



# Tailored Investment Solutions



**BELLWETHER**  
Investment Management

## Bellwether Investment Management

Bellwether is a boutique investment manager dedicated to meeting the distinct needs of affluent investors. We provide tailored investment strategies to individuals and their families, charitable foundations, and estates/trusts on a discretionary basis. Our seasoned team of portfolio managers has more than 100 years of combined investment industry experience along with a range of professional accreditations.

### Peace of Mind

Clients, who may lack the time, interest, and/or knowledge to effectively manage their portfolio, entrust us to make daily investment decisions on their behalf. Our portfolio managers monitor the ever-changing investment landscape and will take proactive action as required. Bellwether affords our clients the peace of mind to enjoy their lifestyles, knowing that their investment strategy is in capable hands.

### Independent, Unbiased and Team-Based

Bellwether stakes its reputation on transparency, integrity, and discipline. Every decision that we make is in the best interest of our clients - we are true fiduciaries. Free from the influences and potential conflicts that often burden large financial institutions, our Investment Committee has the flexibility and agility to make rapid, unbiased decisions. We feel so strongly about our investment offering that we personally invest in our strategies, alongside our clients.

### Hands-On Service

At Bellwether, our clients deal directly with experienced portfolio managers who have a breadth of knowledge and credentials in the wealth management industry. Not only do our portfolio managers make daily investment decisions on behalf of their clients, but they also provide integrated advice for their financial plans.

## Investment Solutions for Affluent Investors

Through the years, the Bellwether team has come to understand that the needs of affluent families are often unique and different from those of institutional clients such as pension funds. Unlike many of the large financial institutions who develop “cookie cutter” products for the masses, we treat our clients as individuals, rather than “numbers.” Bellwether believes that affluent investors deserve an investment solution that focuses on their core objectives:



In our experience, most investors wish to grow their current and future purchasing power, so that they can achieve their long-term goals. Investment solutions that deliver a growing stream of tax-effective income and a reasonable level of capital growth have tended to achieve this. Such an approach helps to protect investors from the detrimental effects of inflation and taxes, thereby preserving their capital and spending power.

## Managing Risk

Too often, our industry focuses exclusively on returns, while glossing over potential risks. At Bellwether, we want our clients to have realistic expectations of the returns that they may achieve, but also the potential risks that they may face. We believe that risk is best managed through a multi-pronged approach:

- i We prudently **DIVERSIFY** client investment portfolios across a range of asset classes, geographic regions, industry sectors, and individual securities.
- ii Our investment committee meets on a regular basis to assess conditions in the capital markets and determine whether **TACTICAL ASSET MIX** changes are appropriate i.e. proactively shift the relative weighting of cash, fixed income, and equities.
- iii We manage country specific risk by utilizing an **INTEGRATED NORTH AMERICAN SOLUTION**.
- iv We focus on **DIVIDEND GROWTH INVESTING** because research has shown that it provides a significant performance advantage and better downside protection.
- v We construct portfolios according to the level of conviction behind our investment rationale, rather than mirroring an index that is weighted according to market capitalization – this results in portfolios with more **EVENLY-WEIGHTED** security positions.
- vi We utilize **BETA MANAGEMENT** to monitor and adjust how our stock portfolio may change in value in relation to the overall market. We adjust the blended portfolio Beta in anticipation of stock market volatility.
- vii We selectively use **COVERED CALL** options and exchange-traded funds to reduce volatility.

Unfortunately, we cannot eliminate risk from investing, but we can provide a smoother journey for our clients over the course of a market cycle.

Traditional  
Portfolio

vs. Bellwether  
North American  
Portfolio



## Integrated North American Solution

Most Canadian investors realize the pitfalls of investing solely in the Canadian stock market where exposure to industry sectors is concentrated and the opportunity set of world-class companies is more limited. At times, the Energy, Materials, and Financial sectors have together represented more than 75% of the Canadian stock market index – many who invest in Canadian equity mutual funds don't understand the significant risk this creates in their portfolio.

Within the investment industry, the traditional approach is to manage Canadian and US stock strategies/funds independently and then combine them to form a portfolio. Bellwether believes that there are significant shortfalls with such an approach. An integrated North American strategy enables us to invest in the best global companies with growing dividends that trade on exchanges in Canada or the United States. This approach also avoids the sector concentration risk that typically occurs in a Canadian equity strategy/fund.

To illustrate, the traditional approach would typically include a number of bank stocks in both Canada and the United States, even if one group was clearly inferior or more expensive than the other. With our integrated approach, we can choose to invest solely in the more attractive investment.

# Disciplined Dividend Growth Investing

Our core belief is that companies that have consistently grown profitability and increased dividends inevitably produce above average returns with lower volatility. Companies that increase their operating profits and cashflows have the capacity to raise dividends, repurchase shares, and/or invest back into their business. We look for stocks with a history of paying and growing their dividend as a sign that their business model can produce sustainable profits. Bellwether has developed a proprietary "Disciplined Dividend Growth" investment process.

