

Canoe

BONDS DESERVE MORE CREDIT



Stocks bark for attention. Bonds not so much. Perhaps that's why bonds don't get the recognition they deserve. But over the past 30 years, bonds – especially corporate bonds – have rewarded investors well in the three key areas: growth; income; and capital protection. The following proof points shine some light on this unheralded asset class, because the outlook for bonds, in particular corporate bonds, remains favourable. Despite “talk” of rising rates, there are many factors in favour of corporate bonds, due to the strong underlying corporate earnings, improving balance sheets and solid cash flow.

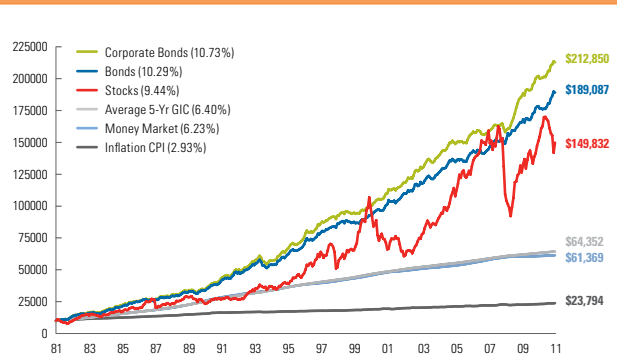
Why Bonds? – For Growth

Stocks have always been considered the big growth producers, but over the last 30 years (a typical retirement period), bonds are the undisputed asset class leaders, taking the two top spots for growth. In the chart below, although we are showing indices, if you subtract higher equity mutual fund management fees, the performance gap between stocks and bonds increases. Also, if you look at how you got there, bonds provided a less bumpy ride than its equity cousin!

Why Bonds? – For Income

When the three income-producing categories – deposits and savings, bonds and equities – are placed side-by-side, corporate bonds come out on top, as the highest yielding asset class. More importantly, a number of the asset classes yield less than the level of inflation. These other categories are generating negative returns, when calculated in real terms. When you look at the bigger picture, inflation at 3% will erode 60% of today's purchasing power in 30 years time. (Source: AEGON Capital Management.)

Growth of \$10,000 – 30 Year Return

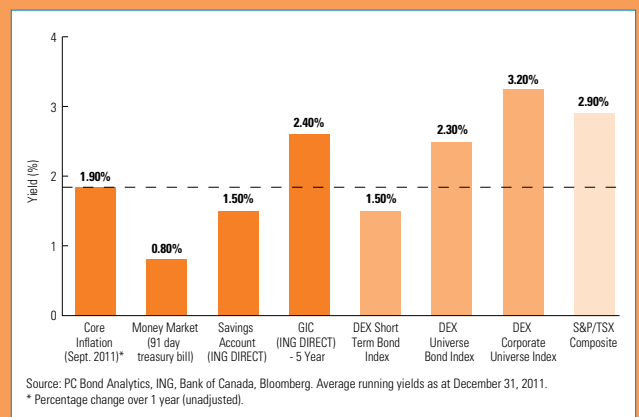


Corporate bonds reign supreme

Asset Class		10 Year	20 Year	30 Year	Risk 30 Year
Canadian Corporate Bonds	(DEX Corporate Universe)	6.78%	8.15%	10.58%	8.03%
Canadian Bonds	(DEX Universe)	6.49%	7.75%	10.14%	7.68%
Canadian Equities	(S&P TSX Composite)	7.03%	8.69%	9.12%	19.56%
Guaranteed Investment Certificate	Average 5-Year GIC	2.79%	4.26%	6.41%	3.36%

Source: Morningstar and PC Bond Analytics. Data as at December 31, 2011.
 Risk is defined as the annualized standard deviation of returns.
 Stocks: S&P/TSX Composite Total Return, Bonds: DEX Universe Index, Money Market: DEX 91 Day Treasury Bill Index
 The return for the 5 Yr GIC is from December 31, 1982 - December 31, 2011

The Yield Drought



Source: PC Bond Analytics, ING, Bank of Canada, Bloomberg. Average running yields as at December 31, 2011.
 * Percentage change over 1 year (unadjusted).

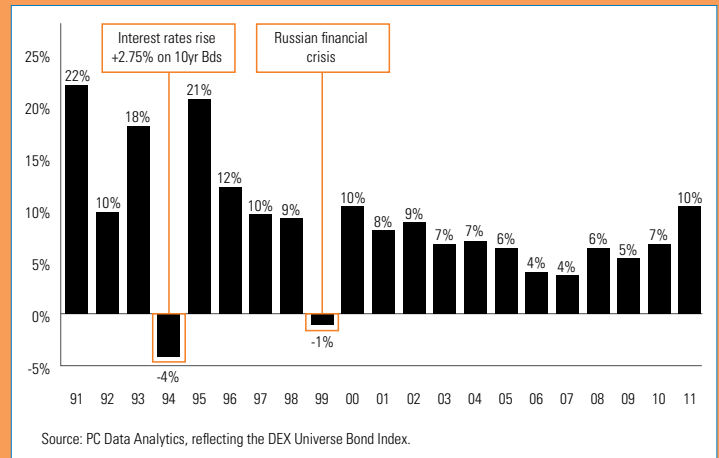
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Why Bonds? – Capital Preservation

There are losses, and there are losses – over the last 20 years, on a calendar year basis, the bond market has only posted negative returns twice. The worst year was 1994 – when the Canadian bond market lost only 4%. By comparison, equities have posted negative returns 6 times over the same period. The worst was 2008, when the Canadian equity market fell by over 33%!

Numbers aside, the real danger for investors faced with such equity volatility is that they may abandon their investment plans, missing out on subsequent upside bounces. Bond investors wouldn't have been faced with such a decision.

**Canadian Bond –
Calendar Year Returns 20 Years****Canoe Financial's approach to bond investing**

- Canoe has partnered with AEGON Capital Management to manage the Canoe Bond Advantage Fund and Class, the Canoe Enhanced Income Fund and Class, as well as the Canoe Equity Income Class.
- AEGON manages more than \$6.5 billion CAD in debt investments primarily for institutions and insurance companies.
- The Canoe Bond Advantage fund is based on the AEGON imaxx™ Canadian Bond Fund, which outperformed 94% of competitor funds in its category for performance in 2011. (Source: Morningstar)
- The majority of portfolio assets are invested in the Canadian corporate bond market, with in-depth research, enabling Portfolio Manager Marc Goldfried to identify companies and corporate bonds that offer the greatest potential for higher returns.
- Mr. Goldfried does not try to anticipate interest rates, but instead employs a duration neutral strategy.
- Bonds rated below investment grade (BBB-) are not considered and the portfolio is 100% Canadian dollar denominated.

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