CUMBERLAND
Private Wealth

GLOBAL EQUITY AND CUMBERLAND INTERNATIONAL FUND STRATEGIES

First Quarter 2019

Introduction

As a result of a change in personnel, you have a new portfolio manager overseeing the global and international portions of your portfolio. Importantly, despite the change in manager, the global investment strategy at Cumberland remains the same. We continue to emphasize high quality at attractive valuations when investing in global businesses on your behalf, and we feel very strongly that this is the best way to successfully invest your global equity assets over time.

How do you define high quality? Obviously, there is no singular definition. However, generally speaking, high quality businesses share many of the same attributes. Quality businesses tend to have strong growth prospects (in excess of global GDP growth), strong brands, high margins and profitability, strong cash generation, earnings stability, operating efficiency, high barriers to entry, and lower share price volatility.

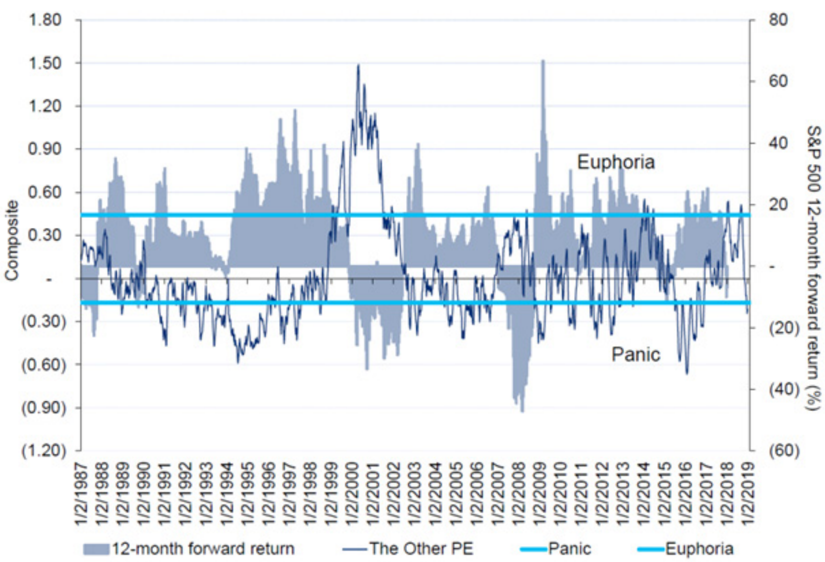
This is our investment style, and we think that this focus on quality is extremely important when investing globally. It makes sure you invest in the best of the best business opportunities on a global basis, and these businesses very often have the ability to compound your money over time. Investing is a marathon, not a sprint, and we think that investors are best served by investing in and maintaining a portfolio that is built to thrive over the long term, rather than chasing short term trends.

Market Review

Of course, just because you have a great portfolio of high quality investments, it doesn't mean that it will never suffer a decline in value over short time periods. The fourth quarter of 2018 was a very tough stock market environment. Stock markets declined significantly during the quarter, as investor fears regarding slowing growth and central bank interest rate hikes intensified. The S&P 500 declined nearly 20% from peak to trough, and many other markets were down even more.

However, by the end of December numerous investor sentiment indicators, such as Citi Research's Panic/Euphoria model, suggested that global stock markets had been punished too severely, and a rebound was likely to occur.

Citi Research's Panic/ Euphoria Model



Source: Citi Research December 31st, 2018

Simply put, according to Citi, when this investor sentiment indicator (the dark blue line in the chart above) goes into panic territory, there is a 97% chance that the U.S. stock market is higher 12 months later. No model works 100% of the time of course, but we have used this panic/euphoria model successfully for many years, so we began 2019 feeling pretty good about the stock market return prospects for the year.

As we now know, 2019 has been much better so far. Growth estimates have been reduced, but not by as much as investors once feared. Central banks such as the U.S. Federal Reserve have signalled to the market that they will not hike interest rates as fast as investors expected. Investor fears have largely subsided, and global stock markets have responded positively.

Due to the nature of high quality portfolios, these short-term selloffs can truly be looked at as opportunities, not threats. If you have a cheap but very low-quality portfolio, significant market selloffs can leave you with many more questions than answers.

