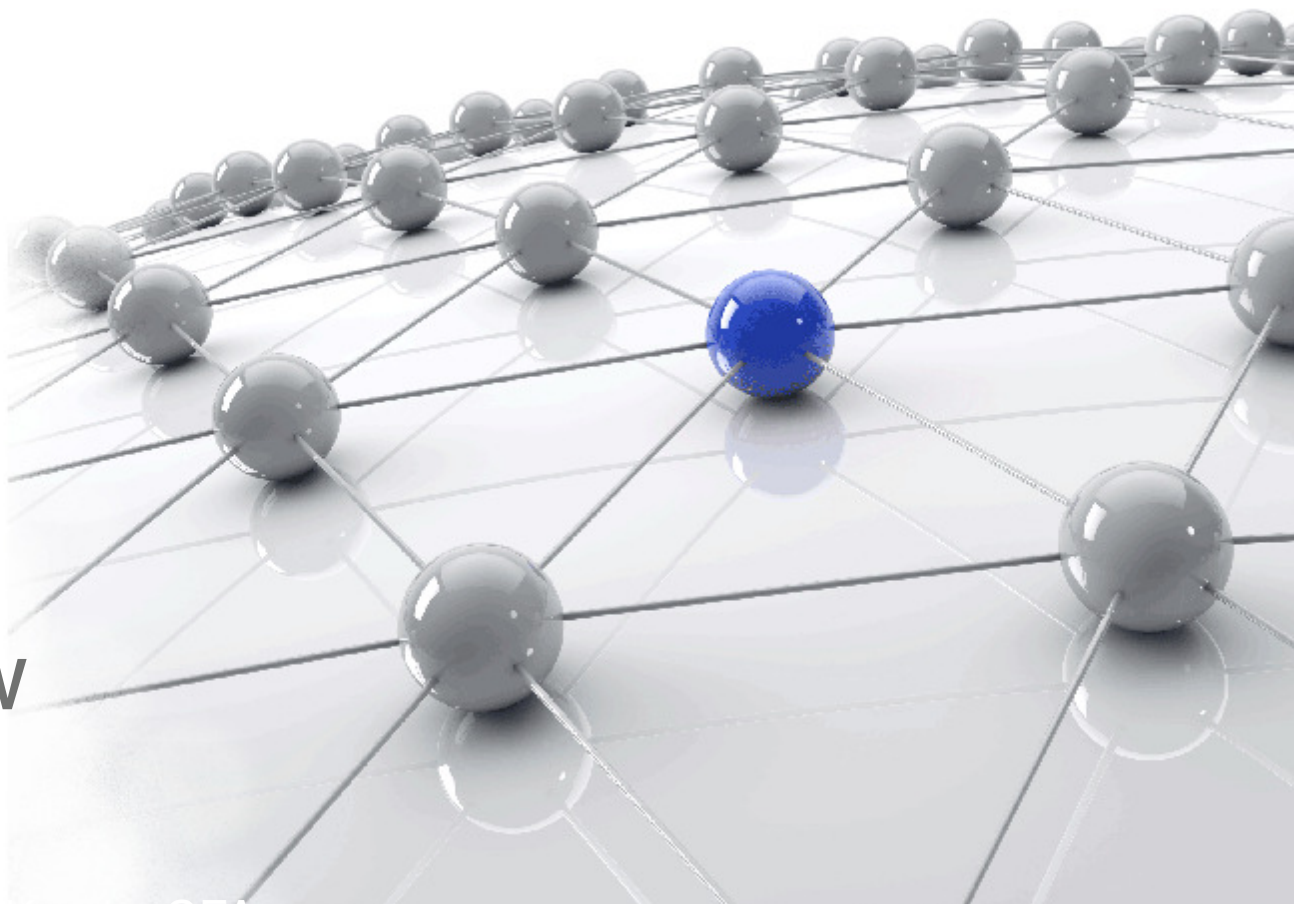




JARISLOWSKY FRASER

GLOBAL INVESTMENT MANAGEMENT



# Capturing Yield in a Low Rate Environment

Chris Kresic, CFA  
Co-Chair Investment Strategy  
Committee

MONTREAL | TORONTO | CALGARY | VANCOUVER | NEW  
YORK

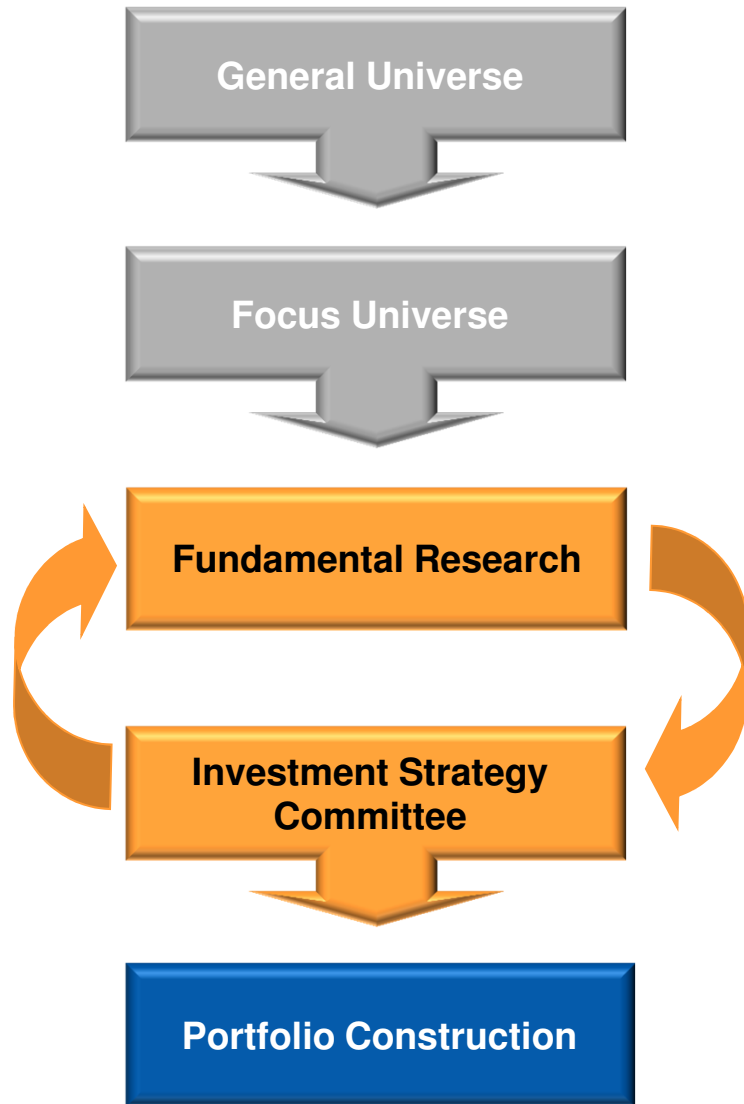
October 20, 2015

# PHILOSOPHY

Our primary goal is ***Capital Preservation***

- Long-term investment horizon
- Internally-generated, fundamental research
- High-quality approach

# PORTFOLIO CONSTRUCTION PROCESS



- FTSE TMX Canada Universe + Maples + global High Yield
- 5% equity slice

