Real Estate & REITs

The REIT Stuff - New Edition Available

OUR TAKE: Following a brief hibernation, our latest edition of The REIT Stuff, “When Flat Could Mean Up!”, is available on ScotiaView. We look at the implications of shifting yield curves on REIT performance. Bottom line, previous flattening yield curves have generally been friendly to REITs on an absolute and relative basis. While a more constructive view on the sector is pending a better entry point (in line with NAV today vs. target double-digit discount territory), our stock selection remains focused on quality, growth, and risk minimization. Our top picks include Allied Properties (growth), BAM (growth + value), BPY (growth + value), and Pure Industrial (growth). Our preferred apartment and retail picks are Killam and CT REIT.

KEY POINTS

When flat is up in absolute…. As shown in Exhibit 1, a flattening yield curve has been fairly supportive of REIT investment over time, producing positive REIT returns, with the opposite holding true during periods of steepening (i.e., 2007-2009, 1H/13, 1H/15, this month, up until the past couple of days). We believe this helps explain why U.S. REITs (on average) have outperformed the S&P by ~400bp (price-only) in the 12 months post initial Fed hike during previous tightening cycles (since 1972), partially making up for the ~600bp of average underperformance ahead of the initial Fed hike (see link). With respect to asset classes, on average, we note Canadian Apartment and Office REITs have done relatively well (vs. REIT sector) during flattening periods since 1998 (# of REITs is admittedly limited), with Apartment, Office, and Retail REITs scoring well going back to 2003 (when the # of REITs in the sample set started to expand).

…and relative terms. On a total return basis, Exhibit 2 notes that REITs have fared relatively well during flattening periods, outperforming the TSX and a majority of its yield peers (telecom the exception); the opposite holds true during steepening cycles (REITs lagged all yield sectors, in addition to the TSX, while also delivering an average negative 2% absolute total return). Bottom line, it appears the shape of the yield curve influences relative REIT returns (vs. yield peers), in addition to the simple direction of interest rates across the yield curve. We note Scotia Economics 2017E average two-and-ten year GoC yields are 0.9% and 1.4%, respectively, representing a flattening of 10bp (in the U.S., Scotia Economics forecast is for a more tangible 33bp of flattening), so we would view a 5%-10% pullback in sector unit prices as an attractive buying opportunity, all else equal; we’re on standby!

Sector has taken a bit of a breather. We became more cautious on CAD REITs post Q2/16 results (Q2 Results Summary + Sector Thoughts: Tough Q2 Tape May Result in a Breather Post Gold Medal Run) on the back of a strong YTD run, despite weaker fundamentals (negative earnings revisions). With U.S. REITs typically lagging the S&P 500 in the six-months leading up to the initial Fed hike (which is how we’d characterize the next likely Fed move), we felt a breather was in store; REITs are -3% since our Q2 summary vs. +1% for TSX, -2% for U.S. REITs; 10-year GoC yield is +11bp.
When Flat Could Mean Up!

While the direction of interest rates matters, so does the shape of the yield curve, in our view. We have returned from summertime hibernation and reinstated The REIT Stuff with a continued focus on the topic du jour... interest rates! We have written extensively on REIT performance during periods of rising and falling bond yields, but here we expand on a topic we briefly noted in our BAM Q2/16 results note. In this edition of The REIT Stuff, we look at the implications of shifting yield curves on REIT performance. Bottom line, the long end of the curve arguably matters more than the short end for REIT unit prices, in our view.

