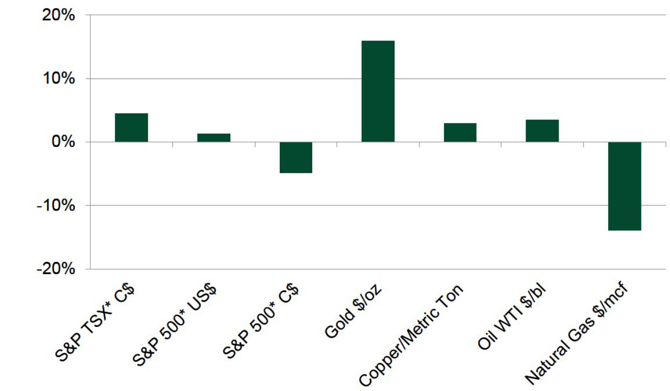
CUMBERLAND

North American Capital Appreciation Strategy
March 2016

The North American equity markets were off to one of the worst starts to the year since 2009. We saw both the TSX and the S&P500 indices decline almost 9% and 11%, respectively, at their low points in January and February of 2016. In Canada, slowing emerging market growth, in particular China, as well as lower oil prices which hit a 13 year low and negative investor sentiment were the main factors driving the TSX Index lower. Oil, which began the year at US $37.04 hit a low in February of US $26 before bouncing back to close at US $38 on March 31st. In January, the Canadian dollar also hit a 13 year low of US $0.685 before recovering to almost US $0.77 by the end of the quarter. The recovery was initially triggered by news that the Bank of Canada (BoC) left its benchmark rate unchanged at its January meeting, rather than making the anticipated cut. In its January statement, the BoC said that inflation in Canada is evolving broadly as expected. The latest February core Consumer Price Index reading is 1.9%, roughly in line with the BoC's 2% inflation target. The BoC also noted that national employment remained resilient, despite job losses in the resource sector, as household spending continued to expand. However, overall economic growth as measured by January's gross domestic product (GDP) at 1.5% marked the fourth month of consecutive improvement. The move in January to a neutral monetary stance by the BoC from the more accommodative position witnessed in 2015 also reflected the potential positive impact from fiscal measures that were expected in the March federal budget. The federal budget did confirm an estimated 0.5% increase to Canadian GDP over the next two years. However this comes at a cost of running a deficit spending budget of close $30 billion per year over the next two years. The rebound in oil prices also helped lift the Canadian dollar against the US dollar late in the first quarter. This combined with positive performance from other commodities including gold (+16%) and copper (+3%) resulted in a return for the TSX Index of 4.5% for the quarter.

Percentage Change for Quarter to March 31, 2016



Source: Bloomberg *Total Returns

The S&P500 Index ended with a small gain during the first quarter of 2016 in US dollar terms, after a significant sell-off in January and a retest of the low point in February. The S&P500 total return was 1.3% in US dollars. Adjusting for currency, the S&P500 returned -4.9% in Canadian dollars reflective of the US dollar decline versus the Canadian dollar in the quarter. As discussed in our last Quarterly Review, the S&P500 Index looked fairly valued trading over 16x forward earnings in late December/early January. With one Fed interest rate move announced in December and four more interest rate increases built into the Federal Open Market Committee (FOMC) participants' expectations for 2016, there was not much room for negative news. In addition to rising interest rate concerns, the slowing pace of global growth and sliding commodity prices culminated in the equity market correction. It did not take the Fed long to back-track at both the January and March meetings to a more neutral stance on interest rate movements. It is our belief that the Fed went from what the market had taken as a preset course of interest rate tightening in December, similar to the programmed style witnessed in the previous 2004-2006 Fed tightening period of 17 rate increases versus today which is one of no preset course. The Fed's stated goal of maximum employment and stable prices seems to be on track as the unemployment rate hit a new recent low of 5%, in line with its long term goal of 4.8%. Inflation, as measured by the annual change in price for personal consumption expenditures or PCE, has picked up to 1.7% from the 2015 fourth quarter rate of 1.4%, however

