

# ScotiaMcLeod Fund Research Mutual Fund Recommended List

## 2009

ScotiaMcLeod Fund Research

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# 2009 Recommended List

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# 2009 Recommended List

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## Executive Summary

The ScotiaMcLeod Fund Research team is pleased to announce the release of the 2009 Mutual Fund Recommended List.

2008 was a year for the history books. We saw the subprime crisis go global, evolving into a broader financial crisis as banks around the world revealed varying degrees of exposure to toxic financial assets. We saw investment banks once thought of as "too big to fail" come crumbling down, as well as a credit freeze the likes of which have not been seen even by today's veteran investors. In response to all of this turmoil, we saw, and continue to see unprecedented government bailouts globally. The uncertainty was reflected in the markets with the S&P/TSX Composite Total Return Index down 33% for the year, and the S&P500 Total Return Index coming in slightly lower with a negative return of 37% (figures in local currency).

All of this turmoil highlights a few key points:

- 1) Anything can happen in the markets, and if we know anything at all, it's that *change is constant*;
- 2) Given #1, professional money management is more important than ever;
- 3) Given #2, finding the *right* professional money manager is even more important.

It's not all doom and gloom though. Uncertainty can present significant opportunities for investors, so instead of focusing on the negative market results of the recent past, we feel it is a unique point in history for investors to take advantage of the low relative market valuations. The next logical question is where to invest? A good start for ideas is ScotiaMcLeod's 2009 Mutual Fund Recommended List. Through extensive and ongoing research, and a few value-added improvements to the process, the 2009 Recommended List is a collection of funds we feel will be able to deliver above-average risk-adjusted returns over time.

The most impactful change for the 2009 Recommended List is its format. In an effort to make the package more user-friendly, each fund on the list has its own one-page summary which includes details about the fund such as the Morningstar category, lead manager of the fund, primary fund codes for the more common fee types, and fund objectives and highlights. Also included in the one-pagers are performance information, important risk metrics, expected volatility characteristics, as well as some high-level commentary from the ScotiaMcLeod Fund Research team regarding the investment rationale for investing in each of the funds.

Regarding the evaluation process, we continue to make improvements to our quantitative scoring model where appropriate. The modifications this year were minor, but important in terms of narrowing our search for best-in-class active managers.

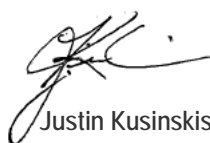
We made a few changes to the Recommended List categories in an effort to broaden the offering, including some consolidations and reclassifications where necessary (using mutual fund categories based on the Canadian Investment Funds Standards Committee ("CIFSC") classifications). Net new category additions include European Equity, and Emerging Markets Equity. We also added the Global Equity Balanced and Global Neutral Balanced categories.

In addition to the category changes, we expanded our universe of options to include bank-sponsored mutual funds, which has resulted in several new entrants to the Recommended List. There are a number of great bank-sponsored mutual funds, and we felt it was important to open the List to these opportunities.


The Fund Research team at ScotiaMcLeod has performed considerable due diligence for the 2009 Mutual Fund Recommended List. In spite of record market volatility and broadly lower market returns that have affected virtually all asset classes to varying degrees, the team feels confident in its choices for 2009. The quantitative portion of our process allows us to remain objective in narrowing down the large universe of funds by assisting us in identifying funds that are "quantitatively attractive". This quantitative approach is combined with a detailed qualitative assessment of a fund's unique characteristics. We have met with the fund managers of every fund on this list, and many more managers that are not on this list in order to arrive at what we feel to be some of the best fund investment ideas for the coming years.

The ScotiaMcLeod Fund Research team wishes you great success in your investment endeavours for 2009, and it is our hope that the 2009 Mutual Fund Recommended List becomes a useful resource for you along the way.

