



# Steadyhand Balanced Income Portfolio

A Performance Assessment

As of December 31, 2010

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## Disclosures

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 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 Management Ltd. is the manager of the Steadyhand funds. Steadyhand Investment Funds Inc. (SIFI) is the principal distributor of the funds.

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# Introduction & Numbers

This review of Steadyhand's investment returns is being published in conjunction with a Research Paper entitled, *How Is My Portfolio Doing ... And What Should I Do About It? - A Framework for Assessing Investment Performance*. If you don't have a copy, it's available at [www.steadyhand.com](http://www.steadyhand.com).

We have chosen to analyze the **Steadyhand Balanced Income Portfolio (Hypothetical)**<sup>1</sup> [hereafter referred to as the 'Balanced Income 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 our clients. It is 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. It should be recognized, however, that we're biased as to the Steadyhand approach and investment philosophy – absolute-return oriented, concentrated stock portfolios and style agnostic (i.e. we own both growth and value stocks). In conjunction with our advice,

communications and fees, we believe this approach will generate superior returns over the long term.

## 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 31st, 2007 with an investment of \$50,000. Their portfolio returns are shown in the 'Consolidated Performance' section of the statement.

## Consolidated Performance

Performance Period	Rate of Return (%)
Three Month	2.9
One Year	10.3
Three Year	4.0

The performance record is relatively short because the funds have been operating for slightly less than four 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.

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<sup>1</sup> 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% Steadyhand 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 31st, 2010. Our discussion focuses on the last three years, as this time frame is the longest performance period for our funds.

*The last three years have been good for bonds, as interest rates have declined due to weak economic activity and low (or no) inflation.* The DEX Universe Bond Index, which is a proxy for the overall bond market, provided an annualized return of 6.2% per year. That return takes into account interest income as well as price appreciation. Corporate bonds, which make up approximately a quarter of the bond index, had a positive impact on returns. After performing poorly in 2007 and 2008, they staged a huge recovery in 2009 and the first part of 2010.

*The stock markets took a plunge in 2008, but have recovered significantly since. The Canadian market has been one of the best in the world as a result of its heavy exposure to energy and other resource companies, and because Canada's banks fared much better than their global counterparts.* For a portfolio to keep up with the S&P/TSX Composite Index in any of the last few years, it needed to have significant holdings in the resource sectors, especially mining, precious metals and agricultural products.

*For Canadian investors, foreign markets have provided negative returns.* As the headlines would indicate, the emerging markets have rebounded the most since their

lows in 2009, while Europe has lagged behind. In 2010, stocks that stood to benefit from the loose monetary policy in the U.S., or had exposure to China and the emerging markets, did well.

*Currencies always have an influence on foreign returns.* Over the last three years, the loonie has gained significant ground on European currencies in particular, which has had a notable impact on investments in the region. The loonie's value against the U.S. dollar was little changed over the period, despite some large swings (up and down) along the way.

## 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, 2010

	1 Y	2 Y	3 Y
Default Portfolio	10.2%	12.7%	3.5%
Estimated Annual Fee	-0.5%	-0.5%	-0.5%
After Fee	9.7%	12.2%	3.0%

In this calculation, 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.

### Annualized Returns - Dec. 31, 2010

Asset Class	Index	1 Y	3 Y	5 Y	10 Y
Cash	DEX 91 Day T-Bill	0.5%	1.5%	2.6%	2.8%
Bonds	DEX Universe Bond	6.7%	6.2%	5.3%	6.3%
Canadian stocks	S&P/TSX Composite	17.6%	2.1%	6.5%	6.6%
Foreign stocks	MSCI World (\$Cdn)	6.8%	-4.1%	-0.2%	-1.3%

# Analysis

## Objectives

Because the Balanced Income Portfolio has a short history, it's not useful to assess it against any long-term objectives at this point. In the future, we will compare it against the risk-free rate (GICs; government bonds), inflation and other long-term targets.

