Quarterly Portfolio Review
As at December 31, 2014

NELSON
PORTFOLIO MANAGEMENT CORP.

Contents

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Nelson Portfolio Management Corp.

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Disclosures: “Douglas Nelson is registered as Portfolio Manager for Nelson Portfolio Management Corp. and is responsible for making all final decisions regarding client accounts and the NFC Tactical Asset Allocation Pool. Doug was the author of this report, but any reference to “our” or “we” represents the collective efforts and contributions of various members of the Nelson team.”

Announcements:

1. **RRSP Top Up Loans:** If you contribute to your RRSP's on a monthly basis, an excellent way to significantly increase your total savings is to do an annual RRSP top up loan. The amount of the loan should be equal to the total amount of expected tax refund when you file your taxes this year. By following this approach, you will be able to pay off the loan right away each year while significantly increasing your RRSP savings. If this is of interest to you, please contact Doug or Ian.

2. **Annual Reviews:** It is a regulatory requirement to complete a regular review with our clients. Over the next few months Doug and Ian will be contacting you to complete an annual review document. This document helps us ensure that we are up to date on your current objectives, risk profile and overall situation. Please assist us by completing these documents as quickly as you are able.

3. **Discrepancies between the Nelson portfolio reports and the NBCN monthly statements:** We see that in some cases there are some small discrepancies between the total portfolio value seen on the Nelson statements and the NBCN monthly statements. In most situations these discrepancies are caused by the timing of when the NBCN statements are produced and when the data concerning the quarterly distribution for the NFC Tactical Asset Allocation Pool is provided to NBCN. This is a timing issue and not an error. The Nelson statements include the proper number of pool units and the pool unit value after the quarterly distribution has been paid. Should you have any questions or concerns, or if you identify other discrepancies, please let us know immediately.

4. **Paper vs. E-Mail:** It is NPMC's preference, both from the perspective of cost and time, to provide to you this quarterly portfolio package by e-mail. However, if you would like to receive this package in paper format, please let us know and we will accommodate your preference accordingly.

RRSP Contribution Deadline:
May 2nd, 2015.

Maximum TFSA contribution for 2015: $5500.

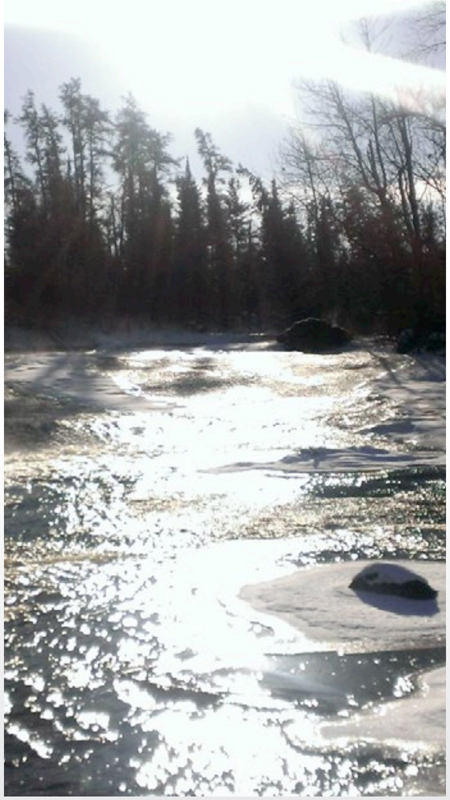
Important Disclosures:

- **Past Returns Do Not Guarantee Future Returns:** At the bottom of the Nelson reports you will see a disclosure that was written by NBCN. In addition to this disclosure you should also know i) past performance does not predict or guarantee future performance, ii) your investments are managed by Nelson Portfolio Management Corp. as an actively managed portfolio, iii) your portfolio will fluctuate over time and iv) your portfolio and your portfolio returns are not guaranteed in any way.

- **Has Your Situation Changed Since We Last Met?** It is necessary for you to keep us up to date of any significant changes in your personal circumstances such as important changes in your income, career, marital status, change in residence address, change in e-mail address, retirement, receipt of inheritance or change in your net worth. These changes may impact the risk profile of your personal circumstances, which may in turn impact the risk profile of your portfolio. If anything comes to mind, please contact us immediately.

