Review of 2011 and Outlook 2012

Why a portfolio approach is essential during turbulent times

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- Vice Chairman - Investment & Portfolio Strategist - Dundee Private Investors & Dundee Securities (2004-2007)
- Chief Investment Officer, Cartier Partners Financial Group, President, Cartier Mutual Funds and Managing Director, Cartier Capital Limited Partnership (1998-2003)
- 40 years as pension fund manager, strategist and economist

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- Chief Economist at Nesbitt Thomson
- Economist at Provincial Bank of Canada
- Economist at Bank of Canada

Agenda

- Review of 2011: what went wrong
- Outlook 2012
- Implications for financial markets
- Investment strategy

2011: What went wrong

- Expectations were way too high at the beginning of the year
- The markets had already rebounded strongly from their March 2009 lows
- Downward revisions as a result of:
  - Tsunami in Japan – March
  - Standard and Poor’s downgrades US Gov’t debt - August
  - IMF lowers its World growth forecasts – September
  - European sovereign debt saga continues - Fall

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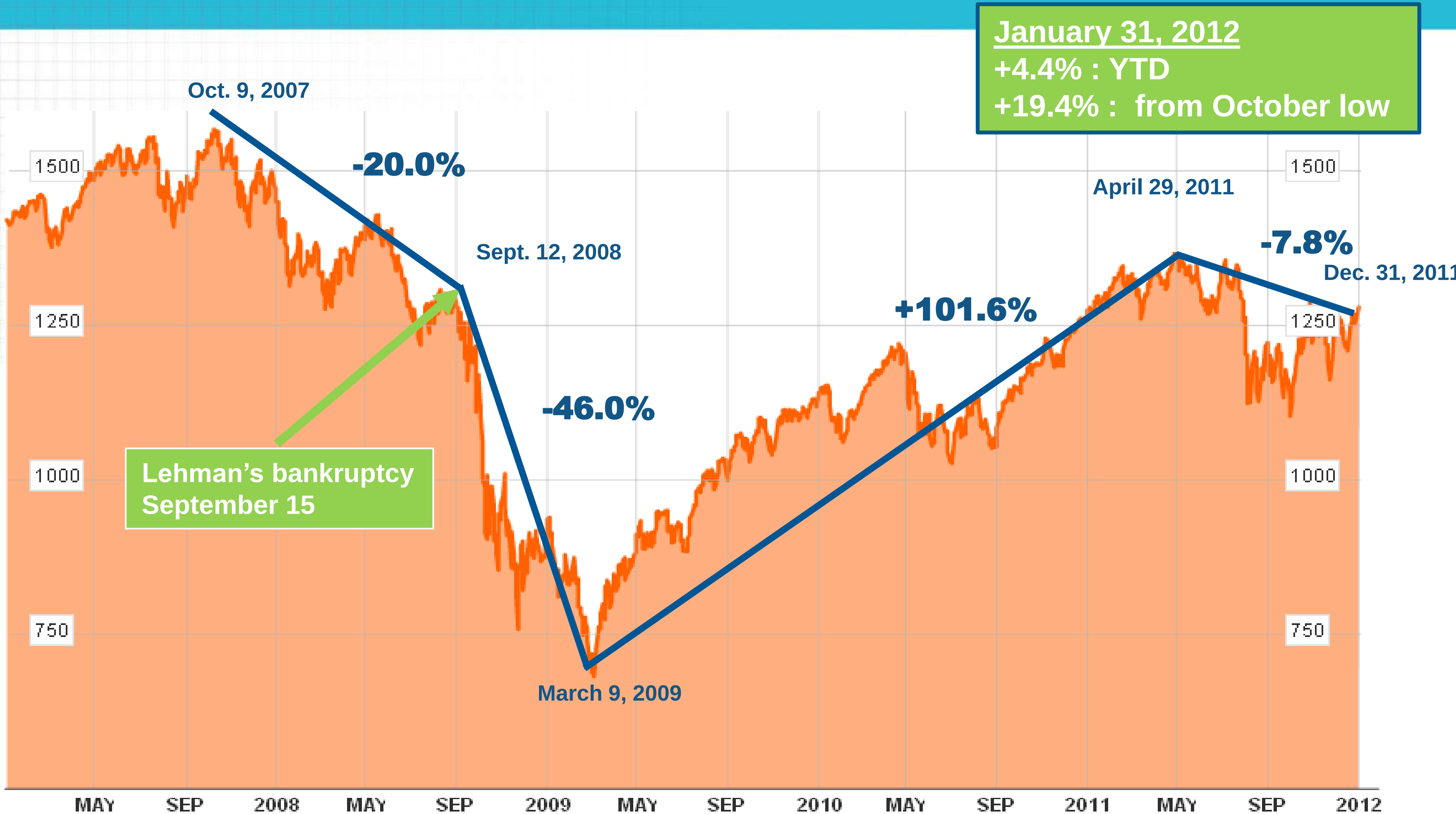
S&P 500: last 5 years
A roller-coaster...