The sector has taken a bit of a breather. We became more cautious on CAD REITs post Q2/16 results on the back of a strong year-to-date run, despite weaker fundamentals (negative earnings revisions). With U.S. REITs typically lagging the S&P 500 in the six months leading up to the initial Fed hike (which is how we would characterize the next likely Fed move), we felt a breather was in store; REITs are -3% since our Q2 summary versus +1% for TSX, -2% for U.S. REITs; and the 10-year Government of Canada (GoC) yield is +11 bp. Since 1998, Canadian REIT underperformance versus yield peers (except for utilities) and the TSX during rising interest rates is well documented, with more recent examples including the Taper Tantrum of 2013, Fed Tightening in 2015, and Fed Tightening Part II (now). While rising rates generally reflect an improving economy (good for real estate; higher NOI growth), they can also bear higher cap rates (discount rates), which can negatively impact real asset NAVs (a 25 bp increase in our NAV cap rate impacts our average CAD REIT NAVPU by ~8%, excluding debt revaluation). Rising rates and sluggish economic growth could be particularly punitive for real estate (as we saw in REIT unit prices from 2H/15 to early 2016). When we talk about rates, we generally refer to the 10-year GoC bond yield, which, as we discuss below, is worth clarifying.

When flat is up, in absolute... While declining NOI and rising long-dated interest rates are arguably a recipe for double-digit discounts to NAV, what should we think about the opposite, rising NOI and flattish long-dated interest rates? We are effectively asking about the implications of a flattening yield curve. As shown in Exhibit 1, a flattening yield curve has been relatively supportive of REIT investment over time. Exhibit 1 highlights the spread between the ten- and two-year GoC bond (dark line; indexed to left scale), showing consistency with REIT unit prices over time (as measured by the Capped REIT Index; inverted on right scale). Generally, a flattening yield curve has produced positive REIT returns, with the opposite holding true during periods of steepening (e.g., 2007-2009, 1H/13, 1H/15, this month). We believe the analysis, along with the points below, support the notion that a flattening yield curve could support REIT investment (despite higher overnight rates), given the potential for improved NOI growth (short-end rising) and stable mortgage costs/cap rates (lower-risk premium offsets higher rates). We believe this helps explain why U.S. REITs (on average) have outperformed the S&P by ~400 bp (price only) in the 12 months post initial Fed hike during previous tightening cycles (since 1972), partially making up for the ~600 bp of average underperformance in the six months leading up to the initial Fed hike. Since 1972, the average yield curve flattened by 120bp in the 12 months post initial Fed hike. Investing at big sector discounts to NAV (10%+ versus -1% today) should add to total returns, in our view. With respect to asset

Exhibit 1: Flattening Yield Curve Has Historically Supported Investment in REITs

Source: Bloomberg; Scotiabank GBM.
classes, on average, we note Canadian apartment and office REITs have done relatively well (versus the REIT Sector) during flattening periods since 1998 (the number of REITs is admittedly limited), with apartment, office, and retail REITs scoring well if we go back to 2003 (when the number of REITs in the sample set started to expand).

…and in relative terms. As part of our analysis, we also looked at how REITs have fared versus yield peers in flattening and steepening yield curves, which we show in Exhibit 2. On a total return basis, we note that REITs have fared relatively well during flattening periods, outperforming both the TSX and a majority of its yield peers (telecom being the exception); the opposite holds true during steepening cycles (REITs lagged all yield sectors, in addition to the TSX, while also delivering an average negative 2% absolute total return).

While it is not shown on the chart, the conclusion is similar when we look back to flattening periods (five periods noted since 2002), driven by a rising 2-year GoC bond (i.e., the environment expected over the coming years), as opposed to the 10-year bond simply declining. Bottom line, it appears the shape of the yield curve influences relative REIT returns (versus yield peers), in addition to the simple direction of interest rates across the yield curve. We note Scotia Economics 2017E average two- and 10-year GoC yields are 0.9% and 1.4%, respectively, representing a flattening of 10 bp (in the United States, Scotia Economics forecast is for a more significant 33 bp of flattening), so while we would like to see a 5%-10% pullback in sector valuation to become more constructive on valuation, a pullback of that magnitude should be viewed as a good buying opportunity; we are on standby!

