DundeeWealth Investment Counsel Perspectives

DWIC Core Equity Strategy

First Quarter Commentary – March 31, 2013

Adam Donsky, CFA
Vice President & Portfolio Manager

The S&P/TSX Composite Index returned 3.34% during the quarter, with the bulk of the Index's performance coming in the first month of the quarter. All sectors of the benchmark other than materials, were positive contributors to index performance. The healthcare, information technology, and industrials sectors were the top three performing sectors (in order) during the period. The S&P 500 Index returned 13.01% in Canadian dollar terms over the first three months of the year, with healthcare, consumer staples and utilities leading the way. Over the past few months, and especially to start this year, equity markets have performed well. What most fail to realize is the low-quality nature of this rally, as companies rated B and below based on S&P Quality ratings have out-performed those rated B+ or higher.

For the three month period ended March 31, 2013, the DWIC Core Equity Strategy generated a total return of 4.0% compared to 10.1% for the MSCI World (C$). The Strategy ended the period with approximately 45% in Canadian equities down slightly from the end of last quarter. This significant overweight to Canada versus the benchmark weighting of approximately 4.5%, was a negative for Strategy performance again this quarter. Canada, though earning a positive return, was in the third quartile of country performance for the benchmark. Japan and Australia comprise nearly 13% of the benchmark, and both countries earned double-digit returns during the quarter but we continue to underweight both regions, concerned about the ultimate impact of "Abenomics" in Japan's case and commodity prices on Australia's market. The Strategy's U.S. equities weighting ended the period at 37% of assets which is an underweight position versus the index. The U.S. was the sixth best performing country for the index during the period, thus, our underweight exposure detracted from Strategy performance. Switzerland was the only other country the Strategy had exposure to at the end of March with our holding in ABB. ABB is a global leader in factory automation and power equipment. ABB is set to be a prime beneficiary from the US manufacturing renaissance, as well as the increased automation in Chinese factories as they grapple with rising labour costs. On the power side, we believe there has been significant under-investment in infrastructure and ABB will play a major role in upgrading power infrastructure globally.

Our cash weighting of 13% at period end was down significantly from 20% at the end of last quarter as we made new additions to the Strategy including: Citigroup, Costco Wholesale, Estee Lauder, Schlumberger and Varian Medical Systems. We believe the market is under appreciating the long term earnings potential of Citigroup, namely because of the near term impact of Citi Holdings, the "bad bank" that was created as a result of the financial crisis. Citigroup is well capitalized, positioned to start returning capital to shareholders and trading well below its tangible book value and our intrinsic value. Costco is a retailer that continues to grow its market share in a difficult retail environment because of a differentiated business model, focused on driving membership fees, continuously investing in price and offering consumers unparalleled value. With the benchmark earning a double digit positive return for the period, our cash weighting was a drag on performance. We continue to view our cash position as an option that allows us to buy attractive businesses when they are mispriced by the market.

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All of the MSCI World's (C$) sectors earned positive returns during the quarter, except the materials sector which was also the case for the DWIC Core Equity Strategy. For the second quarter in a row, materials stocks Allied Nevada Gold and Barrick Gold were the two biggest detracting stocks from the performance. We have been trimming our position in Barrick. The Strategy's materials weighting is now approximately 6.5% and is in line with the benchmark. Our other materials holding, Ecolab, was a top five contributing stock during the period and has been the top contributing stock to Strategy performance during the past 12 months. Healthcare and consumer staples were the top sector contributors to benchmark performance during the period. The Strategy is significantly underweight the healthcare sector which detracted from Strategy performance during the period, however, all four of our healthcare stocks were positive contributors to Strategy performance in Q1. We exited Johnson & Johnson during the quarter. The stock was a positive contributor to performance during the past 12 months, and we used the opportunity to take profits and put the cash to work in other ideas. We continue to own healthcare stocks Laboratory Corp. of America, (which we discussed in detail in last quarter's commentary), and Varian Medical Systems. Our consumer staples weighting is in line with the benchmark. Although the benchmark's collective consumer staples holdings outperformed those of the Strategy during the quarter, all five of our holdings in the sector were positive contributors to performance led by Coca Cola. Consumer staples was the third best contributing sector to Strategy performance during the quarter.

The two best contributing sectors to Strategy performance during the period were the industrials, and information technology sectors. Our industrials exposure was in line with that of the benchmark, and the Strategy was underweight the information technology sector. Our collective holdings in both sectors outperformed those of the benchmark. Our industrials holdings were led by top ten contributors 3M, Canadian National Railway, and Danaher. Danaher is a leading science and technology company designing, manufacturing, and marketing innovative products and services to professional, medical, industrial, and commercial customers. CGI Group and Microsoft, were among the top ten contributors to Strategy performance during the quarter. We continue to add to our position in Microsoft during pullbacks in the stock price.

The concerns we have expressed in the past are by no means gone. Macroeconomic and geopolitical tail risks though lower, still persist. As equity markets continue to climb to new heights, we struggle with how much of this performance is a reflection of underlying economics and how much of it is a reflection of monetary policy on the part of the world's Central Banks. During the second half of 2012, Central Banks continued to turn up their massive and coordinated monetary intervention. We believe that this is the overwhelming dominant force in the markets today. We also believe this grand experiment of market manipulation will have unintended consequences and may not end well…you can take some comfort knowing our funds are prepared for such an event. We see inflation as the biggest risk today and one that few seem to be paying much attention to. The Fed wants higher inflation in the years ahead. Despite this, we remain bullish on the prospects of our funds because we have positioned them with businesses such as those described above – those that have pricing power – and hold precious metals to protect against these increased inflationary pressures.

As at March 31, 2013	**3 Month**	**1 Year**	**3 Year**	**Since Inception**
DWIC Core Equity Strategy	4.04%	4.12%	6.02%	10.16%
MSCI World Index (C$)	10.11%	14.38%	9.22%	12.57%

Inception date: March 2009

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