

# Regional Municipality of Niagara Investment Committee Presentation February 17, 2012

Andrew Smith  
Senior Investment Advisor, DundeeWealth

William Pachereva  
Investment Advisor, DundeeWealth

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## DundeeWealth



Andrew Smith  
Senior Investment Advisor

Andrew started his career as an Investment Advisor in 2002. Prior to joining DundeeWealth, Andrew's extensive business experience included accounting, finance, and strategic planning roles in both small private and large publicly traded companies.

In 2006 Andrew earned the internationally recognized Certified Financial Planners (CFP®) professional designation complementing his Bachelor of Science (B.Sc.) and a post graduate Master in Business Administration (MBA) both earned at McMaster university

Andrew sits on the Board of Directors of the West Lincoln Memorial Hospital and the Founders Club of Peninsula Ridge an organization dedicated to fundraising for West Niagara causes. Andrew is a former lecturer in personal finance at Brock University.



William Pachereva  
Investment Advisor

Bill Pachereva brings nearly two decades of entrepreneurial and business leadership experience to the wealth planning industry. After working in the family consumer products business in Niagara for more than 20 years, Bill started a successful transportation logistics business. Married to Stephanie, he has two daughters and calls Niagara home having lived and worked in the area his entire life.

A member of the Niagara business community for nearly 30 years Bill has a strong appreciation of the needs of small business and business owners through first hand experience.



John Bai  
Senior Vice President  
Wealth Management Strategy

John is Senior Vice President, Wealth Management Strategy for DundeeWealth, where he heads product services and research. This team provides investment research and portfolio services to Canada's largest independent financial advisory network. During his tenure at DundeeWealth, John has led a number of other teams including Product Development, Product Management, Goodman Institutional Investments and Product Analytics teams at Goodman & Company Investment Counsel.

John earned his Chartered Financial Analyst designation in 1996. He graduated from the University of Toronto in 1991 with a Bachelor of Commerce degree, with a joint specialist program in Economics and Accounting.

## Scotiabank Group™

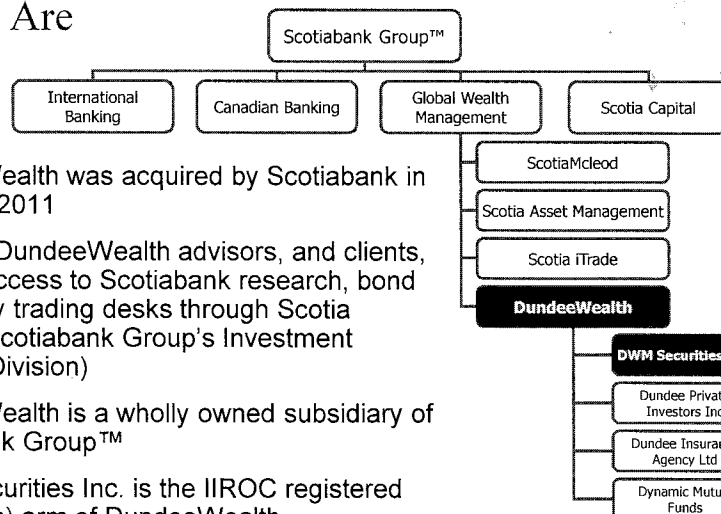
- Founded in 1832
- \$575 billion in total assets
- \$57 billion market capitalization
- Fiscal 2011 net income of \$5.2 billion
- Full range of retail, commercial, corporate & investment banking services
- Over 18.6 million customers across 50+ countries
- Moody's assigned rating of Aa1 and S&P assigned rating of AA-



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## Who We Are



- DundeeWealth was acquired by Scotiabank in February 2011
- Provides DundeeWealth advisors, and clients, with full access to Scotiabank research, bond and equity trading desks through Scotia Capital (Scotiabank Group's Investment Banking Division)
- DundeeWealth is a wholly owned subsidiary of Scotiabank Group™
- DWM Securities Inc. is the IIROC registered (securities) arm of DundeeWealth

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## Dundee Wealth

Presence in Welland for over 20 years

- Office in Welland for more than 20 years.
- 8 person team providing complete wealth management
- Comprehensive service and consultation provided to clients; tax, estate, retirement, insurance/risk management and investment management

*Comprehensive professional team for a holistic approach to wealth planning needs; Retirement Planning, Estate Planning, Investment Management, Tax Planning and Legal Services all under one roof.*

- ❖ Tax preparation and planning provided by AC Smith Management Inc., legal services provided by Richard S. Halinda LLB

