

JARISLOWSKY FRASER LIMITED

CANADIAN EQUITY FUND REPORT

3rd QUARTER 2011

Details of the Fund

Inception Date	April 1, 1997
Net Asset Value per Unit	\$ 29.5318
Income Distribution	\$ 0.1922
Capital Distribution	\$ 0.0
Fund Size (\$ Million)	\$ 5,477.9

Global economic prospects continued to worsen this quarter. Europe is now heading for a recession, and the United States may follow. We have come full circle from the financial crisis of 2008/2009 as, once again, the global banking system is in trouble due to the banks' widespread holdings of riskier sovereign credits. The problem now involves not only central bankers, but also politicians. A consensus on policy and an action plan seems beyond reach at this point, making matters worse. Furthermore, most Western governments and their policymakers have far fewer tools (or funds) on hand to address the current situation. Central bankers are focused on maintaining low interest rates as a way of stimulating growth. In the meantime, government deficits continue to balloon while austerity measures undermine growth and employment. The price of gold and its volatility continues to defy investment logic, closing well off its highs, at US\$1,623.95 per troy ounce on September 30th 2011. Its 8.2% price increase in the quarter is certainly not based on fundamentals. In contrast, the price of other key industrial resources has declined in response to fears of diminishing global demand.

The Canadian dollar closed at \$0.9596 (-7.4%) against the U.S. dollar this quarter, partly due to falling commodity prices.

Performance Review

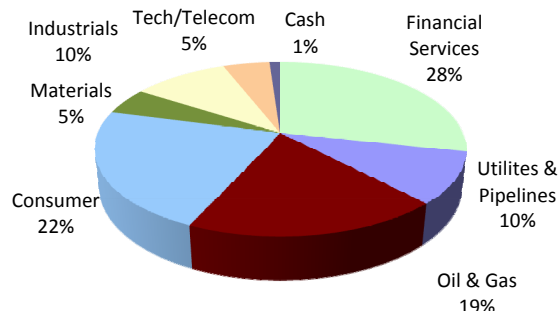
To Sept. 30, 2011	3 Mths (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	14 Yrs*
JF Cdn Equity Fund	-12.7	-10.8	-4.6	1.8	2.6	9.2	11.2
S&P/TSX	-12.0	-11.9	-3.6	2.7	2.6	8.0	5.8

*Inception Year is 1997

Fears of a global slowdown as well as renewed commitment on the part of the Federal Reserve toward lower real rates particularly impacted our holdings in Energy and life insurance. These conditions also boosted the performance of gold stocks, where we remain underweight, a choice that weighed on results by -2.1%. After besting the S&P/TSX Composite index through the first half of 2011 by +2.0%, the portfolio posted a -12.7% return against the -12.0% return of the benchmark in the third quarter, reducing its year-to-date outperformance to +1.1%. Our overweight position in telecom and cable, as well as Consumer Staples worked to offset these areas, as they posted the best returns in the quarter. Significant outperformance of our holdings in Consumer Discretionary names also contributed notably to results.

Fully fifty percent of sectors in the S&P/TSX Composite index posted double-digit negative returns in the period, led by Energy and Industrials, down -18.7% and -18.3% respectively. Again this quarter, we were well served by our significant exposure to pipeline operators in the Energy sector with **Enbridge Inc.** in particular returning +7.5%. In addition, despite deep losses in mining sector names during the period, losses in our global

Canadian Equity Fund Industry Weightings September 30, 2011



growth-levered companies were relatively less severe, most notably **Canadian National Railway Company** which posted a loss of -8.8%. Excluding Materials, the portfolio actually held up reasonably well, thanks to a cautious stock and portfolio selection discipline. Normally our equity portfolios exceed their benchmarks in severe downswings. That remains the case except for the aforementioned -2.1% contribution from gold related equities.

We continued to opportunistically add to the Telecommunications sector in the quarter, adding to our position in telecom and wireless carrier **BCE Inc.** (+5.3%). We also added to **Bonavista Energy Corporation** (-16.3%), a high-yielding oil and gas producer that is well positioned in a number of emerging natural gas plays in Alberta and British Columbia.

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 quickly. We believe that we are entering a prolonged period of slow growth. We expect more volatility until the banking problem is addressed.

Our conservative and diversified portfolio is well suited for this environment and will continue to weather the peaks and valleys of this market. The portfolio is structured for longevity and consistency, it is attractively valued and provides investors a reasonable, sustainable yield. Our emphasis remains on dividend paying non cyclical companies.

Representative Holdings

Holdings	Industry
Canadian Natural Resources	Oil & Gas
Rogers Communications Inc.	Communications
Royal Bank of Canada	Financial Services
SNC-Lavalin	Industrials
Transcanada Corp	Pipelines

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