

Educators Money Market Fund

Fund Review

For the quarter ended June 30th, The Educators Money Market fund returned 0.14%, and its benchmark, the 91 day T-Bill Index, returned 0.24%.

The Fund underperformed its benchmark due to its overweight position in government guaranteed holdings. At the beginning of the quarter, the Fund held Government of Canada Treasury Bills, as well commercial paper equal to 20-25% of the market value of the fund. This allocation was maintained during the quarter and as at June 30th, 22.5% of the Fund's market value was in a combination of R-1 high rated commercial paper, R-1 high rated bank-sponsored Asset-Backed Commercial Paper and Banker's Acceptance.

Investment Strategy

On May 31st, the Bank of Canada left the overnight interest rate unchanged at 1.00% for a sixth consecutive time, affirming that any rate hikes would be further delayed. Expectations regarding the delay continue to persist even though the Bank included the following in its May 31st policy announcement: "Some of the considerable monetary policy stimulus currently in place will be eventually withdrawn". This was a notable change from previous announcements. With a global outlook that continues to look bleak, as well as persistent strength in the Canadian dollar, market participants expect little change in the next quarter.

The portfolio will remain invested in liquid money market securities, comprised of Government of Canada Treasury Bills as well as a 20% to 25% weighting in commercial paper and bank paper, as we continue to take advantage of the more attractive risk premiums in the short-end of the market.

Market Outlook

Throughout the second quarter, the economic recovery in Canada proceeded largely as anticipated with the release of several positive economic statistics. Job growth continued to post solid gains with 238,000 new jobs created over the past 12 months (+1.4%) and the unemployment rate at 7.4%, at the end of June. Housing activity continued to surprise markets, as it rose 1.7% to 197,400 annualized units in June. There were also upward revisions to the April and May results. Tighter mortgage regulations and anticipated increases in interest rates should moderate housing activity, going forward. May Headline CPI rose to an unexpected high of 3.7%, which was mostly due to higher gasoline prices. The Bank of Canada's core index rose to 1.8% in May. Real GDP in Canada increased by 0.3% in March, but remained unchanged in April. The economy grew by 3.9% in Q1, up from 3.1% in Q4 of 2010 and considerably higher than the 1.8% posted in Q1 in the United States. According to the Bank of Canada's April Monetary Policy report, the Bank is projecting the Canadian economy to expand by 2.9% in 2011.

There were several global events that weighed heavily on the markets and continue to curb further market growth. These events included the unexpected disasters in Japan, the increased geopolitical unrest in Egypt, Libya and the Middle East, ongoing European sovereign debt issues, weak U.S. job growth and more recently, the August 2nd deadline to raise the U.S. debt ceiling. In aggregate, these elements have had a strong influence on the sentiment of money market participants. Earlier in the quarter, many expected that the Bank of Canada would begin raising rates in July. However, expectations have now shifted and many participants expect a delay in the raising of rates to the end of 2011, or even into Q1 of 2012. This will continue to affect the Fund, as the rates of return on money market securities are not expected to increase significantly until the interest rate rises.

Takeaways

The Educators Money Market Fund provides investors with a portfolio of high quality, short term Canadian dollar denominated money market securities providing liquidity and preservation of capital.