MARCH 2013

NEWS & MARKETS

Managing risk, nurturing wealth.
YORKVILLE ASSET MANAGEMENT

Power of Politics: The month of February served as a sobering reminder that politics is still a primary driving force in the markets and the interplay between politics, fiscal and monetary policy, economic growth, and market returns is more apparent than ever. In Italy, a splintered outcome in their election brought the instability of the Euro region into the forefront, sending the S&P 500 down 1.83%. Adding to the market volatility was the decision (or lack thereof) to enact the initial $85 billion of "sequester" spending cuts in the US as well. Alternatively, the FOMC minutes and a subsequent Bernanke testimony ensured the markets that there will be no early exit to quantitative easing, stating that "benefits of asset purchases...are clear", alleviating fears introduced on January 3rd from the prior FOMC minutes.

Canada: On March 6th the BoC left the overnight target rate unchanged at 1% as expected, however their statement took on a more dovish tone stating that "the considerable monetary policy stimulus currently in place will likely remain appropriate for a period of time, after which some modest withdrawal will likely be required`` highlighting signgificant excess capacity in the economy and underpinning the view that rates will remain unchanged for the remainder of the year. This announcement is coming off disappointing Net Change in employment numbers of -21.9k (Feb 8th), MoM Manufacturing Sales of -3.1% *(Feb 15th), and MoM Retail Sales of -2.1% (Feb 22nd), all worse than expected. GDP numbers, although in-line with expectations, were tepid at best, as Q4 Annualized GDP came in at 0.6% while December GDO declined by -0.2%. This generally unimpressive data have caused the Canadian Dollar to depreciate by 3.528% from peak to trough in the month of February.

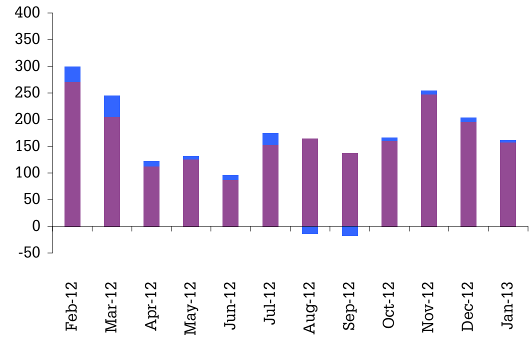
US: On Feb 26 we saw a number of positive indicators reported leading with the S&P/Case-Shiller Home Price Index rising 6.84% YoY, consumer confidence rising to 69.6 from 58.6 and New Home Sales increasing 45.6% MoM, all beating market expectations. Given these numbers, it should come as no surprise that on the same day Home Depot delivered an exceptional quarter beating estimates and raising guidance on the back of a strong housing market, sending the stock up over 6%.

YORKVILLE STRATEGY PERFORMANCE AS AT FEB 28 2013

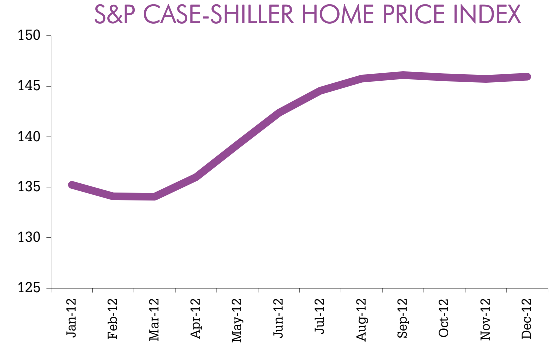
	1 Month	3 Months	1 Year
Yorkville Enhanced Protection Class	2.81%	8.91%	9.06%
Yorkville Global Opportunities Class	4.55%	7.91%	11.85%
Yorkville Optimal Return Bond Class	2.19%	0.79%	6.00%

