

2012 Outlook:

Short Term Uncertainty = Long Term Opportunity

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Choose Wisely.

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Near Term Uncertainty / Long Term Opportunity

2012: Macro factors remain in the spotlight

- Europe: the debt crisis being addressed slowly
- North America: extended period of subdued (1%-2%) growth
- China: does a housing “bust” trigger a hard-landing?
- Interest Rates: Central Banks keep them low
- Oil Prices: Middle East instability keeps prices elevated

Europe faces its Lehman Moment

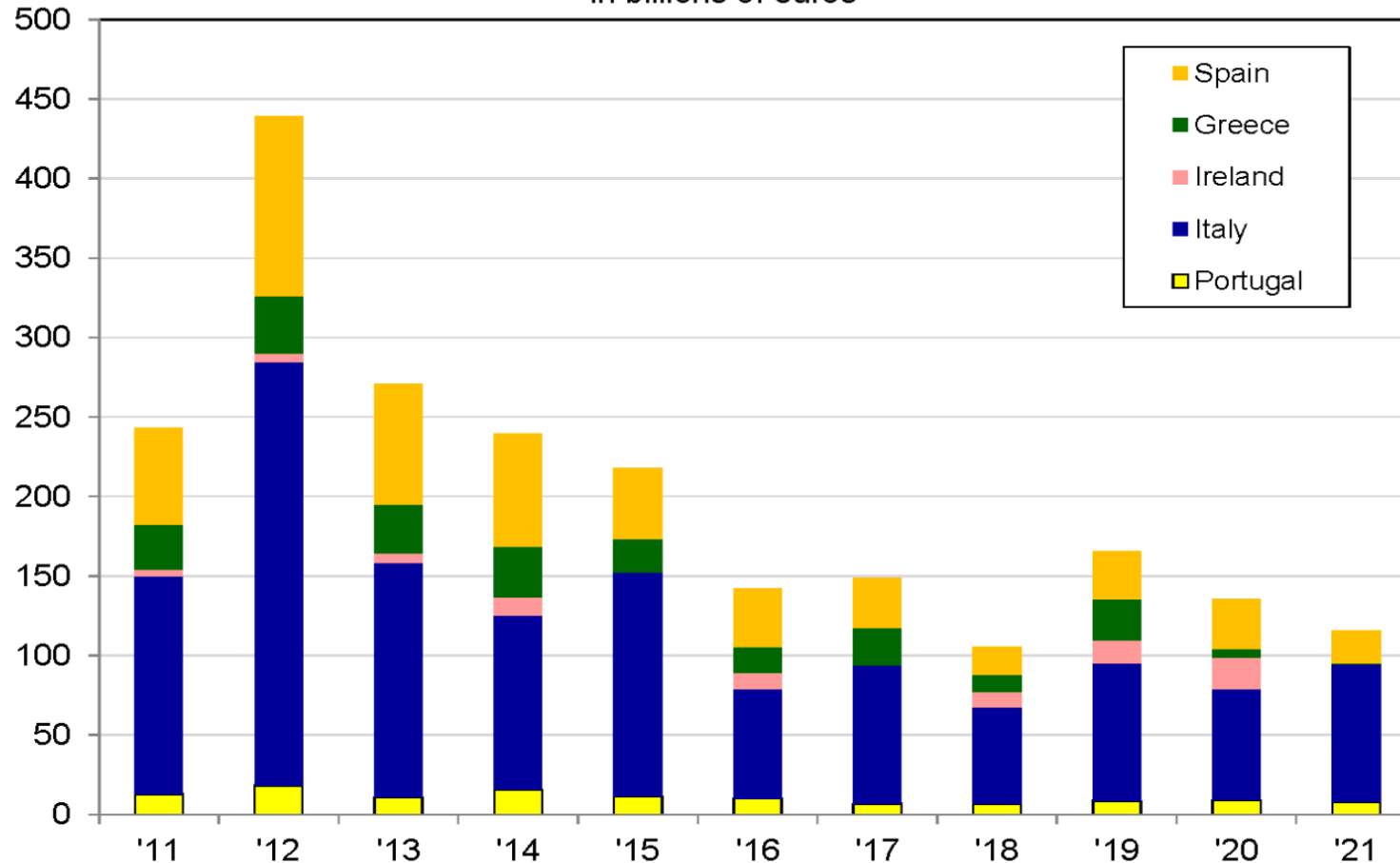
Bank	Leverage Ratio*	Loan Deposit Ratio	Loan Reserve Ratio**
Societe Generale (Soc Gen)	24.5x	110%	54%
BNP Paribas	25.3x	121%	81%
Deutsche Bank	35.8x	72%	33%
JP Morgan	12.8x	66%	244%
Bank of America	10.8x	90%	139%

* Leverage Ratio = Total Assets / Common Equity

** Loan Reserve Ratio = Reserves for Bad Loans / Non-Performing Loans

European Banks Need to be Recapitalized

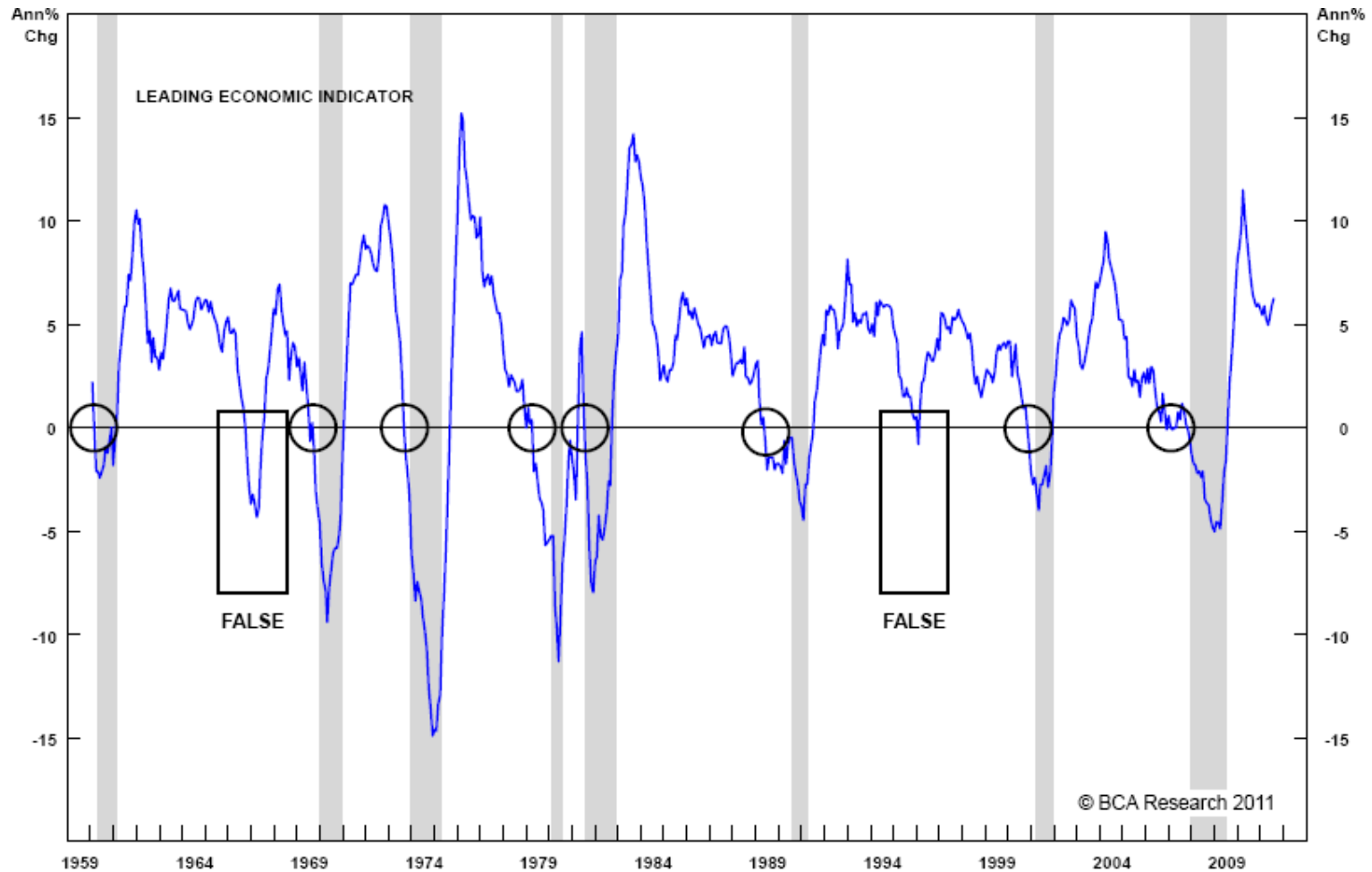
When Sovereign Debt Matures
in billions of euros



