February 2015

Steadyhand

How is Steadyhand Doing?

A Performance Assessment
December 31, 2014

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

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Steadyhand Investment Funds is an independent no-load mutual fund company that offers a straightforward lineup of low-fee funds directly to investors. The firm has an experienced management team and clear investment philosophy rooted in the belief that concentrated, non-benchmark oriented portfolios are the key to index-beating returns. Steadyhand's only business is managing money for individual investors and offering practical advice on building and monitoring portfolios.

Executive Summary

Stocks had another good year. The Canadian market (S&P/TSX Composite Index) gained 10.6% in spite of weakness in the energy sector in the second half (the price of oil fell 45% in 2014).

Foreign stocks also advanced. The U.S. market was a key area of strength (gaining over 23% in Canadian dollar terms), while European and Asian markets saw more modest gains. Emerging markets were flat on the year. Technology, consumer and healthcare stocks performed well, while commodity stocks struggled.

Currency fluctuations had a big impact on portfolio returns. With the Canadian dollar weakening, the value of foreign assets increased and returns were enhanced.

The bond market surprised many, including us, with a very strong return in 2014. Yields are low, but declining interest rates pushed bond prices up. As a result, a majority of the market's 8.8% return came from capital gains.

Steadyhand balanced portfolios had positive returns in 2014, but didn't fully participate in the strong markets and weak Canadian dollar. Since the inception of the firm, however, the returns have been top quartile, driven by excellent security selection throughout most of the fund lineup and an overall bias towards corporate bonds and foreign stocks.

The Income Fund and Equity Fund had good years and built on their strong long-term records. The Small-Cap Equity Fund struggled in 2014 after a number of good years. The Global Equity Fund also had a disappointing year.

For clients following the Balanced Income Portfolio, some rebalancing is likely required given that the fund returns in 2014 diverged significantly.

The Steadyhand client statement has been enhanced since last year's assessment and is attached to this report.

Introduction & Numbers

This review of Steadyhand's investment returns follows the approach laid out in our report entitled, *How Is Your Portfolio Doing—A Framework for Assessing Investment Performance*. If you don't have a copy, it's available at steadyhand.com.

As in previous years, we have chosen to analyze 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 seven years, their portfolio is worth $78,085 (which assumes all fund distributions were re-invested). Their annualized returns are shown in the 'Consolidated Performance' section of the statement.

Note: All Steadyhand returns in this report are after-fees. For purposes of this report, Jane and Jim's performance does not include rebates for portfolio size or client tenure. Actual clients who invested with Steadyhand for the same length of time (seven years) would receive a 7% rebate on their fees.

CONSOLIDATED PERFORMANCE

Performance Period	Rate of Return (%)
Three Month	0.7
One Year	8.3
Two Year	10.0
Three Year	10.1
Five Year	8.9
Since inception	6.6

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.

Founders Fund

A large number of Steadyhand clients are invested in the Founders Fund, which is a balanced fund with a target asset mix of 60% stocks and 40% fixed income. It is our intention to use this fund as the basis for future assessments, but at this stage the fund has too short a track record to make the analysis meaningful (it was launched in February, 2012). We will, however, review how the Founders Fund has done later in this report.

[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).

Capital Market Returns

At the bottom of the page is a table of capital market returns for periods ending December 31, 2014. In this commentary, we will focus on one-year and seven-year returns. One year is too short a period from which to draw conclusions, but gives investors a feel for how the funds are managed and what is driving returns. Seven years is not a standard time period, but it's the longest we have for the Steadyhand funds and covers not only the 'up' part of the investment cycle (2009-2014), but also the 'down' (2008).

The bond market was very strong in 2014. The total return (interest payments and capital gains) of the FTSE TMX Canada Universe Bond Index was 8.8%. Interest rates moved up in 2013, which led to a negative return for the bond market (as a reminder, when bond yields go up, bond prices go down), but they turned around in 2014 and were again testing their lows by year-end. Ten-year Government of Canada bonds (Canada's) started the year yielding 2.8% and finished at 1.8%. As evidenced by the 2014 return, when rates are so low, a 1% move has a big impact.

