JANUARY

NEWS & MARKETS

Fiscal Cliff Avoided: As most investors expected, the US Congress reached a deal to extend Bush-era tax rates permanently for most Americans, thereby avoiding the worst-case outcome of the so called fiscal cliff. However, uncertainty is likely to persist in the months ahead, given the need to avoid sequestration and increase the debt limit in late Q1. We expect a protracted political battle between the two parties in 2013, involving negotiations over entitlement reform and spending cuts, coupled with more revenue increases, as Congress finally puts in place a plan to stabilize the long-term US fiscal profile.

Japan's new PM Abe has strong convictions, incentives, and the ability to push true fiscal stimulus financed by massive Quantitative Easing. Expectations of Japanese reflation have driven down the yen 10% vs the dollar since mid November and pushed up the Nikkei 23%, three times the gain in the S&P500. For Japanese reflation to become a true game changer, though, the policy needs to be implemented and needs to produce results. There seems little doubt about implementation, with Abe co-opting the BoJ to raise its inflation target to 2%, and then replacing the top 3 people at the BoJ at the end of the quarter.

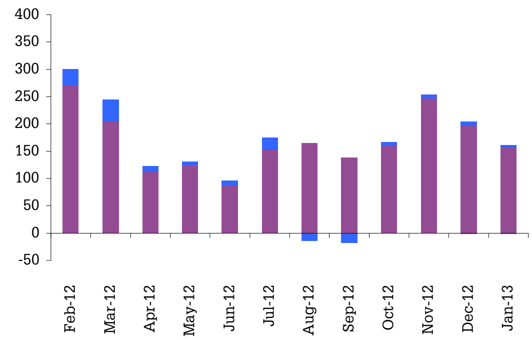
The January US employment report came in with a 157k increase in nonfarm payrolls, while private payrolls expanded by 166k and government payrolls fell by 9k. Within the goods sector, construction payrolls rose by 28k and the January employment report marks the fourth consecutive month of solid construction sector job gains, suggesting that the sustained recovery in the housing sector and the substantial rise in housing starts over the past year may finally be carrying over to employment gains. In addition, the December nonfarm payroll numbers were revised significantly upwards from 155k to 196k, while the private payrolls were also revised upwards from 168k to 202k, which the equity markets responded to favourably.

YORKVILLE STRATEGY PERFORMANCE AS AT JAN 31

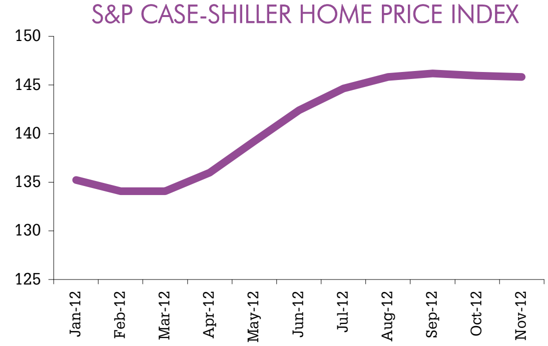
	1 Month	3 Months	1 Year	Inception
Enhanced Protection Class	3.91%	5.80%	9.50%	12.72%
Global Opportunities Class	2.66%	2.31%	5.43%	2.57%
Optimal Return Bond Class	-1.03%	-1.01%	0.97%	2.61%

