
Top Funds Report

Monthly Commentary

Volatility returns as Spain downgraded. Equities down, fixed income gains

After posting strong gains in the first quarter of the year, equity markets retreated in April as investor concerns over the European debt crisis returned. The MSCI Europe Index dropped by nearly 3% after credit ratings agencies downgraded Spain's debt with a negative outlook, hinting that further rating cuts may be coming. Spain paid a heavy price for this downgrade with the MSCI Spain Index plummeting by more than 13% in the month.

With the European debt crisis on the back burner in, global markets were relatively calm in the first quarter. As investor attention refocused on the crisis, in April, markets were whipsawed in a way that was reminiscent of the volatility experienced in 2011. Investors raised concerns that the Spanish government may not be able to push through the necessary austerity measures and reforms with a shrinking economy and a restless population. Failure to implement these measures could result in the country's inability to meet its targets, forcing it to seek a financial rescue similar to Greece, Ireland and Portugal. If this were to happen, the likelihood of Italy needing a bailout is expected to rise significantly.

Markets were also rocked by worries that French President Nicolas Sarkozy would lose his country's election to socialist candidate Francois Hollande. Hollande's victory puts many of the positive steps towards reform that had been implemented in jeopardy.

Closer to home North American markets, while down, fared relatively well in comparison. In the U.S. the S&P 500 dropped 0.74% in U.S. dollar terms. Even with this modest loss, the index is up more than 11% on a year to date basis. S&P/TSX Composite lost 0.74% in the month, which brings the year to date gain down to 3.65%. Energy and materials, which

combined make up more than 45% of the index, have suffered recently from softening economic conditions in emerging countries, particularly China, where the government has tried to engineer a soft landing in order to ease inflation pressures. This has been one of the key reasons why the Canadian index has failed to keep pace with its U.S. counterpart so far this year.

Gold lost ground in April for the third consecutive month after data showed that the U.S. economy was on the road to recovery, reducing the likelihood that the U.S. Federal Reserve will enact another round of quantitative easing. Such stimulus measures typically put inflationary pressure on the economy, resulting in higher demand for gold, given its traditional appeal as a hedge against inflation.

As the volatility returned to the equity markets, bondholders were the benefactors with rising prices and lower yields. The DEX Universe Bond Index rose by 0.13%. Not surprisingly, government bonds outpaced corporate bonds, as investors tend to favour their safe haven appeal in more volatile times.

Looking forward, we expect that the next few weeks will be volatile, based on the renewed uncertainty about the regions debt crisis. Closer to home, Canada and the U.S. are expected to continue to show signs of economic growth, but some level of slowdown over the summer is not unexpected. Valuations for equities appear reasonable, and for long term investors offer a more favourable return profile than bonds. That said, fixed income should continue to be an anchor in most portfolios, providing stability in times of uncertainty. Interest rates will be moving higher, but likely that is still a quarter or two out.

**Please send your comments to
feedback@paterson-associates.ca.**

Funds You Asked For

Our conversation with the new Trimark Fund managers, CI Signature Select Canadian, RBC Life Science and Technology and more!

Trimark Fund - On April 17, we had the opportunity to meet with Michael Hatcher, Jeff Feng and Darren McKiernan, the new management team of the Trimark Fund. They have worked together for the past nine years, first at Burgundy Asset Management and now at Invesco.

The new team emphasized that there will be no change to the underlying investment discipline that will be used to manage the fund. It will continue to be a concentrated portfolio of high quality, well managed businesses that have competitive advantages and the ability to generate strong levels of free cash flow.

However, the implementation of that discipline has changed. There has been significant turnover in the weeks since the new team took over. They inherited a portfolio of 38 names. Since their arrival, they have sold 25 of those names and bought 28 new names.

Another change will be how portfolio weights are set. Under Dana Love's tenure, individual positions would be allowed to make up a significant portion of the fund. It was not uncommon to see a portfolio weight of 8% or higher. Under the new management team, it is expected that the portfolio will be much more evenly distributed among the holdings. Michael Hatcher said that he is good at picking the 40 names he likes, but much less confident on picking which of those names will be the best performer over a short term period.

The new team will still focus on discounted free cash flow as the main determinant of intrinsic value. Their sell discipline remains the same. A stock will be sold if the investment thesis changes, a better investment idea is found, or the stock becomes fully valued.

