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FOURTH QUARTER 2011 - NEWSLETTER

Dear Partner,

I am pleased to send you this portfolio review and commentary for the fourth quarter of 2011.

PERFOMANCE REVIEW

During the fourth quarter of 2011, the Tonus Composite increased **11.24%**. Over the same period, the S&P/TSX Total Return grew **3.59%** and the S&P 500 (in U.S. dollars) rose **11.82%**. The Canadian dollar gained approximately **2%** against the U.S. dollar, and this impacted our performance negatively.

On a year-to-date basis, the Tonus Composite was up **3.67%**, against **-8.71%** and **2.11%**, respectively, for the S&P/TSX TR and the S&P 500 TR.

Since the Tonus Composite's inception in October 2007, it has achieved a compound rate of return of **4.94%**, compared with **-1.90%** for the S&P/TSX TR and **-2.74%** for the S&P 500 TR.

PORTFOLIO REVIEW

The volatility experienced over the summer was beneficial to your portfolio as it created opportunities to invest a substantial portion of the cash on hand. As a result, your portfolio had its best quarter yet, with gains in the double digits. Some of the stocks added in August and September turned in strong returns over the quarter: **Brown & Brown (BRO - $22.63)**, **MTS Systems (MTSC - $40.75)**, and **Wyndham Worldwide (WYN - $37.83)** were all up more than 25% in the last three months of the year.

The market continued to see-saw through the quarter, which allowed me to further concentrate the portfolio in undervalued current holdings. Consequently, the biggest change in the portfolio came from increasing the weight in some of the most promising positions and selling off some of the smaller ones.

One of investment made during the quarter clearly demonstrates my focus on investing in companies operating in markets with high entry barriers. It also highlights the fact that small and mid caps can benefit from high barriers to entry if they are dominant in their market. **Shawcor Limited (SCL.A - $28.88)**, which became one of your top holdings, is the case in point. The company is the world leader in pipe coating for the oil and gas industry. Its activity involves protecting the inside and the outside of pipes used in both onshore and offshore pipeline projects. Shawcor controls 20% of the global market and, more importantly, over 50% of the offshore market owing to its superior technology (thanks to higher R&D spending), solid reputation for quality, reliability for meeting deadlines, and worldwide capacity in key offshore markets. Coating represents approximately 10% of the cost of any offshore pipeline project. Operators will not jeopardize a project's success by going with a second-rate provider. This, combined with Shawcor's track record and product superiority, creates a high barrier to any new entrant.

Shawcor's dominance in the offshore market is important for three reasons: a) dollar content per kilometre of laid pipe can be as much as 30x higher in deep-water environments; b) EBITDA margins on offshore projects are twice as high as on onshore projects, reaching as much as 40%; and c) a larger percentage of capital spending by oil and gas companies is going to offshore projects, which tend to be in deeper and deeper water, further and further from the shore.

The key region for Shawcor in the short term is Australia, where large-scale offshore LNG projects are in the works. Two projects in particular, Wheatstone and Ichthys, represent for Shawcor a $700-million opportunity with high margins. I was convinced of the company's chances of winning these bids after discussions with Shawcor's management and with its only competitor in the region, Malaysian-based Wasco Industries. After analyzing Wasco's business and questioning management on the timeline of other projects booked in previous quarters, I knew that they would have difficulty guaranteeing capacity as they had committed to other lower-margin projects and had not invested as much as Shawcor to prepare their plants for these mega-projects. After I purchased more shares, Shawcor announced it had been awarded contracts worth more than $570 million for the first phase of the two projects. More awards are to come for the next phases.

In addition to strong prospects in Asia, Shawcor should continue to profit from the shift in the North American market towards shale gas. The company stands to benefit also from the large Brazilian oil fields once they enter production in the years ahead. Extremely well managed, Shawcor historically has generated a return on capital close to 20%. The Shaw family still owns a substantial stake in the company, the balance sheet is debt free, and the recent major contract awards have the potential to double EBITDA over a two-year period. At time of purchase, the shares were trading at less than 8x future free cash flow per share.

On the selling side, the biggest move was to reduce the weight in **Chubb Corporation (CB - $69.22)**, which at 12% was the largest position at the start of the quarter. The stock has performed very well since being purchased in 2010 when it was trading at just above book value; valuation now stands at 1.3x. Though the company still has upward potential, it was felt that a smaller weight was warranted. I also sold off three smaller positions; all were small weights and at current stock prices they did not merit becoming substantial holdings.

COMMENTARY

In my approach to investing, I always focus on valuation as a key determinant of future stock returns. The quality of an asset is important, but so is the price at which it is acquired. How the North American indices performed over the year is indicative of this. According to IMF forecasts, GDP growth for 2011 was 2.1% and 1.5%, respectively, for Canada and the United States. Both countries fell short of initial predictions by roughly the same distance (-0.7%). On this basis, one might have expected the S&P/TSX to outrun, or at least keep abreast of, the S&P500 over this period. Instead, with its -8.7% showing, the S&P/TSX lagged behind its U.S. counterpart by almost 11 percentage points. The reason for this was simple: valuation. The S&P/TSX opened the year trading at 18x forward earnings and closed it at 13x. Meanwhile, the S&P500 began the year trading at 14.5x forward earnings and ended it at just under 13x.

It was mentioned early in the year that there were more opportunities to be found in the United States, where companies were trading at a discount compared with their Canadian equivalents. I believe this gap has since narrowed and, therefore, I will be spending more time in 2012 looking north of the border for good investments now that valuations are at more attractive levels. The global economic situation at the start of this New Year is marked by a high degree of uncertainty, to be sure. Market valuations, which have come down, reflect this state of affairs. In this environment, I will continue to seek out new investments and assess their merits against the attractive valuation of the stocks in your portfolio.

I wish you all a great 2012 full of health, happiness, and prosperity.

Sincerely,

Philippe Hynes, CFA

Tonus Composite Performance Report

Date	Tonus Composite Gross Return	S&P/TSX Total Return	S&P 500 Total Return ($CAD)
1 Month	3.60%	-1.70%	1.18%
3 Month	11.24%	3.59%	9.59%
6 Month	7.04%	-8.86%	1.68%
Year-to-Date	3.63%	-8.71%	4.59%
1 Year	3.63%	-8.71%	4.59%
2 Years*	8.86%	3.62%	6.88%
3 Years*	8.07%	13.20%	7.14%
4 Years*	4.90%	-0.72%	-0.90%
Since Inception* (Oct. 31, 2007)	5.20%	-1.90%	-1.10%

Source: Bloomberg Finance L.P.
All returns are gross of fees.
* Please note that all returns greater than one year are annualized.

The Tonus Composite was created October 31, 2007. The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of at least 25% of portfolio assets.

Investors should carefully consider the firm's investment objectives, risks, and expenses before investing.

Portfolio composition is subject to change at any time and reference in this letter to specific securities, industries, and sectors should not be construed as a recommendation to purchase or sell any particular security. Current and future portfolio holdings are subject to risk. The Composite return is not guaranteed; its value changes frequently and past performance may not be repeated.