*Series O performance based on beginning and ending NAVs

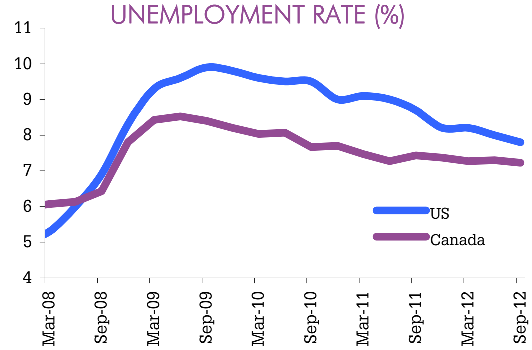
CHANGE IN US PAYROLLS



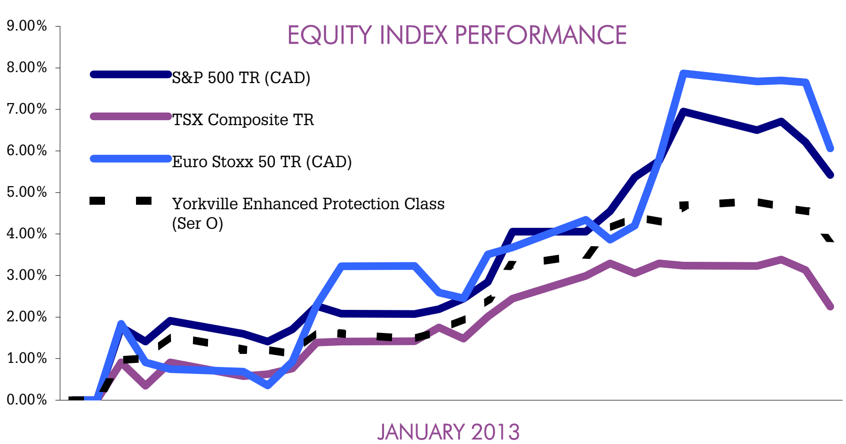
S&P CASE-SHILLER HOME PRICE INDEX



UNEMPLOYMENT RATE (%)



EQUITY INDEX PERFORMANCE



JANUARY RETURNS (CAD)

SECTORS	S&P 500	TSX
Consumer Discr.	5.94%	4.29%
Consumer Staples	6.09%	-0.91%
Energy	7.87%	2.53%
Financials	6.22%	3.29%
Healthcare	7.72%	10.85%
Industrials	5.89%	7.38%
Info Tech	1.59%	9.70%
Materials	4.11%	-3.51%
Telecom	3.46%	3.26%
Utilities	5.12%	4.18%

EQUITY STRATEGY AND UPDATE

As we progressed through January, economic data in the US continued to surprise positively and we even saw data coming out of Europe stabilize in some regions like Spain for example. This helped the S&P 500 achieve eight consecutive days of positive performance, a feat last seen in November of 2004. While positive economics certainly played a role in the performance, structurally we are seeing tremendous asset allocation shifts taking place which are impacting returns globally. In January, a record US$ 77.4 billion flowed into US-based equity funds (TrimTabs Investment Research). This easily surpassed the previous monthly record of US$ 54 billion set in Feb 2000. It is worth noting that the month following the previous record inflow, the S&P 500 rallied +9.78%, and while it is impossible to determine the ultimate impact of inflows on performance, the correlation should not ignored.

CONTRIBUTION

For the month of January, the top 3 contributors to performance inthe Yorkville Enhanced Protection Equity strategy, all operate in distinctly different industries:

Morgan Stanley was the top contributor to performance, adding approximately 62 bps to our overall return. The firm, which lagged its peers in 2012, reported Q4 `12 earnings of 45c per share compared to estimates of 27.3c per share, a 64.84% earnings surprise beat, helping the shares rally 19.88% for the month. They also announced meaningful restructuring plans to unlock shareholder value. 2/3 of their risk weighted assets remained tied to a struggling FICC (Fixed-Income, Commodity, Currency) business which they now intend to reduce, allowing them to reallocate capital to more productive business lines. This has already been done by many of its competitors and we believe their decision to undertake this move will serve as an upside catalyst in the name, which still trades at the largest discount to tangible book value in the industry.

