Fiduciary Trust Canada

PERSPECTIVE

STEPPING IN: YOUR ROLE AS ATTORNEY

Fall 2019 | Issue 4 | Volume 16

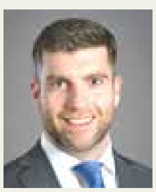
IN THIS EDITION

DUANE W. GREEN
President and Chief Executive Officer

IAN M. RIACH
B.Comm., CFA
Chief Investment Officer

SCOTT GUITARD
B.B.A. (Finance), CFA
Vice President
Portfolio Manager

THOMAS E. JUNKIN
TEP
Senior Vice President
Personal Trust Services



VINCENT TONIETTO
CFA, CAIA, PRM
Vice President
Portfolio Manager

KEVIN B. MCLACHLAN
B.Sc., MBA, CFA
Vice President
Portfolio Manager

CONTRIBUTORS

DAVID M. CIESLOWSKI
CPA, CA, CFP, CIMA
Vice President
Private Wealth Counsellor

GILES D. MARSHALL
B.Sc., FCSI, CIMA
Vice President
Portfolio Manager

Opportunities Accompany Change

Welcome back. The unofficial New Year—ushered in by familiar routines, catch-up calls with friends and telltale signs of fall—is well underway. Change is afoot. With that in mind, I'm pleased to introduce our recently appointed Head of Private Wealth, Manmeet Bhatia.

Over the years, I've observed that people often like to distinguish between book learning and life learning. Manmeet has several designations behind his name. He's a graduate of the I.H. Asper School of Business at the University of Manitoba (Bachelor of Commerce, Honours, Finance). His professional designations include CFA, CIM, CFP, LIFA and CLU, which speak to his in-depth investment and wealth management knowledge. As importantly, Manmeet brings nearly 25 years of financial services experience, including various executive and senior leadership positions, to his new role.

We think the combined depth and scope of his capabilities are important because working with you, we recognize the complexities and responsibilities of wealth are growing. We know your time is precious and expectations of us are high.

It's also been critical to appoint someone who appreciates the expertise and collaborative culture of Fiduciary Trust Canada's strong team. This "right fit" affects us all on a daily basis. Reporting to me, Manmeet will represent the interests of private wealth clients and stakeholders as a member of the Franklin Templeton Investments Canadian Leadership Committee.

In keeping with new developments, page 12 of this edition features our enhanced client website. It reflects our ongoing commitment to always bettering our service to you. Take a moment to read *New Website Designed With You In Mind*.

Each quarter, we touch on timely topics in keeping with the latest market developments and themes that affect lives over generations. You'll find Ian Riach's review of the previous period in *Markets Make Gains Despite Trade Issues* on page three.

Picking stocks in the fast-paced, high-stakes retail sector offers its own unique challenges. Andrew Buntain in Toronto and Grant Bowers in San Mateo share their insights in this edition's *RoundTable* on page six.

These are some of the stories in this *Perspective*. Let us know what you think.

MARKET COMMENTARY

Markets Make Gains Despite Trade Issues

By Ian M. Riach

Despite some downward volatility at July's end and into August, global equity markets finished the quarter generally positive. North American indexes led the way while emerging market equities suffered with negative returns. The Canadian bond market posted small gains for the period as government and corporate issues contributed to positive returns.

Once again, trade-related issues sparked the quarter's volatility. The United States and China continued their battle on tariffs and the drama surrounding Brexit heated up as Prime Minister Boris Johnson suspended the United Kingdom parliament, only to have the Supreme Court overturn his decision. Hopes that the United States and China will reach a deal by year's end seem to be fading and it looks likely that Britain will enter an election over Brexit.

In the face of trade concerns, global growth continued to decelerate and leading economic indicators were particularly concerning this quarter. For instance, the Institute for Supply Management's Manufacturing Index fell below 50 in the United States, indicating a contraction in activity.[1] Germany's report that its second quarter GDP contracted was also worrisome. As Europe's largest economy, the decline seemed to cast a pall on investor sentiment across the eurozone. Though China's growth remained above that of the western world, the pace there also decelerated. The International Monetary Fund noted that country's growth for 2019 is expected to be 6.2%, down from previous forecasts of 6.5% and lower than the 6.6% registered in 2018.[2]

In response to economic data, we saw easing moves from the US Federal Reserve and the European Central Bank, as well as from other smaller central banks, especially in emerging markets. Last quarter, we mentioned that the effectiveness of further easing may be waning and fiscal stimulus from governments may be necessary to prolong the expansion. However, we think conditions will have to deteriorate further for governments to introduce such measures.

Canada bucked the trend somewhat this quarter with better economic data and one of the best performing major stock markets, in local currency terms. Gains were broadly based, with only the Health Care sector noticeably declining due to weakness of cannabis-related companies. The Bank of Canada remained on the sidelines and continued with a more neutral bias, although highlighting downside risks to the economy. These downside risks may well test the Bank should trade uncertainties continue and Canada's economy begins to suffer as a result.

