Top Funds Report

Special Offer & Monthly Commentary

Since taking over the Mutual Fund and ETFs Database a little more than a year ago, I have talked to a number of members like you, and one theme that was repeated quite often was that they wanted more current and timely information. We listened.

In response, we have completely overhauled the database and I believe it is now the best of its kind anywhere. I invite you to check it out for yourself. When you do, you will see that this new super database now includes detailed fund profiles on all mutual funds and ETFs that are available in Canada. It comes complete with performance data, holdings, and the risk/return metrics that we consider when evaluating a fund. This data will be updated on a monthly basis so you will never come across an outdated fund profile again! We also have detailed current commentaries on a number of the most popular funds in the country.

This is the same high quality investment fund research that is available to hundreds of financial advisors across Canada at much higher prices. The cost of this upgraded professional-grade investment database remains at our 2012 price of only $49.95 plus tax. That's hundreds of dollars less than some comparable services for professionals are charging.

But don't wait. The $49.95 price is only good until December 31. After that, the price jumps to $59.95, this is still 40% off our new subscriber price. You can delay the impact of this increase by renewing before December 31. We will accept renewals for up to one year at the current rate until that time, regardless of when your subscription would normally expire. So, for example, if your membership would normally expire on June 30, 2013, by renewing now we will extend it to June 30, 2014.

Call customer service at 1-888-287-8229 today to order now!

With Obama winning a second term in the White House, fears over the potential impact of the fiscal cliff of automatic tax increases and spending cuts caused a selloff in many of the commodity focused sectors. Many worry that if the cliff is not averted, the U.S. and global economy will be thrust into a recession, which will lessen demand for commodities. Precious metals companies were also hit with some disappointing earnings and company guidance, pushing stocks down further.

Given the importance of energy and materials to the Canadian market, the S&P/TSX Composite Index was down 1.28% on the month. Even a strong showing from the financial sector couldn't pull the index into the black. Financials were strong on the month, gaining ground in the second half of the year thanks to strong earnings results and expectations for Canadian banks.

Global stocks rallied higher as investor worries over the European debt crisis were eased as some progress on a Greek bailout was reached. This news pushed the MSCI EAFE Index up by 2.4% in U.S. dollar terms. In the U.S., the S&P 500 was modestly higher, rising 0.6% in U.S. dollar terms.

However, these gains were muted because of a rise in the Canadian dollar which finished the month at $1.0068, up from $1.0004 at the end of October. In Canadian dollar terms, the MSCI EAFE was up 1.8%, while the S&P 500 was actually down 0.1%

Looking ahead, we expect that fiscal cliff headlines will dominate the economic headlines and have the potential for periods of extreme volatility.

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

Funds You Asked For

This month, we take a look at a couple of Socially Responsible Investment Funds, Westwood Emerging Markets, Steadyhand Equity and more.

Manulife Floating Rate Income Fund - For a number of people, socially responsible investing is a great way to help make the world a better place. There are a number of fund options that help investors do this. One such fund is the PH&N Community Values Balanced Fund. It invests in three other PH&N Community Values branded fund. As of October 31, it held 35% in the **PH&N Community Values Canadian Equity Fund**, 34% in the **PH&N Community Values Bond Fund** and 27% in the **PH&N Community Values Global Equity Fund**.

The underlying funds invest in stocks and bonds of companies that conduct themselves in a socially responsible manner. They screen the universe of companies based on more than 100 indicators for environmental, social and governance practices. This process removes those companies with poor practices compared to their industry peers. Once the selection universe is determined, they conduct investment analysis using the same multi disciplined approach that PH&N uses with their other funds.

The overall asset mix is strategically managed by the PH&N Asset Mix Committee to reflect the changing economic and market conditions. As a result, it typically will not make large shifts in the asset mix, but instead make changes gradually over time.

Their investment philosophy is based on three principles. First, they believe that equities are the best way to make money over the long term. Second, wealth preservation and income objectives are best met by a portfolio of stocks and bonds, and finally, the cyclical nature of markets requires the timely adjustments of the asset mix.

On an absolute basis, performance has been somewhat disappointing, posting a five year gain of 1.3% as of October 31, while the Fundata Canadian Balanced Index rose by more than 3.2%.

For those investors looking for a solid SRI fund offering, this is probably the best balanced fund around. It has a strong management team behind it and a low MER. However, for most investors we would still likely favour one of the balanced funds on our Recommended List over this offering.

