest rates fell (negative for lifeco earnings), though they partially recovered these losses over the balance of the quarter as investors largely brushed off a Q4F14 earnings miss. Power Corp. of Canada (POW) is the only other stock in the portfolio with material lifeco exposure (Great-West Lifeco Inc. [GWO] represents approximately three-quarters of POW's NAV, by way of POW's controlling stake in Power Financial Corp. [PWF]). POW shares generated a 6.5% total return during the quarter, as investors priced in the possibility of an earlier dividend increase after PWF hiked its distribution one quarter sooner than anticipated. The portfolio's sixth and final Financial sector holding, Brookfield Property Partners LP (BPY.un), was also its best performer, delivering a +17.9% total return as the real estate firm reported a 7.7% sequential increase in NAVPU, supported by declining interest rates.

On average, the portfolio's Energy sector holdings declined 1.0% (including dividends) in Q1F15. Losses were led by Cenovus Energy Inc. (CVE), which declined almost 10% in the quarter as the integrated producer issued equity in mid-Feb to shore up its balance sheet. Pembina Pipeline Corp. (PPL) was also a lagger, falling 4.4% on a total return basis as investors weighed potential near-term weakness in the midstream segment against more favourable, asset-backed growth prospects for this business over the longer-term. PrairieSky Royalty Ltd. (PSK) mostly recovered from a January sell-off to finish the quarter with a -1.2% total return, reporting strong Q4F14 financial results and maintaining its dividend in a testament to PSK's conservative business model and strong (debt-free) balance sheet. Enbridge Inc. (ENB) was one of the portfolio's two Energy holdings that posted positive returns in the quarter, finishing +3.0% including dividends but not before some significant swings to the downside in early January, tracking the broader S&P/TSX Energy Index. ENB finished the quarter 408 bps ahead of this index, likely reflecting its defensive qualities and strong, highly visible cash flow growth profile. Crescent Point Energy Corp. (CPG) was the portfolio's best performing Energy sector holding during the quarter, maintaining its dividend and 2015 capex and production guidance when it reported quarterly results on March 11.

The portfolio has two Telecom Services holdings, of which TELUS Corporation (T) was the better performing, delivering a +1.4% total return. While the shares steadily appreciated through January and February, investors were caught off guard by TELUS' larger than expected ($1.5B versus ~$0.5B est.) purchase in the federal government's early-March AWS-3 spectrum auction. The portfolio's other Telecom holding, Rogers Communications Inc. (RCI/B), saw its shares retreat 5.1% on a total return basis

during the quarter potentially over concern about the impact of competition – at both the higher and lower ends -- on the company's wireless subscriber base. While RCI/b beat Q4F14 earnings expectations and issued what management described as "ambitious" 2015 guidance, analysts remained unconvinced, with a sizable majority continuing to rate the stock Hold or Sell. The portfolio's only Consumer Discretionary stock, Shaw Communications Inc. (SJR/B), fell 8.5% on a total return basis. Shaw missed Q1F15 earnings estimates and the stock continued to sell off thereafter.

Brookfield Renewable Energy Partners LP (BEP.un) is the only utility held in the portfolio and was its second-best performer, delivering a +12.9% total return. BEP.un, along with many utilities, likely benefitted from declining long-term interest rates during the quarter, complementing a 7% distribution increase (in line with guidance). Investors brushed off weaker than expected quarterly results, which can be (and were) volatile given hydrology (water level) fluctuations and BEP.un's hydro exposure (~85% of 2014 generation).

**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 30-Mar-15	Dvd	Dvd Yield	Bloomberg Tgt Price	Target ROR	Target Ptf Wgt(%)
Consumer Discretionary									
Shaw Communications Inc	SJR.B	2.9	Medium	$28.50	$1.19	4.2%	$29.81	8.8%	6.7%
Consumer Staples									
No Holdings									
Energy									
Cenovus Energy Inc	CVE	3.8	Medium	$20.69	$1.07	5.1%	$24.85	25.3%	6.7%
Crescent Point Energy Corp	CPG	4.8	High	$28.77	$2.76	9.6%	$34.43	29.3%	6.7%
Enbridge Inc	ENB	4.3	Medium	$61.06	$1.86	3.0%	$67.10	12.9%	6.7%
PrairieSky Royalty Ltd	PSK	4.1	Medium	$29.78	$1.30	4.4%	$33.52	16.9%	6.7%
Pembina Pipeline Corp	PPL	4.5	Medium	$40.04	$1.74	4.3%	$48.23	24.8%	6.7%
Financials									
Bank of Nova Scotia/The	BNS	3.6	Medium	$62.38	$2.72	4.4%	$70.06	16.7%	6.7%
Royal Bank of Canada	RY	3.8	Medium	$75.15	$3.08	4.1%	$83.98	15.8%	6.7%
Toronto-Dominion Bank/The	TD	4.1	Medium	$53.21	$2.04	3.8%	$58.60	14.0%	6.7%
Brookfield Property Partners LP	BPY.UN	5.0	Medium	$30.50	$1.32	4.3%	$33.97	15.7%	6.7%
Manulife Financial Corp	MFC	4.7	Medium	$21.20	$0.62	2.9%	$24.94	20.5%	6.7%
Power Corp of Canada	POW	4.2	Medium	$33.35	$1.16	3.5%	$36.64	13.4%	6.7%
Funds									
No Holdings									
Health Care									
No Holdings									
Industrials									
No Holdings									
Information Technology									
No Holdings									
Materials									
No Holdings									
Telecommunication Services									
Rogers Communications Inc	RCI.B	3.3	Medium	$43.54	$1.92	4.4%	$46.44	11.1%	6.7%
TELUS Corp	T	4.0	Medium	$41.97	$1.60	3.8%	$45.27	11.7%	6.7%
Utilities									
Brookfield Renewable Energy Partners LP/CA	BEP.UN	3.9	Medium	$40.42	$2.06	5.1%	$41.50	7.8%	6.7%
Cash									0.0%
Portfolio Average						4.5%			

Source: Bloomberg.

ScotiaMcLeod Canadian Core Guided Portfolio

Warren Hastings – Associate Director, Portfolio Advisory Group

Performance Update

During Q1F15, the portfolio delivered a total return including dividends of +2.3%*, compared with the benchmark's (S&P/TSX 60 Index) total return of +2.4%.

