



LAWRENCE PARTNERS FUND

SECOND QUARTER 2008

SECOND QUARTER PERFORMANCE OVERVIEW

Series 1 NAV per share 30/06/08	Quarterly Performance	2008 Performance	Since Inception Performance
\$238.27	1.57%	-1.47%	+497.65%

Shares of Lawrence Partners Fund increased 0.56% net of all fees in the month of June and 1.57% in the second quarter although the NAV remains slightly negative since the beginning of this year. This compares to a loss of 1.7% in the month of June and a gain of 8.4% during the quarter on the S&P/TSX Composite Index.

MARKET UPDATE

Markets have been gripped by fear and there has been a flight from risk globally. IndyMac has failed and others are likely to follow. Recession, stagflation, systematic collapse and other frightening terms are being thrown about. Is this the beginning of worse to come or an important long-term bottom in global equity markets?

Market breadth indicators are hitting levels only seen in 2002-3 during the market lows. This does not indicate a cyclical bottom but almost certainly indicates an important intermediate-term bottom. If the climb in oil has been arrested and in fact reversed then perhaps we have seen at least short-term bottom in global equity prices.

However, there are other troubling factors at play for which there is no short term solution. Namely, banks are not functioning properly and real estate prices continue to fall. Credit availability globally is contracting which has weakened an economy already reeling from high energy prices and food price inflation. Moreover, whether oil prices can decline 20% or even 30% from the recent highs, as has been the case in all other oil price surges, there is little policy-makers can do to guide the economy to a soft-landing. Interestingly the last 3 oil price surges were accompanied by banking crises and led to recessions – 1973-75, 1980-82, and 1990-91. The current situation may prove to be all too similar.

The current period of inflation in energy and food prices may prove to be far worse than previous ones since they were cyclical in nature. There are factors at play which suggest that we may be facing a secular change in energy pricing and the price of several soft commodities. The scarcity of oil, gas, coal, food, and all the resources required to produce food are not only straining the global economy, but are increasingly the cause of geopolitical issues. These secular forcings are producing an opportunity for investors in the Canadian market which surpass those offered by the bull-market run in commodities of the past 5 years.

Fertilizer prices have multiplied in the past year and are likely to stay at current prices or even higher for many years to come. This is straining food producers and the economy, but producing a sensational opportunity for investors in companies involved in this supply-chain. The Canadian market is home to

most of these. Similarly, the opportunity in energy is equally compelling. In not only oil and gas, but now also in all grades of coal, there are opportunities for investors to earn extraordinary returns over the next several years.

While equity prices are severely depressed for junior and mid-cap agriculture and energy shares, they are trading at trough multiples while senior companies in the same sectors sport balance sheets bulging at the seams and a unique problem in the history of their operations – declining reserves and a shortage of development projects. This is a recipe for continued mergers and acquisitions activity and we expect to see rapid consolidation in these sectors as cash-rich seniors and state-owned companies capitalize on weakness in capital markets and depressed share prices. These sectors represent one of the greatest investment opportunities in recent years.

The IndyMac failure is unlikely to be the last and there will be a period of suffering for financial institutions and for equity markets. For funds, it is going to be a period of very wide spreads between the best and worst performing funds. Moreover, it will prove to be a period of extraordinary returns for survivors.

PORTFOLIO ORIENTATION

Markets globally are in crisis-mode and as a market-participant we are in survival mode. However, while equity prices are depressed, spreads have blown out, and the end seems near, there is an excellent opportunity for those with the appetite and the necessary liquidity to capitalize on the situation.

While we are unlikely to see a sustained broad-based rally in equity prices there are exceptional opportunities in special situations whether they be in long-equity positions, capital structure arbitrage, or other forms of spread trade. There is a sudden and acute aversion to risk in markets that has created the most attractive risk-reward levels we have seen on many of the situations we follow at Lawrence Asset Management.

We maintain a large weighting to ‘market-neutral’ trading opportunities in the Canadian market. Spreads remain near multi-year highs. We believed they would compress substantially throughout 2008. This has yet to transpire and due to the global deleveraging effect we are not likely to see capital pile back into these trades in the short-term. However, from current levels, we are happy to continue to deploy capital in these trades where risks have not increased significantly but the expected return has increased dramatically over the past 12 months.

Outside of our market neutral portfolio we continue to hold several strategic short positions both in and out of the commodities sector. However, our largest exposures are in the energy and agriculture sectors where we are almost entirely long and have been adding to our net exposure. These shares are likely to remain depressed during the broader market weakness. However, it is impossible for them to remain depressed for long given interest in these sectors from cash-rich, resource-poor, would-be acquirers. If equity markets do not correct current misvaluations then strategic M&A activity will.

We have seeded several public shell companies where we are in the process of acquiring assets in both the agriculture and resource spaces. The Partners’ Fund benefited from success with this strategy in Q2 with Vast Exploration (TSXV:VST) which appreciated dramatically upon successfully acquiring an oil concession in Kurdistan. We are aggressively expanding and accelerating this activity while others are unable to develop or pursue assets in this challenging environment.

We continue to be very optimistic for our portfolio and our potential for returns.

Thank you for your continued support.

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