



Volume 19, Number 10

October, 2013

Single Issue: \$15

WHAT'S NEW

♦ **Trouble in LSIF land** – Last month, GrowthWorks Canadian Fund Ltd. announced it was filing for bankruptcy protection. The struggling labour sponsored investment fund (LSIF) claims it does not have enough cash on hand to satisfy its outstanding obligations. This is the latest in a long line of LSIF's to run into trouble. The industry has been struggling since the Ontario government announced its plans to phase out the tax credits. In its recent budget, the Federal Government dealt what is likely the final blow to the LSIF program by announcing they would follow suit and phase out the tax credits. I expect to see more fallout in the months and years ahead with these funds.

♦ **TD cuts management fees on a number of funds** – In September, TD stepped up to the plate and cut their management fee on a number of funds including the **TD High Yield Bond Fund**, **TD Global Bond Fund**, and the **TD U.S. Large Cap Value Fund**. The cuts range between 15 basis points and 40 basis points, depending on the fund. The **TD International Index Fund** saw its MER drop to 0.90% from 1.25%.

♦ **Floating rate space getting crowded** – It seems one of the more popular fund types these days are the floating rate bond funds. So far this year, there have been four funds launched, with both Dynamic and Renaissance launching funds in September. I expect that we'll see more of these funds launched in the next few months, as upward pressure is expected to remain on yields.

BEST EQUITY FUNDS FOR A MARKET DROP

By Dave Paterson, CFA

Funds with strong downside protection help preserve value in uncertain times

If there is going to be a big market drop, more than likely it is going to happen in September or October. While we managed to get through September relatively unscathed, I don't think we can say the same about October. With the U.S. government at a standstill and the upcoming debt ceiling talks likely to add to the uncertainty, the potential for a big selloff remains high.

There are ways that you can protect yourself from any potential drop. One way is to move some or all of your portfolio into cash. While in theory this is a good option, in the real world it is fraught with danger. While you may miss any market drops, it is nearly impossible to effectively time your reentry into the markets, which could result in missing out on some pretty significant market rallies.

Perhaps a better way would be to set up a good defense by holding some conservative, defensive funds in your portfolio. One way that I like to find defensive funds is to look for those that have a low downside capture ratio. The downside capture ratio measures how much of a market drop a fund has experienced compared to its benchmark.

For example, if a fund has a downside capture ratio of 75%, it means that if the market falls by 10%, on average the fund would be down 7.5%. A fund with a downside capture ratio of less than 100% is likely to withstand any drop better than the benchmark. Conversely, if the downside capture ratio is more than 100%, the fund has historically performed worse than its benchmark in selloff.

I calculated the downside capture ratio for each of the funds in the universe of funds that I follow. I looked at both a three year and five year period and averaged the two, finally ranking the funds from lowest to highest. Only funds with at least a 36 month track record were considered, and I only focused only on the broader core categories.

My list of the top equity funds based on downside capture ratio for the period ending

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Best Funds for Down Markets					
	Fund	3 Year Downside Capture Ratio	5 Year Downside Capture Ratio	Avg. Downside Capture Ratio	Worst Monthly Return
Canadian Equity Funds					
	Fidelity Canadian Large Cap Fund	-18.47%	52.90%	17.21%	-15.86%
	Sentry Growth & Income Fund	12.20%	34.46%	23.42%	-7.79%
	First Asset Canadian Dividend Opportunities	-13.64%	N/A	-13.64%	-3.85%
U.S. Equity Funds					
	Franklin U.S. Rising Dividends Fund	69.07%	75.21%	72.14%	-10.19%
Global / International Equity Funds					
	Mackenzie Ivy Foreign Equity Fund	38.78%	37.80%	38.29%	-5.91%
	Dynamic Global Dividend Fund	30.72%	59.00%	44.86%	-9.40%
	Renaissance International Equity Fund	54.04%	60.10%	57.07%	-8.22%
Balanced Funds					
	Dynamic Global Asset Allocation Fund	-22.11%	43.63%	10.76%	-10.44%
	GBC Growth & Income Fund	3.23%	48.76%	25.99%	-13.04%
	CI Cambridge High Income Fund	17.71%	38.82%	28.27%	-9.12

Source: D.A. Paterson & Associates, Funddata, Morningstar

Equity Funds - continued from page 1...

