

# Q4

## 2013

“It’s time to be patient. There are no fat pitches, slam dunks or gimmes that I can find. Stocks still offer the highest potential reward over the next five years, but the environment doesn’t set up for another trifecta with earnings, multiples and sentiment going up in unison.”

- Tom Bradley (The Globe and Mail, December 13<sup>th</sup>)

## Bradley's Brief



*"Well, it turned out nice again didn't it?"*

Jack Wells, the legendary broadcaster in Winnipeg, started all his sportscasts with this line, no matter how the Bombers played or what the weather was like. Cactus Jack came to mind when I was reflecting back on last year - 2013 was nice indeed.

Most investors made money, and our clients did particularly well. Our balanced portfolios had double-digit returns (see page 4), driven by strong performances from all our equity funds, the Global Equity Fund in particular. Over the last five years, Steadyhand balanced portfolios have performed better than all but a handful of managers in Canada.

But as you thumb through this report and enjoy the near-term results (many of you have only been with us a short time), also look at the 'Since Inception' numbers for each fund. This period, which goes back to February, 2007, covers a full cycle. It not only includes the wins of the last five years, but also the severe losses in 2008. One, three and five-year numbers are nice, but they're not representative of how investors have done.

When I think about risk management for clients and the firm, one item is increasingly showing up on my sheet - *client expectations*. I'm confident that stocks will deliver solid long-term returns and Steadyhand will be a good steward of your capital, but it's going to be difficult to perform over the next five years like we have over the last five. I say that because the starting point is less favourable. Interest rates are now low, which means bond returns will be below what we're used to. And stock valuations (price to earnings multiples or P/E's) are above, not below, historical averages, which suggests more modest equity returns. Going forward, I'd expect the Equity and Global funds to have better full cycle returns, compared to the 'Since Inception' numbers, and the Income Fund to produce lower returns, due to its emphasis on bonds.

If you're invested in the Founders Fund, the fund managers and I are re-balancing your portfolio and making adjustments as we see fit. If you've built your portfolio using the individual funds, it may be timely for you to do some rebalancing. Your mix is likely to be out of kilter, given that stocks are up a lot and bonds are down. In my view, it's not a time to have more equities than your plan calls for.

Speaking of timely, in the next few weeks we'll be providing you with all the information you need to do a thorough review of your portfolio. In addition to this report, our annual client presentations are coming up in five cities (attendance is mandatory for clients within 100 kilometers, winter roads permitting). Near the end of the month, we'll update our performance reports, which provide a more in-depth review of how you've done.

As for timeless, we've added a Volatility Meter to the website, which helps you to explore different asset mixes and risk levels. We've also published a new book, 'It's *Still* Not Rocket Science', which is a compilation of my writing over the last three years. And last but not least, we're releasing *The Steadyhand Dictionary*, which is a semi-serious companion piece to everything we write.

We're excited about 2014. Regardless of the markets or how the Bombers do, it will be *nice* to work with you.



## Takeaways

### Stocks

- Stock markets in the developed world had a strong year. The U.S. (S&P 500 Index) gained 32% and Canada (S&P/TSX Composite Index) rose 13%. Japan (Nikkei 225 Index) was a standout, gaining almost 60%, while many European markets rose 15-25% (all returns are in local currency terms).
- Emerging markets were the laggards, with Brazil and China losing ground, among others.
- Companies whose earnings are more closely tied to economic growth performed well (notably industrial, consumer and technology stocks), while mining-related stocks fared poorly (gold in particular).

*Stock markets had a superb year, excluding the emerging markets. Bonds, on the other hand, struggled as longer-term yields rose.*

### Bonds

- Longer-term bond yields rose in 2013, with the 10-year Government of Canada yield climbing from 1.8% in January to finish the year at 2.8%.
- With the headwind of rising yields, the overall Canadian bond market (DEX Universe Bond Index) produced a total return of -1.2%, its first negative annual return since 1999.
- Corporate and Provincial bonds performed better than Federal Government bonds, but returns were meagre nonetheless.

### Our Funds

- Our portfolios posted solid returns in 2013. Balanced clients experienced double-digit returns, ranging from 11% to 18%, depending on the mix.
- Foreign stocks were key contributors to performance, with the Global Equity Fund leading the way.
- In the context of our balanced portfolios, key stock purchases during the year included *Toromont* (Canada), *OSRAM Licht* (Germany), *Hawaiian Holdings* (U.S.) and *Post NL* (Netherlands). Notable sales included *Potash Corp.* (Canada), *GlaxoSmithKline* (U.K.) and *Iridium Communications* (U.S.).
- On the fixed income side, the Income Fund continues to have a focus on corporate and Provincial bonds with a minimal weighting in Government of Canada bonds.

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## Our Advice to Clients

Our enthusiasm for stocks has been tempered, although we still think equities offer the best long-term return potential. We recommend that your stock weighting be no higher than your long-term target. Stocks have gone up a lot over the last year and valuations are testing the upper end of their normal range. We continue to recommend a below-average position in bonds, and a healthy cash holding.

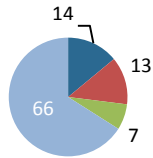
For further details on our thoughts on asset mix and the advice we're giving clients, visit the *Current Thinking* module on the home page of our website, or give us a call @ **1-888-888-3147**.

## Steadyhand Portfolios (Hypothetical)\*

### Compound Annualized Returns (as of December 31, 2013)

■ Income Fund    
 ■ Equity Fund    
 ■ Global Equity Fund    
 ■ Small-Cap Equity Fund

#### Balanced Income Portfolio (50/50)

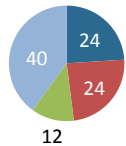


**Long-term asset mix:**

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

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	6 Y
	5.2%	11.8%	11.8%	11.0%	8.8%	11.2%	6.3%

#### Balanced Equity Portfolio (70/30)

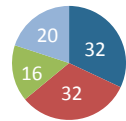


**Long-term asset mix:**

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

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	6 Y
	7.2%	18.3%	18.3%	15.0%	10.6%	11.8%	5.8%

#### Growth Portfolio (85/15)

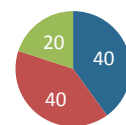


**Long-term asset mix:**

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

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	6 Y
	8.7%	23.5%	23.5%	18.1%	12.0%	12.2%	5.3%

#### Aggressive Growth Portfolio (100/0)



**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	6 Y
	10.2%	28.8%	28.8%	21.3%	13.3%	12.6%	4.8%

\*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 the back page of this report for performance disclaimers. For further details on the portfolios, visit [steadyhand.com/education/portfolios](http://steadyhand.com/education/portfolios).

