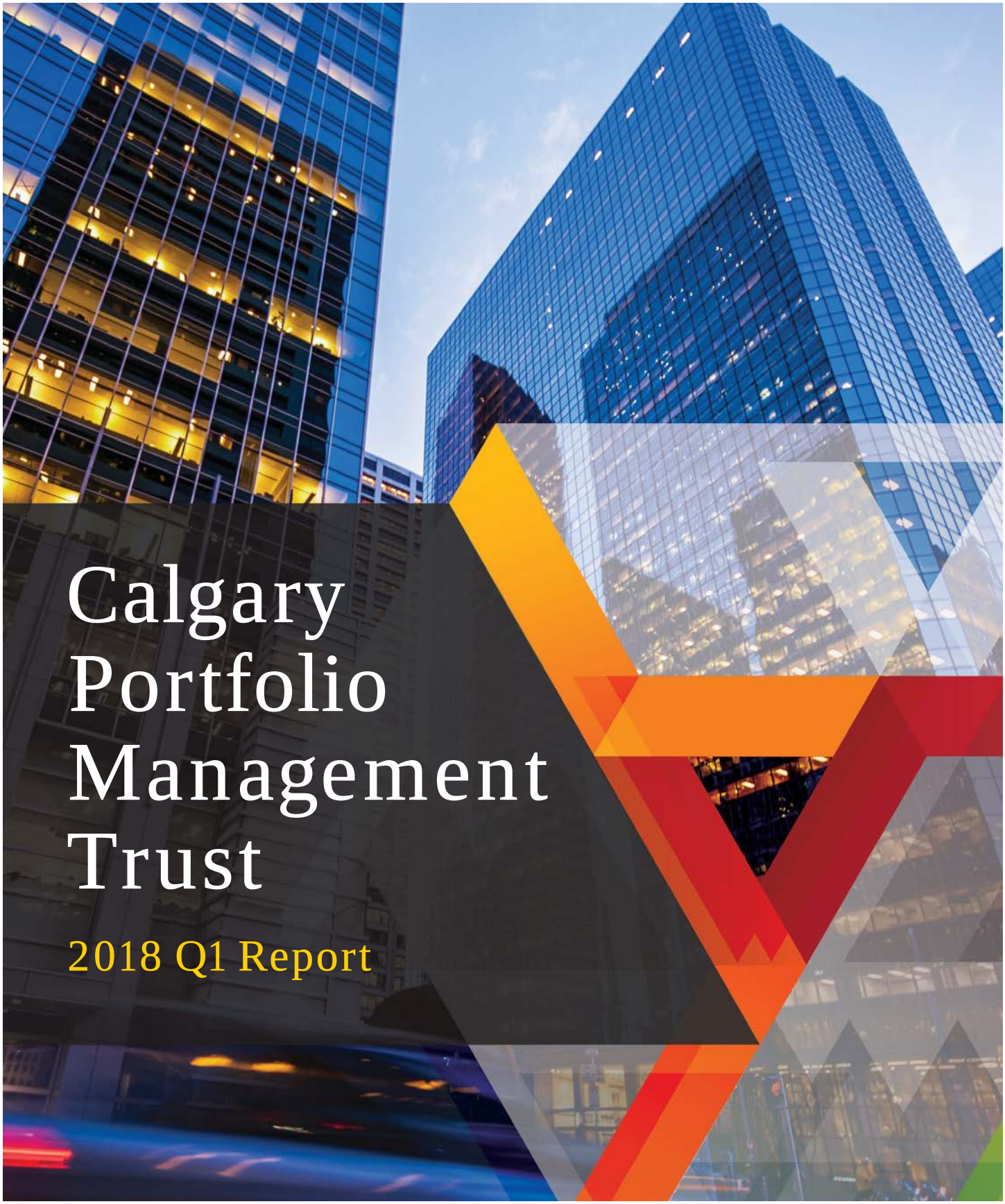

Calgary Portfolio Management Trust

2018 Q1 Report

UNIVERSITY OF CALGARY
HASKAYNE SCHOOL OF BUSINESS

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Dear Stakeholders,

The Calgary Portfolio Management Trust (CPMT) Class of 2018 would like to extend our gratitude to the Board of Trustees for its continued commitment to, and engagement with the program. We would also like to sincerely thank the CFA Society of Calgary and the CPMT alumni for their involvement and support. Finally, we would like to thank all of our supporters in the Calgary business community for their vested interest in the program.

An important part of the CPMT experience is the mentorship program, which provides students invaluable support from technical expertise to career guidance. The CPMT is grateful for all professionals who have made themselves available to students and eagerly look forward to another year of mentorship.

As the summer nears its end, the CPMT members are eager to apply the knowledge and experience gained through various internships to their roles in the Fund

. We will continue to target success through the CPMT's strategy of owning companies with high caliber management teams, strong balance sheets, growing free cash flow, and tangible competitive advantages. Furthermore, we are dedicated to refining our strategy of conviction based capital allocation.

The Fund expects exciting developments in the near term, including an expansion of the Fund's mandate to include investments in U.S. equities and the addition of a marketing role to the current Fund Manager, Research Associate, and Fund Analyst positions. The opportunity to branch out into U.S. equities will result in a significant expansion of the Fund's investible universe, and improve the CPMT's understanding of industries outside of Canada. In addition to expanding the Fund's investment opportunities, we believe that also improving awareness of the Fund through the new marketing role will increase the visibility and presence of the CPMT within the school and city which will benefit students and employers for years to come.

Involvement in the CPMT program offers invaluable exposure to a challenging and scholastic environment, creating an unrivaled student experience. Moving forward, we hope that the ongoing effort put forth by students, along with external support, will continue to develop knowledgeable and skilled graduates from the program. We are eager to find new ways to continually improve the program and will strive to maintain our commitment to excellence.

Sincerely,

Daniel Cassino, Fund Manager

Kristin Gorkoff, Fund Manager

Jennifer LaBine, Fund Manager

Darren Luoma, Fund Manager

Chase MacDougall, Fund Manager

Mahad Nadeem, Fund Manager

Erick Noh, Fund Manager

Daniil Zhigatov, Fund Manager

Biographies

CPMT CLASS OF 2018

ABDULRAHMAN ALNOAIMI
Fund Analyst
5th Year, Chemical Engineering and Economics

Abdulrahman is completing his fourth year of a double degree in Economics and Chemical Engineering, with a Minor in Petroleum Engineering. He is currently completing a 16-month internship at NOVA Chemicals as a Process Engineering Intern, where he focuses on process modelling and data analytics. Since joining CPMT in September 2016, Abdulrahman has developed a deeper understanding and appreciation of financial markets. He is extremely grateful for all the support and guidance from faculty advisors, alumni, mentors and peers. In his spare time, Abdulrahman enjoys playing soccer and ultimate frisbee.

CHASE MACDOUGALL
Fund Manager
5th Year, Finance

Chase MacDougall joined the CPMT program in October 2016 as a Research Associate. Chase is excited about improving his research and valuation skills, as well as conducting in-depth analysis of different industries, and gaining valuable experience in security selection and portfolio management. He is currently finishing a summer internship at BMO Nesbitt Burns as an Investment Banking Summer Analyst. Outside of CPMT, Chase was a member of the Haskayne Trading Team which competed at the Rotman International Trading Competition in both 2016 and 2017, achieving 3rd and 2nd place finishes respectively. In addition to his interest in financial markets, Chase enjoys participating in and spectating a variety of sports, including hockey, baseball, basketball, and squash.

DANIEL CASSINO
Fund Manager
4th Year, Finance

Daniel joined the CPMT program in March 2016 as a Research Associate and would like to thank the board, speakers, and alumni for their continued support for the program. He looks forward to further developing his experience in portfolio management, equity research, and valuation over the coming year. Daniel previously worked at the City of Calgary in the Assessment Business Unit on residential and commercial property valuation and is currently working at J.P. Morgan as an Investment Banking Summer Analyst. In addition to his interest in working in capital markets, Daniel enjoys playing baseball, snowboarding, and is an avid car enthusiast.

DANIIL ZHIGATOV
Fund Manager
5th Year, Finance / Economics

Dan is in the fifth year of his studies and a Fund Manager in the CPMT program. He joined the program in the spring semester of 2016. He is very excited to continue learning about financial analysis and portfolio management as well as delve deeper into his understanding of the overall Canadian economy. He is very grateful to the board, alumni and the CPMT faculty advisors for their continuing mentorship. Currently, he is on an eight-month Co-op with RS Energy Group. Dan is looking forward to pursuing a career in Equity Research upon his graduation.

DARREN LUOMA
Fund Manager
4th Year, Finance

Darren joined the CPMT as a Research Associate in October 2016. He is a certified Journeyman B-pressure Rig Welder with a passion for financial markets who is ecstatic to be pursuing a degree in Finance at the University of Calgary. Through the mentorship program, guidance from his former FM, and collaboration with his peers in the CPMT, he has stoked his passion for finance, trading, and equity research. He is exceptionally grateful to be participating in the program, and is looking forward to contributing even more this coming year. He is currently on a co-op term at TransCanada as a Financial Analyst for the Compensation Department and was seconded to the Continuous Improvement team in May 2017. His work term will conclude in September 2017, and he will finish his last year of university. Outside of school and work he is a huge MotoGP fan and loves biking, skiing, rock climbing, and spending time with his wife and dog.

ERICK NOH
Fund Manager
4th Year, Finance

Erick joined the CPMT program in March 2016 as a Research Associate. He is extremely grateful for the continued support of the CPMT's faculty advisors, board members and alumni. Erick is looking forward to working with his peers to further his knowledge of capital markets and portfolio management. In addition to this, Erick is excited to learn more about valuation and research during the remainder of his tenure as a CPMT member. Currently, Erick is working at Tudor, Pickering, Holt & Co. as an Investment Banking Summer Analyst. In addition to his interest in finance, Erick also enjoys going to the gym and playing hockey. He plans to pursue a career in investment banking as well as obtain his CFA designation in the future.

