Equitable
Asset Management Group

Asset Allocation Strategy

2015 OUTLOOK

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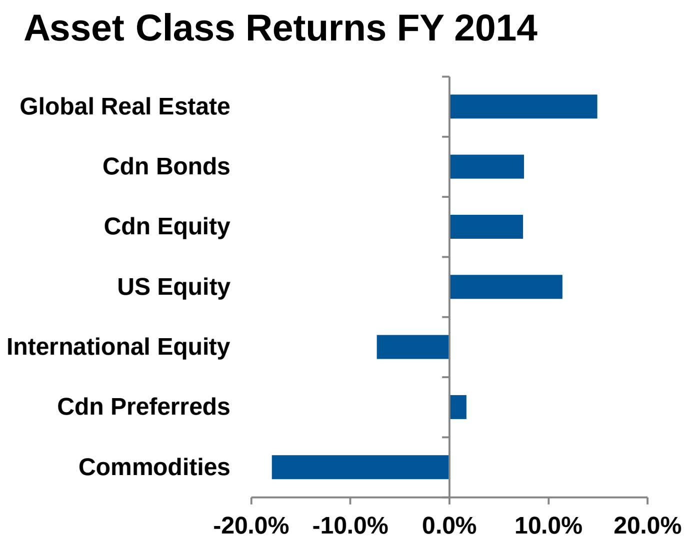

Canada (Neutral)*

- The Canadian economy should be resilient despite the downturn in oil prices, as consumer spending, and export growth outside the energy sector keep the economy in growth territory for the year.
- We project the Canadian economy to grow 2% for the year. With this low level of growth, it wouldn't take much for the economy to slip into negative territory. Some of the risks to this would include: a cut in government spending, particularly as the Federal government has promised to balance the budget; weakening consumer spending, particularly if job loss fears from the oil patch ripple through the market; or a lack of pick up in manufacturing exports to offset the decline in oil exports.

US (Neutral)

- Growth will remain a robust 2.5% in 2015, becoming more broad based.
- Looking forward, the government sector is expected to swing to a positive contribution, breaking a multi-year trend of growth deceleration, and housing is expected to accelerate.
- Offsetting this is an expected weakening to trade due to the strengthening dollar.
- Once again personal consumption will continue to carry the burden of growth, with solid continued contributions from business despite a decline in investment in the oil industry.

Government bonds (neutral)

- Interest rates are low, but at least in Canada, rates are likely to remain that way.
- The impact on the economy from falling oil prices is uncertain, and the Bank of Canada's reaction to this implies either a high degree of skepticism that the Canadian economy can withstand the impact, or a willingness to pump more liquidity into the system in the face of uncertainty.
- Global interest rates are low, and most central banks are committed to maintaining this environment. The European Central Bank and the People's Bank of China have provided increased stimulus over the past quarter, and have indicated a willingness to do more.
- Global inflation is falling, and growth hasn't rebounded to the level that would have been expected at this point given the stimulus provided by central banks.
- Global sovereign deleveraging and aging demographics will provide a relatively tight ceiling to rising yields.
- In the near term, yields are likely to be volatile due to oil price sensitivity in Canada. The impacts of inflation and the uncertainty over Bank of Canada policy reactions will keep yields low through the first 3-6 months of the year.
- We anticipate that yields will move somewhat higher in the back half of the year.

Corporate bonds (positive)

- We expect credit returns to come primarily from coupon income in 2015, with little capital appreciation.
- We base this on our continued expectation of deteriorating credit metrics at North American corporations, increased spread volatility and early signs of tighter lending standards for lower-rated corporate bond issuers.
- We have a slightly positive bias to begin the year, reducing risk over the year.
- The first quarter is seasonally favourable corporates, especially given many maturities in the bonds space and lower new issuance activity, forcing investors to redeploy the cash into existing securities.

Canadian equities (negative)

- As oil struggles to find new price equilibrium, the TSX faces an increasingly volatile pathway in 2015.
- Investors calling for a turn in oil prices may be disappointed as accelerating supply and decelerating demand re-prices oil to the downside.
- This re-pricing may be a headwind for corporate fundamentals, potentially disappointing investors.
- Despite aggressive downward revisions in the energy sector, oil needs to see significant price appreciation for optimistic targets to be met.
- Manufacturing activity offers a potential offset to the selloff in oil, yet we remain skeptical given Canada's smaller share of global manufacturing and loss in competitive position.

US equities (Neutral)

- The US has become the most stable equity market over the past several months, given its relative economic attractiveness.
- Generally, consumers show signs of strengthening, and small business optimism has reached pre-credit crisis highs.
- There are early signs of corporate fundamental weakness as revenue estimates and profitability begin to contract from previous levels, a situation we are closely monitoring.
- Margins contraction may be attributed to a lack of pricing power in this low inflation environment as well as a small uptick in wage growth.
- Valuations remain at premium levels from a multiple perspective challenging return generation in 2015.

REITs (positive)

- Expectations for growth in the US economy remain strong. This should bode well for holders of commercial real estate, including REITs, as this should lead to continued declines in vacancy rates and increased rent inflation.
- Certain markets (e.g. Houston, Oklahoma) that are influenced by the oil and gas sector bear watching, but are not expected to have a material impact on overall REIT performance.
- Commercial real estate supply remains muted relative to historical levels.
- Should the US economy continue to add jobs at the pace it has recently, existing real estate should benefit from lower vacancies in light of light supply. Looking ahead, over the next few years the trend of limited new supply is expected to continue.

Current asset class exposures

Asset class	Benchmark relative weight*	Previous weight
Cash	**Neutral**	**Underweight**
Bond	**Neutral**	**Underweight**
Duration	**Neutral**	**Underweight**
Credit	**Overweight**	**Overweight**
Equity	**Neutral**	**Overweight**
Canada	**Neutral**	**Neutral**
Us	**Neutral**	**Overweight**
International (Europe/Asia)	**Neutral**	**Neutral**
Global Real Estate	**Neutral**	**Neutral**
Other Asset Classes	**Neutral**	**Neutral**

Investment philosophy

The Equitable Asset Management Group investment philosophy follows an asset allocation model, which differs from the more prevalent stock selection approach to asset management. To guide us in our asset class decisions, we employ a macro-driven, top-down investment philosophy which we believe minimizes risk and maximizes returns across the entire asset class spectrum. Our insurance based background offers a conservative and measured approach to return generation that seeks to grow client wealth in a safe and responsible manner.

*Negative, neutral and positive ratings indicate current, not full year views

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