Desjardins Environment Fund - This particular SRI offering invests in Canadian companies that have implemented "comprehensive environmental management programs" and that have a good environmental compliance record.

To be included in the portfolio, a company must be on the approved list that is determined by the Environmental Advisory Group, which is a committee of independent environmental experts from a variety of different disciplines. This group does not make investment decisions; rather they evaluate the environmental practices of a wide range of companies and determine whether the company can be included on the list to be evaluated from an investment standpoint.

The criteria that the committee uses include such things as the existence of a company's environmental management system which includes specific goals and targets, a company's transparency about its environmental information, a third party audit of a company's environmental management system, as well as any incidents, accidents, public complaints, fines and lawsuits. Companies are reviewed every two years.

Using a fundamentally driven, bottom up GARP approach, the portfolio manager then reviews the company based on investment criteria including the potential for higher than average revenue growth potential,

The result is a portfolio that doesn't look dramatically different from the broader market, which is heavily concentrated in financials, energy and materials. The portfolio is concentrated, holding 42 names with the top 10 making up more than half of the fund. Portfolio turnover has been high, averaging in the ballpark of 100% for the past five years.

The longer term performance has been strong on a relative basis, but the fund has struggled in 2010, 2011, and thus far in 2012. The cost is reasonable with an MER of 2.32%.

While this is not our favourite SRI fund in the Canadian equity space, it is not a bad offering. We would likely favour the **RBC Jantzi Canadian Equity Fund** over this one due to its lower cost, lower volatility and stronger historic performance record.

Westwood Emerging Markets Fund - In August 2012, Patricia Perez-Coutts and her team took over the management duties of this fund. At the same time, its name was changed from the **Omega Emerging Markets Fund** to the Westwood Emerging Markets Fund. This is the majority of the team that was responsible for the success with the **AGF Emerging Markets Fund**. They will be using the same process on this fund.

The process starts with an initial screen of the investible universe that looks for companies that meet various market cap, trading volume and economic profit screens. This narrows their search universe to between 300 and 400 names. They then conduct fundamental research on a number of investment candidates. They are looking for companies that have a management team that can generate positive economic profit, has a strong business franchise, above average cash flow generation, consistent earnings growth and the ability or the potential to pay dividends to investors.

The result is a well diversified portfolio that will hold approximately 70 names with the top ten making up around 20% of the fund. As of October 31, the portfolio is overweight consumer focused sectors and materials, and underweight financials, technology and telecom. The portfolio has been fully transitioned from the previous management team.

A drawback to this fund is that it is expensive with an MER of 2.92%. While this is high, it is still lower than what it was at AGF.

Looking at the new management team and their process, we expect that we will see a marked improvement in this fund over the old management team with an increase in overall return and lower levels of volatility.

While we ultimately believe that Mr. Perez-Coutts and her team can replicate the type of success they had at AGF, we remain cautious in the short term and will continue to monitor this fund closely. To date, the AGF fund has outpaced this fund, however three months of track record, particularly when the portfolio was in transition is not meaningful.

Steadyhand Equity Fund - It has often been said that if you want to beat the index, you can't look like the index. That is a philosophy that is shared by all the management teams who manage funds for Steadyhand, including Toronto based CGOV, managers of the Steadyhand Equity Fund. CGOV focuses on buying high quality companies run by great management teams that are trading at a significant discount to its intrinsic value.

When analyzing a company for inclusion in the portfolio, they look at three distinct areas; people, business and price. Within the people segment, they focus on management and look for excellent management teams who are ethical and operate as a partner in the business. They must also have a demonstrated history of being good capital allocators.

The next thing that they look at is the quality of the business. At this stage, they look for well capitalized, quality companies with a sustainable competitive advantage, and the ability to generate strong and growing cash flows.

The final stage considers the valuation of the company compared to its expected true worth. Their goal is to limit the downside while providing significant upside potential for investors.

The result is a concentrated portfolio of the 25 best companies they can find. It is Canada focused, but they are not afraid to go outside of Canada to gain exposure to high quality investment opportunities. As of September 30, 56% of the fund was invested in Canada, 27% in the U.S. and the balance around the world.

The performance, particularly the shorter term, has been decent. The longer term numbers are not as impressive with part of the reason being that the fund lagged the index in both 2009 and 2010. Volatility is slightly lower than both the category average and the index. The MER is a very reasonable 1.35%, well below the category average.

