September 30, 2021

Third Quarter

NORTH AMERICAN EQUITY STRATEGY

During the third quarter of 2021, the S&P500 total return index was up +0.6% in US dollars. Adjusting for currency, the S&P500 returned +3.4% in Canadian dollars, as the Canadian dollar depreciated about 1.8 cents, closing the quarter at US$0.785. The TSX' total return in the third quarter was +0.2%. You can view the third quarter's performance by sectors in **Appendix 2** herein. The biggest performance driver again this quarter was positive earnings growth in both markets. While earnings were expected to be strong, actual earnings in the second quarter for the S&P500 rose 90.9% year over year (see **Exhibit 1**) as compared to an expected gain of 63% at June 30th, far exceeding market expectations. In fact, 87% of S&P500 companies reported positive earnings surprises in the second quarter, which is the highest percentage seen since 2008. While the earnings growth in the second quarter likely represents the peak in terms of year over year comparisons, so far in the third quarter, earnings are tracking +27.9% ahead of last year and that's up from +24.2% expected at June 30th.

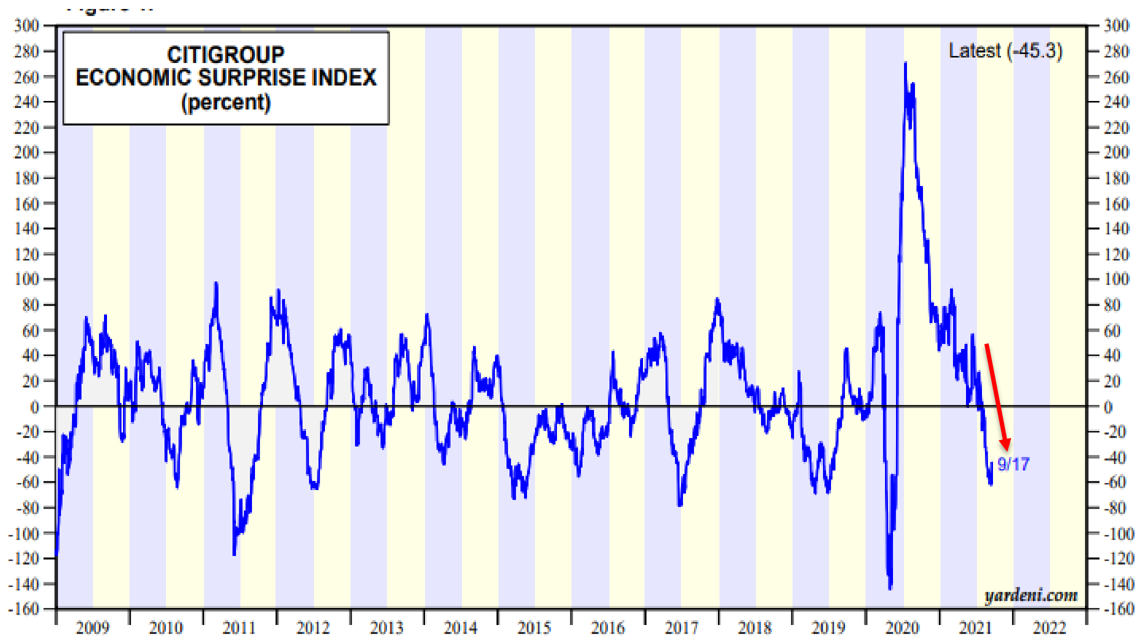
Exhibit 1: Earnings Growth S&P 500

	Q1	Q2	Q3 Expected
Quarter end expectations	23.7%	63%	24.2%
Actual	52.5%	90.9%	27.9%

Source: Factset

Contrary to this and over the past several months, incoming economic data including PMI, jobs data and even the latest CPI inflation have been weakening given the supply chain disruptions and rising Delta Variant cases. **Exhibit 2** shows the Citigroup Economic Surprise Index. This index measures the degree to which economic data is either beating or missing expectations. As indicated in the chart, it has recently turned negative. This, combined with seasonal choppiness in the markets around September, has led to the market trepidation we are all currently feeling. However, the extent to which this may present a material headwind to earnings and share price performance still remains to be seen.

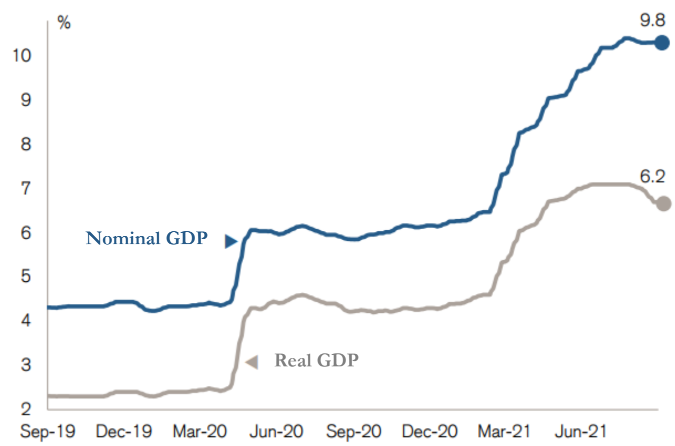
Exhibit 2:
Economic Surprises



Source: Yardeni Research

Exhibit 3 compares real and nominal GDP consensus expectations, which are key drivers of S&P500 revenues. As indicated on the chart, while we have seen some weakness lately, as both real and nominal GDP have been trending down slightly to 6.2% and 9.8%, respectively, they are still trending well above the Federal Reserve long term central tendency range of 1.8% to 2%.

