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Scotia Capital Restriction -- Canada BCE Inc.

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Executive Summary

2007 Spring Outlook

Stewart Hunt — Managing Director, Portfolio Advisory Group

At a recent seminar I attended, Dr Jeremy Siegel, Russell E. Palmer Professor of Finance, Wharton School of Business, University of Pennsylvania, noted the current difference between the average age of retirement to average life expectance for Americans is 15.4 years. He predicts this period will narrow based on current demographics to 11.0 years by the year 2030. Dr Siegel cites the narrowing of this gap will occur, not from a reduction of life expectancy but more from the population working longer, either by desire or need. He also notes that in Canada and the United States the current worker to retiree ratio is 7 to 1. Based on the current population mix in 2030, this number will change to 2 workers for every retiree. As a result, Dr Siegel raised the question who will be buying the assets when the baby boomers retire? While this could raise obvious concern about asset valuations as the number of wage earning consumers drops, he feels the globalization of the world will bring a new consumer to North America to support asset values. With Canada and the U.S. having a positive history of supporting immigration, the two countries look to be well positioned for the demographic transition they will face in the next 20 years.

In the Spring Edition of Investment Portfolio Quarterly (IPQ) we have focused our attention on retirement, preparing for and managing in that life stage. We see this as very topical as the first of the baby boomers will reach age 65 in 2010. Our feature article by Barry LaValley, Special Advisor to the Scotiabank Group, highlights the redefinition of retirement as the baby boomers begin their lifestyle transition. From a portfolio and investment perspective we provide some thoughts on lifestyle asset allocation, preparing for and dealing with economic cycles and managing your investments pre-retirement and within retirement. In conclusion, we provide our readers with an overview of the Canadian equity and income trust market and a review of our flagship guided portfolios.

We hope you will enjoy reading the Spring 2007 Edition of IPQ and our investment ideas on pre-retirement and retirement. If you require further information, or wish to discuss further the thoughts and ideas that we have shared, please feel free to contact your ScotiaMcLeod Advisor.

Redefining Retirement

Barry LaValley — Special Advisor to the Scotiabank Group

Making realistic plans for your next stage of life

Like many boomers, Yves and Marianne* have recently been thinking about retirement. Next year Yves turns 60 with a full pension from his job as a manufacturing executive. Marianne has run a successful retail business and has received an offer to sell.

Financial security isn't likely to be an issue and on the surface, Yves and Marianne appear ready to retire. It seems all that's left is a financial plan that will help them make their money work for their life goals. And that's the issue: they have a clear picture of what they are retiring FROM, but are less clear on what they are retiring TO.

The challenge is that they aren't even sure if they want to retire. Neither of them likes the concept of withdrawing from active work and aren't sure how long they could go without doing something to keep them engaged.

Redefining retirement

The concept of retirement has traditionally meant "not working". A significant number of boomers may continue to work in some manner well into their 60s. Many are treating retirement as more of a transition, as a beginning. That will influence how clients and their advisors plan for the future, looking at personal priorities as a bridge to financial decisions. Many boomers thought retirement was only about financial planning. Since they're not even certain they'll retire in the traditional sense, they want to take a fresh look at what they're actually planning for.

Changing the planning process

A typical plan used to centre on accumulating money. Now, many boomers are entering the transition without a clear picture of what their future might look like and enlightened financial advisors are spending more time helping them clarify their vision for the future first. This starts with gaining an understanding of the basic life issues that will face their clients regardless of whether work is involved or not: advisors help clients understand the financial implications of their life decisions.

Visualizing the transition

Yves and Marianne were due to meet with their advisor for their annual review. Recognizing they were struggling with the retirement decision and needed a catalyst to get them thinking, the advisor emailed them the self-administered ScotiaMcLeod Retirement Readiness Assessment tool they each completed in less than 15 minutes.

In their meeting, they were able to review the Transition Profile that the Readiness Assessment generated. They were pleased to find their advisor wanted to help them come to some conclusions about changes in their lifestyle that the tool had generated.

Based on their advisor's advice, Yves and Marianne completed the exercises in the ScotiaMcLeod Visualizer Workbook and reviewed the seven components of a successful retirement:

1. **Do you have a clear view of what you want your life to look like?** While it is impossible to anticipate everything, it's important to clarify exactly how you envision your life.
2. **Are you paying attention to the principles of healthy aging?** You will naturally be faced with health challenges and issues. Your overall mental outlook is probably even more important than your physical health.

3. **Is your life full of sustaining and supportive relationships in both your family and your social circle?** A key to a happy life will be the quality of your relationships through good times and bad.
4. **Will work continue to be part of your picture?** Your transition is an opportunity to do things that make you feel good. Work may well play a key part.
5. **Do you have a balanced approach to leisure?** Activities can range from spectator appreciation to solitary contemplation. Variety will be important.
6. **Have you considered the changes that might affect where you live?** You may want to relocate closer to family or to a retirement community in the sun. What changes might change to cause you to move?
7. **Have you created a sense of financial comfort?** Financial comfort means knowing what you have and that you aren't worried about what your money is doing. Are your changing life needs being met by your resources and does your financial plan reflect them?

Lifestyle implications for your financial plan

Once Yves and Marianne had looked at the seven components, they were in a better position to make decisions on whether to retire or not, and how. They have chosen to reassess where they are in their lives and what they really want. They have decided to look at all aspects of their life to ensure they share a common vision. Neither want to leave work completely but their priority will become finding ways they can balance leisure with workplace responsibilities.

For Yves, that will likely mean taking his retirement package, consulting with the same company and setting his own hours. Marianne has decided to hire a manager to run her business, but will keep a hand in the overall operation.

Both Yves and Marianne agree that their advisor has made financial planning a lot easier and fulfilling. They were planning for the wrong thing—life without work. Now they have a more realistic financial plan that reflects that they aren't retiring but merely readjusting the way they want to live their lives.

To find out more about the ScotiaMcLeod Readiness Assessment and Visualizer Workbook, talk to your Advisor about our Transition into Retirement Program.

Barry LaValley is President of the Retirement Lifestyle Centre, a research and education organization focused on today's "new retirement". He works as a special life goal planning advisor to the Scotiabank Group.

*Yves and Marianne are pseudonyms representing a typical scenario.

Asset Allocation

Balancing Lifestyle with Lifecycle Asset Allocation

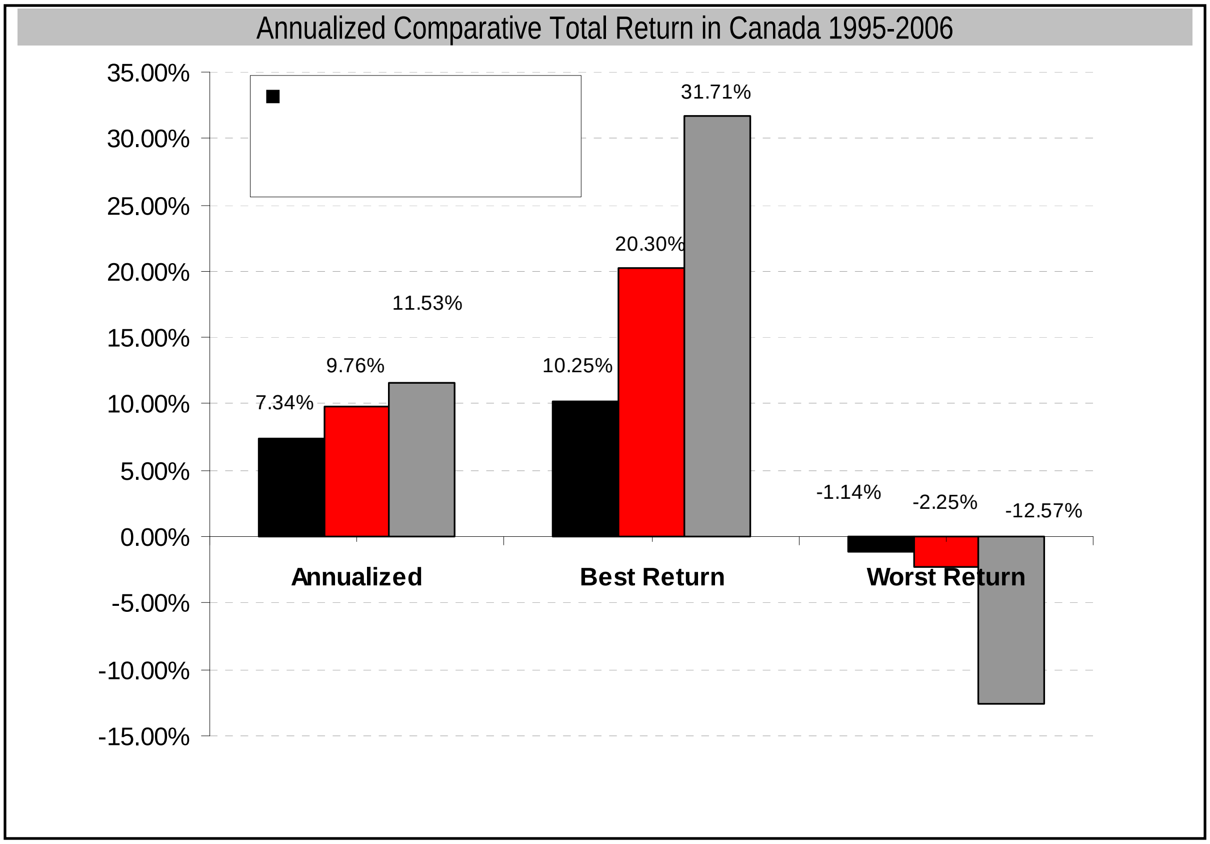
Chris Kennedy, CFA — Associate, Portfolio Advisory Group

As highlighted in our feature article from Barry LaValley, the way Canadians are thinking about retirement is changing. Just as we are no longer seeing retirement as a move to a 30-year weekend, nor should our financial objective be constrained to a single goal: build a massive nest egg to become completely dependant upon as soon as the lights in the office go out and the sunlight of retirement begins. Financial goals should be much more dynamic, and built to compliment your lifestyle goals during the many years of retirement. Your lifestyle may actually change many times during this stage in life. Perhaps there will be consulting work, providing additional streams of income or perhaps there will be big-ticket expenditures, that although weren't originally in the plan, have been pushed to the forefront due to a sudden health scare or change of life realization. The length of our retirement years has also been increasing over past generations. The retirement years can make up the single longest stage in ones life, with the potential to last 30 years or more. This increased length of time inherently changes what you need your portfolio to do for you and for how long you need it to do so. When planning for your retirement, you need to take into consideration many factors including your age, your financial status, future plans and needs.

ScotiaMcLeod believes that a key component in planning for retirement is to take the time to reflect and think about the life you want to lead, before deciding how to position your financial portfolio. However this advice is not just for retirement, but should be followed at the many other stages of your life where there is significant change. These major stages will usually have an affect on your risk/return profile and therefore they will change how your portfolio should be designed. An example may be having your first child or buying your first home. Another would be the same child, or children, becoming old enough to no longer require your financial support. At each of these stages, it is likely your financial needs will change, as will your ability or desire to take on risk.

Therefore, once you decide the lifestyle you want to lead, you should also be thinking about how your financial plan fits with either your stage of life or your risk/return profile. In this article we provide guidelines that focus on asset allocation techniques to help match up your financial plan to your desired lifestyle.