## Balanced Income Portfolio versus Default Portfolio

In comparing the Balanced Income Portfolio to the default portfolio, we'll look at the strategies and results over 1- and 3-year periods. As noted above, these time frames are short, so we need to be careful drawing any firm conclusions from the analysis.

### Portfolio Comparison - Dec. 31, 2010

	Annualized			Annual		
	1 Y	2 Y	3 Y	2008	2009	2010
Balanced Income	10.3%	15.1%	4.0%	-15.2%	20.2%	10.3%
Default Portfolio	9.7%	12.2%	3.0%	-13.1%	14.8%	9.7%
Added Value	0.6%	2.9%	1.0%	-2.1%	5.4%	0.6%

*As the table reveals, the Balanced Income Portfolio has provided solid returns during a volatile period in the markets.* As you will see below, it was done on the strength of the income side of the portfolio. The stock side has generally been out of step with the speculative, commodity-driven markets of the last year or more.

## Asset Mix Impact

### Holdings by Asset Class

Asset Class	Market Value (\$)	% of Total
Cash and Cash Equivalents	1,356.91	2.4
Fixed Income	26,933.63	47.9
Canadian Equity	17,580.29	31.3
U.S. Equity	4,630.75	8.2
International Equity	5,697.49	10.1
	\$56,199.06	100.0%

The SAM established for the Balanced Income Portfolio had a significant impact on returns. The large exposure to bonds helped it generate positive returns over the volatile 3-year period. On the other hand, the foreign stocks were a constant drag on returns, both because of their price performance and weak currencies. Over the period, the Canadian dollar was largely unchanged against the U.S. dollar (it had a large drop in value in 2008 and a rally in 2009), but appreciated against the euro (8%) and British pound (26%), which served to reduce the foreign returns. The dollar depreciated against the yen, which had a positive impact on the portfolio's Japanese holdings.

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

- In the bond area, the portfolio had a distinctive tilt towards corporate bonds and as a result, held a modest weighting in government bonds. During 2008 when the credit market was under severe stress, this strategy worked against the portfolio, but more than paid off in the subsequent two years.
- In the equities, there was a healthy weighting in small-cap Canadian stocks, primarily through the Small-Cap Equity Fund, but also through the Equity Fund and Income Fund. The Small-Cap Equity Fund enhanced the overall equity return and also served as a good diversifier – it was up significantly in 2007, down less than similar funds in 2008, and then lagged behind the resource-driven market in 2009.
- As for foreign stocks, the portfolio carried more International (10-11% of total assets) than U.S. (7-8%) stocks. With a large weighting in the U.K. and Europe, this negatively impacted returns.

## Security Selection

Note: Returns for the funds discussed in this section are shown in the table below.

### Income Fund

This fund is a diversified income fund which is invested approximately 75% in bonds (government and corporate) and 25% in income-oriented equities.

Connor, Clark & Lunn, the manager of the fund, had a solid year managing bonds. Security selection was generally good throughout 2010, particularly in the corporate sector. They trimmed back on corporate bonds early in the year (specifically U.S. high yield bonds), but still maintained a significant weighting (35-45% of the fund).

Investors' thirst for yield helped the equity holdings. The fund's Canadian stocks, income trusts and REITs (real estate investment trusts) more than kept up with the strong overall market, despite having few mining-related companies. Some of the better performing stocks were Telus, Labrador Iron Ore and Northland Power.

*Over the past three years, the fund's returns have exceeded its benchmark. It fully benefited from the recovery in corporate bond prices and had solid security selection in bonds and stocks.*

### Equity Fund

The Canadian stocks in the Equity Fund didn't fare as well. A lack of mining and gold stocks held back returns, as did a handful of disappointments in the form of Research in Motion (down 18% in 2010), Manulife and Shoppers Drug Mart (both down roughly 10%). The fund's best performers were CAE, Pason Systems and Potash Corp. The foreign holdings have been a consistent drag on returns over the past three years, despite some good security selection in the U.S. in 2010. The overseas stocks (specifically HSBC and Diageo) were poor performers and the currency effect was a recurring negative.

