



Marret High Yield Strategies Fund
2010 Annual Management Report of Fund Performance
March 28, 2011

This annual management report of fund performance for Marret High Yield Strategies Fund (the “Fund”) contains financial highlights but does not contain the complete annual financial statements of the Fund. This report should be read in conjunction with the annual financial statements of the Fund for the year ended December 31, 2010.

You may obtain a copy of the annual financial statements at your request, and at no cost, by collect calling 416-214-5800, by sending a request to Investor Relations, Marret Asset Management Inc., 200 King Street West, Suite 1902, Toronto, Ontario, M5H 3T4, or by visiting our website at www.marret.com or SEDAR at www.sedar.com. Unitholders may also contact us using one of these methods to request a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record, quarterly portfolio disclosure or independent review committee’s report.

The Fund

The Fund is a closed-end investment fund managed by Marret Asset Management Inc. (the “Manager”). The units of the Fund trade on the Toronto Stock Exchange (“TSX”) under the symbol MHY.UN. Through a forward agreement (the “Forward Agreement”) between the Fund and Bank of Nova Scotia (the “Counterparty”), the Fund is exposed to a portfolio of securities (the “Portfolio”) held by Marret HYS Trust. The Portfolio is comprised of debt securities and term loans that are generally rated at or below BB+ from Standard & Poor’s, or Ba1 or less from Moody’s Investor Services, Inc., or a similar rating from a qualified rating agency (collectively, “High Yield Bonds”). The Counterparty has agreed to pay the Fund on May 30, 2014, the economic return provided by the Portfolio. The Portfolio is managed by the Manager.

Investment Objective and Strategies

The Fund was created to achieve the following investment objectives: (i) to maximize total returns for holders of units of the Fund, consisting of both tax-advantaged distributions and capital appreciation, while attempting to reduce risk, and (ii) to provide holders of units of the Fund with attractive monthly tax-advantaged cash distributions, targeted to be 8.00% per year on the original issue price of \$10.00 per unit of the Fund, by obtaining exposure to the Portfolio, which is focused primarily on high yield debt. The specific strategy employed by the Manager from time to time in managing the Portfolio will depend on the phase of the credit cycle.

The return to investors of the Fund is dependent on the return of the Marret HYS Trust’s portfolio pursuant to the Forward Agreement. As a result, this management report of the Fund performance includes discussion of the performance of Marret HYS Trust, where applicable.

Risks

Risks associated with an investment in the units of the Fund are discussed in the Fund's prospectus dated May 28, 2009 (the "Prospectus"), which is available on the Fund's website at www.marret.com or on SEDAR at www.sedar.com. There has been no change in the Fund's stated investment strategy, and no changes to the Fund in 2010 that have materially affected the risks associated with an investment in the units of the Fund.

Leverage

Through the Forward Agreement, the Fund is exposed to leverage of Marret HYS Trust. Leverage did not cause a material change in the risk associated with an investment in units of the Fund. An increase in leverage may cause an investment in units to become more risky should any event adversely affect the value of an investment held by the Funds as the impact would be magnified to the extent leverage is employed. The leverage of the Fund during the period was below the threshold as stated in the prospectus and did not result in a change in suitability of the investment from what was previously disclosed in the prospectus.

