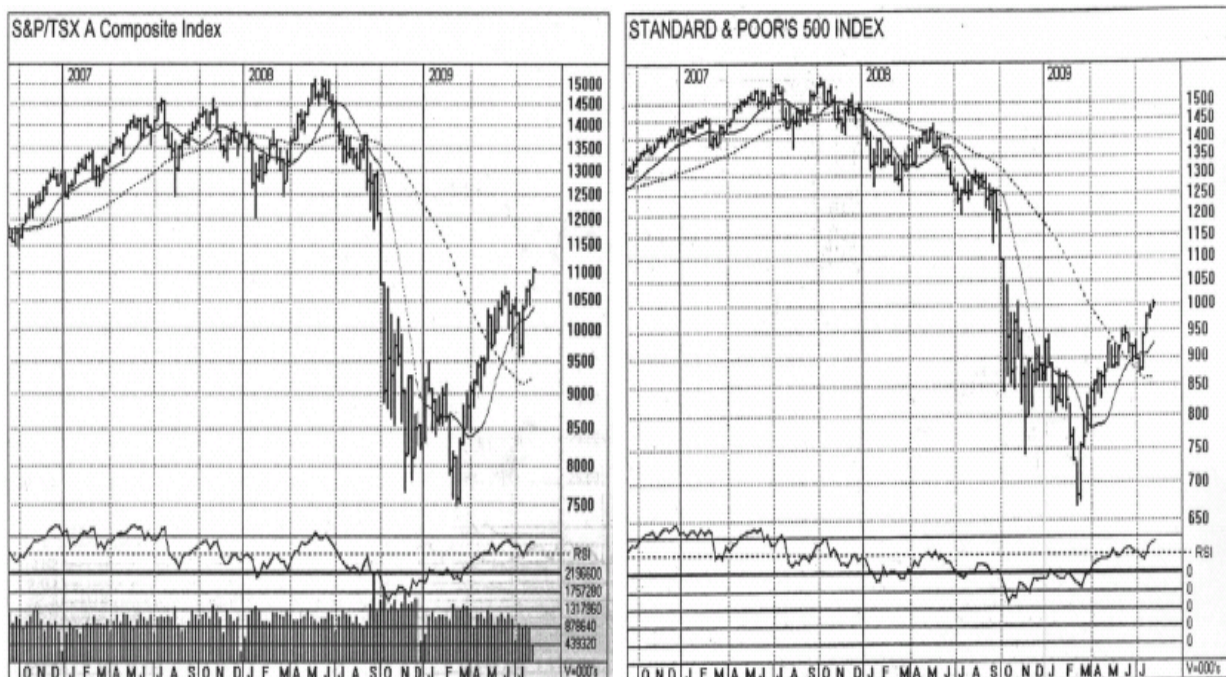


## July 2009 REPORT

Enclosed, please find your portfolio valuations and transaction summaries for the month of July.

The pain is not forgotten but is slowly fading away. July was another strong month for Canadian investors as the S&P/TSX Composite Index rose 4.2%. The current market level is still 17.7%, below the level of one year ago.

The fixed income markets continued to perform well with the PC Bond Index gaining 0.7% for the month and 6.8% over the past year. The prime contributor to the returns in the last few months has been the improvement in the corporate sector of the bond market.



