Where to From Here?

February 2014

In this summary of our recent client presentation, we provide a brief update on our company, an overview of how our funds have performed and are currently positioned, and an assessment of the current investment climate. As well, we summarize our view on market expectations and returns going forward.

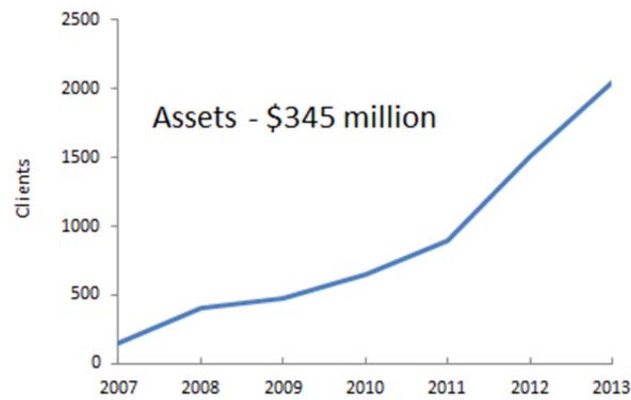
Part I – Steadyhand Update & Overview

84%

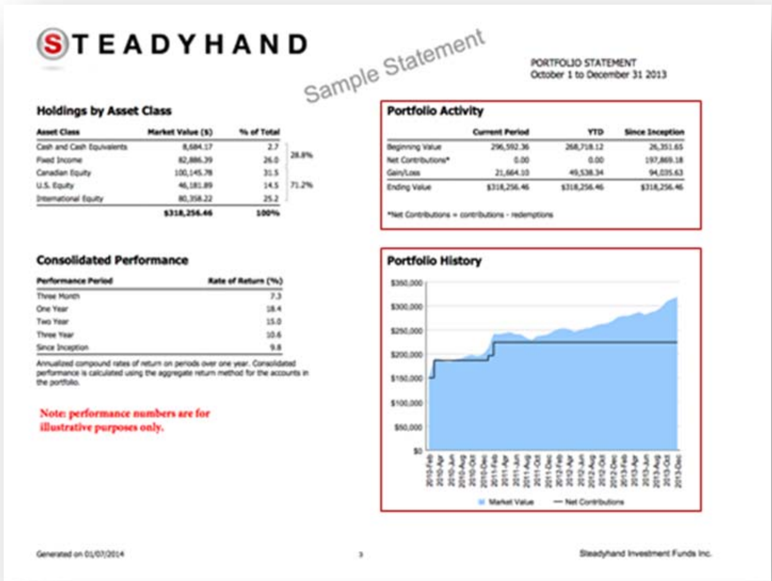
We’ve seen many ups and downs in the capital markets since we opened our doors in 2007. Our team, on the other hand, has remained remarkably stable. And we continue to eat our own cooking, with 84% of our financial assets, on average, invested in our funds.

(L-R: David, Sher, Neil, Jennifer, Chris, Tom, Scott, Elaine and Alan)

We’re Growing



Our growth has accelerated sharply over the past two years thanks to both strong returns and a growing awareness of our company. We ended the month (January) with over 2,000 clients and just under $350 million in assets under management (AUM). This represents a 35% increase in our client base and 42% increase in AUM (year-over-year).



STEADYHAND

Sample Statement

PORTFOLIO STATEMENT
October 1 to December 31 2013

Holdings by Asset Class

Asset Class	Market Value ($)	% of Total	
Cash and Cash Equivalents	8,684.17	2.7	28.8%
Fixed Income	82,886.39	26.0	
Canadian Equity	100,145.78	31.5	71.2%
U.S. Equity	46,181.89	14.5	
International Equity	80,358.22	25.2	
	$318,256.46	100%	

Portfolio Activity

	Current Period	YTD	Since Inception
Beginning Value	296,592.36	268,718.12	26,351.65
Net Contributions*	0.00	0.00	197,869.18
Gain/Loss	21,664.10	49,538.34	94,035.63
Ending Value	$318,256.46	$318,256.46	$318,256.46

*Net Contributions = contributions - redemptions

Consolidated Performance

Performance Period	Rate of Return (%)
Three Month	7.3
One Year	18.4
Two Year	15.0
Three Year	10.6
Since Inception	9.8

