

Q2

2014

“As investors become more complacent about risk, bond valuations test their upper limits and bargains in the stock market get harder to find, we’re taking a cautious stance. We’re not chasing yield or return. It’s time to be patient”

- Tom Bradley (Blog, May 6th)

Bradley's Brief



"... It's not the time to chase yield or return, but rather ... it's about managing risk and making sure the odds are in your favour."

"I don't think a 10-20% cash cushion is excessive at a time when we're going through a grand economic experiment and all my valuation and investor sentiment measures are pointing towards caution."

Well, haven't I been a ray of sunshine these last few months! I've been waiting for Aunt Judy, my biggest supporter, to call as she did in 2007. She wanted me to be more positive.

"Reading your stuff lately is like watching Six Feet Under ... Dark!"

Needless to say, I believe we are at a point in the cycle when investors need to be careful. Rather than jumping on the bandwagon, it's time to stick to the plan and not get too excited about the returns of the last few years.

But these views have been well documented. In this Brief, I'd like to bring you inside the tent and review what our managers (and I) do at times like this (note: they don't necessarily agree with me, nor are they expected to).

- **Test the market's assumptions.** As Warren Buffett says, *"The market is there to serve you, not to guide you."* After the market has gone a long way in one direction, or been dominated by a particular theme, managers have to make sure they're not straying from their long-term principals. Trending markets have a habit of recasting investors' thinking – what were once 'risks' and 'unknowns' become 'givens' and 'facts'. Today, many investors are making decisions based on the 'fact' that interest rates will remain low.
- **Keep the valuation models updated.** Price-to-earnings multiples (P/E's) and credit spreads aren't precise market timing tools, but valuation is the closest thing to gravity we have in investing. Over time, stocks gravitate towards their true value. It isn't an exact science, but managers need something to lean on when markets are extremely good or bad.
- **Sell or trim stocks that have moved beyond their historical P/E ranges.** Holdings that were opportunistic purchases, such as highly cyclical or turnaround companies, may be sold entirely. Well-positioned, growing companies that the managers want to hold for many years may only be reduced in size.
- **Let the cash reserve creep up.** If the managers can't find other stocks to invest in and don't want to add to existing holdings, some of the proceeds will remain in cash.
- **Keep clients in the game.** Recognizing that markets are unpredictable in the short term, all our managers want to participate in a rising market, even if they're challenged to find cheap securities. In other words, generate positive returns, knowing that the funds may underperform the market when they're trimming the hot stocks and carrying some cash.

I've tilted the list to reflect my caution, but these are things we do every day. Our managers are trying to populate the funds with securities that are worth more than they're trading for. It's how we keep the odds tilted in your favour.

Summer is less busy for us, so our team is focused on completing a number of projects and taking holidays. Meanwhile, Chris, Scott and David have plenty of time to talk with you. If you also have some time, I'd encourage you to take a good look at your statement, scribble some questions on this report and give us a call.



Takeaways

Stocks

- Stock markets had a positive quarter, with the Canadian market (S&P/TSX Composite Index) leading the way (+6.4%). Energy and precious metal stocks were particularly strong, with gains in other sectors more modest.
- Foreign stocks rose 1.5% in Canadian dollar terms as gauged by the MSCI World Index. The gain would have been greater if not for a rising loonie, which appreciated 4% against the U.S. dollar and Euro.
- Market volatility remained low and the political tensions in Ukraine and Iraq had little impact on market prices.

Stock markets advanced in the second quarter, led by resource stocks. Bonds also performed well, as longer-term yields declined.

Bonds

- Longer-term bond yields declined in the quarter, with the 10-year Government of Canada yield falling from 2.5% to 2.25% at quarter-end. The Canadian bond market (DEX Universe Bond Index) produced a total return (interest and capital appreciation) of 2.0%.
- The Bank of Canada left its key short-term lending rate unchanged in the quarter at 1.0%.

Our Funds

- Our funds posted mixed results in the quarter (the Equity Fund and Income Fund were strong, while the Global Fund and Small-Cap Fund lagged). Balanced clients experienced returns in the 2-3% range, depending on the mix. Our performance history extends out seven years, over which period balanced clients have gained 6-7% per year.
- Our bias towards foreign stocks (over Canadian stocks) is less pronounced as the valuation gap has narrowed. Our foreign exposure continues to have a tilt towards Europe and Asia, rather than the U.S.
- In the context of our balanced portfolios, key stock purchases in the quarter included *Ecolab* (U.S.), *Sanofi* (France) and *Toshiba* (Japan). Notable sales included *Intact Financial* (Canada), *SanDisk* (U.S.) and *Cisco* (U.S.).
- 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 are 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 low-yielding bonds, 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 June 30, 2014)

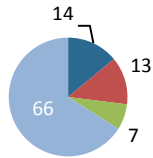
Income Fund

Equity Fund

Global Equity Fund

Small-Cap Equity Fund

Balanced Income Portfolio (50/50)

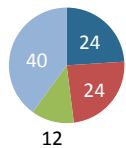


Long-term asset mix:

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
	2.7%	7.0%	16.6%	12.7%	10.1%	11.0%	6.5%

Balanced Equity Portfolio (70/30)

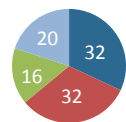


Long-term asset mix:

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
	2.2%	7.2%	20.9%	16.8%	12.2%	12.0%	6.0%

Growth Portfolio (85/15)

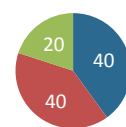


Long-term asset mix:

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
	1.9%	7.5%	24.3%	20.1%	13.7%	12.8%	5.5%

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
	1.5%	7.7%	27.8%	23.4%	15.3%	13.5%	5.1%

