

JARISLOWSKY FRASER LIMITED

U.S. EQUITY FUND REPORT

3rd QUARTER 2011

Details of the Fund

Inception Date	November 1, 1998
Net Asset Value per Unit	\$ 6.467
Income Distribution	\$ 0.0354
Fund Size (\$ Million)	\$ 209.3

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' holdings of riskier sovereign credits. The problem now involves not only central bankers, but also politicians. A consensus on 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 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 (%)	12 Yrs*
JF US Equity Fund	-7.8	-4.9	1.6	0.5	-2.3	-1.9	-0.9
S&P 500 (CS)	-7.0	-4.2	2.7	0.6	-2.5	-1.4	-2.1

*Inception Year is 1998

Canadian dollar index returns and NAV values have been calculated using the London 4PM closing FX rates.

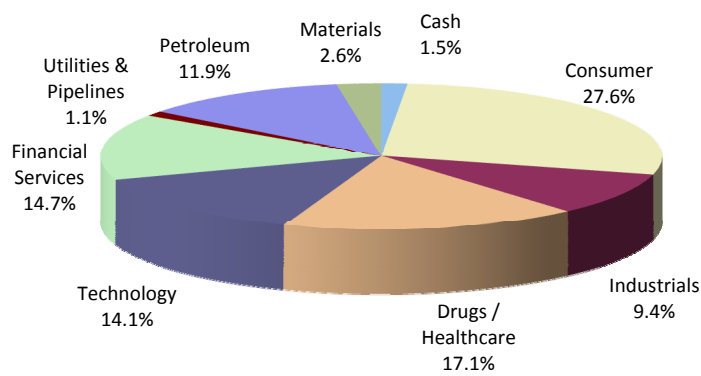
This past quarter, the U.S. portfolio declined by -7.8%, trailing the S&P 500 by 0.8%. Results were affected by the rapid and erratic decline in global equity markets. Economically sensitive sectors such as Materials (-18.5%) and Industrials (-14.7%) led the decline along with Financials (-16.6%) and specifically insurance companies. Index returns were led by the Utilities (+9.6%), Consumer Staples (+3.4%) and Information Technology (-0.3%) sectors. The portfolio greatly benefited from our bias to Consumer Staples and Healthcare, however the absence from the Utilities sector combined with an underweight in Information Technology, one of the strongest performing sectors this quarter, impaired performance.

Two Consumer Staples companies featured as top performing stocks this past quarter: personal care companies **Kimberly-Clark Corporation** (+16.4%) and **Colgate-Palmolive Company** (+10.3%). Both firms are able to generate strong free cash flow throughout various economic cycles. Diversified services and software company **International Business Machines Corporation** (+10.7%) also outperformed this quarter, thanks to strong operational execution.

Insurers were hit hard by lower long term interest rates and **Lincoln National Corporation** (-40.7%) was, unsurprisingly, our worst performer for the third quarter.

During the quarter, we exited our positions in two companies; **The Washington Post Company**, a newspaper publisher and

U.S. Equity Fund Industry Weightings September 30, 2011



educational provider and **Cisco Systems, Inc**, a leading data networking equipment provider. Both firms have exhibited a declining revenue and growth profile due to secular changes in their respective business models. We reinvested the proceeds in media content provider **Scripps Network Interactive, Inc** (The Food Network and Home and Garden Television), in database provider **Oracle Corporation** and in payroll processor **Automatic Data Processing, Inc**. We also topped up diversified industrial conglomerate **General Electric Company**, on weakness.

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 a policy and an action plan to fix the problem is still a way off, mostly because policymakers are too focused on sovereign paper, including their own. 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
Chevron Corporation	Energy
Colgate-Palmolive Company	Consumer
Emerson Electric Co.	Industrials
Johnson & Johnson	Health Care
JP Morgan Chase	Financial Services

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