STEADYHAND

Steadyhand Balanced Income Portfolio

A Performance Assessment

As of December 31, 2011

Table of Contents

Disclosures

This report was published on January 26, 2012, by Steadyhand Investment Management Ltd.

Introduction & Numbers

This review of Steadyhand's investment returns follows the approach laid out in our report entitled, *How Is Your Portfolio Doing - A Framework for Assessing Investment Performance*. If you don't have a copy, it's available at www.steadyhand.com.

We have chosen to analyze the Steadyhand Balanced Income Portfolio (Hypothetical)[1] [hereafter referred to as the 'Balanced Income' or the 'Portfolio'] because it encompasses all of our long-term funds, is a good representation of the firm's overall asset base and is the model portfolio used by a large number of clients. It's a hypothetical portfolio made up of four Steadyhand funds:

Income Fund	66%
Equity Fund	14%
Global Equity Fund	13%
Small-Cap Equity Fund	7%

Its strategic asset mix (SAM) is as follows:

Bonds	50%
Canadian Equities	30%
Foreign Equities	20%

In doing this analysis, we've endeavoured to be as objective and transparent as possible.

Gathering the Data

To gather the facts for the portfolio, we went to the Client Statement, which is provided in the appendix. Jim and Jane, our fictional investors, started at Steadyhand on December 31, 2007, with an investment of $50,000. Their portfolio's annualized returns are shown in the 'Consolidated Performance' section of the statement.

Consolidated Performance

Performance Period	Rate of Return (%)
Three Month	4.3
One Year	4.5
Two Year	7.2
Three Year	11.4
Four Year	4.0

The performance record is relatively short because the funds have been operating for slightly less than five years. Because of the funds' short history, we aren't yet able to provide Rolling 3-, 4- or 5-year averages. We will in the future.

[1]The Steadyhand Balanced Income Portfolio is a hypothetical portfolio of Steadyhand funds. The performance of the portfolio assumes that it is rebalanced on a quarterly basis to the target fund allocation (66% Steady-hand Income Fund, 14% Steadyhand Equity Fund, 13% Steadyhand Global Equity Fund, 7% Steadyhand Small-Cap Equity Fund).

Context

At the bottom of the page is a table of capital market returns for periods ending December 31, 2011. Our discussion focuses on one and four years, the latter being the longest performance period for our funds.

2011 extended the bond bull market to 31 years. With Europe in turmoil, there was a distinct flight to safety throughout the year. This pushed yields on U.S. and Canadian government bonds down to levels not seen in more than a century. As a result, the total return from Canadian bonds, as measured by the DEX Universe Bond Index, was 9.7%. A majority of this return came from capital appreciation (when rates go down, bond prices rise), as the interest income was modest (the Bond Index started the year with a yield of 3.2% and finished at 2.4%). Over the last four years, bonds provided an annualized return of 7.1%.

Corporate bonds also performed well in 2011, although they lagged behind government issues as a result of the flight to safety. Yields declined, but not to the same extent as government bonds.

As for the stock markets, it was a mixed bag in 2011. The most cyclical and economically-sensitive markets were hit hard, while the depressed U.S. market was up on the year. Canada fits in the former category. The S&P/TSX Composite Index was down 8.7% as a result of sharp declines in mining and other cyclical stocks. The 4-year return for the TSX was minus 0.7%. As the table below reveals, this 4-year period includes a dreadful 2008, excellent years in 2009 and 2010, and then a retrenchment in 2011.

The MSCI World Index was down 2.9% for the year (in C$ terms). The biggest foreign market, the U.S., was up 4.4%, but that was more than offset by weakness in Europe (-8.5%), Japan (-12.3%) and the emerging markets (-16.3%). For Canadian investors, foreign investments continued a losing streak that started more than a decade ago. Over the past four years, the World Index has declined 3.8% per year.

While a strong Canadian dollar was a small contributor to that losing streak (foreign currency returns are lower in Canadian dollar terms when the loonie is rising), the currency effect in 2011 was muted. The loonie dropped 2% against the U.S. dollar and 7% against the Japanese Yen, but was largely unchanged against the Euro and Pound Sterling.