- Higher-quality corporates. Average credit quality BBB or higher

#### Selection Criteria:

- Company, capital structure
- Business Cycle
- Leading economic indicators

- Ensures adherence to JF investment philosophy and selection criteria
- Meets weekly on portfolio decisions

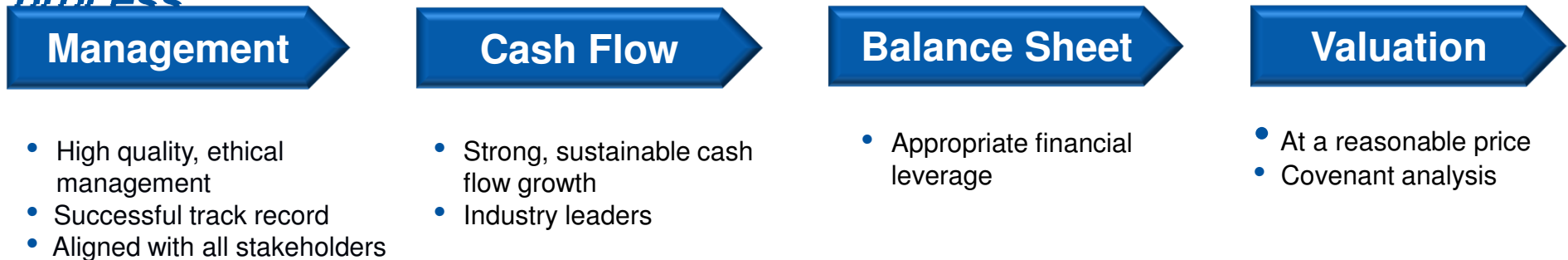
#### Portfolio holdings:

- Corporates: 0% – 100%
- High Yield: 0% – 25%
- Core: 60% – 100%
- Cash: < 5%

# SECURITY SELECTION

We have a **comprehensive approach** to analyzing companies, reviewing the equity and the debt, through a rigorous team approach.