There was not a lot to distinguish between the returns from government and corporate bonds in 2014. High yield bonds (also called junk bonds) had a strong start to the year, but their prices fell back in the spring and as a result, they lagged behind higher quality bonds for the year.

Over the last seven years, the bond market has sported equity-like returns (+5.6% per year), with interest rate declines fueling capital gains.

The Canadian stock market (S&P/TSX Composite Index) had a good year with a total return (capital appreciation plus dividends) of 10.6%, despite the fact that energy stocks were down 16%. On the plus side, 8 of 10 sectors were up double digits.

Over seven years, the same trends were evident. The modest 3.8% per annum return (which includes the market meltdown in 2008 and early 2009) was tempered by negative returns from materials (-5.2%) and energy (-3.5%).

CAPITAL MARKET RETURNS

		Annualized (%) - Dec 31, 2014				
Asset Class	Index	1 Y	2 Y	3 Y	5 Y	7 Y
Cash	FTSE TMX Canada 91 Day T-Bill	0.9	1.0	1.0	0.9	1.2
Short-term notes	5-year GIC	1.8	1.9	1.9	2.0	2.2
Bonds	FTSE TMX Canada Universe Bond	8.8	3.7	3.7	5.5	5.6
Canadian stocks	S&P/TSX Composite	10.6	11.8	10.2	7.5	3.8
Foreign Stocks	MSCI World ($Cdn)	15.1	25.2	21.3	13.1	6.3

		Annual Returns (%)						
Asset Class	Index	2008	2009	2010	2011	2012	2013	2014
Cash	FTSE 91 Canada Day T-Bill	3.3	0.6	0.5	1.0	1.0	1.0	0.9
Short-term notes	5-year GIC	2.5	2.5	2.2	1.9	1.9	1.9	1.8
Bonds	FTSE TMX Canada Universe Bond	6.4	5.4	6.7	9.7	3.6	-1.2	8.8
Canadian stocks	S&P/TSX Composite	-33.0	35.1	17.6	-8.7	7.2	13.0	10.6
Foreign stocks	MSCI World ($Cdn)	-26.1	11.8	6.8	-2.9	14.0	36.2	15.1

The MSCI World Index had another strong year (15.1% in Canadian dollar terms). It got lots of help from the weak Canadian dollar (which enhances the value of foreign returns). In U.S. dollar terms, the Index return was 10% less.

U.S. stocks led the way again (+23%), while the other regions were more modest contributors—Japan (+5%) and Europe (+3%).

With the strong performance of the last three years, foreign stock returns are now well above Canada for seven years (6.3% vs. 3.8%). The U.S. market, which had been written off for dead just a few years ago, has carried the European and Asian markets along.

Reference Portfolio

Your Reference Portfolio reflects the investment environment that's relevant to you. It can be constructed by multiplying the returns of the asset classes in the SAM by their proportions. For example:

CALCULATING A REFERENCE PORTFOLIO RETURN

SAM	allocation (%)		5 yr return		
Bonds	50.0	x	5.5	=	2.8%
Cdn stocks	30.0	x	7.5	=	2.3%
Global stocks	20.0	x	13.1	=	2.6%
Reference Portfolio return					7.7%
Estimated annual fee					-0.5%
Reference portfolio return (fee adjusted)					7.2%

To make the Reference Portfolio representative of the real world, you may consider factoring fees and commissions into the calculation, as we have done above. By subtracting 0.5% from the annual return, it will more accurately reflect the cost of managing an index-like portfolio, which is what your reference portfolio is.

Using the market returns, we've calculated a return for Jane and Jim's Reference Portfolio (also referred to as a Benchmark or Default Portfolio). This measure gives Jane and Jim a rough idea of how they should have done—i.e. a representation of the market environment the Balanced Income Portfolio was operating in. The Reference Portfolio is based on a Strategic Asset Mix (SAM) of 50% bonds, 30% Canadian stocks and 20% foreign stocks.