We hold three banks in the portfolio, all of which declined modestly during the quarter. The banks sold off sharply during the month of January, before partially recovering losses in February and March, trading in sympathy with the price of oil and also with long-term interest rates. Q1F15 bank earnings results, reported in late Feb/early March, painted a mixed picture for the group. Royal Bank of Canada (RY) reported better than expected Q1F15 operating EPS driven by surprising strength in its Capital Markets division, where geographic diversification helped the bank overcome slower growth in the domestic market. The Toronto-Dominion Bank's (TD) quarterly results were in line with consensus expectations, supported by strong earnings growth in the bank's U.S. P&C division. Of the three banks, Bank of Nova Scotia (BNS) was the only one to report an earnings miss, due to weakness within its Canadian Banking and International Banking segments. As expected, all three banks hiked their dividends in the quarter, reassuring given the importance of dividends to banks stocks' total return proposition in a subdued earnings growth environment.

Similar to Canadian bank stocks, Manulife Financial Corp. (MFC) shares declined in the month of January as long-term interest rates declined (negative for lifeco earnings), though they partially recovered these losses over the balance of the quarter as investors largely brushed off a Q4F14 earnings miss. Power Corp. of Canada (POW) is the only other stock in the portfolio with material lifeco exposure (Great-West Lifeco Inc. [GWO] represents approximately three-quarters of POW's NAV, by way of POW's controlling stake in Power Financial Corp. [PWF]). POW shares generated a 6.5% total return during the quarter, as investors priced in the possibility of an earlier dividend increase after PWF hiked its distribution one quarter sooner than anticipated. Intact Financial Corp. (IFC) is the third insurer in the portfolio, albeit in the P&C space, and was the second-best performer amongst financials and indeed within the portfolio overall, generating a +14.5% total return as investors sought an alternative to banks and lifecos in a declining interest rate environment. Strong quarterly earnings results and a 10% dividend increase also supported the shares. The portfolio's seventh and final Financial sector holding, Brookfield Property Partners LP (BPY.un), was also its best performer, delivering a +17.9% total return as the real estate firm reported a 7.7% sequential increase in NAVPU, supported by declining interest rates.

On average, the portfolio's Energy sector holdings eked out a small gain in the quarter, delivering a +0.6% total return led by Canadian Natural Resources Ltd. (CNQ), after the company reported stronger than expected Q4F14 results and increased its dividend – a rarity amongst energy producers in the current energy price environment. Crescent Point Energy Corp. (CPG) was the portfolio's second best energy sector name during the quarter, maintaining its dividend and 2015 capex and production guidance when it reported quarterly results on March 11. Suncor Energy Inc. (SU) was little changed in the quarter, returning just 1.1% including dividends, perhaps not surprising given the shares continued to discount a crude oil price well above those available in the spot market and along the forward strip based on Scotiabank GBM institutional equity research, limiting share price upside. Cenovus Energy Inc. (CVE) was the portfolio's worst-performing energy position, declining almost 10% in the quarter including dividends, as the integrated producer issued equity in mid-Feb to shore up its balance sheet. Pembina Pipeline Corp. (PPL) fell 4.4% on a total return basis in Q1F15 as investors weighed potential near-term weakness in the midstream segment against more favourable, asset-backed growth prospects for this business over the longer-term.

The portfolio holds one Telecom Services sector name, Rogers Communications Inc. (RCI/B), whose shares retreated 5.1% on a total return basis during the quarter potentially over concern about the impact of competition – at both the higher and lower ends -- on the company's wireless subscriber base. While RCI/b beat Q4F14 earnings expectations and issued what it described as "ambitious" 2015 guidance, analysts remained unconvinced, with a sizable majority continuing to rate the stock Hold or Sell.

Within the Consumer Discretionary sector, we added one stock during the quarter, Linamar Corporation (LNR), which turned out to be the segment's best performer with a +12.3% total return over our holding period. See the *Changes* section below for further details. Magna International Inc. (MG) delivered a respectable +8.0% total return, recovering from a broader market sell-off early in January, particularly after the company reported strong Q4F14 results, increased its dividend 16% and modestly raised is 2015 margin guidance. Shaw Communications Inc. (SJR/b) was the sole decliner amongst the portfolio's Consumer Discretionary holdings, falling 8.5% on a total return basis. Shaw missed Q1F15 earnings estimates and the stock continued to sell off thereafter.

The portfolio's only Industrials sector name held for the entirety of the quarter, Canadian National Railway Co. (CNR), was up 6.4% in Q1F15. The stock advanced approximately 10% at various points during the quarter, supported by strong Q4F14 earnings and a hefty 25% dividend increase. Valuation may have limited share price upside given CNR shares traded close to historically high levels throughout the quarter. Emera Inc. (EMA) remains the portfolio's only utility holding and returned nearly 8% in the quarter, likely supported by declining long-term interest rates (from which this sector tends to benefit). A Q4F14 earnings beat, an earlier than usual dividend increase, and the defensive nature of the utility sector (which outperformed the broader S&P/TSX by 90 bps during the quarter) also may have contributed to the stock's performance.

Returns in the Materials sector were mixed. Despite a stretched balance sheet, a challenging commodity price environment, and continuing risk of a near-term dividend cut, Teck Resources Ltd. (TCK/B) was the better performing of the portfolio's two holdings in this sector, boosted by M&A speculation. Lundin Mining Corp. (LUN), which was a new addition to the portfolio early in the quarter as described below, perfectly offset TCK/b's gain, due to base metal price weakness.

Changes

We made five trades in the portfolio at the start of the quarter (January 5) to align its holdings with PAG's 2015 Canadian Equity Top 10 list. Added to the portfolio were full positions of LNR and Empire Co. Ltd. (EMP/a), and a half position of LUN (funded with the portfolio's cash balance). We added LNR for its significant exposure to favourable North American consumer and automotive sales trends (with a limited footprint in Europe, where we believe the outlook is more challenging) and its enviable track record of exceeding earnings expectations. The company did not disappoint, beating Q4F14 earnings estimates by 4% and returning over 12% during the quarter. EMP/a was selected for its defensive characteristics (it wholly owns grocer Sobeys) and attractively valued growth profile, but the shares ended the quarter +0.5% only following a volatile March that saw several analyst rating changes on the stock. LUN was added for its production and free cash flow growth profile, strong balance sheet, and dividend initiation potential. As noted, however, LUN fell victim to a challenging commodity price environment and declined nearly 9% over our holding period. The names removed from the portfolio were Alimentation Couche-Tard Inc. (ATD/b) and WestJet Airlines Ltd. (WJA), which, during the brief time they were held in the portfolio in Q1F15, fell 3.5% and 2.5%, respectively. We decided to crystallize gains in ATD/b after the stock's stellar run in 2014 (+84% total return) left it trading at close to a ten-year high valuation, even after taking into consideration expected accretion from the acquisition of The Pantry, which was announced in mid-December/2014. WJA, meanwhile, was sold following an advance in the shares supported by declining oil and hence jet fuel prices in the latter half of 2014. However, we believed these gains could reverse should our constructive medium and long-term view of crude oil prices play out.