In reviewing the fund and the process used by the manager, we expect that it will outperform in flat or down markets, but will lag when markets rally sharply higher. Longer term, we expect that performance will be above average.

A drawback to this fund is that it carries a minimum investment of $10,000. Despite this, we believe that it can be a good core equity holding for most investors.

Sentry Diversified Total Return Fund - An interesting way think of this fund is that it is like a "hedge fund light". Along with having a go anywhere mandate, no restrictions on geography or market capitalization, it can also use derivatives and short selling as a way to hedge risk and gain incremental return.

In selection stocks, John Kim, who took over the lead manager job in August of 2011 after the departure of Andrew McCreath, uses a top down screening process combined with a bottom up stock selection process to build the portfolio.

The first step is to screen the investible universe of over 3,000 companies on several metrics including return on equity, return on invested capital, free cash flow, valuation and market cap. Once the list of companies has been narrowed, the team conducts a detailed, fundamental review of the company, its competitors and customers to validate the accuracy of the financial statements.

They will invest in any companies they feel to be fairly valued and will sell short any company that they feel to be overvalued. Macro factors and technical indicators are used to help set the fund's asset mix and sector exposure.

Cash is used tactically to help mitigate downside risk. If they feel markets are getting too "toppy", they will raise cash. They will also use options to help mitigate risk and use high yield fixed income and covered calls to enhance returns.

The portfolio is well diversified with the top ten making up around 20% of the fund. It is fairly balanced from a sector point of view, holding about a 15% exposure in industrials, energy, consumer discretionary and financials. The current asset mix is 27% in cash, 10% in fixed income with the rest invested in equities.

The high cash balance is not necessarily an indication of their outlook on the market, since they are required to maintain 150% cash cover for each short position. The manager is very active in employing their investment strategy. Portfolio turnover has averaged just under 200% since 2007.

They are currently favouring the mid cap space where they are finding companies that offer similar metrics as large cap stocks, but with higher growth prospects.

The biggest drawback to this fund is that it is expensive. It has an MER of 3.20%, which is high by any standard.

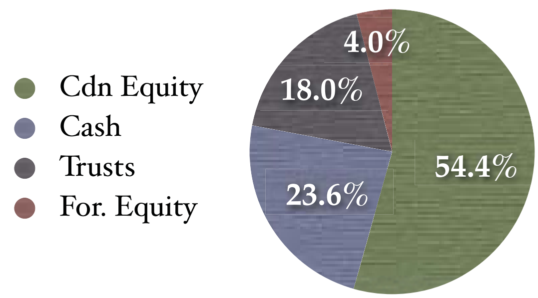
While we like the risk reward profile of this fund, it is likely not suitable as a core holding for most investors. The use of non traditional strategies leads us to believe that it is better used as a return enhancer as within an otherwise well diversified portfolio. We would treat this fund the same way we would treat other small / mid cap and sector offerings.

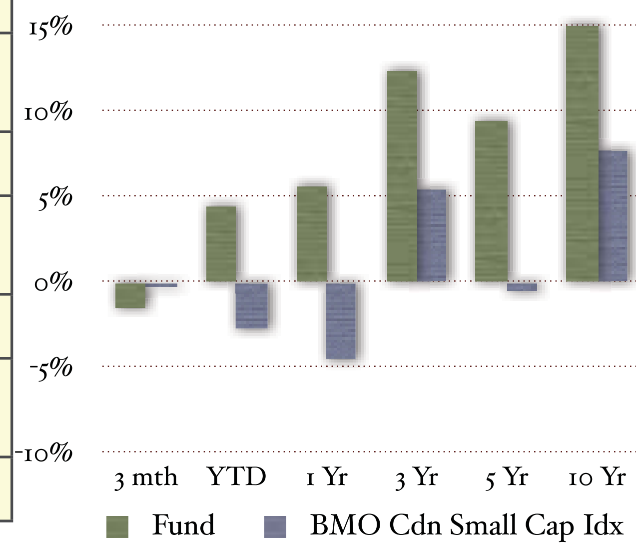
Is there a fund you would like us to review?? Please send any requests for fund reviews to feedback@paterson-associates.ca.

