

## Holding to Well Valued Companies

Like Janus, the two faced Roman god of doors, and of endings and of beginnings, we regard last year's QV results with a wry smile. We worried our portfolios to positive results. We look forward and face 2010 wrinkled with care, but confident in the quality of the securities and the durability of the income from your portfolios.

Last year QV's core Canadian Balanced Fund advanced 16.0%, before fees. Likewise, the QV Canadian Small Cap and Equity Funds advanced 30.7% and 21.3%. The QV Income Fund and Global Equity Fund grew at 7.4% and 7.3% respectively. A 7.4% return in a near-zero interest rate arena, seems a worthy result for the QV Income Fund. The Global Fund earned our lowest return. The appreciation of our dollar clipped returns for all Canadian investors holding American companies.

Could we have done better against the indices? Without question. The benchmarks outran QV. In hindsight, we could have concentrated more in the junior energy and metal sectors, last year's winners. Zero interest rates, a weak US dollar, and aggressive deficit spending policies, the factors driving these sectors, serve to heighten our sense caution, not allay it. We are committed to sound valuations and income sustainability, traits not always found in the winner's circle.

After their March lows, equity markets steadily advanced. Canada with its resource dollar and sound banking system became a market of choice. (What happened to that 64-cent loonie anyway?) Good bidding supported a 35.1% return on the Toronto market and aggressive bidding in oils and junior golds pushed the BMO Small Cap Index to an astonishing 75.1% pop. Bidders retreated from the government bond market reversing the rousing 2008 results. Canada's broadly based bond index eked out a return of 5.4%.

We fretted all year about over-valuation in all markets, about over-stimulus from our treasuries and central banks, and over-indebtedness lingering on the books of banks, consumers, and governments. Why worry? Zombie government policies can push markets and irrational valuations further. Like hot air, they can lift the

economic, market, and inflation balloons, but for how long. We recognize a flood of liquidity has bubbled stock, bond and commodity markets and may well hoist the economy from its feeble climb to something more vigorous in 2010. Positive feedback from economic growth could re-enforce equity buying. Stock markets may lift more, but our value discipline suggests we should not count on it.

At twenty times falling earnings and above two times book value, the Toronto market is more than "well" valued. The valuations are higher on New York. The cyclical companies are overvalued. We believe our "lagging" defensive holdings have value and yield support.

In aggregate, the trailing earnings on the S&P/TSX Composite Index have fallen from over \$1,000 to \$600 per index unit over the past year. We see little sign of revival. We could cheer ourselves by trading on higher consensus estimates of earnings, but they are guesses. We cannot enjoy dividends from the forecasts of analysts.

In our opinion, the underpinnings for sound business and market cycles are absent. We do not have robust savings, or net debt liquidation, nor valuations appropriate to invested capital, or prudent government policies. Recent comments by the Chairman of the Federal Reserve Board, to the effect that low interest rates had little to do with creating the real estate bubble, encourages us in our conviction that a PhD. from Harvard is no guarantee of common sense.

The stock market rally does not change our view of a deflationary backdrop. Our problems most certainly stem from the artificially low interest rates of the last ten years. Low rates created global debt that is now insupportable. Low rates are a disincentive to savings and a motivation for leveraged asset and currency speculations. We have witnessed consumers, then financial institutions and now governments (Iceland, California, Ireland, Dubai) staggering under debt burden. Watch China and Japan.

North American authorities think consumption policies and buckets of free money will cure our banks and restart our economy.

They seem oblivious to attendant inflation, currency, volatility, and valuation risks they create. They seem frightened of deflation and the pain that debt and asset liquidation may visit on their electorates. Ironically, from the law of unintended consequences, the low rates may now be causing the consumer and the corporation to save, to trim spending, and very aggressively to reduce debt.

All the unorthodox policies are hardly budging economic activity. From two and a half years of rate cuts, and from near zero interest rates, from a year of accelerated spending, (creating a US budget deficit to GDP ratio of 10%), from a record near \$2.0 trillion budget overdraught, from a discounted greenback, and from a multitude of special government incentives and security purchases, we got “plenty of nothing”. At best, the economic stats reflect diminished rates of change.

