

Q1

2014

“Rather than try to figure out how much longer this great performance can last, we focus on individual companies with good long-term growth prospects. While few of our companies appear as cheap as they were five years ago, there are always opportunities.”

- Wil Wutherich (Manager of the Steadyhand Small-Cap Equity Fund)

Bradley's Brief



Is it a good time to invest? Should I be an 'active' investor, or just index my portfolio? Which fund should I buy? These are important questions, but unfortunately our answers ('always', 'undexing' and 'Steadyhand') come with no guarantees. All we can do is try to stack the odds in your favour.

There are elements of your investing process, however, that are almost certain to lead to better performance. I'm talking about avoiding the structural and behavioral obstacles that eat away at returns. As I outlined in a Globe and Mail article last week, investors have to stop paying for stuff they're not getting, let fewer hands touch their money and not procrastinate. For the most part, our clients are taking care of the little stuff, but if you have assets with other firms, you might want to give this post a look. It's a must read if you have your financial assets with more than three providers.

With respect to how Steadyhanders have done, you'll see that we're now reporting 7-year returns for the funds and portfolios. We're still a young firm (present company excepted), but the years are starting to add up and the performance numbers are becoming more meaningful. As I pointed out in my last Brief, it's important to focus on longer-term returns that include both the ups and downs of the market cycle.

With the benefit of age, we're now able to report fund results for three 5-year periods. In the Performance section of steadyhand.com, you'll get a sense of how our clients felt about their returns at March 31st, 2012, 2013 and 2014. I'm a believer in 'Rolling 5-year periods' because they mitigate end-date sensitivity (i.e. recent results often have undue influence on a long-term record) and are a good measure of consistency.

Looking to the future, the advice we're giving our clients has increasingly focused on risk management. Rising stock prices have resulted in increased valuations and a renewed thirst for risk assets. The current stock market run could go on for a while, but the fund managers and I are struggling to find 'cheap' assets. Low interest rates and tighter credit spreads have eliminated the 'easy ones' in the income area and a 50% increase has laid bare the 'undiscovered' in the stock market.

In my view, it's not the time to chase yield or return, but rather, revisit your plan and make sure your portfolio is close to its long-term asset mix. If you haven't re-balanced in the last year or so, you likely need to (Founders Fund clients excepted). It may not feel good with stocks on an upswing, but re-balancing has never been about boosting short-term returns. It's about managing risk and making sure the odds are in your favour.

On the Steadyhand front, we've thrown a lot at you lately. In case you missed some of the team's great work, let me remind you that many of our clients (and industry professionals) are enjoying Scott's *The Steadyhand Dictionary*. Neil's very cool *Volatility Meter* is proving useful in testing clients' risk tolerance and my second book (*It's **Still** Not Rocket Science*) is now available.

We've had a busy start to the year, but we're never too busy to talk. If you'd like to review your portfolio, or just want to come by to enjoy the garden, please call. We'll put the coffee on.

Takeaways

Stocks

- Stock markets continued their upward trend in the first quarter, for the most part. The Canadian market (S&P/TSX Composite Index) was amongst the leaders, gaining 6.1% on strength in resource stocks. Global stocks, as gauged by the MSCI World Index, rose 5.4% in Canadian dollar terms, although a falling loonie played a big role in the index's return.
- Japan, the U.K., China and Russia were the notable laggards.
- Brutal winter weather and elevated concerns in the emerging markets (weaker Chinese exports, Putin's actions in Crimea and Ukraine) led to greater short-term volatility, but overall, investors remained level-headed.

Stock markets continued their upward trend and bond investors benefited from falling yields in the first quarter of 2014.

Bonds

- Longer-term bond yields declined early in the year, with the 10-year Government of Canada yield falling from 2.8% to 2.5% at quarter-end.
- Bond investors benefited from both the decline in Government yields (when yields fall, bond prices rise) and a favourable environment for corporate bonds. The Canadian bond market (DEX Universe Bond Index) produced a total return (interest and capital appreciation) of 2.8%.

Our Funds

- All of our funds advanced in the quarter and balanced clients experienced returns in the 4-6% range, depending on the mix. Our performance history now extends out 7 years, over which period balanced clients have gained 5-6% per year and are nicely ahead of comparable benchmarks.
- Our bias towards foreign stocks remains in place, although it's not as pronounced as in previous quarters (see Founders Fund review on page 5).
- In the context of our balanced portfolios, key stock purchases in the quarter included *Loblaw* (Canada), *East Japan Railway* (Japan) and *Novartis* (Switzerland). Notable sales included *Oracle* (U.S.), *Osram Licht* (Germany) and *Maersk* (Denmark).
- On the fixed income side, the Income Fund continues to have a focus on corporate and Provincial bonds with mid-term maturities.

Our Advice to Clients

We still think stocks offer the best long-term return potential, but we have become more cautious following a lengthy period of strong returns. We recommend that your stock weighting be no higher than your long-term target, as valuations are testing the upper end of their normal range. We continue to recommend a below-average position in bonds given their low yields, and a healthy cash holding.

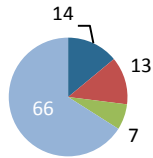
For further details on our thoughts on asset mix and the advice we're giving clients, visit the *Current Thinking* module on the home page of our website, or give us a call @ **1-888-888-3147**.

