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WHAT'S NEW

♦ **Fund sales slip in June** – The Investment Fund Institute of Canada reported that net sales of Canadian mutual funds were just over \$1 billion for the month of June. This was down from May's net sales of \$1.6 billion and \$1.3 billion a year earlier. Once again, it was bond and balanced funds that were investor favourites, while nearly \$1.5 billion was pulled from equity funds. As of June 30, assets under management were \$797 billion.

♦ **ETF's show impressive growth in June** – According to Blackrock Asset Management, the company behind the iShares family of exchange traded funds, Canadian ETFs saw more than \$1.7 billion in net inflows during June. In contrast to the mutual fund industry, it was Canadian equity ETFs that garnered the majority of the new assets, seeing more than \$1.1 billion in new money in the month. In fact, all ETF categories, except for inverse ETFs saw net inflows during the month. iShares continues to dominate the industry, holding approximately 78% of all ETF assets in Canada. The next largest provider is BMO, with 12.5%. It is estimated that the Canadian ETF industry is made up of 250 ETFs with assets under management of \$49.5 billion.

BUILDING WEALTH
Mutual Funds / ETFs Update

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DÉJÀ VU ALL OVER AGAIN

By Dave Paterson, CFA

Second half of year likely to be much like the first

That phrase, made famous by former New York Yankee catcher Yogi Berra seems to be rather appropriate for the current investing climate. It seems as though we are stuck in an endless loop where things look like they are improving, but in the end, no meaningful progress is ever made.

A perfect example is the European sovereign debt crisis, which has been a constant source of turmoil in the markets for the past year. On numerous occasions, rescue deals and bailout packages have been reached, markets rejoice and rally higher, only to see the deal slowly fall apart resulting in a market selloff. This cycle has been repeated numerous times, first by Greece and more recently Spain.

It reared its head again recently when European Central Bank head Mario Draghi stated on July 26 that the ECB would "do whatever it takes" to save the Euro, pushing global equity markets sharply higher. Fast forward a week when he outlined his plan to buy European bonds in the fall, which resulted in a swift market selloff and a blow to investor confidence, as the initial review of the plan showed it did not meet expectations. The very next day, after traders had a chance to sleep on the plan they realized it wasn't as bad as first thought, bidding share prices up again.

Another example is the economic recovery, or lack thereof, in the U.S. It seems that economic data one week shows that the economy is on track to recovery, only to be kneecapped the following week with data showing that growth is slower than expected. The result is an economy that continues to trudge along at a pace that is unlikely to create the necessary jobs to pull the country out of the doldrums.

A relatively new development is the slowdown in China and other emerging economies. In recent months investors began to worry that the slowdown in China had become more pronounced than originally expected. Those suggesting the worst case scenario worried that it may fall into a recession, while the best case indicated a soft landing. Considering recent results, it appears that the reality is between the two extremes with economic growth slowing, but not turning negative. Regardless, this has, and is likely to continue to have a meaningful impact on the demand for commodities for the next few months until growth rebounds.

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Déjà vu - continued from page 1...

As we look ahead to the second half of the year, each of these factors remains firmly entrenched. There is still no workable plan to solve the European debt crisis. There is still no significant economic recovery in the U.S., and China is showing signs of slower economic activity. Because of this, it is our expectation that the second half of the year is very likely to look quite like that of the first half – low inflation, stable interest rates, high volatility, large caps outperforming small caps, pressure on resource stocks, and modest gains from fixed income investments.

We are making no significant changes to our Recommended List. Within equities, we favour high quality, large cap focused funds that invest in companies that pay high levels of dividends and generate significant levels of free cash flow. We still are hesitant to allocate to Europe or the emerging markets given the continuing uncertainty in those regions. For fixed income, our preference is for high quality, well managed funds that offer some level of protection against rising rates, either through tactical management, a focus on corporate bonds, higher yields, lower durations, or ideally, all of the above.

We are removing two funds from the list, but this is based on performance of the individual funds rather than a change in our overall investment expectations. There are no new additions to the list.

