MAY 2013 — NEWS & MARKETS

Managing risk, nurturing wealth.
YORKVILLE ASSET MANAGEMENT

Sell in May and go away? The 3 previous May months (2012-2010) delivered US equity investors -6.3%, -1.4% and -8.2% returns respectively. This year, the S&P 500 has already appreciated 3.54% in May, and that is on the heals of a 12.74% return for the months preceding. Digging deeper into this month's rally, cyclical sectors which had previously trailed, emerged as the new market leaders with Energy, IT, and Financial sectors delivering median returns of 14.05%, 11.70% and 10.42% respectively.

On the other hand, the previously anointed defensive sectors trailed the market with median returns of 0.00% for Utilities, 1.24% for Telecom, and 1.37% for Consumer Staples. We view this as a net positive for the future strength of the market. We prefer to see cyclical sectors leading the way as we viewed the defensive-led rally as a low-conviction rally. This defensive rally has also distorted the relative safety of safe-haven sectors, with historically conservative equities now valued beyond their typical multiples. Coca Cola trading at 20x earnings is one such example.

Having said that, on May 17th, the University of Michigan Survey of Consumer Sentiment Index increased to 83.7 from 76.4, reflecting a level of positive consumer outlook not seen since 2007. This caused equity markets to rally on the day as many analysts predicted the weight of the sequester to depress consumer sentiment. However it appears as though the US population is not only coping with cuts, but actually has a positive outlook on the economy in spite of cuts We believe this increases the probability of accelerated growth in the back-half of the year with consumption as the primary driver.

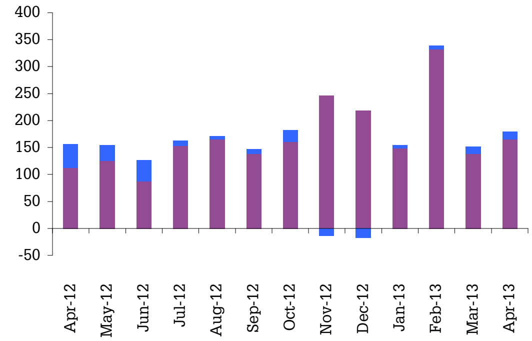
S&P 500 Earnings Trends: Year-over-year, S&P 500 earnings growth is tracking +4.7%, revenue growth is +1.9% and margins are +27 bps. With margins at record high levels, there is a prevalent fear that they will revert to their mean, however only 2/10 sectors have actually seen margin decline. In terms of expectations, 70% of companies are beating their EPS estimates on average by 5.3%, however only 48% of companies are beating their sales estimates. Comparing these trends to the performance of the market, there is a clear disconnect as earnings growth is trailing broad market pefromance. Thus, we conclude that the market is pricing in accelerated growth in the coming quarters. When we look at positive trends in other economic indicators such as housing starts, home sales, change in payrolls, and retail sales, we believe this discounting of future growth is justified, but recognize that any slowdown in estimated growth will cause markets to react negatively.

YORKVILLE STRATEGY PERFORMANCE AS AT MAY 22 2013

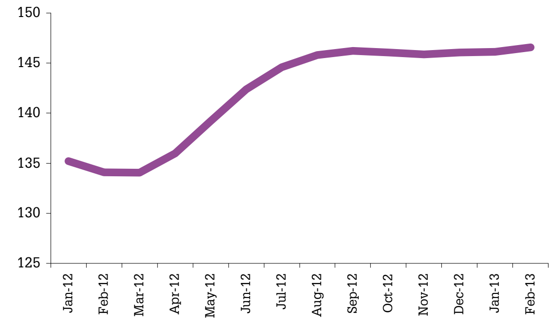
	1 Month	3 Months	1 Year
Yorkville Enhanced Protection Class	7.34%	6.36%	21.96%
Yorkville Global Opportunities Class	2.06%	4.68%	14.40%
Yorkville Optimal Return Bond Class	-1.20%	0.81%	1.95%

