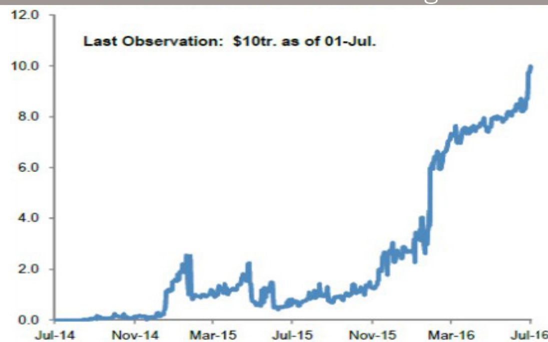
Global Equity and International Fund Strategies
Second Quarter 2016 Review

Global Macro Review

The Brexit vote and its aftermath has dwarfed all other financial and political events during the past quarter. Immediately post the June 23rd vote, we have previously shared with you our views on this event. After digesting the news for the past two weeks, our position has not changed much. Our overriding concern lies with the uncertainty this outcome has caused and the potential contagion to other markets globally. While we do not believe this will trigger a financial crisis in the order of magnitude of a Lehman failure, we do need to be cognizant of what appears to be a fundamental change in the environment. The UK currency has taken a beating over the past two weeks, reaching thirty year lows and trading below $1.3 versus the US dollar. We are also concerned about a potential race for major trading partners to devalue their respective currencies in order to remain competitive in the world markets. In such a case, there are no winners and eventually, we all pay a price for this behavior.

The European Central Bank's (ECB) policy of maintaining extremely low interest rates with quantitative easing, are the same as those used by other central banks. The fundamental reason for Europe's low rates and bond yields is the fragile state of its economy. We can say the same about Japan; in fact, the yields on their twenty-year bonds went into negative territory. While some may believe that negative rates are a continuation of quantitative easing, this may be underestimating the detrimental impact. Negative rates erode banks' margins and give lenders an incentive to shrink rather than to grow. Overall, negative rate risk undermines any anticipated economic growth.

Global Government Bonds with Negative Yields



So currently, fragility in the global financial system, due to the lack of growth in most geographies has been exacerbated by the recent UK Brexit vote. The vote for change in the UK is similar to the right-winged rallies we are witnessing in many countries around the world. Christine Lagarde, who is starting her second term as the head of the International Monetary Fund, warned of the risk of another great pause in the march toward globalization, akin to the disruption caused by the beginning of the first world war. We would like to think that human kind has learned from lessons taught by history, but ongoing racism, bloodshed, atrocity against mankind exist today and perhaps even to a greater degree. A protectionist movement, which is also linked to the above-mentioned policy of nations to devalue their currency can severely damage the global economy.

Generally, equity analysts are optimists and we like to believe that the world is better today than it was yesterday and it will be even better tomorrow. However, we grudgingly admit the uncertainty has led us to be more cautious. That said, these issues will not force a change in our investment approach or process. We shall stay true to style and continue to invest in companies with dominant business franchises, consistent operating history of strong profitability and dividend payments. Over time, we believe this strategy will provide a return that beats the market based on the premise that the companies in the portfolio have a sustainable competitive advantage and track record of executing well.

Portfolio Review

	Q2	YTD	1 Year
Global Portfolio Performance as at June 30, 2016			
Global Portfolio	1.8%	-5.1%	2.5%
MCSI World	1.0%	-5.5%	1.1%
Value-Add	0.8%	0.4%	1.4%
International Fund Performance as at June 30, 2016			
International Fund	-0.3%	-6.8%	-0.4%
MCSI EAFE	-1.4%	-10.3%	-6.6%
Value-Add	1.1%	3.5%	6.2%

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We construct our portfolios one company at a time. Hence, our portfolios are composed of companies that have the best fundamental long-term prospects as a result of having characteristics we require in a company: they operate in industries with secular growth, have a global footprint, strength and leadership in product or service, lower volatility given the company's overall stability, limited exposure to commodities, growth in free cash flow and an attractive valuation. As a result, we may have more companies in a certain sector such as Healthcare or in a certain country or region. Our analysis below provides some commentary on our performance based on our strategy.

Global Equity Portfolio

The main contributor to this quarter's performance was stock selection but having a reasonably high weight in cash detracted from performance. The key contributors were Keyence, Schweiter Technologies and Honeywell while the detractors were Lloyds Banking Group, Air Liquide, and Abbott. Our overweight position in Healthcare helped performance while the underweight position in Energy did not. We have been overweight the Healthcare sector for a number of years given the attractiveness of the secular growth in this area. Healthcare was the best performing sector this quarter overcoming its performance last quarter. This demonstrates that trying to time sectors to invest on a quarter to quarter basis is challenging. Moreover, the weight we have in Financials is a result of not being able to find many financial institutions that meet our strict investment criteria. Thus, having a large underweight exposure to Financials contributed to outperformance since the Financial sector was the second worst performing sector after Consumer Discretionary this quarter. Our underweight position in Japan also contributed to outperformance while our U.S. underweight detracted from performance.

