CIBC Wood Gundy

Several New Investments in Q3

Throughout 2012, most macroeconomic headlines have been negative. But while the global economy is hardly strong at the moment, there are some positive trends worth monitoring. Based on recent data, we are in the very early stages of a housing recovery in the United States. This is welcome news to stock investors, as U.S. housing has contributed to weakness in the global economy for years. A stronger U.S. economy would help the global economy get back on track.

New U.S. housing starts increased 15% in September to a seasonally adjusted annual rate of 872,000 units.[1] That is the highest number in approximately four years, but it is still far below 1.5 million, which could be considered a normal level based on the long-term data. New home construction and its spin-off industries are labour-intensive, so increased activity should contribute to lower U.S. unemployment over the next few years.

While we could see housing starts continue to rise significantly and return to more normal levels, any rise in U.S. housing prices is likely to be moderate and occur over a multi-year period.

We currently have modest exposure to the U.S. housing market in the Total Return Portfolio through Berkshire Hathaway Inc. and Synovus Financial Corp. Berkshire is heavily invested in U.S. banking and also owns a brick maker, a flooring maker, a realtor and the largest builder of manufactured homes. Synovus is a regional U.S. bank that we purchased in 2010 after it was hit hard by the housing downturn. We purchased the stock with a 3-5 year time horizon based on our belief that the business would turn around, and the turnaround is in progress, as the business has swung back to profitability.

We intend to increase our exposure to businesses tied to U.S. housing over the coming months, especially in the financial services sector.

Portfolio Changes

SNC-Lavalin Group Inc.

On July 18 we bought SNC-Lavalin shares in the Total Return Portfolio at $39.69. SNC is one of the world's leading engineering companies, and is also an owner of various infrastructure investments. It has been in business for over 100 years.

Prior to our purchase, the company's stock price was hit hard by negative news. Its CEO resigned in March after an internal probe found that he had authorized $56 million in mystery payments to agents on non-existent North African construction contracts. More recently, an allegation surfaced that SNC made $22 million in dubious payments to secure a contract to build a health center at Montreal's McGill University.[3] The stock is well off its 52-week high of $56 and is currently trading around $40. We endeavor to be contrarian, so we became interested in the company after witnessing this sharp price decline.

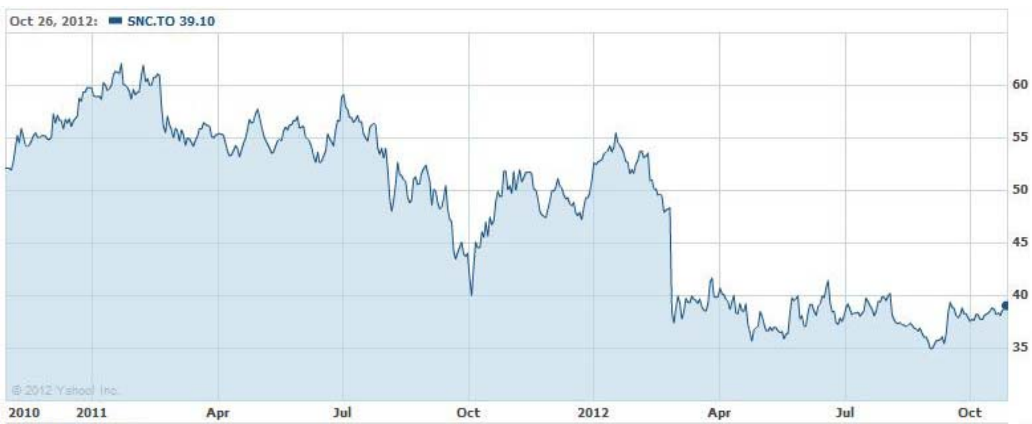
The key question we asked before purchasing the stock was whether the company's long-term fundamentals have been impaired. In other words, we asked whether the negative news has affected the company's reputation to the point where its ability to win new engineering contracts has been materially reduced.