Dynamic Small Business Fund

Fund Company	Dynamic Funds
Fund Type	Canadian Small / Mid Cap Equity
Rating	$$$$
Style	Blend
Risk Level	Medium
Load Status	Optional
RRSP/RRIF Suitability	Good
TFSA Suitability	Good
Manager	Oscar Belaiche since August 2002 Jason Gibbs since March 2007
MER	2.75%
Fund Code	DYN 087 - Front End Units DYN 787 - DSC Units
Minimum Investment	$500

Asset Mix





ANALYSIS:

The fund invests in small cap equity securities including business trusts, royalty trusts and REITs. The focus is on companies with a market cap of less than $3.5 billion.

Using what is described as a "quality at a reasonable price" approach, Mr. Belaiche and co-manager Jason Gibbs look for best in class businesses with strong balance sheets, dominant positions in their respective industries and management teams that hold a significant stake in the business. Typically, these companies tend to exhibit low levels of volatility and generate growing levels of free cash flow.

It is a well diversified portfolio, currently holding about 80 names. The top ten holdings make up approximately 23% of the fund. To help control risk, the maximum exposure that any one company can have in the portfolio is set at 5% at the time of purchase. Because their process is entirely bottom up, they are benchmark agnostic and sector weights are largely the by-product of stock selection. The maximum exposure of any one sector is typically capped at 20% of the fund based on book value.

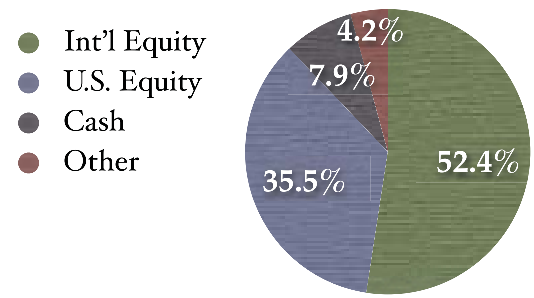
They sell a name when it becomes overvalued, and they are not afraid to hold cash balances when no suitable investment opportunities are available. As of October 31, the fund held just under 20% of the fund in cash. Portfolio turnover has been modest, averaging around 63% for the most recent five year period. Costs are a touch on the high side with an MER of 2.77%, which is slightly above the category average.

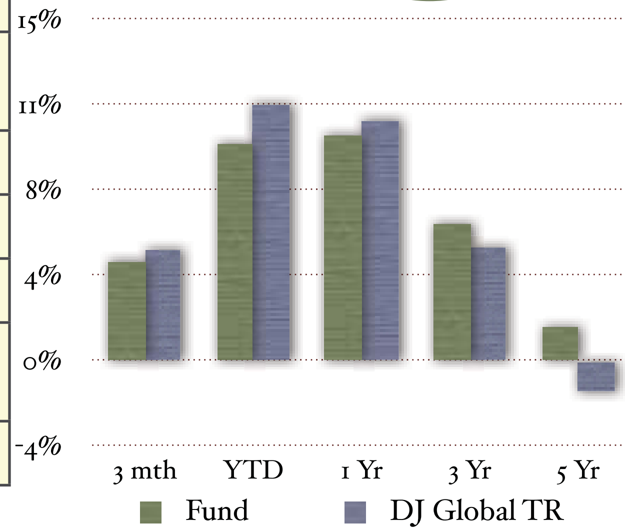
Performance has been strong posting positive returns every year since 2003, except for 2008. The fund is one of the least volatile small cap funds in Canada. It pays a modest monthly distribution of $0.014, which works out to an annualized yield of 1.6%. The underlying portfolio has a dividend yield of 5.3%, which indicates that this distribution is sustainable going forward.

AGF Global Dividend Fund

Fund Company	AGF Investments Inc.
Fund Type	Global Equity
Rating	$$$$
Style	Large Cap Value
Risk Level	Medium
Load Status	Optional
RRSP/RRIF Suitability	Good
TFSA Suitability	Good
Manager	Stephen Way since August 2007
MER	2.63%
Fund Code	AGF 4000 - Front End Units AGF 4001 - DSC Units
Minimum Investment	$500

Asset Mix





ANALYSIS:

Managed by the team of Stephen Way and Thierry Jannini, the AGF Global Dividend Fund incorporates a top down country allocation framework and a bottom up fundamental security selection process to find high quality, dividend paying stocks around the world. Like many of the AGF managed funds, this one uses the Economic Value Added (EVA) growth approach that looks for companies that have a demonstrated history of generating an excess return on their invested capital.