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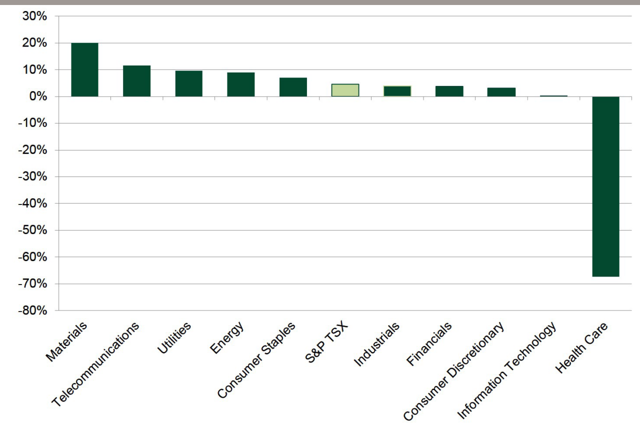
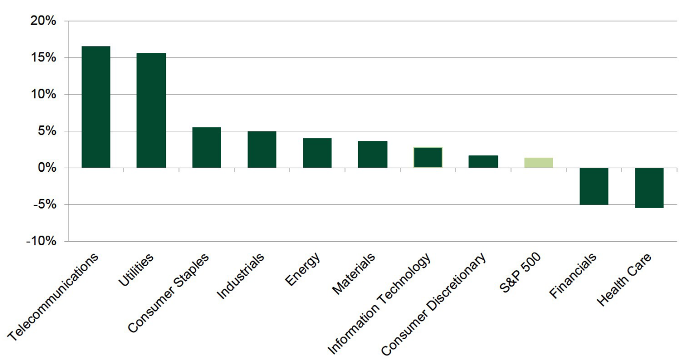
it is still below the Fed's long run target of 2%. At this point the FOMC participants' expectations for 2016 have relaxed to about a 50% chance of one interest rate hike in 2016.

S&P TSX Sector Performance (C$)
1st Quarter 2016



Source: TD Securities

S&P 500 Total Returns (US$)
1st Quater 2016



Source: TD Securities

At a recent speech in New York, Fed chairwoman, Janet Yellen, made it clear the Fed will be data dependent going forward and expects only gradual increases in the Fed funds rate in the coming years. So it seems, to some degree, any downside for the market is mitigated by an indication that the Fed will respond to economic disturbances, and its support of longer term low interest rates which help offset the contractionary effects of less favourable financial conditions. Meanwhile, the Fed went on to say that their ability to use conventional monetary policy to respond to economic disturbances is asymmetric. This would imply it has more room to respond to raising rates if it fell behind the inflation curve. This brings us to the other theme we have which is the ceiling on equities driven by valuation. According to FactSet, the estimated year over year decline in earnings forecasts for the first quarter of 2016 is -8.7%, down significantly from +0.3% at December 31st 2015. This will mark the fourth consecutive quarter of earnings declines for the S&P500 Index which has not occurred since the great recession of 2008. While this sounds bearish for equities, we do not actually see it that way. Actually, it looks like forward earnings estimates for the S&P500 Index are finally on the verge of turning positive. Forward earnings for the S&P500 Index peaked in October 2014 at around $129 and have been in a tight trading range between $122 and $126 pretty much since then. The continuation of downward pressure on earnings from low commodity prices and the strength of the US dollar have kept earnings growth in check through this period. However, there are signs that these headwinds have seen the worst of their impact. Add to this the fact that over this same period of about 1.5 years, the S&P500 Index has essentially traded sideways with its valuation supported by declining long term bond yields, not earnings growth. So we may be at an inflection point where US market downside is mitigated by an accommodative Fed and the upside supported by potentially more favourable earnings comparisons that may cause the market to move to higher levels as earnings multiples expand again. In our outlook we can speculate on what that target might be for the S&P500 Index. However, it all comes down to future earnings assumptions and the level of bond yields as these variables correlate best with stock market performance. Exhibits 1 and 2 compare the performance of the S&P500 Index and the TSX Composite Index to changes in forward earnings guidance since 2005.Right now, the consensus bottom up 12-month forward earnings estimate for the S&P500 Index is $123 and the outlook for 2017 is about $137 representing an 11% increase.

