



TETREM

QUARTERLY REVIEW

TETREM NEWS

We are very pleased to present to you our first Tetrem Quarterly Review newsletter. Since our inception as an independent firm in June 2004, we focused on proactive, informative communication with our clients and business associates. This new format newsletter is a reflection of this continued effort. It includes some key features that you might have previously received from us, including:

- Tetrem Perspectives - our quarterly feature article
- Snap shot performance information

We have also added a Market Review section that summarizes the market developments over the past quarter.

In addition to the quarterly newsletter, we have also launched our Website: www.tetrem.com. We have aimed to include in this site not just information about Tetrem and its products and services, but also an outline and description of our investment philosophy and process. We hope you find this new site informative and current, as we continue to update it on a regular basis.

MARKET REVIEW

Energized is the one word that summarizes equity returns over the first quarter of 2005. Energy stocks were the best performing group within North American equity markets during the first quarter. In Canada, energy stocks led the market higher while in the U.S. energy stocks helped to temper losses. This is highlighted by the 4.36% total return of the S&P/TSX Composite Index, which was significantly ahead of the -2.15% return posted by the S&P 500 over the quarter. Interestingly, energy stocks on both sides of the border did equally as well. Each posted gains slightly in excess of 17%. The dramatic difference in overall market returns as measured by the two indexes is attributed to the fact that oil and other energy related stocks

make up a much more significant proportion of the S&P/TSX than they do the S&P 500.

On the flip side, technology stocks dragged down returns in each country. In some ways the energy and technology sectors are the opposite sides of the same coin. While high energy prices are definitely helping the oil companies, they are also acting as a tax that is reducing the money available for spending on technology goods. Technology stocks also seem to be suffering from the current round of U.S. Federal Reserve interest rate tightening, which is acting as an additional drag on technology spending. Yet the increases in interest rates have done very little to reduce energy demand thus far.

PERFORMANCE SNAP SHOT AS OF MARCH 31, 2005

TETREM'S CANADIAN EQUITY MANDATES			
	Last Quarter	Last 12 months	5 year (annualized)
Tetrem CDN Equity Value	3.65%	16.06%	20.79%
Tetrem CDN Equity Value Plus	8.29%	20.37%	20.42%
S&P / TSX	4.36%	13.93%	1.99%

TETREM'S U.S. EQUITY MANDATES			
	Last Quarter	Last 12 months	5 year (annualized)
Tetrem US Equity Value	4.84%	18.94%	14.67%
Tetrem US Equity Value Plus	3.58%	17.39%	14.50%
S&P 500	-2.15%	6.69%	-3.16%





TETREM QUARTERLY REVIEW

TETREM PERSPECTIVES - "The Conundrum"

As if he were a prophet ready to divine the meaning of life, investors tend to hang on to every word that Alan Greenspan utters. After all he is the Chairman of the Federal Reserve.

To some extent, there is precedent and good reason for this attitude. As the man in charge of setting short-term interest rates for the world's most important economy, he has been described by some as the most powerful man in the world. So when he speaks, people listen. His stewardship of monetary policy is likely the single most important variable effecting global economic growth. But, he doesn't always get it right (it's great to have company). His famous "irrational exuberance" remarks about equity prices were made in 1997; three years before the market peaked and the technology stock market bubble burst. The market may have seemed frothy to Mr. Greenspan in 1997, but the partying didn't really get going until 1999.

