

Advice Matters

WINTER 2017

What globetrotting has taught me about managing the Scotia Portfolio Solutions

I get bored easily – If I stay at home too long, I get antsy. I like to travel; the more exotic the locale, the better.



by *Judith Chan*

Director, Portfolio Solutions
Scotiabank

While there are downsides to this restlessness, I have learned to harness it in my role as an investment professional – by relentlessly striving to improve the investment oversight and portfolio construction process for the Scotia Portfolio Solutions that I manage. Here's what I've learned from my travels along the way:

IT'S A BIG, WIDE WORLD OUT THERE

My wanderlust has taken me to many countries, but every time I go somewhere new, I'm struck by how incredibly diverse the world really is. Using food as an example (since it is an important part of my travel experience), think about the variations of curry dishes there are from one continent to the next, each made with unique combinations of local spices. Only when you discover a new

favourite, you learn that the previous one has room for improvement.

The same principle applies to creating investment portfolios. I can't afford to stand still in my approach to achieving optimal diversification. With the help of my team, we continually test models of investments in order to more fully diversify and minimize unintended concentration risks in any one country, sector or security. As interest rates and global economic growth remain low, markets become more closely linked and periods of volatility seem to occur more often, so I need to think outside the box to manage risk and find opportunities. This might mean integrating alternative investment approaches or including higher growth areas in emerging or 'frontier' markets, for example.



"I need to think outside the box to manage risk and find opportunities."

LESS IS MORE I panicked when the trekking guide for my four-day trip to Machu Picchu in Peru told us that each person's luggage could weigh no more than 15 pounds. My low-tech winter sleeping bag weighed five pounds on its own! I had to carefully scrutinize every item I had and decide what the true essentials were. I packed my bag three times before I could make

it work – but I've packed light ever since. The parallels can't be clearer when creating the Scotia Portfolio Solutions. I scrutinize each investment and incorporate only the most critical components to stay within the risk parameters of each portfolio.

IT'S ALL ABOUT PEOPLE The difference between being a tourist and a traveller, in my opinion, is getting to know the people in the places you visit. I've met all sorts of colourful characters over the years; from an 80-year old man who carried

continued...

Globetrotting — cont'd

a six-foot tall wooden cabinet up a mountain barefoot with a smile on his face; to the paragliding pilot who I hurtled through the air with, launching from one spiral dive to the next, even after I told him I'd just eaten a full lunch. They, more than the sights and sounds and smells, are what stay with me long after I've returned home.

I've met all sorts of portfolio managers too, and while the quantitative assessments of their investment approach is critical in our due diligence process, the qualitative assessment is even

more so. Billionaire investor Warren Buffett's approach is to: "Look for three things in a person – intelligence, energy and integrity. If they don't have the last one, don't even bother with the first two." Assessing integrity is not always straightforward, but I try to identify portfolio managers' advantage and purpose. Persistence and discipline, like the 80-year old man, is paramount. Delivering on the client's expectations, unlike my paragliding pilot, is also of utmost importance.

It goes without saying that I always have investors top of mind. It is also my job to ensure the portfolio managers I work with understand the needs of our investors. I recently spoke with an advisor whose clients entrusted us with the entire proceeds from the sale of their farm. They were nervous given the volatile markets earlier this year but were happy about their investments. They recently thanked the advisor saying, "you made me half a cow". This is what drives me to continue to ensure that Scotia Portfolio Solutions meet their stated

objectives, to help investors meet their long-term financial goals.

THE JOURNEY MATTERS

Travelling gives you the space and time to discover yourself. Nobody else can do that for you. We all have a destination in mind, when it comes to travelling and in life. But the journey matters as well – whether you prefer slow and steady, or are comfortable taking on greater risk for greater potential reward. Discover what's most important to you, find your journey, and keep travelling. ■

INVESTING INSIGHTS

WORDS **from the wise**

This past year was arguably one of the most eventful in some time, where markets were concerned, which presents a number of potential challenges and opportunities moving into 2017.

**CHRISTOPHER KALBFLEISCH**

Portfolio Manager of Scotia Balanced Opportunities Fund

Looking back at 2016, political events around the world have ended up being the improbable scenario. Even forecasting the long-shot outcome correctly would not have helped investors since the market reaction has been the opposite of what pundits expected. For now, equity investors are applauding President-elect Donald Trump's policies aimed at boosting U.S. growth.

**ROMAS BUDD**

Portfolio Manager of Scotia Canadian Income Fund and Scotia Bond Fund

Since the election of Donald Trump, bond markets have clearly displayed positive expectations of tax reform, regulatory reform, inflationary pressures, infrastructure spend and potential trade treaty changes. As a result, it would appear that rates will generally sit higher than they otherwise would have. However, it is too soon to know what the end result will look like once potential policy changes make their way through Congress. Despite the potential for higher rates, bonds will continue to be an important part of a diversified portfolio providing moderate income and lowering volatility.

