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WHAT'S NEW

♦ **Mutual Fund Sales Slip in May** –

Net sales of mutual funds were \$1.75 billion in May, down from \$2.4 billion in April and down from \$2.3 billion in May 2011. Investors sold \$1.6 billion in equity funds, while pumping \$1.8 billion into fixed income funds and \$1.8 billion into balanced funds.

While we understand the fear that many investors face during times of uncertainty, investing heavily into fixed income investments at the moment could prove hazardous to your financial health down the road. We are not suggesting that investors abandon fixed income, but we certainly do not recommend overweighting them, unless that is what your risk tolerance suggests. For medium to high risk investors with a long term time horizon, now is precisely the time to be investing in equities, particularly high quality North American large cap equities.

♦ **Clarington launches Dave Taylor managed funds** – Dave Taylor, the manager behind much of the success of the **Dynamic Value Fund of Canada** is managing mutual funds once again. On June 11, the **IA Clarington Canadian Equity Class** and the **IA Clarington Focused Canadian Balanced Fund** were made available for sale. The Canadian Equity Class Fund will be a concentrated portfolio of between

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A TALE OF TWO QUARTERS

By Dave Paterson, CFA

It was the best of times, it was the worst of times

In the opening line of Dickens' classic *A Tale of Two Cities*, it was almost as if he was describing the first half of 2012 rather than the struggle of French peasants before and during the French Revolution when he wrote:

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair; we had everything before us, we had nothing before us"

One could definitely make the argument that the first quarter of 2012 was the best of times. Equity markets around the world rose sharply and volatility was virtually nonexistent. Good news was everywhere. In the U.S., the beleaguered housing market was showing signs of a rebound and job growth chipped away at high unemployment, which in turn boosted consumer confidence. In Europe, the debt crisis was put on the back burner and investors instead focused on news that the European Central Bank had injected funds into the region's banks, fueling expectations of an economic turnaround in the region.

While investors focused on the good news, troubles continued to simmer. In Europe, some minor steps were made towards solving the debt crisis with patchwork bailout deals arranged. Still, policymakers appeared reticent to admit the severity of the crisis and appeared reluctant to take the necessary policy actions to actually solve it. Meanwhile in Asia concerns were mounting over a slowdown in economic growth in China, which sent commodity prices tumbling, slowing the market gains for the S&P/TSX Composite Index in the first quarter.

Then, shortly after the clock struck midnight on the first day of April, the tone of the markets seemed to become more gloomy and fraught with worry – in other words, the worst of times. Volatility returned with a vengeance, as global equity markets were whipsawed with a ferocity that was reminiscent of 2008. Investor focus returned to the issues they chose to ignore during the first quarter, namely the European debt crisis and the economic slowdown in China.

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In Europe, it was Greece, France and Spain that dominated investors' attention. In Greece, investors were sent back to the polls yet again when coalition talks fell apart leaving the country with no government after the May election showed no clear cut winner. Concerns mounted that anti austerity parties would wrest control of the nation's government.

In France, that scenario happened, as Nicolas Sarkozy lost the country's election to socialist Francois Hollande, who created quite a worry with many of his election promises. Meanwhile in Spain banks received bailout funding from the government, but many concerns over the stability of the banking system remained. By the end of the first half, Europe was firmly in the grips of a recession, which was affecting economic growth around the world.

In China, economic growth has been slowing as demand at home falters and the European debt crisis drags on. Official estimates put the expected GDP growth for 2012 at 7.5%, the lowest level since 1990. This slowdown will have far reaching implications, particularly on the demand for commodities, which have been down sharply. This has hit very close to home as the S&P/TSX Composite Index is nearly half materials and energy stocks.

As we look towards the second half of the year, we are expecting more of the same. Many of the same issues that have affected the markets in the first half remain firmly entrenched. Europe continues to plod along, only making minor progress on their debt crisis, which will continue to weigh on growth in the region.

In China, economic growth is expected to remain positive, but well off the torrid pace set over much of the past decade. This will continue to put pressure on the demand and ultimately the price for commodities, particularly oil, which will weigh on Canadian equities. In the U.S., the economy is showing signs of recovery, but with the global headwinds of a slowdown, economic growth is expected to moderate. Given the global outlook, we don't expect that interest rates will be moving higher in Canada during the second half of the year.

