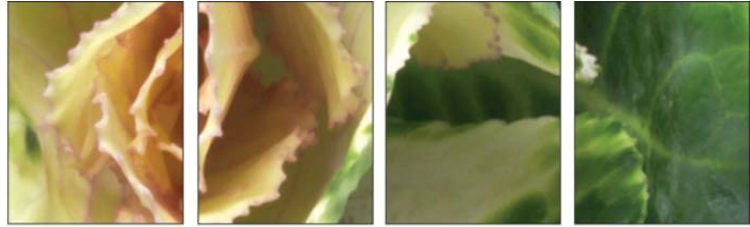


# Monthly Fund Update



January 31, 2009

## Empire Elite Equity Fund

During January 2009, the Empire Elite Equity Fund returned -3.8% and underperformed its benchmark, the S&P/TSX Total Return Index, by 0.8%, predominantly driven by Energy and Materials.

The S&P/TSX Composite Index finished January at 8,695, down 293 points or -3.3% since the beginning of the year. The index briefly traded above 9,500 during January, but then declined 800 points and closed lower for a fifth consecutive month. In the U.S., the Russell 2000 small cap index fell 11.2% to 443.53. The S&P 500 Index was down 8.6% to 825.88.

The S&P/TSX performance failed to inspire in January, despite an early month rally, strength in bank shares, and the Gold sub-industry group that saw a sharp rebound in the second half of the month, finishing with a positive contribution

A near \$1 trillion (U.S.) stimulus package stateside and expected \$64 billion cumulative deficit in Canada over the next two years has put infrastructure spending front and centre, as tax cuts are anticipated to revive a sagging economy.

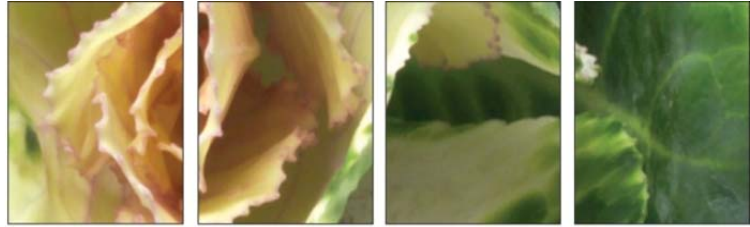
Periods of extreme financial stress and uncertainty have historically been associated with increased volatility and rising asset class correlations. The 598,000 drop in U.S. non-farm payroll employment in January, along with the jump in the unemployment rate to a 16-year high of 7.6%, illustrates that the U.S. recession is only becoming more severe.

The fund's exposure outside of Canada was mainly to materials and to the movement of the U.S./Canadian dollar. Despite widespread pessimism and a continuing negative economic outlook, long-term opportunities continue to present themselves. Our strategy remains focused on patiently deploying our cash to sound companies with strong balance sheets and improving fundamentals.



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# Monthly Fund Update



January 31, 2009

## Empire Canadian Equity Fund

The performance of the S&P/TSX Index failed to inspire in January, despite an early month rally and strength in bank shares, the market dipped by mid month and posted a 3.3% price decline for the period. Worldwide markets remain very volatile against a backdrop of unequivocally deteriorating economic data. However some comfort continues to be drawn from the extraordinary actions with which these troubled times are being met. A near \$1 trillion (US) stimulus package stateside and expected \$64 billion cumulative deficit in Canada over the next two years has put infrastructure spending front and centre, as tax cuts are anticipated to revive a sagging economy.

Periods of extreme financial stress and uncertainty have historically been associated with increased volatility and rising sector or stock price correlations, a “macro market”. We find ourselves squarely in a macro market, such that we are witnessing quality companies get “trashed” alongside companies of lesser quality, where differentiation between “good” and “bad” investments is unlikely to begin, in any meaningful way, until the economic outlook improves, and more specifically, the aforementioned government spending, begins to take root.

