

# Q3

## 2014

“We have two classes of forecaster: Those who don’t know and those who don’t know they don’t know.”

- John Kenneth Galbraith

## Bradley's Brief



When I was a kid growing up in Birchwood Heights (Winnipeg), I loved Cub Scouts - *Akela ... dib, dib, dib, dob, dob, dob ... badges ... Senior Sixers ... fooling around on the way home*. For us Cubs, the big thing was, *'Be Prepared'*.

As we've pointed out in numerous pieces over the last few months, the Cubs' motto should also be a big thing with investors. Particularly now. Investors have gotten comfortable with steadily rising markets, double-digit returns and little or no volatility (until recently). They're cruising in the 'comfort zone'.

But it won't always be this way. Attractive long-term returns are made up of good and bad markets, with lots of calm, volatility, uncertainty, euphoria, relief, disbelief, poor sleeps, bravado, satisfaction and distress in the mix.

Being prepared means different things to different people, but I'm going to keep it simple by breaking it down into two categories – younger clients who are contributing to their portfolio and older ones who are drawing an income from theirs.

It's definitely easier for younger clients to be good Cub Scouts. In general, they should be contributing consistently, through all kinds of markets and situations. For them, being prepared means:

- Knowing that their growth-oriented portfolios will be down two or three out of every ten years, and one of those years will be down 20%. In other words, a \$100,000 portfolio always has a chance of going to \$80,000 before it goes to \$120,000.
- Waiting anxiously for market pullbacks. Weak markets are a blessing for anyone in the accumulation phase – for the same amount of money, they can buy more shares in a company or fund.
- Knowing that most of the issues that short-term traders, market forecasters and older investors are worrying about do not apply to them. The money isn't needed for a decade or more.

For those older clients, it's more difficult. Being prepared means:

- Having a source of income available in any market circumstance. That means either having a reliable flow of interest and dividend payments, fund distributions and pension cheques, and/or ...
- Having a spending reserve set aside, such that there's no pressure to sell long-term assets in weak markets.
- Knowing that their portfolio could go down as much as 5-10% in extremely weak markets - \$500,000 could drop to \$450,000 before it starts to go up again.
- Having flexibility in their spending plans, such that they can defer expenses if the spending reserve gets low.

We don't know where the markets are going in the next year or two, but we do know we're well into the 'good times' part of the cycle. Therefore, we need to manage our portfolios accordingly, which means being prepared for whatever comes our way.

Our team is always prepared to help you and provide a steady hand, and that's even more the case today. Lori Norman has joined the team, and along with Chris, David, Sher and Scott, is ready to take your calls or meet with you. I want to also point out that on the website, we have a new set of video updates with our three equity fund managers. The interviewer is no hell, but the managers do a good job of articulating their strategies.

## Takeaways

### Stocks

- Stocks had a mixed quarter. The Canadian market (S&P/TSX Composite Index) declined 0.6% due to weakness in resource stocks (the price of oil fell nearly 15% and base metal prices stumbled). Much of the weakness came in September as volatility and geopolitical tensions heated up.
- Foreign stocks advanced modestly, but returns were boosted by a weaker Canadian dollar (the loonie fell 5% against the U.S. dollar). The MSCI World Index rose 2.8% in Canadian dollar terms.
- Generally speaking, healthcare and telecom stocks performed well (they have a defensive nature to them), while commodity stocks struggled.

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*Stock returns were modest in the third quarter, with volatility increasing in late summer. The bond market gained ground as longer-term interest rates declined.*

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### Bonds

- Bond yields declined in the summer. Despite a small uptick in September, longer-term yields dropped roughly 10 basis points (0.10%) in the quarter and the 10-year Government of Canada yield ended September at 2.15%.
- The Canadian bond market (DEX Universe Bond Index) produced a total return (interest and capital appreciation) of 1.1%.
- The Bank of Canada left its key short-term lending rate unchanged in the quarter at 1.0%, which is where it has been for the last four years.

### Our Funds

- Our funds posted modest gains in the quarter with the exception of the Small-Cap Fund (-7%). Balanced clients experienced flat returns, either modestly positive or negative depending on their mix. Over our performance history (7 years), balanced clients have gained 6-7% per year.
- Overall, our positioning is cautious. Our funds have a focus on high-quality stocks and we don't own any high yield bonds in the Income Fund. Our foreign exposure has a tilt towards Asia and Europe, rather than the U.S., as our global manager is finding better value outside North America.
- In the context of our balanced portfolios, key transactions in the quarter included the purchase of *Arsenal Energy* (Canada) and the sale of *Genting Singapore*, *Portugal Telecom* and *Palliser Oil & Gas* (Canada).

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## Our Advice to Clients

We believe stocks offer the best long-term return potential, but we continue to be cautious following a lengthy period of strong returns. We recommend that your stock weighting be no higher than your long-term target, as 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. In the Founders Fund, for example, 16% of the portfolio is currently in cash.

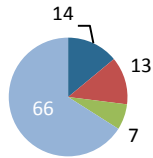
For further details on our thoughts on asset mix and the advice we're giving clients, visit the *Current Thinking* module on the home page of our website, or give us a call @ **1-888-888-3147**.