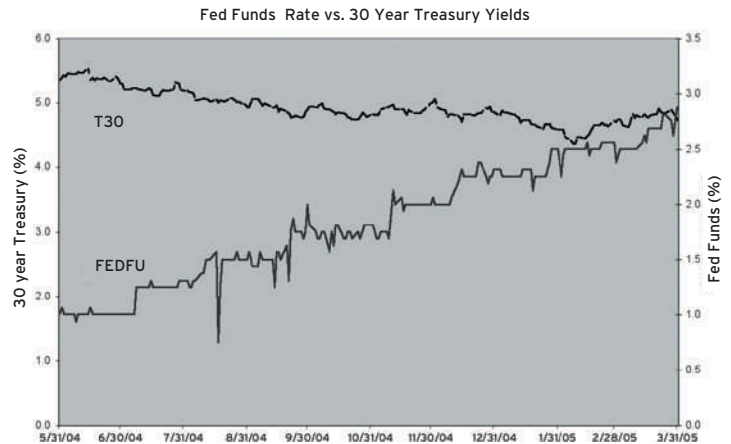
This February, while testifying before Congress, the Fed Chairman pondered a bond market "conundrum." Why had long dated bond yields stayed low in light of the current Federal Reserve tightening cycle? In order to appreciate Chairman Greenspan's "conundrum" a small primer on monetary policy methodology might be in order. The main tool that a central bank has to execute monetary policy is its ability to set short-term interest rates. Typically, when the central bank increases or decreases rates for short dated maturities, interest rates along the entire yield curve move in the same direction. For instance, when the Fed increases short rates (as it is doing today), long dated bonds generally sell-off and yields rise.

Typically, when the central bank increases or decreases rates for short dated maturities, interest rates along the entire yield curve move in the same direction.

Greenspan's conundrum is that this has not happened during the current tightening cycle.

In the figure enclosed we can see that the aggressive tightening of short-term interest rates has not yet translated into higher yields at the long end of the bond market.

What's different about the current tightening cycle? The Fed typically starts tightening after an economic expansion is well entrenched and inflationary pressures have crept back into the economic system. However, the current economic cycle has been anything but typical, and the forces of inflation may not ultimately reveal themselves as they have in the past.



To understand the current cycle, we have to go back to the bursting of the technology stock bubble that developed in the late 1990's. For many years the bubble grew until it was finally pricked by a tightening cycle initiated by the Fed to remove

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some of the excess liquidity that had been created to soften the blow from potential Y2K related risks. As we now know, the Y2K Armageddon fear mongers were defeated. All of the liquidity that had been created by global central banks turned out to be a cushion that was not required, so they increased interest rates to mop up the excess liquidity that was no longer needed. By the time 2002 came along, the economy was heading into a recession. The Fed did an about face and started an aggressive campaign to ease interest rates and give the economy a shot of adrenalin. Their campaign succeeded, but some have claimed that by aggressively lowering interest rates, the Fed did not allow the normal cleansing process of a recession to take place. Excesses were allowed to fester and in some cases to expand. For instance, the U.S. consumer avoided the recession altogether and kept on consuming. The balance sheet of the average consumer deteriorated as people received incentives to borrow and buy thanks to low interest rates from "Easy AI." Instead of worrying about foreclosures, home owners routinely refinanced to "cash out" home equity appreciation.

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**TETREM PERSPECTIVES** ...continued

A reduction in corporate spending in response to the excesses of the technology bubble was largely responsible for the 2002 recession. Corporations indeed felt more pain than the consumer, but they too had a relatively easy time of it. While many dot.coms went dot.gone, overall corporate bankruptcies were remarkably muted thanks to the lifeline of low interest rates.

It wasn't a fear of corporate bankruptcies that led the Fed to engineer one percent interest rates during this cycle. Instead of inflation, the Fed faced a new enemy by the name of deflation. Policy makers were afraid of a Japanese style deflationary spiral. Fed officials wanted to avoid this at all costs, because once it starts, it's hard to stop. While the primary tool for fighting inflation is interest rates, deflation is a different beast.

Back in the 80's Paul Volcker was the Federal Reserve chairman who inherited a post-1970s inflationary mess. When inflation got out of control, he cranked up interest rates and induced a recession. He's the guy who was largely responsible for the twenty percent interest rates that we had in the early 1980s. He understood the need to endure some pain today to have prosperity tomorrow. His inflation vigilance launched two decades of disinflation; a huge contributing factor to the 1980s and 1990s bull market in equities.

However, the impotence of monetary policy in a deflationary scenario is that you can't drop interest rates below zero to fight off deflation. Creativity is required to beat back deflation. Governments could print money like crazy and drop it from helicopters with the hope of inducing people to spend more in order to drive economic activity (and prices) higher. This may seem a little wacky but it's exactly what Ben Bernake, a Governor of the Federal Reserve hypothesized doing if deflation were to become a significant and real threat. Thankfully, these extreme measures have been avoided and Greenspan & Company have stuck to old fashioned interest rate cuts to get the economy going again.