Default Portfolio

Using the market returns, we've calculated a return for a Default Portfolio (or Benchmark) that best represents the market environment the Balanced Income Portfolio was operating in. It's based on a SAM of 50% bonds, 30% Canadian stocks and 20% foreign stocks.

Default Portfolio - Annualized Returns – Dec. 31, 2011

	1 Y	2 Y	3 Y	4 Y
Default Portfolio	1.8%	5.9%	8.9%	3.1%
Estimated Annual Fee	0.5%	0.5%	0.5%	0.5%
After Fee	1.3%	5.4%	8.4%	2.6%

In these calculations, the default portfolio has been re-balanced quarterly and a fee of 0.5% per year has been subtracted to reflect minimum on-going costs.

Capital Market Returns

		Annualized – Dec. 31, 2011				*Annual Returns*			
Asset Class	Index	1 Y	2 Y	3 Y	4 Y	2008	2009	2010	2011
Cash	DEX 91 Day T-Bill	1.0%	0.8%	0.7%	1.4%	3.3%	0.6%	0.5%	1.0%
Bonds	DEX Universe Bond	9.7%	8.2%	7.3%	7.1%	6.4%	5.4%	6.7%	9.7%
Canadian stocks	S&P/TSX Composite	-8.7%	3.6%	13.2%	-0.7%	-33.0%	35.1%	17.6%	-8.7%
Foreign stocks	MSCI World ($Cdn)	-2.9%	1.8%	5.0%	-3.8%	-26.1%	11.8%	6.8%	-2.9%

Analysis

In this section, we compare and analyze the Balanced Income returns against the portfolio objectives and the default portfolio.

Each investor has her/his own objectives. Jim and Jane have two. They want to measure their returns against inflation, which is a concern to all investors, and 5-year GICs, which is a reasonable measure of risk-free investing.

As the table below reveals, the Portfolio has fared well in the context of highly volatile markets. Returns have been roughly in line with the long-term objectives and meaningfully better than the default portfolio (note: the portfolio is only compared to the objectives for longer time periods).

Over the course of four years, different components of the portfolio have carried the load at different times, although the most consistent areas of strength were income-oriented investments and small-cap equities. Foreign equities generally, and the Global Equity Fund specifically, have been a drag on returns.

Asset Mix Impact

Jim and Jane's asset mix is shown on page 2 of the sample statement in the 'Holdings by Asset Class' section.

Holdings by Asset Class

Asset Class	Market Value ($)	% of Total
Cash and Cash Equivalents	2,271.17	3.9
Fixed Income	28,076.05	47.8
Canadian Equity	18,429.06	31.4
U.S. Equity	4,501.13	7.7
International Equity	5,455.01	9.3
	$58,732.43	100.0%

The Strategic Asset Mix (SAM) for the Portfolio had a significant impact on performance. The large exposure to bonds helped it generate positive returns over the volatile 4-year period. On the other hand, the foreign stocks were a constant drag on returns. Over the period, the Canadian dollar was relatively flat versus the U.S. dollar, but gained ground against the Euro and Pound Sterling.

Because the Portfolio is automatically re-balanced each quarter, its asset mix didn't diverge significantly from the SAM at any point over the four years. The managers of the underlying funds, however, made some tactical moves which affected the mix.

The Income Fund had a distinctive tilt towards corporate bonds (as opposed to government bonds). Despite the fact that corporates were hit hard in 2008, this strategy enhanced the returns of the Balanced Income's bond component.

The managers of the Income, Equity and Small-Cap Equity Funds all used smaller companies effectively. In the Income Fund, stocks like Killam Properties, Algonquin Power & Utilities, and Brookfield Infrastructure Partners L.P. contributed positively to returns. In the Equity Fund, significant holdings in Birchcliff Energy, Home Capital Group and Asia Pacific Breweries paid off. Overall, the Small-Cap Fund has been a solid performer, with a positive return in a period when stock markets overall were down.

