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Dear Partners and Friends:

The Northern Rivers Innovation Fund LP (the Innovation Fund) was down 30.87% in October, and the Northern Rivers Innovation RSP Fund (RSP Fund) was down 29.32%. The returns, as of October 31, 2008, are presented below:

	Average Annual Returns to October 31, 2008*							
	2008 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**
<b>Northern Rivers Innovation Fund LP</b>	-55.84%	-30.87%	-47.67%	-52.96%	-54.39%	-2.32%	3.41%	12.70%
<b>Northern Rivers Innovation RSP Fund</b>	-55.78%	-29.32%	-46.97%	-52.23%	-54.37%	-0.63%	N/A	-1.29%

\*\*Northern Rivers Innovation Fund LP inception date: May 8, 2001.  
 Northern Rivers Innovation RSP Fund inception date: March 1, 2004.

September and October of 2008 will go down in history as being among the most devastating months in the history of financial markets. The complete seizure of the global credit markets (only recently beginning to show signs of improvement), and unprecedented, sustained volatility in the equity markets (down 10% days being followed by up 10% days) were the hallmarks of September and October. So many stunning developments unfolded, including the bankruptcy of Lehman Brothers (a firm which had survived two World Wars and The Great Depression) and the implosion and/or shutting down of many hedge funds, including at least one in New York that simply went to zero as their prime broker de-levered them at the worst possible moment. A few more eye-popping statistics are listed here: the TSX had a peak-to-trough decline of 27.3% in October; the TSX-venture index had a peak-to-trough decline of 42.8% in October and is now (as of the close on November 6, 2008) actually down 8% since its December 2001 inception; the S&P500 fell 30.9% peak-to-trough in the two weeks between September 26 and October 10; the price of oil fell almost 33% in October, and copper, wheat and gold were among the commodities that had their worst month in decades.

**And so, with that litany of financial and economic horror, why did I make another investment in the Innovation Fund on October 31?**

Because it is during the biggest and scariest financial wipeouts that one is presented with the best investment opportunities. As beaten up as I am (and knowing that it is impossible to accurately call a bottom), I still can't help but be excited about the prospects for the core positions over the next 12-24 months. This is because, if the core investment hypothesis is intact for a company and

it is still on a secular growth path, then future returns for its stock get *higher* the lower its stock goes. And I believe the core investment hypothesis remains intact for every core position.

Having said that... **this far into a bear market, a critical ingredient is staying power.**

The three elements of staying power in a financial panic and bear market are:

- 1) **using little or no leverage.** Being levered at the wrong time can lead to forced selling, and indeed much of the indiscriminate selling over the past two months has been from forced de-leveraging at hedge funds and other financial institutions. Although it is not specified in our offering memorandum, because I abhor debt both personally and professionally, I have never allowed myself—over the entire history of the Fund—to be more than 115% gross long, and in bad markets, I target net cash levels in the 0% to 30% range to avoid any risk of margin calls. I have not been utilizing *any* margin for some time now.
- 2) **having a solid investor base.** For a variety of reasons, many funds are subject to significant outflows during period of difficult markets and poor performance (which leads to forced selling from redemptions). This has not been a problem for us, and with our 1 month + 1 day redemption policy, we continue to have 100% visibility on the fact that this continues NOT to be a problem.<sup>1</sup> There are a number of reasons for this. One very important reason is that the large majority of our investors are friends and family, and friends of friends and family. Related to this: it is a critical and very comforting fact that Northern Rivers Capital Management Inc. was founded and is majority-owned by a family office representing a wealthy Canadian family (employee-owners such as myself own the rest). This “founding family” represents over 40% of the money in the Innovation Fund. They have made regular contributions to the funds at Northern Rivers over the firm’s seven and a half year history. The family provides a comforting back-stop in times like this, and plans to continue deploying new money into the funds at Northern Rivers (including the Innovation Fund) as we move into 2009.
- 3) **having well-founded confidence in the underlying value and business fundamentals of portfolio positions.** In a financial panic such as we have been experiencing, even solid companies on a secular growth path are put under tremendous selling pressure by investors that are forced to sell to meet liquidity needs (margin calls and redemptions). Other investors who do now know enough about what they own can simply be scared out of a good stock. My “off the beaten path”, rolling due diligence process means that—more often than not—I successfully stay on top of developments affecting the sustainable competitive advantages of my core positions. As such, in difficult markets, I follow the mantra of Phil Fisher, re-stated as follows: as long as the fundamental investment hypothesis remains intact, I accumulate (or at the very least, stick with) our secular growth stocks as they get pounded. (And pounded they have been.)

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<sup>1</sup> The firm’s largest LP, the Northern Rivers Innovation Fund LP, had a net inflow for October 31<sup>st</sup>; the already-known-with-100%-certainty gross outflow for November 30 is immaterial; and, although we don’t yet know the November 30 inflows, I expect that inflows will exceed the already-known immaterial outflow once again.)