Funds to Sell

Dynamic Power Canadian Growth Fund (DYN 052) – This Canadian focused equity fund managed by Rohit Segal was a longtime growth machine for investors, more than tripling in value between 2003 and 2007. However in 2008, it gave nearly all of those gains back with its 51% loss. While the fund has shown glimpses of its former glory, it has largely been a high risk, low reward proposition. Given the style and the manager, we believe that there will be periods where it dramatically outperforms the market, however, for the most part, we expect that the returns will not justify the volatility.

Fidelity Canadian Asset Allocation Fund (FID 281) – This fund underwent a significant management change in April 2011 when lead manager Bob Swanson defected to rival CI Investments. He was replaced by the team of Derek Young and Geoff Stein, who have struggled to keep pace with the benchmark and the category. While the time frame is too short to make a definitive judgment on their performance, we believe that there are other balanced funds which offer a more compelling risk reward profile than this one.

Funds to Buy

PH&N Short Term Bond & Mortgage Fund (PHN 250) – While we don't expect interest rates to move higher in the next few months, they will be moving higher at some point in the future. One of the best ways to protect your fixed income holdings from this is to shorten the duration by investing in short term bonds. This fund does just that. It invests in a mix of bonds and mortgages that result in an average term to maturity of less than three years. What this means to your portfolio is that it will not be hit as much when rates rise higher. For example, if rates go up by 1%, this fund is expected to fall by 3% or less, compared to a more traditional bond fund which is expected to drop 6% or more, depending on the fund. Add in a rock bottom MER and you have a winner.

PH&N Total Return Bond (PHN 340) – We like this fund over the **PH&N Bond Fund** for a couple of reasons. First, the managers can be tactical in running this fund, allowing them to position the fund for the environment. Second, they can access a number of strategies that aren't available with the PH&N Bond Fund including high yield bonds, mortgages and derivative strategies. Combined with a low MER, this fund is expected to hold up relatively well when rates begin to rise and remains our top pick for a traditional bond fund.

Steadyhand Income Fund (SIF 120) – With a target asset mix of 75% fixed income and 25% in dividend paying securities like stocks and REITs this fund is well positioned for a rising or even flat rate environment. Within the fixed income portion, the emphasis is on higher yielding corporate bonds which should provide better downside protection when rates rise, and better income in a flat environment. We like this fund as a way for conservative investors to gain some equity exposure without taking on huge equity risk. For other investors, it can be a good addition to the fixed income portion of your portfolio as a way to help protect against flat or rising rates.

CI Signature High Income Fund (CIG 686) – Like the Energizer Bunny, this fund just keeps going and going and going. For the first half of the year, it gained 5%, beating it's benchmark and nearly doubling the category average. It remains conservatively positioned, holding 42% in corporate bonds, 10% in REITs, and more than 11% in cash. The equity exposure in the fund is very Canada centric. It pays a monthly distribution of \$0.07, which works out to an annualized yield of 6.1% at current prices. It may be hit when rates rise, but given the expectation of low rates for the next quarter or two, we remain very comfortable with this fund.

Sentry REIT Fund (NCE 705) – Upgraded to a BUY, the Sentry REIT Fund is one of the few mutual funds that invests

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FIRST HALF PORTFOLIO REVIEW

By Dave Paterson, CFA

Uncertainty and volatility rule the markets in first half. Expect more of the same for second half

When we last reviewed our model portfolios, our expectation was that the first half of 2012 would be very much like the latter half of 2011. We were pretty much right, as the European debt crisis, worries over the U.S. economy and concerns of a slowdown in China continued to weigh on investors. As a result, volatility, particularly in the second quarter, was high, with the more defensive sectors outperforming while energy and other cyclical lagged.

Virtually all the factors that drove performance in the first half remain firmly entrenched as we enter the second half. Europe is trudging along making very little progress on its debt issues. The U.S. is in recovery mode, but is not growing at a pace that is quick enough to make much of a difference, and China and other emerging markets are experiencing a pronounced slowdown. This is having an impact on global growth, and of particular interest for Canadian investors, the demand for commodities. We expect more of the same in the second half of the year; low inflation, stable interest rates, high volatility, large caps outperforming small caps, pressure on resource stocks, and modest gains from fixed income investments.