We are encouraged by what we have seen and heard from this team. However, we remain cautious. There has been significant turnover within the fund and we will need to see a few quarters of data under the new team before we can make a more definitive call on the fund.

Northwest U.S. Equity Fund - Richard Fogler, manager of the fund uses an approach known as Economic Value Added to evaluate potential investments. The objective of the complicated analytical process is to identify companies that consistently add shareholder value, thereby improving the price of their stock. Essentially, he uses this approach to analyze what a company will be worth in the future, and buys stocks in the firms with the best potential. If he doesn't see the potential for 40% to 50% growth within two years, the stock doesn't make the buy list.

Unfortunately the results of this approach have been largely disappointing. For the five years ending March 31, the fund lost an average of 4.8% per year, losing more than the benchmark and most of the fund in the category.

The volatility of the fund is high, with a beta of 1.26, which means that the fund is significantly more risky than the benchmark. A big reason for this higher volatility is that the fund is very concentrated. It holds less than 30 stocks and the top ten holdings make up nearly three quarters of the fund.

The fund is significantly overweight in financials and holds a low relative weighting in energy and materials. The manager has been moving more towards dividend paying companies in the past several months. This move should help to reduce the overall volatility of the fund in the near term.

Despite being one of the better performing funds in March, we feel that there are better options available in the U.S. equity category.

RBC Life Science & Technology Fund - Now classified as a U.S. equity fund since the demise of the Science and Technology category a couple of years ago, the RBC Life Sciences and Technology Fund has the investment objective of providing long term capital growth by investing in U.S. based companies that are involved in the life sciences and technology sectors.

True to its mandate, the fund currently holds three quarters of its assets in technology stocks and a quarter in health care stocks. The management team builds the portfolio on a bottom up basis, looking for companies with strong management, focused business models and a competitive advantage. Not surprisingly, given the sectors it invests in, the investment process that is employed is very much growth oriented. It is also very active, with the portfolio turnover averaging just under 200% for the most recent five year period. The fund holds just under 100 names, with the top ten making up approximately 30% of the fund.

The longer-term performance numbers of this fund have been in a word, disappointing. For the ten years ending March 31, the fund has posted an annual loss of 3.7%. Putting that in dollar terms, if you made a \$10,000 investment in March 2002, it would now be worth approximately \$6,860. Shorter-term performance is much more encouraging. For the most recent five-year period, the fund has posted an annualized compound return of 2.8%, which has outpaced the broader S&P 500 and is middle of the pack of the other science and technology and healthcare funds, which we follow. Volatility has been well controlled recently, with a standard deviation that is comparable to the broader market.

Recently, the manager has increased the fund's exposure to small cap stocks. As of March 31, the

fund held approximately 15% in small caps and just under 40% in mid cap companies. Given this relatively high exposure to small and mid cap stocks, it is our opinion that this may lead to an increase in volatility. The manager believes that both technology and healthcare are well positioned to do well in the next few quarters. They expect that many companies who are well stocked with cash will begin to deploy it with new investment in technology, which will help fuel growth and improve productivity.

Despite the manager's optimism, we believe that there other funds in the sector that offer a more compelling risk reward profile. While it may be the lowest cost option in the category, we would favour the healthcare and technology offerings from CI, TD, and BMO Guardian over this fund.

Brandes Canadian Equity Fund - Despite a marked improvement in the fund's short-term performance, this is not a fund that we can recommend to investors for a number of reasons. The main reason is the fund's very high levels of volatility. While small cap funds tend to be more volatile than their large cap brethren, this fund is significantly more volatile than both the benchmark and its peer group.

Volatility isn't necessarily a bad thing, but in our opinion, the higher the volatility, the more excess return that a fund has to generate on a consistent basis to justify the excess risk. The fund has lagged the benchmark in six of the nine calendar years since its launch. The fund's nine-year return is 2.1%, compared with 10.3% for the BMO Canadian Small Cap Index.

There are some reasons to be optimistic about this fund. First, the fund is managed using a deep value approach that looks to buy stocks that are trading well below their estimate of its true value. As of December 31, the fundamentals of the fund were at or near historic lows, which should allow for a

strong run as market values begin to move higher towards the intrinsic value.

