

# Presentation



**Steinberg Value Equity Fund**  
**Steinberg High Yield Fund**

# Outline

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- **Profile**
- **Equity Strategy – Steinberg Value Equity Fund**
- **Income Strategy – Steinberg High Yield Fund**
- **Contact Information**

For more detailed information, please visit our website at  
[www.steinbergwealth.com](http://www.steinbergwealth.com)

# Lorne Steinberg Wealth Management

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- Established in July 2009
- Discretionary investment management services
  - Personal, corporate, trust, foundation and institutional
  - RRSP, RRIF, RESP, TFSA, etc
- Research is our cornerstone and our largest investment
- Specialize in growth and income strategies
  - Steinberg Value Equity Fund
  - Steinberg High Yield Fund
  - Segregated accounts (fixed income)

# Lorne Steinberg Wealth Management

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- Management owned
- Employees of LSWM are fully invested in our two funds
- Registered in Quebec, Ontario, Nova Scotia and B.C.
- Custodian: TD Waterhouse

# Investment Team

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## **Lorne Steinberg, CFA**

- Magna Vista Investment Management / AGF PIM (1999-2009)  
*President and Chief Investment Officer*
- Lafferty, Harwood and Partners: (1989-1999)  
*Director of Research – Equities and Fixed Income*
- MBA (Finance) The Wharton School, University of Pennsylvania
- BA (Political Science) McGill University

## **Geoffrey Smith, CFA**

- Magna Vista Investment Management / AGF PIM (2007-2009)  
*Senior Research Analyst*
- Hampton Securities (2001-2007)  
*SVP Capital Markets*
- RBC Capital Markets (1992-2000)  
*Capital Markets/ Fixed Income*
- BBA (Finance) University of New Brunswick

# Investment Team

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## **Brian Pinchuk, MBA, BEng**

- Electronic Arts, *Lead Software Engineer* (2004-2007)
- CGI - *Software developer*
- Ericsson - *Software developer*
- MBA (Finance) HEC Montreal
- BEng (Computer Engineering) University of Waterloo
- CFA Level III candidate

# Client Services

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## **Gabriel Rulli, BA**

- I.A. Michael Investment Counsel / ABC Funds  
*Client Services / Business Development (1995-2009)*
- BA (Economics/Business) York University

## **Debbie Andrewsky, VP Administration**

- Magna Vista Investment Management / AGF PIM (2005-2009)  
*Senior Administrator*
- RBC Dominion Securities (2000-2004)  
*Branch Administrator*
- Richmond Savings Credit Union (1994-2000)  
*Administrator*

# Steinberg Value Equity Fund

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## Profile

- Rigorous research process before making an investment
  - Research driven, not sales driven
- Margin of Safety - we seek companies where intrinsic value is greater than share price
- Focus on buying truly great VALUE – entry price is critical
- **Capital preservation is paramount**
- Hold cash if markets expensive
- Diversified (no single equity >3%, based on cost)
- Mgmt Fee: 1.5%

# Steinberg Value Equity Fund

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## Portfolio Characteristics

- No leverage
- No short sales
- No penny stocks
- Low turnover
- We will sell overpriced securities and sit in cash if we feel it is prudent to do so
- Diversified



# Steinberg Value Equity Fund

## What We Look For in a Business

- Good corporate governance (ex: no dual-class share structure)
- Financially sound
- Generates free cash flow
- Competitively positioned

We consult various external sources (government agencies and industry organizations) to examine the impact of technology, regulatory changes and secular trends

A company may have all the right characteristics but if we believe its share price is overvalued, we will not purchase it

Extensive research on every investment (ongoing)

# Equity Investment – Current

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## **JC Penney**

- Major U.S. retailer since 1902, with 1100 stores
- Long track-record of earnings and free cash flow generation
- Strong balance sheet, low debt
- Profitable through the recession
- Shares fell from \$85 in 2007, as consumer spending weakened
- Price paid was below tangible book value
- Dividend yield: 4.1%
- Paid \$19.50 US
- June 30, 2011: \$34.54 US

# Equity Investment – Current

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## **Royal Dutch Shell**

- Great global oil and gas assets
- Minimal debt, huge free cash flow
- At this price, dividend yield is almost 7%!
- Bought in 2010 at \$48 US (after BP oil spill)
- June 30, 2011: \$71.75 US

# Equity Investment – Current

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## ING

- One of the largest providers of banking and insurance services in the Benelux region
- ING Direct division is the world leader in virtual banking (cost base per client is approximately 1/3 that of traditional banks )
- Needed government loan of \$10b Euros due to losses on exposure to U.S. subprime/real estate
- Paid back \$5b Euros in 2009
- Underlying operations are profitable and margins are improving.
- Restructuring plan appears sound and ING should remain a top-tier financial services company
- Bought in 2010 at \$8.45 US
- June 30, 2011: \$12.37 US

