Steadyhand

Q4
2014

"Now is a good time for all investors to do a gut check. This means dusting off the plan, reaffirming the investment horizon and doing what my Dad always asked us to do – **Carry on bravely.**"

— Tom Bradley (Blog, October 7th)

Bradley's Brief

2014 was a bizarre year. It was bookended by extremes, volatility and contradictions, but had a long stretch of calm in the middle. Oil prices dropped 45% in a matter of months and energy stocks followed suit. Other cyclical stocks were up and down like yo-yos.

The tech sector was red hot, with numerous 'app' acquisitions and colorful new offerings like Candy Crush (King Entertainment). The U.S. Federal Reserve was reluctant to normalize interest rates despite booming car sales, a strong housing market, reduced government deficits and declining unemployment. And remarkably, troubled countries like Italy and Spain were able to finance their deficits more cheaply than the U.S.

It was, nonetheless, a good time for investors and our clients experienced another year of positive returns (six in a row). The funds' performance, however, was mixed. The Equity Fund was our best by a good margin, despite having some oil stocks to contend with. The Income Fund also performed well, even after we spent the early part of the year tempering return expectations (oops). The Global Equity and Small-Cap Equity Funds were laggards in 2014 for a number of reasons outlined later in the report.

The Founders Fund, which brings all the funds together in one diversified portfolio, was up 7.1% in 2014. This meets most clients' return objectives, but it was a less-than-stellar performance. Comparable indexed portfolios were up about 10%. The returns of the Global and Small-Cap Funds weighed on the Founders, as did my defensive positioning (read: too much cash).

At the risk of boring regular readers, I want to outline why I'm playing defense at this point in the market cycle, and why it's appropriate for long-term portfolios.

As business fundamentals go, there's lots to like out there, centered mostly around a recovering U.S. economy. But capital markets are being driven too much by financial engineering (leverage, share buybacks) and central bank tinkering, and not enough by companies producing stuff and paying higher wages. I would describe the foundation of the world economy as fragile – it is addicted to free money and content to kick the debt problem further down the road.

But more important is the fact that asset prices are not attractive. Real yields on bonds (i.e. after inflation) are hovering around zero, so fixed income is not a particularly safe place to hide. As for stocks, the most bullish analysts I follow say they're "fairly valued," while some esteemed value investors suggest the market is significantly overvalued (particularly the U.S.). I'm somewhere in between – price-to-earnings ratios are above their historical averages and there are very few bargains to be found.

For me, it all points towards caution – *stay diversified, don't take more risk than your plan calls for and set aside some cash for a rainy day.* The visual I'll use at our client presentations in a few weeks (I hope to see you there!) will show a car climbing a narrowing mountain road that has no shoulders or guard rails. The climb may continue, but the risks have gone up.

Whatever your view or situation, I encourage you to set time aside to do a thorough review of your portfolio. This report, along with your account statement, gives you most of what you need, but in the coming weeks we'll be providing more information to do the job. And as always, the team is ready to help. Don't make it a New Year's resolution, just do it!

Key Takeaways

Stocks

- Stocks had another good year. The Canadian market (S&P/TSX Composite Index) gained 10.6% in spite of an uptick in overall volatility in the fourth quarter and weakness in the energy sector (the price of oil fell 45%).
- Broadly speaking, foreign stocks also advanced. The U.S. market was a key area of strength (gaining over 20% in Canadian dollar terms), while European and Asian markets saw more modest gains. Emerging markets were flat on the year. Technology, consumer and healthcare stocks performed well, while commodity stocks struggled.

Market Returns

	3M	1Y
Canada	-1.5%	10.6%
World	4.7%	15.1%

Bonds

- The Canadian bond market (FTSE TMX Canada Universe Bond Index) had a great year, producing a total return (interest and capital appreciation) of 8.8%.
- Bond yields declined over the course of the year. Longer-term yields dropped 1%, which is a big move in a low interest rate environment. The 10-year Government of Canada yield ended 2014 at 1.8% (down from 2.8% the previous year).

	3M	1Y
Bonds	2.7%	8.8%

Our Funds

- Our funds advanced in the year with the exception of the Small-Cap Fund. Balanced clients experienced returns in the range of 6-8%, depending on their mix. Over our performance history (nearly 8 years), balanced clients have gained 6-7% per year.
- Overall, our positioning remains cautious. Our funds have a focus on high-quality stocks and we're holding more cash than normal in the Founders Fund. Our foreign stock exposure has a tilt towards Asia and Europe, rather than the U.S., as our global manager is finding better value outside North America.
- In the context of our balanced portfolios, key transactions in the fourth quarter included the purchase of PrairieSky Royalty (Canada) and BNP Paribas (France), and the sale of Baytex Energy (Canada), Mead Johnson (U.S.) and Hawaiian Holdings (U.S.).

Fund Returns

	3M	1Y
Savings	0.3%	1.0%
Income	1.7%	9.7%
Founders	0.5%	7.1%
Equity	0.7%	13.2%
Global	0.0%	4.0%
Small-Cap	-6.5%	-6.3%

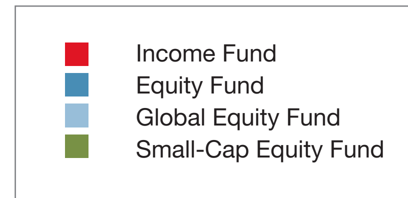
Our Advice to Clients

We continue to believe that stocks offer the best long-term return potential, but remain cautious following several years of strong returns. We recommend that your stock weighting be no higher than your long-term target, as valuations are closer to the upper end of their normal range. We continue to recommend a below-average position in bonds and a healthy cash holding. In the Founders Fund, for example, 17% of the portfolio is currently in cash.

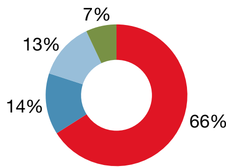
For further details on our thoughts on asset mix and the advice we're giving clients, visit the Current Outlook module on the home page of our website, or give us a call at 1.888.888.3147.

