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FOURTH QUARTER 2010 - NEWSLETTER

TONUS SELECT FUND

Dear Partner,

We are pleased to send you this portfolio performance and review, along with commentary, for the fourth quarter of 2010.

PERFOMANCE REVIEW

During the fourth quarter of 2010, the Tonus Select Fund grew **5.73%**. Over the same period, the S&P/TSX Total Return climbed **9.48%** and the S&P 500 (in U.S. dollars) rose **10.76%**. The Canadian dollar gained approximately **3.5%** on the U.S. dollar, and this impacted our performance negatively.

For 2010, the Fund was up **13.52%** compared with **17.66%** and **15.06%** for the S&P/TSX TR and the S&P 500 TR, respectively. The Canadian dollar appreciated by approximately **5.4%** against the U.S. dollar, and this had an adverse effect on our performance for the year.

Since the Fund's inception in October 2007, we have achieved a compound rate of return of **4.18%**, compared with **0.36%** and **-4.22%** for the S&P/TSX TR and the S&P 500 TR, respectively.

PORTFOLIO REVIEW

This past October, BC Investment Management Corp. (bcIMC) announced that it would acquire **Parkbridge Lifestyle Communities (PRK - $7.28**) at $7.30 a share, which represented a 30% premium over the price of the stock the day before the announcement and a gain of more than 100% on our cost. Parkbridge has been a consolidator of land-lease communities (for those not familiar with the term, it refers to what is more commonly known as *trailer parks*) and is by far the largest player in Canada in its category. It is certainly not the most glamorous of businesses and we were greeted by a few laughs from other investors when we mentioned the name, but it is nonetheless a very good business with attributes we like. Parkbridge has enjoyed pricing power for years and its occupancy rate is almost 100% at all times. Moreover, as the first major player in this industry in the country, the company was able to buy properties at attractive valuations. As bcIMC is paying a nice premium over the current net asset value of the company, we voted for the deal.

Moreover, in the fourth quarter, we were able to sell the rest of our position in **Cogeco Cable (CCA - $41.02)** after the stock bounced back above $40.00. If you recall, we had sold half our interest in the company in the second quarter of 2010 when Cogeco Cable CEO Louis Audet announced intentions of returning on the acquisition path. We exited the position with a nice profit.

We also sold our investment in **Toromont Industries (TIH - $30.76)** after management announced the desire to spin off Enerflex, its natural gas compression division, and its Caterpillar dealership division into two distinct listed companies. The stock shot up on the news and we felt investors were placing too high a valuation on the entire entity. We realized a profit of approximately 35% on our investment. It is interesting to note that we bought Toromont in October 2009 the day it announced the acquisition of Enerflex and we sold the day management decided to spin it off. We still own a tiny position in the company so we will follow developments in this regard closely. As we like Toromont's management very much, we might invest in one or both of the new entities provided, of course, that valuation warrants it.

Finally, we sold approximately 75% of our position in **Penn Millers Holding Corp. (PMIC - $13.14)**. This investment was a special situation in that we took advantage of the demutualization of this small P&C insurance company when it went public in October 2009 at an incredibly cheap price (see our fourth quarter 2009 letter for more details). After the stock sprang more than 40%, it accounted for roughly 9% of our portfolio. Following this price hike, some of the hidden value was realized and, consequently, we brought the weighting back to a more appropriate level of about 2%.

We made only one significant purchase during the quarter, representing close to 3.50% of our portfolio. As we are still building our position, we will refrain from disclosing names and discussing the matter any further for the time being.

COMMENTARY

Our steadfast goal as long-term-value absolute-return investors is to generate compelling returns in bull markets and to outperform significantly in bear markets. By closing the year up 13.52% net of fees, we consider we have accomplished what we set out to do when we established our firm.

Once more, our 2010 performance was achieved despite holding a considerable amount of cash, which accounted on average for about 40% of the portfolio over the whole year. This past summer when investors were in a gloomier mood, our cash level hovered at around 29% as we took advantage of interesting opportunities presented by mispriced stocks. Many people may not remember but, at the end of August 2010, the U.S. market was actually down for the year and the Canadian market was just barely in positive territory. Unfortunately, the market's sudden upturn in September did not permit us to invest more of our cash and, in fact, we were a net seller of equities in the fourth quarter.

We have reservations about this market surge and we certainly will not buy stocks frantically merely to avoid lagging the market as many desperate investors seem to be doing right now. Renowned value investor Seth Klarman of the Baupost Group likened today's market to a “Hostess Twinkie”: It will cheer you up momentarily, but it remains a confection composed entirely of artificial ingredients. In his view, governments around the world have distributed Twinkies galore in the form of lending programs, low interest rates, spending incentive programs (e.g., cash for clunkers), quantitative easing, currency manipulation, and so forth, all in the aim of tricking investors into feeling better about the general situation, returning to the market and thus pushing asset prices back up again. This would rebuild wealth lost during the crisis and, in turn, restore optimism in the economy as a whole. Of course, this begs a very simple question: What will happen when governments stop supplying Twinkies?

No one knows for sure but it stands to reason that a Twinkie-heavy diet cannot be a good thing for the market over the long run. Our best protection still remains buying only stocks that offer a comfortable margin of safety.