#### Capital Market Performance (as of December 31, 2013)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	6 Y
Cash (DEX 91 Day T-Bill Index)	0.3%	1.0%	1.0%	1.0%	1.0%	0.8%	1.2%
Cdn Bonds (DEX Universe Bond Index)	0.4%	-1.2%	-1.2%	1.2%	3.9%	4.8%	5.1%
Cdn Stocks (S&P/TSX Composite Index)	7.3%	13.0%	13.0%	10.1%	3.4%	11.9%	2.7%
Cdn Small Cap (BMO Small Cap Index)	7.0%	7.8%	7.8%	5.1%	-1.8%	18.1%	3.5%
U.S. Stocks (S&P 500 Index \$Cdn)	14.3%	41.5%	41.5%	26.7%	18.8%	14.7%	7.5%
Global Stocks (MSCI World Index \$Cdn)	11.8%	36.2%	36.2%	24.6%	14.7%	12.5%	4.9%

## 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 his views on corporate fundamentals, valuations and asset mix.

### Asset Mix

- Relative to its 60/40 target, the fund continues to pursue two themes: a low weighting in bonds and a tilt towards foreign stocks versus Canadian.
- The weighting in bonds (27%) was increased slightly in the fourth quarter, but remains well under the long-term target (35%). Current yields, which are a reliable indicator of future returns, moved up in the quarter, but are still being kept unsustainably low by the central banks.
- In lieu of a full bond allocation, the cash reserve is higher than normal. Between the Savings Fund and cash held in the equity funds, it finished the quarter at 15% of total assets. Cash and short-term securities offer near-zero yields, but provide protection against rising interest rates and are a ready source of liquidity in the event of heightened market volatility.
- The overall stock weighting was reduced this year, as prices rose and valuations moved from below their historical averages to above. The fund, however, still has a healthy allocation to stocks, based on our view that corporations are in a strong position to grow and be opportunistic.
- As has been the case since the fund's inception in February 2012, our managers are finding attractively priced stocks in industries that are not well represented in Canada. Investments in the industrial, consumer and technology sectors have served to tilt the Founders Fund's stock allocation towards Europe and Asia in particular.
- The fund's Canadian stocks are diversified across 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).

### Portfolio Specifics

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

### Notable Transactions

- The equity/fixed income allocation didn't change during the fourth quarter. In light of the strong equity markets, most of the flows into the fund were directed towards the Income Fund to maintain the same mix.
- With the weakness in the bond market, the fixed income mix shifted slightly. Cash was reduced from 17% to 15%, with the bond weighting going up by the same amount.

*The fund continues to pursue two key themes: (1) a below-average weighting in bonds, and (2) a tilt towards foreign stocks.*

### Fund Mix

Income Fund	38%
Global Equity Fund	23%
Equity Fund	21%
Savings Fund	13%
Small-Cap Equity Fund	5%

## Foreign stocks

Gold

## Cash reserve

## Industrial Goods & Services

*CN Rail, Toromont, Lincoln Electric, Maersk, Terex*

Federal government bonds

## Equities

## Financial stocks

*TD Bank, Visa, Intact Financial, Home Capital Group*

## Corporate bonds

## Founders Fund

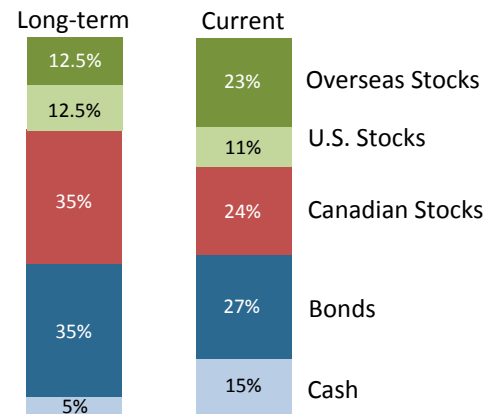
### Top Stock Holdings (% of Fund)

TD Bank	2.0%
Suncor Energy	1.1%
Intact Financial	1.0%
Mead Johnson	0.9%
Unilever	0.9%
Novozymes	0.9%
FEMSA	0.9%
Lincoln Electric	0.9%
Visa	0.9%
CVS Caremark	0.9%

### Sector Allocation (Equities)

Industrial Goods & Services	20.5%
Financial Services	20.3%
Oil & Gas	11.9%
Technology	9.9%
Consumer Cyclical	8.0%
Consumer Products	7.0%
Communications & Media	5.4%
Retailing	4.7%
Basic Materials	4.1%
Real Estate	3.8%
Healthcare	2.8%
Utilities & Pipelines	1.6%

### Asset Mix



### Transactions (Fourth Quarter)

+	-
Visa	Potash Corp.
Agrium	Carnival
KPN	Fujitsu
Portugal Tel	

### Asset Mix

Cash & Short-term	14.8%
Government Bonds	11.3%
Corporate Bonds	16.2%
Canadian Stocks	24.1%
Foreign Stocks	33.6%

