



# The Two-Mile Post

An Update on Our Company and Funds

May 2009

*We probably couldn't have picked a worse time to start a new investment company. After all, the last two years have been one of the worst periods in the equity markets since the Great Depression. But looked at another way, there's no better time to introduce a fresh philosophy and approach to investors. Returns across the board have been miserable, the industry's ethics, transparency and conventions have been brought into question, and many Canadians are looking for a change.*

*With Steadyhand lapping the two-mile post, we felt it was timely to provide an update on our company and funds.*

## Part I – The Company

As followers of the firm will know, we started Steadyhand because we felt the industry had become fat and flabby. Portfolios were bloated (overdiversified), fees were high, and managers had become too focused with looking like the benchmark, rather than beating it. We wanted to build a company around the way we wanted our own money managed (call us selfish). This meant:

- § concentrated funds;
- § right-sized portfolios;
- § independent, unconstrained managers;
- § low turnover; and
- § low fees.

And we put our money where our mouth is. Our employees on average have 80% of their liquid financial assets invested in the Steadyhand funds. And collectively, our employees and families have more than \$15 million invested in our funds.

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**“Bradley has really thought things through and Steadyhand appears to be bringing something new to this crowded party”**

- **Jonathan Chevreau  
(The Wealthy Boomer)**
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KODA in an early online banner ad

## The Team

Our team has rounded out nicely over the past two years. Co-founders Tom Bradley (President) and Neil Jensen (COO) brought on Elaine Davison (CFO) and Scott Ronalds (Manager, Research & Communications) in the fall of 2006. When we launched our funds in the spring of 2007, Chris Stephenson (Investor Specialist) joined the firm to help service and provide advice for our clients. Colette Madill (Operations Accountant) came aboard shortly thereafter, and Sherileen Gray (Client Service/Executive Assistant) joined the team last fall.

Our number count doesn't include our stable of managers. Integral to our business model is the strategy of partnering with independent experts (boutique investment management firms) to manage our funds. We spent a great deal of time and effort in our search for these managers and feel that we've got a great line-up of stock-pickers. If you're not familiar with them, you can learn more on [steadyhand.com](http://steadyhand.com).

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**“While Steadyhand's tenure may be short, its founder and president is an experienced veteran with an approach to money management that we applaud”**

- **David O'Leary  
(Morningstar)**

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Tom



Neil



Elaine



Scott



Chris



Colette



Sher

## Clients & Awareness

Our clients have come to us in all shapes and sizes, from those getting started with a minimum investment (\$10,000), to those entrusting millions of dollars with us.

As we review our list of 500+ clients, it's evident that we've attracted a broad range of investors. Our clients have come to us for a number of reasons, but often cite that they were frustrated with their previous investing experience because they:

- § held a confusing array of investments
- § paid too much in fees
- § weren't satisfied with their performance
- § didn't understand what they were investing in
- § received poor advice and/or reporting

We feel that we've attracted a diverse client base because we offer, as one client aptly put it, a "much needed alternative to the status quo offered by the banks and mega-fund companies." Our investment approach and candid, if not blunt, communications and reporting has proven to be a hit.

As proof, our assets have grown steadily while the mutual fund industry has been bleeding. We've had very few redemptions and continue to see a good flow of new accounts come in the door.

How do our clients hear about us? Our website, [steadyhand.com](http://steadyhand.com), is our key communications tool. We've put a lot of resources into the site and spend a great deal of time keeping the content fresh and relevant, and the functionality clean and simple. To date, we've had over 200,000 visits to the site. And yes, Tom was in the studio with the grizzly.

We've also criss-crossed the country a number of times, meeting investors and hosting

information sessions and seminars from Vancouver to Ottawa. Often, one or more of our managers joins us to present on their investment approach and strategies. We're not a faceless firm, and are happy to meet with investors whenever possible.