JENNIFER LABINE
Fund Manager
5th Year, Finance / Economics

Jennifer LaBine joined the CPMT program in October 2016 as a Research Associate, and is grateful for all the support she has received throughout the year. Between lessons learned from peers and guidance provided by mentors, she considers being a member of the CPMT to be the most invaluable experience of her undergraduate degree thus far. She looks forward to further developing her research and valuation skills, and conducting in-depth portfolio analysis alongside her peers and friends in the coming year. Jennifer will be joining RBC Capital Markets as an Investment Banking Summer Analyst in May, and plans to pursue the CFA designation in the coming school year. Outside of this, Jennifer has participated in the CFA Research Challenge, and will be assuming the role of President of Fuse Collective in the coming year. She is an avid reader and recreational pilot.

KELSEY MILLS
Fund Analyst
4th Year, Finance

Kelsey joined the CPMT program in October 2016 as a Fund Analyst. She has enjoyed working with the team and expanding her knowledge of capital markets. Additionally, she is thankful for the unique opportunities the program has provided her and is grateful for the support provided by the board of directors, faculty advisors, mentors and guest speakers. She is pursuing a second bachelor's degree, having previously graduated from the University of Alberta. Currently, she is a Summer Associate with the Institutional Equity Research group at AltaCorp Capital. Kelsey is excited to pursue a career in capital markets upon graduation in the spring.

KRISTIN GORKOFF
Fund Manager
4th Year, Finance

Kristin joined the CPMT program in October 2016 as a Research Associate. Since joining the program, she has thoroughly enjoyed working with the team, gaining hands on experience in portfolio management, and expanding her knowledge about capital markets. She sincerely appreciates having been given the opportunity to participate in the program, as it has been one of the best experiences of her undergraduate degree. She would like to thank the Board of Trustees, speakers, faculty, and alumni for their ongoing support of the program. She is currently on an 8-month Co-op term with Credit Union Central Alberta working in the treasury department. She is also a June Level I CFA candidate. Upon graduation, Kristin intends to pursue a career in the capital markets and obtain her CFA designation. Outside of her academic pursuits, she enjoys classical music, travelling, and being active.

MAHAD NADEEM
Fund Manager
5th Year, Finance / Economics

Mahad joined the CPMT program in September 2015 as a Research Associate. He is enthralled by the learning opportunities that CPMT has provided him. He accredits the CPMT program for helping him develop a tireless work ethic, attention to detail, and intellectual curiosity. Currently, he is a summer analyst in the Private Investment Valuations group at the Alberta Investment Management Corporation (AIMCo). Prior to this, he interned at Azimuth Capital Management (formerly Kern Energy Partners) and at the Canadian Energy Research Institute (CERI). Upon graduation, he intends to pursue the CFA designation. In his spare time, Mahad loves to play and watch tennis and soccer, and is enthusiastic about current events.

CPMT CLASS OF 2019

A.J. BANGLOY
Research Associate
4th Year, Finance / Economics

A.J. joined the CPMT program in March 2017 as a Research Associate. He is looking forward to learning more about portfolio management, valuation and financial modeling. For the summer of 2017, A.J. is working at Husky Energy as a Credit Analyst. Prior to working at Husky, A.J. worked two summer terms in the Accounting department at AltaLink. Upon graduation, he plans to pursue a career in capital markets as well as obtain his CFA designation. In his spare time, A.J. enjoys boxing, running and keeping up-to-date on current events.

ALIM SULEMAN
Research Associate
4th Year, Finance

Alim joined the CPMT in March 2017 as a Research Associate. Alim is excited about the opportunity to learn about and improve upon his research and valuation skills, as well as to further his interest in portfolio management and capital markets. In addition, he is excited to work with his peers to grow the Fund. Alim is currently working as a Summer Student with the Ayrshire Group after spending last summer and fall on an eight-month work term as an Analyst with Annapolis Capital. Upon graduation, he will be pursuing a career in capital markets and look to obtain his CFA designation. In his spare time, Alim enjoys participating in, and spectating various sports, particularly hockey and squash.

BRODIE WILSON
Research Associate
4th Year, Finance

Brodie joined the CPMT program in March 2017 as a Research Associate and is grateful to the board, speakers, and alumni for their support throughout the year. He is excited about developing his research, valuation, and portfolio management knowledge in the coming years, and applying these techniques to further the growth of the Fund. Over the summer, Brodie is working for ATB Financial in its Internal Accounts Division, performing validation and audit duties. Upon graduation, he plans to pursue a career in investment banking, as well as obtain his CFA designation. In addition to his capital markets interests, Brodie enjoys playing hockey, golf, and snowboarding.

LUKAS SUTHERLAND
Research Associate
4th Year, Finance / Geology

Lukas joined the CPMT in March 2017 as a Research Associate and would like to extend his thanks to the board, speakers and alumni for their continued support. He is looking forward to expanding his knowledge of portfolio management, research, and valuation throughout his years with the CPMT. Lukas is currently pursuing a combined degree in Geology and Finance with hopes of eventually obtaining both his CFA, and P.Geo designations. This year, he is working as an Associate in an eight-month internship position with RS Energy Group. Upon graduation, he intends to pursue a career in capital markets. With his spare time, Lukas enjoys hiking, golfing, skiing, and agriculture.

MAXIM BOUIANOVA
Research Associate
3rd Year, Finance

Maxim joined the CPMT program in March 2017 as a Research Associate. During his second year at Haskayne, Maxim was also a member of the Rotman International Trading Red Team and was an Analyst for the Haskayne Finance Club. He since has moved up to become a Research Manager for this club. Over the summer, Maxim is working for Perron & Partners Wealth Management as an Equity Research Summer Analyst. Over the fall term Maxim will be joining bcIMC in Victoria as a Co-op Equity Analyst. Maxim is very excited for the opportunities that the CPMT has to offer over the next two years of his degree. During his free time Maxim enjoys freerunning, snowboarding and hiking.

WYATT PHILLIPS
Research Associate
3rd Year, Finance

Wyatt joined the CPMT program in March 2017 as a Research Associate and would like to thank the board, alumni and speakers for their time and support since joining the program. Although a new member to the program, Wyatt appreciates the significant amount of learning experiences that CPMT has already had to offer, specifically the speaker series, mentorship program and personal involvement in the portfolio management process. In addition, Wyatt currently works part-time as a server, bartender and floor manager at Earls Restaurant + Bar on 16th Avenue where he has been for two and a half years now. Wyatt's interest in capital markets began in his first year of university through his personal investment account and has grown exponentially through his academic career. Outside of his academia and interest in capital markets, Wyatt enjoys playing soccer, is an avid skier, and enjoys discovering and expanding his collection of music.

Macroeconomic Update

The Canadian economy showed significant signs of improvement over FQ1 2018, demonstrating that recovery from the crash in oil prices back in 2015 is well underway. First quarter Canadian gross domestic product (GDP) came in at 0.9%, up from the 0.7% in the fourth quarter of 2016. The annualized growth rate also increased to 3.7%, up from 2.7% in the fourth quarter of 2016.This growth helped Canada to gain the title of the fastest growing economy out of the Group of Seven (G7) nations. The nation's growth forecast for the remainder of the year was also revised upwards one point to 3.0% for FY 2017.

The strength in Canada's largest housing markets was one of the key drivers of the growth for the Canadian economy. These markets also drew international attention over the quarter, with analysts from Goldman Sachs to the International Monetary Fund all urging the Canada's policy makers to do something about the situation, warning of a potential market crash. Meanwhile, the struggles of alternative mortgage lender Home Capital Group (TSX: HCG) renewed concern about Canadian mortgage industry practices. HCG faced a liquidity crisis as depositors withdrew their money from their high interest savings accounts (HISA), seeing the company's overall HISA balance drop from $1.4B to $391mm in just over a week.

Commodity prices over the quarter saw increased volatility, with WTI reaching highs of over US$54/bbl in April, to lows of US$42/bbl in June. The volatility in oil prices resulted largely from declining Organization of Petroleum Exporting Countries (OPEC) compliance over the period and a continued increase in U.S. Shale production.

South of the border, the U.S. Federal Reserve opted to hike the federal funds rate in June by 25 bps for the second time this year. The rate now sits at 1.0% to 1.25%. The hike took place just as U.S. inflation data came in slightly weaker than expected. Chair of the Fed Janet Yellen addressed the lower inflation, stating that the central bank remains confident in the condition of the strengthening economy. Further commentary acknowledged that in the short term inflation would likely remain slightly below its target two percent, however over the medium to long term inflation would reach the two percent target.

The U.S. dollar weakened over the quarter due in part to political uncertainty in the U.S. given President Donald Trump's firing of Federal Bureau of Investigation director Mike Comey. This move sent the markets into decline as investors doubt surrounding the President's ability to get any of his campaign promises fulfilled continued to wane.

The end of the quarter was rocked by the Bank of Canada's (BoC) shift to a hawkish tone regarding the nation's monetary policy given the recent developments within the Canadian economy. The senior Deputy Governor Carolyn Wilkins was first to make such a statement. Her statement was followed shortly by the Governor Stephen Poloz who confirmed the BoC's stance, stating that the central bank now believed that the low interest rates implemented back in 2015 had served their purpose of stimulating the economy following the crash in oil prices.