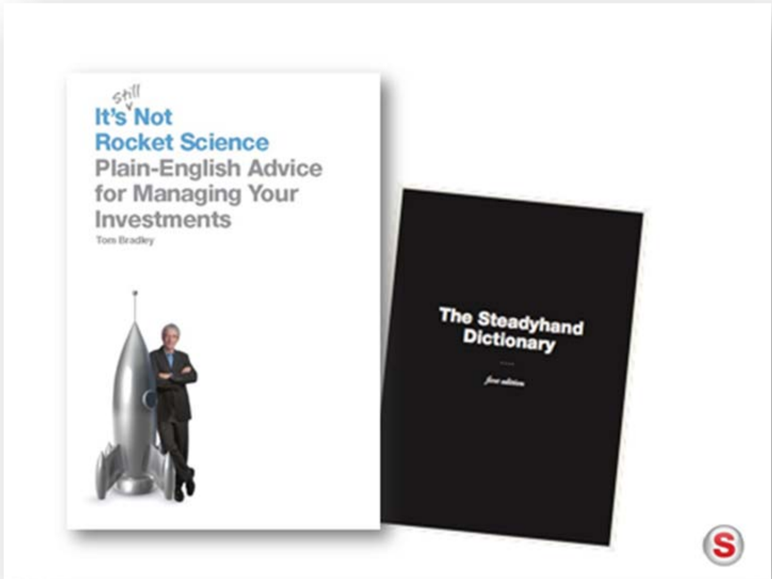
Annualized compound rates of return on periods over one year. Consolidated performance is calculated using the aggregate return method for the accounts in the portfolio.

Note: performance numbers are for illustrative purposes only.

Portfolio History

Generated on 01/07/2014 3 Steadyhand Investment Funds Inc.

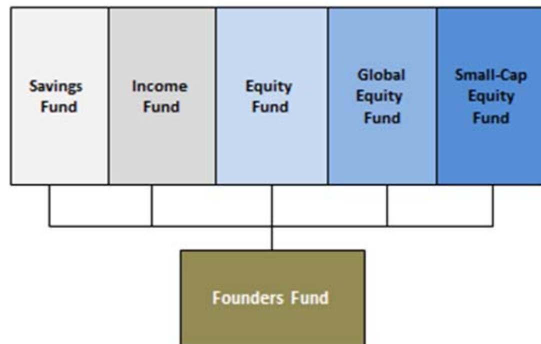
We made some enhancements to our service offering in 2013 – notably an improvement in the way we show account activity (contributions and withdrawals) and performance on our client statements. We also added some new features to our website (including a Volatility Meter) and as always, were busy on the blog front.



Late in the year, we released the sequel to Tom's first book, *It's **Still** Not Rocket Science*. We also published *The Steadyhand Dictionary*, which is a collection of investing terms and colloquialisms and a companion piece to everything we write. Both books are complimentary for Steadyhand clients and are available while supplies last.

Part II – The Funds

The Funds



As a reminder, we've had five core funds since our inception in 2007. In 2012 we introduced the Founders Fund, which is a 'fund-of-funds' that is comprised of our five core funds in a mix determined, and periodically adjusted, by Tom Bradley.

Capital Market Returns

Index	1 Year	3 Year	5 Year	6 Year
DEX Universe Bond	-1.2	3.9	4.8	5.1
S&P/TSX Composite	13.0	3.4	11.9	2.7
MSCI World ($Cdn)	36.2	14.7	12.5	4.9

% Annualized to December 31, 2013

Market Context: It was a strong year for stock markets in the developed world. The U.S. and Japan were standouts, although Europe wasn't far behind. Companies whose earnings are more closely tied to economic growth performed well (notably industrial, consumer and technology stocks). Resource and mining-related stocks fared poorly (gold in particular), which held back the Canadian market. The bond market turned in its first negative annual return since 1999 as longer-term bond yields rose.

For all asset classes, it's important to focus on longer-term returns. The 6-years numbers include both the good and bad (2008) of the market cycle.

