

ScotiaMcLeod PAG Fund Research

Mutual Fund Recommended List Update

March 2013

Introduction

The Fund Research Team has been producing and supporting a recommended list of mutual funds for a number of years. Last year, the Recommended List underwent a significant structural change. Traditionally, the Recommended List has provided a large selection of mutual funds that represented the foundation for most portfolios. With the new list, we took a broader and perhaps more practical approach by embracing the Core-Satellite structure which we feel allows for ease and flexibility in creating portfolios consisting of different asset classes.

The Core-Satellite structure provides two very distinct components to be used in portfolios, each with a very specific role that complements each other very well. Core funds are selected to provide long-term, broad exposure to major asset classes. Satellite funds on the other hand, can be thought of as non-traditional holdings, tactically invested to take advantage of either shorter-term opportunities or strategically held to provide long-term diversification as these investments typically have a low correlation between each other as well as to the core assets of the portfolio. The intention of the Satellite funds is to provide more specialized exposure to asset classes which are difficult for individual investors to access.

We have also made the decision to alter the timing of changes to the Recommended List. Instead of launching a new list every year, it will now be continuously updated with additions and deletions. The attached is an example of such an update. We feel this is a better reflection of our process which we have always followed – the on-going monitoring of the funds on the list.

What has not changed is our research process. This process consists of two portions, the quantitative portion allows us to remain objective in narrowing down the large universe of funds by assisting us in identifying funds that are “quantitatively attractive”. This is combined with a detailed qualitative assessment of a fund’s unique characteristics. As with previous years, in addition to meeting with the fund managers on this list, we met with many more managers that are not on this list in order to arrive at what we feel to be the most compelling investment ideas.

PAG Mutual Fund Recommended List - Summary

March 2013

FIXED INCOME - (Core)	PAG CLASSIFICATION	PORTFOLIO ADVISOR
Dynamic Advantage Bond	Canadian Fixed Income	GCIC Ltd.
PH&N Total Return Bond - C	Canadian Fixed Income	RBC Global Asset Management Inc.
PIMCO Canadian Total Return Bond	Canadian Fixed Income	PIMCO Canada
BALANCED - (Core)	PAG CLASSIFICATION	PORTFOLIO ADVISOR
CI Cambridge Canadian Asset Allocation (New)	Canadian Balanced	CI Investments Inc.
Dynamic Strategic Yield	Canadian Balanced	GCIC Ltd.
Fidelity Canadian Asset Allocation (Under Review)	Canadian Balanced	Fidelity Investments Canada ULC
Fidelity Monthly Income	Canadian Balanced	Fidelity Investments Canada ULC
CI Signature Income & Growth	Global Balanced	CI Investments Inc.
Manulife Diversified Investment	Global Balanced	Mawer Investment Management Ltd.
EQUITY - (Core)	PAG CLASSIFICATION	PORTFOLIO ADVISOR
CI Harbour	Canadian Equity	CI Investments Inc.
CI Signature Select Canadian	Canadian Equity	CI Investments Inc.
Dynamic Value Fund of Canada	Canadian Equity	GCIC Ltd.
Fidelity Canadian Disciplined Equity (Under Review)	Canadian Equity	Fidelity Investments Canada ULC
Manulife Canadian Investment Class	Canadian Equity	Mawer Investment Management Ltd.
RBC QUBE Low Volatility Canadian Equity (New)	Canadian Equity	RBC Global Asset Management Inc.
BMO Guardian Monthly High Income II - Mutual	Equity Income	Guardian Capital LP
RBC Canadian Equity Income - A	Equity Income	RBC Global Asset Management Inc.
Scotia Canadian Dividend - A	Equity Income	GCIC Ltd.
Sentry Canadian Income	Equity Income	Sentry Investments
CI Black Creek Global Leaders	Global Equity	Black Creek Investment Management Inc.
EdgePoint Global Portfolio	Global Equity	EdgePoint Investment Management Inc.
Mackenzie Ivy Foreign Equity	Global Equity	Mackenzie Financial Corporation
Invesco International Growth Class	International Equity	Invesco Canada Ltd.
Manulife World Investment Class	International Equity	Mawer Investment Management Ltd.
Renaissance International Equity	International Equity	Walter Scott & Partners Limited
CI American Value	US Equity	Epoch Investment Partners, Inc.
Dynamic American Value	US Equity	GCIC Ltd.
Trimark US Companies	US Equity	Invesco Canada Ltd.