August 31, 2013 is shown above.

Fidelity Canadian Large Cap Fund (FID 231) – Manager Daniel Dupont manages this Canadian focused equity fund with an eye on absolute risk, rather than benchmark relative risk. This has allowed for a very favourable downside capture ratio, while still offering decent returns in rising markets, making it an all-round great core holding.

Sentry Growth and Income Fund (NCE 727) – With its emphasis on low volatility, high return on equity companies, it is not surprising that this dividend focused offering has provided good downside protection for investors. It is quite similar to the **Sentry Canadian Income Fund**, but will hold more small and mid-cap names, making it a bit more risky than that large cap focused offering.

First Asset Canadian Dividend Opportunities Fund (CRT 6103) – Manager John Stephenson is not afraid to make a big move into cash if his macro analysis shows trouble on the horizon. He has been very successful in this strategy, moving more than half the fund into cash in mid-2011, preserving a lot of capital for investors. A drawback to this fund is that I don't expect it to move as much in rising markets as the other funds mentioned.

Franklin U.S. Rising Dividends Fund (TML 201) – With its emphasis on companies with a demonstrated history of

dividend growth, the U.S. equity offering has delivered strong absolute returns, with modest downside protection. It could be a great core holding for most investors.

Mackenzie Ivy Foreign Equity Fund (MFC 081) – The Ivy brand is synonymous with capital preservation and this fund exemplifies it better than any. The management team looks for well-managed, high quality companies that offer stability and downside protection. An added bonus is that recent upside participation has been strong, making it one of the better core global offerings available.

Dynamic Global Dividend Fund (DYN 031) – Like the Franklin fund mentioned above, this does not look to maximize dividend yield, but rather looks for high quality, dividend paying businesses that have strong long term growth prospects. The result has been a portfolio that delivers strong downside protection with modest upside participation. This would be a good pick for periods of high volatility.

Renaissance International Equity Fund (ATL 1868) – It is rare that you see a growth fund with a volatility profile that is well below average. This is one of them. Managed by Walter Scott & Partners out of Edinburgh using a fundamentally driven bottom up approach, it offers significantly better downside protection than its peers, yet still manages to provide decent upside participation. This can be a great core holding for those looking for international equities without any U.S. exposure.

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FIXED INCOME FUNDS FOR RISING RATES

By Dave Paterson, CFA

Despite potential for a rate rise, these funds should hold up well

Elsewhere in this edition, I highlighted the equity funds that I expect to hold up nicely if there is a big market selloff. In this article, I thought it might be timely to take a look at some of the fixed income funds that I expect to hold up well should we see a drop in the bond market.

Before we look at the funds, let's take a quick look at the interest rate environment. In May, yields shot up substantially after U.S. Federal Reserve Chairman Ben Bernanke hinted that he may start slowing the pace of bond purchases as part of the Fed's massive quantitative easing program currently in force. Traders took these comments to mean that higher rates were imminent and pushed rates up dramatically.

At the September FOMC meeting, the Fed opted to hold bond purchases steady, which brought yields back down nicely, with the U.S. ten year Treasury bond currently yielding 2.65%, well below the nearly 3% level it flirted with in early September. With Fed tapering on hold, and the U.S. government currently in the midst of a shutdown as a result of partisan bickering, the likelihood of immediate rate increases has diminished significantly.

That assumes that the U.S. debt ceiling is raised before the October 17 deadline. If it is not increased, there is a possibility that the U.S. will default on some its debt, which is likely to push yields up sharply. If this happens, I fully expect a dramatic, short term drop in the bond market. Still, I am reasonably optimistic some form of compromise will be reached at the last minute to avert such a default.

