Lionridge
CAPITAL MANAGEMENT INC.

Quarterly Portfolio Manager Commentary Spring, 2013

GREAT RETURNS, BUT THAT'S ONLY PART OF THE STORY

Dear Clients,

I am happy to report continued strong performance for you. At end of March of this year, Lionridge's Total Equity Portfolio completed two full years since its inception. This portfolio is designed to give Canadian investors effective exposure to Canadian, American and global stocks. Over these two years this portfolio has beaten its benchmark* by an average of 6.3%** per year. During that same period we beat the main Canadian benchmark, the TSX, by an average of 13.1% per year. Although I keep a significant portion of our clients' equity portfolios in Canadian stocks, these results underscore the importance of diversifying your holdings outside of Canada.

As happy as I am to have achieved these returns for you, please remember that what's more important is the process I follow. Returns can be random from time to time, but what is vital to long term wealth creation is an effective, well-defined investment process that is adhered to in a consistent manner. The process I employ is based on the time-tested principals of value investing, which I've described to you previously. What's also important is having the discipline to remain consistent with this process through all market cycles.

Lionridge's process is focused on protecting your capital. You've heard me repeat this many times, but it's easier for me to grow your capital if I don't lose it in the first place. I try to achieve this by being disciplined about both the nature of the companies I invest in on your behalf, as well as the price I'm willing to pay for them. A good company is only a good investment if you buy it at a good price. At certain times in market cycles it becomes difficult to find new investments at attractive prices, and that's why cash levels in our portfolios are currently at significant levels.

The benefits of this type of discipline become particularly evident in market downturns. For example, in the market downturn experienced from the spring to fall of 2011, our benchmark declined by 12.9% from peak to trough (on a month-end valuation basis), whereas Lionridge's Total Equity Portfolio declined only 5.1%. In the short downturn in the early part of 2012, the Total Equity Portfolio declined by only 0.85% peak to trough, versus a decline of 6.2% for our benchmark. What's significant here is that at the end of each downturn, our clients had more capital with which to participate in the subsequent market upturns than they would have had they been invested in the broader indices.

The investment industry is very adept at creating a lot of noise and excitement, aimed at getting your dollars in the door and generating fees and commissions. In times when caution should rule, much of the industry tries to paint a rosy picture, pointing to things like continued government stimulus that are supposed to keep the markets roaring ahead (when such measures are actually symptomatic of sluggish economies). Flavour of the day products lately include income-oriented funds that appear to have great yields, but are actually inflating distributions unsustainably by returning part of investors' capital on a regular basis. In order to protect and grow capital, one must be able to see through this noise and resist the temptation of baseless promises. To do so, one needs a sound philosophy and process, and the discipline to stick with it. This is what I do, and I'm honoured to have the opportunity to do it for you.

At your service,

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

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DISCIPLINE, DILIGENCE, EXCELLENCE

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