Sincerely,

  
Justin Kusinskis, CFA

  
Joel Beriault, CIM

  
Carolyn Tsai

## 2009 Recommended List

### Recommended List Summary

CANADIAN FIXED INCOME	STYLE	STATUS
Fidelity Canadian Bond Fund - A	Credit Selection	
Trimark Canadian Bond Fund	Credit Selection	
Mackenzie Sentinel Bond Fund	Duration / Yield Curve	
Manulife Mawer Canadian Bond Fund - A	Sector Allocation/Credit Selection	NEW
GLOBAL FIXED INCOME	STYLE	STATUS
RBC Global Bond Fund - A	Credit Selection/Duration	NEW
Templeton Global Bond Fund	Currency/Interest Rate Anticipation	
HIGH YIELD FIXED INCOME	STYLE	STATUS
AGF Global High Yield Bond Fund	Credit Selection/Duration	
Mackenzie Sentinel Corporate Bond Fund - A	Credit Selection	
CANADIAN EQUITY	STYLE	STATUS
BMO Guardian Canadian Large Cap Equity Fund - M	Large Cap Blend	
Fidelity Canadian Disciplined Equity Fund - A	Large Cap Blend	
Fidelity True North Fund - A	Large Cap Blend	
CANADIAN DIVIDEND & INCOME EQUITY	STYLE	STATUS
Scotia Canadian Dividend Fund - A	Large Cap Blend	NEW
Stone Dividend Growth Class Canada - A	Large Cap Blend	
TD Dividend Growth Fund - A	Large Cap Blend	NEW
CANADIAN SMALL/MID CAP EQUITY	STYLE	STATUS
Renaissance Millennium Next Generation Fund	Mid Cap Blend	
IA Clarington Canadian Small Cap Fund	Small/Mid Cap Blend	
Dynamic Focus+ Small Business Fund	Small Cap Value	NEW
CANADIAN FOCUSED EQUITY	STYLE	STATUS
AIM Canadian Premier Fund	All Cap Growth	
Synergy Canadian Corporate Class	Large Cap Growth	
AGF Canadian Stock Fund	Large Cap Blend	
CI Harbour Fund	Large Cap Blend	
CI Signature Select Canadian Fund	Large Cap Blend	NEW
Dynamic Value Fund of Canada	All Cap Value	
CANADIAN EQUITY BALANCED	STYLE	STATUS
Fidelity Canadian Asset Allocation Fund - A	Large Cap Blend	
TD Monthly Income Fund - A	Large Cap Blend	NEW
CANADIAN NEUTRAL BALANCED	STYLE	STATUS
AIM Canadian Balanced Fund	All Cap Growth	
CI Harbour Growth & Income Fund	Large Cap Blend	
Fidelity Canadian Balanced Fund - A	Large Cap Blend	
US EQUITY	STYLE	STATUS
Dynamic Power American Growth Fund	Large Cap Growth	NEW
Synergy American Fund	Large Cap Growth	
Fidelity American Disciplined Fund - A	Large Cap Blend	
Dynamic American Value Fund	All Cap Value	
CI American Value Fund	Large Cap Value	
US SMALL/MID CAP EQUITY	STYLE	STATUS
TD US Mid-Cap Growth Fund - A	Mid Cap Growth	NEW
CI American Small Companies Fund	Small Cap Value	
GLOBAL EQUITY	STYLE	STATUS
Synergy Global Corporate Class	All Cap Growth	
Renaissance Global Growth Fund	Large Cap Growth	NEW
Standard Life Global Equity Fund - A	Large Cap Blend	
Fidelity Global Disciplined Equity Fund - A	Large Cap Blend	
Dynamic Global Value Fund	All Cap Value	
Mutual Discovery Fund	Mid/Large Cap Value	
GLOBAL SMALL/MID CAP EQUITY	STYLE	STATUS
IA Clarington Global Small Cap Fund	Small Cap Blend	NEW
CI Global Small Companies Fund	Small Cap Value	
GLOBAL EQUITY BALANCED	STYLE	STATUS
Dynamic Value Balanced Fund	All Cap Value	NEW
GLOBAL NEUTRAL BALANCED	STYLE	STATUS
CI Signature Income & Growth Fund	Large Cap Blend	
INTERNATIONAL EQUITY	STYLE	STATUS
AIM International Growth Class	All Cap Growth	
Renaissance International Equity Fund	Large Cap Growth	
Manulife Mawer World Investment Class	Large Cap Blend	NEW
Templeton International Stock Fund	All Cap Value	
AGF International Stock Class	Large Cap Value	
EUROPEAN EQUITY	STYLE	STATUS
Mackenzie Ivy European Class	Large Cap Value	NEW
EMERGING MARKETS EQUITY	STYLE	STATUS
Mackenzie Universal Emerging Markets Class	Large Cap Blend	NEW
AGF Emerging Markets Fund	Mid/Large Cap Blend	NEW

## 2009 Recommended List

### Changes for 2009

#### Summary of funds added for 2009

FUND NAME	CLASSIFICATION	INVESTMENT STYLE
Manulife Mawer Canadian Bond Fund - A	Canadian Fixed Income	Sector Allocation/Credit Selection
RBC Global Bond Fund - A	Global Fixed Income	Credit Selection/Duration
Scotia Canadian Dividend Fund - A	Canadian Dividend & Income Equity	Large Cap Blend
TD Dividend Growth Fund - A	Canadian Dividend & Income Equity	Large/Blend
Dynamic Focus+ Small Business Fund	Canadian Small/Mid Cap Equity	Small Cap Value
CI Signature Select Canadian Fund	Canadian Focused Equity	Large Cap Blend
TD Monthly Income Fund - A	Canadian Equity Balanced	Large Cap Blend
Dynamic Power American Growth Fund	US Equity	Large Cap Growth
TD US Mid-Cap Fund - A	US Small/Mid Cap Equity	Mid Cap Growth
Renaissance Global Growth Fund	Global Equity	Large Cap Growth
IA Clarington Global Small Cap Fund	Global Small/Mid Cap Equity	Small Cap Blend
Dynamic Value Balanced Fund	Global Equity Balanced	All Cap Value
Manulife Mawer World Investment Class	International Equity	Large Cap Blend
Mackenzie Ivy European Class	European Equity	Large Cap Value
Mackenzie Universal Emerging Markets Fund	Emerging Markets Equity	Mid/Large Cap Blend
AGF Emerging Markets Fund	Emerging Markets Equity	Large Cap Blend

#### Rationale for fund additions:

A lot of work goes into analyzing and ultimately adding a fund to the Recommended List. There are many factors to consider, including making sure the overall Recommended List reflects a balanced representation of investment styles available to investors. We endeavor to provide investors with a broad selection of quality mutual funds from which to choose that are diversified across various characteristics such as asset class, market capitalization, and investment style.