### Fund Size

Net Assets \$108,075,954

### Fee

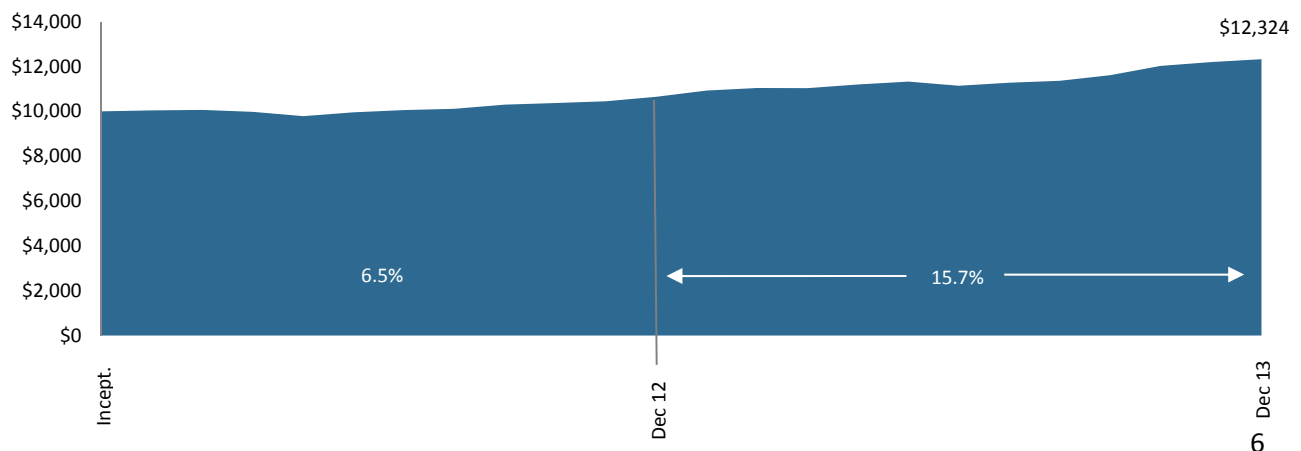
One Simple Fee 1.34% (or less)

### Compound Annualized Returns (as of December 31, 2013)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	Incept*
<b>Founders Fund</b>	<b>6.1%</b>	<b>15.7%</b>	<b>15.7%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>11.8%</b>
DEX Universe Bond Index	0.4%	-1.2%	-1.2%	N/A	N/A	N/A	1.4%
S&P/TSX Composite Index	7.3%	13.0%	13.0%	N/A	N/A	N/A	8.2%
MSCI World Index (\$Cdn)	11.8%	36.2%	36.2%	N/A	N/A	N/A	21.9%

\*Feb 17, 2012

### Growth of \$10,000 Since Inception (Feb 17, 2012)



## Income Fund

### Market Overview

- The Canadian bond market lost ground in 2013. The DEX Universe Bond Index declined 1.2%, its first annual loss since 1999. The 10-year Government of Canada benchmark yield rose from 1.8% to 2.8%.
- The Canadian stock market had a good year, gaining 13.0%. Industrial, consumer and technology stocks were key areas of strength, whereas the mining sector, and gold stocks in particular, lost significant ground.

### Portfolio Specifics (2013)

- The fund did well in a year where the broad Canadian bond market declined. Longer term bond yields rose nearly 1%, which meant that fixed income holdings faced a headwind (when yields rise, prices fall). Corporate and Provincial bonds fared better than Government of Canadas, and the portfolio's emphasis on the former was a key factor in its performance.
- Corporate bonds comprised 40% of the fund at year-end. The focus remains on high-quality bank and insurance bonds whose credit perception and balance sheets are strategically important (e.g., *TD Bank, Manulife*). These securities performed well and continue to present attractive value.
- The fund held a minimal weighting in Federal Government bonds throughout the year. Government holdings instead were focused in Provincial bonds, which continue to offer an attractive yield advantage, notably Ontario bonds. Provincials comprised 25% of the fund at year-end.
- The fund's high yield bonds were positive contributors to performance, as investors embraced risk. The manager, Connor, Clark & Lunn, moved towards a more defensive positioning later in the year by increasing the quality of holdings (bonds with higher credit ratings).
- Stocks were the largest contributors to performance in the year. The fund's equities gained 17%, led by strength in financial holdings and companies benefitting from the U.S. economic recovery (e.g. *Progressive Waste, Tricon Capital, Thomson Reuters, Davis & Henderson*).
- The fund paid distributions totaling \$0.46/unit in 2013.

### Notable Transactions (Fourth Quarter)

- There were no material changes to the fund's asset mix in the quarter.
- New stock purchases included *Cardinal Energy* and *Capital Power*.

### Positioning

- CC&L feels that interest rates will grind higher, but at a slow pace. The manager is finding the most attractive value in mid-term corporate and Provincial bonds, which is where the fund is focused.
- While stocks have had a good run, they remain appealing relative to bonds from a valuation perspective, and comprise nearly 30% of the fund.

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*The bond market saw its first annual decline since 1999 as yields edged upwards. The fund's emphasis on corporate bonds, along with its investments in dividend-paying stocks, have been key factors in its performance.*

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## U.S. recovery

*Progressive Waste, Davis & Henderson, Tricon Capital, Thomson Reuters*

# Corporate bonds

## REITs

*Brookfield Office, Boardwalk, Granite*

## Growing dividends

Federal government bonds

# Provincial bonds

## Banks & insurance

## Income Fund

### Top Holdings

CC&L High Yield Bond Fund	7.6%
Quebec 3.50% (12/01/22)	4.9%
Ontario 4.00% (06/02/21)	3.5%
Ontario 3.15% (06/02/22)	2.6%
Ontario 3.45% (06/02/45)	2.3%
Toronto-Dominion Bank	2.3%
Bank of Nova Scotia	2.0%
Royal Bank	1.9%
Ontario 6.50% (03/08/29)	1.9%
CIBC 2.22% (03/07/18)	1.7%

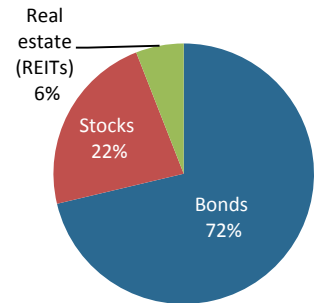
### Issuer Allocation (Bonds)

Federal Govt. Bonds	5.6%
Provincial Govt. Bonds	35.4%
Corporate Bonds	59.0%

### Rating Summary (Bonds)

AAA	7.5%
AA	35.7%
A	31.5%
BBB	16.2%
BB (or lower)	9.1%

### Asset Mix



### Stock Transactions (Fourth Quarter)

+	-
Cardinal	Wajax
Capital Power	Dundee REIT
Peyto	Algonquin Power

### Term Summary

Avg. Term to Maturity	8.2 yrs.
Duration	6.2 yrs.

