A PORTFOLIO MANAGER'S PERSPECTIVE

U.S. Equity Value Pool

WEALTH MATTERS

As part of our February 14, 2018 Wealth Matters webcast, we heard from ***Rick Vandale****, Managing Director, Global and U.S. Portfolio Management of Epoch Investment Partners. His presentation provided an overview of the firm's non-traditional investment approach that aims to deliver long-term, risk-adjusted returns in their U.S. Equity Value Pool. Rick also discussed Epoch's outlook for the U.S. economy and how it is positioned to capitalize from its continued growth.*

Investment approach

Epoch's approach – When selecting stocks, we try to forecast and understand a company's free cash flow profile using two components:

1. Generation of free cash flow: We look for companies with free cash flow that grows at an above-average rate relative to its peers
    - Studies suggest these stocks significantly outperform those that generate little free cash flow
2. Allocation of free cash flow (excess capital): This is done through capital reinvestment or shareholder returns
    - In the U.S. Equity Value Pool, we look for management teams who allocate their capital appropriately to enhance shareholder value

Traditional approach – Our process differs from the traditional approach, which focuses on quarterly earnings, for the following reasons:

- Accounting-related earnings can be misleading and don't look forward at how much cash a company will generate in the future
- We then take advantage of this process by looking at companies that may be undervalued.

Investment process

- We use a proprietary multi-factor ranking model based on free cash flow metrics
- Once we highlight promising opportunities, we conduct our fundamental analysis, which includes meeting with company management
    - It is a requirement that all our analysts must meet and know the CEO of companies we hold
- The final step in the approval process requires the analyst to present to the portfolio investment committee why the stock should be added to the portfolio
- In terms of risk management, we are highly diversified and conduct in-depth analysis to ensure we only take on high conviction risk and eliminate unintended risk
- In our sector allocation, we take active sector weighting away from the index through bottom-up security selection
    - We also look at top-down macro-economic considerations; if we believe we have insight into the U.S. economy or a sector that can add value to your portfolio, we will adjust our overweight or underweight accordingly.

Market outlook

- We are very optimistic in the U.S. economy, particularly U.S. business
- There are a lot of positive factors from regulatory reform to improvements in the labour force and wage growth
- This has led to increased spending in all three areas of the economy: consumers, businesses and government
    - This should generate higher levels of revenue for U.S. companies, and for our holdings, that means more bottom-line profits or cash flow
- Tax Cut and Jobs Act: Before tax reform, analysists were predicting a 6.5% growth in corporate profits for 2018
    - We estimate that since the reform, corporate profits will grow by 18.5%, which is not yet fully reflected in the stock market
- In the intermediate term (24-month view), we believe the U.S. economy will continue to improve, the labour force and wages will get better, and this will translate to higher spending and, as a result, higher revenue growth
- Epoch is well positioned to do well in this environment for two reasons:
    1. Bottom up: The companies we hold have a high degree of operating efficiency and can translate sales into bottom-line profits
    2. Top down: The companies we hold are pro-cyclical and should do well as the economy improves.

A WEALTH PLANNING PERSPECTIVE

CPP & OAS: What to know before you start

WEALTH MATTERS

With so many options and changing circumstances, it can be hard to know when is the right time to start receiving government benefits in retirement. During the Wealth Matters webcast, Jeffrey Smith, Regional Wealth Planner, and Paul Sahota, Regional Wealth Planner at Assante Private Client, a division of CI Private Counsel, discuss the benefits of the Canada Pension Plan (CPP) and Old Age Security (OAS), and what individual's entering retirement should know before putting them into effect.

Eligibility to apply

CPP and Quebec Pension Plan (QPP)	OAS
- Must be at least one month past your 59th birthday - Must have worked in Canada and made at least one valid contribution (or contributed for one full year for QPP) - Must want CPP/QPP benefits to start within 12 months.	- Must be a Canadian citizen at least 65 years old - Must have resided in Canada for at least 10 years since age 18 (if currently living in Canada) - Must have resided in Canada for at least 20 years since age 18 (if residing outside of Canada).

CPP/QPP benefits

- Monthly benefit payment based on your career average of earnings up to a maximum of $1,134 a month (for 2018)
  - Amount is dependent on lifetime contributions and when you opt to receive
- Contributions start at age 18 and receipt begins at 65, but individuals can draw as early as 60 and defer as late as 70
- Surviving spouses are eligible for a portion of the benefits depending on their age and if they are not already receiving benefits
- Can make contributions while working and receiving benefits between age 60 and 70 to increase post-retirement benefits.

Taking CPP/QPP early vs. deferring

- Taking early: Electing to draw before age 65 reduces the benefit by 7.2% per year or 0.6% per month
- Deferring: Deferring to draw after 65 increases the benefit by 8.4% per year or 0.7% per month.

OAS benefits

- Monthly payment increased quarterly in line with the consumer price index for a maximum of $586.66 per month (2018)
- Begins at age 65 and can be deferred until 70, which increases the pension by a factor of 0.6% each month you delay
- Portion of the payment is clawed back if your previous year's net income meets a certain threshold ($75,910 for 2018)
  - Clawback amount equals $0.15 for every dollar your income exceeds the threshold
  - Income threshold is based on your net world income (employment, pension, rental property, dividends etc.).

What to consider before electing to receive benefits

- What are your cash flow needs; do you have enough income or retirement savings to last you and your spouse in retirement?
- What is your current health status, family's longevity and are there any hereditary health problems?
- What is your employment status and will you retire early?
- If taking OAS, will your total net income result in claw back?

Your Assante advisor is available to help

If you have questions about government benefits in retirement, talk to your advisor for assistance.