Asset allocation is the decision to invest in different types of financial assets such as equity, fixed income, or real estate, to differentiate the way your portfolio will look and act. We stress the importance of asset allocation, as the proportion of your money allocated to each of these asset classes will have a substantial impact on your portfolio returns. In fact, asset allocation is one of the most important determining factors of not only your portfolio's level of returns, but also the volatility of these returns. Why is this? The reason is the concept of diversification. By not placing all of your financial eggs in one asset basket, you spread out the return factors, and also reduce the potential for loss in your portfolio. For example, on the following page is a chart that plots returns since 1995 of three separate portfolios using different asset allocation strategies. The first is 100% Fixed Income (Scotia Capital Universe Bond Index), the second a 50% Fixed Income, 50% Equity mix and the third, 100% equity (S&P/TSX Composite). As can be seen, the 100% equity portfolio has out performed the 100% Fixed Income portfolio on an annualized basis. However, the 100% equity portfolio hasn't done so without the addition of risk, and therefore increased frequency of losses which is illustrated by the "best return" and "worst return" chart. However, the blended portfolio has generated significant returns comparable to the 100% equity portfolio, but at a fraction of the volatility.



Although the importance of holding different types of assets is clear, how do we decide what percentage of assets to buy? There are generally three schools of thought on asset allocation:

- Life Cycle/Time Horizon Model
- Client Risk Profile Model
- Market Driven (strategic long term and tactical short term).

In general, each of the asset allocation models is based on the assumption that over time, Equity investment (stocks) will outperform the return on Fixed Income investments, but will also have higher volatility and risk of loss, as seen in the chart above.

Life Cycle/Time Horizon Approach

The majority of an investor's needs and abilities can be based on assumptions about certain periods in an investor's life, and then generating financial allocations to match those needs. We can separate an investor's life into four specific stages– Accumulation, Consolidation, Spending and Gifting. Below are the relevant details of each grouping.

Accumulation

This stage represents an investor's early to middle working years. Needs are represented by short term goals and long term growth.

- Approximate age: 25-35
- Ability to take risk: high
- Time horizon: extremely long
- Life factors/Portfolio needs:
  - Growing earnings capacity
  - Paying off education loans
  - Potentially saving for purchase of a home

Portfolio composition: High % weighing to equities (100 minus your age is industry rule of thumb), small amount should be in bonds, and small amount in cash for opportunities/emergencies.

Consolidation

This stage begins around the midpoint of an investor's working life. While growth is still important, protection of assets that have been accumulated must be considered.

- Approximate age: 36-55
- Ability to take risk: moderate to high
- Time horizon: long
- Life factors/Portfolio needs:
  - Portfolio is of reasonable size
  - Earnings may exceed current needs
  - Education for children is a possibility

Portfolio composition: Majority remains in equity, as some risk can be taken over the long time horizon remaining. Slightly larger allocation to bonds to protect assets. Cash weighting remains for opportunities/emergencies.

Spending

This stage usually begins with the traditional retirement from one's major source of income. Protection of assets is key, and a higher level of income is usually required from the portfolio.

- Approximate age: 56-70
- Ability to take risk: low
- Time horizon: moderate
- Life factors/Portfolio needs:
  - Dependants usually gone/ low or no mortgage
  - Income may exceed lifestyle needs
  - Protection of assets is key

Portfolio composition: Shift to principal protection – increase bond weighting. Inflation is a larger concern however, equity weighting can increase return to offset. Cash weighting remains for opportunities/emergencies.

Gifting

Similar to, and can overlap with, the Spending stage. Thoughts of estate planning should be completed by this time. Needs are low, and preservation of wealth, while minimizing tax should be of concern.

- Approximate age: 71-85
- Ability to take risk: very low
- Time Horizon: short to moderate
- Life factors/Portfolio needs:
  - Portfolio may be sole source of income
  - Protection of wealth main concern
  - Tax minimization is key concern

Portfolio composition: Principal protection is high priority. Majority of portfolio usually shifted to bonds. Inflation and tax considerations are a concern when attempting to preserve purchasing power of withdrawals. Cash weighting increases for possible emergencies for liquidity.

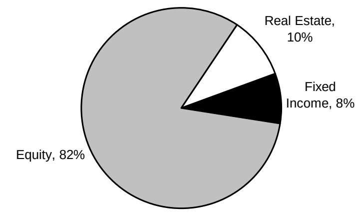
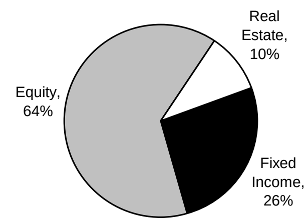
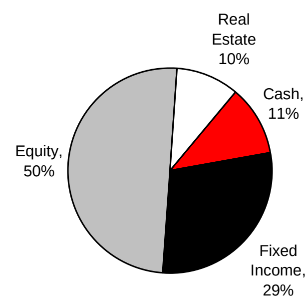
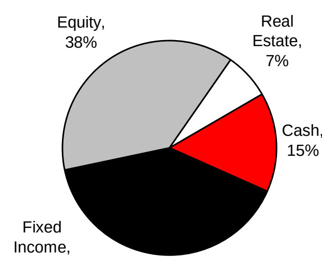
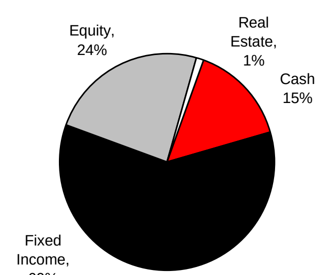
Client Risk Profile Model

The life cycle model is a broad guideline to help give investors structure and ideas of investment mix at any point in their life cycle. However, just as investors don't fit into the age old "retirement" mold anymore, nor should we believe that investors always fit into a specific Life Cycle mold that dictates their investment decisions. Therefore the most important asset allocation model is one based upon an investor's specific risk/return profile, irrespective of their life cycle. For instance, there may be an elderly client that will assume large amounts of risk due to the size of their portfolio or their knowledge of the markets. Conversely, there are some investors with 30-40 years of potential working years remaining with a very low willingness to take risk and invest only in low volatility securities.

This model is based upon a client risk assessment and should be conducted with your Investment Advisor. In doing so, both of you will have a better understanding of your current and future financial goals and constraints. From this discussion, a risk profile can be developed to help decide what assets are best for your portfolio. This risk profile can also overlay and compliment the Life Cycle asset approximations. ScotiaMcLeod currently employs our proprietary "Best Mix" asset allocation tool. Best Mix can provide guidance on what combination of the various asset classes is most efficient for achieving an individual's goals. This knowledge can then support the creation of an Asset Allocation model within an Investment Policy Statement and the remaining steps required to construct a portfolio and implement plans for review and rebalancing.

Summarized in the table on the following page are ScotiaMcLeod's Best Mix categories, blended with the Life Cycle stage that most commonly is represented by each risk/return level.

Scotia Capital Asset Mix – Spring 2007

Life Cycle Equivalent	Typical Risk Assessment	Asset Mix (BestMix) Asset	Percentage	Sample Portfolio
Accumulation	**Maximum Growth**	Cash	0%	
	Investment Objective: To generate maximum long-term capital growth	Fixed Income	0-25%	
	Description of Asset Mix: Heavily weighted in equities	Equity	15-100%	
	Expected Risk: Very high volatility, will likely have negative returns within a 4 year horizon	Real Estate	5-10%	
Accumulation/ Consolidation	**Moderate Growth**	Cash	0-15%	
	Investment Objective: To generate primarily capital growth, with capital preservation being secondary	Fixed Income	0-40%	
	Description of Asset Mix: Heavily weighted in equities compared to fixed income securities	Equity	10-90%	
	Expected Risk: High volatility, will likely have negative returns within a 4 year horizon	Real Estate	5-10%	
Accumulation/ Consolidation	**Growth and Income (Balanced)**	Cash	0-15%	
	Investment Objective: To generate both capital growth and moderate income. Some income is required from portfolio, but a portion may be reinvested.	Fixed Income	5-40%	
	Description of Asset Mix: More heavily weighted in equities compared to fixed income.	Equity	10-65%	
	Expected Risk: Medium volatilty, will likely have some negative returns within a 5 year horizon	Real Estate	5-10%	
Spending	**Income**	Cash	0-15%	
	Investment Objective: To generate current income and preserve capital	Fixed Income	5-60%	
	Description of Asset Mix: More heavily weighted in cash and fixed income securities than equities	Equity	5-55%	
	Expected Risk: Low to medium volatility, will likely have negative returns within a 6 year horizon	Real Estate	0-10%	
Gifting	**Capital Preservation**	Cash	0-15%	
	Investment Objective: To preserve capital and generate *some* current income	Fixed Income	0-95%	
	Description of Asset Mix: Weighted heavily in cash and Fixed Income, with limited equities	Equity	0-35%	
	Expected Risk: Low volatility, will likely have positive returns each year	Real Estate	0-10%	

Source: Scotia Capital.

As illustrated, the Client Risk Profile Model has five major strategies for clients given their respective risk/return profiles, and recommends target percentage asset allocation ranges. This information should be a natural progression from creating a client Investment Policy Statement that outlines investment objectives, risk tolerance, and investment constraints.

However, how do you determine the appropriate allocation within these ranges at any given point in time? The third aspect of asset allocation is much more active, called *Tactical Asset Allocation*. Tactical Asset Allocation is market driven; in which portfolio managers recommend shifting products or percentages, either between or within asset classes, in an attempt to take advantage of perceived market opportunities. Tactical Asset Allocation strategies are generally recommended for clients with a strong understanding of the markets, and those with higher risk tolerance. The strategy not only involves changing the level of assets between Equity and Fixed Income, but also the level of geographical representation or level of risk within those asset allocations. Examples of Tactical strategies would include overweighting U.S. Equity and underweighting Canadian if the relative value in the U.S appeared greater. Another would be to allocate a greater portion of a portfolio to cash in times of uncertainty, before reinvesting when further opportunity is available.

Scotia Capital Portfolio Strategist Vincent Delisle provides a recommended asset allocation strategy for institutional investors that can be used as a guideline. These tactical asset allocation strategies can be easily integrated into both the Life Cycle, and/or Client Risk Profile strategy, by using his overweight/underweight recommendations for each asset class to influence your decision to change the relative weight of your portfolio in the ranges outlined.

For instance, let's assume an investor is in their mid thirties, with an average risk tolerance. Their risk assessment will most likely lead them to follow a Moderate or Maximum growth strategy. This would result in a recommended 10-100% weighting for the equity portion of the portfolio, a 0-40% weighting towards fixed income, and a 0-15% weighting towards cash.

Scotia Capital Asset Mix – Spring 2007

	Weights: Min	Weights: Max	Recommended
Equities			**62% (overall)**
TSX (Canadian)	10%	30%	**18%**
S&P 500 (U.S.)	10%	30%	**23%**
MSCI EAFE (Euro)	10%	30%	**21%**
Bonds	**20%**	**70%**	**31% (overall)**
Cash	**0**	**20%**	**7% (overall)**

Source: Scotia Capital.

Currently, Vincent Delisle is recommending a slightly overweight 62% allocation weighting towards equity, a slightly underweight 31% allocation towards fixed income, and a slightly underweight 7% allocation to cash.

Therefore, the investor could be above the middle of their equity weight, say 75%; and slightly below average weightings towards fixed income and cash – say 18% and 7%, respectively. In addition, the investor could also take into account Delisle's recommendations for relative equity market exposure – underweight Canada, and overweight international stocks, as highlighted above.

Where to go from here

ScotiaMcLeod prides itself in offering tailored investment advice, such as the above asset allocation strategies. As we are thinking differently about retirement, we need dynamic financial portfolios that compliment the way we want to live and the goals we want to achieve while also providing structure for future foreseen or unforeseen events. ScotiaMcLeod embraces the new way of thinking about retirement and encourages you to meet with your Investment Advisor to discuss asset allocation. In doing so, both you and your Advisor will have a better focus on how your financial plan can support not only the lifestyle you want to live after your major working years, but the style you want to live throughout each stage of your life.