As is usually the case with Armageddon scenarios that have not been realized, these days few people are talking about the risk of deflation and its potentially horrific economic effects. Enough liquidity has been added to the financial system to inflate the economy into a recovery during the last two and half years. But now what? These days the Fed continues removing some of the excess liquidity that it provided when it was fighting

deflation. However, even with the tightening, interest rates remain extremely accommodative with the Fed Funds rate at under three percent. Commodity prices have been on the rise and the U.S. dollar has been under pressure, both of which are harbingers of future inflation. Ominously, various measures of inflation have picked up over the last few months. Given this, and Milton Friedman's conjecture that inflation is always and everywhere a monetary phenomenon, one would think that long bonds would be selling off and yields rising. But we are in the midst of a 'conundrum' and this has not yet happened.

While we seem to be facing a cyclical upturn in inflation, the door is perhaps not yet closed on deflationary forces. It is unlikely that inflation is the structural risk it was in the 1970s.

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...we can thank China for that.

Even after nearly three years of economic expansion, current job creation has been anemic and factory capacity utilization remains

low. Wage increases have historically been the most significant cause of rising inflation.

This cycle is indeed different and we can thank China for that. China is known for exporting various goods that consumers like, but its greatest export is deflation. We see the China effect everywhere; it's not just \$49 DVD players. Recently I was on a business trip to Bermuda and I wanted to bring a present for Spencer, my two and a half year old son. Bermuda is not generally known for its bargain shopping, but I looked around in the usual tourist stores. I settled on a magnetic toy fishing rod (fish included) for \$2.99 that was made in China.

China is a massive deflationary force on par with Great Britain's 18th century industrial revolution and the entering of America into the global economy in the 19th century. The outsourcing and exporting of jobs to China is a well reported everyday occurrence which will not end any time soon. It is estimated that China needs to create over twenty million jobs per year just to maintain social stability. At the same time that China is creating deflationary forces on the supply side of manufactured goods, it is creating inflationary forces thanks to its insatiable demand for raw materials.

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TETREM PERSPECTIVES ...continued

So here we have it, two interrelated but opposing forces acting on the global economy. Greenspan's conundrum reflects the simultaneous occurrence of inflationary and deflationary forces. Easy monetary policy is an inflationary influence while excess supply of Chinese labor and low capacity utilization is a deflationary force. For some time we at Tetrem have believed that the period of disinflation that Paul Volcker unleashed over twenty years ago was coming to an end. The problem was that we didn't know if the end of disinflation meant deflation or inflation. So far the answer has been both. At Tetrem, we have

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a tremendous amount of respect for markets and what they tell you. From time to time they can get a little crazy as they were during the technology bubble. For the most part though, they do a reasonably good job of telling us where the risks and opportunities reside. This is especially true when it comes to the bond market. Today, with long yields remaining stubbornly low, the bond market seems to be telling us that deflation remains the longer term economic risk.

Perhaps James Carville, President Clinton's political advisor put it best when he said that if reincarnated, he'd "like to come back as the bond market because it can intimidate anyone."

Equity investors should not be intimidated. The struggle between inflationary and deflationary forces is actually a good thing. Too much inflation would result in a rise in yields which in turn would hurt stock market returns by driving valuations down. Rising yields would also have the effect of crushing an over-leveraged and savings-short North American consumer. On the other hand, corporate earnings would suffer in a deflationary scenario. The key for an equity investor is to seek out investments that benefit from these forces while avoiding those that are put at risk

by these forces. Companies in the energy sector offer both safety and opportunity in this environment.

The key for an equity investor is to seek out investments that benefit from these forces while avoiding those that are put at risk by these forces.

By being tied to oil prices, energy companies are hedged against inflationary pressures and they are one of the few sectors of the economy that have real pricing power. Unlike many manufacturing companies they don't suffer from Chinese deflationary shocks. In fact, energy companies benefit immensely from China's growth thanks to increased demand for oil products. We are thankful that the energy companies continue to trade at reasonable valuations. They remain controversial investments due to continued investor skepticism about the sustainability of the current energy cycle. That's just the sort of thing that we like in an investment.