We expect that volatility will remain high. Given this, we remain focused on quality, both in equities and fixed income. For equities, we continue to avoid Europe as we feel that the risks are too high while the debt crisis is sorted out. Instead, our focus is on North American equities. We are focusing on actively managed funds that invest in high quality, dividend paying companies that have high quality management teams with a proven history of growing cash

flow. We favour the U.S. over Canada slightly and are looking at funds that invest in stocks that offer high dividend yields, as they are expected to outperform in volatile markets.

For fixed income, again, the emphasis is on quality. Our focus is on funds that are actively managed and invest in a mix of government bond and high quality corporate credits. We expect that corporate bonds will outperform government bonds, however during periods of extreme volatility, government bonds will hold up better because of their safe haven status.

Our fund picks for the second half include:

PH&N Short Term Bond & Mortgage (PHN 250) – One of the best ways to protect your portfolio against the potential impact of rising interest rates is by shortening the duration of your fixed income holdings. This fund is a great way to do that because it invests in a mix of mortgages and short term bonds. It has a duration of 1.6 years compared to the broad DEX Universe Bond Index which has a duration of 6.7 years. The shorter the duration, the less impact a rise in interest rates will have on the value of your investment. While we don't expect that rates will move substantially higher in the second half of the year, taking some steps to shorten duration over the next few months may prove beneficial over the long term.

PH&N Total Return Bond (PHN 340) – Corporate bonds have historically held their value better than government bonds in periods of rising interest rates. A big reason for this is corporate bonds tend to carry a higher coupon rate. With more than double the exposure to corporates than the DEX Universe Bond Index, this fund is better positioned for when rates do begin to rise. In addition, the managers have the flexibility to use some nontraditional strategies including investing high yield bonds, mortgages and derivative strategies, all of which are expected to help preserve value. Factor in one of the top bond management teams on the street, combined with a low MER and you have a winner for the current environment.

CI Signature High Income Fund (CIG 686) – If you are looking for a mix of income and capital gains, it doesn't get a whole lot better than this fund. Managed by CI's Signature Global Advisors, it invests in high yielding equities and corporate bonds. It pays a monthly distribution of \$0.07 per unit, which is an annualized yield of approximately 6.1% at current prices. Performance has been strong, finishing in the first quartile every year except for

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SOCIALLY RESPONSIBLE INVESTING

By Dave Paterson, CFA

With volatility returning to the markets, caution is warranted with a renewed focus on quality

For a growing number of investors, their portfolio is about more than just making money it is also about making a difference. Thanks to Socially Responsible Investing (SRI), it has never been easier to insure that your investment portfolio matches your views on a wide range of issues including the environment, alcohol, tobacco, firearms, and human rights.

Socially Responsible Investing the inclusion of social, environmental and governance criteria into the traditional investment management process. It is not a new idea and has roots dating back more than a century when the churches in Victorian England were not allowed to invest in armament manufacturers. Since then, churches, foundations, and other charitable organizations have worked to avoid investing in companies that are involved in many of the traditional “sin” type industries including tobacco, guns, and gambling.

Canada has been no exception with SRI being practiced by many churches since 1975. It wasn't until 1983 with the launch of the first Labour Sponsored Investment Fund that SRI grabbed a foothold in the retail market. In 1986, VanCity Credit Union launched the country's first SRI Mutual Fund - the Ethical Growth Fund.

SRI has become very popular among institutional and high net worth investors, yet has been largely ignored by individual investors. According to the Canadian Socially Responsible Investment Review that was published in 2010, it was estimated that approximately 20% of all assets under management in Canada were in SRI funds.

With individual investors, the uptake has been less than impressive, representing a very small portion of all assets under management. The Social Investment Organization estimates that as of March 31, there was more than \$15.4 billion invested in SRI mutual funds and SRI labour sponsored funds, representing less than 2% of all mutual funds in Canada.

