CUMBERLAND

Global Equity and International Fund Strategies
First Quarter 2015 Review

Global Macro Review

We had the opportunity to attend a key Asia Pacific investment conference in Hong Kong during the quarter. A number of high profile speakers provided an interesting overview of topics that were current. One of the speakers that resonated the mood of today's market was Professor Shiller, a Nobel Laureate and noted real estate expert. He observed that global asset prices have decoupled somewhat from economic fundamentals, driven higher in part by investors hoping to weather rapid economic changes and fearing for their futures. He continued to speak of an overall anxiety, reflecting a time where people are thinking of their own obsolescence and the speed of how things change. We shall start this quarterly review with a conclusion provided by Professor Shiller which is to be invested in stocks globally while downplaying U.S. equities given the relatively cheaper valuation found in Asian and European stock markets.

While equity markets continue their ascent, the most recent report from the International Monetary Fund (IMF) is unsettling. In their twice-yearly World Economic Outlook, the IMF has warned that most of the world's leading economies should prepare for a prolonged period of lower growth rates, otherwise known as secular stagnation. The IMF forecasts the growth in potential output in the rich world will be 1.6% per year between 2015 and 2020, which is lower than the growth before the financial crisis. The emerging economies will experience a sharper decline in growth; the IMF is predicting the potential output in the emerging markets to be 5.2% in the next five years compared to 6.5% per year between 2008 and 2014. This type of scenario does not allow central banks to have as much room to maneuver with respect to their monetary policy.

With this as a backdrop, the market has been digesting a constant stream of announcements by the central banks on different quantitative easing (QE) measures. The most important announcement this quarter was by the European Central Bank (ECB); however, the ECB is one of twenty central banks that have eased their monetary policy. The other key question on a macro level is the timing of when the U.S. Federal Reserve will increase rates, now assumed to be September at the earliest.

Europe

We have not been able to discern the benefits, if any, of QE because there is debate as to how QE stimulates economies. There is only one thing that is certain; equity markets like QE. On January 22, Mario Draghi, the ECB President announced a €60 billion per month purchase program of public and private assets until September, 2016. European markets had the strongest quarter since the third quarter of 2009, with the MSCI Europe Index having a total return of 17.8% in Euros and 14.7% in C$ for the first quarter. However, the return of 3.5% in US$ is somewhat muted, due to the strength in the U.S. dollar.

Based on the figures published by the ECB, they bought €52.5 billion of government bonds in the first month of their QE program, from all member states except Greece and Cyprus which are banned from QE until these member states comply with the terms of their bailout program, and Estonia.

Ever since the announcement of QE, the outlook has improved for the Eurozone's recovery, aided by the decline in the Euro, low interest rates, and slump in the oil price. The Euro's steep fall of almost a fifth over the past year against the U.S. dollar has helped the ECB given the divergence in policies between Europe and the U.S. The strong dollar, on the other hand is a major concern for the multinationals that rely heavily on foreign sales. We should not be surprised when guidance for U.S. companies comes down as quarterly earnings are reported in the coming weeks. Furthermore, the steep rise in the U.S. dollar could undermine business confidence and this would be one of the risk factors to take into consideration going forward. Another outcome of the European QE are countries not part of the Eurozone such as Sweden and Denmark having to cut interest rates into negative territory to prevent negative side effects. When Switzerland gave up trying to cap the value of the Swiss franc against the euro, the franc had a steep jump and simultaneously, Swiss equities also dropped.

Another new reality is that markets in Europe are faced with negative yields post the initiation of the European QE. The largest decline has been in German bond yields given the expected shortage of bonds that will be created with the bond buying program of the ECB. The low and

Global Equity and International Fund Strategies
First Quarter 2015 Review

negative yields will encourage investors to search higher-yielding assets and thereby driving up valuation of equities that can deliver steady and high yields. Switzerland is now offering negative yields on five and ten year paper.

One of the objectives of QE is to fend off deflation. There have been signs of deflation slowing in March following the launch of the QE program, but inflation still stood at -0.1% in March, after falling 0.3% in February and 0.6% fall in January. Prices fell for the fourth consecutive month, but less steeply than in previous months. The largest contributor to the decline in prices is the tumble of energy prices.

There are some encouraging signs on employment as well. Although the unemployment level is still at an elevated level of 9.8% in the 28 EU member states, it has come down from the prior year's level of 10.5%.

A key risk that the market may be currently ignoring is the prospect of a potential Greek exit from the Eurozone, otherwise known as Grexit, consequences of which the 19-member currency bloc would have to bear. While Greece's output is only about 2% of the Eurozone GDP, a Grexit will undoubtedly lead to a negative impact on the markets.

