# Managed Money Report

PRIVATE CLIENT SOLUTIONS

Spring 2013 Edition

**Mutual Funds & ETFs**

## Inside this Report

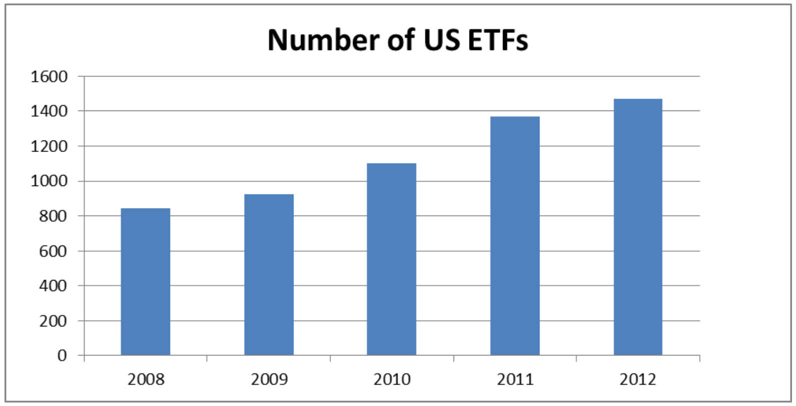



***Jordan Benincasa, LL.B, MBA***
***Mutual Fund & ETF Research***


# Finding Your Niche

Exchange traded funds (ETFs) are no longer just index trackers. With over 1400 ETFs listed in the US and close to 400 listed in Canada, ETFs provide exposure to almost every imaginable nook and cranny within the global financial market. The proliferation of ETFs as an investment vehicle has also brought forth a number of investment strategies to mainstream investors, previously available only to high net worth clients and institutions.

**Growth of US ETF Market: Upward Trajectory**




Source: SourceMedia, Morningstar

Every rose has its thorn. While the wide breadth of the ETF market allows investors to zero in on investment themes and execute investment strategies with exacting precision, increased specialization has led to a few questionable ETFs that offer little investment merit. In this report, we examine the wide world of niche ETFs and point out those that deserve a place in your portfolio and those that deserve a sell order (Cont'd to page two).

### Words of Wisdom

*"I wouldn't have an investment with Ackman if you paid me to do it .... As far as I'm concerned, the guy is a major loser".*

- Billionaire Carl Icahn verbally attacking hedge fund manager Bill Ackman on CNBC's Fast Money Halftime Report. See page nine to access the video link.

### 3 Stats That Matter Now

1. Year-to-date, the Japanese Yen has depreciated an astounding 8.3% in value against the Canadian dollar as the Bank of Japan (BoJ) rolls out its unprecedented monetary stimulus plan to stimulate growth within the Land of the Rising Sun.

2. On April 15, gold suffered its biggest one-day decline since 1983, falling 9.3% to US$1361/oz. The shiny metal is down 16.5% year to date as the precious metals selloff continues..

3. A recent print revealed that Greece's unemployment rate reached 27.2% in January, up from 25.7% in December 2012. Unemployment rates in core euro countries such as Germany and the Netherlands remain relatively low, but joblessness remains a serious problem in countries most affected by the debt crisis such as Greece, Spain, and Italy.

## Single-Country ETFs

Country-specific ETFs are utilized as investment tools to express a bullish view on a particular economy. However, ETFs that track smaller countries should be examined carefully as they may not reflect a country's true economic drivers, but rather simply provide exposure to one or two multinational businesses that have little to no economic ties to their country of origin.

iShares MSCI Belgium Capped ETF (EWK-US) is a case-in-point. EWK is positioned as an ETF that provides exposure to Belgium-listed companies. However, beverage and brewing company Anheuser-Busch InBev (BUD-US) soaks up close to 25% of assets within the portfolio. Despite being headquartered in Belgium, 97% of the brewer's total revenues are derived outside of the Flemish state. Another example of a country-specific ETF missing its mark is iShares MSCI Israel Capped ETF (EIS-US). Not only do top holdings Teva Pharmaceutical Industries (TEVA-US) and Israel Chemicals Ltd. (ISCHY-US) absorb one-third of assets within the portfolio but they do very little business in their country of domicile.

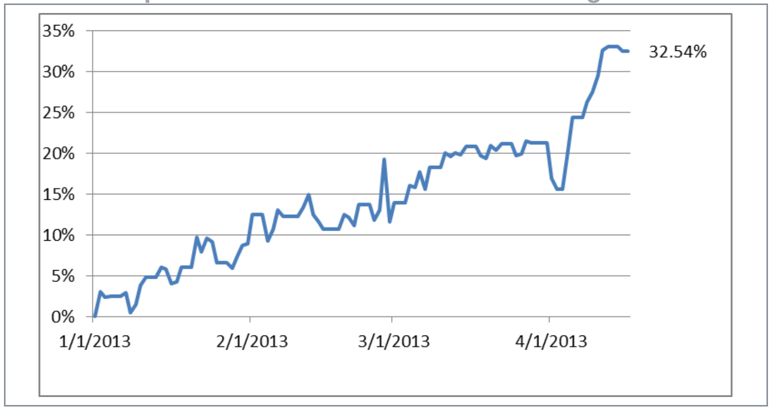
Keeping an eye on sector exposure is also important when investing in single-country ETFs, particularly those that are concentrated in Financials, Energy and Materials. Given that most Canadian equity portfolios are tilted heavily towards these sectors, adding single country ETFs with similar sector weightings will likely increase correlation risk rather than enhance diversification. For example, while iShares MSCI Brazil Capped ETF (EWZ-US) provides a means to benefit from one of the fastest growing emerging markets in Latin America, EWZ's correlation to the S&P/TSX Composite Index over the past five years is 0.85%, which isn't too surprising since EWZ's sector composition is similar to that of the TSX Index.

In terms of a broader-based single-country ETF, iShares Japan Fundamental Index Fund (CAD-Hedged) (CJP-T) remains our top pick. As first highlighted in the Winter 2013 Managed Money Report, we argued that political changes and unprecedented monetary stimulus should bode well for Japanese equities for 2013. Given our cautious stance on the Yen, however, CJP fit the bill perfectly as it provides exposure to Japanese stocks but hedges its Yen exposure back to CAD.

