JCClark Investments.

Preservation Trust & Focused Opportunities
2011 Year-End Update

January 16, 2012

Dear Investors:

During 2011, the TSX Composite declined 11.1% while the S&P 500 ended the year flat. Through this same period our Preservation Trust and Focused Opportunities Fund performed as follows:

JCClark Returns vs. Indices			
	Preservation Trust	TSX Composite	S&P 500
2011 Annual Return	-13.2%	-11.1%	0.0%
Since Inception (May 1999)	10.6%	4.3%	-0.5%
	Focused Opportunities	TSX Composite	S&P 500
2011 Annual Return	-10.0%	-11.1%	0.0%
Since Inception (June 2005)	5.6%	3.4%	0.8%

Since Inception returns are annualized, Focused Opportunities represents Class B returns

Since inception, the Preservation Trust has generated a compound annual return of 10.6% relative to a 4.3% annual return for the TSX Composite and a -0.5% annual return for the S&P 500. The Focused Opportunities Fund has produced a compound annual return since inception of 5.6% (vs. 3.4% for TSX Composite, and 0.8% for S&P 500). Both funds have also protected capital well in difficult markets with maximum drawdowns of less than half that of the relevant indices since inception. While we are disappointed with the short-term performance of these strategies, we have a high level of conviction in our investment themes and individual equity positions and believe we are well positioned to build on our excellent long-term track record. Near-term potential catalysts in certain positions, deeply discounted valuation metrics on many of our core holdings, and a number of compelling new investment opportunities will, in our view, all contribute to strong fund performance in 2012 and beyond. Consistent with this view, the partners at JCClark have personally added to our own positions in the Funds over the last several months.

Fund Performance & Positioning

2011 was a challenging year that witnessed significant market volatility, macro uncertainty and many unusual disconnects between share price performance and company fundamentals. Performance of equities was largely driven by European macro-economic news, speculation surrounding fiscal and monetary policy action, and a flight to liquidity and safety. During such market periods it is essential to constantly re-examine the fundamental attributes of one's key positions and themes and to avoid undue focus on short term market noise. We are pleased to report that the majority of our core positions produced strong financial results, trade at low valuation multiples and possess solid balance sheets. Share price under-performance of certain positions, in many cases, was more related to the sector, trading liquidity or capitalization size of the company – all factors, that over the long term, have little bearing on the ultimate profitability of these investments. Where we have identified poor financial performance or a weak outlook among portfolio positions, we have cut our losses and sold the positions. As a result, we believe that the future prospects of our current investments are excellent and that collectively, these positions offer our Funds significant future upside. Our short book offered some offsetting protection during periods of market weakness, yet in many cases, larger and more liquid U.S. short positions did not produce the gains we had hoped and rallied back sharply with the U.S. market.

During the year, performance was negatively impacted by a few specific factors. First of all, our net long exposure during the August market downturn, particularly in Canada, proved to be difficult. Canadian equities, and most noticeably small capitalization companies, had a challenging year. We continue to hold a number of these Canadian companies due to their strong fundamental attributes and believe that these equities will be among our best performers in 2012. Our position in gold equities also acted as a drag on performance. We have long believed that all investors should maintain a core portfolio weighting in gold and gold equities as protection against future inflationary pressures, global economic and political uncertainty, and most importantly to guard against potential debasement of paper currencies as central banks continue to aggressively print money. Gold equities continued to underperform gold bullion in the second half of the year and large capitalization, high quality gold producers now trade at historic lows from a valuation perspective. We have modestly trimmed our gold positions in recent months, but continue to hold a core weighting as we expect European sovereign debt issues will necessitate further monetary easing by global central banks. A handful of long-term small cap value positions also negatively impacted Fund returns despite relatively strong earnings and cash flow performance. In a world intently focused on liquidity, investors overlooked fundamental factors and pushed share prices of many smaller companies down to unjustified levels. As significant investors in some of these companies, we are working actively with management and other shareholders to pursue value-surfacing initiatives which we believe will ultimately result in significant share price appreciation.

At the end of 2011, both Funds remained net long with a bias towards domestically focused North American businesses. We continue to focus on high quality companies and have increased our exposure to large dividend paying equities while further reducing our small cap exposure.

Economic & Market Outlook

As we begin a new year, all eyes remain focused on Europe. Bond yields of weaker European nations continue to sit near all time highs suggesting the crisis is far from over. Several of these nations have implemented severe fiscal austerity measures in response to global pressure to reduce government debt. These programs combined with an inability to re-adjust through currency devaluation risk triggering even weaker economic growth, higher unemployment and a severe recession in several Euro area countries. We believe that aggressive support by the European Central Bank and pro-growth policies are the only solutions to avoid a complete collapse of the European Union. Clearly, Europe will remain one of the key risks for investors to monitor and protect against as we move through 2012.

