
Top Funds Report

Global markets continue their march higher

Investors remain optimistic amid improving economic data.

Global equity markets rallied higher for the third month in a row, with the U.S. leading the way with a broad based rally. The S&P 500 gained more than 3% in U.S. dollar terms on an improving global economy. Factor in a weakening Canadian dollar and the gains were even higher for Canadian investors, with the S&P 500 returning nearly 5% in Canadian dollar terms

European markets were also higher in November, with the MSCI Europe Index gaining 1.2%. Economic numbers reinforced that Europe has turned the corner and is on the rebound. Still, risks, namely the debt levels and the modestly slow pace of growth continue to hang over the markets.

Despite a strong rally in Chinese equities, the broader Asian region was lower, muting overall gains in the MSCI EAFE, which would have been in negative territory, were it not for the Canadian dollar falling from \$0.9589 US to \$0.9435 US during the month.

One of my bigger worries was that there would be another showdown in the U.S. over the budget and debt ceiling, as the mid-January deadline approached. By all accounts it looks as though they all learned a lesson from their October shutdown, and have reached a compromise deal that funds the government for the next couple years. While not perfect, it takes some near term uncertainty off the table.

On Wednesday, the Federal Reserve announced that they would be reducing their monthly bond purchases by \$10 million to \$75 million. Immediately after the announcement, markets rallied higher, celebrating the Fed's confirmation that the U.S. economy is on a more solid footing. However, there exists the potential for a short-term pullback as traders digest the lower liquidity in the markets. Still, I believe the stronger economic data offsets this reduction in liquidity.

With the passing of the budget deal, I have become slightly more bearish on bonds. Previously I thought that there was some room for yields to ease slightly, but I have since changed my view on that. Now, I believe that there is renewed, and sustained pressure on them to rise. This does not bode well for most fixed income investments. In this environment I favour short duration over long, and corporate, high yield and floating rate over governments.

I continue to favour U.S. equities, but expect a short-term pullback. I am neutral on Canadian equities, and am mildly negative on Europe in the near term.

In Canada, I continue to favour funds that offer more diversified exposure to Canadian equities and as a result, are less risky, in my opinion. A concern with Canadian equities is the potential headwind that could result from commodity prices. With inflation on the backburner, the outlook for gold remains muted. On the other hand, oil and gas look to be on an upswing, as global economic activity continues to improve.

Please Note: Subscription Prices on the Rise in the New Year - Renew now and save!

Starting January 1st, a one-year subscription to the On-line Buyer's Guide to Mutual Funds will rise by \$5 to \$64.95. Not to worry, if you renew your subscription before the end of the year, you can lock in the 2013 rate. You can renew by calling our customer service desk at 1-888-287-8229 and speaking to Katya or Terri. If you prefer, you can renew on-line at any time by going to <http://www.buildingwealth.ca/Renew/Main.cfm>.

Please send your comments to

feedback@paterson-associates.ca

Funds You Asked For

This month, I revisit a Mackenzie offering, and highlight funds from CIBC, Trimark & Mawer.

Mackenzie Canadian Large Cap Dividend Fund (MFC 1531)

Last issue, I highlighted this fund and panned it, with the view that performance would be expected to remain below average. Apparently I'm not the only one with that view, since on December 6, Mackenzie turfed the old management team, and replaced them with Hovig Moushian and Darren McKiernan.

Some of you may know Mr. McKiernan from Invesco Trimark, where he was part of the Global Equity team, and was largely responsible for the recent performance of the **Trimark Global Dividend Fund**. He left Invesco in September and was announced the new lead of the Mackenzie Global Equity & Income Team.

I view this as positive for the fund. While I haven't had an opportunity to speak with Mr. McKiernan about this yet, I would expect that we will see him implement the same rigorous, bottom up investment process that he used at both Invesco, and Burgundy.

I expect that volatility will come down and returns will improve. There will likely be a good chunk of portfolio turnover, resulting in a more concentrated portfolio, cutting the number of names by about a third. I would also not be surprised to see the cash balance increase, as his Trimark mandates have been carrying cash levels in the mid to high teens of late.

While this encourages me, I'm still not comfortable recommending the fund. I will want to wait until the portfolio transition has occurred, and the new managers have had a few months to catch their stride. Until then, I believe that there are more attractive global equity mandates available.

