LAKETON

Canada Life International Bond Fund (S36)

Q2 2010

Investor profile: Suited to the investor whose objectives are income and growth over the medium-term.

Objective: The fund's objective is to provide interest income with the potential for capital appreciation by investing primarily in Canadian fixed income securities, including foreign denominated government bonds and corporate income producing securities.

Investment strategy: Laketon's active investment style is designed to continually capture incremental gains relative to the fund's benchmark. The manager adds value through yield curve and duration management, country allocation and individual security selection.

Investment performance

	Annualized rates of return (%)					
	Quarter	1 Year	2 Years	3 Years	5 Years	From Inception
Canada Life International Bond Fund	6.9	-3.0	4.8	6.1	-0.1	-0.4

**All returns are net of fees.*

Fund performance attribution

Positive performance factors in the second quarter

- The fund's overweight in U.S. dollars and Japanese Yen contributed positively to performance as those currencies appreciated by 10% and 17% respectively against the Euro and 1.6% and 7% respectively against the Pound. The fund is underweight both the Euro and Pound.
- The rally in global yield contributed to performance as fund held a significant duration overweight in U.S., German, France, Canadian and Australian sovereign bonds..

Negative performance factors in the second quarter

- Commodity currencies such as the Australian (AUD) and Canadian (CAD) dollar depreciated against the U.S. dollar – 8% and 4.5% respectively. The overweight in both AUD and CAD detracted from the funds performance.

Outlook & strategy

- Huge deficits mixed with high debt burdens and a dash of slow to no growth in GDP is a vicious cocktail for higher risk premiums. On one hand (the left) socialist governments want to spend to help alleviate economic pressures and hopefully jump-start domestic growth; while on the other hand investors are making it difficult to fund that spending.
- Our take on the Bank of Canada, is that it has embarked on a tightening cycle that will be very much dependent upon current information. In the banks spring Monetary Policy Report we thought the Bank was on a clear path to normalising rates, which we interpreted as a series of hikes to about 2%. In our view, recent events have caused the Bank to shorten its projection horizon, creating more policy uncertainty over the medium term. Consequently, we expect short term rates to be more volatile.

Outlook & strategy (con't)

- Greece is perhaps the canary in the gold mine. There is clearly concern over Government fiscal positions, with the biggest concerns being saved for the European basket cases. Contagion has begun to spread from Greece to other problem EU members. Closer to home, there is still clearly time for the U.S. to improve its debt picture and avoid the troubles befalling Europe. Unfortunately, U.S. deficit improvement will likely require fiscal measures that we are not convinced will be embraced by the current administration. At any rate it is still early days.
- The recent underperformance of corporate and provincial bonds has presented an opportunity to increase the portfolio's running yield at attractive yield spreads. We have begun this process and will continue to look for further opportunities. We expect credit spreads to remain at heightened levels, until there is further clarity on the PHIIGS situation.
- Although we are not immediately concerned about the North American sovereign debt situation, we have noted that the situation in the U.S. is something to be watched. However, we believe that the trouble with European sovereign debt will likely provide a longer window for the U.S. to address its issues.
- The first risk to our outlook is that sovereign debt problems, which have emerged in Europe, translate to the banking sector more significantly causing widespread credit concerns and a second credit crisis.
- The second risk is that governments' enthusiasm to reduce debt/GDP levels proves to be too aggressive and too early and ultimately too much for developed economies, resulting in a second recession. Although, we would question whether there would be resolve amongst governments to carry out austerity plans should there be signs of failing growth.
- Bias towards U.S., Canadian and Australia dollars and will remain overweight.