In stark contrast to the gloomy situation in Europe, recent U.S. economic data has been undeniably positive and has actually accelerated in recent weeks. Q4 U.S. GDP is tracking at above 2% which would represent the best quarterly performance of the year. Unemployment claims continue to fall and suggest the moribund labour market is finally showing some signs of life. Even the highly depressed housing market has begun to improve with a recent uptick in housing starts. Furthermore, the U.S. leading economic indicator index has continued to improve in recent months which is supportive of further strength in 2012 and suggests corporate earnings growth should accelerate. With exports to Europe representing only 1.2% of U.S. GDP, we believe it is possible that this dichotomy in economic performance can continue with the U.S. economic backdrop gradually improving even in the face of grave problems in Europe.

While Canada has been a standout performer on the global economic stage over the last several years, high levels of consumer debt (now at 137% of disposable income vs. the U.S. at only 106%), a frothy housing market, and an eroding manufacturing base suggest potential risks to the outlook. A strong Canadian dollar continues to hurt the competitiveness of the manufacturing sector where jobs now sit at a 40 year low. Recent strength in employment has been largely driven by government hiring which is unlikely to continue as greater emphasis is placed on fiscal discipline during 2012. Incredibly, 95% of the 164,000 jobs added in Canada in the last 3 years have been from the government sector. An improving U.S. economic backdrop will help Canada, while slowing growth in emerging markets such as China and India could dampen the prospects for resource related sectors. As a whole, Canada remains in an enviable global position with a strong banking sector, large resource base, and relatively healthy economy. Nevertheless, we have become somewhat more cautious with respect to the outlook for the Canadian economy and consumer as we move into 2012.

A multitude of contradictory data-points and global divergences in economic performance create a challenging environment for investors. While the risk of "outlier" events necessitates a flexible approach, it is clear to us at this juncture that the U.S. economy is exhibiting significant positive divergences from Europe, China and other global economies. As a result, we will focus on domestically driven U.S. businesses, avoid those companies with significant European exposure, and tread carefully with respect to global cyclical and resource equities.

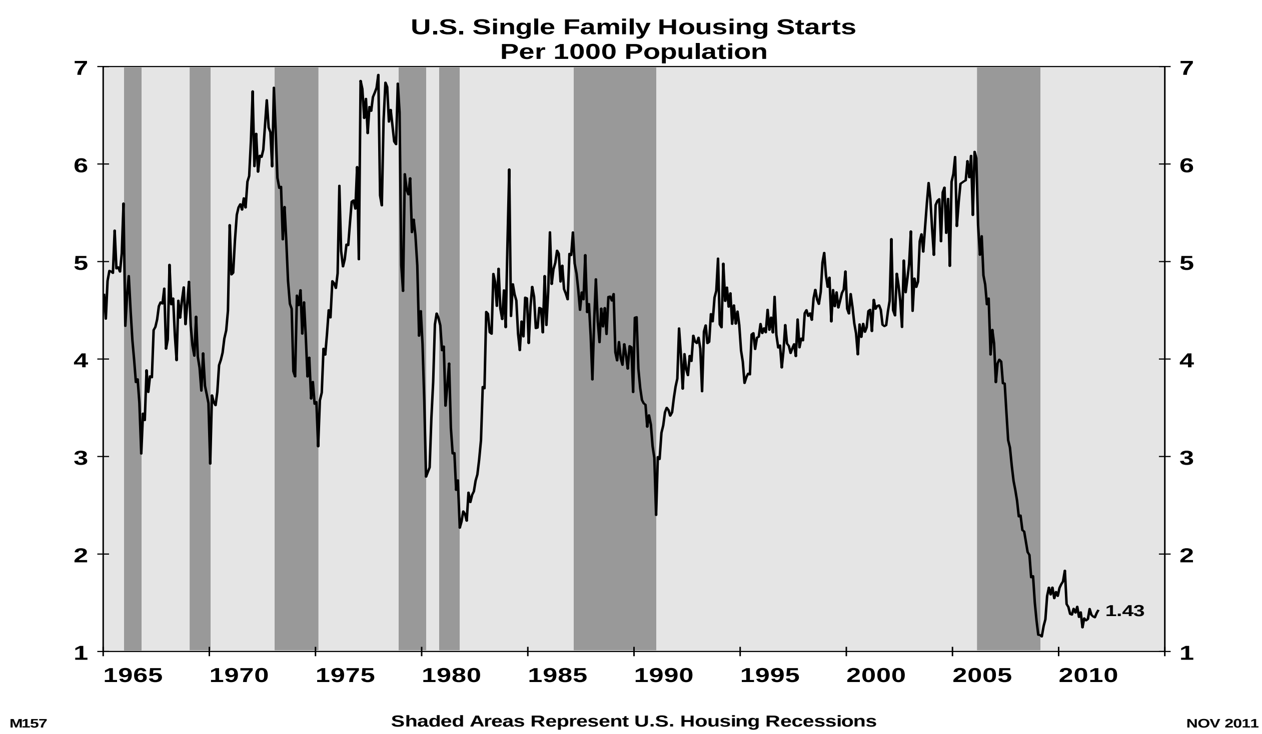
A key element to our constructive stance on U.S. equities is the compelling valuation opportunity. As we have previously espoused, equities are as cheap as they have been in decades relative to government bonds and are inexpensive even on an absolute basis given strong corporate balance sheets and a solid outlook for earnings growth. Of particular interest, large capitalization, brand name businesses with incredible franchises rank among some of the most compelling values in the market. In several cases, an investor can purchase a dominant business at a P/E multiple of only 10x suggesting that if the investor holds that business forever and it never grows (a highly unlikely scenario given that many of these companies are growing at 10-15% annually) the investor will still earn an annual rate of return of 10%. This is in contrast to U.S. 10 year treasury bonds which now offer investors less than 2% annually, with no prospect of future growth. Strangely, investors are flocking to these treasury securities and avoiding equities at all cost. We think the case for purchasing these high quality U.S. equities has never been better.

