Wingate

August 29th, 2007

Wingate Technology Performance Fund – Mid Year 2007 Review and Outlook

Strong Gains Over The Latest Twelve Months

To summarize, as of July 31st, Wingate's Net Asset Value per Unit was:

Up 2.1% in C$ and up 11.6% in US $ over the first seven months of 2007
Up 24.6% in C$ and up 32.2% in US $ over the last twelve months to July 31st

Wingate closed 2006 at C$1078 per unit or US$925. On a monthly basis for 2007 year to date, Wingate's Net Asset Value per Unit was:

Wingate Monthly NAV in C$		**Wingate Monthly NAV in US$**	
Dec	$1078	Dec	$925
Jan	$1077	Jan	$913
Feb	$1129	Feb	$965
Mar	$1097	Mar	$952
Apr	$1141	Apr	$1031
May	$1138	May	$1063
Jun	$1110	Jun	$1044
July	$1100	Jul	$1033
Year To Date % Change: C$ +2.1%		***US$ +11.7%***	

On a quarterly basis to June 2007, Wingate's Net Asset Value per Unit percentage change was:

Measurement Period	**WTPF C$**	**WTPF US$**	
2006		2006	
First Quarter	+1.9%	First Quarter	+0.1%
Second Quarter	-11.6%	Second Quarter	-7.5%
Third Quarter	+9.7%	Third Quarter	+9.7%
Fourth Quarter	+8.3%	Fourth Quarter	+3.7%
2007		2007	
First Quarter	+1.8%	First Quarter	+2.9%
Second Quarter	+1.2%	Second Quarter	+9.7%

Over the first half of 2007, the C$ appreciated by 9.6% from $0.8581 to $0.9404.

In contrast, The C$ to US$ exchange rate was little changed from the start to the end of 2006 (from $0.8577 to $0.8581). The strength in the C$ relative to the US$ continued to impact Wingate's net return over 2007 year to date.

U.S. Residential Real Estate and Mortgage Market Implosion – Dominant Capital Market Story – 2007 Year To Date

In mid August, financial markets were in turmoil because of credit concerns. Through August, central banks pumped liquidity in the systems through open market operations. These actions failed to shore up credit markets. On August 16th, the stock market sold off very sharply. This prompted emergency actions by the Federal Reserve to lower interest rates and thereby "technically boost" the market. Over the past year, major market declines (February 2007 and May – July 2006) did not elicit a 180 degree turn in U.S. monetary policy – so you know this recent breakdown in market confidence was serious.

As is well understood, the source of the problem was the U.S. sub prime mortgage market. Initially, many believed that the difficulties would be "localized" to a specific segment of the U.S. mortgage loan market. However, financial institutions pooled a range of mortgages, creating asset backed commercial paper which offered higher yields but "masked" underlying quality. When the commercial paper market better understood the proliferation of these questionable loan instruments, the whole market became seriously undermined. By mid August, several of the largest U.S. banks and some major international banks admitted meaningful exposure. This realization destabilized commercial credit markets. The meltdown in investor confidence quickly spread to the stock market, as equity investors feared a period of lower economic growth would result from current destabilization. All sectors did poorly, including financials and commodity based sectors. In contrast, technology stocks declined but not as badly as other sectors.

As recently as June 19, 2007, equity markets reached "all time and near term highs" with the Dow Jones hitting an inter-day peak of 14121.04 and the Nasdaq reaching an inter-day high of 2724.74. Less than one month later, on August 16th the Dow Jones plummeted to an inter-day low of 12845.78 (negative swing of 9.0%) and the Nasdaq dropped to an inter-day low of 2386.69 (negative swing of 12.4%). The S&P 500 was similarly victimized, dropping some 11.9% from inter-day highs reached on June 16th to inter-day lows witnessed on August 16th.