Asia

We have an example of a disconnect between the market and economic reality that Professor Shiller referred to in the Shanghai Index. While the Shanghai Index was up by +26% (C$) or +16% (US$) this quarter, following a +66% (C$) or +52% (US$) jump in 2014, China's economic growth continues to decelerate. Its GDP growth has slowed to 7% for the coming year which is the slowest pace in the past five years as it is feeling the impact of a weak real estate market and a deteriorating manufacturing sector. China is experiencing a contraction in the growth of potential output as it tries to rebalance its economy away from investment and towards consumption.

The weaker growth in China does not bode well for countries that rely on commodities, including Australia and Canada. Strategists are expecting a further decline in currencies that have a large exposure to commodities; for example, the head credit strategist at Credit Suisse assumes the Australian dollar will decline to 60 cents against the U.S. dollar from the current level of 78 cents. An expectation for the Canadian dollar may be similar given the high reliance on commodities and energy to the Canadian economy.

The positive impact of lower energy prices should start to filter through economies dependent on oil imports, such as Japan and Korea. In the case of Japan, real negative interest rates should encourage companies to shift cash into higher yielding investments. The forty-year low of the Yen and the low oil price should raise manufacturing and export levels. The recent wage increase, which was the largest in seventeen years should translate into higher consumer spending; a tight labor market means this will extend to smaller companies as well. According to Dr. Itoh who is a member of the Council on Economic and Fiscal Policy in Japan, there has been significant progress towards improving the pension system and social and welfare reforms are now on the agenda. Although Japan has been in a depression during the past twenty years, it takes time to change the Japanese mindset sufficiently towards consumption, investment, and exports. This is a country where older people say they would prefer to be looked after by a robot than by a foreigner, according to one survey. Yet, Itoh believes Abenomics is entering the second phase from a solid base.

Emerging markets, on the other hand, will experience more pressure and will have to endure a more difficult period given the strength of the U.S. dollar, lower commodity prices, and certain internal political issues as in the cases of Brazil and Argentina. The largest concern for emerging markets is the Fed tightening where investors may reallocate away from emerging markets to the U.S. where the yields are considered safer and would be higher after the rate rise.

Global Equity and International Fund Strategies
First Quarter 2015 Review

Portfolio Review

First Quarter Index Performance

	Q1 2015 USD Total Return (%)	Q1 2015 Local Total Return (%)
MSCI World	2.5	2.5
S&P 500	1.0	1.0
Canada S&P/TSX	-6.0	2.6
Euro Stoxx	4.6	17.9
MSCI Emerging Markets	2.2	2.2
Germany DAX	7.7	22.0
UK FTSE 100	-0.6	4.4
France CAC 40	4.7	18.0
Switzerland SMI	4.6	2.9
Japan Topix	10.0	10.4
Hong Kong Hang Seng	6.0	6.0
Korea KOSPI	5.4	6.5

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

The key benchmark, the MSCI World Index, had a total (price and dividend) return of +2.5% in US$ and +11.9% in C$ for the first quarter. The other key benchmarks of MSCI EAFE had a total return of +5.0% in US$ and +14.7% in C$ while the S&P 500 had a total return of +1.0% in US$ and +10.2% in C$. Global markets outperformed the Canadian market once again this quarter which returned -6.0% in US$ and +2.6% in C$. The Canadian dollar depreciated by 8.4% against the U.S. dollar in the quarter, continuing a trend of the past two quarters. Thus, with the depreciation of the Canadian dollar, the returns increased when translated back to the Canadian dollar.

In the MSCI World benchmark, Healthcare with +7.7% (US$) and Consumer Discretionary with +5.5% (US$) were the top performing sectors in the quarter. The two worst performing sectors in this benchmark were Utilities with a -5.6% return and Energy with -4.6%.

The two best and two worst performing sectors during the first quarter in the MSCI EAFE benchmark were the same as MSCI World. Healthcare with +8.4% performance and Consumer Discretionary with +7.9% were the two best performing sectors while the two key detractors were Energy at -5.8% and Utilities at -5.1%.

Cumberland International Fund

During the quarter, the Cumberland International Fund had a return of +12.2% (C$) vs. its MSCI EAFE benchmark's return of +14.5% (C$). In U.S. dollars, the Fund returned +2.8% (US$) vs. the MSCI EAFE benchmark's return of +4.8% (US$). Despite strong absolute performance in the Fund (in Canadian dollars), the majority of the relative underperformance can be explained by our cash position. While we deployed capital during the quarter and took the cash level from 23% to 14% by the end of the quarter, our cash level represented a headwind against a rapidly rising equity market. The key contributors were our three Hong Kong listed companies of AIA, Samsonite, and Cheung Kong Infrastructure given their robust fundamentals. A long-term holding in Fresenius SE contributed to the performance during the quarter; with their improving growth momentum and with their large exposure to US dollar revenues, this is a tailwind when converted to Euros. We deployed capital into names that will benefit from the European QE as we discussed earlier in this review, including BNP Paribas, Julius Baer, Unilever and Air Liquide.