The portfolio is well diversified, holding more than 60 individual names. As of October 31, the top ten holdings made up nearly one-third of the fund. With its focus on dividends, it is not surprising to see that portfolio is very large cap focused with significant exposure to the financial sector.

Performance has been decent with a five year return of 1.9%, finishing in the top quartile and outpacing the Dow Jones Global Total Return Index which lost 1.2% during the same period. Its volatility has been well below both the index and the category average.

Like other dividend focused funds, it tends to do well in down or flat markets and lag in rising markets. This was evidenced in 2008, when it dropped 17% while the index was down more than 28% and again in 2011 when the fund was up 1.8% while the benchmark dropped by 5.7%. Not surprisingly, it lagged in the rising markets of 2009 and 2010.

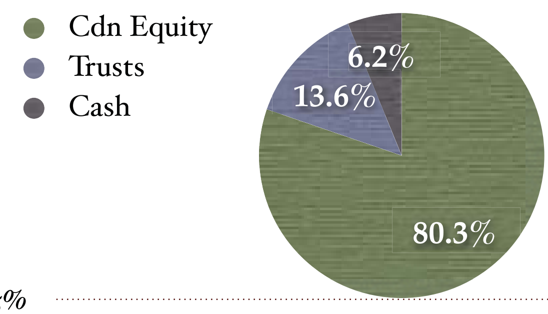
Our biggest concern with this fund is that the MER is slightly higher than the category average. This has the potential to drag returns over the long term.

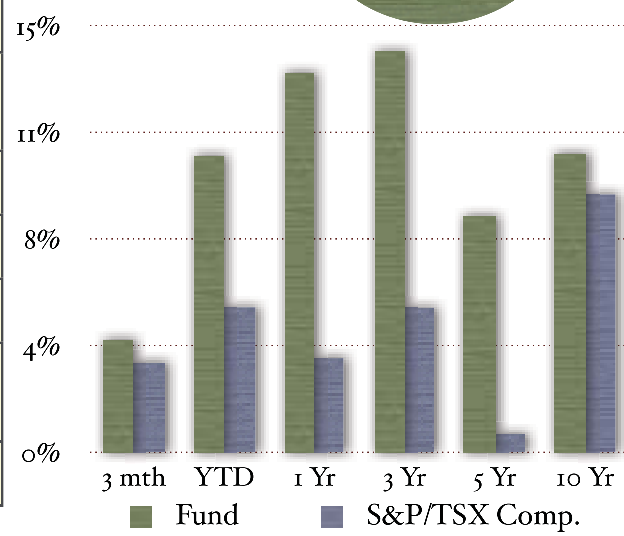
Overall, we like this fund. In the short term, it could experience a sell off as investors dump dividend paying stocks in the U.S. in favour of more growth oriented names on fears that the dividend tax rates may triple as a result of the fiscal cliff negotiations. Should this happen, we believe that it would present a great buying opportunity for investors with a long term time horizon.

Mackenzie Saxon Dividend Income Fund

Fund Company	Mackenzie Financial Corp.
Fund Type	Cdn Dividend & Income Equity
Rating	$$$$
Style	Value
Risk Level	Medium High
Load Status	Optional
RRSP/RRIF Suitability	Good
TFSA Suitability	Good
Manager	Hovig Moushian since Aug 2001
MER	2.36%
Fund Code	MFC 2945 - Front End Units MGC 3665 - DSC Units
Minimum Investment	$500

Asset Mix





ANALYSIS:

This former income trust fund is managed using a very consistent style that is a pure bottom up, statistically grounded, and value oriented when evaluating opportunities. Like all value managers, they look for companies that are trading for less than their estimate of fair market value. In addition, any investment candidate must have a healthy balance sheet and pay a regular distribution.

It is a well diversified portfolio that holds about 55 names with the top ten making up approximately 26% of the fund. It has about one-third of the fund invested in large cap stocks with two-thirds invested in small and mid cap companies. Not surprisingly, given its emphasis on dividends, it is heavily weighted towards financials and energy, which combined make up about 53% of the fund. Typically the manager likes to be fully invested, but as of October 31, cash was sitting at just under 10%.

Assets in the fund are $630 million, which will still allow the team to invest meaningfully in the mid cap space. If the size of the fund continues to rise, they may be forced to take more positions in larger cap names.