*Series O performance based on beginning and ending NAVs

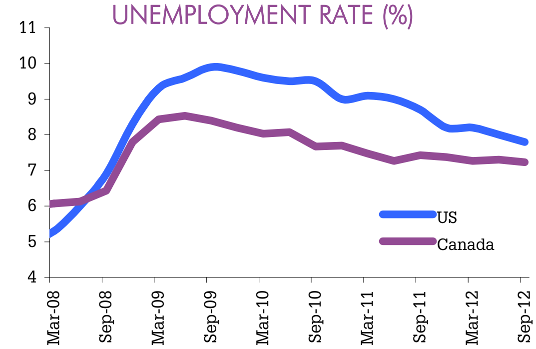
CHANGE IN US PAYROLLS



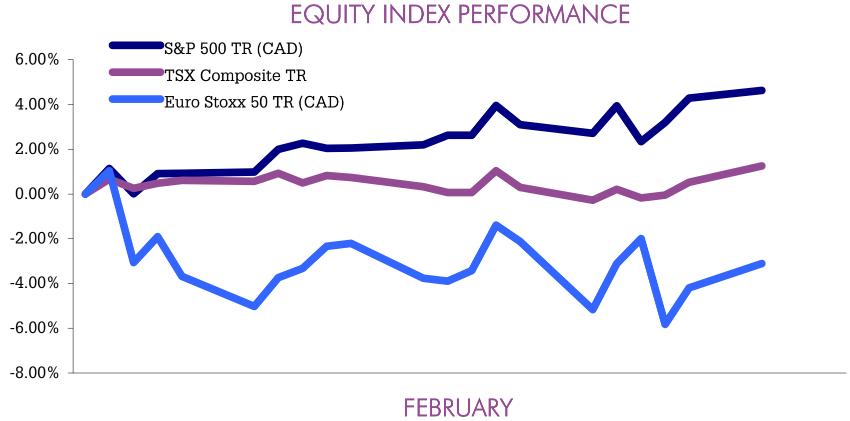
S&P CASE-SHILLER HOME PRICE INDEX



UNEMPLOYMENT RATE (%)



EQUITY INDEX PERFORMANCE



FEBRUARY RETURNS (CAD)

SECTORS	S&P 500	TSX
Consumer Discr.	4.41%	2.51%
Consumer Staples	6.53%	5.07%
Energy	3.68%	0.77%
Financials	4.52%	2.95%
Healthcare	4.55%	5.81%
Industrials	5.82%	6.38%
Info Tech	3.93%	3.76%
Materials	1.68%	-5.44%
Telecom	5.87%	4.84%
Utilities	5.53%	-1.53%

EQUITY STRATEGY AND UPDATE

The Yorkville family funds delivered positive returns across all 3 funds with the Yorkville Global Opportunities Class up +4.55%, the Yorkville Enhanced Protection Class up +2.81% and the Yorkville Optimal Return Bond Class up +2.19% for the month of February (Series O).

While there were no major strategic shifts in the 3 portfolios, we did tactically increase our USD weight in the equity portfolio ending the month with approximately 61% exposure to USD and 39% exposure to CAD. Not only has our overweight to US equities been the right call ignoring FX exposure, but the overweight to USD has also added to the absolute and relative returns of our funds with USDCAD. Bottoming on Feb 4th at 0.9950, USDCAD has rallied to a high of 1.0316 following the Bank of Canada's rate release confirming our view that the Canadian economy continues to face headwinds (Mar 6).

In addition to the currency shift, we also changed a few equity names in the funds, adding **Prestige Brands** to the Enhanced Protection Class while selling **Heinz** in both the Enhanced Protection Class and the Global Opportunities Class following the announcement by Berkshire Hathaway and 3G Partners to buy the company at a 20% premium to the market.