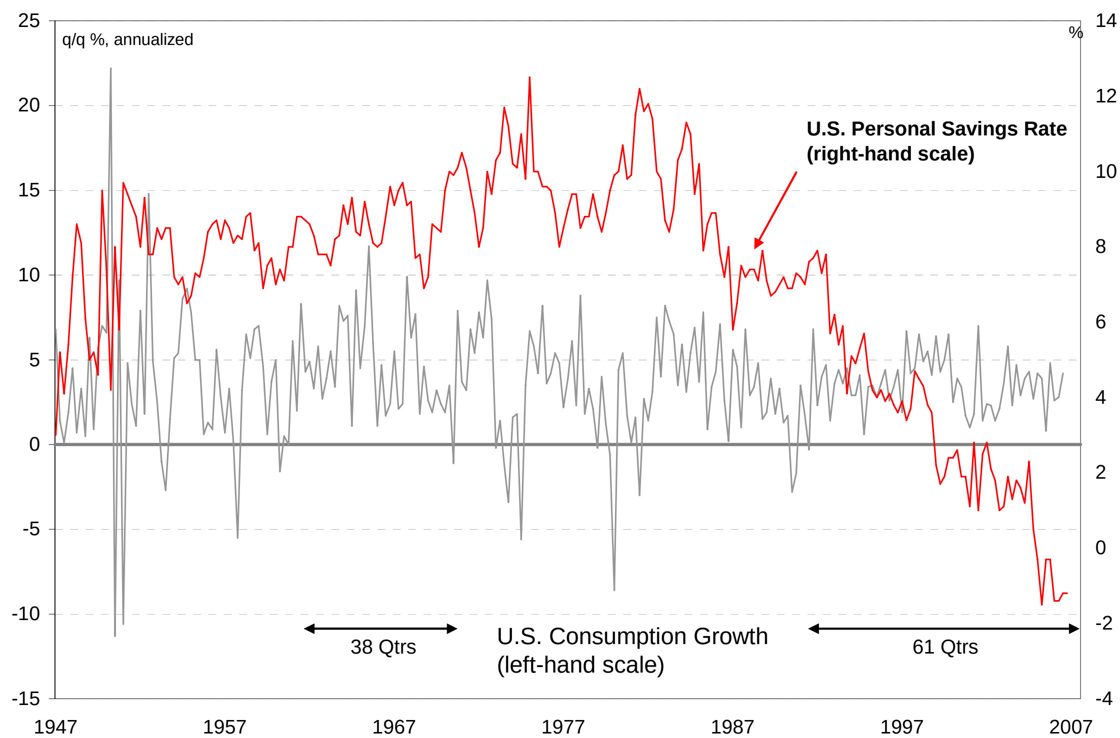
Economic Outlook

Dealing With Cycles

Andrew Pyle —ScotiaMcLeod

In a quarterly publication such as this, we are often so preoccupied with market or short-term cycles that we tend to lose sight of the fact that the objectives of retirement planning are often driven more by longer-term cycles. Things like whether or not a central bank will alter monetary policy, and hence the direction of interest rates, based on day-to-day economic indicators matters less than how the structure of an economy is changing from decade to decade. Based on our outlook, the U.S. has already passed through one cycle – from the equity market bust starting in 2000 to the record highs reached on the Dow and S&P500 last quarter. Yet, there has been no discernible change in how the economy looks. America's consumer sector continues to occupy a massive share of overall spending and, at the time of writing, had just completed its 61st consecutive quarter of uninterrupted growth. This is not only the longest continuous expansion on record but, by the end of this decade, it will be double that of the 1958-69 experience (38 quarters). Of course, this assumes we reach the end of the decade without an interruption.

Time for a Savings Boom



Source: Bloomberg.

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The unprecedented growth in domestic spending didn't just appear out of thin air. It has mirrored an equally unprecedented demographic shift in the U.S. and in Canada. The post-war baby boom is only now giving birth to a massive surge in household wealth, but it has bolstered spending on goods and services (both discretionary and non-discretionary) for decades already. As the boomers segue into their sunset years, the underlying support in spending will continue, though the composition of spending will change. Older boomers – those turning 60 this year – will begin trading in their large suburban houses for smaller and more convenient condos and adult-lifestyle homes (in Canada, the largest bulge of 60 year olds will come in 2009 – over 479,000). Those large homes won't sit vacant, however, as younger boomers trade up, not because of the need for more bedrooms, but because of the ability to do so with swollen balance sheets. Greater affluence will also support the spending on luxury items, whereas seniors from past generations would tend to keep their pennies in the jar on the kitchen window sill. Those frugal seniors will, however, be passing along massive inheritances, which will further buttress boomer balance sheets.

There is a debate over just how much influence this inheritance wave will have on boomer discretionary spending, not to mention the amount of investible wealth they will have. Studies in the U.S. suggest that expansion in investment accounts will exceed the ability of financial advisors to manage them. However, others have countered that this does not take into account the increased liability imposed on boomers from the need to care for the aged parents. The same argument can be made for the Gen-Xers (those born in the late-60s to the late-70s), especially in light of the increase in life expectancies. On the surface, these influences can be viewed as merely altering the composition of North American consumer spending, but not affecting the share of consumption in the overall make-up of the economy. In other words, the longer-term economic implications may appear inconsequential to where we see markets going beyond this current short-term cycle. The problem with this somewhat complacent view is that it ignores the potential changes in household psychology as these demographics factors come to bear.

Neither of these factors, however, look set to alter what we consider to be reasonable investment return horizons any time soon – at least not before the seismic shifts in American consumer patterns and, hence growth, appear. The challenge for aging boomers therefore is to make the necessary adjustments to future spending and saving, to ensure an adequate retirement nest egg in the face of what might be a more conservative market performance, and to make that adjustment before the rest of the boomers do so (voluntary or otherwise).

Insurance

Looking for Guaranteed Retirement Income, Yet Want to Stay Invested in the Market?

Susan Forint, —Manager, Insurance

As you think ahead to all that you want to do and accomplish in your retirement - travelling, continued learning, volunteering, starting a new business – you're probably asking yourself "Will I have enough to do what I want?" Canadians today are enjoying a healthier and more active retirement. We are living longer than ever and, in some cases, may spend as much time in retirement as we did working. How you turn your savings into retirement income, making the shift from the accumulation phase of your financial plan to the disbursement phase, can have a significant impact on your retirement lifestyle.

How can annuities help?

One of the biggest risks you'll face during this stage of your life is longevity risk - the risk you'll outlive your income. A life annuity can help to lessen your longevity risk by providing a guaranteed source of income for life. This income can be used to meet expenses or provide a strong foundation for your portfolio, freeing up the balance to be invested in the most efficient manner.

What is an annuity?

An annuity is like a mortgage payment that works in reverse. Instead of borrowing money, you invest money with a financial institution and in exchange you receive regular income payments - payments that contain both interest and principal. But unlike a mortgage that would typically end after a specific period, payments from an annuity can be guaranteed for the rest of your life.

How else can annuities help?

Beyond providing guaranteed income for you for the rest of your life no matter how long you live, an annuity can also:

- Protect you against fluctuations in the market - you'll always know what your income will be no matter what the markets do
- Protect you against inflation - you can index your annuity so that your income increases each year by a set amount
- Provide a guaranteed stream of income for:
    - You and your spouse - your income can be based on two people's lives to guarantee income for your spouse after you're gone
    - You and your beneficiaries - payment guarantees ensure a specific amount is paid to you or your beneficiaries, no matter what happens
- Offer tax advantages - for non-registered funds, partial tax-deferral is available for your income. For clients over 65, the interest portion of your annuity income will generally qualify for the Pension Income Amount Tax Credit.

How much should I annuitize?

The answer to "how much" you should annuitize depends on your income needs and your resources. To help you with this decision you could prepare a cash flow analysis (your advisor can help you with this) to determine what you think your expenses will be and what sources of income you have to meet those expenses.

Break your expenses into "*essential*" living expenses such as housing, food, and medical, and "*lifestyle*" expenses such as vacations or hobbies. You should then consider matching your essential expenses with income that is guaranteed for life such as any defined benefit premium income, the Canada Pension Plan or Old Age Security, and matching your lifestyle expenses with your sources of income from your managed investments. This way you can ensure your critical expenses are always covered leaving you with more flexibility for the balance of your income sources.

After matching your expenses to your income, you may have income left over that you could spend or perhaps reinvest. However, if you find a gap, you may need to consider reducing your expenses or increasing your income. If the gap is between your "guaranteed" income and your essential expenses or you are concerned your income won't keep up with your expenses, you might want to consider a life annuity to provide a basic level of guaranteed income that will last the rest of your life.

Balancing your portfolio

An annuity can help you build a well-balanced retirement income portfolio. With your essential expenses looked after, you may feel more comfortable increasing your exposure to the financial markets to try to achieve additional gains.

When should I annuitize?

You should purchase an annuity whenever you need it to meet your needs. If your primary concern is income, you should consider purchasing an annuity when you retire. If maximizing your return on your investment is key and you feel you can afford to wait, consider waiting until you are older to annuitize. The older you are when you buy an annuity the higher the income you will receive.

Retirement income for life

Your retirement is likely to be very different from the retirement your parents experienced. With more to do, see, learn, and explore than ever before, your retirement income solutions will be different as well. Annuities can bridge the gap between customary sources of retirement income, such as government or employer pension plans, and the expenses that are created from living your retirement to its fullest - ensuring you won't outlive your income.

Fixed Income Strategy

Managing Your Retirement Income Stream

Joey Mack, CFA —Director, Portfolio Advisory Group

Retirement, for most of us, will be the time we will have to begin to use our hard earned savings to support our life. For those of us that do not enjoy the benefits of a defined benefit pension plan with a cost of living allowance, it is time to consider your income investment alternatives.

However, when it comes to building a portfolio for retirement income, there a number of difficult questions that must be answered. What types of securities should you buy? Should you buy now, given the current level of interest rates, or should you wait? If you buy now, what is the right term to maturity to buy? Do you go with long term investments, or do you stay short? How many securities should you hold? What type of issuers should be invested in?
Despite the best efforts of economists and portfolio managers, none of them are infallible - it has proven impossible to consistently and accurately predict the direction of interest rates over time. Most fund managers have a hard time outperforming the Scotia Capital Universe Bond Index – and most funds do not represent the tailored solution that your Advisor can provide.

Furthermore, many investors make the mistake of keeping their money constantly rolling over in the very short term, and simply target the best yields available at that time from the multitude of investment choices available.

Unfortunately, looking only at the short term can result in big swings in the income your portfolio generates over the long run, and may even force you to dip into your capital in order to meet your ongoing cash flow needs down the road – not an ideal situation.

Therefore, it is important to take a long-term, disciplined approach to investing in fixed income securities. In doing so, you must address three key questions:

1. How do I maximize my after-tax income?

2. How do I protect the purchasing power of my portfolio?

3. How do I generate a smooth level of income over time?

Maximizing Your After Tax Income

What is a dollar worth? It depends on what type of dollar it is. For Canadian residents in the highest tax bracket, for every dollar you receive in terms of salary or interest, on average you put just $0.55 in your pocket after all Federal and Provincial Income taxes are paid.

For investors, however, there are many fixed income products that will provide a greater amount of after-tax money than salary or interest payments do.

One common source is dividend income. The tax treatment of dividends received by individuals from Canadian corporations is designed to reflect that the corporation paying the dividend has already paid tax on its profits. When a dividend is received, the amount included in taxable income is “grossed up” to approximate the total amount of pre-tax income that the corporation is presumed to have earned, and then the individual receives a tax credit to offset the tax the corporation has already paid.

Recent legislation has reduced the net tax paid on dividends received from “eligible” Canadian corporations by individual investors. These “eligible dividends” are dividends paid by Canadian public companies and Canadian-controlled private corporations (CCPCs). Investors are notified by the corporation if the dividend they receive is indeed eligible.