- **NFC Tactical Asset Allocation Pool Disclosure:** The NFC Tactical Asset Allocation pool is a related or connected issuer of NPMC. This means that the pool was established by NPMC for the benefit of NPMC clients. NPMC is paid a management fee for the day to day portfolio management responsibilities of the pool. The pool is not distributed through other advisors or institutions. This means that if you were to transfer your account away from NPMC, your shares of the NFC Tactical Asset Allocation Pool would need to be sold at that time. If the pool is held within a non-registered portfolio, some capital gains taxes may apply. To ensure other clients are not negatively impacted by this change, NPMC reserves the right, as per the terms of the portfolio management agreement, to transition your exit from the NFC Tactical Asset Allocation Pool over a maximum period of 90 days. Due to the diversity and liquidity of the NFC Tactical Asset Allocation Pool, we do not expect any transition out of the pool to take longer than a few days.

- **Other Questions or Concerns:** Should you have any other questions or concerns, please communicate them to Doug Nelson, President, Portfolio Manager of Nelson Portfolio Management Corp. Contact information is provided at the beginning of this report.



Market Commentary

The following commentary represent the opinions and analysis of Doug Nelson, President, Portfolio Manager, Nelson Portfolio Management Corp. as at January 8, 2015.

Market Statistics:

- Over the past three months the stock market in Canada, and markets around the world, have continued to fluctuate.
- The return on the Toronto Stock Exchange (price index) for the past three months (October 1, 2014 through December 31, 2014) is approximately -1.17% (source: ca.finance.yahoo.com). However, during this time there were some fairly significant gains and declines. For example, from October 1 through to October 15th, the Toronto Stock Exchange (TSX) declined by 6.32%. From October 16th to November 21st the TSX increased by 8.95%. From November 22nd through to December 15th the TSX declined by 9.3%. From December 16th through to December 31st, the TSX increased by 6.77%. This is fairly significant volatility to say the least.
- The TSX peaked on September 2nd, 2014. From September 2nd through to December 31st, the TSX declined overall by approximately 6.3%, yet for the calendar year in 2014, the TSX increased in value by approximately 7.6%. This was a reasonably good year for Canadian stocks in general.

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Commentary - continued:

- When we break this down by sector, we see the following: The Canadian financial services sector (symbol: XFN) gained in value by 9.32%. The Canadian energy sector (symbol: XEG) declined in value by 17.7%. The Canadian materials sector (symbol: XMA) declined by 6.2%. Real estate (symbol: XRE) increased by 4.7% . North American preferred shares (symbol: XPF) increased by 4.28%. US Investment Grade Corporate bonds (symbol: XIG) increased by 5.2%. Gold (the commodity) declined by approximately 3.75%.

- When looking at the US market, we see that the S&P 500 index (the 500 largest companies in the US) increased by approximately 12.39%. Since September 2nd the US market has gained in value by 2.83% (vs. the TSX that declined by 6.3% for this same period). One of the leaders of the US market were US health care stocks, which gained in value by as much as 34% over the year (symbol: ZUH).

- The rest of the world (symbol: EFA) representing Europe / Asia and the Far East declined by approximately 7.7% in 2014. The emerging economies of Brazil, Russia, India and China (symbol: CBQ) also saw a decline of 5.95% in 2014.

- The value of the Canadian dollar declined by approximately 8.5% (vs. the US dollar) in 2014. This is both good and bad. To the extent to which you have US dollars or US dollar investments, a currency gain of 8.5% will take place when this money is converted back into Canadian dollars. The value of the Canadian dollar today is approximately 85 cents to the US dollar.

Commentary - continued:

What does all of this mean?