Source: ISI

U.S. Leading Indicators Remain Constructive

The LEI Is Not Signaling A Recession, But...

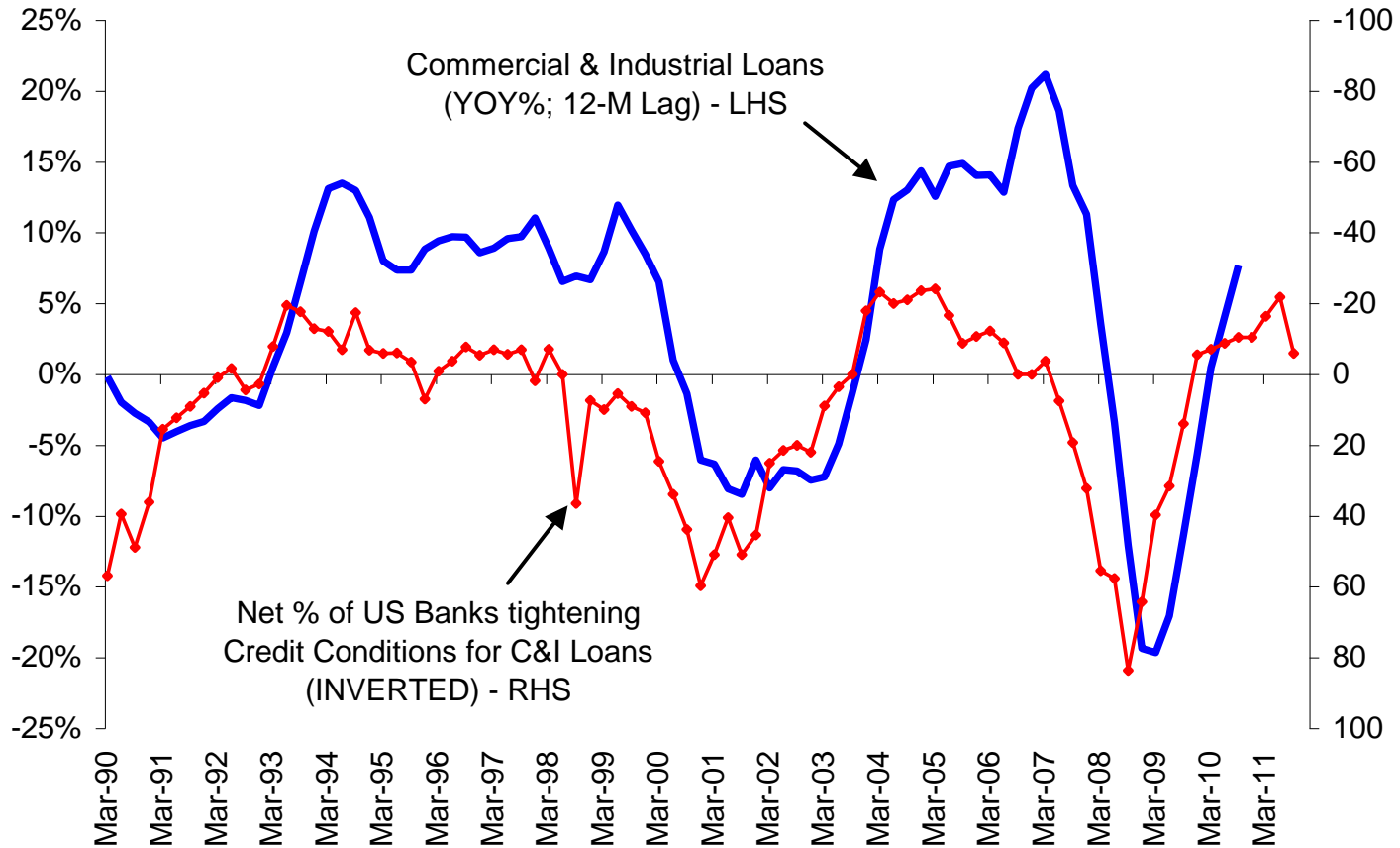


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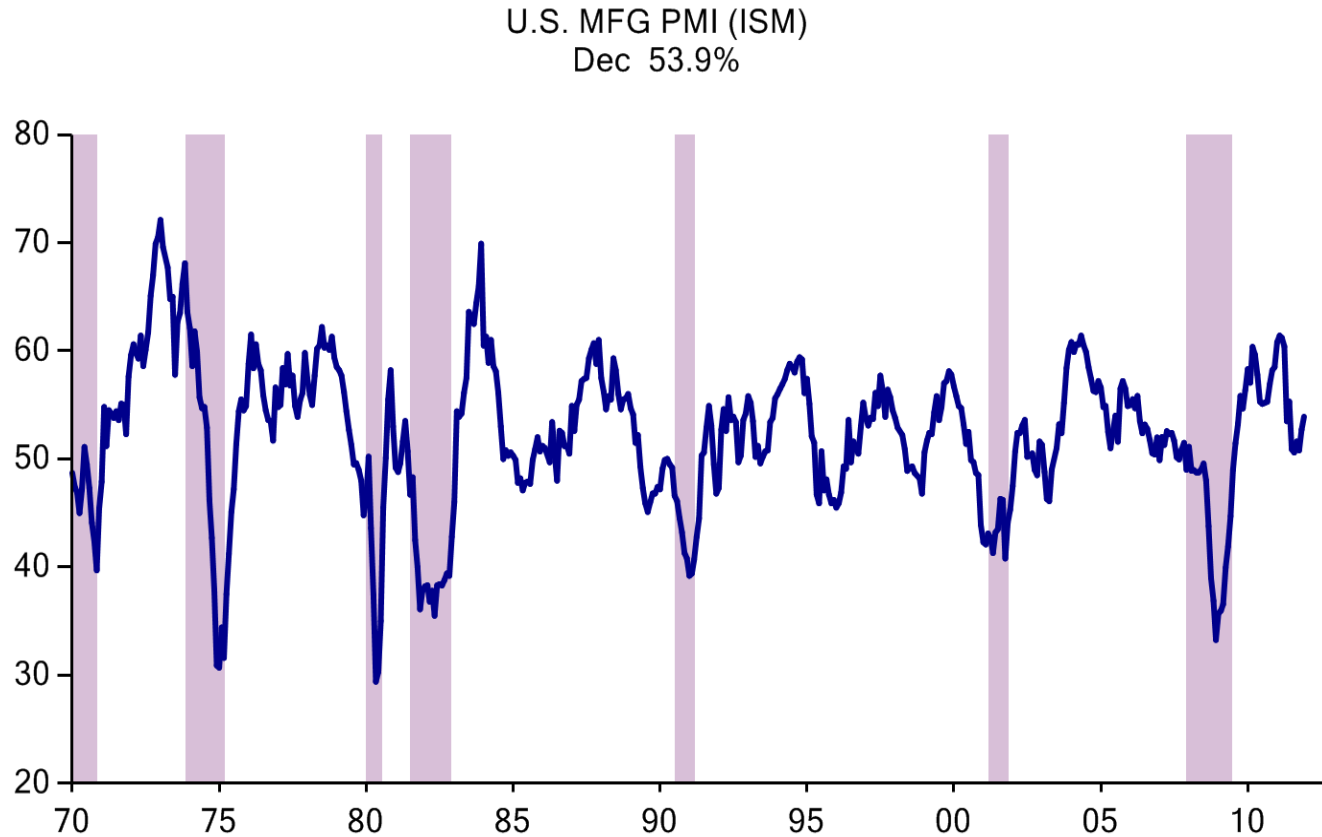
Source: Source: BCA / The Conference Board
Note: Shaded Areas Denote NBER – Designated Periods of Recession

