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## North American equity funds: How a bet on banks, REITs paid off

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*Harvest Banks & Buildings Income led category with a 13.1-per-cent gain for the year ended Nov. 30*

### **What are we looking for?**

How North American equity funds have fared recently.

Let's see how these funds have navigated through the lacklustre Canadian and more robust U.S. stock markets.

### **The screen**

We looked at the one-year returns ended last Nov. 30 for this category.

North American equity funds must have at least 90 per cent of their holdings in Canadian- or U.S.-listed stocks.

U.S. dollar, segregated and duplicate versions of the funds were excluded.

### **What did we find?**

A fund focused on banks and real-estate investment trusts at the top of the heap.

Harvest Banks & Buildings Income, which converted to a mutual fund from a closed-end fund in late 2011, led the pack with 13.1-per-cent gain.

Unlike its peers, this fund is more akin to a sector play because its mandate is to be invested mainly in financials such as banks and insurers, as well as real-estate companies or REITs. It is now 22 per cent invested in U.S. securities.

The fund has outperformed partly because of a bet on a U.S. housing recovery through U.S. financial names such as Bank of America Corp., Wells Fargo & Co. and JPMorgan Chase & Co. It also owns Canadian stocks like Toronto-Dominion Bank, which earns 55 per cent of its revenue south of the border, and Tricon Capital Group Inc., a residential real estate investment company.

Other winning holdings have been smaller real estate plays like Mainstreet Equity Corp. and Killam Properties Inc., and also Primaris Retail REIT, a mall operator now facing a hostile takeover bid from KingSett Capital Inc. The fund's exposure to this sector has more recently been cut to 40 per cent from about 60 per cent. "The real-estate market is still in good shape, but the big run has already happened," said Paul Gardner, a co-manager on the fund at Toronto-based Avenue Investment Management Inc.

Co-manager Paul Harris, who oversees the financial securities for the fund, said he continues to like Canadian banks, but sees more potential in its U.S. peers. "We think the upside or capital-gain potential is really in U.S. banks" as the housing market and consumer confidence improves, he said. "[U.S. banks] are trading cheaper on most fundamental metrics."



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