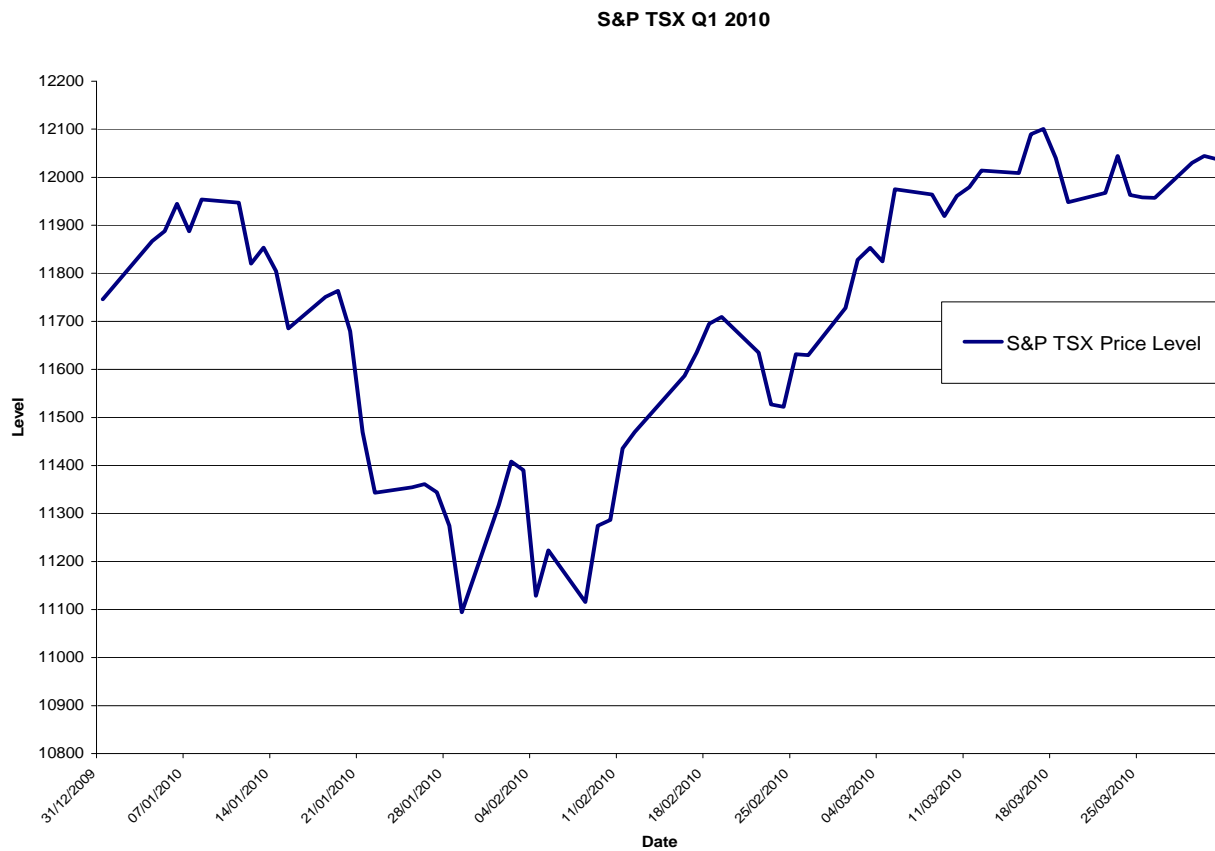




Blue Marble Capital Management Limited – Quarter 01, 2010 Market Discussion letter

A Picture Tells a Thousand Words



Common Equity Markets in Canada during the First Quarter 2010

If anything, the first quarter of 2010 was a difficult market for investors. It was our call to stay on the sidelines as we believed the downside risks were too great and from what we experienced we believe we were correct in maintaining that perspective.

From a December 31, 2009 closing price of 11,746.11 the TSX moved to 11,953.83 on January 08, 2010 for a gain of 1.76%. However, it then fell to 11,094.31 for a drop of 7.19%. For the first quarter, after a very volatile path the index finished at 12,037.73 for a gain of 2.48%. But it was a bumpy ride.

Of major importance were the conditions surrounding this veritable roller coaster ride that kept us out of the equity market. First, and foremost, the recovery that was advertised as coming forth very soon was tentative at best. Any news that an economy had not quite emerged as was predicted resulted in severe sell-offs. This alone



was reason enough to prevent committing client funds to the market. The possibility for a secondary recession was very high.

Of course economic numbers have started to improve. However, during the period the Greek debt crisis emerged and it would not be so important if it were an isolated country but it was not. During this process it has become apparent that a very large risk to the markets exists, that of Sovereign risk of default.

That a European country could default on its debt is not new. Russia did in 1998. However, that a Euro-Zone country could default on its debt brought the European Union into new territory and precipitated severe currency devaluation of the Euro, the Pound, and other European currencies. The Greek debt crisis is not over. Nor is the Euro-Zone debt crisis over. And for that matter the Sovereign debt crisis is just beginning and presents a real risk to future growth.

Preferred Equity Markets in Canada during the First Quarter 2010

We have continued to purchase preferred shares in Canadian Banks and Insurance companies throughout the first quarter of 2010. The returns were and still are compelling. For the greater part of the quarter cash yields obtained for clients ranged from 5.00% to 6.00% per annum. When contrasted with 5 year interest rates in the 3.50% range and subject to full marginal taxation, we believe that a significant bargain has been obtained.