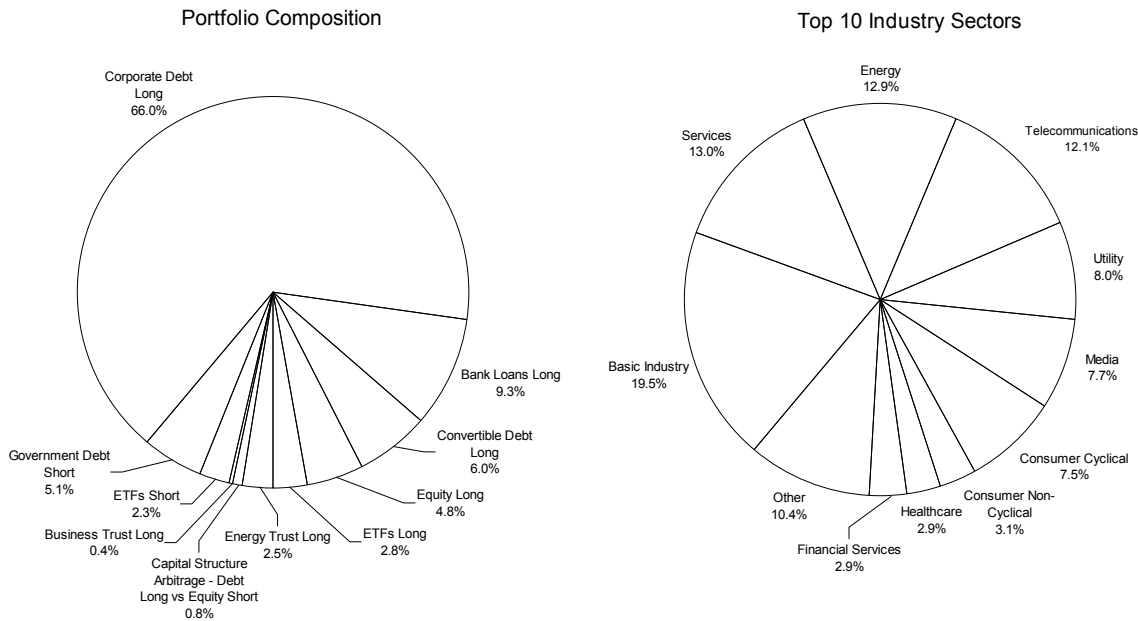
As indicated in the Fund's prospectus, the net exposure of Marret HYS Trust will not exceed 135%, on a daily marked-to-market basis, with net exposure calculated as the value of long security positions, excluding cash and cash equivalents, minus the absolute value of short positions, divided by the net asset value of Marret HYS Trust. At December 31, 2010, the Portfolio's net exposure was 87.8% of the net asset value of Marret HYS Trust.

Figures presented in this management report of fund performance are generally based on the Fund's calculation of its weekly net asset value ("Net Asset Value"), in accordance with the Fund's prospectus which may be calculated on a basis different from the application of Canadian Institute of Chartered Accountants ("CICA") Section 3855. In accordance with National Instrument ("NI") 81-106, certain figures are derived from the financial statements' calculation of net assets ("Net Assets") and are noted as such.

Results of Operations

Investment Portfolio

As of December 31, 2010, Marret HYS Trust held a total of 119 securities and the majority of the Portfolio was invested in High Yield Debt. The breakdown of the Portfolio is shown in the accompanying pie charts, and a detailed listing of the Portfolio's security holdings is provided in the financial statements of Marret HYS Trust. As of December 31, 2010, the Portfolio had an average duration of 3.67 years and a yield to maturity of 6.33%.



Calculated as a proportion of gross invested capital of Marret HYS Trust, excluding cash.

Distributions

During the year ended December 31, 2010, the Fund made monthly cash distributions which totaled \$0.804 per unit.

Liquidity and Capital Resources

Through the Forward Agreement, the Fund's performance is affected by leverage in Marret HYS Trust. Marret HYS Trust has a credit facility which provides the ability to borrow i) Canadian Dollars at a rate equal to the Bank of Canada Overnight Lending Rate plus a fixed percentage, and ii) U.S. Dollars at a rate equal to Federal Funds Overnight Rate plus a fixed percentage. The facility has been used by Marret HYS Trust to invest in additional portfolio investments. As at December 31, 2010, Marret HYS Trust had nil borrowings under this facility. During the year ended December 31, 2010, the minimum and maximum amounts of net borrowings of Marret HYS Trust were nil and \$67.7 million, respectively.