So far, this has not happened. The company has signed numerous contracts over the past six months, including significant deals in the mining and oil and gas sectors. More recently, on October 5, the company announced it has been selected as the preferred bidder for the $1.4 billion Evergreen Line project linking Burnaby, Port Moody and Coquitlam with an 11km light rapid transit line.

In addition to its continued ability to win new engineering contracts for its core business, the company's infrastructure investments should help support the stock price. Infrastructure investments are typically low-risk, longer-term assets that can increase prices to keep pace with inflation.

SNC has a division dedicated to building, owning and operating infrastructure investments such as toll roads. The company's stake in Ontario's Highway 407 toll road is perhaps the best example. Collectively, SNC's infrastructure investments are estimated to be worth $22.38 per share, according to management.[4] Raymond James Ltd. analysts place an estimated value of $18.74 per share on these assets,[5] and RBC analysts believe they are worth $20 per share.[6] Even taking the lowest estimate, these assets are a significant reason why we see value in the company's shares.

With SNC, we believe that the company will move past recent negative events and continue its track record of growth and engineering excellence. While we wait for the negativity to dissipate, we are receiving a dividend of approximately 2.3%. At current prices, the stock trades at 14.5 times consensus analysts' earnings per share (EPS) estimates of $2.67 for 2013. As shown in the multi-year chart below, our purchase price of $39.69 is near the bottom of the stock's recent trading range.



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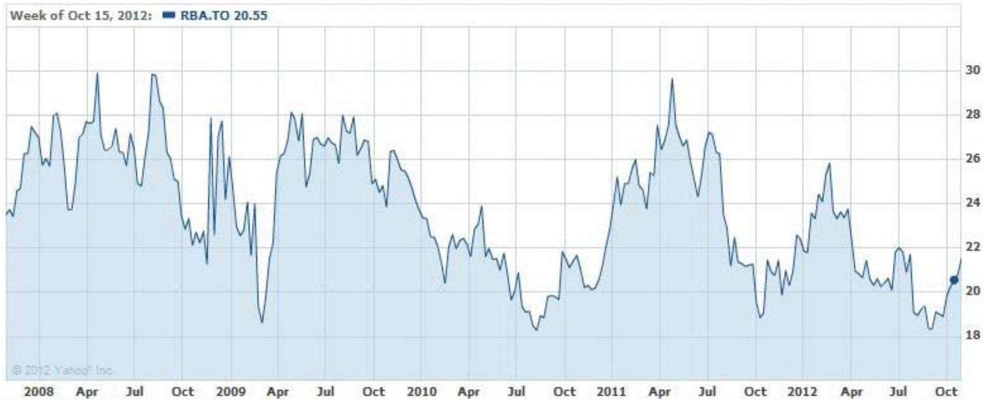
Ritchie Bros. Auctioneers Inc.

On August 2, we added to our position in Richie Bros. Auctioneers Inc. at $19.16, raising our holdings to approximately 4.5% of the Total Return Portfolio. We discussed Richie Bros. in depth in our Q4 2011 newsletter. The company is the world's largest auctioneer of heavy equipment and trucks, and it has good growth opportunities in this niche business. We added to our holdings after the company released weak quarterly results and the stock sold off. Our average cost is now $19.39 for the entire position. We think the stock is undervalued at our purchase price and foresee solid growth over a 3-5 year time horizon.