Through the Global Equity Fund, the Balanced Income had more exposure to international stocks than U.S. stocks. Given the turmoil in Europe and Japan, and the recent pickup in U.S. stock returns, this positioning has been a negative factor.

Balanced Income Portfolio versus Default Portfolio

	Annualized to Dec. 31, 2011				*Annual Returns to Dec. 31*			
	1 Y	2 Y	3 Y	4 Y	2008	2009	2010	2011
Balanced Income	4.5%	7.2%	11.4%	4.0%	-15.2%	20.2%	10.3%	4.5%
Long-term Objectives								
CPI + 3%	-	-	5.2%	5.0%	4.2%	4.3%	5.4%	5.9%
5-year GIC + 2%	-	-	4.0%	4.1%	5.0%	4.0%	4.0%	3.9%
Default Portfolio	1.3%	5.4%	8.4%	2.6%	-13.1%	14.8%	9.7%	1.3%
Added Value	3.2%	1.8%	3.0%	1.4%	-2.1%	5.4%	0.6%	3.2%

Security Selection

The fund returns discussed in this section are shown in the table below.

Income Fund

This fund is a diversified income fund which over the long term will be invested approximately 75% in bonds (government and corporate) and 25% in income-oriented stocks (including Real Estate Investment Trusts or REITs). The fund's returns have exceeded what would be expected from this mix due to excellent security selection by the manager, Connor, Clark & Lunn, in the areas of corporate bonds and stocks.

In 2011, however, the bonds in the fund did not keep up with the DEX Universe Bond Index due to a heavy weighting in corporate bonds. Despite the fact that CC&L's emphasis was on high-quality corporates, it was a year when government bonds, which are perceived to be safer, did better.

The returns from the stocks in the fund have not been as volatile as the market overall, but they've nonetheless bounced around from quarter to quarter. Overall, however, the equity component of the fund has performed well for one and four years. Indeed, the stocks have generated a higher return than the bonds for both time periods, which is remarkable given the performance of the stock markets. A meaningful weighting (4-8% of assets) in REITs (Real Estate Investment Trusts) was a positive factor.

Equity Fund

At this time last year, we were reporting on how the returns of the Equity Fund in 2009 and 2010 had been hurt by a lack of exposure to mining and gold. Fortunately, the manager of the fund, CGOV Asset Management, stuck to their strategy and continued to focus on less-cyclical, high-quality companies. As a result, the fund held up extremely well throughout 2011. The consumer-related holdings were the strongest contributors (notably Asia Pacific Breweries, CVS Caremark, Unilever), although other stocks contributed significantly (Birchcliff Energy, Nalco, Novartis and Insperity). The fund continued to be hurt by its problem children, RIM and Manulife, in 2011. Both were sold in the second half of the year.

With a solid 2011 on the books, the fund's 4-year returns (after fees) are again running ahead of the overall markets (pre-fee).

Funds Returns – Dec. 31, 2011

	Annualized					*Annual*			
Steadyhand Fund	**1 Y**	**2 Y**	**3 Y**	**4 Y**	**Inception***	**2008**	**2009**	**2010**	**2011**
Income Fund	7.2%	9.0%	13.3%	7.3%	6.5%	-8.9%	22.5%	10.8%	7.2%
Benchmark**	5.1%	7.1%	8.8%	5.2%	5.2%	-3.4%	12.8%	9.5%	5.1%
Added Value	2.1%	1.9%	4.5%	2.2%	1.4%	-5.5%	9.7%	1.3%	2.1%
Equity Fund	-1.3%	4.9%	8.6%	-1.6%	-0.8%	-26.9%	16.5%	11.4%	-1.3%
Benchmark***	-6.4%	2.9%	9.9%	-1.9%	-1.4%	-30.2%	25.7%	13.3%	-6.4%
Added Value	5.1%	2.0%	-1.3%	0.3%	0.6%	3.3%	-9.2%	-1.9%	5.1%
Global Equity Fund	-7.5%	-4.0%	1.8%	-5.9%	-7.4%	-25.8%	14.3%	-0.3%	-7.5%
MSCI World Index ($Cdn)	-2.9%	1.8%	5.0%	-3.8%	-5.0%	-26.1%	11.8%	6.8%	-2.9%
Added Value	-4.6%	-6.8%	-3.2%	-2.1%	-2.4%	0.3%	2.5%	-7.1%	-4.6%
Small-Cap Equity Fund	12.7%	17.2%	16.4%	2.6%	6.8%	-29.7%	14.6%	21.9%	12.7%
BMO Small Cap Index	-14.4%	8.9%	27.6%	2.6%	1.9%	-46.6%	75.1%	38.5%	-14.4%
Added Value	27.1%	8.3%	-11.2%	0.0%	4.9%	16.9%	-60.5%	-16.6%	27.1%