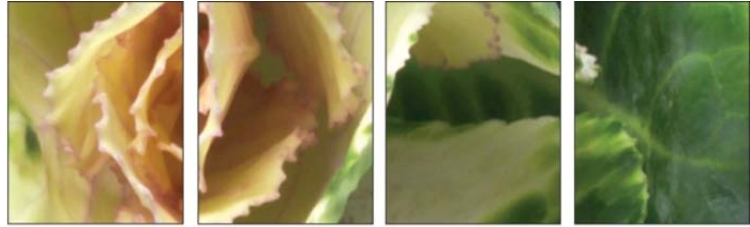
Continuing last year’s trend, Financials and Energy continued to weigh on equity performance, with Gold producers posting positive returns. The Fund’s defensive stance is maintained with market underweight positions in both the volatile energy and financials sectors and a relatively high cash position at around 16%. We continue to seek out opportunities to add to oversold positions within the Fund’s core holdings, and would look to increase gold exposure further on a consolidation in the space.

The Empire Canadian Equity Fund underperformed the S&P/TSX Total Return Index for the month with a negative 4.2% return (-120 basis point) predominantly driven by Energy and Materials. Despite widespread pessimism and a continuing negative economic outlook, long-term opportunities continue to present themselves. Our strategy remains focused on patiently deploying cash in sound companies with strong balance sheets and improving fundamentals, which will provide superior returns over the next economic cycle and for the long term.



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# Monthly Fund Update



January 31, 2009

## Empire Dividend Growth Fund

The Canadian equity market continued its decline in January 2009. The Empire Canadian Dividend Fund had a return of -6.4% during January 2009 and underperformed its benchmark, the S&P/TSX 60 Total Return Index, by 3.2%.

The Financials sector, primarily the Banks, had the single largest negative impact on the return of the benchmark, followed by Energy in a distant second place. The largest single stock positive contributor to the index was Research in Motion followed by Barrick Gold. The three largest negative contributors were Royal Bank of Canada, Bank of Nova Scotia and TD Bank.

The Empire Dividend Growth Fund did not have exposure to Research in Motion or Barrick Gold. In addition, the Fund was overweight two of the largest detractors from the Index, namely Bank of Nova Scotia and TD Bank. These two investments are in the Fund's top ten holdings and both banks remain as significant positions in the Fund. We believe TD and Scotia are two of the best managed banks in Canada, particularly in light of the current environment, and they have been solid dividend growers over time.

The worst performing stocks in the Fund on an absolute basis were Nexen, Royal Bank and Tim Hortons. Nexen and Tim Hortons were also relative underperformers given the Fund's overweight positions in these companies, while the underweight in Royal Bank helped on a relative basis.

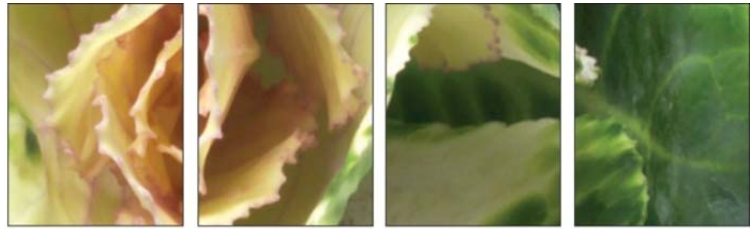
The best performing stocks in the Fund on both an absolute and relative basis were Boardwalk REIT and Brookfield Asset Management. These two investments were among the largest detractors to the performance of the portfolio in 2008.

The majority of the companies held in the Fund (and in the Index) are reporting in February including the Financials towards the end of the month. This should provide better insights and direction for the companies held as opposed to the experience in January with little or no company specific information.



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# Monthly Fund Update



January 31, 2009

## Empire Small Cap Fund

The Empire Small Cap Fund underperformed its benchmark, the S&P/TSX Small Cap Total Return Index, in the month of January with a performance of -0.4% after fees versus +0.1% for the benchmark. For the first time in a long while, small caps outperformed their large cap peers, as the large cap benchmark in Canada, the S&P/TSX Total Return Index was down -3.0% during the first month of 2009.

The Empire Small Cap Fund has rallied over 15% from its low in November. It is worth citing a recent research report from Merrill Lynch that reviewed the performance of small caps during down markets. The report noted that small cap stocks tend to perform best coming out of bear markets. In studying 18 bear markets since the Great Depression, Merrill Lynch found that the median small-cap stock gained 41% in the year after a market bottom. Whether the worst is over from a stock market perspective remains to be seen, but we note that China's Shanghai Composite Index is up 31% from its October lows as of February 8<sup>th</sup>.

Retail investors have been shunning risk in favor of cash. These last few months have witnessed a massive shift of assets in this country from equity-oriented mutual funds to money market instruments. This trend is illustrated by the chart to the right. It shows that the largest funds in Canada are now dominated by Money Market and Income-oriented Funds.

