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WHAT'S NEW

♦ **Vanguard surpasses \$1 billion in Canada** – In just over the year and a half since their arrival in Canada, Vanguard Investments surpassed the billion dollar mark in their family of 11 low cost ETFs. To celebrate, the firm filed a preliminary prospectus that includes seven new exchange traded funds. New offerings include the **Vanguard FTSE Canadian All Cap Index ETF**, **Vanguard U.S. Dividend Appreciation Index ETF**, and a couple of foreign bond offerings.

♦ **CI's Harbour Funds to remove currency hedge** – In July, Harbour Advisors announced that they would be getting rid of the currency hedge on the **Harbour Global Equity** and **Harbour Global Growth & Income Portfolios**. Their reason for doing this was they believed this hedge made their funds appear to be riskier than many of their peers, most of which do not hedge currency exposure. In my opinion, with expectations of a weaker Canadian dollar in the near to medium term, this is a good move. Should the Canadian dollar weaken, removing the hedge will help to improve returns.

♦ **Mackenzie's fund reorganization continues** – As part of their massive reorganization of their fund lineup,

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MODEL PORTFOLIO REVIEW

By Dave Paterson, CFA

Despite recent volatility, portfolios hold up well

We all knew it was only a matter of time before interest rates started moving higher from their recent historic lows. Despite a lackluster economic recovery, there was only one direction for them to go, and that was higher. I just don't think anybody expected them to move as high as quickly as they did after U.S. Federal Reserve Chairman Ben Bernanke floated the idea that their massive bond buying program may be ending sooner than anticipated. In a late May speech, Mr. Bernanke stated that the program would come to an end once certain inflation and employment targets were met. These comments sent markets into a panic, pushing bond yields higher, and wreaking havoc in the equity markets.

Yet when you actually look at what was said, Mr. Bernanke was merely reinforcing what we already knew. Of course, by the time the markets realized this, the damage had already been done. The value of bonds and many equities in the interest sensitive sectors such as telecom, utilities and real estate were hit hard, experiencing significant drops in May and June. Unfortunately, our portfolios were not able to sidestep these markets, with our most conservative portfolios bearing most of the brunt, given their heavy exposure to fixed income.

The question now becomes whether to expect more turmoil, or will calmer heads prevail. Last week, I was at an industry conference in Boston, and the consensus was that bond markets have now priced in the start of the slowing of the bond buying program and are now looking to get a better sense of how quickly it will come to an end. Considering this, it is very unlikely we will see a repeat of the massive spike in yields that we've recently experienced. Instead, many expect that the bond markets will remain volatile with a lot of ups and downs until more certainty on the timing and magnitude of the tapering is gained. Until then, every statement, action and communication from the Federal Reserve will be fully analyzed for clues as to the timing and magnitude of the tapering.

Even once the bond buying slows, or even stops, it will still be a fairly long time before the central banks begin moving interest rates higher. The economic numbers, while mostly positive, simply do not support higher interest rates, without having a significant negative impact on the level of economic growth.

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For our portfolios, this means that we will have to become a bit more growth oriented in our positioning. No longer can we count on fixed income as a major return driver. While bonds used to be thought of as offering risk free return, they are now considered return free risk. We will have to take more meaningful positions in corporate bonds, high yield bonds, and of course equities if any level of return is to be earned.

With that as the backdrop, I have completed a very thorough review of the portfolios and have made some changes that I believe will strengthen their positioning going forward in this new environment.

As a refresher, let's do a quick review of the portfolios. They were originally created by Gordon Pape on January 1, 2009, with an initial value of \$25,000 each. I took over the oversight of them in January 2012. Starting in January of this year, I have been evaluating and adjusting the portfolios using my proprietary portfolio optimization model that is designed to provide the highest level of expected return for each level of risk accepted. These portfolios can be a helpful guide in assisting you in setting up your own portfolios.