In these calculations, the Reference Portfolio has been rebalanced quarterly and a fee of 0.5% per year has been subtracted to reflect the on-going costs of maintaining an indexed portfolio.

REFERENCE PORTFOLIO

Annualized Returns (%) - Dec. 31, 2014

	1 Y	2 Y	3 Y	5 Y	7 Y
Reference Portfolio	10.6	10.2	9.0	7.8	5.6
Annual Fee	0.5	0.5	0.5	0.5	0.5
After Fee	10.1	9.7	8.5	7.3	5.1

Analysis

In this section, we compare the Balanced Income returns (after-fee) against the portfolio objectives and the Reference Portfolio, and analyze the differences.

Each investor has her/his own objectives. Jane and Jim have three. They want to measure their returns against (1) inflation, (2) 5-year GICs, which is a reasonable measure of risk-free investing, and (3) a low-cost, indexed portfolio.

As the table below reveals, the Portfolio has handily met Jane and Jim's objectives, even when 2008 is included in the calculation. Over seven years, it has achieved a real (after inflation) return of over 4% and is well ahead of the Reference Portfolio.

Over the seven years, different components of the Portfolio carried the load at different times. The most consistent areas of strength were income-oriented investments and small-cap stocks. Weak results from the Global Equity Fund were a drag on returns.

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 seven 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 (14.0% of total assets) over U.S. (5.7%) is evidence of the managers' strategies impacting the asset mix.

HOLDINGS BY ASSET CLASS

Asset Class	Market Value ($)	% of Total
Cash & Cash Equivalents	1,653.88	2.1
Fixed Income	37,003.51	47.4
Canadian Equity	24,025.579	30.8
U.S. Equity	4,478.24	5.7
International Equity	10,925.04	14.0
	78,089.24	100

Security Selection

The fund returns discussed in this section are shown in the table on the next page.

BALANCED INCOME PORTFOLIO VERSUS LONG-TERM OBJECTIVES

	Annualized (%) to Dec. 31, 2014					Annual Returns (%) to Dec. 31						
	1 Y	2 Y	3 Y	5 Y	7 Y	2008	2009	2010	2011	2012	2013	2014
Balanced Income	8.3	10.0	10.1	8.9	6.6	-15.2	20.2	10.3	4.5	10.1	11.8	8.3
Long-term objectives:												
CPI +3%	5.0	4.4	4.5	4.8	4.7	5.3	3.3	4.8	5.9	4.5	3.9	5.0
5-year GIC +2%	3.5	3.6	3.7	4.0	4.3	4.2	4.0	3.9	3.9	3.7	3.6	3.5
Reference Portfolio	10.1	9.7	8.5	7.3	5.1	-13.1	14.8	9.7	1.3	6.2	9.4	10.1
Added Value (v Reference)	-1.8	0.3	1.6	1.6	1.5	-2.1	5.4	0.6	3.2	3.9	2.4	-1.8

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 will vary depending on the strategies of the manager, Connor, Clark & Lunn Investment Management (CC&L).

The fund had another excellent year in 2014. The total return (interest, dividends and capital gains) was 9.7% after-fee, however, the fund was held back by its exposure to the energy sector. The fund added value to already favourable markets in both the fixed income and equity areas.

Some of the highlights from 2014 were:

- The fund's positive return was fueled by its approximately 30% weighting in income-oriented stocks (it ranged between the high-20's and low-30's). The market for these types of stocks was strong and the fund's holdings were even stronger.
- The bond market almost kept up with stocks. The contribution from interest income was quite modest, but declining interest rates pushed up bond prices (with rates so low, the impact of a 1% change in yield is significant). Most of the return came in the form of capital gains (approximately 60-70%).
- In the bond component of the portfolio, the return was slightly above the Universe Index. Positive factors were the large exposure to provincial bonds and financial services. The fund had very little exposure to energy company bonds. Detracting from returns was the fact that CC&L has been defensive on interest rates.
- High yield bonds accounted for 9% of the fund at the beginning of 2014, but were eliminated late in the first quarter. The sale proved to be timely, as most of the year's return from high yield had been achieved.
- The mix of stocks in the fund performed exceedingly well. In addition to strong returns from financial stocks, the fund gained from a purposeful exposure to the U.S. economic recovery through stocks like **PROGRESSIVE WASTE** (+33%), **BROOKFIELD PROPERTY PARTNERS LP** (+25%), and **DH CORP.** (+23%).

