

August 16th, 2011

US Debt Downgrade & European Debt Crisis present buying opportunities.

Financial markets around the world saw volatility re-emerge with a vengeance this past week. US Treasuries rallied last Monday following S&P's US credit downgrade from AAA to AA+ and equity markets plunged. Normally, such securities would drop in value when a credit rating is cut. So these are very interesting times. At least Washington is now focused on ways to reduce their deficit.

The European experiment of operating under one currency continues. So does the political machinations in seeking to manage those member countries which are insolvent or close to it and those which are exposed to them. The big question is how long will Germany support the one currency structure. For an excellent exposé on the situation read Michael Lewis' latest: "It's the Economy, Dummkopf".

Our portfolio, with its focus on large multinational companies trading at much lower price to earning ratios than the broader market and a cash position around 23% leading into this volatility, has seen us outperform the market from July 1st through August 15th by about 9%. The MSCI World Index is down just on 11% while our portfolio is down just on 2%* during this period. Importantly, we have had the opportunity to put just over a third of this cash to work in new and existing positions (about 8% of the portfolio) during the past week. Volatility has always been the value investor's friend and we sense this time will be no different.

Important Information

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You should also consider the PDS in deciding whether to continue to hold an interest in the Fund.

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Notes:

- The MSCI figures are the MSCI World Total Return Index (net local).
- * The above performance numbers are not audited.

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