To place the short term declines in perspective, the last major drop on the Dow Jones was from Feb 18th to March 11th of this year, when the Dow declined by 7.2% from inter-day highs to inter-day lows. In 2006, the Dow declined by 9% from May 7th to June 11th and then subsequently tested the inter-day low on July 16th. As for the Nasdaq, the index declined by 7.9% from inter-day highs on February 18th of this year to inter-day lows on March 11th. In 2006, the steep decline occurred from April 16th to Jul 16th (three months) erasing 15.4% in market value.

Wingate's Strategy – Build Cash

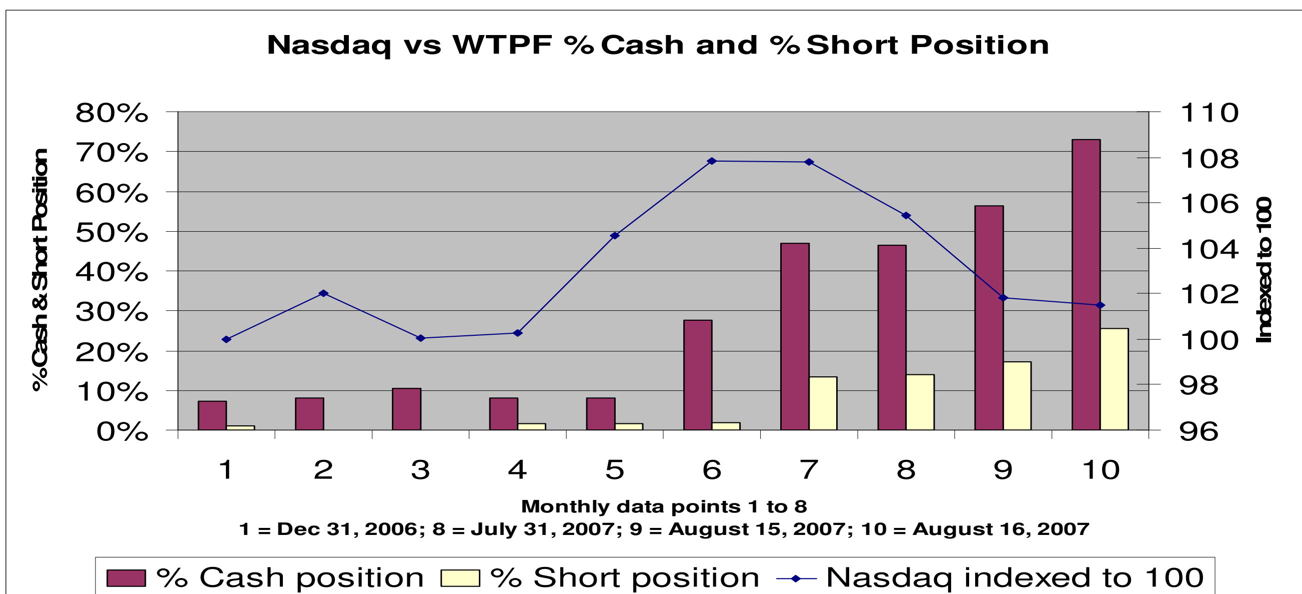
The credit crunch discussed above was sufficient to turn investor enthusiasm for stocks in general, but there were several broad economic and market issues that similarly could have destabilized markets. These included: 1) inflationary pressures and rising international interest rates, including China where economic growth is pronounced, 2) the dual deficit problem in the U.S. which contributed to declines in U.S. dollar on world currency markets, 3) a "rampant" takeover market, where private equity groups

(backed by easy credit) bid up share prices, 4) disappointment over economic growth and core earnings performance, etc. As 2007 progressed, stock markets continued to rally. But the reasons supporting the rally seemed less plausible.

Wingate's response was to fully participate in this rally over the first part of the year but then progressively build cash through mid year. The following chart graphically depicts how Wingate expanded cash holdings. Wingate started the year with cash as a percentage of portfolio value at 7% (Bar 1). Cash holdings were little changed from January through to April (Bar 2 to 5), ranging from 8% to 10%. **By May 31st, Wingate's year to date NAV per unit was up 15% in US$ and our investment strategy shifted to preserving capital. Simply put, we became more concerned about inherent risk and less concerned about incremental returns**. Cash holdings were increased to 28% end of May, 47% end of June and July (Bar 6, 7 and 8 respectively).

