

JARISLOWSKY FRASER LIMITED

BOND FUND REPORT

3rd QUARTER 2011

Details of the Fund

Inception Date	April 1, 1997
Net Asset Value per Unit	\$ 11.3860
Income Distribution	\$ 0.1273
Fund Size (\$ Million)	\$ 373.2

The bond market posted a strong quarterly return of 5.12%. Rising pessimism surrounding the global economic outlook, continued deterioration in the prospects for peripheral European nations, and a downgrade in the AAA rating of U.S. government debt all contributed to a stampede to the safety of government bonds. Interest rates on government bonds declined by 50 to 100 basis points, which translates into over 3.5% added return in the quarter from capital gains. Corporate bonds tend to underperform when interest rates decline due to rising market stresses; the DEX corporate index recorded a 3.72% return this quarter, substantially below the 5.64% return of the DEX government index.

Indicative Mid-Term Canadian Corporate Yield Spreads (%)

	31-Dec-07	31-Dec-08 Financial Crisis	31-Dec-09	31-Dec-10	30-Sep-11
Corporate AAA/AA	1.36	4.10	1.04	0.83	1.10
Corporate A	1.35	4.56	1.38	1.42	1.71
Corporate BBB	1.86	4.71	1.69	1.64	2.12

DEX Sector Performance Returns ending September 30, 2011 (%)

DEX Sector Index	Q3	1 Year
Short-term	2.31%	3.87%
Mid-term	5.87%	7.57%
Long-term	9.84%	11.24%
Universe	5.12%	6.66%

The U.S. Federal Reserve came through with its latest monetary policy action to help stimulate economic growth. It announced that it will sell \$400 billion of less than three year Treasury debt and use the proceeds to buy six to thirty year maturity government bonds. Along with the reinvestment of maturing mortgage backed securities, the operation is designed to stimulate consumer spending by giving consumers the opportunity to refinance existing mortgages at lower interest rates. This was considered a weaker alternative to expanding the central bank's balance sheet but it may help consumers at the margin.

Performance Review

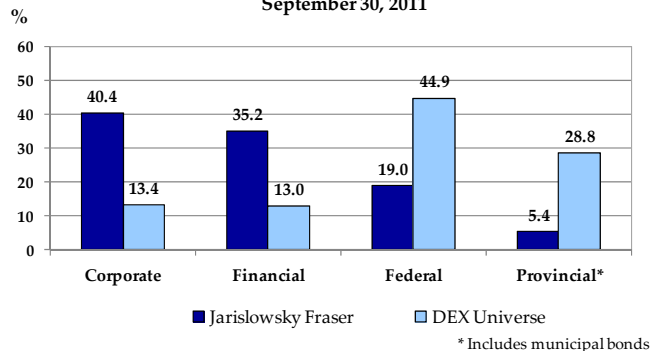
To Sept. 30, 2011	3 Mths (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	14 Yrs*
JF Bond Fund	4.3	6.8	6.1	8.5	6.1	6.4	6.3
Dex Universe	5.1	7.4	6.7	8.1	6.1	6.5	6.4

*Inception Year is 1997

Absolute returns were strong at 4.30% for the bond portfolio but it underperformed its benchmark return of 5.12% during the quarter. The main detractor in performance was our significant overweight in corporate bonds and the shorter term to maturity of bonds in the portfolio relative to the benchmark's holdings. We continue to

believe that carefully selected, high quality, corporate bonds offer the best long term return prospects in the fixed income markets. Interest rates will likely remain low until the weight of excessive debt is lifted from developed economies but even within that framework government bond yields look extended at these levels.

Comparison of JF Bond Sector Allocation vs. DEX Universe
September 30, 2011



In July, the weight of the Jarislowsky, Fraser Special Bond Fund was increased by 0.5% to 3.0%, in order to participate, in smaller fixed income issues that trade at compelling valuations. In August, we participated in two 10-year attractively priced new issues from insurers **Intact Financial Corporation** and **Sun Life Financial Inc.** The purchases were funded with sales of 5 to 6 year paper and helped reduce our overweight at the mid-part of the yield curve. Near the end of the quarter, we adjusted our exposure to BBB rated bonds, selling mid-term bonds issued by **Canadian Tire Corporation Limited** and **Loblaw Companies Limited**. The funds were reinvested into **Telus Corp.** and **BCE Inc.**, two A-rated issuers with a similar term and yield profile.

Strategy

Global economic growth will continue to deteriorate for some time, as Western economies once again grapple with a banking crisis, just three years after the last one. The much sought after consensus on an action plan to fix the problem is still a way off, mostly because policymakers are too focused on sovereign paper. Delays will only worsen the situation and lengthen the downturn nor will the low interest policy favoured by many developed economies help the financial system recover. We believe that we are entering a prolonged period of slow growth. Government bond yields have now reached lows rarely seen before. On a real basis (after inflation) they are close to zero or negative. Our bond portfolio is committed to a sizeable weighting in quality corporate issues as yield spreads (difference between government and corporate yields) remain at historically higher than average levels.

Representative Holdings

Issuer	Coupon/Maturity
Bank of Nova Scotia	4.56%, 10/30/13
Hydro One Inc.	4.64%, 03/03/16
Tim Hortons Inc	4.20%, 06/01/17
Shaw Communications	5.65%, 10/01/19
Government of Canada	5.75%, 06/01/33

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