## Steadyhand Portfolios (Hypothetical)\*

### Compound Annualized Returns (as of September 30, 2014)

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

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

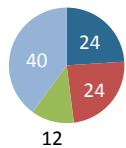


##### Long-term asset mix:

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

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y
	0.5%	7.5%	13.1%	11.1%	11.4%	9.4%	6.5%

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

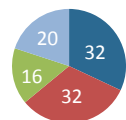


##### Long-term asset mix:

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

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y
	-0.1%	7.1%	14.8%	14.6%	14.2%	10.1%	5.9%

#### Growth Portfolio (85/15)

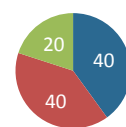


##### Long-term asset mix:

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

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y
	-0.6%	6.8%	16.1%	17.3%	16.3%	10.7%	5.4%

#### 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	7 Y
	-1.0%	6.6%	17.4%	20.0%	18.5%	11.3%	4.9%

\*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 September 30, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y
Cash (DEX 91 Day T-Bill Index)	0.7%	0.3%	0.9%	1.0%	1.0%	0.9%	1.4%
Cdn Bonds (DEX Universe Bond Index)	1.1%	5.9%	6.3%	2.5%	3.5%	4.9%	5.6%
Cdn Stocks (S&P/TSX Composite Index)	-0.6%	12.2%	20.4%	13.6%	12.1%	8.7%	3.9%
Cdn Small Cap (BMO Small Cap Index)	-8.8%	7.7%	15.3%	7.1%	7.8%	9.9%	3.5%
U.S. Stocks (S&P 500 Index \$Cdn)	6.2%	14.2%	30.5%	27.6%	26.1%	16.7%	7.8%
Global Stocks (MSCI World Index \$Cdn)	2.8%	9.9%	22.9%	24.7%	21.6%	12.5%	5.1%

## 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

- The fund was up 0.3% in the quarter. Since inception (Feb 2012), it has a cumulative return of 31%, which equates to an annualized return of 11.0%.
- The fund's positioning could only be characterized as cautious – the cash reserve is high and stock weighting has been reduced. There are two main reasons for this. First, valuations for stocks and bonds are above their historical averages. And second, political-economic risks are increasing. With regard to the latter, we're concerned that five years after recession governments are still spending beyond their means and central banks are aggressively promoting borrowing and risk-taking. In our view, the longer the economy is prevented from taking its medicine and dealing with past excesses, the worse the future gets.
- As noted, the fund's overall equity weighting (55%) continues to run below the long-term target (60%). In Canada, the exposure is diversified across income-oriented securities (Income Fund), high-quality companies with growing dividends (Equity Fund), and smaller companies with higher growth profiles (Small-Cap Fund).
- On the foreign side, the fund is heavily tilted toward European and Asian stocks, due primarily to the Global Equity Fund's focus on these regions. Of note, most of the fund's exposure to industrial, consumer, technology and healthcare companies comes from outside of Canada.
- The weighting in bonds (29%) remains below the long-term target (35%). The bond market has been strong so far this year, but near-zero interest rates point toward low single-digit bond returns in the coming years.
- In lieu of full bond and stock allocations, the fund's cash reserve is higher than normal. Between the Savings Fund and cash held in the equity funds, it finished the quarter at 16% of total assets. Cash and short-term securities offer little in the way of yield (and have been a detriment to the fund's performance so far this year), but provide protection against rising interest rates and are a ready source of liquidity in volatile markets.

### Portfolio Specifics

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

### Notable Transactions

- No significant changes were made to the asset mix in the quarter.

*Caution is the operative word. Asset prices are high and the economic outlook remains challenging due to unceasing government and central bank intervention.*

### Fund Mix

Income Fund	44%
Global Equity Fund	20%
Equity Fund	17%
Savings Fund	14%
Small-Cap Equity Fund	5%

## Equities

### Financial services

*TD Bank, Visa, Home Capital Group, Royal Bank*

### Corporate bonds

### Industrial goods & services

*Lincoln Electric, CN Rail, Hutchison Whampoa, Stantec*

### Cash reserve Foreign stocks

## Founders Fund

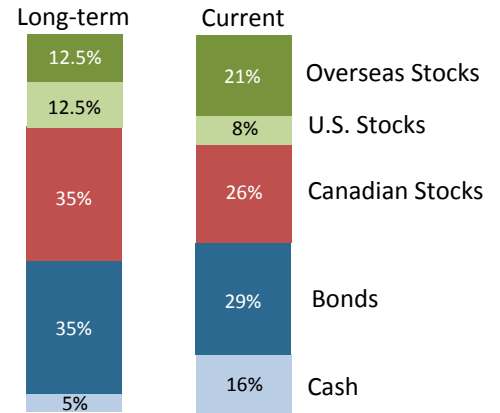
### Top Stock Holdings (% of Fund)

TD Bank	2.0%
Novartis	1.3%
Loblaw	1.1%
Suncor Energy	1.0%
Royal Bank	1.0%
Bank of Nova Scotia	0.9%
CVS Caremark	0.8%
Visa	0.7%
Lincoln Electric	0.7%
Ecolab	0.7%

### Sector Allocation (Equities)

Financial Services	21.4%
Industrial Goods & Services	19.9%
Oil & Gas	13.4%
Consumer Cyclical	6.9%
Healthcare	6.8%
Retailing	6.5%
Technology	6.3%
Consumer Products	5.9%
Real Estate	4.4%
Communications & Media	3.8%
Basic Materials	2.8%
Utilities & Pipelines	1.9%

### Asset Mix



### Transactions

+	-
Baytex Energy	Genting
Novartis	Portugal Tel
Arsenal	Home Capital
DBS Group	Palliser O&G

### Asset Mix

Cash & Short-term	15.6%
Government Bonds	11.2%
Corporate Bonds	18.3%
Canadian Stocks	26.3%
Foreign Stocks	28.6%