In addition to the generous current income yield, when capital gains are considered the returns are even better. On the average a yield to first par call date, the date at which the institutions whose shares we have purchased will most likely start calling back the shares at \$25.00 per share, were in the range of 7.00% to 8.00%. These rival long term common equity returns.

These shares have and will fluctuate in price over time but as they continue their journey towards the par call date they should move towards \$ 25.00 per share. And in the interim we are collecting a generous tax advantaged dividend.

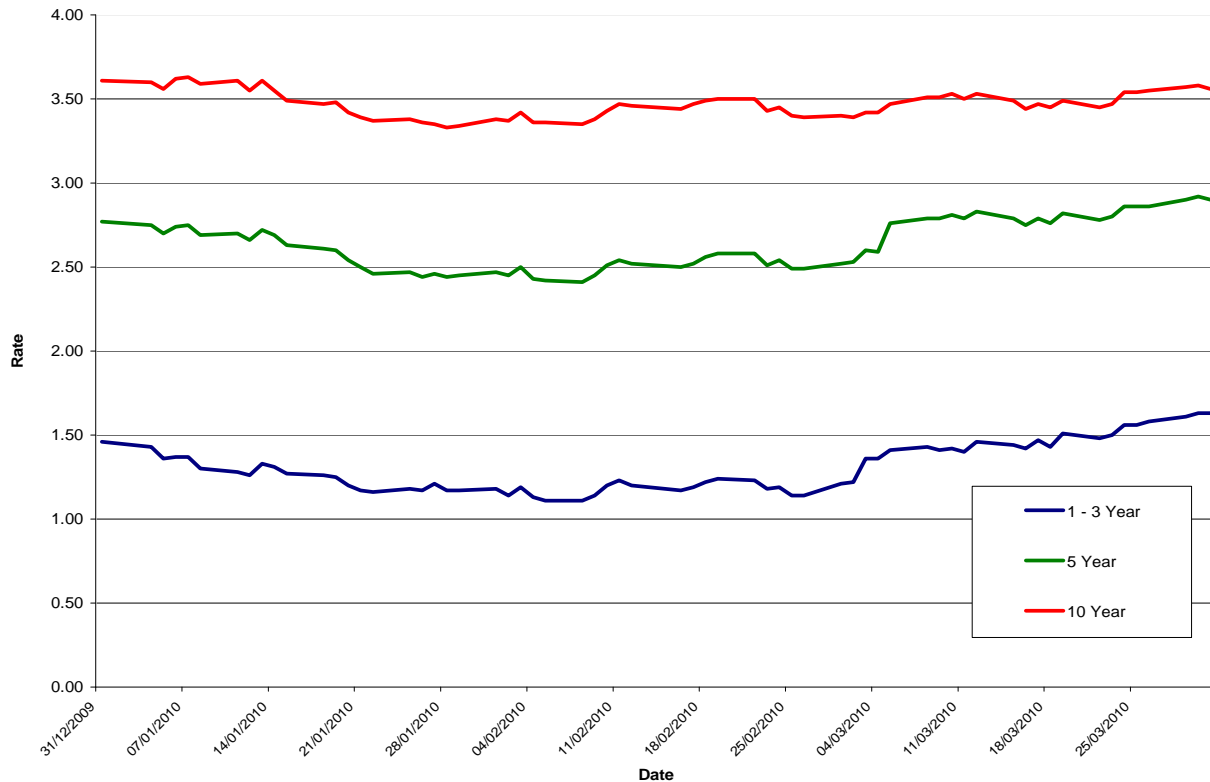
Opportunities in the preferred share markets like this do not occur with any regularity. And when they do it is imperative that they be acted upon. As an example of how attractive these returns really are it is best to provide an example. The highest marginal tax rate payable on a Canadian Dividend is about 25%. While the highest marginal tax rate on Canadian source interest is about 45%. In order to earn the same after tax income from interest, assuming we are earning 5.50% dividend income, means that we would have to earn about 6.46% on a bond. With 5 year Government of Canada bonds yielding 2.90% at the end of March 2010 it is unlikely that we will see those rates for a long time if ever.

Debt Markets in Canada during the First Quarter 2010

If we could find one word to describe the bond markets of Canada during the first quarter of 2010 it would be "BORING". And that is good in this case. With the world in turmoil and governments in the US, Japan, and the Euro-Zone facing unimaginable debt burdens and interest rates that are starting to rise, in some cases significantly, we should be happy in Canada that our bond markets have been so stable and, well, boring.



GOC Bond Rates Q1 2010



At the rates bond are paying we see little value in them other than for absolute safety of principal. Looking ahead, it is likely that interest rates will begin to rise as economic activity increases. When bonds have a low rate attached to them as they do now, they increase in sensitivity to any market interest rate change. In a ten year bond an interest rate increase of 0.15% can lead to a 1.00% drop in the price of the bond making them fairly sensitive. So earning 3.50% but having the value drop 1.00% is not a great trade off. And you are paying top marginal tax rates on them. We do not see a lot of value and not much chance for capital appreciation in the future.

Conclusion

The first quarter of 2010 was a tough one. It was very volatile and the risks to the downside were, as witnessed during the period, very great. As we look ahead to the remainder of the year we are starting to see positive developments that will likely see us starting to enter equity markets in a meaningful way for our clients.

Trevor Giles
Managing Director