Source: Bloomberg – December 31, 2011 close

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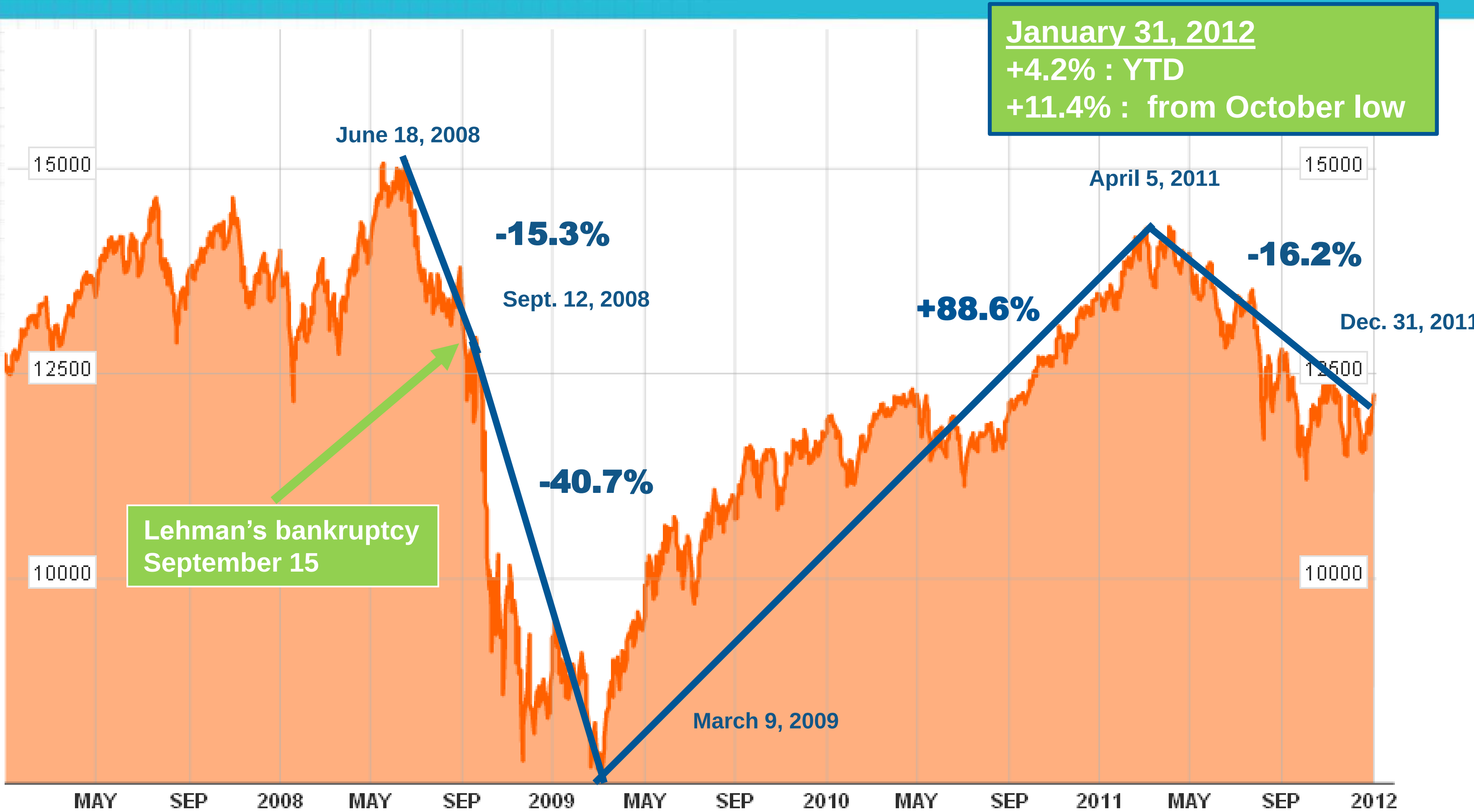
S&P/TSX: last 5 years
Same story, but more volatile recently than S&P500