Exhibit 3:
GDP Consensus Expectations



Source: BEA, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

That's evident in the top clip of **Exhibit 4,** which shows the latest Federal Reserve economic Projections. As indicated, the outlook for growth at 5.9%, 3.8% and 2.5% for 2021, 2022 and 2023,respectively, remains well above trend. We believe this positive outlook for GDP growth in 2021 through 2023 is still supportive of the strong consensus revenue and earnings path.

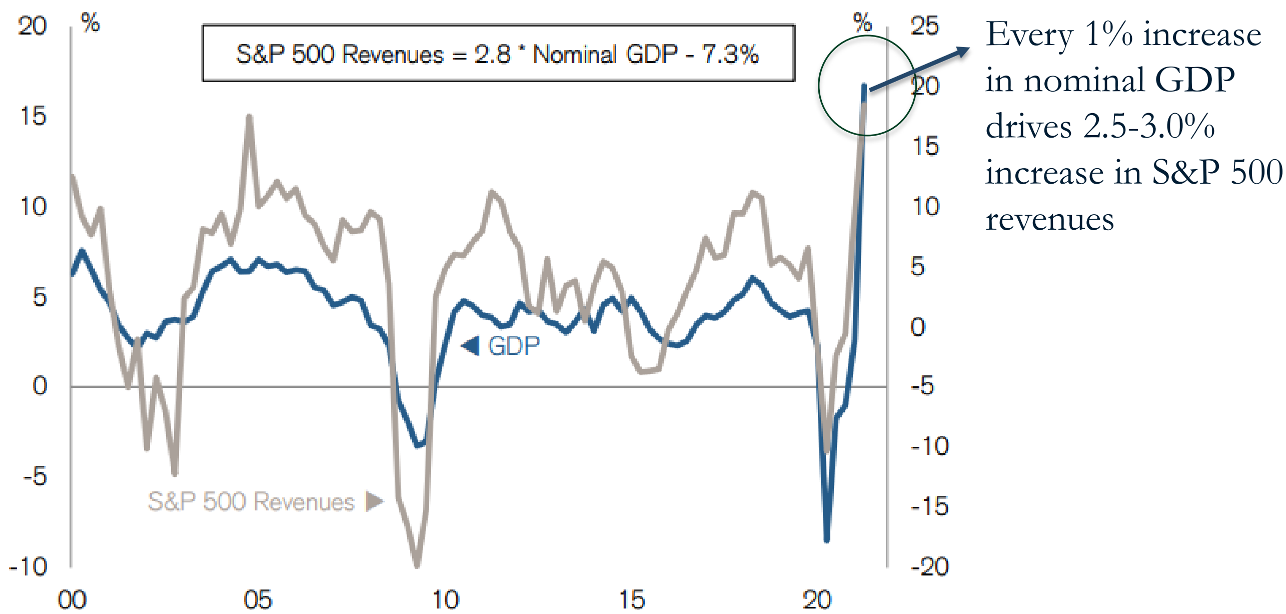
Exhibit 4:
US Economic Projections from Recent September FOMC Meeting

Variable	Median				
	2021	2022	2023	2024	Longer Run
Change in real GDP	**5.9**	**3.8**	**2.5**	**2.0**	**1.8**
June Projection	7.0	3.3	2.4		1.8
Unemployment Rate	4.8	3.8	3.5	3.5	4.0
June Projection	4.5	3.8	3.5		4.0
PCE Inflation	4.2	2.2	2.2	2.1	2.0
June Projection	3.4	2.1	2.2		2.0
Core PCE Inflation	3.7	2.3	2.2	2.1	
June Projection	3.0	2.1	2.1		
Memo: Projected appropriate policy path					
Federal Funds Rate	0.1	0.3	1.0	1.8	2.5
June Projection	0.1	0.1	0.6		2.5

Federal Reserve Board September 2021

Exhibit 5 compares the relationship between nominal GDP and S&P500 revenue growth through a regression formula which indicates that every 1% increase in GDP growth drives 2.5% to 3% increase in revenue growth. So, despite some recent softness in economic indicators, we believe there is still room for revenue and earnings growth in 2021 and 2022 to perform above the current consensus.