*Overall, the Equity Fund has lagged its benchmark (60% Canada / 40% World) over the past 3 years. Despite that, the manager, CGOV Asset Management, continues to have a good record of generating wealth*

## Fund Returns - Dec. 31, 2010

	Annualized				Annual		
Steadyhand Fund	1 Y	2 Y	3 Y	Inception	2008	2009	2010
<b>Income Fund</b>	<b>10.8%</b>	<b>16.5%</b>	<b>7.3%</b>	<b>6.4%</b>	<b>-8.9%</b>	<b>22.5%</b>	<b>10.8%</b>
Benchmark*	9.5%	11.1%	5.2%	5.3%	-3.4%	12.8%	9.5%
Added Value	1.3%	5.4%	2.1%	1.1%	-5.5%	9.7%	1.3%
<b>Equity Fund</b>	<b>11.4%</b>	<b>13.9%</b>	<b>-1.7%</b>	<b>-0.6%</b>	<b>-26.9%</b>	<b>16.5%</b>	<b>11.4%</b>
Benchmark**	13.3%	19.3%	-0.4%	0.1%	-30.2%	25.7%	13.3%
Added Value	-1.9%	-5.4%	-1.3%	-0.7%	3.3%	-9.2%	-1.9%
<b>Global Equity Fund</b>	<b>-0.3%</b>	<b>6.7%</b>	<b>-5.4%</b>	<b>-7.3%</b>	<b>-25.8%</b>	<b>14.3%</b>	<b>-0.3%</b>
MSCI World Index (\$Cdn)	6.8%	9.2%	-4.1%	-5.6%	-26.1%	11.8%	6.8%
Added Value	-7.1%	-2.5%	-1.3%	-1.7%	0.3%	2.5%	-7.1%
<b>Small-Cap Equity Fund</b>	<b>21.9%</b>	<b>18.2%</b>	<b>-0.6%</b>	<b>5.3%</b>	<b>-29.7%</b>	<b>14.6%</b>	<b>21.9%</b>
BMO Small Cap Index	38.5%	55.7%	9.0%	4.9%	-46.6%	75.1%	38.5%
Added Value	-16.6%	-37.5%	-9.6%	0.4%	16.9%	-60.5%	-16.6%

Fund returns are net of fees. Benchmark returns do not include any fees or commissions.

\*75% DEX Universe Bond Index; 25% S&P/TSX Composite Index

\*\*60% S&P/TSX Composite Index; 40% MSCI World Index (\$Cdn)

*over longer periods.* (Note: The fund managers' long-term records are available on request)

#### Global Equity Fund

*The Global Equity Fund performed poorly in 2010, which in turn led to below-average returns for the 3-year period.* The areas of the market that did well - China and 'QE2' (quantitative easing) related stocks - were not where the manager, Edinburgh Partners Limited (EPL), was finding value. The fund had a modest weighting in resource and other highly cyclical stocks. When EPL did own winners in these areas, they generally sold them too early based on valuation.

In general, Europe was a triple whammy for the fund over its history. In the face of weak economies and sovereign crises, the weighting in Europe (and the U.K.) was too high (33-45% in 2010). The stock selection was subpar – for instance, it had exposure to some of the weaker insurance-related stocks in 2008 and too many banks in 2010. And the clincher, of course, was a weak euro and pound sterling. The fund's technology holdings provided a lift in 2009 (e.g. Baidu, Samsung), but have been weak performers of late. In particular, Cisco Systems, Nokia and Symantec have not kept pace with the rest of the sector.

*The manager's focus on some of the unloved areas of the market has led to poor short-term results, but EPL believes the opportunities they are finding in areas of Japan, Europe and the U.S. are compelling. The 2010 results have taken the shine off of EPL, but its long-term record is still outstanding. Since its formation in 2003, the firm has comfortably beaten the MSCI World Index.*

#### Small-Cap Equity Fund

The fund had lots of winners in 2010 (Canadian Helicopters, Total Energy Services and Grand Tierra Energy) and turned in a good year. Over the past three years, it didn't generate a positive return, but did

enhance the overall equity return of the Balanced Income Portfolio, as well as act as a good diversifier.