Source: Independent Survey Company

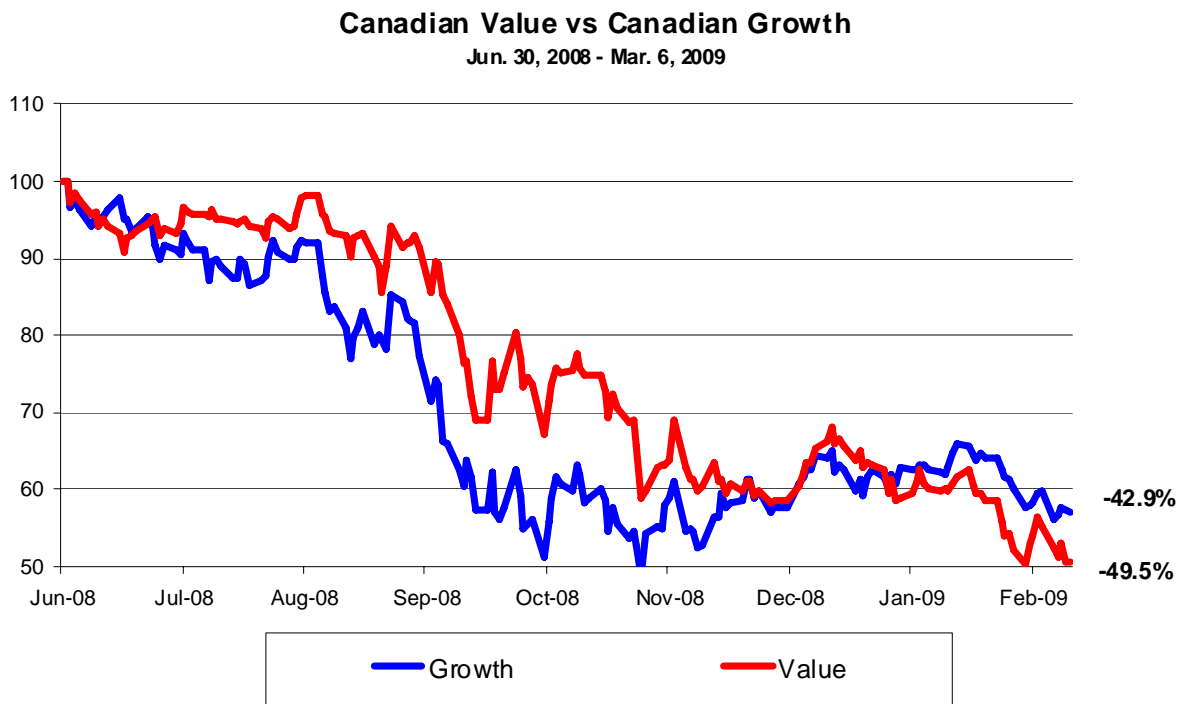
In the last two client reports we have gone into some depth discussing the important impact the credit crisis has had on the valuations of both corporate bonds and equities. It's our view that the development of credit crisis has been perhaps the most important factor driving equity prices down around the world during the mid-2007 to early 2009 period. Since the early part of 2009, equity markets around the world have rebounded from their lows and it is no coincidence that debt markets are unfreezing, allowing corporations to borrow, and at increasingly attractive rates.

Another important phenomenon which we have not highlighted but is equally important, at least to us, is the performance of our value investment style compared to the overall market and compared to a growth investment style.

Luckily there are a number of indices which attempt to track both value and growth investing in a number of equity markets around the world.

