

Global markets have staged a spectacular rally since March 2009, helped by depressed valuations and rising optimism for a global economic recovery. This optimism has been fueled by synchronized fiscal stimuli and monetary easing by governments around the world. Credit market conditions have started to improve as central banks injected enormous amounts of liquidity into the system, notably through quantitative easing by the U.S. and the UK. Activity in the real economy also started to pick up from a near collapse situation in response to improving financial conditions, governments' aggressive fiscal stimuli and the termination of painful destocking. All these factors helped investors to recover from excessive fear, calming the markets. Consequently, markets rallied on normalization of valuations and expectations on the back of a stabilizing economy and hopes of recovery.

Underperformance of the Fund's holdings occurred in South Korea, Taiwan and Thailand. The Fund's largest individual detractor to performance over the quarter was Australian-based Ausenco Limited. In addition, the Fund's cash weighting, 7.3% at December 31, detracted from relative returns in a rising market environment. The Fund benefited from stock selection within Singapore, Hong Kong and China. In particular, diversified financial holding company DBS Group Holdings Ltd of Singapore and PDC Stores Ltd, a rapidly-growing department store group in China with an emphasis on high-end and luxury products, were large positive performance contributors.

The portfolio managers continue to focus on finding attractive investment opportunities in Asia and agree that economic growth prospects for the region remain attractive. According to Mark Grammer of Mackenzie Investments, (except for - Japan), Asia continues to have exciting economic growth potential and companies there have very low debt to equity ratios and rising return on equity ratios (ROEs), which suggests that equity risk premiums will come down and multiple expansion is likely. Faster growth rates with expanding multiples should lead to good absolute returns and better relative returns over time.

*Any amount that is allocated to a segregated fund is invested at the risk of the contract holder and may increase or decrease in value.*

This report is published to provide additional information on economic conditions and investment performance. It was prepared by Mackenzie Financial.