

# Q4

## 2012

*“The biggest risk an investor can take is to own expensive assets. In our view, safety is extremely expensive, while less predictable, growth assets range from being reasonably priced (high quality, dividend-paying companies) to very cheap (cyclical and foreign-based companies). To our way of thinking, safety is a diversified mix of asset types and geographies.”*

- Tom Bradley

## Bradley's Brief



In the Q4 brief last year, my goal for our clients was “another unremarkable year”. We had come through a tough period in the markets in good shape, but with interest rates even lower and the economic and political outlook looking scary, ‘unremarkable’ seemed like a reasonable target. Fortunately, my aim was low. Portfolio returns in 2012 were much better.

The factors that fueled 2011’s modest returns were the same ones behind 2012’s healthier numbers. It was a good year for corporate bonds, high quality companies (strong cash flow, little or no debt, growing dividends) and yes, foreign stocks (some investors may be surprised at the extent to which foreign stocks have outperformed Canadian stocks over the last two years - see page 4). All of these types of securities were prominently featured in our funds. While my big picture views (which determine the fund allocations in the Founders Fund and form the basis of our advice to clients) have been ‘approximately right’, our fund managers have been ‘right on’ with their allocations and security selections. All in all, our balanced clients again achieved returns well in excess of the indexes in 2012.

As for what lies ahead in 2013, I can unreservedly say I don’t know. Looking further out (3-5 years), however, I remain confident that a balanced portfolio (including a variety of bonds and stocks of all sizes, industry sectors and geographies) will provide returns well ahead of inflation.

I also believe that a broadly diversified portfolio will outperform income-only strategies that are heavily reliant on declining, or at least, stable interest rates. Canadian income-oriented stocks have been the place to be in recent years, but they’re now expensive relative to other sectors and countries. Our prime focus at Steadyhand is to generate a suitable ‘total return’ (interest, dividends and capital gains) for clients and then worry about where the income will be drawn from. For all but the most risk-adverse clients, a 5-6% return with a few bumps along the way will make for a better retirement than a predictable 2-3% return.

We have a busy publishing schedule in the first part of the year. By the end of January, there will be an updated version of our Performance Assessment paper (with return numbers to December 31, 2012). In conjunction with the paper, we’ll also publish a detailed review of a Steadyhand balanced portfolio. In February, we’ll be coming out with a Steadyhand Dictionary (Scott’s creation) and if I can ever get it finished, a white paper defining what makes a *Better Investor*.

One ingredient for being a *Better Investor* is attending our **Annual Client Presentation**. We’re working hard to make it interesting and useful and **we want you to come!** (See the dates and locations on the last page of this report.) At Steadyhand, we remain focused on ensuring that you, our client, is well equipped and properly positioned for the next 3-5 years. We hope to see you in a few weeks.

A handwritten signature in cursive script, appearing to read 'Jim'.

## Takeaways

### Stocks

- Despite troubling headlines, most stock markets had a strong year. The U.S. (S&P 500 Index) and Canada (S&P/TSX Composite Index) rose 16% and 7%, respectively, and key European markets posted double-digit gains. Asian markets also provided solid returns, although the Japanese Yen weakened substantially against the loonie, which dampened returns.
- Resource stocks were weak, on lower commodity prices, which held back the TSX and the small-cap market. Consumer-oriented stocks, on the other hand, were some of the strongest performers at home and abroad.

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*Stocks had a strong year, with foreign markets leading the way. Government bonds cooled off, but corporate and high yield issues performed well.*

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### Bonds

- The Canadian bond market returned 3.6% (income and capital appreciation), led by a strengthening in corporate and high yield bond prices. Government bonds provided more modest total returns.
- The 10-year Government of Canada bond yield finished the year at 1.8%, a slight decrease from the previous year.
- Interest rates remain at historically low levels as central banks around the world continue to pursue stimulative monetary policies.

### Our Funds

- Our portfolios posted solid returns in 2012. Balanced clients experienced returns in the 10% to 12% range, depending on their asset mix.
- A bias towards high-quality companies, foreign stocks and corporate bonds was a positive factor in our funds' performance.
- In the context of a balanced portfolio, key stock purchases during the year included: *Baytex Energy, Starbucks, Maersk, ABB, and Eagle Energy Trust*. Notable sales included: *Asia Pacific Breweries, DR Horton, Diageo, Sony, and Shoppers Drug Mart*.
- On the fixed income side, portfolios have a pronounced bias towards corporate bonds, including high yield, and are holding a higher level of cash.

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## Our Advice to Clients

We continue to recommend a full allocation to equities in relation to your long-term asset mix (with a bias towards foreign stocks), a below-average position in bonds, and a modest cash weighting (10-15%). This positioning reflects our view that bonds look expensive and stock valuations are reasonable in the context of a muted economic outlook.

As a reminder, the asset mix of the Founders Fund best reflects our views on corporate fundamentals, valuations and asset mix. If you have any questions about your portfolio or asset mix, give us a call at **1-888-888-3147**.

## Steadyhand Portfolios (Hypothetical)\*

### Compound Annualized Returns

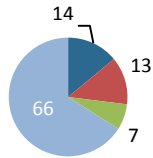
Income Fund

Equity Fund

Global Equity Fund

Small-Cap Equity Fund

#### Balanced Income Portfolio

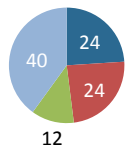


**Long-term asset mix:**

Fixed Income – 50%  
Cdn Equities – 30%  
U.S. Equities – 10%  
Overseas Equities – 10%

	3 M	YTD	1 Y	2 Y	3 Y	5 Y
	2.7%	10.1%	10.1%	7.3%	8.2%	5.2%

#### Balanced Equity Portfolio

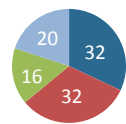


**Long-term asset mix:**

Fixed Income – 30%  
Cdn Equities – 34%  
U.S. Equities – 18%  
Overseas Equities – 18%

