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SPECIAL REPORT

How To Make Money – And Sleep At Night – In 2012 And Beyond

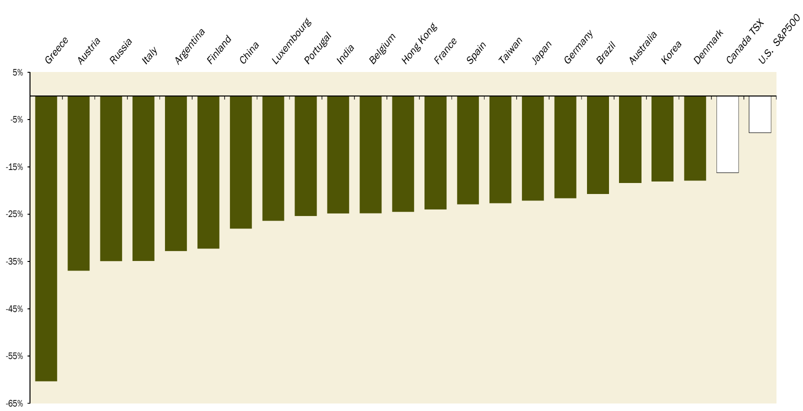
At Gluskin Sheff, we frequently refer to our primary objective of delivering attractive "risk-adjusted returns" for our clients. Well, I believe that it's good to regularly remind ourselves what this means in simple terms, and I think the title of this letter sums it up. It's about making attractive returns on our clients' hard-earned invested capital, in a variety of strategies such that we can all sleep well at night. At the present time, this has to be accomplished in an environment of exceptionally volatile global financial markets and economies that don't generally lend themselves to a restful sleep! It's about focusing just as intently on capital preservation as on the growth of our clients' capital. In this letter, I will address directly how we intend to achieve these goals on your behalf.

SUMMARY

- At Gluskin Sheff, we frequently refer to our primary objective of delivering attractive "risk-adjusted returns" for our clients
- In keeping with our focus on income generation, we are currently launching a new U.S. Premium Income strategy
- We continue to like the prospects for our corporate bond strategies (both investment grade and high-yield) and for our credit arbitrage strategies
- Disciplined, well-managed long/short strategies can play an important role in an investor's overall asset mix, particularly in the volatile and uncertain markets that we have all had to deal with in recent years

CHART 1: VOLATILE GLOBAL MARKETS

Major Stock Markets
(percent change from the nearby peak, as of the end of 2011)



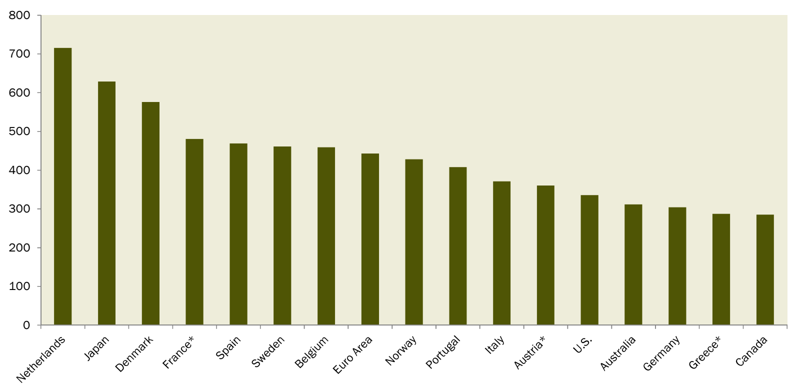
Source: Bloomberg, Gluskin Sheff

Starting with the U.S. housing and banking crises more than three years ago, through the Great Recession, the Great Reflation, the ongoing European sovereign debt and banking crises, and all kinds of other political and social upheaval in the emerging world, strategists and commentators alike have, for the most part, focused on the negatives that have been synonymous with the investing environment.

We too remain somewhat cautious and circumspect on what remains an exceptionally volatile investment landscape. However, our Investment team continues to identify attractive opportunities to deploy capital to asset classes, themes, sectors and securities where we have strong conviction that we can achieve our objectives as a firm: capital preservation, reliable income generation and positive absolute returns for our clients.

