

**The Great Atlantic & Pacific Tea Company, Inc. (“GAP”):**

Our first two years of ownership experience of GAP shares was noteworthy only as a result of the stock’s volatility, swinging widely between the US\$6 range and US\$10 plus and back again. This pattern allowed us to take some extra profit out of the position as we traded opportunistically, buying on dips and selling on rallies. However over the last five or so months we began taking our GAP weighting higher based on our sense that the timing was right. [As an aside, Sun Life Financial Inc. (on its initial public offering), Creo Inc. and GAP are the only positions in the Fund’s history where we have gone to a full weighting]. During these last five months GAP has begun trading like an Internet stock of the late 1990’s, rocketing from the US\$6 level in October 2004 to its current US\$14.90. Mind you, this was a stock that used to trade well north of US\$30 per share and that had hit a bottom of US\$3.85 in March of 2003.

This down-and-out collection of U.S. and Canadian grocery stores with a history going back to 1859 had fallen completely off the radar screen of investors, as often happens when a stock no longer has a market capitalization large enough to warrant being followed by mainstream analysts and investors. The losses reported over the last couple of years had not only made GAP an “orphaned” stock but had led to fears that GAP would go bankrupt. GAP’s controlling shareholder is the Haub family of Germany, a family which Forbes magazine estimates has a net worth of US\$4.3 billion (thus their investment in GAP, currently worth some US\$328 million, is not that significant to the family’s overall financial health). The Haub’s own approximately 57% of GAP and so, the shares actually available for the public to invest in (referred to as the “float”) is only 43% of the 38.6 million total outstanding or 16.6 million shares. This small float level exacerbates the “orphaning” phenomena.

While there is a very strong argument to be made that investing successfully over the long run is best achieved by focusing on the healthiest companies (i.e., the market leaders with strong balance sheets and strong competitive positions), a very substantial return can be made from time-to-time in GAP-like situations. If, through intensive research, an investor can come to understand that the market is wrong in assuming the imminent death of a particular company, then great investment profits can be made as the market eventually cottons on to this and the underlying equity value reflates.

In the case of GAP it became obvious to us that GAP’s Canadian business (“GAP Canada”) is very healthy and, in fact, carries substantial value - augmented by its strategic importance to GAP Canada’s competitors (namely Metro Inc. and Sobeys Inc., both of which would like to gobble up GAP Canada’s estimated 16%, prime Toronto-centric, Ontario market share). GAP Canada’s value is disproportionately larger than its revenue contribution (approximately 70% of GAP’s total sales come from its U.S. operations) as GAP Canada is more profitable than GAP’s U.S. operations and as valuation multiples for Canadian grocery chains tend to be higher (another example of our earlier discussion of foreign currency impact on the Fund’s non-Canadian investments and how each situation has to be evaluated on its own merits). In a value-

maximizing sale, we estimate that GAP Canada could fetch as much as US\$26 per GAP share, more than enough to repay GAP's entire net borrowings of an estimated US\$22 per share. As a reality check on our valuation work one needed to look no further than the trading prices of GAP's public bonds ...they never traded at prices suggestive of a distressed situation even whilst the stock was making new lows.

Importantly, and in a much more behind-the-scenes-manner than our Creo activism, we have been encouraging GAP's management, controlling shareholder and Board to sell GAP Canada through numerous meetings, phone conversations and letters. However, in complete fairness to all those parties, we weren't telling them anything they didn't already realize or appreciate. The key point is that this was another situation that beckoned for us to speak up in an effort to do the right thing by our unitholders. We wanted to ensure that GAP's management, Board and controlling shareholder understood what the market would view as a good or bad step.

One of the main points that we keyed upon is that the status quo is clearly not an option. GAP's poor U.S. "earnings before interest, taxes, depreciation and amortization" ("EBITDA") performance, its large U.S. capital expenditure needs (a necessary evil if it is to seriously attempt to turn around its U.S. business) and interest costs on its not insignificant debt are conspiring to generate approximately US\$100 million per annum of negative free cash flow (or about US\$2.60 per share). In effect, every year that GAP continues in its current configuration, another US\$2.60 of shareholder value is depleted. Regardless of just how wealthy the Haub's are having your investment waste away at such a clip, especially when there's a clear path available to stop the bleeding, is simply not acceptable. Selling GAP Canada would lead to a much higher share price (speculation about a sale of the Canadian business has really been behind the recent share rally) and the financial wherewithal to repay all or part of the debt and to undertake a meaningful reengineering of the U.S. business. The substantial negative free cash flow would be materially improved upon.

Our GAP average cost is approximately US\$8.50 and our initial target, really just based on GAP Canada being sold for an attractive figure, is US\$20 plus. Share price upside beyond this level will be a function of how well management and the Board can deploy capital and execute operationally. Until recently one would have been fairly skeptical that there was much value in GAP's U.S. business but recent events leave us more optimistic.

The Yucaipa Companies, LLC ("Yucaipa"), a Los Angeles based private equity firm just announced a US\$150 million investment in a near-bankrupt competitor of GAP's – Pathmark Stores, Inc. ("Pathmark"). Ron Burkle, the billionaire founder of Yucaipa, is to the grocery business a sort of mix of Jack Welch and George Soros, in that he is both a great operator and a great investor in grocery stores. That's how he made his money - by buying and selling grocery stores over the years for maximum profit. He and his talented Yucaipa management team plan to use Pathmark, whose stores represent one of GAP's main New York/New Jersey competitors, as a "platform for future consolidation". We believe that Yucaipa may help consolidate the crowded northeast U.S. market, with or without GAP's direct involvement, something that would help improve the overall level of profitability in the industry for the better (although, admittedly, a Pathmark bankruptcy would have been favourable too).

As well, we sense that management of GAP have adopted a new focus, one that doesn't shy away from taking meaningful steps to realign the U.S. store base. Illustrative of this new attitude is the apparent willingness to jettison non-core assets such as GAP's Detroit-based chain, Farmer Jack. Rumours abound that Farmer Jack's non-performing stores are being shuttered and that the bulk of the chain is being offered for sale. Again, this would lend a helping hand to GAP's stock as GAP's EBITDA would improve by an estimated US\$20 million on a current estimated U.S. operations EBITDA run rate of US\$145 million. As well, selling Farmer Jack would free up management time to focus on the core northeast U.S. operations.

While it is too early to tell, selling GAP Canada combined with improved U.S. operations could take the stock close to or even above the US\$25 level.