*Series O performance based on beginning and ending NAVs

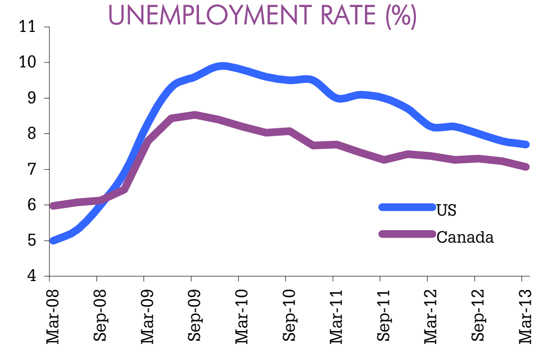
CHANGE IN US PAYROLLS

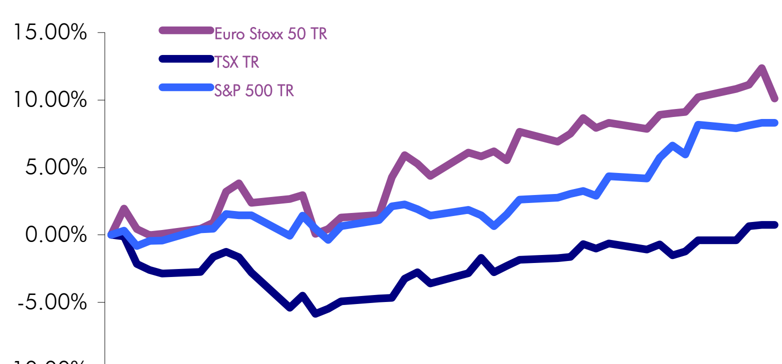


S&P CASE-SHILLER HOME PRICE INDEX



UNEMPLOYMENT RATE (%)





March 31 - May 23rd

APRIL RETURNS (CAD)

SECTORS	S&P 500	TSX
Consumer Discr.	2.08%	0.48%
Consumer Staples	2.17%	4.79%
Energy	-1.74%	-1.29%
Financials	1.87%	0.69%
Healthcare	1.98%	2.32%
Industrials	-1.66%	-2.88%
Info Tech	0.01%	10.57%
Materials	-0.23%	-13.52%
Telecom	6.02%	-0.33%
Utilities	5.00%	3.63%

EQUITY STRATEGY AND UPDATE

Year-to-date (December 31 2012 - May 22 2013) all of Yorkville's funds are showing positive performance:

Yorkville Enhanced Protection Class (Equity, Series O) +14.70%
Yorkville Global Opportunities Class (Balanced, Series O) +12.14%
Yorkville Optimal Return Bond Class (Bond, Series O) +1.01%

We continued with our strategy of allocating the majority of our capital to the US equity market over and above all other equity markets, including Canada. Our overweight to US equities has served us well as economic indicators in the US continue to positively outpace those in Canada. These trends resulted in the S&P 500 returning 21.71% in Canadian Dollar terms, while the TSX managed to squeak out 2.54% of positive return quarter-to-date. For the sake of comparison, Gold sold off by -16.14% in Canadian Dollar terms for the same period.

By virtue of our overweight in US equities, our funds also have large US dollar exposure. While we have the ability to hedge this currency exposure, we have chosen not to, as we believe the divergence we are seeing between the US and Canadian economy will be beneficial to the US Dollar. In addition, we believe the announcement of Stephen Poloz as the next Bank of Canada Governor may add additional pressure to the Canadian Dollar as his background is with Export Development of Canada, a strong proponent of a weak Canadian Dollar.

This decision has proved to be the right one as year-to-date, the US Dollar has appreciated by 3.63% relative to the Canadian Dollar, adding to the returns of the funds.