Source: Bloomberg – December 31, 2011 close

Major financial market returns[1] in 2011 – in C$

Canadian Bonds (DEX Universe Index)	9.7%
Canadian Equities (S&P/TSX)	-8.7%
U.S. Equities (S&P 500)	4.4%
International Equities (MSCI EAFE)	-9.8%
Emerging markets (MSCI EM)	-16.3%

1. Total return including dividends

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Major financial market returns[1] in 2010 – in C$

Canadian Bonds (DEX Universe Index)	6.7%
Canadian Equities (S&P/TSX)	17.6%
U.S. Equities (S&P 500)	9.4%
International Equities (MSCI EAFE)	2.8%
Emerging markets (MSCI EM)	13.3%

1. Total return including dividends

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Major financial market returns[1] in 2009 – in C$

Canadian Bonds (DEX Universe Index)	5.4%
Canadian Equities (S&P/TSX)	35.1%
U.S. Equities (S&P 500)	8.1%
International Equities (MSCI EAFE)	13.2%
Emerging markets (MSCI EM)	53.0%

1. Total return including dividends

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Major financial market returns[1] 2009-2011 – in C$

Canadian Bonds (DEX Universe Index)	7.3%
Canadian Equities (S&P/TSX)	13.2%
U.S. Equities (S&P 500)	7.3%
International Equities (MSCI EAFE)	1.7%
Emerging markets (MSCI EM)	13.2%

1. Total return including dividends

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Why has Canada done relatively better than other major countries

- Less dependent on the U.S. than in the past
- The Canadian economy is more cyclical - impacted by the demand for our resources
- Energy and other resource companies account for almost half of the S&P/TSX market cap
- The industrialization of China has benefited the TSX and other resource rich countries – Australia, New Zealand and Brazil – to name a few
- The C$ has risen in tandem with the commodity boom

The S&P/TSX is heavily resource and financials weighted

GIC Sector weights[1]	*S&P/TSX*	*S&P 500*	*MSCI World*
Energy	27.1%	12.3%	11.8%
Materials	21.1%	3.5%	7.2%
Industrials	5.8%	10.7%	11.0%
Consumer Discretionary	4.0%	10.7%	10.3%
Consumer Staples	2.8%	11.5%	11.0%
Health Care	1.4%	11.9%	10.6%
Financials	29.3%	13.4%	17.6%
Information Technology	1.3%	19.0%	12.0%
Telecom. Services	5.2%	3.2%	4.4%
Utilities	2.0%	3.9%	4.0%