David Rosenberg of Gluskin Sheff observers, “We only got a 2.2% rebound in (US) GDP out of all this in Q3, so it’s good news that it is not negative but this goes down as the weakest response to such an overt monetary/fiscal policy thrust ever recorded.”

Beyond a tepid business response, we take note of Rosenberg’s analysis of the growth of money and credit in the US banking system. Bank lending is plunging. Cash hoarding by banks is soaring. The measures of money’s velocity or turnover are falling, all suggestive to us that growth in 2010 will be soft at best. We are seeing a secular shift to thrift in people’s priorities and that will weight on profits.

## Canadian Growth

In Canada, we have a strong dollar and we have a better sense of growth. Mining, mineral, and precious metal stocks are strong. They are reflective of demand for resources by emerging markets and the desire to convert US dollars into hard assets. We have missed this big cyclical trend. We do not propose to engage in it now. The valuations of the companies make little sense to us. Metal inventories are growing not shrinking, suggesting dollar hedging is more the game than actual business growth, and optimism and forecasts surrounding

“the resource/emerging markets strategy” are universal. Finally, demand from China is debt driven and a number of commentators have raised questions about the soundness of China’s banking system. Playing a short-term hot theme may make one feel good but it creates value risks. We will hold to investing in well-valued, dividend-paying companies in our portfolios.

## Investment Policy

We heed rising markets, optimism and extended valuations. We are committed to increasing the income from portfolios from companies and securities we believe can sustain their payouts.

Our focus has been to balance our bond and stock portfolios. We are inclined to reduce our short bonds to obtain more income from companies able to deliver a higher dividend yield, while remaining alert to the still deflationary forces working in the global markets.

We are committed to companies that trade at valuations lower than the market. We want businesses less exposed to the economy or speculative money. These include utilities, telephone/communication companies, pipelines, consumer staples, and some financials and energy service providers.

A positive 2010 outlook still depends on extraordinary government charity. That charity for most countries depends on the willingness of creditors to finance that charity. We doubt, as so many countries are now learning, that investors will tolerate unbridled and irresponsible governments indefinitely.

Not all our cares and concerns would matter if stock markets had support from earnings, or assets, or fat dividend yields. We do not. We only have support from Janus’s mythical, anticipated growth.

Our investment plans re-emphasize our search for secure income and security of principal. We will tweak our asset mix, our security accordingly.

- Leigh Pullen, President & CIO

# Pooled Fund Performance Review

## Pooled Fund Annualized Performance Summary<sup>+,^</sup>

Period Ending Dec 31, 2009	3 Mos	6 Mos	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	8 Yr	10 Yr
	%	%	%	%	%	%	%	%	%
<b>QV Canadian Income Fund</b>	<b>1.7</b>	<b>3.9</b>	<b>7.4</b>	<b>6.8</b>	<b>5.9</b>	<b>5.6</b>	<b>5.4</b>	-	-
DEX Short Term Bond Index	0.4	2.1	4.5	6.5	5.7	4.7	4.8	5.0	5.7
<b>QV Canadian Balanced Fund</b>	<b>3.8</b>	<b>10.0</b>	<b>16.0</b>	<b>4.3</b>	<b>4.0</b>	<b>6.5</b>	<b>8.2</b>	<b>8.8</b>	<b>10.2</b>
*CDN Balanced Fund Benchmark	2.1	9.0	20.8	0.1	2.0	6.4	8.3	6.5	5.4
<b>QV Canadian Equity Fund**</b>	<b>7.6</b>	<b>16.7</b>	<b>21.3</b>	<b>-0.5</b>	<b>1.4</b>	<b>9.1</b>	<b>13.6</b>	<b>13.9</b>	<b>15.9</b>
S&P/TSX Composite Total Return	3.9	14.9	35.1	-4.9	-0.2	7.7	11.2	7.9	5.6
<b>QV Canadian Small Cap Fund</b>	<b>8.3</b>	<b>23.6</b>	<b>30.7</b>	<b>-4.0</b>	<b>1.1</b>	<b>8.5</b>	<b>14.3</b>	<b>16.0</b>	<b>15.9</b>
BMO Small Cap Unweighted Index	14.1	39.1	93.2	-1.4	-1.1	4.5	10.8	9.0	7.1
<b>QV Global Equity Fund</b>	<b>2.6</b>	<b>8.0</b>	<b>7.3</b>	<b>0.6</b>	<b>-2.5</b>	-	-	-	-
MSCI World Index (\$CA)	1.2	9.1	8.5	-11.7	-10.9	-2.8	-0.3	-3.3	-5.0