Asset Allocation for Capital Appreciation Strategy
As at March 31, 2016

Equities	83%
Fixed Income	6%
Cash	11%

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Our overall asset mix has not changed significantly since year end. Recall our equity weighting came down from 88% in the fourth quarter to 84% at year-end 2015 as valuations for the S&P500 Index had a nice bounce off the correction lows of last summer while earnings estimates continued to decline through the entire back half of 2015 and into the first quarter of 2016. On balance, we are comfortable with the asset mix at this point and will likely biased to a higher equity weighting with further confirmation that S&P500 Index earnings have finally found a bottom. There clearly has been a tremendous amount of stock market volatility through the first quarter, caused by the factors we have reviewed earlier. Notwithstanding this volatility many sentiment indicators have turned materially bullish recently. It suggests that staying the course is the prudent option.

One such bullish indicator is the number of stocks that are trading above their 50-day moving average (MA) as 94% of the S&P500 Index stocks have reclaimed this position. While we do not normally spend a lot of time on market technicals this is one of the highest readings in 30 years. The table below compares the current MA reading to similar readings over the same time period and illustrates that the average market returns over the following 20, 65, 125 and 250 days after the date of reading. The table below suggests this MA indicator is consistent with above average forward returns in this period and supports our view, that with our asset allocation mix, avoiding any kneejerk reaction to get out of the market may be the best approach.

% Return at 50-day MA 94% or greater			
+20days	+65days	+125days	+250days
-0.1%	3.4%	8.9%	15.9%

Exhibit 1: S&P 500 Forward EPS estimates and S&P 500 Index, YOY change

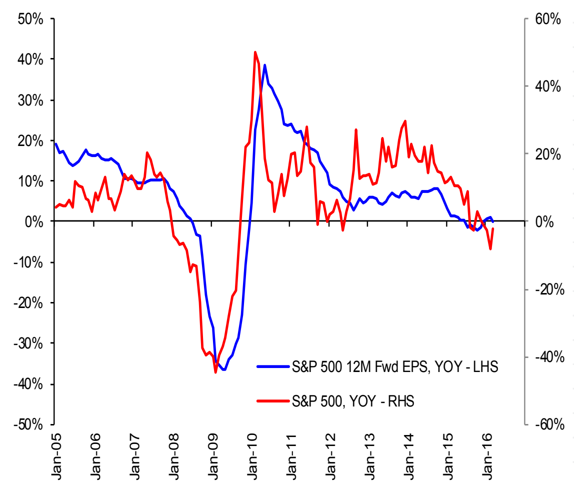
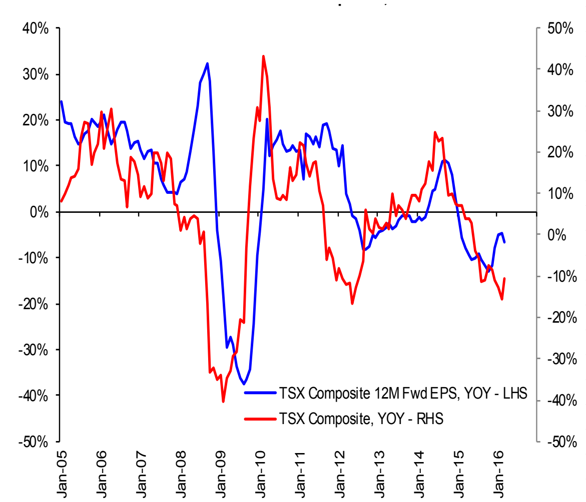


Exhibit 2: TSX Forward EPS estimates and TSX Composite, YOY change



Source: Scotiabank, GBM Portfolio Strategy, Bloomberg

As discussed above, during the quarter lower oil prices combined with divergent paths on monetary policy both north and south of the border caused a significant weakening of the Canadian dollar. Our Central Bank governor had already cut rates twice in 2015 and this combined with the fed rate increase in December and the belief that more would come in 2016 pressured our Canadian dollar to a new 13 year low. We took the opportunity at that time to

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increase our US dollar hedge, which reduced our net US dollar exposure from 50% to 25% of the portfolio, for our Canadian resident clients.

