

## Canada Life Canadian Equity Fund (S9)

Q2 2010

**Investor profile:** Suited to investors seeking long-term growth opportunities.

**Objective:** The fund's objective is to provide long-term capital growth by investing in Canadian equities.

**Investment strategy:** Laketon's bottom-up Canadian growth equity investment approach strives to identify those stocks that exhibit an attractive blend of growth and valuation characteristics. Laketon believes that growth companies can be found in all sectors of the market.

### Investment performance

	Annualized rates of return (%)						
	Quarter	1 Year	2 Years	3 Years	4 Years	5 Years	From Inception
Canada Life Canadian Equity Fund	-7.4	6.7	-11.6	-4.8	1.3	5.1	3.7

\*All returns are net of fees.

### Portfolio management team

	Years of experience	Years with Laketon
Daphne Dodig, CFA	14	11
Ben Fawcett, CFA	13	6
Susan Spence, CFA	16	14

### Portfolio information

Assets:	\$225.4 million
Benchmark:	S&P/TSX Composite Index
Total holdings:	32
Yield:	2.6% (portfolio) 2.9% (benchmark)
Average market cap:	\$29.5 bn (portfolio) \$24.5 bn (benchmark)
Cash weight:	3.4%

### Top 10 stock weights

	Portfolio (%)
Barrick Gold Corp	8.4
Toronto-Dominion Bank	6.4
Royal Bank of Canada	6.3
Suncor Energy Inc	5.3
Canadian National Railway Co	5.2
Canadian Natural Resources Ltd	4.6
Bank of Nova Scotia	4.4
Cenovus Energy Inc	3.7
Canadian Imperial Bank of Commerce	3.3
Teck Resources Ltd Class B	3.3
Total	50.8

### Sector diversification

	Portfolio (%)	Benchmark (%)
Financials	31.2	30.1
Energy	25.1	26.7
Utilities	0.0	1.7
Information Tech	2.7	2.8
Health Care	0.0	0.5
Consumer Staples	0.0	2.6
Consumer Disc	5.4	4.7
Telecom Services	6.1	4.6
Industrials	8.8	5.7
Materials	20.7	20.6
Total	100.0	100.0

## Fund performance attribution

## Top 10 stock weights

### Positive performance factors in the second quarter

#### By Sector:

- Allocation at the sector level had a minimal impact on performance this quarter.
- Our underweight position in the underperforming Financials sector was a slight positive driver.

#### By Stock

- Stock selection had the greatest positive contribution within the Consumer Discretionary, Telecommunication Services and Industrials sectors.
- Individual holdings that contributed the most to relative performance this quarter include: IAMGOLD Corp. (+39%), Red Back Mining Inc. (+30%), Barrick Gold Corp. (+24%), Gildan Activewear Inc. (+14%), Telus Corp. (+6%), Thomson Reuters Corp. (+3%) and Canadian National Railway Co. (-1%).
- Another positive factor was not having exposure to certain underperforming index names, including Potash Corp. (-16% from sale) and Agrium Inc. (-28%).
- Our cash position, at an average weight of 4.2%, was also a positive over the period.

### Negative performance factors in the second quarter

#### By Sector:

- Our overweight position in Information Technology had a minor negative impact on performance.
- Our underweight positions in the outperforming Health Care and Telecommunication Services sectors also detracted slightly from performance.

#### By Stock

- Stock selection within the Energy and Materials sectors had the most significant negative effect on performance.
- Individual holdings that hurt performance include: Eastern Platinum Ltd. (-34%), Petrobank Energy & Resources Ltd. (-33%), Research in Motion Ltd. (-30%), Teck Resources Ltd. (-29%), First Quantum Minerals Ltd. (-27% to sale), Shoppers Drug Mart Corp. (-16% to sale) and SNC-Lavalin Group Inc. (-14%).
- Not holding certain outperforming index names through the period, including Eldorado Gold Corp. (+55%), Silver Wheaton Corp. (+34%) and Goldcorp Inc. (+23%), also had a negative influence on performance.

## Outlook & strategy

- The global economic recovery is proceeding to varying degrees across different countries, with continued momentum in emerging markets and Canada and with recent signs of stabilization in the U.S. The outlook for Europe, however, remains uncertain, and a double dip in that region is a real possibility. Spurred by worries over the European sovereign debt crisis, China property tightening and the strength of the U.S. consumer, the markets are currently characterized by a heightened degree of risk aversion. To date, spillover risks to Canada have been limited to a fall in commodity prices and some tightening of financial conditions.