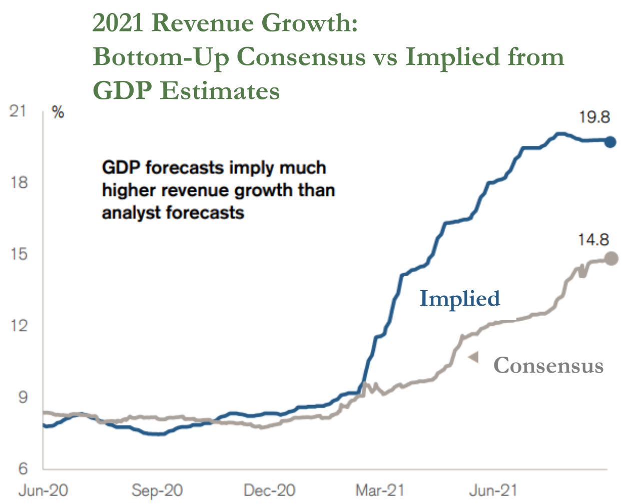
Exhibit 5:
S&P 500 Revenues vs. Nominal GDP

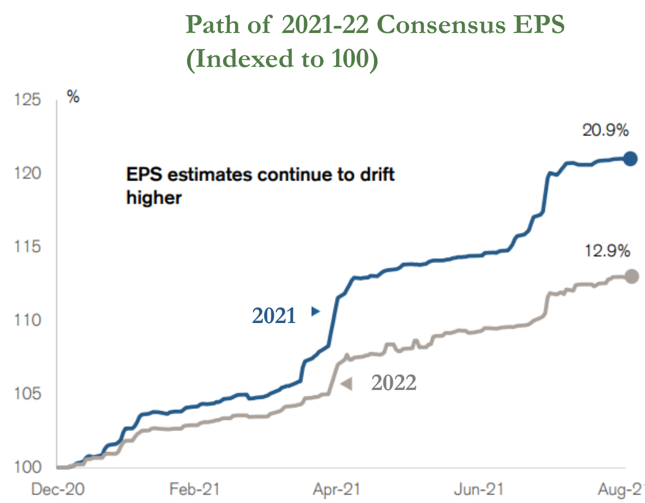


Source: Standard & Poor's, BEA, FactSet, Haver Analytics®, Credit Suisse

That is evident in the next couple of charts in **Exhibit 6.** The chart on the left compares analysts' current consensus revenue forecast for 2021 at 14.8% growth to the revenue forecast implied from GDP estimates based on the regression formula in Exhibit 5 at 19.8%. As indicated, there is still a wide gap between the analyst consensus revenue growth and that implied from GDP estimates even with the current slow-down factored in. Looking out to 2022, the implied revenue forecast would be 9.5%, based on the Fed's summary of economic projections data for GDP and PCE inflation from Exhibit 4 as compared to current analyst consensus revenue from Factset of 6.6%. The chart on the right shows the progression in 2021 and 2022 earnings estimates for the S&P500 since December 2020. As indicated, earnings estimates continue to drift higher.

Exhibit 6:
Consensus Revenue Growth and EPS





Source:Standard & Poor's, Refinitiv, FactSet, Credit Suisse

Turning back to our Economic Surprise Index, let's now consider **Exhibits 7 and 8.**

Exhibit 7 shows the seasonal pattern for this Economic Surprise Index. As can be seen, 2021 (the red line) is more or less tracking the seasonal pattern of the previous 5- and 10-year averages (the grey and blue lines). The Economic Surprise Index is just that, an index that measures how often consensus analysts' projections are right or wrong.

In **Exhibit 8**, we look at how well it has performed as a timing tool to get in and out of the market. As indicated in the top clip by the red arrows, if you sold every time the "data was LOWER than expectations", you would have left money on the table and you would have been better to just sit tight. However, if you bought when the "economic data was BETTER than expectations", or the green arrows, you did pretty well. So, it appears to be an interesting timing tool as to when to get INTO the market but not necessarily when to get OUT as it may be currently suggesting. Of course, a correction can never be ruled out particularly since they are historically quite common in secular bull markets, due to seasonality or other technical factors. Still, we continue to think the outlook for equities remains positive given an environment of strong earnings growth and practically zero interest rates.

Exhibit 7:
Seasonal Pattern of US Data Surprise Index

Source: Daily Shot, Nomura

Exhibit 8: Economic Surprises as Timing Tools
S&P 500 Index, 26 Week Fwd, based on Citi Economic Surprise – United States 2003-2021

Not a great S&P 500 timing tool
(unless data strong)

Source: Renaissance Macro Research

Exhibit 9 is an extension of the work we have shown in our previous quarterly commentaries where we try to interpret the market implied earnings using our equity risk premium model and the current level of bond yields, then compare this to the consensus forward 12-month estimates. As indicated in the chart below, the consensus S&P 500 earnings estimates have risen steadily from the beginning of 2021 from US $166.55 to the current level of US $214.67. This compares to the market implied earnings today of US $203.04 such that the implied earnings are currently about 5.7% below the consensus suggesting potential upside in the market. The implication is that the market has actually become a little cheaper over the past nine months as positive earnings growth has outpaced the market's price increases. That is represented by the 12-month forward P/E for the S&P500, which has declined from 22.4x to 20.7x notwithstanding the market increase of about +16% year to date.

