

# The Catalyst

## M & A activity continues to accelerate

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Announced M&A transactions in the United States, per Bloomberg, hit \$819 billion in the first half of the year, up 21% from the same period a year ago.

### Spotlight: Banks

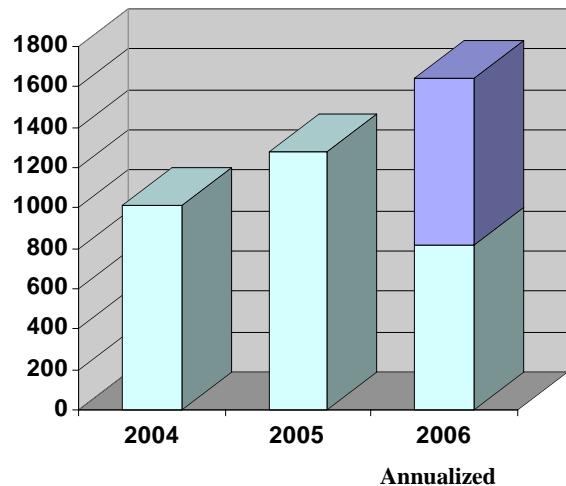
One industry that is experiencing a substantial increase in M&A activity is banking. There have been 25 transactions announced involving seller banks with over \$500 million in assets so far this year versus 8 in the same period last year. The increase can be attributed to a convergence of pricing expectations between buyers & sellers and a narrowing of the valuation gap between the larger acquiring banks & their smaller targets. Sellers are concerned that heightened competition for deposits combined with the ongoing flat yield curve will slow growth. An ongoing tougher operating environment significantly lessens the

attractiveness of remaining independent. The average age of a selling bank CEO has been close to 60 years old. With CEO stock ownership being historically high, at 30 times most recent annual compensation, the desire to crystallize a retirement nest egg is compelling.

One-third) and leverage the deposit base. The Camlin M&A Fund currently holds 40 bank stocks that have attractive M&A profiles over a 1-2 year time line.

Six of our bank portfolio holdings (First Bank NW, Vail

Annual M&A Activity



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For buyers the rationale to acquire is driven off of the constant desire to expand into new attractive demographic / economic growth markets, cut costs (the operational overhead of the target bank can typically be reduced by

Bank, Community Bancorp, Rancho Bank San Dimas, Community Bancshares, and First Oak Brook Bancshares) were subject to attractive takeover offers in the second quarter.

## Corporate Update

### Independent Director Appointed

Effective May 31, 2006, Daniel Shapiro has joined our Board as an independent director.

Dr. Shapiro is a professor in the faculty of Business Administration at Simon Fraser University and is Director of the CIBC Centre for Corporate Governance and Risk Management. His expertise in the areas of corporate performance, strategy, ownership, and governance make him a valuable addition to the Camlin team.

## Private Equity

### Capital Raising Set to Break an All Time Record This Year

Private equity firms have raised over \$167 billion YTD (vs. \$149 billion for the same period a year ago). With 787 new funds still in capital raising mode,

### Client Focus

The Jim Pattison Group is Canada's third largest private corporation with sales of \$6.1 billion last year. Jim Pattison, the founder of The Jim Pattison Group and its sole owner, is a unique entrepreneur. He started his firm in 1961 with the purchase of an automobile dealership

Mark O'Hare of Private Equity Intelligence expects private equity fundraising this year "to exceed \$300 billion for the first time in history." With limited opportunities for investment in the private company

Market, it is likely that a high percentage of the capital raised will be deployed in taking public companies with stable cash flows private, adding a significant impetus to the M&A market for years to come.

with a \$40,000 bank loan and subsequently has completed over 400 transactions primarily in North America to grow his empire across a wide variety of industries including food services, purchasing distribution, communications and entertainment,

transportation, and forest products. John Campbell had the privilege of working for Mr. Pattison as a mergers & acquisitions specialist in the late 1980's and we appreciate his vote of confidence in Camlin's investment approach.

## CIO 2<sup>nd</sup> Quarter Commentary

### Gross annual returns (June 30, 2006)

Current Quarter	-4.02
Year To Date	8.09
1 Year	30.31
2 Year	28.16
3 Year	31.20
4 Year	26.71
5 Year	20.11

\* Returns in USD.

The Camlin M&A Fund declined 4.02% on a gross basis in Q2 versus a 12.62% gain in Q1. YTD returns to June 30, 2006 remain positive at 8.09%. This compares to a -4.34% decline and 6.32% gain respectively for the Russell 2500 for the quarter and YTD.

The decline in the Fund was largely concentrated in the resource sector (which represents approximately one-third of the portfolio) which experienced a heavy sell-off over fears of a slowing global

economy. While we acknowledge that commodity prices reached rarified levels based on indiscriminate speculation, we expect commodity prices to gradually settle down but remain at historical high price levels for at least 2 to 3 years due to continued supply scarcity relative to ongoing rising demand. We concur that the industrial boom in China and India is comparable to the one experienced in North America after the end of the Second World War and as such is long cycled

In nature. The new Asian middle class is expected to continue to grow in population at the rate of over 30 million people per annum and fuel sustained demand for homes, appliances and automobiles. Given the above, M&A activity in the resource sector should continue at high levels as the industry consolidators seek to replace declining reserves through acquiring long reserve life assets in politically stable regions of the world.