



# LAWRENCE PARTNERS FUND

---

## FIRST QUARTER 2009

### First Quarter Performance

For the first quarter of 2009, the Lawrence Partners Fund gained 6.44%<sup>1</sup> while the S&P/TSX Composite Index lost -2.6% over the same period.

### Market Outlook

Market action in the first quarter of 2009 was dramatic even by recent standards: a hard sell-off, dramatic enough to constitute a bear-market on a standalone basis, followed by one of the sharpest and steepest rallies in market history to close the quarter. On a fundamental basis, there is some small room for optimism. Valuations, even post-rally, are low by most measures. The US housing market decline has decelerated and is perhaps close to a bottom. The Asian economies are showing some sign of shaking off the weakened US consumer and responding to their own considerable stimulus packages. Both copper and the CRB (commodities index) have broken out of multi-month downward trends. Copper is typically a leading indicator and such a conclusive breakout to the upside cannot be completely ignored.

However, it is likely that we are in what will prove to be a major technical bear market rally. The technical structure of the 1938 bear market rally and the 1974-75 bear market rally is very similar and could provide a roadmap for the rally we find ourselves in today. Assuming we follow similar patterns, the current rally would have several legs and would exhaust itself somewhere before year-end after having staged substantial gains from today's levels. It is our view that this market should be traded aggressively and this rally is purely a technical bear market rally from depressed lows. It may prove to be a constructive improvement from the confusion and despair we found ourselves in during the fourth quarter and earlier in the first quarter. However, it is unlikely to represent a secular change in market direction.

### Illiquid Investments

The outlook for our portfolio of currently illiquid investments improved throughout the quarter. The portfolio is heavily weighted towards natural resources and particularly towards oil. The recent improvement in oil prices has been encouraging. It is our view that over the course of the coming quarters the collapse in spending on exploration and development all but guarantees continued strength in oil prices despite no clarity on improvement on the demand side.

We continue to see progress in Custnarvi, the largest exposure of the Lawrence Partners Fund. The 2009 exploration program is progressing well and we see continued strategic interest in the region. The Chinese government has provided a staggering \$25 billion in loans for oil companies developing hydrocarbons and related infrastructure in the Eastern region of Russia demonstrating the strategic importance of this area. We believe that our theories regarding the potential values in this area will be proven out over time.

We are also pleased with progress at Canadian Bioenergy in which the Fund holds a debt investment. The company has signed a commercial deal with a global agribusiness giant and is currently restructuring itself for this joint-venture. This is likely to result in the Lawrence Partners Fund converting its debt to equity but at an attractive valuation for the Fund. This restructuring is positioning the company for an IPO later in 2009 which we are optimistic could regain significant value for the Fund.

<sup>1</sup>Performance returns refer to Reinvest Shares only. The NAV of the Wind-up shares will decrease over time as investments are monetized and cash is distributed to Wind-up shareholders.

In addition to these two major investments, we have seen progress in value creation at a number of our investee companies, many of which we expect to become liquid in the coming quarter. We will continue to report developments with our portfolio as they unfold.

### **Portfolio Strategy – Re-Invest Shares**

With the distribution of capital in mid-March to those shareholders who elected to receive ‘Wind-up Shares’ we also established the ‘Re-Invest’ Fund for those who decided to keep their funds inside the Lawrence Partners Fund structure. We plan to focus the portfolio in three areas:


- i) Companies trading at unsustainably low valuations where we have a path to unlock the tangible value in the short to medium term;
- ii) Short sales of companies which are unable to fund their businesses except at usurious levels;
- iii) Short-term trading opportunities created by the persistent lack of capital and lower tolerance for risk.

We have added a long position in Equinox Minerals, which we believe is the single most strategically attractive copper asset in the world and likely to be acquired for a premium price in 2009. We have also added to a long-term short position in a company which released results in March that were consistent with our expectations and reinforced our views. We expect to maintain a low net exposure with the re-invest portfolio and focus on short-term trading and arbitrage opportunities and a small number of core positions.

For those of you who participated in the tax loss crystallization in December, please let us know if you require a disposition statement. We sent disposition statements to investors who hold the Fund directly with this, but those of you who hold it with an Investment Advisor may have received the disposition information from your broker. If not, we will be happy to prepare a statement and send it to you for inclusion with your tax documents. You can email us with your request at [info@lawrenceasset.com](mailto:info@lawrenceasset.com).

Thank you for your continued support in this challenging market environment.

Sincerely,



Ravi Sood  
President  
Lawrence Asset Management Inc.