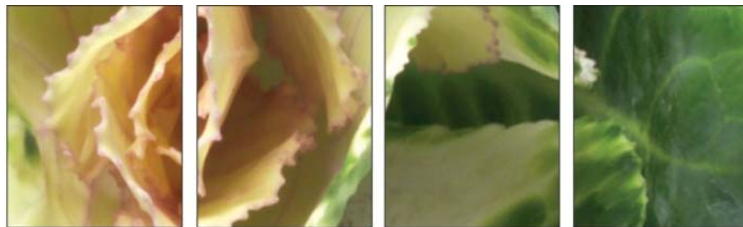


# Monthly Fund Update



February 28, 2009

## Empire Elite Equity Fund

Monthly Performance	
Empire Elite Equity Fund (Class A)	-4.3%
S&P/TSX Total Return Index	-6.3%
Peer Category – Canadian Focused Equity <sup>1</sup>	-6.0%
Quartile Ranking <sup>1</sup>	I

Source: Paltrack, February 28, 2009

- The Fund ended the month with 12% in cash, 65% in Canadian equities and 14% in U.S. denominated equities, half of which was in the U.S. dollar denominated Gold Exchange Traded Fund. The U.S. dollar exposure remains unhedged against the currency.
- The investments in Canadian Oil Sands Trust and Suncor Energy both contributed positively to the return of the portfolio in spite of the negative contribution of the Energy sector to the overall index decline.
- The Fund remains positioned very defensively as a very long process lies ahead before the underlying problems in financial markets are resolved.

Every sector had a negative contribution to the index price performance in February. Financials, Energy and Information Technology were collectively responsible for 81% of February's loss in the index. Year-to-date (as of February 28), Financials have had the largest negative contribution to the return of the S&P/TSX Index. Both the Banks and Insurance industry groups were primarily responsible for this loss. Equity markets will not find a solid footing until the financial sector stabilizes.

The flow of money out of risky assets into only the safest (i.e. T-bills) exacerbates the economic malaise by making it increasingly difficult for companies to raise money to expand, or in some cases, even to stay alive, forcing even further economic contraction and decreases in spending just to cope. Despite how much central bankers cut interest rates, the economy will continue to struggle until credit markets function normally as companies cut jobs, close plants and postpone expansion plans to conserve cash.



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# Monthly Fund Update



February 28, 2009

## Empire Canadian Equity Fund

Monthly Performance	
Empire Canadian Equity Fund (Class A)	-4.2%
S&P/TSX Total Return Index	-6.3%
Peer Category – Canadian Equity <sup>1</sup>	-5.7%
Quartile Ranking <sup>1</sup>	I

Source: Paltrack, February 28, 2009

- The cash position of the Fund, at just below 20% at month end, and the underweight position in the financial sector, contributed positively to the relative performance of the Fund in February.
- The Fund remains defensively positioned and continues to have underweight positions in both the volatile energy and financial sectors, while keeping the cash position relatively high at just under 20%.

Every sector had a negative contribution to the index price performance last month with Financials, Energy and Information Technology accounting for 81% of February's loss.

Pessimism continued to reign down on the market. The economic chaos has created attractive financial opportunities. However, due to unprecedented volatility, this has failed to spark major investment interest and consequently, resulted in equity markets continuing to drift downward during the month.

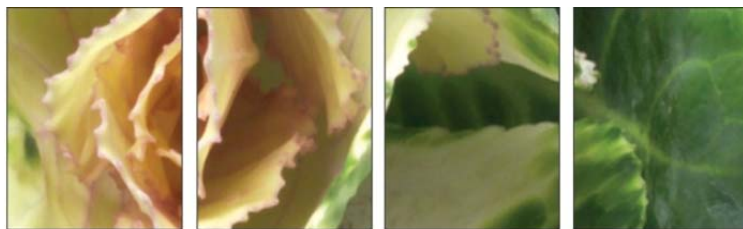
The flow of money out of risky assets into only the safest (i.e. T-bills) exacerbates the economic malaise by making it increasingly difficult for companies to raise money to expand, or in some cases, even to stay alive, forcing even further economic contraction and decreases in spending just to cope. Despite how much central bankers cut interest rates, the economy will continue to struggle until credit markets function normally as companies cut jobs, close plants and postpone expansion plans to conserve cash.