Wingate continued to raise cash through the first half of August, with cash increasing to 56% by market close on August 15th (Bar 9). By August 16th, Wingate locked into additional capital gains and **increased cash to 73% of portfolio value**, **by market close on August 16th**. We did not know what would happen next, but we were reasonably "safe on the sidelines". August 17th saw the Federal Reserve react to market conditions by lowering the discount rate by 50 basis points, a 180 degree turn in monetary policy.

The following chart also shows Wingate increasing its short position meaningfully by the end of June (Bar 7 - white) and maintaining this short position through July (Bar 8 -white) and into mid August (Bar 9 and 10 -white). Wingate elected to sell short technology based Exchange Traded Funds (ETFs). The cash proceeds from initiation of the short position are included in the calculation of the net cash position as a percent, portrayed graphically as the "purple bars". To demonstrate the importance of the decision to move to cash (and sell short), the following graph indexes the monthly closing values of the Nasdaq, with December 31st, 2006 set at 100 (Point 1, blue line). **The peak monthly close was end of May and June, which coincided "virtually perfectly" with Wingate's timing to build cash by booking capital gains and selling short** (the actual closing high was July 19th at 2720).



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Cash Rich Technology Companies – A Bastion of Strength

According to Barron's August 27th, 2007 edition – technology companies have about $200 billion in collective cash resources. That's about 17% of Canada's recent GDP! In a market where liquidity is appreciated, more investors may find technology stocks increasingly attractive.

Technology stocks are unique in that they tend to have a debt free capital structure and surplus cash. Start-up technology companies avoid debt and elect to finance through equity. As technology companies become successful, cash reserves expand rapidly out of operations with no need for borrowing. Cash reserves may be used to fund related acquisitions, fund share re-purchase programs or simply increase on the balance sheet and earn interest income. **Given current uncertainties stemming from the credit crunch, the technology sector truly represents a safe harbour for investors seeking cash rich enterprises with growth opportunities.**

Our sampling of the ten largest technology companies by capitalization reveals aggregated net cash of $62 billion (i.e. cash plus short term investments less short and long term debt). In our sample, eight of the top ten exhibited large cash reserves, ranging from $3.6 billion for Texas Instruments to $23.4 billion for Microsoft. The average surplus cash position was $4.3 billion. In addition, our survey of the top ten generated an aggregate of $86 billion in cash flow from operations over the past twelve months. The ability of this group to generate cash from operations in just one year, exceeds its cumulative cash reserve by a further 39%. In contrast, many of the largest "non tech" industrials on the S&P 500 have large net debt positions.

Top Technology Companies

	Net Cash	Market Capitalization	Operating Cash Flow (ttm)	Net Cash / M.C.	CFO / Net Cash	CFO / M.C.	P/E (fwd)	Average Growth	PEG
Microsoft	$23,411,000,000	$273,750,200,000	$17,796,000,000	8.55%	76.02%	6.50%	14.53	11.43%	1.27
Cisco	$15,858,000,000	$181,375,040,000	$10,104,000,000	8.74%	63.72%	5.57%	16.7	15.43%	1.08
IBM	-$24,533,000,000	$162,484,784,000	$15,790,000,000	-15.10%	-64.36%	9.72%	14.36	10.79%	1.33
Google	$12,503,535,000	$154,869,403,200	$4,364,637,000	8.07%	34.91%	2.82%	26.11	33.65%	0.78
Intel	$6,857,000,000	$134,884,980,000	$10,776,000,000	5.08%	157.15%	7.99%	18.04	17.66%	1.02
HP	$3,953,000,000	$121,743,700,000	$10,012,000,000	3.25%	253.28%	8.22%	14.78	13.82%	1.07
Apple	$13,767,000,000	$103,930,039,400	$4,829,000,000	13.25%	35.08%	4.65%	30.17	23.81%	1.27
Oracle	-$573,000,000	$99,160,600,000	$5,520,000,000	-0.58%	-963.35%	5.57%	14.78	14.30%	1.03
Qualcomm	$7,308,000,000	$60,270,300,000	$3,720,000,000	12.13%	50.90%	6.17%	18.02	20.29%	0.89
Texas Instr	$3,581,000,000	$46,443,840,000	$2,716,000,000	7.71%	75.84%	5.85%	15.85	18.71%	0.85
Total	**$62,132,535,000**	**$1,338,912,886,600**	**$85,627,637,000**						
Average	**$6,213,253,500**	**$133,891,288,660**	**$8,562,763,700**	**4.64%**	**137.81%**	**6.40%**	**18.334**	**17.99%**	**1.06**

