
Top Funds Report

Monthly Commentary

Equity markets rally sharply as European debt worries subside - for now

For the past year, market sentiment has been dominated largely by the debt crisis that continues to boil over in Europe, causing fear and panic among investors. In the first quarter of 2012, this situation was merely simmering, allowing investors to focus on the economic recovery that appears to be well underway in North America.

Sentiment was buoyed by encouraging data in the U.S. showing that the housing market is rebounding, job growth has been encouraging for six months, and consumer confidence remains positive. In Europe, while the economy is showing signs of slowdown, markets rallied strongly on news that the European Central Bank had injected funds into many banks in an effort to help spur economic growth.

While many economists believe more stimulus is needed to avoid a recession, markets viewed this as a very beneficial step, with all major equity markets posting big gains during the quarter. The U.S. led the way with the S&P 500 gaining 12% in U.S. dollar terms. The MSCI EAFE Index was also strong, gaining nearly 10% in U.S. dollar terms.

Canadian equities, while positive, had a tough quarter. The S&P/TSX Composite Index gained nearly 4%, well off the pace set by their global counterparts. Much of this underperformance was attributable to the resource sector which struggled on news that China, and other emerging market economies may be slowing down the pace of their economic growth. This led to a sell-off in commodities. The materials sector was also hit hard, as gold dropped from its February peak, ending the quarter at around \$1630 an ounce.

Another positive during the month was that the high levels of volatility that we have become

accustomed to were on the decline. Markets were much calmer during the quarter however, we do expect that any headline event will result in its return. With troubles in Iran, the still unresolved debt crisis in Europe, and lingering worries over the pace of economic growth, it is not a question of if volatility returns, but when.

Not surprisingly, in this environment, bonds were negative as the lower volatility enticed some investors back into the equity markets, pushing bond prices lower and yields higher. Adding to this is the speculation that many investors are now realizing that bonds have likely peaked and much of the risk going forward is now to the downside. Regardless, it should be emphasized that fixed income plays a very important role in a well diversified portfolio as it will help to provide some level of downside protection during periods of heightened volatility.

Looking forward, it is expected that the economies in Canada and the U.S. will continue to rebound, albeit at a more modest pace. As a result, it is expected that equities will provide modest returns, and it is expected that volatility will re-emerge in the coming months. The equity focus of any portfolio should be on funds which have significant exposure to high quality, dividend paying securities, which are expected to hold up better in a modest growth and volatile environment. For the fixed income portion of portfolios, it is expected that corporate and high yield bonds will perform better in a rising rate environment. Still, some exposure to government bonds is necessary for their safe haven appeal.

Please send your comments to
[**feedback@paterson-associates.ca**](mailto:feedback@paterson-associates.ca).

Funds You Asked For

Patricia Perez-Coutts leaves AGF, Dynamic Focus+ Resource, BMO Guardian Monthly Dividend and more!

Correction: In our February Top Funds Report, we stated that the MER on the **Tradex Global Equity Fund** was 2.76%. Our information is provided to us from a wide range of data providers and in some cases, errors can occur. In a recent note from the company, they informed us that the MER for 2011 was actually lower than stated, coming in at 2.46%. They further stated that they expect that the MER is expected to be lower again this year because Tradex “is a low cost fund provider which operates on an at cost basis, with all revenue in excess of our requirements rebated yearly back into our three proprietary mutual funds for the benefit of our members thereby reducing the MERs.” In our opinion, this is great news for Tradex investors. We apologize for our error and any inconvenience that it may have caused.

AGF Emerging Markets Fund – On April 9, it was announced that long time manager, Patricia Perez-Coutts and two of her team members had resigned from AGF. She is being replaced by Stephen Way, a 25 year veteran of the firm, and current manager of the **AGF Global Equity Fund**, **AGF Global Dividend Fund** and **AGF Global Real Estate Equity Fund**. While Mr. Way has done a solid job on those funds, they are dramatically different mandates than the AGF Emerging Markets Fund. Their focus is predominantly on developed markets with limited exposure to the emerging markets. We are awaiting more information from AGF regarding any changes to the investment management process and what portfolio turnover is expected. Regardless, this is a very significant change to the fund, and at this point, we would recommend that investors exercise caution until we have had a better opportunity to assess Mr. Way's performance in the emerging markets space.