**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 30-Mar-15	Dvd	Dvd Yield	Bloomberg Tgt Price	Target ROR	Target Ptf Wgt(%)
Consumer Discretionary									
Magna International Inc	MG	4.2	Medium	$65.56	$1.12	1.7%	$74.07	14.7%	5.0%
Shaw Communications Inc	SJR.B	2.9	Medium	$28.50	$1.19	4.2%	$29.81	8.8%	5.0%
Linamar Corp	LNR	4.3	High	$77.75	$0.40	0.5%	$84.43	9.1%	5.0%
Consumer Staples									
Empire Co Ltd	EMP.A	3.5	Medium	$89.41	$1.08	1.2%	$94.67	7.1%	5.0%
Energy									
Cenovus Energy Inc	CVE	3.8	Medium	$20.69	$1.07	5.1%	$24.85	25.3%	5.0%
Canadian Natural Resources Ltd	CNQ	4.7	High	$38.67	$0.92	2.4%	$43.50	14.9%	5.0%
Crescent Point Energy Corp	CPG	4.8	High	$28.77	$2.76	9.6%	$34.43	29.3%	5.0%
Suncor Energy Inc	SU	4.1	High	$36.78	$1.12	3.0%	$40.67	13.6%	5.0%
Pembina Pipeline Corp	PPL	4.5	Medium	$40.04	$1.74	4.3%	$48.23	24.8%	5.0%
Financials									
Bank of Nova Scotia/The	BNS	3.6	Medium	$62.38	$2.72	4.4%	$70.06	16.7%	5.0%
Toronto-Dominion Bank/The	TD	4.1	Medium	$53.21	$2.04	3.8%	$58.60	14.0%	5.0%
Royal Bank of Canada	RY	3.8	Medium	$75.15	$3.08	4.1%	$83.98	15.8%	5.0%
Manulife Financial Corp	MFC	4.7	Medium	$21.20	$0.62	2.9%	$24.94	20.5%	5.0%
Intact Financial Corp	IFC	4.0	Medium	$93.91	$2.12	2.3%	$92.46	0.7%	5.0%
Brookfield Property Partners LP	BPY.UN	5.0	Medium	$30.50	$1.32	4.3%	$33.97	15.7%	5.0%
Power Corp of Canada	POW	4.2	Medium	$33.35	$1.16	3.5%	$36.64	13.4%	5.0%
Funds									
No Holdings									
Health Care									
No Holdings									
Industrials									
Canadian National Railway Co	CNR	3.4	Medium	$83.41	$1.25	1.5%	$89.35	8.6%	5.0%
Information Technology									
No Holdings									
Materials									
Teck Resources Ltd	TCK.B	3.4	High	$17.47	$0.90	5.2%	$21.25	26.8%	2.5%
Lundin Mining Corp	LUN	4.5	High	$5.19	$0.00	0.0%	$7.11	36.9%	2.5%
Telecommunication Services									
Rogers Communications Inc	RCI.B	3.3	Medium	$43.54	$1.92	4.4%	$46.44	11.1%	5.0%
Utilities									
Emera Inc	EMA	3.7	Medium	$41.14	$1.60	3.9%	$43.28	9.1%	5.0%
Cash									0.0%
Portfolio Average						3.5%			

Source: Bloomberg.

ScotiaMcLeod U.S. Core Guided Portfolio

Caroline Escott – Portfolio Manager, Portfolio Advisory Group

Q1 Overview

It was another volatile quarter for U.S. equities as the S&P 500 bounced between 1,995 and 2,115 during the first three months of 2015. Overall, the S&P 500 managed to eke out a modest price return of 0.44% and a total return of 0.95%. The U.S. Guided Portfolio declined a modest 26bps in the quarter as weakness in Technology and Financials detracted from the overall performance. Elsewhere in the portfolio, the performance in other sectors was quite strong, but not enough to offset the shortfall in Technology and Financials. In addition, not owning Apple cost the relative performance, as almost all of the S&P 500 return in Q1 can be attributed to Apple. Given its large weight in the S&P 500 (estimated at 4%), it is a significant factor in the benchmark return.

There have been a number of events that have resulted in heightened volatility within markets, including ongoing discussions regarding Greece potentially exiting the Eurozone, continued geopolitical tensions, and a divergence in central bank policy. Specific to U.S. markets, focus over the quarter has been the ongoing strength in the U.S. dollar, mixed economic data in the U.S. and the ongoing debate regarding the timing of the Federal Reserve's first rate hike since 2006.

The market remains mixed on the timing of a rate hike from the Federal Reserve, with some investors expecting a rate hike in June, while others are expecting the Fed to remain on hold until early 2016. Fed Chairperson Janet Yellen has maintained her relatively dovish tone further delaying the likelihood of a rate hike in June. In mid-March, the Fed removed the term "patient" from the FOMC statement which increases the flexibility on the timing of the first rate hike, while at the same time lowering the forecast for the projected path of the Fed Funds rate. The Fed appears to remain relatively cautious on the overall outlook for the economy with concern surrounding low inflation expectations and growth as well as strength in the US dollar.

Equities were expected to perform reasonably well in 2015, as earnings growth in the U.S. was expected to remain healthy. However, the continued strength of the U.S. dollar has been a headwind for most companies in the U.S. and has caused analysts to reduce earnings estimates quite meaningfully across most sectors. In addition, the continued weakness in energy prices has weighed on earnings estimates for the S&P 500. While the global macro backdrop has turned more supportive with European economic data turning positive over the past few months, investors remain focused on the negative implications of the strong U.S. dollar.

Outlook

While recent economic data has been mixed, we believe the U.S. economy will remain on a positive trajectory. The benefit of lower fuel costs has been slow to translate into improved economic data as retail sales have remained relatively sluggish. However, some of the weakness can be attributed to a colder than normal winter. Nevertheless, the ongoing sluggish trend for earnings is causing equities to pause. While the U.S. economy remains on a positive trajectory, we believe declining earnings estimates, combined with lofty valuation levels, warrant a more defensive stance in equity portfolios. With the S&P 500 trading at a forward P/E in excess of 17.5x, investors should expect equity returns to be much more muted in 2015 versus what has been delivered over the past eight years. We believe U.S. equities will deliver mid-single digit returns in the near term, in-line with earnings growth, which is close to the long-term average returns for equities.