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## Dundee Wealth Team

### DundeeWealth Welland Team



Andrew Smith BSc., MBA, CFP®  
Senior Investment Advisor



William Pachereva  
Investment Advisor



Susan Tessier CFP®  
Associate Advisor  
Insurance & Estate Specialist



Veronica Shelvock CFP®  
Associate Advisor  
Retirement Planning Specialist



Sheila Smith CFP®  
Licensed Assistant  
Charitable Giving Specialist



Marisha Vachon  
Office Administrator  
Marketing and Client Support

### Corporate Team



Gary Cumming  
Director Fixed Income  
Scotia Capital



John Bai  
Senior Vice President  
Wealth Management Strategy  
DundeeWealth


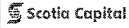

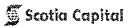

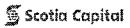

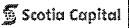

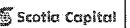

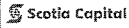

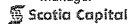
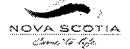
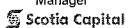

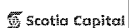

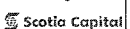


Andrew Mystic  
Associate Director Fixed Income  
Scotia Capital

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## Leverage Expertise and Relationships

|  |  |  |  |  |
|--|--|--|--|--|
| <br>City of Toronto<br>Rotating Lead Manager<br>           | <br>Municipal Finance Authority of B.C.<br>Rotating Lead Manager<br> | <br>City of Peterborough<br>Rotating Lead Manager<br>          | <br>County of Peterborough<br>Lead Manager<br>   | <br>City of Cornwall<br>Lead Manager<br>           |
| <br>Newfoundland and Labrador<br>Rotating Lead Manager<br> | <br>City of St. John's<br>Rotating Lead Manager<br>                  | <br>Nova Scotia Municipal Finance<br>Rotating Lead Manager<br> | <br>Regional Municipality of York<br>Manager<br> | <br>Regional Municipality of Halton<br>Manager<br> |

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## 2011 a Year in Review

- Longer term bond yields fell sharply in the second half of 2011 when safe haven worries drove prices up
- Bonds saw periods of more dramatic volatility with the 'risk on, risk off' trade through the second half of the year
- Month to month changes even through January were dramatic

### Monthly Changes in 10-year Government Bond Yields (%)

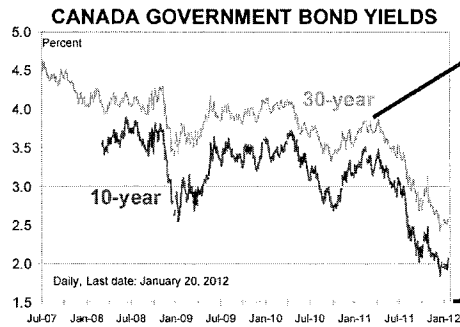
|         | Jan 20 | Dec 16 | Change |                      |
|---------|--------|--------|--------|----------------------|
| US      | 2.03   | 1.85   | 0.18   | ← 10% price increase |
| UK      | 2.11   | 2.04   | 0.07   |                      |
| Canada  | 2.06   | 1.87   | 0.19   | ← 7% price increase  |
| Germany | 1.93   | 1.86   | 0.07   |                      |
| Japan   | 0.99   | 0.99   | 0.00   |                      |

Source: DundeeWealth Financial Monitor, January 20, 2012

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## Bond Yields at Historic Lows



- Canadian government bond prices now sit near historic highs, yields near historic lows
- Limited potential room for price appreciation

Source: DundeeWealth Financial Monitor, January 20, 2012

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## Overview 2012

- Late 2012 IMF forecast for the global economy at 4.0% - likely to see this revised lower
- US economy unlikely to slip back into a recession but will experience weak growth
- Modest expansion in the Canadian economy – slowdown in China is a concern
- Government debt is overvalued – fear dominates, Eurozone risks, global economic slowdown concerns
- Sovereign debt crisis will continue to dominate in 2012

| GDP Growth | 2011f                      |     | 2012f |      | CPI Change | 2011f                 |     | 2012f |     |
|------------|----------------------------|-----|-------|------|------------|-----------------------|-----|-------|-----|
|            | Real GDP (Annual % Change) |     |       |      |            | y/y% change, year-end |     |       |     |
| Canada     | 2.3                        | 1.7 | 1.9   | 2.0  | Canada     | 2.7                   | 3.3 | 1.9   | 1.6 |
| US         | 1.7                        | 1.6 | 2.0   | -0.5 | US         | 3.3                   | 2.7 | 1.5   | 1.5 |
| Euro zone  | 1.6                        | 9.2 | -0.5  | 8.6  | Euro zone  | 2.7                   | 4.1 | 1.5   | 4.5 |
| China      | 9.2                        | 7.2 | 8.6   | 7.4  | China      | 4.1                   | 7.5 | 4.5   | 6.5 |
| India      | 7.2                        | 3.7 | 7.4   | 3.4  | India      | 7.5                   |     |       |     |
| World      | 3.7                        |     | 3.4   |      |            |                       |     |       |     |

Source: Scotia Capital Economic Research February 2, 2012

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## Our Perspective – Low Rate Environment, Some Yield Expansion