### Fund Size

Net Assets \$172,174,748

### Fee

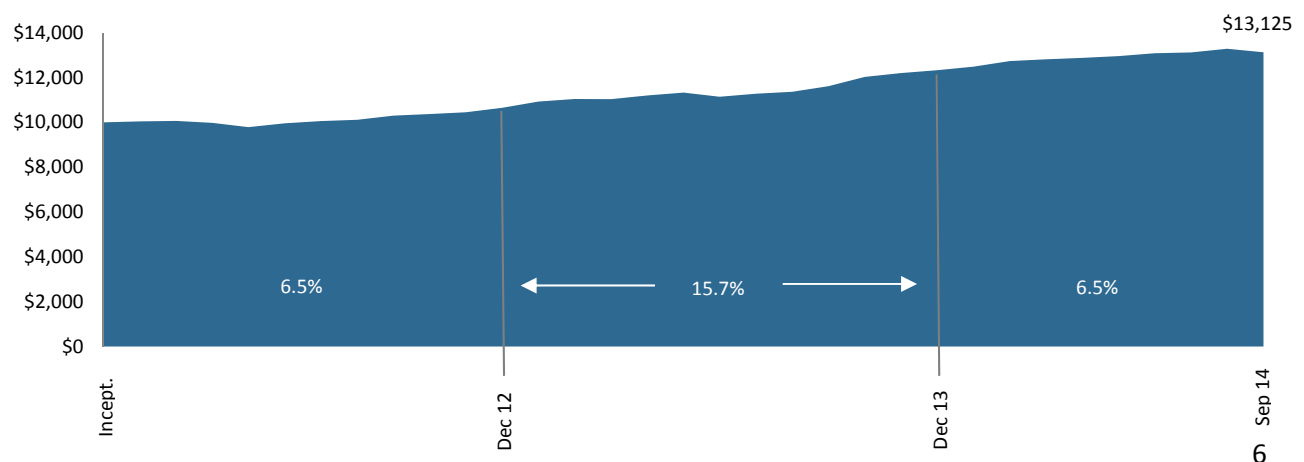
One Simple Fee 1.34% ([or less](#))

### Compound Annualized Returns (as of September 30, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	Incept*
<b>Founders Fund</b>	<b>0.3%</b>	<b>6.5%</b>	<b>13.0%</b>	<b>12.9%</b>	<b>N/A</b>	<b>N/A</b>	<b>11.0%</b>
DEX Universe Bond Index	1.1%	5.9%	6.3%	2.5%	N/A	N/A	3.2%
S&P/TSX Composite Index	-0.6%	12.2%	20.4%	13.6%	N/A	N/A	10.6%
MSCI World Index (\$Cdn)	2.8%	9.9%	22.9%	24.7%	N/A	N/A	19.4%

\*Feb 17, 2012

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



## Income Fund

### Investment Returns

- The Canadian bond market had a positive quarter, rising 1.1% (interest and capital appreciation) as government bond yields declined. The 10-year Government of Canada yield finished the quarter at 2.15%.
- The Canadian stock market declined 0.6% on weakness in resource stocks.
- The fund was up 1.3% in the quarter. Since inception (Feb 2007), it has a cumulative return of 65%, which equates to an annualized return of 6.8%.

### Portfolio Specifics

- The fund's bond component provided a positive return, albeit modest, as longer-term interest rates continued to decline throughout the summer (when rates fall, bond prices rise). Bonds comprise 68% of the portfolio.
- Emphasis remains on corporate and provincial securities. The fund does not currently own any Government of Canada bonds. The manager, Connor, Clark & Lunn (CC&L), feels that the environment for corporate bonds remains positive, although security selection is key. CC&L's focus is on high-quality bonds primarily in the financial and telecom sectors.
- The bonds are concentrated in maturities in the 7-10 year range as the manager believes this is the most attractive part of the yield curve.
- The fund doesn't own any high yield bonds. CC&L's focus is on investment grade issues (BBB and above). They are content to wait for a more compelling buying opportunity in the high yield sector.
- The fund's stock holdings (32% of the portfolio) were the key drivers of performance in the quarter and year-to-date. The manager's strategy is to maintain balanced exposure to interest sensitive stocks (REITs, telecoms) and those that will benefit from higher rates (life insurance, banks, asset managers). The fund doesn't hold any mining or precious metals stocks.
- Consumer-focused holdings had a strong quarter, with *Tim Hortons*, *Loblaws* and *Canadian Tire* posting solid gains.
- The fund paid a distribution of \$0.07/unit at the end of September. The distribution was reduced last quarter (from \$0.10/unit) to reflect the prevailing low interest rate environment.

### Notable Transactions

- There were no notable changes to the positioning of the fund.
- New stock purchases included *ARC Resources* and *Canadian Tire*.

### Positioning

- The manager's thinking on interest rates hasn't changed – CC&L believes rates will move higher but at a gradual pace. Bond investments are concentrated in high-quality corporate and provincial securities.
- Stocks continue to comprise a larger than normal portion of the portfolio as their valuations relative to bonds remain attractive.

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*Bond yields have declined in 2014 (in an already-low interest rate environment), leading to attractive returns. It's important that investors keep expectations in check.*

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7-10 year  
**Corporate bonds**

REITs

**Defensive stocks**

*Loblaws, Canadian Tire, Tim Hortons*

**Provincial bonds**

Ontario

**Banks & insurance**

## Income Fund

### Top Holdings

Ontario 3.15% (06/02/22)	4.5%
Quebec 3.50% (12/01/22)	4.0%
BMO 3.40% (04/23/21)	3.3%
Ontario 3.50% (06/02/24)	2.8%
TD Bank B/A (10/30/14)	2.6%
Ontario 5.60% (06/02/35)	2.6%
Royal Bank	2.1%
BNS 3.27% (01/11/21)	2.2%
TD Bank	2.2%
Bank of Nova Scotia	2.1%

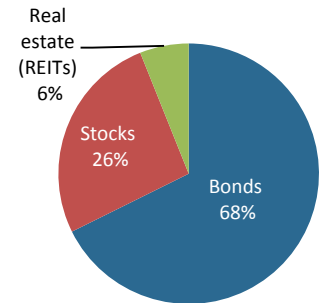
### Issuer Allocation (Bonds)

Federal Govt. Bonds	0.5%
Provincial Govt. Bonds	37.5%
Corporate Bonds	62.0%

### Rating Summary (Bonds)

AAA	8.5%
AA	57.3%
A	23.6%
BBB	10.6%
BB (or lower)	0.0%

### Asset Mix



### Stock Transactions

+	-
ARC Resources	Enerplus
Canadian Tire	Keyera
CI Financial	Tim Hortons
	Great West Life

### Term Summary

Avg. Term to Maturity	7.7 yrs.
Duration	6.1 yrs.

