March 2016

Steadyhand

How are Steadyhanders Doing?

A Performance Assessment
December 31, 2015

Since our inception in 2007, Steadyhand's balanced portfolio models have achieved strong after-fee returns, which have been in excess of the markets. Clients have benefited from excellent security selection and an overall bias towards corporate bonds and foreign stocks.

This report is a performance assessment of the *Steadyhand Balanced Income Portfolio*, which has a 50% fixed income / 50% equity mix.

Executive Summary

- The Steadyhand Balanced Income portfolio has returned 6% per year over the last eight years. A comparable low-cost indexed portfolio would have returned 5% per year.
- In 2015, the portfolio grew by 2.4%.
- The mix of government, corporate and high yield bonds, and small, medium and large companies across different regions has served the portfolio well.

Introduction & Numbers

This report analyzes the Steadyhand Balanced Income Portfolio (hereafter referred to as 'Balanced Income' or 'Portfolio') because it encompasses all of our long-term funds, is a good representation of the firm's overall asset base and is the model portfolio used by a large number of clients.

The Balanced Income is a hypothetical portfolio[1] made up of four Steadyhand funds:

Income Fund	66%
Equity Fund	14%
Global Equity Fund	13%
Small-Cap Equity Fund	7%

Its Strategic Asset Mix (SAM) is as follows:

Bonds	50%
Canadian Equities	30%
Foreign Equities	20%

In doing this analysis, we've endeavoured to be as objective and transparent as possible.

Gathering the Data

To gather the facts for the portfolio, we went to the Client Statement, which is provided in the appendix. Jane and Jim Smith, our fictional investors, started at Steadyhand on December 31, 2007, with an investment of $50,000. After eight years, their portfolio is worth $79,936 (which assumes all fund distributions were re-invested). Their annualized returns are shown in the following table, which was taken from their December 31, 2015 statement. **All Steadyhand returns in this report are after-fees.**

[1] The Steadyhand Balanced Income Portfolio is a hypothetical portfolio of Steadyhand funds. The performance of the portfolio assumes that it is rebalanced on a quarterly basis to the target fund allocation (66% Steadyhand Income Fund, 14% Steadyhand Equity Fund, 13% Steadyhand Global Equity Fund, 7% Steadyhand Small-Cap Equity Fund).

CONSOLIDATED PERFORMANCE

Performance Period	Rate of Return (%)
Three Month	1.9
One Year	2.4
Two Year	5.3
Three Year	7.4
Five Year	7.4
Since inception	6.0

Annualized compound rates of return on periods over one year. Consolidated performance is calculated using monthly weighted average rate of return for the accounts in the period.

Costs

Jane and Jim can find the cost of management on the first page of their Steadyhand statement.

- The management expense ratio (MER), which we refer to as the "One Simple Fee", was 1.24% in 2015.
- That amounts to approximately $1,000 in 2015 (the statement shows a fee of $244.64 for the fourth quarter).

We have not applied Steadyhand's fee reduction program to Jane and Jim's portfolio. Actual clients see their fees decline as (1) their accounts grow above $100,000 and (2) they've been with Steadyhand for more than five years. Client that have invested with Steadyhand for five years receive a 7% discount, which is doubled to 14% after 10 years.

Analysis

To understand how their portfolio has done, the Smiths need some context. They've built a 'reference portfolio' to give them an idea of how they should have done – i.e. a representation of the environment the Balanced Income Portfolio was operating in.

The Smiths' reference portfolio has the same SAM as the Balanced Income Portfolio. It's rebalanced quarterly and factors in fees and commissions that investors typically pay for indexing solutions such as exchange traded funds, or ETFs (in our analysis, we use an annual fee of 0.30%, calculated quarterly). The reference portfolio is constructed using the FTSE TMX Canada Universe Bond Index (50%), S&P/TSX Composite Index (30%) and MSCI World Index (20%). Details on how to build a reference portfolio can be found in our research paper, How is Your Portfolio Doing?

Jim and Jane also compare their portfolio to a low risk option – GICs. By investing in the Balanced Income Portfolio, they expect to be compensated for the higher amount of risk and volatility. They've set a hurdle of 2% above 5-year GICs.

Asset Mix

Jane and Jim's asset mix is shown in the 'Holdings by Asset Class' section of the sample statement. Because the Portfolio is rebalanced each quarter, its asset mix didn't diverge significantly from the SAM at any point over the eight years. The managers of the underlying funds, however, made some tactical moves which affected the mix. These will be reviewed in the next section when we go through each of the funds. The emphasis on International stocks (12.6% of total assets) over U.S. (6.8%) is evidence of the managers' strategies impacting the asset mix.