FUNDS RETURNS - DEC. 31, 2014

	Annualized (%)					Annual (%)						
	1 Y	2 Y	3 Y	5 Y	7 Y	2008	2009	2010	2011	2012	2013	2014
Income Fund	9.7	6.7	7.1	7.9	7.2	-8.9	22.5	10.8	7.2	8.0	3.8	9.7
Benchmark*	9.3	5.7	5.3	6.1	5.6	-3.4	12.8	9.5	5.1	4.4	2.4	9.3
Added Value	0.4	1.0	1.8	1.8	1.6	-5.5	9.7	1.3	2.1	3.6	1.4	0.4
Equity Fund	13.2	18.1	17.3	12.1	6.1	-26.9	16.5	11.4	-1.3	15.6	23.3	13.2
Benchmark**	12.5	17.1	14.6	9.8	4.9	-30.2	25.7	13.3	-6.4	9.9	22.3	12.5
Added Value	0.7	1.0	2.7	2.3	1.2	3.3	-9.2	-1.9	5.1	5.7	1.0	0.7
Global Equity Fund	4.0	19.2	16.5	7.8	3.1	-25.8	14.3	-0.3	-7.5	11.2	36.5	4.0
MSCI World Index ($Cdn)	15.1	25.2	21.3	13.1	6.3	-26.1	11.8	6.8	-2.9	14.0	36.2	15.1
Added Value	-11.1	-6.0	-4.8	-5.8	-3.2	0.3	2.5	-7.1	-4.6	-2.8	0.3	-11.1
Small-Cap Equity Fund	-6.3	8.1	11.0	13.5	6.1	-29.7	14.6	21.9	12.7	17.2	24.7	-6.3
BMO Small Cap Index	-0.1	3.8	3.3	5.6	3.0	-46.6	75.1	38.5	-14.4	2.5	7.8	-0.1
Added Value	-6.2	4.3	7.7	7.9	3.1	16.9	-60.5	-16.6	27.1	14.7	16.9	-6.2

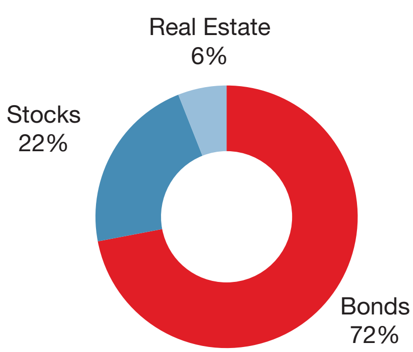
Fund returns are net of fees. Benchmark returns do not include any fees or commissions. *75% FTSE TMX Canada Universe Bond Index; 25% S&P/TSX Composite Index. **60% S&P/TSX Composite Index; 40% MSCI World Index ($Cdn).

Over seven years, the Income Fund produced a return of 7.2% per year. This performance was driven by a healthy allocation to corporate bonds and income-oriented stocks, and consistently good security selection in all areas. The tilt towards corporate bonds (as opposed to government bonds) hurt the fund in 2008 when the credit market experienced a dramatic short-term decline, but the returns overall have justified the large corporate weighting.

Over the full period, CC&L has also used high-yield bonds effectively. In the early years, the fund bought U.S. high yield ETFs opportunistically to gain exposure to the sector, but over the last two years the fund has held units in the CC&L High Yield Bond Fund.

As we've warned our clients numerous times over the last two years, it will be difficult for the Income Fund to match its past returns in the next five years, due to the fact that interest rates are considerably lower and the yield spread between corporate and government bonds has narrowed. Both factors point towards lower returns for bonds in the coming years.