One of the larger changes in sector weightings during the first quarter was our rising commitment to the Energy sector from about 9.7% to over 14% by adding to existing North American Equity-mandated positions in Pembina and Suncor and adding new positions in Schlumberger and ShawCor. In our last Quarterly Review, we highlighted the decline in the oil rig count in the US which had fallen from a high of 1609 oil rigs in October 2014 to 541 oil rigs at year end 2015. This has dropped an additional 31% or 169 oil rigs through the first 3 months of 2016. It appears the pace of the oil rig count decline is accelerating. In prior declines of similar magnitude, it took about 8 months to get there. We also highlighted the 430,000 barrels per day (bpd) drop in US crude oil production through the back half of 2015. This has continued to decline by approximately 200,000 bpd in the first quarter 2016. Technically oil has entered a super contango which has occurred only about 4 times in the past 30 years. A super contango measures the ratio between the 12month forward oil price to the current spot price. Historically when the spot price reaches a level significantly below the futures price like seen in mid-February of 2016 there is greater incentive to store crude oil and sell it forward which removes excess supply from the market. When this happens and the supply curve stops steepening and it is usually associated with a large rally in crude which is what we saw through the latter half of February and into March. Further the announcement by certain OPEC members (Saudi and Russia) of an agreement to freeze output levels marks the first collective action by sovereign producers. This in our opinion, is an acknowledgement that the status quo may not be sustainable for many OPEC nations and may signal a willingness for more co-operation in the future. Having watched crude oil trade from over $100 to a low of $26 in February 2016, coupled with the improving supply fundamentals and technical factors mentioned above, it is possible that we have seen the low for crude oil. ShawCor is a name we have owned in the past. It provides pipe coating, lining and insulation for pipelines, pipe services and the petrochemical industry. While we expect business to be slower with the downturn in oil prices, we believe that large gas pipeline project proposals will continue to move ahead in order to move low cost gas to higher priced regions and to further energy security initiatives. We think ShawCor is positioned to win some of these large projects which would benefit the stock even in a low price environment. However ShawCor would also benefit in a higher oil price environment which is essentially a free option. Schlumberger is a global services provider to the oil and gas industry with leading positions across most of its verticals. Like Suncor's purchase of Canadian Oil Sands, at what now looks like may be close to the bottom of the market, Schlumberger has also been opportunistic in M&A along with buying back stock with its excess free cash flow. While this in itself will create operating leverage for the business, Schlumberger should also benefit from any further recovery in crude oil and natural gas prices.

Some of the proceeds to fund our oil and gas purchases in our clients' North American Equity portfolios came through the reduction of our US financial weighting. While we continue to believe the US consumer is benefitting from strong job growth as well as the oil dividend and better credit conditions, bank earnings estimates have declined in the wake of higher loan losses related to oil and gas lending. Also with the likelihood of fewer rate hikes in 2016 net interest margins for US banks will likely be lower than expected. With the pullback in this group, we did take the opportunity to upgrade the quality of the portfolio with the purchase of Wells Fargo and Royal Bank. These new bank holdings have much stronger relationship banking franchises that serve personal and corporate customers with a multitude of products which helps drive above average returns on equity. Visa is another new purchase that does not technically fall in the Financials sector, which partially reflects the increased allocation in Information Technology. However, Visa is a beneficiary of the secular shift in payments away from cash and cheques. Our other technology purchase was Apple. Over the past few months Apple has seen its valuation multiple contract significantly as sales growth slowed due to a tough year over year comparable from the iPhone 6 launch. However average selling prices are rising due to consumer preferences for phones with bigger screens and higher data storage capacity and Apple's service business which includes iTunes, the App Store, Music and Apple Pay continues to post strong double digit growth. At its current valuation, we believe investors are getting a free option on Apple's ability to innovate to drive further growth. A complete summary of new positions added during the quarter including business fundamentals and valuation metrics is contained in Appendix 1.