- North America interest rates are expected to be flat for next 12 months
- Bond yields are likely to remain near 2.0% in Canada and the US through 2012
- May see downside yield risk in late 2012 for longer term yields if global growth weakens leading to deflation worries
- For the US, Fed Funds target rate range of 0% to 0.25% until 2014

| Interest Rates and Yields |       |       |       |       |       |
|---------------------------|-------|-------|-------|-------|-------|
|                           | 11Q4f | 12Q1f | 12Q2f | 12Q3f | 12Q4f |
| <b>Canada</b>             |       |       |       |       |       |
| BoC Overnight Target Rate | 1.00  | 1.00  | 1.00  | 0.50  | 0.50  |
| T-Bill (91 Day)           | 0.86  | 0.80  | 0.75  | 0.40  | 0.40  |
| 10-year Canada            | 2.16  | 2.00  | 2.00  | 1.90  | 1.85  |
| <b>Unites States</b>      |       |       |       |       |       |
| Fed Funds Target Rate     | 0.07  | 0.13  | 0.13  | 0.13  | 0.13  |
| T-Bill (90 Day)           | 0.01  | 0.03  | 0.03  | 0.03  | 0.03  |
| 10-year Treasury          | 2.05  | 1.95  | 1.95  | 1.90  | 1.85  |

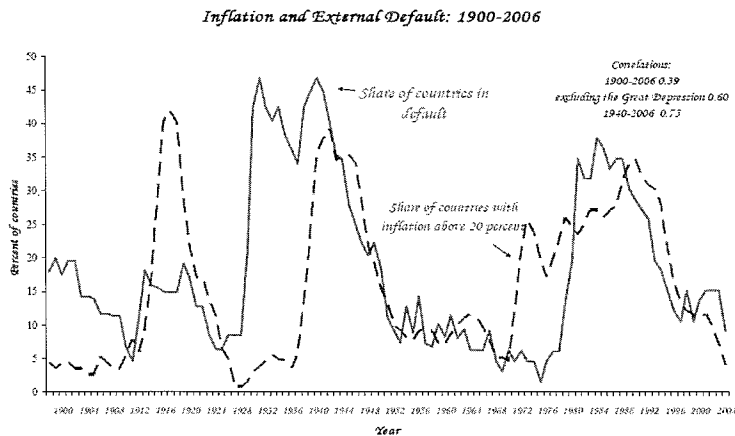
Source: DundeeWealth Financial Monitor - Forecast Update, January 24, 2012

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## Beyond 2012 Positive Relationship Between Inflation & Country Defaults

Yield on 10-year Gov't of Canada Bond



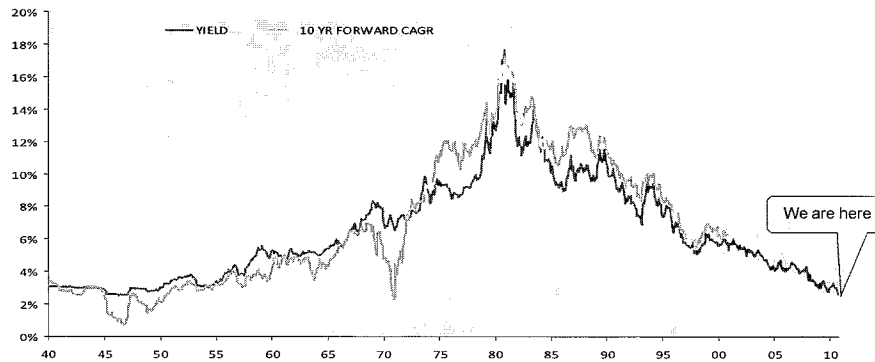
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## Beyond 2012

Strong Relationship Between Bond Yields & Investment Returns

DEX Canadian Bond Universe - Month-end Yield vs. 10 Year Forward Return (%)



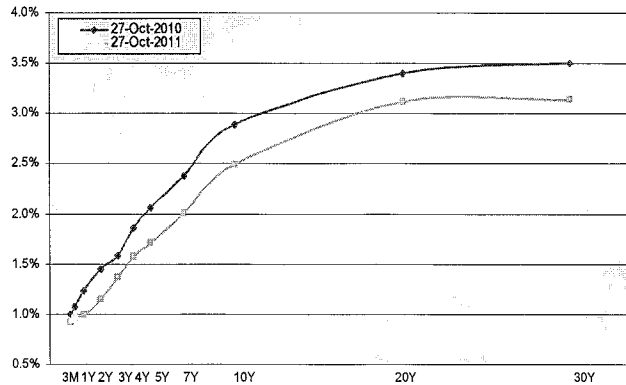
Source: PC Bond Analytics, DundeeWealth Private Client Research

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## Increase Portfolio Yield by Extending Term to Maturity