The A Series of the fund pays a monthly distribution of $0.031 per month, which works out to an annualized yield of approximately 2.1% at current prices. According to Morningstar, the dividend yield on the underlying portfolio is 4.8%, which indicates that this level of distribution is sustainable going forward without eroding invested capital. Costs are reasonable with a 1.59% MER for the now closed Investor Series and 2.36% for the currently available A series.

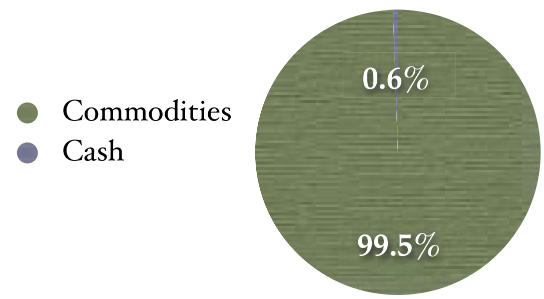
After losing 28% in 2008, the fund has roared back posting first quartile returns since. The five year return of the fund is 7.7% while the S&P/TSX Composite Index lost 0.3% during the same period. Volatility has been lower than the index, but higher than the category average.

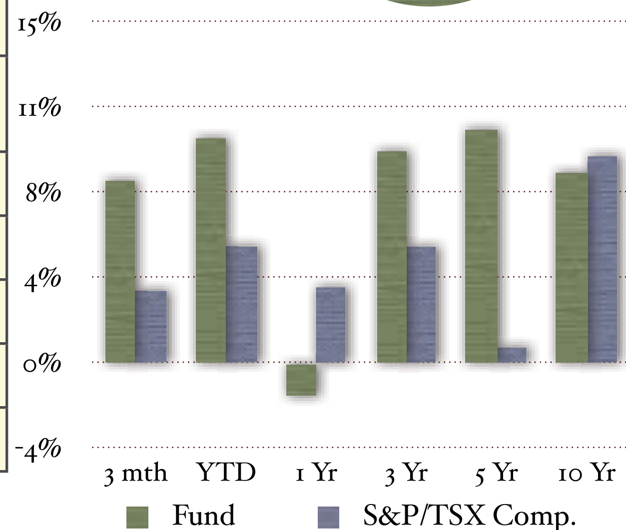
Considering the above, we expect that this fund will continue to deliver strong risk adjusted returns to investors, however we don't expect that that double digit returns that it has delivered in the past are sustainable going forward.

BMG Bullion Fund

Fund Company	Bullion Management Services
Fund Type	Miscellaneous Commodity
Rating	$$$
Style	N/A
Risk Level	Medium
Load Status	Front End
RRSP/RRIF Suitability	Fair
TFSA Suitability	Fair
Manager	BMG Management Team
MER	3.05%
Fund Code	BMG 100 - Front End Units
Minimum Investment	$1,000

Asset Mix





ANALYSIS:

The **BMG Bullion Fund** is the granddaddy of all the bullion funds in Canada, having been launched more than four years earlier than any of its competitors. It was the first fund that allowed for small retail investors to invest directly in the physical gold and precious metals rather than in the stocks of companies involved in the precious metals production.

The approach of the fund is very simple – it invests in equal amounts of physical gold, silver and platinum bullion. It does not invest in any derivatives, futures contracts, options or certificates. The fund also does not rebalance its holdings or attempt to time the market. The fund does not hedge currency, but a U.S. dollar denominated version is available to investors. The bullion is held in allocated, insured storage in the vaults of ScotiaMocatta.

This is not a pure gold play because of its exposure to silver and platinum. Platinum, with its use in the automobile industry, hasn't performed as well as gold and silver since the financial crisis, which has dragged the overall performance. The movement in the value of the currency has also hurt performance. Since gold is denominated in U.S. dollars, any strengthening in the Canadian dollar hurts.

Another drawback to this fund is that it is expensive. It has an MER of 3.05%, which is higher than many of its peers. For example, the **Sprott Gold Bullion Fund** has an MER of 1.10% and the **Mackenzie Universal Gold Bullion Fund** has an MER of 2.59%. However, both of those funds have the option of investing in gold certificates, which aren't as safe as the physical bullion.

There are many reasons to want to invest in physical bullion, namely that it acts as a great hedge against rising inflation, and has also been a safe haven in periods of high levels of uncertainty.

For those looking for diversified exposure to precious metals, this is really the only game in town. If you're looking for more specialized precious metals holdings, then there are other lower cost options available such as the two funds mentioned above.