Market Performance (%)	Q3 2019	1-Year
S&P/TSX Composite Index	2.5%	7.1%
S&P 500 Index (CDN$)	2.8%	6.7%
MSCI EAFE Index (CDN$)	0.1%	1.5%
FTSE TMX Canada Universe Bond Index	1.2%	9.7%
CDN$ Versus US$	-1.1%	-2.5%

The above Index reviews are calculated from external sources and, where applicable, reflect total returns.
All figures are in Canadian dollars and are as at September 30, 2019.

1. Institute For Supply Management Report, October 3, 2019.
2. "IMF Executive Board Concludes 2019 Article IV Consultation with the People's Republic of China," International Monetary Fund, Press Release No. 19/314, August 9, 2019, https://www.imf.org.

Results: Up, Down And In Between

By Scott Guitard

Despite increased volatility, global equities ended Q3 higher. The launch of an impeachment inquiry against President Trump added to an already large stack of geopolitical issues creating uncertainty for investors. In addition, global economic indicators showed a slowing pace at a time when central banks have few available stimulus options. For such reasons, we expect Q4 to be a bumpy ride.

No arrow = No change from the previous quarter.
→/← Represents quarter-over-quarter change.

	Asset Class	(-)	N	(+)	Our Viewpoint
MAJOR ASSET CLASSES	Money Market/ Cash Equivalents			◆	The Bank of Canada held on cutting the policy interest rate, citing contained inflation levels. This stance differed from Q3 easing measures introduced by the US Federal Reserve and other central banks. The portfolio's cash overweight tempered performance, as equity and bond prices achieved modest gains. Given extremely low bond yields and anticipated choppy equity markets, we're happy to have extra cash on hand as we pilot the remainder of 2019.
	Fixed Income	◆			Global bond yields moved lower yet again. Investors are predicting central banks will ease rates to fend off a more significant global slowdown. This has pushed long-term bond yields lower and inverted yield curves in Canada, the United States and other countries worldwide. Our allocation to shorter-term and International bonds detracted from Q3 relative performance; however, this was mostly offset by Canadian investment grade bonds' solid performance.
	Equities	← ◆			Our overweight in International stocks versus Canadian and US stocks detracted from performance. Once again, North American markets dominated International equities (in CDN$). For the first time this year, "value" stocks outperformed "growth" stocks, providing a bright spot in relative returns. We expect the value stock bias to continue and portfolios are well positioned to benefit from this theme. Due to disappointing economic developments in the eurozone and ongoing uncertainty around Brexit, we reduced exposure to this region in favour of the United States.
FIXED INCOME SECTORS	Canadian Investment Grade Corporate Bonds			◆	Our bias to Canadian investment grade bonds has added value in all three consecutive quarters. Energy and Industrial sector bonds were the best performing in Q3. We continue to believe high-quality, corporate issued bonds will be well sought after in this low-yield and uncertain environment.
	Government Bonds	◆			Long-term government bond yields moved lower in Q3. We believe bond yields will trade in a tighter range for the remainder of 2019, as we don't see the Bank of Canada adjusting the policy rate in the near term.
	Global Bonds		◆		Surprising results from Argentina's primary vote weighed heavily on assets from this region and, in turn, Templeton Global Bond Fund performance. Despite recent weakness, we remain committed to the strategy and believe it will improve risk-adjusted portfolio returns, given its low correlation with other holdings and absolute return focus.
EQUITY MARKETS	Canadian Equities	◆			Canadian equity holdings outpaced the S&P/TSX Composite Index in Q3. Not owning Health Care stocks—specifically cannabis companies—was the biggest reason for relative outperformance. Strong security selection in the Financial and Materials sectors also helped results. The jump in energy stock prices (in reaction to attacks on Saudi Arabia's oil supply) was short-lived. We remain concerned about growth prospects for Canada's economy and stock market.
	US Equities		→ ◆		In absolute terms, US equities were the best Q3 performers, boosted by a strong US dollar. Our US holdings also generated robust relative returns. We credit strong security selection in the Consumer Discretionary and Health Care sectors for beating the benchmark. From a valuations standpoint, US equities appear pricey versus other regions; however, we think it's warranted, given the low interest rate environment and low probability of a near-term recession in the United States.
	International Equities		← ◆		Germany's poor GDP results roiled European developed equity markets, while Emerging markets were plagued by global trade tensions. Security selection and tactical exposure to Emerging markets led to underperformance in this component. We anticipate International equities will experience ongoing turbulence for the rest of 2019, but expect the downside to be contained due to reasonable valuations.

Asset Allocation Process

Asset allocation decisions result from ongoing discussions within our Private Client Investment Strategy Committee. We begin by making strategic investment decisions against an internal benchmark—for example, the Balanced Growth Benchmark Portfolio—that's based on a neutral asset mix and stable market conditions.[1] The difference between our investment strategy and the benchmark portfolio reflects our active commitment to effectively managing risk and generating superior long-term returns. In updating our investment strategy, we review our investment portfolio and benchmark and complete any required trades.