CJP has rallied 24.6% since we made the call effective January 15. Our current recommendation: let it ride. Despite CJP's strong run-up, we believe there is still upside potential. In a lengthy equity strategy report dated April 16, Credit Suisse identified a number of catalysts that could sustain the current rally for the next one to two years. Here's the Coles Notes version:

- Inflation expectations could trigger a massive asset allocation shift into Japanese equities. Currently, 56.0% of all retail assets held in Japan are in cash while pension funds have only 9.7% of assets currently in domestic equities.
- The establishment of economic reform committees (e.g. Industrial Reform Council) will focus on deregulating Japan's energy, agricultural, and healthcare industries, stimulating growth and encouraging foreign investment.
- Cheap market multiples. Japan's price-to-earnings ratio is 11.3% less expensive than the US after adjusting for earnings upgrades as a result of a depreciating Yen.

**iShares Japan Fundamental Index ETF: Strong Momentum**




Source: Morningstar Inc, Raymond James Ltd. As of April 16, 2013

## Actively Managed ETFs

Actively managed ETFs are a small but growing segment of the ETF market. Like mutual funds and hedge funds, actively managed ETFs are run by a portfolio manager or team of investment professionals who seek to outperform their respective benchmark net of fees on a risk-adjusted basis. The main difference is that actively managed ETFs trade on an exchange while a mutual fund is purchased through a business-to-business electronic network (e.g. FundSERV).

For global equity exposure with a dividend tilt, our top pick is Horizons Active Global Dividend ETF (HAZ-T). This ETF is backed by a deep and experienced Guardian Capital management led by Sri Iyer. The team has delivered strong risk-adjusted performance following a quantitatively focused investment process coined as 'Growth, Payout, and Sustainability' (GPS). GPS focuses on three types of dividend-paying stocks:

3 Types of Dividend Paying Stocks

| Type | Description |
| --- | --- |
| Dividend Payers | High yield, stable cash flow, low to modest dividend growth |
| Dividend Growers | Low to median yield, solid dividend growth |
| Dividend Achievers | lower yield, cyclical sectors |

Source: Raymond James Ltd.

The team will overweight or underweight each 'bucket' of dividend-paying stocks depending on where it finds the most value. In our opinion, GPS is a broad and flexible approach that allows HAZ to uncover a wider range of investment opportunities in the dividend space. Conversely, there are a number of dividend-oriented strategies that focus only on high yielding stocks, consequently creating a bias towards certain sectors and investment styles such as Financials and value stocks, respectively.

HAZ is relatively new, having launched in July 2010. However, the management team led by Sri Iyer has forged a stellar track record on an institutional pool with the same investment process and strategy since early 2007. Over that period, the institutional pool has delivered enviable risk-adjusted results.

Calendar Returns of Institutional Pool

| Period | Guardian Global Dividend Pooled Fund | MSCI World Index (Net C$) | Difference |
| --- | --- | --- | --- |
| 2007 | -4.2 | -7.5 | 3.3 |
| 2008 | -18.1 | -26.5 | 8.4 |
| 2009 | 16.3 | 11.1 | 5.2 |
| 2010 | 9.5 | 6.2 | 3.3 |
| 2011 | 5.8 | -3.4 | 9.2 |
| 2012 | 6.8 | 13.3 | -6.5 |

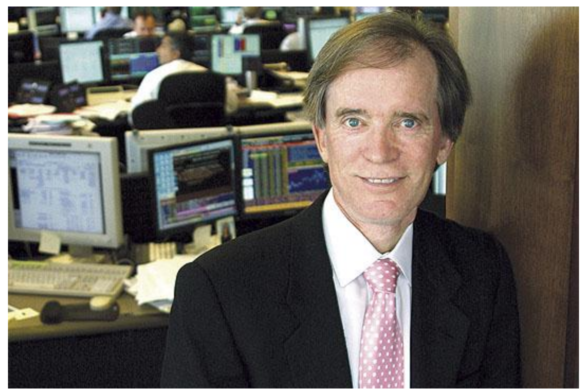
Source: Guardian Capital

The mutual fund version of HAZ, BMO Guardian Global Dividend Class, is a member of the Raymond James Focus List of Mutual Funds and a core position within the Freedom Enhanced Income Portfolios. This strategy is also available as a separately managed account (SMA) through the Partners Program. As such, it goes without saying that Guardian's global dividend strategy is one of our highest conviction ideas available on our managed money platform.

At US$4.9 bln in assets under management, PIMCO Total Return ETF (BOND-US) is the largest actively managed ETF, and for good reason. It is overseen by co-Chief Investment Officer Bill Gross and his investment team at California-based PIMCO, a fixed income firm heralded for its intellectual capital and precise duration calls.

While BOND is large relative to other ETFs, it pales in comparison to PIMCO's flagship US$290 bln mutual fund which bears the same name and abides by a very similar investment strategy but it is only available to US residents. Because of BOND's svelte asset base, Gross can take larger positions in his top ideas and maintain a more concentrated portfolio. To wit, the mutual fund holds 19,309 positions while BOND is comprised of only 830 holdings.

Bond Guru Bill Gross



Source: Pacific Investment Management Company LLC

While the ETF has a limited track record, BOND has significantly outperformed its benchmark since launching in February 2012. The fund has produced an annualized return of 12.1% while the Barclays Capital US Aggregate Index, a popular benchmark for US bonds, produced 3.0% over the same period.

BOND is comprised mainly of US government debt and mortgages though Gross has the flexibility to invest up to 10% of the portfolio in non-investment grade credit and up to 15% in emerging markets debt.

### Alternative Beta ETFs

Rather than tracking the performance of traditional market-cap weighted benchmarks such as the S&P 500 Index or the S&P/TSX Composite Index, alternative beta ETFs follow a rules-based index intended to produce stronger absolute performance or superior risk management returns. **Fundamental indexing** and **equal-weight benchmarking** are two well recognized alternative beta strategies that have flourished over recent years.

The basic premise of fundamental indexing is that by focusing on factors other than a company's market-capitalization, a more accurate reflection of a company's true worth can be attained, leading to a more thoughtfully constructed benchmark and in turn, better performance. One of our favourite fundamental index ETFs is PowerShares FTSE RAFI US 1000 Portfolio (PRF-US), which relies on metrics such as book value, cash flow, sales, and dividends (the higher the better) to weight US-listed equities. According to RAFI, PRF's factor-based strategy takes advantage of irrational market behaviour by reducing exposure to stocks that are expensive and increasing weightings in companies whose prices have lagged (i.e. buying cheaply valued stocks). This approach results in a 'buy-low, sell-high' strategy with strong value style undertones.