Focus remains on quality, growth, and risk minimization. Our top picks include Allied Properties (growth), BAM (growth + value), BPY (growth + value), and Pure Industrial (growth). Our preferred apartment and retail picks are Killam and CT REIT.
**Pertinent Data**

**Allied Properties REIT (AP.UN-T)**
- Valuation: 19.25x AFFO (F’17 estimate)
- Key Risks: Speculative Toronto new supply, rising interest rates, inability to lease 250 Front St. West, economic recession.

**Brookfield Asset Management (BAM-N)**
- Valuation: Forward NAV
- Key Risks: Materially higher interest rates, fundraising slowdown, decelerating U.S. economy, lack of credit, foreign exchange, complexity

**Brookfield Property Partners LP (BPY-N)**
- Valuation: 0.95x NAV
- Key Risks: Spiking interest rates, inability to access capital markets, lack of direct comparables, U.S. contraction, external structure

**CT REIT (CRT.UN-T)**
- Valuation: 17x AFFO (F’17 estimate)
- Key Risks: Significant tenant concentration in CTC retail banners, majority unitholder.

**Killam Apartment REIT (KMP.UN-T)**
- Valuation: 17.25x AFFO (F’17 estimate)
- Key Risks: Rising interest rates, new supply, execution of Alberta market entry

**Pure Industrial REIT (AAR.UN-T)**
- Valuation: 14.25x AFFO (F’17 estimate)
- Key Risks: Exposure to single-tenant properties, tenant concentration, inability to execute growth
## Appendix A: Important Disclosures

<table>
<thead>
<tr>
<th>Company</th>
<th>Disclosures (see legend below)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allied Properties REIT</td>
<td>G, I, U, VS252</td>
</tr>
<tr>
<td>Brookfield Asset Management</td>
<td>G, I, O1, U</td>
</tr>
<tr>
<td>Brookfield Property Partners LP</td>
<td>G, VS179, VS180, VS181, VS311</td>
</tr>
<tr>
<td>CT REIT</td>
<td>I</td>
</tr>
<tr>
<td>Killam Apartment REIT</td>
<td>G, I, U, VS259</td>
</tr>
<tr>
<td>Pure Industrial REIT</td>
<td>G, I, U, VS272</td>
</tr>
</tbody>
</table>

We, Pammi Bir and Mario Saric, certify that (1) the views expressed in this report in connection with securities or issuers that we analyze accurately reflect our personal views and (2) no part of our compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by us in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities’ principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director and Co-Head, Global Capital Markets, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets, and the revenues generated from its various departments, including investment banking, trading fees and other types of transactions. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to FINRA Rule 2241 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit gbm.scotiabank.com/disclosures.

Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

Time of dissemination: September 23, 2016, 04:52 ET.

---

**Legend**

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>G</td>
<td>Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.</td>
</tr>
<tr>
<td>I</td>
<td>Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.</td>
</tr>
<tr>
<td>O1</td>
<td>Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.</td>
</tr>
<tr>
<td>U</td>
<td>Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.</td>
</tr>
<tr>
<td>VS179</td>
<td>Our Research Analyst visited various U.S. industrial and retail assets, operating assets in New Jersey and Los Angeles, in January and March 2014, respectively. Partial payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.</td>
</tr>
<tr>
<td>VS180</td>
<td>Our Research Analyst visited various U.S. office assets, operating office buildings in New York, Los Angeles, and Houston, in August 2013, March 2014, and June 2013, respectively. No payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.</td>
</tr>
<tr>
<td>VS181</td>
<td>Our Research Analyst visited various properties in the London, UK, office portfolio, operating office buildings, in October 2012. Partial payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.</td>
</tr>
<tr>
<td>VS252</td>
<td>Our Research Analyst visited various Toronto office assets, operating office buildings, on June 2014. No payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.</td>
</tr>
<tr>
<td>VS259</td>
<td>Our Research Analyst visited various Halifax properties, occupied assets, in October 2013. Partial payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.</td>
</tr>
</tbody>
</table>
Our Research Analyst visited the FedEx ground assets, income-producing industrial properties, on January 19 and 20, 2015. Partial payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.

