

October to December 2009 Market Review

The S&P/TSX Composite Total Return Index (S&P/TSX) extended the gains of the two previous quarters providing investors with a 3.9% return. The Canadian dollar continued to strengthen in the fourth quarter which resulted in the S&P/TSX out performing the S&P 500 on a Canadian dollar basis. Despite the weak equity market at the beginning of 2009, over the full year the S&P/TSX gained a very respectable 35.1%. As good as this sounds the market has yet to recover all of the losses incurred in 2008.

The top performing sectors of the Canadian market during the fourth quarter were utilities, industrials, consumer staples and telecommunication services. Health care and financials were the worst performing sectors posting negative returns. Manulife Financial was the largest contributor to the under performance of the financial sector as the company continued to disappoint investors with additional charges against earnings, another issue of common equity shares and an announced credit downgrade.

Smaller capitalization stocks continued to out perform large capitalization stocks. This is probably best demonstrated by the performance of the S&P/TSX SmallCap Index which gained 12.9% in the fourth quarter, out performing the large cap oriented S&P/TSX 60 Index which gained 2.6%. The market's appetite for smaller, less liquid, financially risky stocks continues.

Aside from the rebound in global markets the event that will likely be remembered about 2009 was the surge in gold prices as the United States (US) dollar continued to weaken. After peaking at more than \$1,200 US per ounce the price settled back to just below \$1,100 US gaining approximately 9% during the quarter. Interestingly, the quarterly return in the gold sector of the S&P/TSX was negative as three of the four largest companies had negative returns. Although some of the poor performance was due to specific issues in these companies, in general the smaller capitalization gold issues were the stellar performers

The large capitalization orientation of the Educators Dividend Fund and the Educators Growth Fund led to the funds under performing the S&P/TSX.

Educators Dividend Fund Strategy

Investment strategy continues to focus on income producing securities with the potential for increasing payouts. Although the market has favoured lower quality, smaller capitalization stocks with a low or no dividend yield, the investment criteria for stock selection in the Educators Dividend Fund should not be compromised. At the risk of sounding repetitive, fundamentals are important and sooner or later this will be recognized in the markets.

The Fund remains over weight the financial, consumer discretionary and utilities sectors and to a lesser extent the energy sector.

Cash levels are near the low end of the range as dividend yield on stocks far exceeds money market returns in this low interest rate environment. However, investment strategy remains cautious as stock prices are expected to be volatile in 2010 in reaction to economic data releases and corporate earnings reports.

Educators Growth Fund Strategy

Going into 2010 the key issue investors should be considering is the sustainability of the global stock market rally. The global economy has improved and there are encouraging signs of recovery in recent data releases in Canada, the US and Asia but there are still many issues to resolve in the world financial system. The resource heavy Canadian market is dependent on economic growth and global demand for commodities. After the surprising recovery in 2009, market gains going forward will likely be less spectacular and stock selection through careful fundamental evaluation will be a key factor in portfolio performance.

Within the major S&P/TSX sectors the Fund is over weight the energy and financials and under weight materials. The consumer discretionary sector is also over weight relative to the Index. Compared to earlier in 2009 the Fund has reduced exposure to the more defensive sectors of the market and increased exposure to sectors more sensitive to improving economic growth.

Cash levels have increased slightly from the previous quarter but will be deployed opportunistically in 2010 as securities that meet our investment criteria are identified.