*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 June 30, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y
Cash (DEX 91 Day T-Bill Index)	0.2%	0.4%	1.0%	1.0%	1.0%	0.8%	1.6%
Cdn Bonds (DEX Universe Bond Index)	2.0%	4.8%	5.4%	2.6%	4.8%	5.2%	5.6%
Cdn Stocks (S&P/TSX Composite Index)	6.4%	12.9%	28.7%	17.8%	7.6%	11.0%	4.2%
Cdn Small Cap (BMO Small Cap Index)	8.5%	18.2%	36.2%	17.8%	5.3%	16.3%	3.9%
U.S. Stocks (S&P 500 Index \$Cdn)	1.6%	7.5%	26.6%	25.5%	20.6%	16.8%	6.2%
Global Stocks (MSCI World Index \$Cdn)	1.5%	6.9%	26.7%	24.8%	16.3%	13.7%	4.1%

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 was up 2.1% in the quarter. Since inception (Feb 2012), it has a cumulative return of 31%, which equates to an annualized return of 12.0%. In light of the strong markets in recent months, the fund's high cash reserve has tempered returns slightly.
- The fund's weighting in bonds (30%) has increased since year-end, but remains below the long-term target (35%). Extremely low interest rates portend low single-digit bond returns in the coming years.
- The overall equity weighting has been edging down (55% currently) as valuations have deteriorated. The balance between Canadian and foreign stocks has also evened out, as the valuation gap has narrowed due to strong returns from foreign stocks over the last three years and a weaker loonie, which makes foreign assets more expensive for Canadian investors.
- The fund's Canadian stocks are diversified across income-oriented securities (Income Fund), high-quality companies with growing dividends (Equity Fund), and smaller companies with higher growth profiles (Small-Cap Fund).
- On the foreign side, the fund is heavily tilted toward European and Asian stocks, due primarily to the Global Equity Fund's focus on these regions. In general, the Founders Fund's exposure to the industrial, technology, healthcare and consumer sectors comes from outside Canada.
- In lieu of full bond and stock allocations, the fund's cash reserve is higher than normal. Between the Savings Fund and cash held in the equity funds, it finished the quarter at 15% of total assets. Cash and short-term securities offer little in the way of yield, but provide protection against rising interest rates and are a ready source of liquidity in volatile markets.

Portfolio Specifics

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

Notable Transactions

- The changes during the second quarter were all incremental, as is typical with the Founders Fund. The Equity and Global Equity Funds were both reduced 2%, to 19% and 18% respectively, while the Income Fund was increased by 1%.

The stock weighting was trimmed in the quarter, as valuations have deteriorated. The cash reserve remains higher than normal as a defensive measure.

Fund Mix

Income Fund	44%
Global Equity Fund	19%
Equity Fund	18%
Savings Fund	13%
Small-Cap Equity Fund	6%

Cash reserve Foreign stocks

Financial services

TD Bank, Visa, Home Capital Group, Bank of Nova Scotia

Federal government bonds

Equities

Consumer stocks Corporate bonds

Loblaws, Starbucks, FEMSA, Unilever, CVS Caremark

Founders Fund

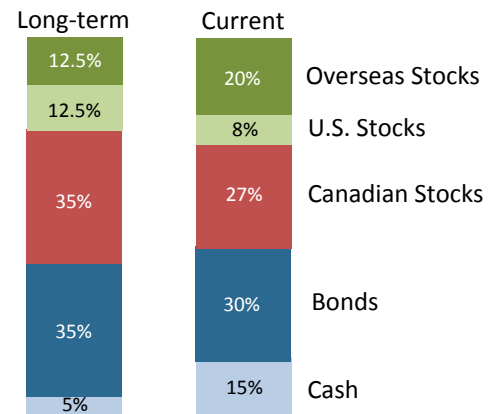
Top Stock Holdings (% of Fund)

TD Bank	2.0%
Novartis	1.2%
Suncor Energy	1.2%
Loblaw	1.1%
Bank of Nova Scotia	1.0%
Royal Bank	1.0%
Franco-Nevada	0.8%
Novozymes	0.8%
Baytex Energy	0.8%
Starbucks	0.8%

Sector Allocation (Equities)

Financial Services	21.9%
Industrial Goods & Services	18.9%
Oil & Gas	13.6%
Consumer Cyclical	7.0%
Retailing	6.5%
Consumer Products	6.2%
Technology	6.1%
Healthcare	6.1%
Real Estate	4.7%
Communications & Media	4.3%
Basic Materials	3.1%
Utilities & Pipelines	1.7%

Asset Mix



Transactions

+	-
Ecolab	Intact
Sanofi	ENI
Toshiba	SanDisk
Bangkok Bank	Cisco

Asset Mix

Cash & Short-term	15.2%
Government Bonds	12.5%
Corporate Bonds	17.2%
Canadian Stocks	27.1%
Foreign Stocks	28.0%