Steadyhand Portfolios (Hypothetical)*

Compound Annualized Returns (as of December 31, 2014)



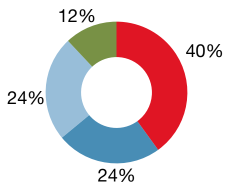
Balanced Income Portfolio (50/50)



Long-term asset mix:
Fixed Income – 50%
Cdn Equities – 30%
U.S. Equities – 10%
Overseas Equities – 10%

3M	YTD	1Y	2Y	3Y	5Y	7Y
0.7%	8.3%	8.3%	10.0%	10.1%	8.9%	6.6%

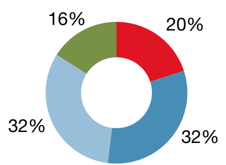
Balanced Equity Portfolio (70/30)



Long-term asset mix:
Fixed Income – 30%
Cdn Equities – 34%
U.S. Equities – 18%
Overseas Equities – 18%

3M	YTD	1Y	2Y	3Y	5Y	7Y
0.1%	7.2%	7.2%	12.6%	12.3%	9.6%	6.0%

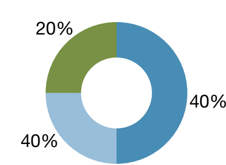
Growth Portfolio (85/15)



Long-term asset mix:
Fixed Income – 15%
Cdn Equities – 37%
U.S. Equities – 24%
Overseas Equities – 24%

3M	YTD	1Y	2Y	3Y	5Y	7Y
-0.5%	6.3%	6.3%	14.6%	14.1%	10.1%	5.5%

Aggressive Growth Portfolio (100/0)



Long-term asset mix:
Fixed Income – 0%
Cdn Equities – 40%
U.S. Equities – 30%
Overseas Equities – 30%

3M	YTD	1Y	2Y	3Y	5Y	7Y
-1.0%	5.5%	5.5%	16.6%	15.8%	10.6%	4.9%

Capital Market Performance (as of Dec 31, 2014)

	3M	YTD	1Y	2Y	3Y	5Y	7Y
Cash (FTSE TMX Canada 91 Day T-Bill Index)	0.2%	0.9%	0.9%	1.0%	1.0%	0.9%	1.2%
Cdn Bonds (FTSE TMX Canada Universe Bond Index)	2.7%	8.8%	8.8%	3.7%	3.7%	5.5%	5.6%
Cdn Stocks (S&P/TSX Composite Index)	-1.5%	10.6%	10.6%	11.8%	10.2%	7.5%	3.8%
Cdn Small Cap Stocks (BMO Small Cap Index)	-7.3%	-0.1%	-0.1%	3.8%	3.3%	5.6%	3.0%
U.S. Stocks (S&P 500 Index $Cdn)	8.6%	24.0%	24.0%	32.5%	25.8%	17.9%	9.8%
Global Stocks (MSCI World Index $Cdn)	4.7%	15.1%	15.1%	25.2%	21.3%	13.1%	6.3%

*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.

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.

The fund was up 7.1% in 2014. Since inception (Feb 2012), it has a cumulative return of 31%, which equates to an annualized return of 10.1%.

Portfolio Specifics

- The fund had a strong absolute return in 2014, but it was a subpar year in the context of the opportunities available. The portfolio didn't fully benefit from the strong equity markets or the declining Canadian dollar (which enhances the return of foreign assets). As noted in the Brief (page 2) and fund reports, the Global Equity and Small-Cap Equity Funds had tough years. As well, the Founders Fund was too conservative – it did not have a full allocation to bonds and stocks, both of which did well.
- On the latter point, the fund was defensively positioned throughout 2014, and became more so as the year progressed (the reasons are outlined in the Brief). The high yield bonds were sold in the first quarter (Income Fund), and the overall equity weighting edged down. Stocks accounted for 55% of the fund at year-end, which is below the fund's long-term target of 60%.
- The weighting in bonds (28%) is also well below the target (35%). Near-zero interest rates point toward low single-digit bond returns in the coming years.
- The fund's Canadian equity exposure (25%) is 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 (30%), the fund is heavily tilted toward European and Asian stocks, due primarily to the Global Equity Fund's focus on these regions. This strategy has negatively impacted short-term returns, but is compelling due to the valuation gap between these regions and the U.S. Not only are price-to-earnings ratios lower, but the non-American companies have more room to grow profit margins, especially with weaker currencies versus the powerhouse U.S. dollar.
- In lieu of full bond and stock allocations, the fund's cash reserve has been higher than normal. Between the Savings Fund and cash held in the equity funds, it finished the quarter at 17% of total assets. Cash and short-term securities offer little in the way of yield (and have been a detriment to performance), but provide protection against rising interest rates and are a ready source of liquidity in volatile markets.

Fund Mix

Income	39%
Global	21%
Equity	20%
Savings	14%
Small-Cap	6%

Asset Mix

Foreign Stocks	30%
Canadian Stocks	25%
Corporate Bonds	17%
Gov't Bonds	11%
Cash & Short-term	17%

Positioning

- Refer to pages 7-15 for details on the underlying funds.

Fund size $184,615,695

Founders Fund

Attributes

Top Stock Holdings

TD Bank	2.1%
Novartis	1.4%
Loblaw Companies	1.2%
Suncor Energy	1.1%
CVS Health	1.1%
Visa	1.0%
Ecolab	0.9%
Starbucks	0.9%
Franco-Nevada	0.8%
Lincoln Electric	0.8%

Sector Allocation (Stocks)

Financial Services	22.4%
Industrial Goods & Svc	21.0%
Oil & Gas	11.5%
Healthcare	7.1%
Retailing	7.1%
Consumer Cyclical	6.7%
Technology	6.3%
Consumer Products	5.0%
Real Estate	4.6%
Basic Materials	3.7%
Comm. & Media	3.1%
Utilities & Pipelines	1.5%

Asset Mix

Long-term		Current
12.5%	Overseas Stocks	22%
12.5%	U.S. Stocks	8%
35%	Canadian Stocks	25%
35%	Bonds	28%
5%	Cash	17%