Foreign content exposure for the fund is obtained by investing in the Brandes Global Equity Fund, which as of December 31 was a third of the fund. With the Canadian equity holdings, the portfolio is fairly concentrated holding 22 positions with the top ten holdings making up about half of the fund. Despite being managed using a bottom up approach, there are controls in place surrounding maximum holding size and sector exposure. For example, at the time of purchase, the maximum position size is limited to 5% of the fund and sectors are limited to 20% of the fund. It has the ability to invest in companies of any size.

The fund is significantly overweight in consumer focused stocks and technology, and has very little exposure to energy and materials. Portfolio turnover is modest, averaging just less than 40% per year, which implies that a position in the fund is typically held for just under three years. The cost of the fund is high, with an MER of 2.69%.

While we have been encouraged by the stronger short-term returns, we believe that it is still too early to upgrade the fund's rating in a meaningful way.

CI Signature Select Canadian Fund - This Canadian focused equity fund is managed by Eric Bushell and the Signature Advisors team. The process is very much a combination of a top down macro analysis combined with bottom up security selection.

The first step in the process is to develop a comprehensive global outlook for the markets, which takes such factors as economic growth, interest rates, capital market conditions and geopolitical risks into account. Using this review as a framework, the geographical exposure and sector mix is determined based on the regions and

industries that are expected to outperform in the anticipated environment.

The team's sector specialists, will then conduct a holistic review on the company, studying its entire capital structure, complete the stock selection process. This helps them to gain a better understanding of where the best risk adjusted investment opportunities are. A typical company in the portfolio will be financially strong, operate in a business where there are high barriers to entry, have strong brand recognition and be reasonably valued relative to its growth potential.

This process is a fairly active one, as portfolio turnover is typically more than 100% per year, meaning that the manager is holding the stocks in the portfolio for less than a year. The process is also very tactical. The manager is not afraid to make big sector bets or to use cash as a way to be defensive in periods of elevated valuations or above average volatility. Current cash sits at just under 2%.

Performance has been decent on a relative basis, and except for 2010, has finished in the first or second quartile in each of the past ten years. The five-year return as of March 31 was 0.5%, which lagged the S&P/TSX Composite, but did outpace many other Canadian equity funds. Volatility for the fund is typically lower than both the index and the category average.

The manager is having considerably more trouble finding quality Canadian stocks, given the significant concentration in energy, materials and financials. Within the fund, those sectors make up 54%, which is significantly less than the 77% benchmark weight.

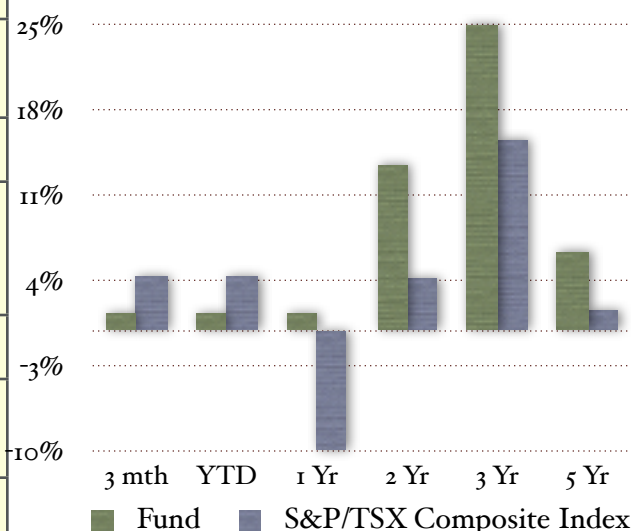
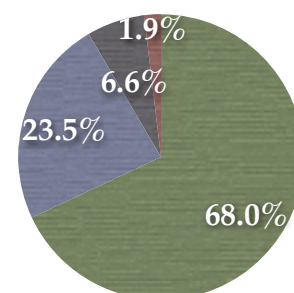
Given the manager's approach, combined with historic performance, volatility profile and reasonable cost, we believe that this is a great core fund for investors with at least a medium risk tolerance and a long term time horizon.

