BIAS Global Navigator
INVESTMENT MANAGERS SECURITIES ANALYSTS JUNE 2014

You must have heard a friend mention that they now watch TV over the internet or you may have even started doing it yourself. You may have decided cable TV does not suit you because of your busy schedule, your distaste for long commercial breaks or a general lack of interest in shows featuring housewives, chefs or celebrity dancers. Well, kudos to you as you are now part of a long term trend where more people "cut the cord" to traditional cable TV. Research firms estimate that roughly 1.7 million people in North America cancelled their cable TV subscription last year and another 10 million households may give up their TV subscription in favour of an online video service in the next 5 years – growth of 220 percent. A survey by Morgan Stanley showed that 19 percent of TV subscribers expressed a desire to disconnect in the next 12 months which was two percent higher than the previous year.

TV goes a la carte

The main advantage internet TV has over traditional TV is personalization of programming. You can watch offerings of your interest at the time that is most convenient to you. Even the advertisements are personalized to the viewer's age, location and interests. The most popular internet television service is Netflix. It has over 48 million users in more than 40 countries who watch almost a billion hours of TV shows and movies per month. The service is a leader in subscribers and streaming share and remains the most likely service to replace traditional TV subscription, as per a Morgan Stanley survey. Other services include Amazon's Prime video streaming service, Hulu Plus, HBO Go, Google's YouTube and the Apple iTunes.

Content is king

While Netflix was the first mover in offering content online, the space has witnessed more players entering as the trend gained traction. Netflix still maintains an advantage in terms of price point and library of content available. Additionally, Netflix has also started to offer original content which includes its Emmy award winning series "House of Cards." In a recent survey of Netflix subscribers, 'original programming' showed the largest increase as a reason to subscribe to the service. Rivals, Hulu Plus and Amazon Prime, have also produced original content but neither has matched the award winning stature of "House of Cards."

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cont. from pg. 1 › CUTTING THE CORD

Content producers have accepted the shifting television dynamics. American actor Kevin Spacey who portrays Frank Underwood in the Netflix series "House of Cards" famously said that "the audience has spoken" and content took precedence over devices and platforms. The success of the series marks an inflection point as internet TV is now broadly accepted to be a welcome disruptor of the traditional model and not just a platform for series re-runs.

Device wars

The acceptance of internet streaming services as a viable alternative to traditional TV has ignited fierce competition within application-compatible devices which enable streaming on a conventional TV screen. Roku was one of the first devices to enable streaming on your TV. In its most recent version, Roku 3 offers an easy user interface, hosts applications like Netflix, YouTube, Amazon and HBO Go and also offers an across-apps search option. The product, however, does not have its own streaming service. Other devices include the Apple TV, which integrates with the Apple eco-system, and Chromecast, which provides Google Chrome browsing capability and Android smartphone/tablet integration. The newest addition to this line of gadgets is Amazon's FireTV which offers a wide range of streaming apps but excludes HBO Go.

At the same time, streaming apps are making way to the TV screen through other routes. Microsoft's Xbox and Sony's PlayStation gaming consoles also give access to Netflix, Hulu and YouTube while Samsung's recent Smart TV has all these apps built in. Smaller cable operators in the US are also hosting a Netflix app on their set top boxes.

Convergence towards the new normal

As internet TV gains traction, it begs the question how this impacts traditional cable operators such as Comcast and Time Warner Cable. Interestingly, what these companies have lost in TV subscribers, they have gained in broadband and internet users. As video quality improves and streaming size increases, broad band companies are likely to transform their revenue structure and pass costs onto internet streaming services or even the consumer. Recently, Netflix had to settle a dispute with service from Verizon and Comcast over disproportionately large data usage by Netflix users.

BIG DEALS ARE BACK!

Buyers are using a little creative thinking and a lot of common stock to fuel the best quarter for global takeovers since 2007.