Credit Conditions Favourable to U.S Economy

U.S. Banks Easing Credit Conditions Should Benefit Demand For C&I Loans



Manufacturing: Slowing, but Growing



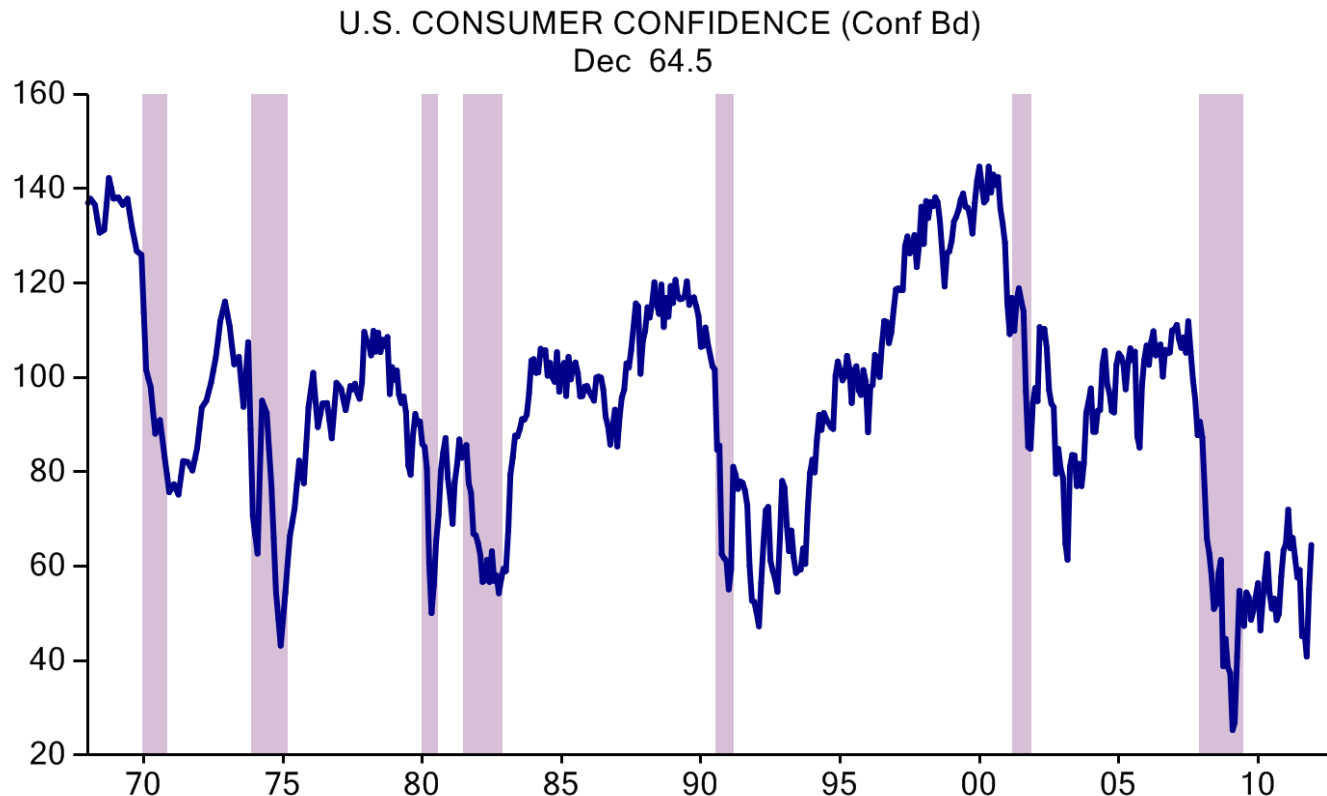
Source: ISI

Small Business Confidence Improving



Source: ISI

