CUMBERLAND

Global Equity and International Fund Strategies
Second Quarter 2015 Review

Global Review

We spent the past quarter running hard but not going anywhere. The Central banks on a global scale continued to bring down interest rates in an effort to reflate their respective economies. Yet, the markets were consumed by headlines brought on by Greece and the drama associated with not paying their loans to the IMF on time.

Based on our recent meetings at a CEO conference in Europe and additional meetings with investee company management teams, our sense is that the European market is in launch mode but has not experienced take-off yet. Despite the market's anticipation of the stimulative impact of the weaker Euro and lower oil prices, it will still take some time for European companies to fully realize the positive impact in their operations. However, the current environment is certainly better than it was a few years ago and Spain is cited as showing an improvement from its low base. The consensus remains that the U.S. is still the strongest and this bodes well for our European holdings as they are overweight in their U.S. exposure. Emerging markets remain subdued with Russia and Brazil considered to be in a recession and there is concern over China's slowing growth rate.

As we write this quarterly review, the events unfolding in Greece literally changes each moment. The unfortunate thing about all this is that the energy and time that is consumed to deal with this Greek tragedy is disproportionately large compared to Greece's less than 2% of the Euro zone's GDP. And in our meetings with existing and "watch list" companies, Greece is rarely a topic for discussion given its lack of relevance to their strategy or revenue base.

Although the media is concentrating on Greece, we are more concerned about what is taking place in China, the world's second largest economy. The stakes in China's economic slowdown are greater for the globe. After reaching a peak of 5,166 on June 12, the Shanghai Composite Index fell almost 30% to a level below 3,700 on July 3 as shown on the following page+. This has prompted the government to direct market-supporting measures, including cutting rates. It is encouraging that the national average new home price in China rose in May for the first time in over a year. Yet, we do need to take into consideration that growth has slowed from over 14% in 2007 to guidance of 7% for this year. The emergency measures put in place by the government this week are clearly actions undertaken to avoid systematic risk. The Chinese government would not want to dampen consumer sentiment when they have clearly stated one of their goals is to have consumption compensate for declining investment. Until the central government feels that social instability is still at risk, we should expect continued volatility in the Chinese markets.

Market-boosting measures have been introduced almost every night over the past couple of weeks as follows:

6/25: PBOC injects cash into the financial markets
6/27: PBOC cuts interest rates and lets banks lend more money
7/1: Investors allowed to put up real assets as collateral to buy stocks
7/2: Stock manipulation will be investigated
7/4: IPOs suspended
7/4: *People's Daily* urged investors to stay calm
7/4: Twenty-one brokerage firms will invest $19 billion in a stock market fund
7/7: Trading suspended in more than 1,300 companies
7/8: State-run companies ordered to maintain holdings in listed units

Source: Yardeni

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Source: Thompson Reuters Datastream

Now that the Greek people have voted "No" in their referendum, what next? The base case now appears to be a Greek exit (a.k.a. Grexit) from the euro. The figure on the next page provided by Exane BNP Paribas provides their guidance on a possible scenario; other experts on this subject will have a variation of this or perhaps a deviation. One thing is for sure; there are a range of possibilities. However, given the unprecedented nature of this event, the best we can do is place probabilities but it is still far from certain what the ultimate outcome will be.