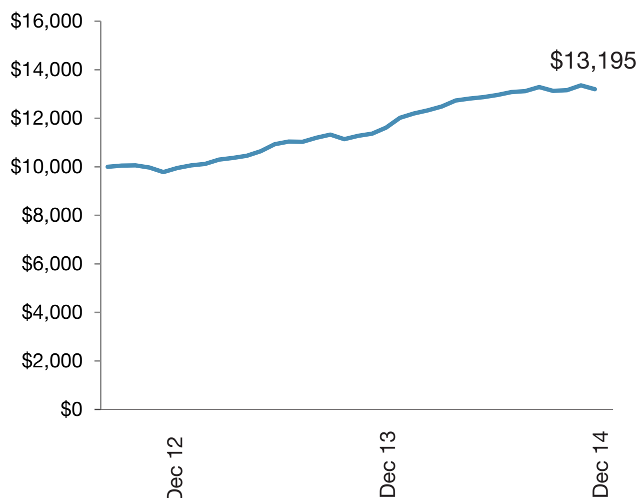
Performance

Compound Annualized Returns (as of Dec 31, 2014)

	3M	YTD	1Y	2Y	3Y	5Y	7Y	Incep*
Founders Fund	**0.5%**	**7.1%**	**7.1%**	**11.3%**	**N/A**	**N/A**	**N/A**	**10.1%**
FTSE TMX Canada Universe Bond Index	2.7%	8.8%	8.8%	3.7%	N/A	N/A	N/A	3.9%
S&P/TSX Composite Index	-1.5%	10.6%	10.6%	11.8%	N/A	N/A	N/A	9.0%
MSCI World Index ($Cdn)	4.7%	15.1%	15.1%	25.2%	N/A	N/A	N/A	19.5%

*Feb 17, 2012

Growth of $10,000 Since Inception



Best and Worst Annualized Returns

Income Fund

Market Context

- The Canadian bond market had an excellent year, rising 8.8% (interest and capital appreciation). Bond yields declined steadily, with the 10-year Government of Canada yield finishing 2014 at 1.8% (down from 2.8% at the end of 2013).
- The Canadian stock market rose 10.6% with strength across most sectors, excluding energy and mining.

The fund was up 9.7% in 2014. Since inception (Feb 2007), it has a cumulative return of 67%, which equates to an annualized return of 6.8%.

Portfolio Specifics

- The bond component provided a strong return, as longer-term interest rates declined 1% in the year (when rates fall, bond prices rise), which is a considerable move in a low interest rate environment. Bonds comprise 72% of the portfolio.
- Corporate bonds remain the greatest area of focus, as has been the case since inception. Holdings are concentrated in the financial sector (banks and insurers), which is where the manager (Connor, Clark & Lunn) is finding the best risk/reward trade-off.
- Provincial bonds are also a key area of investment, with holdings focused in securities issued by Ontario and Quebec. CC&L feels these provinces are well positioned to benefit from lower oil prices.
- The fund doesn't currently own any high yield bonds (those rated BB or lower), although the manager feels they have become more attractive. Spreads, or the difference in yield between corporate and government bonds, widened late in the year, prompting a closer look at the sector.
- The fund's stock holdings (28% of the portfolio) produced strong returns in 2014. CC&L's focus is on: (1) the U.S. recovery, through companies such as DH Corp, WSP Global and Russel Metals; (2) consumer activity - which stands to benefit from lower oil prices - through stocks including Loblaw, Canadian Tire and Cineplex, and (3) diversified financial companies, such as TD Bank, Bank of Nova Scotia and Manulife.
- Exposure to energy companies was reduced in the fourth quarter and the fund continues to have no investments in the mining sector.
- New stock purchases in the quarter included Cineplex, Cogeco and Allied Ptys REIT.
- The fund paid a distribution of $0.36/unit at the end of December, bringing the total for the year to $0.60.

Transactions

Buy

Cineplex*
Cogeco*
Allied Properties REIT*

Sell

Parkland Fuel
Vermilion Energy
Tim Hortons

*New Holding

Positioning

- The manager believes interest rate increases will be modest and are factored into market expectations. They feel corporate and provincial bonds are more attractive than federal ones, and that mid-term maturities (7-9 years) offer the best value.
- Stocks continue to comprise more than one-quarter of the portfolio as they remain attractive relative to bonds - corporate profits are strong, interest rates are low and governments around the world are focused on stimulating growth.

Fund size	$94,128,548
Pre-fee Yield	2.9%
Avg Term to Maturity	8.5 yrs
Duration	6.7 yrs

Income Fund

Attributes

Top Holdings (% of Fund)

Holding	%
Ontario 3.15% (06/02/22)	4.3%
Ontario 5.60% (06/02/35)	4.1%
Quebec 3.50% (12/01/22)	3.8%
Ontario 4.70% (06/02/37)	3.5%
BMO 3.40% (04/23/21)	3.1%
CIBC B/A (01/22/15)	2.5%
TD Bank	2.5%
Quebec 3.00% (09/01/23)	2.4%
Natl Bank B/A (02/02/15)	2.3%
Natl Bank B/A (01/26/15)	2.1%

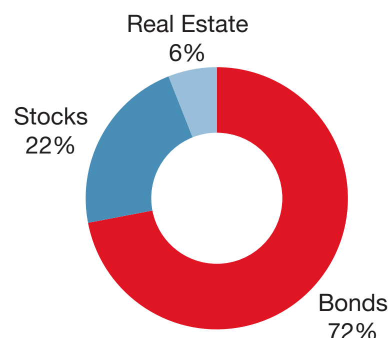
Issuer Allocation (Bonds)

Issuer	%
Federal Gov't Bonds	0.7%
Provincial Gov't Bonds	39.9%
Corporate Bonds	59.4%

Rating Summary (Bonds)