## Company research process:



## Benefits of 18 person Research team approach:

- **Comprehensive** company analysis
- **Consistent** across asset classes
- **Conviction** in corporate bonds

# GLOBAL INVESTMENT TEAM

	Investment Strategy Committee	North American Research Analysts	International Research Analysts	Fixed Income	Years of Investment Experience	Years with Jarislowsky Fraser
<b>Margot Ritchie, CFA</b> <i>ISC Co-Chair</i>	•				35	23
<b>Chris Kresic, CFA</b> <i>ISC Co-Chair &amp; Portfolio Manager, Fixed Income</i>	•			•	27	5
<b>Bernard Gauthier, CFA</b> <i>Portfolio Manager, Canadian Equities</i>	•	•			28	7
<b>Dan Hanson, CFA</b> <i>Portfolio Manager, U.S. Equities</i>	•	•			22	2
<b>Charles Nadim, CFA</b> <i>Portfolio Manager, Canadian Equities</i>		•			17	7
<b>Jeremy Schaal, CFA</b> <i>Associate Portfolio Manager, U.S. Equities</i>		•			10	10
<b>Bruce Beingessner, CFA</b>		•			18	17
<b>Alexandra Jarislowsky</b>		•			16	5
<b>Aaron Bennett, CFA</b>		•			14	1
<b>Drew Callander, CFA</b>		•			11	11
<b>Michel Brutti, CFA</b> <i>Portfolio Manager, International Equities</i>	•		•		26	21
<b>Stanley Wu, CFA</b> <i>Portfolio Manager, International Equities</i>	•		•		14	10
<b>Marc A. Novakoff, CFA</b> <i>Portfolio Manager, Global Equities</i>	•		•		13	12
<b>Kelly Patrick, CFA</b> <i>Portfolio Manager, Global Equities</i>			•		12	9
<b>Carrie Yakimovich, CFA</b>			•		14	2
<b>Christopher Knapp, CFA</b>			•		8	-
<b>Shey Yonen, CFA</b>			•		7	-
<b>Shuang Yun</b>			•		2	1
<b>Kim White, CFA</b> <i>Associate Portfolio Manager, Fixed Income</i>				•	46	16
<b>Nitin Patel, CFA</b>				•	16	14
<b>Rahul Arora, CFA</b>				•	6	1

The Investment Strategy Committee (ISC) is responsible for Asset Mix and adherence to Philosophy and Process

ISC Average Years of Experience: 24 | Average Years at JFL: 11

**JARISLOWSKY FRASER**

GLOBAL INVESTMENT MANAGEMENT

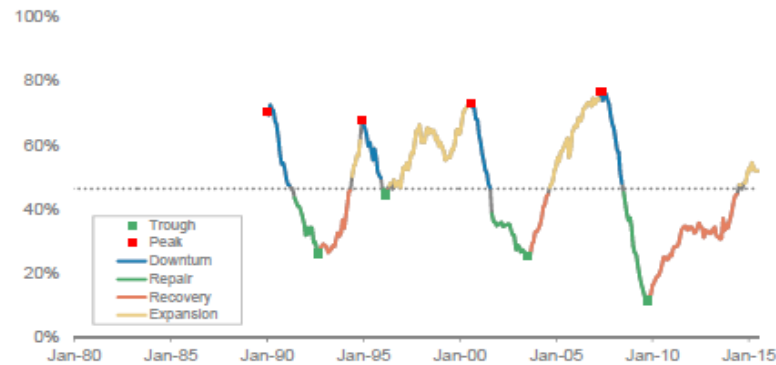
As at July 2015

# CYCLICAL – LIMITED RECESSION RISK

- Global GDP still in expansion mode: US economy leading, Europe improving, financial conditions are easy
- Risks: Secular in nature...weak investment spending, currency wars and protectionism

