COVENANT
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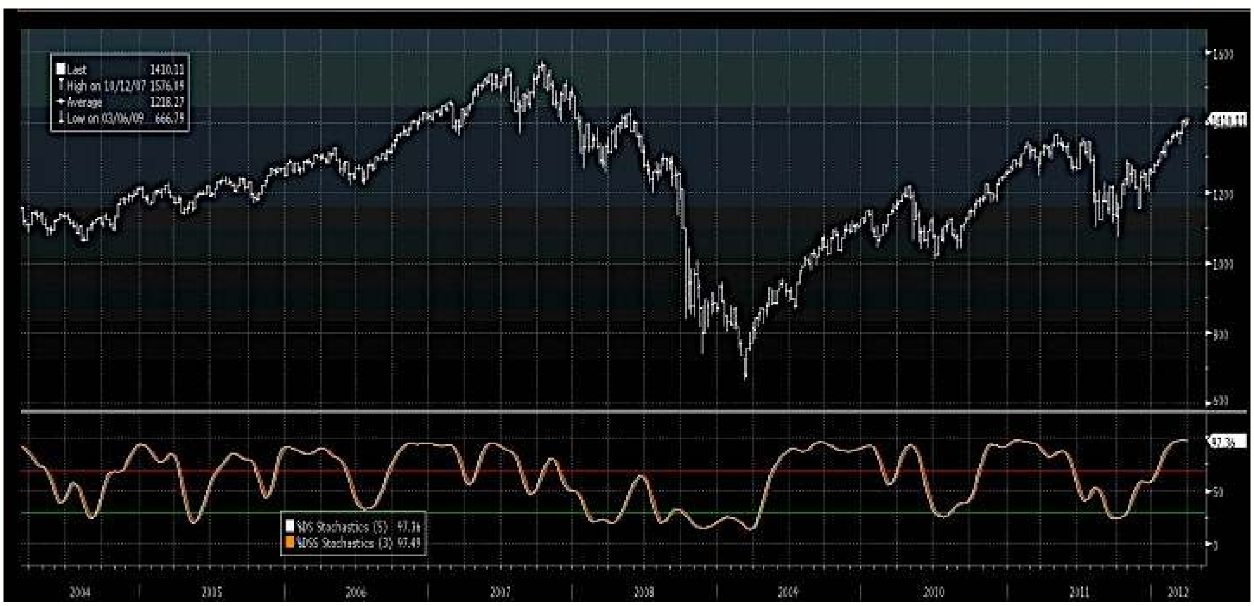
It's Spring!

Some of us here on the West Coast were beginning to wonder if winter would ever end. Those with a keen interest in such matters could probably help us understand why global 'warming' results in cool, dull, wet, dreary days, that persisted for longer than usual. Or so it seemed; waiting for Spring can be downright depressing! Perhaps this reveals a little of how sensitive we can be to our present circumstances. In Song of Solomon 2:11-13 we read "*for behold, the winter is past; the rain is over and gone. The flowers appear on the earth, the time of singing has come, and the voice of the turtledove is heard in our land. The fig tree ripens its figs, and the vines are in blossom; they give forth fragrance.*" Clearly, winter is part of God's plan for us, even though in that season, it may be tempting to believe that His care for us is somehow less than in the warm Spring that follows……

Market Overview

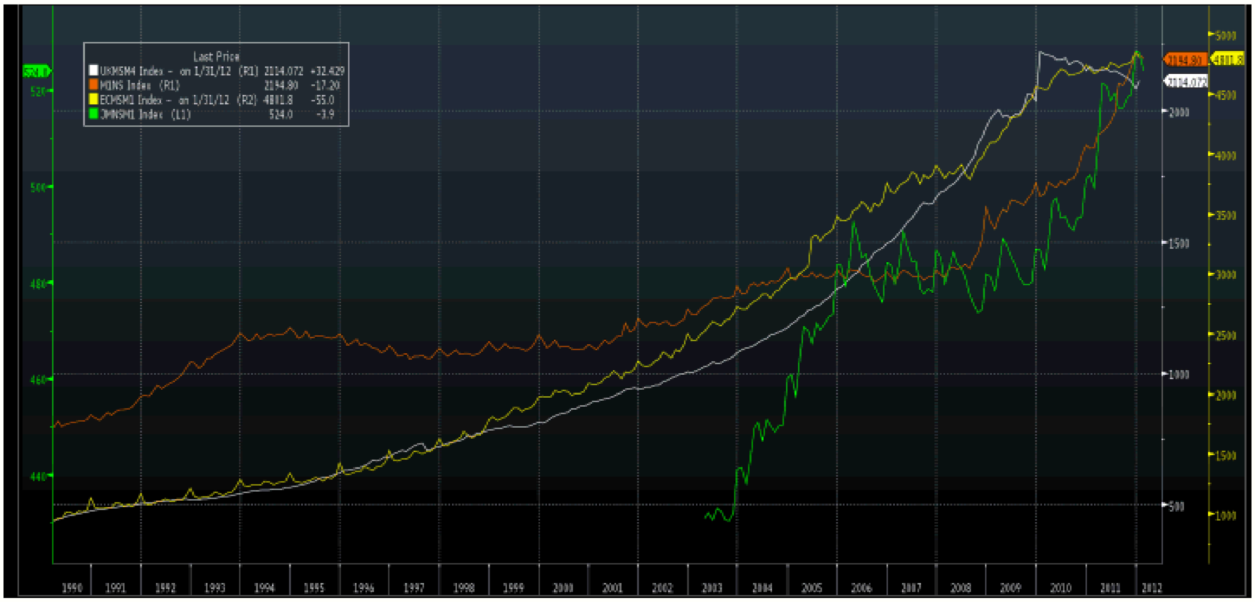
Global equity markets have been recovering strongly since the lows of September, 2011. In the U.S., the S&P 500 rallied close to the 4 year high, while Europe's very concerning problem of Greece's ability to finance their debt has been negotiated (at least for now) and is on the back burner, along with most of the resultant negative press comment. Much of the world's attention is directed now toward the U.S. economy and the hope that a legitimate recovery may be in play. While some recent indicators show optimism, continuing high unemployment and a persistently weak housing market are inconsistent with the significant recovery of the U.S. stock market since 2008 (as seen in the S&P500 weekly chart below, from March 2004 to present *Courtesy: Bloomberg*).



