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SHORT DURATION
FLOW-THROUGH

INVESTOR UPDATE.

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PORTFOLIO MANAGER

Dear Investors:

RE: SPRING 2012 UPDATE ON RESOURCE MARKETS

Well, they say the only thing that is constant in the stock markets is change. Judging by the sharp sell-off from the end of February, all is not well again – or is it? The surging Spanish and Italian bonds yields brought back memories of the Greek financial crisis which was just "resolved" not that long ago. The Chinese growth continues to slow, renewing prospects of a hard landing though it is highly improbable. After a string of better than expected economic reports, the latest US labor market report disappointed some investors who just turned bullish though retail sales are still strong. Longer term issues do 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. The possibility of political stalemate exists as elections are held in many leading economies this year.

To put things in perspective, with the significant advances in certain major indices over the last few months, a pullback was almost inevitable, especially in the US market. The key question is the extent and duration of this pullback. The warm winter effectively pulled forward some economic activities in the US, so the weak March hiring is probably just a payback of sorts – overall, the US is clearly on a slow and steady recovery path. China's economy has slowed 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. Even though interest rates have risen somewhat, global yields continue to hover near multi-decade lows. The backdrop for a new global recession simply is not present.

So what does a resource investor do in a yo-yo market like this? Despite the many challenges that remain, it is becoming increasingly clear that the global economy has passed its lowest point. Even the Europeans are now better prepared for a renewed sovereign debt crisis. With gradual recovery globally, 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); resource stocks have sold off significantly and are now below where they started 2012 and are not reflecting the current commodity prices. Gold stocks, for example, have noticeably lagged the rest of the resource space and are 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. Conviction and patience will eventually be rewarded.

Thank you for your continuing support.

Sincerely Yours,

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

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