The process begins with a detailed quantitative analysis of attractive fund investment options. We analyze data from the Canadian mutual fund universe, and based on a proprietary multi-factor model, narrow the universe to identify funds that are "quantitatively attractive". Once this process is complete, we then focus on the qualitative side of the analysis, which includes manager meetings and a desire to truly understand the driving forces behind the returns generated by these funds.

From a high-level perspective, we attempt to identify "best-in-class" mutual funds by focusing on what we call the "Four P's"; People, Philosophy, Process, and Performance. Some of the factors we consider are as follows:

**People:** Tenure of fund managers, organizational resources and support, competitive advantage(s).

**Philosophy:** Focus on understanding the investment style and the consistency in its application over time, patience and conviction in investment beliefs over time, and the consistency within the firm with respect to its investment philosophy.

**Process:** Criteria for buy/sell/hold decisions, and the consistency in which these are applied, risk management.

**Performance:** Consistent longer-term track record versus benchmark(s) and peers. Risk-adjusted performance over time. Understand how the managers have generated the returns. Focus on the value-add of the managers and justification for the fees they charge.

There are a large number of moving parts when analyzing funds for inclusion in the Recommended List, but with the repeatable process we have in place, we are confident that our selections for the 2009 Recommended List are "best-in-class" funds in their respective categories.

The 2009 format for the Recommended List includes one-page summaries for each fund with commentary from members of ScotiaMcLeod's Fund Research Team that outlines, at a high-level, the investment rationale for investing in the funds along with any potential concerns that may exist for each fund. For additional information, we encourage you to call a member of the Fund Research team.

## 2009 Recommended List

### Changes for 2009 (continued)

#### Summary of funds removed (from the 2008 Recommended List) for 2009

FUND NAME	CLASSIFICATION	INVESTMENT STYLE
AIC Global Bond Fund	Global Fixed Income	Currency/Interest Rate Anticipation
AGF Canadian Large Cap Dividend Fund Classic	Canadian Focused Equity	Large Cap Blend
Standard Life Canadian Dividend Growth Fund	Canadian Dividend & Income Equity	Large Cap Blend
Acuity All Cap 30 Canadian Equity Fund	Canadian Focused Small/Mid Cap Equity	Small/Mid Cap Blend
AGF American Growth Class	US Equity	Large Cap Growth
AGF Special US Class	US Small/Mid Cap Equity	Small/Mid Cap Growth
Capital International Global Equity Fund - A	Global Equity	Large Cap Blend
BMO Guardian Global Small Cap Fund - M	Global Small/Mid Cap Equity	Small Cap Blend
CI International Fund	International Equity	Large Cap Blend

#### Rationale for fund removals:

There are a variety of factors (individually or in combination) that could lead to a fund being removed from the Recommended List. Some of the factors include the following:

- An increase in risk, whether at the fund level or firm level;
- A declining risk-adjusted return profile over time, on an absolute basis and/or relative to its peers;
- Poor and/or inconsistent performance over time, particularly in instances where the manager is not delivering on their stated objectives (over time);
- Depending on how the fund is managed, turnover in the fund's management could be a factor;
- In some cases, the reason is simply that there are better alternatives available, and it makes sense to take advantage of these opportunities.

Since every fund has its own unique characteristics, it is difficult to list all possible reasons why a fund would be removed from the Recommended List. There are a significant number of moving parts when analyzing the funds to be included or excluded. The list above simply highlights some of the more obvious examples. It should be noted that as a rule, short-term performance is not by itself a significant issue, but if a fund is showing an inability to turn its performance around over time, or shows a lack of consistency in delivering on its stated objectives, it is definitely justified to review the fund, and potentially remove it from the Recommended List.

The pages that follow offer a more detailed summary of why each of the funds listed above have been removed from the Recommended List for 2009.

## 2009 Recommended List

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### Funds Removed

#### **AIC GLOBAL BOND FUND**

**Fund Manager(s):** Randy LeClair, Anthony Volpini and Mark Oddi

**Management Firm:** AIC Ltd.

**Morningstar Classification:** Global Fixed Income

The investment objective of the Fund is to earn the highest level of income in a variety of currencies consistent with the preservation of capital with some capital appreciation by investing primarily in bonds and debentures.

The Fund continues to be a strong performer in this category and our favourable view of the Fund remains unchanged. However, concerns over AIC at the firm level and continuing redemptions have resulted in the removal of this Fund from the 2009 Recommended List.