CHART 2: TOO MUCH DEBT AT ALL LEVELS

Domestic Debt Outstanding as a % of adjusted GDP (Q2 2011)



** Last available data points for France and Austria are as of Q3 2010 and Greece is as of Q1 2011*
Source: Haver Analytics, Gluskin Sheff

So where specifically do we see opportunities? For starters, we expect a variety of income-oriented assets including dividend paying equities to perform well in 2012. We also expect corporate bonds to outperform government bonds in 2012, which bodes well for our credit arbitrage strategies. Despite our more cautious approach to the broader equity markets, a view which worked well in 2011, we continue to be able to identify select companies that are not only benefitting from the current economic environment (e.g. dollar stores and discount stores, like Dollarama and Family Dollar, productivity-enhancing technology companies, such as Apple, IBM and Google) but also have strong fundamentals, solid balance sheets and rising dividends. As an example, the 100 stocks in the S&P 500 with the highest dividend yields saw their stock prices rise an average 11.3% last year, according to Bloomberg data, while the bottom 100 lowest-yielding companies saw their share price decline an average 3.2% over 2011.

On a secular, longer-term basis, we continue to identify and invest in securities that generate income in a slower global economy where interest rates are at historically low levels. For example, our flagship Premium Income model, with a current yield of about 4.5%, invests in Canadian equities that generate reliable and often growing dividends, as well as in some preferred shares and corporate bonds. Staying ahead of the robust demographic shift in a world where demand for retirement income is growing is a key reason why a significant portion of our client assets are currently invested in our Premium Income strategy.

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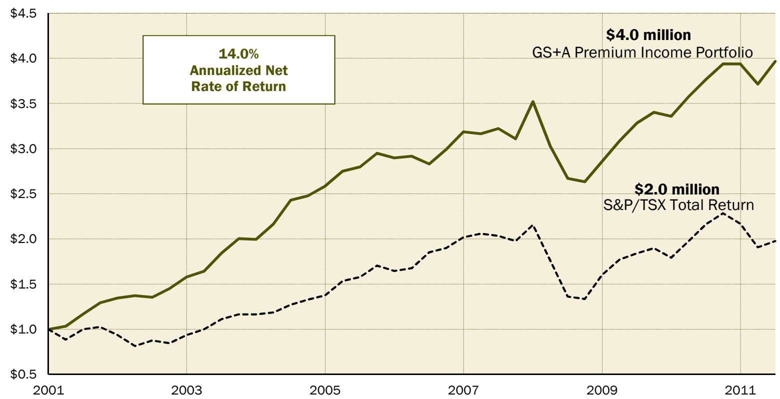
CHART 3: GS+A PREMIUM INCOME PORTFOLIO

Growth of A Million Dollars
(July 1, 2001 to December 2011, in millions)



Source: Gluskin Sheff

In keeping with our focus on income generation, we have recently launched a U.S. Premium Income strategy that will allow our clients to take advantage of similar opportunities by investing in a diverse portfolio of high-quality U.S.-listed companies that we have been following for years, including the likes of Pfizer, Pepsi, Vodafone, Microsoft and Comcast, to name a few. The companies in this new strategy will tend to be larger, multinational corporations with fortress balance sheets, attractive valuations, and dividends that we believe will grow in the coming years. We strongly believe that this new strategy will be an attractive complement to our existing U.S. Equity strategy and to our range of Canadian, International and Resource equity portfolios.

Security	P/E Ratio	Dividend Yield
Pfizer Inc.	9.5x	3.6%
PepsiCo Inc.	15.3x	3.0%
Vodafone Group PLC	12.7x	5.1%
Microsoft Corporation	10.3x	2.5%
Comcast Corporation	17.3x	1.6%

Source: Bloomberg, Gluskin Sheff

For roughly the last eight years, Gluskin Sheff has had a very strong preference for investing in Canadian securities and for exposure to the Canadian Dollar. While we still maintain this preference, I want to note that we have begun to gradually and carefully increase our exposure to U.S. equities in both our traditional long-only equity portfolios as well as in our long/short alternative strategies. In financial markets, it is often small changes "at the margin" that affect the relative performance of asset prices and presage potential trend changes that may last for longer periods of time. In recent months, our team members have noticed the increasing "relative" attractiveness of the types of U.S. companies that we know well and like – those with strong balance sheets, high returns on capital, abundant free cash flow generation and attractive valuations, often accompanied by generous dividend payouts. The U.S. economy

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went into the Great Recession first, and there are some early, tentative signs that it may be among the first to stabilize.