HOLDINGS BY ASSET CLASS

Asset Class	Market Value ($)	% of Total
Cash & Cash Equivalents	1,960.61	2.5
Fixed Income	39,170.64	49.0
Canadian Equity	23,277.75	29.1
U.S. Equity	5,419.94	6.8
International Equity	10,107.40	12.6
	79,936.33	100

Portfolio Performance

The table below illustrates how Jane and Jim's portfolio performed compared to their objectives. A few notes on performance:

- Their portfolio returned 6% per year over their eight years with Steadyhand. Their reference portfolio returned 5% per year.
- The initial $50,000 investment has grown to $79,936, or a cumulative return of 60%. A reference portfolio would have grown to $75,800 (52%), while a portfolio invested in 5-year GICs (plus 2% per year) would have reached $67,330.

BALANCED INCOME PORTFOLIO VERSUS LONG-TERM OBJECTIVES

	Annualized (%) to Dec. 31, 2015					Annual Returns (%) to Dec. 31							
	1 Y	2 Y	3 Y	5 Y	8 Y	2008	2009	2010	2011	2012	2013	2014	2015
Balanced Income	2.4	5.3	7.4	7.4	6.0	-15.2	20.2	10.3	4.5	10.1	11.8	8.3	2.4
5-year GIC +2%	3.4	3.5	3.5	3.6	3.8	4.2	4.0	3.9	3.9	3.7	3.6	3.5	3.4
Reference Portfolio	2.5	6.4	7.4	6.0	4.9	-13.1	14.8	9.7	1.3	6.2	9.4	10.1	2.5
Added Value (v Reference)	-0.1	-1.1	0.0	1.4	1.1	2.1	5.4	0.6	3.2	3.9	2.4	-1.8	-0.1

- In 2015, Jane and Jim's portfolio had a total return of 2.4%, which compares to 2.5% for their reference portfolio.
- The Smiths haven't been contributing or withdrawing from their portfolio, nor have they been making any asset mix shifts, so their returns have been driven solely by the performance of the four funds they hold. In the sections that follow, we review each of the relevant funds.

2015 - A Wild Year

Last year was a challenging one for markets. Negative headlines out of China and Europe created a volatile environment for all types of assets, including stocks. The Canadian market was down 8.3%, while most other markets around the world were flat to down. Investors holding foreign stocks, however, benefited from the declining loonie – in Canadian dollar terms, foreign assets became more valuable.

On the fixed income side, bond returns were good (3.5% for the overall bond market), although higher risk bonds (affectionately known as 'junk' bonds) recorded negative returns, as they went from being loved at the beginning of the year to being despised by year-end.

Overall, diversified portfolios delivered positive returns in 2015. For clarification, to us 'diversified' means having exposure to a range of economic variables (not just resources and Canadian banks), owning different types of assets (cash; government bonds, corporate bonds, and small, medium and large stocks from different countries and industries) and being exposed to a variety of currencies.

In 2015, Jane and Jim particularly benefited from having foreign stocks in their portfolio. Without the currency effect, their return would have been in negative territory.

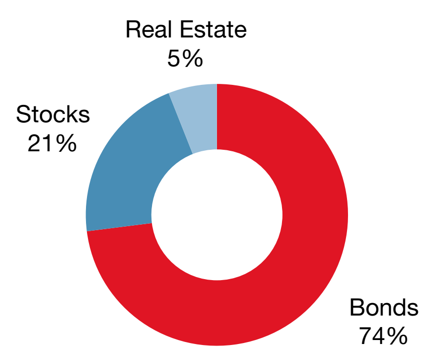
Over the Smith's time with Steadyhand, different funds have carried the weight over different periods. Earlier on, the Income Fund and Small-Cap Fund were leading the charge. More recently it has been the Equity and Global Equity Funds.

Income Fund

This fund is a diversified portfolio focused on income-oriented securities. Over the long term, its target is to be invested approximately 75% in bonds (federal and provincial government, corporate and high yield) and 25% in income-oriented stocks (including Real Estate Investment Trusts or REITs). The allocations vary depending on the strategies of the manager, Connor, Clark & Lunn Investment Management (CC&L).

