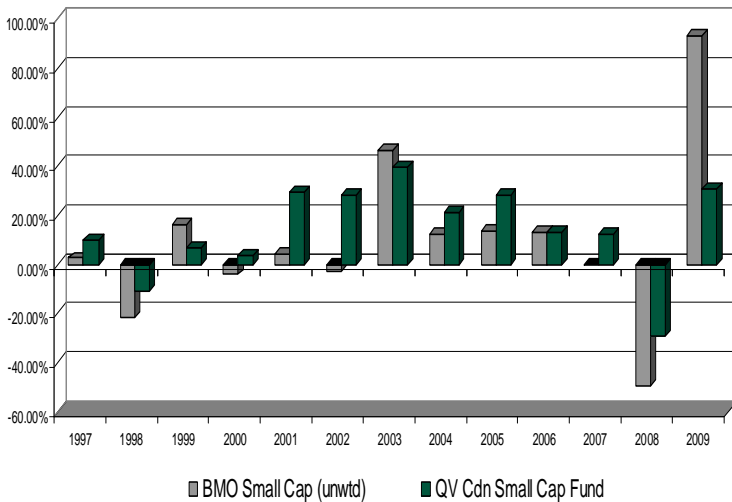


Year in Review

We are often asked by potential new clients what our performance looks like through a cycle? When does our style work best and when does it not? Well the good news is we seem to understand our process and how it responds to a given market/economic backdrop. The bad news is when we tell potential clients we generally preserve capital in tough markets and won't keep up with very strong ones, we aren't kidding. The chart below shows our annual returns going back to the late 1990's.



The Fund rose approximately 8% in the quarter compared to a gain of 14.07% for the benchmark BMO Small Cap Index (unweighted). For 2009 the Fund increased by roughly 30% versus 93.22% for the benchmark. We should note that among the many benchmarks which our clients use, the one we cite above was by far the biggest gainer and the index we use internally. The BMO Small Cap (weighted) was up 75% and the S&P/TSX Small-cap Index was up 62%. No matter which way you slice it we were way behind this year. In 2008 our performance relative to these benchmarks was way ahead.

While our quarterly and annual Fund returns are very respectable they are significantly below the benchmark index. Our lack of significant resource company exposure explains nearly 85% of the shortfall in our performance on the year. The Materials and Energy sectors make up nearly 50% of the benchmark and were up 162% and 86% respectively. The Fund maintained a weight of roughly 26% with gains of 33% and 15% respectively.

Our continued focus on more stable businesses rather than economically sensitive ones held us back from participating to the same extent as the market. In addition, many of the best performing companies were the smallest in size and lowest in quality.

Outlook & Inside the Fund

We cannot ignore the positive short term benefits from unprecedented fiscal and monetary stimulus set in motion in 2009. Governments around the world are running record deficits to help fund economic growth and encourage investment. This has been the driver for the recent surge in global stock markets. These measures are finite in nature and come with real costs. A solid platform for economic growth will only be achieved once balance sheets have been restored and governments move toward responsible long term regulation and policy. The transfer of economic growth from global government stimulus programs to the consumer and corporation will be a major economic hurdle as will the adjustment from artificially low interest rates.

At the end of 2008 the world found itself in a serious crisis unlike we have seen since the 1930's. In our report at that time we highlighted the following- "Multiples of earnings and book value have shrunk to depressed levels, investor fear is rampant, and many excellent businesses represent attractive long term value. Our cash levels are low in the Fund as we are seeing exceptional opportunities for reward over the next cycle." Our outlook for opportunity in the midst of the crisis seems like a good call but failed execution. We may not have maximized returns in the past twelve months by chasing lower quality higher risk businesses, but we are confident the money we put to use will reward us handsomely over the next few years. The types of businesses we favoured were laggards for the past twelve months. We are certainly in interesting times when 30% returns are considered laggards! Our portfolio is highly diversified given the opportunities we see across many sectors and our strategy of remaining exposed to more stable industries. Going forward we continue to believe they represent good value as many of them remain relatively out of favour.

Our strategy will be to continue to focus on strong franchises which are not dependant on the resurgence in global economic growth to prosper. That means we are not materially increasing our weighting to the areas of the market which are performing the best-cyclicals and resources. We continue to try to manage the upside return with the risk that the current economic rebound is not as sustainable as the market suggests. Operationally the significant majority of the businesses in the Fund are performing well and have the ability to generate sustainable gains for shareholders.