
Top Funds Report

2013 Off to a Strong Start

First quarter sees global markets outpace Canada as materials continue to drag

The first quarter of 2013 rewarded investors, as global equity markets surged higher. The U.S. led the way with the S&P 500 rising by nearly 13%, finishing at a record high. International equities were also strong, as the MSCI EAFE Index and MSCI World Index rose by 7.4% and 10.1% respectively. Were it not for the rise in the Canadian dollar, these gains would have been even higher.

At home, the S&P/TSX Composite lagged its global peers, gaining a modest 3.3%. Much of this underperformance can be attributed to the materials sector, which has continued to disappoint, negatively affecting the broader market. With concerns over a slow economy in China and the European recession continuing to weigh on commodity demand, the situation is not expected to change in the near term. Technology, healthcare, industrials and consumer focused sectors were the contributors to the performance.

More turmoil erupted in Europe after a proposed bailout plan for Cyprus called for a tax on all bank accounts in the tiny country. Authorities feared a run on the banks and ordered them closed for several days while the plan was considered. Uncertainty spread across the region as IMF and ECB officials commented that this deal could prove to be the template of future bailout programs. Fortunately, cooler heads prevailed, and it was not implemented, helping restore some level of confidence to the region.

Looking ahead, we remain cautiously optimistic. With interest rates low, and inflation well contained, it is our opinion that the environment is more conducive for equities than fixed income. We are

not suggesting that one abandon fixed income completely in favour of equities. We still believe in using fixed income in a well diversified portfolio as a way to help manage overall volatility. Instead, we suggest investors consider adding to their equity exposure as a way to help generate higher returns going forward.

Within the equity space, we continue to favour North America, specifically the U.S. With a modest recovery firmly entrenched, the economic fundamentals continue to improve, which should provide a favourable environment for equities.

We are still positive on Canadian equities, just less so than their U.S. brethren. The main reason for this is that with Europe mired in recession and China still struggling to recover, we expect pressures to remain on commodity prices. This will continue to drag the broader Canadian indices. Within Canada, we continue to like the yield plays, as we believe that investors' seemingly insatiable demand for yield will continue to provide some level of support for equity prices. Still, one must be cautious on valuation and be careful not to overpay.

We also see continued opportunities within Europe and the emerging markets for those with a higher tolerance for risk. Those with modest risk tolerances are better to get this exposure through a high quality, well diversified global fund, while those with higher risk appetites may want to invest in funds that are specific to the regions.

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

Funds You Asked For

This month, we take a look at offerings from PH&N, Scotia, CI, BMO and more...

PH&N Balanced Fund - On the surface, this is a pretty standard balanced fund that targets an asset mix of 60% equity and 40% fixed income. By far, the most appealing aspect of this fund is that the bond sleeve is managed by one of the top fixed income shops in the country. Despite this promise, results have largely disappointed. It has continually finished in the middle of the pack, failing to differentiate itself from its peer group.

Looking at the current positioning, it is fairly neutral to its target asset mix, holding 6.5% in cash, 33.5% in bonds, 35% in Canadian equity and 25% in global equities. Equity exposure is achieved by holding other PH&N managed funds, namely the **PH&N Canadian Equity Fund**, **PH&N U.S. Equity**, and the **PH&N Overseas Equity Pension Trust**. The portfolio managers look for companies with high quality management, industry leadership, strong earnings growth, strong relative profitability, and a sound financial position that are trading at a reasonable valuation.

The fixed income portion is more conservatively positioned than the **PH&N Bond Fund**, with a higher weighting in short term bonds and lower exposure to Government and corporate bonds. The yield and duration are comparable.

The fund's shorter term performance has been strong with a one year return of 7.1%, outpacing the 4.4% gain of the benchmark and putting the fund firmly in the top quartile. Longer term, the numbers have been less impressive, underperforming the benchmark are on three, five and ten year basis. We believe that much of the underperformance can be attributed to the U.S. and International equity holdings. These offerings from PH&N aren't their strongest.

The cost is very reasonable, with an MER of 0.91% for the D-Series, which is one of the lowest on the street. However, if you invest in one of the other series of units, the MER is just above 2%, which while lower than the category average, is

still high enough to further erode the competitiveness of this offering.

While this is a decent enough fund, we believe that there are better options available for investors. We also believe that investors can do a better job building their own portfolio using the **PH&N Total Return Bond**, **PH&N Canadian Equity**, and U.S. and global offerings from other shops such as Beutel Goodman or Mawer.