Cumberland International Fund

The outperformance during the quarter was a result of asset allocation as well as stock selection. The Fund's best performing companies during the quarter were Tyco, Keyence, and AIA while the detractors were Cheung Kong Infrastructure, Lloyds Banking Group, and Allergan. We were overweight in Healthcare, the best performing sector this quarter. In addition, our largest underweight position were in the two sectors that were the worst performers, namely Financials and Consumer Discretionary. In terms of regional exposure, the portfolio has been and continues to be underweight Japan and the UK which contributed to performance.

A short-term casualty of the events in the UK have been the banks, both local UK banks as well as foreign ones with exposure to Europe and the UK. The uncertainty over whether the overseas banks currently based in the UK will need to get new EU banking licenses have caused a slump in these shares. As for the local UK banks, the possibility of a slowdown in the UK economy has negatively impacted their prospects. In order to prevent any further capital losses and with the uncertainty created by the events by Brexit, we sold our position in Lloyds Banking Group after quarter-end. We met with the Company post the referendum and the result surprised them as much as it did the market. Many of their corporate clients had held off making decisions before the referendum; however, the decision to move forward with investments in the UK is still on hold until some clarity is obtained. Although Lloyds had made significant progress since the financial crisis and the ownership of the UK government only held 9% from 43% post the financial crisis, we deemed it to be prudent to sell our holding given the current environment and uncertain outlook for the financial sector in the UK.

We took advantage of periodic weakness in the market to add three technology names that have been on our watchlist for a period of time. We bought Nidec, SAP, and Microsoft in the Global portfolio. Similarly, we added SAP and Nidec as new positions and sold Carnival in the International Fund.

Nidec (6594 JT), headquartered in Kyoto, Japan is a leading global manufacturer of electric motors and operates in four key segments: (1) small precision motors, (2) automotive, appliance, commercial and industrial, (3) machinery and (4) electronics. The Company has amassed a solid track record of strong revenue and market share growth by combining strong product innovation with cost competitiveness given its leading scale in motor manufacturing. It is a beneficiary of secular growth in automotive components and therefore, we believe Nidec is well positioned to benefit from the electrification of

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the automobile and increasing emphasis on active driver safety systems. As is the case with most of our holdings, Nidec has a strong balance sheet with a net cash position that provides them with flexibility.

Germany-based SAP (SAP GY) is a leading global provider of enterprise software where its customers include 86% of Fortune Global 500 companies and services for over 290,000 customers in 190 countries worldwide. The Company provides solutions across a number of verticals including Enterprise Resource Planning, Business Intelligence, Customer Relationship Management, Supply Chain Management, and Database where they are either #1 or #2 in market share (with the exception of Database). In the last few years, SAP has meaningfully changed its strategy to embrace the cloud where they now have a user base of 82 million subscribers. SAP's software is heavily embedded into their clients' operations and processes thus creating a strong moat leading to high margins and a recurring revenue base. We expect SAP's strength to continue with the launch of their latest product cycle.

Microsoft (MSFT) has a dominant market position in core franchises. It is the global leader in productivity and operating system software with its Office and Windows franchises. Given the ubiquity and how heavily embedded the products are into workflows and processes, this creates high margin, "sticky" customers, and recurring revenues. Microsoft has also been able to leverage the strengths of these franchises to drive revenue growth in adjacent lines of business. Microsoft is currently in the midst of a company-wide shift to a cloud computing platform that will enable customers to access their software anywhere and from any device. While this shift brings the potential of new competitors, we believe that Microsoft will not only be able to defend its key franchises but the shift into cloud will expand the addressable market opportunities for the Company to accelerate revenue growth.

Outlook

The MSCI World benchmark is expecting earnings to be U$111.56 in 2017 for an earnings growth of 13.2%. The 2017 Price to Earnings (P/E) valuation of 16.7x is higher than the ten-year average of 14.5x. The key valuation metrics for the Global Portfolio and the International Fund are shown below. Furthermore, both the International Fund and the Global Equity Portfolio have higher return on equity metrics than their respective market indices while having a lower beta metric, making these portfolios less volatile than the market overall.

	CPWM GLOBAL	MSCI WORLD
P/E Forward 12m	18.8x	20x
Net Debt/ EBITDA	1.2x	1.7x
Return on Equity (adj.)	26.0%	24.1%
Dividend Yield	2.2%	2.7%
	CPWM INT'L	MSCI EAFE
P/E Forward 12m	19.6x	17.7x
Net Debt/ EBITDA	0.9x	1.7x
Return on Equity (adj.)	27.2%	18.8%
Dividend Yield	2.5%	3.6%

In a couple of weeks, companies will start to report their second quarter earnings. We expect companies to provide the impact of Brexit on their businesses and those that will be most impacted will be the U.S. multinationals that will suffer from currency headwinds given the appreciation of the U.S. dollar. Nevertheless, we expect our portfolio companies to project continued growth in their earnings at a rate exceeding the market average for the coming year and overall, we still believe earnings growth from high quality companies are the key to solid investment performance over time.

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