CUMBERLAND

Cumberland Global Equity Mandate and International Fund Second Quarter Review

Global equities (MSCI World Index) are up 8.8% (US$) or 15.1% (C$) year to date while commodities are down marginally in US$ and global bonds are on course to have their worst quarter of performance since the first quarter of 2009. In addition, gold ended its worst quarter since the start of modern gold trading in 1974. The Dow Jones Industrial Average is up 13.8% in the first six months of the year while the S&P 500 is up 12.6%. The U.S. market had its best start to a year since 1999, with the market going through record territory. Yet, the optimism quickly disappeared during June. On a global basis, U.S. stocks consistently ranked among the outperformers during the first half of the year. The big winner is Japan with a gain of 15% (US$) or 33% (JPY), the difference resulting from the substantial decline in the Yen.

The resurgence of market volatility has restored the presumption of caution among investors. The expectation of a "Great Rotation" out of bonds has turned out to be a liquidation out of both bonds and equities into cash in the latter part of the second quarter. The global correction in risk assets started with changing expectations on Fed tapering. This caused an acceleration of outflows from emerging market equity and bond markets and in turn, the expectation of weaker demand from emerging markets led to downward pressure on commodities.

In June, Fed Chairman Ben Bernanke confirmed the central bank's intention to start cutting back on its quantitative easing this year, but of course, this depends on continued economic strength. There is recent evidence that U.S. real estate has accelerated and consumer confidence is back to pre-crisis levels. Based on this, it is probable that the Fed believes the improvement in household incomes and expenditure can be sustained and this will eventually lead to a stronger business investment environment. The key, however, is the unemployment rate in the U.S. returning to 6.5%. Since this announcement, the market has witnessed large swings. Since May 1, the 10-year yield on U.S. treasuries soared to 2.5% from 1.6% leading to the worst performance in U.S. bonds since the fourth quarter of 2010. Globally, bonds continue to be under pressure from the ongoing potential increase in real interest rates. Higher interest rates typically make consumers and businesses more cautious.

Despite this turmoil, we have a general sense that investors are gaining confidence that Europe is slowly moving in the right direction in terms of fiscal reform. This bodes well for the overall European equity markets since global investors generally remain underweight Europe and any positive signposts will provide rationale for investors moving into this area. We cannot be certain when the European economy will move out of a recession, but with supportive monetary policy and an improvement in consumer and business confidence, the market is leaning towards a more positive stance to this region. European equity valuations remain reasonable with a forward price/earnings ratio of 12x and a dividend yield of 3.8%.

Asia has been most negatively impacted by the announcement of the possible cutback in quantitative easing. Its stocks suffered heavy losses in the last weeks of the second quarter as doubts of central bank action from the U.S. to China made investors nervous leading to an exodus from emerging market securities. The Shanghai index has been the worst performer fueled by concerns that China's banking system will be negatively impacted by a cash crunch. The main worry, however is whether the economic slowdown in China will spill over into neighboring countries. The event to watch for in China is the meeting of top officials in the autumn at which time China's political and economic agenda could be set for the next decade. It appears that the central government's overall strategy is to prioritize medium-term stability over near-term growth. Although the market has not reacted well, we believe this is positive for its overall health.

Quantitative easing alone will not be enough to end deflation in Japan. It will need to incorporate more drastic measures, such as structural reforms that are long overdue. The Japanese equity markets suffered significant declines exceeding 20% during May, placing them in bear market territory. This is based on concerns that the "three arrow" policy of Prime Minister Abe is not going to live up to expectations and that it is unlikely that Japan will pull itself out of two decades of deflation. Nevertheless, market performance was superb during the quarter, mainly due to the strong run-up during April. We continue to believe investing in Japan should be done on a company by company basis rather than buying the market as a whole, which is being propped up by monetary and fiscal stimuli.

Overall, equities remain relatively more attractive than bonds both on a dividend yield and forward earnings yield basis. With the sharp correction in emerging markets, the gap between developed markets and emerging markets has widened. On the earnings front, global revenues growth is expected to be in the low single digits. However, we expect higher volatility to persist in the short-term while we wait for further clarification of the direction that the Fed will take. As the global economy continues to strengthen, we would expect equities to take a more constructive direction.

Performance and Transactions

In the second quarter, the MSCI World benchmark had a return of 4.3% (C$) or 0.8% (US$) while the MSCI International benchmark was up 2.7% (C$) or -0.8% (US$). The difference in returns between the U.S. and Canadian returns is due to the decline of the Canadian dollar during the quarter.

In the MSCI World benchmark, the top performing sectors were Consumer Discretionary, Healthcare and Telecommunication sectors where the Cumberland Global strategy has relatively large weights. Similarly, the Consumer Discretionary and Telecommunication sectors were the best performers in the MSCI EAFE benchmark. The Materials sector was the worst performing sector for both benchmarks where we have a very small exposure.

During the second quarter, the Global portfolio saw the following changes to its holdings:

1. sale of Franco-Nevada
2. sale of CSX
3. sale of Bank of Nova Scotia
4. sale of Nestlé
5. trimming of Comcast
6. trimming of Hutchison Telecommunication HK
7. purchase of American Express
8. purchase of Rona

In the International Fund, we sold our position in Nestlé and trimmed back Hutchison Telecommunications HK.

American Express (AXP) is a global service company whose principal products and services are charge and credit payment card products and travel-related services offered to consumers and businesses worldwide. The Company's closed loop, digital commerce platform and rewards platform are different revenue generators which cause AXP (86 million cards) to differ from Visa (2.1 billion cards) and Mastercard (1 billion) in terms of business model. Rather than competing on volume of cards, AXP's closed loop and spendcentric model helps it earn $350 per card annually whereas Visa and Mastercard earn $6 per card. The annual spend per AXP card is $15,000 while spend per Visa is less than $2,000 per card. The outlook for AXP is strong given the secular growth in credit card use, along with growth in on-line shopping and mobile payments. AXP is a highly innovative and focused company that is continually taking advantage of industry trends to maintain their leadership.

RONA inc. is a Canada-based distributor and retailer of hardware, home improvement and gardening products. The Company operates in both the distribution and retail and commercial segments offering three purchase solutions to independent dealers in Canada through the RONA banner, the TruServ Canada family of banners and the non-bannered distribution program. After Lowe's failed to acquire Rona at $14.50 last fall, Rona's Board and management were restructured to turn the Company around. The thesis behind owning Rona is not only about closing stores. It is also about margin expansion. With the operating leverage that exists, we

believe that there is potential for this Company to be able to execute on expanding its margins in a reasonable period of time.

The rationale for trimming both Comcast and Hutchison Telecommunications HK was to take some gains and reduce their substantial weights. We decided to lock in gains of CSX and Bank of Nova Scotia which also made room to purchase the American Express position. With the market's willingness to pay more for consumer staple stocks, the valuation of Nestlé had become rather rich and with management guiding down their growth prospects, we decided to lock in the gains. Franco-Nevada was the only gold holding in the portfolio and given the unattractive outlook for the gold industry, we decided to lock in gains associated with this position as well.

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Cumberland Private Wealth Management Inc. is a leading independent investment firm that provides discretionary investment management and wealth management services for high net worth individuals, their families and foundations, with $1 million or more in investable assets. All of Cumberland's investment mandates are centered on building and preserving our clients' financial wealth. Founded in 1997, the firm is privately-owned by its employees and headquartered in Toronto, Canada.