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# Monthly Fund Update



February 28, 2009

## Empire Dividend Growth Fund

Monthly Performance	
Empire Dividend Growth Fund (Class A)	-4.6%
S&P/TSX 60 Total Return Index	-6.2%
Peer Category – Cdn Div & Income Equity <sup>1</sup>	-6.1%
Quartile Ranking <sup>1</sup>	1

Source: Paltrack, February 28, 2009

- The outperformance of the Fund in February was largely driven by the themes discussed in prior commentaries, namely the underweight relative position in the life insurance companies, investments in the railroads and the agricultural sector, as well as individual positions such as BCE/Bell Canada. The Financial sector was the single largest negative contributor to the index last month, followed by the Energy Sector. The negative impact from Financials in the index came primarily from the negative performance of the Insurers, thus helping the relative performance of the Fund.
- In addition, the Fund did not have any exposure to Research in Motion or Barrick Gold and held a smaller weight in Manulife versus the benchmark. These companies were the three largest negative contributors in the Index in February.
- In January, Tim Hortons was one of the worst performers in the Fund. In February however, this investment had a very strong relative performance with a return of +0.5% versus -6.2% for the Index. The company had a series of positive announcements which were well received by investors; (1) earnings were better than anticipated, (2) the company increased its dividend by 11% (a very impressive accomplishment in the uncertain economic context); and (3) it initiated a \$200 million share repurchase program.

The situation with Tim Hortons serves as a good example of how a stock can be under pressure merely due to the lack of information as was the case in January for this investment. We have alluded to this issue before and it is important to stress again that our investment decisions are not driven by news flow but rather remain grounded on the fundamental merits of the investment itself, even if this leads from time to time to very short-term underperformance.

Tim Hortons is also a good illustration of the type of investment we are looking to make. We look for companies with the ability to increase their dividends under challenging economic conditions combined with the balance sheet strength and flexibility to grow their businesses and to return capital to shareholders via corporate actions such as a share repurchase.

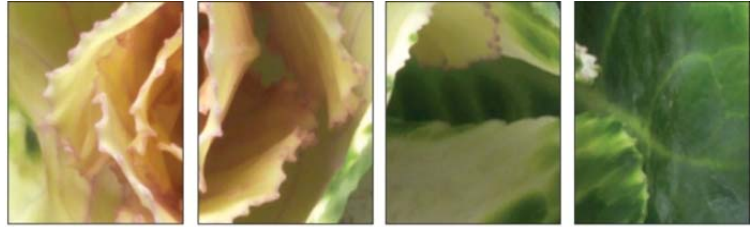
There are many companies at present exhibiting very high dividend yields as a result of the general decline in stock prices. Not all those companies represent good investments in our opinion. Our role is to uncover those who still have the ability to maintain or grow those dividends in the current environment. Our criteria to measure this ability continues to be the quality of the management teams, balance sheet strength and attractive valuations. We are currently evaluating companies across several sectors including Financials, Utilities, Energy and Consumer Discretionary on a selective basis.



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# Monthly Fund Update



February 28, 2009

## Empire Small Cap Fund

During the month of February, the Empire Small Cap Fund was down -4.0%, after fees, while its benchmark, the S&P/TSX Small Cap Total Return Index, was down -7.1%. The commitment and focus on maintaining investments in quality companies with good capital structures allowed the Empire Small Cap Fund to outperform during a month of overall negative market performance.

The Fund continues to be underweight junior resource companies, both in the energy and materials complex. The overweight position in the financial sector consists of investments in financial companies with straightforward and transparent balance sheets, generating substantial free cash flow, and consequently, not requiring access to capital markets to survive this recession.

February was a very busy month from a research point of view. The investment team of the Fund met directly with executives of over 60 companies at their offices and facilities in Quebec, Manitoba, Saskatchewan and BC. The majority of these companies are experiencing significant slowdowns in demand for their goods and services. The one major exception seems to be in the agricultural sector. Thus, we continue to maintain about 12% of the portfolio invested in companies directly or indirectly related to the agricultural industry.

“Sometimes when driving on a road during a winter snowstorm, you see some drivers pull over and put on their hazard lights, others put their hazard lights on and drive slowly, and then there are the aggressive types that zoom by in the fast lane with reckless abandon”.

The Empire Small Cap Fund is neither driving in the fast lane nor at a standstill on the side of the investment road. Although it was disappointing that the Fund generated a negative return in February, the attractive investment opportunities that we are discovering through our research efforts are cause for optimism. Once economic conditions improve, these investments should provide attractive returns.