#### **AGF CANADIAN LARGE CAP DIVIDEND CLASSIC**

**Fund Manager(s):** Gord MacDougall and Alastair Dunn

**Management Firm:** Connor, Clark & Lunn (CC&L)

**Morningstar Classification:** Canadian Focused Equity

The investment objective of the Fund is to provide superior returns with reasonable risk through a combination of dividends and capital growth from Canadian companies and interest income.

Although the Fund displays lower tracking error versus the market, we decided to remove it from the Recommended List for 2009 mainly because our quantitative analysis indicates less attractive risk-adjusted returns when compared to its peers over the longer-term. We have therefore opted for more attractive choices in this category.

#### **STANDARD LIFE CANADIAN DIVIDEND GROWTH FUND**

**Fund Manager(s):** Raquel Castiel

**Management Firm:** Standard Life Mutual Funds Ltd.

**Morningstar Classification:** Canadian Dividend & Income Equity

The Fund is designed to provide investors with high initial dividend income and the potential for future capital growth by investing in a diversified portfolio of high-quality, high-yielding common equities of Canadian issuers.

The expansion of our universe with the inclusion of bank-sponsored funds has resulted in a few changes on the Recommended List. The Canadian Dividend & Income Equity category has been especially affected due to strong offerings by the various banks. While our favourable view of the Standard Life Canadian Dividend Growth Fund and its portfolio management team remains unchanged, this Fund has been removed and replaced with better alternatives now available for inclusion in the category.

#### **ACUITY ALL CAP 30 CANADIAN EQUITY FUND**

**Fund Manager(s):** Acuity Management Team

**Management Firm:** Acuity Investment Management Inc.

**Morningstar Classification:** Canadian Focused Small/Mid Equity

The fundamental investment objective of the Fund is to provide long-term capital growth by investing in a diversified portfolio of 30 Canadian and foreign stocks.

The Fund has been removed as a result of our decision to delete the Canadian Focused Small/Mid Equity category. In addition to the lack of breadth in this category, the Fund's performance was average and not showing signs of improvement based on our quantitative model and qualitative analysis.

## 2009 Recommended List

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### Funds Removed (continued)

#### **AGF AMERICAN GROWTH CLASS**

**Fund Manager(s):** Tony Genua

**Management Firm:** AGF Funds Inc.

**Morningstar Classification:** US Equity

The Fund's objective is to provide long-term capital growth through shares of market-leading American companies that have demonstrated an ability to grow sales, earnings and cash flow.

In addition to deterioration across a number of metrics we use in our quantitative model, the underperformance of this Fund was largely due to stock selection. Ultimately, we feel there are alternatives that offer a better risk/reward profile for the US Equity category.

#### **AGF SPECIAL US CLASS**

**Fund Manager(s):** Tony Genua

**Management Firm:** AGF Funds Inc.

**Morningstar Classification:** US Small/Mid Cap Equity

The Fund's objective is to provide superior long-term capital growth primarily through shares of small and mid-sized US companies with above-average sales, earnings and cash-flow growth potential.

In addition to deterioration across a number of quantitative metrics, the underperformance of this Fund was largely due to stock selection. The Fund may eventually outperform both the index and its peers, but we do not anticipate this as a likely occurrence in the near future. Ultimately, we feel there are alternatives that offer a better risk/reward profile for the US Small/Mid Cap Equity category.

#### **CAPITAL INTERNATIONAL GLOBAL EQUITY FUND - A**

**Fund Manager(s):** Carl Kawaja, Robert Lovelace, and Dina Perry

**Management Firm:** Capital Research and Management Co.

**Morningstar Classification:** Global Equity

The Fund's objective is to achieve long-term growth of capital through investments primarily in common stocks, including growth-oriented stocks, on a global basis. Future income is a secondary objective.

We chose to remove this Fund from the Recommended List because in addition to trying to capture all angles of the value/growth chain with a varied team of managers that can have fundamentally different views on value creation, we have noticed a few signals that indicate a potential lack of conviction in its strategy, and ultimately feel there are more attractive options in the Global Equity category.

#### **BMO GUARDIAN GLOBAL SMALL CAP FUND - M**

**Fund Manager(s):** Thomas Ross

**Management Firm:** RCM Capital Management LLC

**Morningstar Classification:** Global Small/Mid Cap Equity

The Fund's goal is to provide long-term growth through capital appreciation, by investing primarily in equities and equity-related securities of companies with small to medium market capitalization located throughout the world.

In addition to deterioration of various quantitative measures over time, there were changes within the portfolio management team at RCM Capital Management that have led to greater uncertainty of future performance. As a result, we have opted to replace the Fund with a more attractive option for the Global Small/Mid Cap Equity category.

## 2009 Recommended List

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### Funds Removed (continued)

#### **CI INTERNATIONAL FUND**

**Fund Manager(s):** William Sterling, Robert Beckwitt and Greg Gigliotti

**Management Firm:** Trilogy Global Advisors, LLC/CI Investments

**Morningstar Classification:** International Equity

The Fund's objective is to obtain long-term capital growth. It invests primarily in equity and equity-related securities of established companies throughout the world that the Portfolio Managers believe have good growth potential.