Scotia Canadian Tactical Asset Allocation Fund - Using an active management process, Larry Lunn, of Connor Clark & Lunn Investment Management, sets the asset mix of this fund based on his firm's expectation of the markets. They can be quite flexible in their allocations, with equities and fixed income being able to range between a low of 20% to a maximum of 80%. The neutral asset mix is targeted at 35% bonds, 45% Canadian equity and 20% global equity.

Looking at the current positioning, they are significantly underweight fixed income, which sits at 21%. Further, corporate bonds are the focus for their yield advantage, which will help to improve returns while rates remain flat, and should provide better downside protection when rates do begin to move higher.

The portfolio management process is very active, with turnover averaging more than 200% in the past two years. It is very diversified, holding more than 600 individual names, while the top ten make up just under a quarter of the fund.

Performance has been approximately in line with a balanced benchmark of 60% Canadian equity and 40% bonds. Volatility is also in line with the benchmark and the peer group. Despite this, the fund's downside protection leaves a bit to be desired. In 2008, it dropped by more than 20%, faring much worse than the benchmark. It rebounded nicely in 2009 and 2010, earning back those losses and then some.

Considering the above, we believe that this fund will continue to provide investors with benchmark like returns with benchmark like risk. We don't expect that it will give investors any surprises, either to the upside or downside. Still, even with the reasonable 2.08% MER, we believe that there are better options available that will provide better risk adjusted returns.

BonaVista Global Balanced Fund - With a name like BonaVista Global Balanced, one would expect a fund with a go anywhere mandate that is well diversified around the globe. Unfortunately, one would be wrong. In reality, this is a Canadian focused balanced fund with a neutral asset mix of 45% Canadian bonds, 35% Canadian equity and 20% global equity. Currently, the fund is overweight equities, with a 30% weighting to Canadian bonds, 40% Canadian Equity and 25% global equity, with a 5% cash weighting. Considering the manager's current outlook, they expect that an overweight position in equities will be maintained for the near to medium term.

The managers use a value driven philosophy for both the equity and fixed income portions of the fund. They believe that superior long term investment returns are the result of buying high quality securities at attractive prices, and having the patience to wait until the value is recognized by the market. Asset mix is actively monitored based on expectations and any changes are typically made in a fairly gradual manner.

The fund's fixed income exposure looks very similar to the DEX Universe in terms of asset mix, credit quality, duration, and yield. It is conservatively managed and is designed to help reduce the risk of the overall portfolio.

The equity sleeve is managed using a fundamentally driven, bottom up, relative value style. Fundamental analysis helps them determine the company's internal growth rate, which is a key factor in determining its intrinsic value. Once they have this estimate, they can compare the value of the company compared to the market and its peers.

They tend to favour companies that are in a strong leadership position or have a sustainable

competitive advantage, a demonstrated history of profitability, and are in a very sound financial position. There must also be opportunities for continued growth and a strong management team in place.

The portfolio is well diversified, holding more than 160 positions, with the top ten making up just under a quarter of the fund.

Shorter term performance has been strong, gaining 8.1% for the year ending February 28, handily outpacing the benchmark. This can be attributed to the higher equity holdings, and particularly the exposure to global equities, which have been strong of late. Longer term numbers are in line with the benchmark. Volatility has been comparable to the category average.

Considering the above, it is our opinion that this is a solid, but unremarkable fund. It is unlikely to surprise you either on the upside or the downside. If you buy it direct from PH&N, it is a good deal, particularly with the MER coming in at a very low 1.33%. If you must buy the other series, the MER is much higher at 2.46%, which erodes the attractiveness of the fund considerably.

CI Signature Canadian Resource Fund - With uncertainty over China and continued economic woes in Europe weighing on commodities, resource funds have struggled of late. This fund is no exception, losing 9.1% for the year ending February 28. While this is disappointing, it managed to outpace the Fundata Natural Resources Index, which was down more than 14%.

Manager Scott Vali and the Signature Team focus predominantly on large cap resource companies located in Canada and around the world. The investment process uses a top down macro analysis which helps determine the sector and commodity exposure within the fund. They then undertake a bottom up stock selection process that looks for companies with strong fundamentals and the ability to deliver strong cash flows for investors. They are not afraid to use cash tactically during periods of elevated volatility.