OUR 'Meet the Managers' events have been well received

Steadyhand is still a young company and we want to get noticed, which means that we have a marketing side to our business. We're currently working with a creative partner on a broader marketing strategy to amp up our awareness in the coming months. Stay tuned.

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## The Industry

In an industry obsessed with scale, it's interesting being a small guy. The push for size is everywhere. Yet, while we also want to grow our asset base, the last thing we want is to become another 'Goliath'. When it comes to investing, the 'Davids' are much more nimble.

We've seen a lot of Goliath changes over the past two years, especially in our niche of the market, the direct-to-client segment. A few of our closest competitors did milestone transactions that changed their direction. Our friends and former colleagues at Phillips, Hager & North sold their business to Royal Bank. We expect that the new merged firm will free up some space in the direct market for Steadyhand, given RBC's strength in the branch network and advisor channel.

Saxon Financial sold to IGM Financial in early 2009. The Saxon funds are now part of the Mackenzie line-up and the firm's focus is squarely on selling through the advisor channel. And Calgary-based Mawer teamed up with industry giant Manulife to also offer their funds through advisors.

Going forward, a much higher proportion of these firms' assets will be in high-fee products, which is a trend we are seeing elsewhere in the industry. Volatile markets and the industry's marketing machine have been pushing investors into high-fee structured products that promise 'principal protection' and 'guaranteed income'.

This trend is happening, however, at a time when there are more low-fee options than ever. Commissions at discount brokers have come down, there are plenty of ETFs to choose from and Steadyhand has appeared on the scene. It's been encouraging to see an increased interest in the discounters and ETFs in recent months despite the industry's push to packaging. With greater awareness and media

attention on issues such as fees, transparency, and the dangers of complexity, we think our business is well positioned as an attractive alternative to what's available to Canadian investors. Our sling-shot is loaded and ready.

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**“Steadyhand also differentiates itself from many of its peers with an investment philosophy that emphasizes absolute returns rather than orientation to benchmarks”**

- **Brian Lewis (Investment Executive Magazine)**

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## The Mistakes

While we'd like to have nothing to report here, we've admittedly made some mistakes early on.

At the time of our inception, our goal was to keep our line-up as simple and straightforward as possible, and we felt that our five funds covered the waterfront. We've realized, however, that there's a void in our fixed income offering in the form of a conservative bond fund. Our Income Fund is a well-rounded income generator, but its healthy weighting in corporate bonds and income-oriented equities leads to more short-term volatility than some investors are looking for. A sixth fund would fit in nicely on the risk spectrum between our Savings Fund and Income Fund, but with safety priced so dearly, now is not the time to introduce it.

In hindsight, we were too early in our advice to clients to rebalance their portfolios (if appropriate) toward a greater equity weighting. The severity and duration of the economic and market downturn has been more extreme than we anticipated. Yet, while our rebalancing efforts were early, we still feel that investors who bought equities on the downturn in 2008 (and so far in 2009) will be rewarded in the long run.

## The Close

We've been accused of not being aggressive enough in signing up prospects. At a lunch seminar we held last year, one attendee even encouraged us to lock the doors and put an application form in front of everyone.

Admittedly, we're not a hard close. We think our philosophy and approach speak for themselves.

However, if you like what we're doing but you're not yet a client, we do ask two things of you:

- 1). Get off your butt and send in an account application (available on our website)
- 2). Spread the word

We also value feedback on any aspect of our business. Our line is always open – 1.888.888.3147 (well, from 7 AM – 5 PM PST at least). And you'll get a live voice. Automated switchboards are for the 'institutions'. You'll be greeted by an investment professional who can speak with you about Steadyhand, your portfolio, investing in general, or simply share a laugh over the latest fund-of-the-week.

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## Part II – The Funds

For those who have read our most recent Quarterly Report, this section may be a little repetitive. Our objective here is to provide an overview of how our funds have performed over the past two years and how they're currently positioned. We've excluded our Savings Fund from the discussion, as the fund is a conventional money market fund (if interested, you can find detailed reporting on the fund on our website and in our Quarterly Reports).

