



## **RBC Funds (Lux) - Canadian Equity Fund – Fourth Quarter 2011 Commentary**

For the fourth quarter of 2011, the RBC Funds (Lux) – Canadian Equity Fund, Class O gained 3.8% versus the 3.6% return for the S&P/TSX Composite Index. Within the S&P/TSX Composite, gold, energy and industrial companies outperformed, while financial and materials companies weighed on performance.

Within the Materials sector we added a position in Yamana Gold and sold the position in Agnico Eagle Mines. Yamana has a consistent growth profile over the next 4 years as it expects to almost double production and bring several new mines online. Management has done a great job turning production around over the last year, and has continued to meet expectations while keeping operating costs relatively low. While we continue to like Agnico Eagle Mines' assets, there continues to be ongoing issues at several mines, particularly its Goldex mine in Quebec. We also added Inmet Mining and sold the position in Quadra FNX Mining after a plan to acquire Quadra was announced by KHGM. Inmet continues to trade at a discount to its net asset value and we believe there is upside to the company's NAV as it looks at expanding production and drills out some prospective targets.

We added a position in Onex and sold Sun Life Financial. Following a series of asset monetizations earlier this year, Onex has a significant amount of cash on its balance sheet and is ready to make additional acquisitions. The company's portfolio assets continue to perform well and the difficult environment is beneficial to Onex's acquisition model. We made the switch from Sun Life to Manulife but the combined weight in insurers has dropped. The higher beta in Manulife, especially from these levels, would see Manulife outperform Sun Life in a rising market and we felt it was a beneficial time to switch our exposure.

Within the Energy sector we added a position in TransCanada. TransCanada traded at roughly 16x its forward earnings, which is below its 5-year average multiple of 17x. Uncertainty around the approval of the Keystone XL pipeline, TransCanada's major growth driver for the medium term, created weakness in the share price, and the announcement that the U.S. Government will reroute the pipeline and delay its decision for a year or more has prolonged the uncertainty. While questions and headline risks remain, at current valuations we believe a worst case scenario is being priced into the shares. Also within the sector, we bought a position in Crew Energy and sold the position in Celtic Exploration. While there is nothing fundamentally wrong with Celtic, the shares look expensive and appear to be pricing in much of the company's future growth. The stock is trading at one of the highest multiples in the industry in a very depressed gas price environment and while the assets are top tier we believe company will have to demonstrate to the market it can maintain its high multiple with flawless execution. We initiated a position in Crew Energy as we believe the company is trading at a discount to fair value given the quality of their assets. Following a year of missteps and an untimely heavy oil acquisition, we believe that the company will regain the markets confidence that they can embark on their growth ambitions.

In the Consumer Discretionary sector we sold the positions in Thomson Reuters and Gildan Activewear. Thomson Reuters has not performed to expectations as a new product cycle has been hurt by delays and there remain ongoing fears about reduced headcount in the financial services sector, which continues to pressure the valuation. We are waiting to see better traction in its financial business before revisiting the position. The volatility of both cotton markets and the economy combined with competitor and customer reaction have made Gildan's near-to-mid-term outlook surprisingly difficult. We believe the long term thesis remains intact and will revisit the name at a later date.

Fears of a possible recession may hold back equity market gains from current levels. Nevertheless, equities should deliver reasonable returns for those with an intermediate-term time horizon and a focus on the earnings capacity that exists even in a slow-growth environment. Dividend yields, free cash flows and corporate balance sheets remain attractive.



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