THE LONDON COMPANY

INVESTMENT COUNSEL

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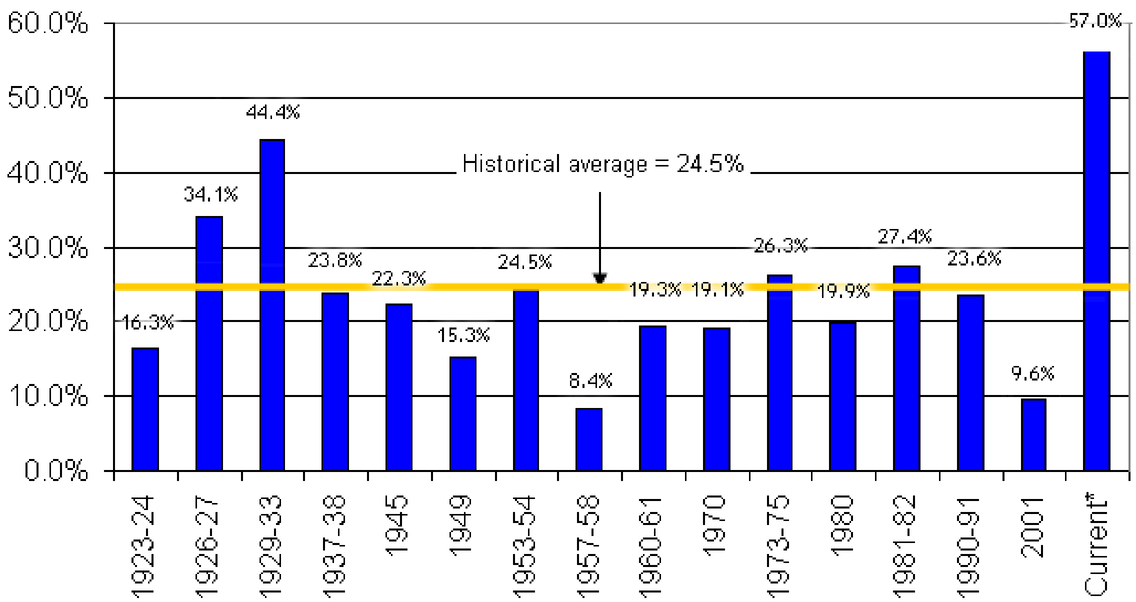
Dear Client,

September marked the seventh consecutive month of positive stock returns. For the quarter, the S&P 500 Stock Index was up 15.6%, making it the best quarterly return in ten years. Furthermore, the S&P 500 has returned 58% since the bear market low was reached on March 9. As seen in the following chart, not since 1932, following the Crash of 1929, has there been such a spectacular gain.

Stock Market Rallies from Recessionary Lows



** From March 9, 2009 to September 17, 2009*

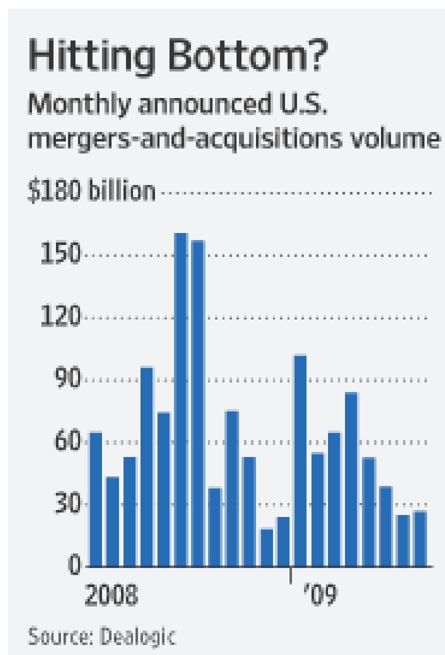
Posted: 9/25/2009

Source: Haver Analytics; Gluskin Sheff + Associates Inc.

Where do we go from here? While we believe the rate of ascent will level off, there are a number of positive factors in place that should help move the market forward. Chief among these is the fact that the global economy is getting better. In the U.S., the Conference Board's Leading Economic Index (LEI) has increased five months in a row through August. The LEI has had a strong track record in identifying ends of previous recessions. Recent data suggest that retail sales are improving, the housing market may be stabilizing, and industrial production is increasing. The strength of the economic recovery could be surprisingly strong over the next quarter or two as businesses are forced to restock inventories and production ramps up to meet the uptick in demand. After this initial inventory rebound, however, we expect the pace of growth to be anemic as high levels of consumer debt and unemployment continue to weigh on the economy.

In the meantime, any pickup in business activity could lead to more positive earnings surprises. Productivity has surged as businesses cut employment faster than demand for their products and services declined. As a result, earnings have been better than expected and cash flows have held up reasonably well. With businesses running so lean, any rise in sales should lead to an immediate increase in profits and cash flows. How much of this is already factored into stock prices remains to be seen. We suspect that current valuations will prevent the stock market from expanding at its recent torrid pace and there will be dispersion in performance between those companies with lots of cash and cash flow and those with large amounts of debt. Companies with strong balance sheets, positive cash flows, and shareholder oriented management will be better positioned to use their cash flow to increase valuations through balance sheet optimization, buybacks, dividends, and strategic acquisitions.

Many of the mergers and acquisitions that occurred in the last M&A cycle were initiated by private equity firms that were flush with cash from large institutional investors and easy credit. M&A activity declined significantly during the credit crisis and stock market crash but it is picking up. With cheaper valuations for acquisition candidates, improved credit markets, plenty of cash and underleveraged balance sheets, and with many private equity firms sidelined, financially strong companies are finding the current environment for acquisitions to be the best in years. It will be harder to achieve organic growth in an anemic economy with little inflation, and many smaller companies with strong market positions, steady cash flows and under-leveraged balance sheets will be acquired by larger competitors, flushed with excess capital and borrowing capacity.



There is much concern about the inflationary consequences of the historic fiscal and monetary stimulus that has been provided by governments around the globe. We do not believe rampant inflation will manifest itself anytime soon. Though the Federal Reserve has flooded the banking system with enormous amounts of liquidity in recent months, the growth in the US monetary base has not been keeping up with the growth in liquidity. This means either banks are not lending or borrowers are not borrowing, or both. This fact, combined with a high unemployment rate and overcapacity in manufacturing, means that runaway inflation is years away. Furthermore, while the financial and credit crises are largely over, the economic recovery is just beginning and remains fragile. This means Fed policy will remain accommodative for quite some time and interest rates will stay low, providing further support for current stock valuations and fuel for increased mergers and acquisitions.

In the near term, stocks could struggle as the market consolidates its recent, historic gains. Over the longer term, however, a stimulative monetary policy, low inflation, positive economic growth, reasonable valuations, and increased M&A activity all combine to provide an environment for stocks to move higher.

Thank you for your continued confidence and trust. Please feel free to call with questions.

Best regards,

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SMG:JTM:JWS

Enclosure: 3Q09 Portfolio Statement(s)