Equal weighted benchmarking is also a popular form of alternative beta. As the name suggests, an equal weight approach assigns the same percentage weightings to each constituent stock and rebalances all constituents within the index to equal weight on a regular basis, typically every three to six months. Recent studies have shown that equal weight indexing outperforms market cap-weighted methodologies for a variety of reasons such as higher exposure to smaller cap stocks and a tilt towards companies sporting lower valuations.

For domestic large-cap equity exposure, our top equal-weight ETF pick is Horizons S&P/TSX 60 Equal Weight Index ETF (HEW-T), which provides equal weight exposure to the 60 constituents within the S&P/TSX 60 Index. Since its July 14th 2010 inception, HEW has produced a 10.1% cumulative total return, outperforming the vastly popular C$12.1 bln iShares S&P/TSX 60 Index Fund (XIU-T) by 2.5%. While a few percentage points may not seem like much, indexing is a game of inches where every basis point counts.

### ETFs Gone Wild

Every so often we come across a niche ETF that is either structurally flawed or poorly designed. Below we highlight three such ETFs:

**FocusShares ISE Revere Wal-Mart Supplier Index Fund**

*Strategy*: Tracks an index of suppliers that derive a significant portion of their revenue from Wal-Mart (WMT-US).

*Comments*: With Wal-Mart having the reputation to squeeze every possible penny from its suppliers, particularly companies who rely heavily on the retail giant to generate sales, it's no surprise that this half-baked ETF was shut down in early 2012 due to lack of investor interest.

**Horizons S&P 500 VIX Short-Term Futures ETF (HUV-T)**

*Strategy:* Increases in value when market volatility rises.

*Comment*: This volatility ETF maintains exposure to the VIX futures market, not the VIX spot price. Given that the VIX futures market is typically in contango (upward sloping future curve), HUV is forced to sell cheaper near-term contacts and replace them with more expensive contracts that expire further out on the curve. This buy-high sell-low scenario creates a negative yield roll, consequently having a negative impact on HUV's performance. Since its December 2010 inception, HUV is down a whopping 85.8% while the VIX index dropped by only 5.1%.

**PowerShares Lux Nanotech Portfolio**

*Strategy:* Holds companies related to nanotechnology.

*Comment:* Interesting concept, flawed execution. Based on our analysis, only 28.2% of assets are invested in pure-play nanotechnology stocks. The rest of the portfolio is mostly held in blue chip names like Hewlett-Packard Co. (HPQ-US), Toyota Motor Corp (TM-US), and General Electric (GE-US). Perhaps an argument can be made that these companies use nanotechnology in their business, but they are definitely not nanotech pure-plays.

***Jordan Benincasa, LL.B, MBA***
***Mutual Fund & ETF Research***

## Industry Happenings

- **2013 Federal budget kills tax efficient bond funds.** The 2013 federal budget proposed new rules that will eliminate the tax efficiency of 'capital yield' bond mutual funds and exchange-traded funds that use forward contracts to re-characterize interest income into tax friendly capital gain distributions. Funds that enter into a forward agreement on or after March 21, 2013 will no longer be able to provide this tax advantage to unitholders. Full Story
- **Dynamic Funds ends longstanding relationship with Barry Allen.** After a partnership that lasted over a decade, Dynamic Funds cut its ties with Toronto-based Marret Asset Management, headed by Barry Allen who subadvised on a number of Dynamic fixed income funds. In-house portfolio managers Marc-Andre Gaudreau, Olivier Marquis, Alexandre Mathieu and Roger Rouleau will take over roughly C$3 bln of client assets. Part of the decision to internalize assets is to cut costs on subadvisory fees. Full Story
- **New player in the Canadian ETF space**. First Trust is poised to become the eighth entrant in the Canadian ETF market, filing premilinary prospectus for five ETFs, four of which will employ First Trust's proprietary AlphaDEX methodology that screens companies on the basis of growth and value factors. Full Story
- **TD Asset Management shakes up its Canadian equity team**. Aimed at bolstering bench strength, TDAM reorganized its portfolio management team on many of its Canadian equity mandates, appointing a new team leader, Anish Chopra, and letting go of veteran Canadian equity manager John Smolinski. Full Story

## New & Notable Product Launches

### Mutual Funds

- Barometer Income Advantage Fund seeks to provide tax-efficient returns through exposure to a tactical portfolio that generates income and dividends and long-term growth by investing in a combination of equity and fixed income securities anywhere in the world.
- Brandes Lazard Global Equity Income focuses on total return while aiming to manage risk, giving access to Lazard Asset Management's best yielding, highest conviction ideas. The portfolio will typically hold 60-100 stocks while targeting a minimum 5% average portfolio yield.
- IA Clarington Sarbit Activist Opportunities pursues long-term capital growth through investing primarily in US companies. The portfolio manager seeks to invest in companies where an activist investor has disclosed an intention to influence the management of the company to unlock shareholder value.
- RBC QUBE Low Volatility Global Equity Fund is designed for investors who are seeking a defensive core equity investment with the potential to earn equity-like returns, but with less volatility than a traditional global equity portfolio.

### ETFs - Canada

- BMO US Dividend (ZDY-T) provides exposure to a yield-weighted portfolio of US dividend paying stocks. ZDY utilizes a rules-based methodology that considers the three-year dividend growth rate, yield, and payout ratio to invest in US equities.
- Horizons Auspice Broad Commodity Index ETF (HBR-T) seeks investment results that correspond to the performance of the Auspice Broad Commodity Excess Return Index, hedged to CAD. The Index is a commodity futures-based index that offers diversified, tactical long exposure to up to 12 different commodity futures in the energy, metals and agricultural sector.
- iShares S&P Global Industrials Index Fund (CAD-Hedged) (XGI-T) seeks to provide long-term capital growth by replicating, to the extent possible, the performance of the S&P Global 1200 Industrials Canadian Dollar Hedged Index, net of expenses.

### ETFs - US

- PIMCO Foreign Currency Strategy ETF (FORX-US) is an actively managed portfolio providing exposure to non-US currencies that includes RUB, NOK, BRL and MXN. FORX is poised to benefit if the US dollar depreciates.
- Global X SuperDividend ETF (SDIV-US) tracks the performance of 100 equally weighted companies that rank among the highest dividend yielding equity securities in the world. The Index also applies a number of dividend stability filters to mitigate the risk of the dividend being cut.
- VelocityShares Emerging Asia DR ETF (ADSR-US) seeks to provide investment results that correspond generally, before fees and expenses, to the performance of the BNY Mellon Emerging Asia DR Index. Top country exposures include South Korea (34.7%), China (31.5%), Taiwan (17.9%) and India (14.0%).