We decided to remove the Fund from the Recommended List for 2009 because longer-term risk-adjusted returns are low when compared to its peers. Although our favourable view of the Fund Managers remains unchanged, we have found more attractive options in the International Equity category.

# 2009 Recommended List

## Recommended List User Guide

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**ScotiaMcLeod 2009 Mutual Fund Recommended List** ScotiaMcLeod FUND RESEARCH

Produced by the ScotiaMcLeod Fund Research Group As at: December 31, 2008

**Mutual Discovery** Currency: CAD **Monistep Category:** Canada Global Equity

1. **Lead Manager(s):** Anne Gudefin & Charles Lahr Style: Value  
**Management Firm:** Franklin Mutual Advisors Market Cap: Mid to Large  
**Manager Since:** 2005 MER: 2.61% **Primary Fund Code(s):**  
FE: TML180 DSC: TML182  
LL: TML184 F-Class: TML225

2. **Fund Objectives and Highlights**  
 The Fund's objective is long term capital appreciation by investing primarily in equity and debt securities of issuers around the world.  
 Fund Manager Anne Gudefin joined the Mutual Series Team in 2002. She has 19 years of experience, mostly covering European equities. Charles Lahr has 15 years' experience, including five with Franklin Mutual Advisors.

3. **Investment Growth** as of 2008-12-31 Benchmarks: MSCI World Index (CS)

**Trailing Return** as of 2008-12-31

	10K	13,172.98	11,629.76
YTD	-26.27	-25.37	-25.37
Inception	4.39	—	—
1-Month	0.19	2.70	—
3-Month	-11.54	-8.03	—
6-Month	-18.29	-18.11	—
1-Year	-26.27	-25.37	—
2-Year	-12.53	-16.72	—
3-Year	-3.11	-5.89	—
4-Year	0.46	-2.76	—
5-Year	2.48	-0.91	—
6-Year	—	0.74	—
7-Year	—	-2.59	—
8-Year	—	-3.72	—
9-Year	—	-4.42	—
10-Year	—	-2.35	—

4. **Volatility Range:** **Fund's Expected Volatility:** MEDIUM-LOW

5. **Investment Thesis**  
 The Mutual Discovery Fund remains on the Recommended List for 2009. Mutual Series Managers are research driven, bottom-up "deep" value investors. They believe buying companies below intrinsic value protects investors over the long term.  
 Their three-pronged value strategy focuses on undervalued stocks, merger arbitrage and distressed securities. Investing in undervalued stocks is the foundation of the Mutual Series' deep value investment strategy. They look for catalysts in companies under pressure such as corporate restructuring, spin-offs and share buybacks to unlock value.  
 We like this Fund because of Mutual Series' unique value strategy. Since inception in 2003, this Fund has been one of the most consistent performers versus its peers. Not only has this Fund offered good downside protection for investors but it has also generated better than average upside capture versus the index.

**Relative Performance** as of 2008-12-31

	1-yr	3-yr	5-yr	10-yr
Excess Return	-0.90	2.78	3.39	—
Jensen's Alpha	-10.92	0.28	2.25	—
Excess Beta	0.70	0.74	0.74	—
R-Squared	77.49	76.08	77.18	—
Tracking Error	8.17	6.16	5.38	—
Info Ratio	-0.11	0.45	0.63	—
Treynor Ratio	-42.25	-9.52	-1.13	—
Batting Average	41.67	44.44	53.33	—
Up Capture Ratio	34.20	73.83	82.45	—
Down Capture Ratio	84.31	67.63	62.37	—

Note: Please see page 89 for important disclaimer information. 65

Data provided by Morningstar

- General Fund Details:** High-level information on the lead manager(s) and management firm; the fund's style (value, blend or growth), market capitalization (small, mid or large-cap) and management expense ratio (most recent available).
- Fund Objectives:** The mutual fund objectives as described in the fund's prospectus and highlights of the firm and or portfolio manager(s).
- Investment Growth:** Graph showing the investment growth of \$10,000 of the mutual fund invested over a specified time period.
- Volatility:** A risk/return measure ranging from low to high based on 3-year rolling standard deviation. For more information please refer to the Glossary (page 84).
- Investment Thesis:** High-level commentary by the Fund Research Group highlighting rationale for investment in the fund, along with any potential concerns that may exist.
- Fund Category:** Fund category as defined by the Canadian Investment Funds Standards Committee ("CIFSC"). For full CIFSC category descriptions, refer to the Appendix (page 85).
- Fund Codes:** Primary fund codes listed only. For full fund code listings please refer to fund company websites.
- Benchmark ("Bmark 1", "Benchmark 1"):** Benchmark index used to measure the performance of the respective mutual fund.
- Trailing Returns:** Trailing returns of the fund versus its benchmark over a variety of time periods.
- Relative performance:** Risk/return data of the mutual fund versus its benchmark measured over time. Refer to the Glossary (page 84) for the full description of each metric listed.
- Disclaimer:** Document disclaimer reference.