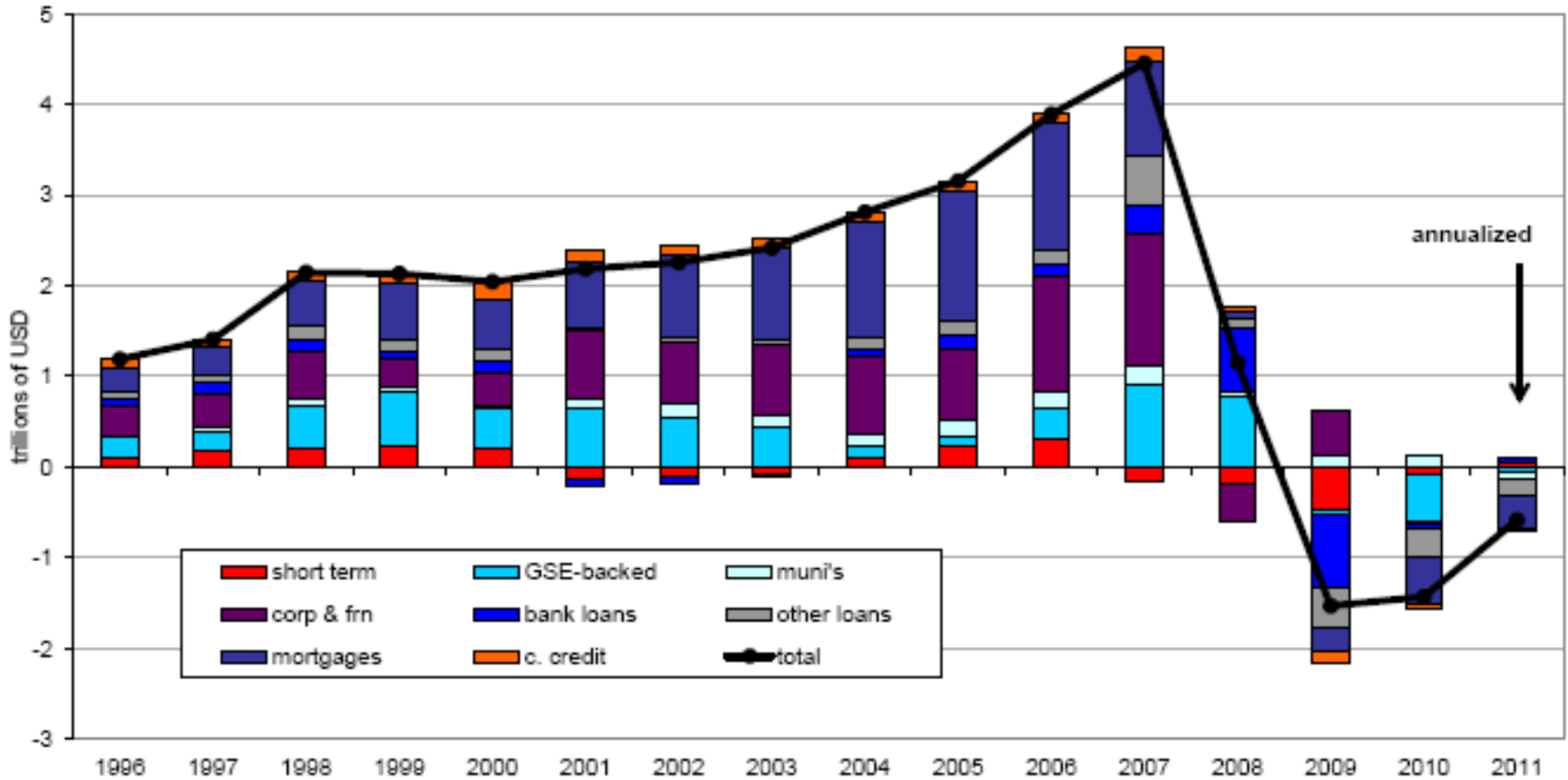
Job Growth Key to Rebuilding Confidence



Source: ISI / Conf Board

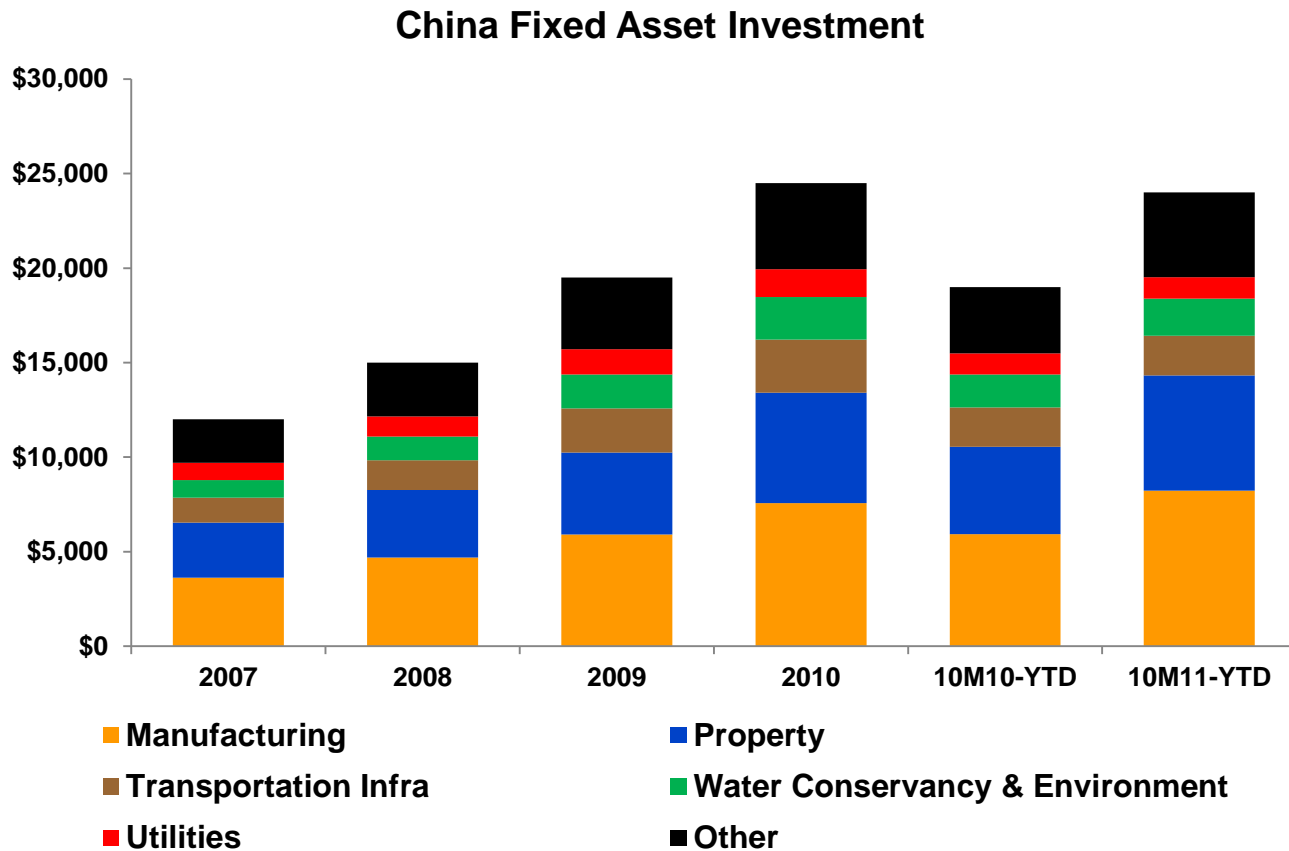
US: Deleveraging Throughout Private Sector

Annual Change in *Total* USD Credit Outstanding for the Private Sector (by instrument)