Rating	%
AAA	3.5%
AA	58.5%
A	25.9%
BBB	12.1%
BB (or lower)	0.0%

Asset Mix



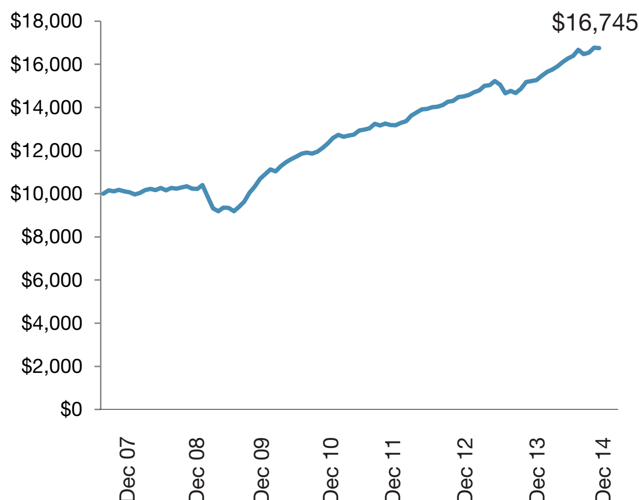
Performance

Compound Annualized Returns (as of Dec 31, 2014)

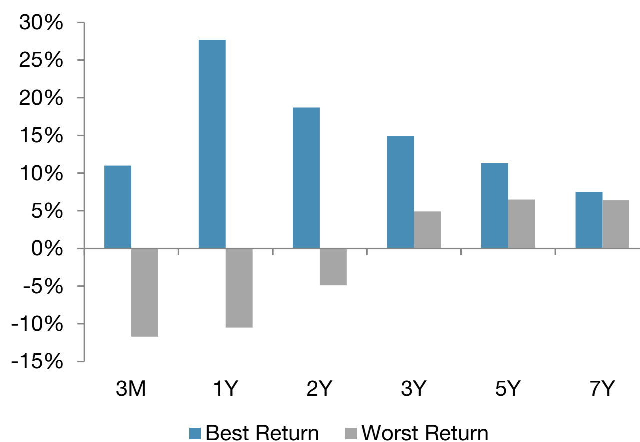
	3M	YTD	1Y	2Y	3Y	5Y	7Y	Incep*
Income Fund	**1.7%**	**9.7%**	**9.7%**	**6.7%**	**7.1%**	**7.9%**	**7.2%**	**6.8%**
FTSE TMX Canada Universe Bond Index	2.7%	8.8%	8.8%	3.7%	3.7%	5.5%	5.6%	5.4%
S&P/TSX Composite Index	-1.5%	10.6%	10.6%	11.8%	10.2%	7.5%	3.8%	4.5%

*Feb 13, 2007

Growth of $10,000 Since Inception



Best and Worst Annualized Returns



Equity Fund

Market Context

- The Canadian stock market (S&P/TSX Composite Index) gained 10.6% in 2014. Consumer, industrial and technology stocks had a strong showing, while energy and mining stocks were notable areas of weakness.
- The MSCI World Index was up 15.1% in Canadian dollar terms.

The fund was up 13.2% in 2014. Since inception (Feb 2007), it has a cumulative return of 55%, which equates to an annualized return of 5.7%.

Portfolio Specifics

- The fund holds 24 stocks, of which 52% are headquartered in Canada, 25% in the U.S., 19% overseas, and 4% in Mexico.
- A focus on higher-quality businesses with leading market positions led to another year of strong performance. The top contributors were Loblaw (retailing), CN Rail (freight), CVS Health (retailing & healthcare) and Franco-Nevada (gold).
- U.S. holdings were a key area of strength, as globally-diversified companies including Mead Johnson (infant nutrition), Visa (payments) and Oracle (software; sold) continued to produce strong earnings. A weaker loonie also boosted returns from foreign stocks.
- Consumer-focused businesses continued to execute well. CVS, Mead Johnson, Starbucks and Loblaw all had a good year (Loblaw benefited in particular from its acquisition of Shoppers Drug Mart).
- Energy holdings had a rough second half of the year as the price of oil tumbled. The commodity had a dramatic turn, falling from $105 USD in the summer to under $55 at year-end. Baytex Energy suffered a substantial fall and was sold. Pason Systems and Birchcliff Energy also experienced large price declines, yet these stocks saw strong gains earlier in the year and were little changed in 2014.
- Investments in emerging markets struggled this year. FEMSA (Latin American retailer) and Dairy Farm Int'l (Asian retailer) saw slower growth in their operations and modest share price declines. CGOV continues to like the positioning of these companies in regions with rising incomes and consumer spending.
- One new stock was added to the portfolio in the fourth quarter, PrairieSky Royalty (see page 16). Two stocks were sold, Baytex Energy (debt issues) and Mead Johnson (strong performance) while Ritchie Bros. and Toromont were trimmed.
- The fund currently has a cash position of 4%.

Transactions

Buy

PrairieSky Royalty*
Birchcliff Energy
Pason Systems

Sell

Baytex Energy
Mead Johnson
Ritchie Bros. Auctioneers

*New Holding

Positioning

- The composition of the portfolio saw little change in 2014. Focus remains on best-in-class companies across a broad range of industries. The manager is finding opportunities in the industrial, consumer, financial and energy sectors in particular.
- U.S. and overseas stocks remain an important part of the portfolio, providing exposure to leading global consumer brands.

Fund size	$61,519,928
No. of stocks	24

Equity Fund

Attributes

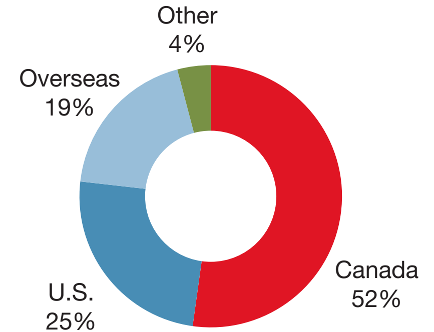
Top Stock Holdings

TD Bank	6.1%
Suncor Energy	5.8%
CVS Health	5.7%
Visa	5.1%
Ecolab	4.5%
Starbucks	4.4%
Franco-Nevada	4.2%
Loblaw Companies	4.2%
Lincoln Electric	4.1%
Novozymes	4.0%

Sector Allocation (Stocks)

Industrial Goods & Svc	27.7%
Financial Services	18.1%
Retailing	17.8%
Oil & Gas	16.2%
Basic Materials	8.2%
Consumer Products	7.9%
Healthcare	4.1%

Geographic Profile (Stocks)



Performance

Compound Annualized Returns (as of Dec 31, 2014)