Our Research Analyst visited BPY's City of London and Canary Wharf assets, operating office buildings, on May 19 and 20, 2015. Partial payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.
Rating and Price Target History

**Pure Industrial REIT (AAR.UN-T) as of September 22, 2016 (in CAD)**

<table>
<thead>
<tr>
<th>Date</th>
<th>Price (CAD)</th>
<th>Rating</th>
<th>Target (CAD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>27-Oct-2014</td>
<td>4.38</td>
<td>I:SP</td>
<td>5.00</td>
</tr>
<tr>
<td>12-Feb-2015</td>
<td>4.98</td>
<td>SP</td>
<td>5.25*</td>
</tr>
<tr>
<td>30-Mar-2016</td>
<td>4.66</td>
<td>SO*</td>
<td>5.25</td>
</tr>
<tr>
<td>01-Aug-2016</td>
<td>5.49</td>
<td>SO</td>
<td>5.50*</td>
</tr>
<tr>
<td>15-Aug-2016</td>
<td>5.38</td>
<td>SO</td>
<td>5.75*</td>
</tr>
</tbody>
</table>

*Represents the value(s) that changed.

Scotiabank GBM Ratings Legend: FS=Focus Stock; SO=Sector Outperform; SP=Sector Perform; SU=Sector Underperform; T=Tender; UR=Under Review

**Allied Properties REIT (AP.UN-T) as of September 22, 2016 (in CAD)**

<table>
<thead>
<tr>
<th>Date</th>
<th>Price (CAD)</th>
<th>Rating</th>
<th>Target (CAD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-Jul-2013</td>
<td>32.42</td>
<td>SO</td>
<td>35.50</td>
</tr>
<tr>
<td>01-Nov-2013</td>
<td>33.89</td>
<td>SO</td>
<td>37.50*</td>
</tr>
<tr>
<td>14-Nov-2013</td>
<td>33.23</td>
<td>SO</td>
<td>37.00*</td>
</tr>
<tr>
<td>08-May-2014</td>
<td>35.32</td>
<td>SO</td>
<td>37.75*</td>
</tr>
<tr>
<td>02-Jun-2014</td>
<td>35.87</td>
<td>SO</td>
<td>38.00*</td>
</tr>
<tr>
<td>04-Sep-2014</td>
<td>35.75</td>
<td>SO</td>
<td>37.70*</td>
</tr>
<tr>
<td>03-Nov-2014</td>
<td>35.75</td>
<td>SO</td>
<td>38.00*</td>
</tr>
<tr>
<td>13-Nov-2014</td>
<td>37.35</td>
<td>SO</td>
<td>43.00*</td>
</tr>
<tr>
<td>03-Feb-2015</td>
<td>39.57</td>
<td>SO</td>
<td>41.50*</td>
</tr>
<tr>
<td>29-Jul-2015</td>
<td>39.55</td>
<td>SO</td>
<td>40.75*</td>
</tr>
</tbody>
</table>

*Represents the value(s) that changed.

Scotiabank GBM Ratings Legend: FS=Focus Stock; SO=Sector Outperform; SP=Sector Perform; SU=Sector Underperform; T=Tender; UR=Under Review
Brookfield Asset Management (BAM-N) as of September 22, 2016 (in USD)