Performance

There were three sectors that underperformed in the quarter, with the largest shortfall within Technology as the average return was a decline of 7.5%, which compared negatively to the average return for the benchmark sector of +0.56%. The other sectors that underperformed their respective benchmarks were Financials and Industrials, and while Consumer Discretionary performed reasonably well, up 4.2% it also fell slightly short of the benchmark which was up 4.8%.

Within Technology, Sandisk (SNDK) was the laggard by a large margin after the company issued negative earnings guidance in January and again in late March, which resulted in the stock falling 34.8%. We have maintained the position as we believe the risk of further weakness in the business has been largely priced into the stock. The company has a solid balance sheet with Net Debt/EBITDA of approximately 1x and $1 billion in free cash flow.

Intel (INTC) and EMC (EMC) were both down in the range of 13%. INTC performed very well in the second half of 2014, with the share price increasing approximately 19% from mid-October through to year-end. As such, with negative comments from Microsoft (MSFT) regarding the PC market in January and INTC's reduced guidance for revenue due to PC softness in March, investors have been quick to take profits. INTC has subsequently reported Q1 results and provided reasonably positive guidance. We believe the growth potential of the data-center group is attractive and that it will support positive results and returns through 2016.

EMC's share price benefitted last year from speculation that an activist investor was calling for the company to split up; however, that speculation has subsided. Consequently, the share price has languished year-to-date, and has given back some of the gains achieved in 2014. We reduced the position in January in order to crystallize some gains. We continue to believe the risk/reward profile is attractive as the company offers a leading position in data storage and exposure to VMware. Google (GOOG) was the bright spot within the group, with the only positive performance, up approximately 4% in the quarter after performing poorly in Q4. We like GOOG's leading market position in Internet Search, YouTube, and Google Play. Management is expected to remain focused on returning capital to shareholders, which should also provide share price support.

Within the benchmark, Apple (AAPL) was a driver of the return in the quarter given its large weight in the sector. Many of the other top performing stocks within Technology were smaller, more niche technology companies whereas many of the larger cap, traditional technology stocks lagged the overall sector. Companies such as Skyworks Solutions, First Solar, Avago Technologies, and Electronic Arts were strong performers.

Our Financials positions also underperformed the benchmark as the large money centers and insurance companies were hurt by declining bond yields as the timeline for the first Fed rate hike was pushed out further. That shift has put pressure on the financials that will benefit from higher rates, such as MET, C and JPM. Nevertheless, we continue to believe these three financials remain attractively valued while offering attractive earnings growth prospects.

The Industrials positions also underperformed, which had a meaningful impact on the portfolio's return given the overweight position in the sector. The performance of the constituents within the benchmark was very mixed, and we did not see any discernible pattern of performance. While Honeywell (HON), United Technologies (UTX) and Ryder (R) all performed well in the quarter, Fluor (FLR) and Union Pacific (UNP) pulled the overall group down as the declines more than offset the positive performance of the HON, UTX, and R. FLR continues to be pressured by its exposure to Energy while UNP is declining with its peers on concerns about slowing US growth and lower volumes. In addition, comments from Kansas City Southern, Norfolk Southern and CSX are confirming ongoing weakness in coal volumes throughout the industry.

While there were a few sectors that underperformed, there were a number of bright spots in the portfolio, particularly within Consumer Staples where the strong performance of CVS Health (CVS) resulted in the

sector's exposure far exceeding its benchmark, up 7.5% versus 1%. CVS continues to perform well as the company delivers consistent and predictable operating and financial results. It is also benefitting from its domestic focus, and modest FX exposure. Unfortunately, our exposure to Consumer Staples is relatively modest at 5%, and is not enough to offset the weakness in Technology, Financials and Industrials.

Within telecom, Verizon (VZ) was also a relatively strong performer, up 5.2% in quarter after the stock rebounded from weak performance in Q4/14.

Within the Consumer Discretionary holdings, Comcast (CMCSA) was the only stock with a negative return (-2.6%) while Starbucks (SBUX) Walt Disney (DIS) and Home Depot (HD) delivered strong returns of 15.4%, 11.4% and 8.2%, respectively.

Changes

We completed a number of trades in the quarter in order to shift the exposure of the portfolio to a more defensive position by trimming Technology and Industrials while adding to Health Care, Utilities and cash. We also added a European ETF as the European economy has been benefitting from lower oil prices and a weaker Euro relative to the U.S. dollar.

EMC (EMC), United Technologies (UTX) and Fluor (FLR) were trimmed in January and positions in NextEra (NEE) and Actavis (ACT) were added. We continue to believe that the prospects for EMC, UTX and FLR remain attractive, but decided to shift the portfolio into a more defensive position by adding NEE and ACT, both of which offer defensive business models and attractive dividend yields.

NextEra provides sustainable energy generation and distribution services in the U.S. It is the leading producer of green energy and specializes in wind and solar energy production. NEE's subsidiary Florida Power and Light is one of the largest and most efficient U.S. utility companies in the U.S. NEE also recently acquired Hawaiian Electric, which is expected to add EPS growth potential of ~9% annually over the longer term. While NEE trades at a premium valuation, it is forecast to grow earnings at an attractive rate of approximately 7%, which is much higher than the average 2% to 3% for the peer group.

Actavis is a global manufacturer of specialty pharmaceuticals. Its recent acquisition of Allergan has created a global power house that is capable of growing at higher rates than many other major pharma companies. We believe the company is well protected as ACT's core majority of branded drug products have patent protection into 2024. The company also remains committed to high levels of R&D spending to enhance its drug discovery and innovation. The dollar value of the global drug market is expected to grow at a CAGR of 3%-6% over 2012-2016, according to forecasts made by IMS Health. One of the key drivers to the growth expectations is emerging markets, where aggregate sales are expected to advance at a CAGR of 12%-15%.

We also sold Roche Holdings (RHHBY) in January and shifted the proceeds into Merck (MRK) on news that the Swiss National Bank scrapped its minimum exchange rate and the significant increase in the Swiss franc. Roche's revenue is 96% exposed to currencies other than the Swiss franc, with the US dollar and Euro being the largest exposures. While we expect the negative foreign exchange effect on the financials may be largely offset by a positive currency effect on the ADR (as higher valued Swiss franc is converted to US dollars), we sold RHHBY as a cautionary measure for any unforeseen risk. As a leading global drugmaker, we felt Merck was an attractive replacement for RHHBY. MRK has a well diversified, attractive portfolio of drugs, as well as an attractive pipeline with 8 compounds under regulatory review and 14 products in late-stage Phase III clinical trials.