Despite the first half volatility, all of our portfolios managed to post respectable gains during the first half of the year. Perhaps more impressive, except for the **Beutel Goodman Small Cap Fund**, all of the funds used in the portfolios posted gains. What this demonstrates is that by following a disciplined portfolio approach, you can earn decent returns without taking substantial risks, regardless of your investor profile.

As a refresher for our long time readers and for the benefit of new readers, our model portfolios were created on January 1, 2009, each with an initial value of \$25,000. All mutual funds and ETFs are eligible for inclusion except for those which are only available to "sophisticated investors" through offering memorandum. Here is a quick summary of the objectives of each portfolio.

The Ultra-Safe Portfolio: As the name suggests, this portfolio is designed for people who don't want to worry about their money but are looking for better returns than they'll get from GICs or money market funds. If it is used in a registered account, you'll have to substitute for the **RBC Monthly Income Fund**, which cannot be held in RRIFs, RRSPs, etc.

The Non-Registered Defensive Portfolio: There's a little more risk and extra cash flow in this portfolio. It is best suited to non-registered accounts where safety and income are the main priorities. The fund targets an average annual compound rate of return of between 4% and 6%.

The RRSP Portfolio: This portfolio is structured in much the same way as a conservatively managed pension plan. Risk is kept to a reasonable level consistent with a long-term annualized growth target in the 6% to 7% range.

The RRIF Portfolio: Cash flow and capital preservation are the goals of this portfolio. It is designed to provide enough income to avoid dipping into capital, while shielding investors from heavy losses in market downturns. The target return is approximately 6% a year.

The Growth Portfolio: This is suitable for investors seeking higher returns over the long term and who are willing to accept more risk. We aim for a compound annual growth rate in the 7% to 8% range. To date, the return has averaged 8.0% per year. This target allows us to maintain risk at reasonable levels. We avoid highly speculative funds.

Here are the latest results to June 30:

ULTRA SAFE PORTFOLIO

Fund Name	Weight	6 Month Return	Value
PH&N Canadian Money Market Fund	10%	0.32%	\$2,938.01
PH&N Short Term Bond and Mortgage	15%	1.04%	\$4,438.64
National Bank Mortgage CIBC Canadian Short Term Bond Index	15%	0.15%	\$4,399.54
Beutel Goodman Income	15%	0.44%	\$4,412.28
PH&N Total Return Bond	10%	1.39%	\$2,969.34
iShares DEX All Corporate Bond Index	10%	1.96%	\$2,986.04
RBC Monthly Income	10%	2.94%	\$3,014.74
Totals	15%	2.11%	\$4,485.64
	100%		<u>\$29,644.23</u>

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PERFORMANCE TO DATE

Initial value (January 1, 2009)	\$25,000.00
Value at last review (December 31, 2011)	\$29,286.35
Current value (June 30, 2012)	\$29,644.23
Change since last review	\$357.88
% change since last review	1.22%
% change since inception (3 1/2 yrs)	18.58%
Annualized Compound Return since inception	4.99%

COMMENTS

The portfolio continued to do exactly what it was designed to do - protect capital while generating a return that is higher than what is offered by a GIC. All of the funds were positive during the first half, but the majority of the gains were the result of the **iShares DEX All Corporate Bond Index ETF** and the **RBC Monthly Income Fund**.

CHANGES

Historically, the second half of the year is prone to periods of higher volatility, particularly in the months of September and October. Further, given the relatively strong performance of the **RBC Monthly Income Fund**, we will be taking some profits off the table and reducing its weight within the portfolio. We will be increasing the exposure to the **PH&N Short Term Bond & Mortgage Fund**. We are removing the **National Bank Mortgage Fund** from the portfolio and replacing it with the **TD Mortgage Fund**. This change was made because we believe that the TD Mortgage Fund has a higher quality portfolio and a lower duration which will better help protect investor's capital.

