Canso Corporate Value Bond

Canso Investment Counsel Ltd.

In spite of natural disasters, revolutions, and ongoing fiscal problems in the U.S., equity markets recognized that a global economic recovery was underway in the first quarter of 2011. Stocks moved higher but bonds struggled with the idea that "normalization" of monetary policy and higher interest rates were at hand. The bond market decided to "get ahead" of the central banks and bond yields moved higher. The coupon on bonds was not enough to offset their price decline from higher yields. For investors used to their bonds only rising in value, this was something of an epiphany.

The DEX Universe Index saw a return of -0.3% for the quarter with the DEX Government Index down 0.5%. Corporate bonds, with their shorter term and higher yield, turned in a positive 0.3%. Financial bonds outperformed the index and higher quality A and above rated corporate bonds outperformed BBB rated issues over the recent quarter.

For the 12 month period, the Corporate Index return of 5.4% was 0.3% ahead of the Universe Index. Both municipal and provincial bonds, with their longer duration, benefited over the 12 month period from the long bond rally in the middle of 2010 and outperformed both the Universe and Corporate indices. A and BBB rated corporate bonds also outperformed and returned 6.1% and 6.0% respectively for the year.

The four portfolios returned between 1.8% and 1.9% for the quarter which was 1.5% to 1.6% ahead of the benchmark DEX Corporate Index. The Maple bond positions rallied in the period and in particular the Royal Bank of Scotland holdings and Commerzbank. Additionally, spreads on Manulife narrowed in the period. The portfolios returned 9.2% to 10.1% for the full one year period which was also well ahead of the benchmark return of 5.4%. Value added for the 3 year period is between 5.3% and 6.6%. The duration of the portfolios range from 4.7 to 5.8, and the yield to maturity on the four portfolios is between 5.6 and 5.8. This is well above the benchmark YTM of 3.9. The weight in BB & lower rated issues is in the 27.3% to 30.5% range. Except for the Balanced Growth portfolio, where the weight remained unchanged, the portfolio weights increased slightly with the purchases of Ford Credit Canada, Viterra and Royal Bank of Scotland. The portfolios continue to have significant weights in A and higher rated bonds, approaching 50% of the portfolios, as we are finding excellent value in out of favour higher quality issues, particularly Maple issues.

The corporate bond market continues to be very attractive and as a result we are fully invested in corporate bond issues. As outlined above, we are finding great value in Maple bond issues and as a result the weight in Foreign issues increased across all four portfolios during the quarter.

Mawer Canadian Large Cap Stocks

Jim Hall, CFA

There's an old saying in the investment business that markets climb a wall of worry. That adage was certainly on display in the first quarter. Not only were there lingering concerns about inflation in emerging markets and a sub par recovery in the developed world, but also the market had to face revolutions in several oil-producing states as well as an earthquake, tsunami and nuclear crisis in Japan. Nevertheless, stock markets handily surmounted these worries, posting some of the strongest first quarter gains in over a decade, including a 5.6% gain for Canada's S&P/TSX Composite Index.

Against this backdrop the Canadian Equity Fund outperformed the TSX Composite by 3.3%, enjoying a net return of 8.9%. Asset allocation had a positive impact this quarter, adding 300 basis points (bps) to relative return. Our underweight in Materials and overweight in Health Care added 160 bps and 123 bps respectively while our overweight in Energy detracted 21 bps. Security selection had a positive impact this quarter, adding 79 bps to relative return. The majority of this was in Energy and Information Technology which saw positive contributions of 72 bps and 67 bps respectively, led by Cenovus Energy (up 15.7%), Imperial Oil (up 22.4%) and Constellation Software (up 33.9%). On the downside we were hurt by SNC-Lavalin (down 7.2%) and Brookfield Asset Management (down 4.7%). The remaining relative return difference was due to residual factors such as fees, cash holdings and the timing of trades during the quarter.