- Over eight years, the fund produced 6.4% per year. This amounts to a cumulative return of 64%. Declining interest rates (when rates fall, bond prices rise) and good bond and stock picking produced healthy returns.
- In 2015, the Canadian bond market had a total return of 3.5% (interest and capital gains), while the Canadian stock market was down 8.3%. The Income fund, which is a combination of both asset classes, eked out a 0.8% return for the year.
- On the bond side, the manager's move into high yield bonds at the end of the first quarter proved too early. These riskier securities struggled through the volatile 2015 and had negative returns, which took the edge off an otherwise excellent year in the fixed income area.
- The equity component, which amounted to 25-28% of the fund through the year, was down 0.4%. It held up remarkably well compared to the Canadian equity market due to its more defensive nature.

Income Fund Composition (Dec. 31, 2015)

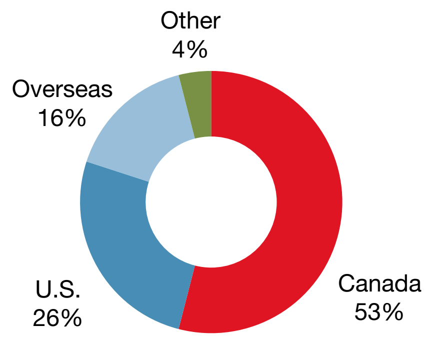


Equity Fund

The Equity Fund is a Canada-centric stock fund. The manager, CGOV Asset Management, selects the highest quality stocks that Canada has to offer (regardless of industry sector) and then complements them with select stocks from the U.S. and overseas. The result is a portfolio of 23-25 quality companies.

- The fund has returned 6.3% per year since 2008. A focus on higher quality companies (growing and predictable profits, financial strength and growing dividends) served the fund well. These types of stocks are more expensive (high price-earnings multiples), but in general the ones held in the fund performed well and justified their premium valuations.
- The manager started tilting the fund towards global stocks in 2011 as it started to see better opportunities beyond our borders. This move proved prescient as global stocks outpaced Canadian stocks in subsequent years.
- There have been bumps along the way though. CGOV struggled in 2009 and 2010 when lower quality, resource-based stocks were on a roll. The fund was up during this period, but not as much as the hot, resource-driven market.
- Subsequent years, however, have been strong, including 2015 when the fund had a total return of 8.3% (after fee). While the manager's stock picking ability shone through, the impact of a falling Canadian dollar was the largest positive factor, as foreign stocks drove performance.
- U.S. holdings did well, even before factoring in the positive currency effect. CBOE, ECOLAB, and VISA benefited from growing demand for their products and services.
- Falling commodity prices were front and centre in the news over the year. In Canada, the energy sector, which accounts for nearly one-fifth of the Canadian market, fell 24%. The fund felt some pain, with 13-17% of its assets invested in oil & gas stocks throughout the year.

Equity Fund Composition (Dec. 31, 2015)



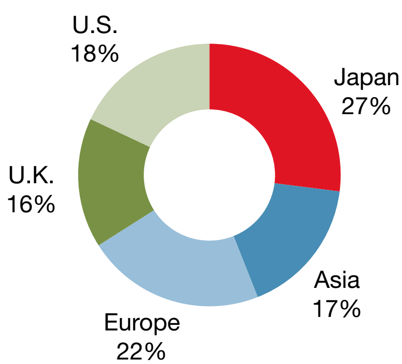
Global Equity Fund

This is Steadyhand's 'go anywhere' fund. Edinburgh Partners Ltd (EPL), the manager, has the scope to invest in stocks from anywhere in the world, including the developed markets of the U.S., Europe and Asia, as well as the less developed 'emerging' markets.

- Over the last eight years, the fund has averaged 4.2% per year compared to 7.8% for the global market.
- In contrast to the Equity Fund, which took a high grade approach, EPL has gradually gravitated towards what's called a 'value' approach. Instead of paying a higher price for growing, leading companies, they've preferred to buy slower growing, more cyclical and in some cases troubled companies at lower valuations.
- While value-oriented strategies have been the better performers over the long term, there have been a couple of exceptional periods when growth stocks did appreciably better. The biggest diversion came in the late-90's when tech stocks pushed the growth sector to amazing heights, while value stocks did very little. The second prolonged period has been since the 2007-2008 financial crisis, when value-oriented funds, including our Global Equity Fund, have struggled to keep pace. In hindsight, the slow growth, debt-heavy economy since the crisis has favoured the non-cyclical market leaders.

- In 2015, the portfolio posted a solid return of 12.6%, although it lagged the broader market. This was due primarily to its modest exposure to U.S. stocks. Even though U.S. stocks were flat in 2015, the greenback gained 20% on the loonie, which had a huge impact on U.S. stock returns.
- The fund's emphasis on Japanese and European stocks was a positive as these regions performed well and their strengthening currencies (versus the loonie) boosted returns.