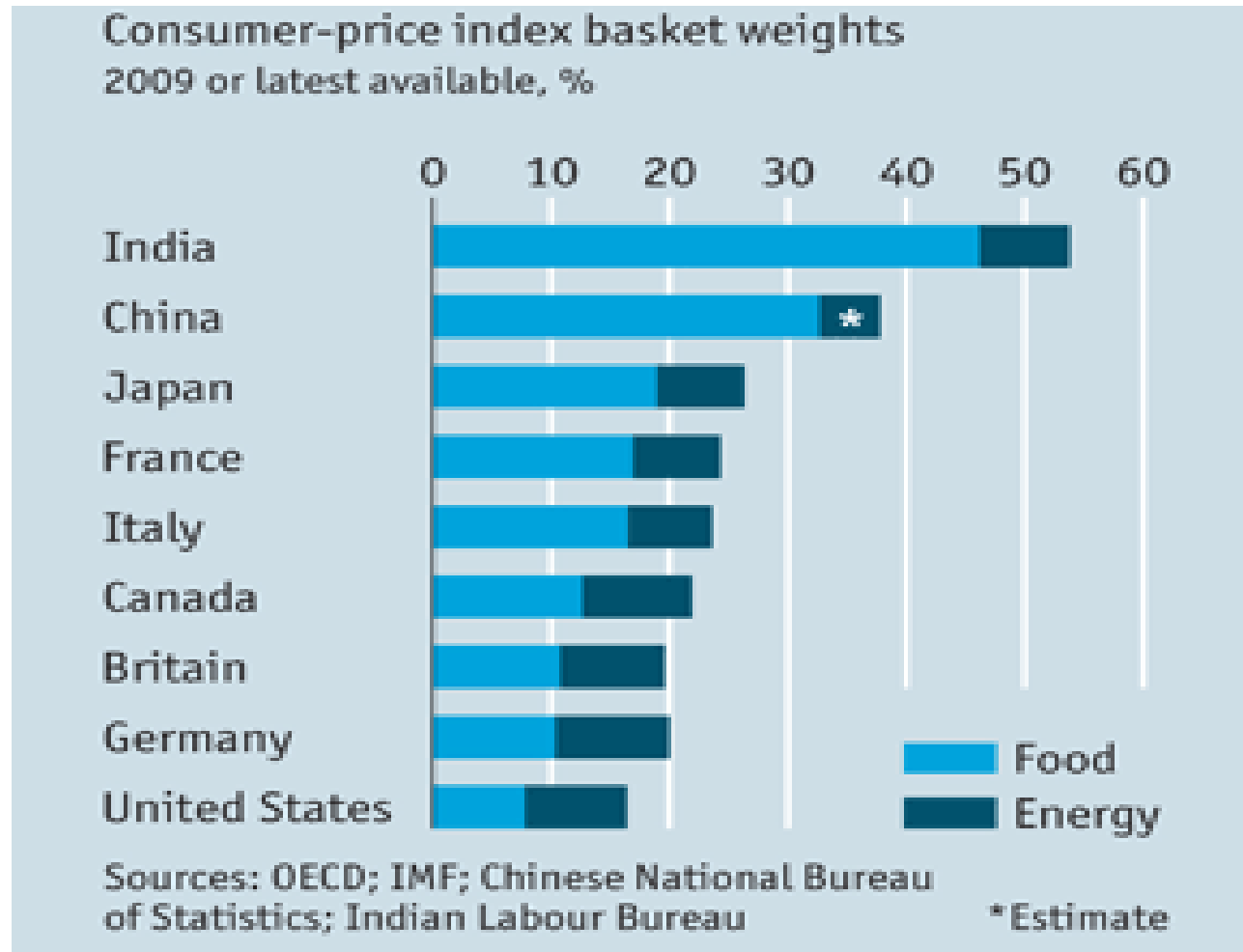
Source: Deutsche Bank / Federal Reserve

Capital Investment In China Likely to Slow

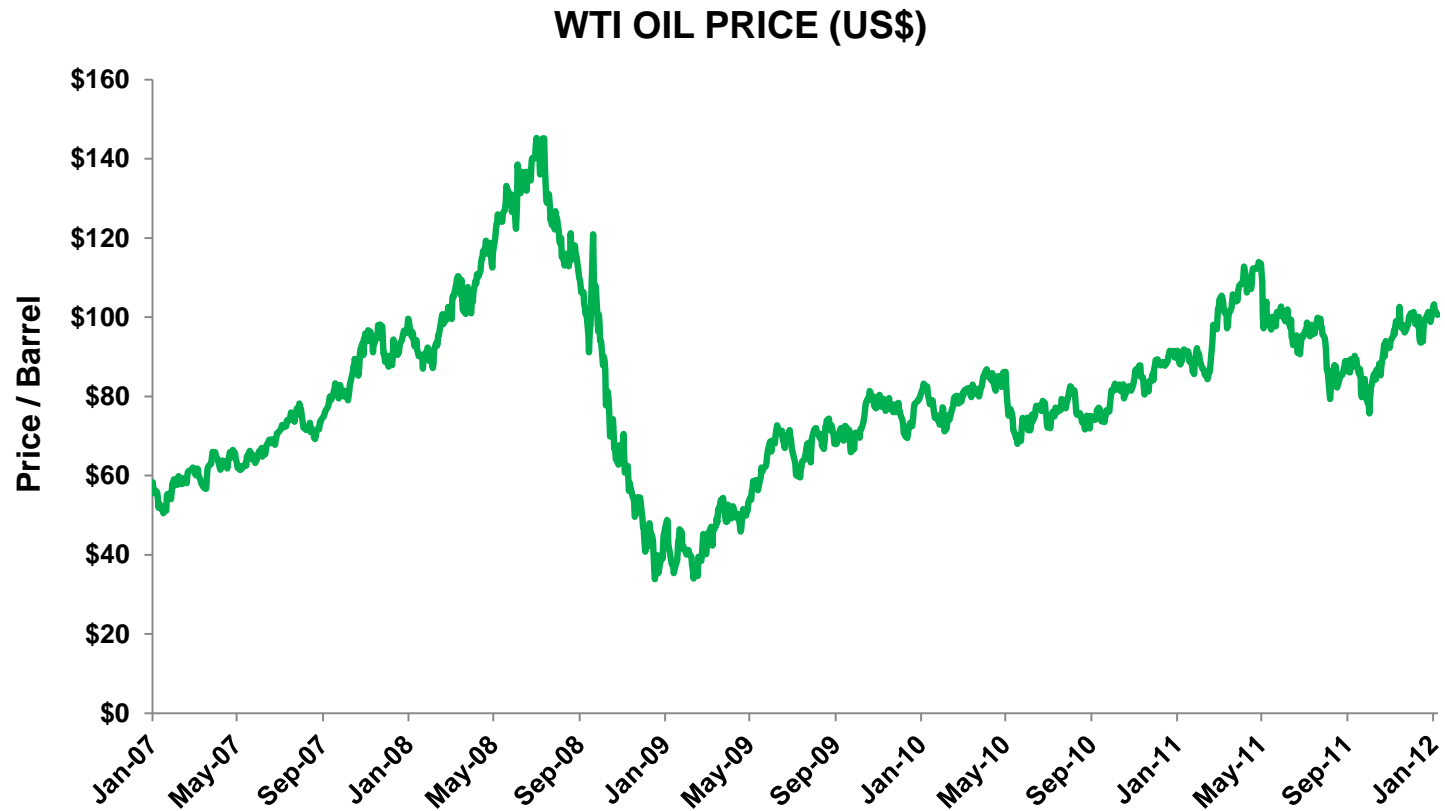


Source: CEIC, J.P. Morgan Research

Falling Food \$ is Crucial to Easing EM Inflation



Middle East Concerns Keeping Oil\$ High



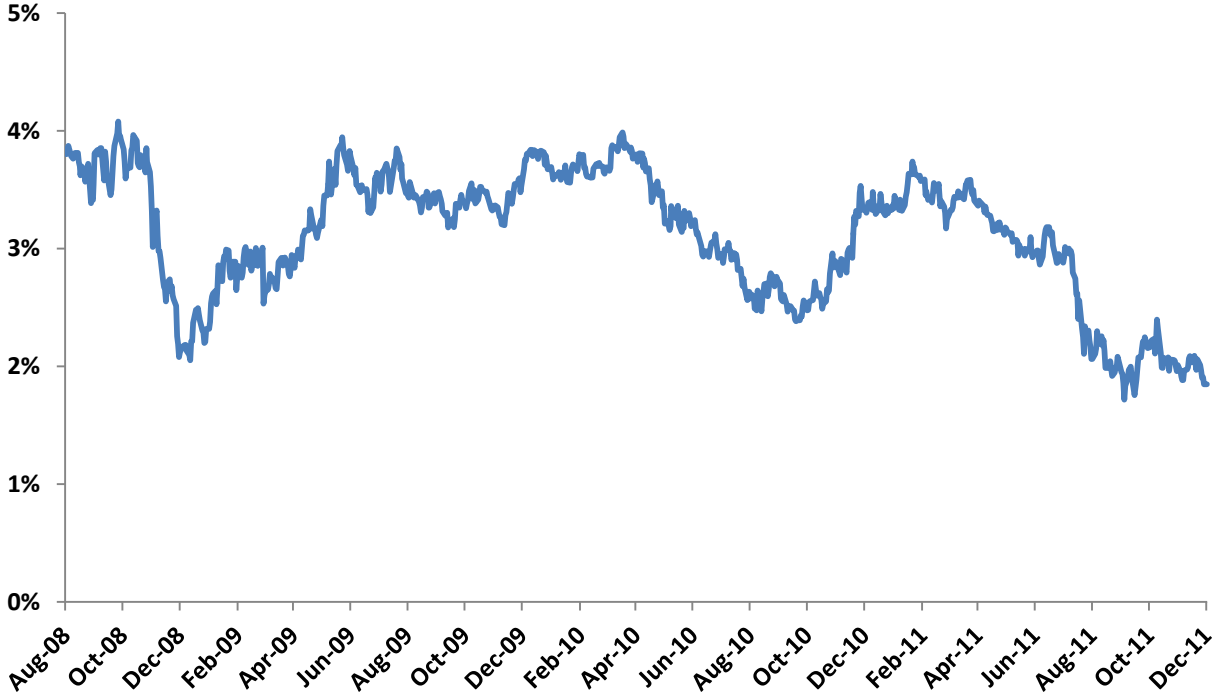
Source: Bloomberg

Key Investment Themes

- *Volatility to Persist*
 - = Hold higher average cash reserves to capitalize on opportunities
 - = Avoid companies with significant debt to be refinanced in 2012
