

Asset Allocation	Q 4 2007	Q 1 2008
Can. Equity	14%	15%
Income Trusts*	15%	15%
US Equity	10%	10%
Int'l Equity	16%	10%
Fixed Income	45%	50%

*Income trusts have a unique return and risk profile and are therefore singled out.

CANADIAN EQUITY:

Benchmark: S&P TSX Comp.

C\$ total returns to Dec 31st, 2007:

+9.8%

INCOME TRUSTS:

Benchmark: S&P TSX Income

Trust TRI

C\$ total returns to Dec 31st, 2007:

+6.6%

US EQUITY:

Benchmark: S&P 500

US\$ total returns to Dec 31st, 2007:

+5.5%

INTERNATIONAL EQUITY:

Benchmark: EAFE (Net)

US\$ total return to Dec 31st, 2007:

+11.2%

FIXED INCOME:

S&P Broad Composite Bond Index

C\$ total returns to Dec 31st, 2007:

3.8%

Key factors in 2007: Volatility was the defining characteristic of fixed income, equity, currency and commodity markets in 2007. A profound deterioration in the health of residential real estate served as a catalyst to wider weaknesses within the domestic US economy. The consensus took comfort in the notion that the global economy has become “decoupled” from the troubles of the US and that the ebullient BRIC economies will prevail without US input. As the New Year evolves, cracks in the “decoupling theory” have surfaced unnerving equity markets. In particular, Canadians are recognizing that our economy is, after all, inextricably linked with the US economy.

For many years, both capital markets and the real economy benefited enormously from cheap and plentiful credit. As a result, asset values ranging from the family suburban bungalow to the most arcane hedge fund flourished. During this period, the prospect of default or asset deflation was assigned cursory analysis. All of that changed in Q3 2007 when venerable companies such as Bear Stearns, Citigroup and Merrill Lynch started announcing write-offs of such staggering proportions (to date +US\$80 billion) that their respective corporate chiefs were quickly shown the door. Shortly thereafter, the asset-backed dominoes began to fall and the sub-prime “contagion” spread rapidly. In response, major domestic and international banks ordered that lending windows be shut tight forcing central banks to provide markets with much needed liquidity which ultimately will only be restored after a slow process of unwinding and reconciling these capital markets excesses.

Markets in 2008: Consequently, we believe that **remedial** best describes the investment climate that will prevail for the next 12 months. In this environment, in the absence of liquidity, even though central banks may be lowering rates, and against a backdrop of economic malaise, broad asset returns can be expected to be quite flat for the year although the valuations of specific sectors or asset groups can be expected to realign with historic norms and with broader markets. In a sense, this is the remedy for the excesses of recent years. The remedial phase is characterized as a period of incremental adjustments rather than by a sharp and sudden market correction.

Investment strategy: In such an investment climate portfolios must be constructed with four crucial attributes: quality, variety, transparency and liquidity. We have diversified our global balanced portfolios since 2006, and have taken profits or generated tax losses where we deemed it profitable or cautious and limited our equity exposure while improving the quality of all holdings. The goal of is to *provide the basis for longer term asset appreciation and stability*, and not as a market timing strategy to boost near-term returns.

Accordingly equity investments are focused on mega cap domestic and international common stocks. Fixed income investments are also of the highest quality. Investment grade corporate bonds and preferred shares were unjustly penalized in the late-2007 credit panic, and will, in our view, recover in 2008. To date, investment grade corporate spreads have begun to narrow but continue to be above historical norms. While we look for the benchmark 10 year government bond to remain in the 3.90% to 4.0% range, we believe that corporate bonds and preferred shares will significantly outperform the risk free benchmark providing an important source of returns in 2008.

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