A PORTFOLIO MANAGER'S PERSPECTIVE

Market and International Equity Growth Pool update

WEALTH MATTERS

As part of our August 8, 2018 Wealth Matters webcast, we heard from Robert Swanson, Principal and Chief Market Strategist for Cambridge Global Asset Management, on the firm's bottom-up active management approach to the International Equity Growth Pool. Robert gave insight into the geo-political uncertainties facing international equity markets today and how Cambridge's investment philisophy is helping them respond to and offset the impacts of these factors.

Cambridge Global Asset Management's investment philosophy

- Cambridge uses a bottom-up active management approach to security selection and portfolio construction, practiced by a team with extensive and diversified investment experience.
- Our firm is focused on absolute returns and capital preservation by understanding risks, and consistently reviewing and rebalancing portfolios to optimize risk-reward levels.
- Our disciplined analysis incorporates an ownership mentality where compensation is tied to value creation and gives high conviction in our holdings.

Market update

- We are cautiously optimistic; economies are improving, companies are moving in a positive direction and there has been a lot of stimulus from central banks around the globe.
- However, caution must be exercised with ongoing trade wars and tariffs, the shift from globalism to protectionism, political risks, and populist movements like Brexit as they add uncertainty and create greater volatility in equity markets.
- We are also seeing a tightening of monetary policy around the globe, resulting in less liquidity in the markets.
- This monetary policy has been divergent; rates in Germany and Japan are low, reflecting their positive but slower growth rate, particularly compared to the U.S., which has been rising steadily since the fourth quarter of 2016 (coinciding with President Donald Trump's inauguration).
- With the strength in the U.S. economy, we expect the U. S. Federal Reserve will continue to raise interest rates into 2019.
- Our answer to these uncertainties is to increase diversity and find opportunities at the individual company level.

Cambridge in action

Our team is addressing the concerns noted above by:

- Focusing on higher-quality companies
- Reducing exposure to companies and sectors that may be sensitive to economic disruptions from higher interest rates and geo-political uncertainties
  - E.g. as trade wars accelerate, we have started paring back on European automobile companies, which are a large supplier to Chinese markets
- Expanding the diversification of the portfolio by region, country, sector, market capitalization and style to offset the impacts of global growth and trade imbalances.

International Equity Growth Pool

- Managed by Robert Swanson
- Up to 100% foreign content (no North American exposure) and typically 50 to 70 holdings
- The pool is more broadly diversified than our other portfolios due to our intent to gain exposure in Europe and Asia
- Currently has exposure to 18 countries.

Attributes we seek in our selections include:

- Stable and enduring business models
- Higher level of profitability and returns
- Lower levels of indebtedness
- Flexibility and ability to grow future cash flow
- Reasonable valuation relative to fundamentals
- Examples: Novo Nordisk, Nemetschek and Isra Vision.

A WEALTH PLANNING PERSPECTIVE

Legacy planning: A key component for all Canadians

WEALTH MATTERS

Understanding "the picture" of what matters most can allow you to efficiently achieve your financial and personal goals, and create a complete legacy plan in your lifetime. During the Wealth Matters webcast, Troy Rumpel, Vice-President, Estate Planning of Assante Estate and Insurance Services Inc., illustrated the strategies and solutions available to Canadians by integrating insurance into their financial, tax, estate and philanthropic plans so they can enjoy retirement and worry less about the future.

What is legacy planning?

- The guiding principle that directs and integrates all of your plans to facilitate the transition and distribution of your assets to accomplish your financial goals, both at **death** and **during your lifetime**
  - Includes wealth planning, estate planning, risk management, financial planning and charitable giving
- Starts with an understanding of "the picture" of your goals surrounding your family, business, favourite causes, family treasures and more, to create an efficient and flexible plan that ensures your legacy has the best chance of being achieved.

Benefits of integrating your plans: Double duty dollars

- *Estate planning*: At death, taxes may be owed on assets, such as a Registered Retirement Savings Plan (RRSP) or RRIF, reducing the amount you intended to leave behind. However, by taking out an insurance policy of approximately the same value as the RRSP or RRIF, the insurance policy can cover the taxes owed on death and your beneficiaries can receive the assets virtually whole.
- *Charitable giving*: The above scenario can be further enhanced through a donation to a favourite cause or charity. In this instance, the insurance policy will be left to your beneficiaries so they receive the full amount you intended. The RRSP or RRIF proceeds will then be donated to a registered charity or foundation that can issue a charitable tax receipt to offset the taxes owed.
- *Business continuity*: How do you determine fair or equal compensation of a family business to ensure that what you've built continues after you pass? Should the business go to all your children, or one child who contributed to the company's growth and leadership? If it goes to one child, how are the others compensated? You can equalize compensation if the company buys an insurance policy on your life. At death, the proceeds can be used to redeem shares to your beneficiaries or make a charitable donation for a tax reduction that can be paid out in dividends.

Doing good by being efficient

- Allocating all or a portion of the capital set aside for a charitable gift into an insurance policy can multiply the value and allow you to donate to your favourite cause today, so you can see the impact while you are alive, and still leave some to give upon your death
- The Charitable Giving Program creates a legacy that's completely under your control, with all of the tax benefits, personal satisfaction and financial advantages that would come with your own charitable foundation, but with significantly less cost and complexity.

Tax benefits of charitable giving

- Individuals can receive federal and provincial tax credits for gifts up to 75% of net income during their lifetime (100% at death), which can be transferred between spouses for lifetime gifts, and have a five-year carry forward
- Corporations can receive a tax deduction to a maximum of 75% of net income with a five-year carry forward.

Your advisor is available to help

If you have questions about how a legacy plan can fulfill your financial and personal goals, talk to your advisor for assistance.

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