Milos: Hello and welcome to the continuing series of audio commentaries, featuring news and commentary regarding a wide variety of topics and market specific material from Laketon Investments. It is my pleasure today to have with me today John Slattery, President of Laketon Investments.

Welcome John!

Before we discuss Laketon's balanced fund could you let our listeners know what's been happening at Laketon recently?

John: Certainly Milos, it will be my pleasure. Things are going very well here at Laketon. We are enjoying strong growth. Our assets under management were up over 12% last year. We won new mandates in our primary markets, institutional, retail and managed accounts.

As you can see from the attached chart we have a very healthy mix of both clients and mandates, and then of course we have access to a distribution channel that is literally the envy of the street.

I am very pleased to announce that our Managed Fund, which is really our Balanced fund was added to the Lifetime Income Benefit product line up, and we have seen some good flows into it. For that, I would like to thank our supporters for their trust in us.

Milos: *What are the objectives of the managed Fund John?*

John: This fund's long term primary objective is to provide a balance between long-term capital appreciation and current income through investments primarily in Canadian fixed income and Canadian and foreign equities.

Milos: *John, given the last 18 months or so of market volatility and general investor angst, do you believe that balanced funds provide a diverse enough investment choice, and do they mitigate some of the rough ride that pure equity funds might perhaps/otherwise experience.*

John: Absolutely Milos. Whether it be through a single firm's balanced fund or through an asset allocation fund, investors do gain an advantage from meaningful diversification and the risk controls that are associated with a well diversified and properly matched portfolio.

The challenge Milos with investing in single asset class, and it doesn't really matter which it is, it could be cash, bonds or stocks, each one will have a period within a cycle, when it will outperform. The challenge of course is knowing in advance when that time will be. By extension, I think what frustrates so many of us is that in the fullness of time, it always seems so obvious that we should have been in this asset class or out of that asset class.

For many of our clients the real benefit of investing through a balanced approach is not so much the diversification and rebalancing features, as strong as they are, but the discipline that it provides them. When invested in a balanced fund, the investor gains access to professional management, and through that expertise is exposed to a variety of asset classes. The funds are rebalanced by the manager over time. Typically the net result is the leading asset classes are trimmed with the proceeds directed to lagging asset classes that subsequently become leading asset classes. That's the theory, and by and large that's the way it works in practice.

Now for investors that shun the balanced approach and attempt to add value through their own efforts, the do- it -yourself investor, they have to be considerably more active and engaged in the entire process, and this poses the challenge.

One reason why people use balanced funds is in effect to save them from themselves. Here is a case in point. As you know ETFs are the latest incarnation of an index option. They are cheap and easy to invest in. What could go wrong? Well let's take a look. What we are looking at here are the XFNs, which are an ETF of the TSX Financial sector. This might be used by an income seeking investor or someone seeking stability through a mature market sector. The time frame is April 2007 to March of this year. What I really want to direct your attention to is the spike in volume that is coincidental with the ETF bottoming out in the spring of 2009.

These sellers in the spring of 09, by definition had to at some point purchased the ETFs. And I dare say that many had purchased them late in the bull market and have held them throughout the entire decline, and then by March of 09, they just couldn't take it anymore, and had to sell out of their positions in desperation. These securities, as the old traders would say, went from weak hands to strong hands. But for me, this is a classic illustration of why most do it yourself investors significantly under perform over the long time, and, they under perform not just active managers, but also the indexes themselves. Typically, as we have seen, they buy and sell at the wrong times. It's their emotions that are driving the investment process and not a disciplined balanced approach.

I think it's worth remembering that in life, when you seek balance, you often find stability.

Milos: *What's the current market activity telling you?*

John I think it is interesting to get a sense for investor sentiment through retail cash flows. No one was surprised in 08 and into 09, to see that money market and bond funds attracted the lion's share of flows. They were unsettled times.

I do think it is interesting to see that this trend has largely continued. Roughly speaking for every $1 invested into equities $10 goes into fixed income and that this is not unique just to Canada. Within the fixed income space itself, a fair amount of money market holdings are moving up the yield curve into the short term bond area. A classic example of stretching for yield.

What is of interest is this occurring in spite of the strong equity rally and persistent concerns about rising interest rates, particularly in the short end of the yield curve due to either inflation increases or central bank efforts to reduce excess liquidity.