REVISED ULTRA SAFE PORTFOLIO

Fund Name	% Allocated
PH&N Canadian Money Market Fund	10%
PH&N Short Term Bond and Mortgage	20%
TD Mortgage Fund	15%
CIBC Canadian Short Term Bond Index	15%
Beutel Goodman Income	10%
PH&N Total Return Bond	10%
iShares DEX All Corporate Bond Index	10%
RBC Monthly Income	10%

DEFENSIVE PORTFOLIO

Fund Name	Weight	6 Month Return	Value
PH&N Canadian Money Market Fund	10%	0.32%	\$3,166.53
iShares DEX Short Term Bond Index Fund	10%	0.81%	\$3,181.99
National Bank Mortgage Fund	10%	0.15%	\$3,161.16
PH&N Total Return Bond Fund	10%	1.96%	\$3,218.29
Steadyhand Income	10%	3.59%	\$3,269.74
Mackenzie Sentinel Income (Series B)	10%	1.38%	\$3,199.98
BMO Guardian Monthly Dividend Classic	10%	1.31%	\$3,197.77
RBC Monthly Income Fund	15%	2.11%	\$4,834.54
Fidelity Canadian Balanced	15%	1.62%	\$4,811.34
Totals	100%		\$32,041.34

PERFORMANCE TO DATE

Initial value (January 1, 2009)	\$25,000.00
Value at last review (December 31, 2011)	\$31,564.25
Current value (June 30, 2012)	\$32,041.34
Change since last review	\$477.09
% change since last review	1.51%
% change since inception (3 1/2 yrs)	28.17%
Annualized Compound Return since inception	7.35%

COMMENTS

Like the name suggests, this portfolio is defensively positioned with no direct equity exposure. All of the funds in the portfolio posted gains in the first half of the year, allowing the portfolio to post a 1.5% gain. **Steadyhand Income** and **RBC Monthly Income Fund** were the main contributors to the overall performance.

CHANGES

While this portfolio is very defensive, we are going to gradually position it to be able to participate more in the upside movements of the equity markets, while still providing strong downside protection. To do this, we are making three changes to the portfolio. First, we are replacing the **National Bank Mortgage Fund** with the **TD Mortgage Fund** based on the reasons discussed above. Second, we are substituting the **PH&N Short Term Bond & Mortgage Fund** for the **iShares**

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DEX Short Term Bond Index Fund. We are making this change because we feel that with the upcoming challenges in the fixed income market the PH&N fund is better positioned. Third, we are bringing in some direct equity exposure through the addition of the **Mackenzie Ivy Foreign Equity Fund**. It is a very conservatively managed fund that provides global equity exposure with a major emphasis on capital preservation.

REVISED DEFENSIVE PORTFOLIO

Fund Name	Weight
PH&N Canadian Money Market Fund	10%
PH&N Short Term Bond & Mortgage	15%
TD Mortgage Fund	10%
PH&N Total Return Bond Fund	10%
Steadyhand Income	10%
Mackenzie Sentinel Income (Series B)	10%
BMO Guardian Monthly Dividend Classic	10%
RBC Monthly Income Fund	15%
Mackenzie Ivy Foreign Equity	10%

RRSP PORTFOLIO

Fund Name	Weight	6 Month Return	Value
PH&N Canadian Money Market	5%	0.32%	\$1,516.32
PH&N Short Term Bond and Mortgage	15%	1.04%	\$4,581.60
Beutel Goodman Income	15%	1.39%	\$4,597.47
PH&N Total Return Bond	15%	1.96%	\$4,623.31
Steadyhand Income Fund	15%	3.59%	\$4,697.23
BMO High Yield US Corporate Bond	5%	4.66%	\$1,581.91
Fidelity Canadian Large Cap Fund	15%	2.64%	\$4,654.15
BMO Guardian Monthly Dividend Classic	15%	1.31%	\$4,593.84
Totals	100%		\$30,845.82

PERFORMANCE TO DATE

Initial value (January 1, 2009)	\$25,000.00
Value at last review (December 31, 2011)	\$30,229.59
Current value (June 30, 2012)	\$30,845.82
Change since last review	\$616.23
% change since last review	2.04%
% change since inception (3 1/2 yrs)	23.38%
Annualized Compound Return since inception	6.19%

COMMENTS

While the portfolio has delivered a reasonable rate of return for the market environment, we believe it is too conservatively positioned to meet its return target going forward. It has more than half of its assets in fixed income funds, and given the interest rate outlook, the likelihood of meeting the return objectives has decreased. As a result, some changes are needed in an effort to increase the expected return profile.