### Fund Size / Yield

Net Assets	\$71,085,557
Pre-fee Yield	3.4%

### Fee

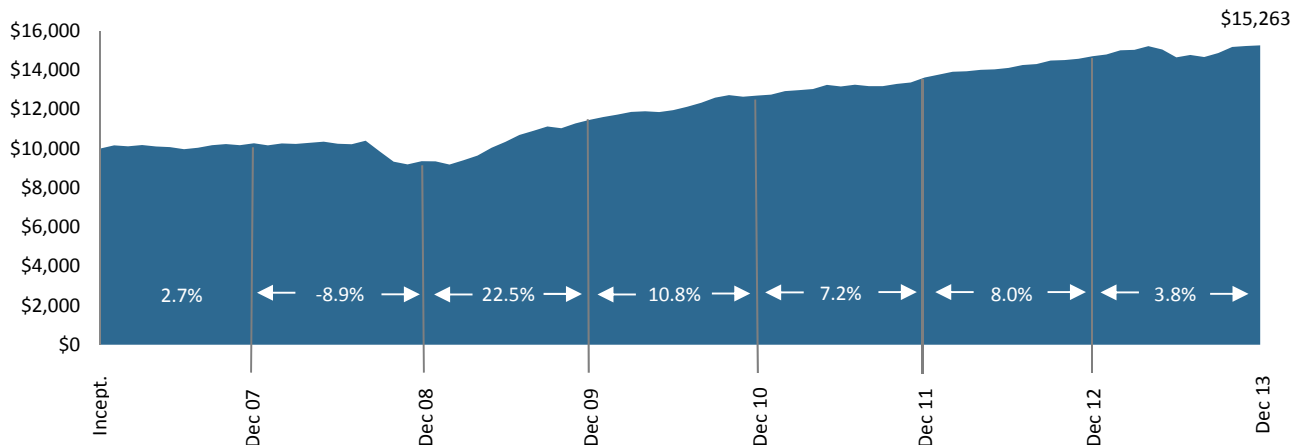
One Simple Fee	1.04% <a href="#">(or less)</a>
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### Compound Annualized Returns (as of December 31, 2013)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	Incept*
<b>Income Fund</b>	<b>2.7%</b>	<b>3.8%</b>	<b>3.8%</b>	<b>5.9%</b>	<b>6.3%</b>	<b>10.3%</b>	<b>6.3%</b>
DEX Universe Bond Index	0.4%	-1.2%	-1.2%	1.2%	3.9%	4.8%	4.9%
S&P/TSX Composite Index	7.3%	13.0%	13.0%	10.1%	3.4%	11.9%	3.6%

\*Feb 13, 2007

### Growth of \$10,000 Since Inception (Feb 13, 2007)





## Equity Fund

### Market Overview

- The Canadian stock market (S&P/TSX Composite Index) had a good year, turning in a total return of 13.0%, led by strength in industrial and consumer stocks. The mining sector, on the other hand, had another challenging year.
- Global markets posted excellent returns, developed countries in particular (U.S., Japan, Europe). The world market, as measured by the MSCI World Index, advanced 36.2% in Canadian dollars.

### Portfolio Specifics (2013)

- The fund held 25 stocks at the end of the year, with 50% of the portfolio invested in Canada, 25% in the U.S., 21% in Overseas, and 4% in Mexico.
- Exposure to different sectors of the economy remained broad throughout the year. Industrial and consumer-related stocks comprised the largest weighting, and were among the best performers. Investments in highly-cyclical companies (e.g. mining and basic materials) were limited, but nonetheless weighed on performance.
- Most Canadian holdings did well, in particular *Magna* (sold), *CN Rail*, *Home Capital Group*, *CAE* and *TD Bank*. An area of weakness, as noted, was basic materials, specifically *Potash Corp.* (fertilizer) and *Franco-Nevada* (gold).
- U.S. stocks were strong contributors to performance, with the standouts being *Lincoln Electric*, *Starbucks* and *CVS Caremark* (all rose more 40%).
- Consumer stocks played an important role in the portfolio, with the focus on international and U.S. companies with leading global brands such as *Starbucks*, *Unilever* (Dove, Lipton) and *Mead Johnson* (Enfamil). These businesses continue to generate strong growth and profitability.
- Companies focused in the emerging markets fell victim to poor sentiment. *Dairy Farm Int'l* (Asian retailer) and *FEMSA* (Latin American retailer and Coca-Cola bottler) saw their share prices fall, although they remain great businesses in the manager's view (CGOV Asset Management).

### Notable Transactions (Fourth Quarter)

- Two stocks were added to the portfolio: *Visa* (global financial services and electronic payments) and *Agrium* (fertilizer and agricultural products).
- *Potash Corp.* was sold. The manager still likes the fertilizer sector but believes that *Agrium* gives the portfolio more diversified exposure.

### Positioning

- The portfolio is concentrated in stable, durable businesses that can withstand a pullback in the economy.
- U.S. and overseas companies remain an integral part of the portfolio. Investments are concentrated in companies with global brands and diverse revenue bases. Two-thirds of the portfolio's revenues come from abroad.

*Emphasis remains on efficient, stable businesses with a global focus that offer highly reputable products and services.*

## Industrial goods & services

*CN Rail, Lincoln Electric, Toromont, CAE*

## Foreign stocks

## Oil

*Gold*

## Emerging markets consumption

## Global brands

*Starbucks, Visa, Unilever, Novartis*

## Consumer products

## Equity Fund

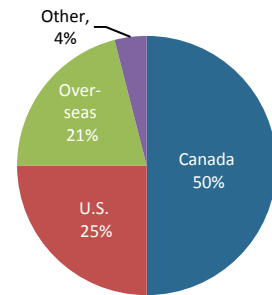
### Top Holdings

Suncor Energy	5.4%
TD Bank	5.3%
Mead Johnson	4.4%
Unilever	4.3%
Novozymes	4.2%
FEMSA	4.1%
Lincoln Electric	4.1%
Visa	4.1%
CVS Caremark	4.0%
Novartis	4.0%