Steadyhand Portfolios (Hypothetical)*

Compound Annualized Returns (as of March 31, 2014)

Income Fund Equity Fund Global Equity Fund Small-Cap Equity Fund

Balanced Income Portfolio (50/50)

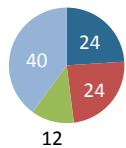


Long-term asset mix:

Fixed Income – 50%
Cdn Equities – 30%
U.S. Equities – 10%
Overseas Equities – 10%

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y
	4.2%	4.2%	12.8%	11.0%	9.3%	12.6%	6.1%

Balanced Equity Portfolio (70/30)

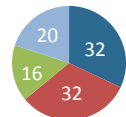


Long-term asset mix:

Fixed Income – 30%
Cdn Equities – 34%
U.S. Equities – 18%
Overseas Equities – 18%

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y
	4.9%	4.9%	19.3%	14.7%	11.3%	13.8%	5.6%

Growth Portfolio (85/15)

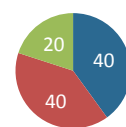


Long-term asset mix:

Fixed Income – 15%
Cdn Equities – 37%
U.S. Equities – 24%
Overseas Equities – 24%

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y
	5.5%	5.5%	24.5%	17.5%	12.8%	14.7%	5.3%

Aggressive Growth Portfolio (100/0)



Long-term asset mix:

Fixed Income – 0%
Cdn Equities – 40%
U.S. Equities – 30%
Overseas Equities – 30%

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y
	6.1%	6.1%	29.8%	20.4%	14.3%	15.6%	4.8%

*The referenced portfolios are hypothetical portfolios comprised of Steadyhand funds. Each portfolio assumes that it is rebalanced on a quarterly basis to the target fund allocation. The indicated rates of return are the historical compound annualized returns (unaudited). See the back page of this report for performance disclaimers. For further details on the portfolios, visit steadyhand.com/education/portfolios.

Capital Market Performance (as of March 31, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y
Cash (DEX 91 Day T-Bill Index)	0.2%	0.2%	1.0%	1.0%	1.0%	0.8%	1.6%
Cdn Bonds (DEX Universe Bond Index)	2.8%	2.8%	0.9%	2.7%	5.0%	5.0%	5.1%
Cdn Stocks (S&P/TSX Composite Index)	6.1%	6.1%	16.0%	10.9%	3.6%	13.7%	4.2%
Cdn Small Cap (BMO Small Cap Index)	8.9%	8.9%	15.9%	5.7%	-0.2%	19.8%	3.7%
U.S. Stocks (S&P 500 Index \$Cdn)	5.8%	5.8%	32.6%	24.0%	19.7%	18.0%	5.7%
Global Stocks (MSCI World Index \$Cdn)	5.4%	5.4%	30.3%	22.1%	15.7%	15.9%	3.6%

Founders Fund

Fund Overview

- The Founders Fund is a balanced mix of our fixed income and equity funds.
- It has a long-term asset mix target of 60% equities and 40% fixed income, although there's considerable scope to adjust these weightings.
- Tom Bradley manages the fund, and as such, it reflects his views on corporate fundamentals, valuations and asset mix.

Asset Mix

- The fund's weighting in bonds (29%) was increased in the first quarter, but remains below the long-term target (35%). Interest rates are still being held unsustainably low by the central banks, which ensures that future bond returns will be low single digit. Indeed, the bond market's strong first quarter (2.8%) may end up accounting for most of this year's return.
- The overall stock weighting is unchanged from year-end (58%), but the make-up is different. Exposure to Canadian stocks increased 4% and foreign stocks dropped by a similar amount. The valuation gap between the two asset classes has narrowed due to the strong performance of foreign stocks over the last three years. As well, the loonie's weakness was a factor in the shift – foreign assets now cost more in Canadian dollar terms.
- The fund's Canadian stocks are diversified across income-oriented securities (Income Fund), high-quality companies with growing dividends (Equity Fund), and to a lesser extent, smaller companies with higher growth profiles (Small-Cap Fund).
- Our managers continue to find attractively priced stocks outside of Canada in industries that are not well represented here. Investments in the industrial, technology and consumer sectors have served to tilt the Founders Fund's stock allocation towards Europe and Asia.
- In lieu of a full bond and stock allocation, the Founders Fund's cash reserve is higher than normal. Between the Savings Fund and cash held in the equity funds, it finished the quarter at 13% of total assets. Cash and short-term securities offer near-zero yields, but provide protection against rising interest rates and are a ready source of liquidity in the event of heightened market volatility.

Portfolio Specifics

- Refer to pages 7-16 for details on the underlying funds.

Notable Transactions

- The Income Fund weighting was increased by 5%, to 43% of total assets, while the Savings (-3%), Global Equity (-3%) and Equity (-1%) Funds saw their weightings come down. The Small-Cap Fund was increased slightly.

Strong foreign equity markets and a weak loonie triggered additions to Canadian stocks. The overall equity weighting remained unchanged.

Fund Mix

Income Fund	43%
Global Equity Fund	21%
Equity Fund	20%
Savings Fund	10%
Small-Cap Equity Fund	6%

Foreign stocks

Gold

Federal government bonds

Consumer stocks

Loblaw, Unilever, FEMSA, Starbucks, CVS Caremark

Cash reserve

Equities

Financial stocks

TD Bank, Visa, Intact Financial, Home Capital Group

Corporate bonds

Founders Fund

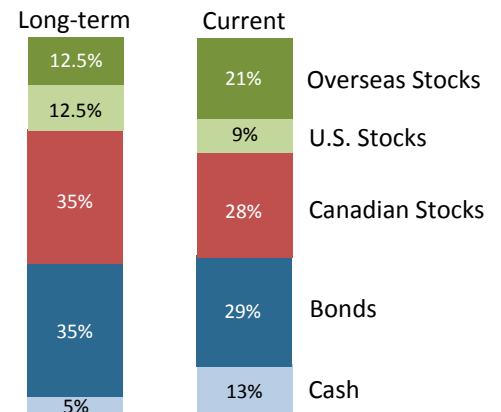
Top Stock Holdings (% of Fund)

TD Bank	2.2%
Novartis	1.3%
Suncor Energy	1.2%
Loblaw	1.1%
Intact Financial	1.0%
Royal Bank	1.0%
Bank of Nova Scotia	1.0%
Unilever	0.9%
FEMSA	0.9%
Novozymes	0.8%

Sector Allocation (Equities)

Financial Services	21.9%
Industrial Goods & Services	18.6%
Oil & Gas	12.6%
Technology	7.9%
Consumer Products	6.7%
Consumer Cyclical	6.5%
Retailing	6.2%
Communications & Media	4.8%
Healthcare	4.4%
Real Estate	4.2%
Basic Materials	4.1%
Utilities & Pipelines	2.1%

Asset Mix



Transactions

+	-
Loblaw	Oracle
East Japan Rail	Osram Licht
Novartis	Maersk
Roche	Coastal Energy