CHANGES

To do this, we are making a number of changes. We are removing the **Beutel Goodman Income Fund**. While we believe it is a high quality bond fund, it is our opinion that the **PH&N Total Return Bond Fund** is a better choice for the current environment, given its ability to be fairly tactical and lower cost structure. We are adding the **Mackenzie Ivy Foreign Equity Fund** into the portfolio to provide some global equity exposure, while providing downside protection.

REVISED RRSP PORTFOLIO

Fund Name	Weight
PH&N Canadian Money Market	5%
PH&N Short Term Bond and Mortgage	15%
PH&N Total Return Bond	15%
Steadyhand Income Fund	15%
BMO High Yield US Corporate Bond	5%
Fidelity Canadian Large Cap Fund	15%
BMO Guardian Monthly Dividend Classic	15%
Mackenzie Ivy Foreign Equity	15%

RRIF PORTFOLIO

Fund Name	Weight	6 Month Return	Value
PH&N Canadian Money Market	10%	0.32%	\$3,247.30
PH&N Short Term Bond and Mortgage	15%	1.04%	\$4,905.90
Beutel Goodman Income	15%	1.39%	\$4,922.90
iShares DEX All Corporate Bond Index	10%	2.94%	\$3,332.10
BMO High Yield US Corporate Bond	10%	4.66%	\$3,387.78
Mackenzie Sentinel Income B	10%	1.38%	\$3,281.61
BMO Guardian Monthly Dividend Classic	15%	1.31%	\$4,919.01
Fidelity Monthly Income	15%	3.29%	\$5,015.15
Totals	100%		\$33,011.74

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PERFORMANCE TO DATE

Initial value (January 1, 2009)	\$25,000.00
Value at last review (December 31, 2011)	\$32,369.37
Current value (June 30, 2012)	\$33,011.74
Change since last review	\$642.37
% change since last review	1.98%
% change since inception (3 1/2 yrs)	32.05%
Annualized Compound Return since inception	8.27%

COMMENTS

Performance, while positive, was a bit off of our targeted pace during the first half of the year. Still, the portfolio has returned an average annualized return of more than 8% since its launch. Nearly half of the gain in the first half came from two funds, the **Fidelity Monthly Income Fund** and the **BMO High Yield U.S. Corporate Bond ETF**. The portfolio produces a reasonably stable stream of income, which at current prices works out to a yield of approximately 4.1%.

CHANGES

Given that this is an income focused portfolio, we are making a couple of changes that will increase the yield, while providing potential for increased returns without substantially increasing the risk. To do this, we are removing the **PH&N Money Market Fund** and adding the **iShares S&P/TSX Capped REIT Index**. We are also reducing the weighting of the **Fidelity Monthly Income Fund** by 5% and increasing the weighting of the **PH&N Short Term Bond and Mortgage Fund**. We are adding the REIT exposure for two reasons; an increased distribution and potential for improved return. By increasing the exposure to the **PH&N Short Term Bond and Mortgage Fund**, it helps provide a volatility buffer against the riskier REIT exposure. The distribution yield on the portfolio improves to 4.5%.

