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## Our portfolio managers favour companies well positioned for a slow recovery

Gradually improving economic fundamentals and continuous cash flows from the sidelines to the stock markets are expected to continue to support equity valuations in 2010. However, the recovery will be slow as businesses and individuals continue to watch their spending and central banks devise “exit strategies” to gradually remove liquidity from the markets to keep inflation in check without triggering another crisis. These factors will likely translate into mediocre returns from the broad markets. Companies that can attract and sustain business from frugal consumers will prosper while those that cannot will disappoint. In this divergent market environment, strong portfolio management is critical in identifying the best investment opportunities while avoiding the weaker ones.

In this edition of *Highlighted Positions*, two of our leading portfolio managers – **Joe Jugovic** from **QV Investors Inc.** and **John Hock** of **Altrinsic Global Advisors, LLC** – discuss the merits of some of their favourite holdings and the areas that they are targeting or avoiding in the Canadian and international equity markets.



At QV Investors, we are targeting businesses which we believe are sustainable given a potentially challenged economic recovery. With this in mind, we have focused on defensive businesses with rewarding dividend yields. The best performing industry sectors – including resources and financials – have been those areas that are most sensitive to an economic recovery. However, they are the same sectors that now offer limited margins of safety should the recovery fade. Therefore, we continue to have modest exposure to these sectors.

### Canadian stocks we like

**Canadian Utilities** provides something its customers can't do without: electricity, water, and natural gas services. This is a business that is not dependent on strong global economic growth to flourish. The management team is conservative and has been very successful over the years in creating attractive returns for shareholders. The utilities sector has been a laggard in a marketplace focused on maximizing return. Given the historically attractive valuation and dividend yield of approximately 3.5%, we believe the shares offer an excellent risk/reward tradeoff. Should the economy hit a few bumps in the road, it will be defensive names like Canadian Utilities that investors will gravitate to.

**Crombie Real Estate Investment Trust** is a developer and owner of grocery-anchored retail real estate focused in Atlantic Canada. The business was spun out of Empire Company, which owns Sobeys. Sobeys remains its dominant tenant and an excellent platform for future growth. Empire remains committed: it owns almost 50% of Crombie. The defensive nature of Crombie's tenant base provides stability through economic downturns.



We believe the business will slowly grow as Sobeys expands in Western Canada, and in the meantime, we are paid a 9% yield. Come 2011 when so many business trusts will see their distributions cut, we suggest this 9% will look very attractive.

The Canadian banks have benefited from the low interest rate environment by having access to very cheap funds. Unlike many of the others, though, **Laurentian Bank's** stock still trades at about book value and 10 or 11 times earnings. Being a regional bank based in Quebec with a basic business model, it showed resilience in 2008 while others were panicked to write down assets and raise capital. This is a small-capitalization financial institution which continues to be under the radar screen of many investors. We believe management is focused on improving return on equity and, over time, will gain investors' confidence through improved earnings and book multiples. The business pays a 3% dividend yield and continued conservative growth.

**What investment mandates does QV manage?** Canadian Equity Small Cap Pool, Canadian Equity Small Cap Corporate Class, Canadian Equity Alpha Corporate Class, and the small cap and alpha mandates of the Institutional Managed Canadian Equity Pool.



Our team at Altrinsic Global Advisors is focusing on balance sheet strength across all industry sectors and on a margin of safety in each of the stocks we own. We have meaningful exposure to European-based global consumer franchises and, relative to the benchmark index, an overweight position in compelling long-term technology stocks. In addition, we have a significant underweight position in European financials due to our concerns about lingering non-performing loans and weak balance sheets.

### **International stocks we like**

**Nestlé**, based in Switzerland, is the world's largest food and beverage producer. Despite its global scale, strong positions in growing categories and markets, superior management, and iconic brands, the shares trade at a substantial discount to food producers globally. When its ownership stakes in Alcon (a U.S.-based eye care company) and L'Oreal (the French cosmetics giant) are removed, the discount becomes even wider.

**GlaxoSmithKline** is the second-largest pharmaceutical company in the world. It is attractive due to the diversity of its business (pharmaceuticals and consumer health) and the fact that it is not facing a "generic cliff." A cliff occurs when key patented drugs lose their exclusivity. In addition, GlaxoSmithKline pays a



secure, high dividend. We believe that the company has not been credited for its well-stocked product pipeline and the diversity of its revenue base as the market fixates on the approaching patent expiration of its key asthma drug, Advair.

**Nintendo** is a Japan-based pioneer of home video games. The company has the largest share of the global game console and mobile game markets. It is also a leading game software developer, creating such legendary characters as Super Mario, Donkey Kong, Zelda, and Pokémon. While Nintendo's Wii was the hottest consumer technology product for the last three years, its stock had declined precipitously due to a slow video game market during the summer, the possibility that management may lower its guidance to investors on future company performance and the fact that Wii players tend to buy fewer games. However, we believe that Nintendo's stock already reflects these issues, and since the company has many upcoming games, it has the option of cutting the price of Wii hardware to stimulate sales. The stock is trading at a price-earnings ratio of about 11 and has 40% of its market capitalization in cash, limiting the downside.

**What investment mandates does Altrinsic manage?** International Equity Value Pool, International Equity Value Corporate Class, and a portion of the value mandate of the Institutional Managed International Equity Pool.

**Together with your advisor, and our portfolio managers, we help to ensure your investments continue to meet your needs in all market environments.**

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