### Sector Allocation (Equities)

Industrial Goods & Services	23.7%
Financial Services	21.1%
Oil & Gas	14.9%
Consumer Products	13.5%
Retailing	11.8%
Basic Materials	7.7%
Healthcare	4.2%
Technology	3.1%

### Geographic Profile (Equities)



### Transactions (Fourth Quarter)

+ Visa Agrium Toromont FEMSA	- Potash Corp.
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### Asset Mix

Equities	94.6%
Cash & Short-term	5.4%

### Fund Size / Concentration

Net Assets	\$49,398,347
Number of stocks	25

### Fee

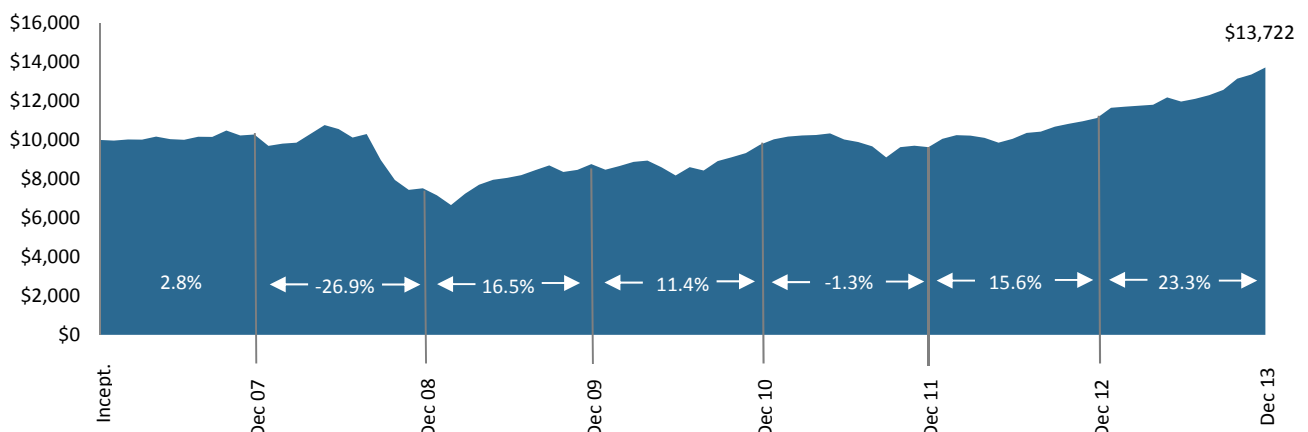
One Simple Fee 1.42% (or less)

### Compound Annualized Returns (as of December 31, 2013)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	Incept*
<b>Equity Fund</b>	<b>9.2%</b>	<b>23.3%</b>	<b>23.3%</b>	<b>19.4%</b>	<b>12.0%</b>	<b>12.8%</b>	<b>4.7%</b>
S&P/TSX Composite Index	7.3%	13.0%	13.0%	10.1%	3.4%	11.9%	3.6%
MSCI World Index (\$Cdn)	11.8%	36.2%	36.2%	24.6%	14.7%	12.5%	2.7%

\*Feb 13, 2007

### Growth of \$10,000 Since Inception (Feb 13, 2007)



## Global Equity Fund

### Market Overview

- Global markets had an excellent year, with the MSCI World Index gaining 36.2% (including dividends). The strongest markets were Japan (+57%) and the U.S. (+32%), with European markets also turning in double-digit gains.
- The loonie fell against most currencies including the U.S. dollar (-6%), Euro (-10%) and British Pound (-8%), but rose against the Yen (+14%). On balance, currency movements had a positive impact on returns.

### Portfolio Specifics (2013)

- The fund holds 44 stocks in 16 countries. The focus is in Europe (43% of total assets) and Asia (35%), followed by the U.S. (20%).
- Emphasis is on cyclical stocks (companies whose earnings are more closely tied to overall economic activity). This was a positive, as these types of stocks – which include industrial goods, technology, and autos & parts – outperformed the more defensive companies.
- European holdings were key contributors to performance. The ‘fear factor’ has subsided and stocks in several industries rebounded from depressed levels. The manager, Edinburgh Partners Ltd. (EPL), believes Europe is still one of the cheapest regions in the world, with plenty of upside potential.
- An area of interest in Europe is the telecom sector. Regulatory changes are in the works, which will encourage companies to invest in infrastructure. This will likely lead to consolidation and improved pricing power.
- Japan remains a key region of focus. While many holdings surged this year (e.g. *Panasonic, Bridgestone, Yamaha*), EPL feels the country’s recovery is a long-term story and many businesses remain well positioned to prosper.
- U.S. holdings continue to deliver strong returns. Investments remain focused in the technology sector (*Google, Microsoft, SanDisk, Cisco, Qualcomm*), where valuations are still appealing in the manager’s view.

### Notable Transactions (Fourth Quarter)

- New purchases included: *KPN* (Dutch telecom provider), *Portugal Telecom* (Portugal’s main telecom; also has assets in Brazil), *Bank Mandiri* (Indonesia’s largest financial institution) and *Dainippon Screen* (manufactures semiconductors and printing equipment).
- Three stocks were sold: *Unilever, Fujitsu* and *Carnival*.

### Positioning

- Focus remains on European and Asian companies with more cyclical earnings. EPL believes these stocks are undervalued and better positioned to benefit from a continued economic recovery.
- New investments have been concentrated in small to medium-sized companies, and those with greater exposure to peripheral economies.
- Investments in the U.S. remain relatively modest, as other markets are more attractively valued.