Short-term numbers should always be taken with a grain of salt, but we provide some context on our performance-to-date below. As we previously mentioned, we hire independent managers to manage our funds. They all have longer-term track records managing money for high net worth individuals and institutions that we'd be happy to provide upon request.

At the end of March 2009, our assets under management totaled roughly \$75 million, broken down as follows:

- § Equity Fund - \$20 million
- § Income Fund - \$20 million
- § Global Equity Fund - \$15 million
- § Small-Cap Equity Fund - \$11 million
- § Savings Fund - \$9 million



FIVE funds. Plain and simple.

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**“[Steadyhand] is keeping a tight grip on fees while allowing its portfolio managers a free hand to pursue their investment mandates”**

- Rudy Luukko  
(Morningstar)

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## Income Fund

The Income Fund has had a rough start. Its returns were impacted by its hybrid nature (it owns bonds and income-oriented equities) as well as a cold hand on behalf of the manager, Connor, Clark & Lunn Investment Management (CC&L). Over the past two years, it fell 3.6% per annum, while the DEX Universe Bond Index gained 5.4% and the S&P/TSX Composite Index lost 16.2%.

The objective of the fund is to provide a steady source of income and modest capital growth by investing in bonds, income trusts, real estate investment trusts (REITs) and dividend-paying stocks. Typically, about 75% of the fund will be invested in bonds, with the balance invested in income-oriented equities. These latter securities in particular have had a detrimental impact on performance.

CC&L has a lot of scope to position the portfolio wherever they see the greatest opportunities, and since the fund's inception, they've had an emphasis on corporate bonds. The global credit crisis and ensuing recession have had a piercing impact on investor sentiment, with investors fleeing to safety. As a result, government bonds have performed well, while 'corporates' have suffered. Over the past two years, these securities have had one of their worst stretches of performance relative to government bonds, as the spread (difference in yield) between high-quality financial bonds and government bonds has widened substantially. Looking forward, however, the opportunities in the corporate bond market are plentiful and the manager is not taking its foot off the gas.

While the income-equity component has been a notable drag on the fund's performance, these securities provide an additional source of income and long-term inflation protection for the

fund. When the equity markets stabilize, the longer-term benefits of these securities will start to materialize. In recognition that the income trust structure will soon be phased out, dividend-paying stocks were introduced to the portfolio in late 2008. These equities now make up about 16% of the fund (or 60% of the income-equity portion of the portfolio). CC&L's emphasis here is on companies with a strong market presence and high, yet sustainable, dividend yields.

In the face of a rough market for corporate bonds and a less-than-desirable environment for income-equities, the fund has paid out stable quarterly distributions of \$0.10/unit (with a top up at year-end). And its yield has varied from 5.5% in early 2007 to 7.5% in late 2008.

We've noted in our communications that it's been the 'perfect storm' for this fund – its positioning and the decisions of the manager have led to two consecutive years of negative returns. But CC&L is an experienced firm with a deep and talented team. Looking beyond the clouds, they are holding firm to their convictions of where the best opportunities lie.

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### Annualized Compound Returns (03/31/2009)

	1 Year	2 Year	Since Incept.*
<i>Income Fund</i>	-8.1%	-3.6%	-2.9%
DEX Universe Bond Index	4.9%	5.4%	5.5%
S&P/TSX Composite Index	-32.4%	-16.2%	-14.7%

\*February 13, 2007



## Equity Fund

Managed by CGOV, a Toronto-based investment boutique, the Equity Fund is a key holding for many of our clients. The manager looks upon the world as one stock market, but recognizes that sticking close to home is part of their competitive advantage. As a result, Canadian stocks make up the bulk of the portfolio, with U.S. and overseas equities complementing the core holdings.

