REPRINTED FROM JUNE 13, 2011

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Investing in TSX-Listed Companies Levered to Global Growth

MICHAEL B. DECTER is the Senior Portfolio Manager, President and CEO of LDIC Inc., and he is a Harvard University-trained Economist. Mr. Decter is also the Author of three financial books: *Michael Decter's Million Dollar Strategy*, *The DRIP Strategy* and *10 Good Reasons To Invest In Canada*. Mr. Decter's firm, LDIC, provides financial services to high net worth individuals, and it currently has almost $500 million in assets under management. Mr. Decter's primary focus is value investing.

SECTOR — GENERAL INVESTING

TWST: Please give us a brief background of LDIC.

Mr. Decter: The company originally was the Lawrence Decter Investment Counsel, but is now LDIC, Inc. I founded the firm in 1998 with Jack Lawrence, who had been quite a prominent figure on Bay Street in Toronto. He had been the CEO of a firm called Burns Fry, which became Nesbitt Burns. It was bought by the Bank of Montreal and became BMO Nesbitt Burns. Jack and I founded the firm in 1998. I bought out the Lawrence & Company interest seven years ago. Jack Lawrence died tragically in a plane crash two years ago.

TWST: Why did you start the firm?

Mr. Decter: I've actually had a couple of previous careers, one in government and one was in consulting. I was a Partner at KPMG for a time. But I had the hobby of investing, so I had been investing my own money for more than a decade before "turning pro." I wrote a book about it, and the book became a Canadian best seller. It was called *Million Dollar Strategy*. It chronicled the growth of my own registered retirement savings plan. I managed to grow my RRSP from $50,000 in the mid-1980s to $1 million in the mid-1990s. It was really very much a do-it-yourself book on how you could successfully invest. It brought me to the attention of Jack Lawrence, and he asked me to join the firm he started after the sale of Nesbitt Burns, a firm called Lawrence & Company. I was interested in seeing if I could make a go with managing other people's money, as well as my own. Jack was interested in having me help with some of the private investments they made prior to my getting there in the health care sector, because that was part of my background. So for a time, I did both. And then when what's now LDIC started taking off, that required my full-time attention. We decided to separate our interests. And I would buy the investment counsel firm, and I would leave Lawrence & Company.

TWST: What is your investment philosophy?

Mr. Decter: I would say it is about 70% bottom-up, value-oriented stock picks, and 30% a top-down, big-picture, global view of what's going on in the world. We try and bring those two perspectives together in the decisions we make. The big-picture stuff came from years in government. When you are in government, you're very much in the big picture all the time. The very company-specific views probably came from my own investments, but also from consulting, where often we were involved at the company level with strategy or with strategic planning. That work gave me a good feel for how individual organizations work.

TWST: You currently manage three funds.

Mr. Decter: We manage three funds, and we also manage about $400 million of segregated private-client money.

TWST: What are the three funds you manage?

Mr. Decter: The three funds are the Redwood Diversified Equity Fund, the Redwood Diversified Income Fund and the Redwood Global Small Cap Fund.

TWST: How are they different from each other?

Mr. Decter: The Global Small Cap Fund, as the name implies, is focused globally. It has a mandate to go anywhere in the world, and it is exclusively invested in small caps. The Income and the Equity funds are more focused on Canada, although they are not restricted to Canada. They have been deliberately, over the last several years, more focused on the Canadian equity and the income market.

If I had to rate the three funds on a risk scale, the Income Fund, which pays us $0.06 a month distribution, is the least risky. It's invested in a mix of things, but the overall rule is everything invested in that fund has to be able to produce some income, as well as hopefully some capital appreciation. The Equity Fund takes on more risk. It would fit into a growth mandate. The Global Small Cap Fund is an aggressive growth mandate, so it is more volatile and more aggressive, and it's risk taking.

TWST: Did you start the funds at about the same time?

Mr. Decter: No. The Diversified Equity and the Diversified Income funds started at the same time in 2005, and then the Global Small Cap Fund is our most recent fund, and that started in 2008.

Highlights

Michael B. Decter manages LDIC's investment funds, and he shares his investment philosophy and strategy. Mr. Decter allocates 70% to bottom-up, value oriented investments, and 30% to top-down investments, looking at global sources of growth. He currently invests in companies levered to Asian growth, and he favors companies invested in commodities, materials, energy and agriculture. The funds are overwhelmingly invested companies listed in the Toronto Stock Exchange. Mr. Decter favors companies listed in the TSX because it gives LDIC the chance to better communicate with management. One red flag for Mr. Decter is complicated financial statements, and he stays away from the health care sector.