Dynamic Focus+ Resource Fund - With industry heavyweight Ned Goodman at the helm, investors can rest assured that they have a quality manager behind their fund. Mr. Goodman uses what he calls a “patient and common sense approach” to investing, focusing on the long term business prospects of a resource company, rather than the short term stock market prospects.

Over the long term, this approach has paid off. For the 10 years ending February 29, the fund returned 20% per year, handily outpacing the index and leaving all of its competitors, with the exception of the **Front Street Special Opportunities Fund**, in the dust. The short term numbers are less impressive, with a 1 year loss of 12.3%. When the fund wins, it tends to win BIG. For example, in 2009, the average return of all resource funds in Canada was a staggering 61%. This fund blew the doors off of that with a mind blowing 113% gain.

With numbers like that, it is obvious that this is a volatile fund. The monthly standard deviation is above the category average. The manager states that they are patient in managing the fund and portfolio turnover numbers would back up this statement. For the most recent five year period, the average portfolio turnover has been less than 50%, which is low for a typical sector fund.

From a portfolio positioning standpoint, the fund tends to be relatively concentrated, despite holding more than 100 names. The manager takes big bets on the stocks he likes, with the top 10 names making up roughly 40% of the fund. As of February 29, the fund held 11% cash, had 30% in gold stocks, 28% energy and 19% in metals. This represents an overweight position to materials and an underweight exposure to energy.

While the performance of this fund has been very strong over the long term, the biggest risk that we see going forward is key person and manager risk. While there are several capable managers at Dynamic / GCIC who can step up to manage the fund, the departure of Mr. Goodman will have a meaningful impact on the fund.

We see this as a good fund for high risk investors looking for resource exposure in their portfolios. Investors who are not as comfortable with the higher volatility of this fund may want to consider a fund such as the **CI Signature Canadian Resource Fund**, or the **AGF Global Resources Class Fund**, both of which are solid offerings with lower levels of volatility. Regardless, exposure within a well diversified portfolio should be capped in the 10% range for higher risk investors.

CI Global Health Sciences Corporate Class Fund - Investors often overlook healthcare when building their portfolios. It is one of those sectors that has the potential to deliver strong long term returns, while providing good downside protection in volatile markets.

One of the better offerings in the category is the **CI Global Health Sciences Corporate Class Fund**, which has been managed by Andrew Waight since June 2000. His approach is a mix of top down analysis and bottom up security selection. Typically, he will look for broader macro themes within the healthcare sector and then seek out those companies which he feels have the best potential to benefit from them.

When reviewing potential investment candidates, he relies quite heavily on a discounted cash flow model, which helps him determine the company's intrinsic value. This is further supported by a mix of quantitative and qualitative analysis that includes a review of other valuation metrics including price to earnings ratio and price to book ratio. He will also conduct qualitative reviews that

will include face to face meetings with management.

Unlike some other managers in the sector, he tends to be fairly patient. Portfolio turnover has averaged around 30% per year for the most recent five year period, which implies that he holds most names in the fund for about three years.

While absolute performance has been disappointing of late, the fund's performance relative to its peer group has been decent, finishing in the upper half of the category.

The cost of the fund is reasonable compared to its peer group, with an MER of 2.44%, which is the lowest in the category.

This fund has long been one of our favourites, however we have been somewhat concerned that the volatility has been trending higher and has been increasing more quickly than the peer group. We will continue to monitor the situation to ensure that it remains in check.

BMO Guardian Monthly Dividend Fund - Over the past several months we have been emphasizing the importance of dividends and their impact on the total return that an investor earns. One fund that can provide a steady stream of dividend income is the **BMO Guardian Monthly Dividend Fund**, managed by the team of John Priestman and Kevin Hall.

Unlike other dividend funds which invest predominantly in common shares, this fund is focused on preferred shares. In fact, it is mandated that it must hold at least 50% in preferreds. As a result, it tends to be more conservative than its peer group, both in terms of risk and return. For the five years ending February 29, the fund returned 3.6%, outpacing the S&P/TSX Composite Index which gained 2.2% and the category average of 2.9%. The fund was also significantly less volatile than the index and the peer group. Even in 2008

when the markets were hit hard, it held up relatively well, losing 20%, compared to the 33% loss of the index.

Looking forward, our biggest concern is that preferreds in general will be hit hard in a rising interest rate environment. We spoke with manager Kevin Hall regarding the fund's positioning and he assures us that the fund is fairly well positioned. The exposure to preferred shares has been declining for the past year, and is currently sitting at just over 60%. It is expected that this will continue to decline in the near term.