BMO Guardian Monthly High Income II

Asset Mix

Fund Company	BMO Guardian Funds
Fund Type	Cdn Dividend & Income Equity
Rating	\$\$\$\$
Style	Bottom Up Blend
Risk Level	Medium
Load Status	Optional
RRSP/RRIF Suitability	Good
TFSA Suitability	Good
Manager	John Priestman since October 02 Kevin Hall since October 2002 Michelle Robitaille since June 03
MER	2.40%
Fund Code	GGF 619 – Front End Units GGF 260 – DSC Units
Minimum Investment	\$500

- Cdn Equity
- Income Trusts
- Cash
- U.S. Equity



ANALYSIS:

Since our last review, there have been no changes to the management team or the investment process used on the fund. It remains a well diversified, dividend focused portfolio, holding approximately 60 positions, with the top 10 making up 35% of the fund.

As of March 31, the largest sector weightings included financial services, (which includes REITs) was approximately 37% of the fund and energy was 31%.

Performance of the fund has been strong. For the six months ended March 31, the fund gained 8.1%, matching the performance of the S&P/TSX Composite Index. Longer term, its performance relative to both the S&P/TSX and its peer group has been impressive, handily outpacing the index. Volatility remains lower than the broader equity markets, but in the upper half of the dividend income category.

Looking ahead, the manager remains cautiously optimistic and expects that equity markets will continue

to be well supported by the monetary easing that continues around the world. While the general outlook is positive, it is not without its risks. Equities have had a strong run in the past six months and while they believe valuations remain attractive, they expect that markets are likely to take a breather in the short term. Other risks that threaten the markets include renewed troubles with Europe's debt crisis and a slowdown in the emerging markets and China.

From a portfolio positioning standpoint, the manager believes that dividend strategies will continue to provide stability, particularly in periods of market volatility. They are continuing to focus on high quality companies with sustainable dividends and the ability to grow cash flow.

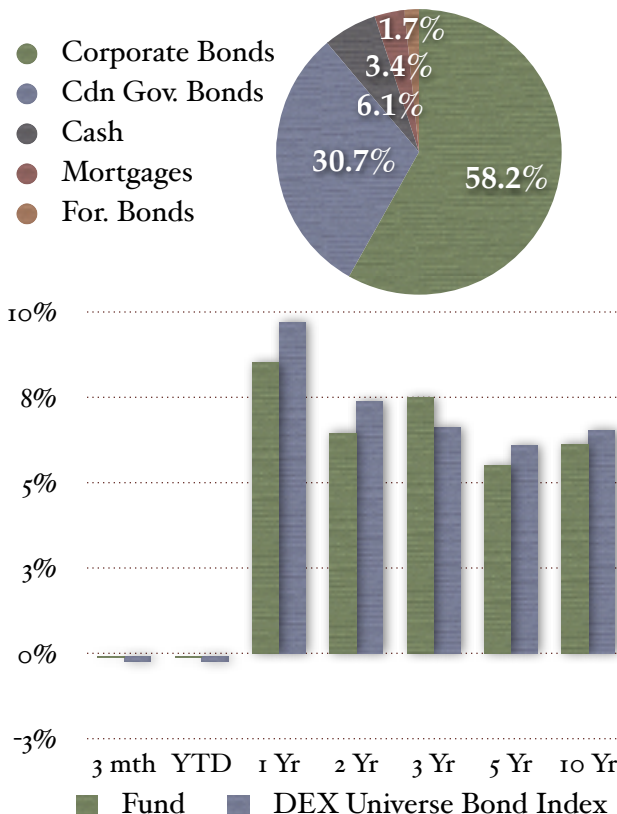
Considering the above, we are increasing our rating from \$\$\$ to \$\$\$\$.

We believe that the fund is well positioned for the current environment and will continue to provide investors with a stable stream of income from its distributions and the potential for capital growth over the medium to long term

TD Canadian Bond Fund

Fund Company	TD Asset Management
Fund Type	Canadian Fixed Income
Rating	\$\$\$\$
Style	Credit & Term Structure Analysis
Risk Level	Low
Load Status	No Load or Optional
RRSP/RRIF Suitability	Excellent
TFSA Suitability	Excellent
Manager	Geoff Wilson since January 2002 Satish Rai since June 1988
MER	1.11%
Fund Code	TDB 162 - No Load Units TDB 336 - DSC Units
Minimum Investment	\$500

Asset Mix



ANALYSIS:

The TD Canadian Bond Fund has been one of our favourites for the better part of a decade. Looking at the performance, it's not hard to see why. It has historically been one of the best performing bond funds in the country, consistently finishing in the first or second quartile, on both an absolute and risk-adjusted basis.