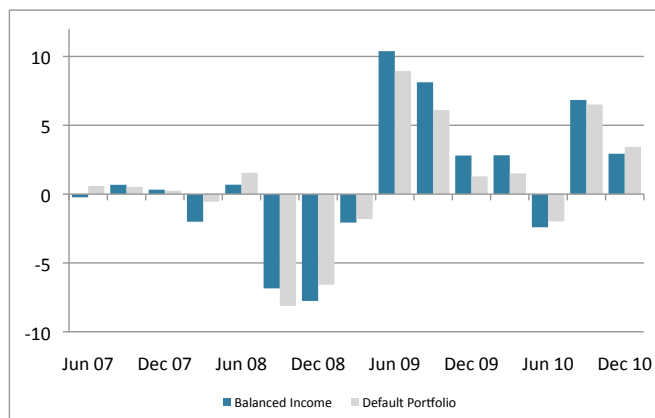
*With respect to diversification, Wil Wutherich, the manager of the fund, has a history of being out of sync with the overall market. He has generated superior long-term returns by participating in rising markets, lagging behind in hot markets and going down less in weak markets.* This pattern reflects his absolute return approach, which focuses on sound, profitable businesses trading at attractive valuations.

The fund had little exposure to gold and other metal stocks during their surge over the past two years, as the manager felt (and still believes) that valuations in the sector were difficult to justify. This held back returns relative to the mining-heavy small-cap index. A number of the portfolio's oil-related companies performed well, however, and this was a significant area of strength for the fund in 2010.

#### *Risk*

Steadyhand's absolute return philosophy would suggest that the Balanced Income Portfolio will be less volatile than the default portfolio over time. That has not been the case so far, although the differences have been insignificant.

#### **Quarterly Return Comparison vs. Default Portfolio**



While the Small-Cap Equity Fund has been a notable diversifier for the portfolio, the emphasis on corporate

bonds in the fixed income area has offset it. In times of extreme crisis (2008), corporates don't provide the same diversification as government bonds do.

Overall, the Balanced Income Portfolio's price movements are in line with expectations. The market declines in the latter half of 2008 were more severe than we'd hoped, but it was an environment where all risk assets were hit hard.

## Cost

On the first page of the Client Statement, the cost of management is shown. The Management Expense Ratios (MERs) include all costs to the client. There are no other purchase, redemption, switching or administration charges. The total cost for Jim and Jane in 2010 was 1.19%, or approximately \$625 (the table below from the Client Statement shows Jim and Jane's fee for the fourth quarter).

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

## Consolidated Holdings

Fund	Market Value at		% of Total	One Simple Fee (%)	Your Fee (%)	Your Fee (\$)
	December 31, 2010 (\$)					
Steadyhand Income Fund	37,091.38	66.0		1.00	1.00	91.46
Steadyhand Equity Fund	7,867.87	14.0		1.35	1.35	26.19
Steadyhand Global Equity Fund	7,305.88	13.0		1.70	1.70	30.62
Steadyhand Small-Cap Equity Fund	3,933.93	7.0		1.70	1.70	16.49
	\$56,199.06	100.0		1.19%	1.19%	\$164.76
					Fee Rebates:	\$0.00



# Success

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

The portfolio is interesting in that its returns have come while some of its key equity strategies have yet to get any traction. Investments made in reasonably priced 'franchise' companies and Japanese exporters, as well as the bet against the high-octane cyclicals, have so far held back returns. At this point, we ask the question: Are there opportunities amongst these laggards?