An example of an investment that has been increased in the Fund during the recent market sell-off is Winpak Ltd, a designer and manufacturer of consumer goods packaging materials and packaging machines based in Winnipeg. The products of the company are used mainly in the food industry.

- ✓ This \$300 million market capitalization company meets all our investment criteria including a solid balance sheet, strong free cash flow generation and improving return on equity.
- ✓ The stock currently has a dividend yield of 1.8% and is valued at 11 times its current earnings.
- ✓ The profitability of the firm is being positively impacted by the depreciation of the Canadian dollar and by lower raw material prices, namely petroleum-based and natural gas-based plastic resins.



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- ✓ The outlook for 2009 is also bright as the company anticipates doubling its spending on capital projects, in conjunction with retiring the remaining portion of its long-term debt obligations.
- ✓ With its strong free cash flow and solid balance sheet, Winpak is in a position to both increase its dividend and acquire rival companies to take advantage of the current economic situation.

The graph below shows the price performance of Winpak's shares over the past year.

Winpak Share Price Performance  
March 10, 2008-March 10, 2009



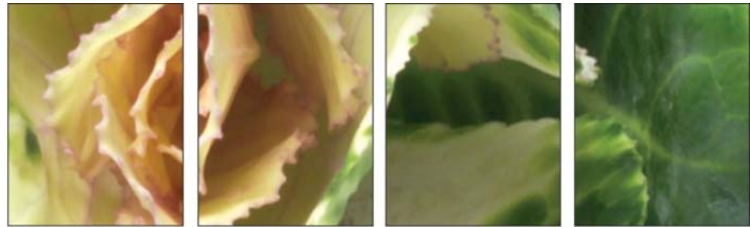
Source: Bloomberg



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# Monthly Fund Update



February 28, 2009

## Empire Balanced Fund

Monthly Performance	
Empire Balance Fund (Class A)	-2.1%
Benchmark (50% S&P/TSX Total Return Index – 50% DEX Universe Bond Index)	-2.8%
Peer Category – Cdn Neutral Balanced <sup>1</sup>	-2.9%
Quartile Ranking <sup>1</sup>	I

Source: Paltrack, February 28, 2009

- At month end, the Fund held 18% in cash, 37% in fixed income, 35% in Canadian equities, and 9% in U.S. denominated equities, including 2.7% in a U.S. dollar denominated gold Exchange Traded Fund. The U.S. dollar exposure remains unhedged against the currency.
- The investments in Canadian Oil Sands Trust and Suncor Energy both contributed positively to the return of the portfolio in spite of the negative contribution of the Energy sector to the overall index decline.
- The Fund continues to have a shorter bond duration than the fixed income universe and holds greater than average exposure to high quality corporate bonds.
- Over all, the Fund remains positioned very defensively as we anticipate a long road ahead until the underlying problems in financial markets and the impacts of these on corporations and consumers are resolved.

Year-to-date (as of February 28), Financials have had the largest negative contribution to the return of the S&P/TSX Index. Both the Banks and Insurance industry groups were primarily responsible for this loss. Equity markets will not find a solid footing until the financial sector stabilizes.

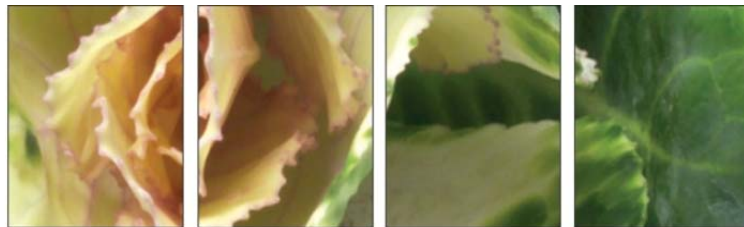
The flow of money out of risky assets into only the safest (i.e. T-bills) exacerbates the economic malaise by making it increasingly difficult for companies to raise money to expand, or in some cases, even to stay alive, forcing even further economic contraction and decreases in spending just to cope. Despite how much central bankers cut interest rates, the economy will continue to struggle until credit markets function normally as companies cut jobs, close plants and postpone expansion plans to conserve cash.



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<sup>1</sup> Median Category and quartile ranking are based on segregated fund universe only.

