Advice**Matters**

SUMMER 2019

What does a Portfolio Manager do?

A conversation with Judith Chan, Director of Portfolio Solutions, Scotiabank

Judith Chan
Director, Portfolio Solutions
Scotiabank

Your Scotiabank advisor is your primary contact when it comes to building a financial plan to meet your goals–whether that's retirement, a new home or funding your child's education. But do you know who's responsible for guiding the funds that you and your advisor select for your financial plan?

Portfolio managers perform a range of vital functions behind the scenes, overseeing the daily management of mutual funds, while continually surveying markets and researching companies in order to find the most suitable investments available. When most people think of a portfolio manager, they often envision a "stock-picker," someone in charge of buying and selling securities. However, a portfolio manager's duties often vary depending on the size and scope of the funds they manage.

To get a better understanding of what a portfolio manager really does, we recently spoke with Scotiabank's Judith Chan.

> Our job is not just to create portfolios but to create portfolios with certain characteristics that are designed to deliver unique investor outcomes, Judith says, whether that's to protect capital, maximize growth, deliver a high level of income or a combination of all of the above.

As director of Scotia Portfolio Solutions, Judith is anything but a traditional portfolio manager. Overseeing a range of **unique programs** with more than $35 billion in assets under management, Judith is much more focused on the big picture.

Instead of buying and selling individual stocks and bonds, Judith is constantly evaluating and selecting portfolio managers (and their respective funds) to ensure that Scotia Portfolio Solutions have experienced investment talent available–and constructing portfolios with an optimal blend of assets to meet each fund's objectives.

"Our job is not just to create portfolios but to create portfolios with certain characteristics that are designed to deliver unique investor outcomes ," Judith says, "whether that's to protect capital, maximize growth, deliver a high level of income or a combination of all of the above."

Regardless of their unique investment objectives, each Scotia Portfolio Solution features broad diversification to help reduce volatility, active management to capture selective opportunities and a heavy focus on strategic asset allocation–ensuring each of the five funds has an optimal blend of assets to suit investors with various tolerances to risk.

What is Strategic Asset Allocation?

The process of dividing your investments among different asset categories–such as stocks, bonds and cash–in order to better manage risk.

...over

...continued

A 15-year veteran of the finance industry, Judith is effectively an "asset allocator" dedicated to understanding how different combinations of asset classes behave over time –as opposed to being a portfolio manager, in the traditional sense.

A collaborative team

With three dedicated analysts on her team, Judith acknowledges that every day is different when it comes to managing the Portfolios. "In the team, we monitor how our investments are doing and discuss anything significant–whether it's the market, the managers or particular performance issues. We discuss and generate ideas, and then we will go back to analyze those ideas," she says.

Judith notes that 90% of the team's time is spent surveying markets, evaluating different asset classes and researching portfolio managers and their respective investment management companies. All with a view to generating positive long-term outcomes for investors.

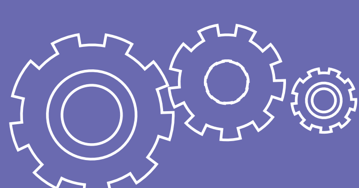
Partnering with the right Portfolio Managers

Trying to find the best managers for a particular asset class (like U.S. equities or emerging-market bonds) is a massive undertaking with global scope. Consequently, Scotia Portfolio Solutions hire investment talent from across the globe–from the U.S. and Canada, all the way to Scotland and Australia.

While strong, consistent performance is certainly a key consideration for manager selection, Judith notes that it's equally important to find managers whose investing styles and philosophies truly complement one another, which in turn, helps ensure each Scotia Portfolio Solution is well diversified.

Additionally, Judith says she and her team are always looking for investment companies with strong investment talent, a stable corporate environment, stringent risk management, as well as strict adherence to regulations. "Having strong performance is only a starting point," she says.