# Focus List Spotlight: EdgePoint Global Portfolio

## Investment Objective

EdgePoint Global Portfolio, current member of the Raymond James Focus List of Mutual Funds, seeks to provide long-term capital appreciation by investing primarily in global companies that have strong competitive positions and long-term growth prospects, run by strong management teams. The portfolio management team acquires ownership stakes in these companies at prices below their assessment of the company's true value.

## Portfolio Managers

Tye Bousada, Ted Chisholm, Geoff MacDonald, Frank Mullen

## Key Points

- Toronto-based EdgePoint Wealth Management is an independent, employee-owned investment firm founded by former Trimark managers Geoff MacDonald, Tye Bousada, Patrick Farmer, and Bob Krembil.
- Prior to founding EdgePoint, the portfolio managers built successful track records running Canadian and global equity mandates at Trimark.
- Management abides an investment philosophy that focuses on high quality businesses trading at reasonable valuations. Management abides by an all cap 'go-anywhere' strategy to seek investment opportunities within the US and international equity markets.
- The fund is fairly concentrated in management's highest conviction ideas. The portfolio typically holds 35-40 positions at any given time.

## Top Investment ideas

**Altera Corp (ALTR-US)**

*Why they like it*

- Altera is a leader in custom logic solutions specializing in programmable logic devices (PLD). Altera has developed a multi-purpose chip with significantly lower costs than the ASIC chip - a market that is eight to 10 times the size of the programmable logic market. While ASIC is a single-purpose chip with extremely high development costs, Altera has developed a multi-purpose chip at a fraction of the cost.
- EdgePoint believes that the company can be much larger in the future without relying on economic growth. Altera has tripled its market share in the last 10 years. It is growing significantly faster than its closest competitor and at approximately three times the rate of the semi-conductor industry.
- Altera is a company with attractive margins, high barriers to entry that is trading at approximately 10x earnings net of cash.

**AMN Healthcare Services Inc. (AHS-US)**

*Why they like it*

- AHS is the largest healthcare staffing company in the United States. It is the leader in travel nurse placement as well as temporary physician staffing and physician permanent placement services. In the last few years, AHS has increased its market share at the cost of its weaker competitors, many of whom have gone out of business.
- As people age, their use of healthcare services increases exponentially. AHS will benefit the large contingent of aging baby boomers as well as a shortage of nurses and doctors (40% of nurses and 50% of doctors are over the age of 50).
- AHS has also been the beneficiary of a cost-cutting trend at hospitals. Specifically, hospitals have gone from using multiple placement providers to using one, and AHS has become the obvious choice to be the single-source provider due to its scale and capacity to service the hospitals
- AHS is trading for less than 10x earnings. Within three years, EdgePoint expects the company to generate earnings of approximately US$1.50/sh. In fiscal year 2012, AHS produced US$0.38/sh.

## EdgePoint Global Portfolio: Portfolio Characteristics

### Portfolio Multiples

| Portfolio Stats | Fund | Benchmark |
|---|---|---|
| Dividend Yield % | 1.5 | 2.8 |
| P/E | 13.8 | 16.8 |
| P/B | 1.6 | 1.8 |
| P/S | 0.8 | 1.5 |
| ROE | n/a | n/a |
| 3 Year EPS Growth | n/a | n/a |

### Performance

| Time Periods | Fund | Benchmark |
|---|---|---|
| YTD % | 15.2 | 8.7 |
| 1 Yr % | 12.1 | 15.5 |
| 2 Yr Annl % | 8.2 | 7.1 |
| 3 Yr Annl % | 8.7 | 8.8 |
| 5 Yr Annl % | n/a | n/a |
| 10 Yr Annl % | n/a | n/a |

### Top Five Holdings

| Company Name | Weighting % |
|---|---|
| Wells Fargo & Co. | 5.6 |
| Alere Inc. | 5.0 |
| Altera Corp. | 4.4 |
| JPMorgan Chase & Co. | 4.3 |
| International Rectifier Corp. | 4.2 |

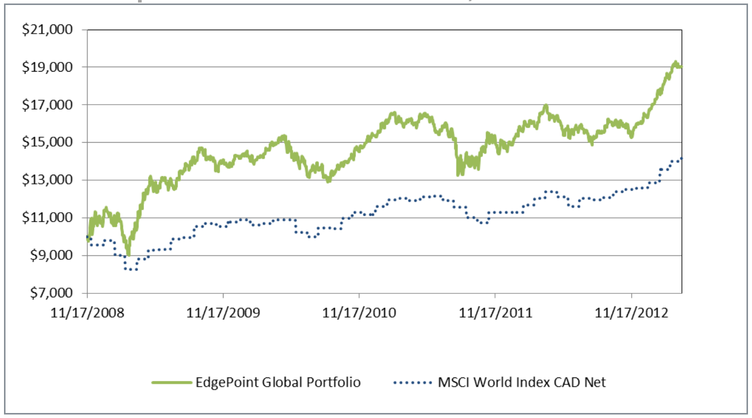
### Geographic Allocation

| Region | Weightings % |
|---|---|
| US | 66.6 |
| International | 18.9 |
| Cash & other net assets | 14.5 |

### Sector Allocation

| GICS Sector | Weightings % |
|---|---|
| Energy | 0.4 |
| Materials | 0.0 |
| Financial Services | 16.0 |
| Industrial | 17.5 |
| Consumer Discretionary | 11.1 |
| Consumer Staple | 0.0 |
| Health Care | 14.9 |
| Information Technology | 26.0 |
| Telecommunications | 0.0 |
| Utilities | 0.0 |
| Cash & other net assets | 14.1 |