During the quarter we initiated a position in Metro Inc, Canada's third largest grocer. It is a well managed company with a track record of prudently allocating capital and creating wealth for shareholders. It also provides us with a partial hedge against inflation since rising food prices could benefit the company. We also initiated a position in Peyto Exploration, a natural gas focused company with a strong track record of profitable growth in Western Canada and a history of generating above average returns on capital. On the other side, we eliminated the remainder of our PetroBakken position, a holding that we inherited as a result of the takeover of Tristar in 2009, as we were discouraged by its high production decline rates and an inability to profitably offset these declines.

Going forward, we remain upbeat about economic growth and stock market returns going forward even though we recognize that, as usual, there are lots of risks to this forecast. Within Canada, we expect the heavyweight Energy and Materials sectors to cool off over the next 12 months, particularly as central banks raise interest rates and tensions in North Africa and the Middle East recede. Offsetting this, we expect continued strength in the Financials sector as both banks and insurance companies should benefit from gradually rising interest rates, improvements to credit quality and rising equity markets. We think some manufacturers will be hurt by the strong Canadian dollar but companies with domestic exposure, such as telecoms, railroads, grocers and distributors should be somewhat insulated. Overall, the large cap Canadian equity market should provide reasonably attractive returns over the next 12 months, although we are not expecting a continuation of this quarter's exceptionally strong gains.

Mawer Canadian Small Cap Stocks

Martin Ferguson, CFA

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The small cap segment of the Canadian equity market powered through several negative developments around the world to record a healthy gain in the first quarter of 2011. Small caps were relatively undeterred by a natural disaster and a potential nuclear disaster in Japan, political upheavals and a civil war in North Africa, renewed sovereign debt concerns in Europe, tightening moves by China, and a significant rise in the price of oil. Small caps, as measured by the BMO Small Cap Index (BMO SCI), climbed 3.7%, marking the eighth quarterly advance in the last nine quarters and pacing this index to a 152% rise since the end of 2008.

The New Canada Fund was up 8.9% in the quarter, with the Fund's overweight position in the two best performing sectors, Financials and Energy, contributing positively to its outperformance. The Fund was also helped on a relative basis by a reprieve in the Materials sector's leadership. The Materials sector was the most significant contributor to the performance of the BMO SCI in 2009 and 2010 but was one of the three market sectors that declined this quarter. More importantly, the Fund's companies achieved some well-deserved recognition as investors showed a willingness to focus on higher quality companies and on companies outside of the Materials sector. With this shift in focus, the Fund added value via security selection within many of the market sectors. Notable performers included GasFrac Energy Services Inc. and ProspEx Resources Ltd. in the Energy sector and Constellation Software Inc. in the Information Technology sector.

We were quite active in the first quarter, adding four companies to the portfolio and eliminating three. Two of the companies that were eliminated were due to takeovers. Parkbridge Lifestyle Communities Inc. and Realex Properties Corp., both real estate companies, accepted takeover offers. The other company removed from the portfolio was Mullen Group Limited, a diversified oilfield and transportation services company, which had moved up to a valuation level that we no longer found attractive. Conversely, we added two technology companies to the portfolio: Zarlink Semiconductor Incorporated, a designer and manufacturer of mixed-signal semiconductor chips used in the communications and medical products industries, and MKS Inc., a leading provider of application lifecycle management software. We also added Centric Health Corporation, a diversified health care services provider with a management team from a large, successful South African health care services firm. Finally, we participated in a private placement for Element Financial Corporation, an equipment financing company managed by former members of Newcourt Credit Group. We ended the quarter with 59 companies in the portfolio.

Bissett REITs

Leslie Lundquist, CFA, Senior Vice President

FRANKLIN TEMPLETON INVESTMENTS

After a modest decline in the fourth quarter of 2010, the Canadian REIT market resumed its upward trajectory, with a return of 14.6% in the first quarter of 2011. This performance handily beat the S&P/TSX Composite TRI return of 5.6%. Higher REIT prices were the result of observed lower cap rates in the property acquisition markets, themselves reflecting continued low borrowing rates and a generally favourable rental outlook.