Still, the reality is that rates will be moving higher again, probably sooner than any of us would like. When that happens, there will no doubt be a selloff in the bond market. I have been telling everyone to protect themselves against this inevitability by moving into shorter duration funds, and those funds that invest in higher yielding corporate bonds.

I have my favourite bond funds that I selected using my quantitative screening process and rigorous qualitative analysis of the manager, investment process, risk management approach and costs. Still, I thought it would be an interesting exercise to put the fixed income universe through the same downside capture analysis that I put the equity universe through to see how closely the results match up to my picks.

I looked at both a three year and five year period and averaged the two, ranking the funds from lowest to highest. Only funds with at least a 36 month track record were considered, and I only focused on the broader core fixed income categories.

The downside capture ratio measures how much of a market drop a fund has experienced compared to its benchmark. For example, if a fund has a downside capture ratio of 75%, it means that if the market falls by 10%, on average, the fund would be down 7.5%. In other words, the fund is likely to withstand the drop much better than the benchmark. Conversely, if the downside capture ratio is more than 100%, the fund historically has performed worse than its benchmark in periods of market drops.

My list of the top bond funds based on downside capture ratio for the period ending August 31, 2013 is:

Best Fixed Income Funds for Down Markets

Fund	Three Year Downside Capture Ratio	Five Year Downside Capture Ratio	Average Downside Capture Ratio	Worst Monthly Return
Canadian Short Term Fixed Income Funds				
HSBC Mortgage Fund	-33.30%	-56.11%	-44.71%	-0.71%
PH&N Short Term Bond & Mortgage	75.93%	95.90%	85.95%	-2.21%
Canadian Bond Funds				
Dynamic Advantage Bond Fund	36.23%	52.12%	44.18%	-3.46%
Renaissance Corporate Bond Fund Cap Yld	47.26%	N/A	47.26%	-2.37%
Global Bond Funds				
Manulife Strategic Income Fund	-85.02%	-72.24%	-78.36%	-3.87%
Templeton Global Bond Fund	16.80%	-38.18%	-10.69%	-3.96%

Source: D.A. Paterson & Associates, Fundata, Morningstar

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Fixed Income Funds - continued from page 3...

HSBC Mortgage Fund (HKB 498) – Mortgages, with their relatively short duration, high security, and modest yield tend to hold their value fairly well. Of the mortgage funds that I follow, this offering has held up the best in down markets, actually posting gains when the DEX Short Term Bond Index lost ground. The drawback is that there isn't a lot of upside with this fund. Still, if you're looking for solid downside protection, this is one to consider.

PH&N Short Term Bond & Mortgage (PHN 250) – For short term exposure, this has been my go to fund for a few years now. Unlike a pure mortgage fund, this invests in a mix of short term bonds and mortgages. It will have more downside to it when compared to a mortgage fund, but it also will likely generate higher returns over the long term. If you're looking for a better balance between potential return and downside protection, this fund is worth looking at.

Dynamic Advantage Bond Fund (DYN 258) – Managing downside risk is one of the main objectives for the management team of Michael McHugh and Dominic Bellissimo. To do this, they use a number of different strategies to provide this downside protection including shortening the duration, using derivatives, heavily weighting the portfolio towards corporate bonds, and non-Canadian holdings. These steps have made this the best bond fund to hold in a rising rate environment, despite having a higher cost than many other fixed income alternatives.

Renaissance Corporate Bond Fund (ATL 220) – In my analysis, one of the funds offering the strongest downside protection was the **Renaissance Corporate Bond Capital**

Yield Fund. It provides exposure to a mix of corporate and high yield bonds, and has performed relatively well on a risk adjusted basis. Unfortunately, the fund was capped after the last federal budget. CIBC has decided to allow investors to access the underlying portfolio the Capital Yield version invested in. Performance, at least on a pre-tax basis should be comparable. In fact, it is expected it could be between 35 and 50 basis points higher, reflecting the cost of the forward agreement that was in place to provide the tax efficiency. With its corporate and high yield exposure, I expect it to carry more total risk than the Dynamic offering. Still, I expect it to hold up better than average when rates move up.

