

Lincluden

QUARTERLY INVESTMENT REVIEW

March 31, 2011



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The Committee continued to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, were likely to warrant exceptionally low levels for the federal funds rate for an extended period.

Minutes of the Federal Open Market Committee
March 15, 2011

QUARTERLY INVESTMENT REVIEW

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Report Highlights

The political turmoil in Egypt dominated headlines early in the year, with tensions progressing into Libya and Yemen. The main impact was felt on oil prices. While sovereign debt concerns began to re-emerge in Europe all events were overshadowed by the horrific earthquake and tsunami that devastated Japan. Economic growth rates around the globe are uneven with certain regions struggling with significant deficit issues while others are exhibiting stronger growth. Future growth prospects stand to be dampened by a trend to higher interest rates in some areas around the world.

Asset Mix – Surprisingly, global equity markets, aside from Japan and Emerging Markets, proved resilient in the face of disturbing global developments. Portfolios continue to be managed to neutral equity targets with a tilt toward foreign equity markets.

Bonds – Improved economic conditions in both Canada and the U.S. contributed to interest rates trending higher although there was notable volatility during the quarter. A flattening of the yield curve allowed us to take advantage of higher yields in the five year part of the curve, reducing an overweight exposure to the long end. U.S. Treasury Bond exposure was a plus. The portfolio remains structured with a slightly less aggressive duration posture.

Equities – The Canadian equity portfolio's tilt toward Financials versus the weak Materials sector was a plus. Large exposures to **Royal Bank** and **TD** were positive. **Bank of Montreal** was eliminated reflecting concern over potential challenges from their U.S. acquisition. **Bombardier's** strong order book excited investors with the stock the top performer in the Canadian equity portfolio. **Superior Plus Corp.** was added. **Cameco** was eliminated based on concern over the future of nuclear power, while **Thomson Reuters** reached its target price and so too was eliminated. In the foreign equity portfolio, **ING Groep** and **AXA S.A.** led relative results. **J.P. Morgan** was added. A continued strong performance from **Brinks** brought it to our price target and it was eliminated. **Comcast** was eliminated on the heels of a strong performance with **Mothercare plc** a more attractive opportunity. Deteriorating fundamentals led to the elimination of **Nokia Corp.** **Procter & Gamble** was added.



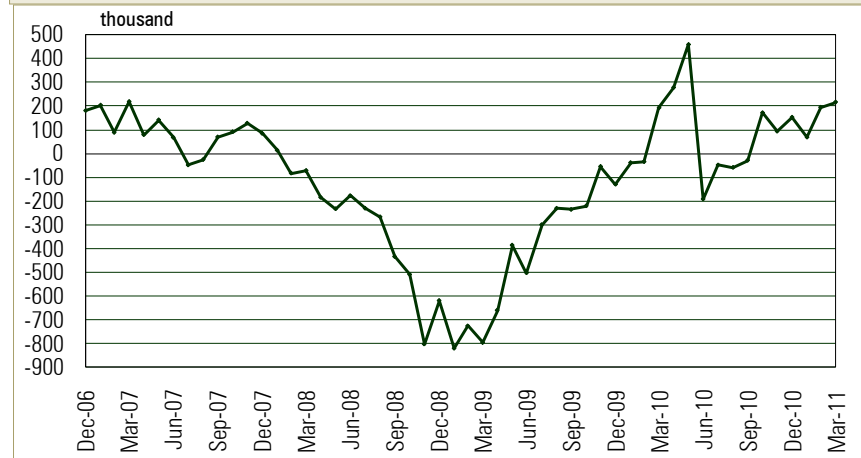
Economic Commentary

Financial markets withstood a surprising array of negative global events during the first quarter. The political turmoil in Egypt dominated world headlines earlier in the year, with tensions progressing into Libya and Yemen. Aside from a run-up in the price of oil, these events had little impact on global markets. The flight-to-quality that normally occurs during periods of global unrest was slow to materialize.

