Lionridge
CAPITAL MANAGEMENT INC.

Portfolio Manager Commentary — Spring, 2011

One unfailing constant in the history of human civilization seems to be the fundamental psychology of the investor. Two years ago there was panic in the streets as stocks fell dramatically from levels that were undeservedly high. A few of us gleefully took advantage of these prices while most market participants were throwing out perfectly good companies, fearing a doomsday scenario. The financial smoke and mirrors that had driven much of the previous exuberance were exposed as a house of cards. While share prices of certain companies were rightfully decimated, prices of many others fell to levels well below any conservative estimate of their intrinsic values.

Think about what people were feeling at the time: panic, shock, depression. How many investors promised themselves that they would never allow this to happen to them again?

Since that time markets have shot up to within sights of their previously high levels. This is in light of a precarious economic recovery fuelled by government stimulus (a party that can't go on indefinitely). Official statistics on job recovery and inflation are suspect. Corporate profit growth is being measured by the low watermark of 2008/2009, and much of it is due to aggressive cost cutting rather than top line growth. Forward growth extrapolations based on recent results are suspect, yet are typical of the hype manufactured by the investment industry and then slung by a media that is looking for feel-good stories.

How are investors feeling now? I'm amazed at how many people are happy with their investment results over the last year or two, having no regard to the pain they went through prior to that. Most investors were exposed to needless risk in 2008, suffered the consequences until early 2009, and didn't seem to learn any long term lessons from this. Once again there is an environment of exuberance and optimism, albeit a bit tempered, and the level of complacency towards the risk that goes with this territory seems to be back. The numbing balm of rising stock prices has again led to a false sense of security.

What should we do from here? Unlike the period prior to the crash in 2008, there are many companies currently available at attractive prices that we are happy to hold, and therefore our cash levels are not nearly as high. That said, the rising markets did push some of our holdings to levels where it was no longer prudent to own them. As there were not sufficient new compelling opportunities to redeploy the proceeds, cash levels in our portfolios have been building. Patience and discipline are two major pillars of my investment approach, and they are not affected by external circumstances. Protection of capital is always the paramount objective. When others panic, get greedy. When others are greedy, be cautious.

At your service,
Hardev Bains

Investment Highlight: Unilever N.V.

One area of the market that is surprisingly overlooked right now is comprised of many established large-cap companies typically characterized as “blue-chip”. We’ve recently added a couple of international consumer products companies that are trading at attractive prices.

One is Unilever N.V., based in the Netherlands. It’s a great example of a “defensive stock”. Its business does well in varying economic conditions, it has a great balance sheet, and we’ve been able to buy it at very attractive prices that provide the ever-important margin of safety.

Along with its sister company, Unilever PLC (there is a unique historical arrangement whereby they operate separate divisions but share in the profits), Unilever operates worldwide in the manufacture and distribution of consumer products. The company owns leading brands in the categories of personal care, food and home cleaning, and has significant distribution and depth of experience in emerging markets (an important source of growth).

Unilever’s brands include Dove, Becel, Lipton, Axe, and Sunlight. Its brands and distribution capabilities are the core of its competitive strength, bolstering the stability of the company’s strong margins and returns of capital. In summary, a great company at a great price. Just what we’re looking for.

Lionridge
CAPITAL MANAGEMENT INC.

DISCIPLINE, DILIGENCE, EXCELLENCE

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

T. 204.957.1802 • www.lionridgecapital.com