Government intervention has been a significant factor in the disconnect between the financial and real markets. The U.S. Federal Reserve has addressed the stresses on the financial system by increasing the supply of money (or printing money, which is called quantitative easing, or QE), and while this risks inflation in future years, investors find comfort in their belief that the Fed will come to their rescue if anything goes too far off track. It is this confident sentiment that has driven the U.S. stock market recovery in spite of the fact that its representative economy is still struggling.

Loose fiscal policy is not unique to the U.S. Governments around the world are able and, it seems, willing to print or create more money.

All across Europe and Asia, we have seen some form of the money creation process, as evidenced from the money supply figures from the major countries illustrated in the chart below (green-Japan, yellow-ECB, orange-U.S., white-UK). For now, the equity markets may remain firm only for as long as the printing of money lasts. (Courtesy: Bloomberg)



Another factor currently affecting all markets is the continuing development of Chinese economic policy. Previous economic growth of 9-10% (as measured in GDP) is now considered unsustainable, and signs suggest the possible emergence of a property bubble similar to the U.S. China is hoping to engineer a "soft landing" for its property sector and to achieve a more sustainable long-term growth rate of 7.5%. But how does this affect us in Canada? China is one of the biggest consumers of raw materials. A slower growth rate would likely weaken the commodity sector in the short term, without impeding growth potential in the long term. This presents us with a buying opportunity in the commodity sector. We are always looking for long term growth potential in assets that are trading at discounts today, and are encouraged by the economic pickup in several developing markets, including large countries such as Indonesia and Korea, who are continuing to become more significant to global GDP growth.

Our Portfolios

We will continue to closely watch leading economic indicators while filling our core equity positions with companies with strong balance sheets trading close to their intrinsic value. We are actively buying in sectors experiencing cyclical, short term pullbacks with long term growth potential, and we are always looking for real value and real returns. In the preferred share arena we are still able to fill some positions with attractive, reliable dividend yields.

The chart illustrates the returns from 3 of our core portfolio models as of February 29, 2012 compared to several leading indices.

	YTD	1 Year	2 Year	3 Year
Core 40 Model	2.0%	5.4%	6.7%	11.6%
Core 50 Model	2.4%	5.1%	7.6%	12.6%
Core 60 Model	2.6%	5.2%	8.0%	NA
TSX	5.76%	-10.56%	4.36%	18.55%
S&P 500	5.26%	4.84%	8.19%	14.70%
MSCI	7.31%	-9.00%	-0.95%	7.37%

Our balanced approach and commitment to preserving capital continue to produce solid, positive returns without the dramatic, sentiment-driven volatility of the broad equity markets.

We're not at all embarrassed by our returns. In fact, we think they are rather good. But we are keenly aware that losing our humility in the face of global investment markets would be catastrophic. Only God knows with certainty what is going to happen next. The best that we can do is apply the knowledge and experience He has allowed us as we support you in wisely stewarding the assets He has entrusted to you, preserving their value and growing them for His future purposes.

Notes:

1. *The number represented by the "Core" model denotes that model's maximum exposure to equities (e.g. Core 40 Model has up to 40% equity exposure).*
2. *Returns for the Core50/60 Models are composites of actual client portfolios. The Core 40 is based on one client portfolio that has had no cashflows in or out of the portfolio during the specified periods. Returns for individual portfolios will have some variance from the composites due to the timing of cash flows and different acquisition dates of component securities.*
3. *Returns for the Core Models are after all management fees and transaction costs.*
4. *Returns for the stock indices assume no transaction or management costs; in practice, accessing these markets would incur costs of some type.*
5. *Our standard management fee is 1% per year, with discounts applied to portfolios over $3 million. Covenant's fees may be tax deductible, further enhancing effective returns.*

A Giant Leap…

We can finally announce that our first 'home grown' investment, the Covenant Mortgage Pool is up and running! With no real indication of increases in interest rates, we were keen to provide a component to our fixed income holdings that would make a real contribution to overall portfolio returns. With a target rate of return of 8%, we believe the Covenant Mortgage Pool is a strong addition to our clients' portfolios. We are already being approached by other advisory firms looking to have their clients participate; this is a significant benefit to Covenant clients by diluting expenses, broadening the capital base, and allowing us to participate in a wider range of mortgage opportunities. This is a very exciting expansion in the development of our offering as we continue to pursue investment value, safety and solid returns for our clients.

New Statements

You'll notice that our statements for this quarter have a very different look and feel. With much input from our clients and a tremendous effort by some of our team members, the output from our new production system is a cleaner, crisper report that we hope you will find easier to read and understand. We fully expect to do some further fine tuning over the coming months, so please let us know if you have comments on the new format.

Team Update

We are very pleased to welcome Maria Dawes back from maternity leave. Maria will now be a much more visible member of the team, playing a more active role in meeting with clients to review their statements and ensuring we are up to date on life changes that may require adjustments in the management of their assets. She also rejoins the investment committee that continuously develops the composition of our portfolios.

Sincerely,

The Covenant Capital Management Team