48.2%

1. As at December 31, 2011

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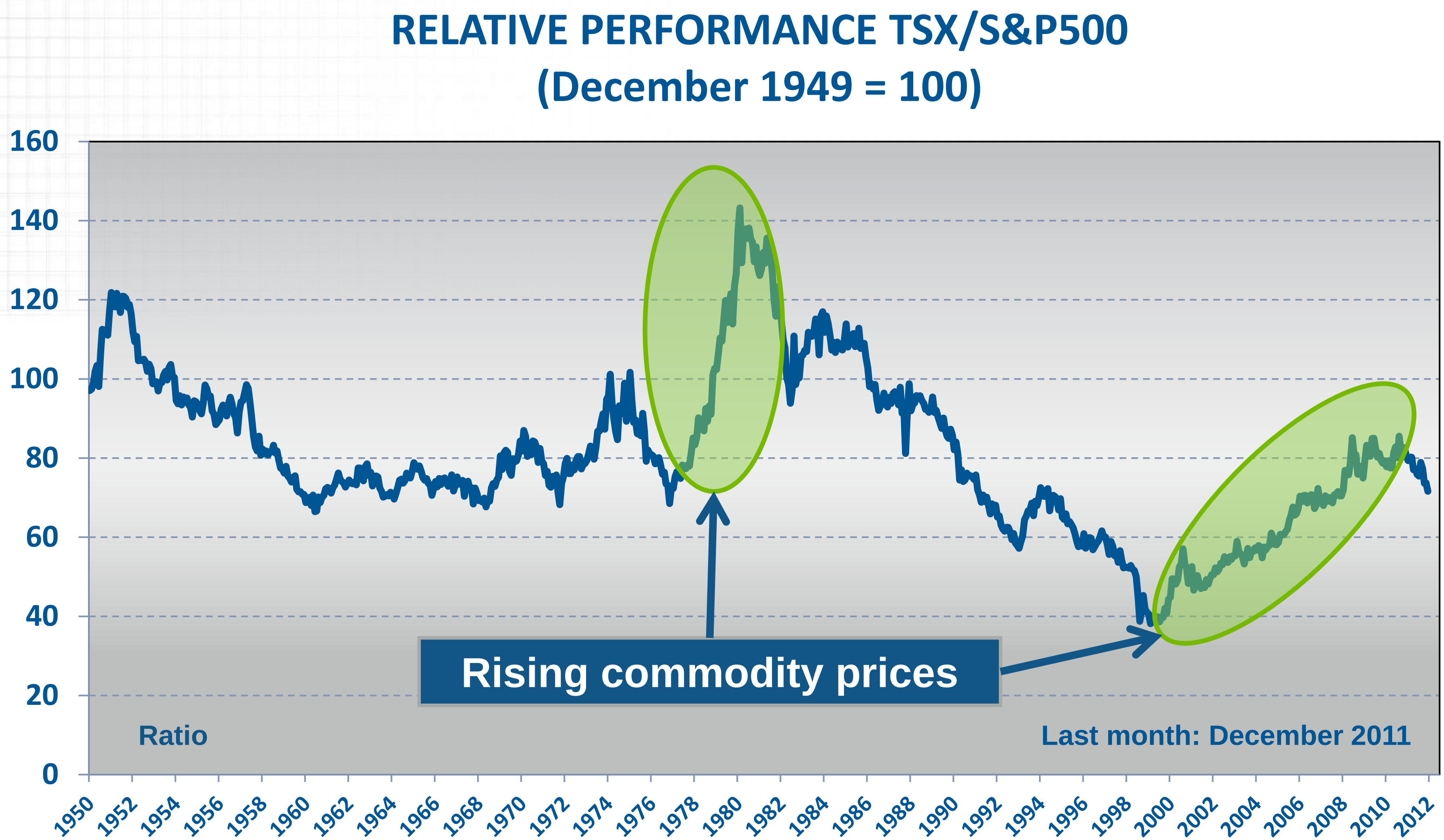
Why Canada has done relatively better over the last decade