	3 M	YTD	1 Y	2 Y	3 Y	5 Y
	3.6%	11.8%	11.8%	6.9%	7.6%	3.4%

#### Growth Portfolio

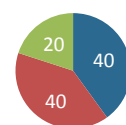


**Long-term asset mix:**

Fixed Income – 15%  
Cdn Equities – 37%  
U.S. Equities – 24%  
Overseas Equities – 24%

	3 M	YTD	1 Y	2 Y	3 Y	5 Y
	4.3%	13.0%	13.0%	6.6%	7.2%	2.0%

#### Aggressive Growth Portfolio



**Long-term asset mix:**

Fixed Income – 0%  
Cdn Equities – 40%  
U.S. Equities – 30%  
Overseas Equities – 30%

	3 M	YTD	1 Y	2 Y	3 Y	5 Y
	5.0%	14.2%	14.2%	6.3%	6.7%	0.6%

\*The referenced portfolios are hypothetical portfolios comprised of Steadyhand funds. Each portfolio assumes that it is rebalanced on a quarterly basis to the target fund allocation. The indicated rates of return are the historical compound annualized returns (unaudited). See end of report for all performance disclaimers. For further details on the portfolios, visit [www.steadyhand.com/education/portfolios](http://www.steadyhand.com/education/portfolios).

#### Capital Market Performance

	3 M	YTD	1 Y	2 Y	3 Y	5 Y
DEX 91 Day T-Bill Index	0.3%	1.0%	1.0%	1.0%	0.9%	1.3%
DEX Universe Bond Index	0.3%	3.6%	3.6%	6.6%	6.6%	6.4%
S&P/TSX Composite Index	1.7%	7.2%	7.2%	-1.1%	4.8%	0.8%
BMO Small Cap Index	-1.1%	2.5%	2.5%	-6.2%	6.8%	2.6%
S&P 500 Index (\$Cdn)	0.8%	13.5%	13.5%	8.9%	9.0%	1.8%
MSCI World Index (\$Cdn)	3.8%	14.0%	14.0%	5.2%	5.7%	-0.5%

## Founders Fund

### Fund Overview

- The Founders Fund is a balanced mix of our fixed income and equity funds.
- It has a long-term asset mix target of 60% equities and 40% fixed income, although there's considerable scope to adjust these weightings.
- Tom Bradley manages the fund, and as such, it reflects Steadyhand's views on corporate fundamentals, valuations and asset mix.

### Asset Mix

- Since inception in February, 2012, the fund has maintained a full allocation to stocks based on our view that valuations are attractive and already reflect a slow growth, high risk economic outlook.
- Non-North American companies comprise a significant part of the fund (via the Global Equity Fund and Equity Fund), as we believe they represent the best areas of opportunity. Valuations in Europe and Asia have increased with the recent rally, but are still attractive.
- The portfolio's Canadian stocks consist primarily of income-oriented securities (Income Fund), high-quality companies with growing dividends (Equity Fund), and to a lesser extent, smaller companies with higher growth profiles (Small-Cap Fund). With the exception of energy, the fund currently has limited exposure to resource companies.
- The weighting in bonds (26%) remains well under the long-term target (35%), as yields are running below the expected level of inflation, which in our view is unsustainable.
- In lieu of a full bond allocation, the cash reserve is higher than normal. While yields are nominal, cash and other short-term securities provide protection against rising interest rates and are a ready source of liquidity in the event of heightened market volatility.

### Portfolio Specifics

- Refer to pages 7-16 for details on the underlying funds.

### Notable Transactions

- As the stock market moved higher late in the year, the allocations to the Equity Fund and Global Equity Fund were reduced and the Savings Fund was increased.
- The total equity weighting finished at the bottom of the 2012 range (59-64%).
- Between the Savings Fund and cash held in the equity funds, the cash reserve finished the year at 15% of total assets.

*As markets rallied late in the year, we were more active in re-balancing. The stock weighting was reduced slightly and the cash reserve increased to 15% of the fund.*

### Fund Mix

Income Fund	38%
Global Equity Fund	23%
Equity Fund	22%
Small-Cap Equity Fund	5%
Savings Fund	12%



## Founders Fund

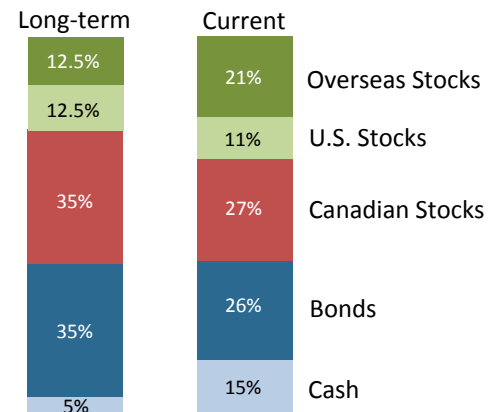
### Top Stock Holdings (% of Fund)

TD Bank	2.1%
Suncor Energy	1.3%
Unilever	1.3%
Starbucks	1.0%
Novartis	0.9%
CAE	0.9%
CVS Caremark	0.9%
Lincoln Electric	0.9%
Potash Corp.	0.9%
Baytex Energy	0.9%

### Sector Allocation (Equities)

Financials	21.4%
Industrials	19.5%
Energy	12.2%
Information Technology	10.7%
Consumer Discretionary	9.2%
Consumer Staples	8.3%
Materials	6.7%
Telecom Services	6.6%
Health Care	2.9%
Utilities	2.5%

### Asset Mix



### Transactions (Fourth Quarter)

+	-
Baytex Energy	Crescent Point
Hutchison	Softbank
France Tel	Walmart
Manulife	Loblaw

### Asset Mix

Cash & Short-term	15.5%
Government Bonds	9.9%
Corporate Bonds	16.1%
Canadian Equities	26.5%
Foreign Equities	32.0%

### Fund Size

Net Assets \$39,409,488

### Fee

One Simple Fee 1.34% ([or less](#))

### Compound Annualized Returns

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	Incept*
<b>Founders Fund<sup>1</sup></b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
DEX Universe Bond Index	0.3%	3.6%	3.6%	6.6%	6.6%	6.4%	N/A
S&P/TSX Composite Index	1.7%	7.2%	7.2%	-1.1%	4.8%	0.8%	N/A
MSCI World Index (\$Cdn)	3.8%	14.0%	14.0%	5.2%	5.7%	-0.5%	N/A

\*Feb. 17, 2012

### Growth of \$10,000 Since Inception<sup>1</sup>

<sup>1</sup>Securities regulators prohibit us from reporting performance for a fund that has been available for less than one year. Investors can visit [Morningstar](#) or [Globefund](#) for information on the fund's returns.

