

Educators Monthly Income Fund

Fund Review

For the quarter ended June 30th, The Educators Monthly Income Fund returned -1.72%, and its benchmark, which consists of a 70% weight in the S&P/TSX Total Return Index, a 27% weight in the DEX Universe Index and a 3% weight in the DEX 91 Day Tbill Index, returned -2.96%.

Coinciding with the launch of the fund in April, the stock and bond markets became a little more volatile, due to heightened fears of a global economic slowdown, sovereign debt issues in Europe and inflation concerns. We took advantage of the weakness in the market during the second quarter by establishing investments in a variety of quality, dividend paying Canadian companies. We also initiated investments in a diversified portfolio of corporate bonds to broaden the income stream for the Fund. Currently, the Fund's largest exposures are in high quality, dividend paying stocks in the midstream asset gathering systems in Alberta, such as pipelines, as well as in Real Estate Investment Trusts. The top 5 positions in the fund are currently: Altagas, Keyera, TransCanada Pipelines, Baytex Energy, and Vermillion Energy. Within the Real Estate Investment Trusts, the largest positions are in shopping centre operators Riocan and Calloway, as well as Calgary based office provider H&R REIT.

In the fixed income market, corporate earnings have been strong despite the volatility over the last few months, due to contained cost structures. As such, we expect continued improvement in credit metrics and strength in both cash flow and balance sheets. We believe that the added yield the fixed income component produces, due to both its significant weight in corporate bonds and to our rigorous and disciplined investment approach, will provide downside protection in this uncertain environment.

Investment Strategy

The fixed income portion of the Fund will continue to maintain its overweight position in corporate bonds and asset backed securities. Within the equity portion of the Fund, we continue to look for other attractive dividend paying investment opportunities to add to the fund.

The Fund remains positioned for continued, but modest, economic growth in 2011 and beyond. We expect that stocks with solid fundamentals will continue to be market leaders and that this kind of an environment represents a good underpinning for fund performance, going forward.

Market Outlook

The second quarter saw a reversal in the general outlook for the economy, due to heightened fears of a global economic slowdown, sovereign debt issues and inflation concerns. The first significant trigger of the downturn in market sentiment was attributed to the earthquake and tsunami in Japan during the first quarter, which created a significant, yet temporary, global supply chain disruption. The impact was magnified, due to the release of additional weaker economic statistics worldwide. Weak growth numbers and consumer confidence in Europe, higher interest rates in China, and, more recently, a sluggish ISM Manufacturing benchmark in the U.S., all point to a slower economic environment. The European sovereign debt issue resurfaced during the second quarter, after many believed it had resolved itself in 2010. When progress implementing fiscal restraint measures slowed, the EU and IMF had to step in again to take more corrective action. Notwithstanding these concerns, we believe that these country specific issues will be resolved, but not without further enhancing volatility in the market.

Within North America, three issues remain significant. First, consensus GDP growth estimates have been lowered from 3% down to 2.5%. We see this an affirmation that we are in a sustained lower growth environment, not a double dip recession. Secondly, higher levels of inflation during the second quarter have led both economists and bond market participants to anxiously anticipate when the Central Bankers will start hiking interest rates. Lastly, the labour picture remains weak. The unemployment rate in the US crept back over the 9% level in April, while in Canada, the employment picture has improved at a better pace. This, in our view, is the single biggest challenge to the overall North American economic recovery picture. With the combination of all three aforementioned issues, we believe that market growth will remain subdued for the near-term. We continue to see both strong reported and expected earnings growth in 2011 and 2012, although we acknowledge that the growth is decelerating relative to the last few years.

Takeaways

The Educators Monthly Income Fund provides exposure to both the equity and fixed income markets. Delivering steady income coupled with growth, while reducing the ups and downs for investors is the key focus. The team approaches the investment acquisition and divestment process rigorously.