REVISED RRIF PORTFOLIO

Fund Name	Weight
PH&N Short Term Bond and Mortgage	20%
Beutel Goodman Income	15%
iShares DEX All Corporate Bond Index	10%
BMO High Yield US Corporate Bond	10%
Mackenzie Sentinel Income B	10%
BMO Guardian Monthly Dividend Classic	15%
Fidelity Monthly Income	10%
iShares S&P/TSX Capped REIT Index	10%

GROWTH PORTFOLIO

Fund Name	Weight	6 Month Return	Value
PH&N Total Return Bond	10%	1.96%	\$3,224.18
Fidelity Canadian Large Cap	15%	2.64%	\$4,868.53
Mawer Canadian Equity	15%	2.81%	\$4,876.59
Beutel Goodman Small Cap	15%	-1.34%	\$4,679.74
Beutel Goodman American Equity	10%	7.18%	\$3,389.25
Mawer U.S. Equity	10%	5.53%	\$3,337.07
Mackenzie Cundill Value	10%	4.95%	\$3,318.73
Mawer International Equity	15%	5.96%	\$5,026.01
Totals	100%		\$32,720.10

PERFORMANCE TO DATE

Initial value (January 1, 2009)	\$25,000.00
Value at last review (December 31, 2011)	\$31,622.03
Current value (June 30, 2012)	\$32,720.10
Change since last review	\$1,098.07
% change since last review	3.47%
% change since inception (3 1/2 yrs)	30.88%
Annualized Compound Return since inception	7.99%

COMMENTS

The performance was roughly in line with our target return. **Beutel Goodman Small Cap** was our only losing fund, dropping 1.3%. Despite posting a loss, it was still a very strong relative performance, experiencing half the loss of the average small cap fund. Our bigger concern in the portfolio is the significant increase in volatility that the **Mackenzie Cundill Value** has experienced in the past few quarters as a result of the fund's overweight exposure to U.S. financials. Also, during the period, **Mawer World Investment** changed its name to **Mawer International Equity**.

CHANGES

Given this significant jump in volatility with the **Cundill Value Fund**, we are removing it from the portfolio and replacing it with the **Mackenzie Ivy Foreign Equity Fund**. Ivy, at least of late, has been significantly less volatile than Cundill. While we expect that Cundill will outperform Ivy in a rising market, we expect that market volatility will remain high for the balance of the year, making Ivy the preferable choice. We are also removing the **Mawer U.S. Equity Fund** from the portfolio

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while slightly increasing the weighting of the **Beutel Goodman American Equity Fund**. They are fairly similar in terms of mandate and risk reward characteristics, so having them both in the portfolio offers little in the way of diversification benefits. In our opinion, Beutel offers a slightly more favourable risk reward profile than Mawer. We have also tweaked the weightings of some of the other funds in the portfolio.

REVISED GROWTH PORTFOLIO

Fund Name	Weight
PH&N Total Return Bond	10%
Fidelity Canadian Large Cap	15%
Mawer Canadian Equity	15%
Beutel Goodman Small Cap	15%
Beutel Goodman American Equity	15%
Mackenzie Ivy Foreign Equity	15%
Mawer International Equity	15%

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predominantly in REITs. It is a concentrated portfolio holding between 40 and 50 names. It can invest in REITs of all sizes, but the current focus is mid cap REITs. It pays a monthly distribution of \$0.0833 per unit, which equals an annualized yield of 7.9%. Performance in the past three years has been strong, gaining an average of 23.5% per year to the end of June. Despite lagging the index in the first half of the year, we believe that the outlook for REITs remains positive for a number of reasons including strong property fundamentals, low cost debt, increased foreign activity and an uptick in takeover activity in the sector. Combined with investors' insatiable demand for income, we believe that this fund is well positioned to reward investors with income and potential capital gains.

Fidelity Canadian Large Cap Fund (FID 231) – With a significant underweight position in energy and virtually no exposure to materials, we believe that Daniel Dupont has this fund well positioned for the current environment. Nearly half of the fund is invested outside of Canada, with the bulk of that being invested in the U.S. Further, it offers a dividend yield that is above the broader market. Given the conservative nature of this fund, we believe that it will continue to hold up well in periods of above average volatility.

IA Clarington Canadian Conservative Equity Fund (CCM 1300) – With a concentrated portfolio of companies that have a history of paying and growing dividends you won't go too far wrong over the long term. Granted it will lag in a period where momentum is a key driver of stock return, but in periods of high volatility, this fund definitely earns its stripes. It provides good downside protection and decent upside participation and should continue to reward investors over the long term. That said, if you are looking for a fund with some flash and sizzle, keep looking, because this is not that fund.