## Income Fund

### Market Overview

- The Canadian bond market had another positive year with the DEX Universe Bond Index returning 3.6%. High yield and corporate bonds drove the market, while government bonds provided more modest returns.
- The Canadian stock market gained 7.2%, with defensive, dividend-paying securities providing even higher returns.

### Portfolio Specifics (2012)

- Performance was driven by strong returns from the fund's high yield bond investments and income-equities – real estate investment trusts (REITs), banks and insurance companies in particular.
- The bond component of the portfolio (roughly 70% of the fund) was invested primarily in corporate bonds and provincial government bonds. The manager, Connor, Clark & Lunn, held very few federal government bonds, as yields remained exceptionally low (below the rate of inflation) and these securities offered little value in their view.
- Corporate bond investments were focused in the financial sector, notably banks (Canadian and U.S.) and insurers such as *Manulife* and *Sun Life*. The fund's U.S. bank investments (*Bank of America* and *Citigroup*) were strong performers as the American housing market showed signs of stabilization.
- The portfolio's income-equities outpaced the broad market by a notable margin as defensive, dividend-paying securities were in high demand.
- The fund paid distributions totaling \$0.57/unit in 2012. If interest rates stay near historic lows, it's unlikely that this level of income will be maintained, and distributions may be reduced in future quarters.

### Notable Transactions (Fourth Quarter)

- A few transactions were made in the high yield bond portion of the fund to improve the quality of holdings following a run of strong performance. As a result, the average credit rating moved up a notch to BB (high).
- On the stock side, the manager sold *Loblaw* (strong performance) and *CML Healthcare* (poor operating results) and added to *Manulife*, *Royal Bank* and select energy companies, among others.

### Positioning

- The manager continues to find value in corporate bonds, which is where the fund's fixed income holdings are concentrated.
- The fund is positioned with a shorter than normal term-to-maturity and duration (a measure of sensitivity to movements in interest rates) as a defensive measure against a rise in rates.
- Equity investments are concentrated in well financed companies with growing dividends. CC&L also recently added to stocks that will benefit from a recovery in the U.S.

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*CC&L feels that risk assets (corporate bonds and stocks) remain attractive over the intermediate term because the backdrop for a pickup in global growth is favourable.*

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## Short duration Corporate bonds

High  
yield

Federal  
government  
bonds

REITs

*Brookfield Office,  
Cominar, H&R*

U.S. bank  
bonds

*Citigroup, Bank of  
America*

Provincial  
bonds

Growing dividends

## Income Fund

### Top Holdings

CC&L High Yield Bond Fd	8.7%
Quebec 3.50% (12/01/22)	4.1%
Ontario 4.20% (03/08/18)	3.9%
Quebec 4.50% (12/01/18)	2.5%
Ontario 3.15% (06/02/22)	2.5%
Ontario 5.85% (03/08/33)	2.0%
Toronto-Dominion Bank	2.0%
Bank of Nova Scotia	1.9%
Royal Bank	1.9%
Telus	1.8%

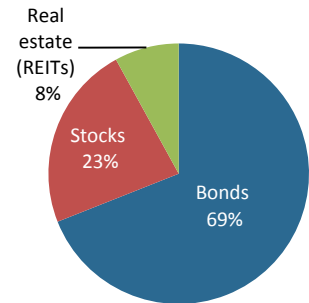
### Issuer Allocation (Bonds)

Federal Govt. Bonds	5.5%
Provincial Govt. Bonds	32.8%
Corporate Bonds	61.7%

### Rating Summary (Bonds)

AAA	7.3%
AA	31.5%
A	35.0%
BBB	18.9%
BB (or lower)	7.3%

### Asset Mix



### Stock Transactions (Fourth Quarter)

+	-
Manulife	Loblaw
Royal Bank	CML Health
Gibson Energy	North West Co.
Russel Metals	CIBC

### Portfolio Summary

Avg. Term to Maturity	8.4 yrs.
Duration	6.2 yrs.

### Fund Size / Yield

Net Assets	\$76,033,841
Pre-fee Yield	3.4%

### Fee

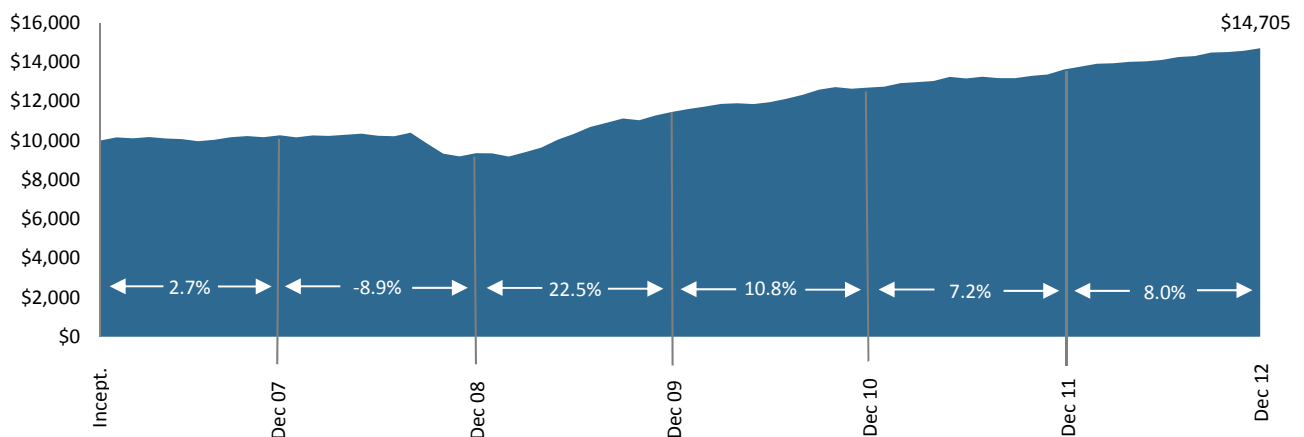
One Simple Fee	1.04% ( <a href="#">or less</a> )
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### Compound Annualized Returns

