Canadian markets finished 2005 posting large gains in December with the S&P/TSX Composite Total Return Index (TRI) returning 4.5%. These gains were led by materials (up 7.5%), energy (ahead 7.0%) and technology (up 5.2%). All sectors made positive contributions with consumer staples (up 0.3%), health care (ahead 0.9%) and industrials (up 1.1%) pulling up the rear. The S&P/TSX Small Cap TRI returned 4.9%, outperforming the Composite for the first time in ten months.

For the year, S&P/TSX Composite Total Return Index was up 24.2%, primarily fuelled by the energy sector (up 63.4%). Other large gains arose from utilities (ahead 38.8%) and financials (up 23.8%). The only sectors with negative contributions for the year were technology (down 15.8%), health care (off 2.8%) and consumer staples (down 1.1%)

U.S. markets were flat or down with the S&P 500 TRI 0.0% for the month, the NASDAQ Composite off 1.2% and the Russell 2000 TRI down 0.5%. The best performing sectors were health care, materials and utilities, while the worst performing sectors were telecommunication services, technology and consumer discretionary.

During the month, Canadian markets rewarded concept stocks, companies with weak corporate governance ratings, and high beta names. Income stocks, companies with negative earnings estimate revisions and actively traded stocks were among the poorest performers. Overall for the year, the best performing factors in Canada were high beta (50.2%), price momentum (30.4%) and strong corporate governance ratings (29.6%) while the worst were negative price momentum (-17.7%), high short selling ratios (-4.0%) and low beta (2.4%). This is the fourth year in a row that price momentum has outperformed the index.

During December, U.S. investors showed a preference for momentum and value stocks and actively traded volatile names, while income stocks, small and illiquid names with little debt underperformed. Over the last year, the strongest factors in the U.S. were momentum (13.0%), positive earnings estimate revisions (9.5%) and value (8.6%), with concept stocks (-6.2%), income stocks, companies with negative earnings estimates and strong corporate governance ratings (-3.5%) being hardest hit. For the fourth time in six years concept stocks were the worst performers.

The Hillsdale Canadian Performance Equity Fund, our Canadian long only strategy, rose 5.4% versus 4.9% for the S&P/TSX Small Cap TRI. Winners outpaced losers by more than a three to one margin. Gains came from materials stocks Aur Resources and Sino-Forest, as well as technology companies Descartes Systems and Aastra Technologies. Modest losses arose from financials, Home Capital and Royal Host REIT. For the year 2005, large contributions came from Industrials Strong, First Service and Wajax Income. For the year 2005, large contributions came from Industrials Strong, First Service and Wajax Income.

The Hillsdale Canadian Aggressive Hedged Equity Fund returned 1.6% versus 4.5% for the S&P/TSX TRI. The long portfolio rose more than 5%, led by gains in energy stocks Real Resources, Rider Resources, and Trican Well. The short portfolio fell more than 3%, where gains in technology positions Imax and Tundra Semiconductor were not large enough to offset losses in energy stocks Cameco, Centurion Energy and Calfrac Well. Out of the course of the year, large contributions came from energy stocks Trican Well Service,
Canadian Natural Resources and Real Resources on the long side and from materials names Tembac, Abitibi Consolidated and Domtar on the short side. We continue to maintain a mid-market exposure with a target allocation of $1.40 long and $0.85 short. For the year 2005, the fund returned 22.9% compared to 24.2% for the total return index.

The **Hillsdale Canadian Market Neutral Equity Fund** returned 0.6%. The long portfolio gained almost 4% while the short side fell more than 3%. Positive contributions came from industrials, financials and consumer discretionary, while losses arose from materials, telecommunication services and energy. The portfolio remains industry neutral with a zero net market exposure and continues to track within its risk budget. Current volatility is at 6%, which compares favourably to the current long bond volatility level of 6.5%. For the year 2005, the fund returned 4.3% versus its benchmark of Treasury bills at 2.8%.

The **Hillsdale U.S. Performance Equity Fund**, our U.S. long only strategy, returned -0.8% versus -0.5% for the Russell 2000 TRI. Losers outpaced winners by an almost five to four margin. Large gains came from consumer discretionary and energy stocks, while modest losses arose from technology and industrials positions. For the year 2005, the fund returned 18.0% compared to 4.6% for the index. As a note to investors, this strategy was officially launched as a fund in November and, with an annualized return since inception (1996) of 15%, warrants consideration as a valuable growth component for a client's portfolio.

The **Hillsdale U.S. Aggressive Hedged Equity Fund** returned -0.9% versus 0.0% for the S&P 500 TRI. The long portfolio was flat, where large gains arose from energy and technology positions. The short portfolio fell almost 1%, where gains in health care and materials were not large enough to offset losses arising from industrials, financials and technology stocks. We continue to maintain a mid-market exposure with a target allocation of $1.15 long and $0.75 short. For the year 2005, the fund returned 9.1% compared to 4.9% for the index.