It is not just the retail investor that is conserving cash. At present, when we talk to management teams, we continually hear that they are, "eliminating capital expenditures, laying off workers, cutting advertising expenditures, re-evaluating their dividends, reducing inventories, etc. etc..."

However, there are on occasion managers who will buck this trend. Bruce Flatt, CEO of Brookfield Asset Management, said in a recent Globe and Mail interview: "We worry we won't be able to capitalize on the opportunities and pick the right one as it goes by. If we don't come out of this time having done something to meaningfully grow the business and expand the franchise, I think we'll look back in five years and say we missed a great period of time".

### 12 Largest Canadian Funds as of - 01/31/2009

FUND NAME	AUM (\$MM)
RBC Premium Money Market	\$14,643.50
Investors Dividend - A	\$10,032.80
iShares CDN Large Cap 60 Index	\$8,462.60
TD Canadian Bond	\$7,452.50
RBC Balanced	\$7,261.70
RBC Canadian Dividend	\$7,055.20
TD Premium Money Market	\$6,771.10
CI Harbour Growth & Income	\$6,453.10
RBC Monthly Income	\$6,120.20
RBC Canadian Money Market	\$6,114.30
CIBC Monthly Income	\$5,360.10
CIBC Money Market	\$5,030.30

Source: Globefund.com



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In Canada we finally saw the official fall of Nortel. According to a February article written by Jack and Suzy Welch in Business Week, 'some 64,000 companies filed for bankruptcy during 2008 in the U.S. and a 50% increase could be in the cards for 2009'. So many profitable companies are now trading at valuations near or below the cash levels on their balance sheets. The small cap space is out of favor as professional and retail investors alike are afraid of risk.

We agree with Mr. Flatt. The best investment opportunities have typically arisen when fear is the predominant market sentiment and the headlines are relentlessly negative. It is in times like these that remarkable investment opportunities can be capitalized on. As headlines eventually improve and money market funds no longer dominate the Canadian Mutual Fund Top 10 by Assets list, Canadians will once again return to the equity asset class, but unfortunately they will likely have missed the first leg up in the next bull rally.

Over many years, we have met countless CEOs and CFOs as we conduct due diligence on the business plans for their firms. In our experience, the most money can be made when one either (1) takes a contrarian view or (2) when one's research efforts lead to the discovery of something others have not figured out yet. The opportunity to be a contrarian is obviously huge today. Now it just comes down to whether one has the process, capacity, discipline and experience to do an effective triage to identify which companies will outperform.

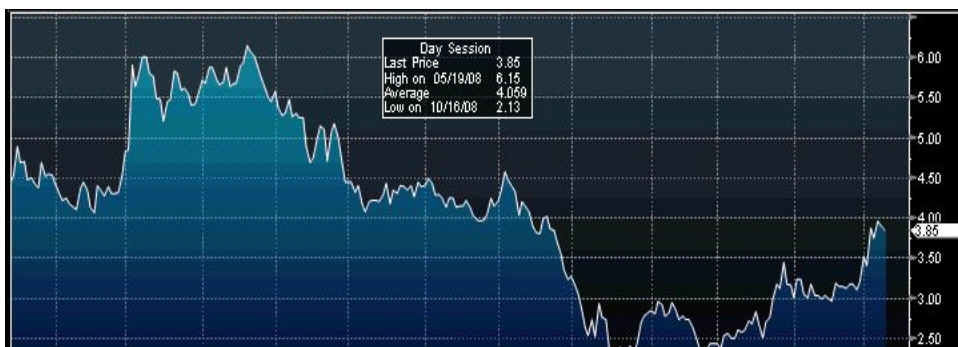
One company that we believe has all the hallmarks of becoming a long-term winner is EXFO Technologies. EXFO is an example of a firm we have been following for years and that we have recently revisited in light of the current investment environment. EXFO is an optical technology company with an excellent track record of sales growth, high margin businesses and a strong pipeline of growth into new markets and products. EXFO has been growing its sales at a 5-year compounded average rate of 24.3%, more than double the industry average while enjoying margins well in excess of industry averages.

The company meets all the criteria we look for in a great investment;

- (1) Business with a solid management team – the CEO started the company out of his apartment
- (2) Strong competitive advantages
- (3) Healthy balance sheet with a net cash position.