In March we sold the remaining position in United Technologies (UTX) in order to bring the Industrials exposure closer to a Market Weight position. We also reduced Qualcomm (QCOM) and Celgene (CELG) and eliminated the Royal Caribbean (RCL) position in March as we continued to shift the portfolio into a more defensive position. We maintain a positive outlook for RCL but believe it is fairly valued at current levels. As such, we felt it was prudent to crystallize our gain as the stock has been a strong performer, up ~50% over the past year.

We added a European ETF to the portfolio as we believe European equities will continue to perform well with the European Central Bank's quantitative easing program now under way. With U.S. equities now fully valued, in our view, we shifted some exposure in the portfolio to European equities. We currently hold the iShares MSCI EMU ETF (VGK), which does not hedge the currency exposure and has greater exposure to the Euro. We believe that while the U.S. dollar is expected to remain strong, it appears to have reached resistance and we feel it may stabilize in the near-term. We are watching the currency moves closely and would look at switching into a hedged ETF such as the WisdomTree Europe Hedged Equity Fund (HEDJ) should the U.S. dollar break out of the current resistance.

U.S. Core Guided Portfolio

Company Name	Symbol	Bloomberg Rating (#/5)	ScotiaMcLeod Risk Rating	Price 30-Mar-15	Dvd	Dvd Yield	Bloomberg Tgt Price	Target ROR	Target Ptf Wgt(%)
Consumer Discretionary									
Comcast Corp	CMCSA	4.4	Medium	$55.94	$1.00	1.8%	$65.41	18.7%	2.5%
Home Depot Inc/The	HD	4.1	Medium	$113.86	$2.36	2.1%	$122.30	9.5%	2.5%
Walt Disney Co/The	DIS	4.2	Medium	$105.48	$1.15	1.1%	$106.44	2.0%	2.5%
Starbucks Corp	SBUX	4.5	Medium	$95.07	$1.28	1.3%	$98.45	4.9%	1.0%
Consumer Staples									
CVS Health Corp	CVS	4.8	Medium	$102.50	$1.40	1.4%	$112.57	11.2%	5.0%
Energy									
Anadarko Petroleum Corp	APC	4.7	High	$82.19	$1.08	1.3%	$96.47	18.7%	2.5%
Halliburton Co	HAL	4.4	Medium	$43.26	$0.72	1.7%	$47.70	11.9%	2.5%
ConocoPhillips	COP	4.0	Medium	$62.93	$2.92	4.6%	$72.71	20.2%	2.5%
EOG Resources Inc	EOG	4.3	High	$90.56	$0.67	0.7%	$100.44	11.7%	1.0%
Financials									
Citigroup Inc	C	4.3	High	$51.00	$0.04	0.1%	$61.42	20.5%	5.0%
JPMorgan Chase & Co	JPM	4.5	Medium	$59.55	$1.60	2.7%	$68.54	17.8%	5.0%
MetLife Inc	MET	4.4	Medium	$50.27	$1.40	2.8%	$58.93	20.0%	5.0%
Funds									
iShares MSCI EMU ETF*	EZU	N/A	Medium	$39.01	$1.08	2.8%	N/A	N/A	2.0%
Health Care									
Celgene Corp	CELG	4.5	High	$118.68	$0.00	0.0%	$139.52	17.6%	1.5%
Gilead Sciences Inc	GILD	4.5	Medium	$101.00	$1.72	1.7%	$118.52	19.0%	2.5%
McKesson Corp	MCK	4.6	Medium	$226.11	$0.96	0.4%	$245.81	9.1%	5.0%
Pfizer Inc	PFE	4.2	Medium	$34.53	$1.12	3.2%	$36.18	8.0%	2.5%
Merck & Co Inc	MRK	4.0	Medium	$57.75	$1.80	3.1%	$63.84	13.7%	2.5%
Actavis plc	ACT	4.7	Medium	$303.56	$0.00	0.0%	$338.84	11.6%	2.0%
Industrials									
Fluor Corp	FLR	4.4	Medium	$56.76	$0.84	1.5%	$68.57	22.3%	2.0%
Union Pacific Corp	UNP	4.4	Medium	$108.44	$2.20	2.0%	$130.59	22.5%	2.5%
Ryder System Inc	R	4.6	High	$94.39	$1.48	1.6%	$107.08	15.0%	2.5%
Honeywell International Inc	HON	4.5	Medium	$102.96	$2.07	2.0%	$112.85	11.6%	2.5%
Information Technology									
EMC Corp/MA	EMC	4.4	Medium	$25.17	$0.46	1.8%	$31.09	25.3%	3.0%
Google Inc	GOOG	4.7	Medium	$548.34	$0.00	0.0%	$636.00	16.0%	5.0%
Intel Corp	INTC	3.6	Medium	$32.00	$0.96	3.0%	$35.13	12.8%	2.5%
Oracle Corp	ORCL	3.9	Medium	$42.64	$0.60	1.4%	$46.72	11.0%	2.5%
QUALCOMM Inc	QCOM	4.0	Medium	$67.03	$1.92	2.9%	$75.68	15.8%	2.5%
SanDisk Corp	SNDK	4.1	Medium	$64.59	$1.20	1.9%	$81.13	27.5%	1.0%
Materials									
No Holdings									
Telecommunication Services									
Verizon Communications Inc	VZ	4.0	Medium	$48.56	$2.20	4.5%	$51.68	11.0%	2.5%
Utilities									
NextEra Energy Inc	NEE	4.3	Medium	$103.54	$3.08	3.0%	$117.38	16.3%	2.0%
Cash									14.5%
Portfolio Average						1.6%			

*The dividend is based on the payments over the past 12 months, and is not necessarily indicative of future dividends.

Source: Bloomberg

ScotiaMcLeod North American Dividend Guided Portfolio

Caroline Escott – Portfolio Manager, Portfolio Advisory Group

Q1 Overview

The North American Dividend Guided Portfolio delivered a strong return in the first quarter of 6.04%, helped by the ongoing weakness in the Canadian dollar. While the absolute performance was attractive, the portfolio slightly underperformed its benchmark as weakness in Materials, Energy and Technology weighed on the overall performance. The benchmark generated a total return of 6.34% in the quarter. The S&P 500 delivered a total return of 0.9%, which translated into 10.2% when converted into Canadian dollars, while the S&P/TSX Composite returned 2.6% over the period. The continued weakness in the Canadian dollar was again a benefit for Canadian investors with US equity holdings.