They have also reduced the exposure to the longer duration perpetual preferred shares, which will be hit the hardest in a rising rate environment. The fund's weighting has been cut from 10% to 7% and can be reduced to 0%, if necessary. The fund's exposure to high yielding common shares and REITs has been increasing, which should help protect the fund in a rising rate environment.

That said, we would expect that this fund will underperform a more traditional dividend fund in a market rally. However, over the long term, the risk adjusted returns should be comparable.

There is a monthly distribution of \$0.035 per unit, which equates to an annualized yield of approximately 3.9%. Given the yield on the underlying share portfolio it is expected that with modest capital gains, the distribution is sustainable.

Costs are reasonable with an MER of 1.45% for the classic units and 2.11% for the mutual units, both of which are below the category median.

This is a good fund for more conservative investors seeking some exposure to the equity markets. It should provide better downside protection than a pure dividend fund, but will likely underperform in a rising market environment.

S&P/TSX Canadian Preferred Share Index -

This ETF is designed to match the returns of the S&P/TSX Preferred Share Index after fees. The index invests more than 150 individual preferred share issues. The quality of the portfolio is high, with more than 54% invested in the highest quality preferred shares.

The top 10 names in the portfolio are made up of very well known Canadian blue chips such as TransCanada Corp, Enbridge, Manulife, Bank of Nova Scotia, BMO and TD.

The ETF pays a monthly dividend of \$0.069 per share, which works out to an annualized yield of approximately 4.8% at current prices.

The costs are reasonable, with an MER of 0.50%, well below the MERs of mutual funds that invest in preferred shares. Volume appears to be reasonable and bid ask spreads have been fairly tight, which indicates that liquidity should not be a problem in most situations. As of March 20, it is trading at a slight premium to its asset value by \$0.05.

Performance has been respectable, posting a one year return of 5.0%, which outpaced most of the available Canadian equity funds and ETFs, as well as the broader S&P/TSX Composite Index. Longer term, performance has lagged the broader market, but this is largely attributable to the 2007 and 2008 period where preferred shares posted their worst performance in memory. The three year return has been 12.1%.

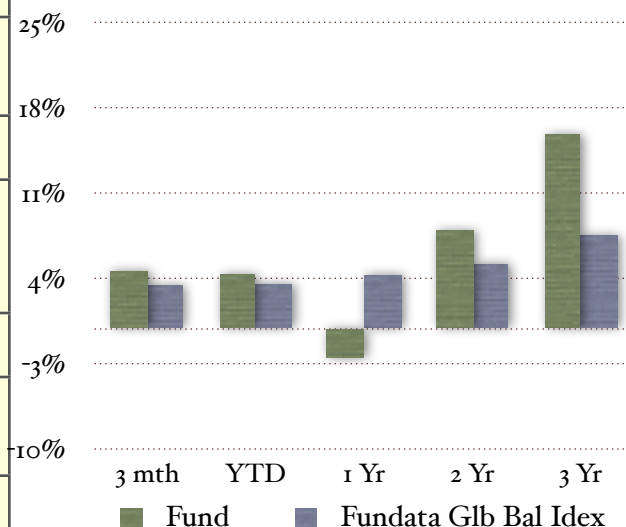
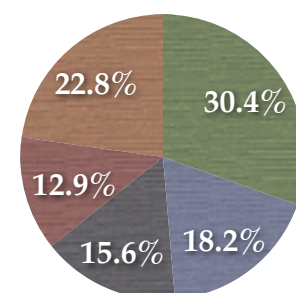
Volatility has been modest and in line with other preferred focused funds. However, we have noticed that the actively managed mutual funds, **BMO Guardian Monthly Dividend Fund** and **Omega Preferred Equity**, have provided better downside protection than the ETF in volatile markets. Further, with interest rates expected to rise, a more actively managed fund is likely to provide better returns than the passively managed ETF.

