

### Beutel Goodman



#### Performance

The Ethical Global Dividend Fund achieved a solid double digit return this quarter and significantly outperformed the C\$ MSCI World Index.

After a year of setbacks and macro-economic shocks, financial markets responded positively to news of expanding global growth this quarter. Strength in equity markets was witnessed around the world and led by the U.S. and Japan. With the Euro crisis seemingly reduced to a simmer after a pivotal Greek deal in mid March, an appetite for risk returned to the markets as investors pinned hopes on rising economic momentum and less fear in 2012. The “safety” trade lagged the Index leaders over the period, but gains were capped late in the quarter as mixed U.S. data and a slowing China, checked expectations.

Overall, equity investors took comfort in more clarity, leading to a cyclical-led rally that produced double digit gains in Consumer Discretionary and Financials, with the latter rebounding after considerable central bank support. Information Technology and Industrials were also market leaders with the former heavily influenced by a sharp rise in the price of Apple.

The Fund’s considerable outperformance came primarily from security selection this quarter. The greatest contribution came from the Materials sector with the outperformance of Lanxess and Arkema followed by several of our Consumer Discretionary investments which also added substantial value. These securities included Comcast, Takata, Honda, Kingfisher, and Makita. Financials was another area where the portfolio fared well with several of our holdings outperforming such as AXA, JP Morgan Chase, HSBC Holding and MetLife. The main detractors from return came from the industrial area of the portfolio as our investments in Firstgroup and Koninklijke Philips underperformed.

A positive overall sector effect was achieved largely as a result of an overweight in Consumer Discretionary and underweight positions in Energy and Telecom. A sizeable underweight in Technology had the most adverse impact on return and an overweight in Health Care also detracted.

The Fund’s focus on strong cash flow generating companies has resulted in a quality portfolio with an attractive gross yield of 3.20% versus the MSCI World Index yield of 2.72%.

#### Portfolio Commentary

In the first quarter of 2012, the Ethical Global Dividend Fund initiated three new investments: Canon, Heineken N.V, and Makita Corporation.

The Fund also added to its investments in FirstGroup, Philips, and Pfizer and exited Cisco, Glaxosmithkline, Great-West Lifeco, Microsoft, Northern Trust, and Vodafone.

#### Outlook

Our outlook for non-domestic equities is positive, although more moderate than the exuberant beginning for 2012 would suggest. In broad strokes, equities gains have been fuelled over the past quarter by “easy money” central bank policies, surprisingly strong economic recovery signs in the U.S., and a reprieve from the fear linked to the euro zone’s high drama of 2011. Adopted measures and the resulting flood of cheap credit, however, has shifted risk from consumer and banks to excessively burdened government balance sheets. As governments are forced in time to become huge savers alongside consumers in developed economies, the threat of squeezing consumer prosperity rises.

The U.S. economic picture continues to exhibit encouraging signs of recovery as employment figures and housing numbers reflect a resilient consumer who is also benefiting from the ongoing low interest rate environment.

Outside the U.S., the mood is cautiously optimistic, with investors encouraged by the positive forces underpinning equity markets. Despite the optimism, a degree of caution is warranted. A significant slowdown in China has the potential to temper global corporate earnings growth and recent numbers in Europe suggest a recession is possible.

While the recent powerful market gains have diminished prospective equity returns compared to those offered in December, they remain in our view, very attractive relative to prospective bond returns. Within equities, attractive risk-adjusted returns continue to exist in both the more defensive sectors and selective cyclical sectors of the market.