Notes:

- *All earnings and growth estimates are from Yahoo! Finance*
- *Negative values for (Net Cash / M.C.) and (CFO / Net Cash) mean that the companies have negative Net Cash (= positive net debt).*

While only two of the technology stocks have a net debt position, eight of the top ten S&P companies have a net debt position. IBM and Oracle have a net debt position which equates to 15.1% and 0.6% percent of their market capitalization respectively. However, they also generate about 9.7% and 5.6% of their

market capitalization in operational cash flows per year. Essentially, these are mature companies that have introduced debt into their capital structure in amounts that can be serviced very easily.

Top S&P 500 (excluding Technology and Financials)

	Net Cash	Market Capitalization	Operating Cash Flow (ttm)	Net Cash / M.C.	CFO / Net Cash	CFO / M.C.	P/E (fwd)	5 Year Average Growth	PEG
Exxon Mobil	$26,806,000,000	$453,787,950,000	$48,963,000,000	5.91%	182.66%	10.79%	12.61	5.72%	2.20
GE	-$221,809,000,000	$379,036,800,000	$36,874,000,000	-58.52%	-16.62%	9.73%	15.48	10.56%	1.47
AT&T	-$59,101,000,000	$233,448,550,000	$23,463,000,000	-25.32%	-39.70%	10.05%	12.87	7.89%	1.63
Procter & Gamble	-$29,859,000,000	$199,962,000,000	$13,435,000,000	-14.93%	-44.99%	6.72%	16.62	11.72%	1.42
Wall Mart	-$36,948,000,000	$177,534,560,000	$19,496,000,000	-20.81%	-52.77%	10.98%	12.96	12.22%	1.06
Johnson & Johnsor	-$512,000,000	$177,451,240,000	$15,152,000,000	-0.29%	-2959.38%	8.54%	14.13	7.82%	1.81
Chevron	$3,914,000,000	$171,838,139,880	$24,659,000,000	2.28%	630.02%	14.35%	10.59	4.69%	2.26
Altria Group	-$2,152,000,000	$141,243,400,000	$11,588,000,000	-1.52%	-538.48%	8.20%	15.04	7.25%	2.07
ConocoPhilips	-$26,317,000,000	$126,129,400,000	$23,511,000,000	-20.87%	-89.34%	18.64%	8.75	7.44%	1.18
Coca-Cola Co.	-$26,317,000,000	$126,129,400,000	$23,511,000,000	-20.87%	-89.34%	18.64%	18.28	9.13%	2.00
Total	**-$372,295,000,000**	**$2,186,561,439,880**	**$240,652,000,000**						
Average	**-$37,229,500,000**	**$218,656,143,988**	**$24,065,200,000**	**-17.03%**	**-64.64%**	**11.01%**	**13.733**	**8.44%**	**1.71**

Notes:

- *All earnings and growth estimates are from Yahoo! Finance*
- *Negative values for (Net Cash / M.C.) and (CFO / Net Cash) mean that the companies have negative Net Cash (= positive net debt).*

On the other hand, our sampling of top S&P companies, have in aggregate $372 billion in net debt, with an average net debt position of $53 billion. Cash flow from operations currently accounts for about 11% of market capitalization. With aggregate cash flow from operations of $241 billion, it would take these top S&P companies 1.5 years to repay aggregate net debt, assuming no other use of cash. In contrast, our top tech companies would generate a further $129 billion in excess cash over 1.5 years and increase surplus cash resources by 2.5X to $215 billion.

