TETREM

QUARTERLY REVIEW

MARKET REVIEW

The first quarter of the New Year marked an incredible six straight quarters of gains for the Canadian stock market, and the third consecutive positive quarterly return for the recovering US equity market. Being contrarian we always approach such exceptional performance with caution; however, we are not sounding the alarm bell as the market's overall valuation remains reasonable.

Our Canadian equity mandates trailed the S&P/TSX Composite Index, while our US equity mandates edged out the S&P 500's return for the quarter. In Canada our underweight positions in both the energy and industrial mining sectors were largely responsible for the relative lag in performance. In the US our overweight in the energy sector helped us outperform. The apparent inconsistency of our energy allocations between the two markets is explained by our risk management philosophy. In the US, energy stocks account for about 10% of the market's capitalization while in Canada energy stocks account for nearly 30%. Despite our positive long-term view on energy, we view an allocation above 30%, in a sector that is driven by a volatile commodity that has had a tremendous run over the past few years, as simply far too risky. We therefore have reduced our exposure to energy stocks in Canadian portfolios more aggressively than we have in the US portfolios.

Despite gold closing the quarter at a multi-decade high of $582 per ounce, large-capitalization gold mining stocks did not participate with the rally in gold through the quarter. The gold mining companies followed through on a strong fourth quarter of 2005 by rallying in January, only to give back these gains as the quarter wore on. We felt gold stocks were susceptible to a short-term correction as they had rallied ahead of the commodity price and sentiment towards the gold miners had become excessively bullish. We continue to believe that the operating leverage associated with a rise in gold prices will show up positively in their financial results; however, near-term cost pressure is restraining investors' enthusiasm. We remain very bullish on our two portfolio holdings Barrick Gold and Newmont Mining as we believe that the worst of the cost pressures is now behind them.

South of the border, the US telecommunication sector led the performance of all S&P 500 industry sectors. Over the last few years the sector has declined, largely due to secular fears such as the gradual erosion of profitable residential phone lines by Internet telephony and cellular substitution. The negative sentiment drove the shares of telecommunication companies to attractive valuations in 2005 and provided us the opportunity to buy Bellsouth at a good price. Early in the first quarter of 2006, Bellsouth's share price rose significantly on financial results that were better than expected. We took profits and sold our position. Subsequently AT&T announced a takeover offer for Bellsouth, and the shares advanced further. Incidentally, this also had positive effect on Canadian telecommunication stocks, of which we own BCE and Manitoba Telecommunications. Typically, we will not hold out for the top dollar with any investment once the balance between risk and reward becomes unfavourable. We were happy to exit our investment in Bellsouth as the market price was no longer properly compensating investors for the long-term secular headwinds that the company faces.

Lastly in the US, the performance of defense stocks was particularly noteworthy. Every four years the Pentagon reviews its priorities and budget plans and there were concerns that the review process would lead to a reduction in military spending. Investors avoided the defense sector given the uncertain environment. The feared budget cuts did not materialize, as the state of current threats remains high, and these threats trumped overall US budget concerns. Our US portfolios profited from the subsequent rally in defense stocks through exposure to defense contractors Northrop Grumman and Raytheon.

We are finding reasonable investment opportunities in the Canadian and US equity markets. In particular, we are taking an interest in select large-capitalization technology stocks, as valuations are attractive and managements are showing impressive capital discipline. Shares of these high-quality companies are trading at a discount to lower-quality peers, providing a compelling investment opportunity.