# Equity Investment – Current

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## **Manulife**

- Largest Canadian lifeco
- Major operations in U.S. (John Hancock) and Asia
- Mistakes made prior to financial crisis resulted in large losses – did not hedge market risk
- Recapitalized - raised new equity and cut dividend by 50%
- Share price declined from \$43 in 2007
- Dividend yield: 4.3%
- Bought in 2010 at \$12
- June 30, 2011: \$17.08

# Equity Investment – Current

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## **Sun Life**

- Strong Canadian insurance operations
- Growing presence in Asia – India
- Conservatively managed – did not have to raise equity or cut dividend during financial crisis
- Share price down due to equity exposure of many lifecos, even though Sun Life is hedged
- Dividend yield: 5.7%
- Bought in 2010 at \$25.27
- June 30, 2011: \$29.06

# Equity Investment – Current

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## **Futaba**

- Manufactures and sells electronic displays and systems, as well as machinery and tooling products.
- Founded in 1948 and based in Japan.
- Operations in the United States, Asia, and Europe.
- No debt
- Net cash per share is almost equal to the price per share (offering a lot of downside protection)
- Dividend yield: 1.8%
- Bought in 2010 at 1320JPY (\$16.30)
- June 30, 2011 : 1478JPY (\$17.68)

# Equity Investment – Current

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## Aida Engineering

- Develops, manufactures and services specialized metal forming press equipment
- Global business (operations in 17 countries, customers in 60 countries)
  - International sales now account for over 25% of their revenue
- Debt free, track record of rising earnings and stable dividends
- ***Working capital (cash, receivables and inventory minus current liabilities) per share is greater than its price per share.*** This effectively means that the market is placing zero value on its profitable, dividend-paying business!
- Bought in 2010 at \$4.02
- June 30, 2011 : \$4.52

# Equity Investment – Current

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## **Topre Corp.**

- Develops and manufactures press products, dies and molds, refrigeration and electronic equipment
- Established in 1935, headquartered in Tokyo
- Was trading for less than working capital
- Debt-free
- 2.1% dividend yield
- Strong presence in North America
- Bought in 2011 at \$7.36
- June 30, 2011: \$10.23

# Investments

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## **Where We Get Our Investment Ideas**

- In-house research
- Proprietary screening tools
- Company visits, industry conferences
- Industry relationships, financial intermediaries

# Steinberg High Yield Fund

## Profile

- Focus on high yield bonds
- **High return potential**
  - Canadian high yield bonds yield **6.52\***
  - US high yield bonds yield **7.61\***
- Intrinsically safer than equities
  - Due to their priority position in the capital structure
- Diversified
- Mgmt Fee: 1.5% (performance fee)

\* According to the Scotia High Yield and JP Morgan US High Yield indices (as of October 18, 2010)

# Steinberg High Yield Fund

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## Experienced Managers

- Lorne Steinberg and Geoffrey Smith have a long history and successful track record in the high yield fixed income market
- Lorne Steinberg was one of the first managers in Canada to specialize in this area (at Lafferty Harwood)
- In-depth experience
  - Corporate issues
  - Trust indentures

# Steinberg High Yield Fund

## What Is High Yield Income?

High yield bonds are debt rated below BBB



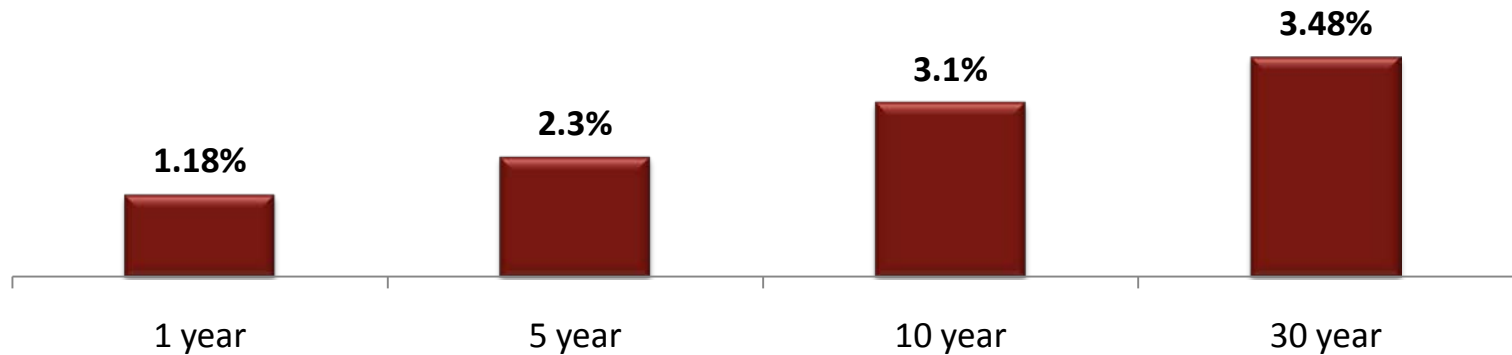
## **RATING AGENCIES ARE OFTEN WRONG!**

AIG, Bear Sterns, Enron and Canadian non-bank ABCP were all rated A or better before their collapse