### Since Inception Growth Chart: C$10,000



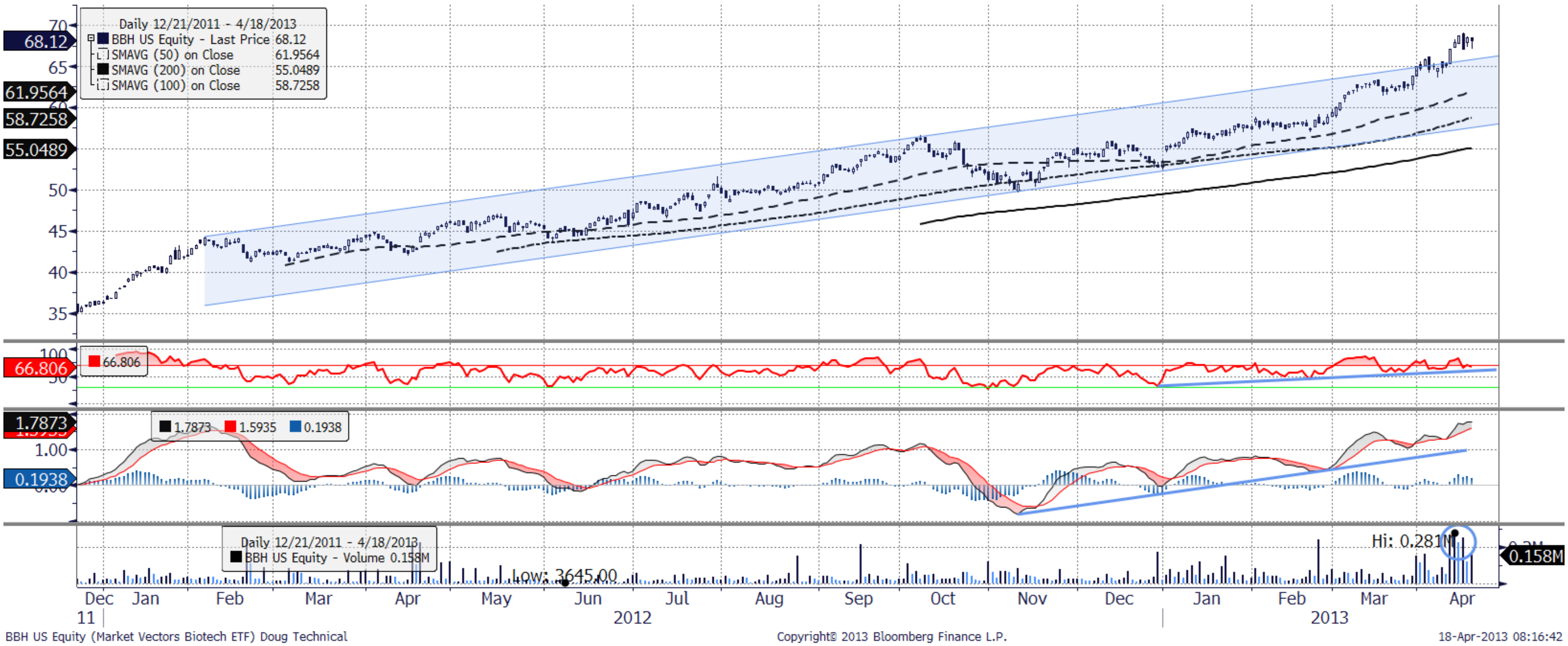

Source: EdgePoint, Morningstar

Benchmark: MSCI World Index Net (CAD)

As of March 31, 2013

## ETF Trader

**Market Vectors Biotech ETF (BBH-US) (US$68.12): Channel Breakout!**




- Market Vector Biotech ETF (BBH-US) provides concentrated exposure to 25 leading biotech companies, including US and international stocks such as Gilead Sciences Inc (GILD-US) and Qiagen NV, respectively.
- BBH has broken up out of long-forming uptrend channel.
- The upside momentum is confirmed by the uptrending MACD and RSI (second and third panels).
- Volume has also been (bullishly) strong on the channel breakout (circled lowest panel).
- Reliable support has occurred at the 100-day MA (the 200-day MA has not yet even come into play as a support level). A more aggressive uptrend channel may now develop with upside potential to US$75. A break back down into the channel, and particularly a break below the 100-day MA, would likely negate the uptrend.

***Doug Rowat***
***Equity Specialist, VP Research and Strategy***

## “Off the Cuff”

For your reading pleasure, we’ve compiled a list of timely and thought-provoking reports, articles, investor letters, white papers, and commentary from various third-party sources over the past quarter.

- Ackman vs. Icahn Showdown In what may have been the most epic showdown of rich guys to ever play out in public, Bill Ackman and Carl Icahn confronted each other on CNBC's "Fast Money Halftime Report" over Herbalife (HLF-US) and business dealings going back to 2003.
- Are REITs Still Worth Buying? Shailesh Kshatriya, Associate Director at Russell Investments, believes that mid- to upper-single digit returns is a reasonable expectation for the sector despite its strong run-up over the past 18 months.
- Can Something Good be Cheap too? PIMCO portfolio manager Charles Lahr shows that high quality companies can be purchased at lower valuations. In contrast to conventional wisdom, investors do not have to pay up for quality.
- Catalyst – A Four Letter Word Sionna Investment Managers shuns the idea that investors should seek companies that possess catalysts for price appreciation. “If there is an exciting, easily understood story about a company, there is a very good chance it is already reflected in the share price and more.”
- The Real Game Changer For Japanese Equities International money manager Charles de Vaulx makes the case for Japanese equities though interestingly not on the basis of monetary and political reform but rather on “the growing evidence that capital allocation (increased dividends and share buybacks) is improving among companies and valuations remain attractive.”
- We’re Incentivized to Cheat Salon.com posted a lengthy Q&A with respected short seller Jim Chanos about how he uncovers fraud and what it means to American business. As a man who's famous for exposing some of the worst cronyism in modern history (e.g. Enron), it's definitely worth a read.
- When David Einhorn Talks, Markets Listen – Usually Bloomberg BusinessWeek magazine profiled notable hedge fund manager David Einhorn and his latest activist bet on Apple (AAPL-US), urging the iPhone maker to create a preferred stock that purportedly could unlock billions of dollars in shareholder value.

## Quarterly Update: Raymond James Focus List

The Raymond James Focus List of Mutual Funds is a compilation of best-in-class mutual funds among their respective category peers. A fund must adhere to specific criteria and undergo thorough due diligence in order to be added to the Focus List. Please refer to the Fund Selection Process document for more information on how funds are chosen for the Focus List.

### Key Points

- The Focus List is comprised of 31 funds.
- 54.8% and 58.1% of funds have outperformed their respective fund categories over the past three and 12 months, respectively.
- Three funds are rated five stars by Morningstar, 17 funds rated four stars, eight funds rated three stars, and one fund rated two stars.
- EdgePoint Global Portfolio is the best performing Focus List fund for the quarter, up 15.2% in Q1. The fund benefitted from strong security selection in core holdings such as healthcare provider Alere Inc. (ALR-US) and Irish low-budget airline Ryanair Holdings PLC, both up double digits year-to-date.
- The worst performing fund for the quarter is RBC Global Precious Metals, down 14.9%. Despite experiencing losses as a result of a very difficult environment for precious metal equities, the fund outperformed its category by a significant 230 basis points net of fees. The fund remains our top pick for a turnaround in precious metals equities.