Investment Themes & Opportunities

After thorough consideration of the aforementioned economic and valuation factors we remain modestly bullish with respect to North American equities and believe that equity markets are more likely to be higher 12 months from now, than lower. Across the Funds our beta-adjusted net market exposure ranges from 30% to 45% net long. We remain comfortable with this positioning and believe we have structured our portfolios to benefit from stronger equity prices, yet hold adequate short positions and cash to protect against the uncertain global economic environment. From a sectoral standpoint we favour technology, U.S. housing, automotive, healthcare and gold. In contrast, we are negative with respect to consumer cyclicals, Canadian retail/housing, and base metals. We continue to focus on maintaining high levels of portoflio liquidity and have reduced small capitalization exposure in recent months.

A new thematic area of focus is the U.S. automotive sector. Despite a challenging economy, U.S. auto sales increased 10% in 2011. Vehicle sales accelerated throughout the year and ended at an annual rate of 13.5 million units, up almost 30% from early 2009 lows but still well below the more normal historic range of 15-17 million units annually. With an improving U.S. economy, and an ageing vehicle fleet, the outlook for U.S. auto sales is solid. Due to the severe 2008 financial crisis most auto industry companies were forced to significantly restructure their cost bases. This involved union negotiations, relocating manufacturing facilities to lower cost regions and restructuring pension obligations. In the case of General Motors an outright bankruptcy filing and a government-led recapitalization was necessary. The end result is a far more efficient industry that can produce vehicles profitably at a much lower industry sales level. With re-capitalized balance sheets, a more competitive cost structure, and improving industry sales, it difficult to understand why industry leaders such as Ford and General Motors are trading at 2x-3x EV/EBITDA – valuation levels that would normally be appropriate for only highly distressed businesses. We have recently accumulated positions in both Ford and GM as well as an auto parts supplier and a auto dealership company. We believe that in a modestly growing U.S. economy significant upside exists for these positions and even in the case of a more challenging economic environment, pent up demand and strong industry fundamentals will result in modestly higher share prices.

As discussed in our mid-year letter, we believe the U.S. housing industry offers increasingly attractive investment opportunities. We continue to believe that the confluence of a material decline in U.S. home prices, several bankruptcies among industry participants, balance sheet restructuring, a huge reduction in the supply of new homes, and negative industry sentiment are creating an opportunity to build positions in housing related equities for those investors with a long term time horizon. As a simple example of why we believe the current situation in the U.S. housing market is unsustainable, the chart below highlighting housing starts per capita speaks volumes. We have added modest initial positions in a few housing related equities and expect to further exploit this theme in 2012.



Source: TD Securities

You will find enclosed with our year-end letter, a short summary highlighting two of our highest conviction investment ideas – Vodafone Group and The Brick. We hope this offers additional insight into current portfolio construction and our investment process.

On the product development front, JCClark launched its first fixed income fund on January 1st. This fund, called the JCClark Yield Trust, will initially invest primarily in high quality corporate bonds and will target annual returns of 4%-5% with a conservative risk profile. Please feel free to contact us directly if you would like to learn more about this new strategy.

Summary

We are confident that our long/short strategy is an ideal approach with which to navigate the current uncertainty in financial markets. The ability to hold significant cash, maintain short positions, and hedge currency exposure are a few of the unique tools we employ that are not commonly available in traditional investment funds. As always, we remain primarily focused on bottom-up security selection while at the same time trying to moderate overall market risk and avoid permanent losses of capital. We continue to be somewhat positive with respect to the outlook for equities in 2012 and as such remain modestly net long while holding adequate hedges to protect against current global uncertainties. We have a high level of conviction in our individual ideas and themes and continue to personally add to our investments in the Funds. We thank each of you for your continued support and look forward to speaking in the months ahead.

Sincerely,

Colin Stewart