More than $900 billion of acquisitions were announced in the Second Quarter 2014 following $804.5 billion in the First Quarter, up 23 percent year over year.

High Stock Valuations

Acquirers turned to using their rising stock prices to finance deals. All cash offers made up about one-third of deals announced in the Second Quarter compared to two-thirds of deals in the prior year and 50 percent in the five years through 2013. Acquisitions are focused on intellectual property, access to innovation and ideas that add value to the acquirer's business.

S & P 500 reached record highs in June 2014, and is now trading at 18 times reported profits, its highest multiple since 2010. The Euro Stoxx 600 reached a price to book multiple of 1.9 times, its highest since 2008. As a result, shares are frequently used due to more stable equity markets and higher stock valuations. European buyers have made the biggest shift away from cash, with all cash deals falling to 28 percent of takeovers announced by public companies in the Second Quarter 2014.

Tax Inversions

Pharma industry deals have been fueled by a rush of American companies wanting to take advantage of a tax loophole that allows them to book corporate profits at lower rates overseas, in countries such as Ireland, Switzerland and Britain.

AbbVie, maker of the blockbuster multi-use drug, Humira, made a $46 billion bid for Irish rival Shire Plc but has been rejected to date. AbbVie, a pharma company spun off from Abbott Laboratories last year has indicated that it approached Shire's Board of Directors in May. In their proposal, AbbVie said they planned to create a new US-listed company but change its domicile to Britain, a "tax- avoidance maneuver". Shire, who has an attractive portfolio of drugs that treat rare diseases, rejected the offer which it believes undervalues the company and its prospects. Under British takeover rules, AbbVie has until July 18 to make a firm offer for Shire. If it fails to do so, AbbVie will not be allowed to submit another unsolicited offer for at least six months, a so-called "cooling-off period". AbbVie is rumored to be considering whether or not to present its case directly to Shire shareholders.

Less than two years ago, Gregory Wasson, CEO of Walgreens, sought a series of tax breaks from Illinois, where the company is headquartered. The state gave Walgreens $46 million in corporate income tax credits over 10 years in exchange for a pledge to create 500 jobs and invest in upgrading its offices. The state provided $625,000 in training money and $875,000 in other tax incentives. Walgreens is facing shareholder pressure to re-domicile in Europe after it completes its expected takeover of Swiss-based Alliance Boots, largely to take advantage of lower taxes. In Walgreens' case, an inversion could be an insult to US tax payers, as the company reaps almost 25 percent of its $72 billion revenue directly from the US government. Walgreens received $16.7 billion from Medicare and Medicaid alone last year. Americans for Tax Fairness, called Walgreens' consideration "unfair and deeply unpatriotic if the company moves offshore while continuing to make its money in the US, leaving the rest of Americans to pick up the tab for its tax avoidance." A decision is expected this summer.

Hoards of cash!

Medtronic's recent bid to purchase Irish-based Covidien requires the deal transfers at least 20 percent of shares to foreign holders in order to comply with U.S. tax laws. Under the strategy, companies merge with foreign rivals in countries with lower tax rates and then reincorporate there while still enjoying the benefits of doing a large portion of their business in the US. Medtronic, however, has 90% of their cash overseas today.

If Medtronic "repatriated" the cash to the US, they would have to face higher US corporate tax.

Analysts believe that this "inversion" is not to avoid US taxes – although that would be one of the benefits – but rather to access the cash overseas. For Medtronic, the acquisition has financial upside through cost and tax synergies while also increasing capital deployment flexibility. The newly combined company will be able to increase its dividend payout to 35 percent from 25 percent, creating an attractive +3 percent yield. The "NewCo" would be more likely to double its share repurchases to 2 percent annually and will be able to pay down debt and/or increase share purchase activity.

Yet another style of acquisition – Asset Swaps

Another deal structure is to swap assets and form joint ventures as part of a purchase. In April, Novartis struck a deal in which it effectively swapped a portion of its consumer-health business for GlaxoSmithKline's as part of a series of transactions worth $28.5 billion total.