### Changes

- **ADDED**: BMO Guardian Global Dividend Class
- **REMOVED**: BMO Guardian Enterprise
- **REMOVED**: Manulife Canadian Investment Class
- **REMOVED**: TD Health Sciences

For more information on the above changes to the Focus List, click here to access the research reports located on the Mutual Funds & ETFs homepage (internal access only).

## Appendix A: Raymond James Ltd. Mutual Fund Focus List

The Raymond James Ltd. Mutual Fund Focus List is a collection of best-in-class mutual funds among their respective category peers. A fund must adhere to specific criteria and undergo thorough due diligence in order to be added to the Focus List. Please refer to Appendix B for more information on how funds are selected for the Focus List.

### Fixed Income

| TYPE | FUND | MANAGER | STYLE/STRATEGY | FUND CODE (Front End/F Class) |
|---|---|---|---|---|
| Canadian Fixed Income | Fidelity Canadian Bond | Brian Miron, Jeff Moore | Credit, Sector | FID233/FID633 |
| | PH&N Total Return Bond | William John, Stephen Burke | Credit, Sector, Duration | PHN6340/PHN5340 |
| | TD Canadian Bond | Geoff Wilson, Satish Rai | Credit, Sector, Duration | TDB306/TDB406 |
| Global Fixed Income | BMO Guardian Global Strategic Bond | Curtis Mewbourne (PIMCO) | Credit, Sector, Duration, Currency | GGF99736/GGF95736 |
| | Manulife Strategic Income | Dan Janis, Tom Goggins, John Iles, Barry Evans | Credit, Sector, Duration, Currency | MMF559/MMF659 |
| | Templeton Global Bond | Michael Hasenstab | Credit, Sector, Duration, Currency | TML704/TML257 |
| High Yield | TD High Yield Bond | Gregory Kocik, Nicholas Leach | Credit | TDB822/TDB446 |

### Balanced

| TYPE | FUND | MANAGER | STYLE/STRATEGY | FUND CODE (Front End/F Class) |
|---|---|---|---|---|
| Canadian Balanced | Dynamic Dividend Income | Oscar Belaiche, Michael McHugh | Value | DYN206/DYN254 |
| Global Balanced | CI Signature Income & Growth | Eric Bushell | Blend, Macro | CIG6116/CIG6416 |
| Emerging Markets Balanced | Capital Int'l Emerging Markets Total Opportunities | Laurentius Harrer, Luis Oliveira, Shaw Wagener | Multi-manager | CIF842/CIF822 |

### Domestic Equity

| TYPE | FUND | MANAGER | STYLE/STRATEGY | FUND CODE (Front End/F Class) |
|---|---|---|---|---|
| Canadian Equity - Dividend | NEI Northwest Canadian Dividend | Mark Thomson, Stephen Arpin, (Beutel, Goodman, & Co.) | Value | NWT128/NWT529 |
| Canadian Equity - Pure | Fidelity True North | Max Lemieux | Growth-at-a-Reasonable Price | FID225/FID625 |
| Canadian Equity - Focused | Brandes Sionna Canadian Equity | Kim Shannon (Sionna Investment Managers) | Relative Value | BIP181/BIP581 |
| | CI Synergy Canadian | David Picton (Picton Mahoney Asset Management) | Growth | CIG6103/CIG6403 |
| Can. Equity - Small and Mid Cap | IA Clarington Canadian Small Cap | Ian Cooke, Joe Jugovic, Leigh Pullen (QV Investors) | Value | CCM520/CCM1450 |

## Foreign Equity

| TYPE | FUND | MANAGER | STYLE/STRATEGY | FUND CODE (Front End/F Class) |
|---|---|---|---|---|
| US Equity - Large Cap | CI American Value | David Pearl, William M. Priest, (Epoch Investment Partners) | Value | CIG7500/CIG7506 |
| US Equity - All Cap | Dynamic Power American Growth | Noah Blackstein | Aggressive Growth | DYN004/DYN253 |
| | Mackenzie Universal American Growth (Unhedged) | Philip Taller | Growth | MFC1564/MFC1802 |
| US Equity - Small and Mid Cap | Trimark US Small Companies | Rob Mikalachki | Value | AIM5523/AIM5527 |
| Global Equity | BMO Guardian Global Dividend Class | Sri Iyer, Sam Baldwin, Fiona Wilson | Dividend-Oriented | GGF87211/GGF88211 |
| | Capital International Global Equity | Carl M. Kawaja, Dina N. Perry, Robert W. Lovelace | Multi-Manager | CIF843/CIF823 |
| | EdgePoint Global Portfolio | Tye Bousada, Geoff MacDonald | Blend | EDG100/EDG500 |
| | Mackenzie Ivy Foreign Equity | Paul Musson, Matt Moody | Value | MFC081/MFC077 |
| | Mutual Discovery | Peter Langerman, Philippe Brugere-Trelat | Deep Value | TML180/TML225 |
| International Equity | CI Black Creek International Equity | Bill Kanko, Richard Jenkins | Value | CIG11118/CIG11018 |
| | Invesco International Growth | Invesco Growth Investment Team | Growth | AIM633/AIM637 |
| International Equity - Small and Mid Cap | Mackenzie Cundill Recovery | James Morton | Deep Value | MFC742/MFC067 |
| Asia | BMO Guardian Asian Growth & Income | Robert Horrocks, Jesper Madsen | Blend | GGF620/GGF734 |
| | Dynamic Far East Value | Chuk Wong | Value | DYN079/DYN251 |
| Europe | Invesco European Growth | Invesco Growth Investment Team | Growth | AIM643/AIM647 |

## Sector/Theme-Based

| TYPE | FUND | MANAGER | STYLE/STRATEGY | FUND CODE (Front End/F Class) |
|---|---|---|---|---|
| Precious Metals | RBC Global Precious Metals | Chris Beer, Brahm Spilfogel | Blend | RBF774/RBF614 |

# Appendix B: Fund Selection Process

## Core Beliefs and Philosophy

- ***Objective and unbiased research*** - We have the freedom to select funds from the entire universe of Canadian mutual funds without restriction or bias towards a particular fund family. In addition, we do not receive special compensation from fund companies to promote their funds. These combined factors allow us to conduct fund research in an objective and unbiased fashion.
- ***Investment Horizon*** - Much like the tale of the tortoise that beat the hare, we select funds that are most likely to generate strong long term results versus its peers and respective benchmark.
- ***Art and Science*** - Investing is both an art and a science. Likewise, our fund selection process incorporates both qualitative and quantitative elements.
- ***Sustainable Competitive Advantage*** - We favour funds that possess a distinct competitive advantage over other similarly managed products. We define a competitive advantage as an attribute of the fund's investment process that cannot be easily duplicated or imitated elsewhere and, in turn, enables the fund to outperform over the long term. There are a number of ways a fund can enjoy a competitive advantage. For example, the portfolio manager may retain an informational advantage through experience or by possessing a specialized skillset. Perhaps the fund benefits from extensive research capabilities such as a large team of experienced research analysts. Being the beneficiary of a sophisticated and well-equipped trading desk is another way a fund can have an edge over the competition.