	3M	YTD	1Y	2Y	3Y	5Y	7Y	Incep*
Equity Fund	**0.7%**	**13.2%**	**13.2%**	**18.1%**	**17.3%**	**12.1%**	**6.1%**	**5.7%**
S&P/TSX Composite Index	-1.5%	10.6%	10.6%	11.8%	10.2%	7.5%	3.8%	4.5%
MSCI World Index ($Cdn)	4.7%	15.1%	15.1%	25.2%	21.3%	13.1%	6.3%	4.2%

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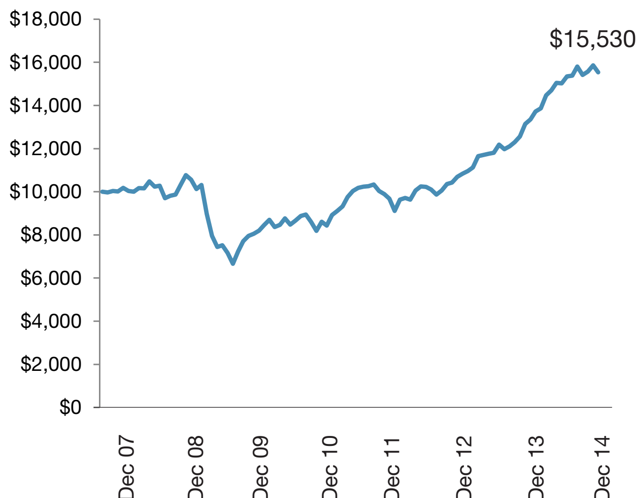
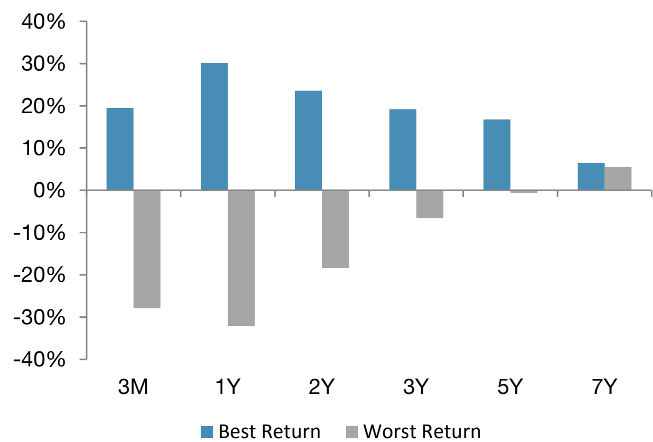
Growth of $10,000 Since Inception



Best and Worst Annualized Returns



Global Equity Fund

Market Context

- The MSCI World Index rose 15.1% in Canadian dollar terms in 2014.
- The U.S. market was a key area of strength and the loonie fell 8% against the U.S. dollar, which further boosted returns from American stocks. On balance, European and Asian markets advanced, although gains were more modest.

The fund was up 4.0% in 2014. Since inception (Feb 2007), it has a cumulative return of 9%, which equates to an annualized return of 1.1%.

Portfolio Specifics

- The fund holds 41 stocks across 15 countries. Asian stocks make up 48% of the fund, while Europe accounts for 39% and the U.S. 12%. The emphasis on Asia and Europe, rather than the U.S., held back the fund's return in the year. Indeed, it was a double-whammy, as not only did U.S. stocks do well, but the greenback was strong too.
- Japan remains the largest area of investment. Focus is on both export-oriented companies that are benefiting from a weaker Yen (Toshiba, Toyota, Yamaha, Bridgestone) and those geared towards a recovery in the local economy (Sumitomo Mitsui, East Japan Railway). The fund's holdings performed well in the year, although a falling Yen detracted from returns in Canadian dollar terms.
- Despite negative headlines in Europe, the manager (Edinburgh Partners Ltd.) is finding good investment opportunities. Stocks in the region are cheaper than their American counterparts and EPL is seeing value in a range of companies. European holdings performed well in general, with Intesa Sanpaolo (banking), Nutreco (animal nutrition) and AstraZeneca (pharmaceuticals) being the standouts in the year.
- U.S. stocks were reduced in the year, and now comprise 12% of the fund (down from 20%). Although many holdings have performed well, they've grown expensive and are at greater risk of loss if profit margins or valuations come down to more normal levels.
- The manager is trimming exposure to certain cyclical stocks (companies closely tied to economic growth such as auto makers and travel & leisure businesses) and directing proceeds to more defensive stocks, healthcare in particular.
- One new stock was purchased in the fourth quarter, BNP Paribas, a French bank with several strong franchises in Europe. Two stocks were sold: Indra Sistemas (its Brazilian business is struggling) and KPN (divested its German operations for cash and shares). Additional shares were purchased in Samsung, BG Group and HSBC, among others.
- The fund currently has a cash position of 6%.

Transactions

Buy

BNP Paribas*
Samsung
BG Group

Sell

Indra Sistemas
KPN
Heineken

*New Holding

Positioning

- The fund has an increasingly contrarian composition, with its greater emphasis on Asian and European stocks as compared to U.S. ones. The bias toward the former regions is strictly valuation based (the manager is finding cheaper stocks there).
- Direct investments in the emerging markets comprise roughly 15% of the fund. The manager is finding opportunities, but is being very selective given the risks from governments and currencies.

Fund size	$52,714,131
No. of stocks	41

Global Equity Fund

Attributes

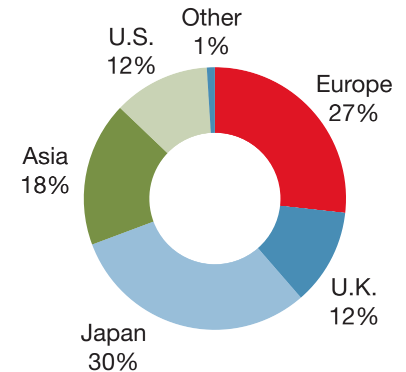
Top Stock Holdings

Swire Pacific	3.0%
Sumitomo Mitsui Trust	2.9%
Novartis	2.9%
DBS Group	2.8%
Sumitomo Mitsui Fin'l	2.7%
Microsoft	2.6%
Toshiba	2.6%
Vodafone	2.5%
KDDI	2.5%
Johnson Controls	2.5%