1. The Balanced Growth Benchmark Portfolio is comprised of 40% fixed income assets and 60% equity assets.

The Logic Behind Bonds

By Scott Guitard

With recent headlines—highlighting inverted yields curves and negative-yielding bonds—weighing on investors, why would anyone hold bonds in this environment? It's a logical question.

Admittedly, seen in isolation, bonds don't appear overly attractive. However, we stand by our long-standing view that:

1. Bonds are fundamental to managing risk in a balanced portfolio through all stages of market and economic cycles.

Despite the fact that global bond yields are hovering around all-time lows, they can move lower and if they do, the price of bonds we hold will appreciate. Although our investment view does not call for a near-term global recession, risks abound in the financial markets. US/China trade talks, the eurozone's slowing economy and ongoing uncertainty around Brexit, just to name a few. It's also understandable that investors focus on the upward climb of equity returns. However, we know that what goes up can, and will eventually, go down. If global equity markets experience unforeseen turmoil, we expect a portfolio's bond component to act as a critical buffer, minimizing downward pressure on portfolio returns. Additionally, consistent and predictable interest payments can reduce overall portfolio volatility and provide ongoing liquidity.

2. Not all bonds are created equal and select issues deserve a closer look.

In this long, low interest rate environment, the temptation to reach for higher yields has never been greater. But, with few exceptions, in the world of bonds, higher yields coincide with more risk. Plus, higher yielding bonds have a greater tendency to move in the same direction as equities, which means the buffer advantage diminishes during volatile times. We're interested in bonds that provide predictable cash flows and diversification benefits. In other words, we want bonds that behave like bonds. Today, we favour investment grade corporate bonds (corporate bonds deemed to have relatively low probability of defaulting) and provincial government issued bonds. In our opinion, the current spread of these bonds (the difference in yield above Federal government issued bonds) offers fair compensation for any incremental risks.

3. Active management and a global opportunity set can improve returns.

There's a longtime perception that bonds are to be bought and forgotten. We believe the opposite. In our view, actively managing fixed income assets is important. We know from experience that tactically adjusting our portfolio's exposure to credit qualities, duration (interest rate sensitivity) and maturities can add value, regardless of the absolute level and direction of interest rates.

Global bonds in balanced portfolios can also improve risk-adjusted returns. Through our relationship with Franklin Templeton Investments, we're able to leverage fixed income investment expertise and experience worldwide. To gain exposure to global bonds, we currently use the Templeton Global Bond Fund. In our view, including this fund adds strategic benefits such as low correlations (with Canadian bonds and global equities) and a much broader opportunity set. It also adds tactical advantages such as higher yields and shorter duration.

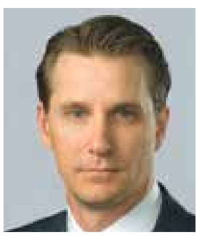
The Right Place for Bonds

While the current environment for bonds may prove frustrating for income-seeking investors, we believe this asset "earns its keep" in a variety of ways—starting with helping folks sleep better at night. We think that's a pretty worthwhile attribute. While bonds might not be as engaging to discuss as equities, we believe it's critical that any questions you may have are answered. Take a minute to get in touch.

Retail Stocks: Behind-The-Scenes Race Underway

Shoppers have never had so many places, or so many ways to buy just the right thing and have it in their hands at just the right time. Amid the rich, fast-changing mix of old retail stars, new stars and overnight shooting stars, how do you pick the "right" stocks? Andrew Buntain and Grant Bowers take us into the highly competitive world of general merchandise retail, where the race between winners and losers is unfolding on many fronts.

ANDREW BUNTAIN
CFA
Vice President
Institutional Portfolio Manager
Franklin Bissett Investment Management
Toronto, Ontario, Canada



GRANT B. BOWERS
Vice President
Portfolio Manager
US Growth
Franklin Equity Group
Franklin Advisers, Inc.
San Mateo, California, USA

"A big part of the story this past year has been about which companies have been making the right technology investments and quickly embracing digital transformation."

GRANT BOWERS

Q: What's the retail investment landscape like these days?

Grant Bowers: US consumer spending remains strong, so investors still have an appetite for some exposure to the retail space. We're seeing a few themes at play. For instance, as lower-end consumers have benefited from wage increases, Walmart Inc., Target Corporation, other discounters, dollar stores and the off-price (discount) segment have been delivering good results. There's still some hesitation around investing in traditional brick-and-mortar players (especially mall-based retailers). There's more appetite for e-commerce companies, or traditional retailers who are making strides on the digital side, offering consumers multiple methods for purchasing their goods.

The US/China trade war is a significant theme for this sector and is prompting volatility due to fears that overall margin pressures could drive price increases, which would be passed on to consumers and that could ultimately affect demand and volume.

Q: How are such tensions influencing the retail companies in which you invest?