- *Europe Experiencing a Credit Freeze*
 - = Limit exposure to Europe-centric businesses / avoid financials
- *Interest Rates to Stay Lower for Longer*
 - = Avoid sectors that are penalized by low interest rates
 - = Avoid companies with large defined benefit pension plan deficits
- *Emphasize Pricing Power*
 - = Avoid regulated utilities where allowed returns likely to be cut
- *Look for Areas of Secular Demand Growth*
 - = Favour sectors like healthcare and agricultural chemicals

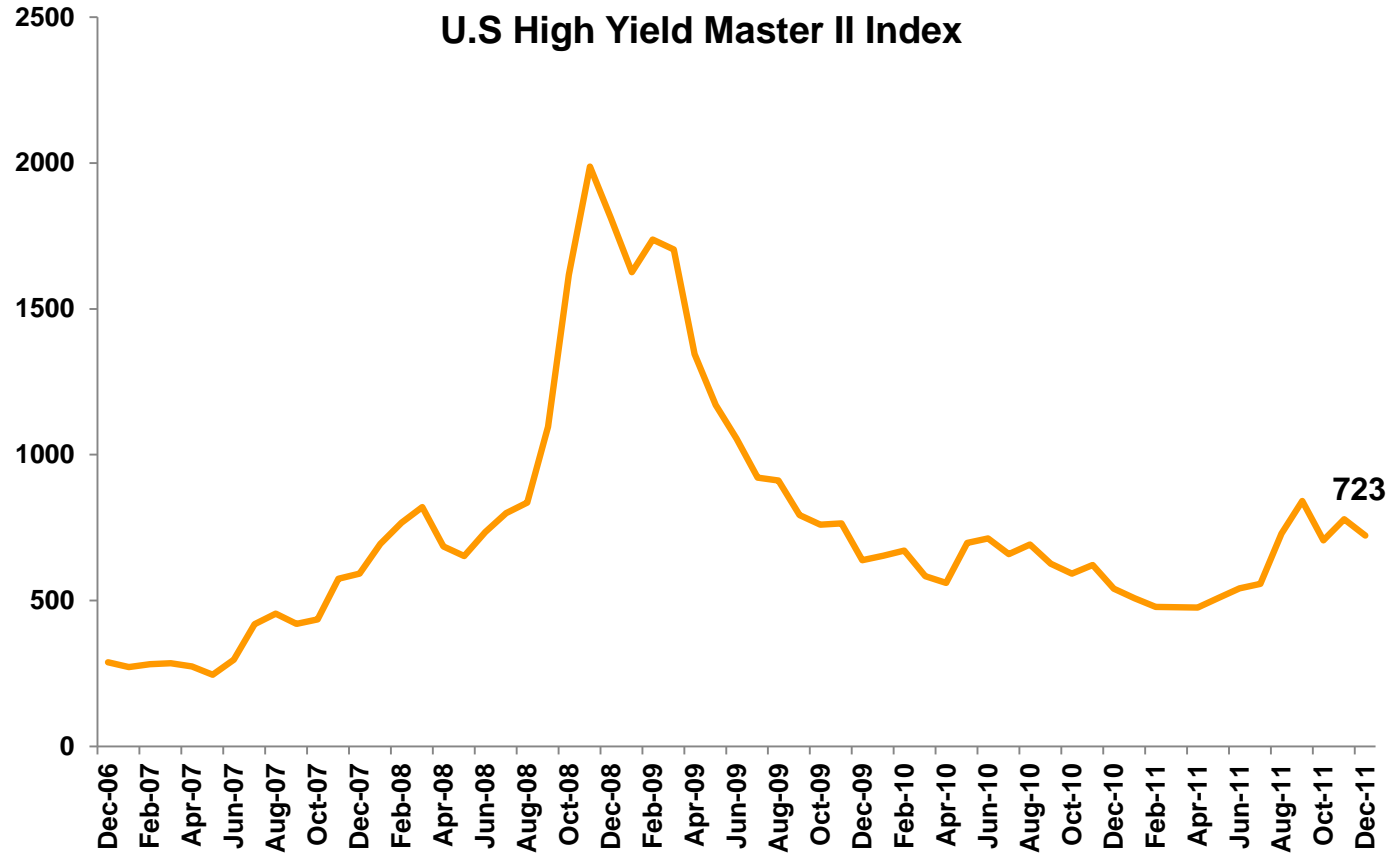
Operation "Twist" Drives Down Long Term Rates