Companies include: Mercer International (MERC); Canfor Pulp Limited Partnership (CFX.TO); Ithaca Energy (IAE.V); Xinergy Ltd. (XRG.TO); TransCanada Corporation (TRP.TO); Inter Pipeline Fund (IPL-UN.TO); Provident Energy Ltd. (PVE.TO) and Cineplex (CGX.TO).

TWST: Why did you start the Small Cap Fund?

Mr. Decter: We felt that there were real opportunities in the global world of small cap, so we were interested in pursuing that. The markets were very negative when we first started it, so it did not excel immediately. But it rebounded very well in 2009 and 2010.

"We look at where growth is going to come from, and then which sectors and companies will benefit from the growth. And that's taken us in recent years fairly strongly in energy, commodities, materials and agriculture, because our fundamental view is the countries that are really experiencing this rapid growth are also the countries that are dragging themselves out of poverty, such as China and India."

TWST: What do you look for before investing in a particular opportunity?

Mr. Decter: We look at the sources of growth in the world. I think we look at some pretty basic things. The population of the world is growing, and most of that growth is in Asia. There are 44 Asian nations that will grow above 8% this year. So we feel quite confident that with that backdrop, one thing that is going on is growth. Although we've been through a bit of a rough patch and there are still concerns, the concerns are generally in the older economies — with the exception of Japan, because of the earthquake and tsunami issues. So we look at where growth is going to come from, and then which sectors and companies will benefit from the growth. And that's taken us in recent years fairly strongly in energy, commodities, materials and agriculture, because our fundamental view is the countries that are really experiencing this rapid growth are also the countries that are dragging themselves out of poverty, such as China and India. As they do that, they need a lot of energy, a lot of oil, a lot of coal. They also need a lot of metals to build their economies, so copper and iron ore. But they also need engineering talent, and they will feed their whole population. I think the years when people would starve to death by the tens of millions in China are over. They are wealthy enough now to be able to feed their population. So if they have problems growing their food, they will import it. For that reason, we are reasonably bullish on agriculture and fertilizer.

We are overwhelmingly investing in Canada. We do think Canada came through the economic downturn probably better than any developed country in terms of the strength of our banking system and in terms of the rebound in job creation. Actually, we have more jobs in Canada than we had before the downturn, which is not true of the U.S. or most of the European countries. Our unemployment rate is still high because there has been some increase in the labor force. But that to us is very encouraging. So we keep our investments pretty close to home on everything except the Global Small Cap.

TWST: What about when you look at individual companies? What company-specific indicators are the most important to you?

Mr. Decter: One of the reasons we've stayed more closer to home is because we like the TSX-listed companies. This is actually also true in the Global Small Cap Fund, where we tend to favor companies that, while their business may be in Colombia or Australia or somewhere in Africa, they're listed on the Toronto Stock Exchange. That gives us access to management. Generally, if they are listed on the Toronto Stock Exchange, it means they have an office in Toronto, where they come to Toronto when they are raising money. We really do like to meet with management, hear from them. Obviously, that's easier to do with companies that are in your neighborhood. In general, we do learn a lot from management, and we're also very keen to understand the competitive situation of the company and get beyond simply the numbers and balance sheet.