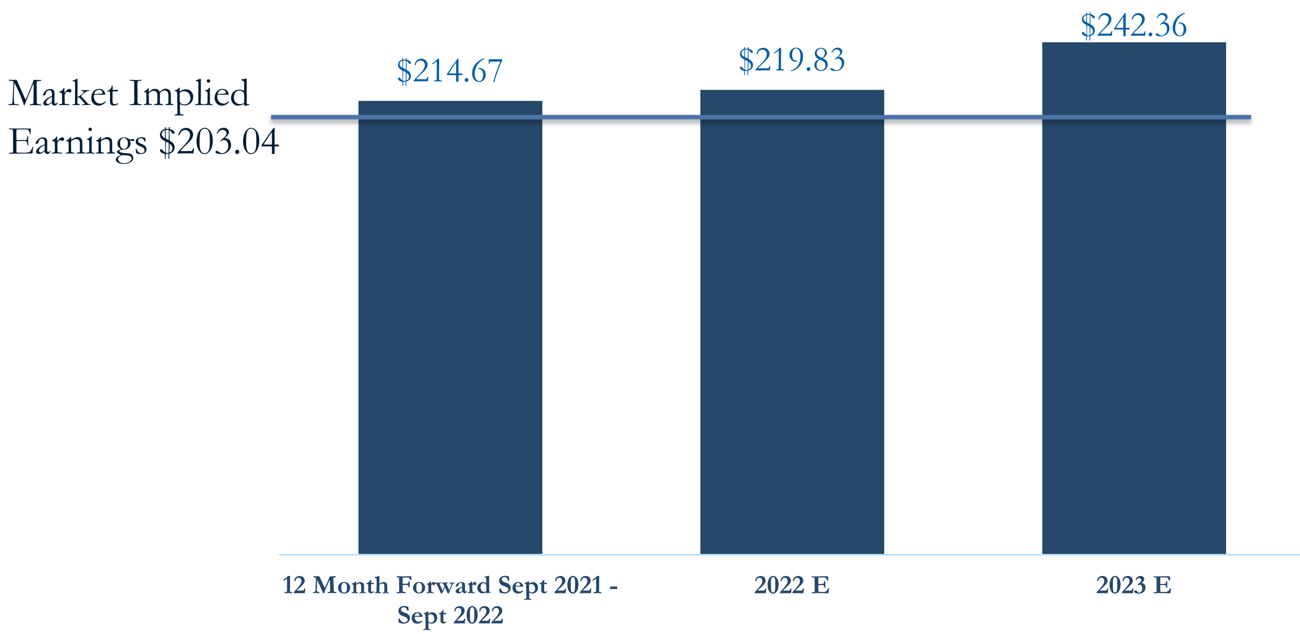
Exhibit 9:
Ratio: Consensus Earnings/Implied Earnings vs S&P 500

	DATE			
	Jan 5/21	Mar 26/21	Jun 23/21	Sep 14/21
10-year Treasury Yield	0.95%	1.68%	1.49%	1.28%
10-year Average Equity Risk Premium	3.41%	3.39%	3.35%	3.29%
Implied Earnings Yield	4.36%	5.07%	4.84%	4.58%
Market (close)	3,726.86	3,974.54	4,241.84	4443.05
Implied Earnings Estimate (per share)	162.49	201.51	205.18	203.04
Consensus Earnings Estimate (per share)	166.55	180.82	200.51	214.67
Price/Earnings (estimate BF 12m)	22.4x	22.0x	21.2x	20.7x
Ratio (Consensus/Implied EPS)	1.02	0.90	0.98	1.06

Source: Bloomberg (BEst EPS BF12m), Cumberland (Asset Mix Review Dates)

Exhibit 10 looks at consensus earnings per share (EPS) estimates over the next 12 months (forward 12-month) as well as 2022 and 2023 calendar year EPS estimates. Again, the market implied earnings of $203.04 from above suggests there is upside of 8.3% and 19.4% to 2022 and 2023 consensus earnings targets. And 2022 is now only three months away.