> We have sophisticated tools and software to help us understand the overall risk that we're taking. We do statistical analysis to see how different combinations of asset classes behave over time in different environments, and we often put the portfolios in 'fire drills' to determine if the risks are acceptable.



Just like any companies, there are often personnel and corporate changes that can impact the investments. Consequently, the roster of managers is continually monitored to ensure their performance remains strong and that they don't deviate from their stated investment style and objective. Constant dialogue with the partner investment companies and portfolio managers is essential.

Risk management, a key concern

Although continuously monitoring and evaluating portfolio managers provides an important safeguard, Judith is quick to highlight the Portfolios' many layers of risk management. "We have sophisticated tools and software to help us understand the overall risk that we're taking. We do statistical analysis to see how different combinations of asset classes behave over time in different environments, and we often put the portfolios in 'fire drills' to determine if the risks are acceptable."

While it's always important to have that big picture in mind, she stresses that each individual fund is also meticulously examined to ensure the fund hasn't strayed from its stated investment objective or become overexposed to a particular asset class, sector or region. "We take risk management very seriously, and, as always, diversification remains paramount," she says.

Ultimately, all-in-one funds like Scotia Portfolio Solutions strive to take the complexity out of investing and to provide peace of mind for both advisors and investors alike.

"We have a range of dedicated solutions that have everything optimized and continuously managed," Judith says. "What may not be obvious is the complexity of the portfolios. All of that work–the rebalancing, asset allocation, fund selection, risk management and oversight–is done behind the scenes. That's really important to understand."

While most clients never actually meet the investment professionals behind the funds they're invested in, Scotiabank advisors meet regularly with them to get their insights on markets and the funds they manage. Having this in-depth understanding is essential for advisors so that they can provide the best possible financial advice to investors.

To learn more about the various investment options available through Scotiabank, visit www.scotiafunds.com or talk to a Scotiabank advisor today.

INVESTOR INSIGHTS

Rethinking risk

Even though equity indexes in Canada and the U.S. have regained ground since last December, a large number of long-term investors remain on the sidelines in conservative investments – perhaps uneasy from the ongoing U.S.-China trade war or the looming Brexit saga.

Typically, when investors think about risk, they become very focused on the day-to-day fluctuations in the markets and their investments, with a heavy emphasis on recent activity. Behavioural finance experts call this Recency Bias. It's the same phenomenon that pushes sports fans to overemphasize their team's latest performance, rather than their long-term track record. Or consider the poker player who doubles his bet on the faith of his last winning hand. Definitely not a sound approach.

Too little risk is risky

The downside of letting actual or perceived market risk impact long-term planning is very real. An overly conservative approach to investing can limit your growth potential, and with that, increase the risk of falling short of your retirement goals or running out of money, especially after factoring in inflation.

What is longevity risk?

Longevity risk is one of the main concerns facing retirees. It refers to the risk of outliving your savings. Longevity issues arise as people enter retirement, generally with a fixed amount of money to fund their retirement years, but no fixed idea of how long their money needs to last.

Diversifying your portfolio to include a balance of conservative and growth-oriented investments has the potential to boost the value of your portfolio over the long run and combat longevity risk.

Any move to increase the return potential of your portfolio comes with added risk, but that risk can be managed with proper planning and the right balance of investments for each stage of your life. ■

Life expectancy in Canada

The life expectancy in Canada for men is 81 years and 85 years for women.[1]

Longer life expectancy means that people need to fund longer retirements.

81 years

85 years

[1] 2019 World Population Review (http://worldpopulationreview.com/countries/life-expectancy/)

According to a Scotiabank poll

Canadians' top retirement concerns[2]

70% Not having enough money to support one's retirement

66% Underestimating how much money is needed in retirement

[2] Source: Scotiabank–Global Brand and Customer Insights, Investment Poll, January 2019.

Speak to a Scotiabank advisor to ensure you have an appropriate mix of investments for all your goals.