Manulife Strategic Income Fund (MMF 559) – It's not surprising to see this fund on the list. It is a tactically managed global bond fund that provides exposure to a number of different types of fixed income investments from around the world. Currency exposure is tactically managed. Historically, it has tended to gain in value when Canadian bonds are lower, making it a nice compliment to a more traditional bond portfolio.

Templeton Global Bond Fund (TML 704) – Unlike the Manulife offering discussed above which is more heavily weighted towards corporate bonds this invests almost exclusively in bonds issued by governments around the world. It has virtually no exposure to Canada, meaning it has behaved much different from a Canadian bond portfolio. I don't expect that it will perform as well as the Manulife fund, but in periods of higher uncertainty, it should more than hold its own. I don't see this as a core offering, but a great compliment within a more diversified bond portfolio.

Equity Funds - continued from page 2..

Dynamic Global Asset Allocation Fund (DYN 1660) – Managed by David Fingold, who also leads the Dynamic Global Dividend Fund, this tactically managed balanced fund has done a great job protecting investors capital. In fact, in the past three years, the fund has actually gained in value during periods where the markets have dropped. A drawback is that this defensive positioning has negatively affected the upside participation. Still, this may be a good fit for more risk averse investors concerned about a big market drop.

GBC Growth & Income Fund (GBC 410) – Unlike most balanced funds, the equity component of this fund is primarily in small and mid-cap growth stocks, which are typically thought of as higher risk. While that may be true, it has not affected this fund which has experienced only 3% of the downside in the past three year period, while participating in more than 100% of the upside. As impressive as this is, given the smaller company exposure, I would suggest that only those with higher than average risk tolerances consider this fund.

CI Cambridge High Income Fund (CIG 6803) – With Robert Swanson at the helm, this CI offering has provided investors with excellent downside protection and decent upside participation. From an overall risk reward point of view, it has delivered above average returns, at a level of volatility that is below both the index and its peer group. Combined, these factors make this a great candidate as a core portfolio holding for most investors in any market environment.

CI LAUNCHES GUARANTEED CASH FLOW FUND

By Dave Paterson, CFA

Promises cash flow over 20 years in this innovative, yet complicated and costly fund

If you have watched any TV over the past couple of weeks, you have likely seen a flashy new ad from CI Investments touting their new G5/20 Series of mutual funds. CI highlights that this “innovative, first of its kind” mutual fund provides guaranteed cash flows, growth potential, and protection from market downturns.

At first glance, this looks like a pretty interesting product. In simple terms, it is a lot like a target date fund with an expected term of 25 years. The first five years are the growth period where your funds remain invested and hopefully grow in value. At the end of the five year period, CI looks at the value of your account, and “guarantees” to provide you with an annual cash flow equal to 5% of the higher of your initial investment, or the value at the end of the growth phase.

The underlying investment portfolio will be a mix of CI offered mutual funds, including offerings from such well respected managers like Signature Global Asset Management, Harbour Advisors, and Cambridge Global Asset Management.

The portfolio will be managed in a tactical way, and the asset mix will be dependent on a number of factors including their outlook for the markets and the time remaining in the lifespan of the fund. It is expected that the initial asset mix will be 70% equities and 30% fixed income, and over time will become more conservatively positioned to take risk off the table as the maturity date approaches.

To help manage portfolio volatility, CI has hired Nexus Risk Management to provide a risk management overlay strategy. By using a mix of derivative investments such as managed futures and options, Nexus will help to protect the capital value of the fund, while still allowing for some upside growth potential.