In addition, many fixed income securities offer periodic payments that are treated as capital gains. Others offer ongoing payments that represent return of capital, which normally will result in a lump sum payment on the capital gains that are eventually realized when the security matures or is sold.

The table below illustrates the combined Federal/Provincial tax rates for a top marginal rate-paying individual on dividend income for 2006, based on the Federal and Provincial rates announced to date:

Top Marginal Tax Rates on Investment Income for Individual for 2006

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario
Salary and Interest	43.7%	39.0%	44.0%	46.4%	46.4%
Capital Gains	21.9%	19.5%	22.0%	23.2%	23.2%
Non-Eligible Dividends	31.6%	24.6%	28.3%	35.2%	31.3%
Eligible Dividends	18.5%	18.1%	20.4%	23.8%	25.0%
Non-Eligible Dividend Gross Up	1.215	1.236	1.280	1.209	1.282
Eligible Dividend Gross Up	1.448	1.343	1.421	1.422	1.399
Capital Gains Gross Up	1.387	1.320	1.393	1.433	1.433
Return of Capital Gross Up:	1.776	1.639	1.786	1.866	1.866

	Quebec	New Brunswick	Nova Scotia	P.E.I.	Newfoundland
Salary and Interest	48.20%	46.80%	48.20%	47.40%	48.60%
Capital Gains	24.10%	23.54%	24.10%	23.70%	24.30%
Non-Eligible Dividends	36.30%	37.30%	33.10%	33.60%	37.30%
Eligible Dividends	29.70%	23.00%	28.40%	24.40%	32.50%
Non-Eligible Dividend Gross Up	1.230	1.179	1.292	1.262	1.220
Eligible Dividend Gross Up	1.357	1.447	1.382	1.437	1.313
Capital Gains Gross Up	1.465	1.437	1.465	1.451	1.473
Return of Capital Gross Up:	1.931	1.880	1.931	1.901	1.946

Source: KPMG.

From an investments perspective, it is therefore important to compare potential income generating investments in a taxable account on an equal level. By convention, investments in a taxable account must be compared on a pre-tax equivalent basis – the yield on, for example, a preferred share, is increased using the multipliers in the table above in order to compare them against bonds or other income producing securities.

For example, the Great West Life 4.5% Series I preferred share is currently trading with a cash yield of 4.50%. This is also the yield to the most likely call date, June 30, 2015.

Since there is no “maturity” date on this preferred share, we must compare its yield versus yields on a long-term debentures of the same company. Currently, Great West Life long bonds are yielding 5.15%, while an 8-year debenture maturing in 2015 would yield approximately 4.60%

Before taking into account the multipliers in the table above, debentures appear to be the superior investment. Great West Life is an eligible corporation in Canada. Therefore, for an investor in for example British Columbia, the multiplier is 1.448 – in other words, the pre-tax equivalent yield on the preferred share for the investor is (4.50% x 1.448) = 6.52% - well above the yields available to the investor on Great West Life debentures.

This is of course a function of security (preferred shares rank below the debentures in the case of bankruptcy), and term to maturity (the preferred share is a perpetual instrument, whereas the long bonds will mature in 30 years). Nonetheless, this is an attractive yield-pick up that improves after-tax income on your investments, supporting an improved retirement lifestyle.

For an investor in Alberta, however, where the province has not made any changes to their taxation of dividends, and where investors face lower tax rates in general, the multiplier is lower at 1.3434. Therefore, the pre-tax equivalent yield on the preferred share would be 5.86%. This is still attractive versus Great West Life bonds, but this reflects the greater risk inherent in the preferred share.

Protect the Purchasing Power of Your Income Stream

Investment performance is normally measured in nominal returns. However, the increase in the prices of goods and services over time can wreak havoc on a long-term investor's money - a $1 million dollar nest egg today will not have the same purchasing power in the future. An investment therefore should be evaluated not only for its return before inflation (nominal return) but also for its return after inflation (real return).

The natural hedge against inflation for most investors has been equities, given their superior investment returns and the expected ability of corporations to be economically profitable. Nevertheless, the appetite for taking on the additional risk that investing in equities entails, in order to gain above average returns may not be high. Where does an investor turn? There is another solution – Real Return Bonds.

Real Return Bonds (commonly referred to as RRBs) in many ways resemble conventional bonds. They pay semi-annual interest payments, and upon maturity, repay the original principal or face value. However, unlike standard interest-paying bonds, both the coupon payments and the final principal payment are adjusted for changes in inflation as measured by the Consumer Price Index (CPI) over the life of the bond.

Inflation is compensated for in both the semi-annual coupon payments, which are based upon a real interest rate, and in the final principal repayment. The rate of return over and above inflation on these bonds is known as the “real yield”.

Furthermore, since the nominal return on an RRB is directly related to the CPI, they provide the best possible hedge against rising prices. This is significantly safer than the uneven growth provided by equities, and avoids the serious impact rising prices have on the purchasing power of a nominal bond.

Although RRBs are bonds, due to their inflation-protection feature they have displayed a low correlation with other asset classes, making them a great diversification tool which complements both bond and equity investments.

For investors who are reaching the end of the saving phase of the investing cycle and will soon begin to draw upon their savings to fund their retirement, real return bonds offer the payment of an income stream that will keep pace with the cost of living.

Smoothing Your Long Term Income - The Laddered Bond Portfolio Approach

The laddered bond portfolio process provides a balanced, passive strategy, which has been proven historically to be highly successful in generating the consistent returns and income required from the fixed income portion of a portfolio.

A laddered bond portfolio is a selection of several fixed income securities, each with a successively longer term to maturity. Each position in the portfolio normally is the same size as the next, and there is roughly an equal staggered time interval between the maturity of each security.

Normally, the portfolio is structured so that a portion will mature each year. To maintain the ladder, money that comes in from currently maturing bonds is typically then re-invested out at the long end of the portfolio (the top of the ladder).

Laddering your bond holdings creates a portfolio that furnishes a number of key benefits, including natural safety of principal and diversification, and being able to use the benefits of a buy-and hold strategy to take advantage of term and liquidity to increase your income.

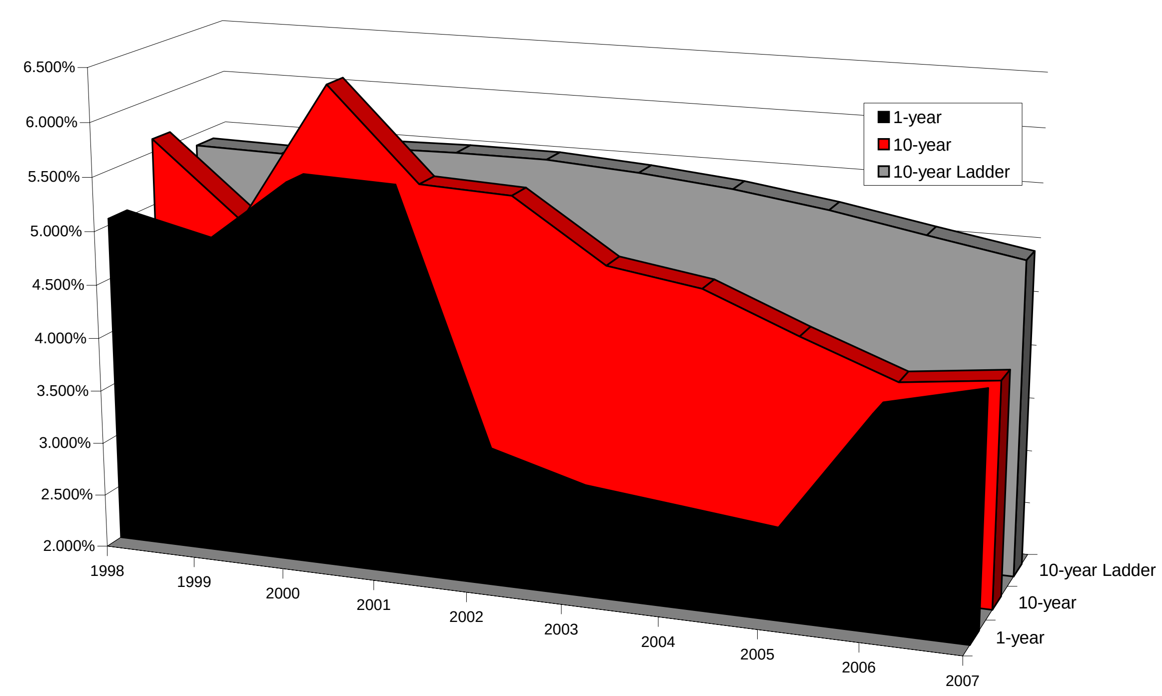
Perhaps more importantly, although the long term decline in interest rates has weighed on the ability of a portfolio to generate an attractive income stream, the laddered portfolio process provides a natural smoothing process.

Interest rates are volatile, especially short-term interest rates. In addition, in recent years, we have seen interest rates decline – a highly negative factor for investors relying on the income their investments generate. Consider the situation over the past 10 years. An investor who constantly rolls over 1-year GICs will be reinvesting today at 4.00%, well below the 5.25% level available in 1997 – a drop of over 30%. 10-year bonds yields have fallen even more dramatically - 10-year Government of Canada bonds yields today are 4.14%, over 60% below what they yielded 10-years ago. And it is worth noting that just two years ago, 1-year rates were as low as 2%, 50% below where they are today!

However, if the investor 10 years ago began investing in a laddered bond portfolio, they would be able to better manage this long term drop in interest rates. In the case of the ladder, by re-investing 10% of the portfolio each year in a new 10-year position over the past 10 years, we further smooth the income stream, and at the same time continue to add higher yielding longer term bonds.

The following chart indicates where yields have been on 1-year and 10-year Canada bonds over the past decade, and what the average purchase cost yield would be if an investor had constructed a 10-year Canada Laddered Bond Portfolio in the beginning. As the chart indicates, following a disciplined fixed income strategy can result in a smoother income stream over the long term – the average cost yield on the portfolio would be 4.94% today, well above the 4.1-4.2% available from buying new bonds in the secondary market.

Yields Over Time



Source: Scotia Capital.

Finally, combined with the after-tax income and inflation considerations noted above, this strategy may provide the retirement income stream you are looking for. Your ScotiaMcLeod Advisor can help you create an appropriate retirement income strategy that is tailored to your specific needs.

International Strategy

Dividend Growth for Canadian Retirees

Paul Danesi — Director, Portfolio Advisory Group

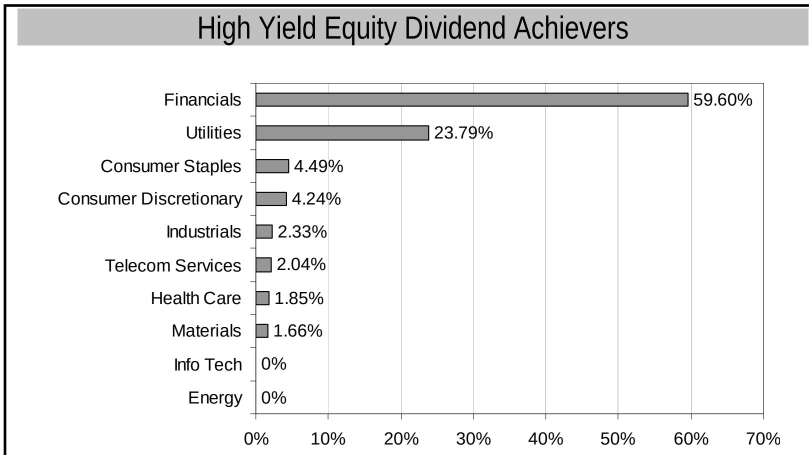
As health care and life styles improve, many Canadians are living longer. While that is great news, it also requires special investment planning as retirement for many individuals could last 20 years or more. Many of us assume that the growth phase of our investment life cycle ends when we reach retirement. This is no longer the case. Seniors are being challenged by historically low interest rates and income requirements that span longer than originally imagined and planned.