Balanced Income Portfolio*

	1 Year	3 Year	5 Year	6 Year
Balanced Income Portfolio*	**11.8%**	**8.8%**	**11.2%**	**6.3%**
Benchmark**	9.4%	5.6%	8.2%	4.3%

% Annualized to December 31, 2013

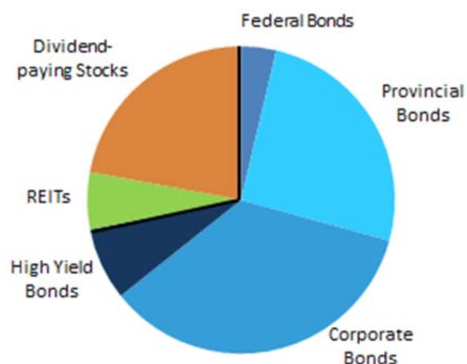
* The Steadyhand Balanced Income Portfolio is a hypothetical portfolio of Steadyhand funds.

** 50% DEX Universe Bond Index; 30% S&P/TSX Composite Index; 20% MSCI World Index ($Cdn) Benchmark returns are net of a hypothetical annual fee of 0.50% (calculated quarterly).

Our Balanced Income Portfolio (Hypothetical) is a model portfolio comprised of four Steadyhand funds. It has an asset mix of 50% fixed income and 50% stocks, and is used by many of our clients. It is a useful indicator of how our investors have fared overall. As the chart illustrates, the portfolio has performed well over every time period, including the longest one which includes 2008. (Note: all returns are after fees.)

The benchmark gives clients some context in which to assess the Portfolio's returns. It's a blend of index returns from the asset classes in the Portfolio. It has a fee of 0.5% taken off to reflect the cost of owning an indexed portfolio.

Income Fund



December 31, 2013

The Income Fund is a 'conservative' balanced fund. It invests in a variety of income-oriented securities, including bonds, dividend-paying stocks and Real Estate Investment Trusts (REITs). The fund serves as the foundation for all our balanced portfolios.

Income Fund Returns

	1 Year	3 Year	5 Year	Incept.*
Income Fund	**3.8%**	**6.3%**	**10.3%**	**6.3%**
DEX Universe Bond	-1.2%	3.9%	4.8%	4.9%
S&P/TSX Composite	13.0%	3.4%	11.9%	3.6%

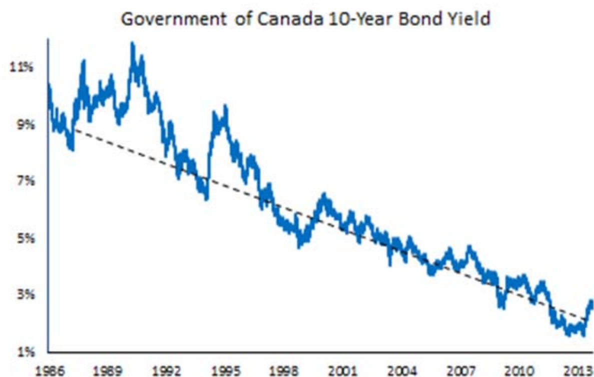
% Annualized to December 31, 2013
** Inception date, February 13, 2007*

The Income Fund performed well in 2013 relative to the overall capital markets. Since inception, it has provided strong returns and is considerably ahead of its representative benchmark. The fund was voted the *Best Canadian Balanced Fund* for the second year in a row at the 2013 Morningstar Canadian Investment Awards.

It has benefited from an emphasis on corporate bonds, stocks with growing dividends, and excellent execution by the manager, Connor, Clark & Lunn.

Interest Rates

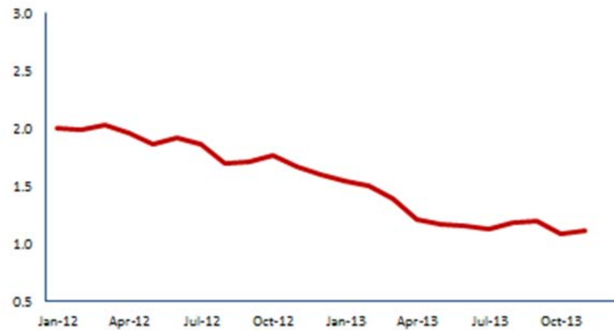
Government of Canada 10-Year Bond Yield



Source: CC&L, PC Bond

Interest rates have declined steadily over the past 30+ years, although in 2013 we likely saw the lows. CC&L believes that going forward, we will take a long, **slow** path to higher rates. This is primarily because most economies can't handle a quick rise because of their heavy debt loads.