Given the more conservative nature of this fund, it has had periods where it has lagged the benchmark, most notably in 2010 when the fund gained 15.4%, while the index was up by nearly 23%. Over the long term, the fund has consistently ranked in the upper half of the category.

The cost of the fund is reasonable, with an MER of 2.41%, which is approximately 20 basis points below the category median.

The fund is currently invested 51% in Canadian equities, 27% in U.S. equities with 11% invested in the European Union. Cash is sitting at 7%. It has 58% invested in energy, 32% in materials, with the balance in cash and other sectors.

Despite a recent downgrade that was based more on the resources category as a whole, this fund remains one of our favourites largely because of the manager's focus on managing risk. With continued uncertainty expected in the sector, risk management will be of paramount importance going forward. This is not the flashiest fund in the category, but in our opinion is a good one for long term focused investors seeking exposure to the resource sector.

BMO Global Dividend Class - In September 2012, a new management team headed up by Sri Iyer of Guardian Capital took over the reins of the fund. The dividend focused process that Sri and his team use is referred to as "GPS", which stands for Growth, Payout and Sustainability.

Growth refers to the growth in the dividend, which studies have shown over time, are one of the biggest components of total return for an investor over time. Payout refers to not only the amount of a company's earnings that are paid out in dividends, but also the quality of that payout. Finally, Sustainability refers to a company's ability to continue to not only pay, but grow their dividends over time.

The process used is very quantitative in nature and considers a number of metrics that focus on a company's growth, efficiency, credit risk, valuation, payout and valuation. Stocks are continually rated

and ranked on these factors with the top ranked companies representing the buy candidates while the lower ranked companies are the sell candidates.

A typical company that is included in the fund will often offer a yield advantage of 1%-2% over the yield of the index. They look for stocks across all industry sectors to actively position the portfolio through all market cycles. As a result, the portfolio turnover is expected to be very high.

Since taking over, the fund has gained 7.8%, which has lagged the 13.0% gain in the MSCI World Index. Guardian has been running this mandate in an institutional version where the longer term returns have been strong. Adjusting the fund for the impact of management fees, performance over a three and five year period was in the same ballpark as the MSCI World, with less volatility.

Investors can also access this mandate through an actively managed ETF offered through Horizons, the **Horizons Active Global Dividend Fund (TSX: HAZ)**.

Longer term, we expect that the performance of the fund will improve on a relative basis and expect that over time it will deliver index like returns with lower volatility.

This isn't a fund that will shoot the lights out, but it also is not likely to hurt you in periods of higher than normal market volatility. For example, the institutional version of this fund, adjusted for fees was down 20% in 2008 while the MSCI World lost 26.6%. In 2011 the MSCI World was down by 2.9%, we estimate the fund would have gained 3.3% when adjusted for fees.

One drawback to the fund is that it is expensive, with an MER of 2.64%, which is in the upper half of the category. Despite that higher cost, we see this as a good core global equity holding for most investors.

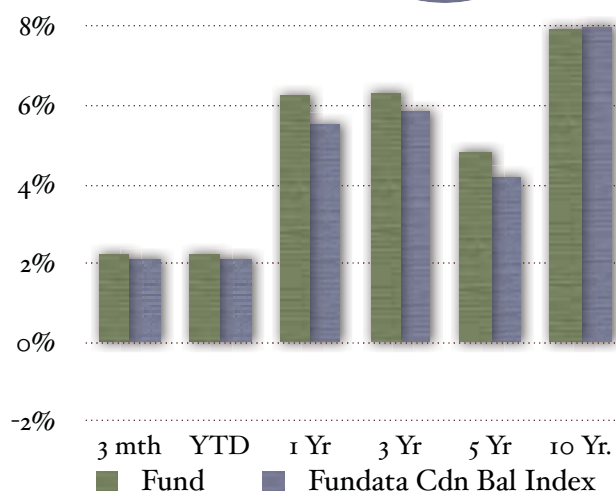
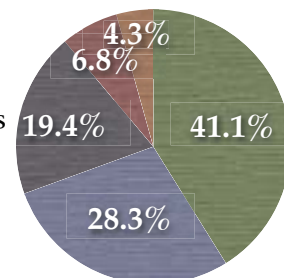
Is there a fund you would like us to review?? Please send any requests for fund reviews to feedback@paterson-associates.ca.

