

December 1st, 2008



The Moskowitz Minute: A Word from the Mortgage Hedgehog...

Dear Fellow Investors & Friends,

In light of dramatic events in the economy, we felt it necessary to reiterate to our investors and friends the merits of our approach. So far our regional focus and diligent lending practices have enabled us to deliver steady returns and meet our targets.

A Hedgehog in Mortgage Lending

At the outset, we want to remind you that we take a “hedgehog” approach to our business. That is; when we assess a loan we simplify the information to answer a simple question “will we get repaid plus interest?”. Specifically, we focus on short term, commercial and residential secured loans with average loan-to-value ratios of 65%. This often involves taking extra security and a personal guarantee from the borrower. Further, we stick to small-sized deals to optimize portfolio diversification. In addition to employing a regional focus to obtain a market intelligence advantage, we perform hands-on due diligence that involves on-site analyses of properties and interviews with the borrower. We seek deals where the loan proceeds solve problems for borrowers, not inflate their “lifestyle”. After a brief discussion, we will illustrate how this strategy has served us well during these challenging times.

Oh Canada!

In our last report we noted that disruptions in a relatively small segment of the credit market have quickly escalated into a contagion across the globe. The panic has led to a flight from risk to quality, liquidity, and the US dollar.

What has all this meant in our corner of the world? Canada has retained a unique position of stability amid this global crisis. This is attributable, in no small part, to a stable oligopolistic banking system, government regulation of the financial system and general risk aversion. Canada’s economic strength is reflected in all time low rates of unemployment and a string of 11 consecutive surplus budgets (in excess of \$85 billion), a feat unparalleled among the G7 nations. In contrast to the speculation and financial engineering that fuelled a rapid run up in US housing prices, the sharp price increases in the Canadian housing market has been largely driven by hard demand and fundamentals (see Figure 1 below). In Canada, sub-prime mortgages have never accounted for more than 5% of the total residential mortgage market. Also, the proportion of mortgages in arrears remains at low levels below 0.3% compared to US mortgage default rates of 4.5% (see Figure 2 below).

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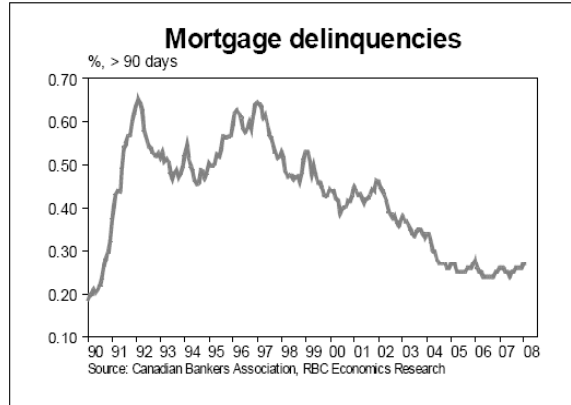
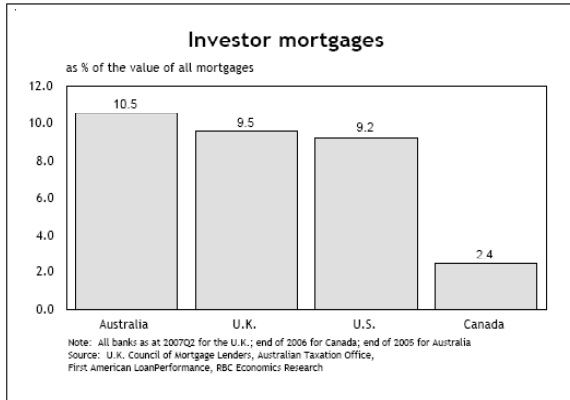


Figure 1: Rate of Investor Mortgages **Figure 2: Mortgage Default Rates in Canada**

These three factors; housing prices largely supported by fundamentals, a minor sub-prime mortgage market, and an historically low rate of defaults all point to a more stable housing market in Canada as compared to the US. While Canadian resale house prices have already fallen, it our expectation that Canadians will experience a much softer landing in the current downturn as compared to Americans.

The Merry Maritimes

While Atlantic Canada is by no means an economic paradise, capital investments are bringing new prosperity to the region. For example, for the first time ever, Newfoundland is no longer a “have not Province”. The current inventory of major capital expansion projects¹ is comprised of 425 projects and valued at \$84 billion, a 2.5-fold increase from 2000. Across Newfoundland & Labrador (NL), Nova Scotia (NS) and New Brunswick (NB) a surge of major projects have been initiated including; expansion of offshore exploration and drilling (NL, \$8-9 billion), early planning and construction on the Hebron project (NL, \$5 billion), Vale Inco’s nickel processing facility (NL, \$2.2 billion), the Deep Panuke natural gas project (NS, \$700 million), a second refinery in Saint John proposed by Irving Oil (NB, \$7B), and a second nuclear facility in Point Lepreau (NB, \$4B). Robust economic activity has brought new prosperity to the regional consumer and real estate markets. In aggregate the Atlantic Canadian provinces have led the country in urban new housing starts with annual growth rate of 8.6% vs. a national average decline of 0.8%. The cities of St. John’s, NL, and Saint John, NB deserve particular mention having posted year-over-year housing price increases of 22.7% and 21.6% respectively as compared to a stagnant national average of 0.1%. Recognizing the run-up in prices, we are exhibiting extra conservatism in our lending calculations.