RETIREMENT PLANNING

5 KEY considerations for retiring early

As Canadians approach the end of their working years, many dream of retiring early and heading off to their cottage or the Florida coast. And while it never hurts to dream, pursuing early retirement is an option that shouldn't be taken lightly.

No matter what stage you're at in thinking about or planning for early retirement, here are some key issues to consider before making the leap.

The Magic Number: How much should I save?

According to a 2019 investment poll by Scotiabank, the majority of Canadians (65%) who have retired or are planning to retire estimate they will need to save less than $1 million to fund their ideal retirement. The average amount thought to be needed to fund an ideal retirement is approximately $700,000 ($697,002).[1]

Exactly how much you'll need depends on who you ask. Many financial planners suggest that $1 million might be the threshold for a safe and secure retirement, while, at the other end of the spectrum, some look to get by with only Old Age Security (OAS) and Canadian Pension Plan (CPP) payments–not a sound financial plan.

While there's no hard number for retirement savings–so much will depend on your individual spending habits and lifestyle goals–now's the time to assess what you've saved so far and can expect to have.

What's the value of your retirement and savings accounts? What about your current assets (home, cars, real estate investments etc.)? What can you expect to receive from OAS and CPP (keeping in mind that drawing on benefits sooner may reduce your payout)? Do you still have debt?

The Other Magic Number: How much will I spend?

Many retirement experts suggest that prospective retirees should expect to spend about 70-80% of their pre-retirement budget. If you're like most Canadians and haven't been in the habit of keeping a budget, take some time to review your current expenses. Factor in all your fixed costs (rent or mortgage, utilities etc.) and then review your credit card records and bank statements to track your discretionary spending.

The nice thing about tracking your expenses is that you'll probably identify a number of key areas where you can eliminate spending–and ultimately put more money away for retirement.

What will my future health care costs be?

Unforeseen medical costs can derail anyone's retirement plans. While it's impossible to foresee the future, it's important to be realistic about future health costs–especially if you're suffering from chronic health issues, such as diabetes or hypertension. If you haven't had a recent physical, make plans to schedule one soon.

[1] Source: Scotiabank–Global Brand and Customer Insights, Investment Poll, January 2019.

...over

Canadians and their retirement plans

26% expect to retire from the workforce between the ages of **65 to 69**

16% between the ages of **60 to 64**

10% between the ages of **55 to 59**

Source: Scotiabank–Global Brand and Customer Insights, Investment Poll, January 2019.

Primary source of retirement funds for Canadians planning to retire:

- **25%** > Personal employer-sponsored pension plan
- **24%** > Personal savings held in RRSP/RRIF
- **19%** > Government pension programs
- **11%** > Personal savings held outside RRSP/RRIF

Source: Scotiabank–Global Brand and Customer Insights, Investment Poll, January 2019.

...continued

Top priorities for Canadians who plan to or have retired

25% Keeping healthy and maintaining a healthy lifestyle

24% Maintaining a comfortable lifestyle

16% Travelling

Source: Scotiabank–Global Brand and Customer Insights, Investment Poll, January 2019.

Are you emotionally ready to retire?

While that might seem like a rhetorical question, the fact is that many potential retirees haven't considered the reality of a life without work. For many of us, work provides a sense of self and an essential social outlet. Does your job still give you a sense of satisfaction? Consider now how you'll fill that void in retirement.

What about working part-time?

Once you crunch all the numbers, you might conclude that early retirement might not be financially viable. If you feel like you're close, but not quite there, you might consider working part-time before retiring completely. That way you'll still have an income stream, albeit reduced, and a potential source of satisfaction to fill your time. It's not an option for everyone, but it may be worth exploring before going forward with early retirement.