With Geoff Wilson managing the day-to-day operations, the fund tends to be heavily weighted towards corporate bonds. As of February 29, the fund held 58% in corporates. In comparison, the DEX Bond Universe holds only 27%. Further, the fund holds 38% in government bonds, just slightly more than half the weighting of the index.

Despite the higher weighting in the riskier corporates, the fund is fairly conservatively positioned. The duration is 6.4 years, which is shorter than the index. The lower the duration, the less sensitive a bond or bond fund is to the movements of interest rates. For periods when rates are expected to rise, the shorter duration funds will hold their

value better. The yield is also higher at 4%, above the 3.7% yield of the DEX.

The costs of the fund are reasonable with an MER of 1.11%, making it one of the more attractively priced funds in the category.

With interest rates expected to begin moving higher in the next few quarters, it is widely expected that corporate and high yield bonds will hold up better than government bonds. According to the manager, it is expected that the demand for corporate bonds is expected to remain strong relative to their supply because of their higher yields and the strong company balance sheets of many bond issuers.

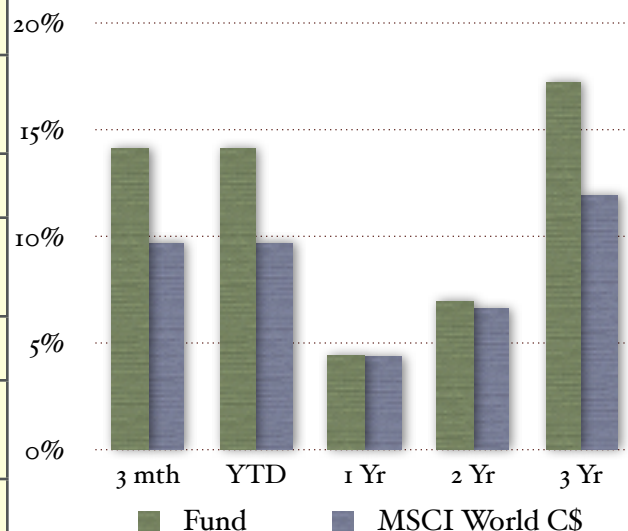
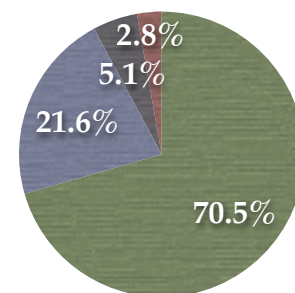
Given the size of the fund, the managers are not overly tactical, instead making any shifts to the fund's positioning on a more gradual basis. We believe that the fund is positioned to perform well on a relative basis when interest rates begin to move higher. We are maintaining our rating at \$\$\$\$.

Edgepoint Global Portfolio

Asset Mix

Fund Company	EdgePoint Wealth Management
Fund Type	Global Equity
Rating	\$\$\$\$
Style	Bottom Up Value
Risk Level	Medium High
Load Status	Optional
RRSP/RRIF Suitability	Good
TFSA Suitability	Good
Manager	Tye Bousada since November 08 Geoff MacDonald since Nov. 08
MER	2.36%
Fund Code	EDG 100 – Front End Units EDG 300 – Low Load Units
Minimum Investment	\$15,000

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



ANALYSIS:

Having worked together for a number of years at Invesco, Tye Bousada and Geoff Wilson formed EdgePoint in 2008. At EdgePoint, the investment philosophy is very simple – business people buying businesses. In managing their funds, they look to buy high quality companies that are trading at prices below their estimate of their true worth. They employ a fundamentally driven, bottom up investment process that is basically the Trimark approach.

The portfolio is very concentrated, holding only 34 stocks, with the top 10 making up more than two-thirds of the fund. The fund looks nothing like its benchmark, holding significant overweight positions in technology, healthcare, and consumer discretionary. It has very little exposure to energy and materials, which is not surprising given their emphasis on sustainable free cash flow.

The fund has a go anywhere mandate, but is currently invested heavily in the U.S. It can invest in companies of any size. Half of the fund is invested in large caps, 40% is in mid caps and just under 20% is invested in small caps.