Following the end of the quarter, the Bank of Canada elected to raise the overnight interest rate for the first time in seven years. The rate was increased 25 basis points to 0.75%. The hike, combined with a slower-growing U.S. economy drove the Canadian dollar up to 14-month highs. Given the developments in the economy over the quarter, the CPMT will continue to be diligent in monitoring continued economic development and potential implications of a rising interest rate environment on the portfolio moving forward.

Quarterly Sector Updates

CONSUMER DISCRETIONARY & STAPLES

The Consumer Discretionary sector returned 4.3% over FQ1 2018 and 21.5% over FY 2017, outperforming the TSX by 6.6% and 13.5%, respectively.

The sector relies heavily on trends in consumer discretionary income, influenced by factors such as national consumer debt, unemployment, and overall consumer sentiment. FQ1 2018 saw some of the lowest historical unemployment levels, with the unemployment rate hitting a 7-year low of 6.5%. Additionally, consumer confidence continued its upward trend as recovery took place following the notable decline after the election of President Donald Trump. Over the quarter, household debt levels continued to rise, reaching ~170% household debt-to-income; however, this is of little relevance as total debt-service ratios in Canada have remained relatively constant at ~6.1% throughout the past year. It is likely the case that consumers, aware of the uptick in strength of the economy and the resulting rate hike and thus increase in debt servicing obligations, are leery of increasing spending on discretionary goods at this time.

Magna International Inc. (TSX: MG), our top performing stock in the sector, returned 4.7% over FQ1 2018, outperforming the consumer discretionary index by 46 bps. The Company reported Q1 results in May, coming in well ahead of consensus expectations with a ~2.7% top-line beat and a ~14.9% EPS beat, achieving 5.3% and 26.7% growth, respectively. Although slowing global auto sales and the regulatory environment continue to be points of concern, MG is preparing for the future of automobiles with a greater focus on powertrain electrification and autonomous driving technology. MG also maintains a strong balance sheet and has proven its ability to increase operational efficiencies with gross margins improving by ~90 bps over the last quarter. For these reasons, MG remains a top pick within the sector.

The Consumer Staples sector, though affected by the same economic factors as the Consumer Discretionary sector, is far less volatile due to the low price elasticity of demand and the non-substitutable nature of goods within this category. The sector has returned 1.4% over FQ1 2018 and 7.8% over FY 2017, outperforming the TSX by 3.8% during the quarter and underperforming by 13 bps over the year. Our top performing stock within this sector was Lassonde Industries Inc. (TSX: LAS.A), which returned 5.9% over FQ1 2018 and outperformed the Consumer Staples index by 55 bps. Q1 2017 results were in-line with expectations and despite a 4% decline in YoY sales, the company generated 1% YoY growth in earnings. LAS.A remains a dominant player within the juice industry and is the top pick within the sector.

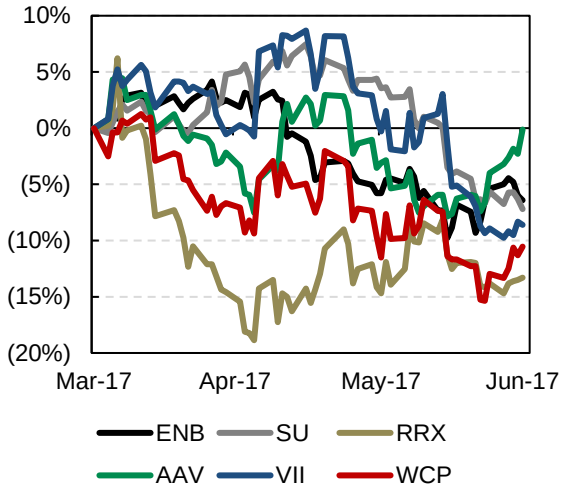
ENERGY

Crude Oil

The S&P/TSX Energy Total Return Index fell 8.3% over FQ1 2018.

WTI prices declined overall throughout the quarter but remained relatively stable, fluctuating between a range of USD $42.00 and $53.00, and closing the quarter at $46.04. The WTI benchmark hit a high of USD $53.40 and a low of USD $42.74. The quarter was not kind to the Energy sector, but many of the events that occurred had important implications for Canadian producers. One theme consistent over the quarter was the continuous increase in U.S. crude supply, from 9,199 Mbbl/d to 9,338 Mbbl/d, coming primarily from the Permian Basin activity, which created significant downward pressure on price. On the other hand, these increases in supply were met with an overall decrease in U.S. crude stocks of 42,727 Mbbl, or 3.5%, over the quarter and inclusive of the Strategic Petroleum Reserve.

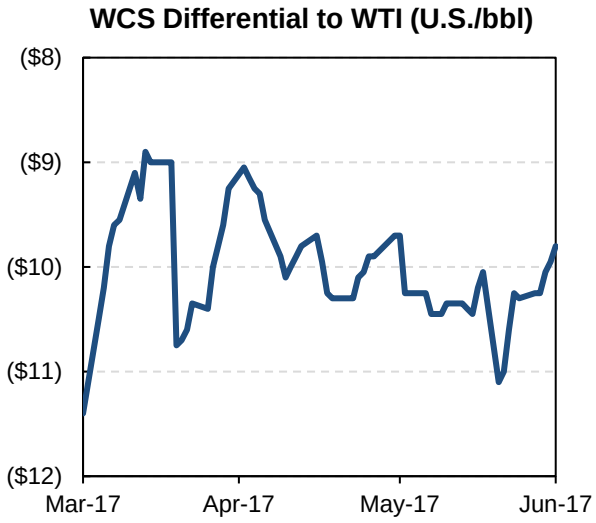
CPMT Energy Holdings FQ1 2018 Performance



Source: Bloomberg

A major event that occurred over FQ1 2018 included British Columbia's (B.C.) close provincial election, in which the NDP formed a coalition with the Green party to obtain a majority. Within the portfolio, Enbridge (TSX: ENB) officially began construction on its Line 3 pipeline replacement, Suncor (TSX: SU) announced the restart of shipments from its Mildred Lake Syncrude Oil Sands Facility following the explosion and fire in March, and Raging River Exploration (TSX: RRX) announced a new land position of 100,000 net acres in the Duvernay Shale. This new land position increases RRX's current 428,100 acres of undeveloped land by 23%, which will be valuable for the company given its lower reserve life relative to the average junior/intermediate producer. There was also mixed performance in the CPMT's holdings, with returns varying from (13.5%) to (0.9%).

The B.C. provincial election resulted in an unfavourable outcome for oil & gas companies operating in the province. The NDP and Green Party's majority coalition was swiftly followed by the two parties signing a 4-year political manifesto with a list of ambitions to operate the province, which most importantly included stopping Kinder Morgan's $7.4B pipeline project. This platform may be detrimental to energy infrastructure growth with Premier Christy Clark's confidence vote resulting in a 44-42 loss for the Liberals. Political opposition, along with increased pressure on banks from indigenous and environmental groups to deny funding to the Kinder Morgan Pipeline, will likely significantly delay the completion of the pipeline. Any serious hindrance in the Trans Mountain Pipeline construction would further postpone the positive effects of added takeaway capacity for decreasing the differential of WCS to WTI. Furthermore, with less heavy crude now coming from OPEC countries to the U.S. due to production cuts, and potential increase in demand for Canadian crude from the U.S will also help tighten the WCS differentials and provide some commodity price support for Canadian producers.



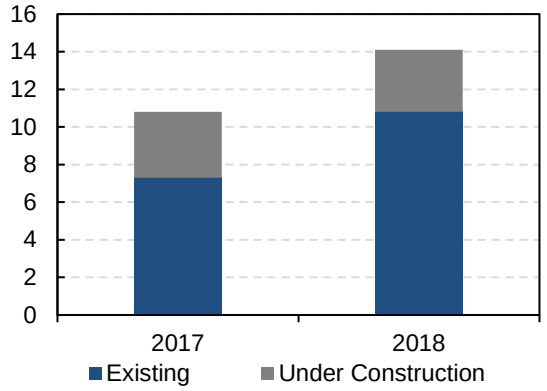
Source: Bloomberg

The highly-anticipated OPEC meeting held on May 25th in Vienna was met with speculation of further production cuts to off-set the increasing U.S. supply glut. Following the meeting, participants agreed to maintain the production cuts decided upon in November 2016. OPEC's conclusion to maintain the current status quo resulted in WTI prices declining as much as 4.8% that same day. Continually, OPEC's settlement not to counteract increasing U.S. oversupply reinforces the possibility of oil prices remaining in the USD $40-$50 range in the medium-term, resulting in a slow recovery for the Canadian energy sector.

Natural Gas

This quarter was less exciting for natural gas, with Henry Hub prices declining 3.9%, closing at USD $2.98/mmbtu for FQ1 2018, and the EIA estimates U.S. dry gas production to have increased 1.4% over the quarter. The reasons for this decline in prices is due to low demand during this time of year combined with simultaneous stock and production increases, 1.3% and 26%, respectively. Although prices have declined, decreases in production over FY 2017, specifically 2.3%, have helped provide upwards pressure on gas prices, bringing it to its current position around $3/mmbtu, as opposed to the decade-low $2/mmbtu prices seen at the beginning of FY 2017.