\* The Canadian Balanced Fund Index is weighted 10% in the DEX 91-Day Treasury Bill Index, 35% in the DEX Bond Universe, 55% in the S&P/TSX Composite TR Index

+ Returns beyond 1 year are shown as annualized ^ All performance data is shown on a gross or before fee basis

\*\* Returns beyond 3 yrs reflect Cdn equity carve-out of QV Cdn Balanced Fund

## Capital Markets Review

Period Ending Dec 31, 2009	3 Mos	6 Mos	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	8 Yr	10 Yr
	%	%	%	%	%	%	%	%	%
DEX 91-Day T-Bill Index	0.1	0.2	0.6	2.0	2.8	3.0	2.9	2.8	3.3
DEX Bond Universe Index	-0.2	2.6	5.4	5.9	5.2	5.2	5.7	6.1	6.7
S&P 500 Index (\$CA)	3.5	10.4	8.1	-8.1	-9.0	-2.4	-0.5	-3.6	-4.1
S&P 500 Index (\$US)	6.0	22.6	26.5	-10.7	-5.6	0.4	5.5	1.6	-1.0
MSCI World Index (\$US)	4.2	22.5	30.8	-11.7	-5.1	2.6	8.3	4.4	0.2

# Fund Review - Canadian Balanced Fund

The **QV Canadian Balanced Fund** invests in larger Canadian companies and high quality fixed income securities for long-term income and capital gains.

## Performance

The Fund rose 3.8% in the past quarter and 16.0% in the year, led by the strong rebound in equities and a solid contribution from corporate bonds. The Fund's equities rose 8.1% and 28.8% over the same periods. The Fund's corporate bonds provided an 18.2% return over the year.

Our performance lagged the benchmark return of 17.0%, a result of our intentional underweight in the market leaders, commodities, gold stocks and financials, beneficiaries of the near zero interest rate policy.

## Asset Mix

We close 2009 with the following asset mix: 3.0% reserves, 50.3% bonds and preferred shares, and 46.7% common shares, a position not unlike that of the last quarter. Compared with our peers, we have run with a portfolio more committed to fixed income securities. We are reviewing this balance in light of the reward/risk ratio between bonds and stocks now prevailing in the market.

## Inside the Fund

**Fixed Income** Our bond purchases exceeded sales by two to one in the quarter. This did not change the mix. We introduced a Great West Life, 5.998% issue dated November 16, 2039, a CPR, 6.45%, issue dated November 17, 2039, and a Telus 5.05%, issues dated December 4, 2019. We do like the 6% yield on the long bonds. Assuming no change to their credit standing, we feel we can add to these positions in the future. In fact, we have invested anticipating interest rates may rise, and bond prices fall. Please see our Policy Outlook.

In the category of a reversal, we bought and sold, a 6.4%, Intact Financial bond, dated November 23, 2039. We halved our Intact common share holdings. We have held Intact, formerly ING Canada, an insurance company, for some time. In the past, Intact had no debt on its balance sheet and the best profit growth rates. Upon pressing Intact as to their use of funds, we found little comfort. This bond issue along with other doubtful actions taken in their investment portfolio over the past year increased our anxiety about Intact's outlook and judgment.

