



# LAWRENCE PARTNERS FUND

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## FIRST QUARTER 2008

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### FIRST QUARTER PERFORMANCE OVERVIEW

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Series 1 NAV per share	Monthly Performance	2008 Performance	Since Inception Performance
\$238.27	-3.34%	-3.00%	+488.38%

Shares of Lawrence Partners Fund were down 3.34% net of all fees in the month of March. This compares to a loss of 0.6% on the S&P500 and a loss of 1.7% in the S&P/TSX Composite Index. For the quarter ended March 31st, the fund returned -3.00%. This compares to a loss of 3.5% on the quarter on the S&P/TSX Composite Index.

### MARKET UPDATE

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The credit crisis has continued. The Federal Reserve in the US has taken aggressive action with the predictable result of a declining USD versus the Euro and Yen. However, there has been little relief in credit spreads or the availability of credit. In fact, virtually all credit spreads are wider than when the easing began. Meanwhile, the US housing market is still saddled with massive excess inventory and despite the onslaught of liquidity, mortgage rates have not declined as financial institutions are rapidly trying to contract their exposure.

Inflation is also a significant risk. Soaring resource prices and unprecedented growth in money-supply are disturbing. Conversely, the structural backdrop is far more positive than in the 1970's as globalization is helping export positive deflation from low-cost service and manufacturing centres and rapidly improving productivity levels. As a result there has been no evidence of wage-price spiral in the major developed economies – a key difference to the 1970's. Inflation is far uglier and more problematic in emerging markets which maintain a USD peg – this is likely to result in a series of nations adjusting or removing their peg policies which will cause a degree of turbulence but will ultimately be for their own and the world's benefit. The US economy by comparison is operating below its potential and is likely to continue to do so for the balance of the year – credit contractions are typically not inflationary events.

The recession however need not be protracted or particularly deep. The combination of fiscal stimulus with the existing strength of the corporate sector's balance sheets (it has only been financials that have suffered balance sheet blues) and a weak USD are combining to decelerate the slow-down. Domestic demand growth in 'emerging markets' (which have been lending 'developed' markets money for some time and now are buying their equities too) will help diffuse the weakness in the US.

It is important to remember that neither stocks nor corporate profits were the cause of the current crisis. This is a mortgage, credit, and banking crisis. While constrained credit and significantly reduced consumer confidence and spending power in the U.S. and parts of Europe are negatives for global equities, it is still likely that equities will be the first market to move into recovery.

## STRATEGY IN Q2

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Our short positions have been reduced and are at lower levels than we have seen since Q2 2006. While the likelihood of outright bankruptcy remains high for many companies, many of the companies we have held short positions in or that would otherwise form typical candidates for our short-selling style have depreciated so significantly that all that remains is an option-like value to their equity. Any recovery or positive development could result in massive losses on short positions.

We have increased our weighting to market-neutral strategies including spread-trading and various forms of arbitrage. As a result of the credit crisis and de-leveraging effect, we are able to establish positions with expected double-digit returns with very low market-related risk. We have not seen this risk-reward potential from this sector since the late 90's – a time at which benchmark bond yields were far higher and the investment world was entirely focused on the NASDAQ. We expect this weighting to decrease over the quarter and by the end of the year to have virtually exited this asset class as the credit crisis resolves itself and spreads decline.

We have been adding to core long positions and remained focused on the companies with a catalyst to unlock value inside of our typical one year time horizon. Virtually all of our core long positions are significantly lower than at the end of Q4 and we believe represent excellent levels. We have added a small number of new positions which we believe to be highly opportunistic.

We have been capitalizing on recent volatility by slightly increasing our trading activity and by aggressively selling volatility against core names. We expect realized volatility levels to decline dramatically throughout the balance of the year and that this represents a short-term opportunity.

We are optimistic that our excess liquidity and the attractive levels that we have created or added to positions will allow us to realize profits in the coming quarters as the credit crises subsides, regardless of broader equity market performance.

Thank you for your continued support.



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