Over the years the concept has evolved from the exclusionary screening process that prevents investing in companies that are involved in alcohol, tobacco, nuclear energy and weapons. As practiced today, it places an increasing focus on environmental, social and governance (ESG) issues when evaluating companies. The process is also becoming more proactive, using such practices

as shareholder activism and proxy voting strategies to enact change within companies by putting pressure on management.

There are two general types of Socially Responsible Investing strategies that are employed; Core SRI and Broad SRI. Core SRI is what we think of when we think of the traditional ethical investing that has been practiced for years. It typically involves the application of values based screens on any investment that is being considered for inclusion in the portfolio. Once the portfolio manager has identified a suitable investment candidate, the company will be put through series of screens that look to exclude companies that are involved in what the fund sponsor considers to be unethical activities. Alternatively it can look to include companies that are actively engaged in what are considered to be positive behaviours. Core SRI can also focus on community values activities which will include investing in community development initiatives that positively contribute to the growth and well being of particular communities.

Broad SRI strategies are considerably more complex because they incorporate environmental, social and governance (ESG) criteria into the investment selection process. Along with the traditional investment selection process, a portfolio manager will also assess the risks which may result from the company's ESG record.

Portfolio managers will attempt to enact change within a company on a wide range of ESG criteria by engaging management on a wide range of issues, filing shareholder resolutions, and proxy voting. By using this approach, portfolio managers are looking to reduce potential losses which may arise from lawsuits, government action, or bad publicity resulting from a company's ESG activities.

For investors, there are two main ways to access socially responsible investing; SRI mutual funds, or socially responsible labor funds. In Canada, labor funds make up nearly 60% of retail focused SRI assets. In fact, Fonds de solidarite FTQ has more than \$8 billion in assets, slightly more than half of all SRI fund assets. Generally, we do not recommend Labour sponsored funds to investors. Given the long-term regulated holding periods, it is our opinion that the risks do not adequately reward investors for the potential return and tax credits which they may earn.

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There are more than 60 mutual funds and one ETF operating in the SRI space in Canada. NEI Ethical, Meritas and RBC/PH&N are the main players in the space, offering a relatively wide range of core asset classes.

As highlighted above, investors have largely ignored SRI mutual funds. A big reason for this is that advisors have not embraced SRI funds for their client's portfolios. Many advisors are unfamiliar with SRI, and many who see it as nothing more than a niche product. Helping to fuel this perception is the fact that until recently, the majority of the funds were offered through smaller fund companies, while the majority of advisors tend to deal with the larger mutual fund complexes.

Another reason that SRI funds have had some difficulty in gaining traction is that the performance, except for a handful of funds, has been mediocre at best. Of the SRI funds that we follow, there are 25 which have a track record of five years or longer. Of those, only seven have finished in the upper half of their categories. One factor which has likely contributed to this mediocre performance is cost. In looking at many of the SRI offerings, the MERs tend to be in the upper half of the category average.

Another common criticism of socially responsible funds is that the screening criteria are subjective and may vary widely from one fund to another. What is considered taboo by one fund may be perfectly acceptable to another. There are no clear cut definitions of what SRI or ESG criteria are which can create confusion among investors.

Despite the challenges, there are a number of high quality SRI offerings available to investors. Some of our favorites include:

PH&N Community Values Bond Fund (PHN 610) - This bond fund, managed by the highly respected PH&N Bond Team looks to invest in bonds that are issued by Canadian governments and corporations that conduct themselves in a socially responsible manner. Even with the SRI overlay, this fund holds up well when compared to traditional bond funds. The portfolio looks very similar to the PH&N Bond Fund, which has been one of our favorite bond funds for a number of years. It is invested fully in Canada, and is well positioned for a rising rate environment. It has a shorter duration than the benchmark, which means that an increase in interest rates will have less of an impact on this fund. It also holds more than half of the fund in corporate bonds, which are expected to hold their value better when interest rates rise. The MER is 0.61%, which is in the low end of the category. Performance has been strong finishing in the first quartile in every year with the exception of 2008, when it finished in the second quartile.

