

## What Credit Crisis?

*"Well, Q3 turned out to be a great quarter. There probably aren't many people on this call-including me-who thought we'd have this kind of performance in the midst of a recession."*

- Ed Clark, President & CEO, TD Bank, August 27, 2009

*"If current demand trends continue, we expect revenue for the second half of the year to be stronger than the first half."*

- Michael Dell, Chairman & Chief Executive Officer, Dell Computers, August 27, 2009

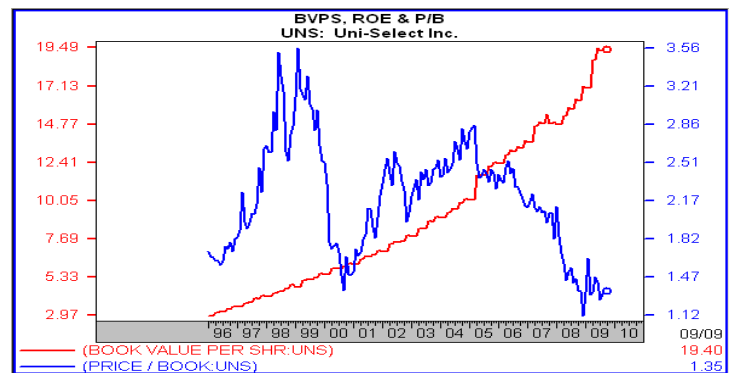
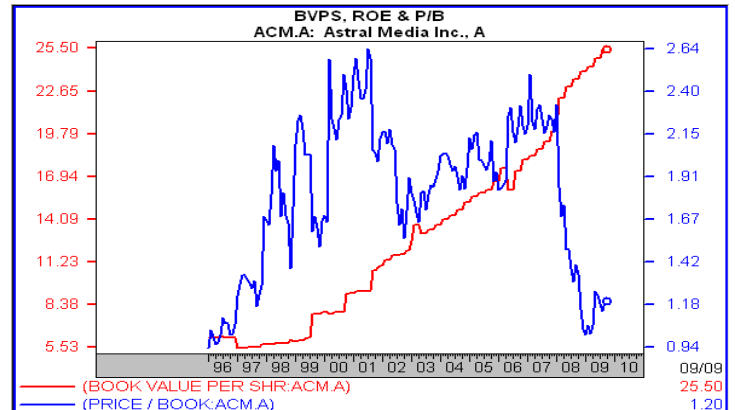
Financial and Technology sectors typically lead in the early stages of the business cycle. The above commentaries from two of the heavy weights in those industries are suggestive that we are through the worst of the Great Recession. Indeed, there has been a "V" shaped recovery in credit markets with credit spreads improving substantially over the past six months. By most measures, the cost of borrowing is now at or below pre-Lehman Bankruptcy levels. Refinancing activity has been robust as individuals and corporations alike take advantage of the lower costs of credit.

This does not mean we can forget about the credit crisis. Obvious issues remain. Take Dell's quarterly results from yesterday for example. Dell's public sector revenue increased 20% sequentially, driven largely by large government account spending. Their small and medium business revenue was down 5% sequentially and their large enterprise business revenue declined 3%. Without large government expenditures, results would have been dramatically different.

Government pockets are not bottomless and are reaching their fiscal limits. Look no further than the US Federal Deposit Insurance Corporation. The agency had 416 banks on its "problem" list at the end of June, up from 305 at the end of March. With several bank failures announced last week, the US has experienced 81 bank failures this year compared to 25 last year. The FDIC, which is responsible for insuring over \$4.5 trillion in bank deposits, has only \$10.4 billion in funds remaining. This is the lowest level of protection since June 1993 during the savings and loan crisis. The system remains fragile.

With recent broad based appreciation in equity markets we are also concerned that some spots in the market already appear to be pricing in a sustained "V" shaped economic recovery. We don't want to pay for this considering the more balanced views that we have. Thankfully, most of the Funds' investments continue to trade at valuation levels near the low end of their historic price to book multiples, despite maintaining acceptable returns on equity throughout the downturn. We feel the Fund is well positioned to climb a wall of worry, and build sustainable shareholder wealth in most economic scenarios

Below are charts of Astral Media and Uni-Select, two of the Fund's top ten holdings. The red line represents the book value or net asset value that the companies have built up over time. The blue line represents the price-to-book value multiple (essentially how much investors are willing to pay for that book value).



Both companies are trading near the low end of their historic valuation ranges, while navigating through the recent economic environment much better than most. We may not have very high market sensitivity which can limit returns during boisterous times but we prefer the sustainability to the sizzle.