U.S./Mexico Cross-Border Natural Gas Pipeline Capacity (Bcf/d)

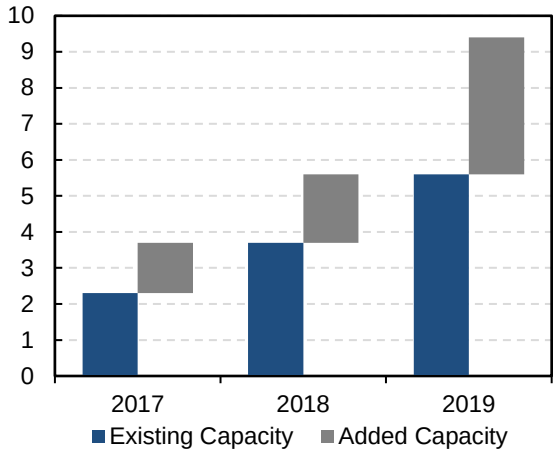


Source: Energy Information Administration

Over the quarter, total U.S. natural gas exports have decreased along with imports. This is merely a short-term trend as the U.S. focuses on increasing liquefaction capacity by 1.4 bcf/d in 2017, 1.9 bcf/d in 2018, and 3.8 bcf/d in 2019 to bring total capacity to 9.4 bcf/d, an increase of 307% over 3 years. In addition, cross-border pipeline capacity to Mexico is expected to increase to 14.1 bcf/d by the end of 2018, an increase of 6.8 bcf/d. The CPMT believes the certainty of this added capacity will reinforce the thesis of increasing U.S. exports creating a trickledown effect that will ensure a more competitive price for Canadian molecules as U.S. production is pulled south to leave the country.

The CPMT believes the risk posed by the potential for an oversupply of natural gas in North

U.S. Liquefaction Capacity (Bcf/d)



Source: Energy Information Administration

America is likely to be mitigated as European and Asian countries, such as Poland and China, increase imports of U.S. LNG. This will create a significant source of consumption to increase demand and potentially provide price support for natural gas prices. Although, the CPMT believes significant changes to spot prices will not be seen in the short-term as the significant oversupply of natural gas will take time to even out.

FINANCIALS

The S&P/TSX Capped Financial Index lost 0.9% over the quarter amid weaker Canadian bank share prices.

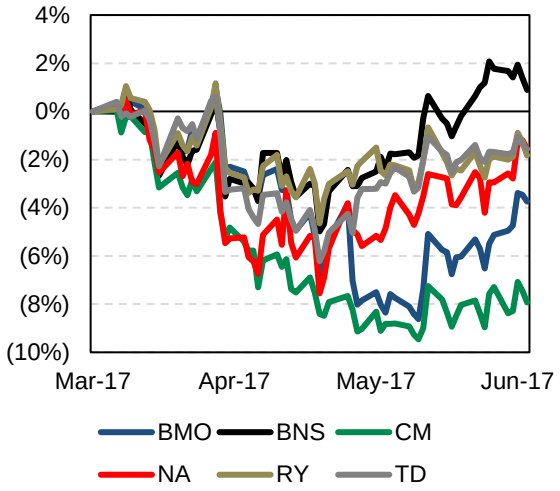
Canada's banks took a number of hits over the quarter, facing waning consumer confidence after a CBC News report was released, raising a red flag about the sales practices of these institutions. The big six banks are now under review by a federal agency. Findings of the review are set to be released by the end of the year.

Home Capital Group (TSX: HCG), Canada's largest alternative mortgage lender, saw its share price plummet over the quarter as depositors lost confidence in the company and withdrew their deposits at a rapid pace. As of May 30th, just over a month after initial concerns began, depositors had withdrawn 94.6% of the original high interest savings account (HISA) balances, or about $1.88B. This caused the company's shares to plummet and forced it to seek an emergency $2B line of credit from the Hospitals of Ontario Pension Plan. This line of credit was subsequently replaced, offering slightly better terms and backed by the infamous Warren Buffett

and his empire Berkshire Hathaway. Declines of the HISA accounts stabilized to around a balance of $120mm.

The Canadian big six banks were all downgraded by Moody's credit rating agency amidst concerns about consumer debt levels following the turmoil faced by Home Capital Group. The downgrade was quickly factored in to the share prices of the banks and sent most of them into decline over the quarter. Toronto-Dominion (TSX: TD), one of our holdings, remains the highest rated bank, sitting at an Aa2.

Performance of the Canadian Big 6 Banks



Source: Bloomberg

The Canadian big six banks released their Q2 earnings, overall demonstrating strength in the sector. Growth for many of the banks was underpinned by exposure to the U.S. markets, where Canadian lenders are taking advantage of the economic growth taking place and the interest rate environment south of the border. Low loan loss provisions also helped bolster bank earnings over the quarter.

Manulife (TSX: MFC) announced the retirement of its CEO Donald Guloien, the man who led the company through the financial woes of 2008-09. His replacement will be Roy Gori, head of the company's Asia division. The company's growth strategy is focused on expansion and growth in the Asian markets, so it seems appropriate that Mr. Gori will be next to take the helm of the company.

Subsequent to the quarter, the Bank of Canada raised the overnight interest rate 25 bps to 0.75%. The rising interest environment now facing the banks, insurance companies, and other financial institutions at home will be something that the CPMT will monitor closely in the coming year.

HEALTHCARE

Over FQ1 2018 the S&P/TSX Healthcare Total Return Index rose 13.4%.

On the macroeconomic front, the Government of Alberta, in coalition with BioAlberta and Innovative Medicines Canada have solidified a strategic partnership to expand the life sciences sector in Alberta. This partnership was formed to identify opportunities to attract investment, promote research, and enhance the patient experience in the province, focusing on improving access to medicine and services. Moreover, this investment in Alberta's health sector hopes to counteract the inability to access medical care, an issue that is currently impacting over 60,000 Canadians, and ~9,000 Albertans annually. Because of prolonged wait times, there has been a ~40% YoY increase in patients seeking alternative medical care abroad. This investment also provides an opportunity for health care companies in Canada, including Prometic Life Sciences Inc., (TSX: PLI) to further expand into the Canadian market. During Q1, Prometic was granted authorization to commence clinical trials on a series of small molecule therapeutics. With increased activity in the life sciences sector, this affords an opportunity to expand its product pipeline and supply chain.

Furthermore, the future of the U.S. healthcare system remains uncertain as the Government remains in the process of repealing the Affordable Care Act (ACA). The proposed bill has been a focal point through FQ1 2018, and remains a top concern of the Government after the bill narrowly passed the House in the beginning of May. The policy has not been met without opposition or amendments; the original American Healthcare Act (AHCA) looked to eliminate Medicaid expansion funding in 2020, abolish many of Obamacare's taxes, and pay credits based on age rather than income. Though, after a marginal vote among House Representatives, the GOP Senate chose to draft a new repeal for the ACA.

The senate's healthcare reform, which recently completed a revision by the Nonpartisan Congressional Budget Office, will reportedly cut $772B in Medicaid spending by 2026, with 15mm fewer people enrolled in the Medicaid program. This compares to the proposed AHCA, which is

expected to reduce the same attributes by $834B and 14mm, respectively. U.S. health reform does not directly impact the CPMT's lone healthcare holding, Knight Pharmaceuticals (TSX: GUD). We believe the length of this process is also a negative for American insurers as it restricts them from realizing benefits through tax repeals included in the AHCA. More clarity on this matter is needed before the potential benefits can be capitalized.

Knight was unable to maintain its momentum through the quarter and underperformed the index by ~12%. The company experienced significant volatility in the middle of the period following the announcement of its Q1 results, which were mostly in line with street estimates. Over the quarter, GUD received repayment of loans from Apicore Inc. and Pro Bono Bio LP, totaling $8.1mm and $17.5mm, and generated pre-tax IRR's of ~25% and ~14% respectively. In addition, strong interest income of $0.04/share contributed to Knight's cash balance rising to $764mm, with unrestricted cash totaling ~$650mm.

Looking at acquisition prospects for Knight, we believe that a smaller deal, between ~$100mm and $200mm, is more likely in the short term, while a larger deal totaling ~$500mm is rather unlikely. Other companies in the space have restructured their balance sheets, and are waiting to deploy assets while U.S. tax reform and healthcare policies are enacted, resulting in a hold on foreseeable M&A activity. On the product side, Knight has licenses in 20 products to date. The company is directly, or indirectly marketing four products, and currently has three in regulatory review, with expected inception in Q2 2018. As Knight is approaching our target price of $11.00, we will continue to evaluate organic growth prospects, including Movantik, and its ability to supplement limited M&A activity in Knight's pursuit of its growth plan.

Valeant Pharmaceuticals (TSX: VRX) was also active, gaining 56.8% over the quarter. Valeant reported it is making progress cutting its debt through the sale of assets, while also bringing in more cash. Its sale of Dendreon Pharmaceuticals for ~$820mm has led management to guide that it is confident it will complete its goal of paying down $5B of debt over the next year. On the other hand, Valeant's drug business continues to deteriorate; an 11% fall in Q1 drug revenue was driven by the loss of patients, and diminished sales of diversified products in the U.S. Despite this, the company believes it will successfully meet its debt obligations, positioning it to access credit markets as necessary to support strategic decisions.

INDUSTRIALS

Over FQ1 2018, the S&P/TSX Industrials Index returned 6.1%, making it the second highest performing sector in the TSX.

The index's performance can largely be attributed to the performance of Canadian National Railway (TSX: CNR) and Canadian Pacific (TSX: CP). CNR had a total return of 7.5% over the quarter and CP had a total return of 7.1%. CNR and CP collectively make up approximately 50% of the Industrials Index and thus the index's performance is primarily tied to the performance of these two companies. In CNR's and CP's respective Q1 2017 financials, both companies reported increased revenue which was largely driven by increased grain shipments as well as increased metals and minerals shipments.

The top performing stock in the Industrials Index was Air Canada (TSX: AC) which rose 25.9% over the quarter. Due to the current low oil price environment, AC as well as WestJet (TSX: WJA) have both experienced reduced fuel costs, a significant expense for airlines. This has benefitted AC over the last two years but has not been as beneficial for WJA which has lagged behind AC as well as the Industrials Index as a whole. WJA is highly dependent on the Canadian market, specifically in Western Canada due to its lack of international routes. Although the low oil price environment has reduced WJA's fuel costs, it has also resulted in reduced demand from Alberta, a key market which has suffered lower demand due to the economic downturn in the energy sector.