- One of the main market concerns over the past many months has been the belief that the European and Asian economies are continuing to slow.
- At the same time, oil production around the world has continued to increase. This is a huge change from just a few years ago when the concern was about lower potential oil supplies. If this were to happen, the result would be significantly higher oil prices. At that time there was much talk about oil reaching a price of $200 per barrel (The price per barrel peaked in April 2011 at approximately $150 per barrel and has since declined down to the $50 dollar per barrel level we see today).
- Some of this additional production is coming from North America, as the oil sands in Canada continues to increase production (which has led to the need to create new pipelines) and new oil fields in the US have grown significantly due to the fracking technology (example: growth in the North Dakota oil sector). The energy producers are able to access oil in places where just a few years ago, they were not able to reach. This increased oil production, combined with the limited capacity of a pipeline, has resulted in a significant boom for the railroads as they continue to ship more and more oil by rail. The next time you are stopped at a railroad crossing, count the number of oil cars you see on the train.
- As a result, the price of oil has fallen because supply far exceeds production (ie: when something is low in demand but high in supply, the price will fall). The price of oil has fallen significantly also because none of the major oil producing nations have cut production just yet, to match this lower demand.
- When the price of oil falls, the US dollar can also typically rise. Since oil is traded globally, mostly in US dollars, the price of the commodity will typically fluctuate based on either the change in the value of the commodity or changes in the value of the US dollar. In today's situation it appears that much of the fall in the value of the Canadian dollar may have been driven by both the rise in the US dollar and the corresponding decline in the price of oil. All of these things are inter-related.

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Commentary - continued:

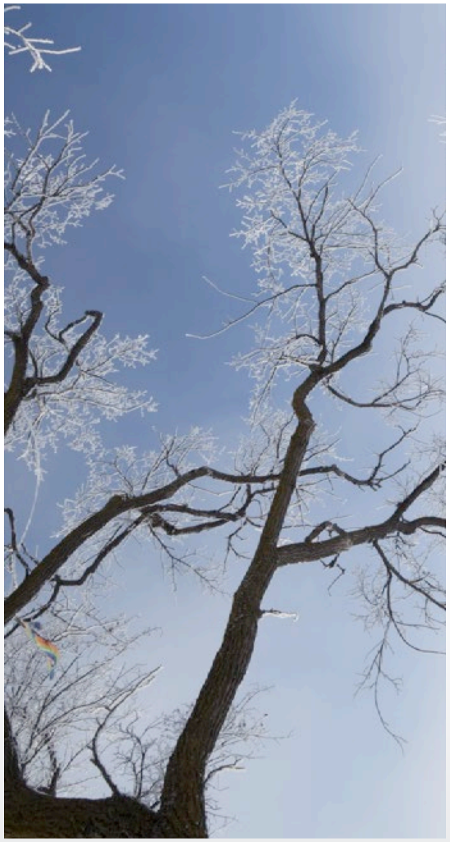
But the really big question today is as follows:

Is the decline in the price of oil good or bad?

- There are some who believe that the fall in the price of oil is an omen representing the poor economic health of the global economy. This appears to be the dominant view today, as equity markets have continued to decline over the past few weeks.
- There are some who believe that the fall in the price of oil is more representative of over production in the past several years.
- There are some who believe that the fall in the price of oil is actually more of a stimulus to the economy.
- There are some who believe that the fall in the price of oil is more of a stimulus than most any other approach (such as a quantitative easing strategy, a tax cut, infrastructure spending, an interest rate cut, etc.).

Commentary - continued:

What's my view?



- My personal view is all of the above.
- Yes, the fall in the price oil is likely due to both poor economic health in both Europe and Asia but is also due to the increased production of oil around the world.
- Is $50 per barrel the right price? Can we expect to see the price rise from here over the coming months? How soon will it return to $100 per barrel? All good questions of which I don't have any answers to. But what does jump out to me is that the longer the price of oil stays in the current range, the more of a stimulus this lower price is likely to be to the economy.
- The stock market has been very volatile of these past few days and months. On days when the markets rise, the sentiment is driven by the belief that the European central bank will stimulate the European economy in a way similar to how the US Federal Reserve conducted its "quantitative easing" program. Yet, in my view, this lower energy price is already a very significant stimulus.
- Why is a lower energy price a stimulus to the economy? The fact is that oil impacts literally everything in our society including packaging, chemicals, rubber and as input costs to most manufactured goods (ie: transportation costs, costs to run machinery, costs to heat buildings, etc.). This is why a few years ago, when the discussion was about significantly higher oil prices, the impact to society was potentially quite dire. So, if the impact of higher oil prices is likely to be quite dire, what would be the impact of significantly lower oil prices? I believe that the lower oil price may prove to be a major contributor to economic growth in the coming years.