CIBC U.S. Small Companies Fund (CIB 495)

Despite a rough start in 2011, performance has definitely improved since the new management team at the Boston Company Asset Management took over in August 2010. For the three years ending October 31, the fund gained 17.8%, finishing in the top

quartile. Volatility has been higher than both the benchmark and the category average.

The Boston Company uses a team oriented, high turnover approach in managing the fund. Stocks are selected using a proprietary process that looks for companies where they expect to see an increase in revenues, earnings and cash flows. Valuation is a consideration, looking to invest in companies that are trading below their estimate of intrinsic value.

They are benchmark agnostic, instead focusing on protecting investors capital. They work to avoid stocks or sectors where they see a high level of downside risk. Because of this approach, the portfolio will look much different from its benchmark. It is overweight in financial services, industrials and technology, while maintaining an underweight exposure to real estate, materials and utilities.

I have been somewhat impressed by the recent turnaround in performance. That said, it still has a long way to go before it will be one of my favourites. I believe that there are more attractive U.S. focused small cap funds around including Fidelity, Trimark and TD. That said, if you are currently invested with CIBC and looking for some small cap exposure, this fund should serve you well.

Trimark Canadian Opportunity Class (AIM 1313)

Like most Trimark branded funds, this Canadian equity offering is managed using a disciplined, bottom up, fundamentally driven, stock selection process. The managers look for companies that have a defensible competitive advantage, opportunities for long term growth, and strong management. It also must be trading at a discount to what they believe is its true value.

They tend to take a longer-term view, and as a result, portfolio turnover tends to be relatively modest. However, portfolio turnover was sharply higher for

the year ending March 2013, which is likely the result of Jason Whiting stepping in to take over from Richard Nield and Jason Holzer. Turnover appears to have returned to more normalized levels this year.

Since the manager change, the fund has moved to more of an all-cap mandate, where previously it was focused more on the large cap space. At November 30, the average company size was about half the average of the index and category.

The portfolio is concentrated, holding about 30 names, with the top ten making up 43% of the fund. Surprisingly, it is littered with a number of familiar names including TD Bank, Power Corp, and the Bank of Nova Scotia. On a sector basis, it has no exposure to consumer defensives, utilities or communications, and virtually no exposure to materials. It is overweight in technology, industrials, and real estate. It currently holds about 10% in cash.

Performance looks to have turned the corner. For the year ending November 30, it has gained nearly 31%, more than doubling the 13% rise in the S&P/TSX Composite Index. Volatility has been roughly in line with the index, but I would expect that it has the potential to move higher, with the increased exposure to small and mid-cap stocks.

On balance, I like this fund. My only concern is that it appears to be a much different fund than it was a couple of years ago. While Jason Whiting has a good track record on the other funds he is managing, I would still like to see another couple of quarters on this mandate before I recommend it. But, if you currently own it, early indications are it's a keeper.

AGF Inflation Focus Fund (AGF 4074)

In May of last year, AGF launched this very interesting balanced fund that is designed to mitigate the impact of inflation. To do this, it invests in an actively managed basket of AGF funds with underlying exposure to inflation adjusted fixed income, resource and commodity stocks. The target asset mix is set at 60% **AGF Inflation Plus Bond Fund**, 20% **AGF Global Resources Class**, and 20% **AGF Precious Metals Fund**. At November 30, it was underweight both bonds and precious metals, with an overweight to resources.

The AGF Asset Allocation Committee conducts formal reviews on a quarterly basis, also manages the asset mix. It determines the outlook for each asset class and region, and then optimizes the portfolio by return, yield and volatility.

The idea for this fund is very interesting, but the timing of its launch really couldn't have been worse. While the longer-term outlook for inflation may be positive, it is muted in the near term. Add in a relatively calm geopolitical environment, and it's not hard to see why it has struggled. For the past year, the only fund of the three that has been positive was the AGF Global Resources, but it was only marginally in the black. AGF Precious Metals has been pummeled, dropping 43% in the past year.

Understandably, with this backdrop, the fund has performed rather poorly. It is down 6.8% since its launch and was down 6.5% for the past year. This lagged both the benchmark and the peer group by a substantial margin. That doesn't necessarily mean that this is a bad fund. Looking at the current environment, the performance isn't out of line with expectations for inflation focused funds. The underlying funds have all performed in the upper half of their respective categories in the past year, but combining them into one balanced fund has been disastrous when compared to other balanced funds that don't have the inflation focus mandate.

