

APRIL 30, 2012

General Markets Overview

The major equity indices closed out April of 2012 slightly down, as the stream of generally good but not great economic data continued and Europe took another step toward easing sovereign-debt concerns. An improving labor market again took center stage, as February's nonfarm payrolls surprised to the upside and January's robust gains were revised up further, lifting the average monthly gains for the past six months to their highest in almost six years. Weekly jobless claims also remained on a downward slope, while the jobless rate held at a three-year low of 8.3%. Rekindled speculation that the Federal Reserve may be considering a third round of quantitative easing also contributed to the market advance.

Other economic indicators were so-so, slightly positive in some cases (leading indicators, housing permits, February retail sales, ISM services), and slightly disappointing in others (new and existing home sales, Conference Board consumer confidence, ISM manufacturing). But the underlying data was indicative of an economy on a modest growth path.

Outside the U.S., the economic picture remained murky. Despite rebounding stock prices across most of the euro-zone, the region's economy continued to signal a low probability of a strong rebound in the global economy. European Purchasing Managers Index data remained weak throughout the first quarter of 2012, indicating that the region was still in the midst of a "mild recession," and that the outlook remained lukewarm for the euro-zone's core members, Germany and France. Across the channel, the UK fared a little better with manufacturing growing at its fastest pace since the second quarter of 2011, driven by an improvement in new orders.

U.S. stocks have clearly entered some kind of holding pattern, lacking the conviction to either dive or soar convincingly. The Dow Jones Industrial Average, still the most closely watched index among the broad investing population, has tacked back and forth around the 13,000 level since early March. In our commentary we examine exactly what stocks have been responsible for the 800 point move in the Dow since the beginning of the year. You might think that the performance is widely spread throughout the 30 names, as 23 of them are up on the year. However, the price weighting of the Dow means that only 5 names are responsible for most of that move. They are IBM (147 points), American Express (114 points), Home Depot (79 points), JP Morgan (74 points) and Dupont (54 points). Worth noting: the top performing stock in the Dow for the year-to-date, Bank of America. (+43%)

Several Asian indices posted strong returns in the first quarter of 2012, with Japan, India and Taiwan leading the pack (returning 19.2%, 12.6% and 12.2%, respectively). Strong performance in these markets was driven by a slightly improved economic outlook and additional central bank easing throughout the region.

In Latin America, Brazil's Bovespa Index posted a 13.7% return for the first quarter of 2012, amidst record low unemployment, robust consumption recovery, and central bank language that confirmed a continued posture of easing. Meanwhile, manufacturing seemed to continue its lackluster pace of recovery, with initial data suggesting that manufacturing confidence was only beginning to bottom out.

Across the spectrum of global economies, the threat of spiking oil and gasoline prices presented a challenging outlook throughout the first quarter of 2012. With \$4.00 per gallon gasoline prices looming, a sustainable consumer-led global recovery was far from certain. Nevertheless, at least in the U.S., consumer sentiment had not yet reflected significant concerns over the recent spike in energy prices.

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Environment

U.S. stocks generated stronger gains and had less volatility in the month of April as signs of continued economic recovery supported investor appetite for higher-risk, higher-growth assets. If we take a view on 2012 YTD, non-U.S. developed market equities posted their best first-quarter performance in over a decade but were outpaced by emerging markets. Emerging Europe performed the best as a second long-term refinancing operation by the European Central Bank helped to reduce funding costs and lower yields. Within the Macquarie Global Infrastructure 100 Index, emerging markets performed best, while North America and Japan were the biggest laggards.

Portfolio Highlights

Industrial and business services stocks were among the portfolio's strongest absolute performers, and stock selection helped returns relative to the Macquarie benchmark. Our reduced exposure to water utilities detracted modestly from performance versus the index. Our emphasis on emerging markets exposure boosted returns amid improved risk appetite. In Europe, most integrated utilities are facing a combination of slowing demand and low carbon prices. In this environment, we are focusing on French water and waste companies in light of their recent underperformance and high sensitivity to economic growth momentum. We continue to favor emerging markets in Asia and Latin America but may moderate our position as the recent rally plays out.

Outlook

The global economic recovery should continue, but our optimism is tempered by the ongoing debt challenges in Europe, slower growth in China, and heightened geopolitical tensions in the oil-rich Middle East. In the U.S., gas infrastructure continues to grow with the exception of product pipelines, storage, and some mature exploration and production assets. Further improvements in Europe depend on increased traffic and company-specific restructuring cases. Corporate balance sheets and profits appear solid overall, and moderate economic growth and inventory restocking should support global trade volumes. In light of the ongoing economic headwinds, we are carefully monitoring the pace and durability of the global recovery.

Thank you for your continued support

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