When looking for investments to be included in the portfolios, I will review all mutual funds and ETFs that are available in Canada, except those that are only available to "sophisticated investors" through offering memorandum. The investment objectives of each portfolio are as follows:

The Ultra-Safe Portfolio: As the name suggests, this portfolio is designed for people who are looking to earn returns that are better than what you could earn in a GIC or money market fund, without taking on too much risk. There is still a chance of loss with this portfolio, but that risk is minimal.

The Non-Registered Defensive Portfolio: This portfolio is designed for those investors who are comfortable taking on a bit more risk than investors in the Ultra-Safe Portfolio. It is best suited for non-registered accounts where safety and income are the main priorities. It targets an average annual compound rate of return of between 4% and 6% with relatively low levels of risk.

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. The portfolio is designed to provide enough income to avoid dipping into capital for as long as possible, while shielding investors from heavy losses in market downturns. The target return is approximately 6% a year, considering both distributions and capital gains.

The Growth Portfolio: This is suitable for investors looking for higher returns over the long term and who are willing to accept more risk. We aim for a compound annual growth rate of 8% or more, but have outperformed of late, with an average annual return of more than 10% since inception. This target allows us to keep risk at reasonable levels. We avoid highly speculative funds.

Here are the latest results as of June 30:

ULTRA SAFE PORTFOLIO

Fund Name	Weight	6 Month Return	Value
PH&N Canadian Money Market Fund	10%	0.33%	\$3,015.64
PH&N Short Term Bond and Mortgage	25%	0.24%	\$7,532.33
TD Mortgage Fund	30%	0.06%	\$9,022.56
PH&N Total Return Bond	15%	-1.53%	\$4,439.59
iShares DEX All Corporate Bond Index	10%	-1.39%	\$2,963.94
RBC Monthly Income	10%	-0.19%	\$3,000.01
Totals	100%		\$29,974.06

PERFORMANCE TO DATE

Initial value (January 1, 2009)	\$25,000.00
Value at last review (December 31, 2012)	\$30,057.17
Current value (June 30, 2013)	\$29,974.06
Change since last review	-\$83.11
% change since last review	-0.28%
% change since inception (4 1/2 yrs)	19.90%
Annualized Compound Return since inception	4.11%

COMMENTS

Ironically it was the most conservative portfolio that suffered the biggest loss in the first half of the year. With 90% concentrated in fixed income and yields skyrocketing, it's not hard to see why that happened. The short term funds held up relatively well, while the more traditional, longer dated bond funds were responsible for the bulk of the losses.

CHANGES

While I believe that the worst is over in the near term for bonds, there is still the potential for more volatility on the horizon. To better position the portfolio, I have removed the **PH&N Total Return Bond Fund** as it has the highest sensitivity to interest rates. I have substituted the **Fidelity Monthly Income Fund** for the **RBC Monthly Income Fund**. I did this because I

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Model Portfolios - continued from page 2...

believe that the Fidelity offering is better positioned with higher exposure to corporate bonds, and more global exposure within the equity portion of the fund. Combined, these moves should slightly reduce the interest rate sensitivity of the fund, without substantially increasing the expected risk.

REVISED ULTRA SAFE PORTFOLIO

Fund Name	Weight
PH&N Canadian Money Market Fund	20%
PH&N Short Term Bond and Mortgage	25%
TD Mortgage Fund	20%
iShares DEX All Corporate Bond Index	20%
Fidelity Monthly Income	15%
Totals	100%

DEFENSIVE PORTFOLIO

Fund Name	Weight	6 Month Return	Value
PH&N Short Term Bond & Mortgage	10%	0.24%	\$3,291.80
TD Mortgage Fund	20%	0.06%	\$6,571.78
PH&N Total Return Bond Fund	20%	-1.53%	\$6,467.35
Steadyhand Income	20%	-0.37%	\$6,543.53
BMO Monthly Dividend Classic	10%	1.67%	\$3,338.76
RBC Monthly Income Fund	10%	-0.19%	\$3,277.68
Mackenzie Ivy Foreign Equity	10%	15.13%	\$3,780.77
Totals	100%		\$33,271.66

PERFORMANCE TO DATE

Initial value (January 1, 2009)	\$25,000.00
Value at last review (December 31, 2012)	\$32,839.17
Current value (June 30, 2013)	\$33,271.66
Change since last review	\$432.49
% change since last review	1.32%
% change since inception (4 1/2 yrs)	33.09%
Annualized Compound Return since inception	6.56%

COMMENTS

As the name suggests, this portfolio is defensively positioned, with only modest direct equity exposure. Last year, I added a modest 10% weighting in the **Mackenzie Ivy Foreign Equity Fund** to give it the opportunity to generate some level of capital gains, without taking on a lot of equity risk. That position has definitely paid off, with that fund responsible for all of the gains during the first half of the year.