Why? Let's think of an example. During the fourth quarter selloff, investors could be pretty sure that Nike, a very high-quality company, would be selling more shoes and apparel in 3 to 5 years than they were at that time. Nike is the world's number one brand in apparel and footwear with a strong track record of growth. Very few brands can challenge its intrenched market position. In contrast, what about a very volatile, low-quality steel producer? How much steel would they be producing in 3 years? Unlike Nike shoes, steel is a commodity, so what about competition from steel producers in low cost countries? What about volatile input costs? Transportation costs? What will volumes and profit margins be in 3 years? Nike investors ask themselves these questions too, but the answers are much easier to estimate for Nike than they are for a steel producer. This is one of the reasons why a steel producer will never be valued by investors anywhere near as highly as Nike.

Keep this in mind for the future:

With high quality investment portfolios, short term market corrections can be viewed as an opportunity for the future, rather than a threat.

Portfolio Review

A number of new businesses have been added to the Cumberland global and international portfolios in the first quarter of 2019. The vast majority of these additions are investments in companies that we have successfully invested in for years. We thought it would be helpful to profile several of them to give you an indication of what we look for in a business. Below is a brief description of three of the businesses that we have added in the first quarter of 2019.

First Republic is a bank in the United States, based in San Francisco. In our view, this is an extraordinary bank with a great track record of success. They have a very high touch, differentiated service model, and each customer has only one person as their point of contact at the bank. They have grown loans and deposits at nearly 20% per year for over 20 years. Credit quality is pristine, among the very best in U.S. banking. In addition, they have an asset management business that has been growing very strongly as well. Roughly half of First Republic's business is in San Francisco, so the bank also benefits from the wealth creation that is occurring in Silicon Valley. Overall, it is an excellent bank with high growth prospects, a differentiated service model, and a great future.

DSV is a transportation business based in Denmark. They are what is known as a freight forwarder, meaning they arrange the shipment of goods by road (truck), air, and sea. The freight forwarding industry grows faster than global GDP, as business is generally becoming more and more global. Goods are increasingly being produced in one location, then consumed in another (your iPhone was designed in the U.S., manufactured in Asia, then shipped to Canada in order for you to buy it). Someone has to arrange these shipments, and DSV is among the best in the world at making these arrangements. Freight forwarding is also a fragmented industry that is being consolidated. DSV is an excellent acquirer, and in 2019 will likely close on its latest acquisition, a peer named Panalpina. Returns to DSV shareholders have been outstanding over many years, and we think the future is very bright for this company.

Bank Central Asia is a large bank based in Jakarta, Indonesia. This is another extraordinary bank, in a very strong position locally in Indonesia. Indonesia has a population 264 million people, a growing middle class, and less than half of the population has a bank account. There is ample growth ahead in the banking business there. GDP growth in Indonesia is typically 5% to 6% per year, roughly twice that of Canada or the U.S. Loans and deposits generally grow in the mid teens at BCA, costs are very low, and margins are high. It is a very profitable bank, with a return on equity of over 18% in 2019. With a large and growing population, strong economic growth, low costs, and a large number of unbanked customers to acquire, we continue to think that the prospects for this bank are very strong.

Outlook

Global stock markets have been strong so far in 2019. U.S. stocks moved higher in each of January, February, and March this year. It seems that many investors are now wondering: "Is this it? Where do we go from here? Have we seen all the gains for 2019?" Bloomberg recently published some interesting data on stock market returns. It turns out that the first quarter of 2019 was the 20th time that the S&P 500 index rose in all 3 months since 1950. Importantly, gains for April through December followed in all of these years except 1987, when stocks crashed in October. The average advance in the subsequent 9-month period has been +9.5%

Source: Bloomberg

Yes, we have had a strong first quarter in 2019, but history suggests that there are still good things to come for the balance of the year.

Cumberland's global and international portfolios are comprised of numerous high quality, leading global companies with strong growth prospects and proven track records of success. Despite strong gains in global stock markets so far in 2019, we continue to have an optimistic outlook. With our emphasis on quality, we feel that our global and international portfolios will continue to provide you with attractive long-term growth prospects.

Craig Millar
Lead Manager,
Cumberland* Global and International Equities
April 4, 2019

*Cumberland Private Wealth refers to Cumberland Private Wealth Management Inc. (CPWM) and Cumberland Investment Counsel Inc. (CIC). CIC acts as sub-advisor to certain CPWM investment mandates including the CPWM Global and International Equity mandates with Craig Millar as their lead Portfolio Manager. Craig Millar is Chief Investment Officer of CIC.