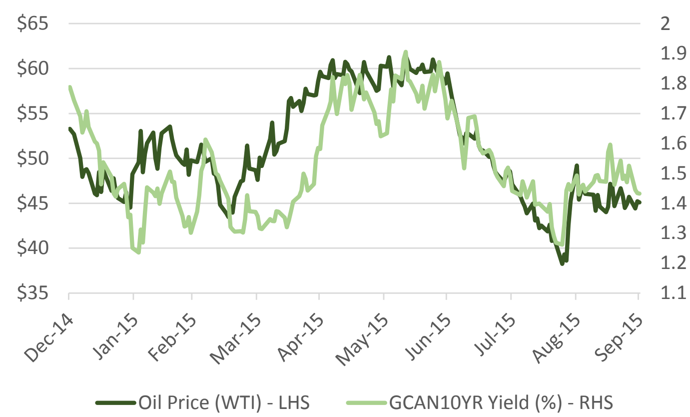
CUMBERLAND

Third Quarter Review and Outlook
Cumberland Income Fund
September 2015

Central Bank decision making continued to fuel volatility in fixed income markets during the third quarter of 2015. The pick-up in volatility that had surfaced in the government bond market during the first quarter finally migrated over to other asset classes including high yield bonds and equities in the third quarter, triggered primarily by a change in China's foreign exchange policy in August. Aside from bonds issued by the Government of Canada, the other income sectors including local government bonds (provincial, municipal), corporate bonds (investment grade and high yield), and dividend paying equities (preferred and common) all declined in value during the quarter as investors reduced exposure to risk assets. The Cumberland Income Fund's strategy of owning a diversified group of income-producing securities while keeping cash and short-term securities levels elevated mitigated the majority of the negative performance in the sectors mentioned above during the quarter.

In Canada, Government of Canada bonds were the best performing sector, and the only sector generating positive returns, in domestic fixed income markets. The sector returned 1.0% during the quarter as government bond yields generally declined. For example, the *yield* on a Government of Canada 10-Year bond (GCAN10YR) decreased from 1.68% to 1.43% over the three months as investors were net buyers of the bonds. Buying was driven by three factors, in our view. Firstly, the reversal of the rebound in commodity prices, specifically oil, renewed concerns of negative impacts on the energy-sensitive Canadian economy. During the previous quarter, the price of WTI crude oil increased from $48/barrel to $61/barrel thereby fueling investors' optimism, however once the third quarter got underway the price of oil promptly dropped 15% to $52 in the first week alone! With the growth rate of Canada's economy closely tied to the price of oil, investors grew cautious seeking the safety of Government of Canada bonds.

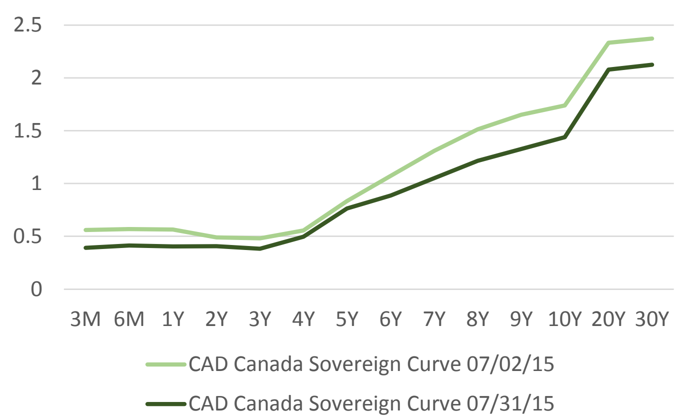
GCAN10YR Yield and Oil Price (WTI)



This arguably led to the second factor: On the heels of the decline in the price of oil, the Bank of Canada (BoC) announced its second cut to the policy interest rate this year on July 15th. Although the announcement was less of a surprise than January's rate cut (the first in six years), the 0.25 percentage point cut in July nevertheless refocused the market's attention on the risks inherent in the Canadian economy. The BoC cited concerns over the price of oil and its negative impact on inflation expectations, and acknowledged faltering global growth principally in the U.S. and China. Consequently the BoC reduced its 2015 growth estimate in Canada thereby justifying the rate cut. By the end of July, in reaction to the overnight rate cut, the yields on all other Government of Canada bonds across the yield curve (maturities 3 months to 30 years) correspondingly declined (and prices increased).