With over 80% of our total mortgage portfolio residing in Atlantic Canada, we continue to regard the region as attractive for investment. We hold this view because of several key fundamentals; limited competition from non-bank lenders (better rates for us), an abundance of smaller sized transactions (enhances diversification), and the improving

¹ A major project is defined as any project valued at \$10 million

regional economy as summarized above. With the sudden exit of a large US-based sub-prime lender from our market, we are positioned as the only private professional non-bank lender with steadily increasing brand awareness among mortgage brokers.

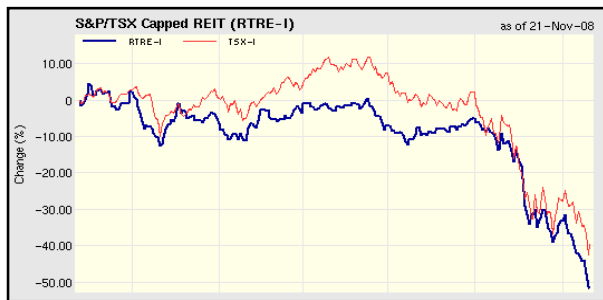
Investment Approach and Performance

During these trying times our disciplined approach has served us well. We continuously seek opportunistic deals where we can fill a void by acting as a situational lender deploying capital to solve problems for our borrowers. The constrained credit market of late has widened this void and has improved both our deal flow and quality. We continue to try to answer two critical questions regarding a potential borrower; *“what is the value of the property?”* and *“can they repay?”* while meeting return targets for our investors.

Performance (%)	Q1-FY08	Q2-FY08	Q3-FY08	Q4-FY08	Q1-FY09	Since Inception
MCM Fund I	14.3	10.0	11.2	12.0	9.1	10.9 July 06
MCM Fund II	9.0	10.8	10.3	6.6	11.2	9.6 June 07

Figure 3: MCM Fund Performance (%)

Had our investors allocated their capital to the stock market instead of investing in our funds, they undoubtedly would be facing deep losses, as there has been no corner of the equity market unscathed by the market turmoil. The Canadian stock market (TSX composite index) is down 40% for the year while the American stock market (S&P500 index) is down 45%. The five and ten-year bond yields are currently yielding 2.6% and 3.5% respectively, a level that has fallen dramatically in the past year as the Bank of Canada tries to enhance liquidity.



Our performance relative to Publicly-traded Canadian Real Estate Income Trusts (REITs) likewise deserves comment. REITs lost more than 50% of their value over the year.

Figure 4: Annual Returns on Canadian Stocks and REITs (Nov. 2007 to Nov. 2008)

We have illustrated the relative returns for Moskowitz Capital Management (MCM) Fund I and Fund II in Figure 5 below. This favourable relative performance results from our hedgehog strategy and disciplined approach.

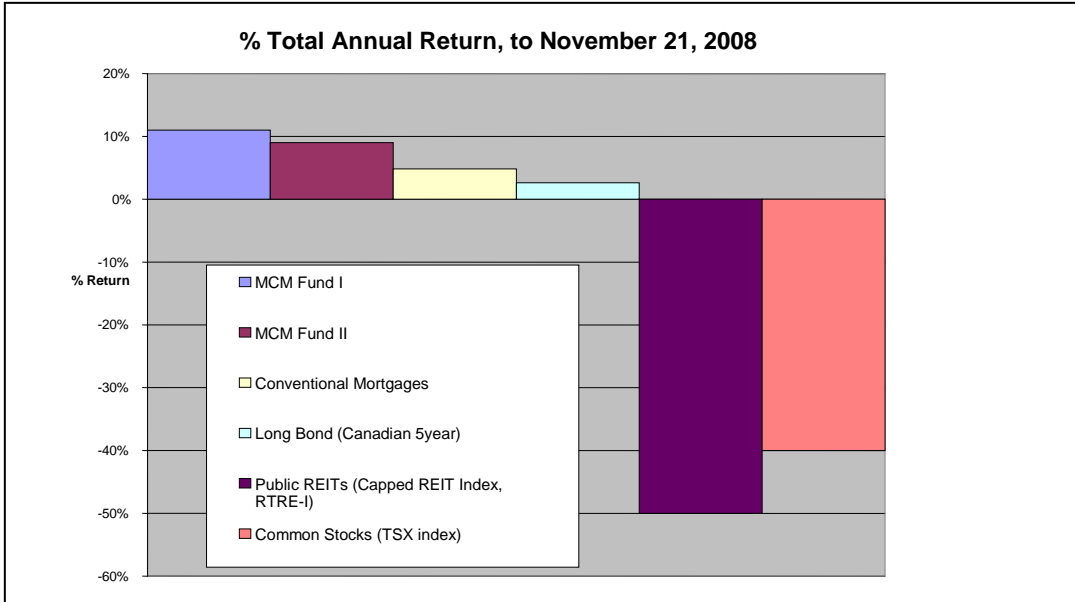


Figure 5: Relative Performance (Annual Return in % to Nov. 21, 2008)

Moskowitz’s Outlook

With increasing scarcity of bank financing, we are becoming more important in our segment of the Atlantic Canadian market. By maintaining our selective lending process and hands-on approach, we expect to successfully mitigate risk and maintain our historic performance. Refinancing options for our borrowers are shrinking, causing borrowers to request loan renewals, yet, at present we do not have any non-performing loans. Even though we are more vigilant than ever a delinquent loan may arise. As before, we are confident that any problem loan will be managed to a successful outcome. With cautious optimism, we foresee future performance of Moskowitz Capital Management Fund I and Fund II to be similar to our year-to-date results. Lastly, we confidently note that we are significantly invested alongside you, our valued investors.

Should you have any comments or questions, please do not hesitate to contact me at 416-781-6500.

Sincerely,

Brian J. Moskowitz