1-Year Daily Chart of Mercer International

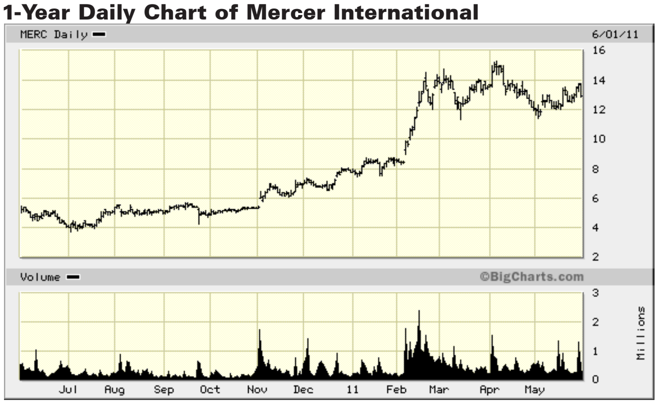

Chart provided by www.BigCharts.com

I'll give you a good example. We had a very good run in the mutual funds with a company called **Mercer** (MERC). **Mercer** is a U.S.-based producer of pulp. If you looked at its balance sheet when we bought it a year and a half ago, you would have never gone near it, because it looked like it was highly, highly leveraged. But we met with the company, and we came to learn that the biggest shareholder — who also was the biggest debt holder in the company — he is also the largest shareholder in Goldman Sachs, so he was very deep pocketed and very supportive of **Mercer**. That made us think that while there is an apparent weak balance sheet, it's actually backstopped by this individual who has simply leveraged for his own convenience, not for any reason of not being able to afford it. And most of the debt was against one of the company's mills in Germany. When we examined it, that debt was all nonrecourse. At this time, **Mercer** was trading at $4 or $5. The way we looked at it was, if you took away the one mill in Germany through default or whatever, they still had two mills. That, in our view, was worth somewhere between $15 and $20 a share. So we bought it, and it has run up nicely into the low teens. That is one example of where if we hadn't really dug in, if we just looked at ratios, it would have looked like it was far too leveraged to be considered by any conventional investor.

TWST: Are there any company-specific red flags or markets you avoid?

Mr. Decter: There are certainly red flags. Anything that's too complicated in financial terms, I stay away from. I credit my KPMG time for this. I learned in those days that most of the evil deeds of corporations are actually hidden in the notes for the financial statements. If the notes to the financial statements are really, really long, I don't buy the company's stock. That philosophy is what saved me on **Enron**. A friend in New York really wanted to buy **Enron** because he worked at McKinsey with Jeff Skilling. He said Jeff was the smartest guy in the room. He asked me to take a look at **Enron**. Obviously, this was back when the **Enron** was the hot stock. I started looking through the notes and saw all these limited partnerships they had, and I phoned my friend and said, I don't know what they're doing — the notes for financial statements go on for around 50 pages and that can't be good. So he didn't buy it, and then of course they went broke.

We do look very carefully really to try and determine the quality of the balance sheet and the quality of earnings, because you can mind a lot of stuff. Two companies can look relatively similar if you just see the numbers. But then when you go into the notes, you find out that one company has a very aggressive approach to when it books revenue and the other company has very cautious approach when it books revenues. So we do spend some amount of time on those things.

In terms of sectors we avoid — ironically, with my health care background — we avoid the health care sector, which may be a case of knowing too much. I am much more comfortable with mining and oil and gas. There are a couple problems, in my view, with the health care sector. One is that a lot of the companies are drug-discovery companies, and they take a very long time to get a product to market. Two, the health care sector has a lot of government involvement in one way or another, and governments can sometimes be unpredictable in what they want a health care company to do or pay for a drug or device. So those two things tend to push us away from the health care sector. We're not usually strong on technology, and that isn't to say we haven't made occasional investments in technology. But we have a tougher time picking winners there than we do in some other sectors.

"If the notes to the financial statements are really, really long, I don't buy the company's stock. That philosophy is what saved me on Enron."

TWST: When we spoke last year, you mentioned you had a strong cash position. What is your cash position right now?

Mr. Decter: In the two of the three funds, we're fully invested, basically because the funds have grown. In the Global Small Cap Fund, we probably hold just under 20% in cash, and that reflects a certain view that we think that we've got a very strong portfolio, and we have seen a bit of a downturn in the last few months in the small-cap space. We think that these are all companies that will do well on the basis of actual milestones of performance. Once funds get larger, it isn't as easy to go to cash as it once was.

TWST: How many stocks do you usually have in each fund? Is there such a thing as an optimal number of stocks?

Mr. Decter: We do think there's an optimal number. We prefer to be somewhere around 30 positions in each of the funds. One reality is that number seems to creep up on you. You buy new things, and you find all of a sudden that you've crept up to 40 holdings. And we're currently going through a process to force ourselves to push back to 30 or 32. We've found that we focus better on a lower number of names. We follow them more carefully. And we don't have those issues where we think we're going to buy a little position on something and see if that works out, because those are names that rarely work out. I think I would be happiest if we would actually have 30 names in each of the funds, but we're usually sort of near that number.

1-Year Daily Chart of Canfor Pulp Limited Partnership

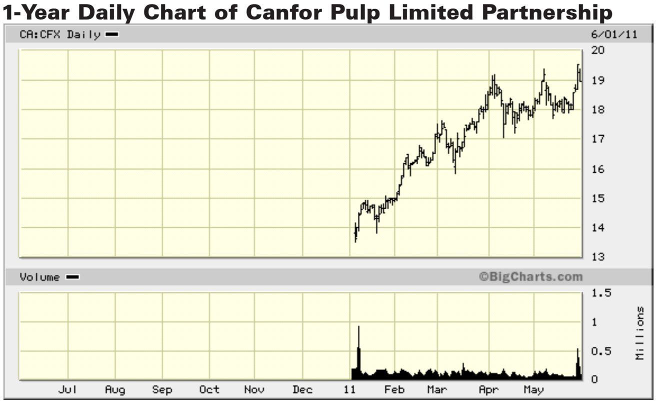

Chart provided by www.BigCharts.com

TWST: How do you manage risk in your funds?