## Fund Selection Process

- **Step 1: Quantitative Screening**

The first step of the fund selection process is to identify funds that are worth further consideration. But with over 6000 offerings to choose from, distilling the unwieldy Canadian mutual fund universe can be a daunting task. This is where our quantitative screening tools come into play. In essence, they help pinpoint well managed funds.

Mutual funds that screen well are those that have outperformed with relatively low volatility. In others words, we're looking for funds that exhibit strong risk-adjusted returns. The table below illustrates several metrics that we screen for. It is important to note that we analyze these risk-adjusted metrics on a rolling basis over multiple periods in order to mitigate end-date bias, which is an error that occurs when analyzing performance over a single time period.

### Performance Risk Metrics

| | |
|---|---|
| Alpha | Alpha is the value added by the manager as distinct from the market. We use the overall level of Alpha over time as an indicator of manager skill. |
| Rolling Alpha > 0 | Indicates consistency of risk-adjusted outperformance over time in percentage terms. Must be well above 50%. |
| Up and Down Capture % | We look for funds that capture more market upside than market downside. |
| Omega | This is the ratio of "up" periods to "down" periods. We prefer funds with Omega at least 20% greater than the benchmark's. |
| Downside Volatility | When performance is negative, how negative does it get? We prefer funds with lower downside risk. |
| Maximum Drawdown | The peak to trough percentage decline of a fund's performance over a specified period of time. This metric helps determine a fund's risk profile and the magnitude of future drawdowns. |
| Sharpe Ratio | This ratio measures excess return per unit of standard deviation. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance has been. |
| Treynor Ratio | Similar to Sharpe ratio, Treynor measures excess performance as a unit of risk. Unlike Sharpe, Treynor uses market risk (i.e. beta) instead of security risk (i.e. standard deviation) as the base unit of risk. |
| Information Ratio | This ratio measures a fund's ability to generate excess returns relative to the standard deviation of its benchmark. A high ratio is achieved by producing strong returns and low volatility relative to the benchmark. |

It is often the case that funds worth further consideration are those that don't pop up on our radar through the initial screening process (e.g. limited track record). As such, we rely on our experience and network of industry contacts to uncover these hidden gems.

Before we conduct any further analysis, we need to ensure that the fund's manufacturer or sub-advisor poses no reputation risk, is financially sound, follows strict internal risk controls, and is not embroiled in disciplinary matters with securities regulators.

Funds worth further consideration must also meet the following criteria:

- The portfolio manager or investment team has several years of lead portfolio management experience.
- Available for sale to new and existing unitholders.
- Competitively priced fees.

**Step 2: Assessing Performance Drivers**

Once a fund has been identified for further consideration and meets the above eligibility criteria, we analyze the fund's performance drivers. While portfolio managers would love to have you believe that their fund's five star rating or first quartile rankings are the manifestation of their investment acumen, there are many other factors outside the control of the portfolio manager that shape a fund's track record.

Investment style is a key consideration as it strongly influences a fund's returns. Investment style is defined as the overall strategy or theory that a money manager abides by when selecting securities. The two main investment styles are value and growth, both of which rotate in and out of favour for extended periods of time, consequently obscuring the validity of a fund's track record. For example, by simply focusing on price and earnings momentum, even the most inept growth manager was able to greatly outperform the majority of value managers during the late 1990s. However, when the tech bubble imploded and growth fell off the rails, the reverse became true; a number of mediocre value funds were able to outperform growth funds by simply sticking to their investment strategy.

In order to control for style differentiation, we compare a fund's performance to a customized peer group comprised of funds with similar investment styles. This way, we ensure that we're making apples to apples comparisons when assessing fund performance.

Other factors that impact relative returns include sector and country weightings, currency exposure, and market capitalization. With respect to balanced funds, the largest determinant of a fund's success is its asset mix. In fact, academic studies have shown that approximately 90% of the variability in performance can be attributed to asset allocation. The implications of this on balanced funds are huge. That's because balanced funds abide by different asset mix policies but their returns are often compared to one another on an indiscriminate basis. As a result, a slight difference in its asset mix policy will determine whether a fund is a first quartile hero or fourth quartile laggard. As such, we don't put too much stock in relative performance metrics when assessing the performance of balanced funds.

Given that returns are heavily influenced by the aforementioned factors, we utilize holdings-based and style-based attribution techniques to determine how much value (i.e. alpha) the portfolio manager brings to the table. This also provides us with a better understanding of the strategy's risks, the consistency of management's investment approach, and whether outperformance is sustainable.

**Step 3: Qualitative Assessment**

After assessing the fund's returns and performance drivers, we require the portfolio manager to complete a detailed investment strategy questionnaire. Key aspects of the questionnaire include a synopsis of the manager's investment philosophy and process, a description of the fund's risk controls, and other material facts concerning the fund. Below is a sample set of questions from the questionnaire:

- Describe how the investment team is structured in terms of research and management responsibilities?
- List all departures and additions to the investment team over the past 12 months.
- How is the portfolio manager's compensation aligned with unitholders of the fund?
- Has there been any material change to the fund's investment strategy over the past 12 months?
- What is your buy and sell discipline?
- How does the fund behave throughout a full market cycle?
- What distinguishes the fund from its closest competitor?
- What areas within the investment process require improvement?

It is mandatory that we interview the portfolio manager or investment team via conference call or face-to-face. The portfolio manager interview is an invaluable step of the fund selection process. That's because it provides us with insights that cannot be gleaned from analyzing the fund's performance or portfolio holdings.

The portfolio manager interview is structured much like a behavioural job interview, based on the belief that behavioural patterns that are identified during the meeting provide a good indication of conduct that happens behind the scenes.