On the surface, this is a rather innovative and unique solution for investors looking for cash flow as they enter retirement. But as they say, the devil is in the details. A few things to consider are:

Full guarantee only applies at maturity - The cash flow payments are guaranteed by the Bank of Montreal over the 25 year life span of the fund. If you must redeem any time before the end of the fund's life, this guarantee would not apply, nor

should it. As a result, you could potentially receive less than your initial investment. Another thing about the guarantee is that even though BMO is acting as guarantor, these funds are not obligations of the bank, like a principal protected note would be. In other words, you are relying only on their word and cannot make a claim against the bank if they fail to honour their obligation the same way as if it were a bank issued note.

Higher costs than with traditional mutual funds - There are a couple of layers of costs that are involved with these funds. Like any other mutual fund, there is a management fee and operating expenses. Along with those standard costs, there is a guarantee fee and a risk management fee, which combined add an additional 65 basis points to the cost of the fund. Adding it up, the total costs will be 2.77% before the impact of taxes. If we use a blended HST rate of 10%, the total MER will be approximately 3.05%. In comparison, the median MER of a global equity fund is 2.56% and a global balanced fund is 2.49%.

Risk Management Overlay (RMO) may drag overall returns - Based on information provided by CI, the RMO is expected to do a stellar job at protecting the downside risk of the fund. A very basic calculation shows that on average between 2002 and 2012, the fund would have participated in between 20% and 25% of the drop in the value of the underlying funds. This is quite impressive. An unfortunate consequence is that this RMO may also drag returns in rising markets. Again, using data provided by CI, it would have only participated in between 50% to 55% of the gains. CI expects that early in the program, this upside participation will be higher.

One observation is that the more volatile the funds, or the higher the exposure to equities, the more valuable this RMO strategy will be to the overall performance of the fund. When I looked at the strategy, with a portfolio heavily weighted towards equities, the RMO strategy was just as likely to outperform the underlying funds. However, a more balanced or conservative mandate will result in the RMO underperforming with higher regularity. Given that the asset mix will gradually become more conservative over time, this is a potential concern.

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CI may close the fund before the maturity date – CI has stated that the fund may be wound up at any time before the target end date, *subject to approval by unitholders*. Should this happen, investors will receive the fund's net asset value, just as they would if the investor had redeemed early. In other words, the guarantee that is a cornerstone of the marketing campaign will not apply.

When I bring this point up, I am often told that CI or BMO would never close these funds. To them I simply say, **"Mackenzie Destination Funds."** For those who may not remember, The Mackenzie Destination Funds were target date funds that were similar to these in that they offered a principal guarantee after a 15 to 25 year life span. Unfortunately, they could not have been more ill-timed, because within a year of their launch, they were closed because of the market selloff of 2008 had forced the managers to move into a very conservative protection portfolio. An interesting fact is that BMO was also the guarantor on those funds. While I don't expect a repeat of 2008, the risk of an early termination is very real, and there are precedents for such a move. If CI and BMO guaranteed the full principal value if they decided to pull the plug early, I would be much less concerned about this risk.

Performance may not keep up with a comparable portfolio

– Looking at the impact of the higher fees associated with this fund combined with the dampening effect of the RMO, I expect that this fund will lag a similar portfolio that does not carry a guarantee or a risk management overlay on an absolute basis. However, if we factor in the much lower expected volatility profile, I expect that on a risk adjusted basis it will outperform. The question then becomes over the long term, what is more important to the investor, stronger absolute returns or better risk adjusted returns.

Bottom Line: If you look only at the marketing material, you would walk away believing that this is one of the greatest investment funds ever created. It offers a well-diversified portfolio of some of the best money managers in the country, it guarantees your capital over the long term, and it pays you a guaranteed 5% cash flow for 20 years.

As you start digging deeper, you find that all of those things come with a very hefty price tag. The full guarantee only applies after 25 years, and the additional costs may outweigh some of the potential benefits. While there may be situations where this might be a good fit for an investor, the reality is that in a lot of cases, it is not nearly as attractive as the splashy ads will have you believe.

