

Fundamentally Positive Performance

— LEE W. APPLETON, CFA, ASSOCIATE PORTFOLIO MANAGER

Snippets of good news emerged amid the challenging themes that dominated the headlines throughout the first quarter of 2010. The Canadian economy, for instance, posted year-over-year gains and gross domestic product currently sits at 1.3%. Retail sales increased 6.0% year-over-year in Q1 while unemployment decreased to 8.2%.

Looking at Canadian markets, we see corporate earnings—a key barometer of progress—moving in a positive direction in terms of those already reported and forward expectations. In keeping with the bottom-up consensus view, we expect 2010 earnings to grow 23.0% over 2009 numbers. We're also watching for the next sign of a mounting recovery and that's a turnaround in corporate revenues, which typically lag earnings as an indicator of improving corporate health.

Working through this tenuous period, we remain disciplined in building the MFi Canadian Equity Fund to provide strong downside protection without jeopardizing capital gains. Our portfolio's key characteristics of quality, income, growth, value and risk helped set the stage for the Fund's year-to-date first quartile performance as measured by Globe Investor (as of April 30, 2010) and as compared to 649 funds in the Canadian equity peer group. Given the tumultuous market times, we're pleased to report the Fund was 27.0% less volatile than the S&P/TSX Composite Index over the past 12 months. (Matco Financial calculation). We continue to target high-quality companies as we move through the current market, which remains reasonably priced relative to other post-recession periods. For example, during the first quarter, we added two companies to the portfolio: Torstar Corporation and Westshore Terminals Limited Partnership.

Torstar Corporation

The company's roots lie in its flagship newspaper, the *Toronto Star*, but today's growth is generated through Metroland Media Group, Star Media Group, Torstar Digital and Harlequin. We selected this company based on its track record of strong profitability and our assessment that the market has incorrectly priced in a secular decline in the company's earnings rather than a cyclical decline that's in keeping with recessionary times. We've assumed a contrary position, taking advantage of the highly reasonable price for Torstar based on its earnings and book value. Torstar has already started to challenge the market's thesis, issuing a strong earnings report in March. We expect Torstar earnings will continue to rebound based on the combined ongoing economic recovery and the positive effects of cost-cutting measures of the past 12 months.



Westshore Terminals Limited Partnership

Established in 1970, Westshore Terminals is located south of Vancouver and is Canada's leading coal storage and loading facility providing services to both Canadian and U.S. coal exporters. This company also has a strong record of profitability and pays out most of its earnings in distributions, with an expected payout of \$1.58 per share and a yield of 9.35%. Westshore Terminals was also very reasonably priced due to the recession and its expected impact on the demand for coal, an important material in steel manufacturing. We believe the business will benefit from the ongoing recovery in coal prices as the global economy, and particularly China, grows stronger. Given its track record, market position and mandate, we expect Westshore Terminals to provide a sound return with less volatility than exploration and production players in the coal-focused arena.

Moving Ahead with Prudent Optimism

Though volatility remains a fact of life, we're generally optimistic about the balance of 2010 and the Canadian market. We'll continue to build a diversified portfolio of equities with strong profitability, reasonable multiples and a propensity for dividend distributions and corporate reinvestment. We plan to use any short-term market setbacks as buying opportunities, making progress in achieving strong risk-adjusted returns over the long term. ■

		WESTSHORE TERMINALS LP	TORSTAR CORP.	S&P/TSX COMPOSITE
Quality	Profitability Return-on-Equity (%)	18.1	14.3	12.3
	Reinvestment Rate (%)	1.0	9.4	5.3
Income	Yield (%)	9.4	3.3	2.6
Growth	Bottom-Line Growth (%)	-27.7	66.0	8.7
Value	Price-to-Earnings	12.9	9.6	19.1
Risk	Beta-5 years vs. S&P/TSX	1.2	0.6	1.0

Two examples of the key characteristics common to MFi Canadian Equity Fund holdings.

As of April 30, 2010 - CPMS.