Asset Mix

Cash & Short-term	13.0%
Government Bonds	12.3%
Corporate Bonds	16.6%
Canadian Stocks	28.1%
Foreign Stocks	30.0%

Fund Size

Net Assets \$134,544,547

Fee

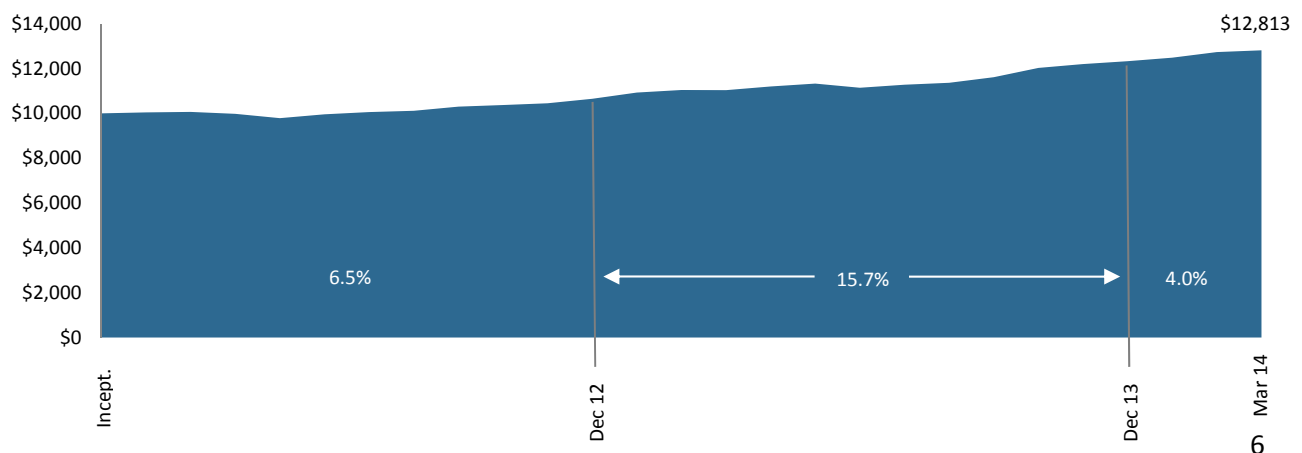
One Simple Fee 1.34% ([or less](#))

Compound Annualized Returns (as of March 31, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	Incept*
Founders Fund	4.0%	4.0%	16.2%	12.8%	N/A	N/A	12.4%
DEX Universe Bond Index	2.8%	2.8%	0.9%	2.7%	N/A	N/A	2.5%
S&P/TSX Composite Index	6.1%	6.1%	16.0%	10.9%	N/A	N/A	10.2%
MSCI World Index (\$Cdn)	5.4%	5.4%	30.3%	22.1%	N/A	N/A	22.1%

*Feb 17, 2012

Growth of \$10,000 Since Inception (Feb 17, 2012)



Income Fund

Market Overview

- The Canadian bond market had a strong start to the year, rising 2.8% (interest and capital appreciation) as longer-term interest rates declined.
- The 10-year Government of Canada bond yield fell from 2.8% to 2.5%.
- The Canadian stock market also had a solid quarter, gaining 6.1% on strength in resource stocks.

Portfolio Specifics

- The fixed income component of the portfolio, which comprised 67% of the fund at the end of the first quarter, benefited from a decline in longer-term interest rates early in the year (when rates fall, bond prices rise) and favourable positioning (an emphasis on corporate and Provincial bonds).
- Corporate bonds continue to be a key area of investment (40% of the fund). Focus remains on bank and insurance bonds. Banks have regulated capital structures and insurance companies need to maintain strong balance sheets. All this to say, these businesses are careful to not do anything that would negatively impact bondholders.
- Provincial bonds are also an important part of the fund (25%). The manager, Connor, Clark & Lunn (CC&L) believes that mid-term Provincials (those maturing in 7-10 years) offer the best risk/return opportunities.
- The stock portion of the fund performed well although it lagged the broader market, which was fueled by a rebound in gold and energy stocks. In a resource-driven market, the fund's equities will struggle to keep up.
- Stocks make up one-third of the portfolio. CC&L's strategy is focused on maintaining balanced exposure to interest-sensitive holdings (REITs, utilities, telecoms) and those that will benefit from higher interest rates (banks, insurers, asset managers). As well, the manager favours stocks with growing dividends and exposure to the U.S. economic recovery.
- The fund paid a distribution of \$0.10/unit at the end of March.

Notable Transactions

- The position in high yield bonds (8% of the fund last year) was sold as CC&L felt they were getting expensive relative to high-quality corporate bonds and stocks, which is where the proceeds were invested.
- New stock purchases included *Tim Hortons*, *Parkland Fuel* and *WSP Global*.

Positioning

- The manager's strategy remains largely unchanged: CC&L feels that interest rates will grind higher, but at a slow pace. Emphasis is on high-quality corporate and provincial issuers.
- Stocks comprise a larger than normal portion of the fund as fundamentals and yields remain attractive relative to bonds.

The manager's strategy remains largely unchanged: focus is on corporate and Provincial bonds, and stocks with growing dividends.

Corporate bonds

REITs

U.S. recovery

Growing dividends

Brookfield Infrastructure Partners, TD Bank, Rogers Communications, Intact Financial

Mid term Provincial bonds

Federal government bonds

Banks & insurance

Income Fund

Top Holdings

Quebec 3.50% (12/01/22)	4.5%
Ontario 3.15% (06/02/22)	2.9%
Ontario 4.65% (06/02/41)	2.8%
Ontario 6.50% (03/08/29)	2.5%
TD Bank	2.5%
Ontario 3.45% (06/02/45)	2.5%
BMO 3.40% (04/23/21)	2.4%
Ontario 2.85% (06/02/23)	2.3%
Royal Bank	2.3%
Royal Bk 2.82% (07/12/18)	2.3%

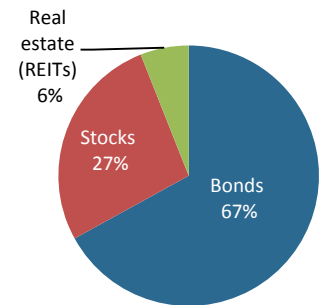
Issuer Allocation (Bonds)

Federal Govt. Bonds	5.7%
Provincial Govt. Bonds	37.0%
Corporate Bonds	57.3%

Rating Summary (Bonds)

AAA	10.7%
AA	51.5%
A	27.5%
BBB	10.3%
BB (or lower)	0.0%

Asset Mix



Stock Transactions

+	-
Tim Hortons	Aimia
Parkland Fuel	Constellation
WSP Global	Bell Aliant

Term Summary

Avg. Term to Maturity	8.2 yrs.
Duration	6.2 yrs.

