August 9, 2012

Dear clients and friends,

Re: 2012 Mid Year Update

Half way through 2012, markets look similar to 2011. The same worries that we wrote about last summer continue to weigh on investors' minds including the potential dissolution of the Euro, over-indebtedness in the U.S., and faltering growth in China. One risk that investors seem to have grown complacent about is the possibility that interest rates might rise. In LCM's view, today's 1.5% ten-year bond yields appear particularly inadequate. Even if ten-year rates were to fall to zero tomorrow the upside for bond investors is minimal; however, if rates were to rise, bondholders would face significant capital losses. Furthermore, safety of principal in bonds held over long periods can be illusory after the compounded effect of inflation is considered. At these low yields if you are looking for 'safety' your money is probably safer under the mattress.

As we have discussed in previous letters, this sort of climate can present great opportunities for the investor willing to turn off the screen and get to work valuing a business. So far in 2012, our due diligence has resulted in the identification of one new opportunity. This company is a growing, mid-sized, high return on capital business that is debt free and well managed. Its results have been inhibited by the economic environment. The market's manic focus on the short term has depressed its valuation and has created a compelling opportunity. Profits will likely take some time to bottom and this may give us the chance to build a much larger position.

Although we would caution that short term results should not be overemphasized, so far 2012 has been strong for LCM's investments. Three of our positions have earned total returns between 30% and 60% in 2012, resulting in a total return for the portfolio of 13.6%* year to date. Interestingly, in all three cases we have invested in the equity securities of companies with zero net debt on their balance sheets. In two of these cases the stock prices are merely keeping pace with the improving fundamentals of the underlying businesses, and in the third case valuation has risen to a point where our margin of safety has declined therefore we have trimmed our position.

Longer term results are more meaningful in evaluating an investment manager. As we opened our first account in June 2008, we now have four years of results to share with you and these results are attached to this letter along with a snapshot of our current portfolio. We are satisfied with the results given the market environment, and pleased that these returns are a product of our patient and disciplined approach.

Finally, we are excited to announce that Alison Sillmans has joined us as Office Manager. She has considerable experience in financial services having worked at Richmond Savings and Coast Capital before most recently working at a financial planning firm. Her exceptional skills and positive personality are a great addition to Lewin Capital and we are delighted to have her on board.

As always, we are grateful for your support. Please call if you have any questions.

Sincerely,

Dan

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LCM results*

Performance to June 30, 2012 (not annualized)

	2012 YTD	One Year	Four Years (Since Inception)
LCM Portfolio	13.6%	14.3%	60.1%
50/50 North American Equity Index Portfolio	3.7%	0.5%	3.2%
LCM Outperformance	9.8%	13.8%	56.9%

- Long term goal is to earn in excess of 7% per year on average. Since inception cumulative return of 60.1% corresponds to 12.5% annualized return.

- Over the past year, twenty-two percent of the portfolio on average was in cash so the *invested* portion of the portfolio earned roughly 17.8%, to generate a total portfolio return of 14.3%.

* See last page for full description of performance reporting.

Current portfolio

At June 30, 2012

- 84% of portfolio invested in 10 positions
- Broadly diversified across 9 industries
- 2/3 of positions Canada, 1/3 United States
- Market capitalization range: $200 million to $60 billion
- Half of our investments are in companies with zero or minimal debt on balance sheet
- 16% of portfolio in cash not a macro call on markets, rather a residual of our rigorous and selective approach

*All stated returns are gross of fees. Index portfolio is composed of 50% S&P TSX Composite Total Return Index to represent the Canadian stock market returns and 50% S&P 500 Total Return Index translated into Canadian dollars to represent the U.S. stock market. Returns for LCM are from a representative account as all client assets are held on a segregated basis. Small differences will occur between accounts due to rounding and timing of cashflows.