100% Canadian? **Take off, eh.**

We've got a lot of things to boast about in Canada that make our country a great place in which to invest. Abundant resources, well developed infrastructure, a highly educated work force, a stable political environment, good corporate governance, a solid banking system … the list goes on. Our market is home to some of the world's leading energy and resource companies, our financial institutions are highly profitable, and a number of technology companies are leaving their imprint on the global marketplace (look no further than the Blackberry resting in your holster).

But we don't have it all. In fact, our equity market is quite narrowly led (non-diversified). Consider that (1) we've bred few leaders in the health care sector; (2) you won't find too many Canadian retailers operating outside our borders; and (3) our media and telecom industries are dominated by a handful of players. Not to mention the fact that Canadian businesses are increasingly sliding into the hands of foreign buyers. The S&P/TSX Composite Index is currently dominated by three sectors, and at times has been largely driven by one or two names (we all remember Nortel). While the Canadian market is home to some first-class businesses, it lacks the diversification of larger markets, such as those in the U.S. and Europe.

It's against this backdrop that we structured the mandate for the *Steadyhand Equity Fund*. Rather than investing solely in Canada, we feel it makes sense for a manager to take a 'Canada-centric' approach. This involves looking to the Canadian market for a core of promising ideas, and turning to the U.S. and overseas markets to complement these holdings with companies that aren't available in Canada. This way, if the manager comes across a great investment idea south of the border or across the pond, they can add it to the portfolio. Or, if the outlook for, say, pharmaceutical stocks is too good to ignore but they don't like what the local players have to offer, the manager can look elsewhere. Put simply, the focus is on Canada, but the rest of the world is not out of focus.

With the addition of foreign stocks comes exposure to foreign currencies. While this can dampen returns when the loonie is gaining ground on other currencies, it has the opposite effect when the Canadian buck is trending downwards. At the end of the day, exposure to foreign currencies adds an additional layer of diversification to a portfolio. When the loonie is on the rise (as it has been in recent years), this diversification seems detrimental. However, currencies move in both directions and headwinds can just as quickly turn into tailwinds (just look back to the 90s).

We could liken a Canada-centric approach to building a portfolio with a prudent approach to building a hockey team (what better analogy to use in Canada). We've got some great home-grown players who can form an effective nucleus for a team. But the addition of select American and European skaters can add valuable speed and skill, and can make the team that much better. A good General Manager jumps at the opportunity to improve his team by acquiring a coveted Swede or Czech if the opportunity arises. An equity manager should be able to do the same. While a club full of Canucks may produce great results for a good stretch of time, weaknesses will eventually be exposed. This is why, contrary to what Don Cherry may tell you, it's beneficial to have more than one nationality on your team – and in your fund.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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