LEITH WHEELER INVESTMENT OUTLOOK

Leith Wheeler INVESTMENT COUNSEL LTD.

Third Quarter 2007

Applying The Brakes

Every so often, either at home or in business, difficult choices need to be made. We recently had a tough one to make at Leith Wheeler. The options were to continue down the path of rapid growth of our business or to apply the brakes. We chose the latter course of action and decided to not accept assets from new institutional clients who wanted us to manage their balanced investment portfolios. Up to this point, we were turning away new institutional clients who wanted to hire us for equities only; however, our assets continued to grow and a further slowing was required.

At first glance, this strategy may seem like a crazy decision as most firms covet growth. Typically, shareholders of a company are short term focused and demand management run their business to grow revenues as quickly as possible – at times, to the detriment of a firms culture and performance. Fortunately, Leith Wheeler is a private company, owned by its employees and founders, and we can take a longer term view. Our overriding objective is to provide strong performance and added value for our clients much like we have done over the past 25 years.

So, why is 'applying the brakes' a necessary step to achieving our goals? Well, first of all, we plan on slowing down but certainly not stopping. Our existing institutional clients are still welcome to give us new assets to manage and we are eagerly growing our fixed income presence. For individual investors, we remain open and active. Therefore, please keep recommending Leith Wheeler to your friends and family. We appreciate the business.

The other major source of growth at Leith Wheeler, aside from new clients, comes from investment returns. We are proud of our record of providing superior investment returns and our first priority is to continue to produce results for our clients. Maintaining our position as a medium sized firm, by controlling the growth of our assets under management, has provided us with the investment flexibility we need to ensure that our ability to find attractive investments is not compromised. This strategy has been very beneficial to our clients and is one we plan to continue ... but some explanation may be required. Here is how we look at the stock market.

In the Canadian stock market, where the universe is relatively small, our medium size means we are large enough to have depth in our investment teams, but small enough to still maximize our investment opportunities. Unlike large investment firms, our size gives us the flexibility to take meaningful positions in small and mid-sized companies that are sometimes less recognized by investors, but offer excellent growth opportunities. Since we seek out the best investment opportunities, maintaining a large pool of companies to analyze is crucial. More companies to research means more opportunities.

25 YEARS

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This is best illustrated through the following Chart:

ASSETS ↑
INVESTMENT OPPORTUNITIES ↓

Canadian Equities	Average Holding 40 Stocks	Eligible Stocks Under 10% of Float*
$4 B	$100 M	206
$8 B	$200 M	123
$12 B	$300 M	88

*Based on CPMS Canadian Stock Universe (710) as at Dec 31, 2006

Currently, we manage approximately $4 billion in Canadian equities for our clients in various types of portfolios. Each stock that goes into our portfolio is thoroughly researched and, based on our analysis, offers a potential three year return that is greater than fixed income alternatives, as well as a premium for risks in the particular business. For example, we demand a higher expected return from an oil and gas company than an insurance company.

Only our best investment ideas go into our portfolios and if we do not find stocks in a sector that offer value, and fit our criteria for purchase, we will choose to have no exposure to that sector. However, when we find a stock we like, it not only goes into all our portfolios, it is going to be a significant position size in the portfolio and have a meaningful impact on performance. So to explain the chart above, we manage $4 billion in Canadian equities and own, on average, 40 stocks in our portfolio. If you were to buy an equal amount of each company's stock, you would have to purchase $100 million of their stock in the market for all our portfolios. The other important issue is that we want to be able to get in and out of investments in a timely manner and therefore prefer not to own more than 10% of the float of a company. The "float" is jargon for the outstanding shares of a company less insider ownership and control blocks of the stock (i.e. the stock that is available for trading). From the chart above, you will notice that we can currently select from 206 companies in the Canadian market to build our portfolio without owning more than 10% of the float.

Noted in the chart above, when the Canadian equity assets under management grow, the eligible stocks shrink. In our view, the larger managers react to this reality by owning smaller position sizes and therefore, a greater number of stocks in their portfolios. The portfolios do not solely contain their best ideas, they dilute their research and individual stocks have less of an impact on performance. They tend to look increasingly like the market, which makes it difficult to produce superior returns. At Leith Wheeler, we do not want to find ourselves in this position; hence, the need to apply the brakes.

We do not foresee this closure to be permanent and will continually monitor the marketplace. There are several factors that could allow us to reopen while still looking out for our client's best interests. First of all, we could see growth in the Canadian market. Recently, due to acquisitions by private equity managers and foreign companies, there has been a reduction in the opportunities in the Canadian market. This can reverse and a large number of Initial Pubic Offerings on the Toronto Stock Exchange could increase the number of available opportunities. The other reality is that we could see a decline in the market. Currently, we own 30 stocks in our Canadian equity portfolio. The stocks we own are good value, but it is difficult to find new names to purchase at this time. A drop in the market could present us, perversely, with more opportunities.

Saying "no" to clients in a service based industry is never easy. But we have been pleased with the feedback from institutional consultants and clients. They understand the need to protect our ability to perform and appreciate the steps we are taking on their behalf. As for prospective individual investors, it is business as usual.

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