Recent Developments

Secondary Offering of Additional Units of the Fund

On October 7, 2010, the Fund issued 14,800,000 units for total gross cash proceeds of \$165,020,000. On October 18, 2010, the Fund issued an additional 866,109 units for total gross cash proceeds of \$9,657,115. Costs of \$7,409,106 were incurred in connection with these offerings and have been charged to equity.

Market Developments

In the first quarter, strong, steady gains in risk markets were met with some resistance as increased levels of volatility resurfaced due to escalating geopolitical tension in the Middle East. While a sharp sell-off triggered by Egypt earlier this year failed to materialize into a sustained move lower, more recent instability across a number of other countries kept volatility elevated. Fears were most evident in rising oil prices, as concerns over immediate supply disruptions in Libya, as well as potential spill-over effects into the more critical oil producer, Saudi Arabia, resulted in a spike in oil more recently. Furthermore,

risk markets are also battling with the uncertainty as to how long the economy could sustain elevated levels of oil alongside already high food and commodity prices, before threatening future growth prospects.

On the economic front, recent U.S. data confirmed that there is still momentum in the U.S. economy. Initial jobless claims have continued to trend lower while the change in non-farm payrolls has continued to improve, with the unemployment rate falling to 8.9% in February. Both the ISM manufacturing & non-manufacturing data exceeded expectations, hovering at their highest levels in years. Despite this strength, U.S. interest rates have remained range-bound throughout this year. Risk of a rise in Treasury yields still remains, as high levels of deficit spending will keep supply abundant. With respect to high yield, spreads remain relatively attractive based on low levels of expected defaults and have continued to narrow, while bond prices have continued to move higher with the rally in risk, resulting in declining yields.

Related Party Transactions

Related party transactions consist of services provided by the Manager to the Fund. Pursuant to the management agreement, the Manager receives a management fee from the Fund equal to 0.25% per annum of the Net Asset Value of the Fund (or 1.00% in total when combined with the management fee received from Marret HYS Trust), calculated and payable monthly in arrears, plus applicable taxes. The management fee is in consideration for providing management, portfolio management, and administrative services and facilities to the Fund. In addition to the management fee, the Manager receives a service amount calculated and paid as soon as practicable after the end of each calendar quarter, equal to 0.40% per annum of the Net Asset Value attributable to the units of the Fund. The service amount is paid to brokers based on the number of units of the Fund held by clients of such brokers at the end of the relevant quarter. For the year ended December 31, 2010, the management fee earned was \$752,263 (\$3,056,124 when combined with the management fee earned by Marret HYS Trust). The service amount paid/payable from the Fund for the year ended December 31, 2010 was \$1,203,623.

The Manager also receives a performance fee from Marret HYS Trust (the "Performance Fee"). The Performance Fee is determined as of December 31 of each year and for each year is an amount for each unit of Marret HYS Trust then outstanding equal to 15% of the amount by which the sum of (i) the Net Asset Value of such unit (without taking into account the Performance Fee), and (ii) the distributions paid on such unit during the previous 12 months, exceeds 106.35% of the "Threshold Amount". For years ending after December 31, 2009, the Threshold Amount is the greater of (i) the Net Asset Value per unit of Marret HYS Trust immediately following June 17, 2009, which was \$10.00, (ii) the Net Asset Value per unit of Marret HYS Trust on December 31 for the previous fiscal year (after payment of the Performance Fee), and (iii) the Net Asset Value per unit of Marret HYS Trust on December 31 in the last fiscal year in which a Performance Fee was paid (after payment of the Performance Fee). The Performance Fee payable to the Manager for the year ending December 31, 2010 was \$4,651,418.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance for the past two fiscal periods. This information is derived from the Fund's audited annual financial statements. The information in the following tables is presented in accordance with NI 81-106 and, as a result, does not act as a continuity of opening and closing Net Assets per unit. The increase (decrease) in Net Assets from operations is based on average units outstanding during the period, and all other numbers are based on actual units outstanding at the relevant point in time.