Cumberland Income Fund
September 2015

Government of Canada Yield Curve



The third reason is also inextricably linked to the first two factors: concerns over China's growth and the surprise devaluation of China's currency, the yuan (CNY). After many months of disappointing economic data suggesting a slowdown in China's growth rate, People's Bank of China (PBOC), China's central bank, surprised the markets by taking the step of depreciating their currency. Usually pegged to the U.S. dollar in a very tight range, the PBOC announced on August 10th they were going to change the calculation method of the CNY exchange rate, which resulted in the CNY depreciating by 2% in one day, leading to its largest daily drop ever. Although there is a certain logic to China depreciating their currency since many Asian neighbors have taken steps to devalue their currency (e.g. Malaysia, Korea, Thailand), many investors saw it as a signal the Chinese economy may be weaker than previously thought. A flight-to-safety trade ensued as investors sought the safe haven of U.S. Treasuries and Government of Canada bonds, volatility spiked and corporate issued securities such as corporate bonds and equities sold off. PBOC's action reaffirmed our view we had stated earlier this year: one of the greatest risks to investment portfolios is sudden and unexpected changes to policies set by global central banks.

An update on government bonds would not be complete without a comment on the U.S. Federal Reserve. The Fed was largely expected to increase the fed funds rate on September 17th, however citing the depressed inflation rate and global growth concerns (particularly in Europe and China) Fed Chair Janet Yellen refrained from hiking the policy rate. After retracing some of the declines in bond yields after the CNY devaluation in August, bond yields promptly declined again after the Fed's statement. The Fed Funds Futures market is now pricing in 33% probability of a rate hike by December. The likelihood of a rate hike is certainly declining in our view, but we do acknowledge the bond market is not priced for a rate hike. Therefore, consistent with our focus on capital preservation, the Fund is maintaining a low duration of 3.1 (lower price sensitivity to changes in interest rates) in our bond allocation in the event the Fed *does* raise the fed funds rate in either of the next two Fed meetings in October or December.

The increase in risk aversion during the quarter also spilled into Investment Grade corporate bonds (credit rating BBB+ or higher). Credit spreads (the yield premium on corporate bonds over government bonds demanded by investors for taking on greater risk) increased by 0.23 percentage points (23 basis points) during the quarter. The increase in credit spreads was consistent with investors selling corporate bonds in an attempt to de-risk portfolios as a reaction to events out of China. Consequently, the FTSE TMX Canada Corporate Bond Index declined by -0.16% in the third quarter, underperforming the overall bond market's (the FTSE TMX Canada Universe Bond Index) return of +0.15% over the same time period. Investment Grade credit spreads reached the widest (cheapest) levels in three years during the quarter and Cumberland took advantage of these more attractive levels to add to the sub-asset class. The Fund added to a Pembina Pipeline bond (coupon of 3.54%, maturing in 2025) attractively priced at a discount to par ($100). The Fund also added to holdings in Ford Credit Canada and Brookfield Infrastructure Partners. Both bonds were new-issues that were priced with attractive coupons relative to the overall bond market, in our view.

CUMBERLAND

North American Capital Appreciation Strategy
September 2015

Canadian Investment Grade Corporate Spreads
(BoAML Canada Corporate Bond Index spread in basis points)

As noted above, the Canadian High Yield Bond market (credit ratings BB+ or lower) also suffered losses during the quarter, slumping -5.1% according to the FTSE Canada High Yield Bond Index. Commodity related bonds led the way lower, while those of non-commodity issuers held in pretty well. During the quarter, Cumberland Income Fund exited a small position in a bond issued by Paramount Resources (a Canadian oil and gas producer) and added to a new issue offered by Videotron, the Quebec-based cable and wireless operator.