Sovereign debt concerns in Europe began to re-emerge as Portugal and Spain continue to wrestle with fiscal problems along with lower credit ratings. These events were overshadowed by the horrific earthquake and tsunami that devastated Japan in early March. Financial markets were rocked on the news as commodities were hit hard and stock indices around the world declined dramatically. The threat of a nuclear meltdown did contribute to a temporary flight-to-quality as government bonds rallied. Most world stock indices with the exception of Japan, however, rebounded strongly and were close to the highs for the year as the quarter came to an end.

Growth rates reflect varying degrees of economic recovery around the world. The U.S. economy is gaining traction, despite a very sluggish and depressed housing sector. The labour market, a key ingredient necessary to any sustained recovery has begun to show positive, yet modest, gains. Non-farm payrolls have increased on average over 200,000 in both February and March.

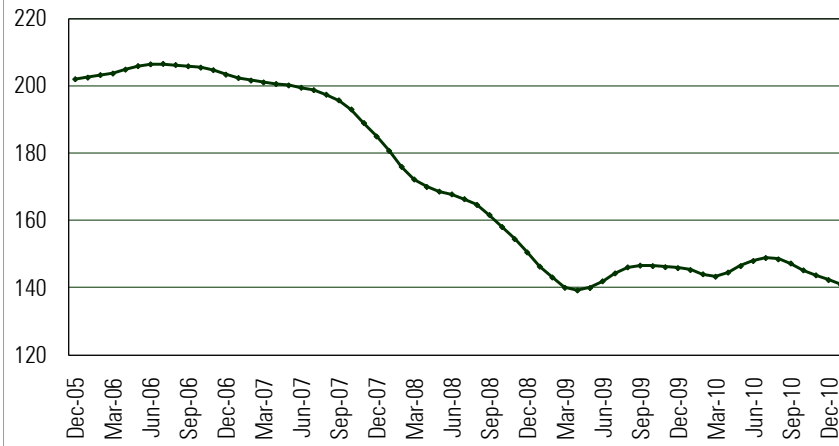
*U.S. Non-Farm Payrolls
(difference – month to month)*



Source: Bloomberg

After rebounding briefly in the summer of 2009, the U.S. housing sector is once again languishing around recessionary levels as house prices are experiencing a double dip. Excess inventory of distressed homes is putting pressure on the market and keeping resale prices down. Other housing indicators, including new and existing home sales, have declined dramatically, with foreclosure rates at record highs. The S&P Case-Shiller home price index has fallen six straight months and is barely above the levels experienced during the recession. Prices have fallen 3.1% over the past year. An improving job market may provide the necessary support to the housing sector, as individuals will be in a better position to refinance their homes.

S&P/Case-Shiller Composite Home Price Index



Source: Bloomberg

Several U.S. Federal Reserve members have suggested the possibility of raising rates before the end of the year as well as potentially ending the second round of quantitative easing ahead of the scheduled June date. Others would argue that a lower rate environment is still required given some of the problems that exist in the economy. The low level of interest rates has been a stimulus to the stock market as most of the losses recorded during the credit crisis have now been recouped.

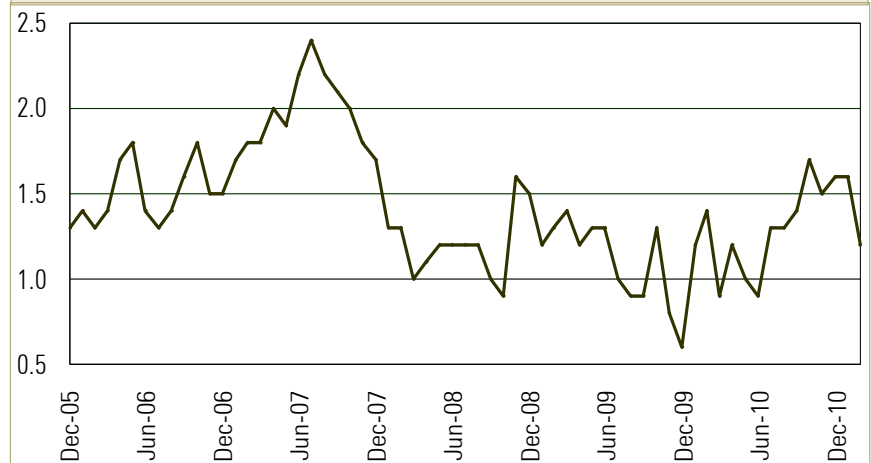
In Canada, there is pressure to raise rates given the strength in the economy, however, with the announcement of a federal election in May, any rate hike will probably be put off until the summer. Economic growth got off to a good start in 2011 with monthly Canadian GDP increasing by 0.5%, resulting in a 6.0% annual pace over the past three months. A stronger U.S. economy has been a key contributor as the output gap in Canada has shrunk at a better-than-anticipated rate. Commodity gains have also helped keep the Canadian dollar above parity with the U.S. dollar. Inflation remains well-contained in Canada, taking some pressure off of the Bank of Canada to raise rates over the near term.