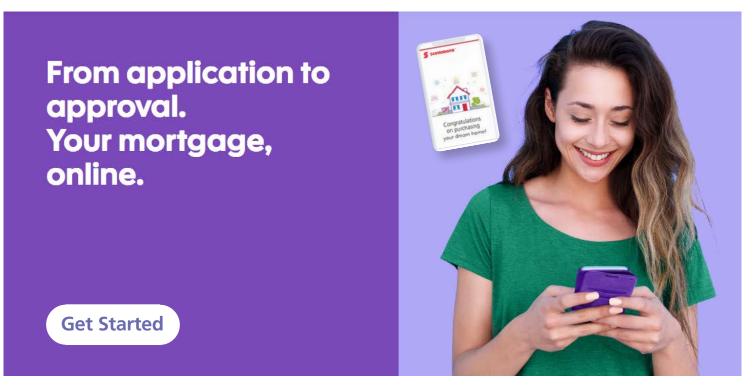
Planning for retirement can be an overwhelming task, but Scotiabank can help.

With our professional advice, financial-planning tools and range of investment options to choose from, we can help you customize a retirement plan right for you. Talk to your Scotia advisor today. ■

NEW APPS

New Scotiabank tools to make banking easier

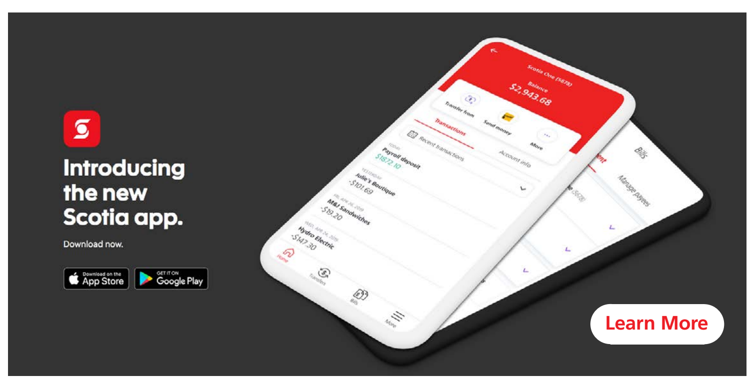
Scotiabank eHOME



Introducing **Scotiabank eHOME**, a digital mortgage experience that lets you apply online, track your status and know the instant you're approved.[1]

[1] All mortgage applications are subject to meeting Scotiabank's standard credit criteria, residential mortgage standards and maximum permitted loan amounts.

Scotia mobile banking app.



Features:

- Transfer money and pay bills with just a few taps and a swipe
- Deposit a cheque
- Send money
- Update your password
- Add new payees for bill payments and e-Transfers
- Access your statements anytime, anywhere

FINANCIAL PLANNING

3 essential tips for first-time homebuyers

Be ready to seize the moment

While some first-time homebuyers may think the first step to home buying is house shopping itself, it's better to take some preparatory steps before you get deep into the house hunt.

Here are some tips to help you be ready to "seize the moment" when you spot the perfect house.

Mortgage default insurance is required by the Government of Canada when home buyers are putting less than the 20% down payment typically needed to qualify for a conventional mortgage. This type of insurance compensates mortgage lenders for losses caused by a mortgage default.

Tip #1
Save that down payment

The first step in the home-buying process should be to ramp up savings. Remember, the more of a down payment you have, the less you'll have to borrow. And, if you have at least a 20% down payment, you won't have to pay mortgage default insurance premiums.[1] Also, by saving a good nest egg you'll be better prepared for the unexpected expenses that come along with a new home, from legal fees and moving expenses to routine upkeep.

You can begin building a down payment by creating a budget and deciding how much you can save each month (Check out **Scotiabank's Money Finder Calculator**). You'll see that even $100 per month can quickly grow into a sizable amount over time.

Also consider other options like rounding up your purchases and putting aside your change each time you make a purchase. A banking program like **Scotiabank's Bank the Rest**® savings program automatically helps put money into your savings account every time you use your debit card to make purchases.