#### **Barrick Gold Corp.**

An international gold company with operating mines and development projects in the U.S., Canada, South America, Australia and Africa.

#### **Toronto Dominion Bank**

Conducts a general banking business through banking branches and offices located throughout Canada and overseas.

#### **Royal Bank of Canada**

Provides personal and commercial banking, wealth management and corporate and investment banking services.

#### **Suncor Energy Inc.**

An integrated energy company focused on developing the Athabasca oil sands basin. Extracts and upgrades oil sands into refinery feedstock and diesel fuel, explores for, develops and produces natural gas, refines crude oil and markets a range of petroleum and petrochemical products, and operates crude oil pipelines and retail petroleum stations.

#### **Canadian National Railway**

Operates a network of track in Canada and the U.S. Transports forest products, grain products, coal, sulfur, fertilizers, intermodal and automotive products.

#### **Canadian Natural Resources**

Acquires, explores for, develops and produces natural gas, crude oil and related products. Operates in the Canadian provinces and also operates in areas which have access for exploration activities and where pipeline systems already exist.

#### **Bank of Nova Scotia**

Provides retail, commercial, international, corporate, investment and private banking services and products.

#### **Enovus Energy Inc.**

An integrated oil company. Comprises natural gas, crude oil and natural gas liquid reserves. Has established natural gas and crude oil production in Alberta and Saskatchewan as well as refineries in Illinois and Texas.

#### **Canadian Imperial bank of Commerce**

Provides banking and financial services to consumers, individuals and corporate clients in Canada and around the world.

#### **Teck Resources Ltd.**

An integrated natural resource group with activities in mining, smelting, and refining. Mines zinc, copper, molybdenum, gold and metallurgical coal in the U.S. Canada, Peru and Chile. Produces refined metals, specialized metal products and other products.

## Outlook & strategy (con't)

- It is clear that the world economies remain highly dependent on monetary and fiscal stimulus, as evidenced by the key takeaways from the recent G20 summit in Toronto. There is a pressing need to carefully begin to remove excesses that have kept our system afloat, so as to prevent a future crisis. In our analysis, there are two positives to be derived from this situation: (1) the U.S. and Canadian governing authorities and central banks recognize the risk of premature fiscal and monetary over-tightening – which clearly is supportive of markets and should be enough to sustain the cyclical uptrend in stocks, and (2) the flight to the safe haven U.S. Treasuries and Canadian bonds has caused yields to drop – and with lower interest rates, consumers get a "break" servicing their heavy debt loads.
- With credit spreads gapping out, equity valuations have fallen and are once again relatively attractive. Furthermore, enabled by strong corporate balance sheets and improving corporate profitability, our thesis calls for a revival in capital expenditures. We continue to be largely sector neutral, providing us decent opportunity to gain alpha through stock selection. Names we highlight as being attractive are Gildan Activewear Inc., Cenovus Energy Inc. and Telus Corp. Gildan is well positioned to continue to gain share in the wholesale basic apparel market and simultaneously pursue new growth initiatives. Cenovus provides the best in class oil sands exposure – although natural gas is currently favoured by the market from a seasonality perspective, our bias is toward oil as we see global (especially emerging market) demand growth. And finally, with an improved competitive position (especially in wireless), we expect Telus to deliver improved operating metrics and better earnings momentum.

Opinions expressed herein are the sole views of Laketon Investment Management and are subject to change without notice. Securities mentioned herein are not to be construed as recommendations to buy, hold or sell.

The indicated rates of return for one, two, three, five and 10 years columns, as well as the From Inception column, are annual compounded returns for the period ending June 30, 2010 including changes in the unit values but does not take into account redemption fees or other applicable charges payable by the policyholder. The stated returns are net of the segregated fund management fees and operating expenses but do not reflect redemption fees or other charges. Therefore actual returns will be less than illustrated. Please note that unit values and investment returns will fluctuate and past performance is not necessarily indicative of future performance. The *Generations I* segregated funds became available in June 2006. The returns shown above that pertain to periods prior to June 2006 are for *Generations* funds. In general, the segregated fund management fee for *Generations I* funds is equal to or less than the segregated fund management fee for the *Generations* funds and in this case the actual returns for *Generations I* funds would have been equal to or greater than the returns shown above except for the Enhanced Dividend Fund (Laketon). A description of the key features of Canada Life's individual variable insurance contract is contained in the information folder, available from your financial advisor. Any amount that is allocated to a segregated fund is invested at the risk of the policy holder and may increase or decrease in value.