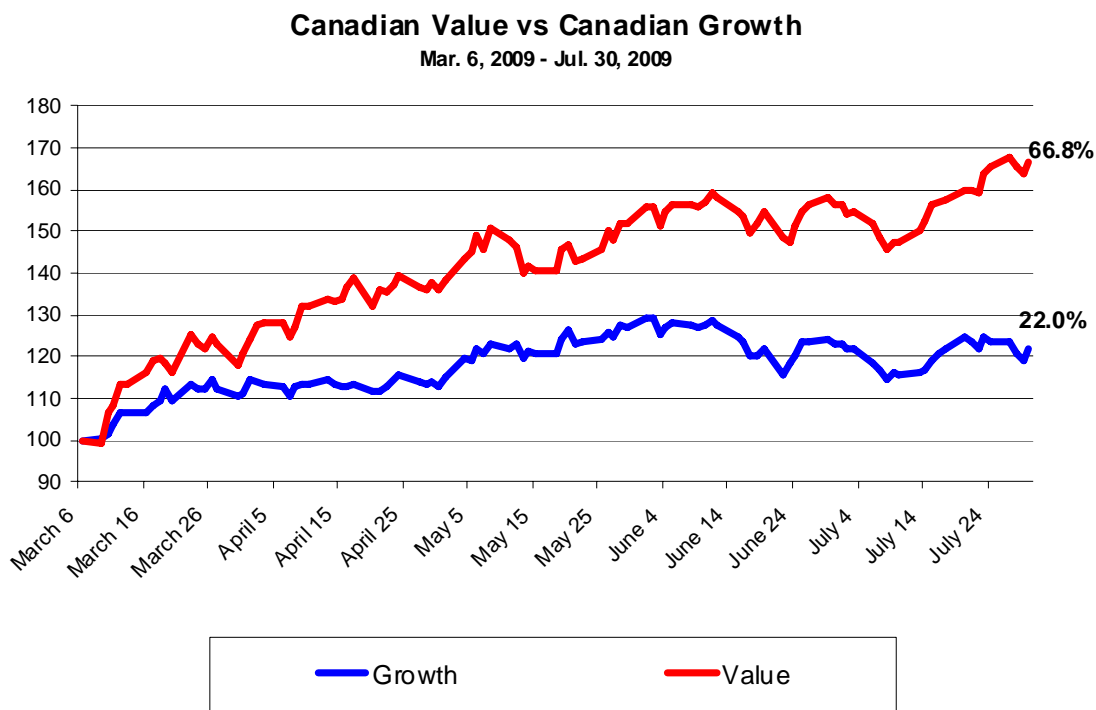
Historically we have told our clients and prospective clients that by employing a value investment style there is a possibility we will underperform in strong bull markets and outperform in bear markets. This expectation has been borne out by our actual performance in previous cycles and by academic papers that have attempted to study the performance of "value" and "growth" stock portfolios in varying market conditions.

This market cycle has proven to be an exception. The accompanying chart shows a Canadian Value Index (in red) and a Canadian Growth Index (in blue) during the recent bear market phase.



Source: Bloomberg

It can be seen that, as the Canadian market fell from mid-2008 to early March 2009, value was an underperformer. As the market has rebounded the Value Index has outperformed. This is shown in the second chart which covers the bear market bottom (we hope) to the end of July 2009.



Source: Bloomberg

We have no extensive evidence but it would appear that the contraction of credit markets had a greater negative impact on value stocks compared to growth stocks. Since early March, it would appear that value stocks are the major beneficiaries of the thawing of frozen credit markets.

How long will this continue? We have no idea but it is worth noting one recent positive development. Something that has been missing in the market since prices started falling has been takeovers. This has been no surprise as banks have become much more cautious in their lending practices and have been calling loans, not extending more debt to acquisitions. As well, the definition of the credit freeze in public markets has been an inability to sell either new debt or equity issues. In the past few weeks two companies in our small cap portfolios have been subject to takeover offers. As well our all cap portfolios have recently seen one holding as the object of a takeover.

That banks are now willing to lend funds for takeovers is another sign that financial markets are getting back to normal. It also leads us to think that value stocks could continue to outperform the market for some time. Our reasoning is that value stocks are more likely to be subject to a takeover compared to growth stocks. With low interest rates and good values still abundant and as long as the confidence of bankers and

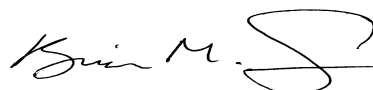
investors continues to improve, it seems reasonable that we will see value stocks maintain their outperforming trend.

If you have any questions about either our investment strategy or your portfolio specifically, please contact Brian Smith at your convenience.

Sincerely,



Richard D.W. Howson, CFA  
Executive Vice President &  
Chief Investment Officer  
Howson Tattersall  
Investment Counsel Limited



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