The Fund's Net Assets per Unit ⁽¹⁾

For the period ended December 31	2010	2009 ⁽²⁾
Net Assets, beginning of period	\$ 10.20	\$ 10.00
Issue expense ⁽³⁾	\$ -	\$ (0.56)
Net Assets, beginning of period (net of issue expense)	\$ 10.20	\$ 9.44
Increase / (decrease) from operations:		
Total revenue	\$ -	\$ -
Total expenses	\$ (0.11)	\$ (0.06)
Realized gains / (losses) for the period	\$ 0.12	\$ 0.03
Unrealized gains / (losses) for the period	\$ 1.38	\$ 1.23
Total increase / (decrease) from operations ⁽⁴⁾	\$ 1.39	\$ 1.20
Distributions:		
From income	\$ -	\$ -
From dividends	\$ -	\$ -
From capital gains	\$ -	\$ -
Return of capital	\$ 0.80	\$ 0.43
Total Distributions ⁽⁵⁾	\$ 0.80	\$ 0.43
Net Assets, end of period	\$ 10.79	\$ 10.20

⁽¹⁾ This information is derived from the Fund's audited annual financial statements. The Net Assets per unit presented in the financial statements differs from the Net Asset Value calculated for weekly Net Asset Value purposes. The Net Assets per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities on that date and includes the valuation of securities at bid prices for securities held long and at ask prices for securities held short divided by the number of units then outstanding.

⁽²⁾ Information presented is for the period from June 17, 2009 to December 31, 2009.

⁽³⁾ Issue expenses of \$7,409,106 were paid exclusively by participants of the secondary offering of 15,666,109 units (\$0.47 per unit) in October 2010. This amount has been excluded from the table above as it did not impact existing unitholders.

⁽⁴⁾ Net assets per unit and distributions per unit are based on the actual number of units outstanding at the relevant time. The increase (decrease) in Net Assets from operations per unit is based on the weighted average number of units outstanding over the fiscal period.

⁽⁵⁾ Distributions to unitholders are based on the number of units outstanding on the record date for each distribution and were paid in cash.

Ratios and Supplemental Data (based on Net Asset Value)

For the period ended December 31	2010	2009 ⁽¹⁾
Total Net Asset Value	\$414,311,288	\$ 231,901,872
Number of Units Outstanding	38,396,109	22,730,000
Management Expense Ratio ("MER") ⁽²⁾	6.46%	9.06%
Trading Expense Ratio ⁽³⁾	0.04%	0.05%
Portfolio Turnover Rate ⁽⁴⁾	8.12%	3.74%
Net Asset Value per Unit	\$ 10.79	\$ 10.20
Closing Market Price	\$ 11.31	\$ 10.68

⁽¹⁾ Information presented is for the period from June 17, 2009 to December 31, 2009.

⁽²⁾ Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) of the Fund and Marret HYS Trust for the stated period, including interest expense and issuance costs, and is expressed as an annualized percentage of daily average Net Asset Value of the period. The Management Expense Ratio, for the period ended December 31, 2010, excluding Issue Expenses was 3.82% (2009 – 3.46%) and excluding Performance Fees and Issue Expenses was 2.15% (2009 – 2.21%). The 2010 issue expenses were associated with an October 2010 secondary offering and paid entirely by participants of the secondary offering.

⁽³⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average Net Asset Value of the Fund during the period.