Canadian Annual GDP – (Year over Year % Change)



Source: Bloomberg

Canadian Core CPI – (Year over Year % Change)



Source: Bloomberg

Economic growth rates in Europe are mixed as several countries wrestle with large fiscal deficits while others such as Germany are experiencing a more robust recovery. Inflationary fears, however, led the European Central Bank to raise rates for the first time since the summer of 2008. While inflation in Europe increased to 2.6% in March, the peripheral countries such as Portugal, Spain, Ireland and Greece are still suffering and will be hampered further by higher rates. Portugal was unable to implement severe austerity measures outlined in its budget, leading to the resignation of its Prime Minister. Portugal has now asked for a European Union bailout after months of resisting pressure for assistance. Portugal is the third country in the Eurozone to seek assistance, following Greece and Ireland. Inflation in the United Kingdom is now up to 4.4%, however GDP declined by 0.5% in the fourth quarter so it will be difficult for the Bank of England to raise rates in that environment.

U.K. CPI – (Year over Year % Change)



Source: Bloomberg

In summary, the financial markets have been able to withstand a great deal of negative developments during the first quarter of 2011. Economic growth remains uneven as certain regions are still struggling with significant deficit issues while others are exhibiting stronger growth. As a result, the low interest rate environment that has provided support to the markets may show a trend to higher rates in some areas around the world, potentially dampening future growth prospects.

Asset Mix

Equity markets have been very resilient and have absorbed a great deal of potentially negative news over the quarter. Despite several possible setbacks, markets ended the quarter close to highs for the year. Economic conditions are improving in North America, with Canada posting strong GDP to start the year and the U.S. consumer showing signs of returning. The U.S. housing market, however, remains a drag on the economy. Interest rates have trended higher due to signs of stronger growth along with comments made by members of the U.S. Federal Reserve about the potential for higher rates later in the year. Global growth rates encompass varying degrees of economic recovery and our view continues to be for slow, uneven economic growth. The re-emergence of sovereign debt concerns in Europe could dampen global growth prospects. We remain at a neutral equity target because the equity markets are not significantly over valued from a long term perspective and the returns in the bond and cash markets are still relatively low. Equity portfolios continue to have a slight tilt to foreign markets reflecting the broader industry diversification opportunities and better valuations offered by companies outside Canada. Where permitted by mandates, currency exposure above policy benchmarks is being hedged. Bonds are modestly underweight in favour of a small cash position. Our continued emphasis on individual security analysis and valuation should ultimately be rewarded.

Our asset mix targets for unconstrained balanced accounts as at March 31, 2011 were as follows:

Asset Class	Long Term Neutral Target	Current Target	Variance from Long Term Neutral
Canadian Equities	30%	28.0%	-2.0%
Foreign Equities	30%	32.0%	+2.0%
Bonds	40%	37.5%	-2.5%
Cash	0%	2.5%	+2.5%