### Fund Size / Yield

Net Assets	\$80,964,091
Pre-fee Yield	3.0%

### Fee

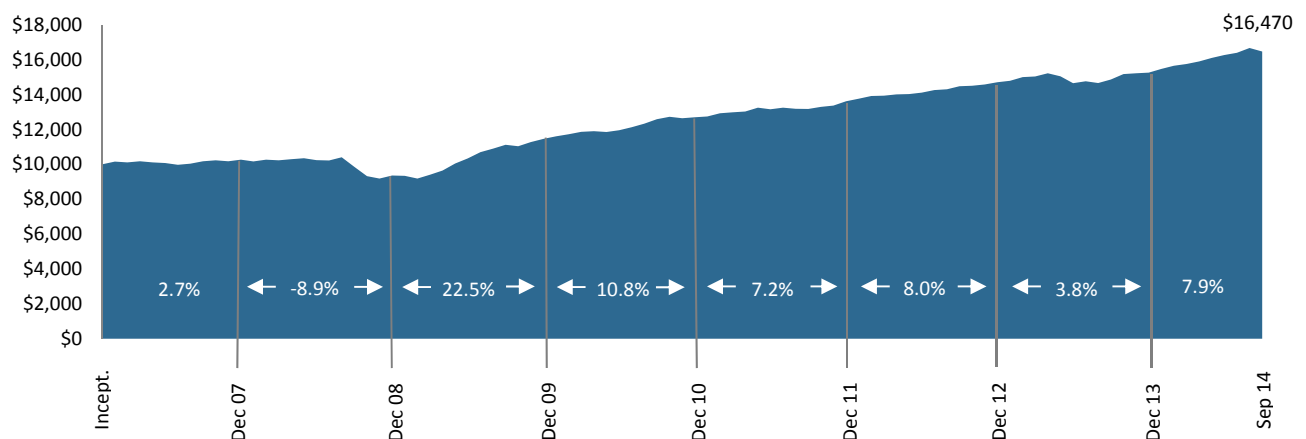
One Simple Fee	1.04% ( <a href="#">or less</a> )
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### Compound Annualized Returns (as of September 30, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y	Incept*
<b>Income Fund</b>	<b>1.3%</b>	<b>7.9%</b>	<b>10.8%</b>	<b>6.6%</b>	<b>7.7%</b>	<b>8.2%</b>	<b>7.1%</b>	<b>6.8%</b>
DEX Universe Bond Index	1.1%	5.9%	6.3%	2.5%	3.5%	4.9%	5.6%	5.2%
S&P/TSX Composite Index	-0.6%	12.2%	20.4%	13.6%	12.1%	8.7%	3.9%	4.8%

\*Feb 13, 2007

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





## Equity Fund

### Investment Returns

- The Canadian stock market (S&P/TSX Composite Index) declined modestly the third quarter, falling 0.6%. The mining and energy sectors were areas of weakness. The MSCI World Index was up 2.8% in Canadian dollar terms.
- The fund was up 0.5% in the quarter. Since inception (Feb 2007), it has a cumulative return of 54%, which equates to an annualized return of 5.8%.

### Portfolio Specifics

- The fund holds 25 stocks, of which 51% are headquartered in Canada, 26% in the U.S., 19% in Overseas, and 4% in Mexico.
- *Loblaw* and *CN Rail* were standouts. Loblaw is efficiently integrating Shoppers Drug Mart (purchased earlier this year) into its operations and is seeing healthy sales momentum in its grocery and retail divisions. CN is benefiting from strong freight demand and market share gains in its intermodal business. The stock is getting pricey, however (it's up over 30% this year and is trading at 20x earnings), and further upside will depend largely on strong earnings growth rather than a rising P/E multiple.
- Energy holdings gave back some of their gains from earlier in the year as the price of oil fell nearly 15%. Nonetheless, the manager, CGOV, feels the long-term prospects of these investments are promising and valuations are attractive. *Suncor*, for example, generates plenty of cash, has long-life reserves and interesting technologies in development that could improve its environmental footprint and return profile.
- Banks continue to comprise a small portion of the portfolio, with *TD Bank* the lone holding. The manager is cautious towards the sector, as increased regulations and capital requirements will make it tough for companies to generate the levels of return that they have in the past.
- Holdings with significant exposure to the emerging markets have struggled this year, notably *Dairy Farm Int'l* (Asia) and *FEMSA* (Latin America). That said, they have great long-term opportunities and are reasonably valued.

### Notable Transactions

- No stocks were added or removed from the portfolio in the quarter.
- *Home Capital Group* and *CN Rail* were trimmed while additional shares were purchased in *Baytex Energy*, *Birchcliff Energy*, *Dairy Farm* and *CAE*.

### Positioning

- The focus of the portfolio remains on high-quality companies. These are businesses such as *CN Rail*, *Suncor Energy* and *Unilever*, which generate abundant cash, have strong balance sheets, a viable long-term growth plan and a reputable franchise.
- Non-Canadian stocks remain an important source of diversification and growth, and provide exposure to leading global consumer brands.

*Companies continue to deliver solid earnings, but valuations have gotten more expensive. The manager is focusing on trimming strong performers and adding to laggards.*

**Foreign stocks**  
**Energy**  
**Consumer brands**  
*Unilever, Starbucks, FEMSA, Dairy Farm Int'l.*

**Rising dividends**

**Industrial goods & services**

*CN Rail, Lincoln Electric, CAE, Toromont*

Gold

## Equity Fund

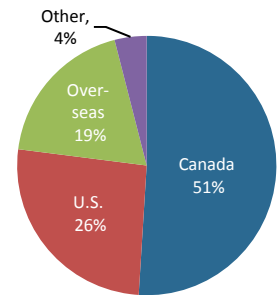
### Top Holdings

TD Bank	6.0%
Suncor Energy	5.9%
CVS Caremark	4.8%
Visa	4.3%
Lincoln Electric	4.2%
Ecolab	4.2%
Starbucks	4.1%
Novartis	4.1%
Novozymes	4.0%
Mead Johnson	4.0%

