DWIC Global Value Strategy

First Quarter Commentary – March 31, 2013

David Fingold
Vice President & Portfolio Manager

Equity markets started 2013 with a roar, as global markets rallied on improving macroeconomic data and a continued accommodative global monetary backdrop. The MSCI World C$ began the year with a double-digit return earning 10.1% for the quarter after ending last quarter up 4%. In the United States, while the political environment in Washington remains deeply divided and saw the start of sequestration in March, US economic fundamentals saw marked signs of improvement in Q1, as evidenced by the continued strength in housing, declining jobless numbers, and an improvement in the ISM index. However, as we exit the first quarter, there are some signs of caution beginning to surface, most notably in Europe where the collapse of the banking system in Cyprus refocused investor attention on the fundamental issues and risks that still exist in the Eurozone, and in Asia where increased rhetoric from North Korea is raising the threat of geopolitical instability in the region.

In Canadian dollar terms the DWIC Global Value Strategy underperformed its benchmark returning 6.5% for the quarter while the MSCI World C$ returned 10.1%.

It was a very busy quarter for the Strategy as we made more than 20 new additions and exited more than 20 positions. During the fourth quarter of 2012, we began to be more positive on the markets and this continued into the first quarter of 2013, as we are bullish on the opportunities going forward for quality companies. There are several reasons for us to feel this way: 1) The demographic headwind is turning into a tailwind. Most people think that markets are driven by socio-political events, economics, corporate profits, but we believe that the reality is that over the long-term, markets are driven by demographics. Whenever the population cohort of people who are literally just starting to save for retirement begins to shrink, the market goes into a range bound bear market. When it grows, you get a secular bull market. We can't nail it down within any better than an accuracy of a year or two but it's quite possible we are in a secular bull market already. 2) We are bullish on high quality cyclical companies because of the risk/reward. The highest yielding stocks, companies in the first decile of dividend yield have never been so expensive, in history, and they have also never been so risky. This is based on their six month rolling betas. Defensives have a beta of about .7, and utilities are close to .9. If the market goes down, we still expect that defensives will go down less than cyclicals. On the other hand, we expect that they will go down a lot more than they've gone down historically. We believe that in the market place today, defensives are simply not positioned to defend. By the same token, when we look at the beta of cyclical companies, they are now down to one of the lowest levels ever recorded. Thus, the risk/reward is really in favour of cyclicals. We also want to own the highest quality cyclical companies that have very strong margins, strong records of profitability, that pay strong dividends and have good management. Our cyclical companies are not as risky as those within the market. The risk/reward is not in favour of defense right now. 3) According to David Rosenberg of Gluskin Sheff, if we are in a recession but the Fed is easing, the market will be flat to slightly down. If we are not in a recession and the Fed is easing, the average annualized return under this scenario is likely to be double digits. We would suggest that the Fed is easing (as they are currently buying about .5% of GDP per month in bonds through the new QE program). So even if we are in a recession (and we are not saying that we are), there seems to be limited downside for the markets.

DUNDEEWEALTH
Investment Counsel

Among the high quality names that we added to the Portfolio during the period were Berkshire Hathaway, Accenture, and Thermo Fisher Scientific, which were among the top ten holdings in the Strategy at period end. Other names we added during the quarter included American Express, Danaher, Nucor, and Walt Disney. Nucor is the largest steel producer in North America and is not like any steel company we have ever known. The company is consistently profitable and is continuing to improve their business and widen the gap between themselves and their competitors. Disney is almost always a buy when you can purchase it at the market multiple. As a media company, we know that as long as the economy grows and the risk of a recession is low, that advertising spending as a percentage of GDP is going to increase so we know that their advertising revenues are going to rise. Their theme parks still have upside for the business as the consumer hasn't yet had the confidence to go out and travel. Perhaps more importantly this cycle, Disney has more theme parks open around the world than they have ever had in history so they can earn more money this cycle than they have in history. The majority of the exited positions came from the defensive consumer discretionary (including Bed, Bath & Beyond, McDonald's, TJX Cos.) and consumer staples sectors (including Altria Group, British American Tobacco, and Coca-Cola), as we began to see the positive turn in the markets.

The only sector that detracted from the Strategy's performance this quarter was the materials sector (and the detraction was slight). Our holdings in the sector outperformed those of the benchmark. Global flavour and fine ingredients company Frutarom, was a solid contributor to Strategy performance from the materials sector and is our highest weighted stock in the sector. Of our materials holdings, only Royal Gold was a top ten detractor and we have exited the position. In terms of sector positioning, the two biggest overweights for the Strategy relative to the benchmark at quarter end were information technology and industrials. These two sectors were the two best contributors to performance during the quarter. These sectors were also positive performers for the index, and thus our overweight was a positive for the Strategy's performance. Inficon (the top contributing stock to Strategy performance during the period), and Google were both top ten contributors from the IT sector. From the industrials sector, only Transdigm Group was a top ten contributor, but the Strategy held twelve industrials names during the quarter and most of them were positive contributors to performance. The Strategy's two largest underweighted sectors at period end were consumer staples (mentioned above) and financials. While the benchmark's collective consumer staples holdings outperformed those of the Strategy, our financials holdings were on par with those of the benchmark. However, our underweight exposure to both sectors hurt our relative performance as they were the two best performing sectors for MSCI World Index (C$) during the quarter. One of the top 25 contributors to benchmark performance during the quarter was Berkshire Hathaway, our number two weighted holding at period end and the third best contributing stock to Strategy performance during the period. Four banks were among the top 25 contributors for the benchmark in Q1. The Strategy continues not to own any banks. Only American Tower (a top contributor over the past twelve months), and Moody's (we have exited both positions), were detractors from Strategy performance from the financials sector. We continue to not have holdings in the telecom or utilities sectors as we believe that the risk/reward ratio is not currently in favour of defensives (as discussed above).

Last quarter we were positioned in very high quality companies with an overweight to technology and consumer discretionary leaders. We expected possibly shifting some weight out of consumer staples names that had been a haven for investors looking for the safety of higher dividends, as these stocks were likely to underperform going forward as investors began to reward higher beta names. While we continue to be invested in high quality companies, the Strategy is now significantly underweight consumer staples and is approximately market weight consumer discretionary stocks at quarter end after being overweight for much of the period. The Strategy continued to have a significant overweight to industrials at period end. As Global PMIs inflected positively in Q4 of 2012, so did the performance of the industrials sector, and they turned from a depressed level. While we remain somewhat cautious on the market at this level, we are excited about the opportunities for the quality companies in the Portfolio.

As at March 31, 2013	3 Month	1 Year	3 Year	Since Inception
DWIC Global Value Strategy	6.47%	10.37%	3.99%	5.36%
MSCI World Index (C$)	10.11%	14.38%	9.22%	8.59%

Inception date: November 2009