# Steinberg High Yield Fund

Government bonds no longer provide adequate income

## Government of Canada Bond Yields\*

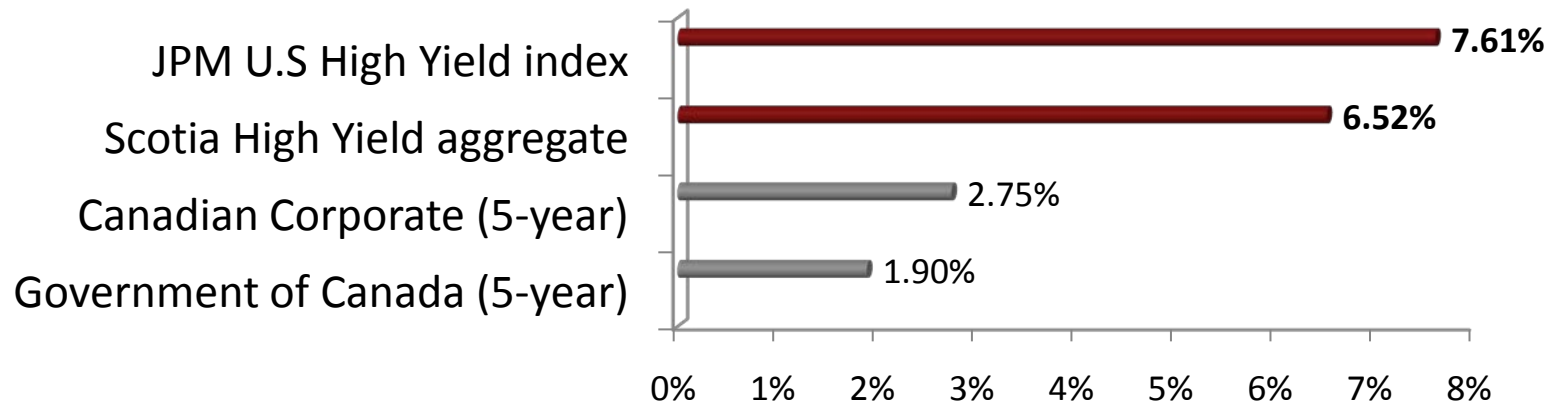


\*As of June 30<sup>th</sup>, 2011.

# Steinberg High Yield Fund

High yield bonds currently yield more than twice that of investment grade bonds and almost four times that of government bonds

## Comparative 5-year Yields\*



\*As of October 18<sup>th</sup>, 2010. The average maturity of the bonds within the JPM and Scotia indices is approximately 5 years

# Steinberg High Yield Fund

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## Identifying Opportunities

- Our in-house credit research identifies high yielding debt securities backed by sufficient asset value to protect our principal
- We identify the best opportunities through intensive research
- Focus on:
  - Bond indenture and restrictive covenants
  - Asset values
  - Capital structure
  - Credit rating/downgrades

# Steinberg High Yield Fund

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## **Example of recent investment**

BP Bond, 5.25% coupon due November 7, 2013

Purchase price (as of June 15, 2010) – \$ 91.75

Yield to Maturity – 8.1%

### Analysis

- Oil spill led to investor panic – bond price fell sharply
- BP has only \$25 billion of net debt, with assets valued at well in excess of \$150 billion
- BP earns over \$20 billion per year
- Even if cost of spill is \$100 billion, plenty of asset protection and cash flow for bonds
- Conclusion: BP will survive
- PIMCO recently announced it bought over \$100 million
- Price as of April 1, 2011- \$109.50

# Steinberg High Yield Fund

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## Example of recent investment

Air Canada Senior Secured 1<sup>st</sup> Lien Notes 10.125% Coupon (due August 3, 2015)  
Price: \$99.05, Yield to Maturity: 10.37 % (bought July 28, 2010)

### Analysis

- A company whose bonds we would not normally own due to Air Canada's potential for large losses
- **This is an asset-backed note** (there are specific assets that bondholders have a lien against)
  - The total note issue (loan) is \$925 million. The assets backing the note are worth about \$2bn
- **If collateral falls below 1.7x the loan value, the interest rate is raised by 2% (200 bps) to 12.125%**
- A tranche of 2<sup>nd</sup> lien notes was issued against this collateral for \$200 million (which adds further comfort to the value of our note)
- This bond yields **10.37%** per year for 5 years, versus Government of Canada bonds yielding **1.9%**!
- **Price April 1, 2011: \$107.5**



# Steinberg High Yield Fund

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## **Why Invest in the Steinberg High Yield Fund?**

- High income opportunity in a low yield world
- Inefficiencies + mispricing = opportunity
- Experienced management team with a long successful track record
- Expertise in this inefficient and illiquid market gives us a competitive advantage
- Our pioneering role in the high-yield market has enabled us to develop a strategic network and access to unique opportunities

# Contact Information

For more detailed information, please visit our website at  
[www.steinbergwealth.com](http://www.steinbergwealth.com)

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SECURITIES  
COMMISSION



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