Most retirees find managing income requirements, capital preservation, and growth to meet what could be a few decades of withdrawals, a difficult task. Bonds and other fixed income instruments alone won't satisfy these multi-pronged mandates. Over time, inflation eats away at too much of a bond portfolio's value. To ensure that retirees maintain their purchasing power in real terms over a longer time horizon, a greater allocation towards equity and growth is required. However, equities are a riskier asset class than fixed income. Therefore, retirees need to hold equity securities that provide income and growth while offering some downside protection to avoid what could amount to regrettable losses.

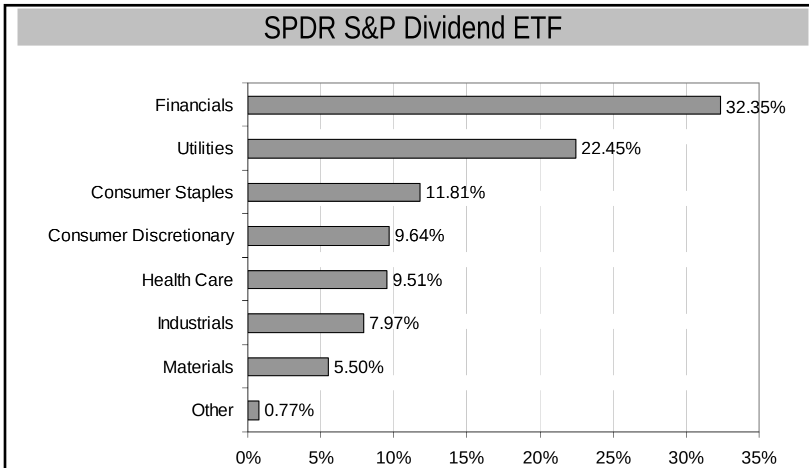
Dividend growth stocks offer a solution. They offer both the capital growth of a traditional equity investment with the income characteristics of a fixed income instrument. In the long run dividend growth stocks have provided total returns in excess of key benchmarks such as the TSX Composite and S&P 500 Composite Indices. Dividend growth stocks also address the issue of capital preservation. During periods of market volatility, stocks with higher dividend yields outperform. When expectations for returns are low, investors flock to the safe haven of dividend paying securities. The yield provides downside protection. In the long run, investors get the best of both worlds, solid returns with lower volatility.

Canadians are taking a more strategic view when it comes to managing their assets. Investors are finding that geographic diversification not only helps manage risks, but can bolster longer-term returns. For these reasons, we encourage retirees to work with their investment advisors to determine an appropriate level of international exposure in their portfolios.

Investing in dividend paying stocks and investing abroad do not have to be mutually exclusive strategies. There are a few different approaches that can be taken to achieve both, including the purchase of individual stocks, mutual funds, and exchange traded funds. We believe that exchange traded funds (ETF's) represent the easiest and most efficient means to building and managing portfolios with an international presence and an emphasis on dividend growth. PowerShares, State Street Global Advisors and WisdomTree all offer ETFs that emphasize dividends. We have chosen to highlight four funds, two which focus on the U.S. market, the other two having a more international mandate.



Source: Bloomberg; Scotia Capital.

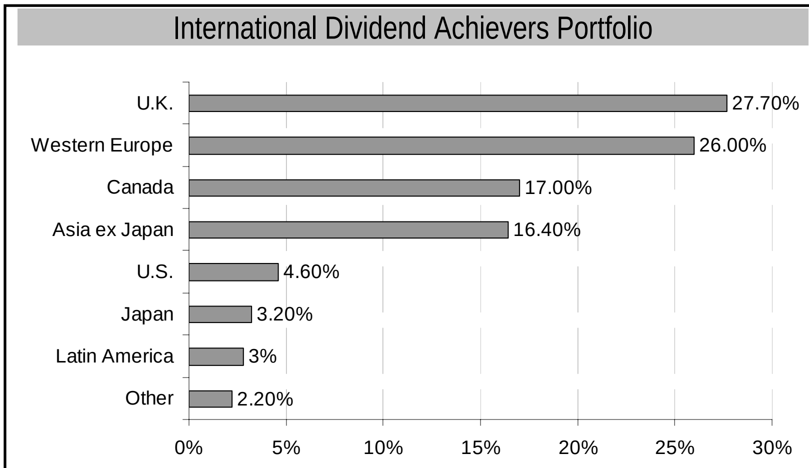


Source: Bloomberg; Scotia Capital.

PowerShares High Yield Equity Dividend Achievers (PEY) is comprised of the 50 highest yielding U.S. companies with at least 10 years of consecutive dividend increases. The portfolio is heavily levered to the Financial and Utilities sectors, together accounting for 83% of the funds asset value. AT&T, Emerson Electric, Pfizer, Bank of America and La-Z-Boy are a few of the more recognizable holdings. In addition to its many recognizable holdings, another appealing aspect of this fund is that it pays dividends monthly. The trailing 12-month yield is also attractive at 3.65%.

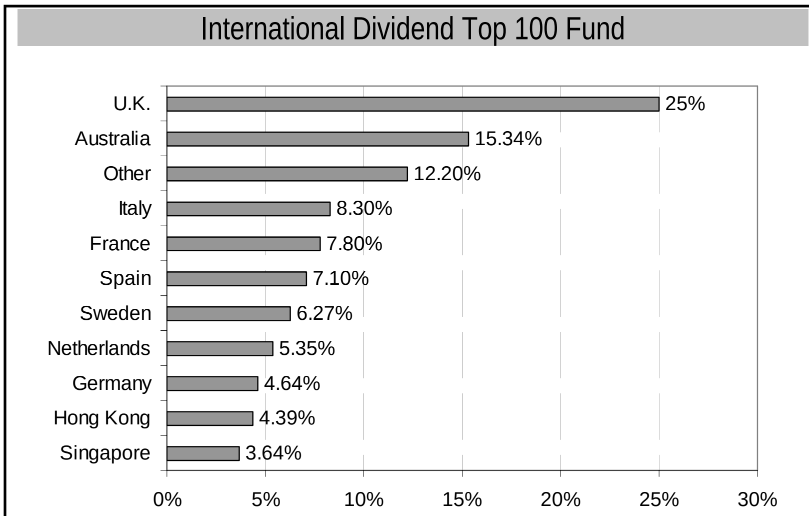
SPDR S&P Dividend ETF (SDY) managed by State Street Global Advisors is designed to track the performance of the S&P High Yield Dividend Aristocrats Index. The index is comprised of the 50 highest dividend yielding S&P Composite 1500 constituents that have consistently increased their dividends every year for at least 25 years. Pfizer, Bank of America, Coca Cola, Eli Lilly and General Electric are a few of the fund's positions. The fund offers better sectoral diversification than other funds and a very competitive gross expense ratio of only 0.35%. However, the shares of the fund are less liquid than the PowerShares ETFs mentioned above. The trailing 12-month yield is also 80 basis points lower at 2.84%. Similar to the International Dividend Achievers Portfolio, dividends are paid quarterly.

The PowerShares International Dividend Achievers Portfolio (PID) fund is comprised of an international group of American Depository Receipts where the underlying companies have increased their dividends for five or more consecutive years. The ETF provides broad geographic exposure through 81 securities. The fund has exposure to all 10 industry groups, albeit the portfolio is heavily levered to Financials Services which accounts for about 37% of the net asset value. The fund offers an interesting means to gain exposure to many recognizable and highly regarded companies including Unilever, Honda, Barclays, Imperial Tobacco, British Petroleum, as well as the "Big 5" Canadian banks, Enbridge, TransCanada, CN Rail and Thomson Corp. There are currently 13 Canadian companies in the fund representing approximately 16% of the funds net asset value. The trailing 12-month yield is 2.70%. Dividends are paid quarterly and the gross expense ratio is 0.69%.



Source: Bloomberg; Scotia Capital.

The last ETF we want to look at is the WisdomTree International Dividend Top 100 Fund (DOO). The fund holds 100 high-yielding large-cap companies including Lloyds Group, British Telecom, France Telecom, Volvo, Royal Bank of Scotland, GlaxoSmithKline, and Vodafone. Once again this is an interesting way to gain exposure to many familiar international companies through the purchase of one security. The fund offers an attractive yield of nearly 4.0% with dividend growth potential. However, we should note that dividend growth is not part of the selection criteria for the underlying index. The gross expense ratio is 0.58%.



Source: Bloomberg; Scotia Capital.

At the individual stock level investors need to look only as far as the constituents of the funds themselves. Altria, AT&T, Bank of America, Citigroup, Eli Lilly, General Electric, and Kimberly Clark are a few companies that we consider buying for yield to satisfy an income and growth mandate.

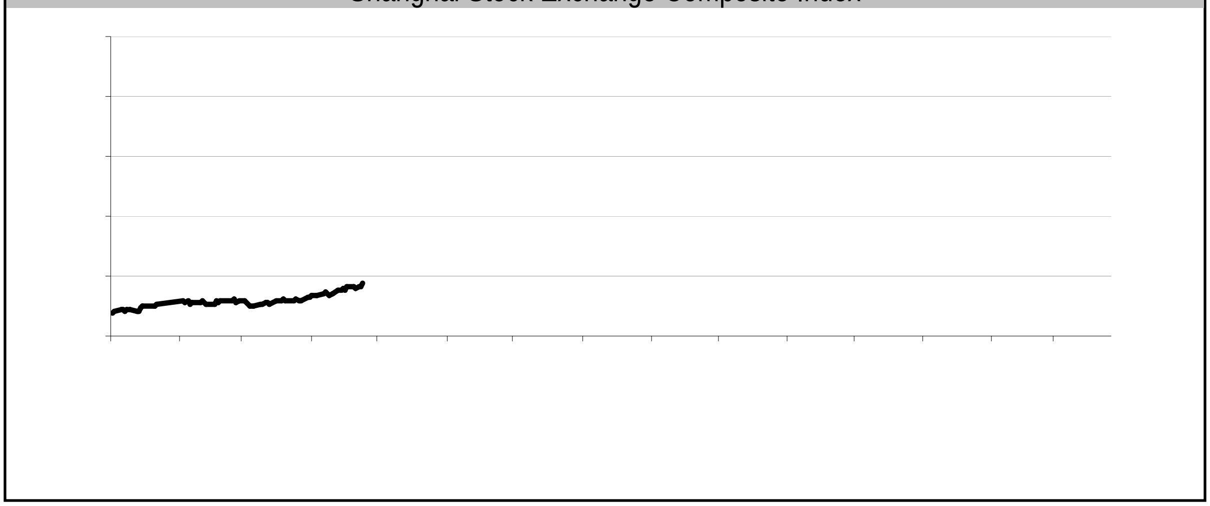
Canadian Equity Strategy

Q1/07 – Canadian Market Appreciates Thanks to Common Sense

Gareth Watson, CFA — Associate Director, Portfolio Advisory Group

The first quarter of 2007 proved to be a rollercoaster as the first two months continued last year's positive performance while the end of February and beginning of March brought concern to the market, which eventually dissipated. On Tuesday, February 27, North American investors woke up to the news that Chinese stock markets had fallen 9% overnight after the Chinese Government announced that it was cracking down on speculative investments and illegal Initial Public Offerings (IPOs). Although most investors would consider this to be a positive announcement, some interpreted it to mean that the Chinese Government wanted to slow down the Chinese economy, which has been a large consumer of materials and thus a large source of growth for many countries worldwide (including Canada). A domino effect occurred as European and North American markets also fell, but not to the same magnitude as their Chinese counterpart. Was the global "sell off" justified? Was China about to slow down dramatically? Were commodity prices and thus the TSX poised to fall? At that time, we at ScotiaMcLeod immediately responded "no". Over the coming weeks our response would prove correct as the TSX not only regained points lost, but continues to reach all time highs.