The recent turmoil in the financial markets has provided an opportunity to acquire shares in this company at extremely compelling valuations.

Share Price Performance EXFO (2/9/2008 – 2/9/2009)



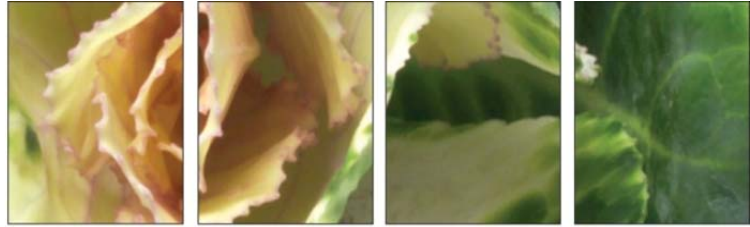
Source: Bloomberg



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# Monthly Fund Update



January 31, 2009

## Empire Asset Allocation Fund

In January 2009, the Empire Asset Allocation Fund returned negative -2.53%, predominantly driven by Energy and Materials.

The S&P/TSX Composite finished January at 8,695, down 293 points or -3.3% since the beginning of the year. The index briefly traded above 9,500 during January, but then declined 800 points and closed lower for a fifth consecutive month. In the U.S., the Russell 2000 small cap index fell -11.2% to 443.53. The S&P 500 Index was down -8.6% to 825.88. The performance of the S&P/TSX Index failed to inspire in January, despite an early month rally, strength in bank shares, and the Gold sub-industry group that saw a sharp rebound in the second half of the month, finishing with a positive contribution

A near \$1 trillion (U.S.) stimulus package stateside and expected \$64 billion cumulative deficit in Canada over the next two years has put infrastructure spending front and centre, as tax cuts are anticipated to revive a sagging economy.

Periods of extreme financial stress and uncertainty have historically been associated with increased volatility and rising asset class correlations. The 598,000 drop in U.S. non-farm payroll employment in January, along with the jump in the unemployment rate to a 16-year high of 7.6%, illustrates that the U.S. recession is only becoming more severe.

The positive momentum that has characterized the Canadian corporate bond market since the beginning of the year continues. Although the primary market remained subdued, secondary activity was robust. Swift passage of President Obama's stimulus package through the House of Representatives helped overshadow a spate of disappointing earnings releases and weak economic data.

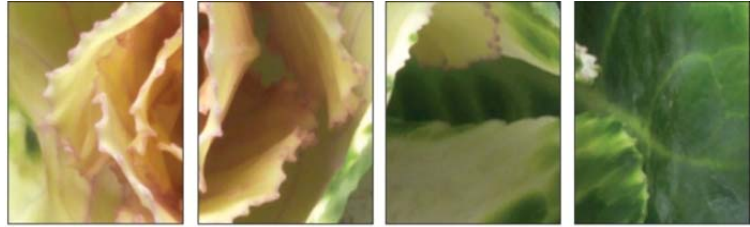
The economic and financial conditions which will prompt an increase in the supply of government bonds are themselves likely to prompt an increase in demand for these bonds – as has long been the case in Japan, where 10-year yields are still just 1.2%. However, the global economic downturn (which is now even spreading to China) will open up huge amounts of spare capacity, reflected in widening negative output gaps and soaring unemployment.

The Empire Asset Allocation Fund's exposure outside of Canada was mainly related to materials and to the movement of the U.S./Canadian dollar. Despite widespread pessimism and a continuing negative economic outlook, long-term opportunities continue to present themselves. Our strategy remains focused on patiently deploying our cash to sound companies with strong balance sheets and improving fundamentals.



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# Monthly Fund Update



January 31, 2009

## Empire Balanced Fund

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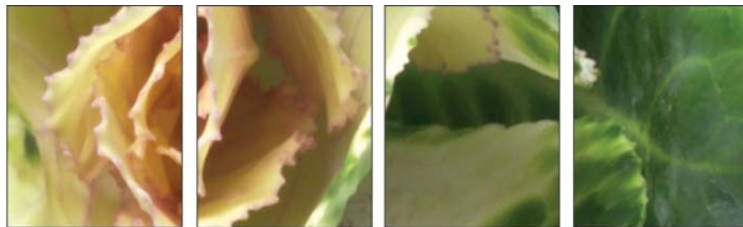
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The Empire Balanced Fund returned negative -3.4%, predominantly driven by Energy and Materials. The Fund's exposure outside of Canada was mainly to materials and to the movement of the U.S./Canadian dollar. Despite widespread pessimism and a continuing negative economic outlook, long-term opportunities continue to present themselves. Our strategy remains focused on patiently deploying our cash to sound companies with strong balance sheets and improving fundamentals.