FIXED INCOME - (Satellite)	PAG CLASSIFICATION	PORTFOLIO ADVISOR
RBC Emerging Markets Bond - A	Emerging Markets Fixed Income	RBC Asset Management UK Limited
Manulife Strategic Income	Global Fixed Income	MFC Global Investment Mgmt (U.S.), LLC
PIMCO Global Advantage Strategy Bond	Global Fixed Income	PIMCO Canada
Templeton Global Bond	Global Fixed Income	Franklin Templeton Investments Corp
Dynamic High Yield Bond	High Yield Fixed Income	Marret Asset Management Inc.
EQUITY - (Satellite)	PAG CLASSIFICATION	PORTFOLIO ADVISOR
Dynamic Far East Value	Asia Pacific Equity	GCIC Ltd.
Dynamic Small Business	Canadian Small/Mid Cap Equity	GCIC Ltd.
Mackenzie Universal Emerging Markets Class	Emerging Markets Equity	Mackenzie Financial Corporation
Invesco European Growth Class	European Equity	Invesco Canada Ltd.
Manulife Global Small Cap Equity	Global Small/Mid Cap Equity	Mawer Investment Management Ltd.
Dynamic Strategic Gold Class	Gold / Gold Equity	GCIC Ltd.
Manulife Global Infrastructure	Infrastructure Equity	Brookfield Investment Management
Front Street Special Opportunities	Natural Resources Equity	Front Street Capital
Sentry REIT	Real Estate Equity	Sentry Investments
Dynamic Power American Growth	US Equity	GCIC Ltd.
TD US Mid-Cap Growth - A	US Small/Mid Cap Equity	T. Rowe Price Associates, Inc.
Trimark US Small Companies Class	US Small/Mid Cap Equity	Invesco Canada Ltd.

Funds Additions

CI Cambridge Canadian Asset Allocation Corporate Class

FUND MANAGER: Alan Radlo, Bob Swanson & Brandon Snow, Cambridge Advisors

MANAGEMENT FIRM: CI Investments Inc.

MORNINGSTAR CLASSIFICATION: Tactical Balanced

PAG CLASSIFICATION: Core - Canadian Balanced

Inception Date: December 2007

Fund Objective: The Fund's objective is to achieve a superior total investment return by investing, directly or indirectly, in a combination of primarily equity and fixed income securities of Canadian Companies

Considered as Cambridge Advisors' flagship offering, the fund is structured to capture the team's best ideas. The process begins with a macro-economic assessment by Mr. Swanson, drawing on his experience and expertise as an asset allocation strategist. The fund's tactical mandate and size has combined to provide a good canvas for Mr. Swanson to express his views.

The equity constituents of the portfolio are the result of Mr. Radlo (global equities) and Mr. Snow's (North American equities) bottom-up fundamental research process. They look to identify companies with consistently growing earnings, solid balance sheets, strong management teams and are trading at reasonable valuations. As with all Cambridge equity mandates, the portfolio consists of large core positions supplemented with shorter-term ideas or themes. With a strong focus on downside protection, the team looks for attractive opportunities in all segments of the market, as well as within a firm's capital structure.

What differentiates this fund from more prevalent balanced mandates in the market place is its fixed income allocation or as what Mr. Swanson refers to as the "income" portion of the portfolio. In this space, Mr. Swanson favours alternative high-yielding investments with growth potential such as investment grade bonds, high yield bonds, preferreds, REITs and convertible bonds to add value over traditional fixed income.

Given the experienced management team combined with a flexible and nimble mandate, we are pleased to add the CI Cambridge Canadian Asset Allocation to the Recommended List as a balanced option for those investors seeking long-term capital appreciation.

RBC QUBE Low Volatility Canadian Equity

FUND MANAGER: Bill Tilford

MANAGEMENT FIRM: RBC Global Asset Management Inc.

MORNINGSTAR CLASSIFICATION: Canadian Equity

PAG CLASSIFICATION: Core - Canadian Equity

Inception Date: November 2012

Fund Objective: To provide long-term capital growth by investing primarily in equity securities of Canadian companies using a quantitative investment approach. The fund seeks to achieve a reduced level of volatility of returns as compared to the broader Canadian equity market.

Since the credit crisis, mandates focused on managing volatility have gained momentum in the institutional world. We feel the prospect of limiting volatility risk while maintaining equity exposure should also appeal to retail investors, especially those that have been hesitant in re-entering the equity market.