Going forward, we maintain the view that US equities will continue to offer investors superior risk-adjusted returns throughout 2013 for the following reasons, however we are exercising caution given the velocity of the rally to date:

The wealth effect is real: US equity markets are at an all time high. Home prices continue to rise and in the month of April, the S&P/Case-Shiller 20 YoY% Index rose +9.32%. To provide some context, this is the largest YoY increase since 2006 and is consistent with its underlying trend. If you are an American, own a home and own stocks, there is a good chance today is the best you have felt in the past 5 years! And this is the essence of the wealth effect...The combination of an elevated stock market and rising home prices produce a positive wealth effect for consumers, whose propensity to consume is increased by virtue of an improving financial situation. We see this highlighted by the latest UofM Consumer Sentiment Index climbing to 83.7, its highest point since 2007. The positive impacts of this "wealth effect" were echoed by Home Depot's (our 7th largest equity holding) quarterly earnings reported May 21st showing a rise in earnings per share of 22.1% with same store sales rising 4.8%. Frank Blake, Home Depot's CEO, stated on the conference call that "...we continue to see benefit from a recovering housing market that drove a stronger-than-expected start to the year for our business". Home Depot also increased their guidance which suggests that they believe this trend will continue. Viewing Home Depot as a reliable barometer for the overall health of the US consumer, we are confident that a broad increases in US domestic consumption will continue. Therefore we continue to allocate funds to sectors positioned to benefit from this developing trend, with a combined target weight of 25% towards Consumer Discretionary and Staples stocks, and a 30% target weight towards Financials (particularly in the US).

Monetary policy remains accommodative: Bernanke has committed to anchoring short term rates until the US unemployment rate drops to 6.5%. The markets appreciate this visibility. The Quantitative Easing program to date has effectively driven long term interest rates down, improving the affordability of durable goods, housing, and essentially anything else requiring financing. It has allowed for massive waves of re-finance, allowing consumers and corporations to lower their interest expenses, flowing directly to the bottom line. With QE driving rates down, investors have been forced (and we say this in jest) to move out the risk spectrum to generate additional returns. This has certainly contributed to the rally in equities and high-yield debt. In so far as Bernanke maintains his commitment to the current QE program, we believe the equity markets will be supported. We believe the differing opinions voiced by FED members in terms of when and how QE "tapering" should occur do not change the trajectory of the Fed, and the volatility they introduce to the market should be seen as opportunities.

Valuations: While we do not view equities as particularly cheap, we also don't see them as particularly expensive. If we look at the S&P 500's trailing P/E history, in 1999 it was as high as 30x and in 2007 is was as high as 18x. Today the S&P 500 trades at 16x trailing earnings, and 15x next year's earnings. As we said, on a historical basis, this does not sound cheap, but its certainly not expensive either. For those who point out that the market multiple today is very close to where we were prior to the crash of 07, we draw attention to the fact that debt to equity levels for the S&P 500 in 07 were twice as high as they are now. Balance sheets today are considerably stronger than in the past and

News on Tesoro: Tesoro is a name we have been talking about with clients extensively. A central part of our investment thesis focused on its transformational acquisition of the Carson refinery and logistic assets from BP. On May 17th we were pleased to learn that the FTC and California's Attorney General granted formal approval of the acquisition, allowing Tesoro to proceed with the acquisition and integration of assets as planned. The assets were purchased from BP in what was essentially a fire-sale following BP's Macondo oil spill in the Gulf which forced them to raise cash. What we like about this transaction beyond the $250 million in annual synergies management expects to realize, is that Tesoro is planning to sell off $640 million of Carson City's logistic assets to Tesoro Logistics LP, and plans on dropping down another $450-$550 million worth of additional logistic assets over the next 12 months. These transactions will cover the entire cost of Tesoro's acquisition, before inventory, and allows Tesoro to essentially acquire the Carson refinery, supply contracts to 800 stations, and 50% of a 340 mw co-gen plant for free. While we are impressed by the assets Tesoro acquired, we are more impressed by the price.

DISCLAIMER