

### Market review

- Equity markets continued to rally through the third quarter. The S&P/TSX Composite Index achieved a total return of +10.6% for the period.
- Health Care (+22.2%) was the best-performing sector, followed by Financials (+16.1%) and Materials (+12.4%).
- Information Technology (-8.1%) and Consumer Staples (-2.7%) were the only sectors with negative returns. Utilities (+3.6%) was another underperforming sector on a relative basis.

### Portfolio review

#### Positive performance factors in the third quarter

By Sector:

- The portfolio's overweight position in Financials and underweight position in Information Technology were positive contributors to the return in the quarter.

By Stock:

- The primary individual stock contributors were: AGF Management Limited and National Bank of Canada.

#### Negative performance factors in the third quarter

By Sector:

- The performance detractors by sector were the portfolio's overweighting in Telecom Services and the Consumer Discretionary stocks.

By Stock:

- The primary individual stock detractors were: Fortis Inc., Magna International and George Weston.

### Outlook & Strategy

- The second quarter of 2009 was all about the "green shoots." The third quarter carried on the rally backed by the relatively easy monetary conditions.
- However, we are wary now that the market move since March overstates the conditions of the real economy.
- Our sense is that the equity markets are overbought short term and will likely take a breather prior to resuming an upward advance into 2010.

- Our strategy continues to be one of selectively adding to positions, as valuations of individual stocks decline to attractive levels.
- We remain cautious due to our view that the market will be slightly disappointed with the earnings progression at this juncture of the recovery, especially in the cyclical sectors. We are not expecting a return to the panic markets witnessed in Fall 2008 and early 2009.
- Although the return on cash equivalents remains historically low, we have raised some cash, by selling certain stocks due to their rapid advance in such a short period, to protect capital. We will re-deploy into the markets as opportunities present themselves.

*Any amount that is allocated to a segregated fund is invested at the risk of the contract holder and may increase or decrease in value.*

This report is published to provide additional information on economic conditions and investment performance. It was prepared by Laketon Investment Management.