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	Incept*
<b>Income Fund</b>	<b>1.5%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>7.6%</b>	<b>8.7%</b>	<b>7.4%</b>	<b>6.8%</b>
DEX Universe Bond Index	0.3%	3.6%	3.6%	6.6%	6.6%	6.4%	6.0%
S&P/TSX Composite Index	1.7%	7.2%	7.2%	-1.1%	4.8%	0.8%	2.1%

\*Feb. 13, 2007

### Growth of \$10,000 Since Inception





## Equity Fund

### Market Overview

- The Canadian stock market (S&P/TSX Composite Index) had a choppy year but finished with a gain of 7.2%.
- Global markets posted strong returns, with northern Europe, Japan and the U.S. posting double-digit gains. The MSCI World Index advanced 14%.

### Portfolio Specifics (2012)

- There were three key drivers of performance in the year: (1) a focus on high-quality companies (businesses that have strong balance sheets, steady cash flows and growing dividends); (2) a significant weighting in U.S. and foreign stocks, specifically those with growing exposure to the emerging markets; and (3) success in exploiting short-term volatility (adding to core holdings on price weakness and trimming on strength).
- It was a good year for stable, boring companies. The manager, CGOV Asset Management, has been successful in marrying these types of businesses with faster growth companies to provide the portfolio with exposure to a broad range of industries and a diverse stream of revenues.
- The fund's U.S. investments fared well, with *CVS*, *Insperty*, *Lincoln Electric* and *Oracle* turning in strong operating results and share price gains.
- The portfolio has minimal exposure to the highly-cyclical mining sector, which had a tough year. Yet, the lone gold company CGOV owns, *Franco-Nevada*, was one of the fund's top performers (gaining nearly 50%).
- *Asia Pacific Breweries* (APB) was a key contributor to the fund's return. The stock, which had risen to become the largest holding, doubled in value by the summer and was sold after a buyout offer from Heineken.
- The greatest detractor to performance was *Birchcliff Energy*, which fell over 40% as a result of a need to raise capital and weak gas prices.

### Notable Transactions (Fourth Quarter)

- *Crescent Point Energy* was sold. CGOV feels the pace of acquisitions and share offerings was too fast.
- *Baytex Energy* was purchased. Baytex has a highly regarded management team and generates significant free cash flow (cash after expenses). The stock trades at a reasonable valuation following a price slump.

### Positioning

- U.S. and overseas companies comprise nearly half of the portfolio as CGOV continues to find good value in the U.S. and abroad. Further, two-thirds of the underlying holdings' revenues come from outside Canada.
- Exposure to the emerging markets through investments in well established consumer-focused businesses remains an important theme.
- The fund's cash position (8.5%) is higher than normal as CGOV is being more cautious in the face of unstable economic conditions.

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*The portfolio's sweet spot – high-quality, steady eddy companies with reasonable valuations – flourished in 2012.*

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**Foreign stocks**  
**High quality**

Mining

**Faster growth**

*Starbucks, Novozymes*

**Emerging markets**

**Cash**

**Consumer goods**

*CVS Caremark, Unilever, Dairy Farm*

## Equity Fund

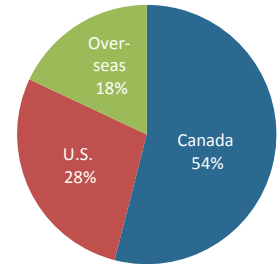
### Top Holdings

Suncor Energy	6.0%
TD Bank	5.9%
Starbucks	4.4%
Novartis	4.2%
CAE	4.1%
CVS Caremark	4.1%
Lincoln Electric	4.1%
Potash Corp.	4.0%
Baytex Energy	4.0%
Mead Johnson	4.0%

### Sector Allocation (Equities)

Industrials	22.7%
Energy	17.5%
Consumer Staples	16.0%
Materials	14.1%
Financials	10.7%
Consumer Discretionary	8.3%
Health Care	4.6%
Information Technology	3.4%
Telecom Services	2.7%

