January 22, 2009

Dear clients and friends:

Re: LCM Annual Letter December 31, 2008

It is a delight to be writing the first annual letter for Lewin Capital Management Ltd. What a great year to start an investment management firm! Now that may not be the first thought that pops into your mind when you think about 2008, but it's certainly how we feel.

Let me explain why. The market meltdown of the last four months has provided an incredibly vivid and powerful demonstration of the importance of the investing principles we are passionate about and that provide the foundation for LCM. Would we like to see a more positive investment environment for 2009? Of course, but the recent experience has brought home for everyone the importance of maintaining a rigorous and disciplined approach to investing in a more impactful way than we could ever have articulated.

<u>What is LCM?</u>
LCM is an independent investment management firm created to manage the capital of a handful of like-minded individuals on a fully discretionary basis. It has been up and running for six months. Its key focus is to make money solely from investing. LCM's structure and fees have been determined based on a "principal-as-customer" model. In other words, the founder has sought to create an investment product that he would buy, and has committed his family to make all direct equity purchases as clients of LCM. Thus, in a true alignment of incentives, the investment returns earned by the founder are identical to every LCM client.

<u>LCM's Results</u>
LCM earned a return of 3.4% for the six months ended December 31, 2008. This positive return was earned during a particularly bad stretch in the stock market; the Canadian and U.S. stock markets were down 35.8% and 28.5% respectively during this period. When measured in Canadian dollars, the U.S. market was down 14.7%. LCM finished the year with a large cash balance. This cash was a drag on returns as the invested portion of the portfolio earned a return of 4.9% during this period.

LCM devotes the vast majority of its time and effort to the research and investing side of the business. From the list of potential ideas LCM started with at inception, one very good idea was identified and aggressively capitalized on. This idea was a North American based company in an industry that the founder had studied for over a decade. It had no debt and we were able to purchase it below book value. In addition, a handful of smaller positions were established in decent investments that will likely be increased as is warranted. Throughout the coming year LCM will continue to direct almost all energy towards unearthing good ideas and expects that the current climate of fear will present significant opportunities.

Given the short period since LCM's inception, it makes little sense to spend much time discussing performance. Rather, it is important to discuss LCM's investment philosophy and what clients can expect going forward.

LCM's Investment Philosophy

There are three core principles that form LCM's investment philosophy: a concentrated approach, a long-term time horizon and redefining risk. The founder's commitment to these principles has been developed and refined over seventeen years of investment decision-making and direct accountability for managing investment portfolios.

A Concentrated Approach

Great investment ideas are rare. When LCM unearths a great idea, it capitalizes on that idea by taking a concentrated approach. Much like the portfolios of Warren Buffett or Philip Fisher, a winning portfolio can be comprised of a few ideas that generate the bulk of returns. Some investment managers today claim to take a concentrated approach; however, their portfolios typically contain thirty or more individual stocks. While many investors believe they are reducing risk through such diversification, the overall effect is a dilution of achievable returns that can be generated from a few great ideas.

A Long Term Time Horizon

Over the years, investors and their clients have lost sight of long term results and have become conditioned to demand short term returns. When considering the appropriate period of time to assess the performance of an investor who purchases whole businesses, a rational time horizon could be five years or more. It takes time in business to create value. Just because stock prices are quoted every minute or every day does not mean that value creation from investing can be meaningfully measured on a short term basis. Put another way, it is a misperception that short term changes in price are a measure of value creation – they are merely a reflection of activity.

As discussed in LCM's August letter, to consider a ten year time horizon as forty quarters is misguided. In addition, and perhaps not widely acknowledged, is the effect that short term measurement has on an investor's mindset and overall performance. An investor who reports every month or every quarter is under pressure to look smart in every period; the result is that the investor is prone to engage in short-term action for action's sake, rather than remain focused on the overall goal of long-term results. The LCM investment approach will not hinder the creation of long-term value by adopting the industry's short term reporting norms. Thus, LCM will typically report and comment on results once per year. Patience is a key ingredient in the successful application of a disciplined investment strategy – both for the investor and the client.

Redefining Risk

Risk is defined in finance textbooks and throughout the investment industry as volatility. This is indeed a form of risk; however, it is overemphasized. The primary risk that should concern an investor is the risk of incurring a permanent loss of capital when making an investment. LCM contends that the risk of permanent capital loss from an investment can be minimized through a diligent application of a value based investment philosophy with an important focus on quality.

<u>What can LCM clients expect going forward?</u>
Going forward, it is not realistic to expect that LCM will beat the market by such a significant margin as it has done to date. It is also not realistic to assume that LCM will generate a positive return in every period. What is most likely is that by following a concentrated approach, on an annual basis the results of LCM will look nothing like the market. None of these thoughts bother us.

Clients can expect that the level of due diligence and sophistication of our analysis is among the highest in the business. With a short list of investments, clients should expect nothing less. Our "narrow and deep" approach inevitably means that we will not always own what is "hot" and, indeed, sometimes it may appear that the action is passing us by. Although we expect our performance will be different than the market from year to year, we anticipate generating returns in excess of 7% annually over the long term. With a bit of insight and some patience, the returns from exploiting opportunities using a concentrated approach will enable us to achieve our goals.

Sincerely,

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President

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