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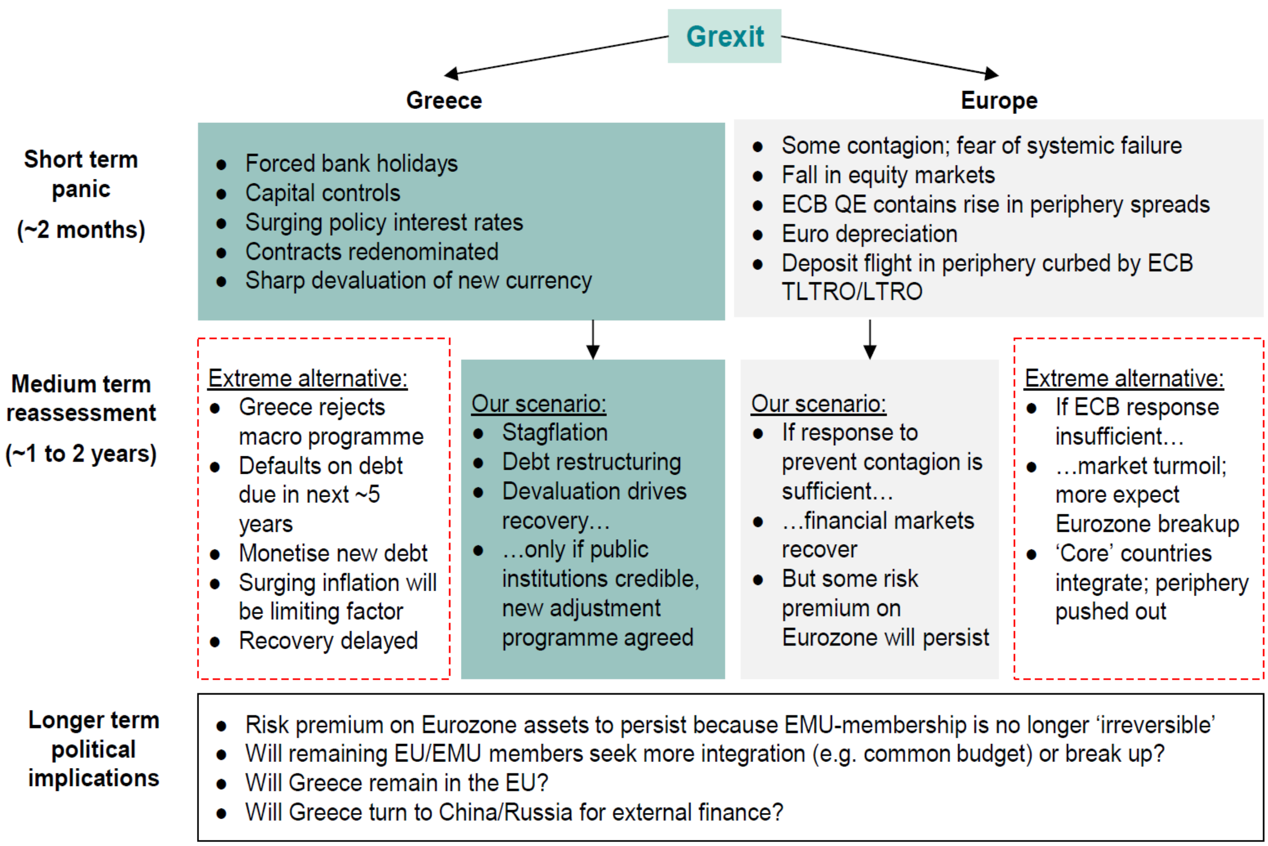
Greece will need external financing with or without the euro



Source: Exane BNP Paribas estimates

Our key concern would be if a Grexit causes a contagion to the rest of Europe and rest of the world, similar to the Lehman event in the recent financial crisis. The reasons why we do not believe the magnitude will be that of 2008 is that the exposure to the Greek banks has been decreased by 85%. Despite this, confidence within the Euro zone is undoubtedly shaken. The general consensus is that this event is not enough to derail the Euro zone economic recovery, especially in light of the support the European Central Bank is providing to boost the economy. However, we need to prepare for a bumpy ride in the coming days.

We have had several material reactions to hit European markets since the start of the sovereign crisis in 2010. Greece has been either directly or indirectly involved in each of the crisis. While we believe the framework that is in place now is more secure compared to the one that existed at the beginning of the crisis, we are currently dealing with a much larger and unknown issue of a Grexit versus just a highly indebted government. During times of weakness in the market, history has shown that the global defensive sectors usually outperform. The Consumer Staples, Healthcare, and Retail are three sectors that generally enjoy relative performance through Europe's risk events.

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Therefore, during times of turmoil, we believe it is paramount to conduct a stress-test on the portfolio to ensure it will be able to endure the volatility. We are strong believers that purchasing companies with strong growth and better quality earnings over the long-term is key to passing this sort of test. One of the attributes we seek for our portfolio is companies that have the ability to throw off more cash. This is of particular significance because it tells us how much of the profit is attributable to shareholders and helps gauge the resources available for strategic opportunities such as making acquisitions, investing in the business and strengthening the balance sheet.

Generally, most of the companies in our portfolio have a high free cash flow conversion rate with an average conversion rate of 100%. We would like to highlight two groups of companies; European healthcare which is our highest overweight sector and our core U.S. holdings. All these representative names have been long-term holdings in our portfolio.