We added to Research in Motion and to BCE Inc. Research in Motion (RIM) enjoyed an excellent quarter of profit growth, notwithstanding increased competition in the smart phone market. RIM also announced new initiatives to develop business in China.

BCE continues to impress with its focus on cutting costs, debt repayment, on customer commitment, and on the continuing rollout of wireless and Internet options. BCE increased its dividend in Q3. It now offers a yield in excess of 6%. We carry our maximum position.

With our equity holdings, we have concentrated on the stability and the sustainability of the business franchises and the price we are paying for the cash flow and the assets. We believe quality stocks will be rewarding, especially if the zero rate environment begins to change.

## Policy Outlook

After their vigorous rally in 2008, Canada bonds have been falling and their yields rising. The market may be signalling that the business recovery is strengthening or demand for financing is increasing. We issue a note of caution for bonds.

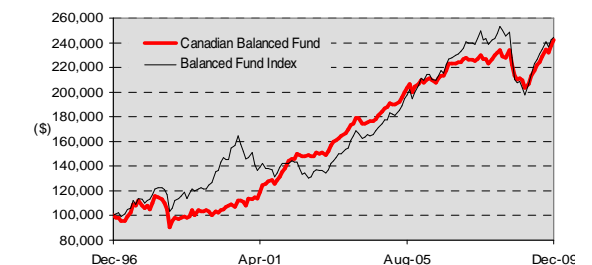
Conversely, we are inclined to increase income by buying more of the companies that will pay and increase their dividends. The yield on a number of our holdings and candidates is fully competitive with the current yield on our shorter-term bonds, and we think the trade has merit.

## Asset Mix

	Mar-09	Jun-09	Sep-09	Dec-09
Cash/T-bills	17%	5%	4%	3%
Fixed Income	45%	51%	50%	50%
Equities	38%	44%	46%	47%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Investment Values

Based on \$100,000 Investment at Inception\*



\*Assume reinvestment of income and capital gains distributions

# Fund Review - Canadian Equity Fund

The **QV Canadian Equity Fund** invests for long-term capital gain and dividend income from larger Canadian companies. The equities in the **QV Canadian Balanced Fund** and **QV Canadian Equity Fund** are the same and held in the same proportions in the two Funds.

## Performance

The Canadian Equity Fund gained 7.6% in the quarter, greater than the 3.9% return for the S&P/TSX Composite Total Return Index (TSX). The return in 2009 was 21.3% for the QV Canadian Equity Fund versus the benchmark return of 35.1%. The volatility over the last two years has been dramatic with the TSX declining 33.0% in 2008 and then rebounding this year. Over the two year period, the Fund has lost 0.5% each year versus the loss of 4.9% each year for the TSX.

The best performing sector in the fourth quarter was Utilities followed by Industrials and Consumer Staples. This leadership was quite different from the overall performance in 2009 when Financials, Energy, and Technology were up over 40% accounting for the bulk of returns in 2009.

The Canadian Equity Fund performed well in the quarter due in part to significant over weight positions in the three best performing sectors – Utilities(+13.3%), Industrials(+8.7%) and Consumer Staples (+8.2%). Furthermore, the individual holdings within the three strongest sectors listed above outperformed their respective index returns. The best performing stocks for the quarter were Canfor Corp. (Forestry), Toromont Industries Ltd( Industrial)., Canadian Utilities(Utility), and Emera (Utility).

## Inside the Fund

During the quarter, EnCana split into Encana (pure-play natural gas) and Cenovus Energy Inc.(Integrated oil company). We continue to hold our position in these two companies due to their strong asset bases and management teams.

We continued to increase our weight in the telecommunications sector with purchases of Manitoba Telecom and BCE Inc. Telecom wireline services are in decline; however, the use of wireless and the internet is offsetting this decline. Telecom has some of the best valuation metrics relative to the TSX. As an example, the price to cash flow is 4-4.5x for telecoms versus 8.0x for the TSX. Telecoms also provide some of the best dividend yields with the yield on the TSX at 2.7% versus 6% for BCE

and 7.8% for Manitoba Telecom.