Mr. Decter: I think we manage risk in several ways. One is, although the funds all have an ability to go short, we haven't used that very much, though we could mitigate some risks if we saw really negative things starting to occur by going short up to 20%. We can go to cash, and we have done that in the past. There were three times last year in the Small Cap Fund where we were close to 70% cash as a risk-mitigation measure. We have not been that high with cash in the other two funds. Third is, we don't allow any one sector to become more than 35% of the weighting of the funds, so that forces a certain diversification. And we never allow a single position in the fund to get above 10%. Normally they're between 3% and 6%, but if something really takes off and gets to 10%, we will start trimming it to keep it under that. So those are generally our risk-mitigation techniques.

TWST: Would you give us more examples of stocks you currently hold and tell us what interests you about them?

Mr. Decter: Canfor Pulp (CFX.TO) is one that we've owned for a while. It's similar to **Mercer**, but it's also in Canada. What we see there underlying in both of them is big demand for pulp and paper products in Asia. I'd point out that the kind of pulp used in tissue paper and toilet paper, and that is sort of a one-way street. You don't see countries deciding that because they are going through a tough time, they're going to give up on toilet paper.

In the energy area, there are a couple that we really like. We like **Ithaca Energy** (IAE.V), which is in the North Sea. We think it's got real potential to become a much larger producer, and we like the management team. We also like and have had some good success in the coal area, and one company called **Xinergy** (XRG.TO) is our top small-cap pick in that space.

We do own a lot of the income names in the Income Fund, and those tend to be some of the pipeline utilities in Canada — **TransCanada** (TRP.TO), some of what were formerly pipeline trusts, **Inter Pipe** (IPL-UN.TO) and **Provident** (PVE.TO). We like the infrastructure that surrounds transporting the oil and actually fracking the natural gas to produce natural gas liquids, which are commanding a high price. And that's **Provident**'s business and part of **Inter Pipeline**'s business.

One really solid name we like is **Cineplex** (CGX.TO), which is the dominant movie theater chain in Canada. We actually think movies are going to play well this year. They had a weak comparable first quarter, but that is really only because that compared to a quarter that had "Avatar" at end of last year. We see the movies changing their demographics, still keeping the kids, but gaining more adults going to the movies.

"We don't allow any one sector to become more than 35% of the weighting of the funds, so that forces a certain diversification. And we never allow a single position in the fund to get above 10%."

TWST: Canada recently elected a majority government for the first time in a long time. How will that impact the stock exchange?

Mr. Decter: The markets hate uncertainty, and this takes out some of that uncertainty. In the five or six years of minority government, there definitely was some uncertainty. And although the parties pulled together on the financial crisis and Canada experienced less of one than other places, I think there's probably some value in having a majority government — so that when a budget is presented, it's passed and so on. It is true that Canada has been doing pretty well through a period of minority government, and our leaders have demonstrated some capacity to work together when the public are very concerned about the economy. They can squabble when things are better. I think it will make it easier for the current federal government to reduce the deficit. They were planning to do it in three or four years. And I think they'll be able to do it quicker than that, because the majority government has the ability to bite the bullet. And it probably makes sense for them to do some harder things early in the term, so they'll be forgotten by the time they have to seek reelection.

1-Year Daily Chart of Provident Energy Ltd.

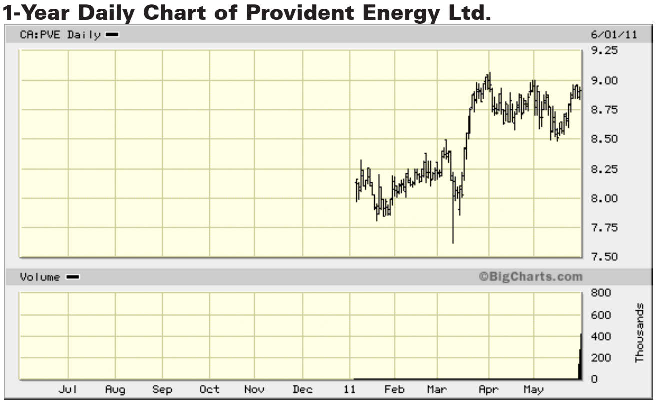

Chart provided by www.BigCharts.com

TWST: Is it important to look at the broader political and economic situation when investing?