In terms of detractors to the Fund's performance (other than its high cash level), these can be attributed to Hyundai Motor, Richemont, and tobacco stocks, a common denominator being the emerging markets. Hyundai Motor's demand was weak in emerging markets and there were concerns over rising competitive pressure with the weak Yen giving Japanese carmakers an edge on pricing. The demand for Richemont's luxury jewels and watches are being negatively impacted by the slowdown in China and continued crackdown on corruption. And in the case of British American Tobacco and Philip Morris, both

Global Equity and International Fund Strategies
First Quarter 2015 Review

global tobacco companies have negative translational and transactional foreign exchange impact given their large exposures to the emerging markets.

In the International Fund, we added Perrigo, Accenture, BNP Paribas, and Julius Baer while selling our positions in Schlumberger, Berner Kantonalbank, and Telecity.

Purchases

Perrigo

Perrigo develops, manufactures and distributes over-the-counter (OTC) and generic prescription pharmaceuticals, nutritional products and active pharmaceutical ingredients. It is the largest global manufacturer of store brand OTC healthcare products with a 75%% U.S. market share and store brand nutrition with a 25% market share. They are also a leader in generic topical pharmaceuticals which is a market with high barriers to entry.

Although we aim to buy and hold companies for a long period of time, we sold our position in Perrigo on the day we wrote this quarterly given the news that Mylan is offering to buy Perrigo at a 32% premium from our cost base. We decided to book the gain as we would rather not hold Mylan stock with this cash and stock deal and our view is that the integration may face execution issues.

Accenture

Accenture provides management consulting, technology, and business process outsourcing services worldwide. The Company operates through two major lines of business, with 52% of revenue coming from Consulting such as strategic advice and implementation services and 48% derived from Outsourcing including IT functions and business processes. Accenture will be the beneficiary of growth in global IT spending where IT spending has historically seen growth greater than GDP. Strong cash conversion allows Accenture to generate solid free cash flows and management has been disciplined with cash deployment with a target of returning 75% of its free cash flow to shareholders via buybacks and dividends.

BNP Paribas

BNP Paribas, headquartered in France, has a strong franchise in its retail and wholesale businesses offering a diversified earnings mix. With signs of an economic upturn, we expect their return on equity to exceed their cost of capital and should be a beneficiary of the European QE. There is indication the period marked by stringent regulatory requirements is now drawing to a close, along with the easing of securitization regulations. In addition, post the regulatory environment review by the European financial stability commissioner, the leverage ratio is no longer a primary focus and the risk of a capital increase or pressure on the dividend should not be a risk.

Julius Baer

Based in Switzerland, Julius Baer is a leading private bank offering banking and wealth management solutions for high net worth individuals. At year-end 2014, it had assets under management of CHF 290 billion. While most of its key competitors are divisions of universal banks such as UBS, Credit Suisse, JPMorgan, Julius Baer is able to differentiate its value proposition by positioning itself as a source of independent advice while having the scale to offer clients a broad and global range of banking solutions. The Bank will be a beneficiary of the growth in the global high net worth demographic and global asset prices.

Sales

Schlumberger

We held Schlumberger for a number of years. The dramatic decline in the oil price since June 2014 had a detrimental impact on the oil service industry. Although Schlumberger is the global leader, they were not immune from this negative downtrend and with this sale, we reduced our exposure to our already underweight position in the energy sector.

Berner Kantonalbank

We took advantage of the Swiss Central Bank's announcement of their release of the peg against the Euro to sell our position in Berner given the Swiss franc appreciated 17% against the Canadian dollar.

Global Equity and International Fund Strategies
First Quarter 2015 Review

Telecity

During its announcement of their fiscal 2014 results, Telecity announced it would be acquiring its competitor Interxion in an all-stock deal. The shares of Telecity jumped 15% on the day as investors evidently liked the strategic rationale for the deal and management's revenue and cost synergy targets. While we agreed with the strategic rationale of the acquisition where consolidation could lead to a more disciplined pricing and capacity build environment along with potential top-line and cost synergies, our view was that the move in the shares was excessive given the significant dilution Telecity would incur to consummate the transaction. As a result, we took profits and sold the position from the Fund.