We reduced our weight in Intact Financial Corp at around \$37. Intact is the largest provider of property and casualty insurance in Canada. Intact has one of the most efficient insurance operations in the country; however, we have been disappointed by their investment decisions pertaining to their investment portfolio and their financing intentions. We have taken a gain after a large move in the stock price from our purchase on a secondary offering at \$26.35.

## Outlook

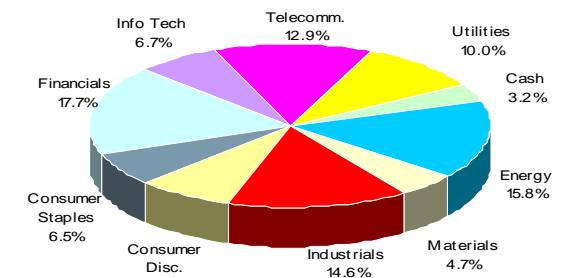
In our Q4 2008 report, we stated “we will gradually deploy cash in companies with strong franchises, strong balance sheets and dividends.” This strategy has not changed. We have reduced our cash position from 10.0% to the current level of 3.3% over the last year by following this commitment.

We do not anticipate strong growth in the market, but we believe the key is not to predict the direction of the market or its magnitude, but is to find companies that are well run, well –financed and well positioned to grow into the future. We have and continued to hold these types of companies in the Fund.

## Intact Financial Group



## Sector Allocation



The *QV Global Equity Fund* invests in the shares of larger companies operating outside of Canada for long-term capital gain and dividend income.

## Performance

Over the year the Global Fund appreciated 7.3% compared to 8.5% for the benchmark. The 13.6% rise in the Canadian dollar last year constrained all foreign investment results in 2009. We hold 58% of the Fund in US dollar denominated companies or reserves. The difference in performance between the S&P 500 C\$ index, up 8.1%, and the S&P 500 U\$ index up 26.5% index, illustrates the point.

## The Currency Question

While the fall of the US dollar compromised our returns, it enhances the demand for and profitability of companies able to earn in foreign currency. All our American companies do that. Our policy has been to use our dollar's strength to buy sound, dividend paying US companies. Without doubt the US credit fiasco and their policy responses have unnerved investors to the extent that the bearish sentiment respecting the greenback has never been higher.

## Inside the Fund

We were active in the quarter. We set out to diversify holdings, to improve our measures of value and credit and to trim some shares that had appreciated from the March bottom. We reduced Cisco, the Internet network company, Heineken Holdings, the Dutch holding company controlling the brewer of the same name, Microsoft, the software company and Swire Pacific, the Hong Kong conglomerate. We eliminated United Parcel Service. We were reluctant to sell UPS, however, the debt assumed to re-purchase stock is high and places profit at risk in a slow growth global economy. All shares had risen in the year.

We added to shares of those companies with the best of value within the fund. These included, Zurich Financial, a Swiss insurer, Wartsila, a Finnish manufacturer of engines for electrical generation and ships, and Singapore Airport Terminal Services (SATS), a company we came own as a dividend from Singapore Airlines. SATS, a listed company since 2000, provides airfreight handling, baggage handling, aviation security and in-flight catering, food distribution and industrial catering as well as chilled and frozen food manufacturing.

We introduced five new companies that we believe will improve most of the tests and measures we use for selection. They diversify the portfolio by introducing a bank and four food and beverage companies all of which are global in scope. They are Brown Forman, Hormel Holdings, New York Community Bank, Nestle, and J.M. Smucker.

Brown Forman (BF/B - \$54.50) is a distiller and vintner, and may be known by its Jack Daniels and Southern Comfort brands. Brown Forman produces wines, liqueurs and vodka. Brown Forman earns 24% on equity with little debt. BF/B has increased its dividend for the last 26 years.

Hormel (HRL - U\$38.78) is a maker of processed meats and other food products. Their brands include Hormel, SPAM, Chi-Chi's, and Dinty Moore. Hormel has an excellent balance sheet, has paid dividends since 1928 and has increased them for at least the last 16 years. Hormel is the epitome of a steady producer.