Although we were pleased with the absolute return generated by the ATB Compass REIT portfolios, the portfolios did lag the benchmark this quarter, offsetting the positive relative return from the prior quarter. All portfolio investments generated a positive return, but our holding in Allied Properties underperformed the group. We were also underweight strongly performing Boardwalk and RioCan and did not own Extendicare; the latter experienced a strong quarterly return following a prolonged period of poor performance.

No Changes were made to the portfolio model in the first quarter. Trading activity in the portfolio reflected normal portfolio rebalancing given divergent price performance among the investments and also to reflect changing portfolio cash flows. Last quarter, we established a position in Allied Properties REIT, and we believe that it should perform well in coming quarters, as management successfully re-leases space at its Cité Multimedia property and realizes value from recent acquisition and re-development initiatives.

No REITs owned in the portfolio raised their distribution levels in the first quarter. However, we believe that at least two have significant financial flexibility to do so (Canadian REIT, Northern Property REIT). We continue to observe a greater level of prudence among executives at many REITs, as the memories of the difficult credit environment remain. Continuing low long-term rates are enabling REITs to extend their debt maturity profiles at relatively low cost.

As we noted last quarter, a number of Canadian REITs have surpassed their previous highs of early 2007. Even taking into account expectations that interest rates stay reasonably low for an extended period, most REITs look fully valued. We remain focused on identifying opportunities to add value via stock selection and by rebalancing the portfolio on a regular basis as valuations and cash levels dictate. We are committed to managing the portfolios with a conservative, income-oriented approach to real estate investing.

Lincluden US Equity

Lincluden

With tensions progressing in the Middle East, oil prices marched higher despite assurances from Saudi Arabia it could fill any supply shortfalls. The heavily weighted Energy sector contributed close to 50% of the S&P 500 market return. Thereafter, only the Industrial sector exceeded the total market return. All sectors offered positive results.

The portfolio's outperformance was positively affected by its strategies in Energy, with each of the three investments offering solid results. We reduced exposure to Exxon Mobil, with the stock price up 50% from last summer's lows. More significant though in terms of positive attribution were the Health Care sector investments, with both Zimmer Holdings, which we'd added to in the fourth quarter, and Pfizer posting healthy rebounds in the quarter. Johnson & Johnson did not keep pace. We added to the exposure identifying the company as one of our highest return to target holdings.

In Industrials, Honeywell was again a top five contributor, with strong performance also recorded by Brink's Co. Brink's was the top performer in the portfolio, with the stock price responding to the release of better than expected earnings following several quarters of disappointing results. Up 16% year to date, we eliminated the holding.

Comcast Corp. was again this quarter a solid positive contributor to results. We eliminated the position with the return to target not sufficient to compensate for the downside risk.

Funds from the eliminated positions found their way to J.P. Morgan, a new addition 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.

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 heavily weighted information technology sector lagged during the quarter, following a very strong fourth quarter contribution, with our investments in Cisco Systems and Microsoft posting negative results. A lackluster 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.

Mawer International Stocks

David Ragan, CFA

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This quarter was dominated by three particular events: European sovereign debt problems continued, countries in the Middle East and North Africa erupted into varying levels of civil disobedience to outright civil war, and tragedy struck Japan in the form of the largest recorded earthquake to hit the country. Japan's earthquake, measuring 8.9 on the Richter scale, was followed by a tsunami that caused a nuclear crisis that continues as of this writing.

