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SHORT DURATION
FLOW-THROUGH

INVESTOR UPDATE.

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Dear Investors:

RE: WINTER 2012 UPDATE ON RESOURCE MARKETS

As social animals, we humans are subject to the vagaries of our environment. Sunny blue sky makes us high, while chilling cold wind gets us down. Well, it's been all sunny blue sky lately in the stock market. From the depth of despair last October when I wrote the last update, the S&P 500 has climbed 26%, entering what is commonly referred to as the "bull market" territory. The TSX rose 15%, with miners (+56%) and energy stocks (+27%) leading the way. Even in the basket case that is known as the European Union, stocks surged 30% in the last 4 months. Fears of a renewed global crisis are fading fast. Economic statistics in the US show a slow but steady recovery, and even the stubbornly high unemployment rate is starting to come down. China continues to slow down, but thus far the level of industrial activity remains brisk, and signs of policy easing are emerging as inflation rates fell. Europe is still struggling but the aggressive actions by the European Central Bank have drastically eased the risk of financial contagion. All is well, it seems.

But there are some that do not yet believe. One of the more important groups here are the holders of high quality government treasury bonds (is this an oxymoron?). Even though interest rates have risen somewhat, global yields continue to hover near multi-decade lows. Surely some of this is the result of intervention by central banks to artificially keep interest rates low, but fundamentally long term issues remain. Governments and consumers in the developed world are still up to their necks in debt. Unsustainable spending and social promises still go on. Ultra low interest rates are robbing savers and pension funds, creating bigger problems down the road. Meanwhile, inflation remains high in many developing countries, limiting policy alternatives that can stimulate the economy. The possibility of political stalemate exists as elections are held in many leading economies this year.

So what does a resource investor do? Although it is unlikely that the road ahead is all clear, the global economy has passed its lowest point. Slow and steady has its own rewards. Demand for commodities continues to be sustained at healthy levels; commodity prices for the most part remain well above long term breakeven (with the exception of natural gas); stocks have started to recover but are still not discounting the current commodity prices. Gold stocks, for example, have noticeable lagged the rest of the resource space and well behind the movement of gold bullion, creating a disconnect that will need to be fixed by either the market or through mergers and acquisitions. The uncertainty in the Middle East also continues to support oil prices and making oil companies good value. No doubt there will be back-and-forth ahead, but those investors who can confront their fear and take advantage of generous opportunities the market offers once in awhile will do very well. What is required is conviction about the future and patience of picking the right spots!

Thank you for your continuing support.

Sincerely Yours,

Jim Huang, Portfolio Manager
Maple Leaf Short Duration Flow-Through Investments