RBC Jantzi Canadian Equity Fund (RBF 302) – In managing the fund, RBC Global Asset Management has partnered with Jantzi-Sustainalytics, one of the pioneers of SRI in Canada. The first step of the portfolio construction process is to narrow the investment universe based on a number of “Best of Sector” ESG screens that are determined by Jantzi-Sutainalytics. Each company is ranked on a number of qualitative criteria including corporate governance, environmental record, human rights practices, and how well it treats employees and customers. They will also exclude any company which derives more than 5% of its revenues from military weapons, tobacco, or nuclear power. Once this has occurred, the RBC GAM applies its multi-disciplined investment selection process, which combines a top-down macro view and a bottom up security selection approach to build the portfolio. In reviewing the portfolio, one thing which stands out as a bit surprising is the number of mining and energy names that it holds. However, these are the company is which are employing best practices and are considered to be the most responsible towards the environment. Performance has been respectable, generating a gain of 5.6%, outpacing the majority of its peers. Volatility has been lower than both its benchmark and the category average.

iShares Jantzi Social Index Fund (TSX: XEN) - This is currently the only SRI ETF that is available in Canada. It is designed to track the Jantzi Social Index which looks to invest in the large Canadian companies that have passed through screens for environmental, social, and governance factors. The index excludes any companies that are involved in nuclear power, military weapons, and tobacco. Despite the relatively low level of assets, currently at a paltry \$17 million, there are a couple of reasons to like this ETF. First, the cost is very reasonable with an MER of 0.55%. Second, performance has been relatively decent. As of May 31, the ETF has a five year return of -2.4%, outpacing the majority of its peer group.

Ethical Special Equity Fund (NWT 067) – Managed by Joe Jugovic and Ian Cooke of Calgary based QV Investors, this small cap fund is extremely similar to the **IA Clarington Canadian Small Cap Fund** (please see our interview with Ian Cooke elsewhere in this edition). They look for financially strong companies that are managed by high quality management teams with a demonstrated history of generating high returns on equity and a vested interest in the company's success to align interests with shareholders. The concentrated portfolio is managed using a value focused philosophy, looking to buy stocks well below their estimate of its true value. Other criteria that are considered are dividends. More than 85% of the companies held pay a dividend, an impressive feat in the small cap space. The biggest difference between the two funds is that

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the management team submits investment ideas to Ethical Funds who put the prospective company through their rigorous environmental, social and governance screens. Assuming it passes, it is allowed into the fund. Despite the ESG criteria, performance hasn't missed a beat. In fact, the Ethical Special Equity has outperformed the IA Clarington Canadian Small Cap Fund, largely because it has a lower MER. Because of the value focused approach used, we expect that performance will lag in a sharply rising market, but is expected to hold up nicely in periods of high volatility and in down markets.

Ethical Global Dividend Fund (NWT 084) – This go anywhere fund managed by KC Parker of Beutel Goodman looks for high quality, profitable companies that generate high levels of free cash flow that is either reinvested back into the business, or returned to shareholders through share buybacks or dividends. Performance has been strong when compared to not only its peer group, but also the benchmark. As of May 31, the three year return was 7.8%, outpacing the MSCI World Index by nearly 30 basis points and finishing in the top quartile. Ethical are very active shareholders and encourage companies to improve their environmental, social and governance practices through dialogue, shareholder resolutions and proxy voting. They are not afraid to take action if a company does not want to play ball. For example, they recently turfed Great-West Life from the portfolio because they didn't want to address or discuss the risk of climate change to its insurance business. Our biggest concern with this fund is its volatility, which has been above the benchmark and the category average. However, for investors who can stomach a bit more volatility in return for

knowing they are investing in companies with a well defined ethical stance, this is a great fund to consider.

Bottom Line

For many people, helping to make the world a better place through their buying and investing activities is an important goal. Socially responsible investing is a way to help do that with their investments. However, SRI is not for everyone. Before investing in an SRI fund, an investor should ensure that the SRI criterion that is employed aligns with their beliefs. Investors should also realize that the costs they pay may be higher for an SRI fund compared to a non SRI fund, and as a result, performance may suffer.

