Seymour Investment Management

April 12, 2012

Global equity markets generated strong returns in the first quarter of 2012, particularly in the U.S. where there was evidence of a continuation in the economic recovery. In the U.S., the S&P 500 Index posted a return of 12.6% while the Canadian S&P/TSX Composite Index produced a return of 4.4%. The quarter was notable in that bonds generally had negative returns and significantly underperformed stocks -- a development which we believe is likely to become a trend.

While the economic recovery from the very severe global recession has been slower than in previous recoveries, there is growing evidence that most economies, including the U.S., are in fact growing again. Positive employment data, buoyant auto sales, and growth in industrial output are all very tangible evidence of a recovery. In Europe, uncertainty remains over how the debt crisis will be resolved but there continues to be a concerted effort and willingness to deal with the issue. The pace of economic growth in China has slowed which is causing some concern among equity investors. We share this concern, as other rapidly industrializing economies have historically had difficulty maintaining GDP growth rates in excess of 8% for extended periods of time (i.e. Japan, Korea, Taiwan).

The apparent slowdown in China has contributed to the recent under-performance of the Materials and Energy sectors in Canada, which lagged the overall market. Non-resource cyclical industries including Consumer Discretionary, Industrials and Financials were the market leaders. We expect this trend is likely to continue as the Consumer and Industrial sectors continue to trade at attractive multiples and should benefit from a continuation of the economic recovery. Commodity prices, on the other hand, may struggle to maintain current levels if growth in China is indeed slowing down. We continue to hold only modest positions in the Energy and Materials sectors.

Warren Buffet, in his annual letter to shareholders, provides an excellent explanation of the risks of holding currency-based investments including bonds. Only when interest rates are high are investors in currency-based investments compensated for the inflation risk they face. In Buffet's view:

> ***"Current rates, however, do not come close to offsetting the purchasing-power risk that investors assume. Right now bonds should come with a warning label".***

Bonds have outperformed stocks for an unusually long period of time by historical standards. In large measure, this occurred due to an extended cycle of low inflation and declining interest rates. When interest rates decline bonds increase in value, creating a capital gain for bondholders which adds to the income or coupon returns from holding bonds. Interest rates are already at almost unprecedented low levels. Unless interest rates continue to decline to virtually zero, bonds are extremely unlikely to generate positive real returns for investors.

Suite 1000 | 1285 West Pender Street | Vancouver, B.C. | V6E 4B1
Main: 604-659-1722 | Fax: 1-877-778-3770
www.seymourinvest.ca

Stocks, on the other hand, have been shunned by investors. The combination of sub-par performance relative to bonds (and gold) and high volatility has resulted in an exodus from stocks by both individual investors and institutions. We believe that the out-of-favour status of stocks and the continuation of the economic recovery will produce a period of superior returns for stocks. According to TD Securities, the S&P/TSX Composite Index is trading at 13.4 times 2012 estimated earnings. This represents a significant discount to its historical average of 14.5 times, and an even wider discount to historical market valuations during periods of low interest rates.

Headline risks to equity valuations remain abundant. The problems in Europe are political, economic and cultural. Debt levels for governments and individuals in the U.S. are a concern. Growth in China is likely to continue to be uneven. The history of equity investing is replete with headline risks. While we recognize volatility creates uneasiness for many investors, we view volatility as an opportunity. We continue to invest in well-managed companies with strong balance sheets and solid growth prospects. The pricing of these equity securities may continue to be volatile but we have great conviction that this strategy will reward patient investors.

We thank you for your continued support and look forward to meeting with you in the near future.

Regards,

The Seymour team