



LIONRIDGE

QUARTERLY REPORT

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The Benefits of Investing Beyond Our Borders

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President & Portfolio Manager

Dear Clients,

Since the date of my last letter, no changes have been made in the Total Equity Portfolio. The cash position is still high (around 30%) in light of a dearth of appropriate investment opportunities. Although the portfolio has enjoyed positive returns since the start of the year, the cash component has contributed to a performance lag of slightly less than 2% compared to its benchmark* during this six month period***. This is a small price to pay for the benefits of capital protection that the cash currently provides.

An important element to my investment approach is to be cautious when everyone is exuberant, and vice-versa. I will be quite exuberant when attractive opportunities to deploy the cash present themselves, and this could likely occur in a scenario where others are scared away from the markets. Remember that my own capital is invested in the same portfolio, so what I'm doing for you is the same as what I'm doing for myself.

The benefits of my approach to investing in equities are borne out by the long term performance of the Total Equity Portfolio. With an average annualized rate of return

of 13.3%*** since its inception** in 2011, it has not only beat its benchmark but has done so with lower downside volatility. I properly compare my returns against my custom benchmark, which reflects my target mix of Canadian and foreign stocks. If one looks at my returns as compared to the main Canadian stock index (the TSX), the advantages of investing outside of Canada also become evident.

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The target weighting for Canadian stocks in the equity portfolio has always been limited to 45%, with the majority being invested outside of Canada. This is not to be unpatriotic, but stems from my approach which is centered on buying pieces of great companies at attractive prices. If one limits oneself to Canadian companies, the pool of potential candidates is reduced considerably. Investors who are limited to Canada can also tend to become over-weighted in the energy and resources sector – often resulting in too

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much volatility in their portfolios plus diminished prospects for returns.

Extending my scope beyond our borders provides access to a vastly larger pool of companies to potentially invest your capital in. Remember that I'm only looking for around 25 to 30 companies to own at any given time, and even that amount is tough to find in the current market environment (It's my opinion that most good companies are currently expensive right now, and most currently inexpensive companies do not have attractive fundamentals). Investing internationally also gives us better opportunities to participate in the long term growth in emerging markets - not typically by investing directly in those markets, but by way of established international companies that are well positioned to expand their businesses in those markets. Examples in this category include Nestle and Johnson & Johnson.

All kinds of investment approaches can sound good in theory, but ultimately it's about results. I originally became, and continue to be, a practitioner of value investing both because the theory makes sense to me and the results bear out the advantages. I also came to the conclusion early in my career that one's scope needs to go beyond Canadian stocks to best take advantage of the value approach. As mentioned above, the Total Equity Portfolio has achieved an average annualized return of 13.3%*** since inception. During that same period, the TSX by contrast has achieved an average

total return of only 3.7% per annum. To add insult to injury, the TSX has suffered far higher amounts of downside volatility during this period.

My ultimate objectives are to achieve strong long term growth of your wealth while at the same time to carefully manage the risk you are exposed to and protect your capital. I strive to do so by adhering to a well-defined approach and looking to invest in companies doing business all over the world. This is what I do for myself, and this is what I do for you. ■

At Your Service,
Hardev Bains, LLB, MBA, CFA
President and Portfolio Manager

*Benchmark: 45% TSX Total Return; 35% S&P 500 Total Return (Cdn \$); 20% MSCI EAFE (Cdn \$).

**The inception date of the Total Equity Portfolio was March 30, 2011.

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