When interest rates are increased, so is the burden of servicing debt. Central banks understand the need for a gradual increase in rates. Their current discussion around 'tapering' is consistent with this view.



The other reason to believe that rates will rise slowly is inflation. Over the last two years, inflation in Canada, the U.S. and Europe has come down significantly. The move from just under 2% to close to 1% means that inflation is now below the central bank's target.

An increase in interest rates and decrease in inflation means that 'real' rates (after inflation) have moved back into positive territory (approximately 1.5% for a 10-year government bond). This is still below historical levels, but no longer extreme.

Corporate spreads (the difference in yield between corporate and government bonds) have tightened substantially since the financial crisis (2009). This led to attractive price gains for corporate bonds during the 2009-2012 period (when yields fall, bond prices rise). The opportunity for further gains is more limited and corporate bonds are not as attractive as they have been, although they still represent better value than Government of Canada bonds.

Credit Strategy

- Businesses where:
  - Capital structure is regulated
  - Balance sheet and credit perception is strategically important
- Corporate structure matters
- “Change of control” covenants important

Many corporations are in a strong financial position and have benefited from low interest rates. Yet, they will be challenged to grow their revenues and may be incentivized to use their strong balance sheets to benefit shareholders through special dividends, leveraged buyouts and other activities, all of which are detrimental to bondholders.

To address this risk, CC&L is focusing on businesses whose capital structures are regulated (financials and utilities) and those whose credit reputation is important (insurers). As well, the manager is avoiding the bonds of companies whose share prices have lagged and may be inclined to increase leverage on their balance sheet to improve their share price.

Equity Fund

The Equity Fund is Canada-centric, currently holding roughly 50% in Canadian stocks and 50% in foreign. The manager, CGOV Asset Management, looks for the best that Canada has to offer and complements these holdings with companies that aren’t available in our market for greater diversification and long-term return potential. CGOV continues to find attractive value in U.S. and overseas companies.

Equity Fund Returns

	1 Year	3 Year	5 Year	Incept.*
Equity Fund	**23.3%**	**12.0%**	**12.8%**	**4.7%**
S&P/TSX Composite	13.0%	3.4%	11.9%	3.6%
MSCI World Index (C$)	36.2%	14.7%	12.5%	2.7%

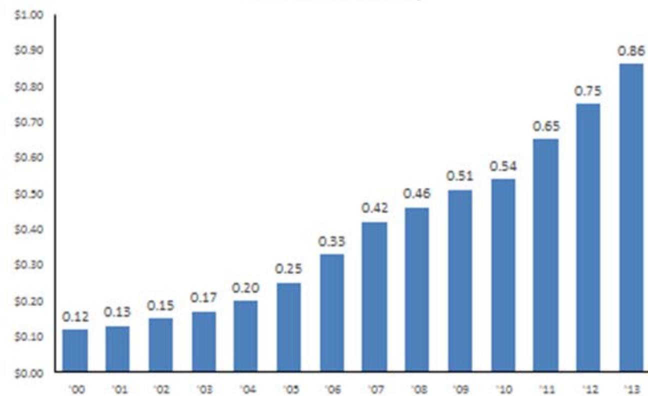
% Annualized to December 31, 2013
** Inception date, February 13, 2007*

The fund had a strong year. Emphasis remained on efficient, stable businesses with a global focus that offer highly reputable products and services. Exposure to different sectors of the economy remained broad throughout the year, although industrial and consumer-related stocks comprised the largest weightings and were among the best performers. Investments in highly cyclical companies (mining and basic materials) were limited, which helped performance. U.S. and overseas holdings were particularly strong contributors.

Since inception in February, 2007, the fund's focus on high-quality companies and leading foreign businesses have been key contributors to performance.