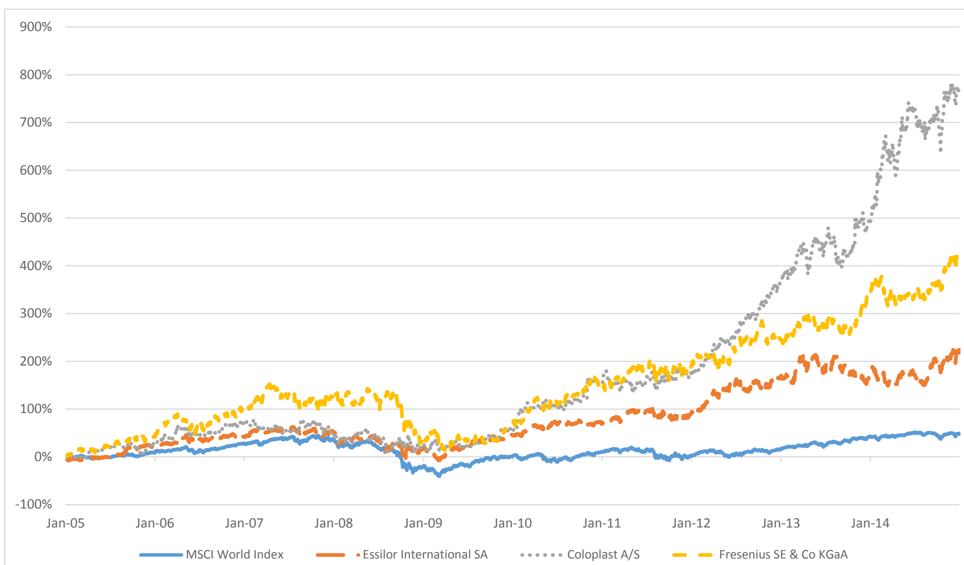
High-quality healthcare names have been an ongoing theme within our portfolio due to the secular growth inherent in the industry with the aging population globally.

For example, Fresenius SE focuses on markets with strong growth rates. They are the worldwide leader in dialysis, with a strong market share in the U.S. One of their key divisions, Fresenius Kabi, is also a leader in intravenous generic drugs. They have grown their earnings at 15% CAGR over the past ten years and are expected to grow this year's earnings at 23%.

Essilor is the world leader for corrective lenses. The success of the group, which is present in more than 100 countries, is the result of a strategy that has been driven by innovation for more than 160 years. From design to manufacture, the group develops a wide range of lenses to correct and protect eyesight. They have had an earnings growth rate of 14% for the past ten years and this year's earnings is expected to be 25%.

Coloplast operates globally in ostomy care, urology and continence care, and wound and skin care. They have grown by 16% in the past ten years but their earnings will grow in the single digit this year due to one-time events (discussed below under portfolio performance).

As shown in the chart below, all three companies have outperformed the MSCI World Index in the ten year time period. More importantly, they are able to withstand market turmoil relatively better than other companies due to the strengths of their business models.



Three long-term U.S. holdings include TJX, Honeywell International, and Comcast. Similarly, these companies have excellent free cash flow conversion with historical ten year double-digit earnings growth.

TJX is the leading off-price apparel and home fashions retailer in the U.S. and worldwide. 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

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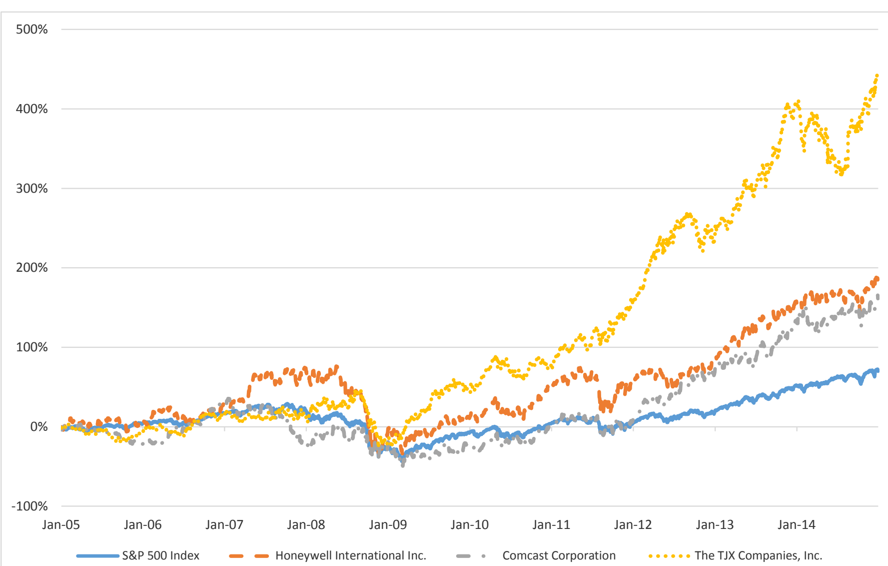
model is flexible, allowing TJX to react to market trends. Their opportunistic buying and inventory management strategies provide them flexibility to adjust the merchandise assortment frequently which can be considered their competitive advantage. TJX stood out during the recent financial crisis of outperforming the S&P500 Index due to this flexible retail model.