### Sector Allocation (Equities)

Industrial Goods & Services	26.9%
Financial Services	16.7%
Oil & Gas	16.4%
Retailing	16.4%
Consumer Products	11.8%
Basic Materials	7.6%
Healthcare	4.2%

### Geographic Profile (Equities)



### Transactions

+	-
Baytex Energy	Home Capital
Birchcliff	CN Rail
CAE	
Dairy Farm	

### Asset Mix

Equities	98.1%
Cash & Short-term	1.9%

### Fund Size / Concentration

Net Assets	\$62,388,738
Number of stocks	25

### Fee

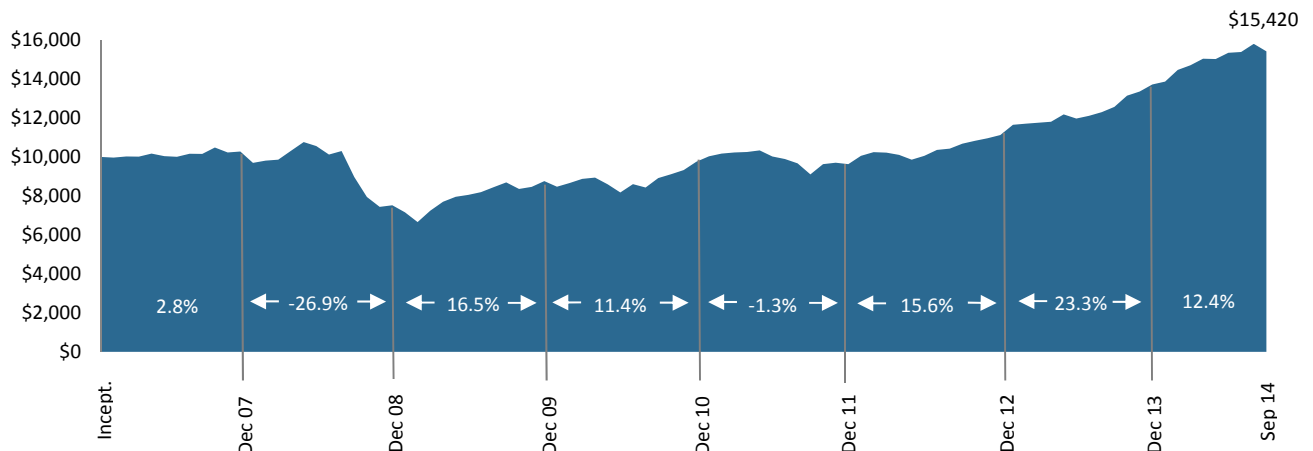
One Simple Fee	1.42% (or less)
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### Compound Annualized Returns (as of September 30, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y	Incept*
Equity Fund	0.5%	12.4%	22.7%	20.1%	19.2%	12.1%	6.1%	5.8%
S&P/TSX Composite Index	-0.6%	12.2%	20.4%	13.6%	12.1%	8.7%	3.9%	4.8%
MSCI World Index (\$Cdn)	2.8%	9.9%	22.9%	24.7%	21.6%	12.5%	5.1%	3.7%

\*Feb 13, 2007

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



## Global Equity Fund

### Investment Returns

- Global markets had a mixed quarter. U.S. stocks rose modestly but most European and Asian markets were flat or down. The MSCI World Index rose 2.8% in Canadian dollar terms, although the gain would have been less if not for a falling loonie, which was down 5% against the U.S. dollar.
- The fund was up 0.4% in the quarter. Since inception (Feb 2007), it has a cumulative return of 9%, which equates to an annualized return of 1.1%.

### Portfolio Specifics

- The fund holds 42 stocks in 16 countries. The focus is in Asia (47% of total assets) and Europe (41%). The U.S. accounts for only 11%.
- Japan remains the greatest area of focus (31% of the fund). The manager, Edinburgh Partners Limited (EPL), believes that economic reforms and deregulation will spur an uplift in company earnings. In addition to export-oriented holdings (*Bridgestone, Panasonic, Toyota*), the manager has been adding to companies with a domestic focus, such as *Sumitomo Mitsui Financial Group* (banking) and *East Japan Railway* (transportation). Returns this year have been modest, with *Yamaha* being a standout.
- The other key area of investment is Europe. In particular, EPL is seeing value in healthcare stocks. They feel that better science, improving R&D and an emphasis on developing differentiated drugs for specific patient populations and disease categories is leading to opportunities. Investments are focused in big pharmaceutical companies, including *Sanofi* (see Stock Snapshot on Page 17), *Roche*, *Novartis* and *AstraZeneca*.
- U.S. stocks remain expensive and their exposure in the portfolio has been cut in half over the past year, from 22% to 11%. Investments remain focused in the technology sector (*Google, Microsoft, Qualcomm*).
- Direct investments in the emerging markets (EM) come largely through Hong Kong (*Hutchison Whampoa, Swire Pacific*) and Singapore (*DBS Group*), yet many other holdings have significant sales in these markets. Close to 33% of the portfolio's sales by end-demand are in the EM.

### Notable Transactions

- There were no new stocks added to the portfolio in the quarter.
- Two stocks were sold: *Genting International* and *Portugal Telecom*.
- Positions were increased in *Novartis*, *Sanofi*, *Swire Pacific*, and *DBS Group*.

### Positioning

- Asia and Europe are big themes in the portfolio, where the manager is finding value in banks, healthcare, consumer and industrial companies.
- Investments in cyclical companies (those that are highly correlated to economic growth) are being progressively reduced as many of these stocks have performed well and the manager is allocating the proceeds to more defensive stocks (e.g. healthcare) with a better risk/reward profile.

