London Life Money Market Fund (S29)

Q2 2010

Investor profile: Suited to the investor with a shorter-term investment horizon, and whose main objective is preservation of capital. This fund is for investors who are risk-averse.

Objective: The fund's objective is to provide short-term capital preservation and interest income through investments in commercial papers such as federal and provincial treasury bills and bankers' acceptances.

Investment Strategy: The fund will contain 100% cash and short-term investments. The term of the portfolio is typically under 180 days.

Investment performance

	Annualized rates of return (%)					
	Quarter	YTD	1 Year	2 Years	3 Years	5 Years
London Life Money Market Fund	0.11	0.19	0.41	1.14	2.13	2.80
Benchmark	0.12	0.17	0.33	1.16	2.14	2.76
Value Added	-0.01	0.02	0.08	-0.02	-0.01	0.04

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
Gary Morris, CFA	23	17
Thomas Gomes, CFA	14	10
Siek Djoe, CFA	15	5
Paul Nazar	5	5

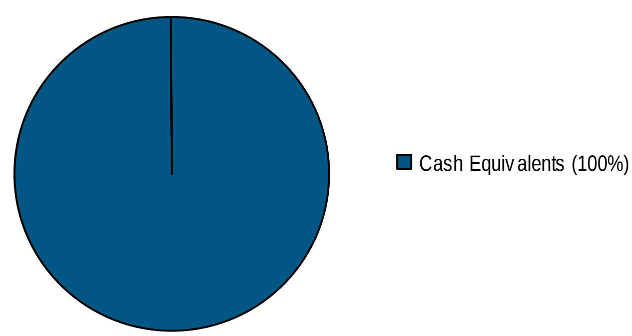
Portfolio information

Assets:	$227.7 million
Benchmark:	DEX 91-Day T-Bill
Total holdings:	19
Running yield:	0.44% (portfolio) 0.52% (benchmark)
Average term-to-maturity:	80 days

Top 10 holdings

	Portfolio (%)
Gov't of Canada - Disc 09-30-10 30-Sep-10	12.9
Gov't of Canada - Disc 09-02-10 02-Sep-10	11.5
Gov't of Canada - Disc 08-05-10 05-Aug-10	11.0
Gov't of Canada - Disc 17-Mar-11	9.5
Royal Bank of Canada - Disc 30-Jul-10	9.0
Bank of Montreal - Disc 09-Jul-10	8.8
CIBC 12-Oct-10	8.5
Province of Ontario - Disc 18-Aau-10	8.3
Province of BC - Disc 08-Oct-10	5.0
Gov't of Canada - Disc 09-16-10 16-Seo-10	3.9
Total	88.3

Asset class diversification



Fund performance attribution

Positive performance factors in the second quarter

- The fund maintained a significant overweight in provincial treasury bills (25%) and bankers' acceptance notes (20%) throughout the quarter. Provincial T-bill and BA's outperformed other credit products such as commercial paper (CP) as provincial bills and longer dated BA's spreads remained constant or narrowed while CP yields spreads widened. Average BA yields were about 33 bps over Canadian T-Bills during the quarter, which together with the absence of CP exposure added positively to performance.
- As the risk of a sovereign default among the fiscally challenged European countries and the risk of fiscal stimulus taps being turned off too soon both increased, so did the likelihood that the BofC would remain accommodative. This lead to a significant rally in longer dated Canadian T-bills (1yr T-Bills return 0.38% and an underperformance of 1 month T-bills only return 0.07%) The funds overweight in 12 and 6 month bills contributed positively to the funds total return for the quarter.

Negative performance factors in the second quarter

- There were no negative performance factors in the second quarter.

Outlook & strategy

- 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 normalizing 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.
- 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.
- We will continue to remain opportunistic in the commercial paper market.
- 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.