Global Equity Fund Composition (Dec. 31, 2015)

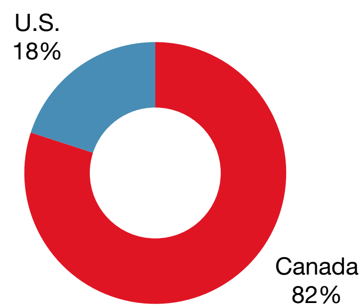


Small-Cap Equity Fund

In line with Steadyhand's undexing philosophy, the manager of this fund, Wil Wutherich, doesn't feel compelled to mirror the small-cap index, or copy other managers. Rather, he builds a portfolio of 15-20 small to mid-sized companies that are well financed and have lots of scope to grow their profits.

- The Small-Cap Fund has averaged 3.4% per year since Jim and Jane joined Steadyhand. This handily beats how Canadian small-cap stocks have done in general.
- The manager has consistently been able to pick winning stocks, although he has had some missteps over the last two years. The fund was overexposed to resource companies (25% of the portfolio) in 2014 and 2015, which hurt the fund as oil producers and mining companies were hit hard. EAGLE ENERGY TRUST and ARSENAL ENERGY are two stocks that were hit particulary hard and were sold due to deteriorating fundamentals.
- Specifically, the fund was down 13.7% in 2015, in line with the broader small and mid-cap market.
- There were some positive stories worth noting. CBIZ, the U.S. business services provider, was the fund's top contributor to performance. ZCL COMPOSITES and STANTEC also turned in double-digit returns in 2015.
- Wutherich has recognized the mistakes and taken steps to reposition the portfolio to its winning ways. This includes having a mix of steady-eddy businesses with some cyclical stocks. This mix has served investors well over the years.

Small-Cap Equity Fund Composition (Dec. 31, 2015)



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Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return 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.

This report was published on March 16, 2016, by Steadyhand Investment Management Ltd.

steadyhand.com

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Steadyhand

PORTFOLIO STATEMENT

From October 1 to December 31, 2015

Mr. JIM SMITH
278 Brant St.
Burlington, ON, L73X4

Client since: December, 2007

STEADYHAND INVESTMENT FUNDS INC.
1747 W. 3RD AVE
VANCOUVER, BC, V6J 1K7
PHONE: 1−888−888−3147
FAX: 1−888−888−3148
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Your Accounts

Type	Number	Owner	Market Value at December 31, 2015 ($)
Investment	902031	JANE SMITH	31,974.53
RRSP	970027	JIM SMITH	47,961.80
			79,936.33

Sample Statement

Consolidated Holdings

Fund	Market Value at December 31 2015 ($)	% of Total	One Simple Fee (%)	Your Fee (%)	Your Fee ($)
Steadyhand Income Fund	52,757.98	66.0	1.04	1.04	135.29
Steadyhand Equity Fund	11,191.09	14.0	1.42	1.42	39.18
Steadyhand Global Equity Fund	10,391.72	13.0	1.78	1.78	45.61
Steadyhand Small−Cap Equity Fund	5,595.54	7.0	1.78	1.78	24.56
	$79,936.33	**100.0**	**1.24%**	**1.24%**	**$244.64**

Reinvested Fee Rebates in Period: **$0.00**

Notes: ’One Simple Fee’ is our standard fee before reductions, if applicable. ’Your Fee’ is the estimated fees you paid during the statement period. For more information see our website. Fee rebates are reinvested in additional units of the funds you hold.

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PORTFOLIO STATEMENT
From October 1 to December 31, 2015

Holdings by Asset Class

Asset Class	Market Value ($)	% of Total	
Cash and Cash Equivalents	1,960.61	2.5	51.5%
Fixed Income	39,170.64	49.0	
Canadian Equity	23,277.75	29.1	48.5%
U.S. Equity	5,419.94	6.8	
International Equity	10,107.40	12.6	
	$79,936.33	**100%**	

Portfolio Activity

	Value ($)
Beginning Value	50,000.00
Net Contributions (contributions - redemptions)	-
Gain/Loss	29,936.33
Ending Value	$79,936.33

Consolidated Performance

Performance Period	Rate of Return (%)
Three Month	1.9
One Year	2.4
Two Year	5.3
Three Year	7.4
Five Year	7.4
Since Inception	**6.0**

Sample Statement

All performance figures are net of fees. Annualized compound rates of return shown on periods over one year. Consolidated performance is calculated using the aggregate return method for the accounts in the portfolio.