Source : Ibbotson, Dynamic Funds

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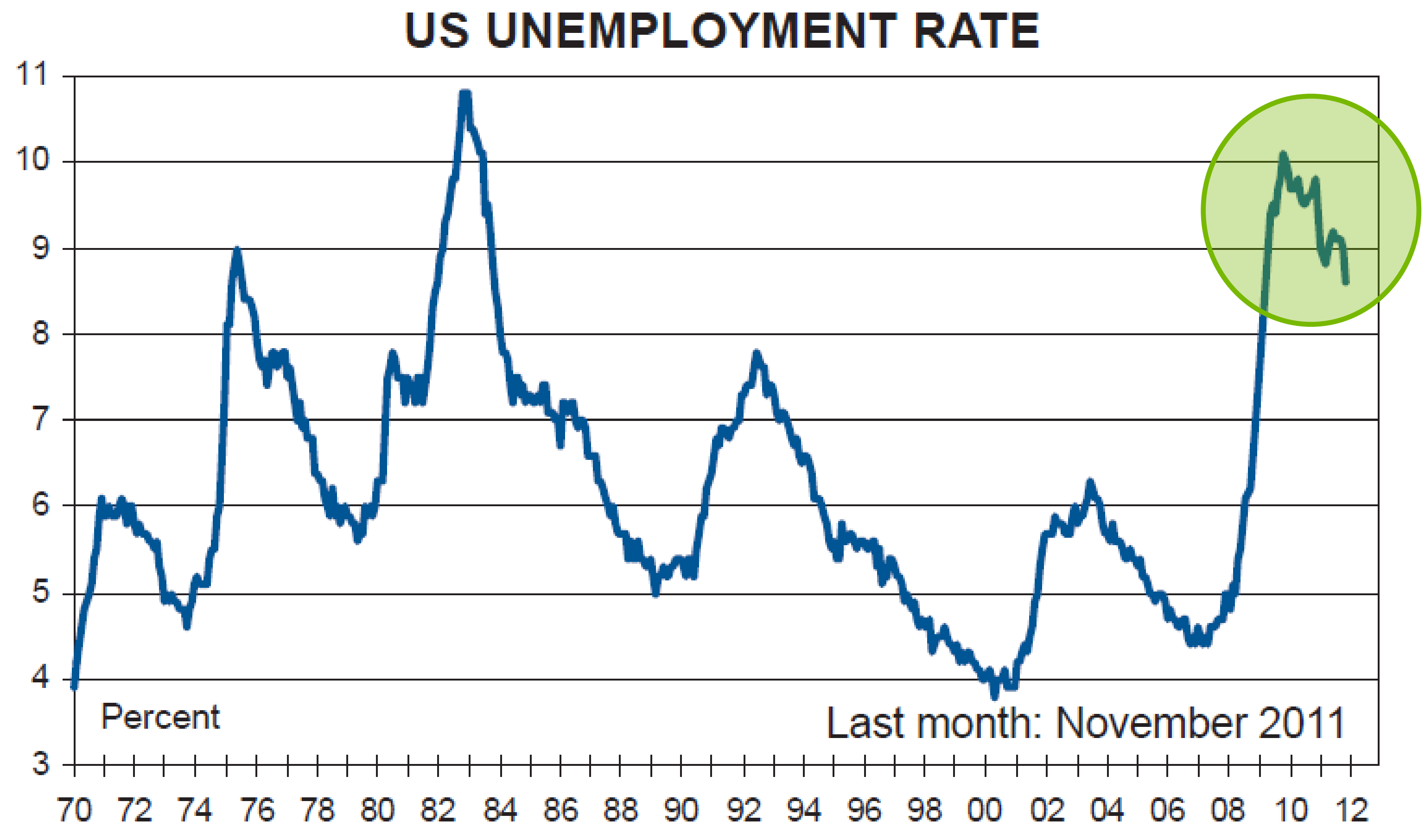
Outlook 2012

- Repeat of 2011?
- Volatility will persist as Europe’s sovereign debt issues have still not been resolved
- But this being said, there are opportunities to make money by taking advantage of disparities in the economic cycles of the major regions/countries around the world
- Diversification and rebalancing will be more important than ever
- Active management is to be favored

Outlook varies by region

Regions	Economic/financial conditions	Downside risk	Stock market valuation
U.S.	Improving	Reduced	Becoming more reasonable
Europe	Deteriorating	Increasing	Attractive, but downside risk is high
China	Deteriorating	Rising	Attractive only if "soft landing" scenario
Canada	Stable	Limited	Dependent on world economic growth

