strathbridge
ASSET MANAGEMENT

February 2014 Newsletter

PM Commentary - John Germain, Senior Portfolio Manager

- Many economic statistics in North America came in weaker than expected for January due to the effects of colder than normal winter weather ("polar vortex") on industrial production and transportation networks
- Most of those statistics have bounced back in February as the effects from weather have been transitory as we believe global economic growth will continue to expand
- After declining in late January and early February on emerging market concerns and the second Fed tapering announcement, many global equity markets came back strongly to end February at new highs
- Canadian equities have outperformed U.S. equities so far in 2014 after underperforming for 3 years in a row, mostly due to strength in the materials sector with the S&P/TSX Global Gold Index leading the way up 27%
- The Canadian dollar continued its downtrend from 2013 and has declined 3.8% so far in 2014, ending February at 90.5 cents vs. the US dollar
- Gold bullion bounced back 10% so far in 2014 to $US 1,326 per Troy Ounce after declining 27.3% in 2013
- After touching down to $91.66 per barrel on January 9th, WTI Cushing crude oil has bounced back to end February at $102.59 per barrel
- After rising 171 basis points to end 2013 at 3.03%, 10-year U.S. Treasury bond yields have checked back 38 basis points to end February at 2.65%
- Valuations continue to look attractive with the S&P 500 Index currently trading at 16.0X 2014 estimated EPS and the S&P/TSX Index trading at 16.1X 2014 estimate EPS

Investment Ideas:

Low Volatility U.S. Equity Income Fund (TSX: LVU.UN)

- **Investment Opportunity**: Currently trading at a 3.6% discount to its net asset value per unit with positive outlook for U.S. securities
- Portfolio of U.S. equities selected from the S&P 100 Index, with a beta of less than 1.0, hedged back to the $CAD
- Monthly distribution based on 5.0% per annum of the net asset value of the fund
- Current yield of 5.1% more than double the benchmark yield

	Current Yield[1]	Total Return Since Inception[2]
Low Volatility U.S. Equity Income Fund	**5.1%**	**24.7%**
Benchmark[3]	2.1%	20.6%
Difference		4.1%

(1) As at March 7, 2014, based on most recently declared distribution annualized divided by the closing market price
(2) Total return since inception on March 13, 2013 to February 28, 2014 based on NAV per unit
(3) Benchmark - S&P 100 Total Return Index

Canadian Utilities & Telecom Income Fund (TSX: UTE.UN)

- **Investment Opportunity:** Buying opportunity as units trading at over 2.5% discount with high distribution and strong outlook
- Portfolio of primarily large capitalization Canadian (over $1 billion) utility and, to a lesser degree, telecommunications issuers with a minimum distribution yield of 2.0% per annum
- Monthly distribution of 7.0% per annum based on the net asset value of the fund
- Current yield of 7.1% more than 50% greater than the benchmark yield

		Annualized Total Returns[1]				
	Current Yield[2]	1 Year	2 Year	3 Year	Since Inception[3]	*Volatility* [4]
Canadian Utilities & Telecom Income Fund	**7.2%**	**3.1%**	**6.6%**	**9.9%**	**9.7%**	***7.3%***
Benchmark[4]	4.6%	(0.8%)	3.5%	6.2%	5.7%	*7.9%*
Difference		3.9%	3.1%	3.7%	4.0%	

(1) For each period ending February 28, 2014
(2) As at March 7, 2014, based on most recently declared distribution annualized divided by the closing market price
(3) Total return since inception on December 17, 2010 to February 28, 2014 based on NAV per unit
(4) Volatility as measured by annualized standard deviation of monthly returns since inception
(5) Benchmark – 75% S&P/TSX Capped Utilities Index and 25% S&P/TSX Capped Telecom Index

Market Outlook - Jack Way, Vice President

It doesn't count for much, but in our last letter we advised: prepare for the unexpected. As Gilda Radner said "It's always something". So far this year we have experienced two: the weather and the Ukraine.

We have commented in the past, that "these things too will pass", but they do have an impact on investor perceptions in the short term. Nevertheless, the direction of the U.S. stock market shows no sign of a significant change in its longer term direction, which is upward. Interestingly, while we in North America have had a brutal winter, globally January was the 4th warmest since records have been kept. It has made it difficult to sift through economic reports as to what may be a real slowdown, and what is caused by the bad weather. The next quarter should give us an answer.

The situation in the Ukraine is disturbing. The country is a very meaningful buffer between Russia and the NATO countries, and a main conduit of energy into Europe. At least the two sides are talking, and it is to be devoutly wished that cooler heads will prevail. It is not reassuring that the German Chancellor is reported to have said "Putin is out of touch with reality".

In the U.S. the ceasefire in Washington continues, but beneath the surface the war wages on. The November mid-term elections will give us a signal as to the direction of policy, but it will probably be the next presidential election in 2016 before we will have a definitive answer.

Nothing new at the Fed under Janet Yellen. Like the parent who throws the child in the pool to sink or swim, but is ready to grab the kid if sink is the answer, the Fed continues its policy of tapering but is prepared to step back in if the economy needs it. This is reassuring for financial markets.

Much has been made lately of economies and markets "decoupling". Developed markets are doing well, while emerging market countries are in various stages of decline, and therefore not providing the impetus to global growth as seen in the past. It would not be wise, we believe, to ignore those markets, since a global domino effect could still become a reality.

We are skeptical about Japan's ability to jump start its economy with massive monetary stimulus. While successful in pushing the yen lower and increasing inflation, it also, as a consequence lowers consumer spending and thus GDP. The jury remains out. We would certainly hope the policies are successful.

China continues its efforts to create an economy powered more by consumption and less by investment. The leadership is forecasting a growth rate of 7.5% this year, but admits it may be slightly lower. Whatever the number is, it will be the weakest rate of growth in the last 24 years. The first corporate bond default in China has just taken place, and while it increases the risk perception, it is also a sign that free market forces will be allowed to play a more meaningful role. In the longer term that will be a positive.

March and April are historically strong months for stock markets and, as mentioned, the outlook remains positive. That said, the days of bad news being good for markets seem to have passed. Investors want to see marked economic and earnings improvement. In this environment risk management will be rewarded, not punished as has been the case for the past several years. We believe strategies such as our "Strathbridge Selective Overwriting" will play an even more meaningful role in portfolio outperformance.

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