Lionridge

CAPITAL MANAGEMENT INC.

Portfolio Manager Commentary

Summer, 2012

STICKING WITH THE BASICS, AND SLEEPING WELL

I continue to be pleased with the returns achieved for you in these turbulent markets. Since launching the Total Equity Portfolio in March of 2011, as at June 30, 2012 I have outperformed our benchmark* by 10.7% on an annualized basis ** , enjoying a positive return of 6.6% when the markets were in negative territory. During that same period, the Total Equity Portfolio beat the TSX by over 18.7%. This was achieved by sticking to fundamentals and being disciplined.

I continue to take a stance that is particularly defensive, given the potential for economic issues on the horizon. This defensiveness is reflected in the type of companies owned, the price I'm willing to pay for them and the fact that there currently is a meaningful cash position in the equity allocation. I'm not in a rush to deploy this cash, and have the advantage of being able to practice patient opportunism in my efforts to grow your capital.

Much of the results enjoyed have been achieved by an active effort to mitigate much of the risk that is inherent in the investment world. I see a big part of my service to you as helping to protect your wealth from the hype that's created by the investment industry which at times is focused on generating commissions without regard to your best interests. A good example is the recent initial public offering of Facebook. The investors in this stock have not done so well whereas the investment dealers enjoyed huge underwriting fees.

Someone recently asked me whether I found my job to be stressful during these volatile markets. I don't really. I only commit to a position if I am comfortable with the fundamentals of a company and have confidence that I am paying an attractive price for it. Day to day fluctuations in market prices are therefore of little concern, what matters is whether or not the underlying fundamentals of our investee companies are changing and these don't vary too much in the short term. As I've said before, I sleep well over your investments and so should you.

At your service,

Hardev Bains – President and Portfolio Manager

Investment Highlight – Nestle SA

- The markets have been offering shares of this great company at an attractive price. Nestle fits well with one of our defensive themes, it being a well-run consumer products company with valuable brands that has strong distribution in emerging market countries.
- A Swiss-based company that is well entrenched globally, more than a third of Nestle's revenues come from emerging markets.
- The scope of its brands is impressive, with products in categories such as beverages, coffee, confections, dairy, cereals, and pet care. Along with Nestle-branded products, other brand names include the following;
    - Gerber
    - Perrier
    - Di Giorno
    - Coffee-mate,
    - Lean Cuisine
    - Boost
    - Hagen-Dazs
    - Purina
    - Jenny Craig

- Along with generating strong profits, Nestle's management have proven themselves to be astute capital allocators, taking the company's massive cash earnings and using them to pay dividends, buy back its shares at attractive prices and make smart acquisitions. This company is expected to create significant value for us.

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DISCIPLINE, DILIGENCE, EXCELLENCE

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 $)