Considering the outlook for inflation, I don't expect there to be much of a change in the short term. Longer term however, with all the liquidity that has been injected into the global economy, there is likely to be increasing pressure on prices. Considering that, I would likely avoid this fund in the short term. But it might be something to take a look at down the road.

Mawer Tax Effective Balanced Fund (MAW 105)

This fund used to be known as the **Mawer Canadian Diversified Investment Fund**, until its name change midway through 2012. It has the objective of achieving a long term, value added total return on both a pre-tax and after tax basis. It invests in a mix of large and small cap stocks, bonds and cash.

Equities are selected using Mawer's approach of systematically buying wealth creating companies at a discount to intrinsic value. The fixed sleeve focuses

on sector allocation, security selection, and trading strategies.

The asset mix is actively managed, based on Mawer's macro analysis that analyzes which combination of asset classes is most likely to offer the most attractive risk/return characteristics within a medium to long-term time frame. Any changes to the asset mix are done gradually to reduce risk. At November 30, it held 7% in cash, 31% in bonds, and the balance in equities.

With tax effective returns being a key part of the fund's objective, taxes are minimized through the application of a tax overlay strategy, with the objective to minimize taxable distributions. It has paid a variable monthly distribution for the past year that has ranged between \$0.0111 and .0441 per unit, which is a modest 1.1% annualized yield. All the distributions paid this year are expected to be treated as dividend or capital gain for tax purposes.

Since Mr. Senyk took over in 2004, performance has been above average in every year except for 2009, when its 17.6% gain lagged other balanced funds. For the five years ending November 30, it has gained an average annualized return of 12.2% per year. Shorter-term numbers are equally as impressive, with a one-year gain of 20.6%. A great deal of emphasis is placed on risk management, resulting in the fund's volatility being well below the category average.

No matter how you slice it, this is a great balanced fund. It offers a diversified portfolio of Canadian and global equities, combined with conservatively managed bond exposure. Costs are very reasonable, with an MER of 0.99%. This can be a great core holding for most investors, and could even be a total investment solution for some smaller investors looking for a diversified portfolio.

TD U.S. Blue Chip Fund (TDB 977)

As the name would suggest, the TD U.S. Blue Chip Equity Fund looks to provide long term growth by investing in medium and large sized "blue chip" companies that are located in the U.S. Managed by Larry Puglia of T. Rowe Price, the fund invests in stocks that have a market capitalization of at least \$5 billion. Unlike other "blue chip" funds that tend to be more value focused, this one is managed using a more growth-oriented process.

In building the portfolio, the T. Rowe Price team conducts a number of quantitative screens that look for companies that have exhibited high levels of revenue growth, are consistently growing earnings, and are generating strong levels of free cash flow. They then put the remaining companies through a more qualitative review that considers such things as quality of management, brand recognition and the soundness of the company's business plan. The final step is to conduct a valuation analysis, ensuring that the stock is not overvalued compared with its growth prospects.

The end portfolio is deceptively concentrated, holding around 140 names with the top 10 making up a third of the fund. The portfolio is also very concentrated in consumer cyclical and technology names, which combined represent nearly 45% of the fund. Top holdings include such well-known brands as Google, MasterCard, Visa, and Amazon.com. Currency exposure is not hedged. Mr. Puglia is fairly patient in managing the fund, with a portfolio turnover rate that has averaged just over 46% per year.

Performance has been strong, gaining 16.6% in the past five years, finishing in the first quartile and outpacing the S&P 500 Index's 14.0% gain. So far this year, it is up 43% compared with a 38% jump in the index. Given the growth nature, it is slightly more volatile than both the index and the peer group. It also is likely to be hit harder in market downturns. In 2008, it dropped nearly 30% compared with the index's decline of 23%, and in 2002, it dropped 26%, compared with the 23% fall in the index. But it also has the potential to bounce back nicely, gaining 18.6% in 2009, doubling the return of the index.

For investors looking for a growth oriented U.S. equity fund, this is a good fund to consider. It is best suited for those with a medium to high-risk tolerance and a long-term time horizon.