- **06-Aug-2013**
  - Price: 24.45 USD
  - Rating: SO
  - Target: 42.50 USD

- **26-Aug-2013**
  - Price: 22.91 USD
  - Rating: SO
  - Target: 42.95 USD

- **11-Nov-2013**
  - Price: 25.95 USD
  - Rating: SO
  - Target: 43.50 USD

- **18-Feb-2014**
  - Price: 26.16 USD
  - Rating: SO
  - Target: 44.00 USD

- **06-May-2014**
  - Price: 28.18 USD
  - Rating: SO
  - Target: 46.50 USD

- **11-Aug-2014**
  - Price: 33.02 USD
  - Rating: SO
  - Target: 52.00 USD

- **15-Nov-2014**
  - Price: 33.01 USD
  - Rating: SO
  - Target: 58.00 USD

- **17-Feb-2015**
  - Price: 36.48 USD
  - Rating: SO
  - Target: 57.85 USD

- **28-Apr-2015**
  - Price: 36.25 USD
  - Rating: SO
  - Target: 58.25 USD

- **07-May-2015**
  - Price: 35.10 USD
  - Rating: SO
  - Target: 58.75 USD

- **14-May-2015**
  - Price: 35.84 USD
  - Rating: SO
  - Target: 59.25 USD

- **09-Feb-2016**
  - Price: 27.13 USD
  - Rating: SO
  - Target: 36.75 USD

- **11-May-2016**
  - Price: 33.36 USD
  - Rating: SO
  - Target: 37.25 USD

- **16-May-2016**
  - Price: 33.95 USD
  - Rating: SO
  - Target: 37.50 USD

- **27-Jun-2016**
  - Price: 22.20 USD
  - Rating: SO
  - Target: 25.75 USD

- **08-Aug-2016**
  - Price: 24.56 USD
  - Rating: SO
  - Target: 26.00 USD

*Represents the value(s) that changed.

Scotiabank GBM Ratings Legend: FS=Focus Stock; SO=Sector Outperform; SP=Sector Perform; SU=Sector Underperform; T=Tender; UR=Under Review

---

Brookfield Property Partners LP (BPY-N) as of September 22, 2016 (in USD)

- **24-Sep-2014**
  - Price: 21.33 USD
  - Rating: I:SO
  - Target: 24.50 USD

- **07-Nov-2014**
  - Price: 22.72 USD
  - Rating: SO
  - Target: 24.75 USD

- **05-Feb-2015**
  - Price: 25.07 USD
  - Rating: SO
  - Target: 26.00 USD

- **06-Nov-2015**
  - Price: 23.02 USD
  - Rating: SO
  - Target: 26.50 USD

- **27-Jun-2016**
  - Price: 22.20 USD
  - Rating: SO
  - Target: 25.75 USD

- **08-Aug-2016**
  - Price: 24.56 USD
  - Rating: SO
  - Target: 26.00 USD

*Represents the value(s) that changed.

Scotiabank GBM Ratings Legend: FS=Focus Stock; SO=Sector Outperform; SP=Sector Perform; SU=Sector Underperform; T=Tender; UR=Under Review

---

CT REIT (CRT.UN-T) as of September 22, 2016 (in CAD)

- **29-Jul-2015**
  - Price: 12.38 CAD
  - Rating: SO
  - Target: 13.75 CAD

- **30-Jul-2015**
  - Price: 12.55 CAD
  - Rating: SO
  - Target: 13.75 CAD

- **03-Nov-2015**
  - Price: 12.90 CAD
  - Rating: SO
  - Target: 14.00 USD

- **16-Feb-2016**
  - Price: 14.18 CAD
  - Rating: SP*
  - Target: 14.25 USD

- **17-Feb-2016**
  - Price: 14.49 CAD
  - Rating: SP
  - Target: 15.00 USD

- **12-Apr-2016**
  - Price: 14.39 CAD
  - Rating: SP
  - Target: 15.25 USD

- **12-May-2016**
  - Price: 15.47 CAD
  - Rating: SP
  - Target: 15.50 USD

- **01-Aug-2016**
  - Price: 14.97 CAD
  - Rating: SP
  - Target: 15.75 USD

*Represents the value(s) that changed.