It was another quarter with heightened volatility in U.S. and Canadian equity markets. While the S&P 500 was relatively range-bound in the quarter, bouncing between 1,995 and 2,115, the S&P/TSX performed reasonably well, albeit it also saw two periods with declines of close to 5% as energy and bank stocks fell in early January and again in early March.

Performance

The trends within the markets were similar, as Financials and Energy stocks were relatively weak in the quarter while Materials stocks closed out the quarter with a gain of 2.8% in Canada and 0.4% in the U.S., albeit the constituents within the Materials sectors were very mixed. Health Care was the biggest outperformer in both countries, with a total return of 45.1% in the S&P/TSX Composite and 6.2% on the S&P 500 (U.S. dollar).

Generally, the U.S. positions performed well, particularly in Canadian dollar terms (all returns below are in Canadian dollars). The Consumer Discretionary, Consumer Staples and Health Care positions were all leaders by a wide margin. The leaders were the Discretionary positions; Starbucks (SBUX) was up 26.6% and Home Depot (HD) was up 19.0%. The companies benefited from the focus on the domestic U.S. consumer with modest currency headwinds. In addition, Consumer Staples stocks Altria (MO) and CVS Health (CVS) also benefitted from their domestic focus and performed very well in the quarter, up 12.1% and 13.2%, respectively.

Within the Financials positions, the REIT positions performed very well with Brookfield Property Partners (BPY) up 17.9% and Simon Property Group (SPG) up 18.3%. Elsewhere in Financials, the performance was quite mixed with Canadian banks down low single digit range; TD, BNS and RY were down 1.5% to 4.0% while JPM and MET were up 6.5% and 2.9% respectively.

The performance of the Industrials companies was also mixed with Union Pacific (UNP) down 0.2% in the quarter, while Boeing (BA) was up 27% and was the best performing position in the portfolio. Rails have been hurt by lower volumes in certain segments such as coal and crude by rail. BA performed very well after reporting strong year-end results with free cash flow exceeding expectations. BA also announced a 25% dividend increase, bringing the quarterly rate to $0.91 from $0.73.

The laggards in the portfolio were resource stocks and included Freeport McMoRan (FCX), which was removed early in the quarter, and ARC Resources (ARX), which was down 12.4%. Elsewhere in Energy, Halliburton performed very well and was up 18.1% before it was removed at the end of March.

The results within Health Care were mixed with Pfizer (PFE) delivering a strong return of 23.2% while AbbVie (ABBV) declined 1.4%. ABBV's lackluster performance follows a strong return of +13% in the fourth quarter while PFE benefitted from news that it is acquiring Hospira, the world's largest provider of injectable drugs and infusion technologies. ABBV was down on concerns of lower than expected prices for its Hepatitis C drug.

Within Technology, Microsoft (MSFT) and Intel (INTC) declined 3.6% and 5.1%, respectively, on renewed concerns about the outlook for the PC market and slowing sales in that market. However, at 6.3%, Qualcomm (QCOM) was the sole technology stock with a positive return in the quarter, up 2.6% after the company announced that it had settled with China's National Development and Reform Commission (NDRC) regarding the investigation into QCOM's violation of China's anti-monopoly law. The resolution removed that overhang on the stock. The company also recently announced that it has approved a new stock repurchase program of up to $15 billion and a 14% dividend increase, providing additional support to the investment thesis.

Outlook

We continue to have a positive outlook for the US economy and believe US equities will perform reasonably well in 2015. However, we believe investors should expect returns from US equities to be similar to longer-term historical levels and in-line with earnings growth, in the mid-single digit range, rather than the double digit returns seen over the past eight 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 economic data has been mixed, we believe the U.S. economy will remain on a positive trajectory. The household sector, which accounts for approximately 60% of GDP remains strong and while the benefit of lower fuel costs has been slow to translate into improved economic data as retail sales have remained relatively sluggish, some of the weakness can be attributed to a colder than normal winter. While the U.S. economy remains on a positive trajectory, corporate earnings are facing the pressure of the strong U.S. dollar. The declining earnings estimates combined with lofty valuation levels are causing U.S. equities to pause and warrant a more defensive stance in equity portfolios, in our view. With the S&P 500 trading at a forward P/E in excess of 17.5x, investors should expect equity returns to be much more muted in 2015 versus what has been delivered over the past eight years.

Changes

We made a number of changes in the quarter as we shifted the portfolio towards a more defensive stance and increased the cash levels.

In January we sold Roche (RHHBY) and bought Merck (MRK) following the surprise move by the Swiss National Bank to remove its minimum exchange rate, which had been designed to shield the economy from the euro area's sovereign debt crisis. Roche's revenue is 96% exposed to currencies other than the Swiss franc, with the US dollar (32%) and Euro (17%), the largest exposures. While we believe the negative foreign exchange effect on the financials may be largely offset by a positive currency effect on the ADR, we felt it was prudent to sell the position as a cautionary measure for any unforeseen risk. We continue to have a positive view on Roche and believe the company has an attractive pipeline of products.

MRK is a leading global drugmaker which produces a wide range of prescription drugs in many therapeutic classes in the U.S. and abroad. In addition to an attractive portfolio of drugs, MRK also offers exposure to a robust pipeline with eight compounds under regulatory review and 14 products in late-stage Phase III clinical trials.

We removed Freeport McMoRan (FCX) and Halliburton (HAL) from the portfolio and trimmed the holdings in Boeing (BA), Union Pacific (UNP), JP Morgan (JPM) and Pfizer (PFE). The proceeds were used to add NextEra Energy (NEE), CVS Health (CVS) and Prairie Sky (PSK) to the portfolio, which provide a more defensive position.

While FCX holds an attractive portfolio of quality assets, we believe the ongoing weakness in Chinese economic data will prevent any meaningful rebound in copper prices. As such, FCX remains range bound in the near-term.

NextEra is a large U.S. utility company that provides sustainable energy generation and distribution services. It is the leading producer of green energy and specializes in wind and solar energy production. NEE's subsidiary, Florida Power and Light, is one of the largest and most efficient U.S. utility companies in the U.S. Its recent acquisition of Hawaiian Electric is expected to add EPS growth potential of ~9% annually over the longer term. While the valuation on NEE is a premium to the peer group, it also offers a more attractive earnings growth profile, supported by its capital spending plans.

CVS Health has also been added to the portfolio in order to increase the exposure to a more defensive consumer and healthcare business model. We expect the company to continue to deliver positive results given its integrated business model and believe it is very well positioned to benefit from increased customer drug utilization from an ageing population, an increase in sales of generics drugs in 2015, and growth in specialty prescription demand.