I think many retail investors were late to participate in the previous bull market and then became over weighted in equities in an effort to capitalize on the gains, and now are running scared toward fixed income, not fully understanding the risks they are assuming in the process. Again, a balanced fund prevents an investor from seesawing back and forth from the pursuet of returns and then pursing security.

Milos: *All balanced funds have some weighting in bonds, either to a lessor or greater extent. Why is it so important, particularly for conservative investors, who might otherwise be invested only in GICs.*

John: There are certainly a variety of reasons why an investor may invest exclusively in GICs. There are those that may have sound, personal reasons for needing the assurance that GICs offer. However, when you seek certainly, there tends to be a cost, and for GICs that cost tends to be one of opportunity. For longer term investors we believe that a balanced approach will provide for better returns.

Milos: *Unlike some balanced funds the Laketon Managed Fund is comprised of 3 different managers, each managing their own specific areas of expertise. Can you give the listeners a sense of who the managers are and how they approach their particular mandates?*

John: Laketon is responsible for establishing the long term strategic asset mix, as well managing the shorter term tactical deviations of this strategic mix.

From a sector perspective Laketon manages the cash component, the fixed income and the Canadian equity portions. As our listeners may know, Laketon is a domestic only manager, having decided a number of years ago to play to our strengths and specialize in domestic assets. And I think that decision has worked out extremely well for us.

For our foreign content we have hired London Capital to manage our US component and Setanta Asset Management to manage our EAFE assets.

Having three equity managers we believe adds tremendously to our ability to provide competitive returns while simultaneously managing portfolio risk. Certainly, we have managers that have their own views and express them uniquely in their areas of expertise. As a consequence, our entire equity positions, will not follow a single view or outlook. We believe that provides meaningful diversification and down side protection.

Having said that, all three equities manages follow a similar approach in that they are all utilize a bottom up, stock picking approach to portfolio construction. We keep to a minimum, the top down, macro calls. The three portfolios tend to be concentrated and fully invested.

The Canadian equity portion follows a GARP style with a growth bias, as does the US fund, managed by London Capital. Setanta places greater emphasis on value criteria in their selection process. Together the three managers compliment each other very well.

Milos: *One of the component factors in a balanced fund is the allocation or distribution of the fund's assets between, stocks, bonds and cash and further, the allocation between Canadian and foreign stocks. Can you comment on how dynamic the allocation process is in the Laketon Managed fund and how the fund is currently positioned in terms of Canadian, US and EAFE holdings?*

John: Our primary goal is to add value through our security selection process. We believe that when your component parts do well, so will you total portfolio.

That being said, we start our entire process with establishing a long term strategic asset mix. At this stage of the process we are assessing the macro drivers of economic growth both domestically and abroad. We look at drivers one would expect, inflation and interest rate outlooks, money flows, economic growth, sentiment and geopolitical factors.

Of course, we continue to monitor these factors as they assist us in our tactical rebalancing processes. We may differ from some managers in that we view the tactical rebalancing process largely as a risk control mechanism

Again, we try to keep our exposure to macro factors to a minimum and as a consequence we utilize a target and drift methodology.

We have established tolerance ranges that when reached, may trigger a rebalance. Unless we have an overriding concern we tend to avoid rebalancing when the classes are within 2% of their long term strategic mix. When a class gets beyond 2%, we meet and review the situation. We do not have to rebalance just because it has gone beyond 2%, It's simply a trigger for a review. And of course these meetings are in addition to our regular asset mix meetings.

Milos: *John can you give us an example of this process at work?*

John: There have been numerous times when we may have either rebalanced early because of market concerns or held off rebalancing for specific market reasons. But I think one of the more dramatic examples occurred in the fall of 08 and into early 09.

I suspect we all remember that period all too well. Equity markets were down dramatically, and of course, we were well out of balance. However, we held off rebalancing for a number months waiting until we saw improvement in the equity market outlook and better liquidity in the bond market. We rebalanced in February of 09, and certainly that decision served the fund and its unit holders well. Before Milos closes today's audio file, I would like to thank you for taking time to listen to this discussion, and we also encourage you to contact us directly with any suggestions for future calls.

Milos: *John, thank you for all of your comments and insight, and we hope to have you back soon.*

Just to remind all of our listeners once again that these audio commentaries are posted on our website monthly at www.laketon.com. Next month's call is titled "Can you continue to bank on the financial sector" and will be lead by Daphne Dodig, Vice President of Canadian equities at Laketon.