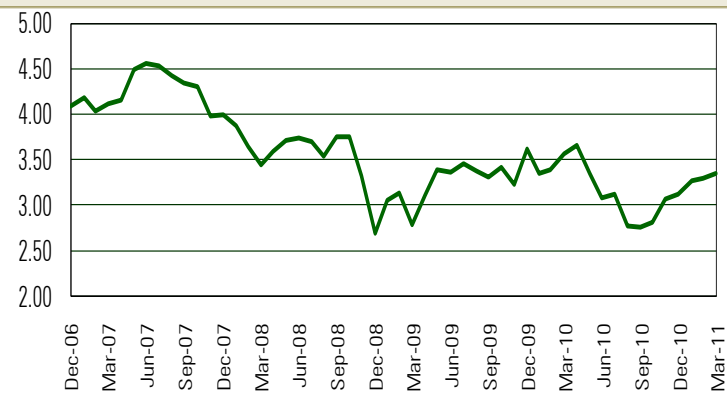
Bonds

North American bond yields increased during the first quarter due to improved economic conditions in both Canada and the U.S. The overall trend towards higher yields was somewhat surprising given the significant negative global events that have occurred so far this year, including political unrest in the Middle East, European sovereign debt concerns and devastation in Japan. Interest rate movements, however, were quite volatile with large swings occurring during the quarter.

The yield on the ten year government bond in Canada increased by 23 b.p. to 3.35% at the end of the quarter. The thirty year bond yield increased by 23 b.p. as well, ending the quarter at 3.76%. Interest rate moves were less dramatic in the U.S. with the ten year bond yield increasing by 17 b.p. to 3.47%. The thirty year Treasury bond increased by 17 b.p. as well, ending the quarter at 4.51%.

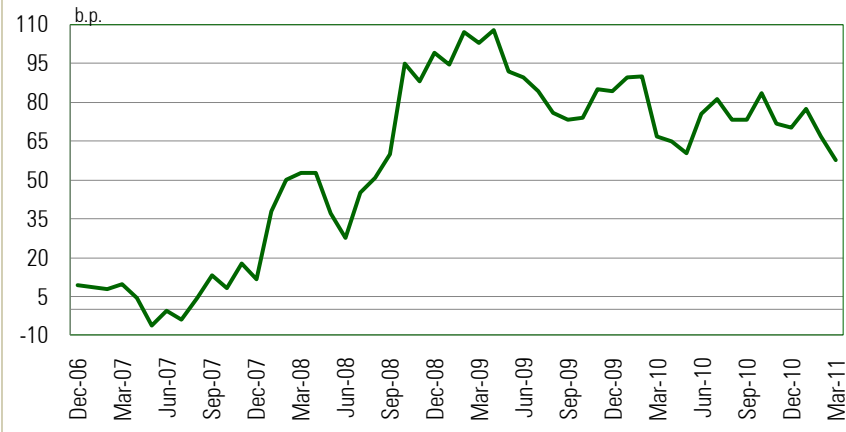
The Canadian government bond yield curve flattened during the quarter, as the spread between five year and ten year bonds declined from 70 b.p. to 58 b.p. while the spread between five year and thirty year bonds declined from 111 b.p. to 99 b.p. The portfolio had been overweight the longer part of the yield curve and took advantage of the higher yields in the five year area to reduce the overweight position and slightly alter the overall maturity structure of the portfolio.

Government of Canada 10 Year Bond Yield



Source: Bloomberg

5 Year Vs. 10 Year Government of Canada Yield Spread



Source: Bloomberg

Corporate and provincial bond spreads tightened marginally during the quarter. The portfolio maintained an overweight position in the corporate bond sector and continues to benefit from the higher running yield available in corporate bonds. The portfolio remains in an overweight duration-adjusted position in provincial bonds.