We conclude technology companies are not directly threatened by a credit crunch, because they are cash rich. This has direct implications for mergers and acquisitions (M&A). While other industries may see a slowdown in M&A activity, this should not spread to cash rich technology companies – since they do not typically use debt to fund acquisitions.

With so much cash on hand and minimal (or zero) debt to service, dividend and share buy-back policies could change for top technology companies. As an example, Microsoft currently generates sufficient cash flow to purchase 6.5% of shares outstanding without touching their cash reserves. They can buy back over 15% of the company if they use their cash as well. By buying back shares they can increase EPS which translates into higher share prices. Alternatively, they can start returning cash to shareholders via dividend payments, this practice is generally unfavoured by technology companies - but could become more of a norm.

Blue Chip Technology Still Inexpensive Relative To Growth

Technology stocks do trade at premium multiples (P/E ratios). Using our survey of top technology companies, the average P/E ratio on forward earnings is 18.3X, compared to 13.7X for the top S&P 500

companies. But look at the growth differential. Top technology companies are expected to increase forward earnings by 18%, compared to 8% for the top S&P 500 companies. The resulting PEG ratio tells the story. **The technology PEG is only 1.06 versus 1.71 for the top S&P 500 companies. This means the top technology stocks are costing a lot less per unit of growth than the top S&P 500 companies.**

Wingate – Selecting Stocks With Positive Earnings Variance

As technology fund managers, Wingate must consistently find technology stocks with an ability to grow faster than expectations, i.e. growth opportunities that the market is missing. At the mid year 2007 point (June 30, 2007), the Fund held sixteen stocks, each of which represented at least a 3% equity portfolio weighting. In total, this group represented representing 81% of our equity portfolio.

Of this group 62% of the time, the larger weighted stocks generated better than expected earning performance over Q2, 2007, 19% of the time, earnings matched expectations and 19% of the time, earnings were negative relative to expectations. **Therefore, measured over the most recent quarter, 81% of our larger weighted holdings in the Wingate portfolio generated earnings performance that either met or exceeded analyst's consensus forecasts.** As noted, 19% failed but the resulting ratio of "equal or better than expected earnings" to "worse than expected earnings" was 4.3:1.

Top Wingate Holdings – Mid Year 2007 – June 30th, 2007 (3% Plus Weighting)

