

# MONTHLY INSIGHT

*“Having a good understanding of the factors that caused past performance goes a long way towards selecting the best managers.”*

2014 S&P TSX & Sector Returns	
Consumer Staples	46.1%
Information Technology	35.9%
Consumer Discretionary	26.4%
Health Care	18.2%
Industrials	17.3%
Utilities	11.3%
Financial Services	8.6%
Telecommunication	8.4%
S&P/TSX Index	7.4%
Materials	-4.5%
Energy	-18.9%

2014 had the second widest range of sector returns of the last 10 years. This table shows the returns of the S&P/TSX index and its sectors (excluding dividends) and confirms that appropriate sector selection would have been very important last year.

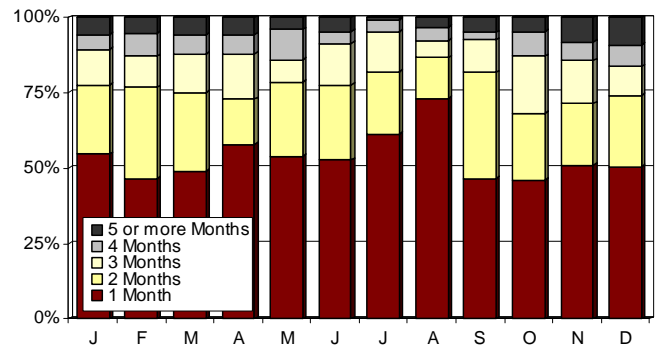
## ATTRIBUTION ANALYSIS

Most investors are looking for strong repeatable performance so it is often necessary to determine if the returns are due to the investment manager's security selection skills. Investors need to drill down and discover which attributes have led to the manager's performance. Has the manager selected the best stocks or chosen the right sectors? Attribution analysis seeks to distinguish which of these two criteria is the source of the portfolio's overall success or failure.

Portfolio returns should be compared to a benchmark in order to determine a manager's skill. Performance attribution is a set of measurements that can explain a manager's investment choices relative to a benchmark. It shows the foundation of the decisions made by the portfolio manager and confirms whether value was added or lost. This difference between the portfolio's return and the benchmark's return is known as the active return or the manager's active bets. It arises from the fact that the portfolio is actively managed with the objective of producing greater returns and well informed investors should know what caused the active return.

Having a good understanding of the factors that caused past performance goes a long way towards selecting the best managers. Quite often the most important investment talent is security selection. While often seen as a secondary skill, sector selection attribution measures a manager's ability to allocate assets across various sectors with the goal of over or under weighting each sector in order to outperform the benchmark.

In most instances stock picking is the principal driver of performance but sometimes it is simply better to be in the right asset class at the right time. For Canadian stock investors 2014 was a prime example of being in the right place at the right time. Being a successful stock picker is difficult at the best of times but it is particularly hard during volatile or choppy periods when stock prices move without rhyme or reason and generate little momentum. The above chart shows the frequency that stocks in the S&P/TSX index outperformed their sector benchmark (excluding the impact of dividends) from one month to the next. One month (burgundy bar) lists the percentage of stocks that only beat their sector benchmark for one month before underperforming again. Two months (yellow) illustrates the stocks that outperformed their sector benchmark for two months in a row and so on. The majority of stocks (52.8% on average) never outperformed more than one month in a row and only 23.8% of stocks on average had two month winning streaks. The lesson; it is very difficult to pick stocks that routinely beat their peers. Furthermore, as the data to the left shows, the discrepancy in performance between the best performing sector (Consumer Staples) and the worst (Energy) was extremely wide. In fact, 2014 had the second widest range of sector returns of the past 10 years so astute sector selection yield good results.



This chart shows the frequency that S&P/TSX index stocks outperformed their sector benchmark from one month to the next in 2014. One month (in burgundy) represents those stocks which outperformed their sector benchmark for one month before underperforming again. Two months (in yellow) indicates how many outperformed for two months in a row and so on. On average 52.8% outperformed once and only 23.8% had a two month winning streak.

To be honest good stock picking sometimes just comes down to being lucky. Performance attribution helps investors see what caused over or underperformance but this analysis only goes so far as there are many factors that could contribute to a manager's results. The range of characteristics that could be examined are endless but at least obtaining a fundamental attribution analysis helps assess a manager's ability and enable you to achieve your investment goals.