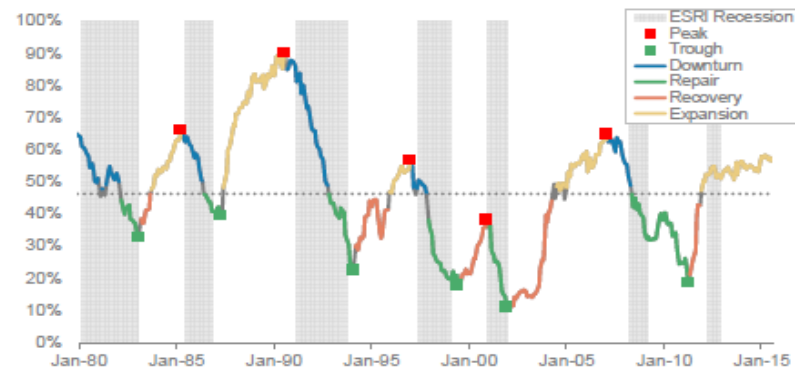
## Morgan Stanley Cycle Indicators

### DM Cycle Indicator



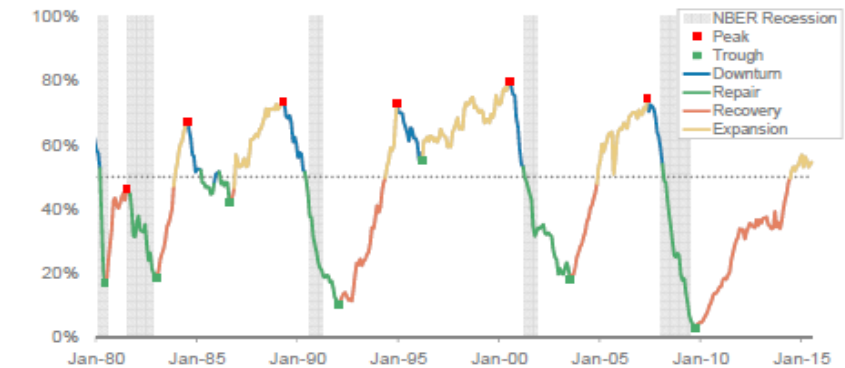
Note: Weighted average of US, EU and Japan cycles, with weights of 50%, 35%, 15%.  
Source: Morgan Stanley Research

### Japan Cycle Indicator



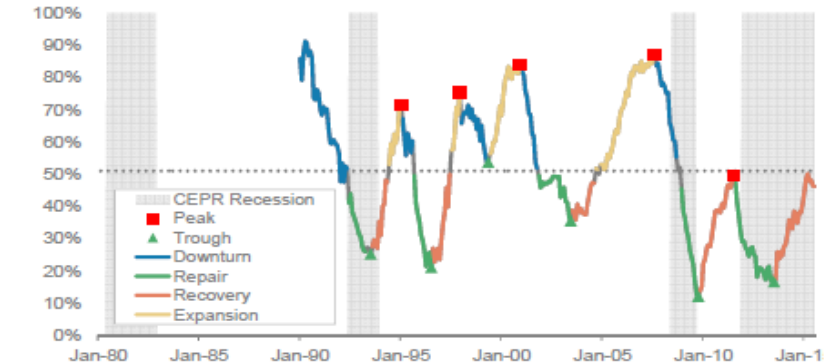
Source: Morgan Stanley Research, Haver Analytics