On a final note, we continue to monitor the people, investment philosophy and decision-making process at CC&L in addition to long-term performance. On all fronts, the factors we look at remain stable. The Income Fund's asset mix as of December 31, 2014, is shown below:



Equity Fund

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

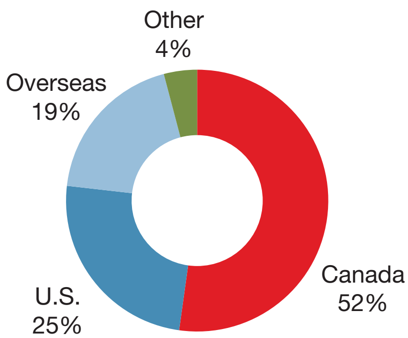
It had a total return of 13.2% in 2014 and over seven years came in at 6.1% per year.

There were a number of factors that contributed to the strong returns:

- As with any concentrated portfolio (24-25 stocks in this case), individual holdings can have a significant impact on returns, good and bad.
- A focus on higher-quality businesses with leading market positions has been important. The top contributors for 2014 were **LOBLAW** (retailing), **CN RAIL** (freight), **CVS HEALTH** (U.S. / retailing & healthcare) and **FRANCO-NEVADA** (gold).
- The fund's U.S. holdings were a particular area of strength, as globally-diversified companies including **MEAD JOHNSON** (infant nutrition), **VISA** (payments) and **ORACLE** (prior to being sold) continued to produce strong earnings. And as noted in the Context section, a weaker loonie substantially boosted returns from these stocks.
- Energy holdings had a rough second half of the year as the price of oil tumbled, falling from US$105 in the summer to under US$55 at year-end. **BAYTEX ENERGY** suffered a substantial fall and was sold. **PASON SYSTEMS** and **BIRCHCLIFF ENERGY** also experienced large price declines, although both stocks were little changed for 2014 due to strong gains earlier in the year.
- Direct investments in emerging markets struggled again this year. **FEMSA** (Latin American retailer) and **DAIRY FARM INTERNATIONAL** (Asian retailer) saw slower growth in their operations and modest share price declines. CGOV continues to like the positioning of these companies in regions with rising incomes and consumer spending.

Over longer time periods, the Equity Fund has outperformed the market. Its focus on well-financed companies with defendable market positions and growing dividends has served it well. The fund underperformed, however, during 2009 and the first half of 2010 when the lower quality, resource-based stocks were on a roll. During that period, the fund was up considerably, but couldn't keep up with the resource-based Canadian market.

On the people, philosophy and process front, there's nothing new to report. CGOV has been successful and continues to grow, but still has considerable capacity to manage the Equity Fund in the manner they have since inception in 2007. The Equity Fund's geographic profile as of December 31, 2014, is shown below:



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.

In 2014, the Global Equity Fund had a total return of 4.0% (in Canadian dollars), which was well behind the world market overall. As noted earlier, it was a year when U.S. stocks continued to roll along, while returns from Europe, the U.K. and Japan were modest. This gap between the U.S. and the rest of the world significantly impacted the return of the fund. EPL has steadily decreased the U.S. exposure (12% at year-end), and rotated the proceeds into overseas companies.

Some of the most noteworthy elements of the fund's performance were:

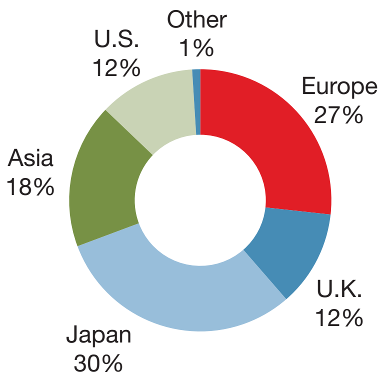
- The U.S. 'double-whammy' was by far the biggest factor in explaining the fund's underperformance. U.S. stocks were markedly better performers than stocks from other parts of the world and the U.S. dollar was strong against the Euro, Yen and Canadian dollar. The valuation gap between U.S. and non-North American stocks (based on price-to-earnings ratios) is now the widest it's been since 1999.
- The fund's biggest contributors came from a variety of industries and geographies: **YAMAHA MOTOR** (Japan / autos & parts), **ASTRAZENECA** (U.K. / healthcare), **MICROSOFT** (U.S. / technology), **ORANGE** (France / telecom) and **BANK MANDIRI** (Indonesia / financial services).
- The stocks that held back returns were: **PORTUGAL TELECOM** (Portugal / telecommunications), **POSTNL** (Netherlands / mail and parcel delivery), **BG GROUP** (U.K. / energy), **GAZPROM** (Russia / energy) and **INDRA SISTEMAS** (Spain / technology).