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*"We see Europe and Japan compared to America as just being much cheaper places to invest."*

*- Craig Armour (EPL)*

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# Asia

## Big pharmaceuticals

*Sanofi, Novartis, Roche, AstraZeneca*

# Europe

## Japan

**Cyclical**

*SMFG, KDDI, Toshiba, Yamaha, East Japan Railway*

## Emerging markets

**U.S.**

## Global Equity Fund

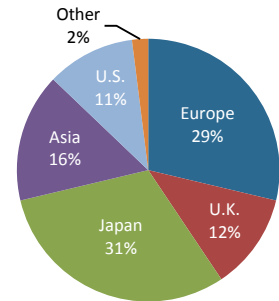
### Top Holdings

Sumitomo Mitsui Financial	3.0%
KDDI	3.0%
Swire Pacific	3.0%
Novartis	3.0%
Sanofi	3.0%
Toshiba	2.8%
Yamaha Motor	2.8%
DBS Group	2.7%
Microsoft	2.6%
Royal Dutch Shell	2.6%

### Sector Allocation (Equities)

Financial Services	21.8%
Industrial Goods & Services	18.5%
Consumer Cyclical	14.4%
Healthcare	13.9%
Technology	10.9%
Communications & Media	7.9%
Consumer Products	6.4%
Oil & Gas	6.2%

### Geographic Profile (Equities)



### Transactions

+	-
Novartis	Genting
Swire Pacific	Portugal Tel
DBS Group	
Yamaha	

### Asset Mix

Equities	96.5%
Cash & Short-term	3.5%

### Fund Size / Concentration

Net Assets	\$52,832,362
Number of stocks	42

### Fee

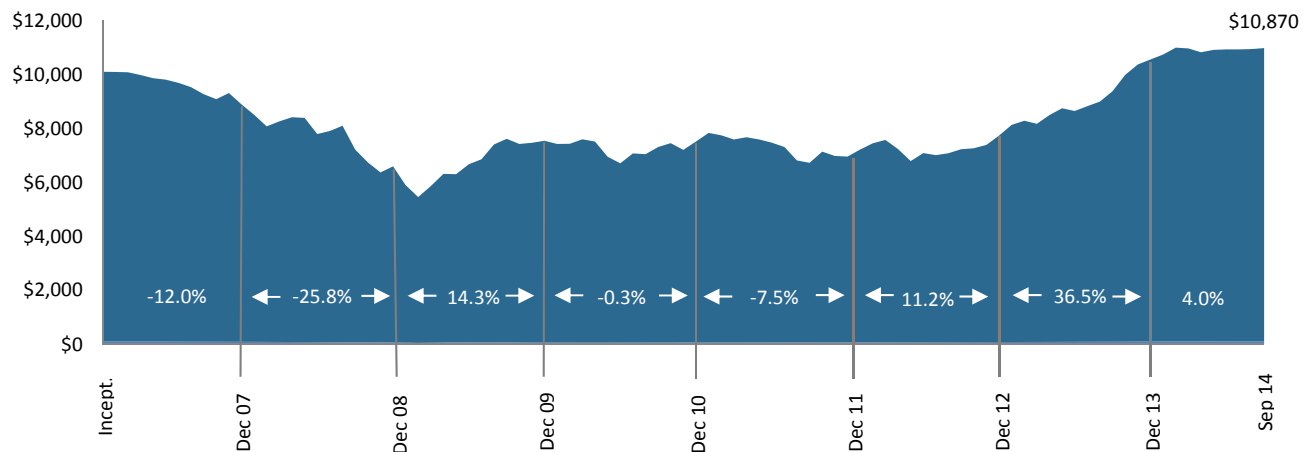
One Simple Fee	1.78% ( <a href="#">or less</a> )
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### Compound Annualized Returns (as of September 30, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y	Incept*
<b>Global Equity Fund</b>	<b>0.4%</b>	<b>4.0%</b>	<b>17.0%</b>	<b>23.2%</b>	<b>17.8%</b>	<b>7.6%</b>	<b>2.4%</b>	<b>1.1%</b>
MSCI World Index (\$Cdn)	2.8%	9.9%	22.9%	24.7%	21.6%	12.5%	5.1%	3.7%

\*Feb 13, 2007

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



## Small-Cap Equity Fund

### Investment Returns

- The Canadian small-cap market (BMO Small Cap Index) declined 8.8% in the quarter, with mining and energy stocks driving the downturn.
- The fund was down 7.0% in the quarter. Since inception (Feb 2007), it has a cumulative return of 102%, which equates to an annualized return of 9.6%.

### Portfolio Specifics

- The fund holds 16 stocks, with market capitalizations ranging from \$150 million (*Arsenal Energy*) to \$3 billion (*Stantec*, *MacDonald Dettwiler*). Eleven of the 16 holdings are under \$1 billion.
- It was a tough quarter for the fund's resource holdings. The price of oil dropped nearly 15% and oil producers *TransGlobe Energy* and *Eagle Energy* felt the impact. Although the fund's energy exposure is well diversified (oil producers, fuel delivery and service companies), most of the sector was under pressure. Gold also retreated and *Primero Mining* was the fund's greatest detractor to performance.
- A number of other holdings came under selling pressure, particularly late in the quarter. *HNZ Group*, *Medical Facilities*, *Hibbett Sports*, *Badger Daylighting* and *CBIZ* all saw double-digit share price declines. The manager, Wil Wutherich, still likes the longer-term prospects of these companies and took advantage of the weakness to buy more shares in *Medical Facilities* and *CBIZ*, among others.
- *Stantec* continues to deliver. The company (a consulting, engineering, and architecture firm) is consistently producing strong revenue and earnings growth and is making disciplined acquisitions (it recently strengthened its presence in Quebec by acquiring Dessau). The stock has gained 40% over the past 12 months and has been a top holding for several years.

### Notable Transactions

- *Arsenal Energy* was purchased. Arsenal is an oil-focused exploration and production company with operations in Alberta, B.C. and North Dakota.
- *Palliser Oil & Gas* was sold after entering into an amalgamation agreement.
- Additional shares were purchased in *TransGlobe Energy*, *ZCL Composites*, *Medical Facilities* and *CBIZ*.