Grant Bowers: We have a small direct exposure to specific Chinese manufacturing in our retail sector companies. It amounts to less than 10% exposure for brand companies that we own, who manufacture goods outside of the United States.

Q: How do you approach investing in the retail sector?

Andrew Buntain: We prefer durable business models that can weather downturns, or ideally use cycles to enhance their competitive position. Those companies, trading at reasonable valuations—that are relatively impervious to discounting competition, have an "Amazon-proof" model or who can launch e-commerce initiatives without major disruption, can strengthen their customer base or take market share—get our attention. We think domestic firms, such as Dollarama Inc., have resilience built into their business model. Alternatively, specialty retailer Sleep Country Canada Holdings Inc. has capitalized on Sears' demise and we expect the company to reap more market share gains going forward. Their acquisition of Endy Sleep—the country's "largest direct online mattress store"—is a good example of a brick-and-mortar retailer embracing change and enhancing their online proposition.

We emphasize the importance of strong and experienced management teams, effective execution strategies and capital allocation policies with which we agree.

Grant Bowers: Off the top, we view Amazon.com, Inc. as one of the winners in the US retail landscape. Even though some traditional retailers are catching up, there's still significant market share to be gained through digital commerce in this country. Amazon continues to stay a step ahead of the competition. For instance, as some brick-and-mortar companies have caught up on two-day shipping, Amazon is introducing one-day delivery.

Our approach also includes investing in categories where there are secular growth opportunities, such as athletic footwear and apparel. We prefer brands that use a multi-channel distribution model. We also focus on areas where e-commerce players are less disruptive, such as the athletic and off-price categories. We're always monitoring the retail space for potential winners that are either new e-commerce business models or traditional players that will survive and thrive in the evolving marketplace.

Q: How much of the retail investment story is occurring "behind the scenes"?

Grant Bowers: A big part of the story this past year has been about which companies have been making the right technology investments and quickly embracing digital transformation. The focus has been on delivering goods to customers when and where they want them and the race to achieve such capabilities is underway. The next chapter will likely see retailers further embracing the data-centric digital world to drive more targeted marketing. This would help better align product assortment with demand, improve inventory management efficiencies, and reduce markdowns. All these steps can positively affect profitability and that's critical.

We also invest in firms indirectly benefiting from the shift to digital commerce, such as payment companies like Visa Inc., MasterCard Incorporated and PayPal Holdings Inc. We believe consumers will continue to use credit cards and mobile wallets to shop online.

Andrew Buntain: A digital evolution is underway and the heightened competitive pressures it brings are palpable. We note the potential it offers Canadian companies, such as platform/service provider Shopify Inc. It was also interesting to see Amazon take a small ownership position in homegrown Cargojet Inc. earlier this year. Canadian multinational, Descartes Systems Group Inc., is a great example of a behind-the-scenes beneficiary of the current change. It's an established business that assists customers (i.e., retail, wholesale, air, ocean, trucking) with cross-border shipping logistics. Their track record is a good match for our bottom-up criteria.

Q: Over the past several years, new competitors have entered the Canadian market with varying success. What do you think about the idea of there being more to come?

Andrew Buntain: It's already a competitive marketplace and Canada remains very challenging given its massive size, sparse population and unforgiving weather. Operating here is difficult. Canadian consumers are creatures of habit, so inroads from new competitors tend to be more gradual, which is more manageable for incumbent retailers. However, you can't ignore the world of opportunity digital commerce creates. From our perspective, we continue to have conversations with management teams about their strategies. We think existing retailers need to continue to "up their game," providing better customer service and increasing the agility of their inventory management. While Canadian retailers may benefit from outside competitors facing barriers to entry, companies like Amazon are handily proving such obstacles are surmountable.

Q: What traps or potentially shiny dead ends are you avoiding?

Andrew Buntain: It's crucial to be mindful of valuations in this space. Stocks that are appreciating more on investor enthusiasm about earnings potential (versus actual), or high-concept offerings that are not yet fully proven, are less appealing to us.

Grant Bowers: We also avoid fad-based brands where growth is unsustainable over the longer term. We're wary of some traditional brick-and-mortar companies that show short-term sales success, but ultimately fall short in flowing those increases through to the bottom line. Some department stores and traditional mall-based retailers fall into that category.

Q: Looking ahead, what should readers consider in terms of retail sector investing?

Andrew Buntain: We have a bottom-up approach focused on company fundamentals, strong financial and capital positions and good management teams. Occasionally it's tempting to go beyond those fundamentals when a stock price is advancing on little more than investor enthusiasm. That's when it's most important to maintain our discipline. Particularly in today's environment, we believe discipline is key for readers and us alike.

Stepping In: Your Role As Attorney

By Thomas E. Junkin

We always stress the importance of creating a power of attorney—the formal document[1] where you, the "donor," appoint someone to make financial decisions on your behalf if you're no longer able.[2] However, let's turn the situation around. What if you're the person or trust company that's the appointee, otherwise known as the "attorney?"[3] What are your responsibilities when the donor no longer has the capacity to make financial decisions? How should you fulfil those responsibilities? They're vital questions and we're here to highlight what happens next when it's time for you to step in.