Commentary - continued:

What about interest rates?

- If I am correct in that a lower oil price for a longer period of time could act as a significant stimulus, then over the medium term (2 – 3 years) we may see inflation begin to rise, which in turn would lead to central banks wishing to increase interest rates so as to control inflation. In this scenario an interest rate increase may still be 1 to 2 years away.
- Alternatively, the positive economic impact from the lower price of oil may more than offset any negative impact of rising interest rates. Therefore, central banks may also see the lower price of oil as an opportunity to raise interest rates without any potential negative impact on the short term.
- In either situation, when interest rates rise it may not be felt in a negative way. This is similar to what we saw from 2002 – 2006 as the Federal Reserve increased interest rates from 1% to 5%. The increase had very little impact on the economy due to the strength of the economy. This may be a similar outcome in the next couple of years ahead.

What types of investments are we considering?

- With these observations in mind, it seems natural to lean toward buying energy stocks.
- However, let's also consider how other industries can be positively impacted by a lower energy price. Lower energy prices would save money for most manufacturing and transportation firms and may also result in consumers spending more money on travel, electronics and on their home. Therefore, investing in good quality companies that also benefit from lower energy costs may be a very important investment theme in the coming weeks and months.
- It is our view that many of the real estate investment trusts have locked in their debt for a longer term and at lower interest rates. Therefore, as the economy grows and interest rates rise, these investments will rise in value as well because i) their borrowing costs are low and locked-in and ii) as the economy grows they can raise their rents.
- A rising interest rate environment can also benefit the banks and insurance companies.
- These are the types of investment themes we are considering today.

With these observations in mind, it seems natural to lean toward buying energy stocks.

Commentary - continued:

Market Commentary Summary:

- I continue to feel that a balanced portfolio approach is beneficial.
- We continue to look for investments that we would consider to be of lower risk, are trending positively, are in their positive seasonal cycle and are paying a yield of 3% or more.
- We are always looking for securities that have had a reasonable correction and that can do well in this type of environment.

The NFC Tactical Asset Allocation Pool

Returns:

- The pool has performed well over these past few months.
- While the Toronto Stock Exchange (TSX) has declined by 1.17% between October 1 and December 31, the pool increased in value by 2.6%.
- From September 2 through to December 31st, the TSX declined by 6.3% while the pool increased in value by 1.6%.
- Over the full calendar year the TSX increased in value by 7.6% while the pool had a total return of 10.50%.
- These figures illustrate that the balanced approach we have taken with pool has served us well. The pool has produced strong upside results while also protecting against the declines that took place this fall.
- **Disclosure:** Your returns will be similar to but not identical to the pool returns. For some clients their overall asset mix may be more conservative than the asset mix of the pool, or it may be more aggressive. The pool returns are net of fees based on total fees and expenses drawn from the pool. The fees you pay may be different that the average fee amount considered in the calculation of these returns.
- Over the past year the pool generated a weighted yield of 3.9%.

Asset Mix:

- **Asset Mix:** The asset mix of the pool is 44% defensive and 56% growth. This is a balanced investment profile. This is a little more growth oriented compared to over the past year.
- **Geographic Mix:** The pool currently has 72% invested in Canada, 23% invested in the US and 5% invested globally. At this time, with an 85 cent dollar, we may start to consider moving some of this money back into Canada. This will help to realize the capital gain we've earned while the Canadian dollar has fallen in value relative to the US dollar.
- **Sector Mix:** The pool currently has 25% invested in the financial services sector, 10% in real estate and 8% in energy. The remaining sectors all have approximately 3% to 4.5% weightings.
- We do not anticipate altering this asset mix significantly in the near future.

Over the full calendar year the TSX increased in value by 7.6% while the pool had a total return of 10.50%.

