

Canadian Equity (Growth)

Q3 2010

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

Objective: The portfolio'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 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

	Quarter	Annualized rates of return (%)				
		YTD	1 Year	2 Years	3 Years	5 Years
Laketon Canadian Equity (Growth)	7.7	3.9	7.6	3.0	-1.8	5.9
Benchmark	10.3	7.5	11.6	5.9	-1.4	5.2
<i>Value Added</i>	-2.6	-3.6	-4.0	-2.9	-0.4	0.7

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
Daphne Dodig, CFA	14	11
Ben Fawcett, CFA	14	6
Susan Spence, CFA	16	14

Portfolio information

Benchmark:	S&P/TSX Composite Index
Total holdings:	28
Yield:	2.3% (portfolio) 2.6% (benchmark)
Average market cap:	\$26.5 bn (portfolio) \$25.8 bn (benchmark)
Cash weight:	2.0%

Top 10 stock weights

	Portfolio (%)
Suncor Energy Inc	7.4
Toronto-Dominion Bank	6.9
Barrick Gold Corp	6.5
Royal Bank of Canada	5.9
Canadian National Railway Co	4.4
Canadian Imperial Bank of Commerce	4.2
Brookfield Asset Mgmt	4.1
Bank of Montreal	3.9
IAMGOLD Corp	3.9
Telus Corp	3.4
Total	50.6

Sector diversification

	Portfolio (%)	Benchmark (%)
Financials	28.7	29.4
Energy	22.5	25.9
Utilities	0.0	1.7
Information Tech	2.0	2.4
Health Care	0.0	0.8
Consumer Staples	0.0	2.7
Consumer Disc	7.1	4.5
Telecom Services	3.6	4.5
Industrials	9.2	5.7
Materials	26.9	22.4
Total	100.0	100.0

Fund performance attribution

Positive performance factors in the third quarter

By Sector:

- Our overweight positions in the outperforming Materials and Industrials sectors were modestly positive drivers.
- Our underweight positions in the underperforming Energy and Information Technology sectors also added slightly to performance.

By Stock

- Stock selection had the greatest positive contribution within the Telecommunication Services, Energy and Industrials sectors.
- Individual holdings that added to relative performance this quarter include: Eastern Platinum Ltd. (+46%), Teck Resources Ltd. (+34%), Silver Wheaton Corp. (+25% from purchase), SNC-Lavalin Group Inc. (+23%), Brookfield Asset Management Inc. (+21%), Methanex Corp. (+20%), Baytex Energy Trust (+17%) and Telus Corp. (+13%).
- Another positive factor was not having exposure to certain underperforming index names, including Goldcorp Inc. (-4%), Encana Corp. (-4%) and Sun Life Financial Inc. (-4%).

Negative performance factors in the third quarter

By Sector:

- Our overweight position in the underperforming Consumer Discretionary sector had a minor negative impact on performance.
- Our underweight positions in the outperforming Consumer Staples and Utilities sectors also modestly detracted from performance.

By Stock

- Stock selection within the Materials and Consumer Discretionary sectors had the most significant negative effect on performance. Stock selection within the Information Technology sector was also negative, but to a lesser degree.
- Individual holdings that hurt performance on a relative basis include: Gildan Activewear Inc. (-5%), IAMGOLD Corp. (-3%), Canadian Natural Resources Ltd. (-2% to sale), Legacy Oil & Gas Inc. (-2%), Barrick Gold Corp. (-2%) and Bank of Montreal (+3%).
- Not holding certain outperforming index names through the period, including Ivanhoe Mines Ltd. (+75%), Potash Corp. (+62% while not held; -1% from purchase on 8/17/10 on news of proposed takeover by BHP Billiton Ltd. to end of quarter) and Agrium Inc. (+48%), also had a negative influence on performance.
- Our cash position, at an average weight of 4.8%, was another detrimental factor in a down market.

Outlook & strategy

- With all the macroeconomic challenges, the outlook for the next quarter and beyond is hazy at best. The following are a few of the major issues that could have a significant impact on the direction of markets:
 - a currency trade war and inherent protectionist policies that are likely result from them;
 - low absolute levels of interest rates and the implied inflation/deflation outlook (...never mind the significant hit to pensions and savings); and
 - Washington versus Corporate America and the increasing amount of re-regulation.
- Recently, markets have begun to rally on the back of additional unconventional monetary policy measures that the U.S. central bank is expected to employ (referred to as quantitative easing or QE2). The hope is

Top 10 stock weights

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.

Toronto Dominion Bank

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

Barrick Gold Corp.

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

Royal Bank of Canada

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

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.

CIBC

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

Brookfield Asset Management

A global asset management company focused on property, infrastructure and renewable power. Owns office buildings in major business centers. Also owns and operates power generating plants, ports, railways, utilities and timberlands and invests on behalf of third parties.

Bank of Montreal

A Canadian chartered bank which operates throughout the world.

IAMGOLD Corp.

A mid-tier gold mining company, focused in West Africa, the Guiana Shield of South America and in Quebec where it has a pipeline of development and exploration projects.

Telus Corp.

A telecommunications company providing a variety of communications products and services.

that the Fed will drive interest rates down further by bidding up bonds, which will cause related assets to rise in value, thereby giving the household balance sheets a boost by shoring up their net worth (read: housing) so that they have the confidence to spend (read: stem the deleveraging cycle). Furthermore, lower interest rates are negative for the US dollar but should help the export market. Some fear that an excessive amount of stimulus will cause hyper inflation down the road, but with excess capacity and a high unemployment rate, the jury is still out on this one. Clearly, the “promise” of additional stimulus takes the downside risk out of the market for stocks (at least in the short term), as witnessed by the first round of quantitative easing done in early 2009. What’s not clear is the timing of QE2, and with US midterm elections in early November, the Fed doesn’t want to be seen influencing markets. It should be noted that QE2 carries relevance with the first two bullet points listed above; however, the first bullet is not within the Fed’s mandate.

- It’s difficult to believe that the QE2 backdrop will be good for PE multiples, however the earnings outlook (the “E”) may be okay. Corporate balance sheets remain healthy, and the prospects for M&A, share buybacks, and/or dividend increases look promising. Obviously QE2 wouldn’t be contemplated if the prospects for GDP growth weren’t expected to slow in the near term, and hence there’s a high probability that the outlook for earnings revisions are negative. From a sector perspective, a weaker USD is positive for commodities, and we retain a positive bias towards the Materials, Energy and Industrial sectors. Golds should continue to perform well if the USD is weak and European interest rates don’t rise. Within the Financials, we have a negative bias towards the insurers, given the low rate environment, and a slight positive view of the banks, given their balance sheet strength and reasonable valuations. Lastly, taking the consumer sectors in total, we remain underweight the consumer until we have increasing confidence in the prospects for employment growth. From a stock selection perspective, we continue to overweight stocks that have positive earnings growth and momentum prospects, are leaders within their industry, and/or have pricing power. Stocks that reflect this positive view are Baytex Energy Trust, Silver Wheaton Corp. and Finning International Inc.