- *Foreign equities* – Edinburgh Partners, the manager of the Global Equity Fund, sees Europe and Japan as areas of real value ... and opportunity. The stocks they're focusing on are mostly global companies. In other words, they sell products/services in a number of markets and have a diverse geographic revenue base. The fund also has an attractive dividend yield - 3.6% at year-end.
- *Canadian equities* – A number of core Canadian stocks in the portfolio have underperformed the broader market, including Rogers Communications, Shoppers Drug Mart, Research in Motion and Manulife. These are solid franchises that have been weighed down by negative sentiment. The manager of the Equity Fund (CGOV) believes they have good upside potential and is sticking with them.
- The portfolio has no significant exposure to gold or base metals, as all three equity managers feel that valuations are stretched and speculation is playing a large role. When the commodity craze cools and investors shift their attention to higher quality companies, the portfolio will be well positioned.

We also need to probe areas where the portfolio had out-sized returns.

- *Corporate bonds* – The Income Fund took full advantage of the corporate bond rally starting in early 2009. In early 2010, however, the fund manager started to trim back on the corporate holdings, specifically the higher risk bonds (U.S. high yield). At their peak, corporates accounted for half of the fund. Currently, they make up about 35%.
- *Canadian small-cap stocks* – The portfolio's best performers in 2010 were in the small-cap area, but overall there wasn't enough excess return to justify a reduction to the Small-Cap Equity Fund holding. The fund was not carried by one big theme like many other small-cap funds (e.g. gold or mining), but rather was diversified across a variety of sectors. Throughout the year, the manager took profits in a number of the top performers (Canadian Helicopters Income Fund, Gran Tierra Energy and MacDonald Dettwiler).

## 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 3+ 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.

# Action

## *Re-balancing*

As the Sample Statement indicates, Jim and Jane's Balanced Income Portfolio has already been re-balanced. For clients with similar portfolios, it's a good time to use RRSP and/or TFSA contributions to do some as well. With the weak returns from foreign stocks, adding to the Global Equity Fund would be advisable. The manager, who has a history of sticking to their convictions and bouncing back strongly, is finding outstanding value in Japan and Europe. Depending on the account, this money could come from the funds that have had higher returns, namely the Income Fund and Small-Cap Equity Fund.

## *While you were Sleeping*

As we noted earlier, the Steadyhand fund managers are acting every day on our clients' behalf. If they think changes are necessary, they make them. So by definition, the action required for clients using the Balanced Income model will always be minimal.

## *Watch List*

Clearly, the equity side of the Balanced Income Portfolio has not carried its share of the load over its short history. The Global Equity Fund in particular has held back returns. Given the manager's approach (non-benchmark oriented; concentrated list of holdings) and the volatility of foreign currencies, we should always expect the fund to deviate significantly from the overall market (positively and negatively). Given the performance over the last three years, however, we will be doing three things: (1) watching 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.



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

Client since: December, 2007

## PORTFOLIO STATEMENT

From October 1 to December 31, 2010

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 2010 (\$)
Investment	902031	JANE SMITH	22,477.82
RRSP	970027	JIM SMITH	33,721.24
			56,199.06

### Consolidated Holdings

Fund	Market Value at December 31 2010 (\$)	% of Total	One Simple Fee (%)	Your Fee (%)	Your Fee (\$)
Steadyhand Income Fund	37,091.38	66.0	1.00	1.00	91.46
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Steadyhand Global Equity Fund	7,305.88	13.0	1.70	1.70	30.62
Steadyhand Small-Cap Equity Fund	3,933.93	7.0	1.70	1.70	16.49
	<b>\$56,199.06</b>	<b>100.0</b>	<b>1.19%</b>	<b>1.19%</b>	<b>\$164.76</b>
Fee Rebates:					<b>\$0.00</b>

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.



## PORTFOLIO STATEMENT

From October 1 to December 31, 2010

### Holdings by Asset Class

Asset Class	Market Value (\$)	% of Total
Cash and Cash Equivalents	1,356.91	2.4
Fixed Income	26,933.63	47.9
Canadian Equity	17,580.29	31.3
U.S. Equity	4,630.75	8.2
International Equity	5,697.49	10.1
	\$56,199.06	100%

### Consolidated Performance

Performance Period	Rate of Return (%)
Three Month	2.9
One Year	10.3
Three 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.