Fund Size

Net Assets \$158,408,749

Fee

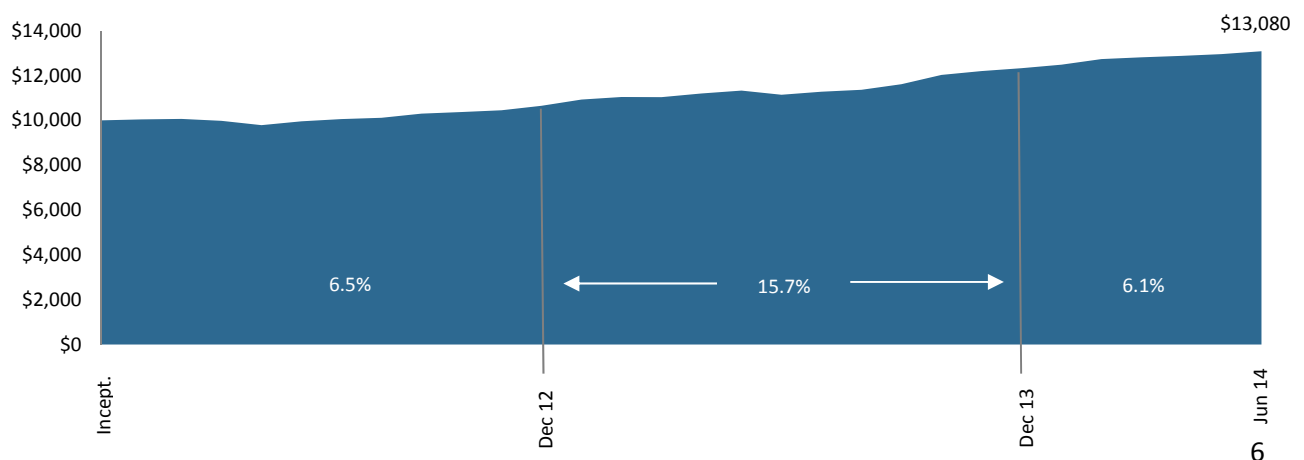
One Simple Fee 1.34% ([or less](#))

Compound Annualized Returns (as of June 30, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	Incept*
Founders Fund	2.1%	6.1%	17.4%	14.6%	N/A	N/A	12.0%
DEX Universe Bond Index	2.0%	4.8%	5.4%	2.6%	N/A	N/A	3.1%
S&P/TSX Composite Index	6.4%	12.9%	28.7%	17.8%	N/A	N/A	12.0%
MSCI World Index (\$Cdn)	1.5%	6.9%	26.7%	24.8%	N/A	N/A	20.2%

*Feb 17, 2012

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



Income Fund

Investment Returns

- The Canadian bond market had a positive quarter, rising 2.0% (interest and capital appreciation) as longer-term interest rates edged down. The 10-year Government of Canada bond yield fell from 2.5% to 2.25%.
- The Canadian stock market gained 6.4%, led by resource stocks.
- The fund was up 3.2% in the quarter. Since inception (Feb 2007), it has a cumulative return of 63%, which equates to an annualized return of 6.8%.

Portfolio Specifics

- The fund's bond holdings, which made up two-thirds of the portfolio throughout the first half of the year, performed well as longer-term bond yields declined (when yields fall, bond prices rise).
- The manager's (Connor, Clark & Lunn) bias towards corporate and Provincial bonds continued to play an important role in the fund's performance, as did its focus on bonds with 7-10 year maturities. These securities in particular benefited from the drop in yields.
- CC&L feels there is presently a good opportunity in Provincial bonds, notably Ontario issues. While the province has struggled to reign in its deficit, it's still in a reasonable fiscal position, especially when compared to other regions. Consider that Ontario 10-year bonds currently trade at higher yields than Italian 10-year bonds!
- The fund's stock holdings (33% of the portfolio) have been the biggest drivers of performance year-to-date. CC&L continues to focus on dividend growth opportunities and stocks with exposure to the U.S. and European economic recovery (e.g. *Tricon Capital*, *Chemtrade Logistics*, *WSP Global*).
- In the current environment, the manager is seeking balanced exposure between interest-sensitive stocks (REITs, utilities, telecoms) and those that will benefit from higher interest rates (banks, insurers, asset managers).
- The fund's distribution was reduced this quarter from \$0.10/unit to \$0.07. With interest rates so low, the fund's ongoing income could not support the previous level. For the year, there is a good chance the former level will be achieved, but it will depend on the amount of realized capital gains.

Notable Transactions

- There were few changes to the positioning of the fund in the quarter.
- New stock purchases included *Milestone Apartments REIT* and *Fortis*.

Positioning

- The manager believes that interest rates will grind higher at a slow pace. Bond investments are tilted towards high-quality corporate and provincial issuers with a focus on mid-term maturities.
- Stocks comprise a larger than normal portion of the portfolio as their valuations relative to bonds remain attractive.

Falling bond yields over the first half of the year have benefited the portfolio, but its stock holdings have been the biggest drivers of performance.

Mid term
**Corporate
bonds**

REITs

Growing dividends

TD Bank, Tim Hortons, Bank of Nova Scotia, Gibson Energy

**Provincial
bonds**

Federal
government
bonds

Ontario
Banks & insurance

Income Fund

Top Holdings

Ontario 3.15% (06/02/22)	4.7%
Quebec 3.50% (12/01/22)	4.2%
BMO 3.40% (04/23/21)	3.4%
Ontario 3.50% (06/02/24)	2.7%
Bank of Nova Scotia	2.3%
TD Bank	2.3%
Ontario 5.60% (06/02/35)	2.3%
BNS 3.27% (01/11/21)	2.3%
Royal Bank	2.3%
U.S. Tr. 1.50% (12/31/18)	2.2%

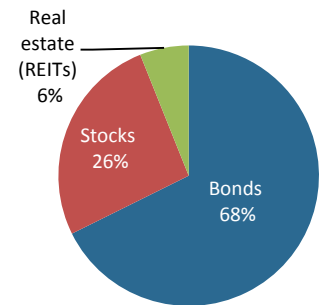
Issuer Allocation (Bonds)

Federal Govt. Bonds	3.7%
Provincial Govt. Bonds	38.4%
Corporate Bonds	57.9%

Rating Summary (Bonds)

AAA	10.6%
AA	50.6%
A	28.5%
BBB	10.4%
BB (or lower)	0.0%

Asset Mix



Stock Transactions

+	-
Milestone REIT	Killam Pptys
Fortis	Rogers
Sun Life	Transalta

Term Summary

Avg. Term to Maturity	7.8 yrs.
Duration	6.1 yrs.