**ERIC BENNER**

Portfolio Manager of Scotia Global Balanced Fund and Scotia Global Dividend Fund

As 2016 comes to a close, our focus is to take a fundamental investment process and apply it to some of the key current market themes, to separate real opportunities (that drive higher cash flows and valuations for high quality businesses) from "hype" trades. Right now, we believe those themes include but are not limited to: corporate tax cuts that may drive earnings-per-share growth across the market; personal tax cuts that may drive higher consumer spending; an effort to re-negotiate trade deals that may lead to better outcomes for U.S. companies; the potential for additional infrastructure spending, potentially higher bank profitability (driven by higher interest rates and reduced regulation); and a potential upward inflection in inflation that may benefit energy, materials and industrial companies.

Some of these themes may become reality; some may look as antiquated in February 2017 as those of early November 2016 look to us now. On the Equity Income Team, our pencils are sharpened and we're executing our fundamental investment process using the facts and data to separate the opportunities from the hype and position our portfolios accordingly for 2017.

VALUE OF ADVICE

Facts & Figures

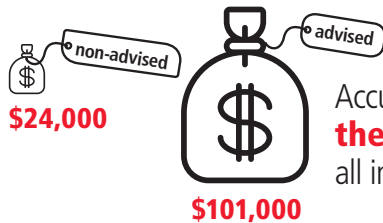
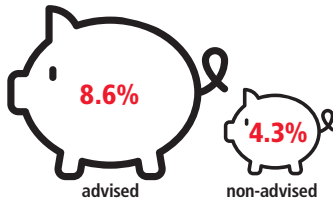
Research on the value of advice has shown that investors who work with a financial advisor tend to accumulate more wealth, and have a greater feeling of confidence about their financial future, than those who don't.



More confident
about achieving **a**
comfortable
retirement¹

1.5x more likely to maintain a
long-term
investment strategy²

Save at
twice the
rate of
non-advised
investors²



Accumulate **4x**
the assets at
all income levels¹

Source: ¹ New Evidence on the Value of Advice, 2012, Dr. Jon Cockerline (IFIC). ² The Value of Advice Report 2012 (IFIC)



NEW REPORTS

As of January 2017

These reports will help you track your portfolio's performance and costs.

- » **Annual Fee Disclosure Report:** Shows any transaction costs, administration fees and trailing commissions on mutual funds paid in dollar terms.
- » **Annual Performance Report:** Provides personal rates of return at the account level over multiple time periods.

FINANCIAL BUZZ WORDS 2016

Each year brings a host of new financial buzzwords into the everyday lexicon, capturing the zeitgeist of the times. Here are some of our favourites:



TRUMPFLATION

The 'Brexit' surprise this summer began to fade from memory, following Donald Trump's surprise election win. Economists quickly began talking up "Trumpflation," or the inflation expected under a Trump Presidency, and subsequently higher interest rates. In fact, markets seem to agree, as bond yields rose following his election.



LOWER FOR LONGER

Persistently low interest rates have become part of our 'new normal' over the last few years, and have been predicted to stay "lower for longer" by many market analysts and investors. This doesn't necessarily mean they will remain as low as the current rate of 0.5%, but they are expected to remain below historical averages (i.e. nearly 6% from 1990 until 2016).



UNICORN

Not a mythical beast after all, in the age of internet and digital start-ups unicorns are private companies that are valued at over \$1 billion, while start-ups that have breached \$10 billion in value are called decacorns.



FINTECH

Move over Uber. The marriage of technology and financial services really took off this year, as the industry uses new apps and other digital tools to transform traditional banking, reducing processing times and increasing convenience. Scotiabank has been active in this space over the past 18 months – from creating "digital factories" across North and South America, to building world-class digital customer experiences.








FINANCIAL PLANNING

What's the difference?

With two great savings vehicles at Canadians' disposal, Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSA), the debate continues: which is better?

For most people, it isn't about choosing one over the other, but rather taking the approach that best fits their personal situation, priorities, and goals. And while RRSPs and TFSAs have different benefits and limitations, they can be used at the same time for the same goal – retirement.