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*Europe and Asia remain key areas of investment, with emphasis on companies whose earnings are more closely tied to global economic growth.*

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Value tilt  
**Europe**

Mid-cap stocks

*Terex, OSRAM, Nutreco, Indra, Post NL*

Japan  
European Telecoms

U.S. **Cyclical**

Technology

*Google, Microsoft, Samsung, SanDisk, Qualcomm*

## Global Equity Fund

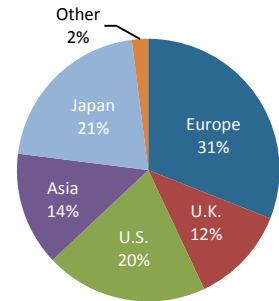
### Top Holdings

Terex	3.5%
Post NL	3.4%
Google	3.1%
Maersk	2.7%
Rio Tinto	2.7%
Tyco International	2.6%
OSRAM Licht	2.6%
Bridgestone	2.6%
KDDI	2.6%
Intesa Sanpaolo	2.6%

### Sector Allocation (Equities)

Industrial Goods & Services	21.9%
Technology	18.4%
Consumer Cyclical	15.8%
Financial Services	15.0%
Communications & Media	11.3%
Oil & Gas	6.2%
Consumer Products	6.1%
Basic Materials	2.7%
Healthcare	2.6%

### Geographic Profile (Equities)



### Transactions

+ KPN Portugal Tel Bank Mandiri Dainippon	- Carnival Unilever Fujitsu
---	--------------------------------------

### Asset Mix

Equities	99.5%
Cash & Short-term	0.5%

### Fund Size / Concentration

Net Assets	\$44,734,142
Number of stocks	44

### Fee

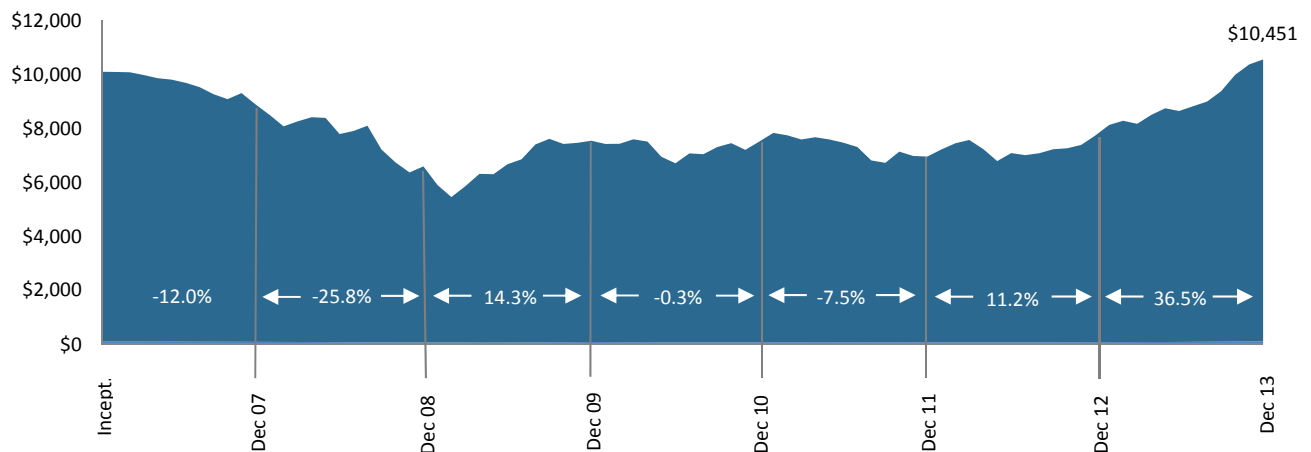
One Simple Fee 1.78% ([or less](#))

### Compound Annualized Returns (as of December 31, 2013)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	Incept*
<b>Global Equity Fund</b>	<b>12.5%</b>	<b>36.5%</b>	<b>36.5%</b>	<b>23.2%</b>	<b>12.0%</b>	<b>9.9%</b>	<b>0.6%</b>
MSCI World Index (\$Cdn)	11.8%	36.2%	36.2%	24.6%	14.7%	12.5%	2.7%

\*Feb 13, 2007

### Growth of \$10,000 Since Inception (Feb 13, 2007)



## Small-Cap Equity Fund

### Market Overview

- The Canadian small-cap market (BMO Small Cap Index) rose 7.8% in 2013.
- The consumer, industrial and technology sectors were areas of strength, while mining stocks weighed on performance – the gold sector fell nearly 50% and base metal prices were weak.

### Portfolio Specifics (2013)

- The fund held 17 stocks at year-end, with market capitalizations ranging from \$20 million (*Palliser Oil & Gas*) to \$3 billion (*Stantec*). Two-thirds of the holdings have market capitalizations under \$1 billion.
- Several holdings saw significant price gains. A key driver of performance was *Badger Daylighting* (hydrovac excavation), which nearly tripled. *Stantec* (engineering & consulting), *MacDonald Dettwiler* (satellites) and *Hawaiian Holdings* (airline) were also standouts, rising more than 50%.
- Returns came from stocks in a number of different industries and there was no particular theme to the strong performance of many holdings, other than that they delivered strong operating results.
- *Primero Mining* was the main detractor from performance. The fund's lone gold holding suffered as the price of the metal dropped nearly 30%. *Palliser Oil & Gas* also had a tough year as it failed to meet production targets. The thinly-traded stock is the smallest holding in the fund.
- Exposure to the mining sector was limited in 2013, which was beneficial as commodity prices were weak and base metal stocks suffered. With the sharp declines, the manager, Wutherich & Company, is looking at a few companies that service the resource industry, but still feels there are better opportunities elsewhere given current fundamentals.

### Notable Transactions (Fourth Quarter)

- Two stocks were purchased: *ZCL Composites* and *CBIZ*. *ZCL* makes storage tanks for corrosive liquids. The company has a reasonable growth outlook and the manager likes its strict financial management. *CBIZ* is a Cleveland-based provider of business services (accounting, insurance) to companies across the U.S. Wutherich likes its focus on servicing small and mid-sized businesses, which he feels will be an area of strength in the U.S. economy.

### Positioning

- The portfolio remains a tight collection of well-managed businesses with exposure to a broad range of economic sectors. Oil producers, industrial services and technology companies are areas of focus, whereas investments in mining and other highly-cyclical businesses remain limited.
- As valuations have risen and stocks become more expensive, the manager has trimmed a few larger positions. Yet, he is still finding compelling opportunities, including U.S. companies (e.g. *Hawaiian Holdings* and *CBIZ*).