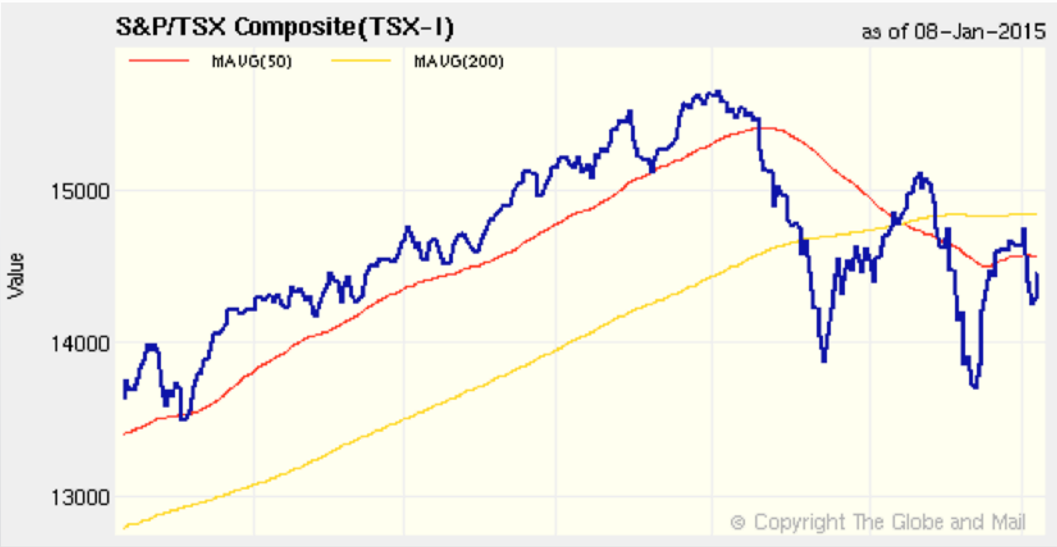
Market Outlook:

So what may happen in the near future?

CHART 1

Toronto Stock Exchange: 1 Year Chart Ending January 7, 2015
(source: globe investor gold website)

- You can see from the chart the choppiness that has been in the Canadian market since September 2.
- Our concern at this time are both the lower highs and the lower low points on the blue line (the TSX index) over these past few months. The short term trend line (the red line) has also turned lower than the longer term trend line (the gold line). This is also a negative issue that requires our attention.
- Could the market go lower and, if so, by how much? If the direction of the markets is lower from the current level, it is possible that the TSX could decline down to the 13,000 level. From the current level, this would be a decline of approximately 10%. From the September 2nd high, this would be a total decline of 17%, which would be a very normal correction.



Market Outlook - continued:

CHART 2

S&P 500 Index in the US: 1 Year Chart Ending January 7, 2015
(source: globe investor gold website)

- The US market continues to move higher and has yet to see any form of reasonable correction.
- There has been more volatility in the US market these past several months, but the trend is still positive, unlike other regions such as Canada or the European/Asian regions.
- If the US market were to correct down to its longer term trend line, this would be a correction of approximately 24%. This is always a possibility since the US has yet to suffer from any normal correction since 2009.

By comparison the European/Asian markets have corrected more significantly suggesting that these may be the markets that may have the greatest upside opportunity in the months and years ahead.

At this time we have not made any significant changes to our approach, but these are the issues we are currently watching. We continue to establish stop loss levels for specific securities so as to help protect capital in the event things begin to move downward. As mentioned previously, we may also choose to move some US dollars back into Canada so as to capture the currency gains.

Summary:

- I am personally very pleased with our portfolio performance over the past year. I am pleased with the total return, the yield of 3.9% in the pool, as well as the downside protection when markets were choppy.
- I remain confident that our risk management and security selection strategy is serving us well.
- If the stock markets continue to move lower from the current levels, we could see the Toronto Stock Exchange decline down to the 13,000 level and the S&P 500 (in the US), decline down to the 1600 level. This would represent a further decline of 7% in Canada and 25% in the US.
- It appears that we may have lower oil prices for the foreseeable future, which will in turn be a positive stimulus to the economy. For this reason we are searching out investments that will benefit from lower energy costs.
- As the price of oil begins to stabilize, we may also see the US dollar begin to fall, which in turn may result in a rise in the value of the Canadian dollar. Should this occur we will want to shift our US dollars back into Canadian dollars so as to realize our currency gain.
- We are not concerned about rising interest rates at this time.
- If you have any questions or concerns about your personal portfolio, please let me know. I would be happy to meet with you at any time.

My goal remains to provide a reasonable, after-fee return with as little risk as possible over time.

All the best for 2015!

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