RBC Monthly Income Fund

Fund Company	RBC Global Asset Management
Fund Type	Canadian Neutral Balanced
Rating	B
Style	Blend
Risk Level	Medium
Load Status	No Load / Optional
RRSP/RRIF Suitability	Not Available
TFSA Suitability	Not Available
Manager	Jennifer McClelland since Apr 07 Suzanne Gaynor since March 08
MER	1.20%
Fund Code	RBF 448 - No Load Units
Minimum Investment	\$500

Asset Mix

- Cdn Equity
- Cdn Gov. Bonds
- Cdn Corp. Bonds
- Cash
- Other



ANALYSIS: Despite its hulking size, this fund continues to reward investors with steady, stable performance. Despite a blip in 2009 when the fund finished in the third quartile, it has consistently outpace the majority of its peer group. Even during the credit crisis of 2007 – 2009, the fund dropped 19%, while the benchmark fell by more than 28%.

It is a conservatively managed balanced fund with a target asset mix of 55% fixed income, 40% Canadian equity and 5% cash. The asset mix decisions are made by the RBC Investment Policy Committee, while the individual security selection calls are made by the lead managers; Jennifer McClelland and Suzanne Gaynor.

As of February 28, it held 49% fixed income, 45% in equities and 6% in cash. Even with the slight overweight in equities, the fund is positioned somewhat defensively. Within the fixed income sleeve, the focus is on corporate and provincial bonds which will help provide the fund with a yield advantage.

Within the equity component, the focus is on high quality, dividend paying large caps and REITs. Not

surprisingly, it is heavily weighted towards financials. Given the conservative nature of this fund, combined with its size, most changes to its asset mix occur at a very deliberate pace. In fact, there has been only a modest change in the asset mix of the fund from when we last reviewed the fund in December 2011.

It pays a monthly distribution of \$0.0425 per month, which works out to an annualized yield of approximately 3.0%. This appears to be roughly in line with our estimation of the yield generated by the underlying portfolio. Still, there is a possibility that there may be slight capital erosion if the managers are unable to deliver investment return of more than the required yield and the fund's MER.

The Fund is our top pick for investors with a medium risk tolerance who are seeking a mix of capital growth and a modest income distribution from their investment.

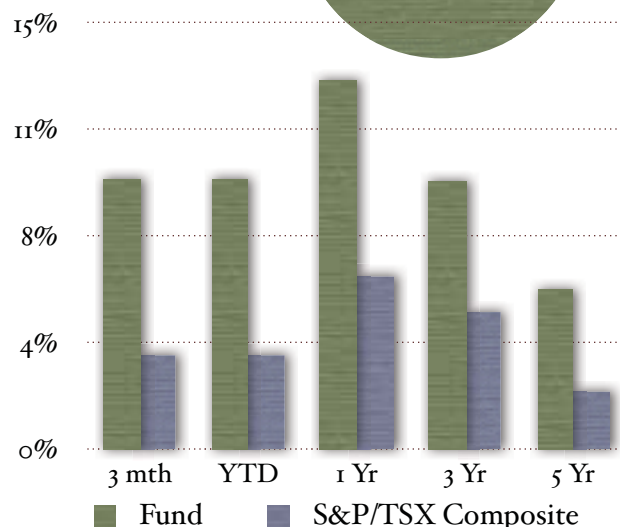
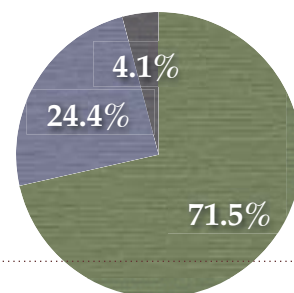
The Fund is not available in registered plans such as RRSPs, RRIFs, or TFSAs.

Beutel Goodman Canadian Dividend Fund

Asset Mix

Fund Company	Beutel Goodman Company Ltd.
Fund Type	Cdn Dividend & Income Equity
Rating	B
Style	Blend
Risk Level	Medium
Load Status	Front End
RRSP/RRIF Suitability	Excellent
TFSA Suitability	Excellent
Manager	Stephen Arpin since Nov. 2005 Mark Thomson since May 2007
MER	1.50%
Fund Code	BTG 875 - Front End Units
Minimum Investment	\$5,000

- Canadian Equity
- U.S. Equities
- Int'l Equities



ANALYSIS: For investors looking for a well managed, conservative portfolio of blue chip companies, this fund is definitely one worth considering. The team at Beutel Goodman uses a disciplined value driven approach that emphasizes capital preservation and a focus on delivering absolute returns while managing risk. Their goal is to balance dividend income and capital growth.