With that in mind, let's take a look at some of the key differences between an RRSP and TFSA:

	REGISTERED RETIREMENT SAVINGS PLAN (RRSP)	TAX-FREE SAVINGS ACCOUNT (TFSA)
 Are my contributions tax deductible?	Yes. You also don't have to use the deduction in the year you make the contribution; you can start growing your money in an RRSP today, and use the deduction to lower your taxable income in a future year.	No, contributions are not tax deductible.
 Do I have to pay tax on the growth of my investments?	No. Your investments are sheltered from tax while in the account, putting more of your money to work over the long-term.	
 Can I withdraw my money?	Yes, but any withdrawals will be taxed as income in the year you take it out. Once you use contribution room, you can't get it back, even after you withdraw money.	Yes, and it's tax-free. You can also re-contribute the amount you withdrew in the following year.
 How much can I contribute?	You can contribute up to 18% of your previous year's earned income ¹ , up to a maximum of \$25,370, plus any unused contribution room ³ from previous years.	For 2017, you can contribute a maximum of \$5,500 ² plus any unused contribution room (which can be carried forward indefinitely) from previous years.
 When is the deadline to contribute?	In order to get a tax deduction for the 2016 tax year, you must contribute to your RRSP by March 1, 2017.	There is no deadline for contributions to a TFSA.
 What do I need to open an account?	You need: <ul style="list-style-type: none"> • To have qualified earned income in the previous year. • To be a Canadian resident. • A valid Social Insurance Number (SIN). There is no minimum age to open an RRSP.	You need: <ul style="list-style-type: none"> • To be at least 18 years of age, or have reached the age of majority in the province in which you set up the account (whichever is older). • To be a Canadian resident. • A valid SIN.
 What is the maximum age?	You can contribute to your RRSP up to the end of the year in which you turn 71. After that point, you must convert your RRSP into a Registered Retirement Income Fund (RRIF) or an annuity.	As long as you meet the requirements listed above, there is no maximum age to contribute.

¹ Your RRSP deduction limit can be found on your most recent Notice of Assessment from the Canada Revenue Agency.

² TFSA contribution limits are set each year by the Canada Revenue Agency. You can contribute up to \$5,500 for 2016, \$10,000 for 2015, \$5,500 for 2013 and 2014 and up to \$5,000 for each of the years 2009 to 2012. If you have never contributed to your TFSA, \$52,000 is the limit for an individual in 2017.

³ Unused contribution room can be carried forward until the year in which you turn 71.

The above chart provides highlights of TFSAs and RRSPs. It is for information purposes only and is not intended to be investment or tax advice. Investors should consult a professional advisor for specific investment and tax advice.

RRSPs and TFSAs each have their own merits, and to maximize their effectiveness, your personal circumstances and goals should be considered. A Scotiabank® advisor can help review your options and help you choose a solution that works best for you.

BANKING & TECHNOLOGY

Scotiabank ranked #1 in 2016 Canadian Bank Digital Sales Functionality Benchmark

Independent researcher recognizes Scotiabank for
"providing a fast, simple, digital application process"

Scotiabank has earned the top spot in **Forrester Research's 2016 Canadian Bank**

Digital Sales Functionality Benchmark. This Forrester Benchmark reviews the bank account sales content and functionality on the public websites and mobile apps of the five largest retail banks in Canada. Forrester's Digital Sales Functionality Benchmark specifically cited Scotiabank as "the most effective" among the five assessed firms in the "discover" phase, a stage that determines whether "the site

presents content in a way that is easy to absorb and understand."

The Benchmark also calls out Scotiabank's educational content that offers links to "Tips to Reduce Banking Fees" and "Banking Basics" which includes helpful information such as how to save automatically and how to make your money work harder.

Scotiabank's online banking options are better than ever, offering you an improved experience with simple and easy-to-use features.

Here are some of the available online banking options:



Mobile App

You can use the Scotiabank Mobile App to check account balances, move money and much more, all from your couch.



Apple Pay

This is a new and innovative way to make contactless purchases using your eligible Apple device. Simply add your eligible Scotiabank debit, credit or prepaid cards to the

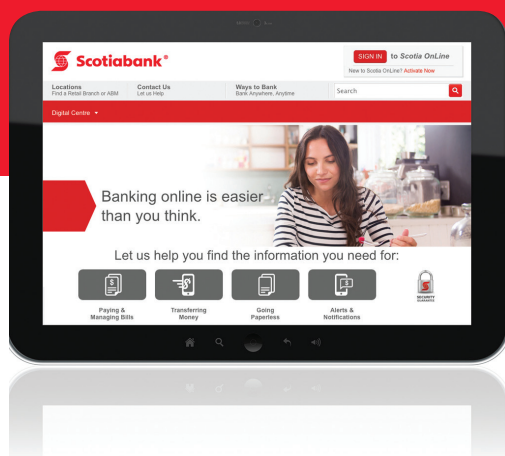
Wallet App. When it's time to pay for a purchase, hold your iPhone near the contactless terminal and when you hear the beep, your transaction is complete.