Fund Size / Yield

Net Assets	\$73,985,683
Pre-fee Yield	3.2%

Fee

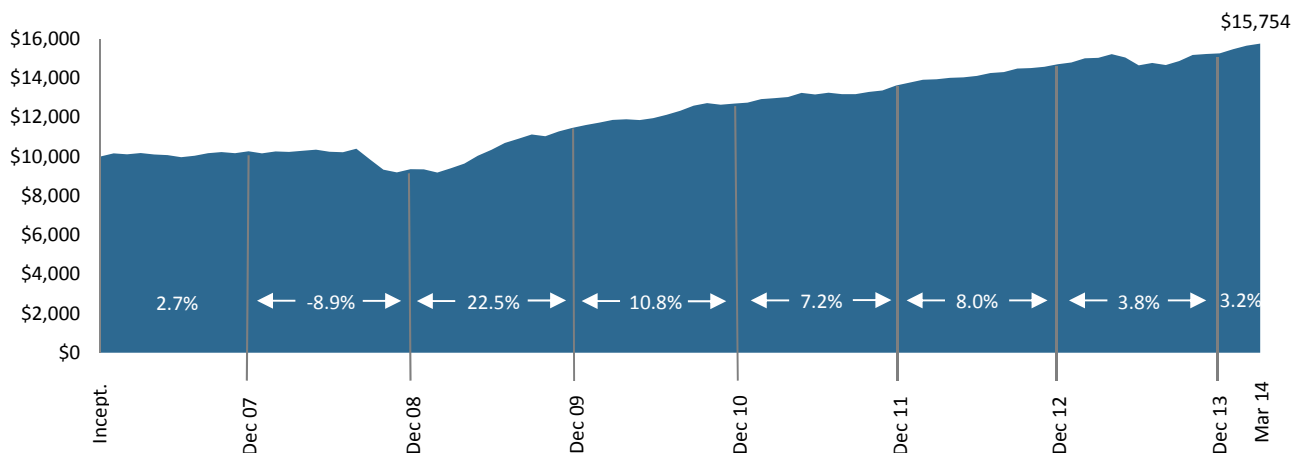
One Simple Fee	1.04% (or less)
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Compound Annualized Returns (as of March 31, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y	Incept*
Income Fund	3.2%	3.2%	4.8%	6.3%	6.7%	10.9%	6.5%	6.6%
DEX Universe Bond Index	2.8%	2.8%	0.9%	2.7%	5.0%	5.0%	5.1%	5.2%
S&P/TSX Composite Index	6.1%	6.1%	16.0%	10.9%	3.6%	13.7%	4.2%	4.3%

*Feb 13, 2007

Growth of \$10,000 Since Inception (Feb 13, 2007)



Equity Fund

Market Overview

- The Canadian stock market (S&P/TSX Composite Index) had a positive start to the year, gaining 6.1% (including dividends), led by a rebound in precious metals and natural gas companies.
- Global markets also advanced, with the MSCI World Index rising 5.4% in Canadian dollar terms.

Portfolio Specifics

- The fund holds 25 stocks, with 55% of the portfolio invested in Canada, 20% in the U.S., 21% in Overseas, and 4% in Mexico.
- Investments in the resource sector had a strong start to the year. The cold weather across much of North America led to a large drawdown in natural gas inventories, in turn driving up the price of the commodity. This benefited *Birchcliff Energy* and *Pason Systems* in particular.
- A weaker Canadian dollar has been helping export-focused companies. *CAE*, for example (maker of flight simulators and aviation training services), has been turning in strong results. A weaker loonie helps its competitiveness in selling simulators around the globe.
- The portfolio's defensive component includes investments in consumer products and retailers. *Unilever*, *CVS Caremark*, *FEMSA*, *Mead Johnson*, *Starbucks* and *Dairy Farm Int'l* are holdings that provide diversified exposure to leading global brands. *Loblaw* was also added to the mix in the quarter (see Stock Snapshot on page 17). These businesses comprise over one-quarter of the portfolio.
- The fund's small position in gold (through *Franco-Nevada*) detracted from performance last year, but rebounded in the quarter. The manager, CGOV Asset Management, feels that modest exposure to the metal (e.g. up to 5%) can serve as a good source of diversification.

Notable Transactions

- *Loblaw Companies Limited* was added to the portfolio early in the year. CGOV likes the defensive nature of the business and some of the recent moves that management has made.
- *Oracle* was sold as the stock reached CGOV's price target.

Positioning

- The portfolio remains focused on strong cash generating businesses in a diverse range of industries, with industrial goods & services, financial services, oil & gas, consumer products, and retailers the most prominent.
- Foreign investments are an integral part of the fund and provide diversification not available in the Canadian market (notably via global consumer brands).

Investments in the resource sector had a strong start to the year, due in part to the polar vortex, which led to an increase in natural gas consumption (household heating) throughout much of North America.