Consider the hypothetical case of John Doe, the named attorney for his widowed aunt, Sally Roe. She asked John because her two children live far away and don't get along. Sally has early stage dementia and she's asked John to begin acting as her attorney.

As an attorney, John has a fiduciary role, which carries legal responsibilities such as being trustworthy, honest and acting in good faith. He must manage Sally's money for her benefit, not his. It doesn't matter if Sally has a lot of money or whether John is a family member. If John fails to meet these standards, he can be removed as attorney, and if he commits serious mistakes he can be sued.

You can get a clearer picture of John's responsibilities by reviewing the five basic duties of loyalty, diligence, prudence, independence and accountability.

1. Loyalty:

John must only do what Sally's power of attorney says he can do and what provincial law allows him to do.

As much as possible, John should involve Sally in decision making. If she can communicate, John should always ask her what she wants. Her capacity to make decisions may change from time to time, but John should be governed by what he truly believes Sally would say in any situation.

John should read Sally's will, if it's available, and be extremely careful not to do anything that changes the way she wants property distributed after her death. For example, he shouldn't sell property that's bequeathed to someone in Sally's will.[4]

2. Diligence:

John must be proactive. If he accepted the appointment in good faith while Sally was competent and has reason to believe she's having difficulty making decisions, he has a duty to begin assuming responsibility for Sally's finances, as a way of protecting her.

He must diligently investigate Sally's financial situation and take steps to inform her children, and anyone else with whom she interacts on financial matters, that he now has legal authority over her finances. Some organizations may resist accepting John's authority; he needs to persevere and overcome this resistance.

Once John starts managing Sally's finances, he can't simply quit if he finds the job too difficult. He can't leave Sally without an attorney and must take necessary legal steps to ensure he's replaced.

3. Prudence:

John must manage Sally's money carefully, more carefully than he might manage his own. John should:

- Make a detailed list of Sally's money, real property, tangible personal property and debts.
- Protect Sally's property by putting valuable items in safety deposit boxes, changing locks on doors and making sure there's sufficient insurance to protect Sally from loss or liability.
- Review Sally's investments, determine an appropriate investment policy for her circumstances and invest her money very carefully. While Sally might have been a risk taker, John can't accept the same level of risk. For example, if Sally's portfolio is heavily weighted in a single stock, John might have a duty to reduce that risk by diversifying her portfolio. When investing, John will be held to the prudent investor standard—doing what a prudent person with sound investment knowledge would do in a similar situation.
- Pay bills and taxes on time, including filing any delinquent tax returns.
- Collect all money owing to Sally on time and, if necessary, through collection procedures.
- Research whether Sally is eligible for any government benefits, such as employee benefits, Canada Pension Plan, disability tax credits or support programs, etc., and apply for benefits on Sally's behalf.
- Seek advice from professionals if he's uncertain about Sally's or his legal rights and responsibilities.

4. Independence:

John should avoid even the slightest appearance of having a conflict with Sally's interests. For example, John shouldn't purchase any of Sally's property for his use, shouldn't borrow from Sally, or lend or give any of Sally's money to

1. This topic can be quite complicated, especially as terminology and rules governing a power of attorney vary among provinces. For instance, the document can also be called enduring power of attorney, continuing power of attorney for property, representation agreement, etc.
2. Diane Tom, "An All Together Powerful Option, *Perspective*, Trust & Estate Services, April 2015, Fiduciary Trust Canada, https://www.fiduciarytrust.ca/en-ca-ftci/insights.
3. In this context, an attorney does not mean a lawyer.
4. In very rare cases, helping Sally do some pre-mortem estate planning might be in Sally's best interest, but this is a risky area and John will need to seek expert legal advice before doing anything that affects her estate.

anyone else.[5] He shouldn't live rent-free in Sally's house, take vacations at her cottage or drive Sally's car for his purposes. John shouldn't pay himself a fee for acting as Sally's attorney, unless he's clearly authorized to do so under provincial law, and by the terms of the power of attorney.

5. Accountability:

John must keep good records and be ready to explain any decisions he makes on Sally's behalf.

John should keep Sally's money separate from his money. He shouldn't deposit any of Sally's money into his account, nor should he pay any of her bills from his bank account. He should avoid using cash to pay Sally's expenses. Account registrations and the title to real property should bear Sally's name, making it clear to everyone who owns the property.

John should keep careful accounting records; starting with a list of all Sally's property as of the date he assumed responsibility for her assets. He should also keep all receipts and disbursements made on Sally's behalf, and the current balance of her accounts. He might hire a bookkeeper or accountant or use accounting software. Another option might be to hire a trust company as his agent and outsource his accounting duties to the trust company, which will have experience in this area.

