

# JARISLOWSKY FRASER LIMITED

## CANADIAN EQUITY FUND REPORT

### 4<sup>th</sup> QUARTER 2007

#### Details of the Fund

Inception Date	April 1, 1997
Net Asset Value per Unit	\$ 35.7677
Income Distribution	\$ 0.2766
Capital Distribution	\$ 2.3790
Fund Size (\$ Millions)	\$ 5,204.7

This past quarter, a deepening sub prime mortgage crisis noticeably impacted the overall U.S. economy. Weaker housing markets and tighter lending requirements curtailed consumer spending and corporations also found it more costly and difficult to raise capital and credit, both of which are critical to long term capital formation. Looking forward, this crisis will take time to unwind and will add more strain to the financial system as well as the broader economy. The probability of a U.S. recession in 2008 has increased. As the U.S. market slows, so will the economies of most developed countries. Only select emerging markets with strong internal demand will be able to withstand slower U.S. consumption.

Throughout the period, key central bankers continued to provide interest rate relief and much needed liquidity to flagging interbank markets. These measures have temporarily stabilized the situation, but have not cured the underlying cause. They have, however, also potentially created another long term problem - inflation. While North American investors keep downplaying the risk of inflation, most of the rest of the world is concerned about it. Central bankers will have to carefully balance their desire to control inflation with the need to avoid systemic shock.

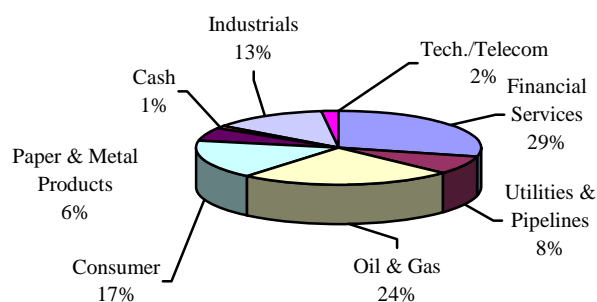
The Canadian dollar continues to hover close to par with the U.S. dollar, held up by high oil prices and our "stronger" economy. Slower global economic activity in 2008 should relieve primary crude oil demand somewhat, potentially allowing some price relief. We would expect our "loonie" to weaken in lockstep with the oil price. On the other hand, we see very little to relieve the pressure on the U.S. dollar against the Euro or the Yen this coming year. Continued U.S. dollar weakness, higher inflation and heightened hostilities across the world all bode well for one commodity in particular, Gold. The latter closed at US\$861.10 per ounce on January 2, 2008.

#### Performance Review

To Dec. 31, 2007	3 Mths (%)	1 Year (%)	4 Years (%)	8 Years (%)	10 Years (%)
JF Canadian Equity Fund	-0.8	7.2	17.4	15.8	16.3
S&P/TSX	-1.3	9.8	16.3	8.4	9.5

**The flight to quality by investors favoured our equity investments.** The JF Canadian Equity Fund held up better than its benchmark during the quarter declining by 0.8%, whereas the S&P/TSX Index returned -1.3% over the same period. All of the outperformance came as a result of stock selection, and over half is tied to the portfolio's energy holdings. Excellent stock selection in the Financial Services and Industrials sectors also aided performance. In Industrials, we experienced continued

**Canadian Equity Fund Industry Weightings  
December 31, 2007**



stellar performance with **SNC-Lavalin Group** (+8.7%). In Financial Services, almost all of our holdings outperformed the sector as a whole due to their minimal exposure to sub-prime loans in the U.S. and ABCP in Canada.

The best performing companies in the portfolio were fertilizer company **Potash Corp.** (+36.7%), gold producer **Kinross** (+23.1%) and **Suncor** (14.4%).

During the quarter we further reduced our financial exposure by trimming **Bank of Nova Scotia** and completing our exit of **Sun Life Financial**. Also, the **Quebecor Inc.** holding was trimmed and we continued to pare down our position in **TransCanada Corp.** The proceeds were used to participate in the gold sector. The commodity will continue to thrive in today's environment of geopolitical uncertainty, a weak U.S. currency and rising inflation. We "initiated" positions in two fast-growing Canadian gold producers: **Kinross** and **Goldcorp**. In addition, we also completed our exit of **MDS** at the beginning of the quarter.

#### Strategy

**Our portfolios seek to generate sustainable long term returns for our clients and the majority of the companies included in these portfolios display stronger growth profiles and less cyclical cash flows than the investable universe.** On the whole, our equity portfolios trade at very reasonable valuation levels.

In summary, we expect the following in 2008: a controlled economic slowdown, rising inflation, continued U.S. dollar weakness and a continuing flight to quality and liquidity. Market volatility has created some interesting buying opportunities and we have recently taken advantage of them.

#### Representative Holdings

Holding	Industry
Canadian Natural Resources	Energy
Potash Corporation	Materials
Royal Bank of Canada	Financial Services
Rogers Communications	Telecommunications
SNC-Lavalin Group	Industrials