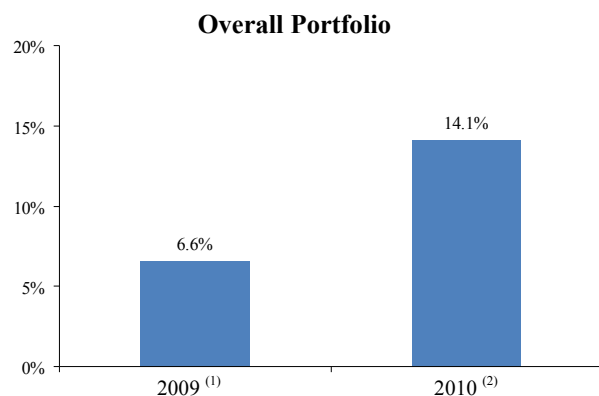
⁽⁴⁾ The Fund's portfolio turnover rate indicates how actively the Fund's Portfolio Manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of investments during the period. The portfolio turnover ratio for Marret HYS Trust for the period ended December 31, 2010 was 240.37%.

Past Performance

The following charts and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on Net Asset Value per unit and assumes that cash distributions made by the Fund in the periods shown were reinvested (at Net Asset Value per unit) in additional units of the Fund.

Year-by-Year Returns

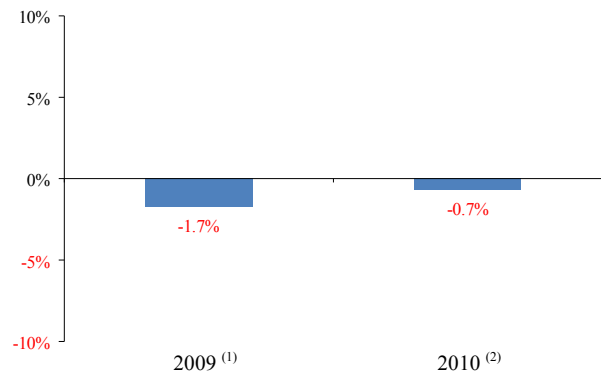
The bar charts show the Fund's total return for the overall Portfolio, long Portfolio positions and short Portfolio positions for the fiscal periods from inception to December 31, 2010. The charts show, in percentage terms, how an investment held on the first day of each period would have changed by the last day of the period.



Long Positions



Short Positions



⁽¹⁾ Period from June 17, 2009 (Fund inception) to December 31, 2009.

⁽²⁾ Period from January 1, 2010 to December 31, 2010.

Annual Compound Returns

The following table shows the Fund's annual compound return for each period indicated, compared with the Merrill Lynch U.S. High Yield Master II Index hedged to CAD ("High Yield Index"), the S&P/TSX Composite Total Return Index ("TSX") and the S&P 500 Total Return Index hedged to CAD ("S&P 500"). The High Yield Index is a broad-based index that tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. The TSX tracks the performance of approximately 300 large-cap stocks listed on the TSX and the S&P 500 tracks 500 large-cap U.S. stocks representing all major industries. The High Yield Index, TSX and S&P 500 are calculated without the deduction of fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

	Year ended	
	December 31, 2010	Since Inception ⁽¹⁾
Marret High Yield Strategies Fund - Overall ⁽²⁾	14.1%	13.6%
<i>Long positions</i>	14.8%	16.0%
<i>Short positions⁽³⁾</i>	-0.7%	-2.4%
Merrill Lynch U.S. High Yield Master II Index ⁽⁴⁾	15.0%	23.3%
S&P/TSX Composite Total Return Index	17.6%	22.2%
S&P 500 Total Return Index ⁽⁴⁾	14.8%	25.2%

⁽¹⁾ Period from June 17, 2009 (Fund inception) to December 31, 2010.

⁽²⁾ Based on Net Asset Value per unit and assuming that distributions made by the Fund on its units in the periods shown were reinvested (at Net Asset Value per unit) in additional units of the Fund.

⁽³⁾ Annual compound return for short positions does not include foreign currency hedging gains/losses.

⁽⁴⁾ Hedged to the Canadian dollar.