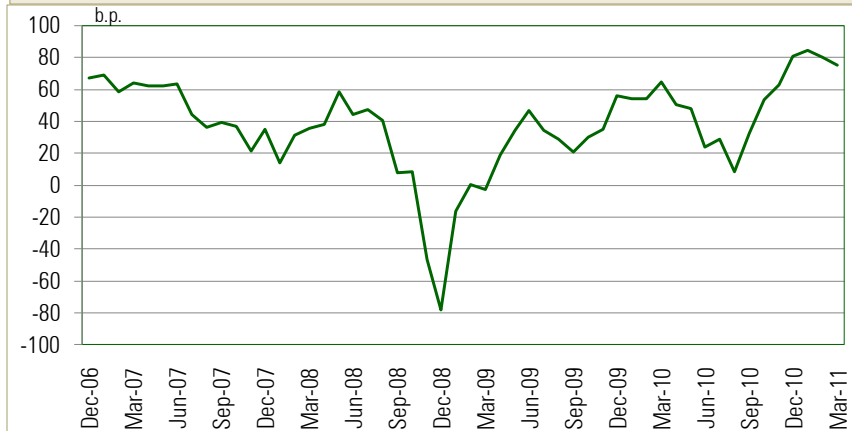
The portfolio ended the quarter with an overall duration in the range of 0.20 to 0.30 years shorter than the benchmark.

Equities

Financial markets withstood an array of negative global events during the first quarter. Surprisingly, in the face of the re-emergence of sovereign debt concerns in Europe, political turmoil in the Middle East and the devastating earthquake and tsunami in Japan, most equity markets offered a third quarter in a row of solid returns. Only Japan and Emerging Markets - both areas having been previous global market leaders - lost value.

The yield differential between thirty year U.S. Treasury bonds and Government of Canada bonds tightened during the quarter, moving from 81 b.p. at year-end to 75 b.p. at the end of the quarter. As a result, the holdings of U.S Treasury bonds added to performance in those portfolios that are able to invest in foreign pay bonds.

30 Year U.S./Canada Yield Spread



Source: Bloomberg

In Canada, from a sector perspective Financials, Industrials and Energy, with concerns about the Middle East driving up oil prices, led the way. The heavily weighted Materials sector took a breather, posting a negative return.

The portfolio's relatively small exposure to the weak Materials sector was a significant positive. **Inmet Mining**, which had doubled in price since last summer was deluged with events which resulted in significant price volatility through the quarter. An early quarter announcement of a merger with **Lundin Mining** was positively received. When a hostile offer emerged from **Equinox Minerals** for Lundin at the same time key elements of one of Inmet's key projects came into question, the stock sold off. With the subsequent cancellation of the **Inmet/Lundin** transaction, amidst relief that a bidding war would not ensue, and the issues surrounding the project clarified, the focus is again on valuing **Inmet** on its own merits. We continue to maintain the holding in **Inmet**.

While the portfolio's large position in Financials was a plus, the sector contribution relative to the benchmark was held back by the portfolio's non-bank investments in **Brookfield Properties**, **Manulife Financial** and **Intact Financial**. **Brookfield** and **Intact** settled back after an extended period of positive performance while **Manulife** took a breather after being one of the strongest fourth quarter performers. Our large positions in **Royal Bank** and **TD** were positive contributors to performance.

Bank of Montreal was eliminated reflecting concern over potential challenges from its announced acquisition of Wisconsin based bank, **Marshall & Ilsley**. Should the company's earnings forecast for the bank come to fruition, **BMO** will be almost as big in the U.S. as it is in Canada. Short term clouds resulting from the prospect of stock flowing back into Canada when the deal closes and the potential for an equity issue before the deal closes negatively tipped the risk/reward scale. **Great West Life** was added, presenting a more favourable risk/reward profile. We are attracted to the company's focussed risk culture, which we see as important in supporting the company's strong dividend payout ratio. A consistently strong return on equity will contribute to a higher future valuation level for the stock.

Industrial company, **Bombardier Inc.**, was the top portfolio performer for the quarter, with investors focussed on the company's strong order book. **CAE Inc.** too was a top 5 contributor to relative results. **Superior Plus Corp.** was added. The company operates three main businesses: propane distribution, chemicals distribution (for the pulp and paper industry) and construction materials. Aside from construction materials, demand for the company's products is generally recurring. The company has generated a healthy level of free cash flow although with the economic environment hurting recent performance the company reduced its dividend. The resultant price setback has created an opportunity to add **Superior Plus** at a very attractive level.