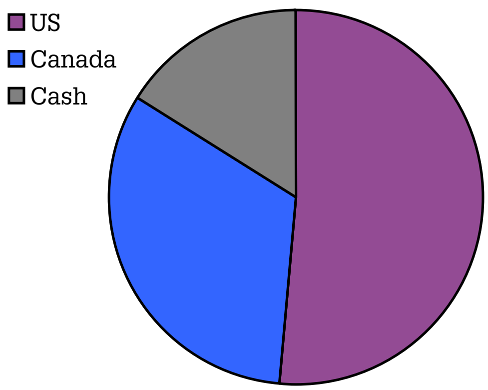
Community Health Systems was our 2nd largest positive contributor and a name which we have talked about before as a "shunned stock" investment. Our investment thesis continues to be proven right, adding 62 bps of returns to the strategy on a 25.08% return for the month. We made our initial investment in the 2nd half of 2011 after it traded at a significant discount to its peers on nearly all valuation metrics. This was a caused by a market overreaction to its failed acquisition attempt of Tenet Healthcare. As concerns surrounding the event were proven to be misplaced and the firm's fundamentals continued to improve, Community Health's discount to its peers has narrowed as the shares rallied. However, while we initially liked the name on a deep value call, we now like it as a key beneficiary of "Obamacare" as well. More American's insured means more customers for Community Health Systems, it's that simple.

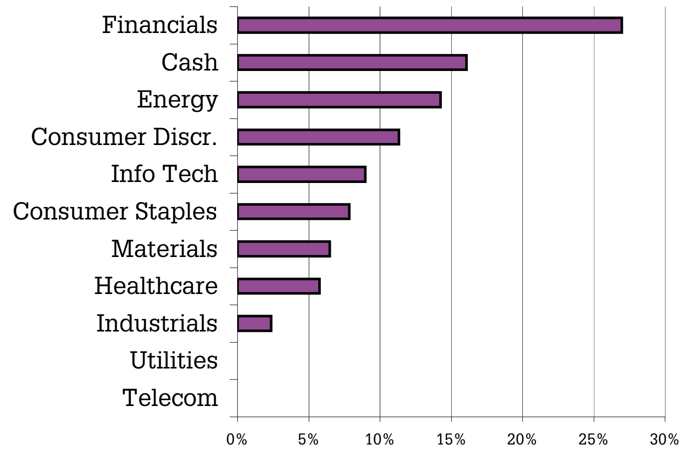
Our 3rd largest contributor to performance was **Tesoro**, a name we owned and profited from in the past, but re-entered as we believe following the announcement of a transformational acquisition of assets from BP, an improved pricing environment for the company, while trading at only 2.8x EV/EBITDA, there remains substantial unrealized value in the name. Sell-side analysts currently have price targets ranging from $30s -$80s, validating our belief that the investment thesis is widely misunderstood. We re-entered the position by writing January expiry put options at the 44 strike, generating 59c in premium (1.34% yield over strike), which we were inevitably assigned on. Since the assignment, Tesoro has rallied 14.59% contributing 38 bps to performance.

For the sake of balance, our worst contributor to performance was **Apple Computer**, detracting 76 bps from the strategy's returns. The company reported earnings which disappointed investors as increased competition, margin contraction, and a lack of foresight into future product upgrades all weighed on the name. Never-the-less after backing out Apple's enormous cash position on its balance sheet, it trades at merely 6x earnings, and at that valuation, we are simply not willing to sell the stock but admittedly remain cautions. In terms of upside catalysts, we are optimistic that Apple can turn its cash problem (although not a terrible problem to have), into a cash solution by returning it to shareholders in the form of dividends or stock buybacks. The problems facing Apple are well documented, and the ball is in management's court. Given that they have done little to-date and shareholder pressure is mounting, we feel an upside catalyst is in the cards in the near future

POSITIONING

We continue to favour US equities overall, ending the month with a 51.48% allocation, relative to 32.46% in Canadian Equities and 16.06% in Cash. From a sector perspective, our largest absolute allocation is to Financials at 26.97%, followed by Energy at 14.25% (the addition of Tesoro reduced the underweight, however we remain underweight the sector relative to our benchmark) and Consumer Discretionary at 14.25%. Our smallest sector weights are Telecom and Utilities at 0% and Industrials at 2.37% (CN Rail).





DISCLAIMER