Yield curve for Gov't of Canada bonds of various maturities



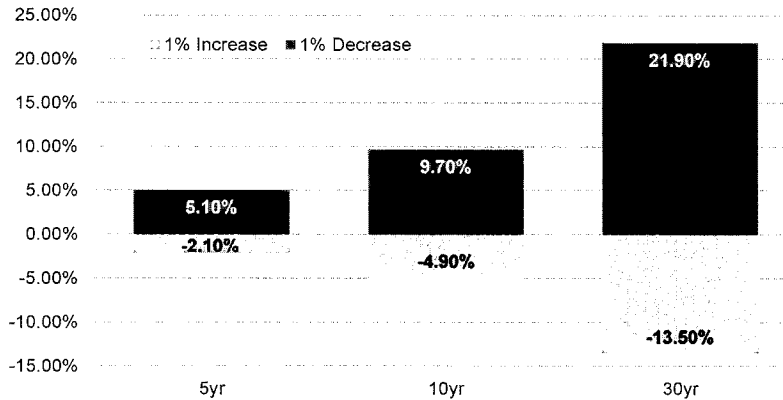
Source: Bloomberg

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## Extending Term to Maturity Will Increase Volatility

The Effect of a +/-1% Change in Yield on Total Return



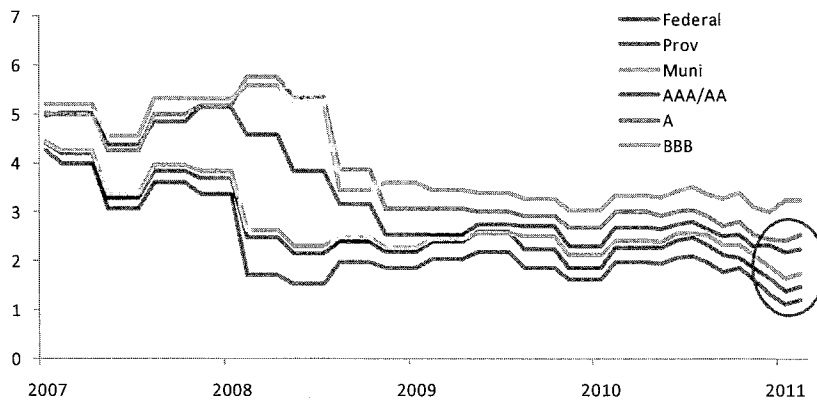
Source: Bloomberg, DundeeWealth Private Client Research. Data using benchmark Gov't of Canada bond yields on Nov 2, 2011. Bond yields for the 5-year, 10-year and 30-year were 1.5%, 2.2% and 2.8% respectively.

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## Moving Down the Credit Quality Will Increase Yields

Yields by Credit Rating for Short-term (1-5 Year) Indices



Source: PC Bond Analytics, DundeeWealth Private Client Research; Last data point: Oct 31, 2011.

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## Portfolio Strategy

- Employ a core portfolio laddered approach looking to a shorter term average portfolio duration – 3 to 7 years
- Laddered strategy will reduce risk through shortening the average duration of the portfolio – less price sensitivity to interest rate changes
- Maximize exposure to AA and A rated corporates
- Continue to pursue creative opportunities . . .

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## Creative Opportunities

- A more active approach - Build from a core laddered bond portfolio opportunistically moving term to generate more yield
- New debt opportunities – DBF/DBFM infrastructure programs that may provide higher yield and support local initiatives
- Look beyond ‘vanilla’ bonds – consideration of structured notes that fit within the IPS and provide yield opportunities in an inflationary economy

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## Portfolio Construction Principals

- Investment Policy Statement Key
- Shorter the term, lower the volatility, lower the yield
- Bond volatility allows opportunistic extension of yield
- Secular cross roads: deflation & falling rates versus inflation and rising rates requires oversight

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## What Our Clients Have To Say . . .

Some Client comments from our survey completed in June 2011;

“We are very pleased . . . they are always more than helpful”

“ . . . We have built a trust with each other”

“Level of service is excellent.”

“The complete planning services available allow us to really understand our goals and what it will take to achieve them.”

“Very pleased with our overall results and performance”

“We are very satisfied with the services provided.”

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## Dundee Wealth in the Community

### Supporter of local community events and causes

- West Lincoln Memorial Hospital Foundation
  - Trees of Healthy Wishes Campaign – Title Sponsor
  - Annual golf tournament - Sponsor
- Local sports sponsorships
  - Dundee Little Chip Soccer
  - Lincoln Minor Hockey
  - St. Catharines Chaos
- Jazz on The Ridge Gala Fundraiser
  - West Niagara YMCA, McNally House, WLMH Project X-Ray - Silver Sponsor
- Niagara Peninsula Children's Centre
  - Title sponsor of the 2011 Fall Formal

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Thank You

Comprehensive Planning

Disciplined Approach

Consistent Results

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