LIONRIDGE
QUARTERLY REPORT
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Numbers Speak Louder Than Words

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President & Portfolio Manager

Dear Clients,

The end of March of this year marked the five-year anniversary of the launch of Lionridge's Total Equity Portfolio**. I'm pleased to report success in achieving the dual objectives of growing your capital while protecting it. Protection of capital is one of the main pillars of my investment approach.

Let's have a closer look at the five-year scorecard. Since inception to the end of March, 2016, the average annualized return of the Total Equity Portfolio was 12.1%***, which compares well to our Benchmark's* average annual return of 8.9% over that same period.

Just as importantly however, let's revisit how the portfolio has held up in down markets. This is an important consideration given the recent volatility in the markets. I've previously discussed the concept of "drawdown" as a measure of relative downside risk. The values of stock portfolios do not grow smoothly. Rather one must accept that there will be a series of peaks and troughs in the value of a portfolio over time, with the intention of gradually increasing peaks. The drop in value from a peak to a trough is referred to as a "drawdown".

In the history of the Lionridge Total Equity Portfolio, its maximum drawdown was 5.1% (occurring in the market correction experienced in the latter part of 2011). By contrast, the maximum drawdown for the Benchmark was 12.9% (and that for Canada's TSX index was 16.6%). As well, after the biggest drawdown it took the Benchmark 20 months to recover to its previous peak (and it took 31 months for the TSX to recover). The Lionridge Total Equity Portfolio, however, recovered to its previous peak in only three months.

"I consistently adhere to a defined set of investment principles which are designed to grow your capital, and reduce your downside risk."

There are some distinct reasons why Lionridge's Total Equity Portfolio has held up better in such downturns. I consistently adhere to a defined set of investment principles which are designed to grow your capital, and reduce your downside risk. These principles can be summarized as follows;

• **Investing in Companies, not Markets**

-I purchase pieces of companies that I believe will generate wealth for their shareholders. I focus on their ongoing business dynamics, not the day-to-day movement of their prices. I choose companies that are inherently lower risk due to a combination of the business they are engaged in, their financial stability and the price for which we can purchase them in the markets (all of which contribute to the all-important "margin of safety").

• **Focused Portfolio**

-I don't make broad bets on markets, rather I concentrate the portfolio in a select number of names that meet my criteria (most public companies don't). As an independent portfolio manager, there are no pressures on me to construct a portfolio that mirrors the broader market. Holding a concentrated portfolio also allows me to monitor our holdings more effectively.

• **Investing with a Long-term Perspective**

-Not focusing on short-term returns for the equity portfolio allows me to avoid the hype of certain overvalued "glamour stocks", as I don't care if the portfolio occasionally underperforms over short-term periods. An example of an overhyped stock I avoided was Valeant – many professional investors felt compelled to jump aboard that fast moving train which turned into a horrible train-wreck. Being able and willing to take a long-term perspective in markets that are focused on the short-term provides a significant advantage.

• **Discipline and Patience**

-These attributes are crucial when taking concentrated positions with a long-term perspective. An important aspect of my investment philosophy is my willingness to hold cash as markets become expensive. As you know, due to opportunistic selling the cash position in the Total Equity Portfolio exceeds 30%. I am stewarding this cash with discipline and patience, ready to deploy it only when lucrative opportunities present themselves.

The various investment criteria I employ are designed to enhance the growth of your capital, while protecting your capital. It's the consistent adherence to these principles that has allowed me to achieve these results for you. Along with an alignment of interests with those of our clients, these principles form the core of what Lionridge stands for. You can count on me to be consistent in the way I manage the money you have entrusted me with. ■

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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