Honeywell is one of the largest U.S. industrial conglomerates with divisions in aerospace and defense, automotive and transportation, energy efficiency, oil & gas, safety and fire protection. The Company has demonstrated their ability to grow and exceed expectations even within a macro environment that has been challenging. One of the key metrics they measure themselves is a free cash flow (FCF) conversion rate of over 100%.

Comcast is a provider of entertainment, information and communications products and services. They remain as a best in class operator in the U.S. media space with strong assets and strong management.

All three companies' stock prices have also outperformed the S&P 500 Index over the past ten years as shown in the chart below.



Portfolio Review

Second Quarter Index Performance

The total returns of the global markets for the second quarter in US$ and local terms are:

	Q2 2015 USD Total Return (%)	Q2 2015 Local Total Return (%)
MSCI World	0.3	0.3
S&P 500	0.3	0.3
Canada S&P/TSX	-0.1	-1.6
Euro Stoxx	-1.6	-5.3
MSCI Emerging Markets	0.8	0.8
Germany DAX	-4.9	-8.5
UK FTSE 100	3.0	-2.8
France CAC 40	1.2	-2.6
Switzerland SMI	1.7	-2.2
Japan Topix	3.9	5.7
Hong Kong Hang Seng	7.1	7.1
Korea KOSPI	0.8	1.6

The key benchmark, the MSCI World Index, had a total (price and dividend) return of +0.3% in US$ and -1.2% in C$ for the second quarter. The other key benchmarks of MSCI EAFE had a total return of +0.6% in US$ and -0.9% in C$ while the S&P 500 had a total return of +0.3% in US$ and -1.3% in C$. Global markets outperformed the Canadian market once again this quarter which returned -0.1% in US$ and -1.6% in C$. The Canadian dollar appreciated by +1.5% against the U.S. dollar in the quarter. Thus, with the appreciation of the Canadian dollar, the returns decreased when translated back to the Canadian dollar.

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In the MSCI World benchmark, Telecommunications with +2.2% (US$) and Healthcare with +1.2% (US$) were the top performing sectors in the quarter. The two worst performing sectors in this benchmark were Utilities with a -4.0% return and Energy with -1.8%.

The two best performing sectors during the second quarter in the MSCI EAFE benchmark were Telecommunications with +3.3% (US$) and Energy with +1.1% (US$). Although Healthcare was one of the best performing sectors in the first quarter, it was once of the worst performing sectors in the second quarter with a return of -2.0% (US$), followed by Materials at -1.8% (US$).

Cumberland Global Equity Portfolio

The Global Equity portfolio had a total return of -1.21% (C$) compared to its benchmark return of -1.23% (C$). In US$ terms, the portfolio had a return of +0.48% (U$) vs. the MSCI World at +0.3% (U$). The underweight position of the portfolio in Japanese equities has been one of the largest contributors to the underperformance year to date. However, in the second quarter, the Japanese Yen and the Japanese market have not had large moves, and therefore not impacted the portfolio to any large extent.

In terms of specific stocks that detracted from our performance, Samsung Electronics was the largest negative contributor. Samsung was impacted by the generally negative sentiment in the technology sector, especially in light of recent weaker DRAM pricing. Hyundai Motor detracted from performance due to currency headwinds as well as a product mix issue. Their key competitors, the Japanese automakers, have been benefiting from a weaker Yen while the Korean Won has appreciated, making price competition difficult. In addition, with the decline in fuel prices, consumers in the US have been buying larger SUVs. Although Hyundai has a number of SUVs, they do not have a product that competes with the large pick-ups, where there has been an increase in demand. Coloplast which has delivered steady results announced they had to bring down the growth rate for the coming year. Coloplast revised down its guidance for the year from +8-9% organic growth to +7% along with its margin outlook. The Company's homecare business in the UK suffered from transforming their prescription to a digital platform. Furthermore, their US division took a provision for a Department of Justice investigation which uncovered very little in the way of malpractice.