Canadian National Railway

Dividend History

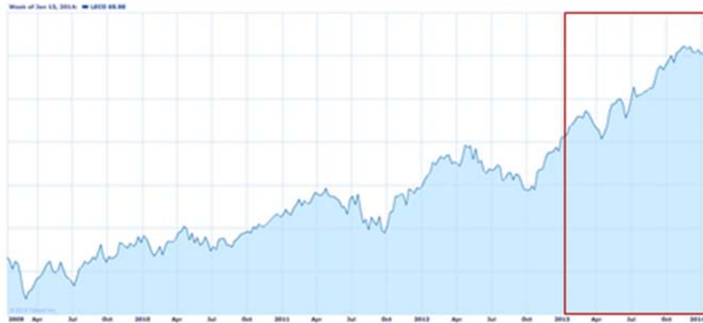


CN Rail is a good example of the type of business CGOV looks for. CN operates one of the largest rail networks in North America and has the best operating ratio in the industry. Railways have been winning business from trucking companies and CN is on track to generate $1 billion in free cash flow this year.

Further, CN has declared dividend increases for 16 consecutive years – a key factor in CGOV's investment thesis.

Lincoln Electric

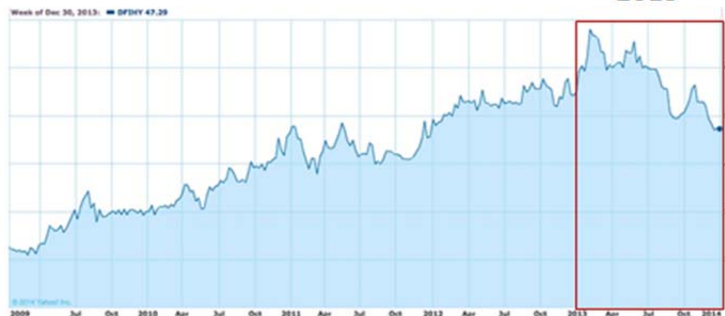
2013



Lincoln Electric has been a long-term holding. It was a key contributor to performance in 2013, although not because it's exciting or glamourous. This Cleveland-based company is a leading global manufacturer of welding products and equipment.

Dairy Farm International

2013



Dairy Farm International, on the other hand, was a victim of poor sentiment and uncertainty around China's pace of growth and debt problems. Dairy Farm is the second largest retailer in Asia. The business has been around since 1886 and has established a strong presence and brand equity in Asia. It is a direct play on Asian consumption. CGOV added to the stock on weakness.

Largest Holdings

Suncor Energy	Canada	5.4%
TD Bank	Canada	5.3%
Mead Johnson	United States	4.4%
Unilever	UK	4.3%
Nomozymes	Denmark	4.2%
FEMSA	Mexico	4.1%
Lincoln Electric	United States	4.1%
Visa	United States	4.1%
CVS Caremark	United States	4.0%
Novartis	Switzerland	4.0%
Total		**43.9%**

As of December 31, 2013

The fund holds 25 stocks, with the 10 largest comprising 44% of assets. The portfolio is well diversified by industry and geography, and each investment plays an important role in the fund's return. There are no "filler stocks" in the portfolio. CGOV has a high degree of conviction in each holding.

Global Equity Fund

The Global Equity Fund is our 'go anywhere' fund and is managed by Edinburgh Partners Limited. Currently, 43% of the portfolio is invested in Europe (including the U.K.), 35% in Asia and 20% in the U.S.

Global Equity Fund Returns

	1 Year	3 Year	5 Year	Incept.*
Global Equity	**36.5%**	**12.0%**	**9.9%**	**0.6%**
MSCI World ($Cdn)	36.2%	14.7%	12.5%	2.7%

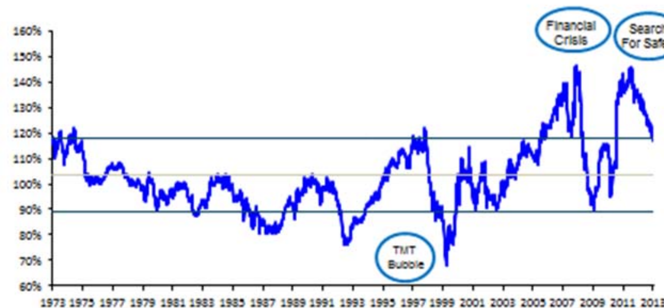
% Annualized to December 31, 2013
** Inception date, February 13, 2007*

The fund was our top performer in 2013. Its performance was driven by an emphasis on cyclical stocks (companies whose earnings are more closely tied to overall economic activity), including industrial goods, technology and autos & parts companies. Generally speaking, these types of companies outperformed more defensive stocks (such as consumer products).