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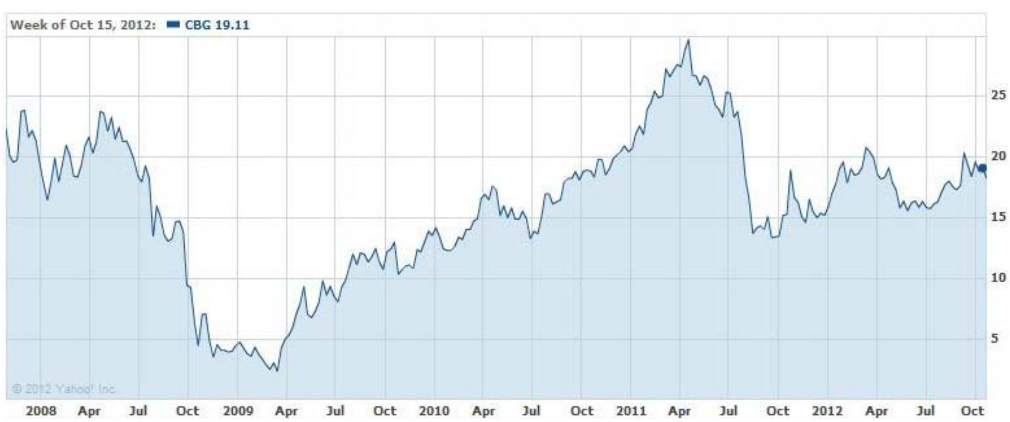
CBRE Group Inc.

On September 7, we bought CBRE Group Inc. in the Total Return Portfolio at US$17.65. CB Richard Ellis is the global market leader in commercial real estate services, including leasing, investment sales, and outsourcing. It is the only commercial real estate company in the US S&P 500 Index. We view the company as undervalued at our entry price based on its growth prospects.

Management has guided that the company will earn between $1.20 and $1.25 per share in 2012. Using the lower end of 2012 guidance, the company is trading at a price to earnings ratio (PE) of 14.7. Analyst consensus estimates are for $1.46 of EPS in 2013. We believe the company could grow its earnings per share at double digit rates over the next three years. The company has a solid historical track record of growth, as its revenues advanced at a 16% compound annual growth rate from 1992 to 2011.[7]



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CB Richard Ellis will be a familiar name to some clients, as we previously purchased the company in 2009 at US$4.65 and sold it in stages at US$11.35 and US$13.40 in the years that followed. Our holding in CB Richard Ellis represented approximately 2.1% of the Total Return Portfolio at the end of Q3.

Other Notable Changes

In the Total Return Portfolio we sold out of UK electrical utility National Grid PLC on July 13 at US$54.38. We originally purchased the stock in March 2011 at US$47.05. We also sold PepsiCo Inc. in two stages at US$72.68 on July 31 and $73.05 on August 22. We originally purchased the stock at $62.92 on November 20, 2012.

We have retained our positions in both National Grid PLC and PepsiCo in the High Yield Portfolio as they continue to offer an attractive yield. Changes to the High Yield Portfolio in the quarter were minimal. We added a position below par in Citigroup bonds denominated in Canadian dollars that yield just under 5%.

Conclusion

We approach Q4 and the end of 2012 with a sense of cautious optimism about our holdings in the Total Return Portfolio and the High Yield Portfolio. We believe that many of our holdings are trading far below their true value and should provide solid returns over the next several years.

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1 Reuters, *U.S. housing starts surge to fastest pace since 2008*, http://www.theglobeandmail.com/report-on-business/economy/housing/us-housing-starts-surge-to-fastest-pace-since-2008/article4617647/# (October 29, 2012)

2 H.J. Huneycutt, *Housing Market Improvement: Sign of Recovery or Stagflation?,* http://seekingalpha.com/article/934361-housing-market-improvement-sign-of-recovery-or-stagflation (October 29, 2012)

3 Reuters, *SNC Lavalin CEO sees growth potential despite scandal*, http://ca.finance.yahoo.com/news/snc-lavalin-ceo-sees-growth-potential-despite-scandal-153823365--sector.html (October 29, 2012)

4 SNC Lavalin, Investor Presentation – August 2012, p. 12 (October 29, 2012)

5 Raymond James Ltd., SNC-Lavalin Company Comment dated October 5, 2012

6 RBC Capital Markets, Company Update - SNC-Lavalin Group Inc. dated August 13, 2012

7 CBRE Group Inc., Investor Presentation – September 2012, p. 18