Foreign stocks

Industrial goods & services

CN Rail, Lincoln Electric, CAE, Toromont

Global consumer brands

Starbucks, Visa, Unilever, Novartis

Gold

Oil & Gas

Emerging markets

Equity Fund

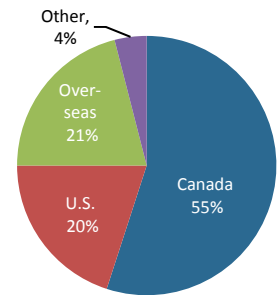
Top Holdings

Suncor Energy	5.8%
TD Bank	5.6%
Unilever	4.4%
FEMSA	4.3%
Novozymes	4.1%
Experian	4.1%
Baytex Energy	4.0%
Visa	4.0%
CVS Caremark	4.0%
Novartis	3.9%

Sector Allocation (Equities)

Industrial Goods & Services	22.5%
Financial Services	21.2%
Oil & Gas	16.9%
Retailing	14.5%
Consumer Products	13.2%
Basic Materials	7.6%
Healthcare	4.1%

Geographic Profile (Equities)



Transactions

+	-
Loblaw	Oracle
Baytex Energy	
Experian	

Asset Mix

Equities	95.0%
Cash & Short-term	5.0%

Fund Size / Concentration

Net Assets	\$57,004,207
Number of stocks	25

Fee

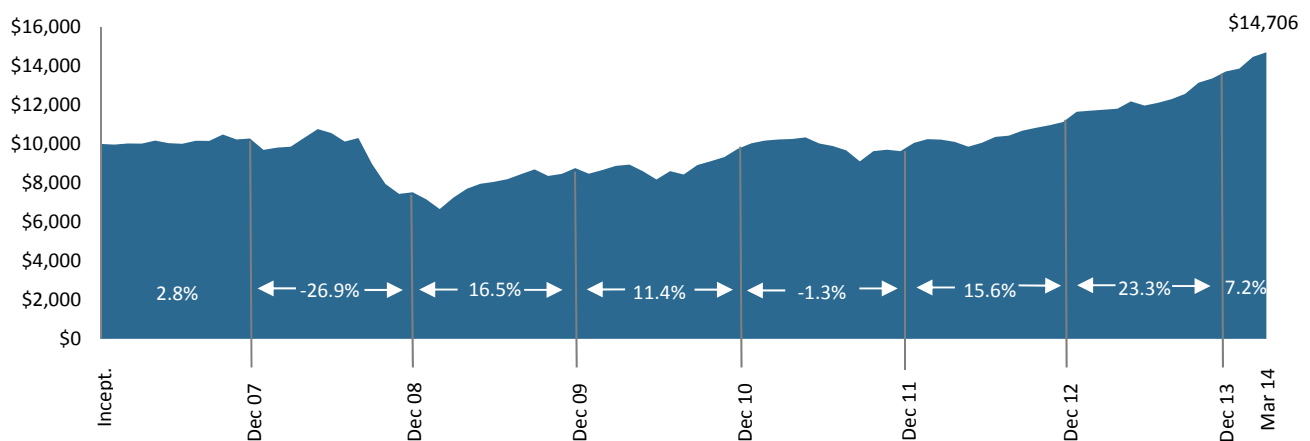
One Simple Fee 1.42% ([or less](#))

Compound Annualized Returns (as of March 31, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y	Incept*
Equity Fund	7.2%	7.2%	25.0%	20.0%	12.9%	15.2%	5.6%	5.6%
S&P/TSX Composite Index	6.1%	6.1%	16.0%	10.9%	3.6%	13.7%	4.2%	4.3%
MSCI World Index (\$Cdn)	5.4%	5.4%	30.3%	22.1%	15.7%	15.9%	3.6%	3.4%

*Feb 13, 2007

Growth of \$10,000 Since Inception (Feb 13, 2007)



Global Equity Fund

Market Overview

- Global markets continued their upward trend in the first quarter, with the exception of Japan and the U.K. The MSCI World Index was up 5.4% in Canadian dollars.
- The loonie was weaker against most currencies, which boosted foreign equity returns. It fell 4% against the U.S. dollar, Euro and British Pound, and 6% against the Yen.

Portfolio Specifics

- The fund holds 46 stocks in 16 countries. The focus is in Europe (41% of total assets) and Asia (38%), followed by the U.S. (19%).
- European stocks continue to recover as the sovereign debt crisis fades. A number of holdings have experienced strong price gains – of note, *Intesa Sanpaolo* (Italy) and *Indra Sistemas* (Spain). These stocks were previously weighed down by negative sentiment towards Europe's periphery.
- The manager, Edinburgh Partners Limited (EPL), feels that stocks in general are closer to fair value, but they are finding pockets of opportunity in specific areas, including European telecoms and pharmaceuticals.
- Japanese stocks had a weak start to the year. A new consumption tax comes into effect in April, which is creating nervousness among investors. EPL feels the new tax will be absorbed without too much economic disruption, and are confident that Japan's ongoing transformation can support strong earnings growth. The country continues to be a key area of investment, and two new stocks were purchased (see below).
- U.S. stocks continue to appear expensive relative to other regions. Investments remain focused in the technology sector, where companies such as *SanDisk*, *Microsoft* and *Google* are producing strong results.
- Holdings in the emerging markets have struggled as growth concerns in China and political anxieties in Russia are elevated. Valuations are attractive, however, and the manager has a positive long-term outlook for Asia. EPL is exploring opportunities in the banking sector, among others.

Notable Transactions

- New purchases included: *East Japan Railway* (Japan's largest railway), *Sumitomo Mitsui Trust Holdings* (Japan's largest trust bank), *Novartis* and *Roche* (Swiss pharmaceuticals).
- Two stocks were sold: *Maersk* and *Osrsm Licht*. Both were strong contributors to performance, but have become expensive in EPL's view.

Positioning

- Stocks in general are back in fair value territory, although valuations are still compelling in Europe and Asia, which is where the fund is focused.
- Following a stretch of strong performance, recent purchases have been concentrated in more defensive sectors (healthcare, telecoms).

Equities in general are back in fair value territory but the manager is still finding cheap stocks in specific areas such as European telecoms and pharmaceuticals.

Europe

Industrial stocks

Terex, Tyco, Post NL, Mitsubishi, ABB

Asia

Japan; emerging market consumption

U.S.

