

# C.F.G. HEWARD FUND

## AS OF JUNE 30, 2010

### INVESTMENT REPORT 2Q

### FUND DETAILS

#### Overview

After initially sailing into the second quarter with a full head of steam, the global economic recovery has lost some of its momentum. Weighed down by the sovereign debt crisis in Europe, concerns over slower global growth and the sharp rise in the U.S. dollar, markets exhibited increased volatility. Concerns abound over the stamina of the U.S. recovery, having initially successfully responded to measures put in place to stem their economic slide. Also contributing to investor concerns was Asia, as both China and India were dealing with domestic issues. With overheating economies, and accelerating inflation, authorities were forced to institute measures which would maintain solid growth, but at a slower pace. The majority of damage done to markets was caused by investors moving away from higher risk assets and considerations surrounding the repositioning of portfolios and seeking the relative safety of U.S. Treasuries. Equity markets such as China, Russia, Eastern Europe and other international bourses, typically at the more risky end of the spectrum, proved to be quite volatile. Investors seemed to fear that the global economy would be dragged back into recession as a consequence of funding stresses and sovereign worries in Europe. What is striking, however, is that the growth downgrade thus far has been modest. Whereas markets may be telling us that they remain confident about the growth story, they are clearly indicating their nervousness and vulnerability should economic data turn less friendly. While risk to financial stability have clearly shot upwards over the past six months, history shows us that in past business cycle expansions, when temporary credit market pressures erupt against the backdrop of a steep yield curve, a temporary slowdown ensued, but no recession took place. If this is the scenario that is currently in play, then what we are looking at is a correction in risk assets versus a renewal of a bear market and a temporary slowing in growth and not a double dip recession. While history suggests that equity markets often maintain a cyclical personality for several years once they have come out of recession ( we maintain our long term positive outlook ), we caution against the temptation to chase market rallies over the short term. In this environment, one without a clear picture, the correct strategy is all about preserving capital.

#### Review

The pooled fund came into 2010 having transitioned to both a slight underweight in equities as well as to a more defensive posture. We wrote in January that investors should gear up for a tougher investment climate and that over the next quarter or two things could prove to be interesting. The slowdown in China and the fiscal mess in Europe are now proving our strategy to have been timely. After underperforming up to mid-April because of our conservative strategy, the Pool Fund finished the quarter down -3.08% (-1.86 YTD) matching its Global Balanced Benchmark, which closed the second quarter down -3.07% (-2.14% YTD). As markets ran-up from early February until mid-May, the fund's performance lagged, held back by underweight positions in the financials, energy and commodities. The recent market selloff however, has brought the fund back on side, and its positioning should prove beneficial over what we anticipate to be a volatile summer. Equities have now entered the second stage of the recovery cycle consistent with an inflection in leading indicators. This stage is typically characterized by increased volatility within equity markets and lower returns as the onus shifts from multiple expansion to earnings deliverability. During the quarter we decreased our weight in equities by reducing the portfolio's exposure to energy, as well as by booking profits in the consumer, telecommunication and technology sectors. We also sold our lone position in the Canadian mining sector. With our belief that dividends are back in vogue, we used market weakness to increase our exposure to the financials, specifically the banks. With our philosophy to look at large-cap global companies to gain exposure to the Asian consumer, we deployed funds into this area. The prospects of slowing growth in China, the crisis in euro land and what seems to be a jobless recovery in the U.S. would appear to be headwinds in any plans that central banks might have in terms of raising interest rates. With this in mind, we used market opportunities to marginally extend the average term of our bond portfolios – emphasizing provincials and high quality corporate issues.

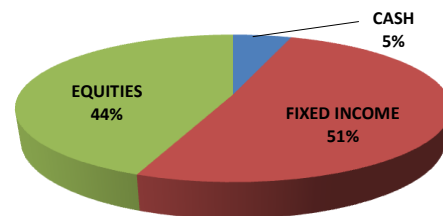
Fund Class	Fund Number	NAV (\$)
Class A	HEW 451	\$9.01
Class F	HEW 452	\$9.01
Class O	HEW 450	\$9.53
Fund Size (Million \$)		\$33.5
Total Distributions:		
Q1 Income Distribution		\$0.07
YTD Income Distribution		\$0.13
Annual Capital Gains Distribution		\$0.00
Inception Date		March 18, 2005

### PERFORMANCE AS OF JUNE 30, 2010

	3 mths.	1 year	ANNUALIZED	
			3 years	5 years
<u>C.F.G. Heward</u>				
<u>Fund</u>	-3.08%	+6.05%	-3.68%	+2.83%
<u>Benchmark*</u>	-3.07%	+4.53%	-1.43%	+2.57%
<u>Ave. Canadian</u>				
<u>Balanced Fund**</u>	-3.14%	+7.03%	-1.74%	+2.46%