Over seven years, the Global Equity Fund's annualized return was a modest 3.1% for the reasons outlined above.

Given the manager's approach (non-benchmark oriented, concentrated list of holdings) and the volatility of foreign markets and currencies, clients should be prepared for the fund to deviate significantly from the overall market (positively and negatively).

After periods of underperformance, it's particularly important to look behind the numbers and assess what we refer to as the the other three P's—people, process and philosophy. As for people, EPL has kept the investment team in place and added analysts in both Scotland and the U.S. The company continues to be led by its founder and CEO, Dr. Sandy Nairn. The investment philosophy is unchanged and the decision-making process has been decisive, even during periods of challenging performance.

It's important to note the firm has generated solid returns in their other mandates where the U.S. allocation didn't play a factor. The Global Equity Fund's geographic profile is shown below:



Small-Cap Equity Fund

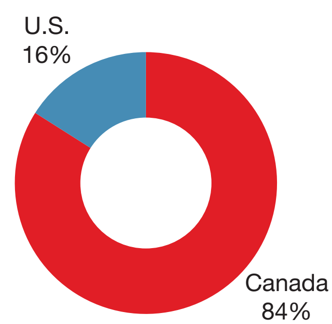
In line with Steadyhand's *undexing* philosophy, the manager of this fund, Wil Wutherich, doesn't feel compelled to mirror the small-cap index, or copy other managers. Rather, he looks for established, small to mid-sized companies that are well financed and have lots of scope to grow their profits.

After 3+ good years, the Small-Cap Equity Fund had a tough one in 2014. The total return was -6.3%.

- Positive contributions came from a diverse group of stocks, including HAWAIIAN HOLDINGS (airline), MACDONALD DETTWILER (satellite technology) and PURE TECHNOLOGIES (infrastructure management).
- The energy-related stocks were the biggest detractors during the year. The impact of a plummeting oil price was significant and hit most of the holdings, but 2014 was also a year when stock selection was poor. PALLISER OIL AND GAS (sold into a debt restructuring), TRANSGLOBE ENERGY and EAGLE ENERGY TRUST were all down significantly.
- In addition to the energy hit, there were a number of high-quality companies that saw their share prices pause after a number of good years. PARKLAND FUEL (energy distribution) and MEDICAL FACILITIES (U.S. / medical care) were up slightly, while HIBBETT SPORTS (U.S. / retailing) and BADGER DAYLIGHTING (hydrovac services) were down for the year.

Over seven years, the fund had a strong absolute return (6.1%), and performed better than most other small-cap funds. It did particularly well in weak markets—either achieving gains when the market was down, as in 2011, or not dropping as much, as was the case in the 2008 market meltdown. It lagged significantly behind other funds, however, during 2009 and the first half of 2010 when mining and gold stocks rebounded dramatically. The fund's negative return in 2014, however, broke the pattern and reflected the mixed nature of the small-cap market—mines and energy were down, but many non-resource stocks were hitting new highs.

As for the other three P's, Wutherich & Co. was stable in 2014. The firm grew throughout the year, but still has capacity to manage effectively in the small-cap area of the market. The Small-Cap Equity Fund's geographic profile is shown below:



Risk

Steadyhand's absolute return philosophy would suggest that the Balanced Income Portfolio will be less volatile than the Reference Portfolio over time. While this was not the case in 2008 due to the Income Fund's large weighting in corporate bonds, the portfolio did hold up extremely well in 2011. Over seven years, however, the quarterly standard deviation of the Balanced Income's returns was 3.8%, which is slightly higher than the Reference Portfolio at 3.5%. In other words, the pattern of the Reference Portfolio's returns was slightly smoother than the Steadyhand portfolio.