He should set up a filing system dedicated to Sally's records. One system, known as "PFILE," involves using an accordion file with sections for Personal, Financial, Insurance, Legal and Estate Planning.[6]

John should keep receipts for any of Sally's expenses he pays out of his pocket. Depending on how much work he's doing on Sally's behalf and how much time it's consuming, he should consider keeping a time log so he can prove how much time he's dedicated to his attorney role.

Sally's power of attorney may direct John to provide regular accounting statements to someone independent from John, perhaps her two adult children. If the power of attorney is silent on this question, depending on circumstances, John might seek out someone to independently monitor his actions. In any case, upon Sally's eventual death, John should be prepared to provide an accounting to Sally's executor, if requested to do so.

Unfortunately, in today's world, John needs to protect Sally from some additional risks. Firstly, Sally might be vulnerable to financial exploitation by her family, friends, neighbours or strangers. John should carefully monitor Sally's bank and investment accounts for signs of any unusual activity that might indicate someone is taking advantage of her. Secondly, he must check with Sally regularly to ensure she hasn't been exploited by any of the consumer scams, such as email exploits or abusive selling practices by unethical businesses.

An Important Role

Acting as attorney for a vulnerable person might be one of the most difficult jobs you'll have in your lifetime. It can also be one of the most rewarding, if done with love, tact and full knowledge of your duties.

5. Sally's power of attorney might direct John to continue giving gifts to her children, or to make charitable donations in the same way she did. If so, John should obey the power of attorney. But, he can't use Sally's money for anyone but Sally, unless he's expressly authorized to do so.
6. Seniors First BC publishes an excellent Attorney Toolkit containing checklists and recommendations like the PFILE System at http://seniorsfirstbc.ca/resources/attorney-toolkit. Be aware, there may be provincial differences.

Distortions Cloud Investors' Views

By Vincent Tonietto

Imagine applying to your bank for a 10-year mortgage and winding up with the bank paying you for placing the mortgage with them.[1] You'd probably be scratching your head, knowing this isn't the normal course of business. You'd be right.

As I write this, Denmark's reputable Jyske Bank A/S is the only bank (for now) offering negative mortgage rates.[2] It's one example in this new, distorted economic environment—shaped by nearly three decades of declining interest rates worldwide and the unconventional monetary policies, which emerged out of the 2008 Financial Crisis.[3] During this quarter, on a worldwide basis, the supply of negative-yielding bonds reached over $15 trillion (US$).[4] In most European countries, you can find negative-yielding bonds with up to 10-year maturity rates.[5]

This prompts the question: Why are central banks around the globe not only tolerating but promoting this environment? What are they trying to achieve? While the US economy continues its precedent-setting expansion, keep in mind it's been one of the most sluggish recoveries on record. Instead of a rapid climb, picture a shallow, upward stroll. With US unemployment at a record low, you'd imagine inflation expectations would be trending upwards. In fact, the reverse is happening as they continue to slide downwards. Add US/China trade tensions and you can see why monetary policy-makers have good reason to be concerned about the global economic outlook.

When central banks face economies drifting into foggy uncertainty, the next natural step is to decrease interest rates. The tricky reality is interest rates haven't meaningfully increased since the last crisis. There's not much room to manoeuvre.

It also appears that, somewhere along the way, central banks supposedly developed superpowers—the ability to fix almost anything. It's simply not true. It's also not their job. Monetary policy-makers can't fix all the economic imbalances at the same time without fiscal authorities' (government policy-makers') support. For instance, we can see how current US/China trade tensions are reducing the effectiveness of central bank actions.

Distortions on Both Sides

History has shown time and again that equity markets dislike uncertainty. For years now, investors have watched markets respond (upwards and downwards) to the US Federal Reserve's every move.[6] It's clear, equity markets love low interest rates as companies can borrow at very cheap rates to finance activities, boost dividends, or buy back shares. Add investors searching for healthier yields, and we've seen stock valuations stretched upwards. When disconnected from corporate fundamentals, market moves are influenced more by sentiment than the basics. In other words, equity markets are susceptible to distortions too. Since it's impossible to determine precisely when such distortions will be reduced, we prefer to remain cautious and focus on the fundamentals.

From our perspective, equity investors who know about the current themes have the advantage of awareness. With that comes choice. You can review your portfolio, revisit your risk tolerance and "know what you own." Our active management approach integrated with bottom-up stock selection is anchored in fundamental research and analysis that works through broader market distortions. We focus on companies that have been prudent with the "cheap" financing available for years, building their business on solid ground. Avoiding "bad" companies is important during any phase of the cycle, but even more so during any downturn.

Talk to us anytime about your portfolio, your questions or your concerns.

