

Canadian Enhanced Dividend Equity

Q3 2010

Investor profile: Suited to the investor whose objectives are income and capital preservation over the medium to long term.

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

Investment Strategy: Laketon's active investment style adds value through ongoing management of the portfolio's equity exposure. The manager is willing to hold cash when no alternative investment opportunities look attractive. This investment approach is intended to create the appropriate balance between positive return generation in up markets and capital preservation in down markets.

Investment performance

	Quarter	Annualized rates of return (%)				
		YTD	1 Year	2 Years	3 Years	5 Years
Canadian Enhanced Dividend	8.6	10.1	13.7	8.3	1.5	5.3
Benchmark	8.7	5.2	7.9	3.6	-1.7	5.4
<i>Value Added</i>	<i>-0.1</i>	<i>5.0</i>	<i>5.8</i>	<i>4.7</i>	<i>3.2</i>	<i>-0.1</i>

Returns shown (which are gross of fees) reflect the performance of the model portfolio. Actual returns experienced by an investor may differ from those shown.

Portfolio management team

	Years of experience	Years with Laketon
Brad Cann, CFA	22	4
Andrew Simurda, CFA	17	9

Portfolio information

Benchmark:	S&P/TSX 60 Index
Total holdings:	29
Dividend yield:	3.9% (portfolio) 2.6% (benchmark)
Cash weight:	3.2%

Top 10 stock weights

	Portfolio (%)
Royal Bank of Canada	7.1
Toronto-Dominion Bank	6.5
Bank of Nova Scotia	5.7
Bank of Montreal	5.5
BCE Inc	5.4
Magna International Inc	5.0
Crescent Point Energy Corp	4.0
Canadian Imperial Bank of Commerce	4.0
National Bank of Canada	3.8
Thomson Reuters Corp	3.6
Total	50.5

Sector diversification

	Portfolio (%)	Benchmark (%)
Financials	42.2	31.4
Energy	15.9	25.7
Utilities	6.7	1.0
Information Tech	0.0	2.2
Health Care	0.0	0.7
Consumer Staples	5.4	2.5
Consumer Disc	12.0	4.6
Telecom Services	15.4	5.5
Industrials	2.4	5.3
Materials	0.0	21.2
Total	100.0	100.0

Fund performance attribution

Positive performance factors in the third quarter

By sector:

- The portfolio's overweight position in Utilities and its underweight in Energy were positive contributors in the quarter.

By stock:

- The primary individual stock contributors were: Magna International, National Bank and Fortis.

Negative performance factors in the third quarter

By sector:

- The performance detractors by sector were the portfolio's underweighting in Materials (Golds) and the underweighting of Health Care.

By stock:

- The primary individual stock detractors were: Thomson Reuters, Bell Aliant, and Crescent Point Energy.

Outlook & strategy

- We remain optimistic towards equities in the mid to long term and continue to find good value on an individual stock basis within numerous sectors of the Canadian equity market. The strong performance in the third quarter may be met by some consolidation period but we are now moving into the traditionally, seasonally strongest period for the stock market. As such, we believe the next 5 to 6 months could be very rewarding to equity investors as compared to fixed income investments.
- Our strategy continues to be one of selectively adding to positions as valuations of individual stocks decline to attractive levels.
- We continue to reduce, or eliminate, individual positions where we feel the upside is limited compared to the risks.
- We have reduced our preferred weighting in favour of common shares. We expect that as the economic uncertainty lessens, corporations will start to raise dividends.

Top 10 stock weights

Royal Bank of Canada

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

Toronto Dominion Bank

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

Bank of Nova Scotia

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

Bank of Montreal

A Canadian chartered bank which operates throughout the world.

BCE Inc.

Provides a full range of communication services to residential and business customers in Canada. Under the Bell Brand, the company's services includes local, long distance and wireless phone services, high speed and wireless Internet access, IP-broadband services, value-added business solutions and direct-to-home satellite and VDSL television services.

Magna Intl Inc.

Designs, develops and manufactures automotive systems, assemblies and components, and engineers and assembles complete vehicles. Sells its products primarily to original equipment manufacturers.

Crescent Point Energy Corp.

A royalty trust that invests in higher-quality, longer-life oil and gas reservoirs with a focus in the Western Canadian Sedimentary Basin.

CIBC

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

National Bank of Canada

Provides Canadian and international customers with a full range of personal, commercial, and corporate banking services. Also offers full brokerage and underwriting services, finances and leases equipment, and offers commercial credit to independent businesses in the United States.

Thomson Reuters Corp.

An electronic information and solutions company that serves the global business and professional marketplace. Provides proprietary online systems and CD-Rom products in information sectors such as legal and regulatory, financial, scientific reference and healthcare, and corporate training.