



Butterfield Asset Management

Economic Review

Markets and economies, too dependent on government support for far too long, are just now beginning to learn to live without their crutches. Bailouts provide next to no long-term value as they do little to improve productivity or propel real, sustainable growth. Policymakers can redistribute wealth (think bailouts of financial institutions and autos) or pull demand forward (think cash for clunkers and tax credits for home buyers), but they can't offset wealth destruction stemming from capital misallocation.

The bursting of the credit bubble led to a full fledged financial crisis and will continue to spur de-leveraging on a scale previously unheard of. Reducing debt was first a financial sector phenomenon, quickly spread to the consumer and now one government after another is feeling the urge to adopt fiscal austerity measures, afraid that the financial markets may turn against them next. The policies and cuts that are being implemented among the G20 nations have never been more uncoordinated and in some cases, haphazard. Massive increases in government debt (also known as "stimulus") tend to cause big swings in quarterly growth rates until stability eventually returns. As we move into the second half of 2010, the fiscal stimulus of the past 12 months will automatically become a tightening as governments let their programs expire; however, this tightening is beginning to look ever more severe. To name just a few factors contributing to a recipe for a real "growth scare" to develop over the coming months:

- The boost from inventory restocking is quickly fading and will bring global trade lower with it (and protectionism may come back on the political agenda).
- There is a significant risk of another leg down in volume and prices for the US housing market.
- A global surge in private-sector savings in expectation of higher taxes is a strong possibility - the tax increases are inevitable.
- Continuing concerns linger in Europe over the state of the banking sector.
- There is precious little evidence of a resumption of sustainable job growth in the US.
- China is implementing policies to cool down its overheated housing market.

Overall, in the second half of 2010, after a spurt of "solid" growth over the past few quarters, the world economy will likely be entering a soft path. But despite all of this, we are not in the double-dip recession camp. Several factors are more positive today than they were prior to Lehman and the financial crisis that followed. Global short-term rates remain low and central banks are using their balance sheets to create liquidity. The global yield curve remains steep and spreads haven't widening dramatically in recent weeks.

The world economy is generally recovering, oil prices are reasonable and financial institutions are healing. We have

said this many times in these columns, but sustainable recovery is a function of time and willingness to adjust and re-balance the global economy properly – we are just not there yet.

Select Equity Fund

The first half of 2010 was particularly volatile for investors as the equity markets struggled with swings in investor sentiment. The fund had a negative return of 8.32%; while the Benchmark MSCI World Free index fell 9.84%. The S&P 500 dropped 6.64%, the Bloomberg European 500 dropped 15.63% and the Canadian TSX dropped 4.01%.

Global Equities face increasing extreme swings during the quarter. Major economic indicators have signaled a recovery from the Abyss of 2009 but have raised questions to its strength and sustainability. Global Stimulus measures have worn off and recent Major Government language have us thinking the Stimulus part 2 may be in the works.

Euro zone Liquidity actions have abated fears of a total meltdown in the area, however it's still unclear how Austerity measures will be met by the working public. If Greece is an indication; uncertainty in the region could continue for some time.

The relative out-performance of the Fund is largely due to the cautious stance employed since the beginning of Q1. The reduction of European Stocks was the largest contributor of out-performance followed by the increased cash position and overweighting in Canadian equities. Our defensive position via US large caps has also enhanced relative performance as many US equity managers underperformed in their benchmarks since Jan 1, 2010.

Select Fixed Income Class

The net asset value (NAV) per share of the Fund increased to \$15.45 from \$15.82 over first half of 2010, an increase of 2.39% while the index gained 5.65%.

A flight to quality was the story for the last 6 months (the cause for the short term underperformance of the fund.) Continued doubts as to the strength of the "Global" recovery continue; and talks of a Double Dip recession in the Euro-zone growing stronger (we're not so sure...yet)

Yields on the 5 and 10 year US Treasury Bonds declined handily in the 2nd quarter and the US Treasury yield curve flattened towards the end of Q2; as credit concerns and the lower economic growth outlook remain.

The Quantitative Easing strategy in Europe has started with little fanfare and we have doubts whether it will be enough going forward. Credit spreads widened briefly during the second half; but seemingly have settled in for the time being. We will continue to remain cautious and



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liquid until we have more visibility on the Global economic situation.

Butterfield Select Alternative Class

The NAV per share of the Fund increased from 14.08 to 14.20 over the first half of 2010; a return of .85%. The Benchmark return was -1.06% for the period.

Concerns over Sovereign risk dominated Market this half. Globally, most asset classes were more volatile than the previous quarters; an environment favorable to most of our Hedge fund strategies. In some strategies gains were modest to negative for most of the half; as capital preservation was the key focus.

The Fund performed especially well for unit holders during the closing weeks of the fund maintaining the capital protection theme of the fund.

There has been significant activity within the portfolio, as we have issued redemption instructions to a number of our constituent funds that have had disappointing performance relative to their peers. We have used proceeds from these redemptions to increase our position in Real Return Asia and adding a position in the Arrowgrass Multi-strategy fund.

Most illiquid problems in the fund have been rectified, with a small Lehman Bros related problem progressing.



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Fund	NAV as at			
	6-Jun-02	30-Jun-09	31-Dec-09	30-Jun-10
BF&M/GIA *	n/a	n/a	n/a	n/a
Butterfield Select Equity	7.38	7.85	9.26	8.49
Butterfield Select FI	11.71	14.68	15.46	15.82
Butterfield Select Alternative	10.50	13.62	14.08	14.20

Performance Period		
% change	% change	Annualized
Report Period	1 Year	Since 06-06-02
0.62%	2.50%	3.00%
-8.32%	8.02%	2.03%
2.33%	7.77%	3.75%
0.85%	4.26%	3.44%

Pension Plan performance per profile BF&M - Pension Plans as at the 30 June 2010

Profile Returns:	Fund Allocations (%)				Weighted Average Return: Per Profile			
	BF&M/GIA	Select: Equity Class	Select: Fixed Income Class	Select: Alternative Class				
Interest Rate Profile								
All Ages	100%	0%	0%	0%	0.6%	2.5%	3.0%	
Conservative Profile								
Age 18 - 34	20%	50%	30%	0%	100%	-3.3%	6.8%	2.7%
Age 35 - 44	20%	40%	40%	0%	100%	-2.3%	6.8%	2.9%
Age 45+	40%	25%	35%	0%	100%	-1.0%	5.7%	3.0%
Moderate Profile								
Age 18 - 34	0%	60%	35%	5%	100%	4.1%	7.7%	2.7%
Age 35 - 44	15%	45%	35%	5%	100%	-2.8%	6.9%	2.8%
Age 45+	20%	35%	40%	5%	100%	-1.8%	6.6%	3.0%
Aggressive Profile								
Age 18 - 34	0%	70%	20%	10%	100%	-5.3%	7.6%	2.5%
Age 35 - 44	5%	60%	25%	10%	100%	-4.3%	7.3%	2.6%
Age 45+	10%	50%	30%	10%	100%	-3.3%	7.0%	2.8%

Note: BF&M/GIA returns are computed daily using the prevailing rate at the beginning of each month.