Within the Canadian banks we trimmed Bank of Nova Scotia (BNS) and added to Toronto Dominion Bank (TD) on concerns of a short-term deceleration in earnings growth for BNS. The Canadian bank sector has been range bound recently due to concerns of a slowing Canadian economy, which has translated into a reduced earnings growth outlook. In addition, BNS's international segment, which accounts for approximately 24% of total earnings, could also remain sluggish in the near-term.

While the slowdown in the Canadian economy caused analysts to reduce earnings estimates for Canadian banks earlier this year, it does not impact the banks uniformly. TD, with its large U.S. retail footprint, is expected to fair relatively well as strength in the U.S. earnings provide tailwinds to the bank's CAD total reported earnings given the benefit of the decline in the CAD. Furthermore, TD's relatively lower reliance on capital markets revenue and higher concentration of business in Ontario should partly shield TD from the slowdown being experienced in Western Canada.

As noted earlier, in March we further added to the defensiveness of the portfolio by selling Halliburton (HAL) and adding Prairie Sky (PSK) as a more defensive position within the Energy holdings. While we continue to have a positive view of HAL given its strong market position, we believe PSK, with a sustainable dividend yield of 3.8%, is a more appropriate Energy position for a dividend focused portfolio, particularly with the ongoing weakness in energy prices. PSK owns freehold mineral rights, which provide the company with the opportunity to grow royalty cash flow with limited internal capital investment by soliciting new and existing third-party companies to lease and develop its mineral rights.

North American Dividend Guided Portfolio

Company Name	Symbol	Bloomberg Rating (#/5)	ScotiaMcLeod Risk Rating	Price 30-Mar-15	Dvd	Dvd Yield	Bloomberg Tgt Price	Target ROR	Target Ptf Wgt(%)
Consumer Discretionary									
Home Depot Inc/The	HD	4.1	Medium	$113.86	$2.36	2.1%	$122.30	9.5%	4.0%
Starbucks Corp	SBUX	4.5	Medium	$95.07	$1.28	1.3%	$98.45	4.9%	1.0%
Consumer Staples									
Altria Group Inc	MO	4.2	Medium	$50.34	$2.08	4.1%	$56.90	17.2%	2.0%
CVS Health Corp	CVS	4.8	Medium	$102.50	$1.40	1.4%	$112.57	11.2%	1.0%
Energy									
ARC Resources Ltd	ARX	4.5	High	$21.69	$1.20	5.5%	$27.68	33.2%	4.0%
Crescent Point Energy Corp	CPG	4.8	High	$28.77	$2.76	9.6%	$34.43	29.3%	4.0%
Suncor Energy Inc	SU	4.1	High	$36.78	$1.12	3.0%	$40.67	13.6%	4.0%
PrairieSky Royalty Ltd	PSK	4.1	Medium	$29.78	$1.30	4.4%	$33.52	16.9%	4.0%
Financials									
Bank of Nova Scotia/The	BNS	3.6	Medium	$62.38	$2.72	4.4%	$70.06	16.7%	3.0%
Brookfield Property Partners LP	BPY.UN	5.0	Medium	$30.50	$1.32	4.3%	$33.97	15.7%	4.0%
JPMorgan Chase & Co	JPM	4.5	Medium	$59.55	$1.60	2.7%	$68.54	17.8%	3.0%
MetLife Inc	MET	4.4	Medium	$50.27	$1.40	2.8%	$58.93	20.0%	4.0%
Royal Bank of Canada	RY	3.8	Medium	$75.15	$3.08	4.1%	$83.98	15.8%	4.0%
Toronto-Dominion Bank/The	TD	4.1	Medium	$53.21	$2.04	3.8%	$58.60	14.0%	5.0%
Simon Property Group Inc	SPG	4.5	Medium	$194.26	$5.60	2.9%	$218.13	15.2%	2.0%
Funds									
No Holdings									
Health Care									
Johnson & Johnson	JNJ	4.0	Medium	$100.34	$2.80	2.8%	$110.44	12.9%	5.0%
Pfizer Inc	PFE	4.2	Medium	$34.53	$1.12	3.2%	$36.18	8.0%	5.0%
Merck & Co Inc	MRK	4.0	Medium	$57.75	$1.80	3.1%	$63.84	13.7%	4.0%
AbbVie Inc	ABBV	4.2	High	$57.65	$2.04	3.5%	$71.08	26.8%	2.0%
Industrials									
Boeing Co/The	BA	4.0	Medium	$148.85	$3.64	2.4%	$162.20	11.4%	4.0%
General Electric Co	GE	4.0	Medium	$24.86	$0.92	3.7%	$29.21	21.2%	4.0%
Union Pacific Corp	UNP	4.4	Medium	$108.44	$2.20	2.0%	$130.59	22.5%	2.0%
United Technologies Corp	UTX	4.5	Medium	$116.90	$2.56	2.2%	$133.56	16.4%	2.0%
Information Technology									
Intel Corp	INTC	3.6	Medium	$32.00	$0.96	3.0%	$35.13	12.8%	4.0%
Microsoft Corp	MSFT	3.6	Medium	$40.97	$1.24	3.0%	$47.03	17.8%	4.0%
QUALCOMM Inc	QCOM	4.0	Medium	$67.03	$1.92	2.9%	$75.68	15.8%	2.0%
Materials									
No Holdings									
Telecommunication Services									
Verizon Communications Inc	VZ	4.0	Medium	$48.56	$2.20	4.5%	$51.68	11.0%	2.0%
Utilities									
NextEra Energy Inc	NEE	4.3	Medium	$103.54	$3.08	3.0%	$117.38	16.3%	3.0%
Cash									8.0%
Portfolio Average						3.3%			

Source: Bloomberg.

ScotiaMcLeod Core-Plus Fixed Income Guided Portfolio

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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 FTSE TMX Canada 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.

Summary of Events Q1/15 – Oil and Central Banks, All You Need To Know

Monetary policy actions once again proved to be at the forefront of market events in the quarter as both the Federal Reserve and Bank of Canada offered up their share of surprises in Q1/15. Although the rapid decline in oil prices left the Canadian economy seemingly vulnerable, few market participants expected the surprise rate cut that materialized at the Bank of Canada's January meeting – where the Bank cut the overnight lending rate to 0.75% down from 1.00%. The move spurred volatility and speculation of further rate cuts until Governor Poloz dampened those expectations via more tempered comments in late February.

