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## Canadian stocks provide opportunities in a volatile market

Uncertainty in Europe, loss of confidence in the ability of politicians to make tough decisions and fears of a global recession have generated high levels of volatility in the equity markets. Investors are trying to decide whether the slow-growth world economy will slip into a prolonged recession before growth picks up again. The portfolio managers at **QV Investors** and **Cambridge Advisors** added value through their defensive positioning of their equity portfolios going into the summer months and, while they expect markets to remain choppy as we move into the fourth quarter of 2011, they remain excited about the long-term prospects of stocks. The volatility has created an environment where the managers can purchase stocks at very attractive prices, and in this edition of *Highlighted Positions*, they discuss some of their favourite holdings.



### Companies that QV favours for its Canadian Equity Alpha mandate

**Canadian Utilities**, a supplier of utility services and owner of infrastructure assets, has for many decades built a very stable and growing business thanks to a management team that is focused on making prudent investments. Much of the company's business is highly regulated and the projects it pursues are required rather than discretionary, making it a company that we believe will do well in all market environments. Insider ownership continues to be very substantial and the track record of consistent shareholder returns is very impressive. There is a significant opportunity for continued growth in the company's operations even though the overall economic growth outlook is murky. The dividend yield today is 2.7%, not the highest in the market but still very respectable. The company over the past 10 years has doubled shareholders' equity and earnings, and increased its dividend.

Financial services holding company **Power Financial** has significant interests in insurance companies such as Great West Lifeco and investment management firms including IGM Financial. It also has exposure to international banking and investments. Power Financial has had an excellent track record of profitable growth and a consistently high return on equity. We believe the shares are trading at a discounted level and offer a favourable risk/reward trade-off. Power Financial today is generating a 5.5% dividend yield for the portfolio, providing us with safety in challenging times.

**Bell Aliant** is one of North America's largest regional telecommunications providers, serving 5.3 million Canadians. It provides a range of information, communication and technology services, including voice, data, Internet, and wireless in Eastern Canada. These sectors continue to grow as more and more individuals use Internet and wireless services. Bell Aliant provides the infrastructure for these services and in doing so has a business model which is more stable than the economy as a whole. The shares are not trading at a discounted valuation but do provide the portfolio a very attractive dividend yield of nearly 7%. Should the current environment of very low interest rates persist for a protracted period, we believe the high yield of Bell Aliant shares will be more attractive to investors.

### How QV is positioned today

QV continues to see economic challenges with growth rates below historical levels. We remain defensively positioned in companies with stable business models, strong balance sheets, and reasonable dividends. We have minimized the portfolio's exposure to highly cyclical sectors such as resources and industrials. The Canadian economy and stock market, in contrast, is highly exposed to these types of businesses and therefore our portfolio is quite different and more diversified than the S&P/TSX Composite Index.





## Stocks that Cambridge likes for its Canadian Equity Growth mandates

Oil and natural gas exploration and production company **Tourmaline Oil** is led by a top-notch management team that has a track record of profitably developing energy resources. The end game for Tourmaline is a sale of the company. It owns a large, attractive asset base in the Alberta Deep Basin and controls the infrastructure in the area. We believe it can internally fund its projected growth of 300% in production between 2011 and 2015 at current commodity prices and end up with cash on the balance sheet.

**ATS Automation Tooling Systems** is in the process of selling or spinning off its money-losing solar operation in France. This will free up management's time to focus on the automation business, and on merger and acquisition (M&A) opportunities. The automation business is attractive in a low-growth economic environment: if you can't grow revenues you need productivity to grow earnings. ATS is a global leader in a number of niches. The company boasts a strong balance sheet and management has proven to be a good allocator of capital, with a very successful M&A program. In addition, the company is a very strong operator: it was able to expand profit margins during the financial crisis even though revenues fell dramatically.

**MI Developments** used to be Magna Entertainment, which was controlled by Frank Stronach. Now that Mr. Stronach is no longer leading the company and a new management team has been installed, we believe management is aligned with shareholders and we expect shareholder-friendly moves in the near term. MI Developments is now an industrial real estate investment trust and it owns the properties underlying Magna International's auto plants. Relative to the peer group, the stock price of MI Developments is cheaper, with lower leverage and more potential dividend growth.

## Areas of the market that Cambridge is avoiding

We hold no base metals/bulk commodities in the portfolios at this point in time since this theme is closely tied to emerging markets, where we see potential downside risks in the near term as persisting inflation continues to push authorities to cool their economies. Also, we do not currently own Canadian banks in the mandates since they appear to be overvalued, especially compared to banks of similar quality in other parts of the world such as in the U.S.

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**Together with your advisor, and our portfolio managers, we help to ensure your investments continue to meet your needs in all market environments.**

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