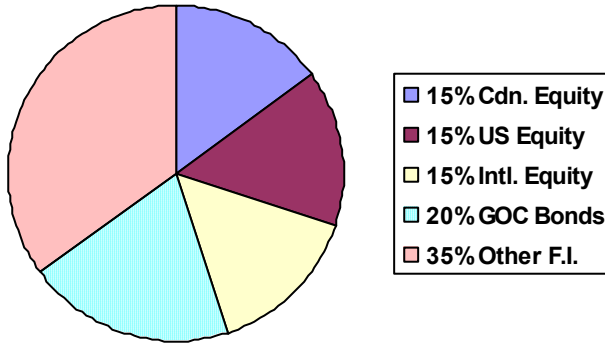


2006: A 50/50 Year

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Summary:



As of June 30th, 2006:

Shaunessy YTD: 3.2%
Shaunessy Y/Y: 13.2%
API Median YTD: 1.1%
API Median Y/Y: 7.4%

What was true in our April newsletter is even truer in July: "As investment managers, our task at this juncture is to maintain balanced portfolios and preserve the returns generated in Q1 2006, especially as the next 6 months are traditionally a time for market corrections."

Today the consensus view is that a slowdown in the U.S. economy is in the cards, but no one is sure if this will be a sudden and disruptive or a "soft" and orderly event. Regardless, Canadian markets offer relatively little shelter and our goal is to provide capital preservation via a conservative asset mix and global diversification by currency and region. The latter is important because Canada has very significant exposure to the U.S., represents only 3% of world capital markets and Canadian stock markets have had a very good run for several years and have become concentrated and variable.

Canadian Equity: 15% Unchanged

Our core asset portfolio's allocation to Canadian equities remains at 15% as we are concerned that: the Canadian dollar remains at historically high valuations; a U.S. slowdown will negatively impact Canada; interest rates in Canada may rise further; a decline in commodity prices, in particular energy, could have a very negative effect on stock prices; the Canadian manufacturing sector is being adversely affected by the high dollar; and, the Oil Sands may not be nearly as rewarding as projects struggle with rapidly escalating costs. We have adjusted our Canadian equity holdings to reduce exposure to energy and financials and increase exposure to dividend bearing and defensive securities.

US Equity: 15% Unchanged

The prospects for the U.S. economy offer no compelling reasons for changing the portfolio allocation from 15%. The risk is that as the Fed and other central banks (now including Japan and China) continue to raise interest rates in an attempt to manage late cycle inflation, they could provoke a recession. Historically this has been the outcome of tight monetary policy late in an expansionary cycle and the risk of a recession is higher now as U.S. consumer debt is at historic highs. Consumer debt creates the potential for a pronounced economic downturn in which falling asset prices (real estate and equities) will undermine consumer confidence and unleash deflationary forces (see 1980s Japan). At this point, such an outcome is not expected, but the risk needs to be heeded.

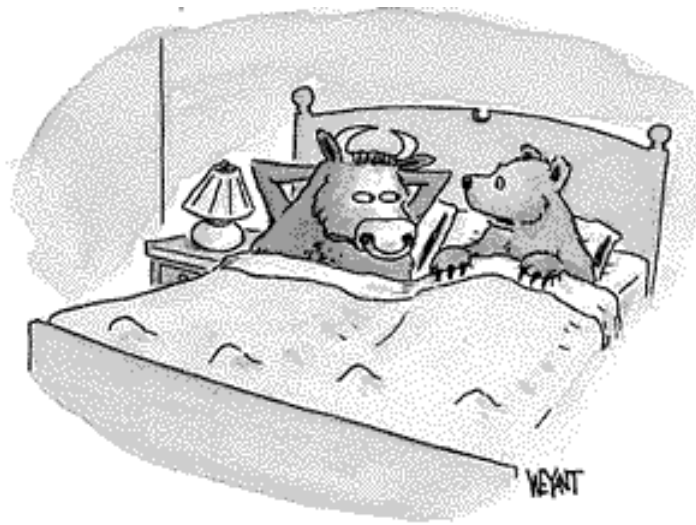
International Equity: 15% - 5%

Non-North American equity returns for the first six months of 2006 have been competitive beating both U.S. and Canadian equivalents (by over 5%). The exposure of Asian and Far East equity markets to North American consumer demand however is significant and we therefore adjusted our EAFE holdings downwards by 5% early in Q2 prior to the significant correction in June. European equities conversely however are attractive for several reasons: low

valuations for the past ten years; a high exposure to mature defensive sectors (consumer staples, utilities, health care, financials and major consolidated energy companies) and a huge underlying consumer market that is younger and with less debt than the U.S. consumer. We therefore expect European equities to be a source of more consistent returns than other equity markets. Additionally, it is reasonable to expect that as the U.S. dollar declines relative to European currencies, so will the Canadian dollar, perhaps even more so.

**Fixed Income &
Bonds: 55%
+ 5%**

Given the overall risk and lower expected returns associated with equities, fixed income investments are attractive and now represent 55% of our core portfolio. A large part of the fixed income portfolio continues to be allocated to special situations such as Canadian income trust indexes, US high yield bonds and gold bullion ETFs. Our bond holdings remain tilted toward the short end of the market as late cycle inflation concerns have raised short term rates within reach of or at times higher than long term rates. We are also managing U.S. and Canadian dollar currency risk by diversifying into other major currencies by using currency ETFs.



"Sure, it may be great for us, but it's hell on the markets."



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