Fourth quarter addition **Ensign Energy Services** immediately contributed, posting a top 5 result, as did **EnCana Corp.** which had been added to last quarter. Following the nuclear disaster in Japan we eliminated **Cameco**. While the event is categorized as low probability it is certainly high impact and is anticipated to have severe and long lasting effects on the future of the nuclear industry.

Thomson Reuters was eliminated, reaching our price target, providing funds for the more attractive risk/reward opportunities highlighted above.

With tensions progressing in the Middle East, moving from Egypt into Libya and Yemen, oil prices marched higher despite assurances from Saudi Arabia it could fill any supply shortfalls. The Energy sector contributed close to 50% of the MSCI-World return.

The foreign equity portfolio's outperformance was positively affected by an overweight to Energy along with a solid contribution from security selection. Even more positive though to relative results were strategies in Financials, Industrials and Health Care. Financials, with over 20% returns recorded by **ING Groep** and **AXA S.A.**, led relative results. **J.P. Morgan** was added to the portfolio. Besides being a leader in many of their businesses, they are the third largest deposit gathering retail bank in the U.S. Faring better than competitors during the credit crisis they were able to buy Bear Stearns and Washington Mutual at bargain basement prices. We anticipate an improved return on equity from the company as performance from the retail financial service segment improves, and ultimately a dividend increase.

In Industrials, **Honeywell** again was a top five contributor, with strong performance also recorded by **Alstom S.A.**, **Brink's Co.** and **Siemens AG**. **Brinks'** stock price responded to the release of better than expected earnings. Up 16% year to date, and nearing our price target, we eliminated the holding. In Health Care, both **Zimmer Holdings**, which we'd added to in the fourth quarter, and **Pfizer** posted healthy rebounds in the quarter. **Johnson & Johnson** did not keep pace. We added to the exposure, finding the stock to be one of our highest return to target positions.

Comcast Corp. was again this quarter a significant positive contributor to results. We eliminated the position with the return to target not sufficient to compensate for the downside risk. **Mothercare plc** represents a more attractive valuation opportunity. We added this specialist U.K. headquartered retailer of products for mothers-to-be, babies and young children when the stock price came under pressure after the company issued a warning about short term profits. With 400 locations in the U.K. the company has very high brand awareness and is the "go to" destination for parents. With almost one quarter of sales now coming through the internet the company has demonstrated success in mastering this important distribution channel. We are particularly excited about the prospects for the company's international operations which currently represents one quarter of sales and is growing at a 20% pace. With an expected improvement of the U.K. operations and continued growth in their international ventures, the prospects for this company and the share price look excellent.

Procter & Gamble, the largest global consumer products company was added. Concerns about margin pressure from commodity inflation, the company's expansion plans and a challenging pricing environment have caused the stock to languish over the last year. However, we view these concerns as overly pessimistic and even with conservative inputs in our valuation models consider the stock to be undervalued. While operating margins are expected to be flat this year, significant cost savings programs and a forecast improvement in pricing bodes well for the future direction of margins.

The Information Technology sector lagged during the quarter, following a very strong fourth quarter contribution, with our investments in **Keyence Corp.**, **Cisco Systems** and **Microsoft** posting negative results. A lacklustre earnings report by **Cisco**, reflecting the impact of higher spending on new products on the company's gross margins, spooked investors, dragging down the group at the same time the impact of the devastation in Japan on component supply availability has cast a shadow. Early in the quarter we'd eliminated Japanese electronic components manufacturer **Murata Manufacturing**, with the stock price having appreciated 45% since last summer when it was purchased. While investor optimism had grown about

demand for the company's components for smartphones and tablet computers the enthusiasm wasn't translating into higher earnings estimates, but rather only multiple expansion. Having reached our target price the position was eliminated.

Nokia Corp. was eliminated based on deteriorating fundamentals. The company's announcement that they would not be doing a deal with **Android** to adopt the software stack for its smartphones was disappointing. Concern that the company would continue to lose market share as they move through their identified two year transition period in a new partnership with **Microsoft** forced a sell decision.