The result is a concentrated portfolio of high quality common stocks, preferred shares and income trusts. It will typically hold in the neighbourhood of 35 holdings, with the top ten representing just under half of the portfolio.

With its emphasis on capital preservation and yield, the fund has significant exposure to financial and consumer focused names, while holds only modest exposure to energy and materials. They remain cautious on resources because of the continued uncertainty in China and the ongoing troubles in Europe. The top ten is filled with a wide range of household names including most of the big banks, Rogers, and Manulife.

Looking at the underlying portfolio metrics, it offers a yield that is higher than the S&P/TSX Composite Index. True to its value philosophy, the portfolio exhibits a lower Price to Earnings Ratio and a lower Price to Cash Flow ratio than the index.

Their approach is a patient one, with portfolio turnover for the past year coming in at 25%. Costs are reasonable with an MER of 1.50%.

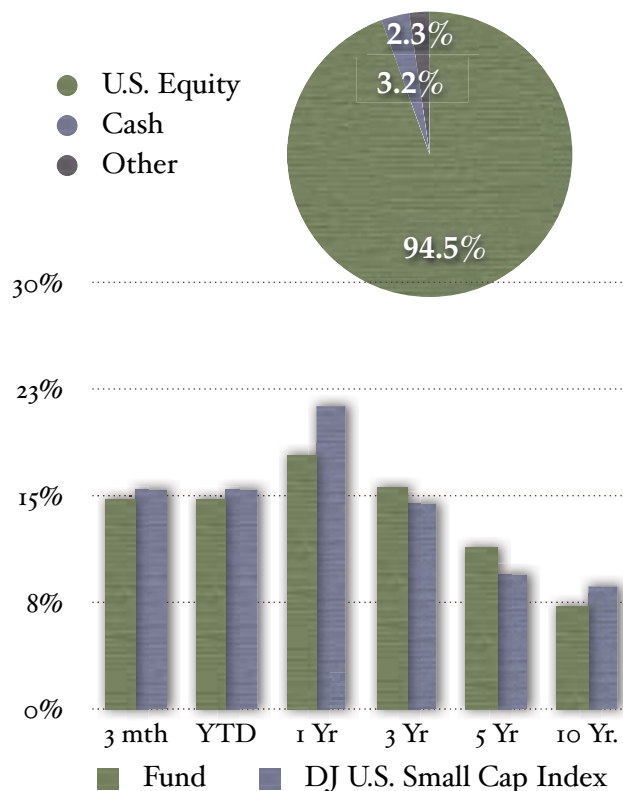
Performance has been decent, boasting an annualized three year return of 10.4%, compared to the 6.2% gain in the S&P/TSX Composite. It also offers much better downside protection than the index. For example, in 2008 it lost 20.6% while the index was down 33%. In 2011 the benchmark was down by 8.7% while the fund was up 1.8%.

Despite its likelihood to lag in rising markets, we believe that this is a great core holding for most investors. Over the long term, it is our expectation that investors will be rewarded with strong risk adjusted performance.

TD U.S. Small Cap Fund

Fund Company	TD Mutual Funds
Fund Type	U.S. Small / Mid Cap Equity
Rating	A
Style	Growth
Risk Level	Medium High
Load Status	No Load / Optional
RRSP/RRIF Suitability	Good
TFSA Suitability	Good
Manager	Greg McCrickard since Nov. 07 John Wagner since Jan 2006
MER	2.56%
Fund Code	TDB 653 - No Load Units TDB 827 - Front End Units
Minimum Investment	\$500

Asset Mix



ANALYSIS: Supported by one of the largest research teams in the industry, managers Gregory McCrickard and John Wagner of T. Rowe Price scour the U.S. looking for proven small and mid sized businesses that are trading at reasonable valuations. When evaluating a company, they consider a number of factors including quality of management, business strategy, and ownership by management and other insiders. In addition, they put each company through a rigorous fundamental review and look for solid financial characteristics such as low debt levels, access to capital and a strong financial outlook. Companies must be operating in what they consider to be a growth industry, and there must be catalysts for growth in place.