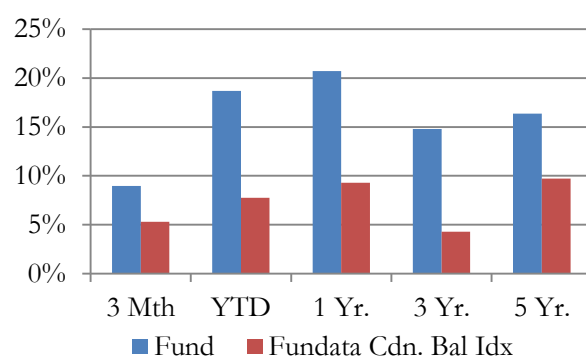
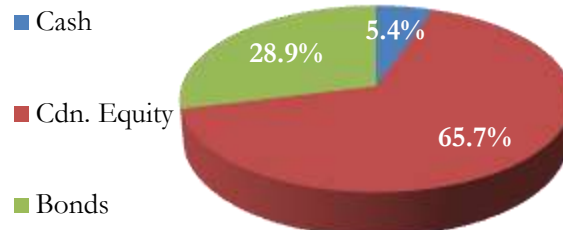
If there is a fund that you would like reviewed, please email it to me at

feedback@paterson-associates.ca

GBC Growth & Income Fund

Fund Company	Pembroke Private Wealth Mgmt.
Fund Type	Canadian Equity Balanced
Rating	A
Style	Growth
Risk Level	Medium
Load Status	No Load
RRSP/RRIF Suitability	Good
Manager	Pembroke Management Ltd.
MER	1.86%
Fund Code	GBC 410 – No Load Units
Minimum Investment	\$10,000

Asset Mix



ANALYSIS: Unlike a lot of traditional balanced funds that usually invest in big blue chip names, this one focuses more on small and mid-cap companies for its equity exposure. The manager combines a top down, macro analysis that is used to set the asset mix with a fundamentally driven, bottom up security selection process. At the end of November, the fund held 31% in bonds, 66% in Canadian equity and 3% in cash. It can invest up to 30% outside Canada.

For the fixed income exposure, the fund invests directly in the **GBC Canadian Bond Fund**. It is a well-diversified fund, with exposure to not only Canadian, but global corporations. It is currently overweight corporate bonds, with just a quarter of the bond allocation in governments.

Within the equity portion of the fund, the emphasis is on small and mid-cap companies. About half the names in the fund are also in the **GBC Growth Fund**, which are more growth focused. The rest is in very high yielding equities that pay a substantial dividend

and are expected to grow their earnings. It is a concentrated portfolio, holding 34 equity names, with the top ten making up about 30% of the fund.

Performance has been impressive. For the five years ending November 30, it has gained an average of 16.4% a year, outpacing the overwhelming majority of other balanced funds in the country. With the exception of 2008 and 2009, it has been in the top 5% of balanced funds.

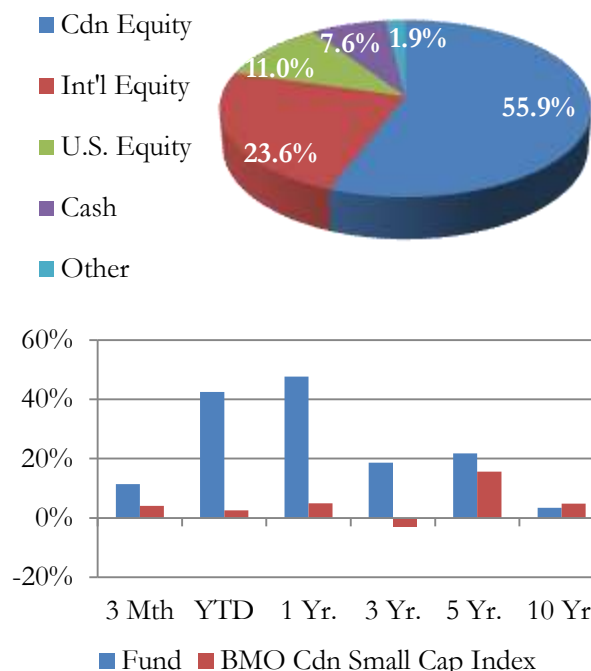
Volatility, particularly for a fund that is so heavily exposed to small-cap names has been rather modest.