Cyclical

European Telecoms

Technology

Global Equity Fund

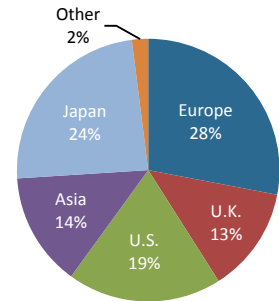
Top Holdings

Terex	3.4%
Indra Sistemas	2.7%
Sumitomo Mitsui Trust	2.6%
Microsoft	2.6%
Swire Pacific	2.5%
Post NL	2.5%
Intesa Sanpaolo	2.5%
AstraZeneca	2.5%
Tyco International	2.5%
Google	2.5%

Sector Allocation (Equities)

Industrial Goods & Services	19.2%
Financial Services	17.4%
Technology	16.1%
Consumer Cyclical	14.1%
Communications & Media	10.5%
Healthcare	7.3%
Consumer Products	6.7%
Oil & Gas	6.2%
Basic Materials	2.5%

Geographic Profile (Equities)



Transactions

+	-
East Japan Rail	Maersk
Sumitomo Tr	Osram Licht
Novartis	
Roche	

Asset Mix

Equities	97.9%
Cash & Short-term	2.1%

Fund Size / Concentration

Net Assets	\$50,444,229
Number of stocks	46

Fee

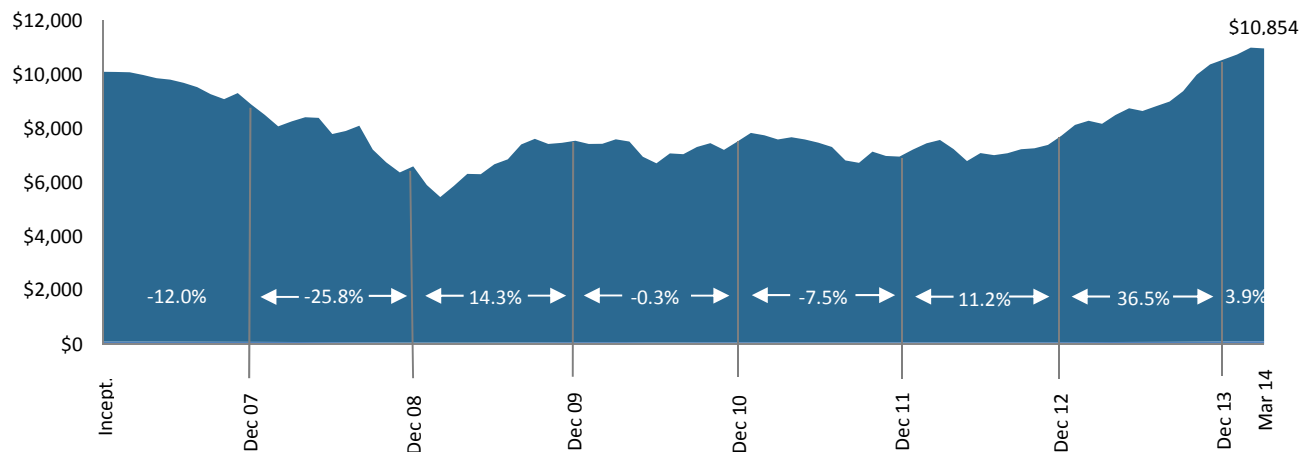
One Simple Fee	1.78% (or less)
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Compound Annualized Returns (as of March 31, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y	Incept*
Global Equity Fund	3.9%	3.9%	34.2%	20.3%	13.0%	13.3%	1.2%	1.2%
MSCI World Index (\$Cdn)	5.4%	5.4%	30.3%	22.1%	15.7%	15.9%	3.6%	3.4%

*Feb 13, 2007

Growth of \$10,000 Since Inception (Feb 13, 2007)



Small-Cap Equity Fund

Market Overview

- The Canadian small-cap market (BMO Small Cap Index) had a strong start to the year, rising 8.9%.
- Gold stocks, a sizeable component of the market, rebounded in the first quarter after a dreadful 2013. Energy and healthcare stocks were also areas of strength.

Portfolio Specifics

- The fund holds 16 stocks, with market capitalizations ranging from <\$20 million (*Palliser Oil & Gas*) to >\$3 billion (*Stantec*, *MacDonald Dettwiler*). Ten of the 16 holdings have market capitalizations under \$1 billion.
- The portfolio's worst performer last year, *Primero Mining*, rebounded sharply in the quarter (+70%). Primero benefited from: (1) the rally in gold stocks, (2) strong silver production, and (3) being added to the NYSE gold miners index. The stock remains the fund's only precious metal holding.
- *Hawaiian Holdings* (Hawaiian Airlines) has been a key contributor to performance since it was added to the fund last spring. It was up 40% in the quarter and has more than doubled over the past year. While the airline's earnings are more volatile than most other holdings, the manager, Wutherich & Company, likes the company's growth strategy and outlook in a recovering industry.
- Industrial service companies continue to turn in strong operating results, notably *Badger Daylighting* and *Stantec*. These companies were well positioned coming out of the financial crisis and have been prospering from strong internal growth and smart acquisitions.
- Aside from *Coastal Energy*, some of the fund's oil & gas holdings have stumbled recently for various reasons, including *Palliser Oil & Gas*, *Eagle Energy Trust* and *TransGlobe Energy*. The manager feels these stocks have strong upside potential if they can work through near-term issues related to production (Eagle), merger (TransGlobe) and financing (Palliser).

Notable Transactions

- There were no new stocks purchased in the quarter.
- *Coastal Energy* was acquired by a Spanish firm and removed from the fund.
- *Badger* and *Hawaiian Holdings* were trimmed on price strength.

Positioning

- The portfolio remains invested in profitable businesses across a diverse range of industries, with an emphasis on industrial goods & services, oil producers, technology and consumer-related companies.
- The manager is holding a larger than normal cash reserve (16%), as it is a tougher environment to find reasonable growth stories at good prices.

Most holdings continue to grow their earnings at a good clip. Profits were taken in a few stocks, resulting in a higher than normal cash reserve.