The fund’s Japanese holdings performed particularly well, and a number of European investments were key contributors to performance. Investments in these regions had previously weighed on the fund’s returns.

Fear and the Search for Safety

World Consumer Staples (P/E) / World Market (P/E)



Source: Thomson Reuters

Following the financial crisis, investors searched for safety and favoured defensive companies with more predictable earnings, such as consumer staples. Many of these companies saw a sharp run up in their share prices, and their valuations rose in synch.

By 2011, Edinburgh Partners felt that many of these stocks were overvalued and they began positioning the portfolio with a tilt towards more cyclical stocks, particularly in Europe and Asia. This positioning initially hurt the fund’s performance as defensive companies continued to perform well through 2012. More recently, though, cyclical stocks have rebounded, but still are attractively valued in the manager’s view.

Following the financial crisis, most Japanese export-oriented businesses suffered from a strong Yen (which makes their goods more expensive for foreign buyers).

A new Prime Minister took power in late 2012 (Shinzo Abe) and introduced a number of measures to stimulate the economy and weaken the Yen. This helped boost the profits of exporters, and stocks such as Bridgestone, Panasonic, and Yamaha soared in 2013 (after a prolonged period of weakness). The fund had meaningful exposure to Japanese companies throughout the year (20-25%) and the manager continues to find value in the country.

Post NL is an example of an opportunistic investment in Europe. The company is the former state monopoly that delivers the mail in the Netherlands. It has been grappling with the structural decline in mail volumes as well as the funding of its defined benefit pension plan.

Edinburgh Partners believes that the company's valuation discounts a very pessimistic outcome and the stock has significant upside potential. The company is undertaking restructuring measures, and an increase in the stamp price and parcel growth will help grow revenues. Further, a rise in interest rates is helping to solve the pension issue. The stock has risen over 50% since the manager purchased it last summer and is still cheap in their view.

Current Outlook

- Equities now back in fair value territory
- Safety premium continues to erode
- Growth subdued, but low interest rates supportive
- Europe isn't perfect, but plenty of good companies
- Japan's transformation = strong earnings growth
- U.S. valuations elevated versus other regions and history

Source: Edinburgh Partners

Following a strong run, equities are now back in fair value territory. Global economic growth will be subdued, but corporations are in a strong financial position. Edinburgh Partners is finding opportunities in companies with more cyclical earnings, most notably in Europe and Japan. U.S. stocks have performed well but are more expensive, on balance.

Small-Cap Equity Fund

The Small-Cap Equity Fund invests in a limited number of small and medium-sized companies primarily in Canada, but with some U.S. exposure. The portfolio holds 17 stocks in total, making it the most concentrated fund in the Steadyhand line-up. The manager, Wutherich & Company, is not deterred by under-followed or thinly-traded companies.

Small-Cap Equity Fund Returns

	1 Year	3 Year	5 Year	Incept.*
Small-Cap Equity	**24.7%**	**18.1%**	**18.2%**	**10.7%**
BMO Small Cap	7.8%	-1.8%	18.1%	2.6%
S&P/TSX Composite	13.0%	3.4%	11.9%	3.6%

% Annualized to December 31, 2013
** Inception date, February 13, 2007*

The fund had a strong year, with a number of investments across a variety of industries providing excellent returns. Exposure to the mining sector was limited, which was beneficial as commodity prices were weak and gold and base metal stocks suffered.

The fund's return since inception is well ahead of the small-cap market (and the broader TSX Composite Index) as a result of excellent security selection and a focus on profitable, well-financed businesses.

Badger Daylighting

Badger Daylighting was a key contributor to performance in 2013 (it nearly tripled in value). The company is North America's leading provider of non-destructive excavating services for the utility, transportation, engineering, construction and petroleum industries.

The position was trimmed during the year due to the strong price run-up, but the stock remains among the fund's top 10 holdings.