### Geographic Profile (Equities)



### Transactions (Fourth Quarter)

+	-
Baytex Energy	Crescent Point
CAE	Rogers Comm.
Suncor Energy	
Dairy Farm	

### Asset Mix

Equities	91.5%
Cash & Short-term	8.5%

### Fund Size / Concentration

Net Assets	\$45,013,721
Number of stocks	25

### Fee

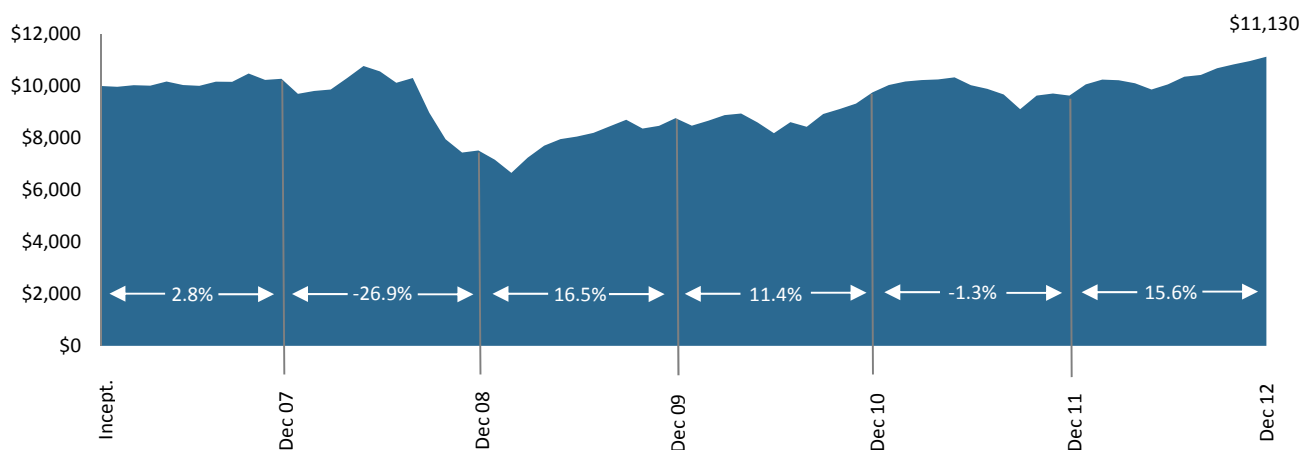
One Simple Fee	1.42% (or less)
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### Compound Annualized Returns

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	Incept*
<b>Equity Fund</b>	<b>4.1%</b>	<b>15.6%</b>	<b>15.6%</b>	<b>6.8%</b>	<b>8.3%</b>	<b>1.6%</b>	<b>1.8%</b>
S&P/TSX Composite Index	1.7%	7.2%	7.2%	-1.1%	4.8%	0.8%	2.1%
MSCI World Index (\$Cdn)	3.8%	14.0%	14.0%	5.2%	5.7%	-0.5%	-2.0%

\*Feb. 13, 2007

### Growth of \$10,000 Since Inception



## Global Equity Fund

### Market Overview

- Despite the troubling headlines, global stocks had a good year, with the U.S. market gaining 16% (in U.S. dollars) and many European and Asian markets also turning in double-digit gains.
- The Canadian dollar rose modestly against the U.S. dollar (+2%) and Euro (+1%), and more significantly against the Yen (+15%). This appreciation dampened returns from foreign-denominated stocks.

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*The manager has reduced the fund's holdings of "safe, predictable earners" and increased holdings of more cyclical companies.*

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### Portfolio Specifics (2012)

- Companies that generate safe, predictable earnings drove market returns. The portfolio's relatively modest exposure to these stocks (which included *Diageo*, *Walmart* and *Sanofi*) and focus instead on more cyclical, cheaply valued stocks, held back returns (until late in the year).
- U.S. holdings were key drivers of performance, led by consumer-related and industrial stocks (*DR Horton*, *Walmart* and *Illinois Tool Works*).
- European stock prices recovered as investor sentiment improved. The fund's German investments were particularly strong performers, with *SAP* and *Deutsche Post* both gaining more than 40%. British financial services companies *HSBC*, *Aviva* and *RBS* also rebounded sharply.
- Technology companies, which have been an area of focus over the past few years, produced strong operating results and share price gains. *Samsung*, *Google*, *Intel* and *SAP* were among the top performers.
- Japanese export-focused holdings (*Panasonic*, *Sony*, *Fujitsu*, *Ricoh*) were the greatest area of weakness. A strong Yen for most of the year and consumer backlash in China to Japanese products (stemming from a political dispute in the East China Sea) hurt these companies' earnings.
- Energy holdings in the emerging markets, *Gazprom* and *Petrobras*, also detracted from performance (*Petrobras* was sold).

### Notable Transactions (Fourth Quarter)

- Three companies were purchased: *France Telecom* (the major mobile operator in France), *Sumitomo Mitsui Financial Group* (one of Japan's largest banks), and *Hutchison Whampoa* (a Hong Kong conglomerate).
- Three stocks were sold: *Sanofi* and *Walmart* (strong performance); and *Softbank* (acquisition of Sprint looks like an expensive and risky deal).

### Positioning

- The manager has been adding to stocks with cyclical earnings that are well positioned in the current phase of the economic cycle (modest growth).
- Rising consumption in the emerging markets remains a key theme and the fund has growing exposure to Asia.
- The impact of tackling the fiscal cliff is increasingly being factored into U.S. earnings forecasts, and American companies comprise a notably smaller weight in the fund relative to their weighting in the World market.

# Asian consumption

*Hutchison Whampoa, China Mobile, Swire Pacific*

# u.s. Europe

## Cyclical

*Maersk, Safran, Rio Tinto, Genting*

# Value tilt

# Technology

## Global Equity Fund

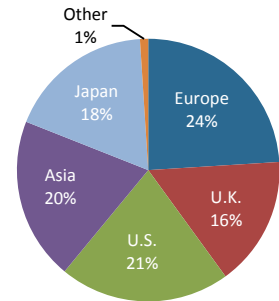
### Top Holdings

Rio Tinto	3.2%
Dongfeng Motor	2.9%
Aviva	2.9%
ENI	2.9%
Samsung	2.9%
Google	2.8%
Fujitsu	2.8%
HSBC	2.8%
Bridgestone	2.7%
ABB	2.7%

### Sector Allocation (Equities)

Information Technology	21.2%
Financials	18.9%
Consumer Discretionary	17.5%
Industrials	15.9%
Telecom Services	9.8%
Consumer Staples	7.4%
Energy	4.4%
Materials	3.3%
Health Care	1.6%