# Monthly Fund Update



February 28, 2009

## Empire Asset Allocation Fund

Monthly Performance	
Empire Asset Allocation Fund (Class A)	-2.2%
Peer Category – Tactical Balanced <sup>1</sup>	-3.5%
Quartile Ranking <sup>1</sup>	I

Source: Paltrack, February 28, 2009

- At month end, the Fund held 33% in cash, 41% in Canadian equities, 7% in U.S. denominated equities, including 2.7% in a U.S. dollar denominated gold Exchange Traded Fund, and 19% in fixed Income. The U.S. dollar exposure remains unhedged against the currency.
- The investments in Canadian Oil Sands Trust and Suncor Energy both contributed positively to the return of the portfolio in spite of the negative contribution of the Energy sector to the overall index decline.
- The Fund continues to have a shorter bond duration than the fixed income universe and holds greater than average exposure to high quality corporate bonds.
- Over all, the Fund remains positioned very defensively as we anticipate a long road ahead while the underlying problems in financial markets and the impacts of these on corporations and consumers are resolved.

Year-to-date (as of February 28), Financials have had the largest negative contribution to the return of the S&P/TSX Index. Both the Banks and Insurance industry groups were primarily responsible for this loss. Equity markets will not find a solid footing until the financial sector stabilizes.

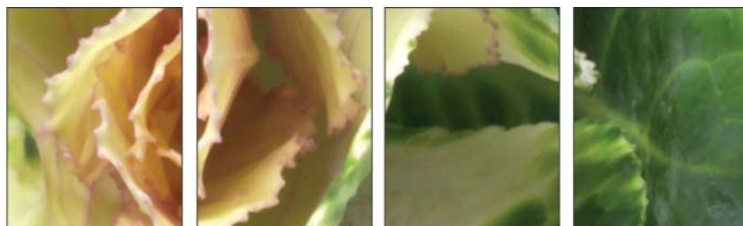
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# Monthly Fund Update



February 28, 2009

## Empire Global Dividend Growth Fund

Monthly Performance	
Empire Global Dividend Growth Fund (Class A)	-4.2%
MSCI World Index (Net, C\$)	-7.7%
Peer Category – Global Equity <sup>1</sup>	-5.8%
Quartile Ranking <sup>1</sup>	I

Source: Paltrack, February 28, 2009

- Global markets in February started strong but declined towards the latter half of the month. The Empire Global Dividend Growth Fund was able to participate in the initial rally and clearly outperformed when markets sold off. This performance is the result of the Fund defensive positioning and exposure to high quality companies as our view on the global economy and stock markets remains cautious.
- Consumer staples, healthcare and materials (including gold & agriculture) are the 3 largest sectors in the Fund while an underweight position in financials and energy is maintained. The financial sector is faced with 2 key challenges in our opinion, despite the attractive valuation metrics in the sector. First is the continued lack of clarity about the resolution of balance sheet issues and secondly, the high sensitivity to credit and equity markets stemming from their investment portfolios. In the energy area, our focus on large global companies with strong reserves and low production cost has limited our investments in the sector.
- In terms of security selection, we have recently added two new investments in the Fund – a telecommunication company in China and a consumer bank in India. We have also sold the Fund's position in a European utility company with an inflexible balance sheet and high capital spending commitments.
- Geographically, the Fund remains underweight U.S. equities and overweight Asian equities.

2009 continues to be a year marked by uncertainty, being reflected in steep declines in global equity markets. In the first 2 months of the year credit markets have thawed somewhat, but the financial institutions that are the transmission mechanism between the credit extended by the U.S. government and those that need it, continue to come under pressure because of the lack of clarity about the future direction of the industry and the degree of government involvement.



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The correlation between the U.S. & European stock markets remains high but we are beginning to see a divergence between the year-to-date performance of the developed and developing markets. Emerging markets, particularly in Asia have outperformed the developed market indices as government stimulus is expected to have a faster impact in these regions and deleveraging has a smaller role to play there. It is too early to say whether this divergence will continue for the rest of the year but the initial stabilization in Chinese economic indicators and the confidence of their political leadership to achieve 8% GDP growth in 2009 point towards a quicker recovery there than in the west.

While stock market valuations look attractive, our in-depth research approach makes us look beyond valuation metrics at more fundamental issues in order to avoid 'value traps', which are plentiful at the moment. We invest in companies that are attractive based on our own more realistic forecasts of earnings and other metrics rather than based on consensus numbers.

