WEBB ASSET MANAGEMENT

February, 2011

Monthly Commentary

SYSTEMATIC, PROVEN & RELIABLE

Commentary

A Performance Fee or not? That is the Question.

Some investors ask why we have performance fees on our mutual Funds. The simple answer is that the fee aligns the interests of the fund manager with that of the client. Most people are happy to pay incentive fees to get better results. After the North Ridge earthquake, the city of Los Angeles offered private contractors an incentive to rebuild critical freeways. A $2mm bonus was awarded for each day the freeways were rebuilt in less time than the government agency Cal Trans could rebuild the freeways. The freeways were open in record time.

Our performance fee is similar to the incentive fee used to rebuild the Los Angeles freeways. We do not get a performance fee for completing the job. We only get a performance fee if we do a better job than the benchmarks. Thus we get paid for adding value.

The performance fee on both the Enhanced Income Fund and Enhanced Growth Fund are calculated relative to benchmarks. The benchmarks selected, most closely match the Funds' mandates and were approved by the OSC.

We receive a performance fee only when we are outperforming the benchmarks and the outperformance is greater than any previous outperformance since the Funds' inception in January 2008. Mathematically, you subtract the NAV of the benchmark from the NAV of the Fund. To be paid a performance fee, the spread between the NAV's must be: 1) positive, and 2) greater than any previous outperformance. The fee is 20% of the new all-time daily outperformance.

Thinking about this logically it is quite difficult for us to receive a performance fee. First we must be beating the benchmark. The majority of money managers do not beat their benchmarks before fees and fewer managers outperform after fees. Second, the outperformance must be greater than any previous outperformance since the Funds' inception. Thus, we have two things we must beat: 1) the benchmark, and 2) and the high-water mark.

Some investors have questioned why we can earn a performance fee if the benchmark is down but we are down less than the benchmark. My simple answer is: who would not have been happy to have been down -10% during the last crash, when the markets declined over -40%? If we had been down -10% when the indicies were down -40%, we would have collected a significant performance fee on that +30% outperformance.

However, that +30% outperformance is now the high-water mark. In order to receive future performance fees we need to maintain that outperformance and add new outperformance vs. the benchmarks. This is a tall task.

Currently, the Enhanced Growth and Enhanced Income Funds are approximately tracking their benchmarks since the Funds' launch in January of 2008. However, because the Funds had significant outperformance in early 2008, the Funds are -10% below their high-water mark. Thus, we have hard work ahead to earn a future performance fee.

- Derek Webb

Webb Asset Management Canada, Inc.

Telephone: USA (415) 229-3180 Canada (416) 601-2449 Toll Free (866) 611-9590 | 26 Wellington St. E Toronto, Ontario M5E 1S2 | info@WAMfunds.com www.wamfunds.com