### Positioning

- Energy, industrial and technology stocks comprise three-quarters of the fund. This is a function of bottom-up stock selection, rather than a call on these areas of the market.
- The cash reserve came down in the quarter, but is still sizeable (13%). It's a challenging environment to find quality companies at great prices.

*Weakness in energy stocks presented an opportunity to add to existing positions.*

Cash

Oil producers

*TransGlobe, Eagle, Arsenal*

<\$1 Billion

Industrial services

*Stantec, Badger Daylighting, HNZ Group*

16 holdings

Mining

U.S. stocks

*Hawaiian Holdings, Hibbett Sports, CBIZ*

## Small-Cap Equity Fund

### Top Holdings\*

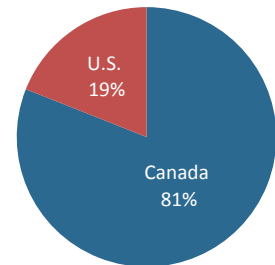
Stantec	8.0%
Total Energy Services	6.9%
Hawaiian Holdings	6.7%
MacDonald Dettwiler	6.5%
Pure Technologies	6.2%
CBIZ	6.2%
Primero Mining	6.2%
Hibbett Sports	5.5%
Parkland Fuel	5.4%
HNZ Group	5.2%

\*As of July 31, 2014

### Sector Allocation (Equities)

Oil & Gas	30.4%
Industrial Goods & Services	30.0%
Technology	15.8%
Healthcare	7.0%
Consumer Cyclical	6.1%
Retailing	5.8%
Basic Materials	4.9%

### Geographic Profile (Equities)



### Transactions

+	-
Arsenal Energy Med Facilities TransGlobe ZCL	Palliser O&G Stantec Hawaiian Hldgs

### Asset Mix

Equities	86.7%
Cash & Short-term	13.3%

### Fund Size / Concentration

Net Assets	\$52,233,914
Number of stocks	16

### Fee

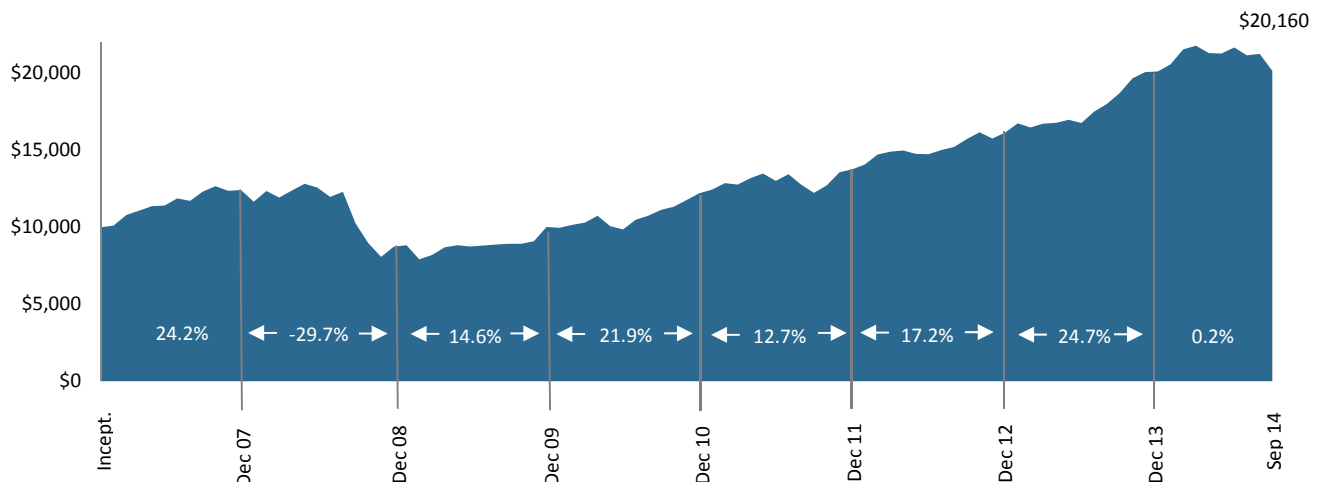
One Simple Fee 1.78% ([or less](#))

### Compound Annualized Returns (as of September 30, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y	Incept*
<b>Small-Cap Equity Fund</b>	<b>-7.0%</b>	<b>0.2%</b>	<b>7.8%</b>	<b>13.2%</b>	<b>18.1%</b>	<b>17.7%</b>	<b>7.3%</b>	<b>9.6%</b>
BMO Small Cap Index	-8.8%	7.7%	15.3%	7.1%	7.8%	9.9%	3.5%	3.6%

\*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 the quarter. It has sat at 1.0% for the past four years.
- The global economy is performing largely as the central bank expected: a solid recovery is on track in the U.S.; Europe is faltering somewhat; and an increasing number of export sectors in Canada appear to be turning the corner toward recovery. Household imbalances (high levels of debt) still exist, however, and the Bank remains neutral with respect to the timing and direction of the next change to short-term interest rates.
- Core inflation remains close to the central bank's 2% target.

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*Global financial conditions remain stimulative and short-term interest rates remain very low.*

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### Portfolio Specifics

- 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's (Connor, Clark & Lunn) strategy remains focused on corporate notes (69% of the portfolio). CC&L, however, is being selective in their security holdings because they are seeing fairly limited opportunities. The manager is therefore also looking to more attractive segments of the money market, such as the very short-term bond market (less than one year).
- The fund's holdings in government notes continue to be invested entirely in federal T-Bills. These securities made up 31% of the portfolio at the end of September.
- The pre-fee yield of the fund at the end of September was 1.2%.
- 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

- There were no notable changes to the structure of the portfolio in the quarter.

### Positioning

- CC&L believes their base case economic scenario, which calls for modest economic growth in a low-inflation environment marked by stimulative monetary policy, is expected to continue. The manager expects that short-term interest rate increases will not materialize until mid-2015, and the portfolio remains positioned accordingly.