Exhibit 10:
S&P 500 Consensus EPS Foremat

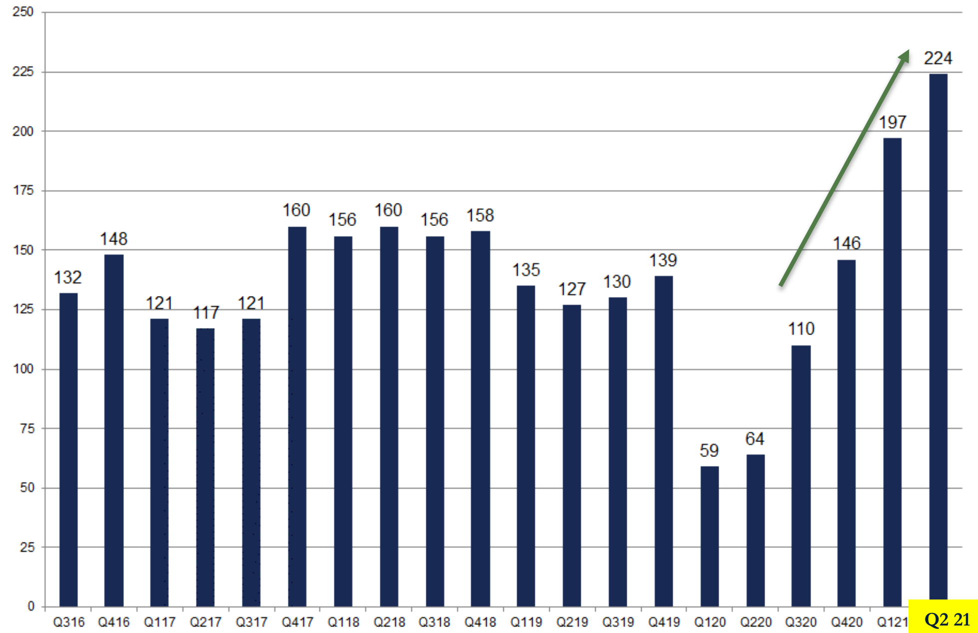


Source: Factset & Bloomberg

Another topic we need to address is the outlook for inflation. The US Core Consumer Price Index (CPI) has decreased from 4.5% in June to 4.3% in July to 4.0% in August, which lends support to the Fed Chair Jerome Powell's argument that inflation is transitory. The problem we have as investment analysts is that we are seeing and hearing about inflation concerns from companies pretty much every day. That's evident in **Exhibit 11**, which measures the number of companies citing "inflation" on their latest quarterly earnings call. The good news from our bottom–up research is that we think most of the companies we own are being successful in passing rising costs through to customers and in fact, that appears to be the case for the majority of companies in the S&P500.

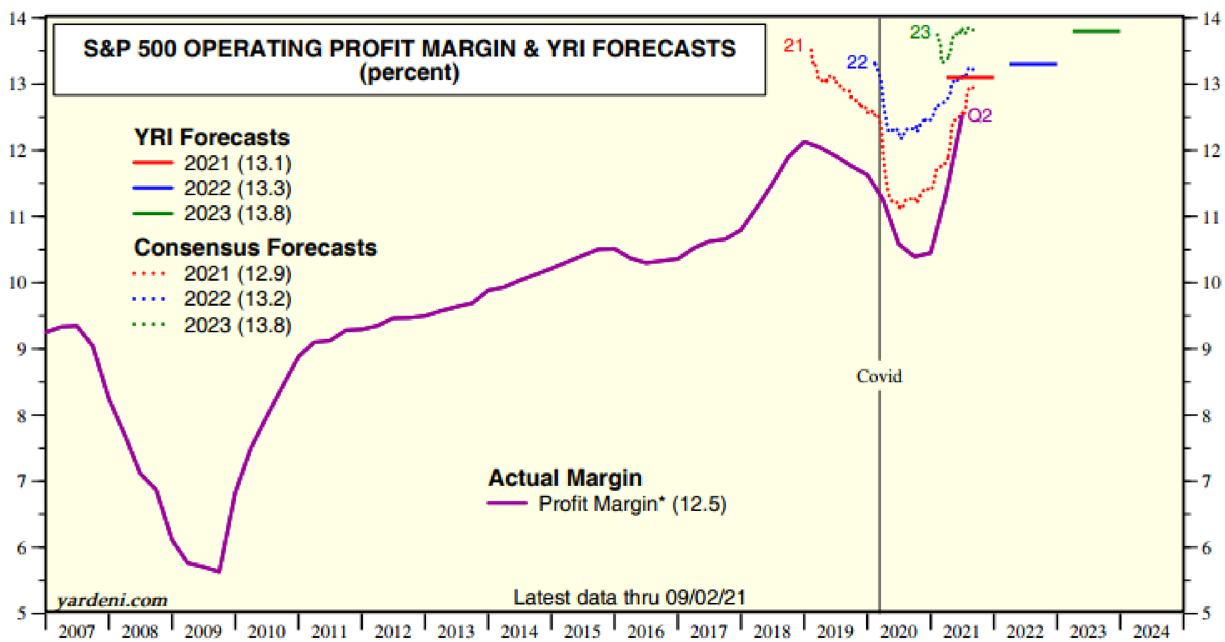
Exhibit 12 looks at S&P500 operating margins going back to 2007 (purple line). As indicated in the chart, profit margins hit a new high in the second quarter of 2021 and the consensus projections (shown in the table on the left) through 2023 are up. We borrowed this chart from well renowned strategist Ed Yardeni, with whom we consult from time to time on the US environment, and even his projections are above consensus. Again, this lends support to what we are hearing from most of our companies, in other words that they should be successful in passing costs through.