The portfolio is very well diversified, holding more than 300 individual positions. The top ten represent just under 12% of the fund. From a sector perspective, it is fairly evenly balanced between industrials, financials and technology, which combined make up slightly less than 60% of the fund. It has very little

exposure to energy and materials. The investment process used is fairly patient, with annual portfolio turnover averaging 30% in the past five years.

Performance has been very strong, gaining 11.9% for the five years ending February 28, handily outpacing the Dow Jones U.S. Small Cap Index and the majority of its peer group. Longer term, it has outpaced its peer group, but failed to keep pace with the index. Costs are a touch on the high side with an MER of 2.56%.

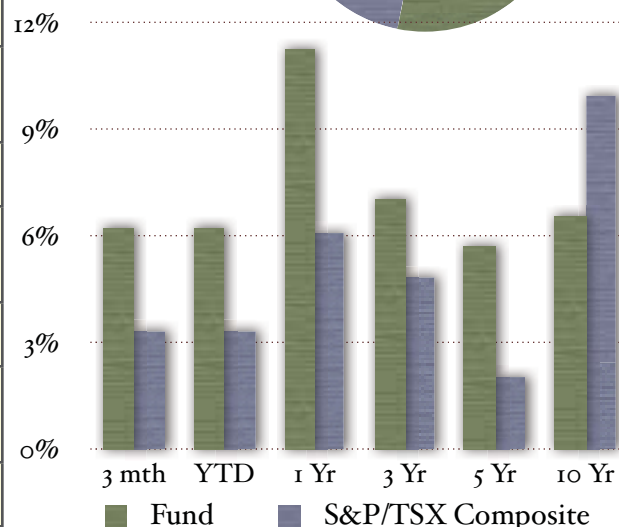
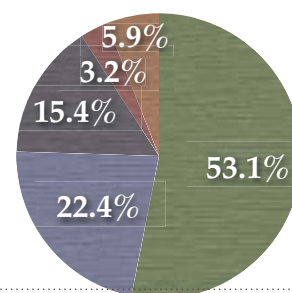
While we like the fund, the process and the management team behind it, we would be reluctant to add significant small cap exposure to any portfolio at the moment. Valuations compared to their large cap counterparts appear to be a bit rich at the moment. Instead, we would likely hold off until there is a more favourable risk reward profile within the category. However, for those who need U.S. focused small cap exposure in their portfolios and have a long term time horizon, this is definitely a fund that should be considered.

CI Signature Dividend Fund

Fund Company	CI Investments Inc.
Fund Type	Cdn Dividend & Income Equity
Rating	B
Style	Blend
Risk Level	Medium
Load Status	Optional
RRSP/RRIF Suitability	Good
TFSA Suitability	Good
Manager	Signature Global Advisors since October 1999
MER	1.88%
Fund Code	CIG 610 - Front End Units CIG 810 - DSC Units
Minimum Investment	\$500

Asset Mix

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



ANALYSIS: With its flexible mandate, investing in a mix of preferred shares and high yielding common shares, it offers investors access to a well diversified, quality portfolio. While the focus is Canada, it can invest anywhere in the world, and as of February 28 held 42% outside of Canada.

It is very well diversified, holding nearly 200 positions, with the top ten making up just over 21% of the fund. Being a dividend focused mandate, financials, are the largest component of the fund. Telecom is also prevalent because of its yield profile, offering decent payouts and modest growth potential.

It is managed using a team approach that is based on very intensive, bottom up process that analyses the entire capital structure of a company. The managers are reasonably patient, with portfolio turnover averaging just over 50% in each of the past five years.

Returns, particularly on a risk adjusted basis have been strong. For the five years ending February 28, it posted an annualized compound return of 5.5%,

handily outpacing the 1.8% gain in the S&P/TSX Composite Index. Making this even more attractive is that this level of volatility has been markedly lower than both the index and the category average.

Not surprisingly, this risk/reward profile has resulted in strong downside protection. In 2008 it was down 23% compared with 33% for the index, while in 2011, it lost 0.9% while the index dropped by nearly 9%. A drawback is it tends to underperform in sharply rising markets, lagging both the index and peer group in 2009 and 2010.

It pays a monthly distribution of \$0.04 per unit, which works out to a yield of approximately 3.7%, which we believe to be sustainable.

Considering the above, combined with its very reasonable 1.88% MER, it is our opinion that this could be a very strong core offering for most investors. It offers a high quality management team and a disciplined process that we believe will allow for strong risk adjusted returns over the long term.