Fund Size / Yield

Net Assets	\$78,043,648
Pre-fee Yield	3.0%

Fee

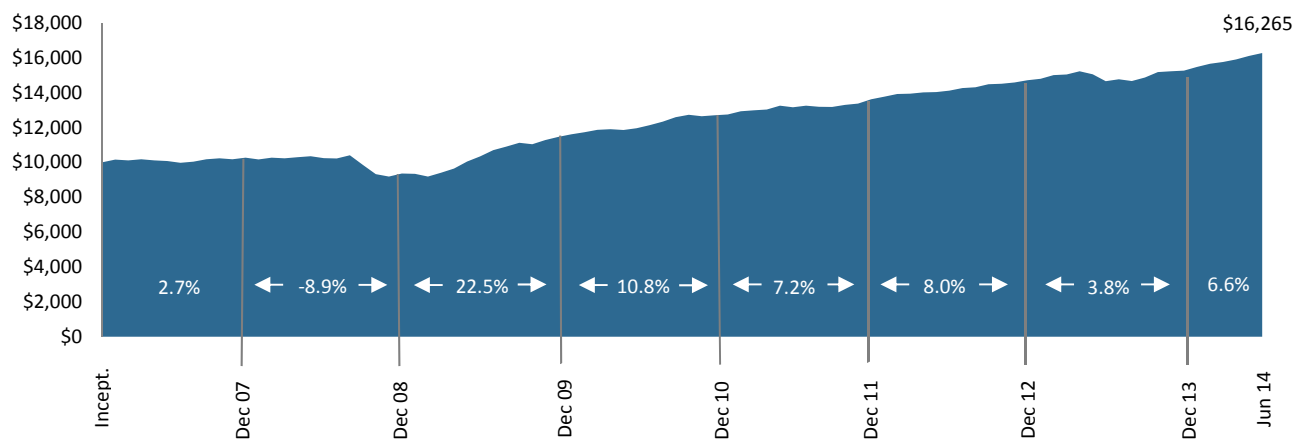
One Simple Fee	1.04% (or less)
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Compound Annualized Returns (as of June 30, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y	Incept*
Income Fund	3.2%	6.6%	11.0%	7.4%	7.3%	9.5%	7.1%	6.8%
DEX Universe Bond Index	2.0%	4.8%	5.4%	2.6%	4.8%	5.2%	5.6%	5.3%
S&P/TSX Composite Index	6.4%	12.9%	28.7%	17.8%	7.6%	11.0%	4.2%	5.1%

*Feb 13, 2007

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



Equity Fund

Investment Returns

- The Canadian stock market (S&P/TSX Composite Index) continued to rise in the second quarter, gaining 6.4%, on strength in resource stocks. The MSCI World Index was up 1.5% in Canadian dollar terms.
- The fund was up 4.3% in the quarter. Since inception (Feb 2007), it has a cumulative return of 53%, which equates to an annualized return of 6.0%.

Energy holdings have had a nice run so far this year and remain attractively valued in the manager's view.

Portfolio Specifics

- The fund holds 25 stocks, of which 53% are headquartered in Canada, 24% in the U.S., 19% in Overseas, and 4% in Mexico.
- Resource stocks have been the strongest contributors to performance so far in 2014. *Birchcliff Energy* (natural gas), *Pason Systems* (oil services), *Suncor Energy* (oil), *Baytex Energy* (oil) and *Franco-Nevada* (gold) have all seen strong share price gains. Birchcliff shares have doubled.
- While the fund's energy holdings have had a nice run, the manager, CGOV Asset Management, feels they still represent good long-term value and are among the cheapest stocks in the portfolio.
- Many holdings increased their dividend – an important theme in the portfolio – with *CN Rail*, *Home Capital Group* and *Suncor* being among the more prominent increases this year. Companies that are able to consistently raise their dividend are in strong financial shape.
- Consumer stocks (including retailers) continue to comprise the largest weighting in the fund (27%). CGOV favours the stable earnings and leading market positions of these companies, which include *CVS Caremark*, *Unilever*, *Loblaw* and *Dairy Farm Int'l*.
- From a valuation perspective, most of the fund's holdings are not as cheap as they were a few years ago (P/E multiples have risen) and price gains going forward are likely to be more modest as a result. Yet, the companies are generating strong cash flows and allocating capital responsibly, which should lead to continued growth.

Notable Transactions

- *Ecolab* was added to the portfolio. The company is a leader in water and hygiene technologies and services. It's a stable business with strong recurring revenues and a diverse customer base.
- *Intact Financial* was sold as the stock reached CGOV's price target.

Positioning

- The overall positioning of the portfolio remains unchanged: it's focused on strong cash generating businesses in a diverse range of industries, with consumer, industrial, and oil & gas companies playing a significant role.
- U.S. and overseas stocks remain an important source of returns and diversification, and provide exposure to leading global consumer brands.