The fund is more volatile than the broader markets, with a standard deviation that is about 25% higher than the MSCI World Index. Performance has been strong, boasting a three-year return of 17.3%, outpacing the MSCI World Index by more than 5%. Shorter-term returns have also outpaced the benchmark and most of its peer group.

The managers take a long term view when analyzing a company. As a result, portfolio turnover has been relatively modest, averaging just north of 30% since inception. A company is typically sold for two reasons. The first is that the investment thesis on which the company was added is no longer valid. The second reason is that the team has been able to find a better investment idea that they believe improves the portfolio.

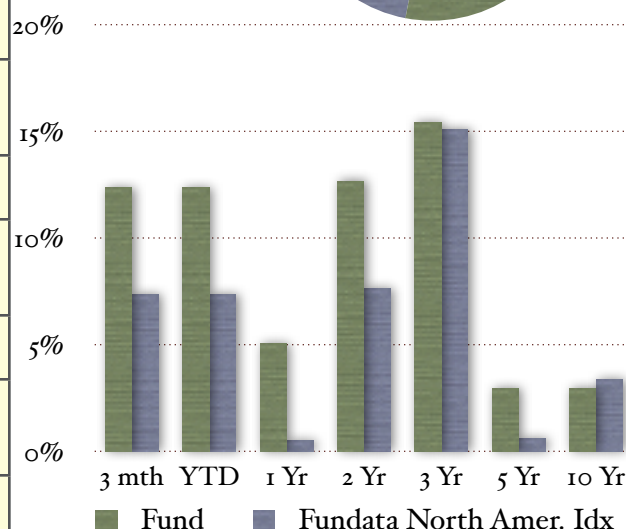
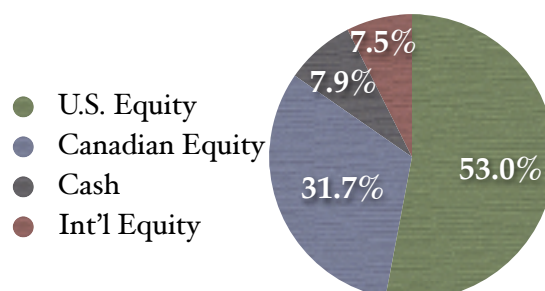
The cost of the fund is reasonable. The MER is 2.26% for the front-end version of the fund and 2.51% for the back end version.

We are initiating coverage of this fund with a \$\$\$\$ rating. It is a good core global equity fund for investors who have a medium to high risk tolerance and a long term time horizon.

Mackenzie Ivy Enterprise Fund

Fund Company	Mackenzie Financial Corporation
Fund Type	North American Equity
Rating	\$\$\$
Style	Bottom Up Blend
Risk Level	Medium High
Load Status	Optional
RRSP/RRIF Suitability	Good
TFSA Suitability	Good
Manager	Stephanie Griffiths since January 2000
MER	2.49%
Fund Code	MFC 296 – Front End Units MFC 286 - DSC Units
Minimum Investment	\$500

Asset Mix



ANALYSIS:

Like other funds in the Ivy family, this North American focused small / mid cap fund is less volatile than other funds in the category. The manager looks to preserve capital and provide the opportunity for capital growth over the long term by investing in North American small and mid cap funds. There are no fixed sector allocations or cash weightings.

Risk management is paramount within the Ivy family, and this fund is no exception. The manager uses a bottom up approach that looks to find stocks that have the ability to deliver above average returns with lower than average risk.

The portfolio is very concentrated holding around 25 individual stocks, with the top 10 making up nearly three quarters of the fund.

At present, the portfolio is heavily overweight in industrials and healthcare. It has virtually no exposure to utilities or energy.

Performance has been decent, posting a five-year return of 3.3%, outpacing both the category and the benchmark. Volatility is lower than the BMO Small Cap Index, and also the large cap focused S&P 500.

The MER of the fund is reasonable at 2.49%, which is lower than the category median.

Given the fund's current positioning, it is our expectation that this fund will do well on a relative basis in the near to medium term. We would expect that this fund would hold up particularly well when markets get bumpy.

It is our opinion that this fund is a good small cap option for investors with a medium or higher risk tolerance. We are confirming the fund's \$\$\$ rating.