In our experience, we have found that successful portfolio managers are those who are honest, passionate about investing, resolute, business-savvy, self-effacing, and competitive. They are calculated risk takers, knowing when to take chances to capture investment opportunities. They draw upon multiple educational disciplines that allow them to process information in a unique fashion. Lastly, they are independent thinkers, inclined to forge their own path rather than succumb to herd mentality.

- **Step 4: Investment Thesis and Portfolio Strategy**

After thoroughly analyzing all aspects of the fund, we formulate an investment thesis that answers the following question: What is the fund's sustainable competitive advantage? As discussed earlier, a competitive advantage is an attribute of the fund's investment process that cannot be easily duplicated or imitated elsewhere and, in turn, enables the fund to outperform over the long term. In order for a fund to be selected to the Focus List, we must be able to identify and clearly articulate a fund's competitive advantage.

We also consider macro-economic factors, valuations, and the relative attractiveness of an asset class when selecting funds. In addition, we consider how well a fund fits into a diversified portfolio.

- **Step 5: Monitoring and Ongoing Due Diligence**

All funds on the Focus List are monitored on a continuous basis. Performance is reviewed monthly. We will contact portfolio managers of funds whose returns vary dramatically from their benchmark or category average, asking the manager to explain the fund's performance variance in detail. While we would not remove a fund based on short-term underperformance, it's imperative that we understand why a fund's returns are lagging. We are equally concerned with funds that exhibit exceptionally strong performance as this may be an indication that the portfolio manager is assuming too much risk to generate excess returns.

A fund can be removed from the Focus List at any time. We would consider removing a fund for any of the following reasons:

1. If the fund experiences an adverse material change (e.g. manager departure, change in strategy, etc.).
2. If we determine that a comparable fund possesses better investment potential.
3. If our investment thesis no longer holds true (e.g. overestimate a manager's competitive advantage).

## Appendix C: ETF Reference Guides

ETF Reference Guides are updated on a monthly basis and can be accessed by visiting the ETF homepage within the Private Client Solutions site (advisor access only).

# Appendix D: Flows, Assets, and Performance

## Money is flowing into….

ETF Inflows (3 Month)

| ETF | Estimated Net Inflows (C$) |
|---|---|
| Horizons S&P/TSX 60 Index ETF | $620,641,788 |
| BMO S&P/TSX Laddered Pref S Index ETF | $475,327,389 |
| PowerShares Ultra DLUX LT Gov Bond ETF | $193,712,500 |

Mutual Fund Inflows (3 Month)

| Mutual Fund | Estimated Net Inflows (C$) |
|---|---|
| RBC Select Growth Class | $1,035,915,851 |
| Investors Mortgage & Short Term Income | $1,030,949,179 |
| Fidelity Monthly Income Class | $1,029,404,725 |

Fund Category Inflows (3 Month)

| Category | Estimated Net Inflows (C$) |
|---|---|
| Canadian Fixed Income | $24,158,528,427 |
| Canadian Neutral Balanced | $11,281,116,940 |
| Global Neutral Balanced | $11,186,032,483 |

## Money is flowing out of…

ETF Outflows (3 Month)

| ETF | Estimated Net Outflows (C$) |
|---|---|
| iShares S&P/TSX 60 Index | -$790,290,866 |
| BMO S&P/TSX Capped Composite Index ETF | -$447,607,513 |
| iShares S&P/TSX Capped Energy Index | -$174,132,552 |

Mutual Fund Outflows (3 Month)

| Mutual Fund | Estimated Net Outflows (C$) |
|---|---|
| Fidelity Canadian Asset Allocation | -$2,413,347,444 |
| RBC Balanced | -$1,847,788,319 |
| Mac Cundill Value | -$1,565,069,121 |

Fund Category Outflows (3 Month)

| Category | Estimated Net Outflows (C$) |
|---|---|
| Canadian Focused Equity | -$12,826,115,093 |
| Global Equity | -$7,577,917,237 |
| Canadian Equity | -$5,196,498,773 |

## Largest ETFs by Assets

| ETF | Total Net Assets C$ |
|---|---|
| iShares S&P/TSX 60 Index | $12,107,744,502 |
| iShares DEX Short Term Bond Index | $2,237,562,018 |
| iShares DEX All Corporate Bond Index | $1,999,438,176 |

## Largest Mutual Funds by Assets

| Mutual Fund | Total Net Assets C$ |
|---|---|
| Investors Dividend | $14,674,073,000 |
| RBC Canadian Dividend | $11,006,964,589 |
| RBC Monthly Income | $8,320,126,316 |

## Top Performers

### Top Three Best Performing ETFs (3 Month)

| ETF | Ticker | Total 3 Month Return % |
|---|---|---|
| Horizons BetaPro S&P 500 VIX ST Fut Inverse | HVI | 38.5 |
| iShares Japan Fundamental (CAD-Hdg) | CJP | 20.4 |
| iShares S&P Global Healthcare Idx C$-Hdg | XHC | 16.2 |

### Top Three Best Performing Mutual Funds (3 Month)

| Mutual Fund | Total 3 Month Return % |
|---|---|
| CI Global Health Sciences Corp Class | 19.5 |
| Renaissance Global Health Care | 18.6 |
| Brandes US Equity | 17.5 |

### Top Three Best Performing Categories (3 Month)

| Category | Total 3 Month Return % |
|---|---|
| Health Care Equity | 15.8 |
| US Small/Mid Cap Equity | 13.9 |
| Japanese Equity | 13.4 |

## Bottom Performers

### Bottom Three Worst Performing ETFs (3 Month)

| ETF | Ticker | Total 3 Month Return % |
|---|---|---|
| Horizons BetaPro S&P 500 VIX ST Fut ETF | HUV | -35.7 |
| BMO Junior Gold Index ETF | ZJG | -22.0 |
| BMO S&P/TSX EW Global Gold Index ETF | ZGD | -19.7 |

### Bottom Three Worst Performing Mutual Funds (3 Month)

| Mutual Fund | Total 3 Month Return % |
|---|---|
| DMP Resource Class | -30.8 |
| Dynamic Precious Metals | -22.6 |
| Sprott Gold and Precious Minerals | -19.6 |

### Bottom Three Worst Performing Categories (3 Month)

| Category | Total 3 Month Return % |
|---|---|
| Precious Metals Equity | -17.2 |
| Retail Venture Capital | -5.9 |
| Science & Technology Equity | -5.5 |

As of March 31, 2012

Source: Morningstar, Raymond James Ltd.

(Leveraged ETFs excluded)

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