# MARKET DATA

## 28 FEBRUARY 2015

### Index Total Returns (%) (C\$)

	1 Month	1 Year	5 Years
S&P TSX	4.0	10.3	8.6
S&P TSX High Dividend	2.0	5.8	11.5
S&P TSX Small Cap	3.2	-5.9	3.5
S&P TSX Preferred Shares	0.2	0.3	3.6
S&P 500	3.6	30.8	21.1
Russell 2000 (US Small Cap)	3.7	18.3	19.6
MSCI EAFE	3.8	13.5	13.1
MSCI World	3.7	22.7	17.2
MSCI Europe	4.0	6.6	10.0
MSCI Asia	2.6	18.2	7.9
MSCI Emerging Markets	0.8	15.9	5.8

Currencies: (%) (C\$)	US\$	EURO	GBP	YEN
	2.2	-3.2	0.4	-3.7
	-12.7	-8.6	4.0	-3.7
	-3.4	-0.6	3.7	-2.6

### Bond Total Returns (%) - DEX Indices

	1 Month	1 Year	5 Years	Yield
Universe	-0.1	10.4	6.0	1.69
Short Bonds	0.0	3.9	3.1	0.96
Mid Bonds	-0.1	10.4	6.7	1.60
Long Bonds	-0.3	20.0	10.1	2.63
Federal Bonds	-0.4	8.3	4.6	1.01
Provincial Bonds	-0.1	14.6	7.6	1.99
Corporate Bonds	0.1	8.5	6.2	2.18
Real Return Bonds	0.7	17.5	7.9	-1.13
91 Day T-Bills	0.0	0.9	0.9	0.57

Barclays Aggregate Bond (US\$)	-0.9	5.1	4.3
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Commodities: (%) (US\$)	Index	Oil	Gold	Wheat
	6.5	3.2	-5.2	-0.9
	-35.9	-51.5	-8.2	-22.6
	-6.3	-9.1	1.7	3.4

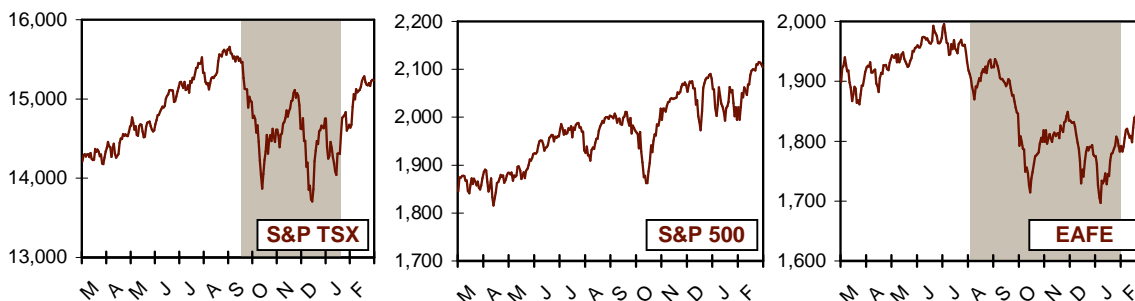
### Sector Returns (%)

	S&P TSX (C\$)				S&P 500 (US\$)				MSCI EAFE (US\$)			
	1 Month	1 Year	5 Years	Weight	1 Month	1 Year	5 Years	Weight	1 Month	1 Year	5 Years	Weight
Consumer Discretionary	6.8	33.7	17.0	6.5	7.3	14.2	20.2	13.0	6.8	4.1	11.3	13.1
Consumer Staples	0.9	44.7	20.5	3.4	2.2	19.3	13.1	10.3	2.8	3.6	8.4	10.5
Energy	2.7	-21.4	-4.8	21.4	4.3	-9.1	6.7	7.8	4.7	-20.4	-3.0	6.1
Financial Services	7.5	7.4	7.2	34.7	3.9	12.7	10.7	16.0	7.5	-2.0	2.9	25.9
Health Care	7.8	27.7	28.1	4.0	2.5	21.6	18.1	15.0	3.9	5.8	10.6	10.7
Industrials	3.4	15.6	15.3	8.6	3.5	10.5	14.4	10.5	6.1	-2.2	6.0	12.3
Information Technology	6.8	36.0	11.3	2.9	6.4	20.4	15.2	20.1	6.4	3.9	4.0	5.1
Materials	-0.7	-5.7	-5.5	11.5	7.3	9.3	11.1	2.2	8.5	-5.6	-0.2	7.6
Telecommunication	-2.4	7.4	9.9	5.0	6.0	7.5	9.1	2.4	4.3	1.0	5.5	5.2
Utilities	-2.0	12.1	4.2	2.1	-9.0	12.6	9.2	2.7	-0.2	-4.3	-4.1	3.6
Growth Index	4.0	28.4	8.7		4.4	15.5	15.4		5.6	-0.5	6.2	
Value Index	3.9	3.0	5.0		3.8	11.2	12.1		6.1	-4.6	3.2	

### Index Charts

12 Months ending February 2015

Grey shaded areas indicate periods of stock index decline.



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