The Fund is positioned defensively with investments in companies able to survive this crisis and benefit from long-term secular trends.



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# Monthly Fund Update



February 28, 2009

## Empire Global Smaller Companies Fund

The MSCI Global Small and Mid Cap Index was down -6.9%, in Canadian dollar terms, while the Empire Global Smaller Companies Fund suffered a loss of -7.9%, after fees, during February 2009.

From a geographic point of view, the Fund continues to be diversified fairly evenly across Asia, Europe and North America. The Nikkei Index was down close to 15% in February, underperforming the indices of most other developed economies. The economy in Japan continues to deteriorate further than expected and further than the economy of most other developed countries. The Fund is invested in Japanese companies having a very strong capital structure, a management team with incentives aligned with those of its investors, as well as a track record of strong profits and dividend growth. The table below provides a list of the Japanese companies held in the Fund along with some of their attractive financial metrics. Those companies meet our key investment criteria. Namely, they have a significant net cash position; they earn profits far in excess of their cost of capital and have significant insider ownership.

Company	Industry	Net Cash Position (\$ million)	P/E 2009	P/B	ROE 2009	Dividend Yield	Insider Ownership	Price Change (February 2009)
Trend Micro Inc.	Technology	1,400	16x	5	16%	4.2%	18%	0.5%
Otsuka Corp.	Technology	150	7x	1.1	16%	4.0%	39%	-14.4%
En-Japan Inc.	Human Resources	60	14x	1	23%	2.1%	33%	-27.0%
Keyence Corp.	Industrial	2700	17x	2	14%	0.3%	27%	12.5%
Shimano Inc.	Leisure	570	12x	3	13%	0.4%	14%	4.9%
Nakanishi Inc.	Dental Hygiene	85	8x	1.5	12%	1.4%	25%	0.5%
Nintendo Ltd	Video Games	14000	17x	3.4	19%	4.9%	19%	0.7%
Konami Corp.	Technology	100	11x	1.3	13%	3.7%	28%	-23.4%

Source: *Wealhouse Capital*

The Fund was negatively impacted in February by its overweight position in the global financial sector. Three large financial holdings in the Fund, down over 20% during the month, were Standard Life, Silicon Valley Bank, and Julius Baer Holdings.

Through out this market storm, shares of financial companies are being indiscriminately decimated as a group. The sector is well represented in the Fund with investments in some of the most conservatively managed firms in the financial sector. These companies are well positioned to survive this crisis. Furthermore, once the economic situation improves, their profitability will be even more robust as many of their competitors will not have survived



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the crisis. Despite the negative sentiment towards Wall Street, Bay Street and Fleet Street, our society and our economy need, and will continue to need, financial institutions. We endeavor to own the leading companies of tomorrow.

Another area that detracted from relative performance in February came from investments in the consumer discretionary sector.

Northern Trust is a new investment in the Fund over the last few months. The global firm is a leader in financial services, providing services in investment management, asset and fund administration, as well as banking and fiduciary solutions for corporations. The firm also has a very strong Personal Financial Services platform serving a high net worth clientele. The financial strength and strong risk management approach of the organization are at the core of our investment thesis.

- ✓ Northern Trust has a strong balance sheet with best in class capital ratios
- ✓ The firm has been buying back its shares throughout the downturn
- ✓ The loan book has strong coverage ratios
- ✓ The investment portfolio is conservative consisting primarily of government securities.

This effective risk management approach during the downturn should allow Northern Trust to outperform its peers during the current financial service cycle. The graph to the right depicts the share price performance of Northern Trust over the past year. It can be seen that the firm suffered a massive correction, along with the entire financial sector.

Northern Trust Share Price Performance  
March 10, 2008 – March 10, 2009



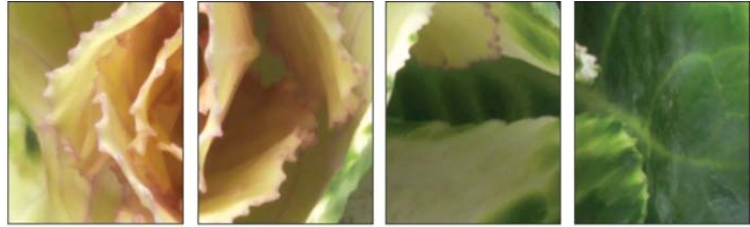
Source: Bloomberg



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# Monthly Fund Update



February 28, 2009

## Empire American Value Fund

The month of February was another grim one for the U.S. stock market. The S&P 500 Total Return Index returned -10.6%. Including an additional 3.5% gain in the U.S. dollar, the benchmark returned -8.2% for the month in Canadian dollar terms.