PERFORMANCE SNAPSHOT AS OF MARCH 31, 2006

TETREM'S CANADIAN EQUITY MANDATES

	Last Quarter	Year to Date	5 Year (annualized)
Tetrem CDN Equity Value	6.47%	6.47%	20.61%
Tetrem CDN Equity Value Plus	5.26%	5.26%	19.37%
S&P / TSX	7.98%	7.98%	11.73%

TETREM'S U.S. EQUITY MANDATES

	Last Quarter	Year to Date	5 Year (annualized)
Tetrem US Equity Value	4.69%	4.69%	13.75%
Tetrem US Equity Value Plus	6.48%	6.48%	15.89%
S&P 500	4.21%	4.21%	3.97%

TETREM PERSPECTIVES – Why Miami Has Nothing To Fear From Winnipeg

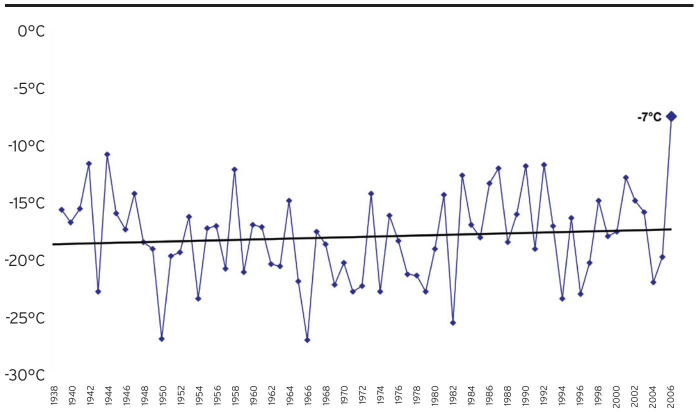
Back in the July 2005 edition of this newsletter I attempted to explain how, and why, we are "value investors"; I touched on many of the philosophical investment beliefs that go to the heart of what Tetrem is as an investment management firm. Re-reading those words today, I realize that I left out a very important term when characterizing our style of value investing: "contrarian".

While we are value investors, the core of our philosophy relates to our contrarian investment beliefs. Contrarian investing involves ignoring the consensus, acting independently and focusing on out-of-favour areas to find the best investment opportunities. To be a contrarian investor takes patience, discipline, and the courage of conviction. Above all, one must inherently believe in the fickleness of investors and their tendency to over react to both good and bad news.

A central belief of contrarian investing is the concept of reversion to the mean. It's a very logical concept but not always easy to explain. As most Canadians love to talk about the weather, I'm going to use Winnipeg's recent experience with a relatively balmy January to simplify the concept of mean reversion.

Winnipeg is known for its chilly winters; the city actually has the coldest winter of any city on the planet with a population of over 500,000. (It's nice to be known for something.) January 2006 was different. The chart below plots the average, or mean, daily temperature in January for Winnipeg going back to 1938 at around -17°C (the straight line is what's called the "fitted trend", or mean temperature for the entire period.) This past January was something of an anomaly with an average daily temperature of -7°C. Belief in reversion to the mean, and common sense, tells us that there is a high probability that the average daily temperature next January will be something closer to the mean of -17°C.

WINNIPEG – AVERAGE JANUARY TEMPERATURE



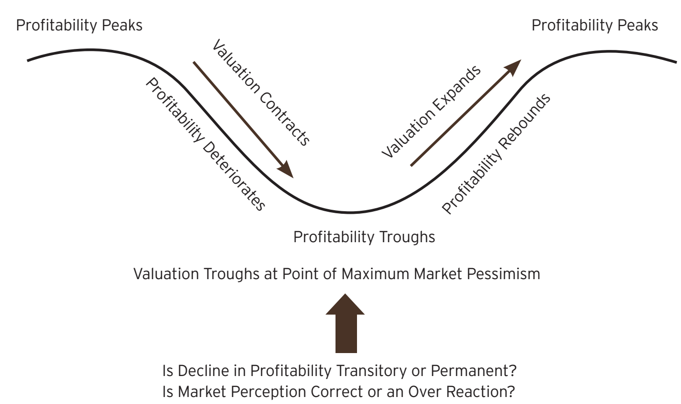
Mean reversion can't predict what will definitively happen in the future: It is simply a mathematical tool that helps one weigh probabilities. There is always the chance that we could have another record warm January in 2007, however this is not a high probability outcome. Alternatively, we could have a record cold January.