Exhibit 11:
S&P 500 Companies & Inflation Expectations - 5 year



Source: Factset, Earnings Insight

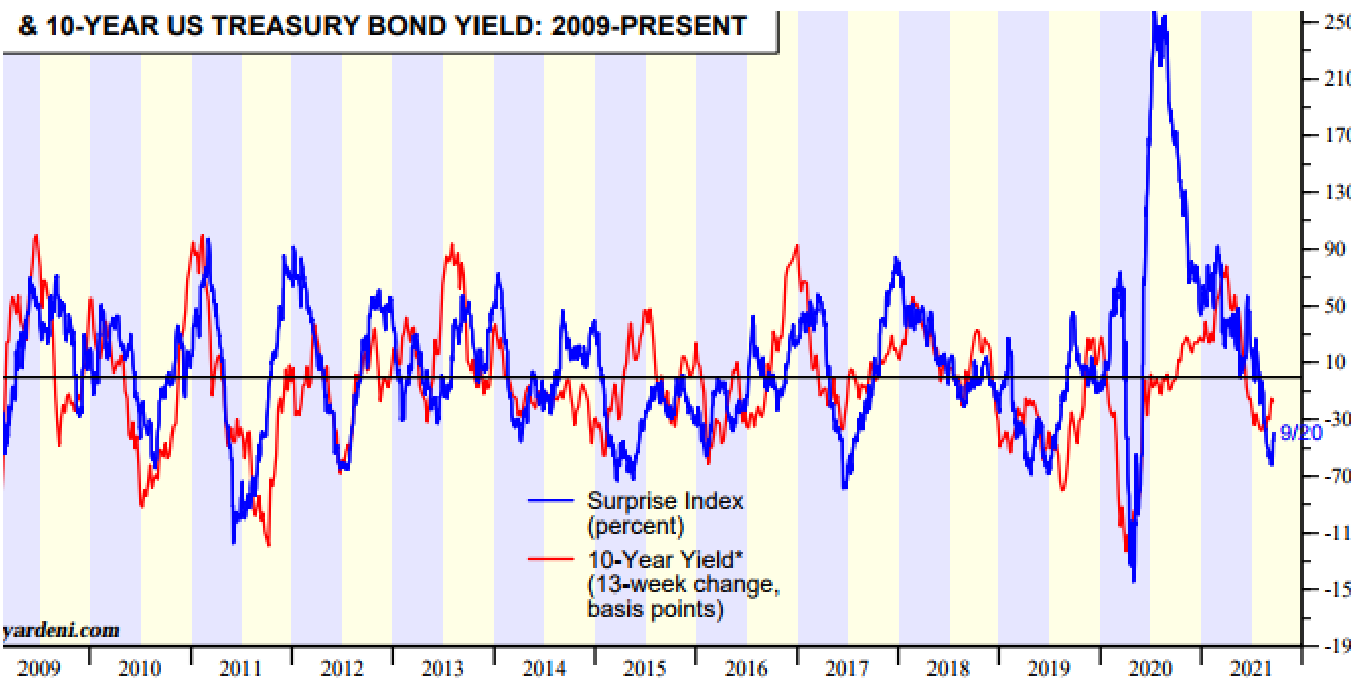
Exhibit 12:
S&P 500 Operating Profit Margin Forecast



Source: Yardeni

Turning back to the Economic Surprise Index, **Exhibit 13** shows the relationship between 10-year US Treasury yields and the Economic Surprise Index. As indicated in the chart, there is a high positive correlation between the two. While there have been discussions by the Federal Reserve (FED) at its September meeting and at Jackson Hole about the beginning of a reduction in asset purchases from the current $120bn per month, the Fed has been quick to point out that this should not be intended as a direct signal regarding the timing of interest rate increases, for which they have articulated a different and substantially more stringent test. In addition, we don't think the FED wants to get this one wrong suggesting that the threshold for the FED to slow down on tapering is lower than the threshold for them to raise interest rates, which is likely still a late 2022 or 2023 event. So, there is a strong case to be made for interest rates remaining lower for longer, which of course is good for the equity markets.

Exhibit 13:
Economic Surprise Index and Interest Rates



Source: Yardeni / Average for week ending Friday.
Note: Blue shaded areas denote first half of each year

Asset Allocation for our North American Equity Strategy As at September 30, 2021

Equities	96%
Fixed Income	0%
Cash	4%

During the quarter, our overall equity exposure decreased by 1% to 96% from 97% at June 30th. Our US equity exposure declined from 48% to 47% while our Canadian exposure remained flat at 49%. Cash increased from 3% to 4%. It is important to note that many of our clients' portfolios are invested in our North American plus International Equity strategy, meaning that the actual weights of US and Canada within their equity holdings will be proportionately less than this given the allocation to international companies.

In the current environment, we have continued to position the portfolio toward value-oriented stocks to benefit from the economic recovery that is underway, while maintaining exposure to growth stocks for about a third of the portfolio. More specifically, our current allocation to growth stocks, which typically rely on trends independent of an improving economy, is about 31% down from 35% at June 30th; while that of value stocks, which are more dependent upon and should benefit from an economic recovery, are at about 60% up from 57% at June 30th. Staples, which we don't classify as either growth or value, make up the balance of our equity exposure.

During the third quarter, we added to our energy and mining exposure by increasing our weighting in Topaz Energy (Topaz) and purchasing a position in ERO Copper Corporation (ERO Copper) on the off-chance that inflation does take a bigger bite out of the economy than we currently think. Topaz acquires royalty and non-operated energy infrastructure assets and through its original counterparty Tourmaline Oil Corp., it completed its initial public offering (IPO) in October 2020. Topaz has 83% of its assets tied to the price of natural gas and as indicated in **Exhibit 14,** natural gas prices are trading at 5-year highs. As a non-operator, almost all of Topaz' royalty production and processing revenue converts to free cash flow supporting a reliable and sustainable dividend yield of 4.6% currently. Its dividend payout ratio is 50%-55% versus the Company's long term target of 60%-90% so we expect a dividend increase when they report their third quarter this November. With annual capital commitments from third party producers of $1.5bn per year over next two years on their royalty lands, Topaz expects a 17% compound annual growth rate of production over next three years.

Having reached a threshold of almost $2bn in market cap and expanded its float recently, we expect Topaz to be eligible for index inclusion as early as December 2021, which would create more index demand for the stock.

