GLOBAL EQUITY AND CUMBERLAND INTERNATIONAL FUND STRATEGIES

Fourth Quarter 2018

Global Macro Review

A new year brings new hopes and plans for better things to come and without getting too religious, a prayer for 2018 not to repeat itself. Yet, the New Year's optimism fizzled out rather quickly, starting with the circus politics in Washington. It is almost unbearable to watch as the world's most powerful country is not be able to keep its government open and pay its civil servants. We expect the internal conflict of the United States will spill over to the unresolved trade dispute with China . We shall most likely have to wait until the agreed upon deadline of March 1, 2019 for a resolution.

The White House administration's method of humiliating China in this trade war will lead to more negative implications for the world at large. We have experienced the impact through the extreme volatility in the markets ever since they have recognized that a solution to the trade war is nowhere in sight in the short-term. Furthermore, American politicians, policymakers, and chief executives now complain about the unfair competiveness of Chinese state-owned businesses. This sort of sentiment provides support for Trump's stance. Yet, Trump's approach in reverse globalization is counter-productive. If an agreement is not reached by March 1, the U.S. said it will boost tariffs on $200 billion of Chinese goods to 25% from the current 10%, potentially having an adverse impact on many industries that the U.S. relies on for Chinese imports. This will invariably negatively impact China's economy and hence, have consequences on overall global growth.

Geopolitics took center stage in 2018 and it was dizzying trying to keep track of the various issues. Brexit remained prominent in the headlines, coming to a crescendo towards the end of the year, closing out 2018 with no resolution. British Prime Minister May triggered the process to leave the EU on March 29, 2017 and Article 50 of the Lisbon Treaty gives the two sides two years to agree on the terms of the split. With Prime Minister May's power diminished with her own party as well as in Parliament in general, it is difficult to predict the outcome of this important event. What is certain is that the deadline to leave the EU on March 29, 2019 is quickly approaching.

Italy is another European country that dominated headlines throughout the year. In the March election, the Italians voted for a change by choosing political outsiders in the form of the Northern League and the Five Star Movement (M5S). This coalition unveiled their first budget that proposed a fiscal deficit of 2.4% of GDP next year which breaks euro-zone fiscal rules. Furthermore, the budget does not address Italy's low productivity growth. Without reform, Italy will continue to fall behind in its standard of living. This defiance of the law led to a spike in interest rates in Italy and due to the resulting turmoil, the coalition announced that the deficit would be trimmed. This leads to the larger question whether the budget-respecting Northern Europeans will continue to support rule-breaking countries such as Italy and the impact it will have on the overall EU, especially in light of a weakened French President Macron and German Chancellor Merkel who is no longer the leader of the Christian Democratic Union (CDU) party.

Over the course of history, "*plus ça change, plus c'est la même chose*". It appears politicians and various leaders have not learned from history and hence, we should not be surprised after a decade of stagnant incomes and fiscal austerity, those most hurt by the financial crisis are supporting populist uprisings against elites. We have seen this take place time and time again after various crisis where certain segments of the population hang their hopes on those who will make their lives better by punishing the elite and more often than not, on immigrants. As a result, strongmen leaders globally are on the rise, negatively impacting open international borders. 2019 will be a busy year with respect to the potential rise in populism once again, with many elections on the calendar such as the Nordics in Estonia, Finland, and Denmark. Asia will also have their share of geopolitics, with national elections in Indonesia and India, with Modi seeking his second five-year term. New strongmen leaders have taken over in Mexico and Brazil and we shall have to wait to see if they make a positive impact on their respective countries.

Portfolio Review

The headlines surrounding the equity markets for 2018 were gloomy, having been the worst year for stocks since 2008. We went from believing in the synchronous global growth to the consensus shifting to fear of a contraction and possibility of a recession. Volatility was a persistent factor last year globally, with many geopolitical and macro concerns weighing on sentiment and positioning. December was particularly tough on investors to close the year. We did not experience a Santa Claus rally in 2018; in fact, the market had a Christmas Eve massacre. With the exception of a few markets, such as Brazil, most global markets posted negative returns. The NASDAQ also snapped a six-year winning streak.

During the quarter, we made few changes to our portfolios. The International Fund and the Global Equity Portfolio sold their respective positions in **TE Connectivity, British American Tobacco, Luxottica, Julius Baer, Fresenius SE**. We sold our position in TE Connectivity prior to the market selloff due to our concern over the company's market exposure to autos, where a slowdown was anticipated. We planned to consolidate the Luxottica position with Essilor post their merger announcement. However, the tax-free merger was not available to Canadian shareholders and therefore, we sold our position in Luxottica. Both portfolios reduced their weight in **Accenture** and **Visa** in the Global Equity Portfolio to decrease its technology sector weight. The Global Equity Portfolio also sold its position in **Intact** and these proceeds were used to increase its weight in **Brookfield Asset Management.** In addition, positions in **Hoshizaki Electric** and **Schlumberger** which were only held in the International Fund were also sold. With respect to Hoshizaki, once we learned that one of their subsidiaries had inflated their sales figures, we did not hesitate to exit the holding immediately. Finally, our exit in British American Tobacco, Julius Baer, Fresenius SE, and Schlumberger were sold as they breached our stop-loss rule. We still believe all these names are global leaders in their fields, but they had the misfortune of being caught up in the downturn in the fourth quarter.