I really like this fund, however, I am a little leery of recommending it as a core holding. With the focus on small and mid-cap names, I'm worried that there may be periods of higher volatility, at least higher than you would see with a more traditional large cap focused fund. Still, if you're comfortable with this risk, it's a good option to consider, particularly if you have a longer-term time horizon.

Brandes Canadian Equity

Fund Company	Bridgehouse Asset Managers
Fund Type	Canadian Focused Small/Mid Cap Equity
Rating	A
Style	Bottom Up Value
Risk Level	Medium High
Load Status	Optional
RRSP/RRIF Suitability	Good
Manager	Brandes Investment Team
MER	2.73%
Fund Code	BIP 121 – Front End Units BIP 221 – DSC Units
Minimum Investment	\$1,000

Asset Mix



ANALYSIS: After taking a beating in 2007 and 2008, performance of this fund has really bounced back, gaining an annualized 18.7% for the three years ending November 30, 2013. This has handily outpaced the index and the majority of the other small and mid-cap focused funds in the country.

Much of this outperformance is due to its concentrated, bottom up, deep value approach. Managed by a team at Brandes, this portfolio looks nothing like its benchmark. It is significantly underweight in materials, energy and real estate, while maintaining an overweight in technology, communications, and consumer focused sectors. It is classified as a small / mid cap fund, but it really has an all cap mandate and can invest in companies of any size.

It is a concentrated portfolio, holding 22 names, with the top ten equity holdings making up around 45% of the fund. It also has a very healthy exposure to global stocks through its holding of the **Brandes Global Equity Fund**, which makes up about 33% of the fund.

Volatility has been higher than both the index and its peer group, but if we look at how it has performed in down markets, it has held up much better than the benchmark. For the three years ending September 30, on average, the fund has experienced 132% of the upside of the S&P/TSX Composite Index, yet only experienced 47% of the downside.

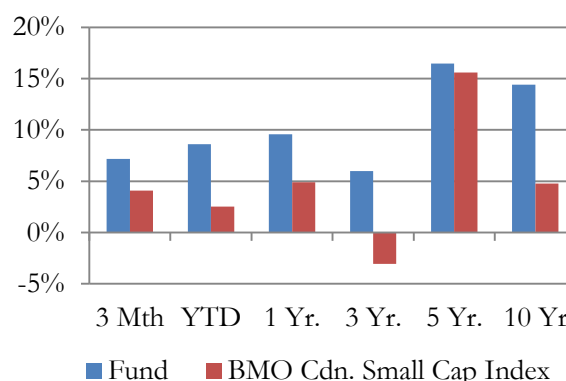
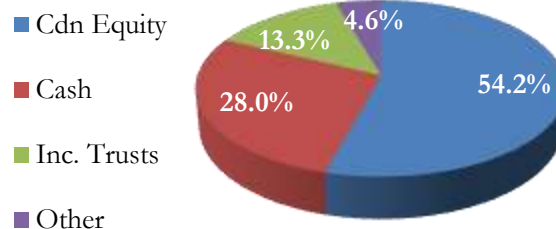
Despite this, I would be reluctant to use this as a core holding. I believe it is just too volatile for most investors. Instead, I would go with something larger cap for a core holding. Also, while recent performance has been excellent, as with any fund where the managers are disciplined and remain true to their style, the fund may experience periods of significant underperformance.

While I wouldn't recommend it as a core holding, I do think it can be a nice compliment in a portfolio, bringing some all cap equity exposure into the mix. There are a lot of things to like about it, including the strong management team, disciplined, repeatable process, and a portfolio that looks nothing like its index – exactly what active management is all about.

Dynamic Small Business Fund

Fund Company	Dynamic Funds
Fund Type	Cdn Small / Mid Cap Equity
Rating	A
Style	Blend
Risk Level	Medium
Load Status	Optional
RRSP/RRIF Suitability	Good
Manager	Oscar Belaiche since August '02 Jason Gibbs since March 2007
MER	2.79%
Fund Code	DYN 087 – Front End Units DYN 787 – DSC Units
Minimum Investment	\$500

Asset Mix



ANALYSIS: Unlike a lot of small cap funds that look to shoot the lights out with big returns and big volatility, this fund takes a more conservative approach. Managed by the team of Oscar Belaiche and Jason Gibbs using what they call “quality at a reasonable price” approach.