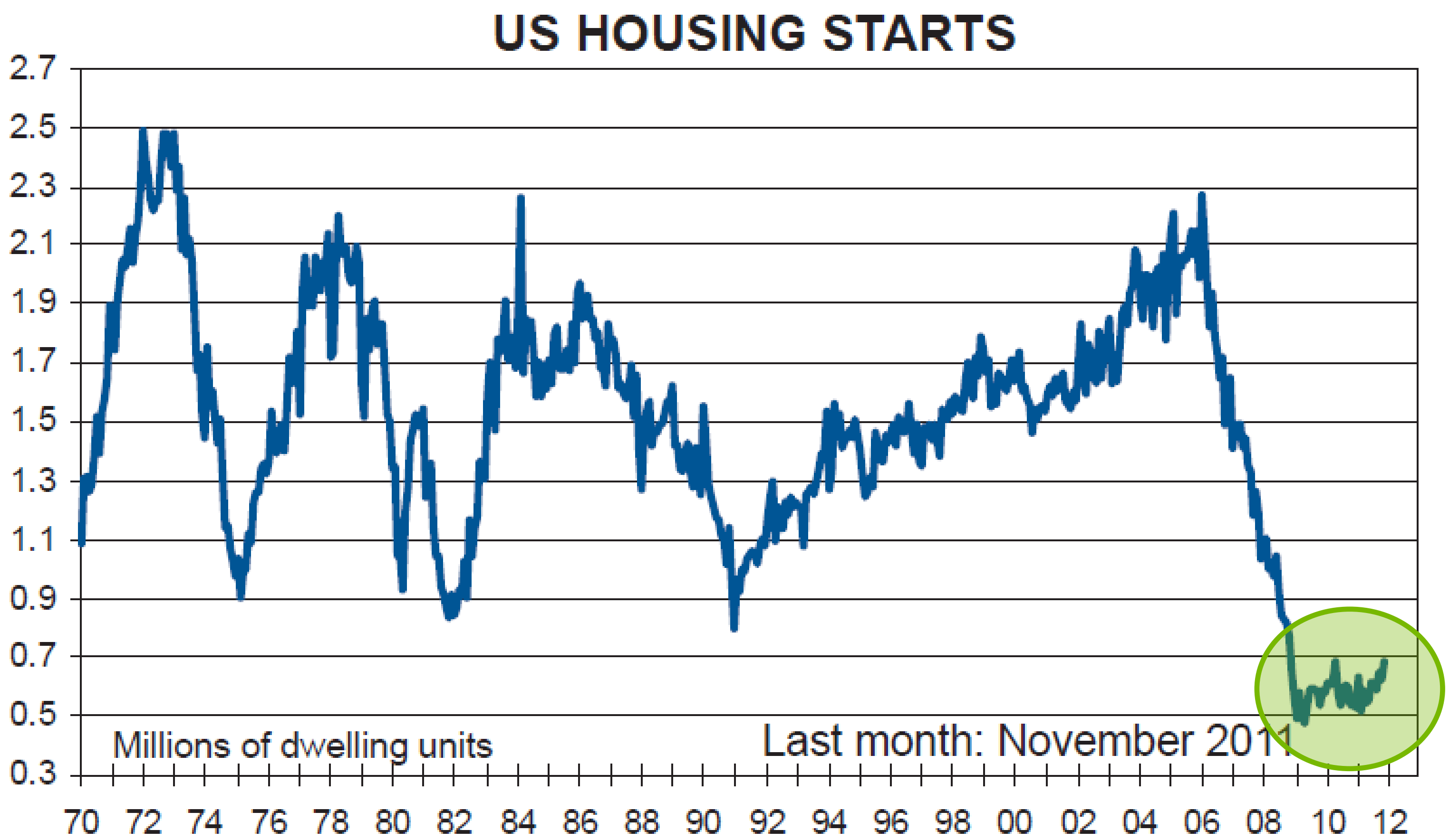
U.S. Economy
Unemployment rate finally coming down