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## Glossary

**Batting Average:** The batting average of the manager is the ratio between the number of periods where the manager outperforms a benchmark and the total number of periods.

**Capital Asset Pricing Model (CAPM):** The model holds that the expected return on a security or portfolio equals the rate on a risk-free security plus a risk premium.

**Down Capture Ratio:** Measures a manager's performance in down markets relative to the market benchmark. It is calculated by taking the fund's downside capture return and dividing it by the benchmark's downside capture return.

**Excess Beta:** The measure of how much the individual stock's excess return varies in comparison with the market as a whole.

**Excess Return:** The measure of an investment's return in excess of the benchmark.

**Info Ratio (Information Ratio):** The Information Ratio of a manager series vs. a benchmark series is the quotient of the annualized excess return and the tracking error. It measures the consistency in which a manager beats a benchmark.

**Jensen's Alpha:** The difference between a series' realized or expected rate of return and its expected position on the security market line given its risk level as calculated by CAPM (Capital Asset Pricing Model).

**R-Squared:** Reflects the percentage of a portfolio's movements that can be explained by movements in its benchmark.

**Standard Deviation:** Measures the average deviation of a return series from its mean, and is often used as a measure of risk. A large standard deviation implies there have been large swings in the return series of the manager over time.

**Style:** Generally refers to a money manager's individual investment approach. Value, growth and value/growth blends combined with varying size parameters (e.g. small, mid, or large cap investments) are typical investment styles utilized by money managers to achieve their investment objectives.

**Tracking Error:** A measure of the volatility of excess returns relative to a benchmark.

**Treynor Ratio:** The measurement of efficiency utilizing the relationship between annualized risk-adjusted return and risk. The Treynor Ratio utilizes "market" risk (beta). A high Treynor Ratio indicates good performance efficiency.

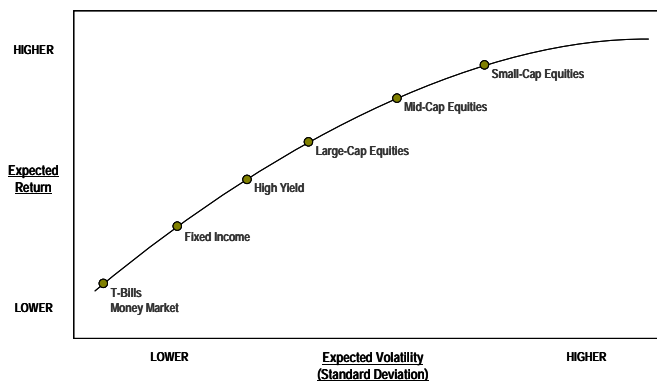
**Up Capture Ratio:** Measures a manager's performance in up markets relative to the market benchmark. It is calculated by taking the fund's upside capture return and dividing it by the benchmark's upside capture return.

**Volatility:** The amount by which a fund's return varies over time; used as a measure of investment risk.

**Volatility Range:** A fund's volatility is measured using a 3-year standard deviation calculation compared to the mutual fund universe. For instances where a fund's volatility falls near or on the cusp of a different volatility level, the ScotiaMcLeod Fund Research team has used its discretion to indicate the level in which the fund's *expected* volatility is likely to reside.

In general terms, a fund's expected volatility will fall somewhere along the risk/return line (as illustrated at right) depending on the focus of the fund. As an example, small-cap focused funds will generally display higher volatility, with the potential for higher returns, whereas money market funds will display low volatility but also lower potential returns.

The Fund Research Group's indication of each fund's expected volatility is meant to serve as a guideline only, and may not represent actual results over time.



## 2009 Recommended List

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### Appendix

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#### CIFSC CATEGORY CLASSIFICATION DEFINITIONS (source: [www.cifsc.org](http://www.cifsc.org))

**Canadian Dividend & Income Equity** - Funds in the Canadian Dividend & Income Equity category must have a stated mandate to invest primarily in income-generating securities and must invest at least 70% of their equity holdings in securities domiciled in Canada. In addition, these funds must invest at least 50% of their non-cash assets in income-generating securities such that the 3-year weighted average yield on the equity component of the fund's portfolio is at least 1.5 times the average yield of the Canadian Equity Fund benchmark, defined as the S&P/TSX Equity Index. The fund's average capitalization must exceed the Canadian and Canadian Focused small/mid cap threshold.

**Canadian Equity** - Funds in the Canadian Equity category must invest at least 90% of their equity holdings in securities domiciled in Canada, and their average market capitalization must be greater than the Canadian small/mid cap threshold.

**Canadian Equity Balanced** - Funds in the Canadian Equity Balanced category must invest at least 70% of total assets in a combination of equity securities domiciled in Canada and Canadian dollar-denominated fixed income securities. In addition, they must invest greater than 60% but less than 90% of their total assets in equity securities.