New York Community Bankcorp (NYB - U\$14.40) offers a range of banking services and mortgage financing primarily in the New York area. The company's share trade at attractive measures of value. Of note is the current dividend yield of 7%. Unlike its banking brethren, NYB deliberately controlled its activities during the credit madness. NYB is now in the position to benefit from FDIC assisted acquisitions, reduced competition and the ultimate pick up in asset growth.

Nestle (NESN - U\$47.00), based in Vevey, Switzerland, is one of the world's largest food and beverage providers. Its brands embrace bottled water, baby foods, chocolate and coffee, ice cream, pet foods, and dairy products. At the turn of the year, Nestle sold its position in Alcon Labs, a global medical supply company. It also holds a major position in L'Oreal, a global cosmetic company. Nestle is an expensive company but has the pedigree and profit growth rate to support its price.

J.M. Smucker (SJM - \$62.00) is a leading maker of jams, jellies, coffee and peanut butter. It markets numerous brands including Jif, Crisco, Folgers, Pillsbury, Eagle Brand, and Bick's. SJM has increased its dividend for at least the last 16 years. A sound credit rating, a steady performance of profitability and attractive value characterize Smucker.

# Fund Review - Canadian Small Cap Fund

The **QV Canadian Small Cap Fund** provides investors with a superior long-term rate of return by investing in common shares of small and mid-cap Canadian companies

## Performance

The QV Canadian Small Cap Fund rose 8.25% in the quarter compared to a gain of 14.07% for the benchmark BMO Small Cap Index (unweighted). For 2009 the Fund increased by 30.74% versus 93.22% for the benchmark. While our quarterly and annual Fund returns are very respectable, they are significantly below the benchmark index. Our lack of significant resource company exposure explains nearly 85% of the shortfall in our performance on the year. The Materials and Energy sectors make up nearly 50% of the benchmark and were up 162% and 86% respectively. The Fund maintained a weight of roughly 26% with gains of 33% and 15% respectively.

## Outlook & Inside the Fund

We cannot ignore the positive short term benefits from unprecedented fiscal and monetary stimulus set in motion in 2009. Governments around the world are running record deficits to help fund economic growth and encourage investment. This has been the driver for the recent surge in global stock markets. These measures are finite in nature and come with real costs. A solid platform for economic growth will only be achieved once balance sheets have been restored and governments move towards responsible long term regulation and policy. The transfer of economic growth from global government stimulus programs to the consumer and corporation will be a major economic hurdle as will the adjustment from artificially low interest rates.

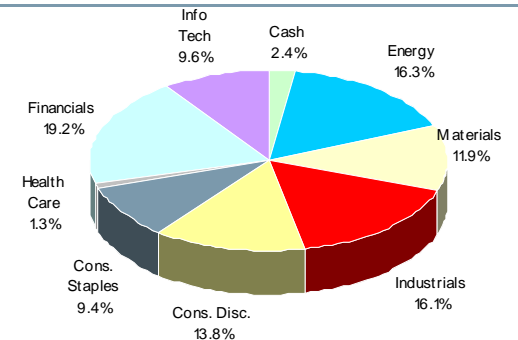
At the end of 2008 the world found itself in a serious crisis with panic unlike we have seen for nearly 80 years. In our report at that time we highlighted the following, "Multiples of earnings and book value have shrunk to depressed levels, investor fear is rampant, and many excellent businesses represent attractive long term value. Our cash levels are low in the Fund as we are seeing exceptional opportunities for reward over the next cycle." The types of businesses we favoured were laggards for the past twelve months. We are certainly in interesting times when 30% returns are considered laggards! Our portfolio is highly diversified given the opportunities we see across many sectors and our strategy of remaining exposed to more stable industries.

Going forward we continue to believe they represent good value as many of them remain relatively out of favour. Our strategy will be to continue to focus on strong franchises which are not dependant on the resurgence in global economic growth to prosper. That means we are not materially increasing our weighting to the areas of the market which are performing the best, cyclicals and resources. We continue to try to manage the upside return with the risk that the current economic rebound is not as sustainable as the market suggests. We added two new positions in the quarter and did little selling.