CI Cambridge Canadian Asset Allocation

Asset Mix

Fund Company	CI Investments
Fund Type	Tactical Balanced Fund
Rating	\$\$\$
Style	Bottom Up Blend
Risk Level	Medium
Load Status	Optional
RRSP/RRIF Suitability	Good
TFSA Suitability	Good
Manager	Alan Radlo since December 2007 Brandon Snow since June 2011 Bob Swanson since January 2012
MER	2.39%
Fund Code	CIG 2322 - Front End Units CIG 3322 - DSC Units
Minimum Investment	\$500

- Cdn Equity
- US Equity
- Cash
- Int'l Equity
- Other



ANALYSIS:

The fund is managed by a very experienced and well respected team that is led by industry heavyweight Alan Radlo. Joining Mr. Radlo on the fund are former head of the Fidelity Asset Allocation Team, Bob Swanson and portfolio manager, Brandon Snow.

The portfolio construction process is very much a bottom up approach. The fund tends to be well diversified, holding in excess of 100 equity names and literally hundreds of bond holdings. As of February 29, the top 10 names made up less than 18% of the fund.

They very active in their approach, moving in and out of stocks and bonds as opportunities arise. Portfolio turnover has been high on a historic basis, averaging more than 100% since the fund's December 2007 launch.

Recently, the team began implementing a covered call strategy where they would write covered calls on some of the volatile technology stocks in the portfolio and using the proceeds to purchase put options on the market. This

strategy works because the option premiums received on the individual stocks is higher than the premiums paid for the puts on the market, thereby providing some additional downside protection to the fund.

The team has recently favoured high yielding equities over traditional fixed income investments because they believe that equities currently offer more attractive yields than many fixed income investments and still offer some growth potential.

Performance over the medium term has been strong, with a three year return of 15.9%, handily outpacing the fund's benchmark and peer group. Despite the manager's emphasis on risk management, volatility for the fund has been higher than both the benchmark and category average.

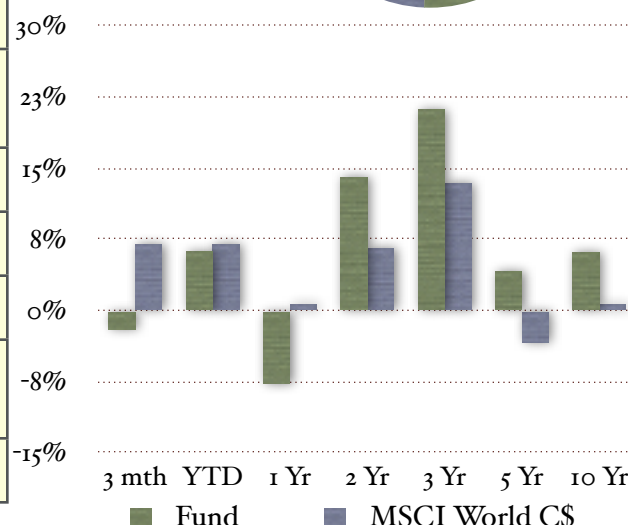
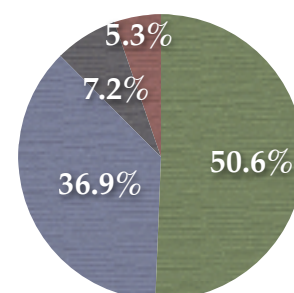
On balance, this is a solid fund. It is managed by a very experienced team and it offers a decent risk reward profile.

Dynamic Power Global Growth Class

Asset Mix

Fund Company	Dynamic Funds
Fund Type	Global Equity
Rating	\$\$\$\$
Style	Bottom Up Growth
Risk Level	High
Load Status	Optional
RRSP/RRIF Suitability	Good
TFSA Suitability	Good
Manager	Noah Blackstein since Jan. 2001
MER	3.81% (including performance fee)
Fund Code	DYN 014 - Front End Units DYN 714 - DSC Units
Minimum Investment	\$500

- Int'l Equity
- U.S. Equity
- Cash
- Cdn Equity



ANALYSIS:

With a monthly standard deviation that is more than 1.8 times the MSCI World Index, investors in the Dynamic Power Global Growth Class may want to consult a physician before investing, just to make sure their hearts can take the excitement.

Managed by Noah Blackstein using a bottom up growth approach, the portfolio is very concentrated, typically holding between 20 and 30 names. As of February 29, the fund held 25 companies, with the top 10 representing nearly half of the fund. The portfolio is also very concentrated among sectors, with 40% of the fund in Consumer names, 35% invested in technology, and 23% invested in healthcare.

He uses a quantitative screen which looks for companies which are showing strong earnings momentum and have a history of upside earnings surprises. Once these companies are identified, he conducts a detailed fundamental review focusing on cash flows, management, and the company's competitive environment.