Foreign stocks

Growing dividends

Consumer stocks

Unilever, CVS Caremark, Loblaw, Starbucks

Industrial goods & services

CN Rail, Lincoln Electric, CAE, Toromont

Gold

Oil & Gas

Equity Fund

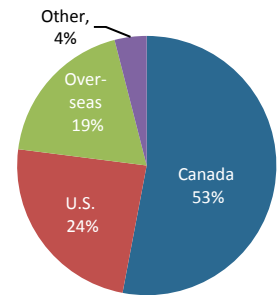
Top Holdings

Suncor Energy	6.3%
TD Bank	5.6%
Franco-Nevada	4.2%
Novozymes	4.2%
Baytex Energy	4.2%
Starbucks	4.1%
CN Rail	4.1%
Unilever	4.0%
CVS Caremark	4.0%
Visa	4.0%

Sector Allocation (Equities)

Industrial Goods & Services	25.9%
Oil & Gas	17.7%
Financial Services	17.1%
Retailing	15.3%
Consumer Products	12.2%
Basic Materials	7.8%
Healthcare	4.0%

Geographic Profile (Equities)



Transactions

+	-
Ecolab	Intact Financial
Starbucks	Birchcliff

Asset Mix

Equities	96.5%
Cash & Short-term	3.5%

Fund Size / Concentration

Net Assets	\$61,362,455
Number of stocks	25

Fee

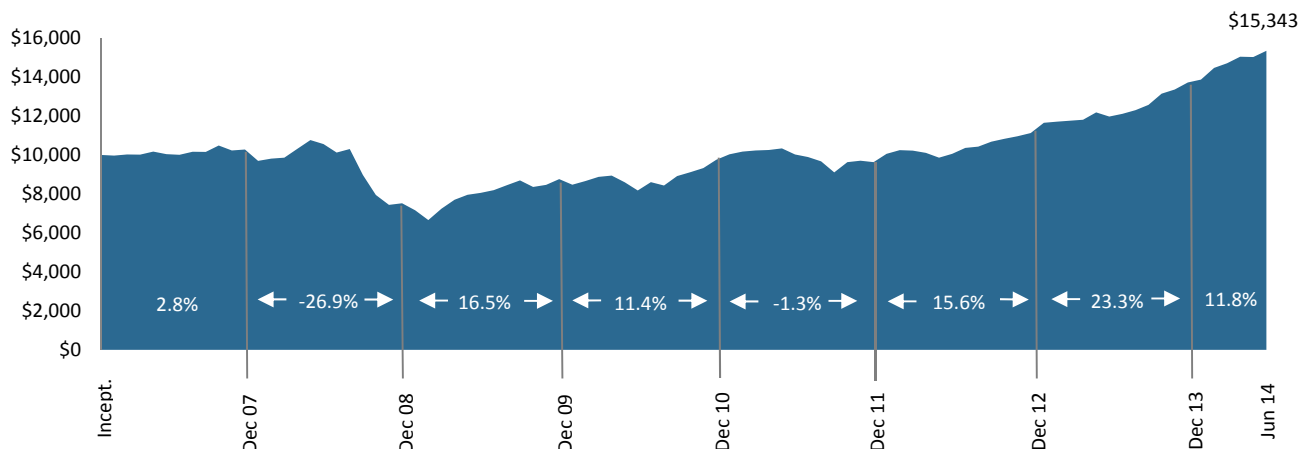
One Simple Fee	1.42% (or less)
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Compound Annualized Returns (as of June 30, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y	Incept*
Equity Fund	4.3%	11.8%	28.1%	23.5%	15.2%	13.8%	6.2%	6.0%
S&P/TSX Composite Index	6.4%	12.9%	28.7%	17.8%	7.6%	11.0%	4.2%	5.1%
MSCI World Index (\$Cdn)	1.5%	6.9%	26.7%	24.8%	16.3%	13.7%	4.1%	3.5%

*Feb 13, 2007

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



Global Equity Fund

Investment Returns

- Global markets had a positive second quarter, with U.S. and emerging market stocks posting solid gains. The MSCI World Index rose 1.5% in Canadian dollar terms. The gain would have been greater if not for a rising loonie, which appreciated 4% against the U.S. dollar and Euro.
- The fund was down 0.3% in the quarter. Since inception (Feb 2007), it has a cumulative return of 8%, which equates to an annualized return of 1.1%.

Asia is the largest area of investment, with a focus on Japan – which is where the greatest share price anomalies are being found.

Portfolio Specifics

- The fund holds 44 stocks in 17 countries. The focus is in Asia (46% of total assets) and Europe (43%), followed by the U.S. (11%).
- Technology and bank stocks have been the strongest performers over the first half of the year, while Japanese stocks in general have lagged.
- The manager, Edinburgh Partners Limited (EPL), has increased the fund's exposure to Asia by adding to Japan. They feel that the implementation of economic reforms in Japan has yet to be captured in stock valuations.
- Asian banks are also an attractive area in EPL's view. The manager recently purchased *Bangkok Bank* and added to *DBS* (Development Bank of Singapore). Other holdings include *Bank Mandiri* (Indonesia) and *Sumitomo Mitsui Financial Group* (Japan).
- EPL feels the outlook for European stocks is favourable as the region continues to recover. An area of increasing focus is healthcare stocks (*Novartis*, *Roche*, *Fresenius*, *AstraZeneca*, *Sanofi*). Along with attractive dividend yields, these companies add a defensive element to the portfolio.
- U.S. stocks have been among the fund's strongest performers, but are looking increasingly expensive relative to other regions. Three holdings were recently sold (see below), bringing the weight of American stocks down to their lowest level since the fund's inception (11%).

Notable Transactions

- New purchases included: *Bankgok Bank* (Thailand's leading bank), *Sanofi* (French pharmaceutical company), *Toshiba* (Japanese electronics manufacturer) and *Royal Dutch Shell* (Anglo-Dutch energy company).
- Six stocks were sold: *ENI* (Italy), *Orange* (France), *Rio Tinto* (U.K.), *SanDisk* (U.S.), *Tyco* (U.S.) and *Cisco Systems* (U.S.).

Positioning

- Stock valuations are not cheap and the portfolio is becoming progressively more cautious. Select cyclical holdings have been sold or trimmed, while defensive investments are being increased (e.g. healthcare).
- Asia is now the largest area of investment, with an emphasis on Japan.
- EPL feels the likelihood of an economic collapse is unlikely, but there are growing pockets of overvaluation. Their focus is on avoiding stocks with stretched valuations.



