

JARISLOWSKY FRASER LIMITED

BOND FUND REPORT

4th QUARTER 2011

Details of the Fund

Inception Date	April 1, 1997
Net Asset Value per Unit	\$ 11.2959
Income Distribution	\$ 0.1302
Capital Distribution	\$ 0.1573
Fund Size (\$ Million)	\$ 344.3

Bond market returns were strong during the quarter (+2.1%) and even more so for the year as a whole (+9.7%). Economic uncertainty and declining inflation expectations played a role in the strong returns in the first three quarters, but the European debt crisis dominated market movements toward the end of the year.

DEX Sector Performance

Returns ending December 30, 2011 (%)

DEX Sector Index	Q4	1 Year
Short-term	0.51%	4.65%
Mid-term	1.96%	10.85%
Long-term	4.94%	18.13%
Universe	2.09%	9.67%

The inability of European politicians to agree weighed on sentiment, despite the European Central Bank's interest rate cuts and operations to maintain liquidity in the banking system. Given the unstable environment, investors moved into the perceived safety of government bonds and out of corporate bonds and stocks.

Indicative Mid-Term Canadian Corporate Yield Spreads (%)

	31-Dec-07	31-Dec-08 Financial Crisis	31-Dec-09	31-Dec-10	31-Dec-11
Corporate AAA/AA	1.36	4.10	1.04	0.83	1.20
Corporate A	1.35	4.56	1.38	1.42	1.89
Corporate BBB	1.86	4.71	1.69	1.64	2.17

Government of Canada bonds posted a +2.3% return for the quarter and +10.2% for the year, while high quality corporate bond returns for the same periods were +1.0% and +6.1%.

Performance Review

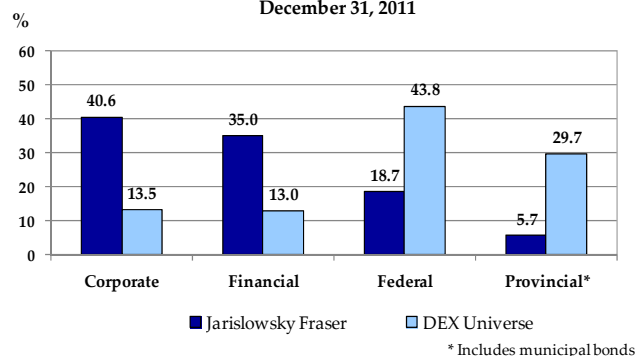
To Dec. 31, 2011	3 Mths (%)	1 Yr (%)	4 Yrs (%)	7 Yrs (%)	10 Yrs (%)	14 Yrs*
JF Bond Fund	1.7	8.6	7.2	5.8	6.4	6.3
Dex Universe	2.1	9.7	7.0	6.0	6.5	6.5

*Inception is March 1997

The bond portfolio recorded a +1.7% return in the quarter and +8.6% for the year as compared to its benchmark return of +2.1% and +9.7% for the comparable periods. The main detractor from performance was the significant overweight in high quality corporate bonds (75% vs. 26% for the index). Our selection of corporate bonds was a positive influence for the first three quarters, although our overweight in insurance company bonds hurt relative performance in the fourth quarter. We also held fewer long term bonds than the benchmark, but this was a marginal detractor from performance during the quarter, as yields declined by less than 0.2%. The impact was greater for the year as we reduced the weighting in long bonds in the summer.

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Comparison of JF Bond Sector Allocation vs. DEX Universe
December 31, 2011



This past quarter we continued to add to high quality corporate issuers, particularly in attractively priced long dated names. We participated in the following thirty-year issues: **Fortis Alberta Inc.**, **Canadian Utilities Limited**, **Westcoast Energy Inc.**, **TransCanada Pipelines Ltd.** and **407 International Inc.** We also purchased an attractively priced, ten-year, Basel compliant subordinated debt from **Capital Desjardins inc.** All the new issues were funded by selling shorter or similar dated corporate paper.

Strategy

Emerging economies will almost certainly continue to lead global economic growth in 2012. Developed market growth will be slow but, nonetheless led by the U.S. and Canada. Europe will continue to struggle to increase their rate of growth, hampered by structural problems and ineffective governments. European markets are unlikely to improve as long as sovereign debt deliberations last. Delays will only worsen the situation and lengthen the downturn and the low interest policy, favoured by many policymakers, will not help the financial system recover quickly. Japan will be fuelled, in the short term, by expenditures to rebuild post earthquake/tsunami. Nevertheless its economy, along with most others in the developed world, will remain mired with high government debt. Deleveraging will take time. We continue to believe that the world is in a prolonged period of slow growth and expect more volatility until the banking problem is addressed.

We continue to prefer owning solid corporate issuers which provide much better yields than those of governments, hence their sizeable representation in our portfolio. Even though the near term relative performance can deviate from the benchmark, **we strongly believe that our portfolio of high quality bonds will outperform a portfolio of government bonds over the long run as we harvest the higher yields (0.6% above the yield of the DEX).**

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 Inc.	5.65%, 10/01/19
Government of Canada	5.75%, 06/01/33