You may also explore other sources for a down payment, like the **Home Buyers' Plan**, a program created by the federal government that allows first-time homebuyers to withdraw funds from their Registered Retirement Savings Plan (RRSP) to put towards the down payment on their first home.

Earlier this year, the federal government increased the amount that first-time home buyers can withdraw tax-free from their RRSP from $25,000 to $35,000. This limit had not been adjusted for 10 years. First-time home buyers purchasing a home jointly with a spouse or partner can now each withdraw up to $35,000 from their own RRSP under the Home Buyers' Plan, for a total down payment of $70,000.

1 Some conditions may apply.

Tip #2
Know how much home you can afford

Lenders typically calculate your ability to afford a mortgage based on traditional debt-to-income principles relating to your monthly housing costs, your family's gross monthly income and all of your other debt obligations, including loans, credit cards, lease payments, etc.

You can get a good sense of the mortgage you could qualify for by trying out a convenient online mortgage calculator, such as Scotiabank's **What Can I Afford?** tool.

Tip #3
Get preapproved

Once you've set your savings plan and determined how much home you can afford, getting a preapproved mortgage is the next step. This is important because, if the perfect home comes along, you may need to act quickly, especially in a competitive housing market. With a preapproved mortgage, sellers know that you're creditworthy, and you have the ability to make an offer right on the spot.

A Scotiabank advisor can suggest a variety of borrowing solutions that meet your needs and provide you with preapproved mortgage financing to help you achieve your home ownership dreams. ■

MARKET INSIGHTS

Market Recap

U.S. – China trade conflict continues to provide overhang for global economy.

While negotiations have had ups and downs, the trade conflict between the U.S. and China persists. Both sides have agreed to restart trade talks, and U.S. President Trump has offered concessions including not imposing additional tariffs that had been discussed, and an easing of restrictions on tech company Huawei. The International Monetary Fund (IMF) lowered its forecasts for economic growth in China, adding that the trade war with the U.S. is tilting the balance of risks to the downside. The economy showed an across-the-board slowdown in April, which the IMF expects to continue into the coming months.

The U.S. Federal Reserve signals dovish shift in sentiment.

During Q2 the U.S. Federal Reserve (The Fed) left its benchmark interest rate unchanged, but signaled a more dovish shift in sentiment since its last policy meeting. Fed Chairman Jerome Powell said the case for lower rates is building, and signaled that rate cuts could begin as early as July. The baseline economic outlook remains "favorable," according to Powell, but risks continue to rise, including the negative impact of rising trade tensions and signs that economic growth is slowing overseas.

Tensions escalate between U.S. and Iran.

Iran's Revolutionary Guard shot down a U.S. surveillance drone in the Strait of Hormuz. The two countries dispute the circumstances leading up to the event. While Iran claimed the drone violated its territorial airspace, the U.S. called the missile fire "an unprovoked attack" in international airspace. President Trump approved military strikes against Iran, but called them off at the last minute. The tension between the countries is rooted in the withdrawal by the U.S. from Iran's 2015 nuclear deal, and the imposition of crippling new sanctions on Tehran.

Brexit confusion continues in U.K.

British Prime Minister Theresa May announced her resignation. She was unable to win approval for a withdrawal agreement with the EU, and saw erosion of support from the Conservative party. Boris Johnson was elected as the new Tory leader, and he inherited the complicated and uncertain Brexit situation. The EU has refused to renegotiate the withdrawal agreement, and a majority of British MPs don't want the country to leave without a deal. The outcome is as unclear as ever, with the U.K. scheduled to leave the EU on Oct. 31. ■

MARKET PERFORMANCE (YTD Returns in local currency as at June 28, 2019). Source: Bloomberg

▲6.52%	▲16.19%	▲18.54%	▲17.39%	▲10.70%
FTSE Canada Universe Bond Index	S&P/TSX Composite Index	S&P 500 Index	MSCI World Index	MSCI Emerging Markets Index

Scotiabank®

4943-2019-0702 R7