General Electric only secured its purchase of France's Alstom SA's energy assets when it offered its rail-signaling business to Alstrom as part of the deal. Following the purchase of Alstrom's gas turbine business, GE moves closer to their industrial roots of being an energy supplier.

Merger & Acquisitions have reached a 7 year high partly due to the market's developing strength in the Second Quarter 2014.

BIAS GLOBAL PORTFOLIOS SPC
BIAS ASSET MANAGEMENT LTD

PERFORMANCE
as at 30th June 2014

Past Performance is not indicative of future results. Please note that the investment return and principal value of an investment will fluctuate so that an invetor's shares, when redeemed, may be worth more or less than their original cost; and that current performance may be lower or higher than the performance data quoted.

Short Duration Income Fund
RISK: LOW ■ □ □ □ □ HIGH

Benchmark: *Citigroup 1-3yr Treas Index*
Inception Date: *December 29, 2006*

Performance	Q2/14	1-Year	2-Year (Annualized)	3-Year (Annualized)	Since Incept. (Annualized)
Short Duration Fund	0.05%	0.31%	-0.07%	-0.35%	1.49%
Benchmark	0.26%	0.73%	0.54%	0.61%	2.57%

Global Balanced Fund
RISK: LOW □ ■ □ □ □ HIGH

Benchmark: *Blended Composite†*
Inception Date: *December 29, 2006*

Performance	Q2/14	1-Year	2-Year (Annualized)	3-Year (Annualized)	Since Incept. (Annualized)
Balanced Fund	2.14%	11.81%	7.93%	3.35%	2.45%
Benchmark	3.39%	15.06%	13.03%	7.82%	4.54%

Global Dividend Income Fund
RISK: LOW □ □ ■ □ □ HIGH

Benchmark: *S&P Global 1200 Index*
Inception Date: *September 28, 2012*

Performance	Q2/14	1-Year	2-Year (Annualized)	3-Year (Annualized)	Since Incept. (Annualized)
GDI Total Return	3.67%	12.89%	—	—	8.32%
Benchmark	5.16%	24.39%	21.54%	12.19%	20.29%

Global Equities Fund
RISK: LOW □ □ □ ■ □ HIGH

Benchmark: **S&P Global 1200 Index*
Inception Date: *December 29, 2006*

Performance	Q2/14	1-Year	2-Year (Annualized)	3-Year (Annualized)	Since Incept. (Annualized)
Equities Fund	2.78%	16.46%	11.43%	3.91%	0.63%
Benchmark	5.16%	24.39%	21.54%	12.19%	5.15%

*Prior to April 1, 2012 benchmark was FTSE World Equity Index. † 60% S&P Global 1200 Index/ 20% Citigroup 1-3Yr Treas. Index/ 20% Citigroup 3-7 Yr Treas. Index

MANAGEMENT COMMENTARY

Equities Q2 2014
Confirming economic indicators led US outperformance versus the global benchmark while European stocks lagged. In Emerging Markets, re-structuring in China and anticipation of political change in Brazil drove stock prices higher. On a sector basis, Energy and Information Technology were the best performing sectors while Financials and Consumer Discretionary were the worst performing.

Currencies Q2 2014
The dollar advanced versus the euro as the Fed continued paring bond purchases while the ECB increased monetary stimulus. The Canadian dollar advanced against all major currencies as economic growth picked up in the US (Canada's largest trading partner). Sterling appreciated against the dollar and euro boosted by strong economic data.

Fixed Income Q2 2014
With the exception of shorter-maturity UK yields, interest rates fell in most Developed Markets on mixed economic data and increased hostility in Ukraine and Iraq. The Fed reduced asset purchases as expected, but emphasized that the Fed Funds rate is likely to stay low for a considerable time. Corporate bonds outperformed Treasuries on high demand for their relatively better yields.

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