Q. Evidence of Ms. McShane, capital market conditions, Page 23-36: In terms of the dividend yield on the TSX, would Ms. McShane accept that the cost of equity according to the DCF model is the sum of the expected dividend yield plus the expected growth rate so that a higher dividend yield may reflect a decline in long run growth prospects in the equity market? Please comment on whether the fact that the TSX is still 20% below its pre-crisis high may indicate lower long run growth prospects.

A. It is possible that the currently lower level of the TSX relative to its pre-crisis peak (June 18, 2008) could be in part the result of lower long-term expected growth rates. However, five-year earnings growth rate forecasts for the companies comprising the S&P/TSX Composite suggest that, since the worst of the financial crisis passed, the expected earnings growth rates for the companies in the composite have been equal to or higher than they were when the market reached its pre-crisis peak in June 2008. The market-weighted I/B/E/S five-year forecast earnings growth rate for the companies comprising the S&P/TSX Composite at the end of June 2008 was approximately 11.0%. At the end of December 2011, the market-weighted I/B/E/S forecast five-year earnings growth rate was approximately 14.0%. Please see the table below.

Date	Market Weighted I/B/E/S Forecast 5-Year Earnings Growth Rate
End of June 2008	11.0%
End of December 2008	9.3%
End of December 2009	11.0%
End of December 2010	13.6%
End of December 2011	14.1%