While the RBC QUBE Low Volatility Canadian Equity fund was just launched in November 2012, Mr. Tilford has over 20 years in quantitative management, having been responsible for similar mandates in his previous roles at a federal Crown corporation as well as a large Canadian asset manager. As opposed to focusing on backward-looking measures of volatility, the fund actively manages custom risk models assessing forward looking factors such as growth and quality as predictors of future volatility. In addition to being experts in quantitative modeling, Mr. Tilford and his team provide a level of fundamental analysis to provide context to the numbers. We like these differentiating factors and are therefore please to add the RBC QUBE Low Volatility Canadian Equity fund to the Recommended List.

Reinstatement

CI Harbour

FUND MANAGER(S): Stephen Jenkins and Gerald Coleman

MANAGEMENT FIRM: CI Investments

MORNINGSTAR CLASSIFICATION: Canadian Focused Equity

PAG CLASSIFICATION: Core - Canadian Equity

OBJECTIVE: The Fund's objective is to obtain maximum long-term capital growth.

On November 14, 2012, Harbour Advisors implemented changes in roles and responsibilities of the Harbour Advisors team one of which is the switching of portfolio management roles between Mr. Coleman and Mr. Jenkins. In addition to being name co-CIO with Coleman, Mr. Jenkins is now responsible for the lead management duties for the team's Canadian mandates including the CI Harbour fund while Mr. Coleman is now lead manager for the team's foreign mandates.

The CI Harbour fund was place "Under Review" as a result of the change.

After meeting with the Harbour team, the Fund has been reinstated to "Recommended" status. Mr. Jenkins has over 22 years of investment experience, 16 of which have been alongside Mr. Coleman, first on the Harbour fund then as lead manager of the CI Harbour Foreign Equity fund. Both traders for their portfolios, Mr. Jenkins and Mr. Coleman have a similar approach in managing portfolios. Factors they look for include high quality, dominant businesses with proven management, strong balance sheet and significant free cash flow. One key difference is that Mr. Jenkins is more price sensitive and therefore will place more emphasis on valuations than Mr. Coleman. He will also place more emphasizes on meetings with management and is overall more conservative in his approach. Mr. Jenkin's expertise and experience in foreign securities may be beneficial to the fund in terms viewing Canadian securities from a global context and in providing diversification to the portfolio. We are comfortable with the change and therefore the CI Harbour fund has been re-instated to "Recommended" status.

Under Review

Fidelity Canadian Disciplined Equity

FUND MANAGER(S): Andrew Marchese

MANAGEMENT FIRM: Fidelity Investments Canada ULC

MORNINGSTAR CLASSIFICATION: Canadian Equity

PAG CLASSIFICATION: Core - Canadian Equity

OBJECTIVE: The fund aims to achieve long-term capital growth by investing primarily in Canadian equities.

Fidelity Canadian Asset Allocation

FUND MANAGER(S): Derek Young and Geoff Stein

MANAGEMENT FIRM: Fidelity Investments Canada ULC

MORNINGSTAR CLASSIFICATION: Canadian Equity Balanced

PAG CLASSIFICATION: Core - Canadian Balanced

OBJECTIVE: The fund aims to achieve high total investment return. This fund uses an asset allocation approach by investing primarily in a mix of Canadian equities, fixed income securities and money market instruments. It can also invest tactically in foreign securities to take advantage of market opportunities.

The Fidelity Canadian Disciplined Equity and Fidelity Canadian Allocation funds have been placed "Under Review" due to underperformance relative to its peers. The funds will be monitored closely over the next few months and we will provide an update at that time.