In a widely anticipated move the US Federal Reserve removed the word 'patient' from its March 18 interest rate statement, signaling that it is getting closer to embarking upon a rate hiking course. The Fed, however, offset its greater realized flexibility by lowering its expected trajectory for the Fed Funds rate by 50-75 basis points. The median of these year-end interest rate views was far more dovish than had been the case at the December meeting. 2015 median expectations moved to 0.625% (from 1.125%), while 2016 moved to 1.875% (from 2.5%). A potentially later liftoff in rates accompanied by a more gradual pace of rate hikes was greeted favourably by equity and bond markets. As well, the action took the wind out of the sails of the US dollar, which had been strengthening firmly throughout the quarter.

With the Fed having already ruled out an April rate hike, the June 17 meeting remains the first possible meeting the Fed could begin to hike. Having said that, the Fed will likely want to see an improving trend in the Q2/15 growth data after what has been a rather disappointing first quarter.

Performance Update

Q1/15 saw Canadian bonds continue to rally with yields falling between 0.35-0.60% across the curve, driven largely by the Bank of Canada's surprise rate cut in January. In the US, bonds were also well bid, as yields decreased between 0.10-0.28% across the 2 to 30-year range. In the quarter the Core-Plus portfolio underperformed the index by 1.22% (2.93% vs. 4.15%). The portfolio's underperformance was primarily attributable to its defensive positioning with its duration being 3.06 years shorter than that of the index (4.49 vs. 7.55 years). With Scotia forecasts continuing to call for generally higher rate levels in Q2/15 (albeit a lower Canadian overnight rate) we retained a lower interest rate sensitivity within the portfolio - including a significant underweighting of long bonds -22.5% (5.2% vs. 27.7%). Despite the absolute underperformance, the portfolio performed better than the index on a risk adjusted basis with each year of duration risk assumed returning 0.653% (2.93%/4.49 years) versus the benchmark's 0.55% (4.15%/7.55 years).

Outlook

The overall backdrop for bonds remains constructive, in our view. US economic growth in Q1/15 was hampered by a number of factors including severe weather and a west coast dock strike that thwarted trade. The Fed will likely look through this near term softness as employment and consumption fundamentals continue to point to underlying strength. Despite the favorable fundamentals, the path of short term rates will likely be more subdued than has been the case in previous hiking cycles. Although market participants continue to be of the view that the Fed will begin to raise the Federal Funds target rate in 2015, the combination of benign inflation and expectations for an exceedingly gradual interest rate path, could lead to further flattening in the US curve.

In Canada, expectations for a softer oil/energy backdrop continues to suggest that the Bank of Canada may find itself engaging in further monetary policy easing. Scotiabank's March 31, 2015 Global Forecast Update sees the Bank of Canada cutting one more time in 2015, bringing the overnight rate to 0.50% and then holding steady through the balance of 2015. Pervasive geo-political risks; slower growth prospects in China; the impact of European QE; and potentially unexpected risks tied to the impact of persistently lower oil globally – these forces, could all work to maintain global rates at relatively low levels in Q2/15.

Exhibit 1: ScotiaMcLeod Core-Plus Fixed Income Guided Portfolio

Issuer Name	Coupon	Maturity or Call Date	Current Weighting	Total Return for Q1 2015	Total Return Year To Date
Core Positions					
Canadian Tire Corp	4.950%	Jun 1, 2015	6.5%	0.44%	0.44%
Saskatchewan	4.500%	Aug 23, 2016	6.6%	0.84%	0.84%
Canada Mortgage & Housing Corporation	4.350%	Feb 1, 2017	6.7%	1.13%	1.13%
British Columbia Municipal Finance	2.350%	Dec 3, 2018	7.2%	2.39%	2.39%
Quebec	4.500%	Dec 1, 2019	7.2%	3.16%	3.16%
Telus Corporation	5.050%	Jul 23, 2020	7.3%	3.44%	3.44%
Canada	3.250%	Jun 1, 2021	7.4%	3.74%	3.74%
Wells Fargo Canada Corporation	3.460%	Jan 24, 2023	7.5%	5.50%	5.50%
Ontario	2.850%	Jun 2, 2023	7.8%	5.07%	5.07%
Canada	2.500%	Jun 1, 2024	7.2%	4.83%	4.83%
Canada RRB	3.000%	Dec 1, 2036	5.5%	7.65%	7.65%
Active Positions					
Ford Credit Canada	7.500%	Aug 18, 2015	1.8%	0.66%	0.66%
Home Trust Cashable GIC	1.750%	Oct 15, 2015	2.9%	0.81%	0.81%
Equitable Bank Cashable GIC	1.650%	Oct 15, 2015	2.9%	0.40%	0.40%
Royal Bank of Canada	2.820%	Jul 12, 2018	2.9%	2.31%	2.31%
Sobeys Inc	3.520%	Aug 8, 2018	1.9%	2.73%	2.73%
Fairfax Financial Holdings Ltd	7.500%	Aug 19, 2019	2.0%	2.60%	2.60%
Alimentation Couche-Tard	3.319%	Nov 1, 2019	2.0%	3.71%	3.71%
Cash			6.7%		
Returns for the ScotiaMcLeod Core-Plus Fixed Income Guided Portfolio			***100.0%***	***2.93%***	***2.93%***
FTSE TMX Canada Universe Bond Index				***4.15%***	***4.15%***

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

Important Disclosures – As at 04/17/2015

The author(s) of the report own(s) securities of the following companies.

Merck & Co Inc,

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.

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Scotiabank acted as financial advisor to Hudson's Bay Company with respect to its real estate joint venture with RioCan Real Estate Investment Trust. Hudson's Bay Company

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Alimentation Couche-Tard Inc engaged Scotiabank as a financial advisor in the acquisition of Statoil Fuel & Retail ASA. Alimentation Couche-Tard Inc.

Scotia Capital Inc. has been retained by Celestica Inc. as the sole dealer manager with respect to its substantial issuer bid (the 'Bid'), and has provided a liquidity opinion with respect to that Bid. Celestica Inc.

Scotiabank acted as a financial advisor to Veresen Inc. on its acquisition of interest in the Ruby pipeline system. Veresen Inc.

General Disclosures

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Definition of Scotiabank GBM Equity Research Ratings & Risk Rankings

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.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Historical financial results, share price volatility, liquidity of the shares, credit ratings, and analyst forecasts are evaluated in this process. The final ranking also incorporates judgmental, as well as statistical, criteria. Consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet are key factors considered. Scotiabank GBM has a committee responsible for assigning risk rankings for each stock covered.

The rating assigned to each security covered in this report is based on the Scotiabank GBM research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

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.

Sector Perform (SP)
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.

Sector Underperform (SU)
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.

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

Speculative
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