strathbridge
ASSET MANAGEMENT

March 2014 Newsletter

Notice: SPECIAL DISTRIBUTION LVU.UN $0.25 PER UNIT

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

- **Special Distribution**: $0.25 per unit payable to unitholders of record on April 15, 2014 , ex-dividend date of Friday April 11, 2014
- Due to continued strong performance and realized capital gains expected to be in excess of regular distributions for the year
- Monthly distribution based on 5.0% per annum of the net asset value of the fund

	Current Yield[1]	Annualized Total Return Since Inception[2]
Low Volatility U.S. Equity Income Fund	**5.2%**	**22.4%**
Benchmark[3]	2.1%	20.3%
Difference		2.1%

(1) As at April 9, 2014, based on most recently declared regular distribution annualized divided by the closing market price
(2) Total return since inception on March 13, 2013 to March 31, 2014 based on NAV per unit
(3) Benchmark - S&P 100 Total Return Index

PM Commentary - John Germain
Senior Portfolio Manager

Global equity market returns were mixed for the month of March due to concerns the U.S. Federal Reserve might start to raise interest rates sooner than expected after newly appointed Chair Janet Yellen indicated such a move was possible during the March FOMC meeting. Other notables in March:

- TSX Composite has outperformed the S&P 500 year to date
- Material and energy sectors contributed to outperformance
- Utilities and REITs also performed well as investors moved into more defensive sectors as the ten year rate continued to slide
- Weather related slowdown is dissipating
- A drought in Brazil has led to coffee bean futures increasing by 80% year to date while lean hog futures are up over 45% YTD – breakfast is getting more expensive…

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Market Outlook – Jack Way
Vice President

Another quarter has passed with much to concern investors; the cold weather in North America, political instability in the Ukraine, the risks to China's economy and shadow banking systems, and the Yellen Fed being somewhat of an unknown. Ms. Yellen's slip of the tongue that higher rates may come sooner than expected really spooked markets. A cynic (okay me) might suggest these little bombs from Fed members are a way to build up scar tissue on investors against the day rates really do go up. Still despite all that and a few dips here and there, markets maintained a positive tone. It must be noted however, that investors are casting a more jaundiced eye on bad news, probably because the Fed is slowly removing the punch bowl known as Quantitative Easing. April has begun on a negative note, concentrated in stocks with high valuations. It's not surprising given the 32% rise in 2013, that a consolidation/correction would occur, but we still don't see a major decline in the near term. Nevertheless, we are closer to the time when being the "lesser fool" will be appropriate.

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Investment Ideas:

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	**7.1%**	**3.5%**	**8.3%**	**10.5%**	**10.6%**	***7.4%***
Benchmark[4]	4.4%	4.1%	5.8%	7.0%	6.8%	*8.0%*
Difference		(0.6%)	2.5%	3.5%	3.8%	

(1) For each period ending March 31, 2014
(2) As at April 9, 2014, based on most recently declared distribution annualized divided by the closing market price
(3) Total return since inception on December 17, 2010 to March 31, 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

PM Commentary cont'd

- For the first quarter of 2014, the S&P/TSX Composite Index was one of the strongest performing global markets with a total return of 6.1% compared to 1.8% for the S&P 500.
- Strong performance from the Materials and Energy sectors helped propel this outperformance for the TSX as bullion prices had a slight resurgence.
- We continue to expect U.S. equities will outperform Canadian equities in 2014 due to stronger economic and earnings growth in the U.S. and Canadian market exposure to Emerging Markets.
- The weakness in U.S. economic data attributable to weather for the first quarter of 2014 has bottomed and we expect data to pick up in Q2 as companies and consumers that held back spending will start to do so.
- The decoupling of Developed Market economies and Emerging Market economies that began in 2012 continued in the first quarter of 2014. Leading Economic Indicators continued to expand in the first quarter in the United States and Germany while deteriorating in Brazil and China.
- After rising 10% for the first 2 months of 2014, Gold Bullion retreated 3.2% during the month of March as tensions between the Ukraine and Russia started to dissipate, though has rebounded somewhat in the beginning of April.
- Volatility also remained low during the first quarter of 2014 other than the brief spike at the end of January on reports that Russian troops were occupying Crimea, a Republic of the Ukraine. The CBOE Volatility Index ("VIX") averaged just under 15 for the first quarter of 2014. Due to this low level of volatility, we were less active in call writing as we were not compensated by the call option premium to sell away upside.
- We remain positive on equities due to improving economic growth, strong balance sheets and attractive valuations.

Market Outlook - Jack Way, Vice President

In the meantime, the U.S. economy needs to pick up steam.

There are many reasons to expect better outcomes for the U.S. economy: Federal government revenues are up and expenditures are down, easing the budget deficit even to the point of a possible surplus position. The trade deficit is also vastly improved in part due to the much lower energy cost deficit. Those lower energy expenses also benefit consumers and their ability to spend. As well, health care costs have flattened out, interest expenses are down and unemployment is lower. "Insourcing" is the new byword, as the U.S. attracts new business and jobs back from abroad. All of the above argue for a much stronger U.S. economy, but we need to see the proof in the numbers.

Europe is a conundrum. On the one hand, the economy is very sluggish (the IMF estimates the Union's output gap at 2.5% lower than potential GDP) but the Purchasing Managers Index (which indicates a positive growth outlook when above 50%) is above 50% in countries such as Germany and the UK; and even in peripheral members like Greece, Spain and Italy. Perhaps more of a concern is the risk of disinflation or deflation such as was experienced in Japan. The IMF sees inflation well below target through 2016, and the IMF head, Ms. Legarde, called deflation "the ogre that must be fought decisively". The possible silver lining to all this is that European Central Bank Chairman Draghi still says he will do "whatever it takes" to defeat deflation and promote growth. No longer can the ECB sit back and let the Fed do the heavy lifting. As tapering in the U.S. continues, there is a strong argument its European counterpart must take a more aggressive stance. Recent quotes from senior political and financial leaders would suggest such is the case. The situation calls for "extraordinary measures" up to and including quantitative easing. Whether or not such measures would be successful remains to be seen. But if we look at the experience in the U.S. and now Japan, QE or even the threat of it gives a major boost to risky assets. Consequently, we would expect very strong European markets should the ECB announce such policies. Of course, all bets are off until Russian military aggression in the Ukraine ceases.

As ever, lots to worry about, but we remain longer term positive.

Forward Looking Information and Disclaimer

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