CHANGES

I have made some minor tweaks to the portfolio to better position it for the current environment. The first change was to reduce the exposure to the **PH&N Total Return Bond Fund**. This was done because I believe it is the most interest rate sensitive of the holdings and with more volatility in the fixed income markets expected, it will continue to be a source of risk. Another change that I made was to replace the **RBC Monthly Income Fund** with the **Fidelity Monthly Income Fund**, which I believe to be better positioned for the current environment.

REVISED DEFENSIVE PORTFOLIO

Fund Name	Weight
PH&N Short Term Bond & Mortgage	30%
TD Mortgage Fund	10%
PH&N Total Return Bond Fund	10%
Steadyhand Income	15%
Fidelity Monthly Income	10%
BMO Monthly Dividend Classic	15%
Mackenzie Ivy Foreign Equity	10%
Totals	100%

RRSP PORTFOLIO

Fund Name	Weight	6 Month Return	Value
PH&N Short Term Bond and Mortgage	5%	0.24%	\$1,592.13
PH&N Total Return Bond	20%	-1.53%	\$6,256.05
Steadyhand Income Fund	20%	-0.37%	\$6,329.75
BMO High Yield US Corporate Bond	15%	-0.13%	\$4,758.75
Fidelity Canadian Large Cap Fund	15%	19.88%	\$5,712.21
BMO Guardian Monthly Dividend Classic	15%	1.67%	\$4,844.51
Mackenzie Ivy Foreign Equity	10%	15.13%	\$3,657.25
Totals	100%		\$33,150.64

PERFORMANCE TO DATE

Initial value (January 1, 2009)	\$25,000.00
Value at last review (December 31, 2012)	\$31,766.26
Current value (June 30, 2013)	\$33,150.64
Change since last review	\$1,384.37
% change since last review	4.36%
% change since inception (4 1/2 yrs)	32.60%
Annualized Compound Return since inception	6.47%

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Model Portfolios - continued from page 3...

COMMENTS

The portfolio gained another 4.4%, with the equity funds contributing all the gains. I still believe that the current positioning is a bit too conservative for the outlook and will be taking steps to gradually increase the expected return without adding a significant amount of risk.

CHANGES

To increase the expected return profile, I have made some minor adjustments. First, I equally weighted the **PH&N Total Return Bond Fund**, and the **iShares DEX All Corporate Bond Index**. This will give the portfolio a decided corporate bond focus which should help provide better downside protection should yields move against us. After a big run-up in the **Fidelity Canadian Large Cap Fund**, I am taking some profits and am bringing in the **Fidelity Monthly Income Fund**, which in addition to being a high quality fund, has a meaningful exposure to the fund. Finally, I have added some direct U.S. equity exposure through the **Beutel Goodman American Equity Fund**. Even with these changes, total equity exposure is less than 50% of assets, which is still fairly conservative.

REVISED RRSP PORTFOLIO

Fund Name	Weight
PH&N Total Return Bond	15%
Ishares DEX All Corporate Bond ETF	15%
Steadyhand Income Fund	15%
BMO Monthly Dividend Fund	15%
Fidelity Monthly Income Fund	10%
Fidelity Canadian Large Cap	5%
Beutel Goodman American Equity	10%
Mackenzie Ivy Foreign Equity	15%
Totals	100%

