

Market review (all figures, total return)

- After a pullback in January, the S&P/TSX Composite Index resumed its upward trajectory, ending Q1 2010 with a total return of +3.1% for the period.
- Health Care (+10.3%) was the best-performing sector, followed by Financials (+8.1%) and Consumer Discretionary (+6.2%).
- Energy (-2.0%) was the only sector with a negative return. The Consumer Staples (+0.2%) and Materials (+0.3%) sectors also underperformed on a relative basis.

Portfolio review (all figures, price change)

Positive performance factors in the first quarter

By Sector:

- At the sector level, positive drivers of performance this quarter included our overweight positions in the Energy and Industrials sectors. These sectors outperformed the market as a whole.
- Having no exposure to the Health Care sector, which underperformed, also contributed to performance.

By Stock:

- Individual holdings that contributed to relative performance this quarter include: Eastern Platinum Ltd. (+61%), Red Back Mining Inc. (+38%), Teck Resources Ltd. (+20%), Baytex Energy Trust (+16%), Brookfield Asset Management Inc. (+11%), Bank of Montreal (+10%) and Petrobank Energy & Resources Ltd. (+9%).
- Another positive factor was not having exposure to certain underperforming index names, including Cameco Corp. (-18%), Kinross Gold Corp. (-10%) and Goldcorp Inc. (-8%).

Negative performance factors in the first quarter

By Sector:

- At the sector level, having less than index weight in or no exposure to the Financials, Health Care and Consumer Discretionary sectors detracted from performance, as these sectors led index performance.

By Stock:

- Individual holdings that hurt performance include: IAMGOLD Corp. (-18%), Suncor Energy Inc. (-11%), SNC-Lavalin Group Inc. (-8%), Barrick Gold Corp. (-6%), NAL Oil & Gas Trust (-6%) and Canadian Natural Resources Ltd. (-1%).

- Not holding certain outperforming index names through the period, including Bombardier Inc. (+30%) and Penn West Energy Trust (+16%), also had a negative influence on performance.

Outlook and strategy

- Recent U.S. and Canadian economic data provides evidence that the recovery remains very much on course, with the unemployment rate peaking and now slowly recovering, inflation continuing to remain contained and signs that consumer confidence is improving (housing market, retail sales). Corporate profitability has also improved on the back of cost cutting and the resumption in revenue growth. An improved profitability scenario provides companies with confidence to invest in new opportunities. With financing rates still very stimulative and banks willing to extend credit, it is highly probable that job creation will follow. We are still in the early stages of this corporate investment cycle, and as the employment recovery unfolds, consumers will garner a greater degree of confidence and resume their spending habits. All of this is very bullish for equities, and we expect the uptrend to continue.
- With the S&P/TSX Composite Index at a 12-month forward price to earnings multiple of 15.2, we are essentially back to the historical average price to earnings of 15.3. Going forward, further upside potential will be driven by earnings momentum coming in better than consensus expectations. Furthermore, corporate balance sheets are very healthy, and we've seen companies return capital in the form of dividend increases and share buybacks. From a sector orientation perspective, we are very much in a market where you want to spread your eggs among many baskets, and we remain neutral across the board. Stocks we highlight as having positive operating and earnings growth potential are Arc Energy Trust, Eastern Platinum Ltd., Gildan Activewear, and Brookfield Asset Management.

Any amount that is allocated to a segregated fund is invested at the risk of the contract holder and may increase or decrease in value.

This report is published to provide additional information on economic conditions and investment performance. It was prepared by Laketon Investment Management.