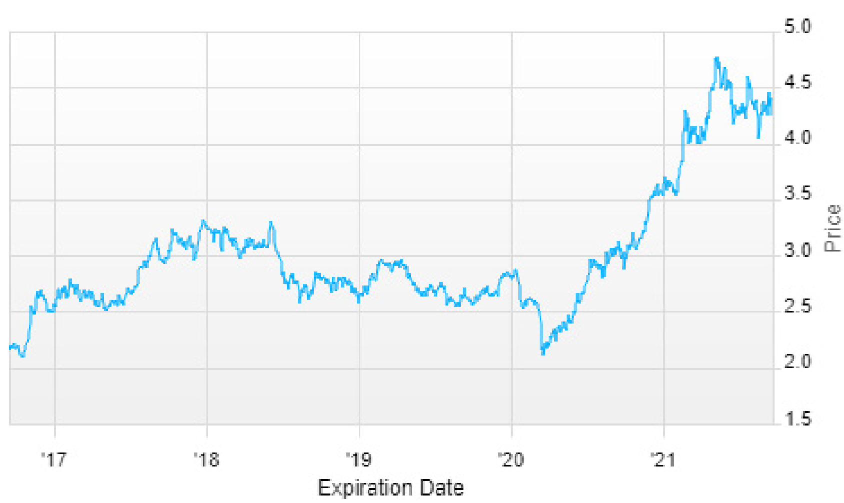
ERO Copper is a mid-sized copper and gold producer in Brazil whose management and board are laser focused on Return on Invested Capital, which is a discipline most global mining companies lack. Management and the board own approximately 16% of the company, which of course makes them highly aligned with the shareholders like us.

ERO Copper's cash costs of copper production rank among the lowest in the industry as measured on the global annual production cost curve by Wood Mackenzie Consultancy Group. **Exhibit 15** shows the current price of copper, which like natural gas is also at a five year high. When you combine low production costs with the current high price of copper, ERO Copper is on track to produce almost a ten-fold increase in EBITDA over the last 5 years. With the recent closing of the gold streaming agreement with Royal Gold on its NX gold mine, the balance sheet is now in a net cash position providing them with a lot of liquidity to fund their future production plans, which should result in a doubling of copper production over the next few years.

Exhibit 14: Topaz Energy
Continuous Contract- Natural Gas(NYM $/mmbtu), 5 years

Source: Factset

Exhibit 15: Ero Copper
Continuous Contract- High Grade Copper (NYM $/lbs), 5 years



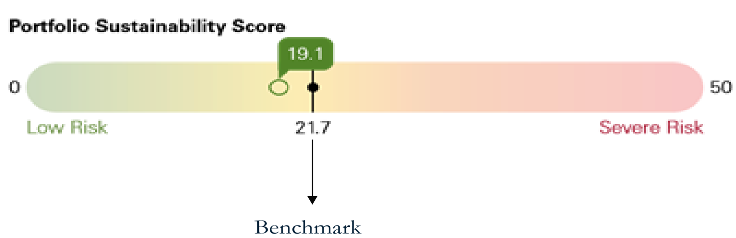
Source: Factset

Closing Comments and Outlook

During the second quarter of 2021, earnings rose almost 91% year over year, up from the 63% increase that was expected on June 30th. While this pace of earnings growth is clearly not sustainable, the outlook for the third quarter has continued to accelerate, which at the time of writing is 27.9% as compared to 24.2% at June 30th. The recent stream of softer economic data, seasonality and lack of any significant pullback in the market has created some level of investor trepidation and while a correction can never be ruled out particularly since they are pretty common in secular bull markets, in an environment of strong earnings growth and practically zero interest rates we continue to think the outlook for equities remains positive. Core CPI has gone from 4.5% in June to 4.3% in July to 4.0% in August, which lends support to the Fed Chair Jerome Powell's argument that inflation is transitory; however, there are many anecdotal signs that might suggest otherwise. Recently we increased our value/cyclical exposure to 60% up from 57% through increased resource exposure on the off-chance that inflation does take a bigger bite out of the economy than we currently think.

Exhibit 16 shows the Environmental, Social, Governance or ESG score for our North American plus International strategy at 19.1 compared to the benchmark at 21.7 (lower is better).

Exhibit 16: ESG
Sustainability Score – North American plus International (NAPI)
09/20/21



Source: Morningstar
Benchmark: 40% S&P 500 TR, 40% SP/TSX Composite Index TR, 20% Morningstar DM xNA TME NR CAD
Percent of AUM covered: 94.1%

The Morningstar Portfolio Sustainability Score is an asset-weighted average of Sustainalytics' company-level ESG Risk Score. The Sustainalytics' company-level ESG Risk Score measures the degree to which a company's economic value may be at risk driven by ESG factors. Like the ESG Risk Scores, the Portfolio Sustainability Score is rendered on a 0-100 scale, where lower scores are better, using an asset-weighted average of all covered securities. To receive a Portfolio Sustainability Score, at least 67% of a portfolio's assets under management (long positions only) must have a company ESG Risk Rating. The percentage of assets under management of the covered securities is rescaled to 100% before calculating the Portfolio Sustainability Score.

Cumberland's NAPI holdings reflect those of a representative account as of the date shown. The Benchmark Index is blended and includes 40% S&P/TSX Composite Index total return, 40% S&P 500 Index total return and 20% Morningstar DM X NATME NR in Canadian dollars, with constant weights.