Sector Allocation (Stocks)

Financial Services	26.7%
Industrial Goods & Svc	18.5%
Consumer Cyclical	14.7%
Healthcare	13.3%
Technology	9.4%
Consumer Products	6.5%
Oil & Gas	5.5%
Comm. & Media	5.4%

Geographic Profile (Stocks)



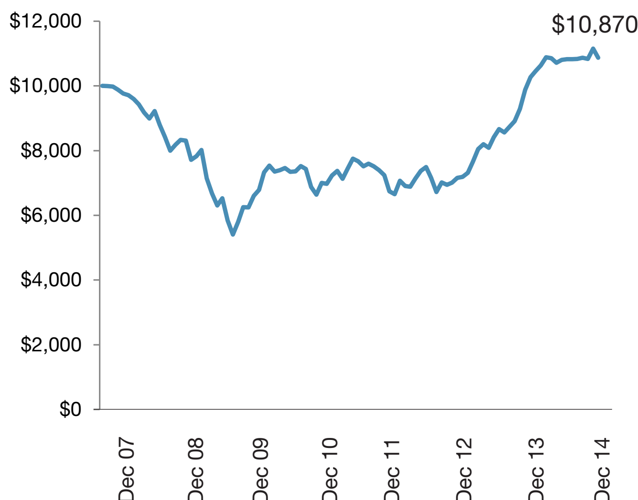
Performance

Compound Annualized Returns (as of Dec 31, 2014)

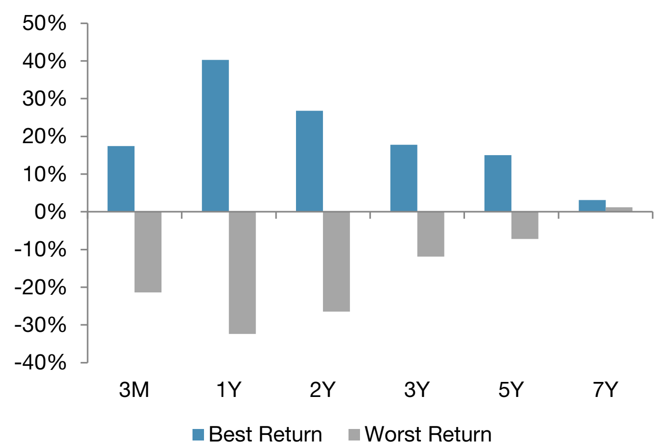
	3M	YTD	1Y	2Y	3Y	5Y	7Y	Incep*
Global Equity Fund	**0.0%**	**4.0%**	**4.0%**	**19.2%**	**16.5%**	**7.8%**	**3.1%**	**1.1%**
MSCI World Index ($Cdn)	4.7%	15.1%	15.1%	25.2%	21.3%	13.1%	6.3%	4.2%

*Feb 13, 2007

Growth of $10,000 Since Inception



Best and Worst Annualized Returns



Small-Cap Equity Fund

Market Context

- The Canadian small-cap market (BMO Small Cap Index) declined 0.1% in 2014.
- Energy stocks were the weakest performers. Oil producers were hit particularly hard, as the price of the commodity fell 45%.

Portfolio Specifics

- The fund holds 17 stocks, with market capitalizations ranging from $80 million (Eagle Energy Trust) to over $3 billion (MacDonald Dettwiler). Eleven of the 17 holdings are under $1 billion. Fifteen are Canadian and two are American.
- The portfolio had a weak year, primarily due to its exposure to energy companies and poor stock selection in the sector. The steep drop in the price of oil during the second half of the year had a large impact on smaller producers such as Eagle Energy and TransGlobe Energy. Total Energy Services (supplier of oilfield rental services) was also impacted. Oil & gas holdings make up roughly one-quarter of the portfolio.
- The manager (Wil Wutherich) doesn't speculate on where the price of oil will go in the short term; rather, his focus is on companies that have attractive assets (valuable reserves and favourable geology), strong growth potential and balance sheets strong enough to survive a period of weak oil prices. The solution to low oil prices is often low oil prices (survival of the fittest), and Wutherich is comfortable with all of the fund's holdings, save for one oil producer that is struggling with debt.
- Aside from resource investments, most holdings are producing strong operating results. Valuations remain reasonable, but bargains are hard to come by.
- The greatest contributors to performance were Hawaiian Holdings, MacDonald Dettwiler and Parkland Fuel. Hawaiian (the parent of Hawaiian Airlines) was the standout, and was sold in the fall after more than doubling over the past 18 months.
- Turnover in the portfolio was low in the first half of the year. As volatility in the resource sector increased in the second half, a few changes were made. Notably, two oil stocks were purchased - Arsenal Energy (a Canadian producer that also has operations in North Dakota), and Gran Tierra Energy (a South American producer). New Gold (a North American gold producer) was also purchased.
- The fund currently has a cash position of 12%.

Positioning

- Industrial, energy and technology companies continue to comprise the majority of the fund's stocks (75%).
- While the downturn in commodity prices has been unkind to the portfolio, it has enabled the manager to purchase three good quality companies at reasonable prices. The fund still has ample cash when further opportunities arise.

The fund was down 6.3% in 2014. Since inception (Feb 2007), it has a cumulative return of 88%, which equates to an annualized return of 8.4%.