RRIF PORTFOLIO

Fund Name	Weight	6 Month Return	Value	Yield
PH&N Short Term Bond and Mortgage	20%	0.24%	\$6,830.27	2.24%
PH&N Total Return Bond	20%	-1.53%	\$6,709.67	3.35%
iShares DEX All Corporate Bond Index	10%	-1.39%	\$3,359.60	3.81%
BMO High Yield US Corporate Bond	15%	-0.13%	\$5,103.80	6.93%
BMO Monthly Dividend Classic	15%	1.67%	\$5,195.79	3.84%
Fidelity Monthly Income	5%	5.27%	\$1,793.25	1.37%
CI Signature High Income Fund	15%	1.94%	\$5,209.58	4.66%
Totals	100%		\$34,201.97	3.88%

PERFORMANCE TO DATE

Initial value (January 1, 2009)	\$25,000.00
Value at last review (December 31, 2012)	\$34,069.61
Current value (June 30, 2013)	\$34,201.97
Change since last review	\$132.36
% change since last review	0.39%
% change since inception (4 1/2 yrs)	36.28%
Annualized Compound Return since inception	7.12%

COMMENTS

Performance was very disappointing, gaining a mere 30 basis points in the first half of the year. The reason for the dismal performance can be attributed to the fact that the portfolio is very heavily weighted towards fixed income and interest sensitive equities. In a rising rate environment, the potential for losses is heightened.

CHANGES

In reviewing the expected risk reward profile of the portfolio, I found that the expected return had fallen to well below our 6% target. In an effort to bring the expected total return closer to our target, I had to take on some additional equity risk. I have added some exposure to a couple of pure equity funds; **Mackenzie Ivy Foreign Equity**, and a modest position in **Fidelity Canadian Large Cap**. I have also brought in some higher yielding income funds, specifically the **Bissett Canadian High Dividend Fund**. These changes bring the overall expected return much closer to the target, without significantly increasing the risk. The expected distribution yield drops to just under 3%.

REVISED RRIF PORTFOLIO

Fund Name	Weight	Yield
PH&N Total Return Bond	20%	3.35%
iShares DEX All Corporate Bond Index	15%	3.81%
BMO Monthly Dividend Classic	20%	3.84%
Fidelity Monthly Income	10%	1.37%
Bissett Canadian High Dividend	10%	3.57%
CI Signature High Income Fund	10%	4.66%
Fidelity Canadian Large Cap Fund	5%	0.00%
Mackenzie Ivy Foreign Equity	10%	0.00%
Totals	100%	2.97%

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Model Portfolios - continued from page 4...

GROWTH PORTFOLIO

Fund Name	Weight	6 Month Return	Value
PH&N Total Return Bond	10%	-1.53%	\$3,431.25
Fidelity Canadian Large Cap	20%	19.88%	\$8,354.58
Mawer Canadian Equity	15%	7.81%	\$5,635.06
Beutel Goodman Small Cap	10%	1.93%	\$3,551.81
Beutel Goodman American Equity	10%	23.71%	\$4,310.75
Mackenzie Ivy Foreign Equity	20%	15.13%	\$8,023.55
Mawer International Equity	15%	7.81%	\$5,635.06
Totals	100%		\$38,942.05

PERFORMANCE TO DATE

Initial value (January 1, 2009)	\$25,000.00
Value at last review (December 31, 2012)	\$34,845.60
Current value (June 30, 2013)	\$38,942.05
Change since last review	\$4,096.45
% change since last review	11.76%
% change since inception (4 1/2 yrs)	55.77%
Annualized Compound Return since inception	10.35%

COMMENTS

Performance is well ahead of our target return, gaining nearly 12% in the first half of the year. The main contributors to the performance were the **Fidelity Canadian Large Cap**, **Mackenzie Ivy Foreign Equity** and **Beutel Goodman American Equity**. With economic growth expected to moderate in Canada, and continuing uncertainty over the slowing of the Federal Reserve's bond buying program, I expect that we will likely see more modest returns in the second half of the year.

