DWIC Global Value Strategy

Second Quarter Commentary – June 30, 2013

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Compared to Q1 of this year, in Q2 the global equity markets saw a heightened degree of volatility and mixed equity performance. In the United States, we continued to see signs of a fundamental improvement in the US economy in Q2. While the market initially reacted negatively to signals of Fed tapering, we remain sanguine on the US markets given the continued economic improvement combined with what remains a highly accommodative monetary backdrop. By contrast, Europe remains in recession despite accommodative monetary policy, and the emerging markets are facing a challenging combination of slowing growth, pockets of rising social unrest, less supportive monetary policy, and hot money outflows. During the period, all sectors of the MSCI World Index were positive contributors to benchmark performance with the exception of the materials sector. The consumer discretionary sector was the top contributing sector to benchmark performance during the period, followed by the healthcare and telecommunication services sectors. The materials, energy, and consumer staples sectors were the three lowest contributing sectors to benchmark performance during the period.

In Canadian dollar terms, the DWIC Global Value Strategy underperformed its benchmark returning 3.51% for the quarter while the MSCI World Index C$ returned 4.06%.

From a stock transaction standpoint, it was a quieter quarter than last, but it was still busy with many new additions to the Strategy. Several of the new stocks were diversified financials such as JP Morgan Chase & Co. (a top ten weighted stock at period end), and Morgan Stanley, where we are seeing some improving valuations and better balance within the various businesses of certain diversified financials. We also exited a similar amount of names with many of them coming from the energy sector, such as Dresser-Rand Group and FMC Technologies. We remain underweight energy. Despite the fact that crude oil prices have had a breakout, energy stock prices have not responded.

As well as the names mentioned above, we added other quality names to the Strategy during the period such as Wells Fargo & Co. The company is one of the largest banks in the US by assets and market capitalization, which at period end was the second highest weighted stock in the Strategy. Other names we purchased during the quarter included information technology stocks MasterCard and Visa, healthcare giant Johnson & Johnson, tobacco company Japan Tobacco, and auto giant Toyota Motor Corp., all of which we have previously owned in the Strategy.

The only sector that detracted from Strategy 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 remains our highest weighted stock in the sector and one of our top ten holdings. Globe Specialty Metals and Israel Chemicals (exited from the Strategy) were the two materials companies among the Strategy's top ten detractors. In terms of sector positioning, the two biggest overweights for the Strategy relative to the benchmark at quarter end were the consumer discretionary and industrials. Consumer discretionary was the second best performing sector for the benchmark during the period; thus, our overweight exposure to the sector was a positive for relative Strategy performance. Three consumer discretionary stocks, Ford Motor, Sirius XM Radio, and Walt Disney were all top ten contributors to Strategy performance. The Strategy's two largest underweighted sectors at period end (that we were invested in – we did not have exposure to the utilities or telecommunication services sectors) were energy and healthcare. Energy, though earning a positive return, was the second worst performer for the benchmark; thus, our underweight was a positive for relative Strategy performance during the period. In contrast to energy, healthcare was the fourth best performer for the benchmark during the period and our underweight exposure to healthcare was a negative for relative Strategy performance. Our collective holdings in the energy space outperformed those of the benchmark, and our collective healthcare holdings underperformed those of the benchmark. From these two sectors, only healthcare company Thermo Fisher, a precision laboratory equipment company, was a top ten contributor to Strategy performance. Early in Q2, Thermo Fisher announced that it would be buying Life Technologies Corp., which would rank Thermo Fisher as one of the top two companies in the genetic testing field. Healthcare company Allergan and energy company Andarko Petroleum, which have both since been exited from the Strategy, were among the top ten detractors from Strategy performance.

Of the benchmark's top 25 contributors to performance, the Strategy owned nine of the stocks including Berkshire Hathaway, our number three weighted holding at period end and the top contributing stock to Strategy performance during the period. Allergan was the only stock held by the Strategy during the quarter that was among the top 25 detractors for the benchmark in Q2.

Going forward, we continue to believe the global economic recovery will remain uneven, with the US remaining in the driver's seat, and we remain vigilant for potential potholes such as a rapid and significant rise in interest rates and rising geopolitical tensions. We continue to believe the US will outperform other global markets but remain cautious in our positioning, owning high quality, large cap companies. Over the years, investing in multinational companies has been rewarding. Unfortunately, with the USA leading world economic growth, outside Japan multinationals have faced significant headwinds including a strengthening Dollar. We have positioned ourselves accordingly. Five years ago we would have talked about owning American companies that "benefit from the growth all around the world." Many of our European and Asian investments in the global funds are companies benefiting from their exposure to the US recovery. We have also increased our exposure to high quality financials names, which will benefit from an improved domestic economic and equity markets backdrop. We have also reduced our exposure to the energy and materials sectors given slow global macroeconomic growth.

As at June 30, 2013	3 Month	1 Year	3 Year	Since Inception
DWIC Global Value Strategy	3.51%	11.96%	8.27%	5.98%
MSCI World Index (C$)	4.06%	22.65%	13.94%	9.60%

Inception date: November 2009

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