Interac[†] e-Transfer

This is one of the easiest ways to send and receive money online. As long as you have a person's email and they have a Canadian bank account, you can send money to them. ■

Banking online is easy,
let us show you how.



To learn about banking online – whether it's paying and managing bills, transferring money, going paperless or setting up alerts and notifications:

Visit www.scotiabank.com/godigital

[†] Trademark of Interac Inc. The Bank of Nova Scotia authorized user of the Trademark.

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FINANCIAL SNAPSHOT

Today's retirement up close



The population

1 in 4

of Canadians say they expect to retire from the workforce between the ages **65** and **69**

20%

between the ages of 60 and 64

11%

between the ages of 55 and 59



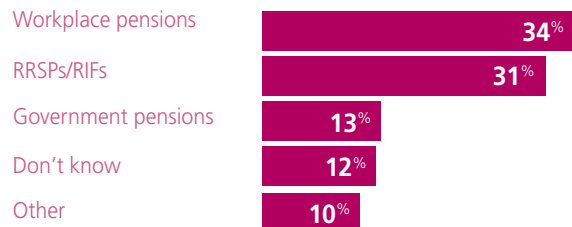
Average years in retirement¹



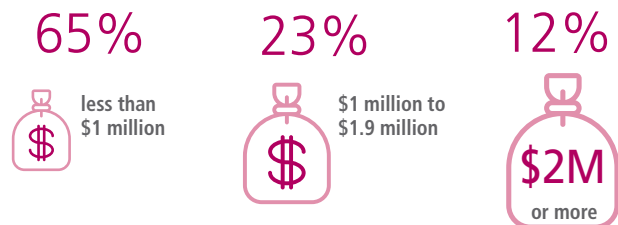
Dollars and cents

Close to **2/3** (65%) of Canadians expecting to retire have been saving for an average of **15.5** years

Primary sources of income for those preparing for retirement²



How much do Canadians estimate they will need to fund their ideal retirement?



Retirement priorities



33% Keeping healthy and maintaining a healthy lifestyle



31% Maintaining a comfortable lifestyle and meeting health needs



12% Travelling

65%

Top retirement concern

Not having enough money to support one's retirement



1/4 of Canadians agree that saving for retirement seems too far in the future.

All data from Scotiabank: Global Brand and Customer Insights, The Canadian Saving and Investing Mindset – "The Highlights", May 2016, unless otherwise stated.
¹ Government of Canada, Financial Consumer Agency of Canada, 2014. ² Statistics Canada, Canadian Financial Capability Survey, 2009 and 2014.

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You're richer than you think.



MARKET INSIGHTS

2016 *in review*

To say 2016 was a year of surprises would be an understatement. From Brexit to the U.S. election results, a string of largely unforeseen events hurtled their way in to the history books – yet through it all financial markets remained resilient.

Major equity markets rang in the New Year with positive returns. Canada was a standout with the S&P/TSX Composite Index posting an impressive 21.1% gain, thanks in large part to momentum in the materials and energy sectors. Below, we recap some of the biggest events of 2016.

Start as you mean to go on?

Equity markets started off 2016 in free fall, driven by plummeting oil prices, due to a weakening Chinese economy,

record global supply and slowing international trade. The S&P 500 Index dropped over 10% from January to early February as oil slid to a low of \$26/barrel. Down but not out, markets regained their footing almost as quickly as they lost it, surprising the naysayers and delivering strong returns by year end.

Brexit stage left

When British citizens voted at the end of June on whether or not to stay in the European Union, it was widely expected

they would choose to remain. However, Brexit was the result, and financial markets, hating surprises, were roiled. As the dust settled, British equities reversed initial losses and ended the year reaching new highs.

U.S. reveals Trump card

The U.S. election cycle dominated news media for all of 2016, leading to a hotly contested and heated showdown between the two candidates, Donald Trump and Hillary Clinton. Although

almost all media outlets had pegged Mrs. Clinton to win the election, similar to Brexit, the result caught most people off guard. Although there was an increase in volatility following Mr. Trump's win, it soon abated. U.S. equity markets surged higher, while bonds yields began to spike as investors started pricing in higher inflation ("Trumpflation"), due to Mr. Trump's push for more infrastructure spending coupled with major tax cuts. ■

MARKET PERFORMANCE

(YTD Returns in CA\$ as at December 31, 2016) Source: Bloomberg

▲ 1.66%

FTSE TMX Canada
Universe Bond Index

▲ 21.08%

S&P/TSX Composite
Index

▲ 8.89%

S&P 500 Index

▲ 5.23%

MSCI World Index

▲ 8.23%

MSCI Emerging Markets
Index

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