The American Value fund returned -9.1%, underperforming its benchmark by 0.9%.

A few examples best illustrate the severe volatility experienced in February. Two of the Fund's smaller technology holdings, Brocade Communications (down 27%) and Commscope (down 38%), reacted violently to disappointing earnings reports. Given the already modest valuations of these holdings, the declines seemed extreme. They were offset by the outperformance of larger holdings such as Goldman Sachs (up 13%).

The underperformance of the Fund relative to the market is the result of exposure to two sectors.

- Health care stocks declined significantly in the final week of February as Obama's reform proposals were released. Although the Fund is underweight this sector, Johnson and Johnson and Pfizer, which are large holdings, were poor relative performers.
- The defence sector was also weak as investors fear budget cuts in this area. The Fund's investments in General Dynamics, Lockheed Martin, Northrop Grumman and Raytheon (collectively representing about 6% of the portfolio) all declined over 20%.

Very unfavourable scenarios are already well discounted in both of these sectors, in our opinion.

"We're certain that the economy will be in shambles throughout 2009. But that conclusion does not tell us whether the stock market will rise or fall."

Warren Buffett  
2008 Letter to Shareholders  
Berkshire Hathaway

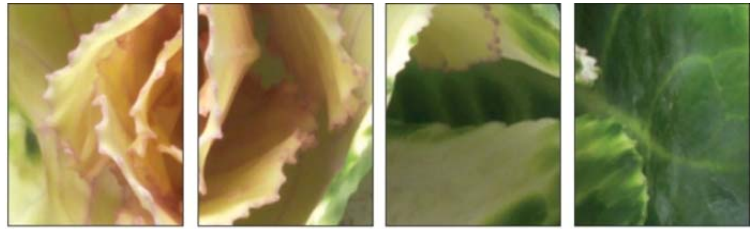
As Buffett points out, we cannot assume that a difficult economy in 2009 guarantees a down market.

Our goal is to take advantage of attractive prices for strong, well managed franchises while remaining vigilant in recognizing and correcting mistakes promptly.



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# Monthly Fund Update



February 28, 2009

## Empire Bond Fund

Monthly Performance	
Empire Bond Fund (Class A)	0.5%
DEX Universe Bond Total Return Index	0.7%
Peer Category – Canadian Fixed Income <sup>1</sup>	0.4%
Quartile Ranking <sup>1</sup>	2

Source: Paltrack, February 28, 2009

Government bonds traded in a range for most of the month, but were volatile. Overall, the general upward trend in yields remains intact. U.S. Treasury yields increased by 18 basis points during the month from 2.84 to 3.02 percent in the ten year term. Canada bond yields followed suit, increasing by 8 basis points from 3.05 to 3.13 percent.

There has historically been a close link between equities and corporate bonds. Recently, however, these two markets have diverged as the S&P/TSX Index declined by another 500 points in February, yet investment grade corporate bond spreads tightened by another 20 to 30 basis points. On a year-to-date basis, the S&P/TSX Index has declined by approximately 10 percent whereas investment grade corporate bond spreads have tightened by 40 to 50 basis points. As the equity markets continue to hit new lows, investors appear to be seeking a safe haven in high quality corporate bonds, which are currently offering attractive returns. The Fund is overweight this sector and has benefited from recent spread tightening.

Although high quality (investment grade) corporate bond spreads continue to tighten gradually, lower quality (high yield) bonds are still linked to the equity market and high yield spreads have moved to all-time highs. The graphs below illustrate this disconnect.



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<sup>1</sup> Median Category and quartile ranking are based on segregated fund universe only.

### Spreads on Investment Grade Corporate Bonds



Source: Bloomberg

### Spreads on High Yield Bonds



Source: Bloomberg

The global economy remains weak and Canada and the U.S. both reported negative Q4 GDP. The labour market has been particularly soft with the U.S. losing 651,000 jobs in February and Canada losing 82,600 jobs. The magnitude and breadth of weakness in the employment data has darkened the economic picture, at least in the short run. In the longer run, however, there continue to be some tentative signs of improvement. Weekly jobless claims seem to have stabilized, the ISM Manufacturing Index was again better than expected in February, and there was an upside surprise in Consumer Confidence and Retail Sales. Although it is too early to tell whether the economy has bottomed, these signs are encouraging.