In general, the Balanced Income Portfolio pursues a more aggressive approach to fixed income (through an emphasis on corporate and high yield bonds), but a more cautious approach to stocks. The investment philosophy of the equity fund managers, *undexing*, tends to hold up better in weak markets.

Portfolio volatility is not only determined by the type of securities held, but also by how synchronized, or correlated, they are. In this regard, the Small-Cap Equity Fund has been an excellent diversifier. It has been the fund that has most consistently been out-of-synch with the other asset categories (the pattern was confirmed in 2014 when the fund was down while the others were up).

Overall, the Balanced Income's price movements have been in line with expectations.

There's no way of determining for sure how any portfolio will perform in the future. Looking back, the Balanced Income Portfolio had a better record in up markets—*it beat the Reference Portfolio in 20 out of 31 quarters—but also outperformed in 5 out of 9 down quarters.*

Based on the (1) undexing philosophy, (2) design of the funds, (3) managers' approach and (4) history so far, Jane and Jim should expect their portfolio to lag behind the Reference Portfolio and other balanced portfolios when mining and gold stocks are running. While the managers won't always have such little exposure in these sectors, they are unlikely to ever be heavily invested either.

Cost

On the first page of Jane and Jim's statement in the 'Consolidated Holdings' section, the cost of management is shown (see below). The Management Expense Ratio (MER), which we refer to as the "One Simple Fee", includes all costs to the client. There are no other purchase, redemption, switching or administration charges. The total cost for Jim and Jane in 2014 was 1.24%, or approximately $930 (the table below from the Client Statement shows a fee of $238.98 for the fourth quarter).

We should note that to keep the simulation simple, we have not applied Steadyhand's fee rebate program to Jane and Jim's portfolio. Their fee is the maximum a client would pay for the 50/50 mandate.

If they were actual clients, there are two ways their fees would be reduced. (1) Clients with more than $100,000 invested with Steadyhand (total by household) receive a rebate. For example, the fee for a client with $250,000 invested in the Balanced Income Portfolio would be 1.09%. And (2) there is a rebate related to tenure. After five years, the Smith's fee would be reduced by 7% and after 10 years, by another 7% (14% in total).

CONSOLIDATED HOLDINGS

Fund	Market Value at December 31, 2014 ($)	% of Total	One Simple Fee (%)	Your Fee (%)	Your Fee ($)
SH Income Fund	51,536.92	66.0	1.04	1.04	132.16
SH Equity Fund	10,932.07	14.0	1.42	1.42	38.28
SH Global Equity Fund	10,151.21	13.0	1.78	1.78	44.55
SH Small-Cap Equity Fund	5,466.04	7.0	1.78	1.78	23.99
	$78,086.24	100.0	1.24	1.24	$238.98

Founders Fund

The Founders Fund is the newest member of the Steadyhand lineup. It was launched in February, 2012. The fund is a balanced mix of Steadyhand's fixed income and equity funds, or what is commonly referred to as a 'fund of funds'. It has a long-term asset mix target of 60% stocks and 40% fixed income. It's managed by Steadyhand President and Chief Investment Officer, Tom Bradley. He will adjust the fund's asset mix to reflect his views on corporate fundamentals, valuations and market sentiment.

Since inception, the Founders Fund has had a bias towards non-North American stocks. Rather than the long-term target of 35% Canadian stocks and 25% foreign, the fund had been a reverse of that (25% Canadian / 30% foreign at year-end), although in 2014 the gap was narrowed through the sale of foreign stocks.

The tilt towards foreign equities was implemented at two levels: (1) Tom allocated more of the assets to the Global Equity Fund; and (2) the Equity and Small-Cap Equity managers bought more stocks domiciled outside of Canada. With regard to the Equity Fund, CGOV has been running with a minimum allocation to Canada because they're finding better value in the U.S. and internationally.