### US Cycle Indicator



Source: Morgan Stanley Research, Haver Analytics

### Euro Area Cycle Indicator



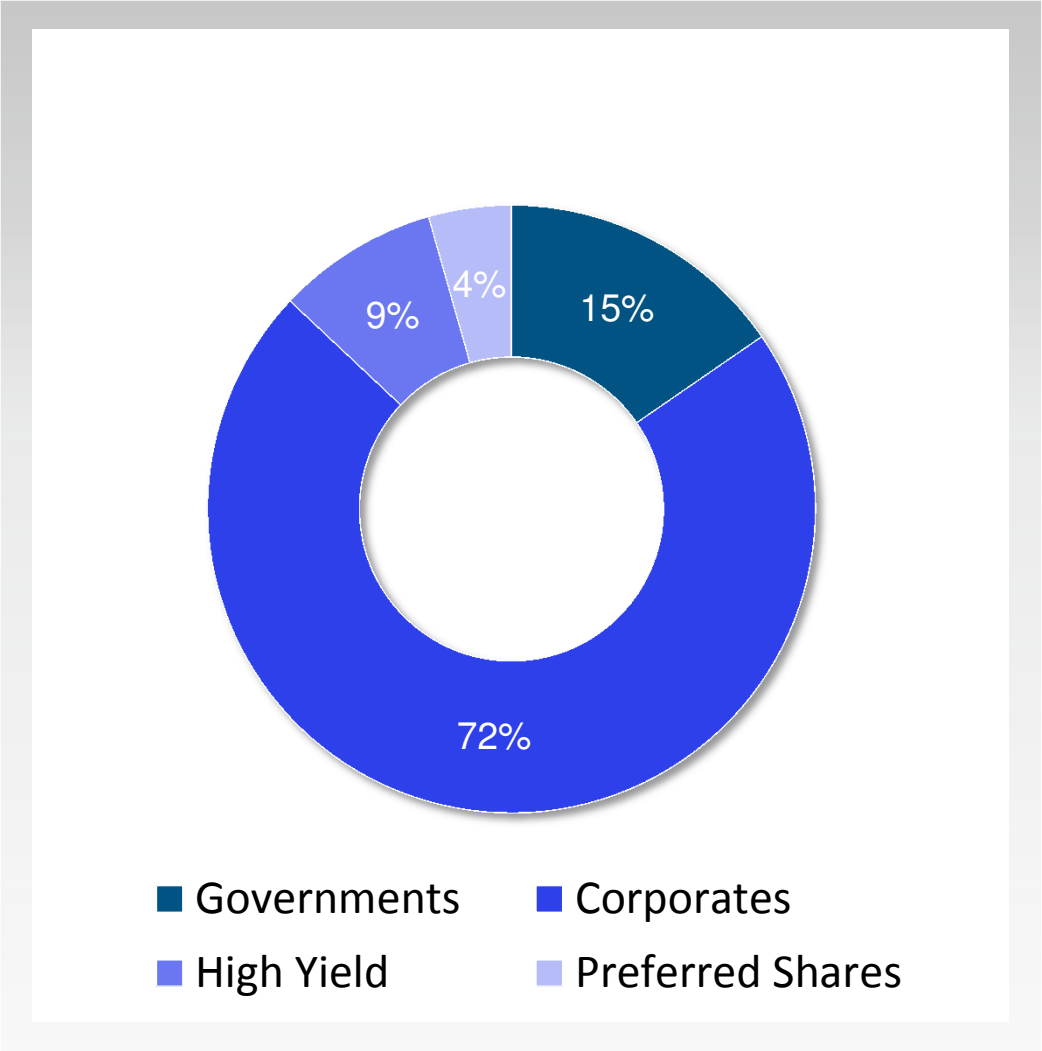
Source: Morgan Stanley Research, ECB, Haver Analytics

# CORE PLUS PORTFOLIO – TOP 10 HOLDINGS

As at September 25, 2015

Issuer	% of Total Portfolio*	Coupon	Weight (%)
Government of Canada	12/1/1945	3.500%	9.3%
Government of Canada	6/1/2029	5.750%	4.1%
Bank of Nova Scotia	8/3/2022	2.898%	3.6%
TD Bank	12/14/2005	4.779%	3.3%
Bank of Montreal	3/16/2022	2.120%	3.1%
Canadian Utilities	9/2/1944	4.085%	2.9%
National Bank	4/11/2022	3.261%	2.7%
CIBC	11/8/2016	2.540%	2.7%
Royal Bank of Canada	3/4/2021	2.860%	2.7%
Capital Desjardins	5/5/2020	5.187%	2.7%

# CORE PLUS FIXED INCOME PORTFOLIO



Average Term	11.2 years
Yield to Maturity	2.98%
Duration	7.1
Average Coupon	3.784%



# CYCLICAL – LIMITED RECESSION RISK

## Recessionary Indicator Scorecard

Start of Recession	Yield Curve	ISM Mfg.	Inf. Trends	Capacity Utilization	Housing Starts	Avg. Wkly Hours
Dec-69	✗	✗	✗	✗	✗	✗
Nov-73	✗	✗	✗	✗	✗	✗
Jan-80	✗	✗	✗	✗	✗	✗
Jul-81	✗	✗	✓	✓	✗	✓
Jul-90	✗	✗	✗	✗	✗	✗
Mar-01	✗	✗	✗	✗	--	✗
Dec-07	✗	✗	✗	✗	✗	--
Present	✓	✓	✓	--	✓	--

• Typical economic cycle indicators not flashing recession.