This Benchmark represent the universe from which Cumberland's NAPI equity strategy selects the equity securities, targeting up to 100% in Canadian, US and Non-North American equities in the portfolio at any time, which are different from the Benchmark. The NAPI strategy may hold less than 100% in equities (with the balance typically invested in bonds, preferred shares, and other income securities including cash and equivalents).

We measure our ESG score across all of our equity mandates and while we are not a pure play on sustainable investing, we do score materially better than our benchmarks. One of the positive outcomes of our investment process is that our rigorous focus on profitability, valuation and risk coupled with proven leadership and strong management teams, has driven favourable, consistent ESG scores for our Cumberland strategies for many years. We think it is fair to say that owning high quality compounding companies led by experienced executives and savvy boards also supports lower risk ESG scores.

Peter Jackson
Chief Investment Officer
September 30, 2021

APPENDIX 1

NEW EQUITY INVESTMENTS:

NORTH AMERICAN EQUITY MANDATE

CANADA

ERO Copper Corp.

Ero Copper is a copper miner with an operating mine in Bahai State, Brazil and a development project in neighboring Pará State, Brazil. Ero is one of only a few mining companies, globally, that has been able to achieve high returns on invested capital due to lower capital spending requirements and first quartile cash costs due to good geology (magnetic sulphide similar to mines found in Sudbury) and management prioritizing higher grade ore to run through its mill.

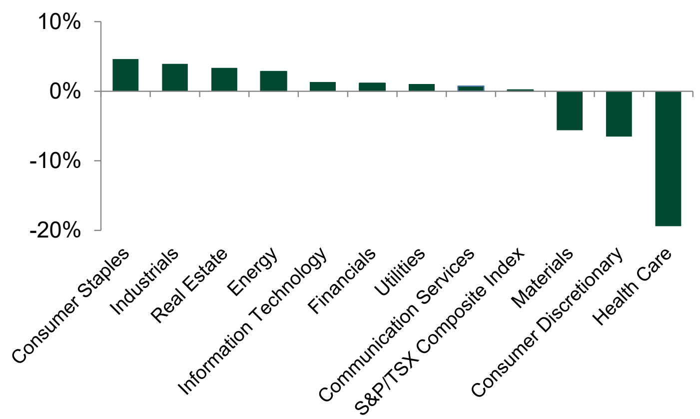
We believe their properties have a lot of exploration and expansion potential. Previous owners under invested in exploration, leaving a lot of potential reserves on the table for Ero when they purchased the properties in 2016. Since acquiring the property, Ero has been able to double copper production (currently at 44k tonnes per year), and management believes they can double production again by 2025.

We believe Copper will enjoy strong demand from the electrification of transportation and the necessary retrofitting of our power grids. But new supply can be slow to respond as new copper mines can take multiple years to develop. We think that provides a healthy backdrop to own a reliable low cost copper miner, operating in a stable geography, with exploration upside in its back pocket.

APPENDIX 2

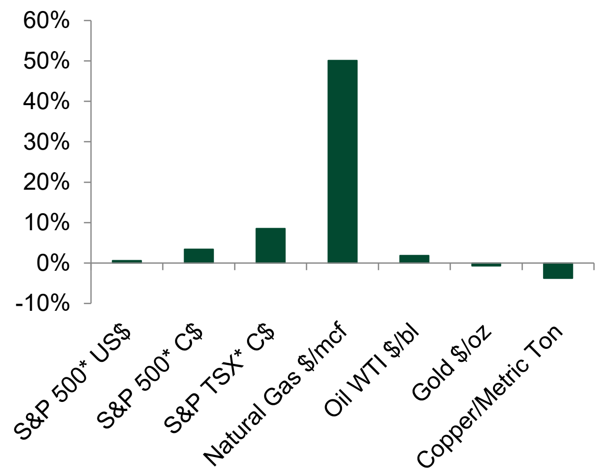
PERFORMANCE CHARTS

S&P TSX (C$ Total Returns)
Quarter Ending September 30, 2021



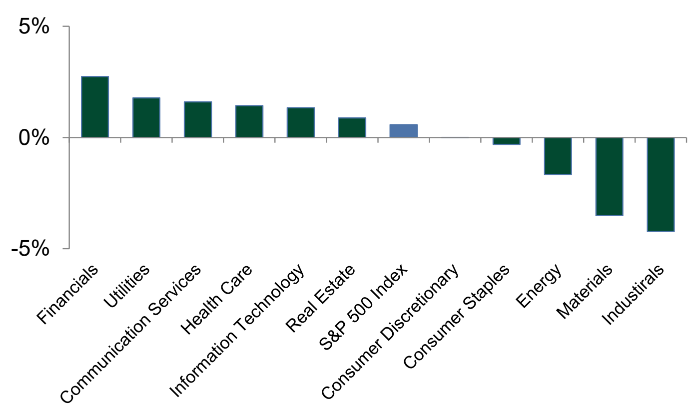
Source: TD Securities

Quarter % Change
Quarter Ending September 30, 2021



Source:Bloomberg *Total Returns

S&P 500 (US$ Total Returns)
Quarter Ending September 30, 2021



Source: TD Securities