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# Monthly Fund Update



January 31, 2009

## Empire Global Smaller Companies Fund

During January, the MSCI Global Small and Mid Cap Index was down -6.8% in Canadian dollar terms while the Empire Global Smaller Companies Fund suffered a loss of -7.0%.

During the final weekend of January, President Obama started off his address to his nation with the statement, "I'd like to talk about some good news and bad news as we confront our economic crisis." The bad news is that the global financial system is struggling with falling asset prices and deteriorating balance sheets. Thus, we saw many global financial companies trade at prices lower in January 2009 than their November 2008 lows.

We are willing to concede that the economy could get worse before it gets better especially after witnessing the significant job loss announcements in January. However, there are a few positive elements to focus on - mortgage rates are down, mortgage refinancing is up, spreads have started to narrow between different grades of securities, energy prices have collapsed and an enormous and unprecedented level of fiscal and monetary stimulus has been directed towards kick starting the economy on a global scale. All of this will eventually lead to an economic recovery. When exactly this stimulus will begin to have a positive impact is open to debate.

One country where the fiscal stimulus appears to be working - based on discussions with companies with activities in or linked with that economy - is China. Unlike in Canada and in the U.S., where political parties debate, amend and posture over fiscal stimulus plans, the Chinese "Just Do it". For this and other reasons, a portion of the Fund's cash position has been invested into Chinese-related equities. For instance, the Fund has invested in Hanfeng Evergreen Inc, a fertilizer company. This investment will be discussed later on in this commentary.

A few statistics from Barron's February 2<sup>nd</sup> edition provide interesting investment market insights.

- *"Money-market fund assets are at a historically high proportion of stock-market value and having risen at a 52% annual clip in the past 13 weeks" (Ned Davis Research).*
- Another quote cited that the four Financial stocks in the Dow Index (Citigroup, Bank of America, JP Morgan and American Express) *"together account for a mere 400 points of the Dow's 8000 points, owing to their low average share price. All four could go to zero and cost the Dow a mere 5%".* Reading this, one could argue that a lot of the damage the financial services stocks could do to U.S. stock indices has already happened.

Amidst all the bad news, some glimmers of hope are starting to transpire for select small capitalization stocks. Access to capital has improved meaningfully since last fall. This will eventually help drive the recovery in the performance of smaller companies.



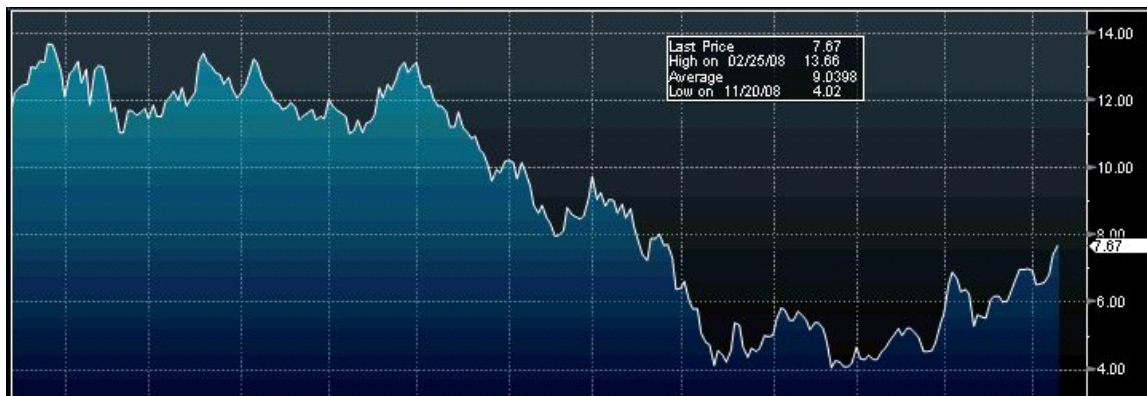
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Another quote, from Business Week this time, cited that the total number of senior analysts providing investment research shrank 40% to 50% over the past year, according to Sanford Bragg, CEO of Integrity Research Associates. This firm tracks analysts from over 1000 firms for institutional clients. Again this might suggest the beginning of a bottoming phase for the market. Not only do wide spread layoffs in research departments point towards a bottom, they also, and more importantly, lead to market inefficiencies, thus creating opportunities to find undiscovered investment gems lacking research coverage.