Lassonde Industries – The company is the largest manufacturer and distributor of fruit drinks in Canada. It has an excellent track record of growing both cash flows and dividends. Management owns nearly 60% of the business and the shares trade at an attractive valuation given investors lack of interest in this stable business.

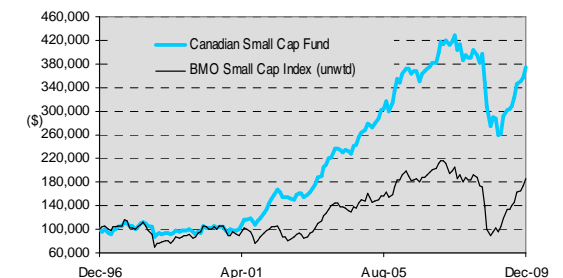
Argonaut Gold – Generally, we have a tough time meeting our investing principles with junior gold stocks. Argonaut is an exception. We have had a long history with the management team which has a strong track record of prior success. That said, due to its higher risk profile we will not overweight the position.

## Sector Allocation



## Investment Values

Based on \$100,000 Investment at Inception\*



\*Assume reinvestment of income and capital gains distributions

# Fund Review - Canadian Income Fund

The **QV Canadian Income Fund** invests in Canadian bonds, preferred shares, trusts and common stocks for both dividend and interest income. The bond portfolio in the QV Income Fund is short in term and high in quality to provide capital preservation.

## Performance

The Income Fund generated another year of positive returns, rising 1.6% in the quarter, and 7.4% in the year. The benchmark DEX Short Bond Index rose 0.4% and 4.5% over the same time periods. Corporate bonds, preferred shares, and equities contributed to the positive gains. Government bonds, the performance leader in 2008, were the laggards in 2009. Our early shift from government bonds to corporate securities contributed to the Fund's strong performance over the benchmark.

## Asset Mix

We close 2009 with the following asset mix: 22.1% cash reserves, 68.2% bonds and preferred shares, and 9.7% dividend-paying common shares. Strong cash flows at the end of the quarter temporarily increased our cash reserves. We will re-invest in short-term bonds.

## Inside the Fund

We were quiet in the quarter focusing our investing on improving the yield of the portfolio without sacrificing its quality characteristics. We introduced a short-term Alberta government bond to the Fund as an alternative to treasury-bills. The bond, rated AAA, matures in 2011 and provides a yield to the Fund of 1.0%, a slight yield advantage over Canada bonds. We added to exposure to an existing 6-year Alberta government bond, generating a yield of 3.5%.

We purchased more common shares, up to Fund's policy limits of 10%. We own shares in TransCanada Corp, pipeline and power generation, Bell Canada and TELUS, telecom services, and Canadian Utilities and Emera, electric and power utilities. These companies offer dividend yields in excess of bond yields. They are in stable and partially regulated businesses that support their dividend payments.

The Income Fund is focused on preserving capital while generating a steady flow of income. Our policy limits on credit quality and term help to minimize capital fluctuations. Finding opportunities to enhance the Fund's yield with high quality, short-term bonds proved more difficult in the fourth quarter. The yield on high quality, short-term bonds is below 3%. Low bond yields are creating an environment where investors are now willing to take on more credit risk with lower quality bonds, and

extend terms to maturity, to improve returns. With investor confidence high and risk appetite strong, we are more cautious on the outlook for the bond market as we begin the New year.

## Policy

While the beginning of 2009 provided a great buying opportunity in corporate bonds and preferred shares, their valuations, as measured by their yield advantage over Canada bonds, have now become less attractive. We continue to focus our investment selections on quality bond issuers, provincial or corporate, generating returns that adequately compensate us for the risk. Improved corporate balance sheets and better economic activity should help to reduce the risk of defaults in the corporate bond market in 2010.