In terms of new investments, **Reckitt Benckiser Group** were added to both portfolios while **Constellation Brands** and **Ross Stores** were only added to the Global Equity Model.

Reckitt Benckiser Group, founded in 1823 and based in the United Kingdom, manufactures, markets, and sells health, hygiene, and home products. They sell their products globally and familiar brands such as Gaviscon, Nurofen, Mucinex, Scholl/Amopé, and Strepsils, Dettol, Finish, Harpic, Lysol, Mortein, and Veet, Air Wick, Calgon, Vanish, and Woolite can be found in the home. Further, it provides infant and child nutrition products under the Enfamil and Nutramigen brands. Key metrics include the following: (1) enhanced performance due to portfolio restructuring including the potential sale/spin-off of Hygiene-Home and further M&A in consumer health; (2) their Hygiene-Home is a good business with reasonably high level of dominance, with number one market positions in category/country combinations representing 50% of its sales and top two positions in 70% of its sales; (3) strategic priority has been given to the expansion of the Health business where it is a faster growth and higher margin business and possess competitive advantages. Consumer health is an extremely fragmented space and there is plenty of opportunity for the Company to grow, organically and through acquisitions; (4) there is some potential for their Mead division to improve its margins and operational performance.

Constellation Brands, based in New York is an international producer and marketer of beer, wine, and spirits with operations in the U.S., Mexico, New Zealand, Italy and Canada. In the U.S., Constellation is the largest multi-category supplier of beverage alcohol and has more than one hundred brands across its portfolio. While it is currently the third-largest beer company in the U.S. and the world's leading premium wine company, they have a compounded annual sales and operating income growth rate of 12% and 19%, respectively. We expect Constellation to continue to grow at an attractive rate from their innovations of brand line extensions and launch of new products in adjacent categories such as flavored malt beverages and spiked seltzers. The Company also has an opportunity to grow sales through distribution gains including selling more draught beer at restaurants & bars, increased shelf space at convenience stores, and selling more products in the can format where it is lagging.

Ross Stores operates off-price retail apparel and home fashion stores under the Ross Dress for Less and dd's DISCOUNTS brands in the U.S. It primarily offers apparel, accessories, footwear, and home fashions. The Company's Ross Dress for Less stores sell its products at department and specialty stores primarily to middle income households while dd's DISCOUNTS stores sell its products at department and discount stores regular prices to customers from households with moderate income. We believe that the off-price retailers are strong quality compounders, given their ability to continue growing their store footprint and continue gaining share among all demographic categories, as they have done over the last decade. This model has held up well in an increasingly online retail environment as they hold a defensible niche by delivering the best value to consumers, while offering a helpful clearance channel for brands to manage excess inventory.

Cumberland's Global Equity Portfolio with a return of -8.9% matched the MSCI World Index benchmark's return of -8.8% in the fourth quarter. The fourth quarter was a challenging one for all sectors in the MSCI World Index where most sectors, with the exception of Real Estate and Utilities had negative returns. In an environment where investors wanted to take less risk, the Consumer Staples and Healthcare were the two sectors that provided better returns on a relative basis, although this provides little comfort. The flip side of the risk-off sentiment is the dramatic decline of the Industrial and Information Technology sectors where these two areas provided much of the performance for the earlier part of the year. Specific to Cumberland's Global Equity Portfolio, the key contributors in terms of stock selection for the quarter were our holdings in Comcast, Air Liquide, and AIA Group while the main detractors were Fresenius SE, Schweiter Technologies, and Julius Baer.

The Cumberland International Fund's return of -8.4% slightly underperformed the MSCI EAFE Index during the fourth quarter. It was not encouraging to witness stable sectors such as Consumer Staples and Healthcare to experience negative returns. Cumberland's International Fund's fourth quarter return was negatively impacted by its overweight in Information Technology but was aided by its high cash weight going into the quarter. The Fund's holdings in AIA Group, Diageo, and Air Liquide were the main contributors while our positions in Fresenius SE, Hoshizaki, and BNP Paribas were the main detractors during the quarter.

