DWIC Global Value Strategy

Third Quarter Commentary – September 30, 2013

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Compared to Q2 of this year, Q3 2013 brought about more balanced economic growth in global and US markets. Although the United States continued its upward trend of improving fundamentals, many of the economic surprises came from outside the US, particularly from Europe and Japan. European PMI and industrial production began to turn in July, positively impacting European relative performance. In the United States the Fed's decision to hold off on tapering was seen as a positive for US equities, further solidifying US commitment to economic growth. Emerging markets continue to face a challenging combination of slowing growth, pockets of social unrest, less supportive monetary policies and hot money outflows. During the period, all sectors of the MSCI World Index were positive contributors to benchmark performance. The financials sector was the top contributing sector to benchmark performance, followed by the industrials and consumer discretionary sectors. Telecom, utilities and consumer staples were the three least contributing sectors to benchmark performance during the period.

In Canadian dollar terms the DWIC Global Value Strategy outperformed its benchmark returning 6.4% for the quarter while the MSCI World Index C$ returned 6.0%.

From a stock transaction standpoint, it was a busy quarter, with several new additions to the portfolio. A number of the new additions were European diversified financials as we took advantage of improving valuations coupled with European economic recovery. AXA a global investment, retirement, and insurance group, which we consider to be one of the cheapest large life insurance companies in the world based on their ability to generate cash and the rapidity with which they are paying down their debt, was added to the Strategy during the quarter. Lloyds Banking Group was also added to the Strategy as we believe they will be the prime beneficiary of the UK housing market recovery that is seeing mortgage growth and rising home prices. BNP Paribas was the final European financial added during the quarter as we see tremendous growth opportunity over the next few years through their strength in European corporate issuances. We also exited positions from several sectors including US financials, Wells Fargo and T Rowe Price. Additionally, we exited our position in MasterCard as we took profit following its very strong year-to-date performance.

As well as the names mentioned above, we added other quality names to the Strategy during the period such as EBay Inc., which is uniquely positioned in online and mobile commerce and payments through its EBay marketplace and PayPal businesses. The stock has greatly under-performed its payment peers on a year-to-date basis and we view its valuation as very attractive compared to its mid-teens revenue and earnings growth prospects. Other names we purchased during the quarter included global home appliance leader, Whirlpool and foods product manufacturer, Strauss Group.

The only sector to detract from Strategy performance during the quarter was the financials sector (and the detraction was slight). Our holdings in the sector underperformed the benchmark as four of our financial holdings were in the bottom ten contributors to Strategy performance. Italian leather goods producer, Tod'S Spa was the largest contributor to Strategy performance during the quarter and is the third largest holding by percentage weight. Global flavor and fine ingredients company, Frutarom, continues to be a strong positive contributor and remains a high conviction stock for the Strategy. 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 sectors. Industrials was the top contributing sector to Strategy performance and was represented in the top ten stock contributors by Rieter Holding, Spirax-Sarco Engineering, Legrand and SMC, a Japanese pneumatic engineering company that is benefitting from the continued economic recovery in Japan. Consumer discretionary followed as the number two contributing sector to Strategy performance. Overweight positions in both sectors coupled with strong stock picking allowed us to outperform the benchmark during the quarter. 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. Although both sectors earned positive returns during the quarter, they were the second and third worst performing sectors for the benchmark; thus our underweight positions were a positive for relative Strategy performance during the period. Our collective energy holdings significantly outperformed the benchmark while our collective healthcare holdings fell short of the benchmark return for the quarter. The energy sector was represented in the top ten contributing stocks to Strategy performance by Noble Energy, which has continued to power through and grow production and reserves significantly. The forecasted increase that Shale gas is predicted to take in US natural gas production is greatly benefitting our oil and gas services holding, Schoeller-Bleckmann, which rounded out the top 10 contributing holdings to Strategy performance during the quarter.

Of the benchmark's top 25 contributors to performance, the Strategy owned three of the stocks including Lloyd's which is a top 10 weighted holding for the Strategy. The Strategy also held two of the top 25 detractors to benchmark performance in Google and JP Morgan Chase.

A recurring theme for us since the PMI began to turn up about 12 months ago was to look for high quality cyclicals. When Canadians hear cyclicals they might start to think emerging market companies or junior mining. High quality cyclicals are a very different situation when you go into global markets and especially when you get into the US. The starkest aspect of where we've focused on cyclicals is in consumer staples and our biggest position is in Costco. Costco technically dominates grocery. It's about 50-60% of what they do but they're also probably one of the most cyclically geared grocers because when you go through Costco it's difficult not to buy small appliances, electronics, or perhaps some clothing. Even in a more defensive sector we've moved more towards the economic exposure. Costco also has a great valuation, they own wonderful real estate, generate strong free cash flow, and have a great balance sheet.

We've talked and written extensively about our belief that we're likely in a secular bull market, which we believe to be a major change from the 2000s. Even as a conservative investor a secular bull market causes an increased deployment of cash. If we need to get defensive, we will do so through stock selection rather than by substantially increasing our cash position and thus we expect to run the Strategy close to fully invested. If we see that stocks are becoming fully valued or there is a material adverse change resulting in increased cash holding in the Strategy, it is likely that we will be re-investing it shortly thereafter. As far as currency hedging is concerned, we have done some extensive thinking on the subject. As convicted as we were that the Canadian dollar was cheap during 2003-2004 and that we needed to protect ourselves against a falling USD, we're now convinced that the USD should rise. The single biggest reason to argue for a strong USD is US's dramatic increase in energy self-sufficiency. The US is on track to become the world's largest energy producer resulting in a reduction in energy imports, which will therefore lower the amount of dollars foreign central banks have to sell. Thus, we made the decision, during the quarter, to not hedge any of the USD risk. At quarter end we were not hedging foreign currencies in the Strategy. There may be some exceptions within the emerging markets, but in the developed world we don't currently believe that there is an opportunity to add value by managing currency.

Going forward, we are cautiously optimistic regarding a European recovery with a specific view on European financials where we see value. We have positioned ourselves accordingly by adding strategic names to the Portfolio and increasing geographic weight in European markets. We see a continued strengthening of the US economy, with the private part of the economy gathering sufficient strength to offset the drag from fiscal tightening. We have contrarian optimism towards Japan as Japanese equities have fallen out of favor thus allowing us to increase our exposure to Japan while still maintaining an underweight position when compared to the benchmark.

As at September 30, 2013	**3 Month**	**1 Year**	**3 Year**	**Since Inception**
DWIC Global Value Strategy	6.36%	19.52%	8.34%	7.28%
MSCI World Index (C$)	5.96%	26.02%	12.55%	10.58%

Inception date: November 2009