Staying with this analogy, as the stock market is nothing more than a discounting mechanism, investing in "Winnipeg Weather", if available as a stock, would be dependant on knowing how the future temperature expectation was being priced by the market. If the market's expectation was that permanently higher temperatures in January were here to stay (based on an extrapolation of recent history), we would avoid the stock, believing it to be at a high risk of collapsing with any drop in the mercury.

No one can predict the future with certainty but, as investors, we want to tilt the odds in our favour so paying attention to mean reversion is a prudent step in that direction and just seems obvious to us.

At Tetrem, we search out undervalued mean reversion candidates and the exhibit below is a stylized model of the type of situation that we look for.

PROFITABILITY AND VALUATIONS ARE MEAN REVERTING



Quite often we are investing in companies that have had a decline in profitability and that have simultaneously been overly discounted by the stock market. The first thing that we have to determine is if that decline in profitability is permanent or transitory; this is why we spend most of our time on fundamental, bottom-up analysis to establish an intrinsic value, and an investment thesis, for each company. If we develop the view that the decline is permanent, we move on. However, as profitability tends to be mean reverting,

TETREM PERSPECTIVES – ...continued

just like the weather, we often find potential in companies that have temporary declines in profitability. The greatest investment opportunities are companies that the market appears to have abandoned, attaching a very low valuation to their future prospects. The best time to buy is at the point of maximum pessimism, when an overly negative outlook leads to a discounted valuation for an historically good company. In other words, the time to be contrarian is when the market has over reacted to bad news.

Assuming that we get our analysis right, our clients will win in two ways. First, the stock price will rise as the company's profitability rebounds and earnings grow. Second, the market will come to realize that the demise of the company is not near and that far too low a market valuation has been attached to its stock price. At this point valuation will expand, and we surf the twin mean reversion waves of rising profitability and increasing valuation.

In many cases, the market will begin to view the company in an entirely different light and the stocks we tend to buy often evolve from neglected, contrarian investments into high-flying, growth stocks. Eventually, the mean reversion process reaches its end and the stock will no longer trade at a discount to what we believe is its intrinsic value. As this evolution plays out, we look to sell into the strength and reallocate capital to a new, contrarian, mean reverting opportunity. This takes discipline, but we've learned that for us it is key to successful, long-term investing.

One of the unsung benefits of believing in mean reversion is that it helps to keep us out of trouble. The inverse of being contrarian is believing in momentum, and the sustainability of high profitability and ever-increasing stock prices. We consciously avoid these situations, as they do not fit within our investment philosophy's framework. While we will miss the odd, great growth company, such as Starbuck's, we will also miss many collapsing momentum names: remember Nortel? Dodging "torpedo stocks", as I like to call them, has its obvious merits, as preservation of capital is fundamental to delivering above-average, long-term investment performance.

While mean reversion is a powerful force in nature and investing, there are times when it does not work. Other than issues around the timing of mean reversion - one can never underestimate how long it may take for something to mean revert, in either direction - the biggest risk is that of the so called "paradigm shift". The oft-quoted Sir John Templeton famously said that "the four most dangerous words in investing are 'this time is different.'" We fully agree. However, it is important to recognize that he referred to these words as "dangerous", not necessarily wrong. Sometimes changes do happen and times can be different. The oil market is an example of a paradigm shift that is occurring today.

Oil is a volatile commodity that is inherently mean reverting. Many investors have avoided the sector as they await an expected collapse in oil prices. However, what these investors are missing is that there has been a paradigm shift of sorts. The mean that oil prices should revert to is not an average historical price, but the marginal cost of production. The marginal cost of oil has been increasing as cheap supply is exhausted, and the demand curve has shifted up thanks to rapid industrialization and the advent of consumerism in emerging economies such as China and India. Therefore, while oil prices are not going back to $20 per barrel any time soon, there is no certainty that oil prices will stay at $70 per barrel either, as the marginal cost of production is closer to $40 per barrel (a number that continues to rise). We believe that, because the price of oil has significantly overshot its marginal cost of production, it is susceptible to a correction.