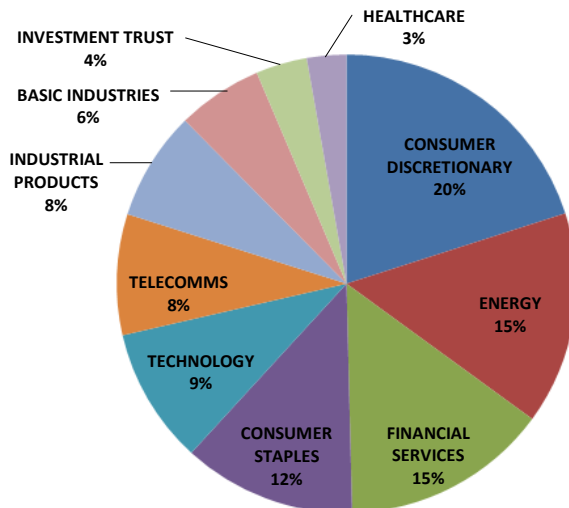
\*10% 91-Day T-Bill Total Return Index/40% Scotia McLeod Short Bond Total Return Index/25% S&P/TSX Total Return Index/25% MSCI World Index Total Return (CDN)  
\*\*source: www.globefund.com; June 30, 2010

### ASSET MIX



Investment Policy: Equity 50%, Fixed Income 45%, Cash 5% (+/- 20%)

### EQUITY SECTOR ALLOCATION



# C.F.G. HEWARD FUND

## AS OF JUNE 30, 2010

### CHAIRMAN



Chilion F.G. Heward started in the investment business in 1952, with Jones Heward & Co. During his thirty years with Jones Heward & Co. ending as president and CEO (from 1974 to 1981), he developed and continues to maintain a strong network of personal relationships with major North American, British, European and Far Eastern advisors. Mr. Heward's main responsibility is to head the investment policy committee, which provides the asset mix allocation for each of the firm's investment strategies. He has served on several international boards in Bermuda, Hong Kong and as a director of outside family foundations. Mr. Heward is a member of the McGill University Pension Investment Board.

### ABOUT THE FIRM

Headquarters: Montreal, Quebec

Founded: 1981

Staff: 21 Portfolio Managers: 6

Investment Style: Growth at a Reasonable Price (GARP) with a value bias.

Investment Process: Top-down / Bottom-up

Investment Objective: To provide long-term capital growth

Assets Under Management: \$770 million

### TOP TEN EQUITY HOLDINGS

Stock name	% of equities
SCOTTISH ORIENTAL	3.62%
GOLDCORP INC	3.00%
TELUS CORPORATION	3.00%
VODAFONE GROUP PLC - SPONS ADR	2.98%
ROYAL BANK OF CANADA	2.92%
TRANSCANADA CORPORATION	2.90%
CANADIAN TIRE LTD	2.89%
THOMSON REUTERS CORP	2.84%
SUNCOR ENERGY INC	2.83%
TORONTO DOMINION BANK	2.81%

### FUND MANAGERS



Willem Hanskamp started his investment career over 35 years ago as an analyst with the Amsterdam-Rotterdam Bank. Subsequently, he joined Credit Lyonnais Netherlands and Paribas Netherlands as an assistant manager of the securities divisions, with special responsibility for global research and portfolio management. Mr. Hanskamp came to Canada in 1985 and before joining the Heward team, worked for several years with a leading Montreal brokerage firm in international institutional sales, research and global market coverage. He is responsible for a portion of the firm's portfolios. His areas of concentration and expertise are Overseas (EAFE), and fixed-income.



Renato Anzovino, CFA has nineteen years experience in the investment industry. Prior to joining the firm, he was a Vice President at a prominent investment management firm. His previous experience extends to the Royal Trust and the Royal Bank Financial Group, where he was a portfolio manager for their private client divisions. As a member of the investment committee, he focuses on Canadian equities.



Maurice Conti has over thirty years of experience in the investment industry. Before joining C.F.G. Heward in 2003, Maurice worked for over 24 years within the Royal Trust Company and Royal Bank Financial Group where he rose to the position of Senior Portfolio Manager. Maurice is an active member of the Heward Investment Committee where he focuses on North American equity markets and commodities.

### FUND DETAILS

**Fund Type:** Canadian Balanced Pooled Fund with foreign exposure (up to 30% of the assets may be held in foreign securities).

**Fund Manager:** C.F.G. Heward Investment Management Ltd.

**Investment Objectives:** The C.F.G. Heward Fund seeks to achieve safety of capital and a superior long-term rate of return. This will be achieved via a balanced approach of various fixed income and equity vehicles derived from the global marketplace.

**Inception Date:** March 18, 2005

**Registered Account Eligibility:** RRSP, RESP, RRIF, IPP

**Minimum Investment:** \$150,000  
(\$50,000 for accredited investors)

**Distribution Frequency:** Income: Quarterly  
Capital Gains: Annually

**Management Fees:** Class A: 2%, Class F: 1%, Class O: Neg.

**Provinces of Distribution:** QC, ON, AB, NB, BC

**Custodian:** RBC Dexia Investor Services Trust

**Trustee:** RBC Dexia Investor Services Trust

**Auditors:** BDO Canada S.E.N.C.R.L./LLP

### CONTACT US



C.F.G. Heward Investment Management Ltd.  
2115 rue de la Montagne  
Montreal, Quebec  
H3G 1Z8

Tel: +1 514 985 5757 Fax: +1 514 985 5755

Primary contact: Willem Hanskamp

Email: [whanskamp@heward.com](mailto:whanskamp@heward.com)

Website: [www.heward.com](http://www.heward.com)

Management fees and administrative expenses all may be associated with pooled fund investments. Please read the offering memorandum before investing. The indicated rates are the historical compound total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Pooled fund is not guaranteed, its value changes frequently and past performance may not be repeated.