BUILDING BETTER PORTFOLIOS – UNDERSTANDING YOUR NEEDS

By Dave Paterson, CFA

A good portfolio suits you, not the markets

There is no doubt that choosing the right investment can go a long way in helping you to reach your investment goals. Often times, I find that we can tend to lose sight of the bigger picture. Instead of focusing on building a great portfolio, we become obsessed with finding the perfect investment.

With that as the backdrop, I thought it might be helpful to start a monthly feature that discusses portfolio construction and management. I will be covering a variety of topics that will range in complexity from the very basic, to the more advanced. We will cover things like the importance of your asset mix, the benefits of rebalancing, risk management techniques, and of course, security selection.

From my conversations with a number of investors and advisors, I find that there is somewhat of a misconception about

how to properly build a portfolio. For many, it is more about finding the "best" investments for now, instead of building an effective mix of investments that will create a well-diversified portfolio that is in line with their investment objectives and risk tolerances. Surprisingly, that is an important distinction.

For example, I was speaking with an investor last week, and he said that he wanted to sell all of his bonds because they were going to go down when rates start moving higher. He's absolutely right. Investors in bonds are likely to suffer further losses in the next few quarters as interest rates move higher. He then said that he wanted to put the money from the sale of bonds into Canadian equities and cash, because "equities are doing better than bonds right now" and he believed he could

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make more money in equities. While that may be the case, there is far more volatility in equities, something this person failed to realize.

While maximizing return is important, so too is managing risk. Often times, we forget about risk until it is too late. Many of us believe that we can cope with a big loss until it actually happens. For example, before 2008 people were insistent that there was no need for bonds in their portfolios because “over the long term, equities always move higher and it will be many years before I will need those funds.” Fast forward to February 2009 after they suffered losses of 25%, 35% or more and a lot of people wanted to sell out of their equities and move into something safer. That is like closing the gate after the dog has run off.

Following a proper portfolio management process helps you find that right balance between chasing the return you need, without taking on risks you may not be able to handle. With a properly constructed portfolio, there will be a mix of different asset classes such as cash, bonds, equities, and real assets such as commodities and real estate. The portfolio will also be spread across a number of regions around the world. The proportion allocated to each will be dependent on your individual needs. This diversified approach will help balance risk with return in a way that will allow you to sleep at night, knowing you are earning enough return without taking undue risk.

Finding the portfolio that is right for you is a fairly straightforward process. But it does require that you take an honest look at yourself. The basic steps are:

1.) Determine your return needs – In most cases, people are investing for a specific reason, be it retirement, an education, or a rainy day. Regardless of the reason, you need to have a rough idea of how much money you will need to reach your goal. Then, factoring in your current and future savings, you can figure out an estimate of what type of return you will need.

In a growing number of cases, people need their portfolio to generate cash flow. If this is your situation, to get an idea of your return needs, you will have to look at all sources of cash flow, see how this compares to your needs, which gives an estimate of your shortfall. With this number, you now can better estimate what type of cash flow you need your portfolio to generate.

Regardless, the higher your return needs, the higher the equity weighting must be in your portfolio.

2.) What is your time horizon – In addition to helping you better understand your return needs, the length of time you can leave your money invested gives you an idea of how much risk you can take on. For example, if you can only have your funds invested for a short period of time, then you will want to have a higher exposure to cash, fixed income and other low risk investments. However, if you have a longer time frame, you can have more exposure to equities, since there is more time to recover any losses.

3.) How much of a drop in value can you accept – Many of us tend to overestimate how much risk we are comfortable with. It seems to be one of those things where we think we can take more than we actually can. A good exercise is to put into dollars how much a 5%, 10%, and 20% drop in value would impact your portfolio. When you see it in dollars, ask yourself how comfortable you would be with those declines, even with the knowledge that they were most likely only temporary. Once you find your magic number you now have an idea of your loss threshold. The lower your loss threshold, the more conservatively you need to be invested.