Global Equity Fund

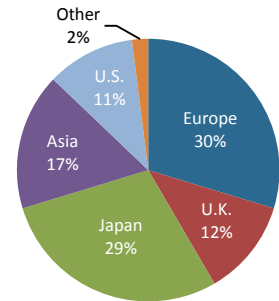
Top Holdings

KDDI	3.1%
Sumitomo Mitsui Trust	2.7%
AstraZeneca	2.6%
Post NL	2.6%
Roche	2.6%
East Japan Railway	2.6%
Japan Tobacco	2.6%
Hutchison Whampoa	2.6%
Royal Dutch Shell	2.5%
Vodafone	2.5%

Sector Allocation (Equities)

Financial Services	19.6%
Industrial Goods & Services	17.7%
Consumer Cyclical	15.1%
Healthcare	12.5%
Technology	11.2%
Communications & Media	10.4%
Consumer Products	6.9%
Oil & Gas	6.6%

Geographic Profile (Equities)



Transactions

+	-
Bangkok Bank	ENI
Sanofi	Orange
Toshiba	Rio Tinto
Shell	SanDisk
	Cisco

Asset Mix

Equities	98.7%
Cash & Short-term	1.3%

Fund Size / Concentration

Net Assets	\$52,707,896
Number of stocks	44

Fee

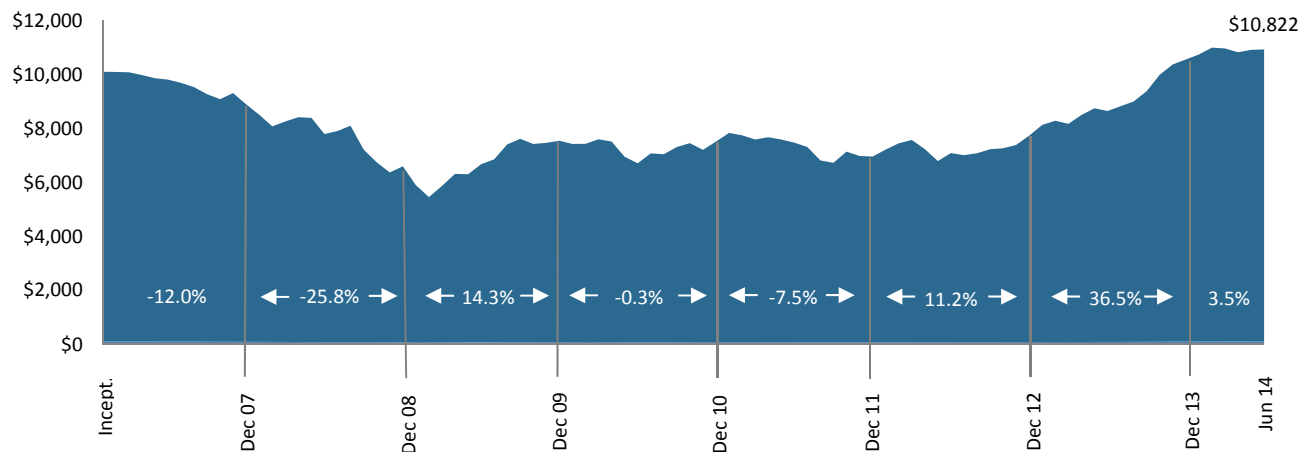
One Simple Fee 1.78% ([or less](#))

Compound Annualized Returns (as of June 30, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y	Incept*
Global Equity Fund	-0.3%	3.5%	26.4%	24.2%	13.5%	10.4%	1.6%	1.1%
MSCI World Index (\$Cdn)	1.5%	6.9%	26.7%	24.8%	16.3%	13.7%	4.1%	3.5%

*Feb 13, 2007

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



Small-Cap Equity Fund

Investment Returns

- The Canadian small-cap market (BMO Small Cap Index) had a strong quarter, gaining 8.5%, as energy and gold stocks continued to rebound.
- The fund was down 0.5% in the quarter. Since inception (Feb 2007), it has a cumulative return of 117%, which equates to an annualized return of 11.1%.

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 are under \$1 billion.
- Most holdings are in a good financial position and are growing nicely. Valuations, however, are at the upper end of their normal range and the manager, Wil Wutherich, is finding fewer opportunities. He is content to hold a meaningful cash reserve (19%) and add to existing positions when opportunities arise.
- While energy stocks in general have had a strong year, the fund's holdings have been mixed. *Parkland Fuel* and *Total Energy Services* advanced, but *Eagle Energy Trust*, *Palliser Oil & Gas* and *TransGlobe Energy* lost ground. The manager purchased additional shares in *TransGlobe* in the quarter.
- *Badger Daylighting*, a strong performer over the past several quarters, was trimmed further (following a reduction in the position earlier in the year). It remains a great company, but is a little expensive.
- *Pure Technologies* is an example of a holding with proprietary technologies and solutions operating in a market with a strong growth outlook (see Stock Snapshot on page 17). Its near-term valuation is slightly high, which has held the manager back from adding to the position – a common theme in the portfolio after a stretch of strong performance.

Notable Transactions

- There were no new stocks purchased in the quarter, and no holdings were eliminated.
- *Badger Daylighting* was trimmed.

Positioning

- Focus remains on profitable, well-financed businesses, with an emphasis on industrial goods & services, energy-related and technology companies.
- The cash reserve is large (19%), as the manager is cautious of valuations and is not willing to chase prices.
- Investments in the U.S. make up roughly one-quarter of the fund, with holdings in *Hibbett Sports*, *Hawaiian Holdings* and *CBIZ*.