Summary of Investment Portfolio

As at December 31, 2010

Portfolio Composition ⁽¹⁾

Category	Percentage of Net Asset Value
Corporate Debt Long	68.6%
Bank Loans Long	9.7%
Convertible Debt Long	6.2%
Equity Long	5.0%
ETFs Long	2.9%
Energy Trust Long	2.6%
Capital Structure Arbitrage - Debt Long vs Equity Short	0.9%
Business Trust Long	0.4%
ETFs Short	-2.4%
Government Debt Short	-5.3%
Cash and Cash Equivalents	8.0%
Other assets (liabilities)	3.5%
Total Net Asset Value (in \$ millions)	414.3

Top 25 Holdings ⁽²⁾

Security Name	Percentage of Net Asset Value
Long Positions	
Cash and Cash Equivalents	8.0%
Newport Finance Corp Term Loan 20Dec2013	2.6%
Texas Comp Elec Hold LLC B2 Term Loan 10Oct2014	2.6%
Canadian Oil Sands Trust	2.6%
McDonald's Corp 6.3% 01Mar2038	2.3%
New Gold Inc 5% 29Jun2014	2.3%
Consolidated Thompson Ir 5% 30Nov2017	2.2%
Consolidated Thompson Ir 8.5% 27Jan2017	1.9%
Ford Motor Credit Co LLC 7.8% 01Jun2012	1.8%
iShares S&P/TSX Global Gold	1.8%
Xinergy Corp 9.75% 27Apr2015	1.6%
Procter & Gamble Co/The 5.55% 05Mar2037	1.6%
HCA Inc 8.5% 15Apr2019	1.6%
Procter & Gamble Co/The 4.7% 15Feb2019	1.6%
Hertz Corp 8.875% 01Jan2014	1.6%
Qwest Communications Int 8% 01Oct2015	1.5%
MGM Resorts Intl 13% 15Nov2013	1.5%
NBC Universal 5.95% 01Apr2041 144A	1.5%
Data & AV Ent Holdings 15% 25Sep2018	1.5%
Wal-Mart Stores Inc 5% 25Oct2040	1.5%
Johnson & Johnson 4.5% 01Sep2040	1.5%
Chester Downs & Marina Term Loan 31Jul2016	1.4%
New Gold Inc 10% 28Jun2017	1.4%
Short Positions	
US Treasury N/B 4.375% 15May2040	-2.3%
US Treasury N/B 4.25% 15Nov2040	-1.7%
Total Portfolio Longs	95.6%
Total Portfolio Shorts	-7.8%

⁽¹⁾ Through the Forward Agreement, the Fund is exposed to the value of the investment portfolio of Marret HYS Trust. A summary of the investment portfolio of Marret HYS Trust is included above.

⁽²⁾ The top 25 holdings of Marret HYS Trust, as a percentage of the Net Asset Value of Marret HYS Trust, have been presented in accordance with NI 81-106.

The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available within 60 days of each quarter end.

The prospectus and other information about Marret HYS Trust are available on the internet at www.sedar.com and at www.marret.com.

2010 Tax Information

The following information is applicable to unitholders who, for the purpose of the Income Tax Act (Canada), are resident in Canada and hold units as capital property outside of an RRSP, RRIF or DPSP. Unitholders should receive a T3 slip from their investment dealer providing this information.

T3 supplementary slips for holdings of the Fund will indicate Return of Capital in Box 42. The return of capital component is a non-taxable amount that serves to reduce the adjusted cost base of the Fund units.

The following table outlines the breakdown of the Fund's distributions declared in 2010 on a per unit basis.