Danny Bubis, CFA
President and Chief Investment Officer

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ABOUT TETREM

Tetrem Capital Partners is an employee-owned investment management firm, headquartered in Winnipeg, Manitoba, Canada. Launched by Danny Bubis, formerly the Chief Investment Officer of Assante Asset Management, Tetrem manages portfolios for institutional and Private Clients, with the investment management philosophy, discipline and expertise that have gained the confidence of thousands of clients throughout Canada over 10 years.

We have assembled a team of investment talent, including Sam Pellettieri, formerly the Director of Quantitative Research at Assante and currently Principal and Portfolio Manager with Tetrem. This team ensures the continuity of the investment philosophy and disciplined process, which have resulted in impressive track records both in Canadian and U.S. equities.

With over Cdn \$1.6 billion of assets under management, Tetrem manages Canadian and U.S. equity mandates in Canada and abroad. Most notably, Tetrem manages, as sub-advisor, the Assante Canadian Equity Value Pool, for which Danny Bubis has been the portfolio manager since its inception in 1993.

OUR PRODUCTS AND SERVICES

Our investment mandates are primarily focused on Canadian and U.S. equities, rooted in our long-standing contrarian value style, and tailored to the specific and unique needs of institutional and high net worth clients. For our private clients we provide a fixed income strategy as part of their overall asset allocation. We offer both separately managed accounts, as well as pooled funds.

We are value investors. Our primary focus is seeking out and investing in undervalued companies. For each of our investment mandates, we utilize quantitative and fundamental analysis in our rigorous stock selection process.

For more information about Tetrem Capital Partners please visit our Website www.tetrem.com or call and ask to speak with us about our investment services.

204.975.2865

TETREM'S CANADIAN EQUITY MANDATES

	Annualized Returns to March 31, 2005				Calendar Year Returns				
	1 year	3 year	5 year	10 year	2004	2003	2002	2001	2000
Tetrem CDN Equity Value	16.06%	14.17%	20.79%	N/A	15.05%	25.48%	12.07%	18.02%	32.83%
Tetrem CDN Equity Value Plus	20.37%	14.87%	20.42%	17.14%	14.88%	25.00%	8.15%	14.77%	31.20%
S&P / TSX	13.93%	8.94%	1.99%	10.23%	14.48%	26.72%	-12.45%	-12.57%	7.41%

TETREM'S U.S. EQUITY MANDATES

	Annualized Returns to March 31, 2005				Calendar Year Returns				
	1 year	3 year	5 year	7 year	2004	2003	2002	2001	2000
Tetrem US Equity Value	18.94%	11.44%	14.67%	10.99%	15.92%	23.17%	-1.94%	0.99%	38.53%
Tetrem US Equity Value Plus	17.39%	12.16%	14.50%	10.30%	14.76%	30.51%	-2.41%	3.97%	29.74%
S&P 500	6.69%	2.75%	-3.16%	2.51%	10.88%	28.68%	-22.10%	-11.89%	-9.10%

Canadian Equity Value figures as of March 31, 2005. Performance based on an audited equity only (excluding cash) composite of all segregated accounts until March 31, 2005. From January 1, 2004 to March 31, 2005 performance is based on unaudited equity only composite of all segregated accounts. The calculation of performance returns excludes expenses and is based on a monthly valuation using the modified-dietz methodology.

Canadian Equity Value Plus figures as of March 31, 2005. Return calculated from audited NAV. Performance returns calculated include the operating expenses, but exclude management fees.

U.S. Equity Value figures as of March 31, 2005. Performance based on an audited equity only (excluding cash) composite of all segregated accounts until March 31, 2005. From January 1, 2004 to March 31, 2005 performance is based on unaudited equity only composite of all segregated accounts. The calculation of performance returns excludes expenses and is based on a monthly valuation using the modified-dietz methodology.

U.S. Equity Value Plus figures as of March 31, 2005. Return calculated from audited weekly NAV. Performance returns calculated include the operating expenses, but exclude management fees.

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