RBC North American Value Fund (RBF 554) – We are maintaining our BUY recommendation on this fund for two reasons. First, based on our assessment of the current environment, we believe that large caps are poised to outperform small and mid caps for the remainder of the year. Of all the Canadian equity funds on our list, this has the largest average market capitalization, according to Morningstar. Second, the manager is holding more than 11% in cash. This will help to temper volatility in rough markets, plus, it will provide them with "dry powder" to opportunistically pick up companies that are attractively valued. Considering this, we believe that this fund has the potential to reward investors over the next several months.

Beutel Goodman American Equity Fund (BTG 774) – During the quarter, we downgraded **IA Clarington Sarbit U.S. Equity** and **Dynamic Power American Growth** from BUY to HOLD. Our rationale was the same for both funds - we believe that large caps will outperform in the next few months and those funds are currently tilted towards mid caps. In their place, we have upgraded the **Beutel Goodman American Equity Fund** to BUY. It has been one of our favourite U.S. equity funds for a long time. It focuses on large cap stocks that are attractively valued and have consistently demonstrated a commitment to create shareholder value without employing excessive leverage. Performance has been decent and volatility has been one of the lowest in the U.S. equity category. Factor in a 1.49% MER and we believe you have a winner for those looking for large cap U.S. equity exposure.

CI Signature Global Health Sciences Fund (CIG 201) – There is a bit of confusion surrounding this fund. It was originally added to our Recommended List in September 2011, but has since not been highlighted on our published list. We do apologize for that mix-up, but we are here to reinforce its position on our list as a BUY. Healthcare is a sector that has been a great shelter during times of market turbulence because people require healthcare regardless of the economic and market conditions. We like this fund specifically given the manager's low turnover process, focus on cash flow, and qualitative review process. While not always the best performer in the sector, this fund is fairly consistent and has delivered strong risk adjusted returns.