Primary Fund Codes

FIXED INCOME - (Core)	FRONT END	DSC	LOW LOAD	SERIES F
Dynamic Advantage Bond	DYN 258	DYN 688	DYN 538	DYN 3058
PH&N Total Return Bond - A	PHN 6340	N/A	PHN 4340	PHN 5340
PIMCO Canadian Total Return Bond	PMO 002	N/A	PMO 102	PMO 202
BALANCED - (Core)	FRONT END	DSC	LOW LOAD	SERIES F
CI Cambridge Cdn Asset Allocation <i>(New)</i>	CIG2322	CIG3322	CIG1522	CIG4322
Dynamic Strategic Yield	DYN 1560	DYN 1562	DYN 1561	DYN 1566
Fidelity Cdn Asset Allocation <i>(Under Review)</i>	FID 281	FID 581	FID 381 / FID 081	FID 681
Fidelity Monthly Income	FID 269	FID 569	FID 869 / FID 069	FID 669
CI Signature Income & Growth	CIG 6116	CIG 6166	CIG 1166	CIG 6416
Manulife Diversified Investment	MMF 4502	MMF 4402	MMF 4702	MMF 4602
EQUITY - (Core)	FRONT END	DSC	LOW LOAD	SERIES F
CI Harbour	CIG 690	CIG 890	CIG 1890	CIG 714
CI Signature Select Canadian	CIG 677	CIG 777	CIG 1777	CIG 718
Dynamic Value Fund of Canada	DYN 040	DYN 740	DYN 640	DYN 220
Fidelity Cdn Disciplined Equity <i>(Under Review)</i>	FID 224	FID 524	FID 824 / FID 024	FID 624
Manulife Canadian Investment Class	MMF 4503	MMF 4403	MMF 4703	MMF 4603
RBC QUBE Low Volatility Cdn Equity <i>(New)</i>	RBF719	RBF819	RBF019	RBF689
BMO Guardian Monthly High Income II - Mutual	GGF 619	GGF 260	GGF 941	GGF 732
RBC Canadian Equity Income - A	RBF 762	RBF 856	RBF 111	RBF 646
Scotia Canadian Dividend - A	BNS 785	BNS 985	BNS 885	BNS 585
Sentry Canadian Income	NCE 717	NCE 317	NCE 217	NCE 617
CI Castlerock Global Leaders	CIG 2574	CIG3574	CIG1574	CIG 4574
EdgePoint Global Portfolio	EDG 100	N/A	EDG 300	EDG 500
Mackenzie Ivy Foreign Equity	MFC 081	MFC 611	MFC 3158	MFC 077
Invesco International Growth Class	AIM 633	AIM 631	AIM 635 / AIM 639	AIM 637
Manulife World Investment Class	MMF 8521	MMF 8421	MMF 8721	MMF 8621
Renaissance International Equity	ATL 1868	ATL 1869	ATL 2869	ATL 1644
CI American Value	CIG 7500	CIG 7505	CIG 1510	CIG 7506
Dynamic American Value	DYN 041	DYN 741	DYN 641	DYN 249
Trimark US Companies	AIM 1743	AIM 1741	AIM 1745 / AIM 1749	AIM 1747

FIXED INCOME - (Satellite)	FRONT END	DSC	LOW LOAD	SERIES F
RBC Emerging Market Bond - A	RBF 797	RBF 897	RBF 097	RBF 697
Manulife Strategic Income	MMF 559	MMF 459	MMF 759	MMF 659
PIMCO Global Advantage Strategy Bond	PMO 006	N/A	PMO 106	PMO 206
Templeton Global Bond	TML 704	TML 734	TML 674	TML 257
Dynamic High Yield Bond	DYN 9105	DYN 9405	DYN 435	DYN 3029
EQUITY - (Satellite)	FRONT END	DSC	LOW LOAD	SERIES F
Dynamic Far East Value	DYN 079	DYN 779	DYN 679	DYN 251
Dynamic Small Business	DYN 087	DYN 787	DYN 687	DYN 1287
Mackenzie Universal Emerging Markets Class	MFC1035	MFC1185	MFC2186	MFC1345
Invesco European Growth Class	AIM 643	AIM 641	AIM 645 / AIM 649	AIM 647
Manulife Global Small Cap	MMF 4505	MMF 4405	MMF 4705	MMF 4605
Dynamic Strategic Gold Class	DYN 2300	DYN 2302	DYN 2301	DYN 2303
Manulife Global Infrastructure	MMF 4569	MMF 4469	MMF 4769	MMF 4669
Front Street Special Opportunities	FSC 451	N/A	FSC 450	FSC 452
Sentry REIT	NCE 705	NCE 305	NCE 205	NCE 605
Dynamic Power American Growth	DYN 004	DYN 704	DYN 604	DYN 253
TD US Mid-Cap Growth - A	TDB 312	TDB 342	TDB 372 / TDB126	TDB 412
Trimark US Small Companies Class	AIM 5523	AIM 5521	AIM 5525 / AIM 5229	AIM 5527

Note: Primary fund codes listed only. For full fund code listings, please refer to fund company websites

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