

Asset Allocation	Q 2 2007	Q 3 2007
Can. Equity	12%	14%
US Equity	12%	10%
Int'l Equity	16%	16%
Fixed Income	60%	60%

CANADIAN EQUITY:

12%

Unchanged

Benchmark: S&P TSX

Composite

6 month C\$ total returns to June 30th, 2007: **9.05%**

US EQUITY: 12%

Reduced by 3%

Benchmark: S&P 500

6 month US\$ total returns to June 30th, 2007: **6.03%**

INTERNATIONAL

EQUITY: 16%

Reduced by 2%

Benchmark: MSCI EAFE

6 month US\$ price return to June 30th, 2007: **10.7%**

FIXED INCOME: 55%

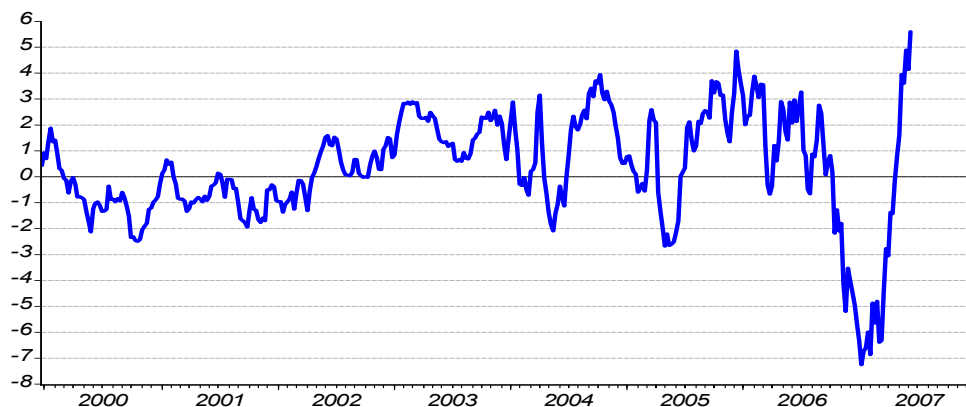
Unchanged

Benchmark: Citigroup World

Government Bond Index

6 Month C\$ total returns to June 30th, 2007: **-8.9%**

CURRENCY: The sharp rise in the Canadian dollar / US dollar exchange rate is the major factor affecting investment returns for global balanced portfolios in the first half of 2007. While Canada did produce solid economic growth due to the energy boom in Alberta and the real estate booms in BC, Alberta and Ontario, the recent surge in the currency is primarily attributable to corporate buyouts, speculation and trading volatility.

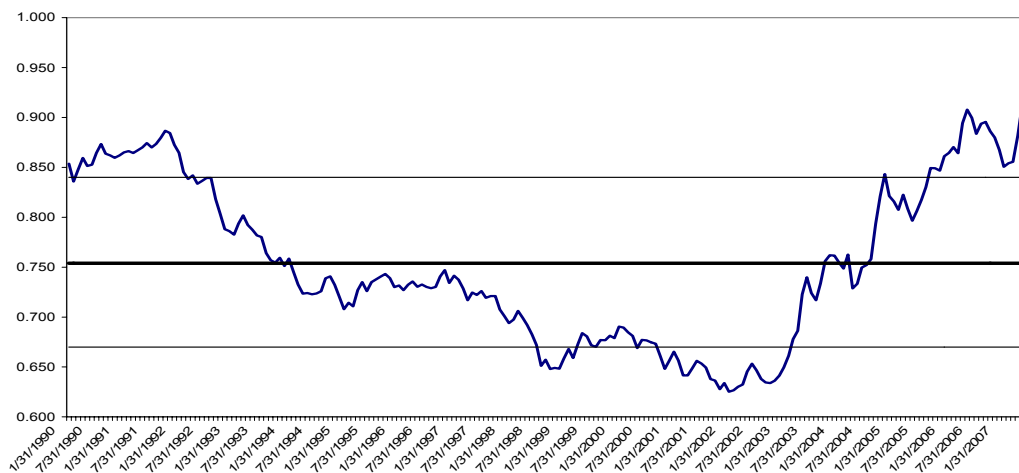


Net position on CAD/USD: Long minus short US\$ Billion
Source: National Bank Financial

As the chart above shows, currency speculators moved from being net short \$6 billion Canadian dollars to being net long \$6 billion--- an unprecedented \$12 billion swing in approximately just 60 days that cannot be adequately explained by economic factors. Looking over the past 17 years (chart below), the C\$/US\$ exchange rate has averaged 75 cents US with a standard deviation of 5 cents. At 95 cents US, the C\$ is four standard deviations over its long run level and has risen by 50% since its low point in 2002.

US/Cdn Dollar Exchange Rate

Source: Bank of Canada



Source: Bank of Canada, Shaunessy Investment Counsel

It is reasonable to expect that the Canadian dollar will settle back to the 80-85 cent US level over the next 12 months as corporate and speculative fervour wanes.

ECONOMY AND MARKETS: More than 70% of the US economic activity is attributable to consumers. Consumer wealth and spending is underpinned by the housing market. The US housing market is in trouble as supply, both new and existing, greatly exceeds demand. Moreover, tighter financing conditions may exacerbate the downward trend in home prices and raise investor concern about systemic risk. In our opinion, current economic stability is tenuous and the popular notion that China and India can maintain global economic growth, even if the US slows, may be overly optimistic. Consequently, we remain very cautious about the ability of the consumers to cope with further bad news. In addition, public company buyouts by private equity investors have had a noticeable influence on the major equity market indexes. In Canada, for example, 30% of the rise in the TSX 60 is directly attributable to corporate takeovers. Corporate buyouts tend to artificially stimulate the demand for equities as well as significantly increase risk as equity is replaced with debt. Acquisitions have further diluted the top ranks of the TSX and increased the exposure to cyclical sectors such as materials and energy. On the debt side, uncertainty about sub-prime mortgages (and the associated hedge funds) and other collateralized debt obligations (restructured debt arising from the global boom in leveraged buyouts), suggests that systemic risk is on the rise and it is for these reasons that **our primary investment goal in the next 6-9 months is capital preservation.**

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