

Educators Dividend Fund

Fund Review

The Educators Dividend Fund ("the Fund") significantly outperformed its benchmark, the S&P/TSX 60 Index ("S&P/TSX 60"), for the quarter ending June 30, 2011 by returning -2.2%, net of expenses. The S&P/TSX 60 declined by 5.0% during the period, while most other international equity markets were also in negative territory weighed down by signs of slower global economic growth. Civil unrest in the Middle East, inflation worries and tighter monetary policy in China and continued concern over the European financial risk all contributed to investors' increased aversion to risk.

Large capitalization companies, after a prolonged period of under performance, out performed smaller capitalization ("cap") companies as risk aversion returned to the market. The Fund was a beneficiary of this sea change given its continued focus on high quality, large cap, dividend paying stocks.

Five of the ten S&P/TSX 60 sectors finished higher, led by Telecommunications and Health Care. Although there was no overwhelming company news, the Telecommunications sector was without a doubt, a beneficiary of the markets rotation to more defensive companies with safe and secure dividends, causing it to be one of the strongest performers. And, once again, one of the best performing sectors during the period was Health Care. Unfortunately, Valeant Pharmaceuticals International Inc., the leading company in the sector, does not pay dividends and so the Fund did not hold it.

Energy was the biggest contributor to the Fund's outperformance over the period, contributing almost 1.5% in the quarter, despite this large sectors weak performance. Within the energy sector the Fund has a large weight in pipeline companies which were a significant contributor to the Fund's outperformance relative to its benchmark in the quarter. The Fund's exposure to dividend paying mid cap companies such as Peyto Energy, Baytex Energy, and Bonavista Energy, while not large individual weights, also contributed to better than benchmark performance.

The Fund significantly out performed within the technology sector posting positive returns while the benchmark declined 52%. This steep decline can be attributed to a single company, Research in Motion Limited, the only technology company held in the index group. This had a direct positive impact on the Fund's relative performance since it did not own the security and therefore had an underweight exposure to the sector. And finally, the Fund's overweight exposure to the Consumer Discretionary sector and its holdings in Magna and Tim Hortons also contributed to strong relative performance while the Fund's zero weight to Consumer Staples detracted from performance.

Investment Strategy

The Educators Dividend Fund remains over weight the financial, consumer discretionary, industrial and utility sectors. The energy sector is slightly below market weight with substantial positions in two high dividend yielding pipeline companies: Enbridge Inc. and TransCanada Corporation. The materials sector is the most significant under weight due to the limited number of dividend paying companies in that sector. Cash is at normal levels.

Market Outlook

Although we are moving into the earnings season, global macro economic events will continue to dominate market sentiment. The current consensus view is one of an economic slowdown, but not a recession. The bond market appears to be pricing in such an outlook, however, the equity markets have only partially done so. Earnings expectations may be ahead of themselves. Although the distortive impact of the events in Japan will complicate the reading of the tea leaves, as economic data continues to normalize, the market will eventually have to adjust to the normalization of interest rates. The next major hurdle should come as we near a decision on fiscal discipline from the United States. The Portfolio Manager takes comfort in knowing that corporations are in better financial condition than they have been for several years. In this low interest rate environment, the ingredients for further merger and acquisition activity, share buy backs and dividend increases are in place. Many companies have announced dividend increases. Among the more notable are BCE Inc., National Bank of Canada, Bank of Nova Scotia, Magna International Inc., Enbridge Inc., Teck Resources Ltd., and Emera Inc. As the sentiment shifts from growth slowdown to one of improving (although possibly uneven) growth, equities should resume their leadership position.

Takeaways

- The dividends paid by the securities held in the Educators Dividend Fund generate a substantial portion of the total return to investors.
- In general dividend funds tend to be less volatile than other equity funds.
- The Educators Dividend Fund invests primarily in Canadian stocks but will occasionally hold stocks based in the US and other countries.
- Canadian dividend-paying securities that would be considered by the Fund tend to be concentrated in the financial, consumer, utility, telecommunications and some sectors of the energy group such as pipelines, integrated oil and gas and energy income trusts.
- The Educators Dividend Fund can be affected by changes in interest rates due to the substantial exposure to interest-sensitive stocks such as banks and insurance companies.
- The majority of the Educators Dividend Fund assets are invested in securities denominated in Canadian dollars which minimizes foreign exchange risks that can impact returns to Canadian investors.



Your Knowing Advantage