They look for best in class businesses with strong balance sheets, dominant positions in their respective industries and management teams that hold a significant stake in the business. Typically, these companies tend to exhibit low levels of volatility and generate growing levels of free cash flow.

They can be quite active with their use of cash, raising or lowering it, based on their assessment of the macroeconomic outlook. Cash was about 22% at the end of October. This process has helped avoid some big drawdowns. In 2008, the fund was down 18% compared with nearly 50% for the BMO Canadian Small Cap Index. It was also up 1.5% in 2011 while the benchmark was down more than 16%.

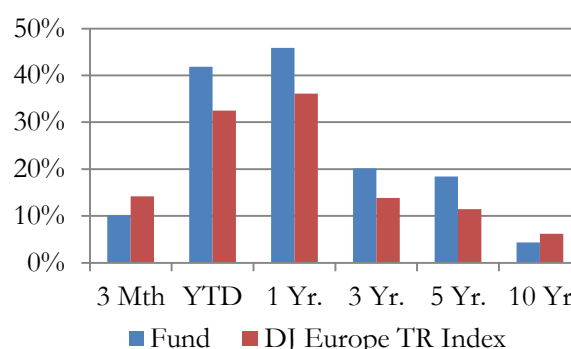
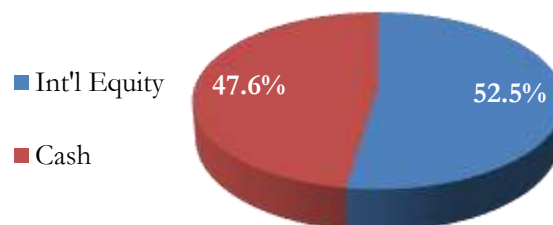
The longer-term performance has been stellar, earning an annualized return of 14.4% for the past ten years. Shorter-term numbers have been less impressive, with a one-year gain of 9.6%, well behind most of its peers in the small cap space. Some of this underperformance can be attributed to its higher exposure to interest sensitive holdings, which have been under pressure since May. The higher cash balance can also drag when markets are on a run. Overall, it has a level of volatility that is well below average. I see this as a fund you bring in to give your portfolio conservative small cap exposure, that shouldn't hurt you too badly in volatile markets.

In my review of this fund last year, I said that that I didn't think that its historic level of above average absolute level of performance can be repeated. I stand by that. However, I do believe that because of its relatively low levels of volatility it can outperform over the long term on a risk adjusted basis. This can be a great fund for investors who are looking for lower risk small cap exposure in their portfolios.

Chou Europe Fund

Fund Company	Chou Associates Management
Fund Type	European Equity
Rating	B
Style	Value
Risk Level	Medium
Load Status	Front End
RRSP/RRIF Suitability	Fair
Manager	Francis Chou since Sept 2003
MER	1.83%
Fund Code	CHO 200 – Front End Units
Minimum Investment	\$5,000

Asset Mix



ANALYSIS: This has been the best performing European equity fund for the five years ending October 31, gaining an average of 14.5% per year. For the past year alone, it gained a staggering 48%.

While recent performance has been impressive, that hasn't always been the case. It lagged other European funds significantly from 2006 to 2010, but has been on a tear since mid-2012. The reason for this divergence in performance can be attributed to manager Francis Chou and his disciplined, bottom up, deep value approach that he uses to pick stocks. He looks for well-managed, financially sound companies that have the ability to generate and grow cash flow and profitability over time, that are trading at a discount.

The tiny portfolio is heavily concentrated, holding between 25 and 35 stocks. He invests in companies of any size, with no restrictions on sector weightings. Currently he holds significant positions in healthcare

and industrials, while having virtually no exposure to materials, technology, consumer staples or utilities.

Mr. Chou is a very patient investor, taking a very long-term outlook of around five years. He is not afraid to hold significant cash balances if he cannot find suitable investment candidates. On September 30, he held nearly half the fund in cash.

I believe that this is very interesting European equity fund, but I don't think it is appropriate for all investors. Given the style and approach used by Mr. Chou, it is likely to experience periods where it will be more volatile than both the index and other funds, and may underperform for long periods. Considering this, I believe that this is best suited only to those who can handle a higher level of risk.

Over the long term this fund can deliver above average returns with above average risk. Those with lower risk tolerances may want to consider the more conservatively positioned **Trimark Europlus Fund**.