**Key:** ✗ Recessionary Territory  
 ✓ Expansionary Territory  
 -- Neutral

Source: S&P, NBER, Federal Reserve, BLS, ISM, Census Bureau, Haver, and RBC Capital Markets

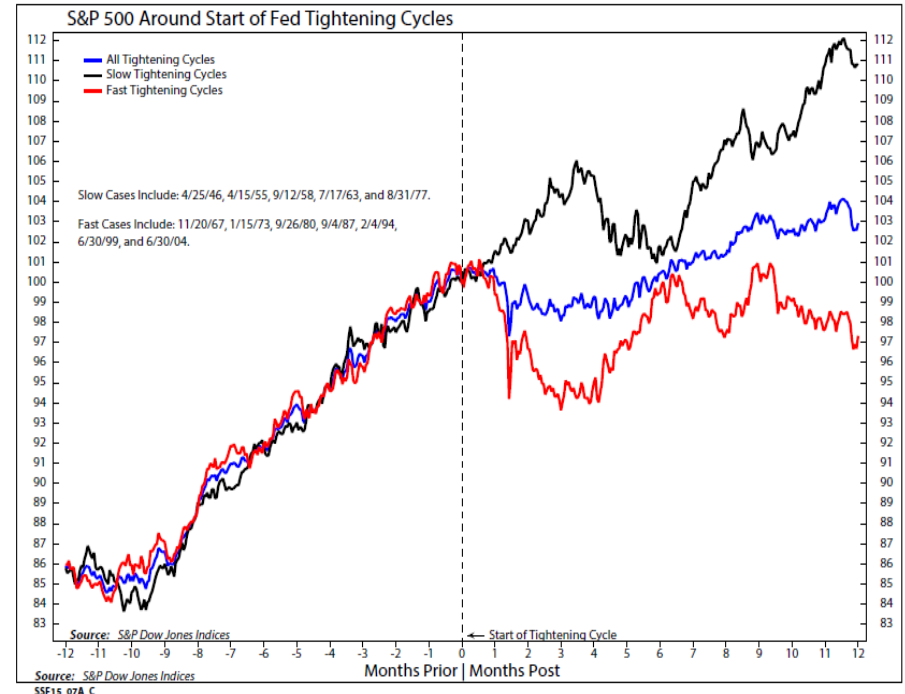
# CYCLICAL – IMPACT OF A FED HIKE

- Government bond term premiums are historically low relative to previous levels before the first Fed hikes
- Equities above average valuations while credit premiums relatively low. Little room for further valuation increases, top line growth needed.
- Slow rate hike cycles tend to be more favourable for equity markets

Exhibit 1: Valuation metrics are broadly in line with past rate-hike cycles for credit, equity, and Fed funds rates (less so for long-term rates).

	Rate Hike Cycles				Today	Valuation rank (1=cheap, 5=rich)
	1988	1994	1999	2004		
IG credit spread (bps)	110	79	113	100	129	1
HY credit spread (bps)	411	326	479	417	442	2
Taylor residual (%)	-0.5	1.9	-1.0	-2.9	1.4	2
PE - trailing (ratio)	13.6	16.1	29.0	19.1	18.1	3
PE - forward (ratio)	9.7	14.2	23.3	16.4	17.5	4
Term premium (%)	3.4	2.2	1.3	2.0	-0.2	5

Source: Goldman Sachs Global Investment Research.



