

Small Cap Financial Exposure

A crucial vote on the \$32-billion restructuring plan for the frozen Canadian asset-backed commercial paper market will go ahead today. In light of this, it is timely to provide an update on the small cap fund's largest financial holdings. Currently, we have approximately 15% of fund assets invested in businesses categorized as financial. This compares to 11.7% for the BMO Small Cap Index and 31.5% for the S&P/TSX. Some clients have questioned whether this is the right weighting given the current environment. We believe it is. This is a diverse group of high quality companies operating in various niches including insurance, real estate, banking, and pension consulting. We expect that they will continue to meet the challenges and grow in the current environment.

E-L Financial (Approx. 3.7% Weight)

E-L is the small cap fund's largest financial holding. The company has two insurance divisions; one focuses on life insurance, the other focuses on personal & commercial insurance. They also have a large investment portfolio. The company's core competencies are their underwriting skills and deep relationships within Canada's independent brokerage community.

In the insurance industry, earnings quality can be an issue. Companies cannot create earnings but they can certainly time when they come out. We are careful when assessing different businesses in this space. We have a lot of comfort with E-L's earnings quality. We are also confident in their commitment to profitably grow the business. Insiders (the Jackman family) own 68% of the company. The valuation is very compelling at around 0.8x book value despite an ROE that has historically been in the double digits.

Crombie REIT (Approx. 3.1% Weight)

Crombie is a commercial real estate income trust. They are the largest landlord in Atlantic Canada. Their core business is managing enclosed malls and strip malls. Sobeys is their largest tenant and Empire is their largest shareholder. This was spun out of Empire in 2006. The company is focused on growing their cash flow per share while maintaining a strong balance sheet. They recently increased their distributions per

unit from \$0.85 to \$0.89. Crombie units yield approximately 8.0%, not bad compared to government of Canada 10 year yields at 3.8% this morning. Overall, this is not a high growth company but a steady performer with an attractive balance sheet.

Canadian Western Bank (Approx. 2.2% Weight)

Founded in 1984, Canadian Western Bank has grown from a small bank to a significant financial force in Western Canada. The Company has \$9.5 billion in total assets and has not been directly affected by the write-downs and losses related to the non-conventional lending that has plagued much of the banking sector. They have no exposure to the asset backed commercial paper market. CEO Larry Pollock says he isn't smart enough to understand complex debt investments and won't invest in things that they don't know. CWB has grown profitably for 79 consecutive quarters. They are targeting 15% net income growth in 2008 and are off to a very good start with 27% net income growth in the first quarter.

Home Capital Group (Approx. 2.1% Weight)

Home Capital Group is Canada's leading alternative lender offering residential mortgages and credit cards. They have an excellent track record of growth with ten consecutive years of above 20% returns on equity. Home Capital has a competitive edge. They rely entirely on individual investors for deposits. In addition, the Canada Deposit Insurance Corporation insures the loans that they securitize. This has allowed them to maintain funding for their business while competitors who depend on the wholesale market for funding (which has dried up during the credit crunch) have had difficulty. The company expects to grow earnings per share and assets in excess of 20% in 2008. If targets are met (which we expect), that puts Home Capital at 12.5x earnings, an attractive multiple for a growth company.

Other financial companies in the fund are Morneau Sobeco Income Fund (approx. 1.8% weight), Laurentian Bank, and the Western Financial Group (both approx. 1.0% weights). All of these companies remain in good financial health.