Once you answer those questions, you can get a pretty good sense of what your asset mix should look like. The more risk you are comfortable with, and the higher your return needs, the more you will need to hold equities. The key is to find a portfolio mix that will keep you comfortable so you can remain fully invested over the long term. Once you have that, you can go about selecting the most appropriate investments for your portfolio.

If you have any specific portfolio questions, please feel free to forward them to me at info@paterson-associates.ca

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HARBOUR MANAGER RETIRES

By Dave Paterson, CFA

Gerry Coleman departs as veteran Roger Mortimer named to Harbour team

On October 1, venerable portfolio manager Gerry Coleman retired from his position with Harbour Advisors. Apart from the timing of this announcement, Mr. Coleman deciding to step aside is not a surprise. He has had a long and impressive career, and in 2010 was named Money Manager of the Decade by the Globe and Mail.

Stepping into his shoes will be veteran manager Roger Mortimer. Many may remember him as the manager of the **AIM Canadian First Class**, a fund he managed from its inception in September 1997 to February 2005. After leaving Invesco in 2005, Mr. Mortimer was a portfolio manager for Los Angeles based Capital Group Companies, and was a co-manager on the firm's **Capital International Growth & Income Fund** from March 2006 to October 2009. After that, he formed Parador Investment Management, a firm that managed among other things, the **Mackenzie Canadian Shield Fund**.

While at the helm of the AIM Canadian First Class Fund, he managed to outpace the S&P/TSX Composite Index by a substantial margin, and did so with less volatility. During this period he managed to beat the CI Harbour Fund on an absolute basis, but once his higher volatility was taken into account, only matched its performance on a risk adjusted basis. His tenure with the Capital International Growth & Income Fund proved less profitable, lagging both the index and peer group, including the Harbour Fund.

At CI, Mr. Mortimer will be the lead manager on **Harbour Growth and Income** and **Harbour Global Growth and Income**. Stephen Jenkins will remain as lead manager on the **Harbour Fund** and will retake the lead role on the **Harbour Global Equity** mandate.

From a style perspective, it is expected that Mr. Mortimer will be a good fit on the Harbour team, particularly with the more value focused Stephen Jenkins. He is well experienced and follows a value focused approach.

While the changeover officially took place on October 1, CI has stated that Mr. Mortimer intends to be rather deliberate in the transition, and will do so on a very gradual basis. Given the similarity in investment styles, I would expect that he will be well versed with all the names in the funds, making this transition fairly seamless. While I expect that there will be some changes in the portfolio, I don't expect a full flip of the fund.

Another point mentioned by CI was that Mr. Mortimer will look to generate more return from the fixed income sleeve of the funds. Currently, the majority of the bond exposure is somewhat passively managed. They will explore a number of

options which would include things like leveraging the current fixed income expertise already within the CI organization to possibly adding a dedicated fixed income manager to the Harbour team. Given the uncertainty in the fixed income markets, this is very welcome news.

Mr. Mortimer said that within the Harbour Growth & Income Fund, he will be looking to add more dividend exposure to the fund. He also intends to add additional global exposure. Finally, the fund's currency strategy will be re-examined. It is believed that the current hedging strategy has increased the fund's level of volatility because of its lack of U.S. dollar exposure.

Bottom Line: While I am sad to see Mr. Coleman step down, I believe that Roger Mortimer should do a decent job in filling the role with Harbour. By all accounts, he appears to be a solid fit for the Harbour Team.

However, one concern I have is that this change will place an additional workload on Chief Investment Officer Stephen Jenkins. Along with the CIO duties, he will also be managing the CI Harbour and CI Harbour Foreign Equity Funds. This may cause a short term strain on the resources of the team.

As a result, I will be placing the CI Harbour Fund UNDER REVIEW effective immediately. I will continue to monitor the fund for the next couple of quarters to ensure that there is no erosion to its risk reward characteristics. I will do a more full review once the funds have been fully transitioned, and decide at that point what action, if any, should be taken with the fund.

B U I L D I N G W E A L T H
M u t u a l F u n d s / E T F s U p d a t e

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