Canadian economic activity has improved, buoyed by low interest rate policies that have boosted the housing sector and commodity prices. While the Bank of Canada has stated that their rate policy will not change until mid 2010, expectations are building for a policy rate rise after mid-year to offset inflation pressures. Bond yields are slowly rising in anticipation of this monetary policy change.

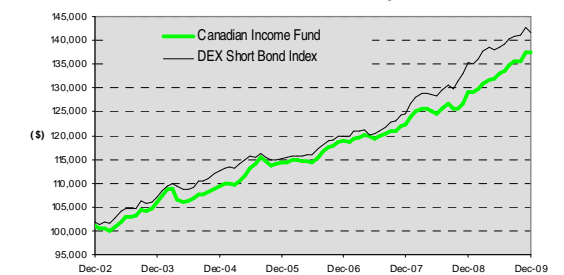
The Fund's short-term bonds maybe vulnerable to price declines in the near term as yields rise. However, this will provide an opportunity to re-invest our cash reserves and upcoming maturities in higher yield bonds.

## Bond Characteristics

Credit Ratings as issued by Standard & Poor's	(%) of bond portfolio
AAA	65%
AA	21%
A	10%
<A/Not rated	4%
Weighted Average Term to Maturity	3.4 years
Average Bond Portfolio Yield	2.6%
Total Portfolio Yield	2.3%

## Investment Values

Based on \$100,000 Investment at Inception\*



\*Assume reinvestment of income and capital gains distributions

## Portfolio Risk Management Terms

### ***Price to Earnings Multiple***

The Price to Earnings Multiple is the ratio of a company's share price to its earnings per share. This ratio indicates how many times an investor is paying for each dollar of earnings. A lower number is more attractive.

### ***Return on Equity - 4 Year Average***

The Return on Equity - 4 year average is the four year average of the earnings per share expressed as a percentage of the book value per common share. The book value (equity) is the amount shareholders have invested into the firm. This is a common profitability measure. A higher rather than lower percentage is desirable.

### ***Dividend Yield***

The Dividend Yield is the annual dividend rate expressed as a percentage of the current price of the stock. The higher the yield, the more income is paid to the investor.

### ***Percentage of Debt to Shareholder's Equity***

The Percentage of Debt to Shareholder Equity shows the amount of debt (leverage) used by the company relative to share holders investment (book value) to in their business. Typically, the lower the debt to equity ratio, the lower the financial risk of the company.

### ***Average Yield to Maturity***

The Average Yield to Maturity refers to the average annual percent that will be earned on capital if a bond or bond portfolio is held to maturity. The yield to maturity calculation considers the bond's market price, the term (the time remaining to the bond's maturity), and the coupon (the bond's yield at its initial sale). The yield to maturity assumes the semi-annual payments received are reinvested at the prevailing interest rate. The higher the yield the more attractive a bond is.

### ***Average Term to Maturity***

The Average Term to Maturity is the time remaining until the bond portfolio is repaid by the borrower to the investor. The shorter the average term to maturity for a bond, the less sensitive or more stable the price of the bond is to changes in interest rates.

## Disclosures

Please note that due to rounding differences, the individual components of various portfolio column totals may not sum to exactly 100 percent.

Pooled fund returns are quoted gross of fees (before fees) within the fund reviews; whereas, individual portfolio reviews are quoted accordingly to whether the portfolio is comprised of pooled and/or segregated holdings. The Pooled portion of the return is net of fees (after fees) and the segregated portion of the return is gross of fees.

Please be advised that the Contribution, Withdrawal and Income columns in the Portfolio History table reflect cumulative transactions from the previous date to the next date's record.

QV Investors acts for and may invest in the following related companies:

- Industrial Alliance (Clarington Funds)
- Western Financial Group
- CI Funds
- Ethical Funds

Due to rounding differences, "total" amounts may not reconcile completely throughout the various tables in this report.

Please note, bond ratings indicated within the quarterly report are provided by Dominion Bond Rating Services. Bond ratings can vary between various bond rating service providers.

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