### Geographic Profile (Equities)



### Transactions (Fourth Quarter)

+	-
France Tel SMFG Hutchison Genting Fujitsu	Sanofi Softbank Walmart SAP

### Asset Mix

Equities	96.3%
Cash & Short-term	3.7%

### Fund Size / Concentration

Net Assets	\$28,025,386
Number of stocks	40

### Fee

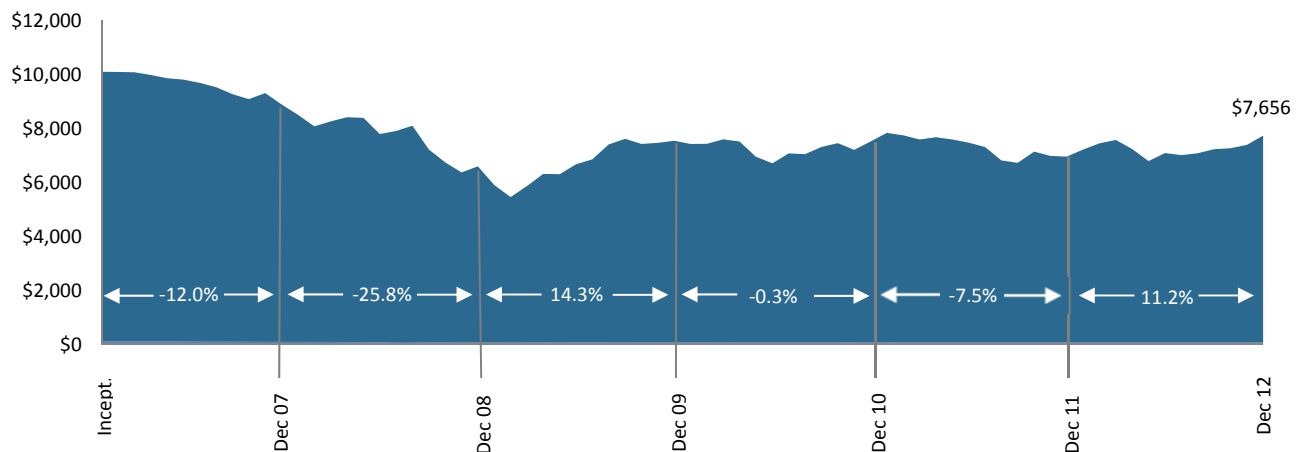
One Simple Fee	1.78% (or less)
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### Compound Annualized Returns

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	Incept*
<b>Global Equity Fund</b>	<b>7.0%</b>	<b>11.2%</b>	<b>11.2%</b>	<b>1.4%</b>	<b>0.8%</b>	<b>-2.7%</b>	<b>-4.4%</b>
MSCI World Index (\$Cdn)	3.8%	14.0%	14.0%	5.2%	5.7%	-0.5%	-2.0%

\*Feb. 13, 2007

### Growth of \$10,000 Since Inception



## Small-Cap Equity Fund

### Market Overview

- The Canadian small-cap market turned in a modest gain of 2.5% in 2012 (as measured by the BMO Small Cap Index).
- Energy and mining stocks – the largest component of the market – had a challenging year, while the technology, industrial, financial and consumer sectors were areas of strength.

### Portfolio Specifics (2012)

- The fund held 16 stocks at year-end, with market capitalizations ranging from \$20 million to \$2 billion. The weighted average market capitalization of the portfolio is roughly \$900 million.
- The portfolio's composition is significantly different than the small-cap market. The fund has limited exposure to base metals and mining-related stocks and is concentrated in well financed, profitable companies.
- A key area of focus is on businesses that have little debt. With the exception of *Iridium*, every holding is debt-free or near debt-free.
- Key drivers of performance in 2012 were: *Primero Mining*, *Stantec*, *Parkland Fuel*, and *Badger Daylighting*.
- *Iridium Communications* was the greatest detractor from performance. *Total Energy Services* and *HNZ Group* also declined. The manager feels these are all strong businesses and bought additional shares on weakness.
- Stock valuations are on the "good side of neutral" in the manager's view (Wil Wutherich). Most holdings still trade at a discount to their underlying value. Investments that were approaching full value were trimmed in the year (e.g. *Coastal Energy*).
- The cash position currently sits at 10.5%.

### Notable Transactions (Fourth Quarter)

- *Eagle Energy Trust* and a yet-to-be-disclosed energy company were purchased. Both companies are small oil producers that have good production growth potential and are exploiting unique opportunities.
- *Glacier Media* was sold. The manager feels the company will have difficulty meeting his long-term return expectations.
- Additional shares were purchased in *Evertz Technologies*, *HNZ Group*, *Palliser Oil & Gas* and *Iridium Communications*, among others.

### Positioning

- While highly concentrated, the portfolio has exposure to a diverse set of industries, notably the energy, technology, industrial and consumer-related sectors.
- The energy component of the portfolio has increased, with growing exposure to oil producers – an area where Wutherich is finding attractive opportunities.

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*The manager's focus remains on a tight collection of companies with strong cash flows and minimal debt.*

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## Profitable businesses

Base metals

Cash

## Oil Producers

*Coastal Energy, Palliser, Eagle Energy*

## Concentration

Technology

*MacDonald Dettwiler, Evertz, Calian*

Debt-free

## Small-Cap Equity Fund

### Top Holdings\*

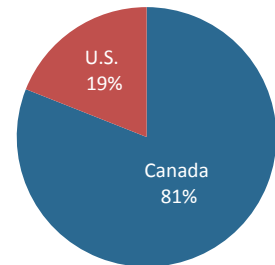
Stantec	7.7%
Primero Mining	7.4%
HNZ Group	7.1%
MacDonald Dettwiler	7.0%
Medical Facilities	6.9%
Badger Daylighting	6.4%
Total Energy Services	6.3%
Parkland Fuel	6.0%
Evertz Technologies	6.0%
Iridium Communications	5.8%

\*As of October 31, 2012

### Sector Allocation (Equities)

Energy	27.6%
Industrials	24.2%
Information Technology	20.2%
Telecom Services	7.6%
Health Care	7.5%
Materials	7.1%
Consumer Discretionary	5.8%