Preferred shares in Canada remained under pressure during the third quarter with the broad TSX Preferred Share Index returning -12.9%. The preferred share market appears to have entered a phase of indiscriminate selling by retail investors. We see three main reasons for the selling. The first reason is tax-loss selling. The second is continued uncertainty around BoC's monetary policy decisions and their impact on bond yields. The decline in bond yields has resulted in lowered dividend rates for those preferred shares with terms that reset the dividend every 5 years at a fixed spread to GCAN5YR yield. And thirdly, over the past several months a handful of corporations have issued new shares into the market soaking up what little capital is available (or willing to buy) preferred shares. Last quarter we mentioned that pockets of value had begun to surface in the preferred share market yet we remained patient in deploying new capital into this sector. With prices even lower after the third quarter, and with the Fund only holding a 5.6% weight in the sector we look to take advantage of the preferred share market dislocation and for our patience to be rewarded.

The Cumberland Income Fund was active in dividend paying common equities during the quarter. With the sector down -9.7% during the quarter (as per TSX Composite High Dividend Index) valuations and risk/reward profiles improved considerably. The Fund capitalized on the sell off and added to a handful of equity positions. The Fund added to existing holdings Alaris Royalty (AD.TO), American Hotel Income Properties (HOT-U.TO), Chemtrade Logistics (CHE-U.TO), Morneau Shepell (MSI.TO), and Fortis Inc. (FTS.TO). The Fund also exercised its conversion option on our holding of a Boralex Inc. convertible bond. The Fund elected to convert the bond to Boralex common shares thereby initiating a new equity position. Boralex (BLX.TO) is an independent power producer based in Quebec. The company primarily operates renewable energy assets such as wind and hydro power sites under long term contracts in Canada and France. Currently yielding 4% and with a dividend payout ratio of just 50%, we expect Boralex's dividend to grow consistently over the medium term.

CUMBERLAND

Cumberland Income Fund
September 2015

OUTLOOK

Although the federal government bond sector outperformed the broad fixed income asset class this past quarter (and year-to-date) there appears to be little, if any, margin of safety in government bonds at current valuations, in our view. The GCAN10YR bond and GCAN5YR bond currently yield just 1.4% and 0.8% respectively. Meanwhile, any pick-up in inflation, or recovery in commodity prices would likely lead to upward pressure in yields and therefore downward pressure on government bond prices. Alternatively, since the Fund has been carrying a high level of liquidity (cash and short-term securities), it is well positioned to buy out-of-favour securities offering attractive yields and attractive risk/reward profiles. As noted above, we took advantage of the equity market's volatility and added to our dividend paying stock allocation during the quarter. Now with corporate bond spreads at multi-year highs and a buyers strike on preferred shares, we expect to add to these sub-asset classes in the coming quarters. It is important noting however, that with global growth becoming seemingly unclear as a result of China's economic missteps we will commit capital cautiously. Central Banks around the world have never seemed more uncertain about their forecasts and outlook on the economy. The U.S. Federal Reserve has been unable to follow through with actually raising rates despite hinting at it for almost a year now, and some market participants are even calling for QE4, a *new* round of bond buying by the Fed. The Bank of Canada has cut policy rates already twice this year on the back of commodity prices cascading lower, and the European Central Bank has already hinted at expanding their existing bond buying program despite being only 8 months old. In our view, this sets the stage for continued volatility in all asset classes over the medium term. As a result, we see our cash reserves as a key strategic pillar in our investment strategy to exploit market dislocations and acquire securities with a compelling yield and risk/reward profile as the opportunities present themselves.

R. Schulte-Hostedde

Portfolio Manager, Fixed Income

October 2015

Asset Allocation as at September 30, 2015

Asset Class	% of Portfolio
Cash and Cash Equivalents	12.3%
Government Bonds (incl. Floating Rate Notes)	15.9%
Corporate Bonds	51.6%
Preferred Shares	5.6%
Equities/Income Trusts	14.6%

Yield[1] Comparison as at September 30, 2015

FTSE TMX Canada Universe	2.0%
FTSE TMX Canada Government	1.8%
FTSE TMX Canada Corporate	2.7%
Cumberland Income Fund[2] (today)	3.6%

1. Yield is the rate of income generated on an annualized basis. Yield does not represent the total return of the Fund or the indices shown in the above table.
2. Gross of fees.