*A number of investments across a variety of industries provided excellent returns in 2013, resource holdings being the one area of exception.*

## Industrial services

*Stantec, Badger Daylighting, HNZ Group*

Mining **Well-financed**

**Oil producers**

**Concentration**

**U.S. stocks**

*Hibbett Sports, Hawaiian Holdings, CBIZ*

**Cash**

## Small-Cap Equity Fund

### Top Holdings\*

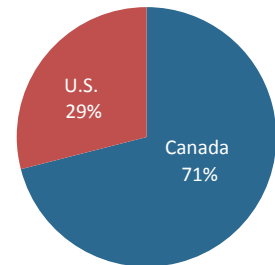
Stantec	7.8%
Coastal Energy	6.8%
Primero Mining	6.6%
Hibbett Sports	6.6%
Total Energy Services	6.3%
MacDonald Dettwiler	6.1%
Hawaiian Holdings	6.1%
Eagle Energy Trust	5.7%
Badger Daylighting	5.5%
HNZ Group	5.2%

\*As of October 31, 2013

### Sector Allocation (Equities)

Oil & Gas	30.3%
Industrial Goods & Services	29.3%
Technology	13.5%
Retailing	8.2%
Consumer Cyclical	7.7%
Basic Materials	5.6%
Healthcare	5.4%

### Geographic Profile (Equities)



### Transactions (Fourth Quarter)

+	-
ZCL Composite CBIZ Parkland Fuel HNZ Group	Palliser

### Asset Mix

Equities	91.4%
Cash & Short-term	8.6%

### Fund Size / Concentration

Net Assets	\$46,117,324
Number of stocks	17

### Fee

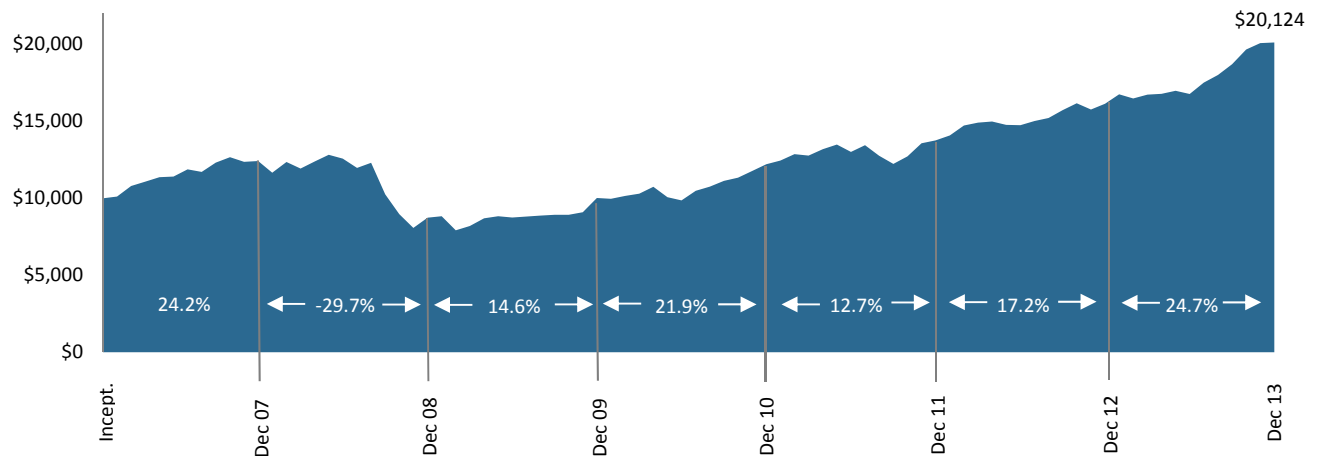
One Simple Fee 1.78% ([or less](#))

### Compound Annualized Returns (as of December 31, 2013)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	Incept*
<b>Small-Cap Equity Fund</b>	<b>7.6%</b>	<b>24.7%</b>	<b>24.7%</b>	<b>20.9%</b>	<b>18.1%</b>	<b>18.2%</b>	<b>10.7%</b>
BMO Small Cap Index	7.0%	7.8%	7.8%	5.1%	-1.8%	18.1%	2.6%

\*Feb 13, 2007

### Growth of \$10,000 Since Inception (Feb 13, 2007)



## Savings Fund

### Market Overview

- The Bank of Canada left its key short-term lending rate unchanged in 2013. It has sat at 1.0% since September, 2010.
- The central bank feels the global economy is expanding at a modest rate, as expected, but that the substantial monetary stimulus currently in place (i.e. low interest rates) remains appropriate.
- Inflation remains below the Bank's 2% target.

*Short-term interest rates remain exceptionally low at 1%, meaning returns on money market securities will continue to be meagre.*

### Portfolio Specifics (2013)

- Investors should continue to expect meagre returns from money market securities (T-Bills and short-term corporate paper) with short-term interest rates remaining close to historic lows.
- The manager, Connor, Clark & Lunn, made a notable change to the structure of the portfolio in the first quarter when a switch was made out of provincial T-Bills into federal T-Bills ('Canadas'). The spread (difference in yield) between the two types of securities narrowed early in the year, making provincial T-Bills less attractive. Throughout the remainder of 2013, T-Bill investments remained focused in Canadas. These securities made up 32% of the portfolio at the end of the year.
- Corporate notes became a larger weighting in the portfolio. CC&L found some attractive opportunities in the corporate sector in bonds whose term-to-maturity had rolled down below one year. These securities offer a yield advantage of 10-15 basis points (0.10% - 0.15%) over bank paper.
- The fund's weighting in floating rate notes (FRNs) was also increased. These securities have variable interest rates and provide an attractive yield advantage over T-Bills. They made up 12% of the fund at year-end.
- 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 weighting in bank paper was increased modestly, while exposure to corporate paper was reduced.

### Positioning

- The manager continues to position the portfolio with an average term-to-maturity that is slightly lower than normal as they believe the eventual move in short-term interest rates will be to the upside.
- Close to 20% of the portfolio is invested in short-dated corporate bonds (including floating rate notes) and guarantees to help provide additional yield for the portfolio.