Source: DundeeWealth Economics

U.S. Economy

Real estate market is starting to show signs of life…



Source: DundeeWealth Economics

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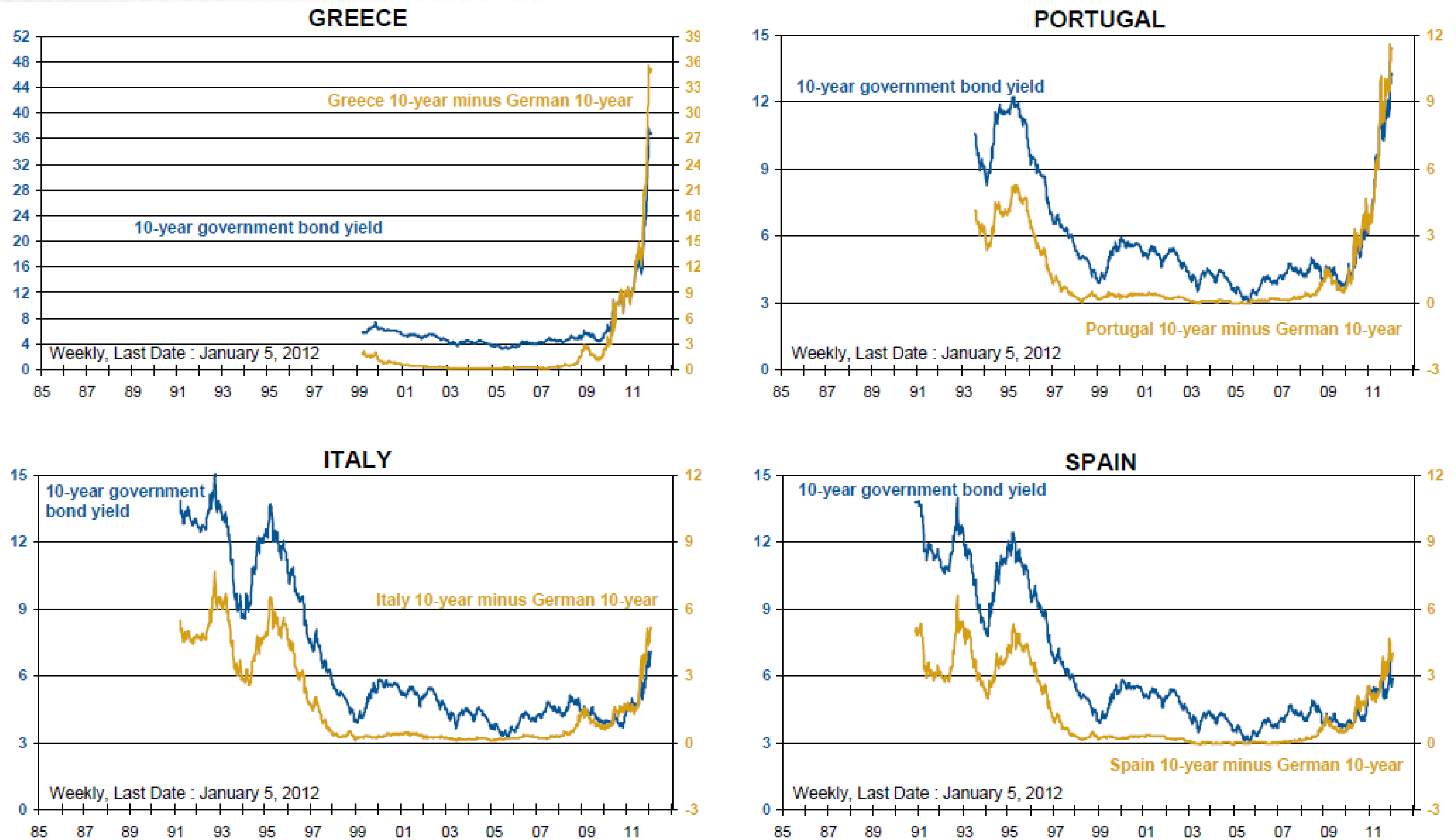
Sovereign debt crisis

Governments will have to reduce services and/or raise taxes = slower growth



Source: DundeeWealth Economics

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Emerging economies are already slowing down

- China and India's economies are slowing down following rate increases in 2011 to cool inflationary pressures
- China's real estate prices are also a concern, so Chinese authorities have changed their focus – stimulating the economy instead of fighting inflation – bank reserve requirements have been reduced in December, the first move in 3 years
- Currency interventions by Swiss and Japanese authorities to push their FX rates lower: competitive devaluations
- But, it will be difficult for countries to all grow out of the recession

Implications for financial markets

- Short term interest rates will remain low until well into 2013
- Slower growth = contained inflation, so that bond yields, even though at historical lows, are likely to stay low
- Keep bonds in your portfolio to cushion stocks' inherent volatility – 2011 was a perfect example
- Equity markets benefit from low interest rates, but they are also dependent on economic growth
- Certain markets are attractively priced, while others are still on shaky grounds
- **Volatility is here to stay**: favor active portfolio managers that trade and adjust their strategies more frequently