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March 2016

Outlook

To state that the first three months of 2016 were volatile and somewhat unnerving would be an understatement. Once again here in Canada, Valeant which was briefly the largest capitalization company in Canada, lost 75% of its market value in the past three months. It is a good reminder that it is not always what you own but sometimes what you do not own that also matters in a portfolio. One thing we can say about the first quarter is that it provided an opportunity to significantly upgrade the quality of your portfolio in names that seldom go on sale and we did take advantage of that. This has resulted in a portfolio today characterized by its high return on invested capital, lower overall debt leverage and reduced volatility. From an asset mix perspective, we feel our North American Equity portfolios will benefit from being weighted toward the US consumer as labour markets south of the border continue to show strong momentum and expected earnings growth remains robust. Our increased weighting in Oil and Gas provides us exposure to higher crude oil pricing however our names here all have stock specific upside over and above just the call on the commodity price of oil. Finally, our reserves in cash and fixed income at 17% provide some ballast to offset the volatility that will likely continue. Last quarter we talked about the underperformance in Canada and the fact that Canada had underperformed the S&P500 Index five years in a row and that this had never happened for a sixth year. Valuations in Canada continue to look attractive relative to the US and to this end, we have begun shifting our equity weighting more in favour of Canada. As a percentage of our equity weight Canada now represents 45% up from 34% at December 31st, 2015.

Trading at 16.7x forward earnings for the S&P500 Index, we are still at a valuation level that is not particularly cheap mostly due to the compression or earnings previously discussed. However we do believe the earnings headwinds caused by the strengthening US dollar and low commodities prices have likely seen the worst of it. If the current level of forward earnings are sustainable and long rates move back midway between current levels and pre-dollar upswing / oil price collapse levels of 2014, we can see upside in the low teens for the S&P500 Index. That would put the market valuation on 2017 earnings at just over 17xs. This is not out of the realm of possibility especially given the depressed earnings state that we are starting from and current level of long bond yields. Add to this better sentiment indicators, encouraging economic signs, recovering commodities, and improving high yield credit spreads and gains like this look reasonable notwithstanding the continuation of spikes in expected volatility. Moreover, equities are likely to face little competition from other asset classes at current levels given the secular low level of interest rates.

Peter Jackson
Chief Investment Officer
April 3, 2016

Appendix 1
New Equity Investments:
North American Capital Appreciation Mandate
Quarter ended March 31, 2016

United States

Apple

Apple (AAPL) designs, manufactures and markets mobile communication devices, personal computers, tablets and portable digital music players. With more than $230 billion in annual sales Apple is among the top companies in the S&P500 by market capitalization. The Company is viewed as an innovation leader and over the past 15 years it has revolutionized the music industry with the iPod, the mobile industry with the iPhone and the PC industry with the iPad. Over the past few months Apple has seen its valuation multiple contract significantly as sales growth slowed due to tough year over year comparable from the iPhone 6 launch. While iPhone units may decline year over year, average selling prices are rising due to consumer preference for phones with bigger screens and higher data storage capacity. Apple's services business which includes iTunes, AppStore, Music, Apple Pay, etc. also continues to post strong double digit growth. As Apple adds more services and products the ecosystem should become stickier and drive incremental profit dollars. Further, entry into new markets through innovation in the field of payment technology, television, cars and wearable computing should provide incremental growth opportunities for the company. At its current valuation of less than 12x P/E and 1.9% dividend yield, we believe investors are getting a free option on Apple's ability to innovate.

