

## QV's Pooled Fund – Month End Unit Values

Unit Values	Aug-07	Sep-07*	Oct-07
Cdn Balanced	14.11	14.17	14.35
Cdn Small Cap	23.80	24.09	24.70
Cdn Equity Fund	10.42	10.57	10.85
Global Equity Fund	9.38	9.10	8.99
Cdn Income Fund	10.33	10.31	10.29

\* Post distribution

## The Global Opportunity

This month's letter is designed to address some of the concerns by our clients regarding the negative rates of returns achieved to date in the Global Equity Fund. The month of October proved to be another challenging month as global equity returns, as expressed in Canadian dollars, were negative due to the impact of our rising currency. Our results, while better than the underlying indices, still provided a negative return to unit holders.

The US Central Bank's decision in October to lower borrowing costs caused an immediate rally in the equity markets, and a further sell-off of the US dollar. The Canadian dollar rose 5.0% in the month of October. It has risen 19.1% in 2007. The rapid rise in the last two months to above parity is not only a flight from their falling interest rates, but also a flight to our strong, domestic financials and our resource economy.

The US Federal Reserve Bank's decision to reduce their policy rate again, this time by a quarter of one percentage point, at a time when the US economy posted another strong quarterly gain, and unemployment reached a new low, speaks more about their concerns about the US banking sector and the credit markets than their concerns about reigniting inflation.

The large write-downs of loans relating to sub-prime lending by global financial giants Citigroup and Merrill Lynch, provide a warning sign of the possible fall-out their write-downs will have on the US economy. The Central Bank is trying to restore confidence in US financial system. They are lowering rates to ease the financial burden on consumers and prevent a greater financial crisis from unfolding.

Our strong currency may provide better purchasing power for Canadians and give us a sense of pride, but we remain concerned about the negative effects the dollar's rapid rise has on Canadian companies that export to the US, and to the investment returns in the Global Equity Fund in the short-term.

Our dollar's rise over the past year has more than offset the positive returns that the securities in the Global Equity Fund have generated since the January launch. While we cannot control the currency fluctuations, we can control the quality of the investments in the Fund. We are comforted by the performance of the majority of our holdings

since their inclusion, based on the price moves in their native currency, and the quality of their subsequent earnings reports. Some of the best performers in the Fund included the Hong Kong holding company Swire Pacific, up 32.9%, BHP Billiton, the Australian diversified metals producer, up 42.7% and Fortum OYJ, the Finnish electrical utility company, up 30.6%. The Fund's weakest performer was Heartland Express, the US based trucking firm, off over 19.0% since our initial purchase, though receipt of a \$2.00 per share special dividend helped offset the subsequent decline in market value.

As we launched the Fund, we believed at the time that the dollar's 40% rise to over \$0.90 in January provided a perfect opportunity to re-invest these currency gains into the global markets. With the benefit of hindsight, and with a short-term lens, our timing was off. As investors, we seek out opportunities that can provide a long-term beneficial impact to our client's portfolios. As the Canadian dollar continues to reach new highs, we see this potentially rare opportunity to take our strong currency and invest in more attractively priced markets, and at the same time, receive the benefit when the Canadian dollar reverses course.

The US equity market is now trading at a lower earnings valuation than the Canadian equity market, while generating higher returns on equity. We cannot ignore this market opportunity, or the prospect of providing greater diversity to the portfolios through broader market representation in areas of healthcare and information technology, a weak feature of the Canadian market.

In the short-term, currency will remain a headwind to Canadian investors in global markets. With patience, however, our currency's strength sets the stage for long-term gains in the global markets.

## Total Return – Capital Gains plus Income (%)

To October 31, 2007	1 Mo	YTD	1Yr	3 Yr	5 Yr	10 Yr
<b>QV Pooled Funds:</b>	%	%	%	%	%	%
Canadian Balanced Fund	1.3	4.3	7.3	9.7	10.5	9.1
Canadian Small Cap	2.5	16.2	19.3	22.3	24.8	16.2
Canadian Equity Fund	2.7	9.4	15.7 <sup>+</sup>	19.8 <sup>+</sup>	21.1 <sup>+</sup>	21.2 <sup>+</sup> <sup>^</sup>
Global Equity Fund	-1.2	-8.4	-	-	-	-
Canadian Income Fund	0.0	2.7	3.6	4.6	4.8	-

<sup>+</sup> Historic equity returns from the Cdn. Bal. Fund <sup>^</sup>8yr

## Benchmarks:

Balanced Fund Index	2.4	9.4	12.6	13.3	13.7	8.2
BMO Small Cap Index (unwtd)	3.2	6.9	9.0	14.6	19.8	6.1
Scotia Capital Bond Unvrs.	0.6	1.6	1.8	4.7	5.7	6.0
S&P/TSX Comp. Index	3.9	15.6	21.4	20.7	21.0	9.8
MS World Index (\$CA)	-1.8	-7.6	0.0	6.9	5.3	2.2
S&P 500 Index (\$CA)	-3.1	-9.6	-3.1	4.1	3.1	3.0

- Pooled fund returns are gross of management and custodial of fees. Returns over one year are annualized.

- The Balanced Fund Index reflects the total rates of return earned by the Scotia Capital (SC) 91-Day T-Bill Index (10%), the SC Bond Universe (35%), and the S&P/TSX Composite Index (55%).