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FUND	FIRST MENTION	RESULTS (to Jun 30)	Q2 Return	COMMENTS	ACTION
Canadian Equity Funds					
Fidelity Canadian Large Cap (B)	Oct-11	2.6% (6 mth)	-2.3%	Manager continues to deliver	Buy
IA Clarington Canadian Conservative Equity (V)	Oct-11	-0.8% (6 mth)	-3.6%	Large caps expected to outperform	Buy
RBC North American Value (V)	Jun-11	-3.6% (1 Yr)	-4.4%	Holding 11% cash to buy on volatility	Buy
Dynamic Power Canadian Growth (G)	Aug-09	-6.4% (2 Yr)	-10.6%	Return has not justified volatility	Sell
Leith Wheeler Canadian Equity (B)	Jun-06	3.1% (6 yr)	-1.5%	Strong quarter.	Hold
Mawer Canadian Equity (B)	Jan-05	6.4% (7 Yr)	-2.1%	Solid fund. Hold for now	Hold
Canadian Small Cap Funds					
BMO Guardian Enterprise Fund (Classic)	Jan-12	2.4% (6 mth)	-4.8%	High quality, high yielding portfolio	Hold
Beutel Goodman Small Cap (B)	Oct-03	7.8% (8 Yr)	-9.4%	Good long term pick. Hold for now	Hold
ABC Fundamental Value (V)	Jul-97	4.3% (10 Yr)	-10.6%	Deep value portfolio. Very volatile pick	Hold
Sector Funds					
CI Global Health Sciences	Sep-11	18.3% (6 mth)	9.0%	Good defensive sector play	Buy
RBC Global Precious Metals (G)	Jan-06	8.2% (6 Yr)	-18.6%	China slowdown will hurt gold	Hold
Balanced Funds					
Mac Cundill Cdn Balanced (V)	Apr-11	-4.2% (1 Yr)	-4.8%	Fund struggled in Q2.	Hold
AGF Monthly High Income (V)	Oct-10	-0.7% (1 Yr)	-2.0%	Most aggressively positioned fund in category	Hold
Steadyhand Income (V)	Oct-10	7.2% (1 Yr)	1.2%	Good fixed income substitute	Buy
Fidelity Canadian Balanced (G)	Feb-08	2.3% (4 Yr)	-1.1%	Neutral asset mix is 50/50 bonds/stocks	Hold
Fidelity Cdn Asset Allocation (G)	Aug-01	5.4% (10 Yr)	-3.2%	Fund is not meeting expectations	Sell
Income Funds					
TD Mortgage Fund	Apr-12	0.5% (3 mth)	0.5%	Yield of 2.7% is in upper half of category	Hold
CI Signature High Income (V)	Jan-12	5.0% (3 mth)	1.8%	Manager remains conservative	Buy
RBC Canadian Equity Income	Jan-10	17.7% (2 Yr)	-4.6%	Manager expecting continued volatility	Hold
Fidelity Dividend	Sep-08	10.5% (3 Yr)	-0.7%	High dividend yield on portfolio will help	Hold
Signature Income & Growth	May-07	1.7% (5 Yr)	-1.9%	Large cap bias should help returns	Hold
Sentry REIT	Dec-06	1.5% (5 Yr)	6.2%	REIT fundamentals remain strong.	Buy
BMO Monthly Income	Nov-05	3.9% (6 Yr)	-1.5%	Current distribution yield is nearly 10%	Hold
Mac Sentinel Income B	Feb-05	3.5% (7 Yr)	-0.4%	Conservative choice.	Hold
BMO Guardian Monthly Dividend MF	Oct-03	5.2% (8 Yr)	0.0%	Holds nearly 62% in preferreds	Hold
RBC Monthly Income	Jun-03	6.6% (8 Yr)	-0.7%	Our favourite for non reg accounts	Hold
Bond Funds					
PH&N High Yield Bond	Feb-10	7.5% (2 Yr)	2.1%	Fund is closed to new investors	Hold
Beutel Goodman Income	Sep-09	5.4% (2 Yr)	1.2%	Holds 50% in government bonds	Hold
PH&N Total Return Bond	Aug-08	6.5% (4 Yr)	1.7%	Manager can be active	Buy
TD Canadian Bond	Jan-03	5.5% (9 Yr)	2.0%	High weighting in corporate bonds	Hold
CIBC Cdn Short Term Bond Index	Nov-01	3.7% (10 Yr)	0.7%	Follows DEX Short Term Bond Index	Hold
PH&N Short Term Bond & Mortgage	May-00	4.3% (10 Yr)	0.7%	Remains our short term pick	Buy
U.S. Equity Funds					
IA Clarington Sarbit US Equity (V)	Jan-11	2.2% (1 Yr)	-0.1%	Small Caps expected to lag. Hold for now.	Hold
Dynamic Power American Growth (G)	Jan-11	-0.2% (1 Yr)	-5.9%	Volatile funds struggled recently	Hold
TD US Small Cap Equity (G)	Jan-11	5.7% (1 Yr)	-1.1%	Strong relative performer	Hold
Beutel Goodman American Equity (V)	Feb-09	9.3% (3 Yr)	-2.7%	Valuations look attractive.	Buy
Dynamic American Value (G)	Aug-06	-0.3% (5 Yr)	-0.3%	Large caps expected to outperform	Hold
International/Global/North American Funds					
Mutual Global Discovery (V)	Jul-11	-3.1% (1 Yr)	-2.5%	Deep value pick. Low volatility	Hold
Trimark Global Endeavour (B)	May-11	-1.4% (1 Yr)	-5.4%	A great global small cap pick.	Hold
Dynamic Power Global Growth (G)	May-11	-16.1% (1 Yr)	-9.1%	Tough quarter, should bounce back	Hold
Castlerock Global Leaders (G)	Mar-11	-11.4% (1 Yr)	-2.6%	Solid management team at the helm	Hold
Mawer International Equity (B)	Oct-09	8.6% (2 Yr)	-3.6%	Consistently outperforms benchmark	Hold
Chou Associates (V)	Nov-02	4.1% (9 Yr)	-4.1%	Good mid cap value choice	Hold