

JARISLOWSKY FRASER LIMITED

CANADIAN EQUITY FUND REPORT

4th QUARTER 2011

Details of the Fund

Inception Date	April 1, 1997
Net Asset Value per Unit	\$ 30.8389
Income Distribution	\$ 0.2700
Capital Distribution	\$ 0.0528
Fund Size (\$ Million)	\$ 5,750.4

2011 was a difficult year on both the political and economic fronts. The European Union held centre court in debt deliberations, but, given the interconnections within the global banking system, all other geographies also have a vested interest. Most Western governments have embarked on a cocktail of austerity measures and higher taxes to stave off declining government revenues. For the most part, central bankers have maintained low interest rates to encourage growth. Europe's GDP declined, nearing recession, and emerging market growth also slowed. North America has been less affected, as only 16% of U.S. and 10% of Canadian exports are destined for Europe. Moreover, Americans will soon be looking inward, to the 2012 Presidential election.

Gold closed the year at US\$1,563.70/ounce, declining by -3.7% during the fourth quarter, hopefully a sign of more economic stability. In contrast, oil rose to US\$ 98.83/barrel, appreciating by +24.8% during the quarter, the result of stronger U.S. economic data and geopolitical turmoil in the Middle East, led by Iran. Equity investors rode a rollercoaster this past year, oscillating between steep declines and rapid rebounds, particularly in the last quarter.

Performance Review

To Dec. 31, 2011	3 Mths (%)	1 Yr (%)	4 Yrs (%)	7 Yrs (%)	10 Yrs (%)	14 Yrs*
JF Cdn Equity Fund	5.5	-5.9	0.1	6.7	8.9	11.4
S&P/T SX	3.6	-8.7	-0.7	6.5	7.0	6.5

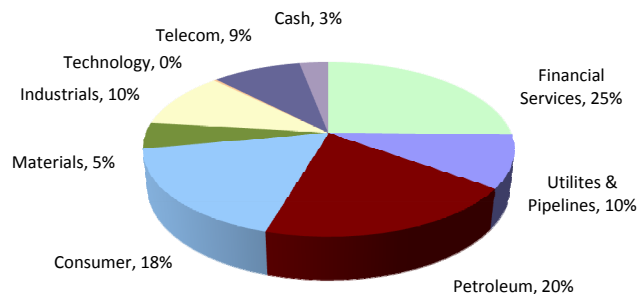
*Inception is April 1997

The Canadian equity portfolio outperformed the S&P/T SX index for both the 12 months and quarter ending December 31st 2011, helped by our more conservative investment approach. A substantial underweight in the Materials sector (-21.1%) particularly gold, as well as a long standing preference for non-cyclical names in the Consumer Staples and Consumer Discretionary sectors contributed to our overall outperformance. A bias to insurance names within Financials weighed on performance, affected by the prospects of persistently low interest rates, a theme which reasserted itself in 2011.

Several of our Consumer Staples holdings such as **The Jean Coutu Group Inc** (+35.2%), **Tim Hortons Inc** (+21.9%), **Metro Inc** (+21.5%) outperformed the market by a wide margin this past year. Within the Energy sector, pipeline companies **Enbridge Inc** (+39.7%) and **TransCanada Corporation** (+22.0%) both outpaced the index significantly as investors gravitated to their attractive yields and more predictable cash flow.

The S&P/T SX index posted a tepid return of +3.6% in the fourth quarter. The Industrials (+15.1%) and Energy (+11.4%) sectors led the market with Telecommunications Services (+9.9%) capping a strong year with another good quarter. The Canadian equity

Canadian Equity Fund Industry Weightings December 31, 2011



portfolio outpaced the index return, advancing by +5.5%. Our overweight in Industrials and underweight in Materials (-4.6%) underpinned this quarter's outperformance.

During the quarter we initiated a position in **TELUS Corporation** and continued to add to **BCE Inc**. The TELUS purchase was funded in part by the exit of our holding in **Bank of Montreal**. We also added two new names to the JF Special Equity Fund, **Keyera Corp.** and **Open Text Corp.**

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.

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; holdings remain attractively valued and provide investors a reasonable, sustainable yield. We continue to favour non cyclical companies which provide healthy, regular dividends.

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