Cumberland Global Equity Portfolio

The Global Equity portfolio had a total return of +7.1% (C$) compared to its benchmark return of +11.7% (C$). Unfortunately, with the decline in most global currencies versus the U.S. dollar, the portfolio had a return of -2.0% (US$) vs. the MSCI World at +2.3% (US$). As in the case of the International Fund, a large part of the portfolio's underperformance is derived from the high cash balance held. In terms of specific stocks that detracted from our performance, American Express was the largest negative contributor due to the fact that during the quarter, they announced the loss of their contract with Costco which is a negative in terms of their growth profile. The other two detractors were Hyundai Motor and Occidental Petroleum.

The key contributors to the portfolio's performance were Fresenius SE, Samsung Electronics, and Schweiter Technologies. As discussed above, a long-term holding in Fresenius SE contributed to the performance during the quarter with their improving growth momentum and their large exposure to U.S. dollar revenues which is a tailwind when converted to Euros. Samsung continues to show strength in their memory business and their mobile business which appears to be stable and in addition, the Company has become more shareholder friendly by increasing their dividends by 40% last quarter. Schweiter reported that they were starting the year very strongly and we expect they will continue to be a beneficiary of an improvement in non-residential construction.

During the first quarter, Cumberland's Global Equity Portfolio purchased Occidental Petroleum, Accenture, Perrigo, Newell Rubbermaid, and AIA while selling its position in Schlumberger. For descriptions for Accenture, Perrigo and Schlumberger please refer to the section under Cumberland International Fund.

Occidental Petroleum

Occidental Petroleum is one of the world's largest energy companies with a globally diversified asset base with 52% in the US, 43% in the Middle East & Africa and 5% in Latin America. Their oil reserves are in low decline, high-return enhanced recovery plays as well as substantial unconventional acreage in the Permian Basin in Texas. The Company is currently undergoing a significant shift in its portfolio that has involved selling and spinning-off of non-core assets and is left it with a strong growth position as well as one of the cleanest balance sheets in the industry with US$3 billion net cash. With a deep inventory of high quality and low decline assets across both the U.S. and Middle East, they should be able to meet its medium-term production guidance of 5-8% and maintain industry leading returns. In the near-term, recent project completions in the UAE and the Permian are likely to drive similar growth rates even as capital spending is reduced to reflect the current weak operating environment.

Newell Rubbermaid

Newell Rubbermaid Inc. manufactures and markets consumer and commercial products worldwide. It operates through five segments: Writing, Home Solutions, Tools, Commercial Products, and Baby & Parenting. The Company was founded in 1903 and is headquartered in Atlanta, Georgia. It remains in the early innings of a material improvement in both operations and brand equity. Their aggressive cost cuts and portfolio rationalizations are releasing significant funds for reinvestment in advertising and promotion. This in turn is driving market share gains, revenue growth and operating leverage, thereby providing yet more funds for investment. Their overhead costs are running higher than their peers and there remains significant room for improvement and, if properly executed, many years of above peer growth.

Global Equity and International Fund Strategies
First Quarter 2015 Review

AIA

AIA comprise the largest independent publicly listed pan-Asian life insurance group. AIA was a fully owned subsidiary of AIG until its IPO in October 2010. It operates in 17 markets in Asia-Pacific, with 50% of their operations operating as branches of its HK entity. The HK statutory reserves are more stringent, requiring higher capital levels, leading AIA to have a high level of free surplus. Since the Company's IPO, their NBV has more than doubled. This is derived from volume growth from increased agency productivity and margin improvement from a better product mix.

In meeting with the Company after their fiscal 2014 report, management reflected a positive message with their protection product having the highest margin and highest growth of all their products. AIA manages their business to benefit from positive long-term structural growth in the insurance market. While they have a slight negative sensitivity to lower rates, we expect AIA to maintain reasonably strong growth in Asia due to urbanization, rising disposable income, relatively low levels of social welfare and a rapidly growing middle class.

Outlook

One can argue that exceptionally low interest rates around the globe are the basis for the equity markets to continue to rise. However, we do not invest solely based on a macro call nor do we rely on the actions of central bankers. The IMF report we discussed earlier is disturbing and this is a cruel aftermath of the global financial crisis. Economists at JP Morgan estimate a permanent 3% loss in the level of GDP since 2007. Despite this backdrop however, our goal is to continue investing in quality companies where fundamentals will matter. This means organic growth in companies and industries that demonstrate secular growth. When we reflect on our holdings' earnings reports throughout this past quarter, we are pleased with how well our companies have been executing. However, we are cognizant and cautious of the elevated valuation level of the MSCI World benchmark trading at 16.6x next year's earnings compared to the 10 year average of 13.3x. The companies in the Eurozone have been boosted by a currency tailwind while the US-based companies are currently facing a currency headwind. We shall continue to seek companies that reinvest their cash flow in innovation and capital so they maintain their competitive advantage in businesses that benefit from secular growth trends, including an aging population, desire for luxury and excellent value for money.

S. Yang
Lead Manager, Global Equities
April 8, 2015