In light of this economic backdrop, and the significant monetary easing by central banks around the world, we are cautious on longer-term bonds. Therefore, the duration of the Fund remains relatively short.



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# Monthly Fund Update



February 28, 2009

## Empire Income Fund

Monthly Performance	
Empire Income Fund (Class A)	0.6%
DEX Universe Bond Total Return Index	0.7%
Peer Category – Canadian Fixed Income Balanced <sup>1</sup>	-1.6%
Quartile Ranking <sup>1</sup>	I

Source: Paltrack, February 28, 2009

Government bonds traded in a range for most of the month, but were volatile. Overall, the general upward trend in yields remains intact. U.S. Treasury yields increased by 18 basis points during the month from 2.84 to 3.02 percent in the ten year term. Canada bond yields followed suit, increasing by 8 basis points from 3.05 to 3.13 percent.

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### Spreads on Investment Grade Corporate Bonds



Source: Bloomberg

### Spreads on High Yield Bonds



Source: Bloomberg

The global economy remains weak and Canada and the U.S. both reported negative Q4 GDP. The labour market has been particularly soft with the U.S. losing 651,000 jobs in February and Canada losing 82,600 jobs. The magnitude and breadth of weakness in the employment data has darkened the economic picture, at least in the short run. In the longer run, however, there continue to be some tentative signs of improvement. Weekly jobless claims seem to have stabilized, the ISM Manufacturing Index was again better than expected in February, and there was an upside surprise in Consumer Confidence and Retail Sales. Although it is too early to tell whether the economy has bottomed, these signs are encouraging.

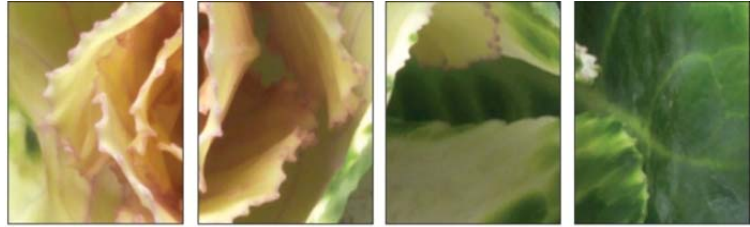
In light of this economic backdrop, and the significant monetary easing by central banks around the world, we are cautious on longer-term bonds. Therefore, the duration of the Fund remains relatively short.



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# Monthly Fund Update



February 28, 2009

## Empire Money Market Fund

For the month of February, the Empire Money Market Fund generated an after fee return of -0.1%. The extremely low interest rate environment prevailing at the moment present a challenge for the money market fund category.

- There have been 2 successive interest rate cuts of 50 basis points in Canada since December 31, 2008. (In the U.S., the Federal Reserve has maintained its rate between 0% to 0.25%.) The effect has been to reduce the bank rate to a generational low of 0.50 %. Furthermore, the Bank of Canada stated that it will lower rates further if needed.
- As a result, money market rates firmly declined to below 1% on an annual basis across most RI rated issues for one to 3 month terms. Instruments from certain corporate issuers with yields above 1% for these terms can be found. We are however avoiding them at this time due to the heightened potential for credit quality downgrades.

In order to improve yields within the Fund, we are considering corporate bonds with 9 to 12 months remaining to maturity as those provide higher returns. We have invested, on a very selective basis, in some of those instruments. Special care is taken to ensure that the price volatility of a particular issue is relatively low before making a commitment to invest as some of those short bonds exhibit significant fluctuations in pricing. This is in part due to the fact that this segment of the money market universe currently commands very wide spreads between the bid and ask prices.

A simple example best describes this situation. The selling price of a short bond might be \$101 to yield 2% to maturity but the purchase price on the same instrument would be \$103 to yield 3.5% to maturity, a difference of \$2.00 in the bid and ask pricing. As assets must be marked-to-market based on the *bid* price of securities at the end of each day, that particular security just purchased for \$103 would then be valued at \$101 at the end of the day, despite the fact that overall pricing has not changed, creating an immediate book loss of \$2.00.

We remain focused on minimizing pricing fluctuations and will maintain the high quality of assets in the portfolio. The current extremely low interest rates conditions will continue to create a challenging environment for the Fund until rates return to more normal levels.



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