Fund returns are net of fees. Benchmark returns do not include any fees or commissions.
*February, 13, 2007
**75% DEX Universe Bond Index; 25% S&P/TSX Composite Index
***60% S&P/TSX Composite Index; 40% MSCI World Index ($Cdn)

Global Equity Fund

The Global Equity Fund had another tough year – one that started with the tsunami in Japan and was extended by the debt crisis in Europe. In a nutshell, the manager, Edinburgh Partners, had too much exposure to these hard hit regions, and not enough in the U.S., where stocks showed some recovery. The Japanese companies in the fund generally dealt with the natural disaster well, but the strong Yen made it tough for these export-oriented firms to fully recover. The economy is slowing in Europe, and the outlook for profits has been reduced, but weak stock prices in this part of the portfolio had as much to do with the political uncertainty as the bottom line. Valuations in Europe have come down significantly.

While the fund didn't start the year with a heavy weighting in financial services (14% of assets), the bank holdings were hard hit and had a meaningful impact. Bank of America (sold), Mizuho (Japan - sold), Royal Bank of Scotland and Intesa Sanpaolo (Italy) were down significantly (while held in the fund).

On the plus side of the ledger, a number of stocks had strong years, particularly Intel, Unilever, GlaxoSmithKline, Bridgestone and Diageo.

Small-Cap Equity Fund

As with the Equity Fund, the Small-Cap Fund lagged behind other funds when the gold and mining stocks were skyrocketing in 2009 and 2010. Wil Wutherich, the fund manager, has invested successfully in resource stocks throughout his career, but felt the valuations were difficult to justify at that time. Wil stuck to his guns and focused on other areas where he could find well run, profitable businesses and it paid off handsomely. The stocks that carried the fund in 2011 were Canadian Helicopters, Coastal Energy, Alaris Royalty, Hibbett Sports and Parkland Fuel. The laggards included Easyhome (sold late in the year), Glacier Media, Evertz Technologies and Primero Mining.

As with most years, the Small-Cap Equity Fund was driven by the success of a handful of individual stocks. Wil Wutherich, the manager of the fund, has a history of being out of sync with the overall market. He has generated superior long-term returns by participating in rising markets, lagging behind in hot markets and going down considerably less in weak markets. This pattern reflects his absolute return approach, which focuses on sound, profitable businesses trading at attractive valuations.

