

London Life Canadian Equity Fund (S2)

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 | YTD | 1 Year | 2 Years | 3 Years | 5 Years |
| London Life Canadian Equity | -6.8 | -2.3 | 9.4 | -9.3 | -2.4 | 7.9 |
| Benchmark | -5.5 | -2.6 | 12.0 | -8.8 | -3.9 | 5.5 |
| Value Added | -1.3 | 0.2 | -2.6 | -0.5 | 1.5 | 2.4 |

All returns are gross of fees. Prior to October 1, 2004, the Canada Life Fund equivalent was used.

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: | \$328.1 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: | 3.9% |

Top 10 stock weights

| | Portfolio (%) |
|--------------------------------|---------------|
| Barrick Gold Corp | 8.4 |
| Toronto-Dominion Bank | 6.3 |
| Royal Bank of Canada | 6.3 |
| Suncor Energy Inc | 5.3 |
| Canadian National Railway Co | 5.1 |
| Canadian Natural Resources Ltd | 4.6 |
| Bank of Nova Scotia | 4.3 |
| Cenovus Energy Inc | 3.7 |
| CIBC | 3.3 |
| Teck Resources Ltd | 3.3 |
| Total | 50.5 |

Sector diversification

| | Portfolio (%) | Benchmark (%) |
|------------------|---------------|---------------|
| Financials | 31.3 | 30.1 |
| Energy | 25.2 | 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 | 5.3 | 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.