AC is not as dependent on the Canadian market as a result of the significant international routes the company flies, which provides a geographically diverse revenue stream. Over the last few years, AC has increased its revenue from international routes and has reduced its operating costs largely due to the decrease in fuel costs, leading to significantly higher earnings. The rally over the quarter for AC started on May 5, the day the company released its Q1 2017 financials, indicating that the market viewed the earnings favorably despite the net loss the company reported.

Out of the CPMT's Industrials holdings, CNR was the highest performing stock with Ritchie Bros.

Auctioneers (TSX: RBA) having the worst performance. Over the quarter, RBA had a total return of (14.4%) with the downward trend occurring on June 14th, the day RBA presented at the William Blair 37th Annual Growth Stock Conference. At the conference, RBA announced that it would hold off on share repurchases, subsequently resulting in RBA's stock price falling 3.6% and a further 2.9% the next day. Despite the recent performance, the CPMT still views the name favorably due to the company's counter cyclical business cycle as well as the company's low cost and high margin business model.

INFORMATION TECHNOLOGY

The S&P/TSX IT Total Return Index has outperformed the Canadian Market by 2.2% this quarter.

Blackberry's (TSX: BB) stock price has jumped an astounding ~29%. Though the company is not near the heights it once held, it has been gradually proving itself as an emerging software provider. The company has taken advantage of the increasing need for cybersecurity services and has created a suite of private and public sector security products. Blackberry's transition stresses the immense value that the industry of data science and e-commerce has over the traditional sale of physical goods. This trend has been further reinforced by Shopify (TSX: SHOP), which is a multichannel, e-commerce business platform that targets small to medium businesses. It has been a top performer in the IT sector over the past quarter, appreciating by ~22% over the time period.

Though the Brexit commotion has long but past, its currency depreciating effects have left a significant impact on anyone exposed to its volatility. CGI Group (TSX: GIB.A) has continually had to suffer through large negative currency impacts to its U.K. operations. Nevertheless, it has been the top performer among the CPMT IT holdings, appreciating by ~4%. Its diverse footprint around the world has proven to be a stable and reliable means of providing value to its shareholders and is the Canadian IT testament to not placing all the eggs in one basket.

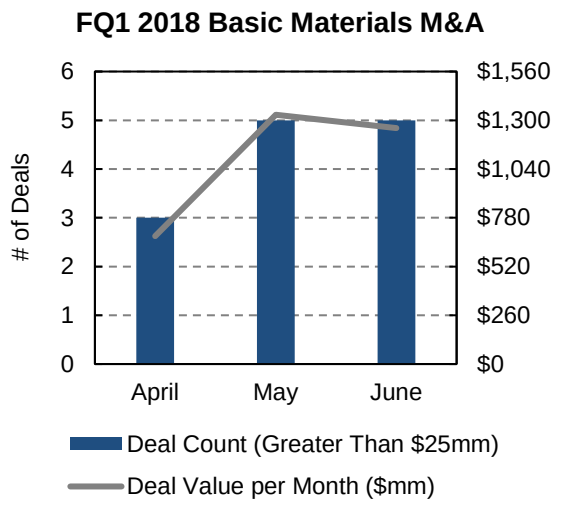
OpenText (TSX: OTC) has completed the acquisition of its main rival, Documentum. During the same quarter, it has reported a decrease in EPS of $0.21 to $0.08, which devalued its stock price by nearly 10%, making it the poorest CPMT IT performer during this quarter. Past events aside, the CPMT believes that the time of transition is indicative of long-term growth prospects, which remain in line with our fund's goals. OpenText is now a nearly unrivaled Canada based provider of data analytics, and has proven its ability to innovate new technologies, such as its Big Data AI analytics platform. We believe that OTC now has a clear runway to concentrate on expanding its data products and use its Documentum acquisition to augment its offerings.

MATERIALS

The S&P/TSX Materials Total Return Index was down 6.4% over FQ1 2018.

Gold decreased 0.6% over the quarter. The main factor contributing to the decrease was the Federal Reserve's decision to hike interest rates in June. The target rate was bumped up 25 bps, strengthening the U.S. dollar, and making gold more expensive for holders of other currencies. In addition, the rising bond yields accompanying the interest rate hike decreased the appetite to hold non-yielding bullion. The commodity did not have a strong quarter, but the CPMT remains bullish. We see political uncertainty, both in the United States, and in Europe, with the U.K. entering Brexit negotiations, being a driver for the metal. This shadow of instability has historically signaled gold price increases. The CPMT also sees weaker than expected economic data out of the U.S. (mainly GDP growth and non-farm payroll data), indicating a low possibility for a further rate hike in December. This points to slower economic growth than the U.S. government expects, potentially spurring on gold prices.

Palladium hit a 16-year high in June, returning 4.8% over the quarter. The increase was mainly due to a shortage of the metal. The price spiked in early June on a surge in speculative demand, which forced investors to cover their short positions. Palladium has since slightly fallen off these extreme highs on more negative sentiment. One reason for the negative sentiment was a report on the Chinese automobile market, one of the largest drivers of Palladium demand, which was released in mid-June. The report showed that the Chinese automobile market began to falter in May, with sales down 2.6% in May 2017 compared to May 2016.



Source: Bloomberg

M&A activity in the Canadian basic materials space experienced an uptick in FQ1 2018 after a slow start to the 2017 calendar year with 11 deals amounting to ~$1.5B in value. FQ1 2018 saw 13 transactions that amounted to a total of ~$3.3B in value.

The CPMT holding CCL Industries (TSX: CCL.B) announced it had acquired two European direct to consumer software-powered online digital printing businesses for its Avery line. The acquisitions totaled $34.4mm. The companies acquired, Goed Gemerkt B.V. and Goed Gewerkt B.V. ("Goed Gemerkt") and badgepoint GmbH, badgetech GmbH and Name Tag Systems Inc. ("Badgepoint"), have combined total sales of $16.1mm and EBITDA of $6.5mm for FY 2016.

Goed Gemerkt is a manufacturer of durable and personalized children's labels for the German market. Badgepoint is a manufacturer of premium name tag accessories and systems for the German market.

CCL.B returned 13.3% over FQ1 2018. Although CCL.B's growth is largely acquisition driven, the Company has put future growth prospects on the back burner for now as management focuses on integrating the recently acquired Avery and Innovia segments. The reason for the current focus on integrating Innovia and Avery is that the success of the company is highly correlated to the successful integration of these segments, specifically Innovia. We remain confident in the Company and management's ability to successfully integrate the Avery and Innovia segments.

The CPMT holding Stella-Jones Inc. (TSX: SJ) had a terrific quarter, gaining 13.5%. SJ expected lower demand for railway ties in 1H 2017 compared to 1H 2016. With that in mind, SJ Q1 2017 results were generally in line with market expectations, with sales decreasing YoY, confirming management's expectations regarding lower railway tie demand. On the other hand, SJ did increase utility pole sales 14.5% YoY. The increase in utility pole sales was mainly due to sales synergies gained from acquisitions in the Southwest U.S. over the past two years. Despite sales decreasing YoY, the company had a reasonable quarter given that the decline in sales was due to macro-economic factors that management had no control over. SJ is currently evaluating expansion opportunities in its main product areas as it looks to continue its growth. In management's Q1 2017 guidance, it was mentioned that sales are expected to increase in 2H 2017 compared to 2H 2016 due to increases in utility pole sales as well as an increase in railway tie demand. With this in mind, the CPMT expects SJ to have a strong 2H 2017.

REAL ESTATE

The S&P/TSX Total Real Estate Index increased 1.2% over the quarter.

The province of Ontario government followed suit of the B.C. government in April, implementing 16 new housing measures aimed at cooling the market. One of the measures touted was a foreign buyer's tax, aimed at increasing the amount of housing for locals. Information came out weeks later, however, showing that only 4% of Toronto home buyers were not Canadian, bringing in to question the effectiveness of such a policy.

The Greater Toronto Area (GTA) housing market appeared to cool down somewhat over the quarter while the Vancouver market showed signs of heating back up. Although still too early to tell, current data would point to the start of a declining trend in the GTA is at least partially the result of the new measures implemented by the provincial government to cool the market. Meanwhile in Vancouver, it appears that similar measures implemented nine months ago are losing their effect on the market.

It is likely still too soon to know whether or not the drop in the real estate market in Toronto is a result of the measures implemented by the provincial government in April. Although the volume of homes sold has decreased since implementation, prices of these homes and the

number of listings in these areas continues to rise significantly.

Affordability in the top markets remains low as average Canadian home prices continue to rise. The Teranet-National Bank Composite House Price Index reading for June showed that prices had increased 2.6% month-over-month. Additionally, prices rose in 10 out of the 11 markets surveyed across Canada.

Manulife released the results of a survey it had conducted, finding that almost 20% of people in Canada don't have a 'rainy day' fund set aside to deal with increasing costs, and would financially struggle with even just a modest increase in mortgage rates. The findings underlined Canadian's problem with regards to taking on higher amounts of debt because of the low rate environment Canada has seen for so long now. With the Bank of Canada's post-quarter-end hike, mortgage rates have now been increased, as all six Canadian banks increased their prime lending rates the full 25 bps to 2.95%.

TELECOMMUNICATIONS SERVICES

The S&P/TSX Telecommunication Services Total Return Index gained 2.5% over FQ1 2018.