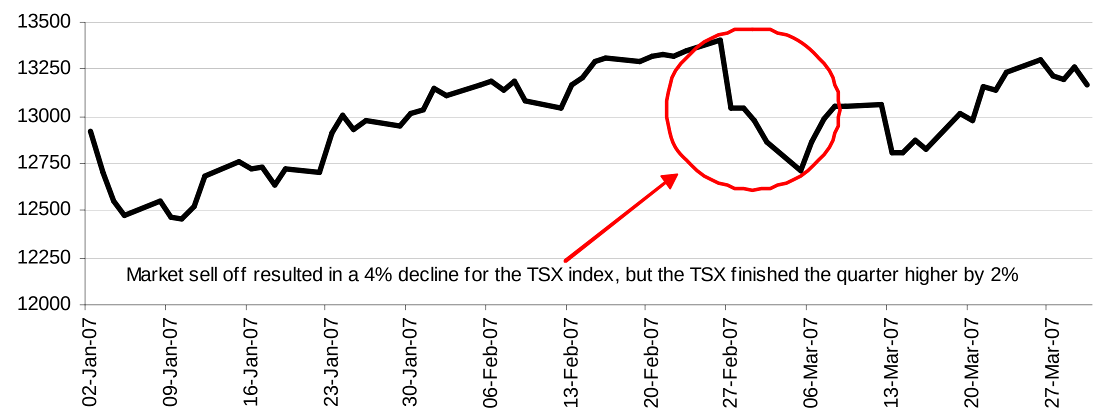
Shanghai Stock Exchange Composite Index



Our response was not one of chance as it was based on the premise that although the Chinese stock market may have declined, nothing else from a macroeconomic and global demand perspective had changed. We feel some market participants drew an incorrect conclusion that the Chinese stock market was the driver of the Chinese economy when we believe the relationship is actually the reverse – the Chinese economy is what drives the Chinese stock market. China is a source of optimism for global growth and has been for some time. Did the loss of 9% for the Chinese stock market, which incidentally is up 175% since the beginning of 2006, mean that China would stop growing? That it would stop buying resources? That it would halt its efforts to modernize and invest in infrastructure? We answered these questions with a resounding "no", and as global stock markets have shown over the past few weeks, there were many other investors that agreed with our conclusion.

Turning to Canada, one of the most surprising effects of the global market sell off (note: it was not a correction) was that we saw a number of defensive and interest sensitive stocks decline. In our view this made no sense. Even if we could draw a relationship between a Chinese stock market decline and a slowing Canadian marketplace why would investors sell stocks that they would likely buy during a period of weakness? It is for that reason we thought the market sell off created a buying opportunity for stocks in these sectors. Common sense has found its way back to the marketplace as most stocks have rebounded off recent lows and most have regained their losses from over a month ago.

TSX Index First Quarter Performance



Source: Bloomberg.

Even with the declines of February and March, the TSX Composite Index managed to post a 2.0% quarterly return thanks in large part to Banks and Life Insurance companies and a continuation of the remarkable performance we've seen from Materials stocks such as the base metals, precious metals, fertilizers and steel. One area of weakness was the Energy sector as crude oil prices declined in January due to warmer than expected winter temperatures. As the quarter came to a close, crude oil prices were climbing and Energy stocks were recouping losses.

2007 First Quarter TSX Performance Breakdown & Current Sector Weightings

	Contribution to Q1/07 2.0% TSX Return	Current Weighting Within TSX Index	
Financials	62%	32.07%	Top 3 Sectors = 75.64%
Energy	-20%	26.82%	
Materials	33%	16.75%	
Consumer Discretionary	20%	5.50%	Bottom 7 Sectors = 24.36%
Industrials	8%	5.38%	
Telecommunications	16%	5.31%	
Information Technology	-10%	3.54%	
Consumer Staples	-1%	2.51%	
Utilities	-8%	1.32%	
Health Care	-1%	0.81%	

Source: Scotia Quantitative Research; Bloomberg.

As we look forward to the second quarter and 2007 as a whole, we find ourselves repeating our views and predictions from the beginning of the year. First, we thought merger and acquisition (M&A) activity would remain active in Canada, especially for resource companies. Our prediction certainly has come true in the first quarter, but surprisingly most of the M&A activity has involved non-resource equities. Seeing that we expect resource M&A to continue, investors should expect even more M&A transactions in the months ahead.

Second, we thought the secular bull market for Energy and Base Metals would continue. As mentioned, crude oil prices got off to a slow start in January but have rebounded nicely, up 7.9% for the quarter, due to recent geopolitical events especially those involving Iran. Gold prices skyrocketed at the beginning of the year only to pull back but are still higher since January 1. Although price returns are mixed, some base metals have had a remarkable first quarter with nickel climbing 37.6%, copper up 9.6%, while aluminum was down by 2.2% and zinc was the notable exception down 24.1%. The price performance of these commodities, especially nickel and copper, goes to show that the secular bull run in Energy and Materials still has legs.

Third, we emphasized that for 2007 balanced portfolios should hold some exposure to gold. Although gold prices were volatile in March, they finished the quarter higher by 4.3%. We did not expect gold prices to run up so quickly, but continue to believe that gold should exceed US$700 per ounce at some point this year thanks to improving supply/demand fundamentals, a weakening U.S. dollar and continued geopolitical risk.

Fourth, we thought support for interest sensitive and defensive stocks would continue. Even with the mid-quarter sell off stocks in these areas of the market, especially Financials and Consumer Discretionary, have performed well. We believe these stocks will continue to provide positive returns, especially if we see interest rate cuts in Canada by year end.

Finally, we predicted that wireless stocks should outperform the market. As we've mentioned in the past, the penetration of wireless devices in Canada and actual wireless data usage has room to grow, which bodes well for certain stocks in the Telecommunications sector. Wireless assets have proven to be remarkable sources of cash flow, which companies are using to pay down debt, increase dividends or reinvest into research and development. Telus and BCE are companies with wireless divisions that have also been the subject of private equity takeover rumours.

So after reading this Canadian strategy piece you may ask yourself what has changed in our outlook since last quarter. Our answer is simply "nothing". We continue to believe a potential domestic slowdown will help support interest sensitive and defensive stocks, while ongoing strength in other areas of the world will continue to support resources. No event, data point or trend during the past three months has changed our point of view. Although we expect the TSX to hit a few more bumps in the road, we continue to remain optimistic for the Canadian marketplace during the remaining three quarters of 2007.

Income Trust Strategy

Distinguishing Between Higher Quality and Lower Quality Trusts

Katie Tabesh, CA — Equity Advisor, Portfolio Advisory Group

During the first quarter of this year, the Scotia Capital Income Trust Index (SCITI) rebounded and generated a total return of 2.25%, slightly underperforming the S&P/TSX Composite Index, which posted a total return of 2.62%. Overall, the past three months have been encouraging for the income trust sector considering the -5.49% loss posted by the SCITI during the fourth quarter of 2006, in response to the newly proposed Tax Fairness Plan. Since the initial sell off following the October 31, 2006 announcement, market sentiment has somewhat recovered as investors have come to the realization that underlying businesses have not changed, and that many of the higher quality income trusts with solid operations are capable of maintaining their current distribution policies. In fact, many of the income trusts that fit this profile are currently trading above their pre-tax announcement unit price. Valuations have further been supported by Canadian taxable investors, who on an after-tax basis are ultimately in the same position as before the Tax Fairness Plan. Recall that the Tax Fairness Plan shifts a portion of the tax burden from the Canadian taxable investor to the trust/corporation beginning in 2011.

As the breakdown of sector performance indicates, gains were primarily driven by strengths in the Real Estate Investment Trust (REIT) sector, which continued to be supported by merger and acquisition (M&A) activity and by the flow of funds, considering REITs (with the exception of Seniors Housing and Lodging REITs) are exempt from the Tax Fairness Plan. Gains were further supported by the rebounding Consumer and Industrial Income Trust subsectors, which comprise approximately 13% and 19% of the market capitalization of the SCITI, respectively. The Scotia Capital Consumer Income Trust Index also benefited from M&A activity during the quarter, with the top three best performing trusts in the index (Entertainment One Income Fund, Associated Brands Income Fund, and Lakeport Brewing Income Fund) receiving takeover offers; whereas gains in the Scotia Capital Industrial Income Trust Index were supported by both M&A activity and distribution increases.

Total Return Indices

	SCITI Overall	S&P/TSX Composite	SC Universe Bond Index
Q1 2007:	2.25%	2.62%	-0.24%

Segment	Consumer	Energy	Industrial	Power	Real Estate	Resource	Utils & Infra	Business
Q1 2007:	6.76%	-3.11%	5.31%	-1.25%	6.38%	13.56%	5.02%	6.76%
Weight	12.63%	38.44%	18.69%	3.21%	15.23%	3.66%	8.14%	-

Source: Scotia Capital; Bloomberg.

During the quarter, the performance of the SCITI was held back by the Energy sub-index, which was hit hard by retreating oil and natural gas prices in the beginning of the new year. On the energy front, continued overhang in natural gas storage, reduced drilling activity, and the warmer than normal weather experienced in both Canada and the U.S. contributed to the weakness in natural gas prices; and the latter also impacted oil prices. In light of considerable volatility in commodity prices, aggressive payout ratios, and in an attempt to operate within cash flows, seven of the twenty three Oil & Gas Royalty Trusts currently under Scotia Capital's research coverage cut monthly distributions by an average of 25%.

What Should You Expect Over the Next 4 Years?

The proposed tax changes initially resulted in a downturn in market valuations, which we believe to be reasonable and not overdone. In our view, this reaction represented the erosion of the premium valuations that previously existed in the market for income trusts (measured by earnings and cash flow multiples) primarily due to trusts' advantageous tax structure; in particular for non-resident and Canadian tax exempt investors. Now that this advantage has disappeared, the market has begun to value income trusts as high yield equities, and as a result many are now trading at market multiples in-line with their peers in their respective market sectors.

Once the grandfathering period is over and income trusts become taxable in 2011, the after-tax cash flows to non-resident and Canadian tax exempt investors will be reduced by the amount of the tax. Please refer to the table on the following page for the comparison of tax rates before and after the Tax Fairness Plan for the different types of investors.

To illustrate the reduction in valuation of income trusts from the view of the non-resident and Canadian tax exempt investors, we will consider the change in the present value of a simple annuity once cash flows are taxed. For simplicity, consider an income trust that currently pays an annual cash distribution of $1 per unit. Using an assumed discount rate of 8%, the present value of the annuity is $12.50 (please refer to the exhibit below for the detailed calculations). The present value of the annuity is reduced by approximately 27% after applying a tax rate of 31.5% to the cash flows beginning in year four, assuming that the $1 per unit distribution is not reduced for other operational reasons. As the annuity example demonstrates, the reduction in cash flows beginning in 2011 results in a lower present value of future cash flows, in particular to non-resident and Canadian tax exempt investors. We initially saw market valuations drop by roughly 20% in November after the announcement of the Tax Fairness Plan, however valuations have since rebounded. We believe this appropriately reflects the fact many trusts are held by Canadian taxable investors, who on an after-tax basis, are in the same position as before the Tax Fairness Plan.