**Canadian Fixed Income** - Funds in the Canadian Fixed Income category must invest at least 90% of their fixed income holdings in Canadian dollars with an average duration greater than 3.5 years and less than 9.0 years. In addition, these funds must invest primarily in investment-grade fixed-income securities, such that the average credit quality of the portfolio as a whole is investment grade (BBB or equivalent rating or higher) and not more than 25% of the portfolio's holdings are invested in high yield fixed income securities. For purposes of the category definition, up to 30% of a Fund's assets may be held in Foreign Fixed Income products which will be treated as Canadian content provided that the currency exposure on those holdings is hedged into Canadian dollars.

**Canadian Focused Equity** - Funds in the Canadian Focused Equity category must invest at least 50% and less than 90% of their equity holdings in securities domiciled in Canada, and their average market capitalization must be greater than the Canadian small/mid cap threshold.

**Canadian Neutral Balanced** - Funds in the Canadian Neutral Balanced category must invest at least 70% of total assets in a combination of equity securities domiciled in Canada and Canadian dollar-denominated fixed income securities. In addition, they must invest greater than or equal to 40% but less than or equal to 60% of their total assets in equity securities.

**Canadian Small/Mid Cap Equity** - Funds in the Canadian Small/Mid Cap Equity category must invest at least 90% of their equity holdings in securities domiciled in Canada, and their average market capitalization must be lower than the Canadian small/mid cap threshold.

**Emerging Markets Equity** - Funds in the Emerging Markets Equity category must invest at least 90% of their equity holdings in a broadly based portfolio of securities from emerging markets countries. Funds with a consistently narrow focus on a single country, group of countries or single region within the emerging markets will be excluded from the category.

**European Equity** - Funds in the European Equity category must invest at least 90% of their equity holdings in a diversified portfolio of securities domiciled in two or more countries in Europe.

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### Appendix

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#### CIFSC CATEGORY CLASSIFICATION DEFINITIONS *continued*

**Global Equity** - Funds in the Global Equity category must invest in securities domiciled anywhere across the globe such that their average market capitalization is greater than the small/mid cap threshold, and invest more than 5% and less than 90% of their equity holdings in Canada or the U.S. Funds that do not meet any of the requirements of other geographic equity categories and have no formal restrictions that limit where they can invest will be assigned to this category.

**Global Equity Balanced** - Funds in the Global Equity Balanced category must invest less than 70% of total assets in a combination of equity securities domiciled in Canada and Canadian dollar-denominated fixed income securities. In addition, they must invest greater than 60% but less than 90% of their total assets in equity securities.

**Global Fixed Income** - Funds in the Global Fixed Income category must invest less than 90% of their fixed income holdings in Canadian dollar issues. In addition, these funds must invest primarily in investment grade fixed income securities (BBB or equivalent rating or higher) and not more than 25% of the portfolio's holdings are invested in non-investment grade securities.

**Global Neutral Balanced** - Funds in the Global Neutral Balanced category must invest less than 70% of total assets in a combination of equity securities domiciled in Canada and Canadian dollar-denominated fixed income securities. In addition, they must invest greater than or equal to 40% but less than or equal to 60% of their total assets in equity securities.

**Global Small/Mid Cap Equity** - Funds in the Global Small/Mid Cap Equity category must invest in securities domiciled anywhere across the globe such that their average market capitalization is within the small/mid cap threshold and must invest more than 5% and less than 90% of their Equities Assets in Canada or the U.S. Funds that do not meet any of the requirements of other geographic equity categories and have no formal restrictions that limit where they can invest will be assigned to this category.

**High Yield Fixed Income** - Funds in the High Yield Fixed Income category must invest primarily in fixed-income securities with a non-investment-grade credit rating, such that their average credit quality is below investment grade (Lower than BBB or equivalent) or in excess of 25% of the portfolio's holdings are invested in high yield fixed income securities.

**International Equity** - Funds in the International Equity category must invest at least 95% of their equity assets in countries other than Canada and the United States and at least 70% of their equity assets in developed countries. Funds that do not meet any of the requirements of the more focused geographic equity categories and that invest less than 90% of their assets in any single country or region will be assigned to the International Equity category.

**U.S. Equity** - Funds in the U.S. Equity category must invest at least 90% of their equity holdings in securities domiciled in the United States, and their average market capitalization must be greater than the U.S. small/mid cap threshold.

**U.S. Small/Mid Cap Equity** - Funds in the U.S. Small/Mid Cap category must invest at least 90% of their equity holdings in securities domiciled in the United States such that their average market capitalization is within the U.S. small/mid cap threshold.