Turnover has been low over the first half of the year; the manager is cautious of valuations and is not willing to chase prices.

Oil producers

Mining

Low turnover

Industrial services

Stantec, Badger Daylighting, HNZ Group

Concentration

Cash

U.S. stocks

Hibbett Sports, Hawaiian Holdings, CBIZ

Small-Cap Equity Fund

Top Holdings*

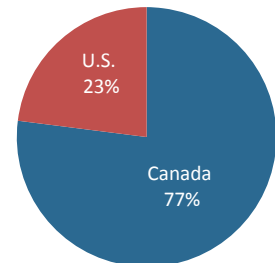
Stantec	7.5%
Primero Mining	7.1%
Hawaiian Holdings	7.0%
Total Energy Services	6.8%
MacDonald Dettwiler	6.6%
CBIZ	6.5%
Hibbett Sports	5.9%
Pure Technologies	5.6%
Parkland Fuel	5.3%
HNZ Group	5.2%

*As of April 30, 2014

Sector Allocation (Equities)

Industrial Goods & Services	31.1%
Oil & Gas	25.0%
Technology	15.0%
Consumer Cyclical	7.8%
Basic Materials	7.6%
Retailing	7.0%
Healthcare	6.6%

Geographic Profile (Equities)



Transactions

+	-
Med Facilities TransGlobe	Badger Primero

Asset Mix

Equities	81.2%
Cash & Short-term	18.8%

Fund Size / Concentration

Net Assets	\$56,356,373
Number of stocks	16

Fee

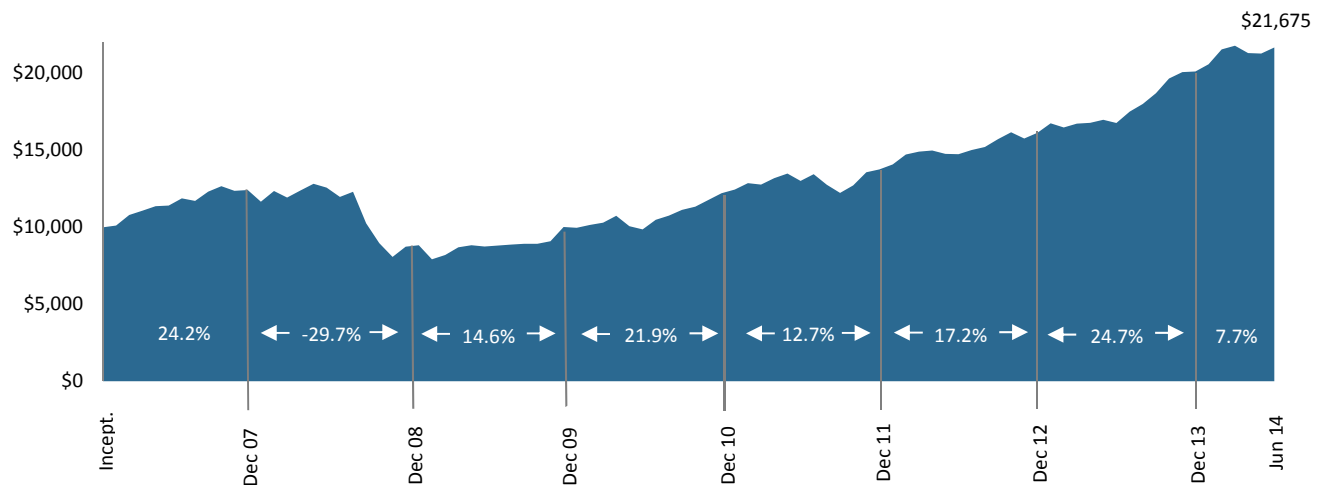
One Simple Fee 1.78% ([or less](#))

Compound Annualized Returns (as of June 30, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y	Incept*
Small-Cap Equity Fund	-0.5%	7.7%	29.2%	21.2%	18.5%	19.9%	9.6%	11.1%
BMO Small Cap Index	8.5%	18.2%	36.2%	17.8%	5.3%	16.3%	3.9%	5.0%

*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 global monetary environment continues to be very accommodative and financial conditions remain stimulative (long-term interest rates are low and credit spreads are tight).
- Core inflation remains below the Bank's 2% target.

Short-term interest rates, as set by the Bank of Canada, are expected to remain low for the foreseeable future.

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.
- The manager, Connor, Clark & Lunn (CC&L), reallocated the fund's investments in Provincial T-Bills ('Provincials') to Federal T-Bills ('Canadas') in the quarter. The spread, or difference in yield, between the two types of securities narrowed such that CC&L viewed Canadas as the more attractive investment. These securities made up 32% of the portfolio at the end of June.
- Bankers' acceptances (B/As) and short-term bank paper continue to represent the largest weighting in the portfolio (41%), with corporate notes also comprising a meaningful part of the fund (27%).
- The pre-fee yield of the fund at the end of June was 1.2%.
- 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 Provincial T-Bills were wound down, with the proceeds invested in Federal T-Bills (details above).

Positioning

- CC&L believes the path to higher interest rates will be prolonged given the significant debt levels that still exist globally. The portfolio, however, is positioned in shorter-term maturities, as the manager feels we have seen the low point in interest rates for this cycle.
- The manager continues to find attractive opportunities in short-term corporate bonds and floating rate notes (FRNs) because of their additional yield.