Mr. Blackstein's style is very active. For the past five years, turnover within the fund has averaged more than 320%, which means he has turned over the portfolio more than three times each year. Understandably, this adds to the total cost of owning the fund to the tune of approximately 75 basis points per year. In most cases, he is rapidly trading in and out of his positions, taking gains and buying on the dips.

Like other Power Funds, this is not cheap. The management fee is 2.0%, and there is also a performance fee for this fund, which when included in the total costs, pushes the MER up to 3.81%. While the total costs may be high, the performance has been strong, significantly outperforming the MSCI World Index over the past five and ten year periods.

While we like this fund, it is not for everybody. The level of volatility is extreme and we believe that most investors will be unable to handle it. As a result, we would suggest that this fund is best used by investors with a strong appetite for risk who are looking for a little high octane in their portfolios.

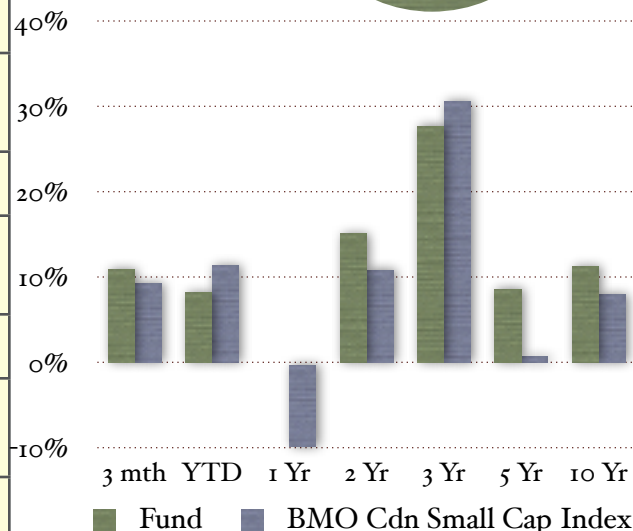
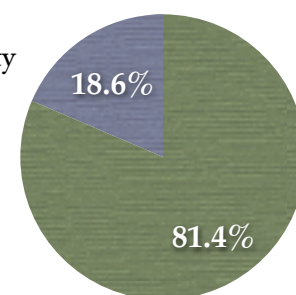
All Rights Reserved. Reproduction in whole or in part without written permission is prohibited. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus before investing. Mutual funds are not guaranteed and are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Fund values change frequently and past performance may not be repeated. The foregoing is for general information purposes only and is the opinion of the writer. No guarantee of performance is made or implied. This information is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice.

Bissett Canadian High Dividend Fund

Asset Mix

Fund Company	Franklin Templeton Investments
Fund Type	Canadian Small / Mid Cap Equity
Rating	\$\$\$\$
Style	Bottom Up
Risk Level	Medium
Load Status	Optional
RRSP/RRIF Suitability	Good
TFSA Suitability	Good
Manager	Leslie Lundquist since July 2009 Lee Stelmach since May 2009
MER	2.48%
Fund Code	TML 205 - Front End Units TML 305 - DSC Units
Minimum Investment	\$500

- Canadian Equity
- Income Trusts



ANALYSIS:

Formerly known as the **Bissett Income Fund**, the **Bissett Canadian High Dividend Fund** focuses on wide range of high yielding Canadian securities including common stock, income trusts, and preferred shares.

It is managed using Bissett's disciplined team approach that is based on a bottom up, growth at a reasonable price philosophy. The team looks for a portfolio of companies that have a history of sustainable growth, and the ability to be able to repeat that growth in the future.

The end result is a fairly concentrated portfolio that holds 46 names, with the top 10 making up slightly more than half of the fund. Like the Canadian market, the fund is also heavily weighted towards Energy and Financials, which combined make up more than 62% of the portfolio.

Unlike other dividend funds, the focus of this fund tends to be more in the small and mid cap space. As of December 31, it was 75% invested in small and mid cap stocks, with only a quarter invested in large caps.

Investors receive monthly income distributions which are typically set at \$0.055 per month, but may vary, particularly on the quarter end dates. Based on the most recent 12 month period, the distribution yield paid to investors has been around 5%. Looking at the underlying portfolio, the yield is higher than what is paid out, which indicates that the distribution is likely sustainable going forward.