Scotiabank GBM Ratings Legend: FS=Focus Stock; SO=Sector Outperform; SP=Sector Perform; SU=Sector Underperform; T=Tender; UR=Under Review

---

Powered by: BlueMatrix
Killam Apartment REIT (KMP.UN-T) as of September 22, 2016 (in CAD)

<table>
<thead>
<tr>
<th>Date</th>
<th>Price</th>
<th>Rating</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-Jul-2013</td>
<td>10.93</td>
<td>SP</td>
<td>12.50</td>
</tr>
<tr>
<td>09-Aug-2013</td>
<td>10.33</td>
<td>SP</td>
<td>12.25*</td>
</tr>
<tr>
<td>01-Nov-2013</td>
<td>10.96</td>
<td>SP</td>
<td>12.00*</td>
</tr>
<tr>
<td>28-Jan-2014</td>
<td>10.57</td>
<td>SP</td>
<td>11.75*</td>
</tr>
<tr>
<td>20-Feb-2014</td>
<td>10.57</td>
<td>SP</td>
<td>11.50*</td>
</tr>
<tr>
<td>09-May-2014</td>
<td>10.29</td>
<td>SP</td>
<td>11.00*</td>
</tr>
<tr>
<td>03-Nov-2014</td>
<td>10.97</td>
<td>SP</td>
<td>11.25*</td>
</tr>
<tr>
<td>03-Nov-2015</td>
<td>10.39</td>
<td>SP</td>
<td>11.75*</td>
</tr>
<tr>
<td>12-May-2016</td>
<td>12.40</td>
<td>SP</td>
<td>13.00*</td>
</tr>
</tbody>
</table>

*Represents the value(s) that changed.

Scotiabank GBM Ratings Legend: FS=Focus Stock; SO=Sector Outperform; SP=Sector Perform; SU=Sector Underperform; T=Tender; UR=Under Review

Powered by: BlueMatrix
Definition of Scotiabank, Global Banking and Markets Equity Research Ratings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst’s 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

Ratings

Focus Stock (FS)
The stock represents an analyst’s best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst’s coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Sector Outperform (SO)
The stock is expected to outperform the average 12-month total return of the analyst’s coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Sector Perform (SP)
The stock is expected to perform approximately in line with the average 12-month total return of the analyst’s coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Sector Underperform (SU)
The stock is expected to underperform the average 12-month total return of the analyst’s coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Other Ratings

Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Ranking

As of June 22, 2015, Scotiabank, Global Banking and Markets discontinued its Low, Medium, and High risk rankings. The Speculative risk ranking reflects exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, and exceptionally high stock volatility. The Director of Research and the Supervisory Analyst jointly make the final determination of the Speculative risk ranking.

Scotiabank, Global Banking and Markets Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*

* As of August 31, 2016.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than “buy,” “hold/neutral” and “sell,” to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.
General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as “globally branded research” under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

The frequency of reports is determined by the analyst on a case-by-case basis, driven by external market factors and issuer announcements. Analysts will endeavour to review and publish such estimates and recommendations as soon as possible after the release of material information by the issuer or the occurrence of other relevant events. This will typically involve, at a minimum, a summary of quarterly earnings releases.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research or who wish to access the proprietary model used to produce this report should contact Scotiabank at 1-800-208-7666. A list of all investment recommendations in any financial instrument or issuer that have been disseminated during the preceding 12 months is available at the following location: gbm.scotiabank.com/disclosures

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

Additional Disclosures

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Colombia: This report is distributed in Colombia according to the resolutions issued by the Superintendencia Financiera, in which the regulator authorized marketing / promotion of products and services to the following foreign entities, exclusively for the approved purposes: The Bank of Nova Scotia (Canada) – Resolution 058 of 2014, The Bank of Nova Scotia (Panama) – Resolution 2137 of 2010, and Scotia Capital Inc. – Resolution 0226 of 2015.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by BNS Asia Limited, a subsidiary of The Bank of Nova Scotia. BNS Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a),(b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.