### **What happened in the funds during October?**

Of the core positions, the best performing stock was SXC Health Solutions (formerly known as Systems Xcellence), down only 4.8% in October. Vendtek, too, performed reasonably well, only down 11.1% in October. Others, however, fared much worse: Webtech Wireless, Neptune, Gastem and Aeromechanical were all down about 50%. Western Goldfields was taken apart with the rest of the gold stocks.<sup>2</sup>

Contributing to the negative returns was that I was ruthless in realizing tax losses in October, wanting to be sure that my investors have no tax liabilities to worry about from this year. We also took a write down on most of our positions in private companies. The only privates (material positions) that we did not take a write down on were companies that raised money in September or October at higher levels than we were carrying them at. (There were, shockingly, one or two that managed to do that!) We also did not write down eAsic, because 1) they recently closed on more money at the same valuation we invested, and 2) a recent extraordinary business development supported my view that the company could very well be worth twice what we are carrying it at.

To be clear: with respect to those privates we did write down, it was not necessarily because of any change in business fundamentals, but simply because the September/October timeframe saw such a wholesale write down in the valuations applied to businesses in general, we felt it appropriate to generally apply such a discount to our privates.

### **We have been receiving requests to have me review the fundamentals of our core positions in a letter.**

I *will* do so over the course of the next several letters. In this letter, I would like to do three things with respect to the core positions:

First, I feel compelled to reaffirm my due-diligence-based belief that our core companies are continuing to secure the deals and partnerships necessary for their continued growth, and that they are taking the necessary steps to bolster or maintain their respective sustainable competitive advantages. The business fundamentals are intact and/or strengthening, and yet the stocks are lower.

Second, below I will cite an example of Anwar Sukkarie's vision (Anwar is the CEO of Webtech Wireless), and his ability to bring that vision to fruition, in hopes that it will help people understand why I remain such a strong supporter of Webtech.

Third, I will—also below—briefly introduce a position that I now consider core: eAsic.

### **Webtech, telematics, and the insurance industry: a vision brought to life**

Three years ago, Anwar outlined to me a concept about how to incorporate telematics into the business model of auto and fleet insurance companies in a way that was profitable for both Webtech and for the insurance company. I didn't think too much about it until I heard that—as part of Webtech's first foray into Brazil—insurance companies were to be playing a key role. Unfortunately, this first foray into Brazil unraveled, and the chance to prove out this part of his

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<sup>2</sup> I should point out that my weighting in Western Goldfields does not necessarily reflect its continuing status as a "core position." It is philosophically a core position, but the fact is that with resource-related companies, the weightings I carry will be driven as much by a view on the commodity as by a view on the business fundamentals and management, so my weighting in Western Goldfields has dropped dramatically since mid-March when I became bearish on gold. I now find myself much more ambivalent about gold, and I am starting to accumulate WGI again.

vision was dashed. He persevered, however, and in early March of 2008 Webtech announced a 5,000 unit pilot project with GNP Insurance of Mexico (one of Mexico's top three insurance companies, and a Carlos Slim company). At Webtech's analyst day in May, I made my own due diligence contacts at Prolog (Webtech's master distributor in Mexico), and I am very excited to say that this pilot project is extremely close to progressing to the full roll-out stage—the stage that would see Webtech's telematics solution implemented in a significant portion of GNP's "fleet" of 1.3 million vehicles over a three year period.

Perhaps just as significantly, and reinforcing my belief that Anwar's vision is gaining greater acceptance, on October 17<sup>th</sup>, Webtech announced another pilot project. This time it is a 3,000 unit pilot project with a UK-based, *global* insurance company. The point of citing this history is to show just one example of Anwar's ability to move from unique vision to profitable reality--a reality that looks like it will be rolling out in several different corners of the world before too long. This is the kind of visionary entrepreneur I am proud to back, and I expect that we (I and my investors) will be rewarded well for our patience.

### **Introducing a new core position: eAsic**

#### **(Innovation Fund only due to investment restrictions in the Innovation RSP Fund)**

This company possesses the most disruptive technology I have ever come across in my career, and I am overflowing with excitement that we had the opportunity to invest in it, and that it now represents an almost 5% weight in the Innovation Fund. (It is also the largest single investment in the Northern Rivers Silicon Valley Access Fund LP.)

eAsic has a disruptive semiconductor platform technology that makes it seriously and immediately disruptive to an addressable market of about \$4 billion per year, and potentially disruptive to an addressable market of over \$40 billion per year.