Coca-Cola

The Coca-Cola Company (KO) is the world's largest non-alcoholic beverage producer with a portfolio of strong brands, premium pricing and significant scale advantages. However over the last several years KO has significantly underperformed as the company struggled to grow its topline and experienced a significant drop in return on capital metrics due to the acquisition of its asset-intensive North American bottling operations. More recently, and with help from largest shareholder Warren Buffett, the company has embarked on several key initiatives that should result in a faster, leaner and more nimble organization. These include a shift of focus towards value over volume growth, a $3B plus restructuring program as well as the disposal of nearly all the company's bottling assets globally. These efforts are likely to drive material upward revisions to both margins and earnings growth over the next several years and help to return Coca-Cola to its prior form of an asset light, best-in-class Consumer Staples company.

Schlumberger

Schlumberger (SLB) is a global provider of technology and services to the oil & gas industry. The company has leading positions across most verticals and a consistent track record for re-investment and technological advancement that have helped to sustain premium pricing and drive market share gains. With the complexity of oil exploration rising and the industry shifting away from in-house towards outsourced project management contracts, SLB is well placed to continue to gain a disproportionate share of the Energy value chain through the cycle. Although the company has clearly been impacted by the drop in the price of oil, SLB has taken advantage of its superior positioning to drive value accretive M&A through the purchase of Cameron International and use its still substantial free cash flow to repurchase stock at the lows. In addition, with long-term valuation metrics near 25 year trough (Price/Book) we are opportunistically purchasing a very high quality asset that we expect to exit the downturn with substantial opportunity for further growth and shareholder returns.

United Technologies

United Technologies (UTX) is a leading manufacturer of products for the construction and aviation industry where they have leading margins and leadership positions across most divisions. The Company operates in 4 key business units: (1) Otis – world's leading manufacturer of elevators and escalators and also provides maintenance services; (2) Climate Controls and Security (CCS) as the leading manufacturer of HVAC, fire and safety, and building controls for transportation; (3) Aerospace Systems as the leading manufacturer of aerospace products, including power systems, engine components, aero structures, and flight control systems; and (4) Pratt and Whitney as the leading manufacturer of airplane engines for both commercial, business jet, and military applications as well as maintenance and repair services. United Technologies operates in favorable end markets. We expect global

Appendix 1
New Equity Investments: North American Capital Appreciation Strategy
Quarter ended March 31, 2016

growth in air travel to be about 5% per year where their Pratt & Whitney and Aerospace Systems divisions will be beneficiaries. With the majority of its Otis and CCS businesses exposed to non-residential construction spending, we believe UTX will be a beneficiary of an improvement in this recovering end market. We expect the Company also to take on initiatives to help drive margins higher.

Visa Inc.

Visa (V) is a leading global payment processor, facilitating the authorization, clearing, and settlement of payment transactions worldwide. Fundamentally, we are attracted to Visa's business given its strong profitability, scalable business model, and high barriers to entry. Furthermore, we believe Visa will be a beneficiary of the growth in global consumption spending and the secular shift to credit and debit card based payments from cash and checks. Besides being a consistent share gainer in the US in recent years, we believe the upcoming acquisition of Visa Europe will position the company well to drive meaningful revenue and cost synergies going forward, and we also see meaningful long term opportunity to drive penetration in China as the Chinese government begins to open up its domestic payments market.

Wells Fargo

Wells Fargo & Company (WFC) is amongst the strongest banks in the United States by both size and reputation. The firm is focused primarily on traditional banking for domestic US customers, as opposed to its peers who also have large global capital markets operations. As a result, Wells Fargo is capturing a larger share of strengthening US loan growth and facing fewer regulatory headwinds impacting bank profitability. Importantly, we see this strong organic loan growth as a buffer to low interest rates and a key driver of the bank's superior return on equity. Wells Fargo shares dropped in early 2016 on earnings concerns surrounding persistently low interest rates and energy-related credit exposure. Against a backdrop of higher economic growth, employment and, eventually, interest rates, we believe Wells Fargo is well positioned for earnings growth. We also believe credit risk is modest with losses on Wells Fargo's small and well-reserved energy loan portfolio being offset by marked improvements across their consumer and commercial loan portfolio. As such, we took advantage of the share price decline to switch into this high quality bank.