Transactions

Buy

Gran Tierra Energy*
New Gold
Medical Facilities

Sell

Hawaiian Holdings
Parkland Fuel

*New Holding

Fund size	$48,572,000
No. of stocks	17

Small-Cap Equity Fund

Attributes

Top Stock Holdings*

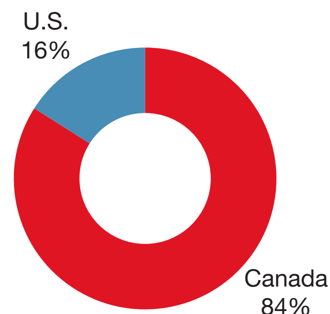
CBIZ	7.8%
MacDonald Dettwiler	7.2%
Medical Facilities	7.0%
Stantec	6.8%
Pure Technologies	6.7%
Total Energy Services	6.6%
Hibbett Sports	5.5%
Parkland Fuel	5.1%
ZCL Composites	5.0%
HNZ Group	5.0%

*As of Oct 31

Sector Allocation (Stocks)

Industrial Goods & Svc	31.5%
Oil & Gas	26.4%
Technology	16.8%
Basic Materials	9.6%
Healthcare	8.5%
Retailing	7.2%

Geographic Profile (Stocks)



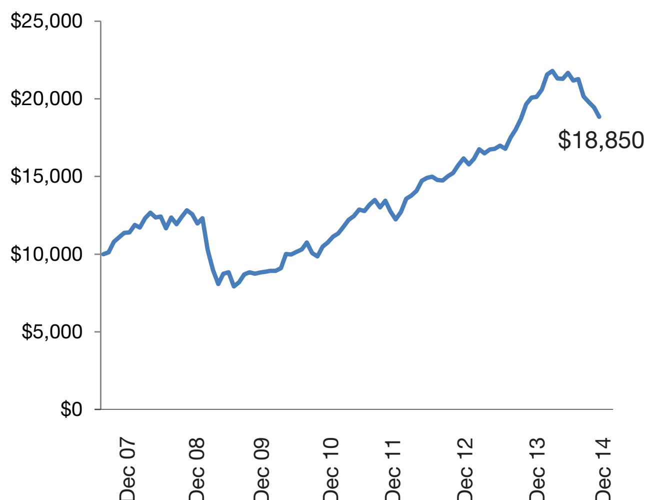
Performance

Compound Annualized Returns (as of Dec 31, 2014)

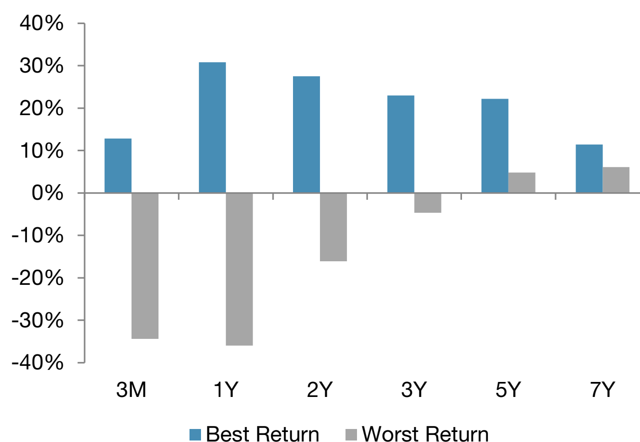
	3M	YTD	1Y	2Y	3Y	5Y	7Y	Incep*
Small-Cap Equity Fund	**-6.5%**	**-6.3%**	**-6.3%**	**8.1%**	**11.0%**	**13.5%**	**6.1%**	**8.4%**
BMO Small Cap Index	-7.3%	-0.1%	-0.1%	3.8%	3.3%	5.6%	3.0%	2.5%

*Feb 13, 2007

Growth of $10,000 Since Inception



Best and Worst Annualized Returns



Savings Fund

Market Context

- The Bank of Canada left its key short-term lending rate unchanged in 2014. It has remained anchored at 1.0% for the past four years.
- There are positive signs that the economic recovery is broadening (increased business investment, low unemployment). Yet, household imbalances still exist (i.e. high levels of debt) and the central bank feels this presents a significant risk to financial stability, thereby justifying the current low borrowing rate.

Positioning

- The manager (Connor, Clark & Lunn) continues to favour exposure to shorter-term bankers' acceptance notes and corporate notes. They are carefully monitoring the spread between provincial and federal T-Bill rates to rotate back into the provincial segment as the relative valuation becomes more attractive.
- The pre-fee yield of the fund at the end of December was 1.2%.

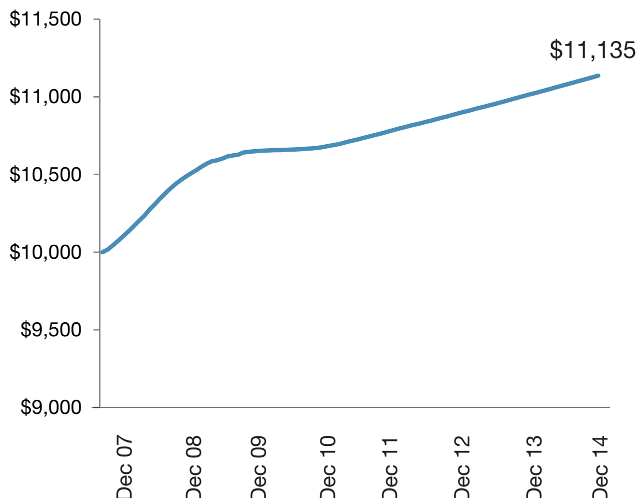
Performance

Compound Annualized Returns (as of Dec 31, 2014)

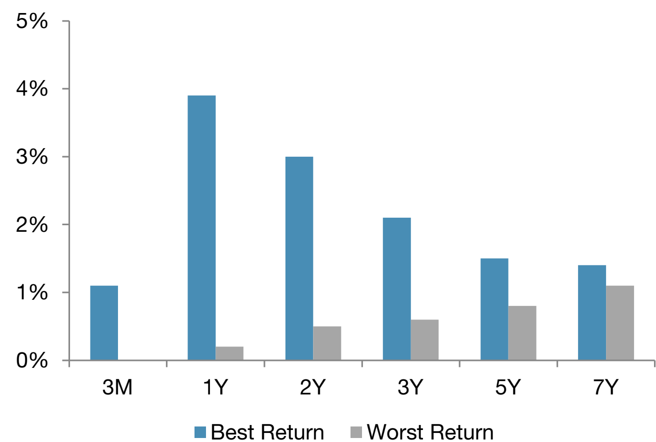
	3M	YTD	1Y	2Y	3Y	5Y	7Y	Incep*
Savings Fund	**0.3%**	**1.0%**	**1.0%**	**1.0%**	**1.0%**	**0.9%**	**1.1%**	**1.4%**
FTSE TMX Canada 91 Day T-Bill Index	0.2%	0.9%	0.9%	1.0%	1.0%	0.9%	1.2%	1.6%

*Feb 13, 2007

Growth of $10,000 Since Inception



Best and Worst Annualized Returns



Stock Snapshot

Overview

PrairieSky Royalty Ltd. owns over 5 million acres of fee simple mineral title land in Alberta. The company encourages third parties (energy producers) to develop these properties in exchange for royalty revenues. In doing so, PrairieSky has no capital commitments, operating costs or liabilities associated with the production of oil and gas on its lands.