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### Appendix

Benchmarks:

ASSET CLASS	BENCHMARK
<b>Fixed Income Funds</b>	
Canadian Fixed Income	Dex Universe Bond Index (C\$)
Global Fixed Income	Citigroup World Government Bond Index (C\$)
High Yield Fixed Income	Merrill Lynch High Yield Master II Index (C\$)
<b>Balanced Funds</b>	
Canadian Equity Balanced	Morningstar CAN Balanced Canadian Aggressive (C\$)*
Canadian Neutral Balanced	Morningstar CAN Balanced 50/50 (C\$)*
Global Equity Balanced	Morningstar CAN Balanced Global Aggressive (C\$)*
Global Neutral Balanced	Morningstar CAN Balanced Global 60/40 (C\$)*
<b>Equity Funds</b>	
<b>Canada</b>	
Canadian Dividend & Income Equity	S&P/TSX Composite (Blended) Index (C)\$
Canadian Equity	S&P/TSX Composite (Blended) Index (C\$)
Canadian Small/Mid Cap Equity	BMO Nesbitt Burns Canadian Small Cap Index (C\$)
Canadian Small/Mid Cap Equity (alternate)	S&P/TSX Small Cap Index (C\$)
Canadian Focused Equity	S&P/TSX Composite (Blended) Index (C\$)
<b>US</b>	
US Equity	S&P 500 Index (C\$)
US Small/Mid Cap Equity	Russell 2000 Index (C\$)
US Small/Mid Cap Equity (alternate)	S&P MidCap 400 Index (C\$)
<b>Global/International/Other</b>	
European Equity	MSCI Europe Index (C\$)
Emerging Markets Equity	MSCI Emerging Markets Index (C\$)
Global Equity	MSCI World Index (C\$)
Global Small/Mid Equity	MSCI World Index (C\$)
International Equity	MSCI EAFE Index (C\$)

Note: All benchmark returns are total return unless otherwise stated.

Benchmark Definitions:

**DEX Universe Bond Index** is a broad measure of total return for the Canadian bond market, covering approximately 700 marketable Canadian bonds with term to maturity of more than 1 year. Bonds are weighted on a market value basis, including accrued interest, and emulate "real world" bond portfolios. Bond categories include Federal, Provincial, Municipal and AA through BBB-rated corporate issuers. This index is calculated by Scotia Capital Markets Inc.

**Citigroup World Government Bond Index** is a value weighted index of some 675 securities (bonds) issued domestically by 22 governments world wide.

**Merrill Lynch High Yield Master II Index** is a broad-based index consisting of all U.S.-dollar-denominated high-yield bonds with a minimum outstanding amount of \$100 million and maturing over one year. The quality rating is less than BBB.

**S&P/TSX Composite Index** comprises the majority of market capitalization for Canadian-based, Toronto Stock Exchange listed companies. It is the leading benchmark used to measure the price performance of the broad, Canadian, senior equity market. It was formerly known as the TSE 300 Composite Index.

**BMO Nesbitt Burns Canadian Small Cap Index** is intended to represent the Canadian small capitalization equity market. It includes approximately 400 stocks trading on the Toronto Stock Exchange, and is comprised of stocks with a market capitalization of less than 0.1% of the total capitalization of the S&P/TSX Composite Index. Each stock is assigned the same weight to prevent the relatively larger capitalization companies from dominating the index.

\*Morningstar Custom Benchmarks:

Morningstar CAN Balanced Canadian Aggressive (C\$): 2.5% Scotia 91-day T-Bill / 30% Dex Universe Bond / 42.5% S&P/TSX Composite / 15% S&P 500 / 10% MSCI EAFE.

Morningstar CAN Canadian Balanced 50/50 (C\$): 50% Dex Universe Bond / 50% S&P/TSX Composite.

Morningstar CAN Balanced Global Aggressive (C\$): 20% Dex Universe Bond / 15% S&P/TSX Composite / 35% S&P 500 / 30% MSCI EAFE.

Morningstar CAN Balanced Global 60/40 (C\$): 40% Citigroup World Bond / 60% MSCI World.

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### Appendix

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#### Benchmark Definitions continued

**S&P/TSX Small Cap Index** is an index of smaller Canadian companies that have been included in the S&P/TSX Composite Index, but are not members of the S&P/TSX 60 or the S&P/TSX Midcap Indices.

**S&P 500 Index** is a market capitalization weighted index composed of 500 widely held common stocks listed on the New York Stock Exchange, American Stock Exchange and Over-the-Counter market. The value of the index varies with the aggregate value of the common equity of each of the 500 companies.

**Russell 2000 Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

**S&P MidCap 400 Index** includes mid cap companies with market capitalizations of \$2 billion to \$10 billion. The most widely used index for mid-sized companies. It covers over 7% of the U.S. equities market.

**MSCI Europe Index** is a free float-adjusted market capitalization index calculated in Canadian dollars, that is designed to measure developed market equity performance in Europe. As of September 2002, the MSCI Europe Index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

**MSCI Emerging Markets Index** is a free float-adjusted market capitalization index calculated in Canadian dollars, that is designed to measure equity market performance in the global emerging markets. As of April 2002 the MSCI EMF Index consisted of the following 26 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey and Venezuela.

**MSCI World Index** is a Morgan Stanley Capital International index that includes stocks traded in Europe, Australia, the Far East, plus the U.S., Canada, and South Africa, weighted by capitalization.

**MSCI EAFE Index** is a Morgan Stanley Capital International index that includes stocks traded on 16 exchanges in Europe, Australia and the Far East, weighted by capitalization.

## 2009 Recommended List

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