U.S 10-Year Treasury Bond Yield



Source: Bloomberg (@ Dec 16, 2011)

Corporate Bonds: Yield Premium Attractive



Source: Bloomberg

S&P/TSX Valuation Attractive At Current Levels



Source: Bloomberg (@ Dec 16, 2011)

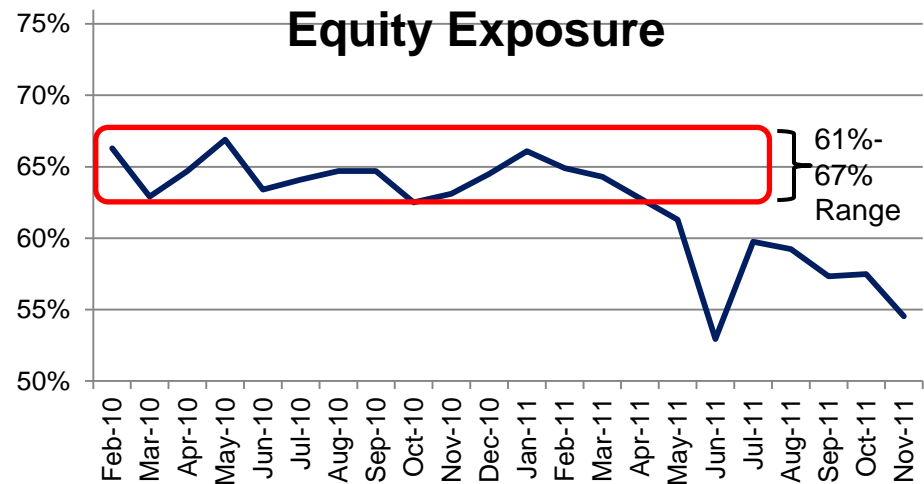
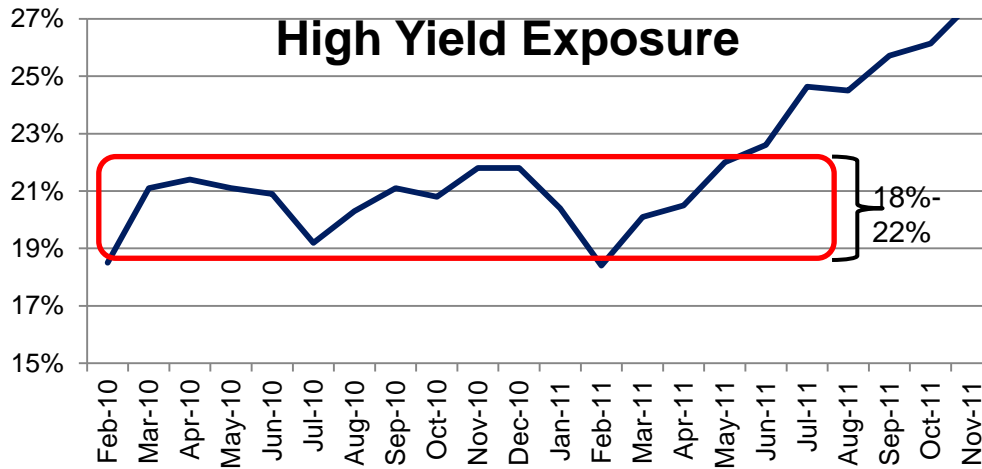
Stocks: an attractive Income Alternative

<u>Country</u>	<u>Canada</u>	<u>U.S</u>
Current Equity Market Yield	2.8%	2.1%
Historical Dividend Growth*	<u>5.1%</u>	<u>4.5%</u>
Forecast Equity Return	7.9%	6.6%
<i>versus:</i>		
10 Yr Government Bond Yield	2.2%	2.1%