As introduced earlier, Hanfeng Evergreen Inc. is a recent addition to the Empire Smaller Companies Fund. This fast growing agricultural firm with facilities in China produces a specialty fertilizer using proprietary technology for distribution throughout the country. We first visited one of those facilities outside of Shanghai five years ago and met earlier this month with the Chief Financial Officer to discuss the company's strategy and outlook for the current cycle. The firm has a strong relationship with the Chinese government, a critical condition for any investment made in the People Republic of China, and has set the national regulations for fertilizers. While Hanfeng benefits from a robust set of growth opportunities, given the massive market correction in the late fall, shares of the company could be acquired without overpaying for the growth prospects. There are early indications that the Chinese stock market is in the process of bottoming, with the Shanghai Composite up +31% from its lows. A key component of the investment thesis in Hanfeng relates to its exposure to the growing Chinese middle class. The company is thus very well positioned to benefit from the economic recovery.

### Share Price Performance of Hanfeng Evergreen Inc. (2/9/2008 – 2/9/2009)



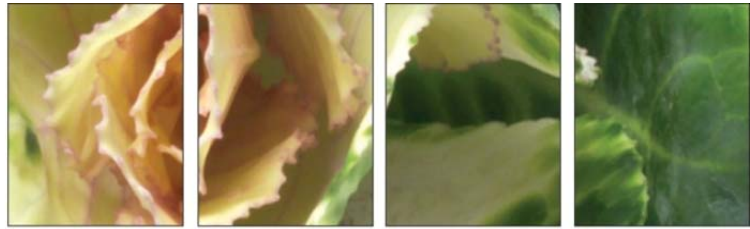
Source: Bloomberg



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# Monthly Fund Update



January 31, 2009

## Empire Global Dividend Growth Fund

January 2009 was a negative month for global stock markets with key indices all registering losses. The U.S. S&P 500 Index actually ended up having the worst January performance since 1970. The S&P 500 Index was down -8.6% (down -7.75% in C\$) and the MSCI World Index was down -7.1% (down -7.85% in C\$) for the month. Stock markets had a 'false start' in the first week of the year and then came under pressure as global companies such as Proctor & Gamble and Caterpillar reported disappointing earnings and the U.S. GDP for the fourth quarter of 2008 came in at -3.8% year on year. The financial sector was under significant pressures on bad news from European banks and the 'noise' around possible nationalization of some financial institutions around the world.

The Empire Global Dividend Growth Fund was down -4.7% for January 2009. The Fund therefore outperformed its benchmark, the MSCI World Index Net in Canadian dollar, by 3.2% and the peer group of Global Equity segregated funds by 2.3%. This relative outperformance was a result of positive changes made in the portfolio from both a tactical and strategic perspective towards the end of last year – and the results are already beginning to show. We are working on the assumption that 2009 will be a year marked by higher than average volatility and we can add value for clients by making the right macro calls and picking the best stocks for this environment.

Some of these changes were discussed in prior commentaries but it is worthwhile to discuss them again. For now we have discontinued foreign currency hedging – so our relative performance versus the benchmark and the peer group is not significantly impacted by currency swings. Also, within the large capitalization space, which is the focus of this portfolio, it was decided to place emphasis on more stable, blue chip companies that should outperform in current markets, with lower volatility. In addition, the Fund's direct exposure to developing countries was reduced – opting instead to invest in developed market stocks with exposure to these growth markets. The underlying investment criteria successfully used at Empire Life over the years essentially remains the same – investing in strong companies offering secular growth opportunities, at reasonable valuations.