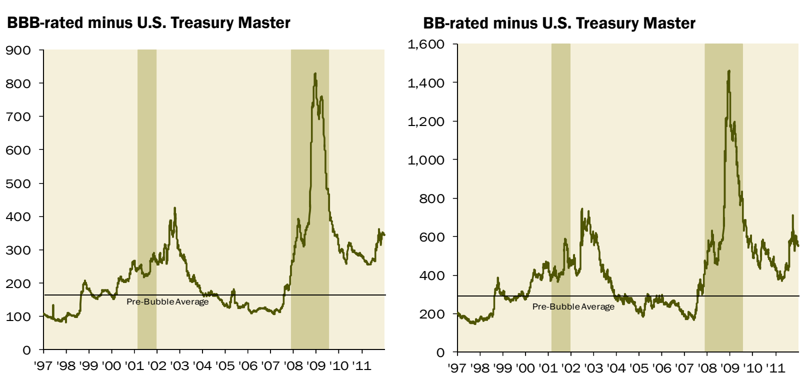
While we are not yet advocating for a significant shift in “overall” equity exposure for our clients, we are beginning to advocate for a shift “within” their equity exposure – to consider adding to our U.S. equity strategies, where appropriate. It goes without saying that we are constantly monitoring and evaluating the relative attractiveness of different asset classes and strategies and our client service and risk management professionals are always prepared to discuss each client’s specific needs.

While we are not yet advocating for a significant shift in “overall” equity exposure for our clients, we are beginning to advocate for a shift “within” their equity exposure

In keeping with our key theme of income generation, we continue to like the prospects for our corporate bond strategies (both investment grade and high-yield) and for our credit arbitrage strategies that can generate current income while also benefitting from what we anticipate will be a narrowing of the “spreads” between the yields on corporate bonds and government bonds over time. According to our research, corporate bonds appear to be currently discounting recession-like conditions and are probably one of the most undervalued asset classes around today. Wherever possible, we seek to leverage our team’s business analysis expertise and may also invest in the debt of companies whose common shares we also own in our equity or Alternative strategies (e.g., Brookfield Renewable Power, Rogers Communications Inc. and Royal Bank of Canada).

CHART 4: CORPORATE BOND SPREADS ARE WIDENING … BUYING OPPORTUNITY?

United States



Source: Bank of America Merrill Lynch, Gluskin Sheff

Finally, I want to reiterate the important role that disciplined, well-managed Long/Short strategies can play in an investor’s overall asset mix, particularly in the volatile and uncertain markets that we have all had to deal with in recent years. Over the course of an exceptionally volatile 2011, our equity long/short strategies generally preserved clients’ capital with relatively low correlation to the broad equity markets. While their contribution was more on the “sleep at night” than on the “make money” side in 2011, they played an important role in reducing overall risk and correlation with other asset classes. Given that we expect capital markets to remain relatively volatile, we continue to add more resources (both human and technical) to these strategies. One of our key goals for 2012 is to extract more profit from this elevated volatility in a more nimble, focused and prudent fashion to generate more consistent positive absolute returns.

OVERVIEW OF THEMES AND STRATEGIES

THEME	STRATEGY	SECTOR/ASSET CLASS
Frugality	Identify where people spend their money and time in an economic downturn	Dollar/discount stores Home improvement/ Gardening Tobacco/Beverages/Movies
Non-Cyclical	Focus on special situations that are not correlated with the economic cycle	Defense-Aerospace Healthcare
Capital Preservation	Buy high-quality corporate and government bonds in non-cyclical sectors; Minimize volatility via alternative strategies such as long/short equity strategies	Credit of Canadian Banks, Telecom, Retail, Municipalities Income-producing equities, preferreds and bonds
Income Orientation	Focus on reliable dividend growth and dividend yield; Being and staying ahead of the robust demographic (baby-boomers aging) shift towards income oriented investments. Safety and Income at a Reasonable Price (S.I.R.P.)	Canadian and U.S. Preferred shares Energy infrastructure Utilities
Other	Invest in hard "strategic" assets; Focus on burgeoning middle class in emerging markets	Asian consumers Food products