### Geographic Profile (Equities)



### Transactions (Fourth Quarter)

+	-
Eagle Energy Evertz Tech HNZ Group Palliser	Glacier Media

### Asset Mix

Equities	89.5%
Cash & Short-term	10.5%

### Fund Size / Concentration

Net Assets	\$31,662,883
Number of stocks	16

### Fee

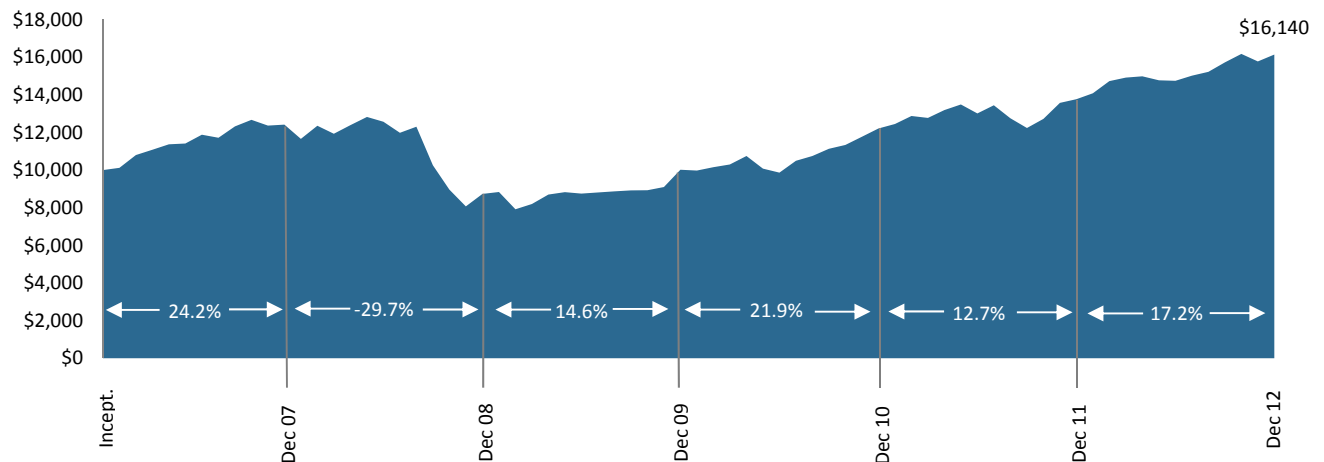
One Simple Fee 1.78% ([or less](#))

### Compound Annualized Returns

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	Incept*
<b>Small-Cap Equity Fund</b>	<b>2.6%</b>	<b>17.2%</b>	<b>17.2%</b>	<b>15.0%</b>	<b>17.2%</b>	<b>5.4%</b>	<b>8.5%</b>
BMO Small Cap Index	-1.1%	2.5%	2.5%	-6.2%	6.8%	2.6%	2.0%

\*Feb. 13, 2007

### Growth of \$10,000 Since Inception



## Savings Fund

### Market Overview

- The Bank of Canada left its key short-term lending rate unchanged in 2012. It has sat at 1.0% since September 2010.
- The central bank feels that global economic conditions are unfolding broadly as projected: the U.S. economy is progressing at a gradual pace; Chinese growth appears to be stabilizing; and growth in Canada is expected to pick-up through 2013.
- Global financial conditions remain stimulative, but the Bank feels that over time, some modest withdrawal of stimulus will be required (in the form of higher short-term interest rates). The timing, however, remains uncertain.

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*The manager continues to maintain a defensive positioning with respect to the portfolio's average term-to-maturity.*

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### Portfolio Specifics (2012)

- With the government's key lending rate remaining close to historic lows, it is a difficult environment to add yield in the portfolio.
- The manager, Connor, Clark & Lunn, made few changes to the structure of the portfolio. Investments remained concentrated in provincial T-Bills, bank paper and corporate paper.
- The fund had a minimal weighting in federal T-Bills, as provincial T-Bills provided a yield advantage of 10-12 basis points (0.10% - 0.12%), although spreads narrowed somewhat toward the end of the year.
- Corporate paper provided the highest yields, with notes issued by companies such as *Brookfield Asset Management, Enbridge* and *Telus* offering a yield advantage of 20-30 basis points over government T-Bills.
- The average term to maturity of the portfolio was shorter than normal throughout the year.
- The pre-fee yield of the fund at the end of December was 1.1%.
- Short-term interest rates are still very low and we have maintained a reduced fee on the fund (0.20%) to help provide a reasonable yield for unitholders.

### Notable Transactions (Fourth Quarter)

- The manager purchased some additional corporate paper.
- A few short-dated corporate bonds were purchased, notably notes issued by *Manulife Financial*.

### Positioning

- The manager continues to maintain a defensive positioning with respect to the portfolio's average term-to-maturity (which is shorter than normal) in anticipation of a rate increase by the Bank of Canada at some point down the road.

Short  
maturity

Bank  
paper

Federal T-Bills

Provincial  
T-Bills

Commercial  
paper

Reduced fee

## Savings Fund

### Top Holdings

Ontario T-Bills (02/20/13)	16.1%
B.C. P/N (03/18/13)	10.3%
B.C. P/N (03/12/13)	6.7%
BMO BDN (08/08/13)	6.7%
TD Bank BDN (01/03/13)	6.2%
BNS B/A (04/12/13)	4.9%
Manulife 4.67% (3/28/13)	4.5%
Royal Bank B/A (2/25/13)	4.5%
CIBC B/A (05/21/13)	4.5%
Natl Bank B/A (01/23/13)	4.0%

### Yield

7-day Yield\* 0.9%

*\*This is an annualized historical yield (net of fees) based on the seven day period ended on December 31, 2012, and does not represent an actual one year return.*

### Fund Size

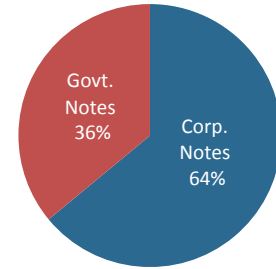
Net Assets \$6,476,496

### Fee

One Simple Fee 0.65%\* ([or less](#))