Present Value of an Annutiy Cash Flow Calculation

Before Tax Fairness Plan

Discount Rate (r):	**8%**	
Annuity Payment (C):	**$1.00**	
Calculation:	**=C/r**	
Present Value	**$12.50**	

After Tax Fairness Plan

Discount Rate (r):	**8%**	
Annuity Payment (C):	**$1.00**	
Post-tax payment (C2):	**$0.68**	(1)
Calculation:	**=(C/(1+r)) + (C/(1+r)^2) +(C/(1+r)^3) +(C/(1+r)^4) + ((C2/r)/(1+r)^5)**	
Present Value	**$9.10**	
Change	**($3.40)**	
Valuation Change	**-27%**	

(1) Applying a tax rate of 31.5% in 2011.

Source: ScotiaMcLeod.

As we approach 2011, market valuations of some income trusts and unit prices should decline considering the present value of future cash flows is gradually reduced as non-resident and Canadian tax exempt investors lose one more year of tax free distributions. This ultimately means that income trusts that have to cut distributions to pay their tax bill in 2011 and beyond may experience a further gradual reduction in unit prices over the next four years. However, if a given trust can maintain its current distribution policy beyond 2010, thus avoiding a distribution cut, the unit price should not further erode as a result of the Tax Fairness Plan. Consequently, those trusts that are able to grow their distributable cash over and beyond their tax bill will be able to maintain a sustainable and stable distribution policy, and will ultimately convert to high-yielding corporations. This is precisely why it is key to distinguish between higher quality trusts that will exhibit growth in the coming years from lower quality trusts that will be forced to cut distributions.

Simplified Comparison of Investor Tax Rates in 2011

Investor	Current System FTE (Income)	Current System Large Corporation (Dividend)	New System FTE (Non-Portfolio Earnings)	New System Large Corporation (Dividend)
Taxable Canadian *	46%	46%	45.50%	45.50%
Canadian tax-exempt	0%	32%	31.50%	31.50%
Taxable U.S. investor **	15%	42%	41.50%	41.50%

* All rates in the table are as of 2011. They include both entity- and investor-level tax (as applicable) and reflect already-announced rate reductions and the additional .5% corporate rate reduction. Rates for "taxable Canadian" assume that top personal income tax rates apply and the provincial governments increase their dividend tax credit for dividends of large corporations.

** Canadian taxes only. U.S. tax will in most cases also apply.

Source: Department of Finance.

Income Trust Investment Strategy

Our investment strategy has not changed, and we continue to recommend investors take a defensive stance towards investing in income trusts and to focus on those trusts that exhibit sustainability. This means focusing on trusts that have strong business models, future growth opportunities, operate within sustainable distribution policies and have consistently operated within their distribution policy.

When analyzing income trusts for potential investments, investors are recommended to consider:

- The fundamentals of the underlying business
- The characterization of the industry
- Historical and forecasted adjusted payout ratios
- Trends in distributable cash per unit
- Relative valuation with equity peers
- Look beyond the analysts' one year target price, and focus on the forecasted one and two year total rate of return (reflects both forecasted yield and capital appreciated).

Finally, keep in mind that if you don't have a high risk tolerance and the need for income, you perhaps will find better and safer investment opportunities in other equity investments.

By focusing on trusts that have future growth opportunities, either organic or through future acquisitions, risks of distribution cuts and ultimately unit price erosion are reduced. Overall, investing in high quality trusts, an investment strategy that is not particularly different from investing in equities, should provide investors with a nice healthy yield and capital appreciation for years to come. Relatively speaking, these trusts are also more likely to be takeover candidates in going private transactions either by private equity or strategic buyers at the end of the grace period.

Equity Guided Portfolios

Stephen Uzielli — Portfolio Manager, Portfolio Advisory Group

The Equity Guided Portfolios are models designed to provide individual investors with a convenient way of investing directly in individual holdings and building diversified portfolios composed of equity securities. The portfolios are actively managed by the Investment Committee of the ScotiaMcLeod Portfolio Advisory Group. Each portfolio has a specific mandate but they all have the common objective of providing investors with a consistent long-term rate of return by holding a portfolio of stocks comprised of industry leaders with unique franchises and strong management teams, combined with an attractive trend in profitability.

As you contemplate your retirement or “lifestyle” investment strategy, planning for which you can read about in other articles in this document, consider incorporating the Guided Portfolios to form the equity component within your asset allocation.

ScotiaMcLeod Canadian Core Guided Portfolio

Stephen Uzielli — Portfolio Manager, Portfolio Advisory Group

Performance Update

Despite enduring two periods of weakness that tested both the patience and confidence of investors, the first quarter of 2007 ultimately ended with the Canadian stock market near the record high levels that were achieved near the end of February. The volatility witnessed during the quarter will likely continue in the months to come as investors wrestle with mixed economic data and await confirmation of widely anticipated interest rate cuts.

The heavily weighted Resource sector dragged the market lower in the early part of the quarter following weakness in crude oil prices, but recovered as geopolitical tensions increased and drove commodity based equities higher. Gold remained on its bullish trend, ending the quarter at US$669/oz, and we expect the yellow metal to continue moving higher in response to positive supply and demand fundamentals and expectations for a weaker U.S. dollar. The second market decline occurred in late February in response to a short-term pullback in China and concerns surrounding sub-prime lending in the U.S. By the end of March global market sentiment dramatically reversed itself after the announcement by the U.S. Federal Reserve that was interpreted as being less concerned about inflation and they appeared to be adopting a more neutral bias toward interest rates. Aided by a rally in commodities, crude oil and copper specifically, as well as reports of another record quarter for bank earnings, the Canadian market ended on a strong note.

In the wake of the market volatility during the quarter, there was a general flight to quality that led to strong performance among more defensive and higher yielding equities. This activity supported the Canadian Core Guided Portfolio which remains heavily biased toward the interest-sensitive market sectors. The portfolio out performed the benchmark as it generated a total return of 3.0% over the quarter compared with the S&P/TSX 60 Index which increased by 1.8% over the same period. The best performing sector in the Canadian market was Telecommunication Services which rallied in response to takeover and merger speculation surrounding BCE Inc.

We were not surprised to have experienced some set-backs in North American stocks that have been on an upward trajectory for more than four years. From a tactical perspective, we remain cautious on the market in the short term for both seasonal and fundamental factors, but still have a positive outlook for equities over the next one to two years. Factors contributing to recent volatility include seasonality, questions around the strength of the global economy, decelerating earnings growth, delayed Fed easing (lowering of interest rates), and higher equity valuations. We are optimistic that the global economy will continue to demonstrate strength, earnings growth can be sustained, albeit at a slower pace, and that the underlying strength of corporate balance sheets, combined with low inflation and lower interest rates, will support higher equity prices. Short of company-specific news, the next positive catalyst for the market will be rate cuts by central banks that should lead to higher price/earnings multiples and an expansion in valuations.

Changes

No changes were made to the composition of the Canadian Core Guided Portfolio during the quarter. The current holdings performed well during the period and continue to offer well diversified exposure across the economic spectrum, consistent with the mandate of the portfolio. We will continue to monitor all portfolio holdings and seek additional investments in dominant, well managed growth companies. We will likely add two more positions to the portfolio in the coming months, moving to 20 equal weighted holdings of 5% each, thus providing optimum diversification in a concentrated portfolio.

Canadian Core Equity Guided Portfolio

Company	Symbol	Price *30-Mar-07*	Target Price	Dividend	Dividend Yield
Interest Sensitive:					
AGF Management Limited	AGF.B	$34.35	$45.00	$0.80	2.3%
Manulife Financial	MFC	$39.70	$43.00	$0.80	2.0%
Power Financial Corp	PWF	$38.98	$43.00	$1.07	2.7%
Rogers Communications	RCI.B	$37.79	$48.00	$0.16	0.4%
Royal Bank of Canada	RY	$57.50	$75.00	$1.84	3.2%
Sun Life Financial	SLF	$52.52	$58.00	$1.28	2.4%
TELUS Corp.	T	$58.90	$67.00	$1.50	2.5%
TransAlta Corporation	TA	$25.00	$28.00	$1.00	4.0%
Toronto-Dominion Bank	TD	$69.42	$81.00	$2.12	3.1%
Consumer Products:					
Shoppers Drug Mart	SC	$51.15	$59.00	$0.64	1.3%
Yellow Pages Income Fund	YLO.UN	$13.62	$15.25	$1.09	8.0%
Industrial Products:					
Canadian National Railway	CNR	$50.92	$72.00	$0.84	1.6%
Resource:					
Alcan Inc.	AL	$60.18	$60.00	$0.91	1.5%
Barrick Gold*	ABX	$32.94	$44.00	$0.25	0.8%
Enbridge Inc.	ENB	$37.66	$44.00	$1.23	3.3%
Petro-Canada	PCA	$45.15	$61.50	$0.52	1.2%
Suncor Energy	SU	$87.85	$112.50	$0.32	0.4%
Talisman Energy	TLM	$20.26	$24.75	$0.15	0.7%

**Currently Scotia Capital does not provide research coverage of Barrick Gold.*

Source: Scotia Capital; Bloomberg.

Canadian Income Plus Guided Portfolio

Stephen Uzielli — Portfolio Manager, Portfolio Advisory Group

Performance Update

Given the aforementioned transition by investors toward higher yielding stocks during the quarter, it's not surprising to observe the better absolute returns generated by the Income Plus Guided Portfolio which is managed by following a conservative, defensively oriented mandate. The portfolio increased in value by 3.0% over the quarter on a total return basis while the benchmark Dow Jones Canada Select Dividend Index moved higher by 1.4% over the same period.

Particularly strong during the quarter were Telecommunications Services companies TELUS Corporation and BCE Inc. that were the subject of takeover and merger speculation and moved higher by 10.1% and 4.0% respectively. Other contributors to performance were Yellow Pages Income Fund and Russel Metals.

Changes

The only change made in the portfolio during the quarter was the addition of Sun Life Financial Inc. We have communicated several times over recent months our desire to provide greater diversification in the portfolio by adding one or two additional investments that demonstrate a combination of both above-average income and growth characteristics.

Sun Life Financial is one of Canada's leading international financial services organizations providing a diverse range of insurance and wealth management products and services to individuals and corporate customers. We identified Sun Life as a candidate as it meets our entire criterion for inclusion in the portfolio. The company has predictable growth with good visibility on revenue and profitability; Scotia Capital estimates suggest 13% earning per share (EPS) growth through 2008. The valuation is attractive, trading at a price to earnings (P/E) ratio which is the lowest among Canadian insurance stocks. Recent additions to the management team provide the company greater depth, specifically as it relates to operating in the U.S. marketplace. The company recently increased the dividend by 7% to $1.28, with the potential to increase a similar amount in 6 months time as the company targets a payout ratio between 30% and 40%; the current yield is now 2.5%. And finally, Sun Life ranks highly in our quantitative screen of eligible stocks for the Income Plus portfolio that looks at several Dividend, Valuation, and Growth metrics.

By definition, this portfolio has a defensive bent to it as it continues to invest in a focused collection of lower risk, high-yielding equities designed for investors with an objective of regular income with modest capital appreciation.

Canadian Income Plus Guided Portfolio

Company	Symbol	Price *30-Mar-07*	Target Price	Dividend	Dividend Yield
Interest Sensitive:					
BCE Inc.*	BCE	$32.65	Restricted	$1.46	4.5%
Canadian Imperial Bank of Commerce	CM	$100.66	$115.00	$3.08	3.1%
Power Financial Corp.	PWF	$38.98	$43.00	$1.07	2.7%
Royal Bank of Canada	RY	$57.50	$75.00	$1.84	3.2%
Sun Life Financial	SLF	$52.52	$58.00	$1.28	2.4%
TELUS Corp.	T	$58.90	$67.00	$1.50	2.5%
TransAlta Corp.	TA	$25.00	$28.00	$1.00	4.0%
Toronto-Dominion Bank	TD	$69.42	$81.00	$2.12	3.1%
Consumer Products:					
Yellow Pages Income Fund	YLO.UN	$13.62	$15.25	$1.09	8.0%
Industrial Products:					
Russel Metals Inc.	RUS	$28.55	$30.50	$1.60	5.6%
Resource:					
Enbridge Inc.	ENB	$37.66	$44.00	$1.23	3.3%
Husky Energy Inc.	HSE	$80.66	$85.50	$2.00	2.5%
TransCanada Corp.	TRP	$38.35	$43.00	$1.28	3.3%

** Currently Scotia Capital is Restricted from publishing research on this company.*

Source: Scotia Capital; Bloomberg.