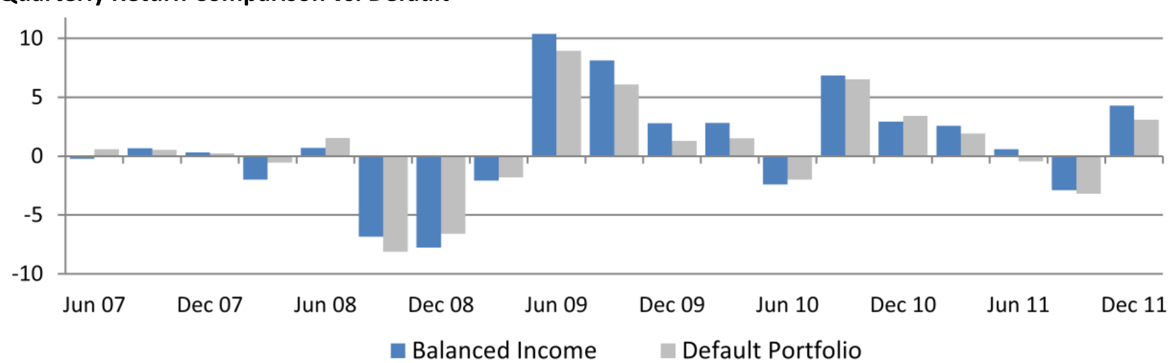
Risk

Steadyhand's absolute return philosophy would suggest that the Balanced Income Portfolio will be less volatile than the default portfolio over time. While this was not the case in 2008 due to the Income Fund's large weighting in corporate bonds, the portfolio did hold up extremely well in 2011 (see chart below). Over four years, however, the quarterly standard deviation of the Balance Income's returns was 4.6%, which is slightly higher than the default portfolio at 4.2%.

Portfolio volatility is not only determined by the type of securities held, but by how synchronized, or correlated, they are. The part of the portfolio that has been most consistently out of synch with the other asset categories is the Small-Cap Equity Fund. It has proven to be an excellent diversifier.

In any case, the Balanced Income's price movements are in line with expectations.

Quarterly Return Comparison vs. Default



Cost

On the first page of Jim and Jane's statement in the 'Consolidated Holdings' section, the cost of management is shown (see below). The Management Expense Ratio (MER) includes all costs to the client. There are no other purchase, redemption, switching or administration charges. The total cost for Jim and Jane in 2011 was 1.19%, or approximately $675-700 (the table below from the Client Statement shows their fee for the fourth quarter).

Clients with more than $100,000 invested with Steadyhand receive a rebate. For example, the fee for a client with $250,000 invested in the Balanced Income Portfolio would be 1.05%.

It should be noted that Jim and Jane will be paying slightly higher fees starting January 1st, 2012. The fees on the four funds have been increased to reflect the introduction of HST (harmonized sales tax). Instead of 1.19%, their all-in fee will be 1.24% next year.

Consolidated Holdings

Fund	Market Value at December 31, 2011 ($)	% of Total	One Simple Fee (%)	Your Fee (%)	Your Fee ($)
Steadyhand Income Fund	38,763.40	66.0	1.00	1.00	95.58
Steadyhand Equity Fund	8,222.54	14.0	1.35	1.35	27.37
Steadyhand Global Equity Fund	7,635.22	13.0	1.70	1.70	32.01
Steadyhand Small-Cap Equity Fund	4.111.27	7.0	1.70	1.70	17.23
	$58,732.43	100.0%	1.19%	1.19%	$172.19
				Fee Rebates:	$0.00

Action and Success

While they were Sleeping

When looking forward at how they can generate the best returns in the future, Jim and Jane first need to remember that the funds in the portfolio are professionally managed, which means the fund managers are doing most of the work. They are re-balancing and making adjustments on the clients' behalf.

As 2012 begins, some of the themes they're pursuing include the following:

- Edinburgh Partners (Global Fund) is sticking with its investments in Japan and Europe. The valuation gap between these countries and the North American markets has widened even further.
- Both EPL and CGOV (Equity Fund) are continuing to look for companies with growing revenues in the faster-growing economies. These companies may be based in Asia and Latin America, or be western-based with a strong presence in these markets.
- With the cyclical stocks being hit hard, our equity managers are looking for opportunities in the resources area.
- As for income, CC&L continues to feel that high-quality corporate bonds offer attractive yields.

A more complete review of the managers' outlooks and strategies can be found in our most recent Quarterly Report.

Re-balancing

As noted, clients using the Balanced Income model will not be required to make many changes, although some re-balancing will be necessary from time to time.