# CYCLICAL – IMPACT OF A FED HIKE

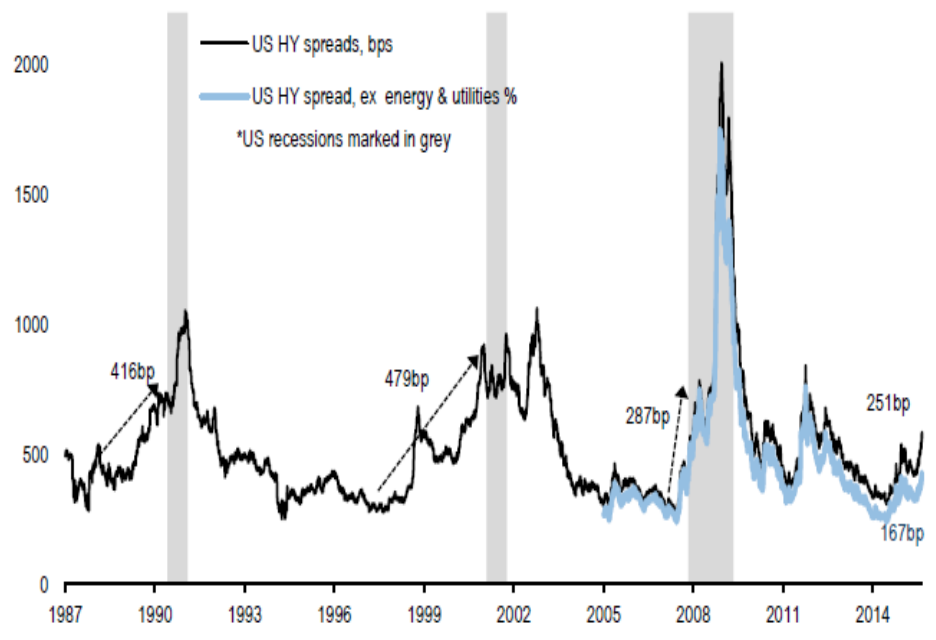
U.S. Investment Grade Corporate Total Return Index				
Beginning Date of Tightening Cycle	Ending Date of Tightening Cycle	Number of Days	% Gain	Gain / Annum
01/12/1948	01/16/1953	1831	9.5	1.8
04/15/1955	08/23/1957	861	-8.0	-3.5
09/12/1958	09/11/1959	364	-1.4	-1.4
07/17/1963	12/06/1965	873	4.7	1.9
11/20/1967	04/03/1969	500	5.0	3.5
01/15/1973	04/25/1974	465	-4.0	-3.2
08/31/1977	02/15/1980	898	-13.6	-5.7
09/26/1980	05/05/1981	221	-4.2	-7.2
09/04/1987	02/24/1989	539	17.3	11.9
02/04/1994	02/01/1995	362	1.4	1.4
06/30/1999	05/16/2000	321	-0.5	-0.6
06/30/2004	06/29/2006	729	5.3	2.6
<b>All Periods Since 1948</b>				<b>6.0</b>

Source: Ned Davis Research Group

# CYCLICAL – WHAT ARE CREDIT MARKETS SAYING?

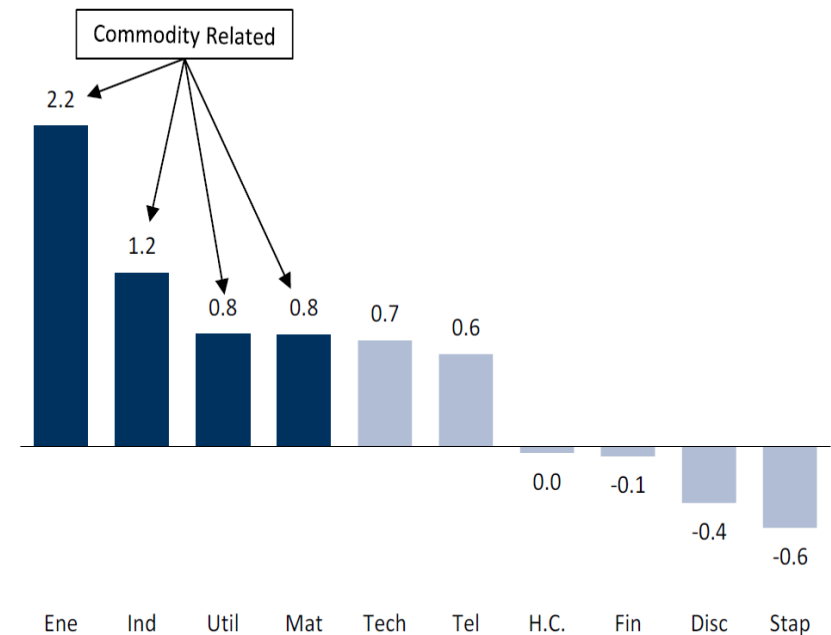
- The recent back up in spreads is not enough to get worried about
- Credit spreads are generally attractive. Yes, it seems to be late in the credit cycle but the business cycle is a very long one.