Percent Difference: Actual Earnings Versus Consensus Earnings Forecast

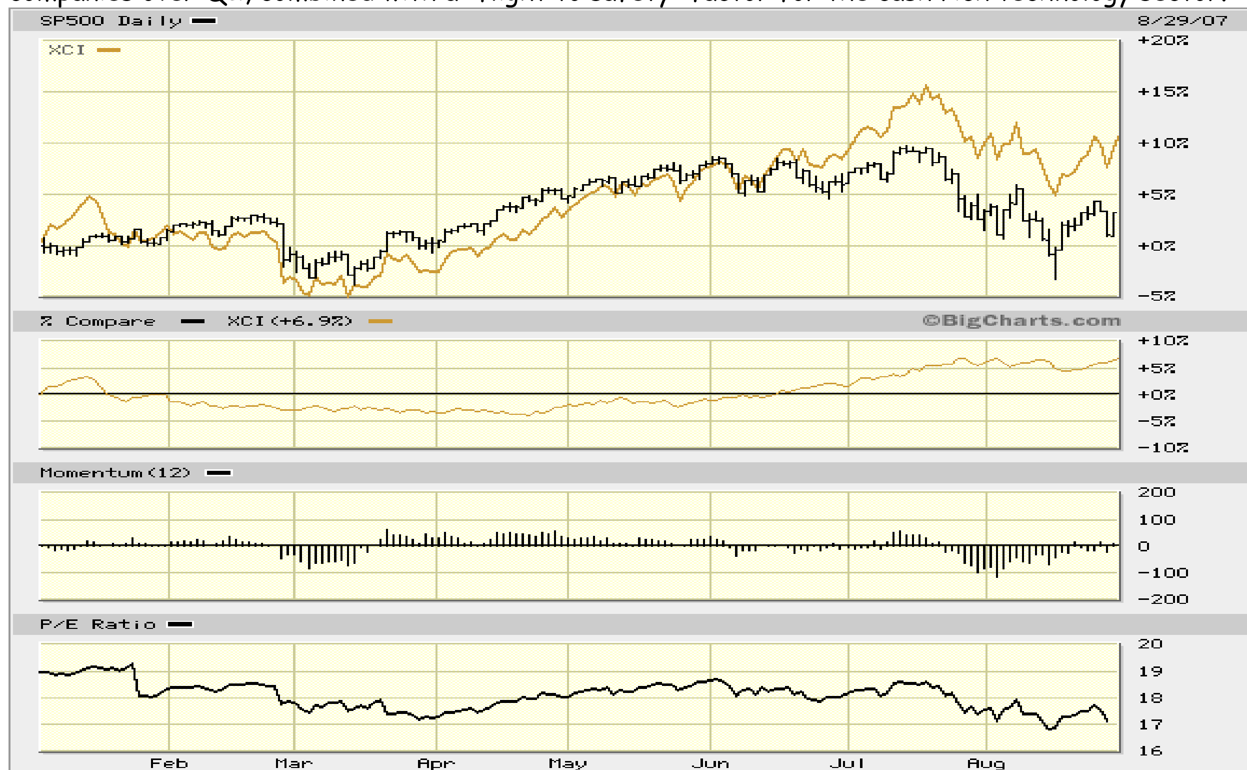
Company	Second Quarter 2007 or Equivalent Most Recent Quarter	Variance From Consensus Forecast
Brocade	+16.7%	Positive
Cognos	0%	Zero
Ceradyne	+1.5%	Positive
Cisco	0%	Zero
DIVX	0%	Zero
EMC	+6.7%	Positive
EBAY	+7.1%	Positive
Faro	+39.3%	Positive
FiServ	-4.2%	Negative
Hewlett Packard	+9.2%	Positive
Qualcomm	+2.2%	Positive
Riverbed	-16.7%	Negative
Sirf	-41.7%	Negative
Spansion	+13.8% (note – smaller than expected loss)	Positive
Western Digital	+5.6%	Positive

A significantly better than expected earnings result should drive share prices up. For instance, Faro Technologies reported Q2 EPS of $0.39 versus $0.28 forecast. How did the market respond to Faro's excellent Q2 results? The shares jumped 23% the day after the results were announced, bringing the

year to date price increase (to July 31st) to 54%. Wingate sold into this price advance, realizing a capital gain of 83%.

Technology Stocks Outperforming Broad Market Since Mid June

Since mid June, technology stocks have been outperforming the broad market, as measured by the S&P 500. The following chart shows year to date (August 29th) relative performance for technology stocks (XCI) relative to the S&P 500. This reflects in part respectable earnings results for most tech based companies over Q2, combined with a "flight to safety" factor for the cash rich technology sector.



Summary – Technology Stocks Are A Good Deal In This Market

The large cap technology stocks discussed in this report are all global leaders with critical products. Consensus earnings forecasts show on average 18% growth, which is much more than most large cap companies. When we calculate the PEG ratio, we are buying a lot more expected growth than the largest non tech, non financial S&P 500 companies. We would conclude this is a powerful argument in favour of technology investing. When you factor in balance sheet quality, the valuation argument becomes that much more convincing.

Since inception, Wingate has outperformed both the S&P 500 Information Technology and the S&P 500 Health Care Index by a factor of 1.8:1.0 and 3.0:1.0 respectively. Wingate will continue to seek superior technology based growth opportunities at reasonable valuations, usually with excellent cash positions.

Note: Past performance is no guarantee of future returns