CHANGES

Even though I have been quite happy with the performance of the portfolio, I am making a few minor changes that I believe will make the portfolio more attractive from a risk reward standpoint. The first of these changes is to add the **iShares DEX All Corporate Bond Index ETF** in place of the **PH&N Total Return Bond Fund**. I believe that corporate bonds are better positioned than governments going forward, and the PH&N offering has less exposure to corporates. Second, I will be selling the **Mawer International Equity** position, and reallocating it among the current equity holdings. By doing this, I am reducing some of the overlap within the holdings of the portfolio, helping to improve overall diversification.

REVISED GROWTH PORTFOLIO

Fund Name	Weight
iShares DEX All Corporate Bond Index	10%
Fidelity Canadian Large Cap	20%
Mawer Canadian Equity	20%
Beutel Goodman Small Cap	10%
Beutel Goodman American Equity	20%
Mackenzie Ivy Foreign Equity	20%
Totals	100%

BUILDING WEALTH Mutual Funds / ETFs Update

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What's New - continued from page 1...

Mackenzie had proposed combining a number of existing funds. The result of these mergers would be a more streamlined, and ultimately better understood fund lineup. After putting it to a vote, unitholders approved the mergers. In my opinion, the most significant mergers will see the elimination of their science and technology, real estate, and healthcare offerings.

RECOMMENDED LIST REVIEW

By Dave Paterson, CFA

Jump in yields drags bonds and interest sensitive equities. No major changes made

Global equity markets were higher in the first half of the year, driven by improving economic fundamentals and improving consumer confidence. The S&P 500 gained nearly 14%, while the MSCI gained 4.5% in U.S. dollar terms. For Canadian investors, these gains were even higher, with the Canadian dollar dropping from \$1.0051 at the end of the year to \$0.9513 at June 30.

Canadian equities struggled largely because the gold sector has continued to take a beating, dropping more than 43% in the first half of the year. There are many reasons for this precipitous drop including a strengthening U.S. dollar, muted inflation expectations, an improving U.S. economy, and worries over demand in India. India has been raising their import tariffs on the metal, putting a damper on demand.

The big story of course was the late May comments made by U.S. Federal Reserve Chairman Ben Bernanke which spoke to the possibility that the Fed may slow the pace of their \$85 million bond buying program sooner than many had expected. These comments sent fixed income markets into a tailspin, pushing yields up higher and faster than any of us had anticipated. The yield on the benchmark ten year U.S. Treasury bond shot from 1.66% on May 1 to 2.52% on June 30. It has since climbed to 2.74% (August 1).

Bonds, particularly longer dated government bonds were pummeled. In June, the DEX Real Return Bond Index fell by nearly 7%, and is down 11% so far this year. Even the short term bonds, long thought to be a fairly safe parking place, experienced losses that few had expected. The DEX Short Term Bond Index was off 0.56% in June, but is still ahead by 30 basis points on the year.

Going forward, I am expecting that we will continue to see higher than normal volatility in the fixed income markets. While the start of the end of the bond buying program has been built into fixed income markets, there is still much uncertainty that will need to be addressed before things will settle down. Within the fixed income space, my strategy remains the same with a focus on shorter duration, actively managed, higher yielding bond funds, which should provide better downside protection and help insulate against volatility.

In the equity space, I am still of the view that U.S. equities are the place to be for the next quarter or two. I expect that Canada

will continue to struggle, with continued volatility in the gold sector, and the slowdown in China expected to be a bit worse than many had feared. I am continuing to warm up to Europe, but would be reluctant to take a direct position there, unless you have a very high risk tolerance. Yes, we have seen a nice rebound in equities, but there are still many issues that are in the process of being addressed, and economic growth remains under pressure. With China in the midst of a credit crisis, I am avoiding any direct exposure to Asia or the emerging markets. While some opportunities in these regions may exist, I believe the best way to gain this exposure would be through a high quality global or international equity fund.

After conducting my most recent review of the Recommended List, I am not making any major changes to it. I did make some minor changes that I believe better reflect the current environment.

