CUMBERLAND

Cumberland Global Mandate and International Fund
First Quarter Review

Global equities are up 7.8% (US$) or 10.3% (C$) year to date while commodities are up 1.4% (US$) and global bonds are on course to have their worst quarter of performance since the first quarter of 2009. Both the Dow Jones Industrial Average and the S&P 500 finished the quarter at a new closing record. The S&P 500 was up 10% (US$) for the quarter, which was the best first quarter since 1998 and surpassing its previous high reached on October 9, 2007. Given how challenging the last four years have been, it makes this record all that more remarkable. The S&P 500 is up 131% (US$) from its March 9, 2009 low of 676.53 where its cumulative market capitalization fell to US$5.9 trillion. It has now rebounded to nearly US$14 trillion.

A strategist on Wall Street has coined this stock market rally the "Rodney Dangerfield of bull markets" as the public has stayed on the sidelines while the two most widely watched stock price indexes set new highs. However, the bull market has been driven mainly by earnings with the S&P 500's four-quarter trailing operating earnings per share rebounding 104% from a cyclical low of US$51 during Q3/2009 to an estimated US$104 through Q4/2012. Although there have been inflows into equities, especially in the last couple of months of 2012, investors still remain structurally underweight the asset class.

The uncertain macro environment over the past several years has discouraged companies from investing and as a result, U.S. and European corporate cash balances have grown by more than half since 2007 to US$1.2 trillion and EUR 788 billion, respectively. Evidently, the investment as a share of GDP has fallen from 17% to 13% in the U.S. and from 23% to 18% in Europe. The high level of liquid assets held by nonfinancial corporations in the U.S. is used for buybacks and dividends, evidenced by the record amount of stock buyback in February, pushing overall stock purchases above the $1 trillion mark for the first time since 2009. There has been a positive correlation between the S&P 500 and the sum of buybacks and dividends for the past ten years.

When we reflect back on the past six years, it feels as if we have been averting one crisis after another. The gridlock between Congress and government in the U.S. and the Euro crisis are the most recent ones that come to mind. Hence, we can understand why the investors feel traumatized and have shied away from the equity market. It is also ironic that the country that triggered the financial crisis in 2009 is now considered a safe haven and there has been a large influx of inflows from Europe to U.S. equities. Furthermore, Europe is likely to remain in a recession for a while longer. However, the MSCI Europe share price index remains at its cyclical high and Germany's DAX is back near its all-time record high. Yet, the market cap of European stocks is $11.4 trillion, 30.6% below its October 2007 high.

A macro driver for the strong equity performance has been the monetary policy. There have been 503 global rate cuts over the past six years, totaling US$11.6 trillion of new central bank liquidity in bond markets. Similar to the moment last summer when the European Central Bank President Mario Draghi pledged to defend the Euro and "to do whatever it takes", Fed Vice-Chair Janet Yellen tends to move markets each time she speaks. In early March, she reaffirmed her position of her favoring an ultra-easy monetary policy for as long as it takes to bring the jobless rate down to 6.5%. She has a belief that higher stock and home prices is one of the best ways to boost consumer spending through a positive wealth effect. Both Fed Chairman Ben Bernanke and Vice-Chair Yellen have suggested that removing monetary accommodation too soon can cause a depression, as they believe it did in the 1930s. Thus, the Fed is likely to continue pumping liquidity into the financial markets, at least in the near-term.

One of the challenges of international investing is dealing with the currency movements of many countries. The Euro had a low of US$1.21 on July 24, 2012 and had a high this year of US$1.37 on February 1. With the Eurozone's real GDP dropping 2.4% during the fourth quarter of 2012 along with the political chaos in Italy and the

banking crisis in Cyprus, the Euro is back in the US$1.30 area. This will help the export-led companies, but will have a negative impact on companies denominated in currencies that have strengthened against the Euro, such as the US dollar. The Japanese central bank, backed by the new government led by Shinzo Abe, has been deliberately devaluing their currency since last November to boost exports and inflation. We observe on days where there is even a slight strengthening of the Yen, the Japanese market is negatively impacted.

