Lionridge
CAPITAL MANAGEMENT INC.

Quarterly Portfolio Manager Commentary — Winter, 2014

The Primacy of Risk Management

Dear Clients,

I hope that the new year finds you well. 2013 was a very strong year for stock markets, as reflected in the performance of our Total Equity Portfolio which was up 23.6%** over the year, slightly underperforming our benchmark* (which returned 26.1%). This short-term underperformance was expected due to the high cash levels in the portfolio which had accumulated throughout the year.

I discussed the rationale for cash in my last commentary, and the markets' further ascent has amplified the need for this. Investing in stocks requires a long term perspective, and since inception in March, 2011 the Total equity portfolio has achieved a total return of 39.6%**. This compares well with 28.7% return for our benchmark over that same period, and only 4.7% for the main Canadian index. There are short term periods where markets get expensive and the need arises to sell certain positions that become over-priced. At the same time, opportunities to find new bargains become scarce. It is during such periods that our cash positions build up and can create a drag on performance. We are currently in one of these situations.

My main long term objective is to grow your capital, and risk management is an overriding priority at all times at Lionridge. Investing in equities entails the assumption of an amount of risk greater that that which comes with bonds. I always hold, however, that equity markets contain a high degree of unnecessary risk that can be avoided using the right mix of diligence, skill and discipline. My method for reducing risk in equities includes conducting fundamental analysis of companies and choosing only those that have strong balance sheets, sound business models, defensible market positions and appropriate levels of profitability. Also crucial to managing risk is being very disciplined as to price at which I am willing to purchase shares in such companies, and if not enough of these opportunities are available at a given time I wait patiently.

How long the markets might continue this steep trajectory is impossible to say. In the short term markets can be more apt to be driven by the emotions of exuberance than by fundamental realities. Eventually, however, the financial laws of gravity must prevail. If these sharp gains continue and our cash remains high, Lionridge's performance might continue to slightly lag.

This is the price of managing your risk. This price is not really a cost to you, however, but rather an investment. By preserving your capital now, I'll be in a far better position to grow your capital when the right opportunities eventually arise. When I think about my approach to managing portfolio risk and maximizing the potential for long term growth of wealth, I'm reminded of the well-known ad for cough syrup; it doesn't always taste great, but it works.

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 $)