Cumberland Global Equity Portfolio Performance as at December 31, 2018 (Gross)		
C$%	**Q4**	**YTD**
Cumberland Global Equity Portfolio	-8.9%	-2.5%
MSCI World	-8.8%	-0.7%
Value Add	-0.1%	-1.8%
Cumberland International Fund Performance as at December 31, 2018 (Gross)		
C$%	**Q4**	**YTD**
Cumberland International Fund	-8.4%	-2.7%
MSCI EAFE	-7.9%	-6.2%
Value Add	-0.5%	+3.5%

Outlook

We continue to believe a portfolio of leading global companies with strong balance sheets provide stable long-term growth for our clients' portfolios. While we have written about the volatility surrounding the markets this past year, the major themes we have discussed in prior reports are still valid. Demographics continues to be a dominant theme where certain healthcare companies will benefit from this growth area. For example, Japan will be coping with the 100-year-life society as a result of the decline of the birth rate and the ageing of Japanese society is accelerating at unprecedented speed. In another theme, technology stocks have experienced some downward pressure on their stock prices, but it still does not take away from the overall growth we expect from companies that will benefit from automation, e-commerce and use of big data.

Our working assumption is the probability of a recession over the next year in the U.S. is low. Based on the profit outlook for 2019, the consensus EPS growth for the U.S. and the Eurozone are lower than 2018 but are currently still healthy with 7.8% growth for the U.S. and 8.4% for European companies. It is the first time in two years where the analysts have cut earnings forecasts for the U.S. Brexit negotiations are having an impact on the expectations for the UK, with earnings growth coming in at 6.3%. In absolute terms, the price/earnings multiples have declined and the current P/E multiple of MSCI World is below its thirty-year average. The U.S. market continues to trade at a higher multiple, with a 12-month forward P/E at 15.4x compared to 13.9x for the MSCI World multiple. The uncertainty surrounding Brexit and Italy discussed above are weighing on the global valuation, therein lies the opportunity.

In conclusion, even with the worst annual selloff for global equity markets since the financial crisis, we are still constructive on the broad themes we have invested in over the past several years. However, the volatility we experienced in recent months is unlikely to go away in the near term as investors brace for headwinds from geopolitical risks and financial conditions as the U.S. continues to raise rates and as Europe ends its post-crisis monetary stimulus.

S. Yang
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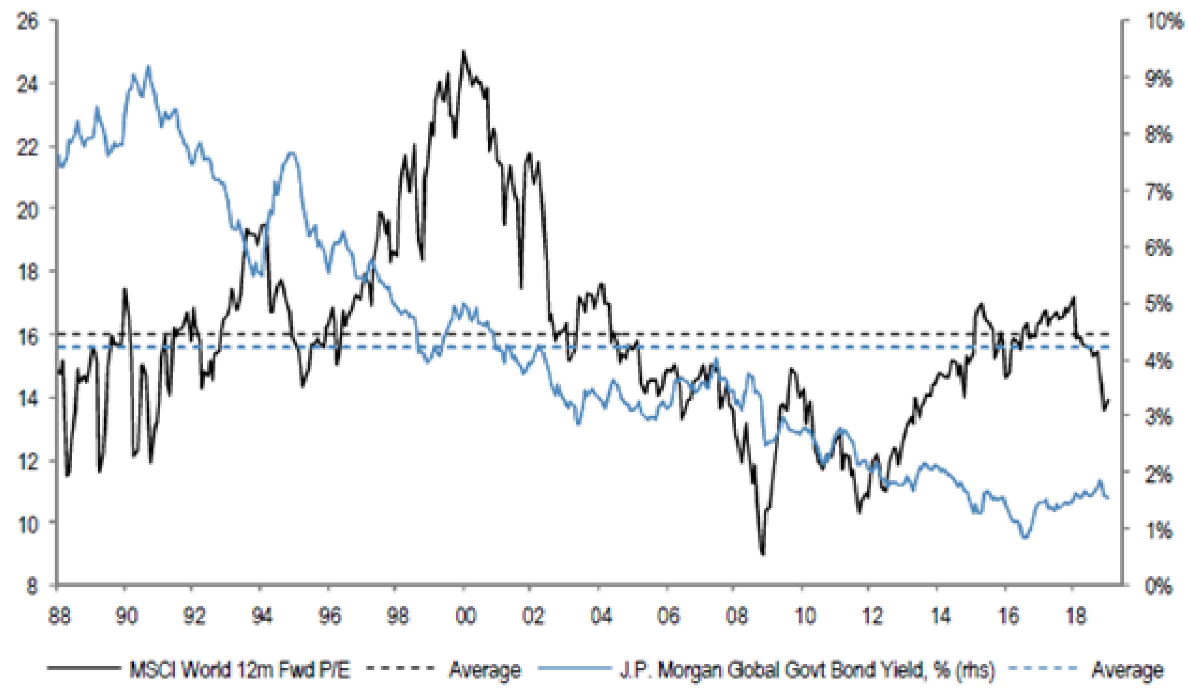
Global Bond Yields and MSCI World 12m Forward P/E



Source: Datastream, IBES, JPM