Oil producers

Mining

<\$1 Billion

Industrial services

Stantec, Badger Daylighting, HNZ Group

Concentration

Cash

U.S. stocks

Hibbett Sports, Hawaiian Holdings, CBIZ

Small-Cap Equity Fund

Top Holdings*

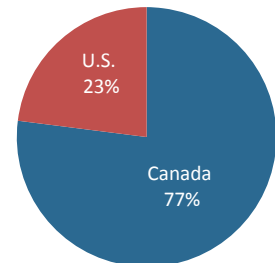
Stantec	8.2%
Hawaiian Holdings	7.7%
Hibbett Sports	7.0%
CBIZ	6.9%
Primero Mining	6.7%
MacDonald Dettwiler	6.4%
Total Energy Services	6.3%
Pure Technologies	5.9%
Medical Facilities	5.2%
HNZ Group	5.2%

*As of January 31, 2014

Sector Allocation (Equities)

Industrial Goods & Services	33.0%
Oil & Gas	22.3%
Technology	14.1%
Basic Materials	9.6%
Consumer Cyclical	7.9%
Retailing	6.9%
Healthcare	6.2%

Geographic Profile (Equities)



Transactions

+	-
CBIZ	Badger
Eagle Energy	Hawaiian Hldgs
Pure Tech	

Asset Mix

Equities	83.5%
Cash & Short-term	16.5%

Fund Size / Concentration

Net Assets	\$54,816,504
Number of stocks	16

Fee

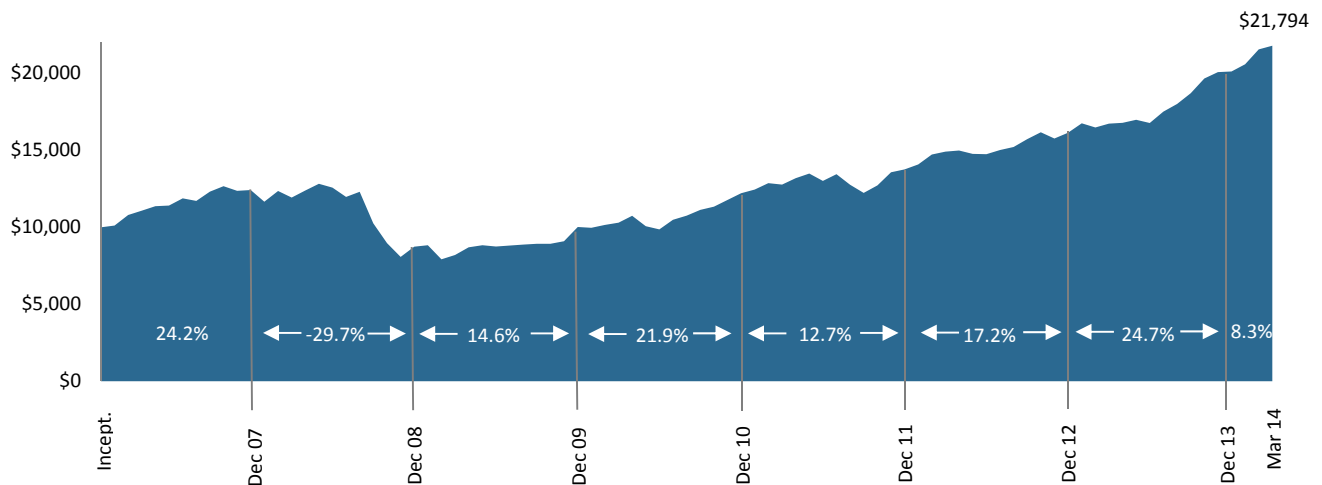
One Simple Fee 1.78% ([or less](#))

Compound Annualized Returns (as of March 31, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y	Incept*
Small-Cap Equity Fund	8.3%	8.3%	30.2%	20.9%	19.5%	21.6%	10.5%	11.5%
BMO Small Cap Index	8.9%	8.9%	15.9%	5.7%	-0.2%	19.8%	3.7%	4.0%

*Feb 13, 2007

Growth of \$10,000 Since Inception (Feb 13, 2007)



Savings Fund

Market Overview

- The Bank of Canada left its key short-term lending rate unchanged in the quarter. It has sat at 1.0% since September, 2010.
- The central bank feels the global economy is evolving largely as anticipated, with growth expected to strengthen this year and next. Yet, there are still sufficient risks (high levels of household debt, weak exports) such that the current level of low interest rates remains appropriate.
- Inflation continues to remain below the Bank's 2% target.

Short-term interest rates remain anchored at 1%, meaning returns on money market securities will continue to be meagre.

Portfolio Specifics

- Investors should continue to expect meagre returns from money market securities (T-Bills and short-term corporate paper) with short-term interest rates remaining close to historic lows.
- A noteworthy change to the portfolio was made in the quarter when the manager, Connor, Clark & Lunn (CC&L), sold down the fund's Federal T-Bills ('Canadas') and purchased Provincial T-Bills ('Provincials'). CC&L saw a buying opportunity in Provincials as the spread (difference in yield) between the two types of securities reached 10 basis points (0.10%). In a low interest rate environment, such a spread is meaningful. These securities made up 31% of the portfolio at the end of the quarter.
- Floating rate notes (FRNs) and short-dated bonds (maturity dates under one year) comprise 16% of the portfolio. These securities provide additional diversification and modestly enhance the fund's yield.
- The pre-fee yield of the fund at the end of March was 1.1%.
- Short-term interest rates are still very low and we have maintained a reduced fee on the fund (0.20%) to help provide a reasonable yield for unitholders.

Notable Transactions

- The fund's investments in Federal T-Bills were sold, with the proceeds invested in Provincial T-Bills (details above).

Positioning

- Corporate notes remain the largest weighting in the portfolio.
- CC&L is finding attractive opportunities in short-term corporate bonds because of their additional yield.
- The average term-to-maturity of the portfolio is close to the upper limit (90 days) as the manager believes the road to higher interest rates will be long given the significant debt levels that still exist globally.