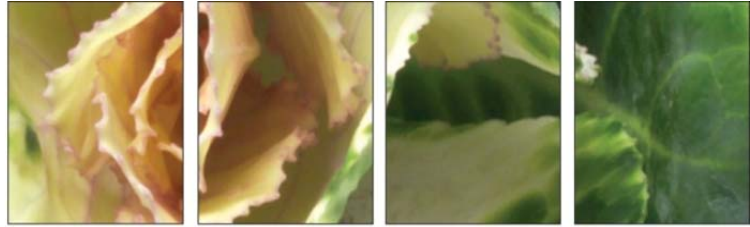
The impact of these changes to the Fund can be seen in the outperformance in the first month and we remain confident that the current strategy better positions the Fund to navigate global stock markets going forward. With all the uncertainty about the global economy and the length and severity of the current recession, a conservative stance is maintained and the Fund is positioned to deliver value for clients regardless of the direction of the markets.

For January 2009, the main drivers of outperformance in the Fund was the exposure in materials (includes agriculture & gold) and in selective information technologies companies. The underweight position in Financials – with investments in four companies - also added to relative performance as the financial sector was under pressure during the month.



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# Monthly Fund Update



January 31, 2009

## Empire Global Balanced Fund

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Stock markets had a 'false start' in the first week of the year and then came under pressure as global companies such as Proctor & Gamble and Caterpillar reported disappointing earnings and the U.S. GDP for the fourth quarter of 2008 came in at -3.8% year on year. The financial sector was under significant pressures on bad news from European banks and the 'noise' around possible nationalization of some financial institutions around the world.

On the fixed income side, government yields have been on the rise this year with the U.S. 10 year yield going up 63 basis points in January 2009 and the U.S. 30 year up 93 basis points. The Fund's position with respect to the fixed income component is defensive with a shorter duration than the benchmark.

The Empire Global Balanced Fund has a return of -1.6% for January 2009. This compares favourably with a return of -6.5% for its benchmark, a 65%/35% blend of the MSCI World Index and of the Citigroup World Government Bond Index, both in Canadian dollar terms, and the peer group return of -4.5%. The outperformance comes from both, the global equity component, as well as the fixed income investments in the portfolio.

The Fund also uses a dynamic asset allocation process allowing the portfolio management team to be nimble and move between asset classes as the macro environment evolves. The Fund currently has a high cash position which helps ride the volatility in the markets and, when encouraging signs arise, some of the cash can be put to work.



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# Monthly Fund Update



January 31, 2009

## Empire American Value Fund

In a disappointing start to the year, the S&P 500 Total Return Index returned -8.4% in January. However, appreciation of the U.S. dollar continued to offset part of the decline. The benchmark returned -7.5% in Canadian currency.

The American Value Fund returned -5.9% in Canadian dollars for the month, outperforming the benchmark by 1.7%.

Once again, the Financials came under particular pressure. As banks reported fourth quarter earnings, increases in non-performing loans, loss provisions and mark-to-market securities adjustments, although mostly expected, weighed on the sector. Despite a continuing portfolio overweight in this area, positive stock selection was a benefit to results. The fund's largest financial holding, Goldman Sachs, outperformed the market by a wide margin and the second largest weight, New York Community Bancorp, was up nearly 11% for the month.

Perhaps the biggest disappointment was Pfizer, which cut its dividend in half in order to fund its proposed acquisition of Wyeth. The stock declined 18%. This was partially offset by our position in Wyeth itself, which rose about 15%.

Other large contributors, positive and negative include:

Fund Holdings	Portfolio Weight	Price Change (01/09)
Positives		
Brocade Communications	1.3%	+35%
Transocean Drilling	2.3%	+16%
Negatives		
ACE Limited	2.1%	-17%
J.P. Morgan Chase	1.3%	-18%
Microsoft	2.7%	-12%

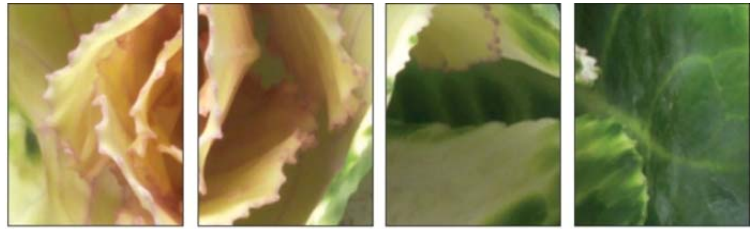
Two important events in February are passage of an economic stimulus package and the unveiling of new measures to increase confidence in the U.S. banking system by the Obama administration.



