

Cymbria Corp.

Fourth Quarter, 2008

Written by Tye Bousada

Welcome to Cymbria Corp. As this is our first letter to you, we thought we would begin by highlighting our belief that the ingredients of success in the money-management business are performance and reputation, and what links these two things is properly establishing your expectations. As such, we would like to start by outlining our objective for building your wealth over time. Simply stated, our goal is to deliver investment results that are at or near the top of our peer group over a 10-year time frame. By achieving this objective, we believe that we will have succeeded in adding value, and that you will be pleased with your Cymbria investment.

The fragile economy

We're excited about the long-term opportunities we see in the market place to build wealth for you. However our excitement is partially tempered by the short-term challenges the global economy faces. In listening to news reports about the global economic headwinds, one is led to believe that the wheels of commerce have disintegrated and capitalism is dead. For the record, we are not in that camp. However, we do think that the global economy is facing contraction due to personal and corporate deleveraging. A large and important segment of the world spent beyond its means. Typically, when one spends more than he or she earns, it is difficult to get credit to sustain this habit. But for a variety of reasons, credit over the last number of years was easy to get, especially for some of the least credit worthy. This fuelled bubbles in almost every asset class around the world, and those bubbles popped in 2008. More specifically, during the last quarter of 2008, we saw negative GDP numbers from large global economies, consumer confidence indexes tumbling around the world, large declines in consumer net worth due to declining global stock markets, and unprecedented declines in home values in some markets. The only way for consumers in markets like the U.S. and U.K. to climb out of the hole that they have dug for themselves is by lowering their consumption and saving a portion of their income. This savings process has begun. We have seen savings rates as a percent of personal disposable income begin to increase over the last number of months in markets like the U.S. Unfortunately, as big markets such as the U.S. and the U.K. save more, they consume less, and this results in lower growth and profits for the majority of businesses in the world. How long will this last? We don't think anyone knows. The best that we, or anyone else for that matter, can intelligently offer with any degree of accuracy is that real GDP growth will be slower in the near future than it has been in the recent past. Since the turn of the century, real GDP growth has averaged 3.9%. Over the next five years, we believe average real GDP growth stands a good chance of being lower than this.

A sound investment approach

Having a sound investment approach is important at all times when it comes to equity investing, however, in our judgement, it is never as important as it is today. Our approach results in us shying away from making broad based statements like "the stock market is cheap", because we don't believe the stock market is cheap. What has happened is valuations of businesses around the world have come down, but that does not mean those businesses are cheap. One could have looked at Fannie Mae, Freddie Mac, Countrywide Financial, Wachovia, Washington Mutual, Merrill Lynch, Lehman Brothers, or

Bear Stearns and said they were cheap as their prices fell. Likewise, General Motors (GM) looked cheap to a lot of people at \$40 a little over a year ago, and then even cheaper at \$25 in April, and then a “real steal” at \$10 in September. As we write this commentary, GM is around \$3.50. Is it cheap now? In our judgement, if the economy does not turn around and the government does not continue to bail them out, GM could look really cheap at \$0.

Our investment approach revolves around being long-term investors in businesses. We view a stock as an ownership interest in a business. We endeavour to acquire ownership stakes in quality businesses at prices below our assessment of their true worth. We believe the best way to buy a business at an attractive price is to have an idea about the business that is not widely shared by others. We call our ideas “proprietary insights”. We attempt to develop proprietary insights around businesses we understand (note that we have never understood businesses like GM, Fannie Mae, or Lehman and therefore, avoided them in the past). We attempt to invest in businesses that are led by trustworthy and competent management teams. These businesses should also have long-term growth prospects and defensible barriers to entry leading to attractive return characteristics. This approach is deceptively simple. We buy good, undervalued businesses and hold them until the market fully recognizes their potential. Following this approach requires an ability to think independently and a commitment to embrace the thorough research that is required to uncover opportunities the market doesn’t fully appreciate.

Prudently deploying capital

Armed with this approach and facing a market that has taken valuations down across the board, how are we deploying your capital? The answer is in a measured and disciplined fashion. We are attempting to buy businesses that will be “survivors” even in the face of what could be a very tough economy during the next three-to-five years. We have shied away from businesses that have a material amount of leverage. Furthermore, we are attempting to buy businesses that can grow even in the face of a tough economy over the medium term. Having said this, it is important to realize that we are not filling up Cymbria with what have historically been recognized as recession-resistant businesses such as pharmaceutical, telecom, and packaged goods companies. We are finding better relative value elsewhere. We believe that the global capital markets have experienced a “once in a generation” type of market decline, and we feel this sell off has presented us with notable opportunities to materially build wealth for you over the long term.

Company example: International Rectifier

One such opportunity is International Rectifier (IR). IR is a world leader in advanced power-management technology. The world’s leading manufacturers of appliances, computers, automobiles, consumer electronics, and defence systems rely on IR to drive the performance and efficiency of their products. A large proportion of the world’s energy is consumed to produce electricity. This electricity is then consumed to power appliances like refrigerators, dryers, and PCs. The opportunity to drive efficiencies in power consumption of products like refrigerators and PCs is enormous relative to the size of IR’s existing revenue base. IR has a number of products that help reduce the consumption of electricity which should drive future strong growth for the company. This fact has not been lost on its competitors. In 2008, IR was subject to a hostile takeover attempt. Its hostile suitor believed that it would be able to

buy IR for approximately \$23 a share. IR's management believed that this price dramatically underestimated the value of the company. The hostile attempt failed due to lack of management and shareholder support. Following the failed attempted takeover, the global markets started to plunge and IR's share price dropped even faster. Specifically, it dropped to below \$10 a share. IR has in excess of \$10 a share in net cash on its balance sheet. Therefore, below \$10 a share, you were able to buy the company for less than the cash on its balance sheet and get the existing business and all the potential growth of its power management products, which we believe is substantial, for free. Stated another way, we saw an opportunity to buy a lot of value for a low price. We started buying an interest in IR for you in the \$10 range. Since that time, IR has appreciated over 35% yet it still remains well below our assessment of its true value.