## Bank paper

### Federal T-Bills

### Short maturity

### Floating rate notes

### Short-term bonds

### Reduced fee

## Savings Fund

### Top Holdings

Canada T-Bills (02/27/14)	18.5%
Canada T-Bills (07/03/14)	13.1%
CIBC B/A (02/10/14)	6.9%
TD Bank B/A (01/27/14)	6.3%
BNS BDN (03/10/14)	4.7%
BMO BDN (03/10/14)	4.7%
Enbridge C/P (01/22/14)	4.3%
Manulife BDN (03/14/14)	3.7%
JP Morgan BDN (05/06/14)	3.5%
Royal Bank B/A (01/24/14)	3.4%

### Yield

7-day Yield\* 1.0%

*\*This is an annualized historical yield (net of fees) based on the seven day period ended on December 31, 2013, and does not represent an actual one year return.*

### Fund Size

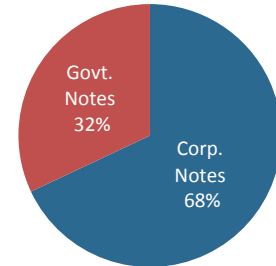
Net Assets \$11,617,492

### Fee

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

\*Temporarily reduced to 0.20%

### Issuer Allocation

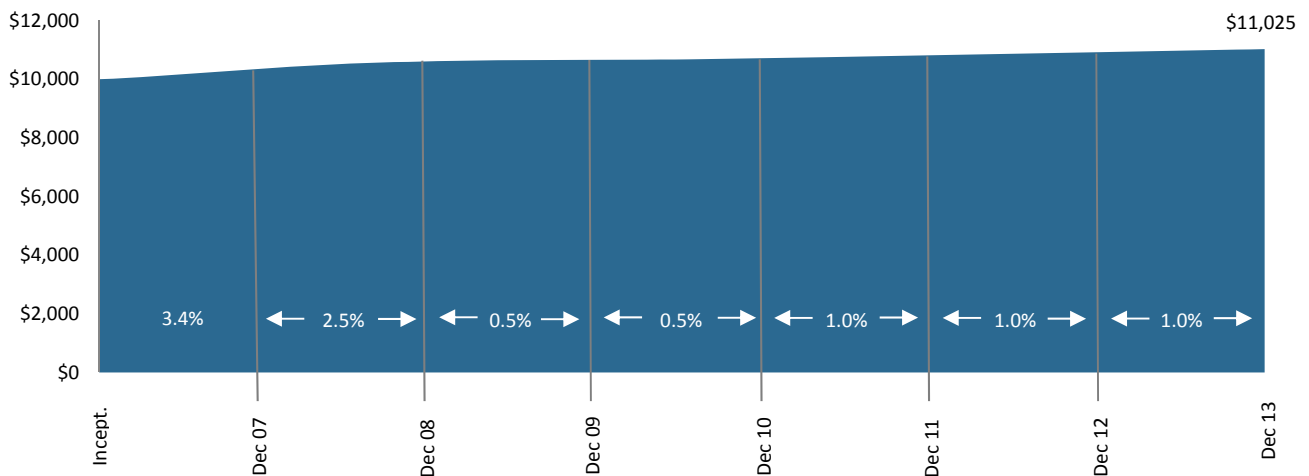


### Compound Annualized Returns (as of December 31, 2013)

	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>1.0%</b>	<b>0.8%</b>	<b>1.4%</b>
DEX 91 Day T-Bill Index	0.3%	1.0%	1.0%	1.0%	1.0%	0.8%	1.6%

\*Feb 13, 2007

### Growth of \$10,000 Since Inception (Feb 13, 2007)





## Stock Snapshot – OSRAM

### Overview

OSRAM Licht AG is one of the world's leading manufacturers of lighting products. Headquartered in Munich, OSRAM has a long history in the lighting industry, dating back more than 100 years (although the stock was only spun-off from Siemens in July 2013). The company manufactures a diverse variety of products, including automotive lighting, LED lamps, indoor & outdoor luminaires, electronic control gears, light management systems and optoelectronic semiconductor products. OSRAM generates annual sales of over 5 billion euros and has more than 35,000 employees worldwide.

The stock is held in our Global Equity Fund (2.6% position size).

### Investment Case

OSRAM is the world's number one supplier of automotive lamps and LED products for vehicles. This is a key business division and is critical to the overall investment case, as it accounts for 40% of operating profit. The company generates healthy margins in the sector and is well positioned for growth given the increased penetration of High Intensity Discharge lamps (HIDs) and LEDs in auto components. Further, barriers to entry in the form of stringent certification requirements make it difficult for other firms to enter the market.

The company is also a big player in general LED lighting (bulbs and components) and should further benefit from the market shift towards LED lamps.

Another division that has attractive prospects is Optoelectronic Semiconductors. This is the LED chip business, in which OSRAM generates attractive margins and has intellectual property (IP) advantages over many of its peers. The company's strong positioning in the sector provides earnings diversity and protection against some of its more commoditized general lighting applications.

From a financial standpoint, OSRAM is well positioned. It has no long-term debt and minimal borrowing needs. Its clean balance sheet provides options for acquisitions or share buybacks.

### Risks to Outlook

The greatest risks to OSRAM would stem from a faster pace of commoditisation, and hence lower pricing power, in its key product areas, particularly automotive lighting. A slowdown in global economic activity is also a risk.

*An interesting fact:* The company's name was born in 1906 and was created from the names of two materials that were needed at the time to produce filaments – **Osmium** and **Wolfram** (now more commonly known as tungsten).



*A leader in automotive lighting*

## Where to From Here?

Stocks have been on a roll, with global markets leading the charge. But are the gains justified? Is it still a good time to buy? Is the U.S. recovery a good story or bad? What's fuelling the Global Fund? What's going on with interest rates? Should I be making any adjustments to my 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 27<sup>th</sup>, 6:30 PM at Inn at the Forks

**Ottawa** – Tuesday, January 28<sup>th</sup>, 5:00 PM at Arc The Hotel

**Toronto** – Thursday, January 30<sup>th</sup>, 12:00 PM & 5:00 PM at St. James Cathedral Centre

**Calgary** – Tuesday, February 4<sup>th</sup>, 5:00 PM at Sheraton Suites Eau Claire

**Vancouver** – Wednesday, February 5<sup>th</sup>, 6:30 PM at Performance Works Theatre (Granville Island)

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

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