Corporate notes

Provincial T-Bills

Floating rate notes

Short-term
bonds

Reduced fee

Savings Fund

Top Holdings

B.C. P/N (08/06/14)	13.3%
Ontario T-Bills (04/02/14)	9.5%
CIBC B/A (04/15/14)	8.7%
TD Bank BDN (10/09/14)	8.6%
Quebec T-Bills (05/16/14)	8.4%
Nat'l Bank B/A (06/23/14)	6.2%
BMO B/A (06/02/14)	5.6%
Manulife BDN (10/30/14)	4.6%
Enbridge C/P (04/02/14)	4.4%
JP Morgan BDN (05/06/14)	4.4%

Yield

7-day Yield* 1.5%

**This is an annualized historical yield (net of fees) based on the seven day period ended on March 31, 2014, and does not represent an actual one year return.*

Fund Size

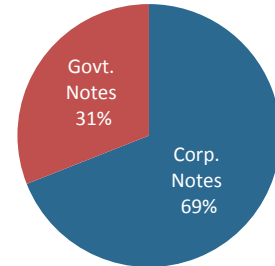
Net Assets \$11,293,088

Fee

One Simple Fee 0.65%* ([or less](#))

*Temporarily reduced to 0.20%

Issuer Allocation

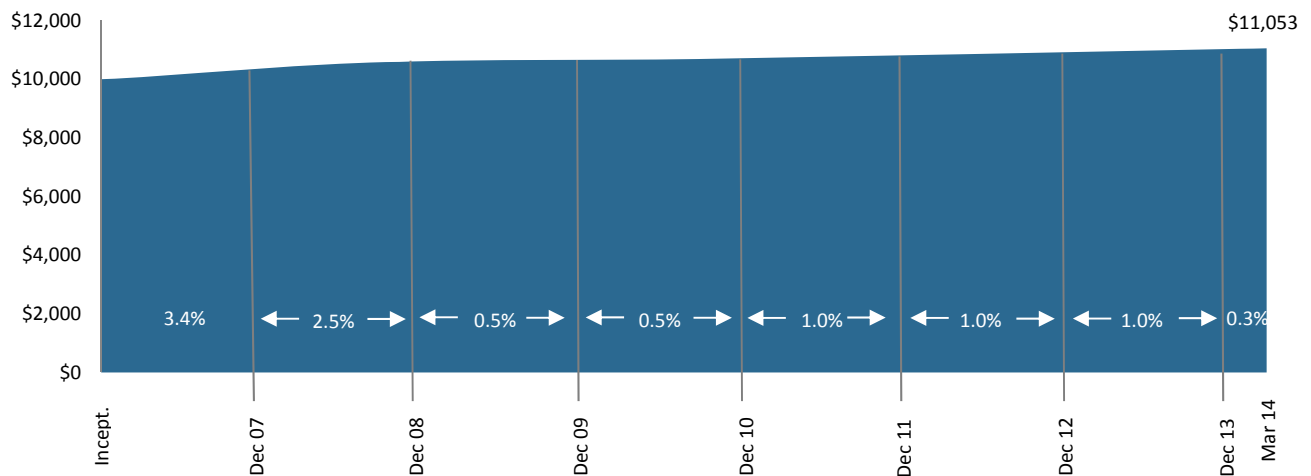


Compound Annualized Returns (as of March 31, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y	Incept*
Savings Fund	0.3%	0.3%	1.0%	1.0%	1.0%	0.8%	1.4%	1.4%
DEX 91 Day T-Bill Index	0.2%	0.2%	1.0%	1.0%	1.0%	0.8%	1.6%	1.6%

*Feb 13, 2007

Growth of \$10,000 Since Inception (Feb 13, 2007)



Stock Snapshot – **Loblaw** COMPANIES LIMITED

Overview

Loblaw Companies Limited is a holding company with investments in grocery stores, real estate, drugstores, apparel and financial services. Loblaw is Canada's largest food retailer with more than 1,000 stores coast-to-coast and annual revenues over \$30 billion. Its banners include Loblaws, Real Canadian Superstore, No Frills and T&T Market, and its portfolio of private label brands comprises President's Choice, No Name, Joe Fresh and Farmer's Market, among others. Loblaw also recently acquired Shoppers Drug Mart.

The stock is held in our Equity Fund (2.9% position size).

Investment Case

Loblaw is a defensive holding in the portfolio. It operates fairly predictable businesses that generate significant free cash flow (cash from operations minus capital spending). The company also owns substantial real estate assets through its majority ownership of *Choice Properties REIT* and 12 million square feet of real estate holdings not in the REIT. With more than 1,000 stores, Loblaw has strong purchasing power and distribution. As well, its private label brands such as President's Choice and Joe Fresh are well known throughout Canada, and the latter is expanding into more than 20 new countries.

The acquisition of Shoppers Drug Mart further diversifies the company away from grocery retailing and will enable Loblaw to generate a larger portion of its earnings from its pharmacy business, which is higher margin than food retailing. As well, it will further improve the company's buying power.

Prior to last year, Loblaw had disappointed investors when it came to execution. Earnings growth languished and the dividend was unchanged for a number of years. Management has recently demonstrated a greater commitment to enhancing shareholder value, however, through: (1) the creation of a REIT to unlock the value of the company's real estate assets; (2) the Shoppers Drug Mart acquisition; and (3) an increase in the dividend. It is based on these initiatives that the manager of the Equity Fund (CGOV) purchased the stock early this year.

From a valuation perspective, the stock trades at a reasonable price (it has a P/E multiple in the mid-teens). On a sum-of-the-parts basis, Loblaw's grocery operations trade at a discount to its peers.

Risks to Outlook

Retailing is a competitive environment and increased competition from Sobeys's, Walmart, Metro and Costco is a key risk. As well, a weakening in the loonie would result in higher procurement costs for produce and general merchandise.

An interesting fact: President's Choice's popular *The Decadent* chocolate chip cookies contain 39% chocolate by weight. Decadent, indeed.



More than 14 million Canadians shop with Loblaw every week

The Little Black Book

Our industry has a unique dialect. It's full of terms, colloquialisms and acronyms – some of them important, many of them jargon. The recently-published Steadyhand Dictionary is designed to help you sift through and make sense of the lexicon. Think of it as the little black book of investing. Download it in the *Tools* section of steadyhand.com or pick up a hard copy in our office.



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Published on April 8, 2014, by Steadyhand Investment Management Ltd.