Canada

Agrium

Agrium (AGU) is an integrated agriculture company that produces wholesale fertilizer and operates over 1200 farmer retail locations across the world. Its fertilizer production consists of nitrogen, potash and phosphate. We like Agrium's competitive advantage in nitrogen, where it receives higher pricing but lower costs of production compared to its other North American peers. As well, Agrium's retail stores provide stable and predictable growth as Agrium expands its presence in the United States and South America. Agrium's integrated model – combining wholesale fertilizer and retail – allows Agrium to sell through its own network to maximize margins and volumes.

Finning

Finning International Inc. (FTT) operates the world's largest network of Caterpillar heavy equipment dealerships with operations in Western Canada, South America and the United Kingdom. Finning's revenues and share price have been impacted by the steep decline in capital expenditures by coal, copper and oil producers. Additionally, these producers are parking equipment and deferring maintenance to save money, which impacts Finning's Product Support business. Given Caterpillars brand strength and the low capital intensity of the dealer model, we are confident this 80 year old company is a survivor through this cycle and is capable of generating high returns on shareholders' capital over time. While the timing of a recovery is tough to predict, we believe Finning's management team has been proactive in cutting costs to preserve margins in a 'low for long' commodity price environment. Finning also recently acquired Saskatchewan's Caterpillar dealership and demonstrates Caterpillar's confidence in the company. With the stock trading at prior-cycle low valuations and the prospect for cash flow to improve from current lows, we initiated a position in the name.

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New Equity Investments:
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Macdonald Dettwiler

Macdonald Dettwiler (MDA) solidified its core business of commercial satellite manufacturing with a very strong order intake in the fourth quarter of 2015, thus ensuring decent overall financial results in 2016. The intriguing upside for the stock is provided by two relatively significant new markets the company is well on its way in pursuing: 1) With US government certification of its facilities imminent the company already has a multi-billion pipeline of US defense and space opportunities. 2) Silicon Valley investors have taken a major interest in setting up constellations of low earth orbit satellites for a variety of capabilities including enabling internet connectivity and earth observation and MDA is involved with each of these consortiums.

Royal Bank

Royal Bank (RY) is Canada's largest bank with leading share in personal and commercial banking, wealth management and capital markets. Shares of Royal Bank fell in early 2016 on fears that the continued drop in oil prices presaged deeper credit losses from borrowers directly and indirectly linked to the commodity. Given Royal Bank's modest energy loan exposure and its experience with commodity cycles, we believe its direct credit risk is manageable. Royal Bank also has sizable loan exposure to personal and commercial borrowers in oil-affected regions of Alberta, Saskatchewan and Newfoundland, where they are seeing higher loan delinquencies. However, Royal Bank's earnings hit from these borrowers has been mitigated by strength in other regions. Employment and credit in Canada's larger provinces has benefited from low interest rates, robust housing markets, a more competitive foreign exchange rate and savings from lower fuel prices. Additionally, Royal Bank recently closed its $6 billion acquisition of California-based City National Bank, adding a growth driver that is not reliant on the Canadian economy. While we continue to monitor credit trends very closely, we believe these risks were adequately priced into Royal Bank's shares, which traded below 10x forward earnings when we initiated our position.

ShawCor

ShawCor (SCL) is a global energy services company providing products and services to pipeline companies, energy producers and industrial clients. While we expect business to be slower with the downturn in oil, we believe that large gas pipeline projects will continue to move ahead in order to move low cost gas to higher priced regions and to further energy security initiatives. We think ShawCor is positioned to win large projects given its competitive advantages: 1) its logistical advantage due to its global footprint, 2) its specialization in more advanced pipeline coatings and challenging offshore pipe services, 3) its strong balance sheet as pipeline companies look for suppliers that can finance large projects and remain solvent in the process.