Over the past two years, the fund lost 15.0% per annum. Over the same period, The S&P/TSX Composite Index was down 16.2%, and the MSCI World Index lost 22.2%. While we would have liked to have seen greater preservation of capital, the market downturn was indiscriminate and there was nowhere to hide.

CGOV did a good job of avoiding some of the larger blow-ups, particularly in the financial sector, and has stayed true to their concentrated, low turnover style. Portfolio turnover in 2008 was 17%, a good indication of their conviction in the companies they own. This isn't to say that they didn't act on opportunities as stocks were plummeting. They added to a number of holdings on weakness, and initiated a handful of new positions over the past eight quarters, including *Research in Motion*, *Lincoln Electric Holdings*, *Birchcliff Energy* and *Nintendo*.

Importantly, CGOV has also been humble and sold positions in stocks where their thesis hadn't played out as anticipated and/or their outlook for the business had changed. *Asia Pacific Breweries*, *Starbucks*, *BorgWarner* and *Sony* fall into this category.

One of the manager's disciplines that we love is that they won't own more than 25 stocks. Since the fund's inception, CGOV has owned

anywhere from 22-25 stocks. This ensures that only their best ideas are represented in the fund. They also own stocks across the market capitalization spectrum. Many of the fund's large-cap holdings will be familiar to readers (e.g., *TD Bank*, *Rogers Communications*, *Cisco Systems*), but they also own a number of small and mid-cap stocks, including *Birchcliff*, *Ritchie Bros. Auctioneers* and *Idexx Laboratories*. This is what we mean by unconstrained investing. Their hands aren't tied as to where they can invest.

The fund's cash position has ranged from 2-10% since inception. The manager is cautiously optimistic on the near to medium-term outlook for the markets.

We would characterize the theme in the portfolio as 'the strong will get stronger'. CGOV has a focus on businesses that are in good financial shape to strengthen their franchises while their competitors falter as we emerge from the recession.

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### Annualized Compound Returns (03/31/2009)

	1 Year	2 Year	Since Incept.*
<i>Equity Fund</i>	-26.6%	-15.0%	-14.1%
S&P/TSX Composite Index	-32.4%	-16.2%	-14.7%
MSCI World Index (\$Cdn)	-29.6%	-22.0%	-20.9%

\*February 13, 2007

## Global Equity Fund

Our go anywhere fund. The Global Equity Fund invests in equities around the globe. Based in Scotland, the manager, Edinburgh Partners Limited (EPL), is a closely-knit team of experienced analysts who invest the fund's assets based on where they see the best value, paying little heed to the composition of the World Index.

The Global Fund has had a challenging start. Over the past two years, the fund lost 23.8% per annum during a period when the MSCI World Index dropped 22.2% per year.

The manager made a lot of good decisions, but realized heavy losses through some of their investments in the ravaged financial sector. These stocks have been the greatest burden on performance. EPL recently revisited their holdings in the sector and consolidated a few positions, but they are not abandoning their view that the survivors will provide attractive returns over the next few years.

Throughout 2007 and 2008, health care and telecom stocks occupied a large weighting in the fund, comprising 35-40% of its assets. EPL liked the defensive nature of these businesses, particularly during a period of slowing global growth. This positioning benefited the fund, as stocks such as *Johnson & Johnson*, *GlaxoSmithKline*, *Belgacom* and *Deutsche Telekom* held up relatively well when the markets were in a tailspin.

More recently, the manager has begun to shift out of some of these stocks and into more growth-oriented companies, particularly in the technology sector and emerging markets. *Samsung*, *China Mobile*, *Applied Materials* and *Baidu.com* are among these stocks.

While their approach is very concentrated in a global context, Edinburgh Partners typically owns a few more stocks than our other equity managers. Over the past two years, they've held between 34 and 41 stocks in the fund. Turnover, while typically low, has also been higher, as the manager moved on from a number of stocks when their outlooks became too clouded or they reached full valuation. The fund's turnover for 2008 was 35% (Note: the audited figure of 179% was misleading, as it includes cash management transactions that were made in a money market product held in the fund).