This quarter, CPMT holding Telus Corporation (TSX: T) outperformed the Telecommunications Index by 1.9%. In 2016, the Canadian Radio-television and Telecommunications Commission (CRTC) declared broadband internet access an essential service. In response, Telus has decided to focus capital towards both rural and urban markets. Telus is the only company in the index to actively invest in the development of rural broadband capable infrastructure. The Company plans to expand its communications network throughout the provinces of British Columbia and Alberta, by making use of its PureFibre network. It has elected to commit a combined $8.9B over four years between the two provinces. This year alone Telus will spend $1.8B to fund the initiative. The move signifies the expansion of the telecommunications network and its ongoing pursuit of a more extensive consumer base.

Throughout the sector, companies continue to invest in research and development. The newest trend delving into the pockets of operators is the potential for a nationwide 5G network. In a race to capture market share and be the first to initiate a mainstream offering; Bell Canada Enterprises (TSX: BCE), Rogers Communications Inc. (TSX: RCI.B), and Telus have made significant investments in their respective projects. Many companies have been actively researching what seems to be the frontier of 5G potential. It is difficult to speculate on where value will be realized in the sector. 5G network connections are said to be 200 times faster than the current LTE infrastructure, and are estimated to be incorporated into mainstream network technology within the next three years. In an attempt to capitalize on this opportunity, Telus was able to test a wireless 5G connection this quarter.

BCE fell 0.2% in Q1. BCE, as well as other operators in the sector, continue to reach for market share as more and more consumers trade in their satellite and cable TV service for online entertainment providers like Netflix and Amazon Prime Video. In its latest effort to combat the customer loss and take advantage of consumers leaning to the trend of cord cutting, Bell released an app based TV service this quarter. The service, creatively named Fibe Alt TV, will allow consumers to access live television streaming from up to 500 channels. Though initially only available to subscribers in Ontario and Quebec, BCE has announced plans to expand the service throughout Atlantic Canada and Manitoba in the coming months. While cord cutting is still a market obstacle for the "Big 3" communications companies, competing at the price point of Netflix and other streaming platforms will become a larger barrier for the companies going forward. With Netflix's premium plan coming in at $12 for HD, Ultra HD, and simultaneous streaming on up to four screens, BCE's price of $14.95 for a mere 30 channels or more seems underwhelming.

Going forward, in the battle to reach a market ready 5G network offering and in order to appeal to investors, it will be important for Telecom companies to innovate at a pace greater than their peers. This initiative will require careful allocation of capital to high return on investment projects and maintain a place on the front lines of 5G infrastructure development. As the battle for innovation stagnates in the online streaming entertainment space, companies may be forced to compete primarily on a price and content to content basis rather than technical capabilities. Contenders such as Netflix and Amazon Prime Video have established a standard from which companies intending to compete in the space must base their bottom line.

UTILITIES

The S&P/TSX Utilities Total Return Index rose 2.6% over FQ1 2018.

Although the return on the index was relatively flat over the quarter, significant events and an altering macroeconomic landscape were evident throughout the space. The US Federal Reserve raised interest rates by 0.25%, moving short-term interest rates to 1.25%. The utilities sector is a capital-intensive industry, resulting in comparably high debt levels, and companies are regarded as yield vehicles making them sensitive to changing interest rates. In a rising rate environment, bonds become more attractive in offering higher yields and stable cash flows, yet the announcement of the rate hike marginally impacted the index. This provides insight that the increase was foreseen by investors, with forecasts that the current rate cycle will continue through the fiscal year. Also on the U.S. macroeconomic front, it is believed that the upcoming tax reform will contain provisions that will have a material impact on the utilities sector, resulting from high parent-debt levels. The space is expected to face an adverse tax environment, as reports suggest previous provisions that deducted tax expenses associated with high debt levels incurred to build large power projects will be eliminated. A cap is expected to be placed on realizing this benefit, and corporate tax cuts are not expected to sufficiently reconcile the loss.

The CPMT holding, Algonquin Power & Utilities (TSX: AQN), is one company that could be disadvantaged given the new tax implications. Algonquin believes it has positioned itself well with flexibility in its tax structure, using tax shelters to minimize the impact. The tax reform remains in deliberation, as the repeal of the Affordable Care Act has taken precedent.

In Alberta, the NDP Government is moving forward with its plan to introduce a capacity market by 2021. This landscape shift would ultimately improve market prices and give producers more revenue stability. The capacity market is accompanied by the government's plan to phase out coal and feature a natural gas and renewables mix of 70% and 30% respectively by 2030. The restructuring provides potential upside for companies operating in Alberta, although currently with little visibility of the long-term future of the market, there is some uncertainty that leads the CPMT to remain apprehensive.

Furthermore, the Alberta Balancing Pool has begun consultation regarding the termination of TransAlta's (TSX: TA) Sundance A, B, and C PPA's. Termination of the PPA's would expedite the collection of cash from the Sundance units for TransAlta, and exert upward pressure on power pricing and volatility, improving returns on existing assets. This agreement is in the balance as stakeholders are expected to advise against the termination, with the expectation of increased pricing. An additional hurdle that must be surpassed is the current divide between estimates of the book value of the assets; an Alberta Balancing Pool estimate of $171mm stands in contrast to TransAlta's proposal of $231mm for the units. Altogether, this represents the disconnect in Alberta's utility space, and the current uncertainty as a capacity market looms.

FQ1 2018 saw active participation of some major names in the Canadian utilities sector, including multiple deals done by Innergex Renewable Energy (TSX: INE) and Fortis Inc. (TSX: FTS). INE acquired five wind farms in France, boosting its installed capacity by ~163 MW, and are projected to contribute ~$39mm in adjusted EBITDA for the NTM of operations. Meanwhile, Fortis purchased a two-thirds stake in Teck Resources' (TSX: TECK.B) Waneta Dam transmission assets for $1.2B cash. This deal is expected to be immediately accretive to Fortis' EPS, contributing ~$0.05 and growing cash flows ~1.2%. Fortis is familiar with the asset, already owning a 51% in the Waneta Dam, and the inclusion of the transmission assets will broaden Fortis' access to power markets in the U.S.

The CPMT's lone utilities holding, Algonquin, outperformed the index by ~4.9% over FQ1 2018. AQN experienced a tailwind upon reporting its Q1 2017 performance, trending up ~5.5% the following month. Revenue increased 63.2% YoY to $557.9mm, while EPS declined 53.3% YoY to $0.07, primarily caused by an increase in acquisition-related expenses of ~$56mm. The highlight of the quarter was AQN's material acquisition and non-acquisition growth. The former relating to three accretive acquisitions: Deerfield Wind, Bakersfield Solar, and Luning Solar, which together generate ~724GWh per annum. Organically, new projects brought ~$100mm in incremental EBITDA, backed by 35% YoY growth for Liberty Utilities. The CPMT expects management to continue to pursue accretive acquisitions, expanding its contracted cash flows and generation portfolio.

CCL Industries Inc

Materials
TSX: CCL/B
Update

June 30, 2017

Brodie Wilson, Research Associate
Darren Luoma, Fund Manager

Return on Investment

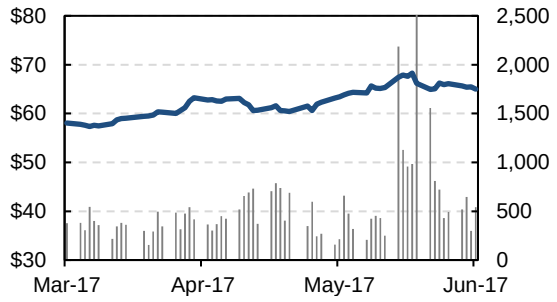
Current Share Price	$65.61
Target Price	$75.00
Dividend Yield	0.70%
Holding Period Return	15%
Conviction Rating	3

Market Profile

52-Week Range	$43.21 - $71.32
Shares Outstanding (000s)	165,176
Average 30-Day Vol (000s)	926
Market Capitalization (mm)	$10,837
Preferred Shares (mm)	$0
Net Debt (mm)	$2,235
Enterprise Value (mm)	$13,072
Beta (2-Year Weekly)	0.90

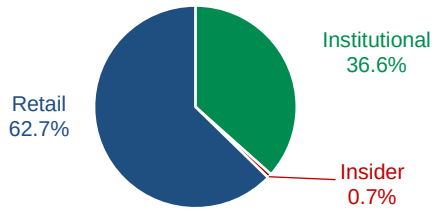
Metrics	2016A	2017E	2018E
Revenue (mm)	$3,975	$4,494	$4,743
EBITDA (mm)	$729	$877	$951
EBITDA Margin	18.3%	19.5%	20.1%
EV/EBITDA	17.9x	14.9x	13.7x
P/E	33.6x	30.6x	28.0x
EPS	$1.95	$2.14	$2.34
Total Debt/Market Cap.	25.4%	25.4%	25.4%

Historical Trading Performance



Source: CPMT Estimates, Bloomberg

CCL Industries Class B Ownership



Source: Bloomberg

Business Description

CCL Industries is a global leader for packaging and label solutions, serving the non-durable consumer products market, with five business segments; CCL, Avery, Container, Checkpoint, and Innovia. It operates in 35 countries, with 146 manufacturing facilities and has over 19,000 employees.

Segment Overview

CCL - The restructured CCL segment includes the Label segment and newly acquired Innovia's security operations. It develops pressure-sensitive and film materials for label, currency, and security applications in various markets.
Avery - The Avery segment covers the manufacturing and selling of consumer products, labels, converted media, and software solutions in North America, Latin America, Asia-Pacific, and Europe.
Container - Container focuses on the manufacturing of aluminum cans and bottles, and other specialty containers for the consumer products industry.
Checkpoint - CCL's Checkpoint segment produces technology-driven loss prevention, inventory management, and labeling solutions.
Innovia - The newly acquired Innovia segment supplies the global market with specialty films for packaging, labels, tobacco overwrap, and security.