The Founders Fund had a return of 7.1% (after-fee) in 2014 and an annualized return of 10.1% per year for the 34 month period since inception. The fund's Reference Portfolio was up 10.6% and 9.0% respectively. As with the Balanced Income Portfolio, the Founders Fund didn't fully take advantage of the good bond and stock markets in 2014. In addition to the impact of the Global Equity Fund and Small-Cap Equity Fund results, the Founders Fund was positioned too defensively. Instead of full allocations to bonds and stocks, the fund carried an unusually large cash reserve (15-17% of assets). For the reasoning behind this strategy, we encourage you to read the Q4/2014 Quarterly Report.

Action and Success

When Jane and Jim look to how they can generate the best returns going forward, they need to remember that the funds in the Portfolio are professionally managed. In other words, they have to stay on top of their strategic asset mix (SAM) and monitor the portfolio, but for the most part, the managers are doing all the work. They are buying and selling securities, and making adjustments to their strategies, all on behalf of the Smith's.

For a complete review of the managers' outlooks and strategies, please refer to our latest Quarterly Report, which is posted on steadyhand.com.

Rebalancing

As noted earlier, Jane and Jim's portfolio is automatically rebalanced at the end of each quarter. For actual clients using the Balanced Income model, some rebalancing will be required from time to time to stay on their 50/50 SAM.

Early 2015 is likely one of those times. As we've highlighted throughout this report, the funds that make up the Balanced Income portfolio had very different returns in 2014, ranging from 13.2% for the Equity Fund to -6.3% for the Small-Cap Equity Fund. If there were no moves made throughout the year, the Portfolio will need some minor rebalancing.

If the rebalancing is done through contributions, the new money should go disproportionately to the Global Equity and Small-Cap Equity funds.

If the portfolio is providing income, then the withdrawals should initially come from the Income and Equity funds, until the fund is back in line with the 50/50 target mix.

Steadyhand

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 February 2, 2015, by Steadyhand Investment Management Ltd.

steadyhand.com

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Vancouver, BC V6J 1K7

Steadyhand

PORTFOLIO STATEMENT

From October 1 to December 31, 2014

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

STEADYHAND INVESTMENT FUNDS INC.
1747 W. 3RD AVE
VANCOUVER, BC, V6J 1K7
PHONE: 1−888−888−3147
FAX: 1−888−888−3148
http://steadyhand.com

Client since: December, 2007

Your Accounts

Type	Number	Owner	Market Value at December 31, 2014 ($)
Investment	902031	JANE SMITH	31,234.50
RRSP	970027	JIM SMITH	46,851.74
			78,086.24

Consolidated Holdings

Fund	Market Value at December 31 2014 ($)	% of Total	One Simple Fee (%)	Your Fee (%)	Your Fee ($)
Steadyhand Income Fund	51,536.92	66.0	1.04	1.04	132.16
Steadyhand Equity Fund	10,932.07	14.0	1.42	1.42	38.28
Steadyhand Global Equity Fund	10,151.21	13.0	1.78	1.78	44.55
Steadyhand Small−Cap Equity Fund	5,466.04	7.0	1.78	1.78	23.99
	$78,086.24	**100.0**	**1.24%**	**1.24%**	**$238.98**

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.

Steadyhand

PORTFOLIO STATEMENT

From October 1 to December 31, 2014

Holdings by Asset Class

Asset Class	Market Value ($)	% of Total	
Cash and Cash Equivalents	1,653.88	2.1	49.5%
Fixed Income	37,003.51	47.4	
Canadian Equity	24,025.57	30.8	50.5%
U.S. Equity	4,478.24	5.7	
International Equity	10,925.04	14.0	
	$78,086.24	**100%**	

Portfolio Activity

	Value ($)
Beginning Value	50,000.00
Net Contributions (contributions - redemptions)	-
Gain/Loss	28,086.24
Ending Value	$78,086.24

Consolidated Performance

Performance Period	Rate of Return (%)
Three Month	0.7
One Year	8.3
Two Year	10.0
Three Year	10.1
Five Year	8.9
Since Inception	**6.6**

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.