B U I L D I N G W E A L T H

Mutual Funds / ETFs Update

Editor and Publisher: David Paterson

Circulation Director: Kim Pape-Green

Customer Service: Katya Schmied, Terri Hooper

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2008 and 2006 when it finished in the bottom quartile. It has a five year return of 3.8%, handily outpacing its benchmark and peer group. As of May 31 it holds 30% in foreign corporate bonds, 21% in Canadian equity and 13% in Canadian bonds. It also boasts an MER of 1.61%. We expect that this fund will continue to reward investors over the long term.

IA Clarington Canadian Conservative Equity (CCM 1300) – It has been shown many times that dividend paying stocks tend to hold up better in periods of market volatility and that over the long term, dividends make up a significant portion of a stock's total return. That is the key reason why we like this fund for the current environment. With Europe expected to be a mess for some time and China in the midst of a slowdown, we expect that volatility in the equity markets will remain high. In that type of environment, this fund, with its emphasis on companies that pay a stable and growing stream of dividends, is expected to hold up better than most of its peers.

Beutel Goodman American Equity (BTG 774) – While not exactly setting a blistering pace on the economic growth front, it is widely expected that the U.S. equity markets will again be the best performer during the second half of the year. We are seeing strong corporate earnings, yet valuations particularly in the large cap space remain relatively low by historic standards. The Beutel Goodman American Equity Fund is well positioned for this environment. Its concentrated portfolio has a P/E ratio that is lower than the broader market and a dividend yield that is higher. Considering these factors, it is our expectation that this fund will continue to be one of the better performing U.S. equity funds on a risk adjusted basis.

IA CLARINGTON CANADIAN SMALL CAP

By Dave Paterson, CFA

Manager Ian Cooke talks to us about QV approach

Since the market's low in February 2009, Canadian small caps have outpaced their large cap brethren by a noticeable margin. The S&P/TSX Small Cap Index has gained more than 80% while the S&P/TSX Composite Index rose by 54% during the same period.

Despite this outperformance, the general outlook for small cap stocks isn't as positive as it is for the large caps. According to Ian Cooke of Calgary based QV Investors, managers of the **IA Clarington Canadian Small Cap Fund**, "The reality that we live in now is that the mega caps in the world, the Intel's and the Microsoft's, are trading at discounts to their small cap brethren." He goes on, "You have companies with well documented successes in their business strategies, they have platforms for growth going forward, very defensible business models that are world leaders that are trading for less than small caps."

While the environment may not be ideal for small caps, Mr. Cooke is optimistic. "We feel pretty good about our fund despite the small cap market overall, which is looking a little expensive compared to large caps." A key reason for this is rooted in the investment approach and risk management process that is employed by the QV Investors small cap team. "QV stands for quality and value" where they are looking for attractively valued "companies that are governed by capable, candid management teams."

"We believe that management is a very important part of quality, and we look for businesses that have enduring qualities." The qualities that they look for are such things as discipline from a balance sheet perspective, a solid business plan and the potential to see growth in the company's book value per share, sales per share and earnings per share. They believe that these are the "qualities that can sustain difficult periods."

They like to see management teams that have significant ownership in the business as this helps to make sure that their interests are in line with the interests of shareholders. They also look for management teams that are honest and forthright in their discussions, and have been through some tough financial periods.

They study how the company performed during the 2008/2009 financial crisis, the technology bubble of the early 2000s and if the history is there, how they fared during the recession of the early nineties. They pay attention to how the company's business model held up, particularly to what impact the downturns had on revenues, margins and the strength of the balance sheet.

After a company has passed the quality screens, they shift their attention towards valuation. "Once we find a company that we like, we need to look at it and see at what price we are able to make an attractive return for investors" says Mr. Cooke.

The portfolio is fairly concentrated, holding approximately 40 well managed companies that are trading below what they feel they are worth. Like other value focused managers, QV takes a longer term view. "Our average hold period is more than five years," says Mr. Cooke. This is supported by the fund's portfolio turnover rate, which has averaged just over 20% for the most recent five year period.