\*Temporarily reduced to 0.20%

### Issuer Allocation

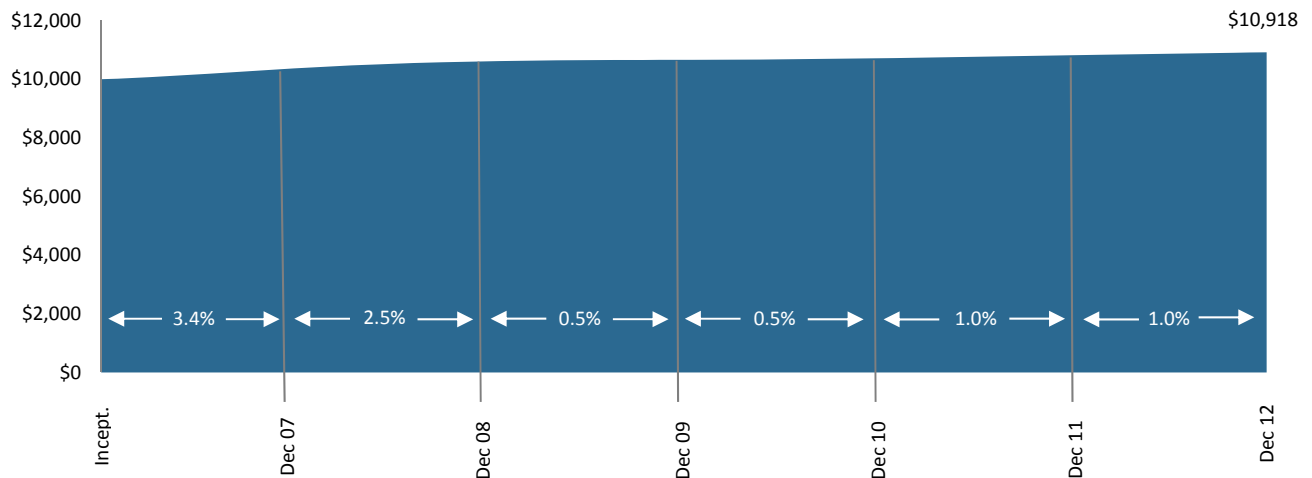


### Compound Annualized Returns

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	Incept*
<b>Savings Fund</b>	<b>0.2%</b>	<b>1.0%</b>	<b>1.0%</b>	<b>1.0%</b>	<b>0.8%</b>	<b>1.1%</b>	<b>1.5%</b>
DEX 91 Day T-Bill Index	0.3%	1.0%	1.0%	1.0%	0.9%	1.3%	1.8%

\*Feb. 13, 2007

### Growth of \$10,000 Since Inception





## Stock Snapshot –



### Overview

Badger Daylighting is a Calgary-based provider of non-destructive excavating services. The company has over 500 hydrovac units operating in Canada and the U.S. that are used in the oil & gas, construction, transportation and utility industries. Hydrovacs are trucks that expose pipelines and other underground structures using pressurized water and a powerful vacuum, hence 'daylighting' them. Badger has 80 field offices across North America and expertise in operating in constrained areas and extreme weather conditions.

The stock is held in our Small-Cap Equity Fund (6.8% position size).

### Investment Case

Badger is an industry leader in non-destructive excavation. The company's technologies and processes help prevent damage to underground infrastructure and it has a broadly diversified customer base and a strong safety record. Badger has a number of competitive advantages, including: industry-leading expertise and experience; a large North American fleet; and an in-house design and manufacturing facility.

The company has a promising growth outlook, as North American infrastructure is aging (Toronto has over 1,000 water main breaks a year) and the oil & gas industry is positioned for growth over the long term. Further, Badger has doubled its fleet size since 2006 and is successfully expanding its operations in the U.S.

From a financial standpoint, the company has a strong balance sheet and has been consistently profitable since 2000. Badger's average Return on Equity (ROE) over the last five years has been 29%, and its profits have gone up nearly six-fold over the past 10 years.

### Risks to Outlook

The greatest risk to Badger's outlook is a sustained downturn in oil & gas prices, which would impact its servicing activities in the energy sector. A second risk relates to the company's operations in the eastern United States. Badger has a small number of large contracts in the region and needs to diversify its operations to avoid the potentially material impact of an expired or lost contract.

*An interesting fact:* In hard-to-reach locations, Badger's hydrovacs can dig by remote access up to 400 feet away. As well, each unit has an onboard heater capable of heating water to 150°F to allow excavation in frozen earth to any depth of ground frost.



## Where to From Here?

It's coming from all directions: fiscal cliffs, insolvent governments, energy self-sufficiency, changing demographics, Canadian competitiveness, and mobile everything. What does it all mean for your portfolio?



Join Tom Bradley and the Steadyhand team at our annual client event as we address these top-of-mind questions and provide an assessment of the current investing environment and a look at how our funds are positioned.

**Winnipeg** – Monday, January 28<sup>th</sup>, 7:00 PM at Inn at the Forks

**Ottawa** – Tuesday, January 29<sup>th</sup>, 5:30 PM at the Radisson Parliament Hill

**Toronto** – Thursday, January 31<sup>st</sup>, 12:15 PM & 5:30 PM at the Ontario Heritage Centre

**Calgary** – Tuesday, February 5<sup>th</sup>, 5:30 PM at the Sheraton Suites Calgary Eau Claire

**Vancouver** – Wednesday, February 6<sup>th</sup>, 7:00 PM at the Performance Works Theatre (Granville Island)

Please call 1-888-888-3147 or email [info@steadyhand.com](mailto:info@steadyhand.com) to register.

### Disclaimers

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The performance data provided for the Steadyhand Savings Fund assumes reinvestment of distributions only and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The indicated rates of return for the funds other than the Savings Fund are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual fund securities are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the funds will be able to maintain their net asset value per security at a constant amount or that the full amount of your investment in the funds will be returned to you. Past performance may not be repeated.

Steadyhand Investment Management Ltd. is the manager of the Steadyhand funds. Steadyhand Investment Funds Inc. (SIFI) is the principal distributor of the funds.

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