Key Drivers

Expansion in developing markets, primarily Europe and Pacific Asia, which have expected GDP growth of 2.0% and 5.5% respectively, will supplement growth for CCL. Notably, CCL featured double digit organic growth in these regions, and 6.8% across all regions in Q1**.** The CCL segment feeds off growth in other industries, including the demand for premium consumer products. In the Avery segment, back-to-school sales are a large indicator for the year's success; CCL guided an increase in orders, ceasing the YoY decline present in the previous two years. This growth will be realized in Q3. Lastly, regulatory and safety initiatives afford growth prospects for Innovia due to its supply of specialty films in various consumer sectors.

Recent Events

February 28 - CCL announced that it completed the all-cash, accretive acquisition of Innovia for an implied enterprise value of $1.1B, net of cash of $43mm. This deal was financed through existing capacity of CCL's credit facility, and a USD $450mm two-year loan.
April 3 - CCL announced two European acquisitions for its Avery segment. Combined sales of the companies, Goed Gemerkt and Badgepoint, were $16.1mm in 2016, with a total enterprise value of $34.4mm.
May 10 - CCL approved a five-for-one stock split initiated June 6, 2017. CCL believes the split will encourage greater market liquidity.

Corporate Governance

CCL's management team is an experienced group, with its Executive Chairman, CEO, and CFO residing in their current positions for at least six years. Of note, Executive Chairman Donald G. Lang has been with the company since 1982, previously holding the position of CEO. Continually, cash flow per share has featured a 26.1% CAGR over the past five fiscal years, displaying the success of a top-tier management team. EPS for Class B shares has grown at a CAGR of ~22.7% in the same time period, to $0.50 per share in Q1 2017. Moreover, CCL's Class B ownership structure has changed recently through a bought deal offering worth $333mm, conducted by the Lang family. This has diminished insider ownership in Class B shares to a mere 0.7%. Looking internally, CCL reviews its compensation structure yearly, benchmarking it against the median of a selected peer group.

Exhibit I. Target Price Sensitivity

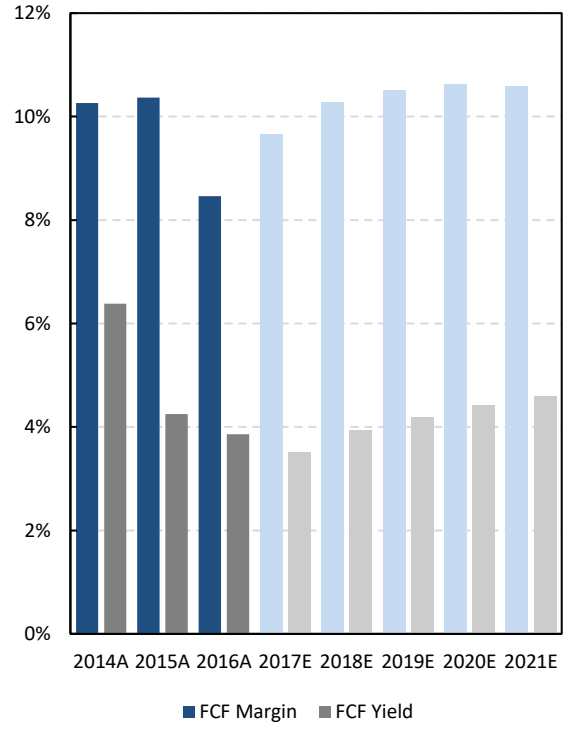
Exit EBITDA Multiple \ WACC	4.35%	4.85%	5.35%	5.85%	6.35%
14.5x	$93	$88	$84	$80	$77
13.5x	$87	$83	$79	$76	$72
12.5x	$82	$78	**$75**	$71	$68
11.5x	$77	$73	$70	$66	$63
10.5x	$71	$68	$65	$62	$59

Source: CPMT Estimates, Bloomberg

EBITDA Margin \ WACC	4.35%	4.85%	5.35%	5.85%	6.35%
20.5%	$87	$82	$79	$75	$72
19.5%	$85	$80	$77	$73	$70
18.5%	$82	$78	**$75**	$71	$68
17.5%	$79	$76	$72	$69	$66
16.5%	$77	$74	$69	$67	$64

Source: CPMT Estimates, Bloomberg

Free Cash Flow Margin vs. Free Cash Flow Yield



Source: CPMT Estimates, Bloomberg

Investment Thesis

The CPMT remains confident in CCL as it continues to be a best-in-class capital compounder, and a market leader in a largely fragmented industry. Management consistently employs its prudent acquisition plan supported by the strength of its balance sheet to foster internal growth. Recent acquisitions have diversified its product lines, while staying connected to CCL's core competencies, allowing for effective integration. Lastly, CCL has a leading revenue to free cash flow conversion rate, featuring an average free cash flow margin of ~10% for the past three years.This underpins CCL's acquisition strategy of being an opportunistic buyer, and seeking solid, proven, and predominantly private companies to support its existing business, and expand into new domains. CCL persists in delivering on this shrewd strategy, depicted through its acquisition-related growth of 25.1% in Q1 2017.

Catalysts for Growth

Acquisitions continue to be a catalyst for CCL, but it is not a model roll-up company. The company features consistent, material organic growth within its segments, and does not rely on long-term leverage to facilitate acquisitions. Primarily, CCL's organic growth is derived through product expansion into diverse geographic and customer bases. Prospects for growth in this area include smart labels, specialty labels, drink sleeves, and adhesives. Moreover, CCL's net margin realization exceeds its peer average by ~110 basis points, and is poised to further expand as it enters emerging markets. We look for strategic organic and inorganic expansion into regions outside North America to be a main focus for CCL, as growth prospects appear stronger.

Valuation

The valuation of CCL was completed using a discounted cash flow model which has led to a $75.00/share valuation, yielding a 15% holding period return. To compute the target price we calculated a WACC of 5.35%, based on CAPM calculations. Our base case revenue forecasts were driven by growth projections for CCL's product classes, based on management guidance and historical performance, most notably being a 5% growth rate applied to the CCL segment. Unlevered free cash flows were projected to FY 2026, where an exit multiple of 12.5x EV/EBITDA was applied. Historically, CCL has traded at a premium compared to its peers, with its five-year average EV/EBITDA featuring a 0.5x spread. CCL currently trades at 11.8x 2018E EV/EBITDA, a slight premium to its peer group. We project continued multiple expansion into the future, and believe that a premium valuation is warranted due to solid organic growth prospects through the integration of the Innovia acquisition, expanding margins, and a leading market position. CCL maintains a best-in-class balance sheet, though we expect the company to focus on integrating the Avery and Innovia acquisitions prior to seeking out new investments.

Risks

Risks impacting CCL include economic fluctuations, acquisition-related, and customer retention risks. The latter was at the forefront in Q1 2017 when a Container customer, representing 15% of its segmented revenue, was lost. Macroeconomic risks include changes in U.S. trade terms, including the state of NAFTA, and foreign currency risk, an area that CCL experiences notable exposure to, with ~96% of sales outside of Canada for the last two years. CCL does not participate in foreign exchange hedging but believes that its geographic diversification has reduced its economic business risk. CCL also

Canadian National Railway Co

Industrials
TSX: CNR
Update

June 30, 2017

Mahad Nadeem, Fund Manager
A.J. Bangloy, Research Associate

Return on Investment

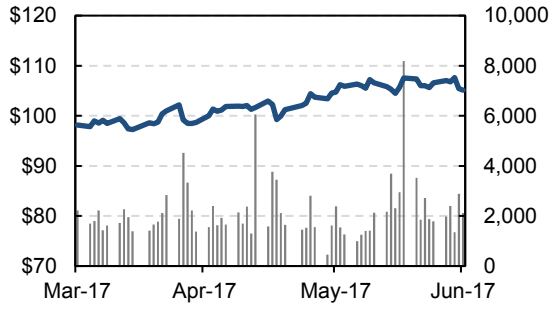
Current Share Price	$105.09
Target Price	$117.50
Dividend Yield	1.57%
Holding Period Return	13%
Conviction Rating	2

Market Profile

52-Week Range	$80.11 - $108.68
Shares Outstanding (000s)	756,100
Average 30-Day Vol (000s)	2,353
Market Capitalization (mm)	$79,557
Preferred Shares (mm)	$0
Net Debt (mm)	$10,659
Enterprise Value (mm)	$90,216
Beta (5-Year Monthly)	0.82

Metrics	2017E	2018E	2019E
Revenue (mm)	$12,676	$12,888	$13,189
EBITDA (mm)	$6,818	$7,198	$7,380
EBITDA Margin	53.8%	55.9%	56.0%
Net Income (mm)	$3,834	$4,027	$4,166
EPS	$5.08	$5.33	$5.52
EBIT (mm)	$5,537	$5,823	$5,958
EBIT Margin	43.7%	45.2%	45.2%

Historical Trading Performance



Source: CPMT Estimates, Bloomberg

Business Description

Canadian National Railway (TSX: CNR) operates a transportation and logistics network which spans across 19,600-miles in Canada and Mid-America. CNR is headquartered in Montreal, Quebec, and through its rail network provides customers with access to all three North American Free Trade Agreement (NAFTA) nations. CNR has a diversified and balanced portfolio of goods transported and derives its freight revenues from seven commodity groups: forestry, metals and minerals, petroleum and chemicals, coal, grain and fertilizer, intermodal, and automotive products.

Evaluation of Investment Thesis

The CPMT initiated a position in CNR in January 2016, with the investment thesis largely based on the company's strong balance sheet and strong operational and financial track record. In July, 2016, Luc Jobin took charge of CNR and has since been managing the company for approximately a year. Given this change in management, the CPMT has decided to re-evaluate the company to see if the original investment thesis is still valid. The two main points of the previous investment thesis revolved around CNR's cleaner and less levered balance sheet, along with the company's strong operational performance relative to its peers.

