ASTON HILL GROWTH & INCOME FUND

Q1 2011

UPDATE COMMENTARY

Economic Outlook

Both equity and fixed income markets started 2011 on a strong note. Until the Egyptian turmoil in mid-February, the S&P 500 was up almost 7.0% and the S&P TSX had gained approximately 5.0%. While the Egyptian crisis gave the market pause, it took the impact of both the massive earthquake in Japan and the turmoil in Libya, along with debt issues in Europe to derail investors' confidence and wipe out almost all of the gains in the equity markets by mid-March. That being said, the markets have clearly become more comfortable with the big three macro overhangs of the Middle East, Japan, and European sovereign debt issue – stocks have almost fully recovered from the bought of risk aversion that started in mid-February.

In the fixed income markets, High Yield bonds returned ~4.0% in the first quarter according to the Credit Suisse High Yield Index, and the US 10 year Treasury ended the month at ~3.5%. We continue to witness companies accessing the credit markets to refinance their balance sheets and corporate default rates are declining to levels not seen since November 2007.

Given the geo-political and natural disasters that have unfolded recently, US growth assumptions should be readjusted for 2011. We highlight two factors here but recognize that there are many more.

Firstly, the nuclear and natural disaster unfolding in Japan will likely reduce US exports to Japan over the near term as Japanese demand temporarily contracts. A further risk to US outlook comes from a supply shock unfolding. Prolonged supply disruptions from Japan could negatively affect manufacturing and, in turn, sales in the US; we have already seen idling of production in the automotive and technology sectors in North America due to lack of Japanese parts.

Secondly, the rapid rise in the oil price cannot be ignored; the price of a barrel of oil has risen swiftly from $91 at the beginning of the year to $112 today. The impacts have been felt at the consumer level, with the price of gasoline increasing by over $1.00 a gallon, as well as by businesses, through higher transportation costs and raw material inputs. A persistently high oil price will slow the economic recovery in the US, impacting consumer spending. Although we continue to be positive on the US economic recovery, we are lowering our growth expectations for 2011. This will, by extension, affect expectations for both equity and bond returns.

Growth & Income Fund Outlook

All of this being said, we have been actively positioning the Aston Hill Growth & Income Fund to where we believe the best risk adjusted returns are. In the first 3 months of the year we

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have focused our attention on three main areas:

First, we have increased the asset allocation of fixed income to approximately 29% (up from 14% at year-end). We have added names like **Appleton Papers 11.25%, 2015** (a leading producer of specialty coated paper products), **Precision Drilling 6.5%, 2019,** and **Crestwood Midstream Partners 7.75%, 2019** (a midstream natural gas processor).

Second, we have increased US equity exposure to over 11% as we continue to believe the US economy is repairing itself and there are good growth companies trading at reasonable valuations in the US. We have added exposure to **Wabash National Corp**, **Freeport-McMoran**, and **Occidental Petroleum Corp**.

Lastly, the Fund continues to favour a greater weighting towards energy, which has benefited the Fund's returns off of the back of rising oil prices. The Fund's largest positions in energy are **Vermillion Energy**, **Daylight Resources** and **Crescent Point Energy.**

The Aston Hill Growth & Income Fund continues to focus on high quality, undervalued companies that generate strong free cash flow and invests in those companies that have the highest growth potentials in a recovering market. As always, please do not hesitate to contact us with any questions.

Source: Aston Hill Asset Management

AstonHill ASSET MANAGEMENT

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