Performance, particularly over the long term, has been strong. For the ten year period ending May 31, it posted an annualized compound return of 8.9%, which outpaced the benchmark BMO Canadian Small Cap Index by an average of 450 basis points per year. Since 2002, it has finished in the upper half in the category in every year except for 2009 and 2010. In those years, small caps were on a tear and the more conservative nature of the QV team resulted in fourth quartile returns of 29.6% and 13.9% respectively, dramatically underperforming the benchmark in both years.

"In difficult periods our risk management process has allowed us to outperform. During rallies where stories dominate and quality takes a bit of a back seat, we will tend to lag. Over time as the quality characteristics of the company shines through and the valuation discounts become more appealing, we feel that we demonstrate that this is a good process. We typically outperform in tough markets, like we see today. We continue to strive on continually improve upon our portfolio characteristics."

When asked about the impact that the European debt crisis

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will have on the portfolio Mr. Cooke replied, "Certainly there will be a market impact, but it doesn't keep us up at night." Instead, he and Mr. Jugovic view periods of market volatility in an opportunistic way and prefer to spend their time looking to identify high quality well managed companies that have the quality characteristics in place that will allow them to not only survive through the crisis, but to also provide a return to shareholders.

One way this is achieved is by investing in small cap stocks that pay dividends. 85% of the stocks in the fund pay a dividend. Mr. Cooke says, "Historically, dividends have been an important contributor to our performance over time. It still is today." The dividend yield on the total portfolio is approximately 2.5%, which is slightly lower than the broader small cap market. The yield is lower due to a rally in many of the dividend paying names in the fund.

"Instead of chasing the higher leveraged companies that offer a higher yield, we are looking for a higher quality company that will exhibit more dividend growth. Over time, the yield will be higher than with the lower quality dividend payers," said Mr. Cooke. In other words, while yield is important, they are not willing to take more risk to earn that yield. Instead, they focus on the sustainability of the dividend and perhaps just as important, the ability of the company to grow those dividends over time.

They are currently holding more cash than they have in the past as a result of some merger activity in the first quarter, namely the buyouts of Gennum Corporation and Astral Media. They are looking to opportunistically invest that cash and are finding some opportunities in the oil drilling service companies such as Ensign Energy Services, Pason Systems, and Secure Energy Services. They are using this recent period of weakness to add to their current position in Stella-Jones Inc., an industrial company that makes railway ties and telephone poles. Says Mr. Cooke, "It sounds like a boring business, but they have done an excellent job over the years generating attractive returns and growing their business."

There are a number of reasons to like this fund, namely the disciplined stock selection process, its focus on quality companies, long term track record and lower than average volatility. In our opinion, the biggest drawbacks to this fund are its MER which is 2.93%, and its performance in rising markets. Considering the above, we are rating the fund \$\$\$\$. While we believe that this is a high quality fund that will do well in periods of high volatility, based on the current market environment, valuation levels and outlook, we would favour the **BMO Guardian Enterprise Fund (GGF 464)** or the **Beutel Goodman Small Cap Fund (BTG 799)**.

For investors who are interested in SRI, Ethical Funds offers the **Ethical Special Equity Fund (NWT 067)** which is very similar except that its holdings have been put through Ethical's rigorous ESG screening criteria.

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25 to 40 holdings and will focus on companies of all sizes. Companies will be selected using a fundamentally driven, bottom up approach that will look to buy companies when they are trading below their intrinsic value. Mr. Taylor intends to be very active in managing the fund, which may result in very high levels of portfolio turnover. The fund can hold up to 49% foreign content, and it is expected that foreign holdings will be significant right out of the gate. The fund is part of a corporate class structure, which will be beneficial to investors in non registered accounts as it will help to lessen the potential tax impact.

The IA Clarington Focused Balanced Fund will see Mr. Taylor managing the equity sleeve and setting the broader asset mix, while Dan Bastasic will run the fixed income sleeve. The neutral asset mix is set at two-thirds equities and one-third fixed income. The equity portion will be similar to the Canadian Equity Class, but will focus more on the larger cap names. The fixed income part of the fund will likely be invested in corporate bonds. The fund can invest up to 40% in foreign equities.