## Corporate notes

## Federal T-Bills

### Floating rate notes

### Short-term bonds

### Reduced fee

## Savings Fund

### Top Holdings

Canada T-Bills (11/01/14)	15.4%
Canada T-Bills (05/01/15)	15.0%
CIBC B/A (02/12/15)	7.8%
TD Bank BDN (10/09/14)	6.8%
BMO B/A (10/01/14)	5.5%
Nat'l Bank B/A (10/24/14)	4.9%
Manulife BDN (05/28/15)	4.3%
Royal Bank B/A (10/31/14)	3.8%
BNS B/A (11/24/14)	3.5%
Brookfield C/P (10/15/14)	3.1%

### Yield

7-day Yield\* 1.0%

*\*This is an annualized historical yield (net of fees) based on the seven day period ended on September 30, 2014, and does not represent an actual one year return.*

### Fund Size

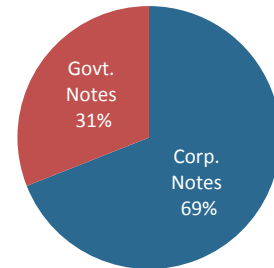
Net Assets \$12,444,737

### Fee

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

\*Temporarily reduced to 0.20%

### Issuer Allocation

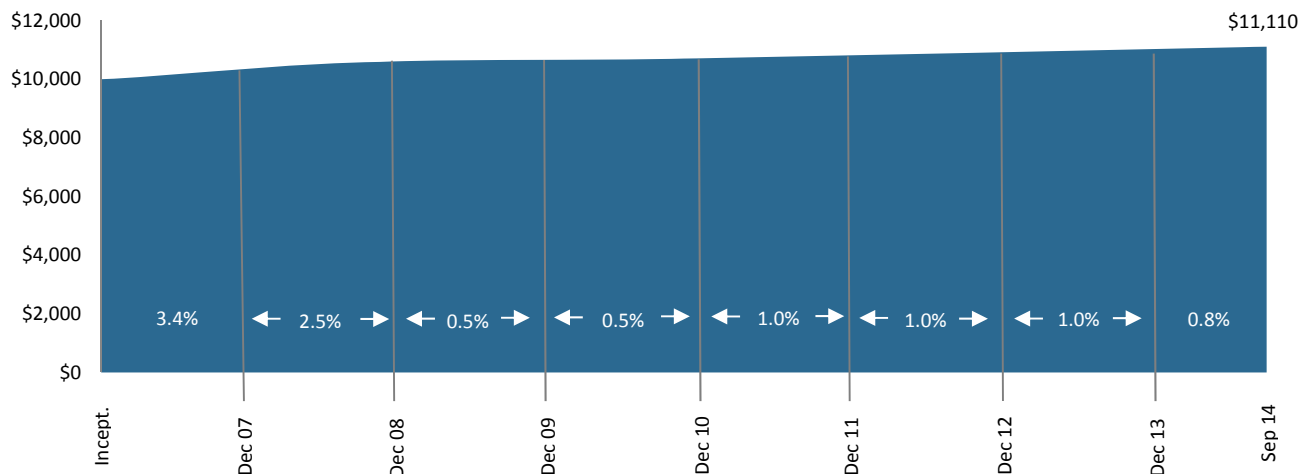


### Compound Annualized Returns (as of September 30, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y	Incept*
<b>Savings Fund</b>	<b>0.3%</b>	<b>0.8%</b>	<b>1.0%</b>	<b>1.0%</b>	<b>1.0%</b>	<b>0.8%</b>	<b>1.2%</b>	<b>1.4%</b>
DEX 91 Day T-Bill Index	0.3%	0.7%	0.9%	1.0%	1.0%	0.9%	1.4%	1.6%

\*Feb 13, 2007

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





## Stock Snapshot – SANOFI

### Overview

Sanofi is a French healthcare company engaged in the research, development, and manufacturing of pharmaceuticals and other health-related solutions. The company is a world leader in human vaccines and animal health, and is a key player in the treatment of diabetes. Other areas of focus include oncology, cardiovascular and rare diseases. Annual sales exceed €30 billion, and it's the #1 healthcare company in emerging markets. Sanofi has over 100 years of experience in the pharmaceutical industry and a history of scientific advances.

The stock is held in our Global Equity Fund (3.0% position size).

### Investment Case

Sanofi is emerging from a poor period of research and development (R&D) productivity and patent expirations. Its “patent cliff” is now largely over, yet the stock has lagged its peers as investors are still extrapolating poor productivity into the future. The company, however, has done a good job of re-focusing R&D on a few key areas – such as diabetes, cardiology and oncology – where demographic trends and a benign pricing and regulatory environment provide important, long-term tailwinds.

The product pipeline looks strong and Sanofi now has several late-stage drugs which could begin earning revenue over the next five years. Further, it only faces one major patent expiry over the next five years and the drug in question, *Lantus* (long lasting insulin) is a complex biologic drug which makes copying difficult, risky and expensive.

From a financial standpoint, the company is in a solid position and has a lot of options it can pursue. Sanofi generates a large amount of cash and will likely raise more through strategic divestitures as it narrows its areas of focus. It has plenty of capital available for share buybacks, distributions to shareholders and/or targeted acquisitions. Sanofi has done small and transformative deals in the past and it appears willing to do both again.

Sanofi could also benefit from the arguably under-appreciated tailwind from its 17% stake in *Regeneron*, a U.S. biotech firm that has a potentially lucrative and differentiated late-stage pipeline of asthma and cholesterol drugs.

### Risks to Outlook

Sanofi's greatest potential headwinds include pipeline disappointments or execution issues, litigation, and pricing pressure.

*An interesting fact:* Sanofi spent nearly €5 billion in R&D in 2013 and produces 5 billion boxes of medicines per year.



*Sanofi has 9 high potential late-stage drugs in the pipeline including a vaccine for dengue fever*

## National Portfolio Simplification Day



*We declared September 19<sup>th</sup> National Portfolio Simplification Day. Our CFO was all fired up.*

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### 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.

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