Funds Removed from the List

Dynamic American Value Fund (DYN 041) – After a great deal of thought and analysis, I reluctantly came to the decision to drop the fund from the Recommended List. I really like the process and approach that David Fingold uses when looking at stocks. He has a unique view and has historically done a great job at protecting investors' capital in down markets. Despite that, something isn't working. He has consistently lagged the index and his peer group since mid 2011. In the past 12 months, the fund has only outperformed the S&P 500 one time, and in the past 24 months, has only outperformed five times. In the past 24 months, the fund has only participated in 30% of the upside movement of the market, and 70% of the downside. Considering the above, I really have no other choice but to remove the fund from the Recommended List.

RBC Monthly Income Fund (RBF 448) – It was a tough decision to remove this fund from the list. I still believe it is a very high quality fund, managed by a great team, all at a reasonable cost. But, after reviewing the **PH&N Monthly Income Fund**, I believe that it is better positioned for the current environment than this offering.

RBC Global Precious Metals Fund (RBF 468) – To say that gold and gold companies have struggled of late would be a bit of an understatement. As of June 30, the S&P/TSX Global Gold

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Recommended List - continued from page 6...

Index had plummeted by more than 43% on the year, and the outlook does not look any better. Gold has long been thought of as a hedge against inflation, but with yields moving higher, the outlook for inflation becomes even more muted. Factor in worries about demand in India, the world's largest consumer of gold, combined with gold mining companies taking more than \$17 billion in write downs so far this year and more expected, and the picture becomes pretty glum. Some are even expecting gold to trade as low as \$1,000 by the end of the year. With this as the backdrop, I have decided to pull the RBC Global Precious Metals Fund off the Recommended List. I still believe that gold can be a good hedge against inflation and portfolios can benefit from some exposure over the long term, but now may not be the right time. I will continue to monitor the situation and make the appropriate suggestions when the time.

Funds Added to the List

PH&N Monthly Income Fund (PHN 660) - I am switching this fund into the list to replace the **RBC Monthly Income Fund**. I believe that this fund is better positioned than the RBC offering going into a higher rate environment. The equity component can range between 40% and 60%, which is higher than with RBC. It currently holds 49% equity, and 41% bonds. It has a higher allocation to corporate and high yield bonds, which is more favourable in the current environment. It pays a monthly distribution of \$0.0435 per unit that works out to an annualized yield of just north of 5%. It is available in both registered and non registered accounts. While it is more expensive than the RBC fund, but I believe it's a better alternative in the current environment. I expect that it will carry a bit more risk than the RBC offering, but there is the potential for stronger returns.

Mackenzie Ivy Foreign Equity Fund (MFC 081) – Truth be told, I thought that this fund was already on the list. It's one of my favourites, especially for periods of above average market volatility. It is a concentrated portfolio of high quality businesses. The focus is on protecting the downside, and it does that quite well. The biggest drawback to this fund is that when there is a big market rally, it is very likely to lag. But given that I expect volatility to remain for the near term, this is a great core holding for most investors.

Funds of Note

RBC Global Corporate Bond Fund (RBF 580) – Of all the funds on my Recommended List, this was the one I was most disappointed with in the past quarter. With its emphasis on higher yielding corporates and shorter duration bonds, I expected it to hold up better than it did. Based on a recent manager commentary, it appears that they were burned by longer term bond exposure. I believe that the worst is behind us in the near term and as things settle we will see the fund return to producing above average returns. In July, it significantly outpaced both the benchmark and its peer group with a gain of 0.9%.

Trimark Floating Rate Income Fund (AIM 1233) – When I added this fund to the list last time around, I said it would be a good way to help protect against rising rates. Fast forward a quarter and we see that it did exactly what I expected it to do. While all the other fixed income funds were down, even the “low risk” short term bond funds, this one managed to eke out a small gain. I expect that to continue in the current environment. While you may be encouraged by its performance, it is not a core fund. It carries a higher level of risk than you might think, and should be used only for a portion of your fixed income exposure.

Fidelity Canadian Balanced Fund (FID 282) – One of the key factors that attracts me to this fund, namely the relatively static asset mix of 50% bonds, 50% equity, may end up being to its detriment as we move forward. While not an immediate concern, it may become one as the fixed income space becomes more volatile. With the managers effectively handcuffed to a 50% fixed income allocation, they may not be in as strong a position to protect capital as those that have more flexibility around their asset mix. I am monitoring the situation and will make changes as needed.