U.S. Core Guided Portfolio

Stephen Uzielli — Portfolio Manager, Portfolio Advisory Group

Performance Update

The U.S. stock market generated more modest returns than its Canadian counterpart, as it lacks the heavy emphasis on resource stocks. Obviously the market was influenced by the same global concerns during the period and was subject to similar bouts of volatility, but in the end, the S&P500 Index posted a total return of 0.6%. As experienced north of the border, the Telecommunications Services sector led all other sub-indices, followed by Industrials and Consumer Discretionary stocks.

The U.S. Core Guided Portfolio outperformed in March, but for the first quarter of 2007 it lagged slightly, returning 0.4%. The biggest contributors to performance in the period were investments in AT&T Inc., Edison International, and CVS Corporation, which helped to offset the negative returns from the shares of Lehman Brothers, which the market has punished for its exposure to sub-prime lending, and Motorola Inc. which has announced weaker than expected earnings for both their fourth quarter, and their yet-to-be released first quarter.

Changes

During the quarter we removed the holding in GlobalSantaFe and replaced it with an investment in another Energy company: Transocean Inc. We continue to like the prospects for GlobalSantaFe and believe it represents good value at current levels. In fact all the macro drivers that support an investment in Transocean remain equally valid to the outlook for GlobalSantaFe. Unfortunately the stock is not a member of the S&P500 Index which is a criterion in the Investment Policy Statement that governs this portfolio, and hence the switch.

Transocean Inc**.** is the world's largest offshore drilling company with 89 mobile offshore drilling rigs, and the largest deepwater driller with 28 rigs that can drill in more than 4500 feet of water. The company has grown through both merger and acquisition as well as via the largest newbuild construction program in the industry. Transocean specializes in construction of oil and gas wells in deep water and/or harsh environments, and operates in offshore territories around the world. The offshore drilling sector remains an attractive area for investment due to compelling valuations and multi-year earnings visibility resulting from firm backlogs and long-term contracts that extend beyond 2010. The deepwater drilling market is somewhat insulated from a potential oil price decline as the economics of deepwater drilling are still attractive at even a US$35-US$40 oil price.

Transocean holds almost 50% market share in the ultra-premium segment of the deepwater drilling market. Contracted order backlog for the company is now US$20.8 billion which provides confidence in future cash flow growth. The company's valuation is attractive and the stock ranks in the first decile of our Industry Relative quantitative analytical screen.

U.S. Core Guided Portfolio

Sector	Symbol	Price *30-Mar-07*	Target Price	Dividend	Dividend Yield
Interest Sensitive:					
AT&T Inc.	T	$39.43	$41.00	$1.42	3.6%
Allstate Corp	ALL	$60.06	$68.00	$1.52	2.5%
Bank of America*	BAC	$51.02	$59.00	$2.24	4.4%
Edison International	EIX	$49.13	$52.00	$1.16	2.4%
JP Morgan Chase	JPM	$48.38	$60.00	$1.36	2.8%
Lehman Brothers	LEH	$70.07	$80.00	$0.60	0.9%
Wells Fargo*	WFC	$34.43	$40.00	$1.12	3.3%
Consumer Products:					
CVS Corp	CVS	$34.14	$44.00	$0.24	0.7%
Eli Lilly	LLY	$53.71	$64.00	$1.70	3.2%
Wal Mart Stores	WMT	$46.95	$59.00	$0.88	1.9%
Walt Disney*	DIS	$34.43	$39.00	$0.31	0.9%
WellPoint Inc	WLP	$81.10	$82.00	$0.00	0.0%
Industrial Products:					
Caterpillar Inc	CAT	$67.03	$78.00	$1.20	1.8%
Cisco Systems	CSCO	$25.53	$35.00	$0.00	0.0%
General Electric	GE	$35.36	$41.00	$1.12	3.2%
Motorola Inc	MOT	$17.67	$24.00	$0.20	1.1%
Oracle Corp	ORCL	$18.13	$24.00	$0.00	0.0%
Resource:					
Transocean Inc.	RIG	$81.07	$106.00	$0.00	0.0%

* *Credit Suisse does not currently provide research coverage*

Source: Scotia Capital; Credit Suisse.

Core-Plus Fixed Income Guided Portfolio

Chris Kennedy, CFA — Associate, Portfolio Advisory Group

Outlook

In the short term, expectations remain mixed over whether the Federal Open Markets Committee (FOMC) will cut rates late in 2007 or instead remain on hold to help mitigate their inflation concerns. Scotia Capital Fixed Income Research believes that in the near term, bond yields have the potential to drift higher before beginning to trade within a range. We have also seen negative sentiment for the short-term bonds through technical indicators during the first half of March. The U.S. 10-year bond broke below 4.50% more than once, but failed to hold below that level, signifying strong resistance to lower yields and leading us to believe there is little upside potential for clients buying longer dated maturities at this time.

However, Scotia Economics continues to forecast lower yields in 2007 on the back of slower economic growth in North America, fuelled by continued weakness in the U.S. housing sector. Just as the housing sector saw a rise over the last few years, the decline is expected to be prolonged as well, and we expect the downward effect on the U.S. economy to continue into the end of 2007. Since the beginning of the year we have seen evidence of this, through the continued decline in median home prices, and with rising defaults in the sub-prime mortgage sector, all indicating further weakness ahead.

As the Central Bank rate cut/rate hike debate continues, we note that Scotia Economics is calling for two 0.25% cuts to the overnight rate from both the Bank of Canada and the U.S. Federal Reserve (the Fed) before the end of the year, with the first cut from each occurring in the third quarter. However, at time of writing, the market consensus, as measured by trading of futures contracts, is showing mixed forecasts. The 90-day Eurodollar futures contracts are pricing in only one interest rate cut of 0.25% from the Fed by the end of the year, with only a 50% chance of the first cut occurring in September. In Canada, Bankers Acceptance futures contracts are currently only pricing in a 20% chance of a cut of 0.25% by the end of 2007. In Canada recent stronger than expected economic news including strong employment creation have reduced the market's perception of rate cuts before the end of the year.

With these fundamental and technical factors, we expect bond yields to drift higher in the short term. Therefore, we recommend active clients remain in short-term maturities, and wait for a clearer picture over the future direction of rates. If the interest rate forecast from Scotia Economics plays out, we would recommend the two-year area of the Canadian curve as we expect short-term yields will fall further than longer-term yields.

Investment Objective

The ScotiaMcLeod Core-Plus Fixed Income Guided Portfolio is designed and managed for our clients with a moderate to higher risk investment profile, whose investment horizon and objectives focus on both current income and a reasonable level of returns to protect against future inflation. Based on these criteria, the portfolio's objective is to meet or exceed the performance of the portfolio's benchmark, the Scotia Capital Universe Bond Index. Typically, this rate of return is not achieved every year but rather it is the desired average performance over a longer-term time horizon. Approximately 75% of the portfolio is placed in a 10-year laddered bond portfolio and 5% is placed in inflation-protected instruments, comprising the core holdings of the portfolio. The balance of 20% of the portfolio is focused on active, value added trade strategies that attempt to help the portfolio outperform the benchmark.

Current Active Strategies

On February 28, 2007 we decided to make a change to our active strategy. Since the middle of February, bond yields in both the U.S. and Canada had declined substantially on the back of weaker U.S and Canadian economic news and technical trading momentum. Specifically, the yield on the Government of Canada 10-year bond had fallen 14 basis points, and the yield on the 30-year bond had fallen 12 basis points. In this environment, we saw less potential for lower yields (further gains) in the long end of the Canadian bond market than we did for potential losses. Therefore, with both of our long Provincial bond positions out performing the benchmark Scotia Capital Universe Bond Index since the trades were initiated, we decided to sell and take our profit. With the proceeds from the Province of Nova Scotia 4.50% June 1, 2037 and the Province of Manitoba 4.30% March 1, 2016, we invested in cash money market product, a one-month Bank of Nova Scotia Bankers Acceptance (BA).

In addition, the decision to unwind our long positions at current trading levels was also based on a credit perspective. Coinciding with the mid February large sell off in North American equity markets, we saw credit spreads (the yield differential) for Provincial and corporate bonds begin to widen from their respective benchmark bonds. This is a trend that we believed, and continue to believe, will persist, and weigh on Provincial and corporate bond performance going forward.

On March 27, when our active position matured, we continued with the strategy and rolled into another one-month Bank of Nova Scotia BA. Although we are investigating active strategies outside of money market instruments, either domestic or foreign, we currently do not see significant return opportunities above short-term money market instruments. Therefore, we will remain patient, and wait for further opportunities in the market. As it stands, our maturity of the new Bankers Acceptance lines up well with the next Bank of Canada meeting on April 24th, which may offer new information to the market.

Performance Update

The Core-Plus Portfolio posted a positive total return of 1.26% in the first quarter, outperforming the benchmark Scotia Capital Universe Bond Index, which returned 0.91%. This out performance was attributed to our overweight position in long Provincial bonds. As expected, the long Provincial sector had strong relative performance compared to shorter dated and Canada sector bonds. Overall, the two past Provincial bond trade ideas have been very good for the portfolio, each having out performed the benchmark since the trades were initiated, as illustrated below.

Active Trade Relative Performance

Name	Total Return 10/11/06 – 02/27/07	Total Return 04/03/06 -02/27/07
Nova Scotia 4.50% June 1, 2037	4.73%	
Manitoba 4.30% March 1, 2016		6.49%
Scotia Capital Universe Bond Index	2.32%	5.74%
Difference	**2.41%**	**0.75%**

Source: PC Bond.

In addition, our decision to stay short in money market instruments for the month of March has provided positive returns. The Core Plus Portfolio for March returned 0.12% whereas the benchmark Scotia Capital Bond Universe Index posted a negative total return of -0.24%.

Core-Plus Fixed Income Guided Portfolio

Issuer Name	Coupon	Maturity Date	Weighting*
Core Positions			
CMHC	5.300	03-Dec-07	7.4%
Bank of Nova Scotia	4.295	22-Aug-08	7.5%
New Brunswick	5.250	02-Jun-09	7.5%
Bell Canada	5.500	12-Aug-10	5.0%
Export Development Corp.	5.750	01-Jun-11	7.4%
Manitoba	5.250	03-Dec-12	7.5%
Royal Bank Of Canada	5.450	04-Nov-13	7.4%
Canada	5.000	01-Jun-14	7.4%
Canadian Tire Corp	4.950	01-Jun-15	7.4%
Saskatchewan	4.500	23-Aug-16	7.4%
Canada Real Return Bond	3.000	01-Dec-36	7.5%
Active Positions			
Bank of Nova Scotia Bankers Acceptance**	0.000	25-Apr-07	20.5%

** For quarter ending March 30, 2007*

*** Position since March 27, 2007*

Source: ScotiaMcLeod Portfolio Advisory Group.

The author(s) of the report own(s) securities of the following companies: Enbridge Inc., TransCanada Corporation, Canadian National Railway Company.

The supervisors of the Portfolio Advisory Group own securities of the following companies. Manulife Financial Corporation, TELUS Corporation, Canadian National Railway Company, Petro-Canada, TELUS Corporation, General Electric Co.

Scotia Capital is a member of the Canadian Investor Protection Fund (CIPF).

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