The key contributors to the portfolio's performance were Lloyds Banking Group, Perrigo, and Fresenius SE. As for Lloyds, the macro environment in improved with Britain's inflation rate going back above zero in May, ending the economy's one month brush with deflation. In addition, the Conservatives' surprise majority win in the May 7 elections bode well. On a company level, Lloyds had a strong quarter and we are impressed by the Company's continued momentum in driving better net interest margins. We anticipate that its strong capital generation gives increased confidence in the capital return opportunity for Lloyd's. Perrigo had an offer by Mylan, which exceeded our valuation for the Company by 8%. Similar to last quarter, Fresenius SE benefitted from their growth momentum, especially in the Fresenius Kabi division where guidance was raised.

Our largest sector weight remains in Healthcare followed by Consumer Discretionary and Financials. There are many areas of the healthcare sector where we believe secular growth will remain strong. The healthcare companies in our portfolio usually have dominant leadership in their respective areas, such as Fresenius SE and Essilor as described earlier. In local currency, both of these holdings are up over 7% during the quarter. We do not have any exposure to the Telecommunications sector while we have a low weight in Utilities. When we examine the companies in both these sectors, we have difficulty justifying the valuation given the relatively low growth prospects.

During the second quarter, Cumberland's Global Equity Portfolio purchased Alexion while selling its position in Perrigo.

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Purchases - Alexion

Alexion, founded in 1992, is the sixth largest biotechnology company measured on sales and market capitalization. The Company's focus is in the area of ultra-rare genetic diseases where there is are few or no competitors and thus, have the ability to charge very high prices. Their lead asset is Soliris which is a biologic drug for complement mediated illnesses. Alexion has a strong management team with a track record of growing its revenue base and expanding margins. In addition, given the scarcity of orphan drug companies, Alexion may be an attractive target for large pharmaceutical or biotech companies.

Sales - Perrigo

Shortly after our purchase of Perrigo last quarter, there was a hostile take-over offer by Mylan, which Perrigo rejected. Given the offer price was higher than our valuation for the Company, we decided to sell the company at the elevated price of more than 18% above the prior day's closing share price.

Cumberland International Fund

During the quarter, the Cumberland International Fund had a return of +0.5% (C$) vs. its MSCI EAFE benchmark's return of -0.9% (C$), outperforming the benchmark by 1.4%. In U.S. dollars, the Fund returned +1.95% (U$) vs. the MSCI EAFE benchmark's return of +0.8% (U$). Our cash level remained around 15% at quarter-end, which is a similar level we entered the quarter.

The key contributors were Lloyds Banking Group, Perrigo, and Julius Baer Group. Lloyds and Perrigo were discussed above under the Global Equity Portfolio. Julius Baer's announcement of $350 million provision related to the settlement with the US Department of Justice (DOJ) for the ongoing tax evasion investigation is well below the consensus expectation of $800 million. The uncertainty over the DOJ investigation and consequent financial settlement has been an overhang on the stock. This event removes the risk of a capital raise and now, we expect the Company will soon be able to restart its capital return program to shareholders.
In terms of detractors to the Fund's performance (other than its high cash level), these can be attributed to Samsung Electronics, Coloplast, and Hyundai Motor as detailed earlier as well.

In the International Fund, we added Carnival while selling our positions in Perrigo.

Purchases - Carnival

Carnival Corporation plc is the largest cruise line operator in the world with 48% global market share offering cruise services under nine separate among its 100 cruise ships. It also owns and operates 12 hotels or lodges and 300 motor coaches and 20 glass-domed railcars. Over the past five years, Carnival has underperformed both their peers and the market as it has suffered from multiple incidents such as the sinking of the Concordia. The Company has been undergoing an operational turnaround since the appointment of its new CEO in 2013. The expectation is that the Company will return to double digit return on invested capital within the next three to four years through cost cutting, ship reinvestment and increased marketing.

Sales - Perrigo

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Outlook

The objectives of the Global Equity Portfolio and the International Fund are to have a composition of high quality growth companies with solid earnings growth that is largely independent of macroeconomic forces. Prior to the volatility brought on by the Greek crisis, the substantial rally in the European markets resulted in an expansion in valuation multiples. The MSCI World benchmark is trading at 17.1x next year's earnings compared to the ten-year average of 14.3x. At these valuation levels and with lower growth prospects, it is natural to be more cautious. However, it is encouraging the Euro zone Manufacturing Purchasing Managers Index rose again in June and this has been steadily rising since November. Furthermore, with the US unemployment rate at only 5.3% and steadily improving economic numbers, the US is experiencing growth. We expect the companies in our portfolio to grow their earnings in the double-digits for the coming year and overall, we still believe earnings growth of quality companies are the key to performance.

S. Yang
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July 8, 2015