We like Mr. Taylor's approach however he has historically been more volatile than the index and category average. He has said that he intends to dial down volatility with these funds, but whether that happens, remains to be seen. If these funds are managed similarly to how he managed at Dynamic, we expect that they will be strong performers on a risk adjusted basis. We would be reluctant to recommend these funds, particularly the Canadian Equity Class as core holding for investors who are low to medium risk investors because of the higher level of expected volatility.

READERS' QUESTIONS

Understanding performance numbers and reviewing the

AGF Canadian Large Cap Dividend Fund

Question: I have been a holder of the **AGF Canadian Large Cap Dividend Fund** since Aug 2007. My purchase price was \$11.56. It closed on May 31 at \$8.70. This represents a loss of about 25% to me. Can you please explain how this fund manages to advertise that it's losses over 5 years is only -1.7%? How can my 25% loss be explained as a -1.7% average annual compound return?

Answer: First, let me say that I understand your frustration. Mutual fund return numbers, particularly those used in marketing campaigns can be very confusing in the way that they are presented.

In this situation, there are a number of issues that are making things more complicated. The first is that the marketing piece that you are referencing is quoting the "*compound annual growth rate*" (CAGR), which shows how much you would have gained or lost each year, on average, during the time period quoted. For example, in this case, had you held the fund between April 30, 2007, and April 30, 2012, you would have lost, on average, 1.72% per year. In your situation, you are looking at your loss on an absolute level, or "*simple return*" as it is known. In doing some math, we determine that the CAGR of -1.72% works out to a simple return of -8.30%.

The next complicating factor is the time frame being considered. The marketing piece is referencing the five year period between April 2007 and April 2012. However, you are looking at the period between August 2007 and May 2012. These are very different start and end dates. Because of this, the returns that you have experienced are much different. In your case, as of May 31, 2012, you have realized a simple return of -24.74%, which translates into a CAGR of -5.80%.

Which is right? Both are correct. Your question illustrates the complexity involved with the return numbers that are often used in promoting mutual funds. Investors need to pay attention to the start and end dates of the period for which the fund is highlighting its returns. The return numbers that they will use will be accurate, but only if you held the funds for the time period that is referenced in the advertisement. And as the disclaimers say, past performance may not be repeated.

Question: I have held the AGF Canadian Dividend Fund for a number of years. What is your opinion of the fund?

Answer: I have to admit that I have been a little disappointed in this fund in the past few years. First off, the name of the fund is a bit of a misnomer in that it does not pay investors a regular distribution. Instead, it is basically a core Canadian equity fund that invests in high quality blue-chip companies. The management team of Gord MacDougall and John Novak of Connor Clark & Lunn use an approach that combines top down macroeconomic research and a bottom-up stock screening and selection process. Their style can best be described as "Growth at a Reasonable Price" and tends to favour large cap growth companies that are trading at a discount to their estimate of intrinsic value.

Some of the key factors that the team looks for include a demonstrated ability to grow sales, earnings and cash flow at an above average rate. They are also looking for companies that pay dividends. As a result, the fund is significantly overweight financials with the top three holdings all being banks. It is also heavily weighted towards energy and materials. Combined, those three sectors make up 73% of the fund.

Performance has been middle of the pack for the past several years, while the long term numbers have been stellar. Volatility has been slightly less than both the index and the category average. The MER of the Classic Series is low at 1.87% while the Series A units carry a reasonable 2.26%, which is still below the category average.

Looking ahead, the manager has maintained a cyclical tilt to the fund, which they believe will allow it to benefit from strong earnings and dividend growth once the macro events finally settle down. They are also expecting that many of the holdings will benefit from increased dividends in the next few months. Despite the recession in Europe, they are still expecting modest growth in Canada.

On balance, this isn't a bad fund. It has a well respected management team, a disciplined process and a reasonable cost. Despite that, there are other funds in the category which we feel are better positioned for the current environment. They offer more attractive risk reward profiles, more favourable valuation characteristics and a higher dividend yields on the underlying portfolio. Our picks include **Fidelity Canadian Large Cap Fund**, **IA Clarington Canadian Conservative Equity Fund**, **RBC North American Equity Fund** and **Mawer Canadian Equity Fund**.