PrairieSky's land base extends from southern Alberta to Edmonton, and its current list of operators includes Canadian Natural Resources, ConocoPhillips, Crescent Point, Husky, Encana and Pengrowth, among others. It was spun out from Encana in May 2014.

The stock is held in our Equity Fund (3.4% position size). It was purchased in December following a sharp drop in its share price amidst the pronounced volatility in the energy sector.

Investment Case

PrairieSky is a unique asset for oil and gas exposure. It has a simple business model, earning over 95% of its revenue from fee simple title land (lands on which it owns the mineral rights in perpetuity). The company receives revenues from over 200 companies developing resources in over 30 geologic horizons. Revenues are split approximately 50/50 between oil and gas, and it has no capital spending requirements to grow production (lessees take on all capital costs). The nature of its business, therefore, results in a lower risk profile than other companies operating in the energy sector as it is not as sensitive to commodity prices. Further, it has a vast asset base that can't be replicated and fee simple title that never expires.

The company has attractive potential catalysts in the near term, namely: (1) a large amount of land that is scheduled to revert back to PrairieSky in the next 3 years and can be re-leased at higher rates; and (2) greater use of its lands by companies developing new drilling technologies (water floods and horizontal drilling).

A strong management team is also a key attraction of the stock. PrairieSky's management and Directors own $40 million worth of stock and their interests are closely aligned with shareholders. Management has expertise in managing royalty assets and intends to operate the company with no debt and keep a conservative dividend payout ratio to withstand fluctuations in commodity prices and/or drilling activity.

Risks to Outlook

PrairieSky's greatest potential headwinds include a prolonged slowdown in exploration and drilling activities and low commodity prices.

An interesting fact: PrarieSky's fee simple lands date back to 1881, when they were granted to the Canadian Pacific Railway by the Dominion of Canada in consideration for completing the railway.

PrairieSky: Price History

PrairieSky was spun out from Encana on May 29, 2014.

From the Blog: Oil - A Bittersweet Tale

Published December 30th

Oil is the topic of the day. It's in every section of the newspaper and rivals the weather for Christmas party conversation. And the price at the pump is all the rage.

Well, I'm not here to tell you what's going to happen to oil or oil and gas stocks. I can't predict when the price will bottom or at what level. I certainly don't know when the rebound will come. But I can provide some perspective on this slippery topic.

Wow, that was fast

Wow indeed. I can't think of many/any economic or market cycles that turned so dramatically. In his latest client letter, Howard Marks addresses the speed of the drop with a quote from economist Rudiger Dornbusch – *"In economics things take longer to happen than you think they will, and then they happen faster than you thought they could."*

It's the cycle Baby!

While I don't know what's going to happen in the near term, I do know that oil is cyclical and as such, is highly sensitive to changes in supply and demand. Lower prices will spur additional demand and undoubtedly reduce supply. The business news is full of energy companies announcing significant cuts to their capital spending budgets. The impact on supply in the next few years will be meaningful. The more jolting and stressful the downturn, the more powerful the recovery.

As for this cycle, we need to keep the $40-50 price decline in perspective. By most measures, $60 is too low a price (below the cost of production in many regions) and is not sustainable, but we shouldn't get anchored on $100 either. It was probably too high. For whatever reason (geopolitical uncertainty I presume), the price stayed high for an extended period even though the world was awash with oil.

A number of analysts have suggested that the rebound will take longer to come because this downturn has been 'supply driven' (too much oil for sale) as opposed to demand driven. Suppliers of oil can't react to price changes as quickly as consumers do. I'm not sure whether I buy this line of thinking or not. Time will tell.

Good until it's not

Lower oil prices will be good for the world economy, and ultimately diversified portfolios. Oil-producing regions like Alberta are taking a hit, as are oily portfolios, but most of the world is getting a much-needed boost. The energy dividend the U.S. was enjoying over the last couple of years (plentiful, cheap natural gas) has now spread to the rest of the world.

There is a caveat that comes with this view, however. Low oil prices could be a bad thing if they cause a major disruption to the world economy – i.e. Russia and Venezuela go broke, banks become less accommodating and uncertainty pervades business and consumer spending. The world economy has a shaky foundation due to high debt loads, and is not likely to deal with vibration very well.

Be careful. It's contagious.

At the early stages of any economic trend, the potential for contagion to other parts of the economy is usually underestimated. For instance, if Alberta were to go through a difficult time, the job losses, fiscal deficits, bankruptcies and lower housing prices would be felt well beyond its borders.

Dividends – not a valuation tool

Speaking of contagion, dividend cuts have become an epidemic in the oil patch. It's been interesting to watch investors react.

One of the earliest cutters was Canadian Oil Sands (COS). It reduced its dividend rate by 42%. The stock was down 20%, which makes sense ... or does it? Aren't stock prices based on what the underlying company is worth? Was there something in the dividend cut that caused shareholders to significantly alter their long-term forecasts for cash flow, cost of production and years of reserves? Was the outlook for COS really 20% worse on Friday than it was on Thursday, or was the firm being valued on its dividend yield?

Dividends are a good, tax-efficient source of income, but a stock's yield is not a measure of value. At Steadyhand, dividends are an important part of our process – specifically, dividend growth – but the value of the underlying business has to make sense before our managers will buy a stock.

The emperor's clothes

As I've written before, these kinds of dramatic shifts separate the good from the bad, the strong from the weak and the calm from the anxious. So far, the market has been ruthless in battering the companies that have a high cost of production and/or a highly-levered balance sheet. With divergence and disruption comes over-sized investment opportunities. We just don't know how big they'll be and when the payoff will come.

Steadyhand

Where to From Here?

Join Tom Bradley and the Steadyhand team at our Annual Client Presentation next month! Details and RSVP info on steadyhand.com.

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