Mr. Decter: I think so. I mean, it's not the only thing you should look at. But given a choice between two businesses that are relatively similar, and one is operating in a very risky political environment and the other isn't, I think it's worth understanding that and understanding the political, socioeconomic context. So we pay a lot of attention when we're investing in a country like Colombia to what political risks there might be, and we watch pretty closely. But you can have political risk in developed countries as well. And so I think it's important.

TWST: What are some of the common mistakes investors make?

Mr. Decter: I think that they tend to react too much to the front page rather than the business page. Small investors tend to buy when the market is very high. They see some headline that says the market has hit a new high, and investors rush in. Then they tend to sell at the bottom out of panic when you should do exactly the opposite. It's certainly better to invest when times are bad than when times are good. But it's hard psychologically to do that, even for professional investors.

I think the second mistake they make is not doing their homework. If you're going to be an investor, you might at least find out something about the company, not just that somebody told you it was a great investment or your cousin Charlie works there and says it's growing. You really want to get an annual report or go online and read some analyst coverage. There's a wealth of information available if you take the time to look for it. I think often the investors do more homework about where they are going for a family vacation than they do when buying a particular company's equity.

I think the last point I'd make is you have to be patient. Results would tend to get stampeded in a lot of short-term things that are urgent but probably not important. So we've often done our best from the stocks when we have been willing to be quite patient with it. Companies are going to have weak quarters from time to time, but a weak quarter does not mean they are in trouble. They could still be on target for the reasons you invested in the stock.

TWST: What are your key advantages over your peers?

Mr. Decter: We're relatively small. We manage in total a little over $500 million. So we're fairly nimble. We can own something and make a good return on it, and we don't get caught into very difficult efforts. If you are very big, you have to own such large positions that they can become very hard to exit or enter at a reasonable price. And I think, given our size, we can really focus on some of the midmarket that gets overlooked.

Our favorite kind of situation is when we find a company and maybe there's one analyst covering it as a small firm, and we get comfortable with it. We buy our position, it runs up and then — about the time the banks are launching coverage on it — we're generally heading for the exits because it had its big run. We don't need and we don't want six or eight banks covering a company until we have bought our positions. At that point, after we've bought our positions, we're very happy that they cover it. So being a bit early is one of the things that has worked reasonably well for us.

TWST: You said you added your most recent fund in 2008. Are you looking to add more funds?

Mr. Decter: We are. We haven't quite put the finishing touches on what those funds will be. We have a new person joining the firm who's got some experience on the sell side, and I'm looking forward to his insight and where we might go. We are looking to grow. We've hired a couple of portfolio managers, and we're thinking about how do we take the firm to the next level. I think that will involve some more funds, perhaps targeted once, perhaps some that target some areas that don't get a lot of attention. There is, for example, a significant merger of the stock exchanges of Chile, Argentina and Colombia into a much bigger Latin American exchange. We are thinking that a Latin America-focused fund could be an opportunity.

TWST: Looking at the global macroeconomy, is the recession nearing its end?

Mr. Decter: I think it's very uneven, continent by continent. Asia is doing extremely well, and so is Australia. Both Latin America and Africa are showing some considerable promise. The weakness that remains is Europe, and not all of Europe. Germany is going gangbusters. But Southern Europe, it's almost a North-South split. Germany is doing well. France has been pretty solid. But Greece, Italy, Spain, Portugal — sweep around to the U.K. and Ireland — are struggling. In North America it's also uneven. Canada is doing well, the Northern states are doing reasonably well. But you've still got big problems down in the Sun Belt. That is where the housing calamity is. That's where great deal of unemployment is. It's an uneven picture. But yes, I think it's generally improving. There will still be a few hiccups and bad days, and economic numbers never go straight up when you are in a recovery. They sort of usually bounce around a bit. We are cautiously optimistic about things that are improving.

TWST: Would you like to add anything else?

Mr. Decter: No, I think we covered a lot of ground.

TWST: Thank you. (LMR)

MICHAEL B. DECTER
President & CEO
LDIC Inc.
Exchange Tower
130 King Street West
Suite 2130
PO Box 399
Toronto, ON M5X 1E2
Canada
(416) 362-4141
(416) 642-5054 — FAX
www.ldic.ca