*Sept1988 – Dec 2011

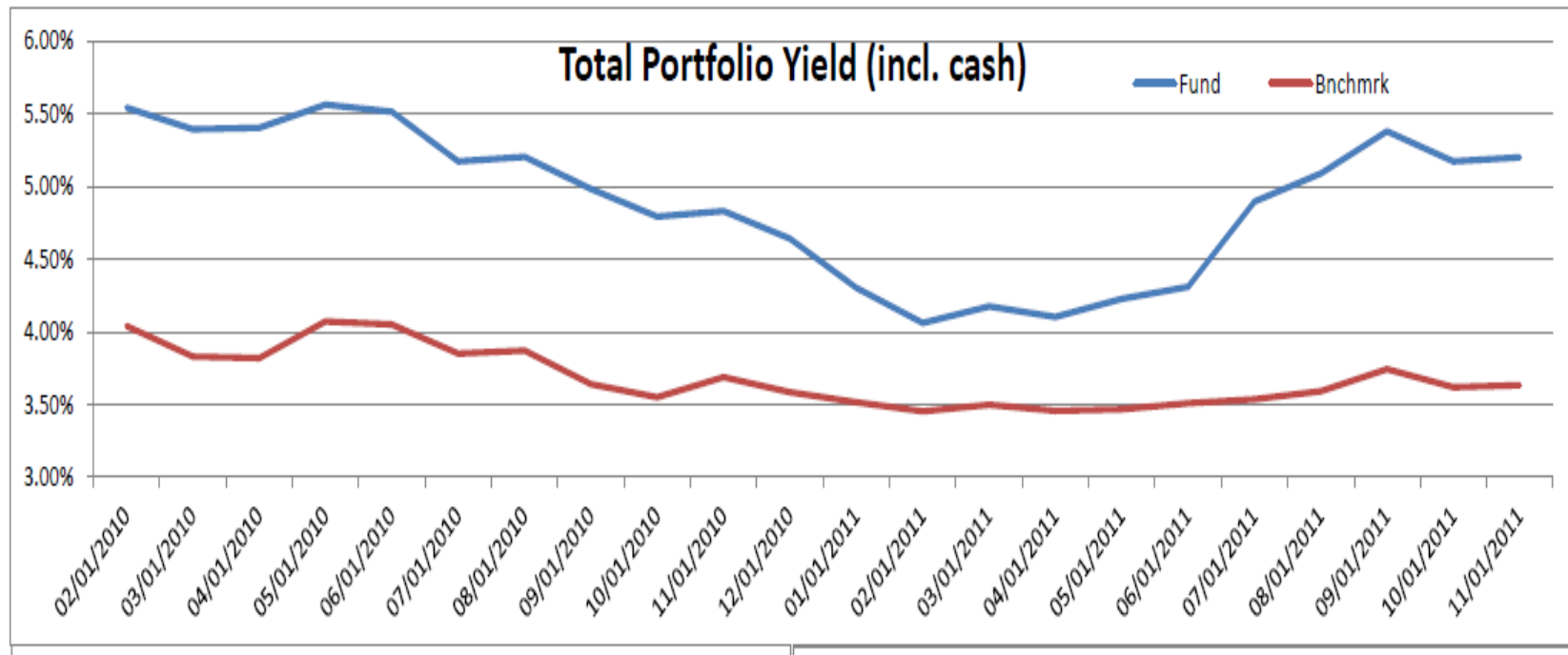
@ Nov 30, 2011

Strategic Income: Actively Managing the Asset Mix

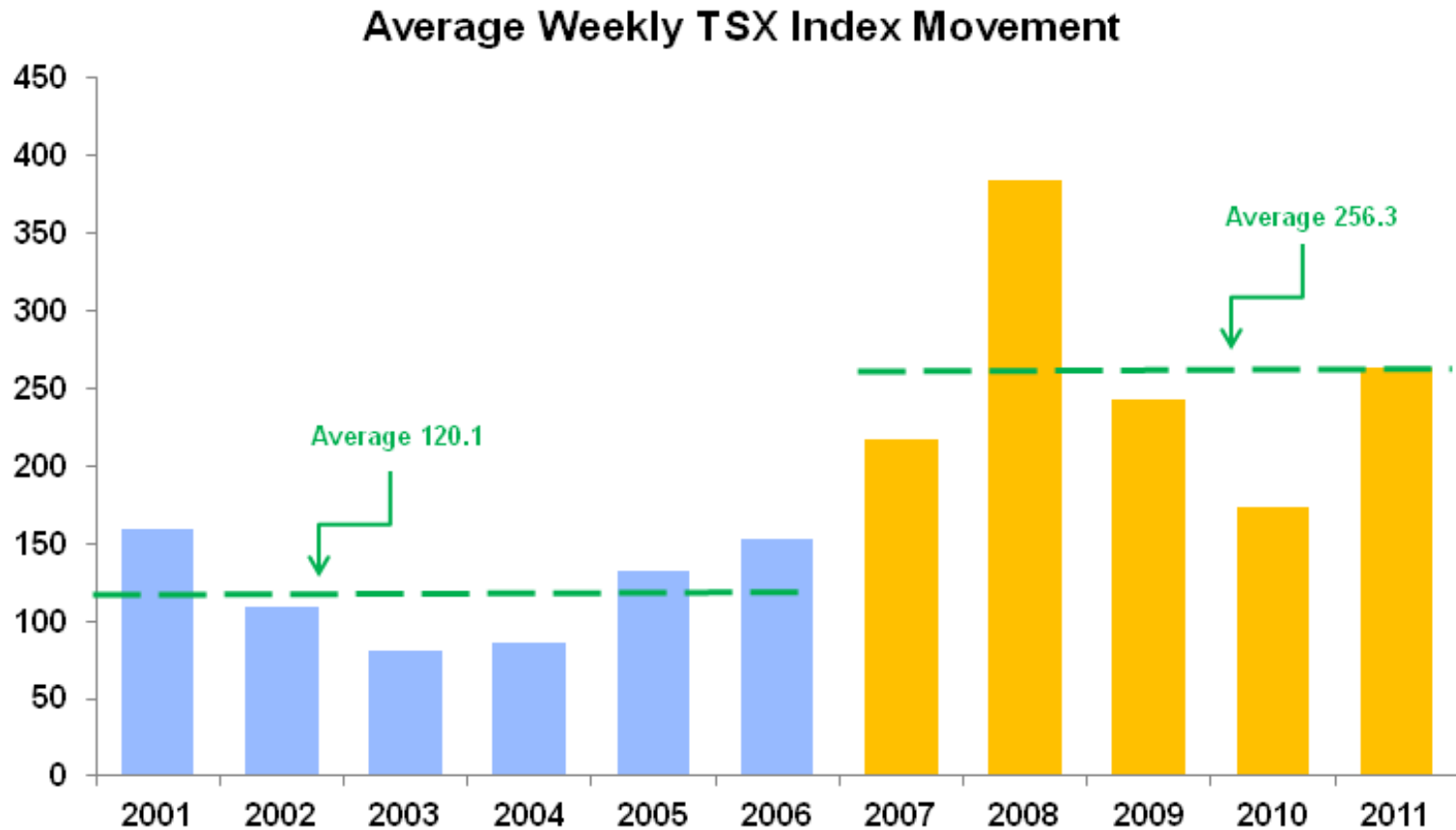


Strategic Income

Portfolio Yield Increased



Market Volatility Has Risen to a New Plateau



Strategic Income: Volatility Yields Opportunities

Parameter	@ May 31st		@ October 31st	
	TSX	Strategic Income	TSX	Strategic Income
Yield (%)	2.43%	3.91%	2.85%	4.61%
P/E (2011)	15.15x	15.37x	14.26x	13.59x
P/E (2012)	13.04x	14.14x	11.97x	12.51x
P/Book	2.14x	1.99x	1.85x	1.97x
ROE (2011)	14.2%	13.0%	13.0%	14.5%
Forecast EPS Growth	16.2%	8.7%	19.1%	8.7%
Forecast EPSg (x-res)	12.2%	6.3%	12.4%	8.6%

Strategic Income: Equity Portfolio Positioning

	May 31 2011	Dec 31 2011	S&P/TSX (Dec 31)
Consumer Related	8.4%	13.9%	8.2%
Discretionary	4.2%	7.1%	4.0%
Staples	0.0%	0.0%	2.8%
Health Care	4.2%	6.7%	1.4%
Industrial	13.2%	6.9%	7.1%
Industrials	13.2%	6.9%	5.8%
Technology	0.0%	0.0%	1.3%
Interest Sensitive	47.1%	40.0%	36.6%
Financial Services	27.9%	26.5%	29.4%
Telecom	8.9%	9.8%	5.2%
Utilities	10.3%	3.6%	2.0%
Commodities	30.2%	33.8%	49.3%
Energy	28.7%	28.4%	27.1%
Materials	1.5%	5.3%	21.1%
Cash	1.2%	5.4%	
Domestic	77.3%	66.2%	
Foreign: U.S	21.5%	27.0%	
Foreign: non-U.S		1.4%	
# of Positions	57	55	

Why Income Funds Now?

Dividend Stocks:

- Equity valuations attractive versus bonds and cash
- Lower risk participation in long-term equity growth

Corporate Bonds:

- Premium yields = competitive total return prospects
- Corporate credit quality steadily improving

Corporate Class: offers superior after-tax returns

Short-Term Uncertainty = Long-Term Opportunity

- Economic growth should be modest
 - US\$ headwind + higher taxes + weak overseas demand
- We continue to like equities
 - Balance sheets are strong and valuations attractive
 - Boost from M&A activity and strong dividend growth
- We favour corporate bonds within fixed-income
 - Benefit of yield premium and improving credit quality
 - Favour cash over government bonds for “defense”
- Elevated volatility = challenge & opportunity
 - Remain focused on our goal of creating wealth

Questions ?