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INVESTOR UPDATE.

August 2012

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PORTFOLIO MANAGER

Dear Investors:

RE: SUMMER 2012 UPDATE ON RESOURCE MARKETS

As it has been the case for the last while, the past few months witnessed some pretty wild swings in the stock markets, and other than in the U.S. it has mostly been a downhill slide. But stability seems to have return over the summer, with stocks and commodities generally enjoying a gradual recovery. Most of the credit should go to Mario Draghi, the president of the European Central Bank (ECB), who ignited a furious stock market by saying that ECB will do "whatever it takes" to stabilize the Euro and dispel any doubts about the survivability of the monetary union. "Believe me, it will be enough" are his exact words. Whatever your opinion, it's usually not wise to go against someone who has the power to print unlimited amounts of money. A week later, Mario revealed that the ECB did not yet have a firm plan in place. Markets initially sold off but then came back strongly – it looks like Super Mario has saved the day.

Behind all this farcical drama, something important seems to be emerging. That is: the unspoken truth has now been spoken. It has been no secret what it takes to resolve Europe's dilemma: tighter fiscal integration and structural reform in the long run, easier money and pro-growth policy in the short run (and a bigger influence by Germany in decision making in exchange for its wallet). But for reasons of ideology, national pride or simply the fear of facing reality, such thoughts are only whispered, never spoken. The ECB has been patiently waiting for the European politicians to do whatever it takes to save the union, political prices be damned. If they do that, then ECB will do its part by flooding the market with more easy money and beat back the speculators. Now that Mario Draghi has laid this out in plain sight, let's see if the likes of Merkel and Hollande can finally deliver.

The fact remains: the global economy is still growing, sluggishly but positively. Recent data has confirmed the spring slowdown in the US is likely over, and continued weakness in China will probably prompt further policy easing in the world's 2nd largest economy. Many hurdles remain, so there will likely be renewed volatility as market sentiment gyrates between despair and euphoria. Commodity prices for the most part remain well above long term breakeven (even the lowly natural gas has staged a good rally); resource stocks have sold off significantly 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.

Thank you for your continuing support.

Sincerely Yours,

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

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