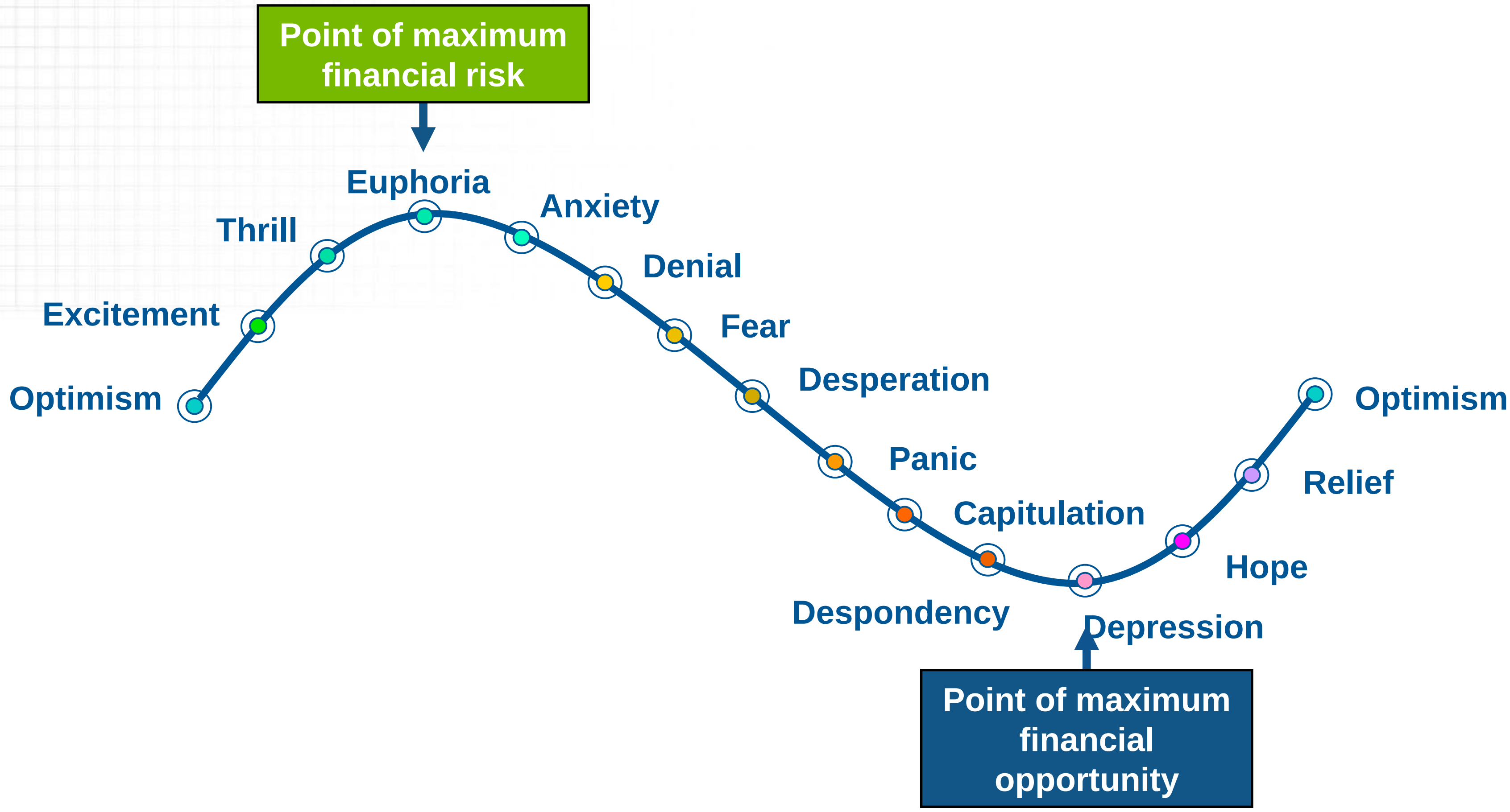
Investment strategy

- Be more conservative than usual –focus on investment risks
- Keep some cash and high quality bonds
- On the equity side, favor dividend paying stocks and companies with strong balance sheets and stable businesses
- Continue to diversify your investments and ensure you’re comfortable with your portfolio positioning
- Rebalance if need be
- Dollar-cost averaging makes sense at this point in the cycle.

Stick to your game plan

- Don’t fall for the latest fad
- Beware when people tell you "it’s different this time"
- Have a long term view and don’t focus on the short term
- Don’t let your emotions drive your actions

The emotional roller coaster
Where are we in the cycle?



Source: Westcore Funds / Denver Investment Advisers LLC, 1998

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Managing money like the pros
5 Essential steps

01 ASSESSING OBJECTIVES
ASK YOURSELF: WHAT KIND OF INVESTOR AM I?

02 ASSET ALLOCATION
FIND THE BALANCE BETWEEN RETURNS AND VOLATILITY

03 STYLE DIVERSIFICATION
VALUE, GROWTH, OR A MANAGER THAT MIXES BOTH

04 MANAGER SELECTION
DIFFERENT APPROACHES TO MONEY MANAGEMENT

05 REBALANCING & MONITORING
KEEPING EXPOSURE TO RISK AT A CONSTANT LEVEL

Establishing your own Investment Policy Statement

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