Company example: WellPoint

Another one of your holdings is WellPoint. WellPoint is the leading health-benefits company in the United States serving the needs of approximately 35 million medical members. One in nine Americans receive coverage for their medical care through WellPoint's affiliated health plans. We view WellPoint as a toll bridge over which Americans need to travel before receiving health care. As the owner of the toll bridge, WellPoint is able to charge a small fee for its services, and this fee provides the company with very attractive return characteristics. For example, if a new drug is invented, a WellPoint medical member would acquire it through WellPoint's network. WellPoint marks up the price of the drug by a small percentage before selling it to its members. It is important to highlight that WellPoint does not incur any research and development risk to create the drug. It only resells approved products and services through its health-care system. Why are members willing to pay WellPoint a small fee on top of the regular costs for health care? The answer is that WellPoint is more efficient at delivering these services than others in the marketplace, and these cost efficiencies more than offset the incremental cost a member has to pay WellPoint to access its network. Recently, WellPoint's share price has fallen materially due to the selloff in the marketplace and concerns around the U.S. presidential election. Specifically, there was uncertainty whether the Democrats would try to reduce the profitability of health-care companies such as WellPoint through legislation. The broad market selloff and political concerns drove WellPoint's share price down to approximately 7 times earnings. Stated another way, WellPoint offered a 15% cash-on-cash return on its investment. Our view is that WellPoint is, and will continue to be part of the solution to the health-care issues that the U.S. faces. Their efficiencies at delivering health care in the US help drive costs down, not up. Since the election, fears around the Democratic plan have begun to abate, and WellPoint has started to appreciate in value. We started buying a stake in WellPoint for you between \$30 and \$35 a share. More recently it has closed around \$42. Although this is pleasing, we continue to see material upside from here.

International Rectifier and WellPoint are just two examples from the list of 27 businesses owned by Cymbria. In an effort to improve disclosure, we will discuss other holdings in future commentaries.

At this point we believe it to be prudent to outline a disclaimer. Specifically, just because we believe companies like International Rectifier and WellPoint currently represent exceptional value, this does not mean valuations are not going to come down further before their value is eventually recognized. We have no way of predicting what will happen in the near term. However, Cymbria is diversified by

business idea and is concentrated in a small group of names. We believe it is preferable to own a small group of companies which have been researched extensively and where we have established a proprietary view, rather than a broad list of companies that could dilute our efforts and your eventual returns. We do not, nor will we ever, look like an index, and you should not expect our returns to track those of an index. Furthermore, while a concentrated portfolio may be more volatile relative to a mutual fund which typically holds 100 names and looks like an index, we do not believe that volatility is risk. Risk, in our judgement, is business risk. Business risk includes, among other things, threats to profitability margins, threats to revenue growth, threats to management succession, and threats to defensible barriers to entry. We spend our time trying to understand these risks and do not concern ourselves with how volatile an individual name may be in Cymbria relative to an index.

EdgePoint Wealth Management

Lastly, we would like to address your 23% ownership stake in EdgePoint Wealth. On November 17th of 2008, EdgePoint launched four portfolios. These four portfolios included EdgePoint Global Portfolio, EdgePoint Canadian Portfolio, EdgePoint Global Growth and Income Portfolio, and EdgePoint Canadian Growth and Income Portfolio. During the six-week period from November 17th until December 31st, EdgePoint was able to establish distribution agreements with organizations representing what it believes to be approximately 90% of advisors in the country. Furthermore, during the same time frame, 101 advisors decided to support EdgePoint funds. The average investment per advisor was in excess of \$400,000. We are pleased with the progress of your investment in EdgePoint over this very short time frame. If you would like to learn more about your investment in EdgePoint Wealth, please visit the company's website at www.edgepointwealth.com.

In summary, our approach to investing in these turbulent markets is with a sense of measured confidence. The cloud of fear that is hanging over the global capital markets is large, creating what we believe to be select opportunities to build material wealth in the future.

We thank you for your confidence in us, and look forward to having the opportunity to build wealth for you over the long term.

Sincerely,

Tye Bousada

Note to readers: We will always endeavour to share with you what we would want to hear if our positions were reversed. In an effort to improve our communication with you, Geoff MacDonald and I have decided to alternate writing the quarterly commentaries for Cymbria. Our thought is that it would be beneficial if you had a chance to hear from each of us twice a year. Although we adhere to the same investment approach, our styles of communication are different. By alternating the responsibility of writing the commentary, we hope you will get an even better understanding of how your money is being invested.

Investment performance

In accordance with the Canadian Securities Administrators' National Instrument rules under which the Cymbria is governed, we are not permitted to discuss investment performance until it is one-year old. This information, however, is readily available from publically-accessible websites and newspapers.