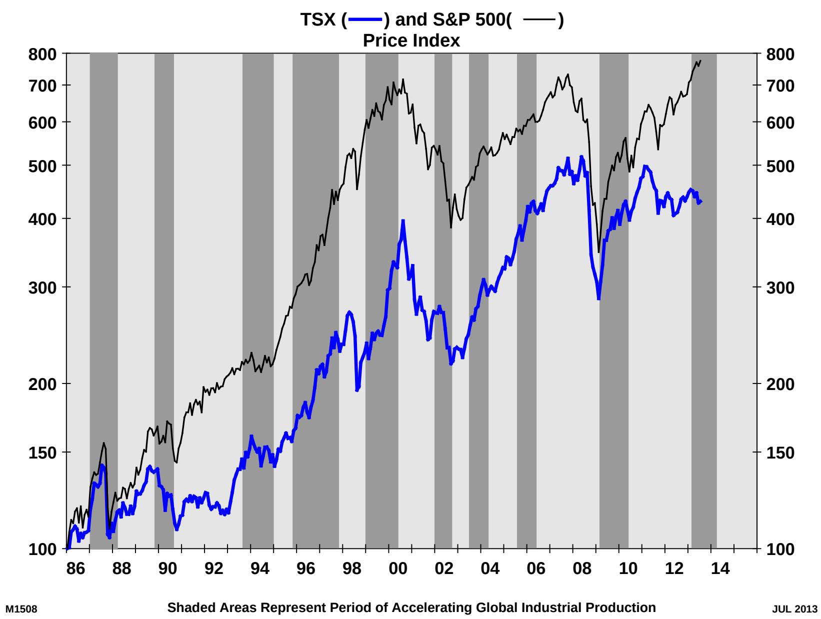
July 11, 2013

Equity returns in Canada were disappointing in the most recent quarter. The S&P/TSX Composite Index posted a total return of -4.1% in the second quarter, bringing year-to-date returns into slightly negative territory. As is often the case, returns were quite varied in Canada across various industry sectors. Negative returns were most pronounced in the Materials sector (Base Metals, Gold, etc.) and interest rate sensitive sectors such as Real Estate and Telecommunications. While most major markets (including Canada) suffered declines in the quarter, U.S. equities once again registered gains on signs of continued strength in the U.S. economic recovery.



Source: TD Securities

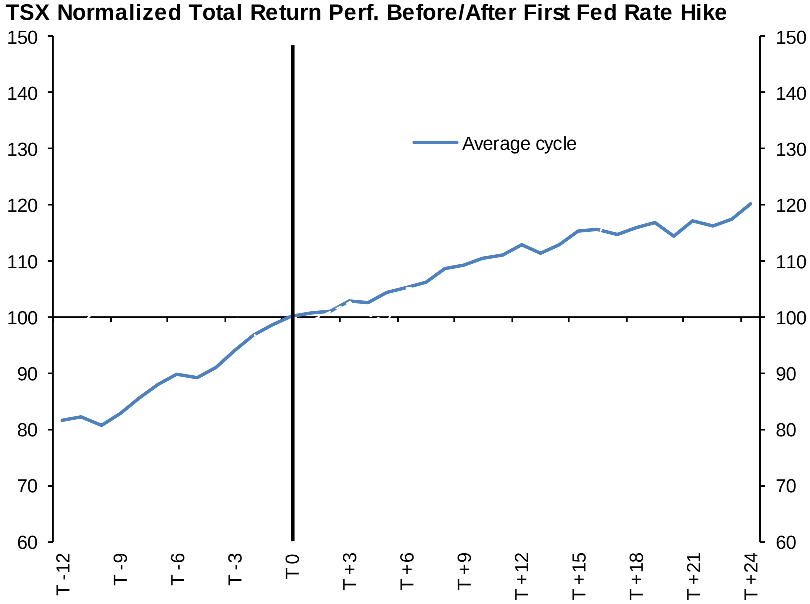
Concerns in equity markets generally revolved around an eventual end to quantitative easing by central banks (the U.S. Federal Reserve in particular) and an inevitable resulting rise in interest rates. Since the Great Financial Crisis of 2008, economic growth and inflation have been much lower than long-term historical average levels (inflation closer to 2% rather than long-term average of 3%). In our view, the dramatic stock market declines of 2008 and the five-year period of tepid economic growth and inflation have created some bond investor complacency which began to be challenged in the most recent quarter. In Canada, the bellwether Long Government of Canada Bond declined in value by 6.3% in the latest quarter and by 8.0% year to date. This has come as somewhat of a shock to some investors who have viewed bonds as 'safe' investments.

Many investors are wondering if the recent rise in bond yields has created a buying opportunity. Despite the decline in bond prices, we continue to believe that bonds offer investors a very unattractive risk-return profile. Even on a pre-tax basis, 10-year bond yields are still well below the long-term inflation rate (2.5% vs. 3.2%). We believe that bond investors are still likely to suffer a loss of purchasing power over longer time frames. The bond market may not correct quickly but that should be small comfort to bond investors. An extended period of gradual price declines might feel better psychologically for investors than a quicker, precipitous drop but neither outcome is helpful for accumulating wealth.