As the asset mix on Jim and Jane's statement indicates, their portfolio was re-balanced at year-end. ***For clients following the Balanced Income model, it may also be appropriate to do some re-balancing.*** With weak returns from foreign stocks, adding to the Global Equity Fund may be advisable. The manager, who has a history of sticking to their convictions and bouncing back strongly, is finding outstanding value in Japan, Europe and the emerging markets. Depending on the account, this money could come from new contributions or by switching some money out of the funds that have had higher returns in the short term, namely the Income Fund and Small-Cap Equity Fund.

Watch List

Since late 2009, the Global Equity Fund has been a drag on the Balanced Income results. There have been two factors at play here. First and foremost, the foreign market returns for Canadian investors have been poor. The major markets have taken turns going through crises and the negative returns have been made worse by a rising Canadian dollar. The second reason is that Edinburgh Partners' particular strategies, which have been tilted towards slower-growing, cheaply-valued companies in Europe and Japan, have not yet played out. Given the manager's approach (non-benchmark oriented; concentrated list of holdings) and the volatility of foreign currencies, however, we should always expect the fund to deviate significantly from the overall market (positively and negatively). Given the performance over the last two years, we will be doing three things: (1) continuing to watch EPL carefully with respect to personnel and process; (2) monitoring turnover in the fund's holdings; and (3) remaining patient as the current strategies play out.

The Other P's

People – Since the managers were selected, there have been no material changes to the investment teams, and specifically the people that make the decisions on our funds.

In 2008, we were disappointed to see Mark Gaskin, one of the founding partners of CGOV, leave the firm, but he wasn't directly involved in running the Equity Fund.

There have been changes at EPL, but the core of the investment team remains intact, and they have been hiring to strengthen all aspects of the firm.

Process and investment philosophy – All of us have learned a lot over the last 4+ years. While we expect these lessons will have a positive impact over time, they haven't led to any fundamental changes in our managers' investment process or philosophy. This is something we watch like a hawk, along with personnel changes.

STEADYHAND

PORTFOLIO STATEMENT

From October 1 to December 31, 2011

Mr. JIM SMITH
278 Brant St.
Burlington, ON, L73X4

Client since: December, 2007

STEADYHAND INVESTMENT FUNDS INC.
1747 W. 3RD AVE
VANCOUVER, BC, V6J 1K7
PHONE: 1−888−888−3147
FAX: 1−888−888−3148
http://steadyhand.com

Your Accounts

Type	Number	Owner	Market Value at December 31 2011 ($)
Investment	902031	JANE SMITH	23,491.09
RRSP	970027	JIM SMITH	35,241.34
			58,732.43

Consolidated Holdings

Fund	Market Value at December 31 2010 ($)	% of Total	One Simple Fee (%)	Your Fee (%)	Your Fee ($)
Steadyhand Income Fund	38,763.40	66.0	1.00	1.00	95.58
Steadyhand Equity Fund	8,222.54	14.0	1.35	1.35	27.37
Steadyhand Global Equity Fund	7,635.22	13.0	1.70	1.70	32.01
Steadyhand Small−Cap Equity Fund	4,111.27	7.0	1.70	1.70	17.23
	$58,732.43	**100.0**	**1.19%**	**1.19%**	**$172.19**
				Fee Rebates:	**$0.00**

Notes: 'One Simple Fee' is our standard fee before reductions, if applicable. 'Your Fee' is the estimated fees you paid during the statement period. For more information see our website. Fee rebates are reinvested in additional units of the funds you hold.

STEADYHAND

PORTFOLIO STATEMENT
From October 1 to December 31, 2011

Holdings by Asset Class

Asset Class	Market Value ($)	% of Total
Cash and Cash Equivalents	2,271.18	3.9
Fixed Income	28,076.05	47.8
Canadian Equity	18,429.06	31.4
U.S. Equity	4,501.13	7.7
International Equity	5,455.01	9.3
	$58,732.43	100%

Consolidated Performance

Performance Period	Rate of Return (%)
Three Month	4.3
One Year	4.5
Two Year	7.2
Three Year	11.4
Four Year	4.0

Annualized compound rates of return on periods over one year. Consolidated performance is calculated using the monthly weighted average rate of return for the accounts in the portfolio.