Palliser Oil & Gas

2013

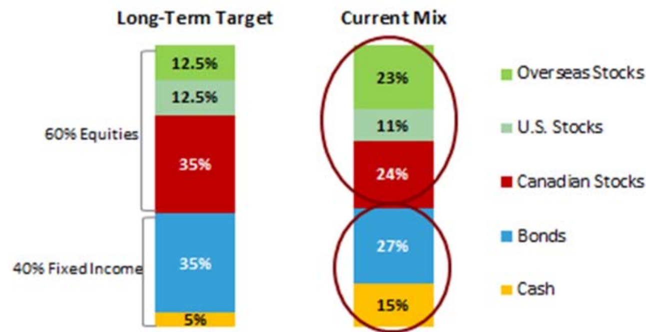
Palliser Oil & Gas is one of only a couple of holdings that had a tough year. The company executed poorly, failing to meet production targets, and found itself in a tight financial position. The stock is the smallest holding in the fund in terms of market capitalization ($20 million) and position size (1.4%).

Largest Holdings

Holding	%
Stantec	7.8%
Coastal Energy	6.8%
Primero Mining	6.6%
Hibbett Sports (U.S.)	6.6%
Total Energy Services	6.3%
MacDonald Dettwiler	6.1%
Hawaiian Holdings (U.S.)	6.1%
Eagle Energy Trust	5.7%
Badger Daylighting	5.5%
HNZ Group	5.2%
Total	**62.7%**

As of October 31, 2013

The fund's top 10 holdings comprise over 60% of total assets – a reflection of the manager's concentrated, non-benchmark oriented approach.



The Founders Fund invests in our other five funds. Tom Bradley determines the asset mix for the fund and makes adjustments when there are what we believe to be extremes in the market.

Currently, the fund holds less bonds than normal, as we believe that yields are unattractive. In lieu of a full bond allocation, the cash reserve is higher than normal. Cash provides protection against rising interest rates and serves as a ready source of liquidity in the event of heightened market volatility. As for equities, the portfolio has a tilt towards foreign stocks versus Canadian as we feel valuations are more attractive for the former.

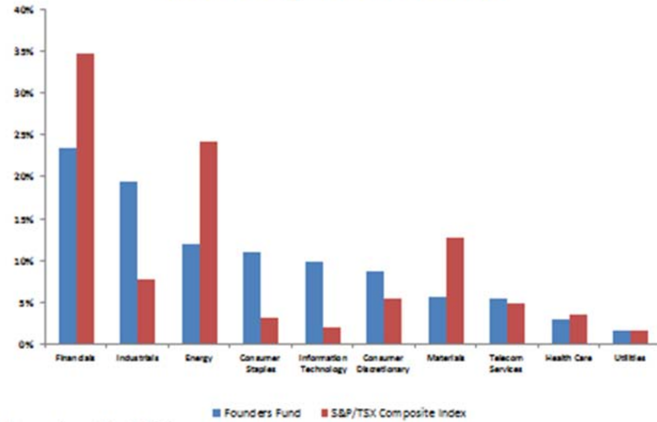
Founders Fund Returns

	1 Year	Incept.*
Founders Fund	**15.7%**	**11.8%**
Benchmark**	12.6%	8.7%

% Annualized to December 31, 2013

* Inception date, February 17, 2012
** 5% DEX 91 Day T-bill Index; 35% DEX Universe Bond Index; 35% S&P/TSX Composite Index; 25% MSCI World Index ($Cdn).
Benchmark returns are net of a hypothetical annual fee of 0.50% (calculated quarterly).

The fund had a good year, as the underlying funds provided strong returns and the tilt towards foreign stocks was a positive.



While the Canadian market is concentrated in three sectors – Financials, Energy and Materials – the Founders Fund is more broadly diversified and has greater exposure to companies in industries not well represented at home, including consumer and technology stocks.

Part III – Where to From Here?

Where To From Here?

Fundamentals

Valuation

Sentiment

In assessing the investing environment, we look at the capital markets through three lenses: **fundamentals** (e.g. all factors that impact the ability of corporations to grow their profits), **valuation** (e.g. price-to-earnings multiples, or P/E's) and **sentiment** (e.g. the mood of investors).