1. Oliver Telling, "Negative mortgages set another milestone in no-rate world," *Bloomberg*, August 19, 2019, https://www.bnnbloomberg.ca.
2. Erik Sherman, "This Danish Bank Is Offering 'Negative' Mortgage Rates—Here's What That Means," *Fortune*, August 13, 2019, https://fortune.com.
3. "Interest Rates Have Declined for Almost Three Decades," Source: FactSet: Tullett Prebon Information, In "Around the World with Franklin Templeton," https://www.franklintempleton.com.au.
4. Maggie Fitzgerald, "Amount of global debt with negative yields balloons to $15 trillion," *CNBC*, August 7, 2019, https://www.cnbc.com.
5. "Government Bond Yields For Selected European Countries," Source: Bloomberg, In "Around the World With Franklin Templeton," https://www.franklintempleton.com.au.
6. Ian Riach, "When Down Means Up," *Perspective*, Market Commentary, July 2019, Fiduciary Trust Canada, https://www.fiduciarytrust.ca/en-ca-ftci/insights.

Your Pick Of The Airwaves

By Kevin B. McLachlan

We've all listened to podcasts right? Well, maybe not all, but many of us. The word podcast was originally suggested in 2004 as a combination of "iPod" (a brand of media player) and "broadcast."[1]

Since its humble beginnings, podcasting has grown into a globally recognized medium for distributing audio content, similar to radio programs. The major difference: You can play podcasts at your convenience on a variety of devices, most commonly now on your cellphone.

An interesting thing about podcasts is the rich variety of content that has been created by all sorts of people. Some podcasts are long—lasting an hour or more—while others are less than 10 minutes. June 2019 research reports say there are over 750,000 podcasts and over 30 million episodes from which to choose.[2] The numbers reflect the low "barriers to entry" for creating a podcast. You or I could produce one or a series. In a sense, technology has democratized the airwaves, adding a new dimension to the corporate world of radio. However, because new or small podcasts likely have a limited marketing budget, their shows generally rely heavily on "word of mouth" to reach new listeners. Some organizations, such as CBC or iHeartRadio, have created large podcast libraries.

Making More Noise

Initially, the low-key world of podcasting gave listeners an open door to ad-free content. As a natural step in the evolving digital marketplace, companies have been creating models to profit from podcasting. Today, "free" content typically features advertising as a means of generating revenue for the podcast provider, similar to traditional broadcasting formats. It's estimated that total podcasting advertising revenue in 2018 reached $600 million.[3]

Marking the growing interest in podcasting, larger media companies are acquiring podcast producers. For instance, Spotify, the music streaming company, recently acquired Gimlet Media, a podcast producer and network (for approximately $230 million) and Anchor, a startup that makes it easier for people to record and distribute podcasts.[4] Spotify says it has other podcast acquisitions in mind and expects to spend up to $500 million on producer deals in 2019.[5]

Then there's Luminary, the startup that launched in spring 2019 with its focus on being the "Netflix for podcasts." Introducing its precedent-setting iOS and Android app and subscription model—sign-up for free, listen to ad-absent regular content and pay a fee for premium content—Luminary had a rocky start, sparking the ire of competitors. Media reports have rumbled about "podcast wars."[6]

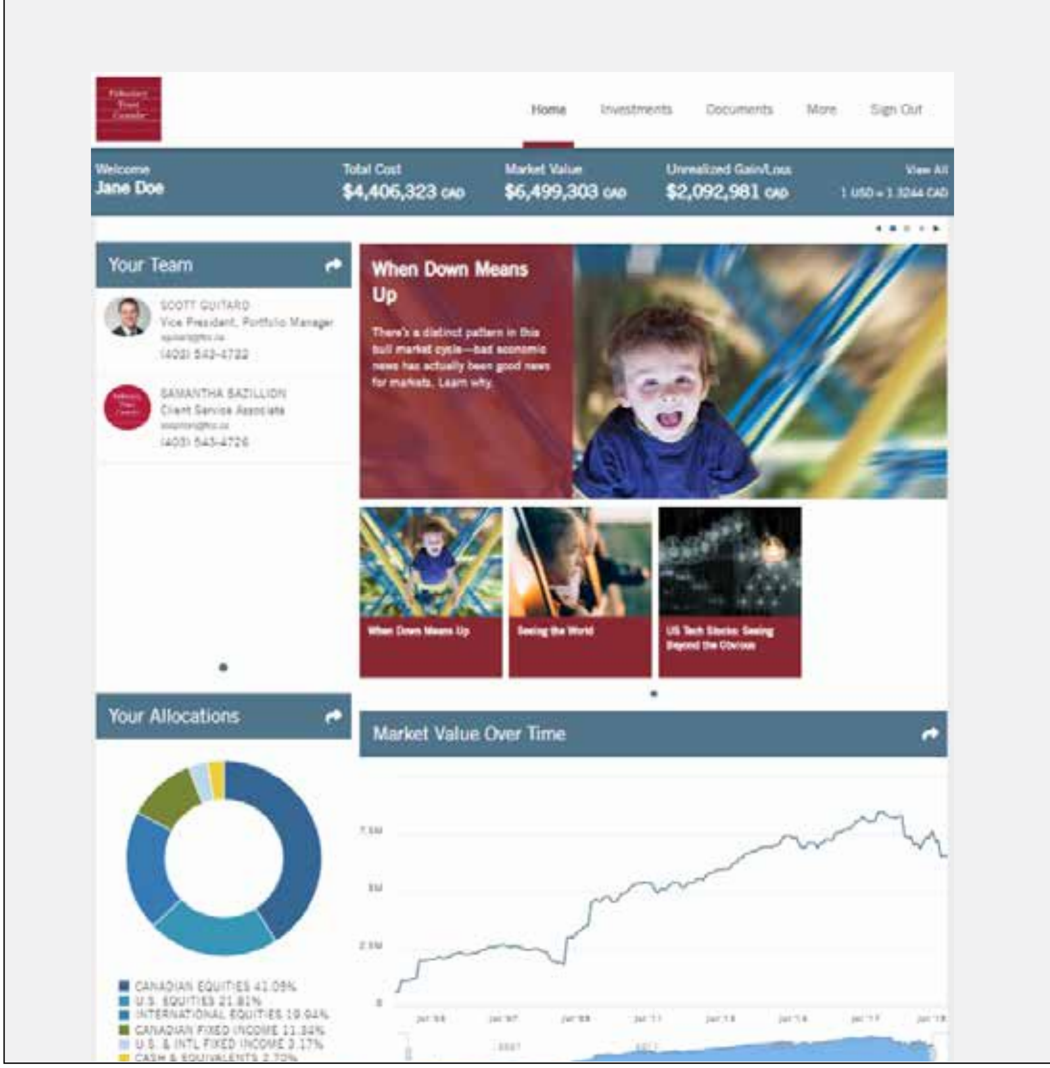
As things bubble on the podcasting front, it's worth noting this medium still reaches a much smaller audience than radio enjoys. For example, about 26% of Americans listen to podcasts monthly, while about 92% listen to radio every week.[7] It'll be interesting to watch how podcast content evolves over the coming years and if future "blockbuster" content draws more listeners.