The companies within our portfolios operate globally and are subject to swings in multiple currencies. We are more concerned with the soundness of their business models and their ability to dominate their respective markets with strong margins. At times, companies do face headwinds when they operate with a strong currency as we witnessed in 2011 with Swiss companies operating with a strong Swiss franc. However, if a company has a strong franchise, then it should still be able to grow and withstand that headwind. We prefer to have that sort of company in the portfolio rather than a company that requires central bank devaluation of their currency in order to survive.

A gradually improving macro environment along with a pickup in corporate cash deployment and continued decline in stock correlations should continue to support equity performance. Although global policy makers have been a large driver of asset returns in recent years, we believe the fundamentals of the companies will become increasingly important with the stabilizing macro backdrop. Nevertheless, we believe our strategy of owning companies that have the ability to withstand external shocks and grow without central bank stimuli will be the better route for the long run.

Performance and Transactions

In the first quarter, the MSCI World benchmark had a return of 10.3% (C$) or 7.9% (US$) while the MSCI International benchmark was up 7.7% (C$) or 5.3% (US$).

In the Cumberland Global mandate, the top performing sectors were ones where we had the largest weights, namely healthcare, financials, and industrials. In the International Fund, the three largest weights of healthcare, consumer staples, and consumer discretionary also provided strong performance to the Fund while the underweight in financials detracted from the Fund's performance. We did not, however witness the volatility that can be brought from owning unstable financials as evidenced from the episode of the Cyprus banking crisis.

Despite a difficult market, we are encouraged by the strength of the annual results reported by our invested companies and a number of the companies increasing their dividend as a result of their strong cash flow generation. This also reflects confidence in their ability to continue generating strong earnings in the coming year. In addition, the companies continue to have strong balance sheets and their attention to maintaining this strength is important to protect themselves on the downside and for any extra cash to increase their dividends or capital expenditures or to make opportunistic acquisitions.

During the first quarter, the Global portfolio saw the following changes:

1. an increase in the weight of VISA
2. the addition of TJX
3. the sale of Serco
4. post the split, a continued investment in Abbott Laboratories and a sale of Abbvie

The initial position of Visa was initiated in the fourth quarter of 2012 and we added to the position this quarter. Visa Inc. (Visa) is the world's largest card-payment processor where it processes about 60% of card transactions worldwide. They operate in a market that has very few players where MasterCard is a smaller rival and the industry has high barriers to entry. It operates in more than 200 countries and territories, enabling them to use digital currency instead of cash and checks.

We added TJX in the Cumberland Global mandate. TJX is the leading off-price apparel and home fashions retailer in the US and worldwide. With over 3,000 stores, they offer a changing assortment of brand-name and designer merchandise at prices generally 20% to 60% below department and specialty store regular prices. The off-price business model is flexible, allowing TJX to react to market trends. Their opportunistic buying and inventory management strategies provide them flexibility to adjust the merchandise assortment frequently which can be considered their competitive advantage.

Abbott first announced their proposed split into two companies, Abbott Laboratories and Abbvie in October, 2011. Abbott Laboratories kept the faster-growing

medical products side of the company while Abbvie has the pharma business, including the Humira franchise. With the growth expected to be stronger in medical products, our portfolio kept Abbott Laboratories and sold the Abbvie post the split that took place at the beginning of the year.

In the International Fund, we added Dassault Systèmes while we sold our position in Serco. Dassault Systèmes (DS), based in France is the world leader of the global product lifecycle management (PLM) market based upon end-user software revenue. The PLM software market is comprised of 3D software for design, simulation, digital manufacturing, product data management and social collaboration. The Company's software applications allow businesses to digitally define and simulate products as well as the processes.

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