The next series of slides drill deeper into this framework, starting with the fundamental picture.

Addicted to cheap debt

China in transition

(Too) Profitable times

Fundamentals: It is not a time to get too entrenched on one macro-economic theme. As always, there are powerful forces going in both directions. Some of the risks we see for 2014 include:

- The world is still living beyond its means and is addicted to cheap debt. Leverage increases the magnitude of all other risks.
- China is slowly moving towards a better economic balance – less dependence on investment spending and more on consumer spending. It will be a tricky transition, especially in face of a growing debt burden.
- Large corporations are experiencing record profit margins. It could be argued that they have nowhere to go but down.

It's Europe's turn

The energy dividend

A better (Global) balance

Impact of innovation accelerating

Fundamentals: On the positive side:

- Europe has been in recession for over 5 years, but is starting to show signs of turning around. The market isn't looking for perfection, just improvement.
- Cheaper energy in the U.S. and a lower dollar in Canada are examples of how the world is finding a better competitive balance.
- It's our view that traditional economists are under-estimating the impact technology and innovation is having on how companies are run today.

Valuation: A big part of last year's equity returns came from improving valuations. Valuations moved to the point where P/E multiples are now at the upper end of their normal range. This suggests that further stock gains will have to be fueled by earnings growth, rather than P/E multiple expansion.

Sentiment: Sentiment is a contrarian indicator. As Warren Buffett once said, investors should be *fearful when other are greedy and greedy when others are fearful*.

If we look at sentiment on Mr. Buffett's scale, it would currently be tilted more toward greed. In other words, return expectations have crept up and investors are increasingly bullish. It isn't extreme enough, however, to be of concern.

Where To From Here?

Fundamentals	A hard call
Valuation	Above average
Sentiment	Increasingly bullish

Pulling it all together, there are both positives and negatives to take away from current fundamentals, stock valuations are on the expensive side and investor sentiment is increasingly bullish.

This is consistent with what our managers are seeing right now. There aren't any asset types that look compellingly cheap. It's a market environment that's more conducive to hitting singles and doubles, rather than home runs.

Market Expectations

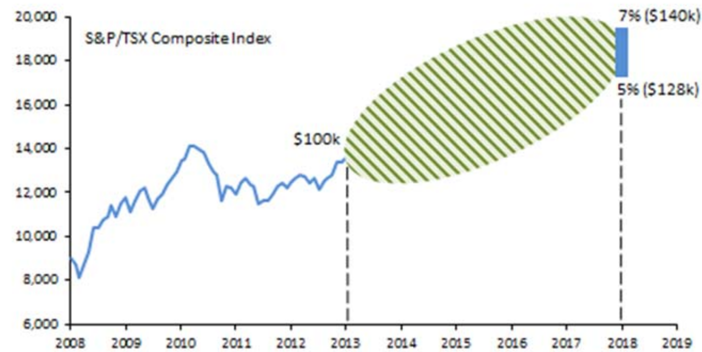
Bonds	2 – 3 %
Stocks	5 – 7 %

50/50 Portfolio (Indexed)	4 – 5 %

In that context, investors need to keep their return expectations in check as they head into 2014. It's unlikely that the next five years will produce double-digit returns similar to the last five years.

It is still our view, however, that stocks will be the best performing asset class over the next five years.

A Path Unknown



On the way to those 5-year returns, investors should expect lots of ups and downs along the way. Markets never move in a straight line.

Our return projections are longer term in nature and in no way infer market direction in the short term. We have no idea what the path will look like.

Takeaways

- You've done well
- Re-balancing required?
- Less favourable starting point now
- Undexing, right-sized, long-term focus, low fees, independent, contrarian …
- Maintain a steady hand

Steadyhand investors have done well. Indeed, clients with balanced portfolio have achieved first quartile returns since our inception in 2007.

Looking forward, we're starting from a less favourable point now, and while we expect reasonable returns over the next five years, investors should be thinking single rather than double digits.

If you have a well balanced portfolio, realistic expectations and a steady hand, you're in a good place.

Required Disclosures

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The performance data provided for the Steadyhand Savings Fund assumes reinvestment of distributions only and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The indicated rates of return for the funds other than the Savings Fund 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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