VALUE CONTRARIAN ASSET MANAGEMENT

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2009 Third Quarter
Value Contrarian Equity

Dear Investors,

> ***The world is positioned for disappointment…But, in economic and financial matters, the world rarely gets what it expects.***
>
> ***James Grant***
> ***Grant's Interest Rate Observer***
> ***Editor - October 2009***

> ***And why does a man who is gloomy about stocks own so much stock? "Partly, it's habit,"… "Partly, it's just that stocks mean business, and owning businesses is much more interesting than owning gold or farmland. Besides, stocks are probably still the best of all the poor alternatives in an era of inflation – at least they are if you buy in at appropriate prices."***
>
> ***Warren Buffett***
> ***Fortune Magazine***
> ***May 1977***

There you have it folks, the May 1977 Fortune Magazine article explaining Buffett's simple strategy to deal with inflation. So, when serious inflation took hold in the mid-to late 70's, how exactly did the S&P 500 perform during this period of stagflation, dismal economic growth and the Iraq/Iran War? (Please see attached S&P 500 and Berkshire Hathaway Record.)

For "shell-shocked" investors, it's time to look forward, yet still learn from history. "Rear-view mirror" investing based on the recent events of the great bear market of 2007 to March 2009 is understandable human nature. However, one cannot remain frozen by recent events.

Without the global intervention by governments, the great bear market certainly could have turned into another depression. But that scenario is off the table, despite a vocal "doomsday" crowd still surviving in the financial media.

The "New Normal" for the economy will likely feel painful for years to come. If future economic growth is at best 0% - 2% annually, it will feel like one continuous recession accompanied by stubbornly high unemployment. Remember, annual population growth is already 1% - 2%, so natural economic growth is approximately 1%.

Recently, others have been finding favour with some of our equity holdings. In simple terms, we own mostly good quality businesses which are temporarily out of favour. Of late, we have received a few opportunistic takeover offers. In the past quarter we accepted a takeover offer for our 14,500 Pet Valu Canada shares (Cost: $9.58 - Take-out price: $13.68).

The other week, the Canada Pension Plan made an opening offer for our position in custom brokerage firm Livingston International (Cost: $6 - Pending takeout offer: $8+). Regardless of the economic climate, good, easy to understand businesses which have the ability to grow and produce free cash flow will frequently be asked to the takeover altar. Undervaluation also helps in this process.

The majority of our Livingston International Fund position was purchased right after the company eliminated its distribution. A good business, Livingston was temporarily being weighed down by excessive debt and a cyclical (not secular) downturn in cross border trade. This company represented a classic "value-contrarian" investment.

As a result of these events and strategic portfolio pruning, our cash levels are once again starting to rise. The 15% market correction many are expecting will arrive when there is little talk of such an occurrence. The market is always there to fool as many as possible.

Third Quarter Performance/OUTLOOK

> ***My fear is that when we're sitting here this time next year, the unemployment rate will be stubbornly north of 9% and that will have real implications for growth going forward.***
>
> ***Bob Kelly***
> ***CEO Bank of NY Mellon***
> ***Oct 17, 2009***

> ***The market is too pessimistic on the dollar in my opinion. As long as the United States is still the most competitive and innovative economy, the US dollar will remain the most important currency and the global reserve currency.***
>
> ***Guo Shuquing***
> ***Chairman China Construction Bank***
> ***October 2009***

Your Fund ended the third quarter with a net asset value of $2,333.88 per unit, an increase of $539.68 from the December 31, 2008 net asset value of $1,794.20 per unit (after distributions).

Please forgive me for this shameful display of self-promotion, but your Fund's year-to-date performance is +30%.

As a long-term investor, you have experienced annual V/C Fund returns which can be best described as: Great-Good-Poor-and-Ugly. Nonetheless, over the past 20 years we have experienced only two calendar years (2008 & 2002) of negative returns. During 2003, 2004 and 2005, the Fund produced double digit returns annually. Naturally, this caused an influx of investors in late 2006 and 2007. Obviously, individual investor returns will be affected by the specific entry point into the Fund.

We fully understand why V/C Fund investors prior to 2005 are willing to more readily accept the recent stock market setback. We also understand why investors of more recent years are not satisfied with their returns.

Nevertheless, stock market history (and our experiences) shows that outsized returns occur in the years following bear markets (i.e. V/C/ Fund 1991 +37%, 2003 +27.7%).

2009 is no exception to this rule (+30% year-to-date). Investors must fight the tendency to extrapolate what has transpired in the recent past (on the positive: successive years of double digit returns or alternatively a year or two of negative returns). As a reliable guide to future stock returns, chasing past performance is a definite "No-No".

Unfortunately, try as we may, it is difficult to change investor psychology. Kudos to V/C Fund investors who made the plunge on October 1, 2008 (and afterwards) as the world seemed to be at the abyss. They are now reaping the rewards of their convictions.

The cycle has now turned decidedly in our favour. The question is whether investors will stay the course in order to continue to participate in the outsized positive market gains. Or, will the inevitable market "corrections" shake the apple from its tree.

The temptation to engage in "rear-view mirror" investing should be avoided. The immediate past is not a prologue to the future.

Respectfully yours,

Benjamin D. Horwood
Portfolio Manager
Oct 19, 2009