Here are a few bullets:

- the "low hanging fruit", (immediately-disruptable market) is the \$4 billion/year FPGA market (Field Programmable Gate Array) that is currently essentially a duopoly between Xilinx and Altera (XLNX and ALTR on NASDAQ, respectively).
- compared to Xilinx's industry-leading FPGA, eAsic's patented technology can perform the same tasks as Xilinx's FPGA, using less than 1/10<sup>th</sup> the power (as little as 1/20<sup>th</sup> in some applications!), and at less than 1/10<sup>th</sup> the cost per chip. THAT is wildly disruptive.
- Xilinx was financed from start-up to IPO in the 1980s by the world's leading Silicon Valley venture capital company, Kleiner Perkins Caufield & Byers back when Vinod Khosla was the General Partner there; it is NOT a coincidence that the two lead VCs for eAsic are Khosla Ventures and Kleiner Perkins Caufield & Byers; they see eAsic's potential to completely disrupt the FPGA market, and disrupt wide swaths of the larger ASIC and ASSP markets.
- the third most senior executive from Xilinx (next to the CEO and CFO) just joined eAsic as CEO, thereby reaffirming the hypothesis that the FPGA market is on the verge of massive disruption by eAsic.

Do I sound excited to have had the opportunity to invest YOUR money (and mine) in this incredible opportunity? I believe it will prove to be anywhere from a 10-bagger to a 50-bagger, depending on the timeframe, and how much they can penetrate the larger ASIC and ASSP markets. Yes, I am excited.

**Warren Buffet’s op-ed in the New York Times from October 17, 2008 is worth a read**

It was titled “Buy American. I am.” The link is provided here:

[www.nytimes.com/2008/10/17/opinion/17buffett.html?\\_r=1&pagewanted=print&oref=slogin](http://www.nytimes.com/2008/10/17/opinion/17buffett.html?_r=1&pagewanted=print&oref=slogin)

For those who don’t have the time or inclination to click on this link, I am clipping a few of my favourite lines from the piece, and substituting them for a discussion of my “base case”<sup>3</sup>:

- “The financial world is a mess, both in the United States and abroad. Its problems, moreover, have been leaking into the general economy, and the leaks are now turning into a gusher. In the near term, unemployment will rise, business activity will falter and headlines will continue to be scary. So...*I’ve been buying stocks.*”
- “A simple rule dictates my buying: *Be fearful when others are greedy, and be greedy when others are fearful.* And most certainly, fear is now widespread, gripping even seasoned investors.”
- “In the early 1980s, the time to buy stocks was when inflation raged and the economy was in the tank. *In short, bad news is an investor’s best friend.*”
- “In the 20<sup>th</sup> century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced President. Yet the Dow rose from 66 to 11,497. You might think it would have been impossible for an investor to lose money during a century marked by such an extraordinary gain. But some investors did. The ones [who] bought stocks only when they felt comfort in doing so, and then proceeded to sell when the headlines made them queasy.”
- “Equities will almost certainly outperform cash over the next decade, probably by a substantial degree. Those investors who cling now to cash are betting they can efficiently time their next move away from it later. In waiting for the comfort of good news, they are ignoring Wayne Gretzky’s advice: “I skate to where the puck is going to be, not to where it has been.”

I will leave you with this final question that was posed to me recently by one of my mentors:

“Why is it that the stock market is the only retail “outlet” where customers run screaming from the store when the goods go on sale?” I must express my deep gratitude to the investors in my funds—that they have *not* reacted in this way—and thank them for their patience and trust that my philosophy and approach will ultimately see us recover *together* from these wrenching declines.

**Next closing**

The next closing for the Northern Rivers Innovation Fund LP, the Northern Rivers Innovation RSP Fund, the Northern Rivers Conservative Growth Fund LP, and the Northern Rivers Global Energy Fund LP is November 28, 2008.

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<sup>3</sup> I am currently thinking it is about 50/50 whether the October lows will hold, or whether we ultimately have to revisit the October 2002 lows.

As always, my colleagues and I will make ourselves available for meetings with interested parties. Please contact Jeffrey Zicherman, Sales Associate at 416-597-8508 or Robyn Graham, Vice President Sales & Marketing 416-597-3890 for more information or to set up an appointment, or call 416-597-1226 to speak with any one of us concerning the specific funds we manage. Our toll free number is 1-866-902-7060.

Best regards,

A handwritten signature in black ink, appearing to read "Hugh Cleland". The signature is fluid and cursive, with a large initial "H" and "C".

Hugh Cleland, CFA  
Portfolio Manager

\*Commissions, trailing commissions, management fees, performance fees and expenses all may be associated with investment funds. Please read the offering memorandum before investing. The indicated rates of return are the simple returns (YTD, 1 mo, 3 mo, 6 mo) or the historical annual compounded total returns (1 yr, 3 yr, 5 yr, and since inception). All returns are net of fees but do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

The Innovation Fund and the RSP Fund invest primarily in North American equities with a sector focus on technology, healthcare and resources. Geographic and sector allocations may, however, vary significantly over time. Investments made are primarily in small cap companies believed to be trading at a discount to their intrinsic value and which offer innovative products and services and a sustainable competitive advantage. The funds normally follow a more concentrated investment approach where the manager may overweight selected core holdings and industry sectors in which the manager has particular conviction and/or specialized expertise. The funds may engage in short selling and may also use specified derivatives, such as calls and puts, warrants, index futures and exchange traded funds. This may result in portfolio weightings and investment performance being substantially different from that of the S&P/TSX Composite, TSX Venture, Dow Jones Industrial or other market indices.