> *"June 2019 research reports say there are over 750,000 podcasts and over 30 million episodes from which to choose."*

If you're new to the format or a limited listener, explore the podcasting world. I've found certain series extremely worthwhile. Best of all, in this busy world, podcasts come alive according to your schedule.

1. Ben Hammersley, "Audible revolution. Online radio is booming thanks to iPods, cheap audio software and weblogs," *The Guardian*, February 12, 2004, https://www.theguardian.com.
2. Ross Winn, "2019 Podcast Stats & Facts (New Research From June 2019)," https://www.podcastinsights.com.
3. Sergei Revzin and Vadim Revzin, "Podcast Trends In 2019 That You Should Know About," *Forbes*, March 21, 2019, https://www.forbes.com.
4. Mark Sweney, "Podcasting's Netflix moment: the global battle for domination," *The Guardian*, March 30, 2019, https://www.theguardian.com.
5. Mark Sweney, "Podcasting's Netflix moment."
6. Ashley Carman, "Podcast wars: $100 million startup Luminary launches Tuesday without Reply All or The Daily," *The Verge*, April 22, 2019, https://www.theverge.com.
7. Sergei Revzin and Vadim Revzin, "Podcast Trends In 2019 That You Should Know About."

New Website Designed With You In Mind



Visit www.fiduciarytrust.ca in the coming weeks and you'll discover an enhanced world of information at your fingertips. This fall, you'll also receive an email providing simple sign-up directions so you can take full advantage of this resource. Here are just some of the new features:

- Access multiple accounts with ease.
- View portfolio details, including your account balance, activity, holdings and performance.
- Discover one easy spot to review current and past statements.
- Enjoy reading material designed to be transparent, engaging and current.
- Source the latest commentary from portfolio managers close to home and around the world.
- Send messages and share documents with your portfolio manager in a secure setting.
- Choose English or French for all portal content.

Fiduciary Trust Canada's new client and advisor website delivers straightforward, streamlined access to everything you need regarding your accounts with us. We recognize life is busy and so our focus is on making things easier and faster for you.

While we're committed to making ongoing enhancements to the website, know that in-person meetings and phone conversations remain critical to working with your family and you. We always welcome feedback on how to improve our service.

Fiduciary Trust Canada

FRANKLIN TEMPLETON INVESTMENTS

Calgary
335 Eighth Avenue SW,
Suite 1940, Calgary,
Alberta, Canada T2P 1C9
(800) 574-3822

Toronto
200 King Street West,
Suite 1500, Toronto,
Ontario, Canada M5H 3T4
(800) 574-3822

Montreal
1002 Sherbrooke Street
West, Suite 1940
Montreal, Quebec
Canada H3A 3L6
(800) 574-3822

fiduciarytrust.ca

For your information: Certain statements in this newsletter are forward-looking. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as "may," "will," or "should," or other similar expressions. Forward-looking statements are not guarantees of future performance. Any number of factors could contribute to differing results including, among other things, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings and catastrophic events. This list of factors is not exhaustive. Investors should not place undue reliance on forward-looking information and should be aware that Franklin Templeton Investments may not update any forward-looking statements whether as a result of new information, future events or otherwise.