Fidelity Canadian Large Cap Fund (FID 231) – If you have held this fund for the past quarter, you no doubt saw a pretty nice jump as it handily outpaced both the index and its peer group. This outperformance came from a couple of sources including its significant global equity exposure, which is currently just under 50%. Another source of return came from its significant holdings in both Shoppers Drug Mart, and Loblaws. Both of those names rallied sharply thanks to the recent takeover news. While I have a lot of confidence in Daniel Dupont's style, process and approach, I would strongly suggest that you take advantage of the recent gains and rebalance your portfolio, taking some profits off the table. For the long term, I still believe that this is a great core holding for most investors.

IA Clarington Canadian Conservative Equity Fund (CCM 1300) – When the fund is heavily concentrated in interest rate sensitive sectors like pipelines, utilities and communications, it shouldn't be a big surprise that it struggled during a quarter when interest rates shot higher. While I believe that the worst is likely over, there may be a bit more volatility with this fund over the next little while until the interest rate picture settles. I still believe that this can be a good core fund.

Sentry REIT Fund (NCE 705) – Real estate, and REITs in particular have been very hard hit since interest rates have shot higher. Despite the short term selloff, I believe that the longer term outlook, particularly in Canada, remains strong. There is significant institutional demand for high quality properties, which will help to provide some support for prices. Still, I do expect more volatility in the short term. While I still think that there is a bit more downside in the near term, if you have a longer term time horizon, you may want to start looking at adding to your REIT exposure on the drawdowns.