Our entire firm is dedicated to the objective of generating attractive and appropriate risk-adjusted returns for our clients, and the above thoughts represent key strategies to that end in 2012. Simply put, we strive to make money for you AND have you sleep well at night, not just in 2012, but over the years to come. We value your confidence and support, and as always welcome your questions and feedback.

One of our key goals for 2012 is to extract more profit from this elevated volatility in a more nimble, focused and prudent fashion to generate more consistent positive absolute returns

Yours very truly,

Bill Webb
Executive Vice-President & Chief Investment Officer

Gluskin Sheff

Gluskin Sheff at a Glance

Gluskin Sheff + Associates Inc. is one of Canada's pre-eminent wealth management firms. Founded in 1984 and serving high net worth private clients and institutional investors, we are dedicated to meeting the needs of our clients by delivering strong, risk-adjusted returns together with the highest level of personalized client service.

OVERVIEW

As of December 31, 2011, the Firm managed assets of $5.3 billion.

Gluskin Sheff became a publicly traded corporation on the Toronto Stock Exchange (symbol: GS) in May 2006 and remains 45% owned by its senior management and employees. We have public company accountability and governance with a private company commitment to innovation and service.

Our investment interests are directly aligned with those of our clients, as Gluskin Sheff's management and employees are collectively the largest client of the Firm's investment portfolios.

We offer a diverse platform of investment strategies, including Canadian, U.S. and International Equity strategies, Alternative strategies and Fixed Income strategies.[1]

The minimum investment required to establish a client relationship with the Firm is $3 million.

PERFORMANCE

$1 million invested in our Canadian Equity Portfolio in 1991 (its inception date) would have grown to $9.0 million[2] on September 30, 2011 versus $5.7 million for the S&P/TSX Total Return Index over the same period.

$1 million USD invested in our U.S. Equity Portfolio in 1986 (its inception date) would have grown to $11.7 million USD[2] on September 30, 2011 versus $9.7 million USD for the S&P 500 Total Return Index over the same period.

INVESTMENT STRATEGY & TEAM

We have strong and stable portfolio management, research and client service teams with "best in class" talent at all levels.

We have a strong history of insightful bottom-up security selection based on fundamental analysis.

For long equities, we look for companies with a history of long-term growth and stability, a proven track record, shareholder-minded management and a share price below our estimate of intrinsic value. We look for the opposite in equities that we sell short.

For corporate bonds, we look for issuers with a margin of safety for the payment of interest and principal, and yields which are attractive relative to the assessed credit risks involved.

We assemble concentrated portfolios - our top ten holdings typically represent between 25% to 45% of a portfolio. In this way, clients benefit from the ideas in which we have the highest conviction.

Our success has often been linked to our long history of investing in under-followed and under-appreciated small and mid cap companies both in Canada and the U.S.

PORTFOLIO CONSTRUCTION

In terms of asset mix and portfolio construction, we offer a unique marriage between our bottom-up security-specific fundamental analysis and our top-down macroeconomic view.

Our investment interests are directly aligned with those of our clients, as Gluskin Sheff's management and employees are collectively the largest client of the Firm's investment portfolios.

$1 million invested in our Canadian Equity Portfolio in 1991 (its inception date) would have grown to $9.0 million[2] on September 30, 2011 versus $5.7 million for the S&P/TSX Total Return Index over the same period.

For further information, please contact research@gluskinsheff.com

Notes:

Unless otherwise noted, all values are in Canadian dollars.

1. *Not all investment strategies are available to non-Canadian investors. Please contact Gluskin Sheff for information specific to your situation.*
2. *Returns are based on the composite of segregated Canadian Equity and U.S. Equity portfolios, as applicable, and are presented net of fees and expenses.*

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