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# Monthly Fund Update



January 31, 2009

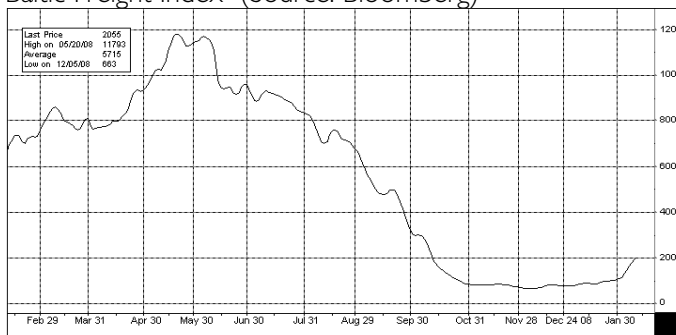
## Empire Bond Fund

U.S. yields increased by 63 basis points in January from 2.21 to 2.84 percent in the 10 year term due to a reversal of the flight-to-safety trade and year-end window dressing. Canada bond yields followed suit, increasing by 37 basis points from 2.69 to 3.06 percent in the ten year term. In this context, the Empire Bond Fund, was down -0.4% after fees, versus its benchmark, the DEX Universe Bond Index, down -1.0% in the month. The Fund benefited from its overweight in Corporate bonds and its short duration.

The U.S. Government will issue at least \$2 Trillion additional debt this year, and it could rise to \$3.5 to \$4.0 Trillion depending on various rescue packages in the works. Along with the U.S., other governments around the world will be issuing large sums of bonds. The upcoming huge bond supply in the U.S. and around the globe is expected to put continued upward pressure on long term rates. However, any move in the near term will be limited and gradual because of the current economic environment. The market remains vulnerable to event risks such as Lehman Brothers, which brought the credit markets to a virtual halt last year. The risk of another event similar to Lehman is still out there.

Although the economy remains weak, there are some tentative signs of a flicker of light at the end of the tunnel. In the first week of February, there were upside surprises in the ISM manufacturing and non-manufacturing surveys in the U.S., and Purchasing Managers' Surveys in the Eurozone, the UK and China are sending a similar message. In addition, the Baltic Freight Index, which is traditionally an excellent leading economic indicator, has rebounded sharply in recent weeks. See picture picture below.

Baltic Freight Index (Source: Bloomberg)

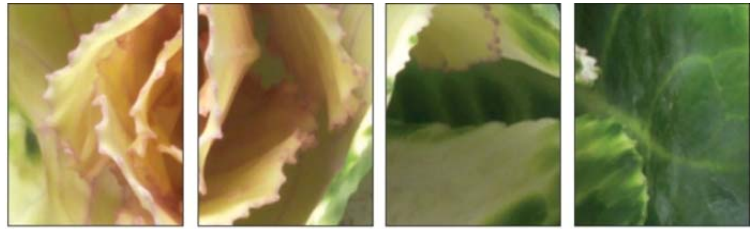


Improving economic prospects and the return of investor appetite for risk was also reflected in the corporate bond market. Spreads on single "A" rated Canadian corporate bonds declined by 24 basis points for the month, from 462 to 438 basis points.



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# Monthly Fund Update



January 31, 2009

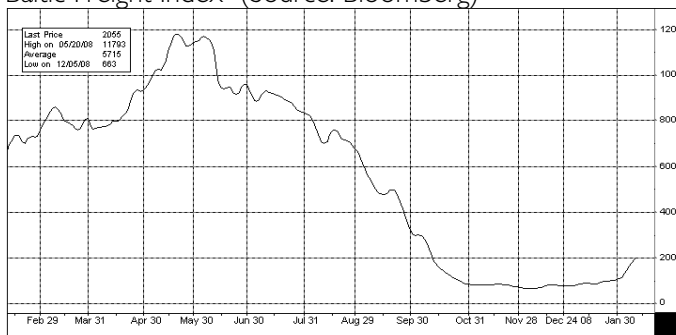
## Empire Income Fund

U.S. yields increased by 63 basis points in January from 2.21 to 2.84 percent in the 10 year term due to a reversal of the flight-to-safety trade and year-end window dressing. Canada bond yields followed suit, increasing by 37 basis points from 2.69 to 3.06 percent in the ten year term. In this context, the Empire Income Fund, was down -1.0% after fees, versus its benchmark, the DEX Universe Bond Index, down -1.0% in the month. The Fund benefited from its overweight in Corporate bonds and its short duration.

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