Record Date	Payment Date	Return of Capital	Total Distribution
29-Jan-2010	12-Feb-2010	\$ 0.06700	\$ 0.06700
26-Feb-2010	12-Mar-2010	0.06700	0.06700
31-Mar-2010	14-Apr-2010	0.06700	0.06700
30-Apr-2010	14-May-2010	0.06700	0.06700
31-May-2010	14-Jun-2010	0.06700	0.06700
30-Jun-2010	15-Jul-2010	0.06700	0.06700
30-Jul-2010	16-Aug-2010	0.06700	0.06700
31-Aug-2010	15-Sep-2010	0.06700	0.06700
30-Sep-2010	15-Oct-2010	0.06700	0.06700
29-Oct-2010	12-Nov-2010	0.06700	0.06700
30-Nov-2010	14-Dec-2010	0.06700	0.06700
31-Dec-2010	17-Jan-2011	0.06700	0.06700
Total		\$ 0.80400	\$ 0.80400

This information is of a general nature only and does not constitute legal or tax advice to any particular investor. Accordingly, investors are advised to consult their own tax advisors with respect to their individual circumstances.

Portfolio Manager

Marret Asset Management Inc.

Marret Asset Management is a credit fixed income manager. The firm advises on over \$5 billion in high yield and investment grade corporate debt assets for institutional and retail clients. Marret is registered as a Portfolio Manager, Exempt Market Dealer and Commodity Trading Manager with the Ontario Securities Commission. The firm was founded in Toronto by Barry Allan and began operations in late 2001. Marret is 100% employee-owned and is committed to maintaining significant employee ownership in order to assemble the most qualified credit team and to achieve the best possible returns for clients.

Portfolio Manager's Report

Throughout 2010, we continued to focus on the theme of participating in the liquidity-driven rally despite our bearish longer term outlook. The short term positive stance stemmed from the view that spreads still remained relatively attractive, given the expectation of very low default rates for the foreseeable future as well as improving economic data. This coupled with the fact that spreads remained above their historical average for the entire year, while excess spread (defined as spread less expected loss) remained at very high levels, indicated attractive risk-adjusted returns. Despite this realization, the fund continued to adhere to the central theme of focusing on positions that were of higher quality in terms of strong credit profiles, in addition to being highly liquid. We also, however, looked to selectively compliment the

portfolio with higher yielding total return investments where we viewed the investment risk/reward profiles to be sufficiently compelling. These dynamics led to a portfolio yield that remained lower than the market throughout the year. Cash balances remained higher than normal throughout the second half of 2010 to protect against potential negative event risks due to escalating sovereign debt problems, which also reduced the overall yield of the portfolio. Strong credit selection provided outsized gains, with positions such as Teck Resources migrating up to investment grade over the course of the year. This was initially one of the fund's largest positions and despite the lower yield of these securities, the position provided strong risk adjusted returns, due to capital appreciation.

From an industry perspective we continued to overweight the energy and metals/mining sectors due to a macro view that favored China-centric growth, which fuelled strong demand for commodities and natural resources. In the year, these companies had benefited from strong cash flow due to higher commodity prices, and generally maintained strong balance sheets while providing attractive asset coverage for debt investors as well. Telecom also remained an overweighted sector in the portfolio. This sector had provided market exposure to large liquid issuers with stable cash flow businesses. Furthermore, from a fundamental perspective, moderating business profiles had created a renewed focus on debt repayment and conservative balance sheets to the benefit of debtholders. Certain holdings in this sector remain upgrade candidates for investment grade. Lastly, the Gaming sector had also been a focus for different reasons. Despite weak fundamentals, we continued to participate predominantly in first mortgage securities with strong collateral packages, due to favourable expected recoveries even in downside scenarios.

As we reflect on 2010, we note that 2009 and 2010, despite the extreme nature of the 2008 financial crisis, have unfolded fairly consistently with past economic cycles. High yield markets have always outperformed the broad equity markets in the first two years of each cycle and the 2009/2010 period was no exception. Traditionally, at this point, markets would be focusing on the potential for central bank rate hikes, yield curves would be steepening, employment data would be improving and the economic recovery would be well on its way to sustainability. In the last month, the economic data all came in stronger than forecast, the yield curve steepened, there have been a few comments of the Fed discontinuing QE2 early and even the odd comment of the Fed hiking rates. Equities have outperformed and even retail mutual fund flows have turned positive after nearly three years of withdrawals. So far, the recovery has followed previous patterns despite the uniqueness and severity of the financial crisis-induced recession.

