

Educators Growth Fund

Fund Review

The Educators Growth Fund ("the Fund") outperformed the S&P/TSX Total Return Index ("S&P/TSX") for the quarter ending June 30, 2011 by returning -3.7%, net of expenses. The S&P/TSX declined by -5.2% 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. The larger capitalization indices, after a prolonged period of under performance, outperformed the small capitalization ("cap") indices in the quarter which benefited the Fund over the quarter.

Six of the ten S&P/TSX sectors finished higher. Although there was no overwhelming company news, the Telecommunications Services 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. The Fund is well positioned in Valeant Pharmaceuticals International Inc., the leading company in the sector which helped relative performance.

The Funds positioning and stock selection in both Energy and Materials positively contributed to performance despite the negative impact these large sectors had on benchmark performance. While the Fund had a market weight exposure to energy, stock selection helped to mitigate some of this impact such as its position in Tourmaline Oil, which outperformed the benchmark during the quarter. The weakness in the Materials sector reflected weaker commodity prices and an aversion to many of the small cap companies that populate this space. The Fund's under weight position and stock selection in this sector contributed positively to overall performance. Within the Gold sub-sector, the Portfolio Manager shifted the Fund focus away from the large cap companies and into the mid cap companies with better production profiles.

Information Technology was the weakest sector during the quarter, but one of the greatest contributors to relative performance in the Fund due to strong stock selection. Research in Motion's poor performance, which ended the quarter down -49%, was the primary detractor from sector performance. The company appears relatively inexpensive, but faces ongoing competitive pressures. The Fund eliminated its modest exposure to the company after it last reported. Also contributing to relative performance were the Fund's positions in CGI, Open Text and Macdonald Dettwiler which all finished the quarter in positive territory.

Investment Strategy

The Educators Growth Fund is positioned to benefit from a recovery in economic growth with market weight positions in energy and overweight positions in the industrial, consumer discretionary and information technology sectors. The materials sector is slightly below market weight with overweight representation in the fertilizer and base metals stocks and under weight gold and precious metals. Financials continue to be under weight with continued emphasis on the banking group. Cash levels are 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.

We take comfort in knowing that Canadian 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. As the sentiment shifts from growth slowdown to one of improving (although possibly uneven) growth, equities should resume their leadership position.

Takeaways

- The Educators Growth Fund invests primarily in Canadian stocks but will occasionally hold stocks based in the US and other countries.
- Stocks in the Canadian market are dominated by three major sectors; financials, energy and materials which collectively account for more than 78% of the S&P/TSX Index.
- The current strength in commodities such as oil and gold and the strong position of our banking sector make the Canadian market attractive to investors.
- For sectors of the Canadian market that have limited representation such as information technology, health care and the consumer sector, the Fund will occasionally purchase foreign equities in these or other groups if required by the manager's investment outlook and strategy.
- The majority of the Educators Growth Fund assets are invested in securities denominated in Canadian dollars which minimizes foreign exchange risks that can impact returns to Canadian investors



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