



Quarterly Portfolio Manager Commentary

Fall, 2013

FOCUSED ON THE PROCESS

Dear Clients,

As at the end of September 2013, Lionridge achieved positive results for you on a year-to-date basis. Lionridge's Total Equity Portfolio earned 15.7%** since the start of the year, beating its benchmark* by 1.1%. With respect to equity investing however, it is long term results that are more significant. Since launching the Total Equity Portfolio at the end of March, 2011, Lionridge has achieved an average annual return of 11.3%, beating its benchmark by 4.9% per annum on average.

Based on objective measures, you have enjoyed strong results as clients invested in Lionridge's Total Equity Portfolio. While results have been good, what is more important is how you are positioned for the future. My goal is to earn strong returns for you. Inherent in this goal however, is a paradox: in order to strive to obtain outstanding returns it is important that I not focus on returns. Rather, it is paramount that I remain focused on my investment process, for it is out of a well-defined and disciplined investment process that results arise.

Maintaining a focus on process is the key to good results in many endeavours in life, such a health and fitness, child-rearing, and business management. It is particularly important in investment management, where an overt focus on short term results can distract attention away from the fundamentals. A focus on short term performance can lead one to try to chase returns by jumping from stock to stock and sector to sector in a vain attempt to capture the momentum of areas of the markets that have done particularly well in the immediate past. The investment industry is more than happy to exploit this weakness in human behaviour in order to generate fees and commissions. Part of my job is to protect you from the lure of empty promises and protect your capital.

The process I follow requires a high degree of discipline and diligence. This is what you pay me for. My process is not based on some kind of esoteric rocket science, rather it is based on fundamental business principles designed to build your wealth. This entails trying to identify opportunities to invest in wealth-creating companies and being disciplined about the price I'm willing to pay for them.

In recent commentaries I have addressed the topic of cash levels in our portfolios. Target cash levels have increased further, now exceeding 30%. The main reason for the increase in cash was the sale of our positions in Shoppers Drug Mart. I had been holding this profitable company for some time, as it traded at what I believed was a bargain price. Patience paid off in July, when Loblaw Companies announced a buyout of Shoppers at a price which represented a premium over Shoppers' market price of over 25%. At that price I no longer believed that Shoppers was a good investment and I had already sold your Loblaw shares as that company had become expensive. As such, I sold your position in Shoppers and realized the gain for you. It is not my plan to hold a high cash position longer than is necessary. The intention is to deploy your cash into great opportunities as they present themselves. I will remain patient with your cash until they do.

At Your Service,

Hardev Bains, LLB, MBA, CFA,
President and Portfolio Manager

Lionridge
CAPITAL MANAGEMENT INC.

RATIONAL, DISCIPLINED INVESTING

1120 – 200 Graham Avenue • Winnipeg, Manitoba Canada • R3C 4L5

T. 204.957.1802 • www.lionridgecapital.com

*Benchmark: 45% TSX Total Return; 35% S&P500 Total Return (Cdn \$); 20% MSCI EAFE (Cdn \$)

**The content of this report is intended for information purposes only and does not constitute an offer to buy or sell our products or services nor is it intended as investment and/or financial advice on any subject matter. Every effort has been made to ensure the accuracy of the contents of this report. Performance reports may be compiled utilizing information provided by third party sources. Every effort has been made to ensure the accuracy of such third party information but such information cannot be guaranteed to be accurate. The opinions, estimates and projections contained in this document are those of the author as of the dates indicated and are subject to change. The performance returns are before the deduction of any fees and are not guaranteed. The Total Equity Portfolio returns are a composite of all client accounts invested in that mandate, calculated on a monthly weighted average basis. Individual client account returns will vary from the returns of the Total Equity Portfolio. Values change frequently and past performance may not be repeated. Further details about investment returns are available upon request