The Global Fund's cash position has been the most variable of our equity funds. By mid 2008, it was close to 20%, reflecting concern over valuations. Much of this cash was subsequently put to work during the autumn downturn, however, when it was brought down to around 5%.

EPL believes the timing is right to shift from defense to offense. They feel that valuations on a number of stocks are very attractive and risk is highly overpriced. To quote Dr. Sandy Nairn, the firm's founder and CEO, "*Risk is still important, but if solvency is solid and long-term returns are potentially high, then the opportunities need to be grasped, and grasped now.*"

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### Annualized Compound Returns (03/31/2009)

	1 Year	2 Year	Since Incept.*
<i>Global Equity Fund</i>	-29.1%	-23.8%	-22.6%
MSCI World Index (\$Cdn)	-29.6%	-22.0%	-20.9%

\*February 13, 2007

## Small-Cap Equity Fund

Our hidden gems fund. The Small-Cap Equity Fund invests in a highly concentrated portfolio of small and mid-cap stocks. Emphasis is placed on 15-20 securities, primarily in Canada but with some U.S. exposure. The manager, Wutherich & Company, is a Montreal-based boutique with one of the best track records in the business. A warning though: this fund will move in a cycle of its own and may experience higher volatility due to the illiquid nature of the small-cap market. The fund charged out of the gates, racking up a return of over 20% in its first 12 months. The small-cap market, however, was the hardest hit during the market sell-off last year, and the fund lost 12.9% per annum over the past two years. Over the same period, the BMO Small Cap Index dropped 27.8% per year.

Wutherich & Co. is very picky about the management of the companies they invest in. They like to see an experienced hand at the helm with a lot of skin in the game. In other words, they like management teams that own a lot of their company's stock. This, of course, means there may be fewer shares outstanding in the market, which can lead to greater short-term volatility. The portfolio has seen a number of sharp price movements in its holdings, both positive and negative, and unitholders should be prepared for this.

Since its inception, the fund has had little exposure to energy and resource stocks, and has not owned any financial service companies. In this sense, the portfolio is as non benchmark-oriented as you can get. Wutherich & Company looks for good opportunities, plain and simple. It doesn't matter what industry or sector they fall into. This positioning has helped the fund's performance, as resource and financial stocks were among the hardest hit last year.

As our most concentrated fund, the manager has held between 15 and 17 stocks in the portfolio. Turnover last year was modest, at 31%. Wutherich & Co. has not been overly active on the trading floor, but when they like a business, they are quick to add it to the portfolio with a sizeable weighting. *Stantec*, *Gennum*, and *Canadian Helicopters Income Fund* are among the stocks that have been added to the fund, while *Sterling Shoes Income Fund*, *Flint Energy Services* and *Sherritt International* were removed.

The fund's cash position has ranged from 5% to 15%. Given that a 'full position' can mean a weighting of 7-9%, the manager will tend to keep some powder dry if they are investigating a new name or two.

Wutherich & Company currently likes the value they see in the portfolio. While our fund is only two years old, they have been successfully managing money in a similar manner for nearly a decade, and recently noted that they 'haven't been as excited about their stable of horses since 2002'. Giddy-up.

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### Annualized Compound Returns (03/31/2009)

	1 Year	2 Year	Since Incept.*
<i>Small-Cap Equity Fund</i>	-31.3%	-12.9%	-8.9%
BMO Small Cap Index	-42.3%	-27.8%	-25.6%

\*February 13, 2007

## The Fine Print

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return for the funds are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual fund securities are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the funds will be able to maintain their net asset value per security at a constant amount or that the full amount of your investment in the funds will be returned to you. Past performance may not be repeated.

Steadyhand Investment Funds Limited Partnership is the manager of the Steadyhand funds. Steadyhand Investment Funds Inc. (SIFI) is the principal distributor of the funds.

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