Despite the conversion from an income trust fund to a high dividend fund, it hasn't missed a beat. Performance continues to be strong on both an absolute and relative basis. In the past two years, the return has been 15.2%, outpacing the broader market and its peer group.

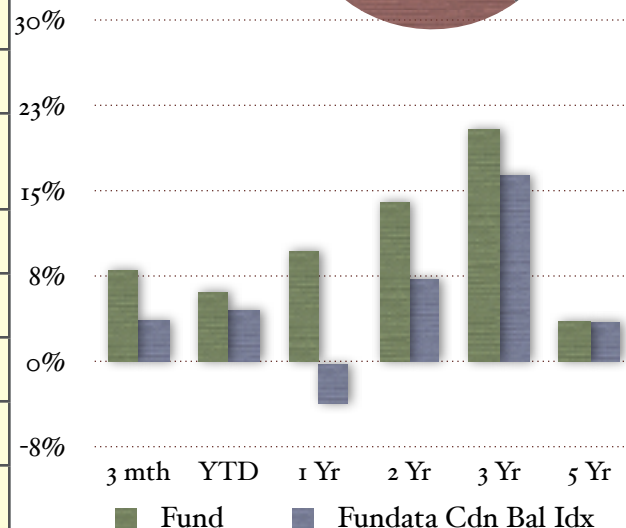
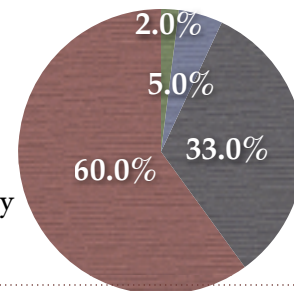
Our biggest concern about this fund is that with its focus on small and mid cap issuers, the volatility will be higher than a more traditional dividend fund, and other small cap focused income funds. But for investors with a medium to high risk tolerance who can stomach the higher volatility, this is a good fund for a mix of current income and capital gain potential over the long term.

GBC Growth & Income Fund

Asset Mix

Fund Company	Pembroke Private Wealth Mgmt
Fund Type	Canadian Equity Balanced
Rating	\$\$\$\$
Style	Growth
Risk Level	Medium
Load Status	No Load
RRSP/RRIF Suitability	Good
TFSA Suitability	Good
Manager	Pembroke Management Ltd.
MER	1.69%
Fund Code	GBC 410
Minimum Investment	\$100,000 per family

- Cash
- U.S. Equity
- Fixed Income
- Canadian Equity



ANALYSIS:

This equity focused balanced fund takes a strategic approach to asset allocation in an effort to provide consistent investment income and long term capital growth.

The asset mix is set at approximately 30% fixed income and 70% equity. The fixed income exposure is typically obtained by holding units of the **GBC Canadian Bond Fund**, while the equity exposure is gained by direct investment in stocks.

The focus of the fixed income sleeve is heavily weighted towards corporate bonds with nearly three quarters invested in high quality corporates. The balance is in government bonds.

For the equity component the focus is on small and mid cap growth stocks. In selecting stocks, they look for financially sound companies that have a competitive position in their market that are run by strong management teams with proven track records. They must also show strong potential for rapid growth in sales and earnings, a high degree of stock ownership by management, and a level of valuation that is reasonable relative to the growth prospects.

This approach has yielded decent returns. As of February 29, the fund gained nearly 10% while the category posted a 3.6% loss. Longer term, the numbers are also fairly strong, with a five year return of 3.6% versus a category average of 3.5%. But it hasn't been all roses for this fund, as the fund struggled in 2008, posting a 25.5% loss and finishing in the bottom quartile.

It is our expectation that its focus on small and mid cap stocks has the potential to result in stronger long term returns, but will also likely result in periods of heightened volatility. This is a good fund to hold in the early stages of a market rally when small and mid caps are expected to outperform, but may underperform in a more mature, quality focused market.

Another potential drawback to this fund is the high minimum initial investment. To invest in the GBC funds, you must have a minimum \$100,000 in family assets with the firm. In comparison other funds are usually available with a \$500 minimum.

On balance, for high net worth investors with a long term time horizon, this may be a good fund to consider. However, if your time horizon is less than five years, we would suggest you look elsewhere.

All Rights Reserved. Reproduction in whole or in part without written permission is prohibited. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus before investing. Mutual funds are not guaranteed and are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Fund values change frequently and past performance may not be repeated. The foregoing is for general information purposes only and is the opinion of the writer. No guarantee of performance is made or implied. This information is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice.