MARK RYAN

Investment Advisor

RBC Wealth Management

RBC Dominion Securities Inc.

BC CHAMBER OF COMMERCE

PRINCE GEORGE CHAMBER OF COMMERCE

From Beijing to Your Back Yard

How World Economic Conditions will Impact Central B.C. in 2016

Mark Ryan
Investment Advisor
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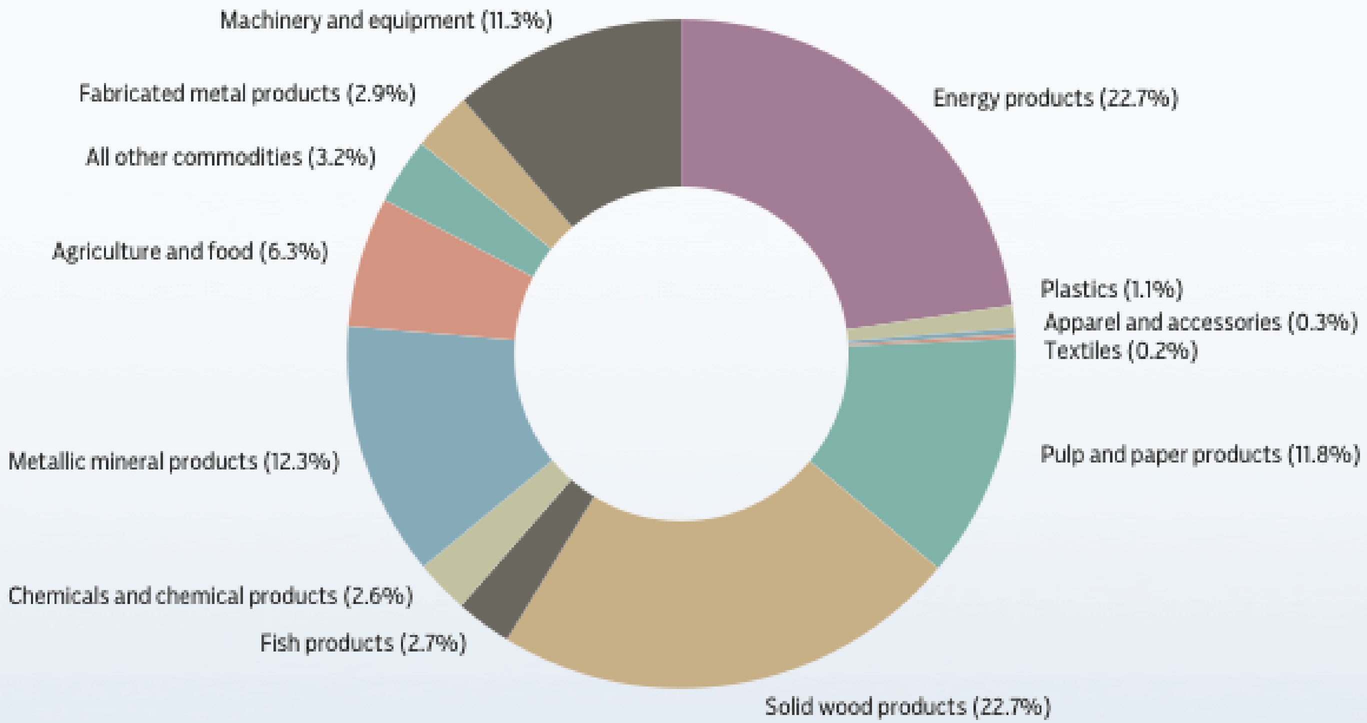
Dominion Securities

EXPORTS

B.C. exports by sector (year to date: October 2014)

A resurging U.S. economy and low Canadian dollar are expected to boost manufacturing and exports



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Commercial Lending in Central BC

Sandwiched between the Asian financial crisis of the late 1990's and the Dot.com crash of the early 2001, we were confronted with:

- The Canada/US Softwood Lumber Trade Dispute
- The closure of Skeena Cellulose mills in Prince Rupert
- Several other mill closures
- The allure of a booming economy in the next province, drawing workers and contractors away.

Much of what impacted our clients’ businesses originated in a far away place.

- World prices for the products we exported
- Federal Government negotiations
- Stock market corrections
- Currency fluctuations
- Provincial policy for timber supply regions, drilling rights, mining approvals, and so on.

Many survived and thrived in this challenging atmosphere .

Those who did so had a few recognizable traits, which we will discuss later.

But first, a bit about China…

Mao's China -- An alliance of workers and peasants.

"The serious task of economic construction lies before us. We shall soon put aside some of the things we know well and be compelled to do things we don't know well."

Moa Tse-tung

From: <u>The People's Democratic Dictatorship</u> – June 30, 1949

Shenzhing: Early 1980’s

Population: approximately 30,000

A More Recent Photo of Shenzhing

Population: Over 15,000,000

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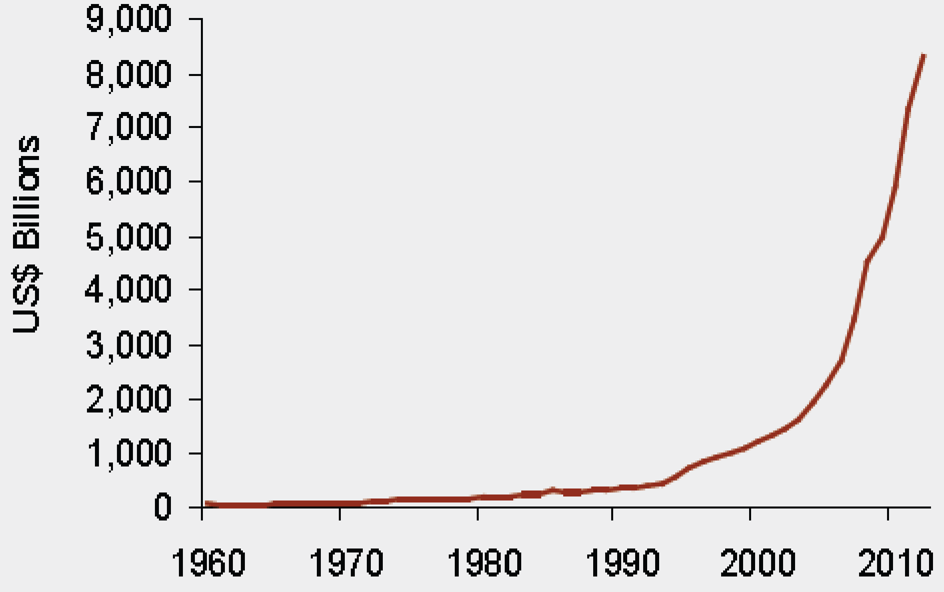
China’s Gross Domestic Product



Source - World Bank; data through December 2012

But…

This is <u>not</u> organic.

Mismatching is inevitable.

Chinese Ghost Towns

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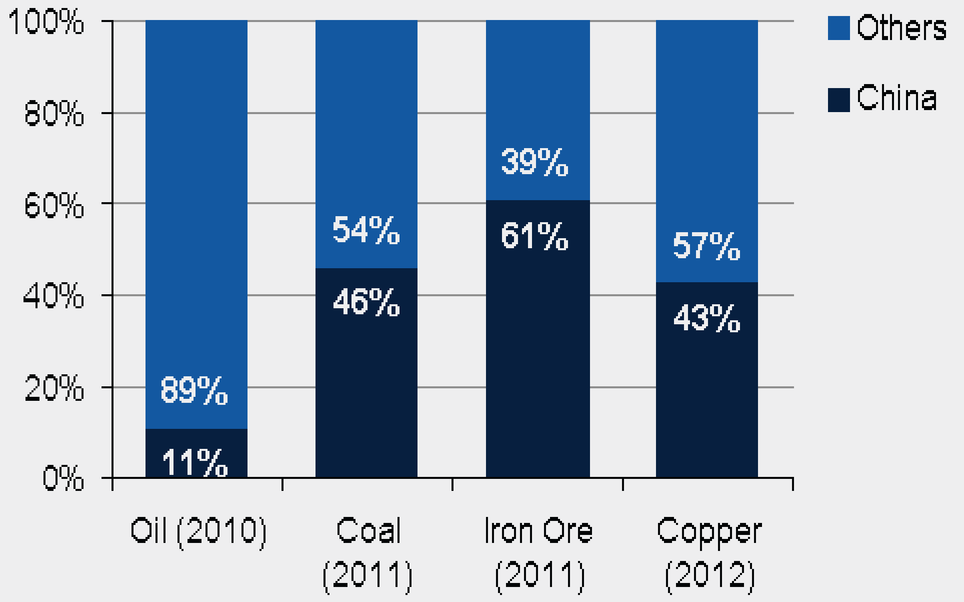
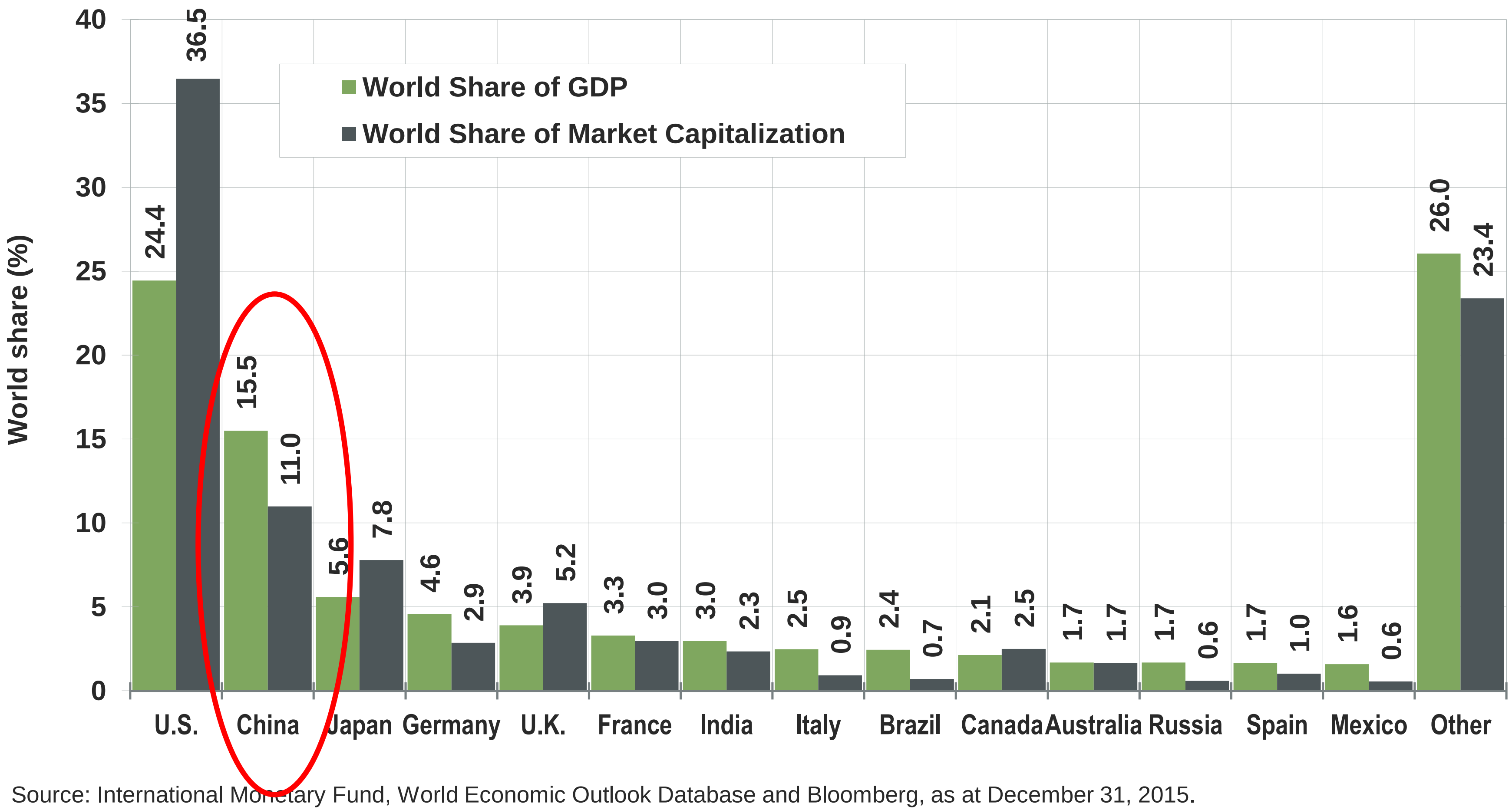
China's Industrial Commodities Consumption as a Percentage of Global Demand



Source - BP - *Statistical Review of World Energy 2010*, International Energy Agency, Ministry of Industry and Information Technology of China, International Corporate Services Group

Emerging Markets or Emerging Market_?

World share of GDP and market capitalization



Source: International Monetary Fund, World Economic Outlook Database and Bloomberg, as at December 31, 2015.

Performance varies year to year

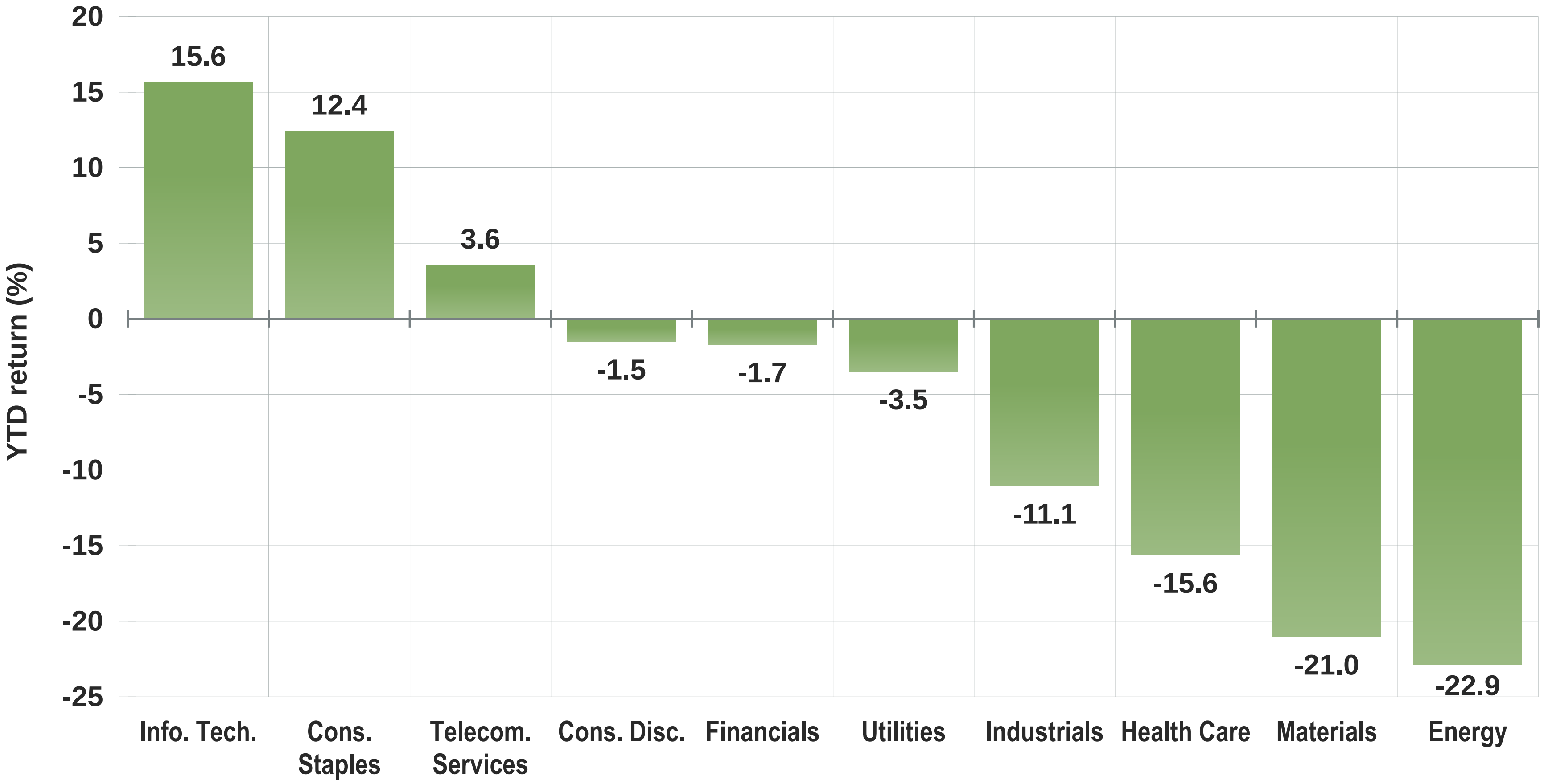
Calendar year returns of Canadian & international markets

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Top-performing asset class	Emerging Markets: 31.2%	Emerging Markets: 32.1%	Emerging Markets: 18.6%	Canadian Bonds: 6.4%	Canadian Small Cap: 68.9%	Canadian Small Cap: 35.2%	Canadian Bonds: 9.7%	Emerging Markets: 16.4%	U.S. Small Cap: 48.1%	U.S. Equity: 23.9%	U.S. Equity: 21.6%
	Canadian Equity: 24.1%	Foreign Equity: 26.4%	Canadian Equity: 9.8%	U.S. Small Cap: -17.2%	Emerging Markets: 52.0%	U.S. Small Cap: 20.2%	U.S. Equity: 4.6%	Foreign Equity: 15.3%	U.S. Equity: 41.3%	Global Equity: 15.0%	Global Equity: 19.5%
	Canadian Small Cap: 18.8%	Global Equity: 21.0%	Canadian Bonds: 3.7%	U.S. Equity: -21.2%	Canadian Equity: 35.1%	Canadian Equity: 17.6%	U.S. Small Cap: -1.8%	Global Equity: 14.0%	Global Equity: 35.9%	U.S. Small Cap: 14.3%	Foreign Equity: 19.5%
	Foreign Equity: 11.2%	U.S. Small Cap: 17.9%	Canadian Small Cap: -1.2%	Global Equity: -26.9%	Global Equity: 13.0%	Emerging Markets: 13.0%	Global Equity: -2.7%	U.S. Small Cap: 13.8%	Foreign Equity: 31.6%	Canadian Equity: 10.6%	U.S. Small Cap: 14.6%
	Global Equity: 6.7%	Canadian Equity: 17.4%	Foreign Equity: -5.3%	Foreign Equity: -28.8%	Foreign Equity: 12.5%	U.S. Equity: 9.1%	Canadian Equity: -8.7%	U.S. Equity: 13.4%	Canadian Equity: 13.0%	Canadian Bonds: 8.8%	Canadian Bonds: 3.5%
	Canadian Bonds: 6.5%	U.S. Equity: 16.1%	Global Equity: -6.6%	Canadian Equity: -33.0%	U.S. Equity: 9.3%	Canadian Bonds: 6.7%	Foreign Equity: -9.6%	Canadian Equity: 7.2%	Emerging Markets: 4.7%	Emerging Markets: 7.0%	Emerging Markets: 2.4%
	U.S. Small Cap: 1.9%	Canadian Small Cap: 13.6%	U.S. Equity: -10.1%	Emerging Markets: -41.4%	U.S. Small Cap: 8.0%	Global Equity: 6.6%	Canadian Small Cap: -14.2%	Canadian Bonds: 3.6%	Canadian Small Cap: 4.3%	Foreign Equity: 4.1%	Canadian Equity: -8.3%
Worst-performing asset class	U.S. Equity: 1.7%	Canadian Bonds: 3.8%	U.S. Small Cap: -16.5%	Canadian Small Cap: -48.6%	Canadian Bonds: 5.4%	Foreign Equity: 2.6%	Emerging Markets: -16.2%	Canadian Small Cap: -0.5%	Canadian Bonds: -1.2%	Canadian Small Cap: -2.8%	Canadian Small Cap: -16.3%

Sources: Fidelity Management & Research Company, Datastream. Total returns in CDN$. Note: It is not possible to invest directly in an index. Asset class performance represented by: foreign equity: MSCI EAFE Index; global equities: MSCI World index; emerging markets equity: MSCI Emerging Markets Investable Market Index ; U.S. equity: S&P 500 Index; U.S. Small Cap: Russell 2000 Index; Canadian equities: S&P/TSX Composite Index; Canadian small cap: BMO Small Cap Blended Weighted Index (Price Return); Canadian bonds: FTSE TMX Canada Universe Bond Index. As at December 31, 2015.

S&P/TSX sector returns

2015 total returns

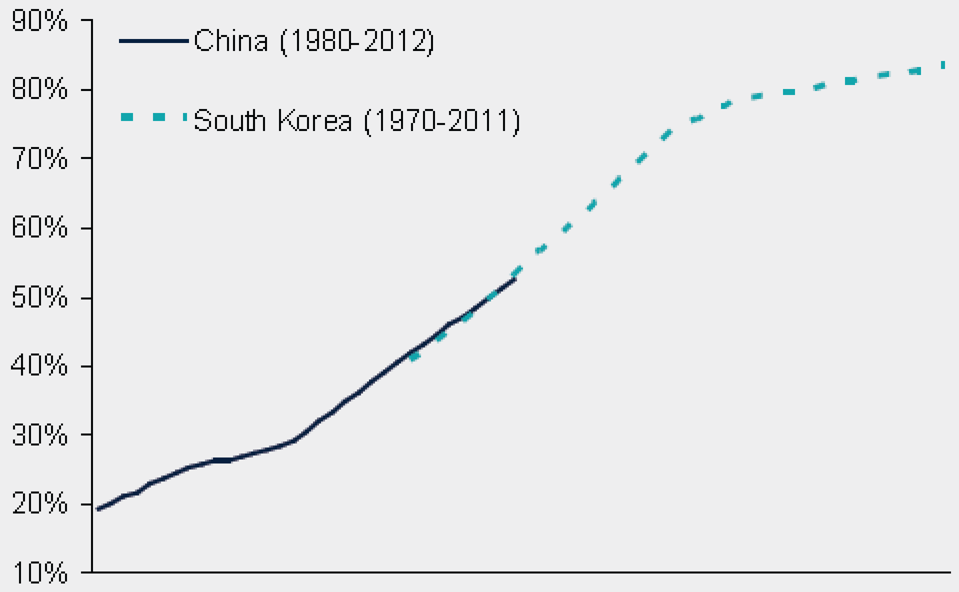


Source: Datastream, as at December 31, 2015.

On the Bright Side…
China's urbanization trend still has a long way to go.

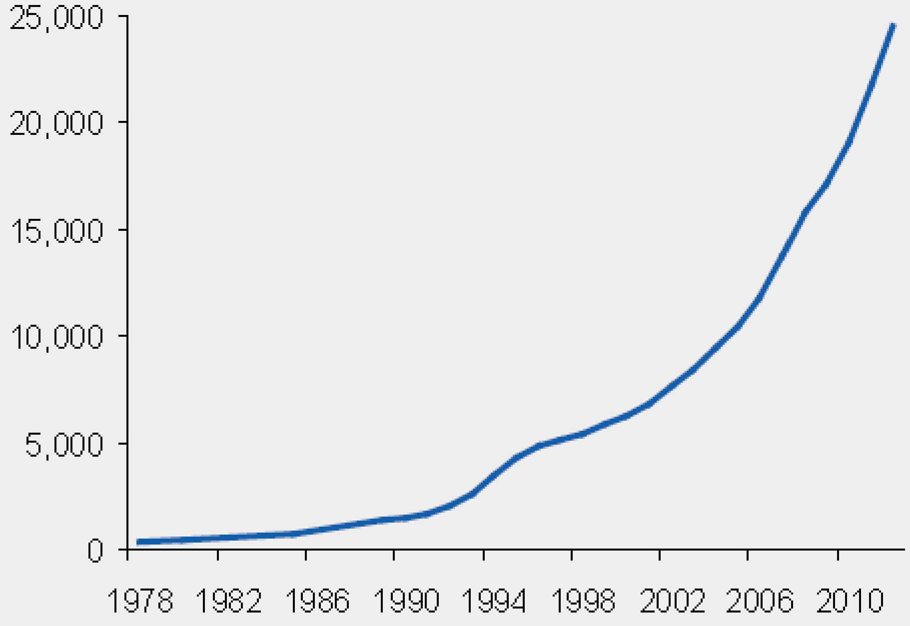
- At the beginning of the "opening up" reforms in 1979, only 20% of the population lived in cities.
- As of 2013, approximately 53% of the population lived in cities.
- That's about 700 million in cities and 650 million still in the countryside.
- By comparison, more than 80% of the populations in the U.S. and South Korea live in cities, and over 90% in Japan.