EVERYTHING TASTES BETTER WITH KETCHUP

We first purchased **Heinz** in November 2011 as a core equity holding. Although Heinz is arguably one of the world's most identifiable consumer brands globally, it was our proprietary QVR screening methodology which brought it to our Portfolio Managers' attention, as it scored exceptionally high relative to its peers in the Consumer Staples sector. For those unfamiliar to Yorkville's QVR methodology, we screen equities based on 3 fundamental and quantitative metrics, being Quality, Valuation, and Risk. Using these scores, we then rank the equities relative to their sector peers based on those 3 metrics. In terms of Quality, Heinz appeared as an industry leader in terms of Return on Equity, Profit Margin and Operating Margin, a testament to its overall brand strength and competitive pricing advantage. In terms of Valuation, Heinz scored exceptionally well on an Enterprise Value/EBITDA, Price to Free Cash Flow, and Dividend Yield basis while scoring relatively well on a P/E and PEG ratio basis. And in terms of Risk, (or lack thereof) Heinz was a clear winner as on almost all metrics, such as Implied Volatility, Realized Volatility, Max Drawdown, and Time Under Water to name a few, Heinz was top of its class. Taking into consideration Heinz's strong scores on all 3 metrics, (Quality, Valuation, and Risk) Heinz entered our equity portfolios as core holding. Not only did it's numbers tell a compelling story, but owning Heinz was consistent with our investment philosophy of owning world-class iconic brands, of which Heinz is no exception. Since initially purchased, Heinz delivered an approximate total return of 49% (CAD terms).

FAILED TAKEOVER OPPORTUNITIES

Prestige Brands may not be familiar with many, however we are confident you are familiar with its products. Essentially what Prestige Brands does is distributes OTC healthcare and household cleaning products within Canada, the US and abroad, inlcuding Clear Eyes Eye Drops , Comet Bleach, or Gaviscon to name a few. They have been successfully executing on their strategy of purchasing underinvested non-care brands and investing significant marketing dollars to drive sales and capture market share. In December 2011, Prestige Brands did just that, acquiring 17 of GlaxoSmythKline's non-core OTC brands at a very attractive price and developing them into market share-leading products. As the company certainly flies under the radar relative to its larger competitors like Johnson & Johnson or Proctor & Gamble, but Prestige Brands came to our attention as a result of research we conducted on an investment theme we are excited about in 2013, "failed takeovers".

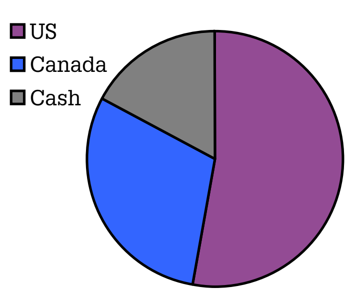
Simply put, we believe the presence of a take-over bid is an exceptionally strong indicator that a takeover target firm is undervalued, while the subsequent failure of the take-over, assuming it is not related to a deterioration in the business, provides investors with a tremendous investment opportunity as the market overreacts to the news. The numbers we found corroborate this thesis:

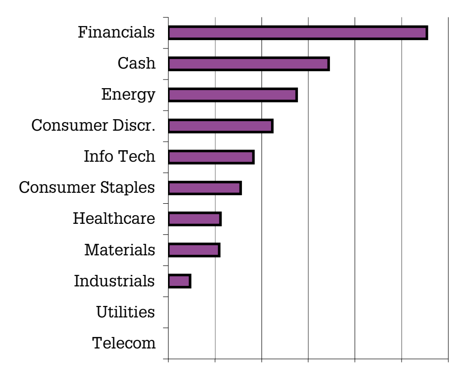
As a result of our research, we identified 15 failed public takeovers in Canada and the US in 2012. Of the 15 failed takeovers, 5 of the companies were subsequently taken over either by the same initial acquirer at a higher premium or by a competitor. The remaining 10 companies delivered market returns in 2012 exceeding 30% on average following the announcement of the termination of the deal.

Prestige Brands was one of those 10 companies identified, as Genomma Lab Internacional, a Mexican pharmaceutical firm attempted and failed to take over the company in February of 2012. We are excited about having Prestige Brands in our portfolio and will continue to look for opportunities to invest in failed take-over targets in the future as we believe that following the termination of the takeover, these stocks can become significantly undervalued.

POSITIONING

We continue to favour US equities overall, ending the month with a 52.89% allocation, relative to 29.94% in Canadian Equities and 117.17% in Cash. From a sector perspective, our largest absolute allocation is to Financials at 27.72%, followed by Energy at 13.75% and Consumer Discretionary at 11.14%. Our smallest sector weights are Telecom and Utilities at 0% and Industrials at 2.33% (CN Rail).





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