However, doing this is becoming more and more of a challenge. With the steep rise registered over the past few months, many stocks are presently trading far above levels we feel comfortable buying at. This is all the more true where small caps are concerned, both in Canada and in the United States. Suffice it to consider that, at the end of August 2010, the Russell 2000 was at -3.7% for the year. By the end of December, it had shot up 30% to close the year at +25.3%!

Some commentators have been pounding the table claiming that the market is swarming with bargains based solely on the fact that the stock market has done virtually nothing for ten years. The myth of the lost decade holds true only if the S&P 500 serves as a proxy for the market as a whole. The problem is that the S&P 500 is not a reflection of the entire market. Indeed, during this period, the S&P 600 U.S. small cap index delivered an annual return of 7.7% and the BMO Canadian small cap index did even better with an annual compound return of 11.90%. This should help to understand why we believe the small-cap universe does not abound with bargains as it once did. So what about large caps? Some people will argue that, in aggregate terms, large caps present better value than small caps do. However, we do not buy stocks based on their relative attractiveness: This is a sure-fire way to destroy capital over time. We invest only when we believe a stock is trading below its intrinsic value in absolute terms. This said, it is true that we are spending more and more time analyzing larger companies. We own stock in a few, including **Comcast Corp. (CMCSK - $20.81)**, **Berkshire Hathaway Inc. (BRK.B - $80.11**) and **Chubb Corp. (CB - $59.64)**, all of which delivered strong performances in 2010.

Another factor that had an impact on our performance was the depreciation of the U.S. dollar. This shaved about 3% from our total performance. The greenback's decline was a drag on our results for a second year in a row. In 2009, it cost us approximately 7%. However, with the U.S. currency more or less nose to nose with the Canadian dollar, we continue to deploy liquidity in the United States where we see better value. This is why in 2010 we doubled our investments south of the border from 25% to 50%.

Why we do not hedge against currency fluctuations is a question we get asked all the time and our answer is always the same. True: Month to month or even year to year hedging might attenuate the volatility of returns. However, over the long term, with the two currencies trading more or less at par, we believe this is an unnecessary cost to absorb (insurance is seldom free) merely in order to smooth out short-term returns. The past three years bear us out on this. Indeed, at the end of December 2010, the U.S. dollar was less than 1% above where it stood against the Canadian dollar at the close of December 2007 despite the wild rollercoaster ride in between.

Managing a return of more than 13% despite keeping a large amount of liquidity on hand and being penalized by the U.S. dollar's poor standing means that our equity investments performed rather well during the year. All of our holdings that recorded a positive return on the year were up at least 10%, with the exception of one stock that gained only 3%. Our best performer in terms of total return was **Lo-Jack Corp. (LOJN - $6.46)**, up 52% from its purchase price.

Only three stocks turned in negative returns and only one of these was down more than 10%. **EGI Financial Holdings Inc. (EFH - $7.70)** was our dog of the year, declining by 33% and trimming about 1.25% from our total performance. If you are wondering, yes, we still hold a position in the company, but we are refraining from buying any more stock for the time being.

We realize that it is far easier to obtain a strong performance from each individual holding when the market is on the rise. However, we tend to make far less costly investment mistakes than many of our peers in the industry, not because we are more intelligent, but because our structure allows us to invest only in our best ideas and we wait patiently for true opportunities to come along, even if it means sitting on a great deal of cash.

We appreciate that, as our partners in the fund, you support our approach to investing. The fund has been operating for more than three years now and it has performed pretty much as expected in up and down markets.

Our only regret so far has been not buying more aggressively in the summer of 2009 when it was clear that the central bankers of the world would deploy all the capital necessary to save investors from years of misguided behaviour and careless investing. However, though we may have missed out on that opportunity, unlike many other investors, we never ran the risk of seeing our net worth cut in half.

We wish you all the best for 2011 and you can rest assured that we will continue to work hard to find great investments that will make us all more prosperous with time.

Sincerely,

Steve Boutin, CFA

Philippe Hynes, CFA

Tonus Select Fund Performance Report

As at December 31, 2010

Tonus Select Fund : Class A shares	Unit Value
Current Quarter	**111.1506**
Previous Quarter	105.1222

Date	Tonus Select Fund Return	S&P/TSX Total Return	S&P 500 Total Return ($US)
1 Month	2.26%	4.12%	6.68%
3 Month	5.73%	9.48%	10.76%
6 Month	9.94%	20.73%	23.27%
Year-to-Date	13.52%	17.66%	15.06%
1 Year	13.52%	17.66%	15.06%
2 Years*	9.18%	26.06%	20.63%
3 Years*	3.84%	2.10%	-2.85%
Since Inception* (Oct. 31, 2007)	4.18%	0.36%	-4.22%

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

Investors should consider carefully the investment objectives, risks, and charges and expenses of the Fund before investing. Important information about the Fund is contained in the Offering Memorandum, which should be read carefully before investing.

Portfolio composition is subject to change at any time and references to specific securities, industries, and sectors referenced in this letter are not recommendations to purchase or sell any particular security. Current and future portfolio holdings are subject to risk. The fund is not guaranteed; its value changes frequently and past performance may not be repeated.