

2012 Third Quarter
Value Contrarian Equity Fund

Dear Partners,

I like the fact that everyone is worried about the stock market.... When people throw caution away, I get nervous.

Gus Sauter
Chief Investment Officer
Vanguard Funds

In 1999, when everyone was unworried, the S&P 500 traded at more than 30 times earnings. Today the p/e ratio has more than halved, and it is well below the post-World War II average. There's no doubt that stocks have cheapened relative to historic parameters...

Howard Marks
Oaktree Capital
September 2012

...Until the Europeans face up... and show us a path from a banking union to a fiscal union, and ultimately to a political union, everything they do is going to be a Band-Aid... They're going to have to show us that they can create the same kind of institutions that are required to run a country in order to run that monetary union...

Paul Martin
Former Canadian PM

Your Fund ended the third quarter with a net asset value of \$2,487.08 per unit, an increase of \$181.90 from the December 31, 2011 net asset value of \$2,305.18 per unit (after distributions). Year-to-date nine month performance: + 7.9%.

One thing is certain, today's ultra low interest rates "amount to a subsidy to borrowers at the expense of savers". Unfortunately, one of the main consequences of these ultra low rates is that investors are prone to throw caution to the wind and chase riskier, higher yields. Moreover, interest rates near zero on T-bills, and yields of 1.5% to 3% on government bonds, set the base from which the prospective returns on investments entailing risk (i.e., stocks) are established. With interest rates so low, the absolute prospective return on many investments will not be in the double digit range as they were in the 1980s to 1990s.

There is nothing wrong with higher yields, if one is being adequately paid for the higher risks. ABC paper was an excellent example whereby investors were not being properly compensated for the higher risks in these opaque fixed-income instruments.

Consider the example of a security that entices the yield-starved investor with a 7% distribution payout but is only earning 5% on the underlying assets in the portfolio (Note: 9% is really going out the door if one includes the 2% management fee). Only after reading the offering prospectus fine print, will investors discover that a significant part of the yield consists of return of capital.

Simply stated, this type of product is constructed to pay investors with their own money in the form of distributions which, over time, may erode their principal (unless fickle capital gains make up the short fall).

Bottom line: make sure that the payout received on an income investment product is a "real deal" distribution and not some mixture of "return of capital" in combination with a legitimately-earned distribution.

Why do these seductive fixed-income products appear? In brokerage industry lingo, it's simple: "when the ducks quack, Bay Street is more than eager to feed them". Caveat Emptor!

Today there are both negative and positive currents regarding the general economic outlook. And despite the daily dose of negative headline news, there is always the possibility that things won't turn out as bad as the pundits predict.

Because of the impact of psychology on people's thought processes, it often turns out that things are not as bad (or as good) as they seemed at the extremes.

Once again, at the risk of sounding like the boy who cried wolf, interest rates could trend higher sooner than anticipated. One can't argue that the Governor of the Bank of Canada, Mark Carney, hasn't given Canadians ample advance warning that the next rate move will be up, although the timing of such move remains flexible and indeterminate.

The consensus that "rates won't go up any time soon" worries us. Higher rates (i.e., 1% - 1.5% increase in long bond yields) would affect not only home valuations, but today's popular rate-sensitive stocks (i.e., telcos, reits, utilities/pipelines). Meanwhile, today's low interest rate consensus does not take into account another interested party – bond buyers. They indeed may have lots to say about higher future yields (think Italy, Spain or Greece).

Yes, there are a lot of uncertainties out there today – there always will be. No one knows exactly the future unintended consequences (and there will be some) of the Fed's QE I, II & III programs.

In today's market, assets aren't selling at the screaming cheap levels of March 2009 (a time to have been aggressive). Likewise, as one savvy veteran manager recently explained, neither is it a time for "hiding under the bed". Rather, it is a time to move forward but with caution.

Respectfully yours,



Benjamin D. Horwood
Portfolio Manager
October 31st, 2012

P.S. Do visit us at our web site: www.valuecontrarian.com

**We're often asked: "When is the best time to invest in the Value Contrarian Fund?" Although there is no best time, since it is impossible to time the market, a preferable entry point is when the Fund has produced a month of negative returns or a year of underperformance. Unfortunately, human nature prefers the exact opposite.