Chinese versus South Korean Urbanization



Source - Bloomberg, National Bureau of Statistics of China, Statistics Korea

Chinese Urban Household Disposable Income



Source - National Bureau of Statistics of China; data through December 2012

This is really a very important statistic

“China is now a major growth engine for Apple, propelled by an emerging middle class with increasing disposable income.”

The Wall Street Journal
October 28, 2015

The scale of China’s urbanization is unparalleled, backed by the largest population migration in human history.

If China’s urbanization rate eventually gets to 70% or higher, an additional 17% of the population, or 230 million people, would become urbanites and require housing.

Insights from RBC Global Asset Management Evaluating Chinese concerns

Emerging markets (primarily China) have contributed about three-quarters of global growth since the financial crisis.

Chinese Stocks:
The meltdown in the Chinese stock market, while consequential, has to be considered in the context of the unique fundamentals of that market. China A-shares, which are almost entirely held by domestic Chinese investors, soared from late 2014 through the middle of 2015 – a move which is best described as pure speculation. These mainland shares currently trade at a premium of roughly 40% to Hong Kong's H-shares, which are traded by a mix of global and local investors.

China's mainland shares remain around 50% higher than they were in the middle of 2014 and the fact that the Chinese stock market is still quite small relative to the size of the overall economy. As a result, domestic blowback should be fairly small, and direct international consequences are almost non-existent.

Chinese GDP is decelerating in line with our below-consensus forecast, but the threat of a hard landing for the Chinese economy (i.e. domestic growth below 4%) still seems fairly small.

Chinese Real Estate:
Largely unnoticed as the Chinese equity market came unglued is that residential real estate indicators are actually improving. Thus, an important barometer for domestic growth and credit conditions is now on a recovery path.

The **Chinese exchange rate** has declined notably relative to the U.S. dollar since August 2015 when changes were made to how the currency operates. This has caused a great deal of market trepidation. We continue to believe that any further decline will be modest. In fact, when examined in the context of a basket of foreign currencies rather than simply versus the U.S. dollar, the Chinese renminbi is little changed over the past year. The Chinese government continues to defend the currency, and holds ample ammunition in reserve. Simply put, for all of the noise around China's currency, the world's competitive balance has not been dramatically altered.

We continue to believe that **China's decelerating GDP growth** reflects a mix of factors: less credit growth, diminished competitiveness and a structural transition away from manufacturing and exports to a more mature service and consumer-based economy. The potential for second-order effects from the collapsing A-share market are clearly important (i.e. the degree to which a decline in the domestic markets might convert a soft landing in the economy to a hard one), but the movement isn't proof of a Chinese hard landing.

Our Admirable Entrepreneurs

These qualities work in every type of economic condition:

- A strong balance sheet
  - Not too much debt
  - Sufficient dry powder (cash and near-cash resources)
- A strong management team
  - And an excellent relationship with and ability to hold on to floor level employees
- Well-maintained assets
- A nose for the right risks at the right time
- Stick to your knitting

The Good the Bad and the Holy Cow

The Good:

Opportunities seized in Fort Mac

The Bad

Phone call from a politician.

The Holy Cow

The real estate developer with an incredible sense of timing

What’s Next for Your Business?

- Site C opportunities?
- Port expansion
- LNG Facilities
- Cheap assets during a downturn
- Hungry young employee pool
- Business owners looking to retire or slow down
- And so on
- And so on...

Important notice

Read a fund’s prospectus before investing. Mutual funds are not guaranteed; their values change frequently and past performance may not be repeated. Investors will pay management fees and expenses, may pay commissions or trailing commissions, and may experience a gain or loss. It is not possible to invest directly in an Index.

The indicated rates of return are the historical annual compounded total returns including changes in unit value and the reinvestment of all distributions and do not take into account sales, redemption, distribution, optional charges, or income taxes payable by any security holder that would have reduced returns.

Compound growth calculations are used only for the purpose of illustrating the effects of compound growth and are not intended to reflect future values of any mutual fund or returns on investment in any mutual fund.

Any reference to a company is for illustrative purposes only; it is not a recommendation to buy or sell nor is it necessarily an indication of how the portfolio of any Fidelity Fund is invested. The breakdown of fund investments is presented to illustrate the way in which a fund may invest, and may not be representative of a fund’s current or future investments. A fund’s investments may change at any time.