FUND	FIRST MENTION	RESULTS (to Jun 30)	Q2 Return	COMMENTS
<u>Bond Funds</u>				
Trimark Floating Rate Income	Apr-13	0.1% (3 mth)	0.1%	Did what it was supposed to do when rates moved up.
Dynamic Advantage Bond	Apr-13	-2.1% (3 mth)	-2.1%	Held up relative well in rising rate environment.
RBC Global Corporate Bond	Jan-13	-2.5% (6 mth)	-2.8%	Long bond exposure hurt returns. Should bounce back.
TD Short Term Bond	Sep-12	-0.6% (6 mth)	-0.8%	Lower minimum than PH&N. Good defensive pick.
PH&N Total Return Bond	Aug-08	5.3% (5 Yr.)	-2.3%	More active approach added value with rising rates.
TD Canadian Bond	Jan-03	4.8% (10 Yr.)	-2.6%	More passive approach hurt. Two-thirds in corporates.
PH&N Short Term Bond & Mortgage	May-00	3.7% (10 Yr.)	-0.5%	Losses were a higher than expected. Still a top pick
<u>Balanced Funds</u>				
Mac Cundill Cdn Balanced	Apr-11	5.7% (2 Yr.)	0.7%	Strong performance continues. Take some profits.
AGF Monthly High Income	Oct-10	2.3% (2 Yr.)	-3.5%	Highest equity exposure of any of our balanced picks.
Steadyhand Income	Oct-10	5.0% (2 Yr.)	-2.6%	A bond replacement for those with high risk appetite.
Fidelity Canadian Balanced	Feb-08	3.2% (5 Yr.)	-0.3%	Stable asset mix may hurt if rates keep rising.
<u>Income Funds</u>				
PH&N Monthly Income	Jun-13	NEW	-1.8%	I believe it's better positioned than the RBC offering.
TD Mortgage Fund	Apr-12	0.7% (1 Yr.)	-0.5%	Held up well. Yield just over 2.2%
CI Signature High Income	Jan-12	8.3% (1 Yr.)	-1.0%	35% high yield exposure helped. Pays \$.07 per month.
RBC Canadian Equity Income	Jan-10	15.6% (3 Yr.)	-1.5%	Provides good downside protection with strong yield.
Sentry REIT	Dec-06	5.5% (5 Yr.)	-4.6%	Interest rate jump hurt. Long term outlook solid.
BMO Monthly Income	Nov-05	3.9% (7 Yr.)	-1.5%	Distributions were recently cut. Yield now around 4%
Mackenzie Income	Feb-05	3.7% (7 Yr.)	-2.3%	Formerly known as Sentinel Income Fund.
BMO Monthly Dividend	Oct-03	3.8% (7 Yr.)	-1.5%	Preferreds were hit in rising rates. Holds 60% prefs.
RBC Monthly Income	Jun-03	6.9% (10 Yr.)	-2.4%	Very balanced portfolio. 3.8% yield.
<u>Canadian Equity Funds</u>				
Fidelity Canadian Large Cap	Oct-11	23.8% (1 Yr.)	7.8%	Shoppers takeover boosted gains. Take some profits
IA Clarington Cdn Conservative Equity	Oct-11	6.7% (1 Yr.)	-3.8%	Heavily weighted in interest sensitives
RBC North American Value	Jun-11	6.7% (2 Yr.)	1.7%	Should provide better returns than pure Cdn equity
Fidelity Dividend	Sep-08	8.1% (3 Yr.)	0.2%	Rise in yields has hurt. Still a high quality fund
Leith Wheeler Canadian Equity	Jun-06	2.1% (5 Yr.)	-1.1%	Positioned for economic growth.
Mawer Canadian Equity	Jan-05	7.0% (7 Yr.)	0.8%	Great pick for most market environments
<u>Canadian Small Cap Funds</u>				
Trimark Canadian Small Companies	Apr-13	6.9% (3 mth)	6.9%	Concentrated, quality portfolio. High cash balance
Sentry Small Mid Cap Income	Jan-13	14.6% (6 mth)	5.1%	Quality small cap fund that pays \$0.05 per month.
Beutel Goodman Small Cap	Oct-03	7.1% (7 Yr.)	-3.2%	A great small cap offering positioned for growth
<u>U.S. Equity Funds</u>				
Franklin U.S. Rising Dividends	Apr-13	5.1% (3 mth)	5.1%	Will do well in volatile markets. Will lag in rally.
IA Clarington Sarbit US Equity	Jan-11	10.6% (2 Yr.)	4.1%	Very concentrated portfolio with high cash balance
TD US Small Cap Equity	Jan-11	15.5% (2 Yr.)	6.1%	Continues to be my top U.S. small cap pick
Beutel Goodman American Equity	Feb-09	17.9% (3 Yr.)	8.7%	Remains my favourite core U.S. equity fund
Dynamic American Value	Aug-06	3.1% (7 Yr.)	1.5%	Underperformance continues. Throwing in the towel
<u>International/Global/North American Funds</u>				
Mackenzie Ivy Foreign Equity	Jun-13	NEW	5.2%	This is a great global equity pick for volatile markets
Mutual Global Discovery	Jul-11	8.3% (2 Yr.)	3.1%	Conservatively managed. Value focused
Trimark Global Endeavour	May-11	9.6% (2 Yr.)	6.7%	Concentrated portfolio with a high cash balance
Dynamic Power Global Growth	May-11	-1.9% (2 Yr.)	6.4%	Fund has rebounded nicely after recent struggles
CI Black Creek Global Leaders	Mar-11	5.9% (2 Yr.)	4.1%	Fund continues to deliver. Take some profits
Mawer International Equity	Oct-09	12.2% (3 Yr.)	0.3%	Consistently beats peers with less downside risk
Chou Associates	Nov-02	7.2% (10 Yr.)	12.0%	Concentrated, value focused, highly volatile.
<u>Sector Funds</u>				
BMO Asian Growth & Income	Apr-13	0.2% (3 mth)	0.2%	A more conservative way to play Asia
CI Global Health Sciences	Sep-11	42.7% (1 Yr.)	8.4%	Continues to outperform. Take some profits!
RBC Global Precious Metals	Jan-06	-0.3% (7 Yr.)	-32.8%	Outlook for gold is even more muddy. CAUTION!!

Funds highlighted in Green are New Additions to the List.

Funds highlighted in Red are funds are being removed from the list.