Equity markets have not been immune to the recent awakening to the long-forgotten threat of rising interest rates. High-yielding equities, a popular asset class in recent years as evidenced by the strong fund flows into dividend and income funds, came under pressure in the quarter. Investors seeking safety in high-yielding stocks were faced with negative total returns. Telecommunications stocks and real estate investment trusts (REITS) are two sectors that have enjoyed several years of stellar returns, which reversed sharply in the quarter. We continue to urge investors to consider total return (dividends, income and capital appreciation) in developing a long-term investment strategy.

While a general rise in interest rates has negative implications for many financial assets, the impact is far from equal across asset classes and sectors. Moreover, as we have highlighted in recent letters, equities can generally perform quite well in periods of gradually rising rates. The chart below, which is based on historical average market performance since 1956, illustrates that on average, equities have performed well during periods of rising U.S. interest rates. Higher rates can be expected to put some pressure on stock valuations (price to earnings multiples) but earnings growth from improving economic growth can outweigh the valuation headwinds and produce favourable returns.

TSX Normalized Total Return Perf. Before/After First Fed Rate Hike



Based on data going back to 1956

Source: Scotiabank GBM, Bloomberg, Thomson Financial.

This quarter marked the three-year anniversary of Seymour Investment Management. We are very appreciative of the support we have received from clients and are pleased with the investment returns we have delivered to date. Both the Seymour Performance (SmallCap) Fund the larger-cap Seymour Canadian Equity Fund have outperformed their respective benchmarks, as illustrated in the table below.

Total Return for the Period (%)	**QTR**	**YTD**	**1 YEAR**	**3 YEAR (annualized)**	**Since Inception (annualized) [2]**
Seymour Performance Fund [1]	**4.0%**	**9.3%**	**26.3%**	**26.1%**	**24.6%**
S&P/TSX Smallcap Total Return Index	-7.3%	-6.8%	-1.0%	0.9%	0.6%
Seymour Canadian Equity Fund [1]	**-0.9%**	**5.2%**	**14.9%**	**9.9%**	**7.6%**
S&P/TSX Composite Total Return Index	-4.1%	-0.9%	7.9%	5.4%	3.5%

As at June 30, 2013

[1]Performance is shown net of fees and expenses.
[2]Annualized since inception date of June 04, 2010 for the Seymour Performance Fund.
Annualized since inception date of June 15, 2010 for the Seymour Canadian Equity Fund.

While three years is only the start of what we hope will be a solid, long-term investment track record, it is a good start. We thought that our three-year anniversary might be a good time to review some of the founding principles of Seymour.

At the core of our organization is the belief that clients are best served by employee-owned investment firms. There is academic research to support this view but it also intuitively makes sense. Small, employee-owned firms tend to be less bureaucratic and better positioned to respond quickly to investment opportunities. There is also a pride of ownership and entrepreneurial spirit which is hard to replicate in very large, corporate entities. We believe that many of the brightest investment professionals want to be owners and the ability to attract and retain high-quality investment professionals is enhanced by offering the opportunity for ownership. We have also found that administrative staff often prefer to work for smaller, employee-owned firms. A less structured work environment and greater level of empowerment can lead to improved client service. We continue to receive very favourable feedback from clients on our administrative staff and we are proud of their work.

We have worked hard to develop a corporate culture of investment excellence. In our industry, there can occasionally be opportunities where marketing objectives can compromise the ability to optimize investment returns (i.e. spreading the investment manager too thin with multiple investment mandates). We have been very disciplined about trying to focus on areas of the capital markets where we feel we can add significant value. It is our hope and belief that solid, long-term investment returns and superior client service will drive the marketing effort. The excellent support that we have received from existing clients and referral sources would support that view.

Fees are also very important. The investment industry is generally reluctant to disclose fees and in our view, there are many fee structures prevalent today which are too high. We believe that our fee structure is very fair and transparent and that fees are an important, but often overlooked component to wealth accumulation.

Manager alignment is also an important consideration. At Seymour, we do our best to align our interests as Investment Managers with those of our clients by only investing our personal capital in the same funds as our clients, and by limiting the size of our funds in order to avoid liquidity constraints.

Our core values have been refined but are basically unchanged from when we started three years ago. We have grown steadily from our inception to around $250 million in Assets Under Management. We feel that we have a solid foundation on which to build upon and we appreciate the support of our clients, employees, and suppliers.

We continue to be quite optimistic about the long-term outlook for stocks. Economic growth in most areas of the world is modest but positive. Valuations remain reasonable and appear attractive relative to historical market valuations during periods of low interest rates. According to TD Securities, at June 30th the S&P/TSX Composite Index was trading at a price-to-earnings multiple of 13.3 times bottom-up 12-month forward consensus earnings estimates. This represents a significant discount to its historical average multiple of 15.1x forward earnings, and an even wider discount to historical market valuations during periods of low interest rates. By the same measure, the S&P 500 (U.S.) Index was trading at 13.7x P/E, below its historical average of 15.4x.

As we frequently remind our clients, equities have long been the best-performing asset class and we expect that to continue to be the case going forward. While the unfortunate downside of equity investing is that equities occasionally experience declines in value, the best way to earn equity-like returns is to own equities. We believe patient, long-term equity investors are likely to be rewarded for equity ownership with favourable long-term returns.

As always, please don’t hesitate to contact any member of the Seymour team with any questions or concerns. Best wishes for a safe and happy summer.

Warm Regards,

The Seymour team