While this scenario could well play out for the next quarter or two, we do not subscribe to the theory that a normal economic recovery will follow a global banking crisis (with perhaps a few minor deviations). We see three major differences between the current environment and past cycles:

Firstly, in past cycles, the bulk of the deleveraging would be over by now, either through the bankruptcy process or voluntary debt reduction. In this cycle, while good progress has been made on the consumer front, household debt levels remain extremely elevated and falling housing prices only worsens this scenario. Total debt levels rose for the past 25 years and the deleveraging process will not end in a two year recession as in the past, but may last for the next decade.

Secondly, government debt has now reached levels that in history have caused currency instability and solvency questions. In Canada, we have lived through this scenario following the last real estate-induced recession – 1990/91. Canada devalued its currency, raised taxes and cut spending. The result was two years of rising deficits and currency volatility before progress became apparent. This was followed by an economy that underperformed the U.S. for nearly a decade until debt/GDP levels moved well below those of the U.S. The U.S. has not yet started the process of cutting deficits let alone lowering debt levels. Even the Fed, which should be the first to shrink its balance sheet, is going in the opposite direction. The

markets have not recognized that once you start the process of raising taxes and cutting spending there is a period where deficits actually increase due to the negative impact on the economy. Canada in the 90's and the current situation in Greece and Ireland are good examples. What is seen as a pretty tough budget in the UK will be questioned when deficit levels show little improvement in the next few quarters. The reduction of government debt will take a long time, some will have to default, the current composition of the Euro will be altered and OECD growth levels will be weak and sporadic. We don't believe that Canada could have achieved what it did without the 90's being the period of the greatest prosperity our generation has experienced - and this period was fuelled by three main factors:

1. Falling inflation and interest rates;
2. Globalization - kick started by the break up of the Soviet Union;
3. Massive Productivity Gains - invention of the internet, PC's and cell phones

Of these factors, by far the most important is the decline in inflation and therefore interest rates - the exact opposite of what we face today.

Turning now to 2011, we believe the predominant theme will be rising volatility. The source of this volatility will likely be outside the USA. The funding requirements of European governments and banks are massive and appear to be well outside the ability of markets to easily absorb. U.S. economic and fiscal policies are causing major capital shifts to emerging economies, stressing currency stability, and driving consumer prices higher. The risk here is that these pressures force rates high enough in those economies to destroy the only strong growth the world is experiencing.

Our view is that risk assets will enjoy periods of strong price appreciation and also periods of near panic selling in 2011. We don't see the most serious and long lasting difficulties overwhelming markets until 2012. We expect returns in 2011 to be more modest than the past two years and preserving capital to be more important.

Forward-Looking Statements

Some of the statements contained herein including, without limitation, financial and business prospects and financial outlook may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may," "will," "should," "could," "anticipate," "believe," "expect," "intend," "plan," "potential," "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based on what management believes to be reasonable assumptions, we cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.

Corporate Information

Independent Review Committee

John Anderson, CA

Richard Stone

Ross MacKinnon

Directors and Officers

Barry Allan
President, Director

Paul Sandhu
Vice President, Director

David Gluskin
Vice President, Director

Marcus Spain, CA
Vice President, Chief Financial
Officer

Lara Misner, CFA
Vice President, Chief
Compliance Officer

Dorothea Mell, CFA
Vice President, Corporate
Secretary

Adrian Prenc, CFA, FRM
Vice President

Trustee

Equity Transfer & Trust
Company

Transfer Agent & Registrar

Computershare Investor Services
Inc.

Custodian

CIBC Mellon Trust Company

Prime Broker

Scotia Capital Inc.

Auditors

PricewaterhouseCoopers LLP



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