Figure 24: The average high yield spread widening in the US prior to a recession has been nearly 4%



Source: Thomson Reuters, Credit Suisse research

High Yield Sector Change in Spread – YTD

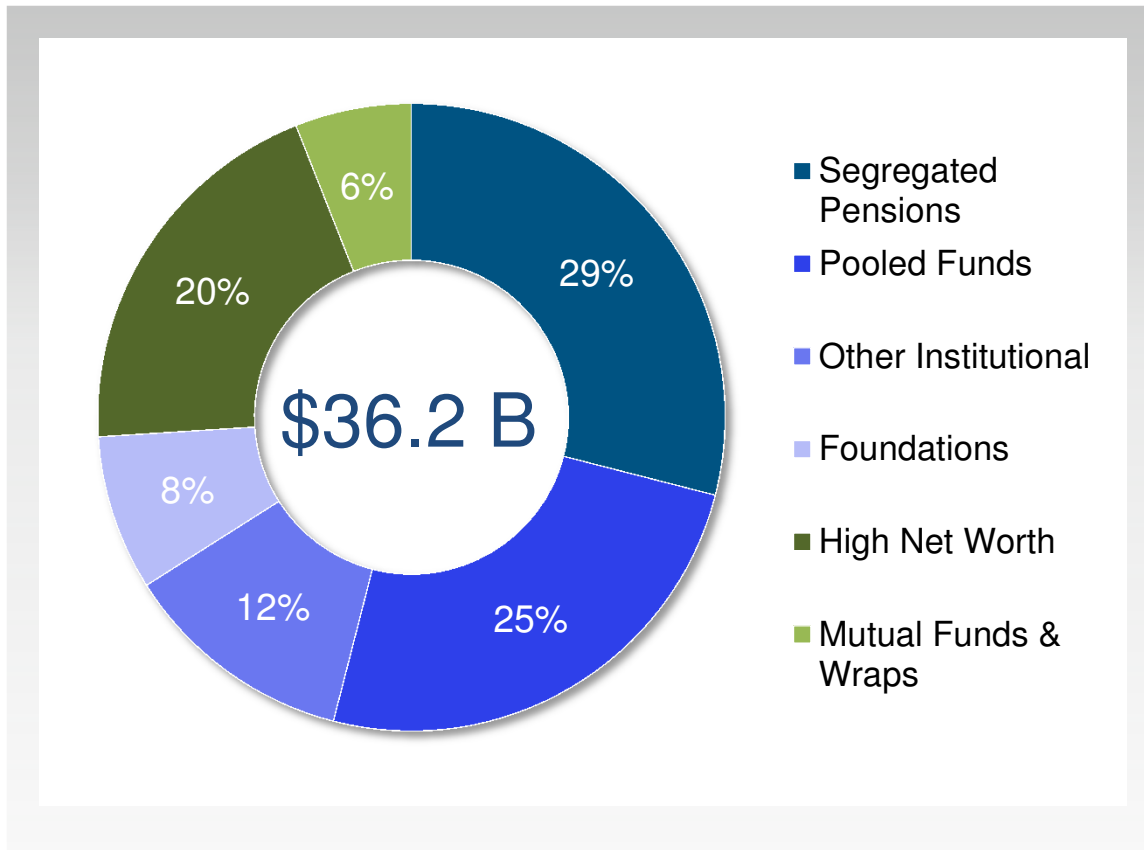


Note: Change in Spread over 10Y Treasury  
Source: Federal Reserve, Bloomberg, Haver, and RBC Capital Markets

# INVESTING IN THE SLOW GROWTH WORLD

- Income is still key, even more so as central banks start to normalize rates when valuations are elevated, you need the income cushion to offset potential price declines.
- Quality stocks represent an anchor in portfolios as well as high quality corporate bonds. The ability to withstand the winds that are buffeting the global markets in the latter stages of the business.
- USD weakness could add to sense of a secular turn in inflation psychology with negative nominal yields and low breakevens for Index Linked Bonds. Starting to build positions in inflation protected bonds.

# TOTAL ASSETS UNDER MANAGEMENT



## Institutional Accounts:

- \$26.7 Billion AUM
- 16 JF Pooled Funds
- 482 Accounts

## Private Client Accounts:

- \$9.5 Billion AUM
- 26 Mutual Fund and Wrap Programs

# WHAT SETS US APART

## 60-Year History of Fundamental Research

- A culture of bottom-up, fundamental research dating back to 1955
- Emphasis on large capitalization, non-cyclical businesses
- Concentrated portfolios with below average volatility
- Long-term investment horizon

## Team-Based Decision Making Process

- Seasoned investment professionals; ISC members average 25 years of experience
- Disciplined investment process
- Adherence to style

## Independent, Single Purpose Organization

- Proven investment philosophy and performance
- Investment management only; no conflicts of interest
- Commitment to good governance and shareholder rights