



Schwaben
Capital Group Limited

INVESTING IN A LOW INTEREST RATE ENVIRONMENT

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Bank of Canada Rate

1990 - 2012

CANADA INTEREST RATE

Benchmark Interest Rate



source: TradingEconomics.com; Bank of Canada



Long Term Interest Rates - 22 years

Canada's Government 10 Year Bond Yields

- **declined 27 bp or 0.27% in the last 30 days**
- **declined 92 bp or 0.92% over the last year**
- **Since 1989**
 - **averaged 6.01 percent**
 - **high of 11.91 percent in April of 1990**
 - **record low of 2.07 percent in September of 2011**

Government of Canada 10 year Bond Yield 1990 - 2012



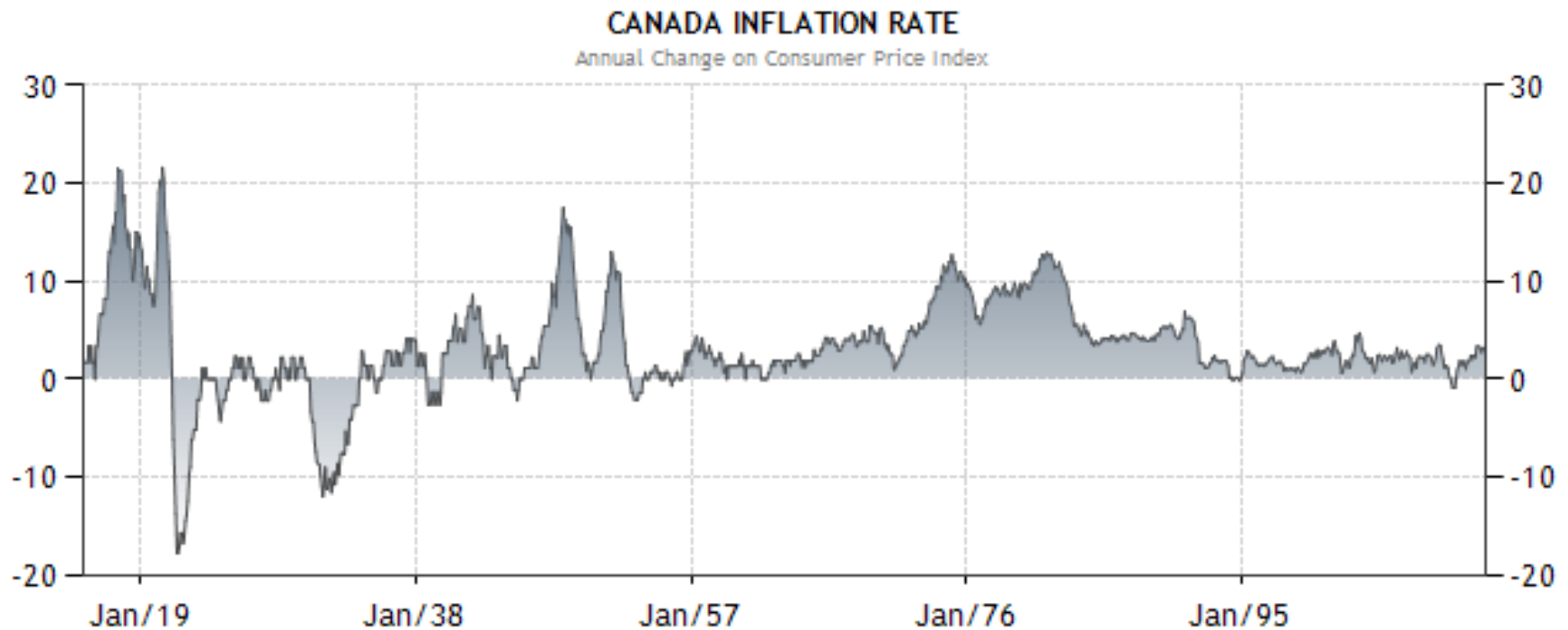
source: TradingEconomics.com; Treasury Board of Canada



The inflation rate in Canada

- **2.9 % in October, 2011**
- **From 1915 until 2010, the average of 3.26 %**
- **high of 21.60 percent in June, 1920**
- **record low of -17.80 percent in June, 1921**

Inflation 1915 - 2012



source: TradingEconomics.com; STCA - Statistics Canada

Inflation Rate 1990 - 2012



source: TradingEconomics.com; STCA - Statistics Canada



Alternatives to Government Bonds

- **Corporate & Municipal Bonds**
 - Utilities
 - Banks & Life Insurance
 - Stable Blue Chips
- **Preferred Shares**
 - Utilities
 - Banks & Life companies
- **Blue Chip dividend paying common shares**
 - Utilities
 - Financial -> Banks
 - Non- resource / non-cyclicals
- **Stable Real Estate Investment Trust**
 - Residential
 - Office Properties



Corporate & Municipal Bonds

- **good interest coverage**
 - Cash from operations should cover interest expense over extended period of time
- **high quality assets and solid covenants**
 - Company should have stable long term assets and cash generating capability
- **stable issuer**
 - Non-cyclical and stable long term earnings
 - BBB – A or better credit rating
- **Current Yield-to-Maturity**
 - 2.5% – 6%



Preferred Shares

- **good dividend coverage**
 - Dividends should be well covered
 - Preferred dividends rank ahead of common
- **non-cyclical industry**
 - Utilities
 - Financials
- **stable issuer**
 - Blue Chip company in non-cyclical industry
- **current yields**
 - 3% to 6%
 - Dividends offer tax credits ->higher after tax return



Blue Chip Dividend Common Equity

- **Non-cyclical industry**
 - Utilities
 - Financials - Banks, Asset Managers and Life* companies
- **Good dividend coverage and growth**
 - payout ratio
 - cash flow
- **Good Financials**
 - valuation
 - growth
 - leverage
- **Current Yield**
 - 3.5% to 6.5%
 - Dividends offer tax credits versus interest or distributions



Real Estate Investment Trusts

- **non-cyclical holdings**
 - Apartment building
 - Office properties
- **geographically diversified**
 - Intercity and interprovincial
- **stable distributions**
 - Long term and blue chip leases
 - Leases are only as good as tenants
- **modestly depreciating assets**
 - Prefer older renovated over new
- **Current yields**
 - 3.5% to 6.5%
 - Higher distributions may not be covered and sustainable



Specific Securities

- **Bonds**

• Manulife Financial	5.161%	6/26/2015	3.37%	Ah
• BCE	5.00%	2/15/2017	2.94%	A1
• Fairfax Financial	6.40%	5/25/2021	6.28%	BBBm

- **Preferred shares**

• BNS Pref. T			5.7%	
• Power Financial Pref. G			5.8%	

- **Common shares**

• BCE			5.2%	
• TransCanada Corporation			4.0%	
• Emera			4.1%	
• CIBC			5.0%	

- **Real Estate Investment Trusts**

• Canadian Apartment Properties REIT			5.1%	
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Non-cyclical / Counter-cyclical

- Generally Utilities
- Price movements reduce portfolio volatility
 - Desirable portfolio attribute
- Over the long run improves portfolio return especially on a risk adjusted basis

Utility - TransCanada Corporation



Utility - Emera



Utility - Enbridge



Telecom/Utility - BCE





In Contrast – cyclical equities less desirable

- Generally resource based stocks
- Increases rather than reduces portfolio volatility
 - Undesirable
- Does not necessarily add to portfolio return
 - It takes a 100% positive return to alleviate a 50% loss

Cyclical Equity – Teck Resources



Cyclical Equity – Talisman Energy



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