Bank paper
Federal T-Bills

Floating rate notes

Reduced fee

**Short-term
bonds**

Savings Fund

Top Holdings

Canada T-Bills (08/28/14)	31.7%
Royal Bank B/A (08/28/14)	8.0%
CIBC B/A (08/28/14)	8.0%
TD Bank BDN (10/09/14)	6.8%
Nat'l Bank B/A (08/26/14)	4.7%
Enbridge C/P (07/10/14)	4.2%
BMO B/A (08/28/14)	4.1%
Manulife BDN (10/30/14)	3.6%
TransCanada C/P (08/26/14)	3.2%
Daimler FRN (07/16/15)	3.1%

Yield

7-day Yield* 1.0%

**This is an annualized historical yield (net of fees) based on the seven day period ended on June 30, 2014, and does not represent an actual one year return.*

Fund Size

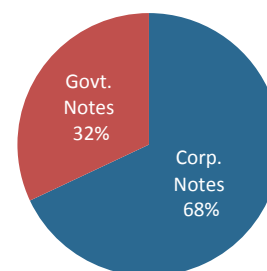
Net Assets \$10,896,488

Fee

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

*Temporarily reduced to 0.20%

Issuer Allocation

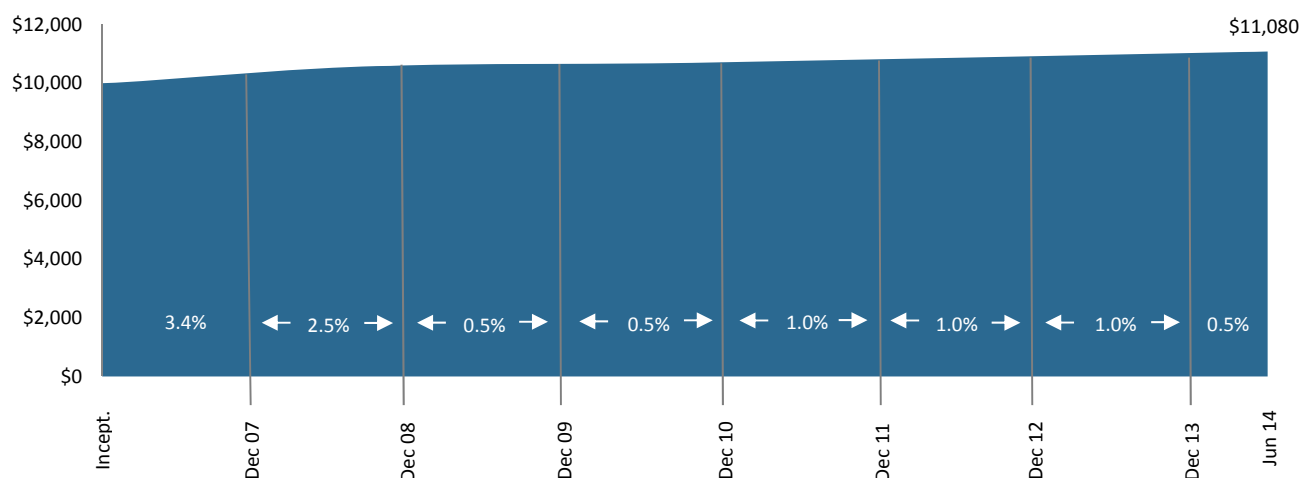


Compound Annualized Returns (as of June 30, 2014)

	3 M	YTD	1 Y	2 Y	3 Y	5 Y	7 Y	Incept*
Savings Fund	0.2%	0.5%	1.0%	1.0%	1.0%	0.8%	1.3%	1.4%
DEX 91 Day T-Bill Index	0.2%	0.4%	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 – pure TECHNOLOGIES

Overview

Pure Technologies is a global leader in the development and application of technologies for inspecting and monitoring pipelines (water and oil & gas), buildings and bridges. The Calgary-based company has developed proprietary technologies, including acoustic, fibre optic, electromagnetic and SmartBall (see below) applications to monitor infrastructure. Along with inspection and monitoring services, Pure Technologies offers engineering services and equipment sales. It generates over \$60 million in annual revenues (2013) and its applications are used around the world.

The stock is held in our Small-Cap Equity Fund (5.5% position size).

Investment Case

Infrastructure around the world is ageing, notably water and wastewater pipelines. Further, governments are increasingly faced with budgetary constraints, making large capital works projects less feasible. The trend is towards extending the service life of infrastructure assets through proactive management and targeted repair. Pure Technologies is the global leader in developing and applying technologies for inspecting, monitoring and managing pipelines. Further, its solutions are environmentally sound and help reduce water loss. Water management is a huge and growing business. Population growth and urban development will put further pressure on the resource, and the company is well positioned to service the industry's infrastructure.

Pure Technologies also has an attractive “moat”, meaning it has few competitors, and valuable intellectual property and proprietary solutions. Its SmartBall, for example, is a patented free-swimming foam ball with an instrument-filled core that travels through pipelines and is able to detect pin-sized leaks and structural defects. It is currently being utilized in water pipelines and is being piloted in oil & gas pipelines.

From a financial standpoint, Pure Technologies is in a sound position, with over \$30 million of cash on hand, no net debt and a growing number of long-term contracts. The company has a strong backlog and ongoing business development initiatives, which should enable it to continue to realize double-digit revenue growth over the medium term. The stock pays a quarterly dividend (1.7% yield).

Risks to Outlook

A key risk to the company is cost management. An inability to do so effectively will weigh on earnings and could hinder growth.

An interesting fact: 40% of transported water in developing countries is lost through physical leaks in pipelines.



The patented SmartBall is used to identify stress and leaks in pipelines

Concentrate Dammit!

This summer we're reminding investors to concentrate on their Strategic Asset Mix (SAM). In other words, make sure your mix of stocks and bonds is in-line with your long-term targets. And with the warm days and starry nights, it's also a great time to concentrate on the grill!



David Toyne and his dad concentrating on beer can chicken

Disclaimers

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.

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