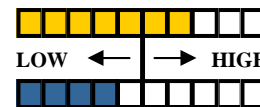


# Portfolio Update 2Q 2010

WORLD MARKET RISK  
BAROMETERCurrent Market Risk<sup>1</sup>Precision<sup>3</sup> Portfolios

1. HAHN Global Benchmark portfolio

March 2010

## Current Portfolio Strategy



**HAHN Investment Committee:**  
Wilfred Hahn-Chair, Mark Arthur-President, Jovian Capital Corp., and Tyler Mordy-Director of Research

**R**ecently, the one-year anniversary of the passing of the lows of the Global Financial Crisis was celebrated. It was March 9<sup>th</sup> of 2009 that global equity markets plunged to their panicked and final bottom. Thankfully, the investment spectre today is arguably much more sanguine.

Indeed, some constructive developments are underway. For one, the private sector has been reducing its debt-load. Also, economic activity levels have rebounded.

However, we do anticipate that a new era is unfolding, bringing with it a different set of opportunities and challenges than were evident over recent decades. As such, looking ahead, we have been restructuring our portfolio strategies and preparing ongoing implementation plans. This *Portfolio Update* provides a further advisory in that regard.

All in all, a slow-growth environment is in prospect, though sure to be punctuated by short-term spurts such as was witnessed in the fourth quarter. For the Occidental world, it remains an environment of “deleveraging” (a reduction of debt levels) for the private sector, even as governments continue to borrow aggressively. This offers opportunities as well as required defensive strategies.

**A Focus on Real Yields.** Impaired household net wealth levels, stagnant employment income growth and low interest rates are triggering a demand for secure investment income amongst retirees and pension funds. We have scoured the globe for higher-income opportunities with moderate risk. Recently, we have overweighted quality equities with higher dividend yields. Remarkably, for the first time in decades, higher dividend yields can be found than 10-year government bond yields.

**Response to Sluggish Economic Outlook.** For the time being, we have also tilted portfolios to fixed-income investments, underweighting equities. As well, defensive industry sectors are again favoured. This strategy also serves to lower overall risk levels.

**Global “Economic Polarity.”** While we favour the “non-advanced” nations over the longer-term, due to the increasing over-valuation of these markets and the rather unfounded enthusiasm that they might escape the restraints of a slower economic growth environment, we have tactically de-emphasized this strategy.

**Gold and Inflation.** Gold prices and industrial commodities may over the near-term continue to be buoyed on hopes of a booming China and rising inflation risks. However, we anticipate that these expectations will be somewhat disappointed. We nevertheless continue to hold a modest exposure to gold in the form of equities at this time in order to balance out overall strategic risks.

**Asset Mix:** Ultra-low interest-rate levels on cash encourage a move into bonds, particularly at a time of very steep yield curves. Therefore, relative to benchmarks, portfolios are underweight equities, overweight fixed income, and overweight in cash-equivalent allocations. Most of the latter, has been allocated to short-term bonds to boost yield.

**Special Themes and Niche Emphasis.** We are continuing shifts to emphasize investment themes and niches that offer the prospect of untethering from a global “slow growth” outlook. We expect to fully implement these strategies over 2010.

**Sectors:** Currently utilities and telecom sectors are favoured, offering higher yields and lower risk.

**Opportunity Investments:** Investments in this component of our portfolios are diversified, including gold equities, agriculture and high income.

**Currencies:** With respect to foreign asset exposures, we have removed remaining hedges against the euro. The Canadian dollar has risen substantially against the euro since we initiated this policy, now again being decisively over-valued.

### QUARTER 2, 2010 INVESTMENT STANCE

	Versus Benchmark			Change from previous quarter
	Under	Neutral	Over	
<b>Overall Asset Mix</b>				
Cash			●	↑ Increased
Total Equity	●			↑ Increased
Total Fixed Income			●	↑ Increased
Opportunity	●			↓ Decreased
<b>Canadian Investments</b>				
Bonds			●	↓ Decreased
Stocks	●			↓ Decreased
<b>US Investments</b>				
Bonds			●	↑ Increased
Stocks			●	↑ Increased
<b>International Investments</b>				
Bonds	●			↑ Increased
Stocks	●			↓ Decreased

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