## Discipline

- Utilizes proprietary quantitative and qualitative methodologies to uncover securities
- Identifies quality dividend growth stocks that trade at reasonable valuations
- Eliminates emotions from the decision-making process

## Dividends

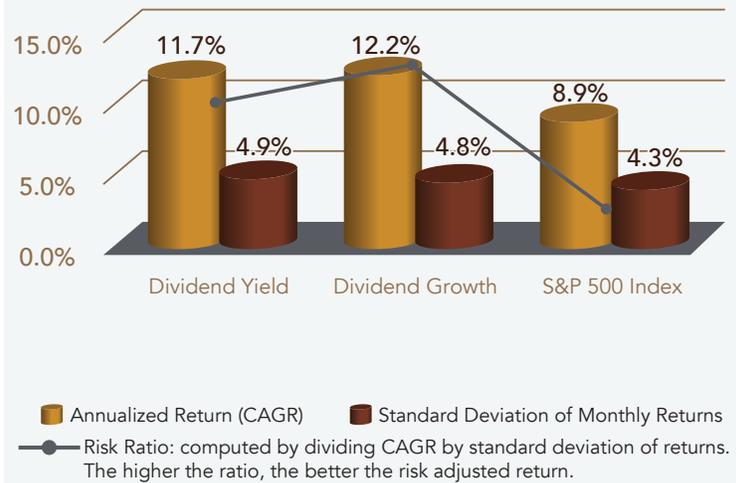
- Offer a reliable source of income for lifestyle needs or retirement
- Are taxed at lower rates than interest income
- Provide stocks with added stability during periods of market turbulence
- Pay investors to wait in flat markets

## Growth

- Rising profits and cashflows often lead to increased dividends and share prices
- Expanding income stream provides inflation protection
- Balances the need to reward shareholders today with business investment for the future to ensure sustainability
- Stocks that simply maximize yield may be vulnerable to future dividend cuts

## Dividend Growth Delivers Better Return with Lower Risk

Total Return Analysis (since 1990)

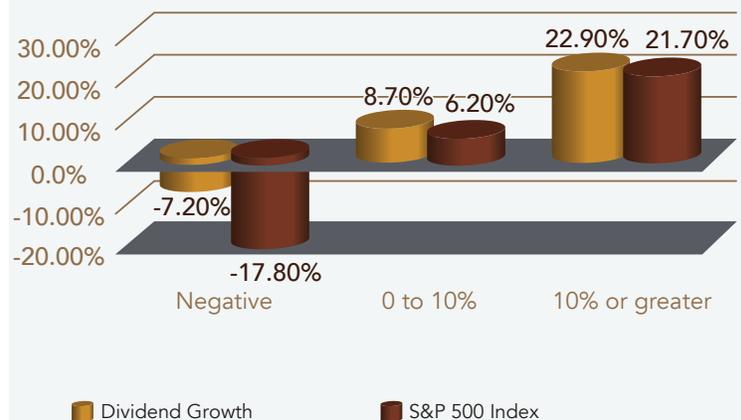


Source: BMO Capital Markets Investment Strategy, FactSet, CompuStat

Research has shown that dividend investing offers significant performance advantage and superior downside protection <sup>(1)</sup>

## Dividend Growth Performs Consistently in Different Market Environments

Average Total Return Analysis\*



Source: BMO Capital Markets Investment Strategy, FactSet, CompuStat

\*Rolling 12-month periods since 1990

## Fixed Income Investing

Even in times of low interest rates, an allocation to fixed income securities can provide portfolio stability during periods of market volatility. Investors should not ignore their fixed income strategy – active management over the different phases of the economic cycle is necessary to protect capital.

Our fixed income portfolios typically include traditional government and/or corporate bonds as well as a substantial weighting in preferred shares. Bellwether also utilizes exchange-traded funds to gain broad exposure to segments of the fixed income markets as well as more specialized areas such as high yield, foreign, and real return bonds.

We focus on risk mitigation to minimize the negative impact of rising interest rates and manage credit risk. Our portfolio managers periodically adjust fixed income strategies based on their analysis of the economic cycle, financial health of issuers, and shape of the yield curve.

## Managing Family Wealth versus Pension Plans

### *Constructing Conviction-Based Portfolios*

Bellwether believes that an equity strategy with 35-40 “high conviction” stocks that are diversified over a range of industry sectors and geographic regions will stand the best chance of meeting client goals. We only include securities in our portfolios that meet certain criteria – sustainable and growing dividends, strong balance sheets, and reasonable valuation. The composition of a given market index is irrelevant to our investment decision.

While this may sound like common sense, many pension plan and mutual fund managers take a different approach – they choose to closely mirror an index to reduce the chance of substantial underperformance that could put their job at risk. The weighting of individual securities and industry sectors within an index greatly influences portfolio decisions and may even become more important than the fundamental investment case. We do not believe that such an approach is in the best interest of investors. In fact, in an attempt to reduce their own risk, a portfolio manager may actually be increasing risk for investors.

*Many investment managers become so pre-occupied with outperforming a given index that they lose sight of the end investor. Success should be measured by achieving an investor’s objectives – typically, a combination of capital growth and income generation within their tolerance for volatility.*

### *Maximizing After-Tax Returns*

Another fundamental difference between managing investment portfolios for individuals and pension funds is the tax consequences. Pension funds do not pay tax, whereas our clients often focus on maximizing after-tax returns.

While we do not provide tax advice, we do utilize tax planning to help reduce our client’s tax burden. We can improve after-tax returns for our clients by using multiple techniques including:

Emphasizing tax efficient dividend income

Effectively allocating asset mix between taxable and non-taxable accounts

Investing in fewer securities to reduce portfolio turnover

Minimizing the tax impact of transitioning existing investments to Bellwether’s strategy

Realizing capital losses throughout the year to offset gains

Sources: (1) The research regarding Dividend Growth investing referenced in this publication has been conducted primarily by RBC Capital Markets (report dated January 25, 2012) and BMO Capital Markets (report dated September 28, 2012).

Copies of all research are available upon request.

The performance of our solutions is not guaranteed, their values change frequently and past performance may not be repeated.



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