The Fund showed resilience during this turmoil, ending the quarter up 2.00% (net) versus the MSCI EAFE index's 1.08% return. The bulk of this outperformance came from our significant underweight of Japanese equities. We initiated positions in four new companies, sold two existing holdings (Dairy Crest Group and RWE AG) and materially reduced our position in ANZ Bank during the quarter. The new companies are headquartered in developed markets, with one exception. In the first time since 2005, we added a new name directly based in an emerging market – we are finally finding attractive valuations in more emerging market equities.

As is often the case with our bottom up process, the incremental movements in the portfolio rarely have a theme, aside from improving the overall quality of businesses in the portfolio or increasing its margin of safety. However, we did generally seek to increase our oil and gas holdings this quarter. Attractive as they are on their own investment merit, these companies also have the potential to benefit from much higher commodity prices. If the situation in the Middle East worsens, or if there is structurally higher natural gas and LNG demand because of the nuclear crisis, we would expect the shares of these companies to surprise on the upside.

The strong Canadian Dollar makes international investments, already reasonably valued, more attractive. Volatile investor psychology continues to create opportunities to buy good companies at decent prices. While valuations are not overly cheap, they are generally reasonable, and in an environment where the global economy continues to recover and improve.

Lincluden International Equities

Lincluden

Financial markets withstood an array of negative global events during the first quarter. Surprisingly, in the face of political turmoil in the Middle East and the devastating earthquake and tsunami in Japan, global equity markets generally offered a third quarter in a row of solid returns. Only Japan and Latin American and Emerging Markets - both areas previous global market leaders - lost value.

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 heavily weighted Energy sector contributed more than 50% of the MSCI-EAFE return.

The portfolio's performance was positively affected by an overweight to Energy along with a solid contribution from security selection; led by BG Group and Total S.A.. Security selection decisions within Financials were the most significant positive contributor to results relative to the benchmark. ING Group and AXA S.A. the top 2 performers in the portfolio, recorded return of over 20%. An overweight to Industrials combined with a positive contribution from security selection further enhanced results. Alstom S.A. led that sector.

Mothercare plc, a specialist U.K. headquartered retailer of products for mothers-to-be, babies and young children, was added 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 represent one quarter of sales and are 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.

The Information Technology sector lagged during the quarter, following a very strong fourth quarter contribution, with Keyence Corp. posting a negative result. A lackluster 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.

Templeton Global Small Cap

Bradley Radin, Portfolio Manager

FRANKLIN TEMPLETON INVESTMENTS

On a sector basis, negative selection effect in Industrials was a notable performance detractor, as was underweighted exposure to Energy and overweighted exposure to Consumer Discretionary stocks. However, the Fund benefited from positive security selection in Information Technology and underweighted exposure to the Consumer Staples sector.

On a regional basis, underweighted exposure to the United States and Canada had a negative impact on relative value. In addition, exposure to the emerging markets of Taiwan, Thailand, China and Hong Kong detracted from performance. However, the Fund benefited from exposure to South Korea, while an underweighted position and security selection effect in Japan had a positive impact on performance.

In Europe, overall Fund performance benefited from positive selection effect, particularly in Spain and the Netherlands. However, the Fund's zero exposure to France was a detractor.

At the beginning of 2011, we witnessed a resurgence of interest in value-based stocks. This was somewhat in contrast to the more momentum-driven bull market of 2009–10, which disproportionately benefited small cap holdings. It is premature to declare if fundamental-centred investing will continue to be in favour in the immediate future. However, as the Fund is built on a value-driven mandate, we expect the portfolio to be well positioned in such a market environment.

Sophisticated Portfolio Design
Portfolio design from a comprehensive inventory of investment ingredients.

Professional Management
Management expertise with access to the latest market information and research.

Premium Quality
Best in class investments objectively selected with proven records of value-added performance.

Exceptional Value
High quality investment portfolios at low cost equals exceptional value.

Simple to Maintain
Automatic re-balancing and consolidated reporting of a well-diversified portfolio.

Questions?
Talk to an ATB Investor Services professional at any ATB Financial branch or call 1-888-ATB-7121.