We still like the valuations of many of the oil companies, which, though not as cheap as they were five years ago, are not discounting $70 oil either. The time to be extremely cautious on the shares of oil companies is when valuations discount a price that is in-line with high, and prevailing, commodity prices.

But even paradigm shifts are susceptible to the magnetic pull of mean reversion. Assume you buy into the argument for permanently higher oil prices. This will not change the fact that higher prices will attract competition in the form of alternative energy sources and encourage conservation. High oil prices make alternative energy sources, such as nuclear and agricultural-based fuels, economically more competitive with carbon-based fuels. Competition in its various guises will ultimately put pressure on oil prices. This is just another way in which the gravitational pull of mean reversion is ultimately unavoidable, and why Miami isn't worried about Winnipeg replacing it as the hot spot of choice for snow birds.

Daniel A. Bubis,CFA
President & Chief Investment Officer

Tetrem Capital Partners is an employee-owned investment management firm, headquartered in Winnipeg, Manitoba, Canada. Launched by Daniel 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 for more than 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 has resulted in impressive track records both in Canadian and U.S. equities.

With more than Cdn $1.9 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/United Canadian Equity Value Pool, for which Daniel Bubis has been the portfolio manager since its inception in 1993.

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 and pooled funds.

We are contrarian 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.

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TETREM'S CANADIAN EQUITY MANDATES

	Annualized Returns to March 31 2006				Calendar Year Returns				
	1 year	3 year	5 year	10 year	2005	2004	2003	2002	2001
Tetrem CDN Equity Value	29.38%	29.39%	20.61%	N/A	31.57%	15.05%	25.48%	12.07%	18.02%
Tetrem CDN Equity Value Plus	26.41%	27.72%	19.37%	18.08%	30.05%	14.88%	25.00%	8.15%	14.77%
S&P / TSX	28.43%	26.31%	11.73%	11.18%	24.13%	14.48%	26.72%	-12.44%	-12.57%

TETREM'S U.S. EQUITY MANDATES

	Annualized Returns to March 31, 2006				Calendar Year Returns				
	1 year	3 year	5 year	7 year	2005	2004	2003	2002	2001
Tetrem US Equity Value	16.71%	22.59%	13.75%	15.51%	15.11%	15.92%	23.17%	-1.94%	0.99%
Tetrem US Equity Value Plus	25.37%	26.50%	15.89%	15.25%	21.95%	14.76%	30.51%	-2.41%	3.97%
S&P 500	11.73%	17.22%	3.97%	1.66%	4.91%	10.88%	28.68%	-22.10%	-11.89%

Canadian Equity Value figures as of March 31, 2006. Performance based on an audited equity only (excluding cash) composite of all segregated accounts until December 31, 2003. From January 1, 2005 to March 31, 2006 performance is based on the unaudited Tetrem Canadian Equity Value composite. The calculation of performance returns excludes operating expenses and management fees and is based on a monthly valuation using the modified-dietz methodology.

Canadian Equity Value Plus figures as of March 31, 2006. Return calculated from audited NAV. Performance returns calculated include the operating expenses, but exclude management fees. US. Equity Value figures as of March 31, 2006. Performance based on an audited equity only (excluding cash) composite of all segregated accounts until December 31, 2003. From January 1, 2005 to March 31, 2006 performance is based on the unaudited Tetrem U.S. Equity Value composite. The calculation of performance returns excludes operating expenses and management fees and is based on a monthly valuation using the modified-dietz methodology.

U.S. Equity Value Plus figures as of March 31, 2006. Return calculated from audited weekly NAV. Performance returns calculated include the operating expenses, but exclude management fees.

Tetrem's mandates are available to institutional investors such as pension plans, group retirement plans and foundations and certain individual investors who meet specified investment criteria. The mandates' performance is not guaranteed, the values change frequently and past performance may not be repeated.