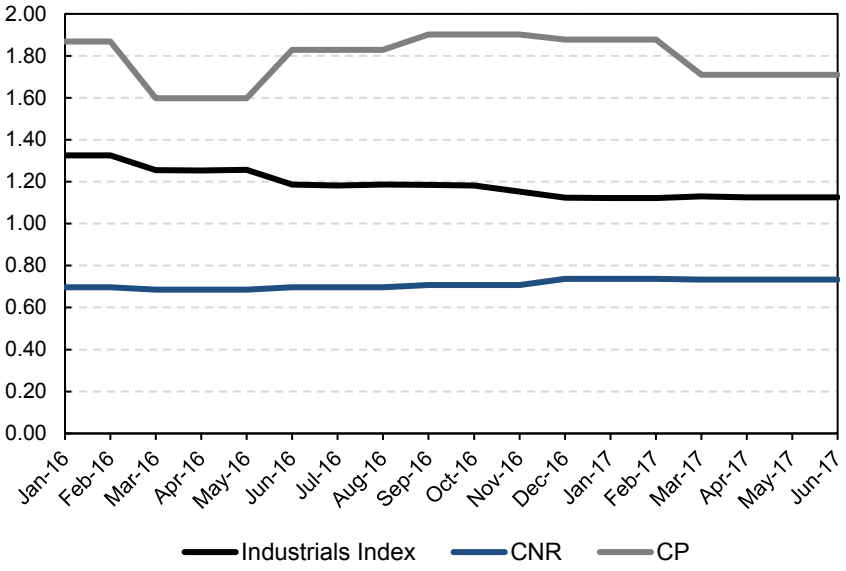
Balance Sheet

After reviewing CNR's recent financials, the CPMT has determined that the company still maintains an extremely strong balance sheet. For instance, the interest bearing debt to equity ratio of CNR still remains below the overall industrials' index and also far below the debt to equity ratio of Canadian Pacific Railway (TSX: CP). This can be seen in Exhibit I. An advantage of a less levered balance sheet is a lower interest expense and thus higher incremental cash flow which in theory should be passed on to shareholders. Upon analysis of CNR's annualized dividend yield relative to CP's annualized dividend yield, this appears to be the case. Exhibit II demonstrates that over the past 6 quarters, the dividend yield of CNR has fluctuated between 1.50% and 2.00%, whereas the annualized dividend yield of CP has been in the lower range of 0.80% and 1.20%. Therefore, through having a less levered balance sheet, CNR is able to provide and maintain a higher dividend yield relative to CP.

Operational Efficiency/Management Change

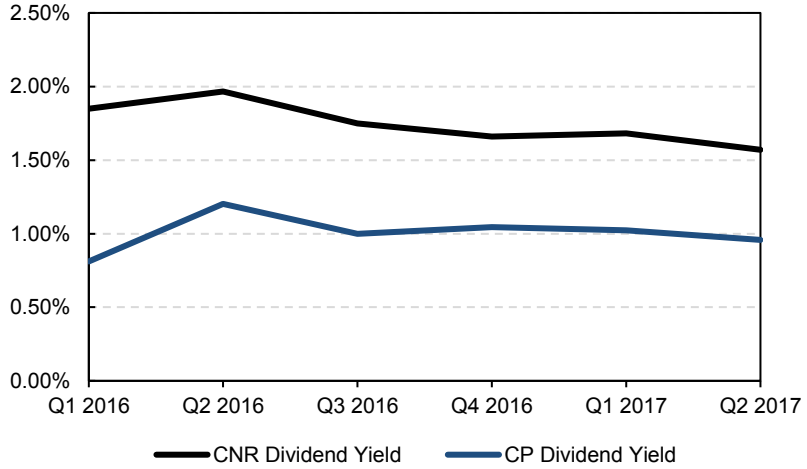
The other vital component of our original investment thesis was based on CNR's strong operational performance, gauged by its operating ratio, which was lower than all its peers at the time of the original investment. This fact still holds true as demonstrated by Exhibit III. This examination of the operating ratio became particularly important due to a change in leadership last July as the new CEO, Luc Jobin, took over from Claude Mongeau. Therefore, it was vital to determine if the operating efficiencies generated under previous management was still present in the business. The maintenance of an industry leading operating ratio and less levered balance sheet under the new leadership provides the CPMT with confidence and indicates that the strategic direction of the new leadership is in line with the original investment thesis.

Exhibit I. Debt/Equity Ratios



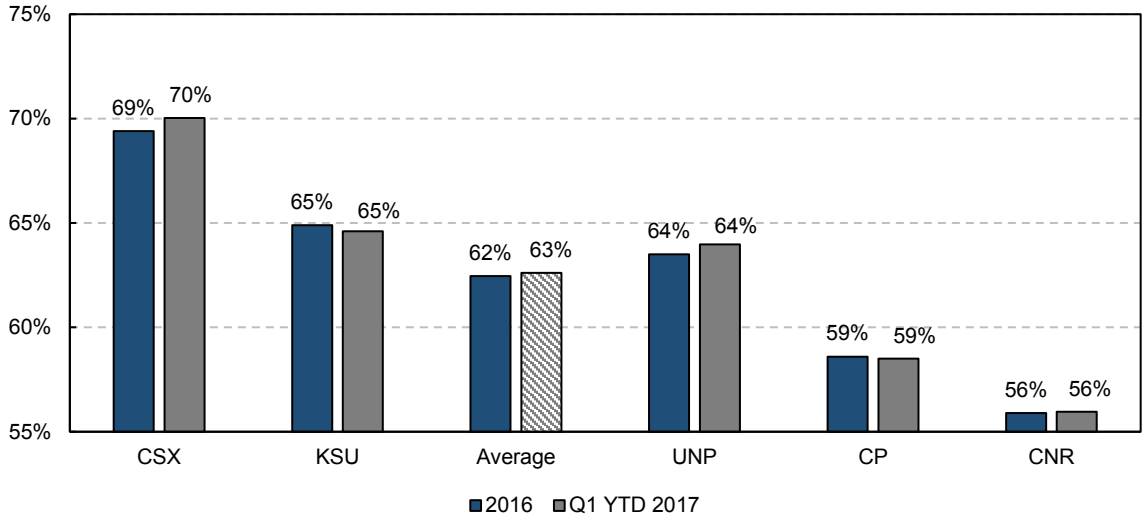
Source: Bloomberg

Exhibit II. Dividend Yields



Source: Bloomberg

Exhibit III. Operating Ratios



Source: Bloomberg

DIRTT Environmental Solutions

Industrials
TSX: DRT
Hold Recommendation

Calgary Portfolio Management Trust

DIRTT Build better.™

June 30, 2017

Brodie Wilson, Research Associate
Darren Luoma, Fund Manager

Return on Investment

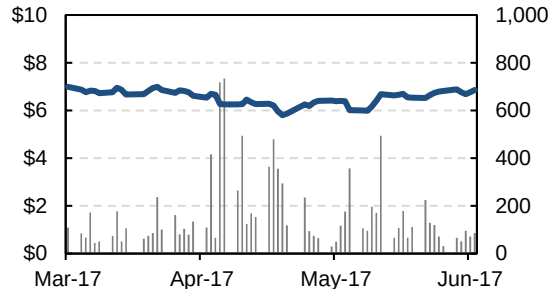
Current Share Price	$6.85
Target Price	$7.75
Dividend Yield	0.00%
Holding Period Return	13%
Conviction Rating	1

Market Profile

52-Week Range	$4.69 - $7.47
Shares Outstanding (000's)	84,772
Average 30-Day Vol (000s)	254
Market Capitalization (mm)	$581
Preferred Shares (mm)	$0
Net Debt (mm)	($72)
Enterprise Value (mm)	$508
Beta (2-Year Weekly)	1.63

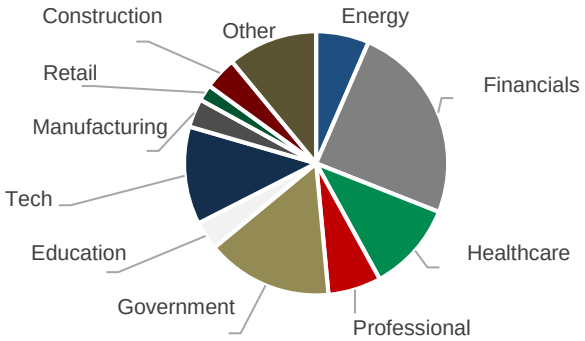
Metrics	2016A	2017E	2018E
Revenue (mm)	$267	$287	$369
EBITDA (mm)	$31	$40	$56
EBITDA Margin	11.7%	13.8%	15.2%
EV/EBITDA	16.2x	12.9x	9.0x
Total Debt/Market Cap.	3.2%	3.0%	2.9%
Interest Coverage Ratio	23.3x	24.6x	44.6x

Historical Trading Performance



Source: CPMT Estimates, Bloomberg

Revenue Segmentation



Business Description

DIRTT Environmental Solutions (TSX: DRT) is a technology-driven manufacturer of customized interiors. It primarily serves hospitals, financial, government, and technology organizations. DRT combines its 3D design, configuration, and proprietary manufacturing software (ICE®) to produce innovative prefabricated construction solutions. DRT sells its products through a network of Distribution Partners that span across North America, Europe, and the Middle East. The Company is headquartered in Calgary, Alberta, and has ~900 employees.

Industry Overview

DRT operates in a wide-range of industries, with the overall space defined as the non-residential construction sector. DRT differentiates itself in the construction space as its solutions serve a wide-range of customers, but can be tailored to meet the specific needs of each client. DRT uses its innovative core competencies to provide a unique, end-to-end customer solution for the inefficient and fragmented construction industry.

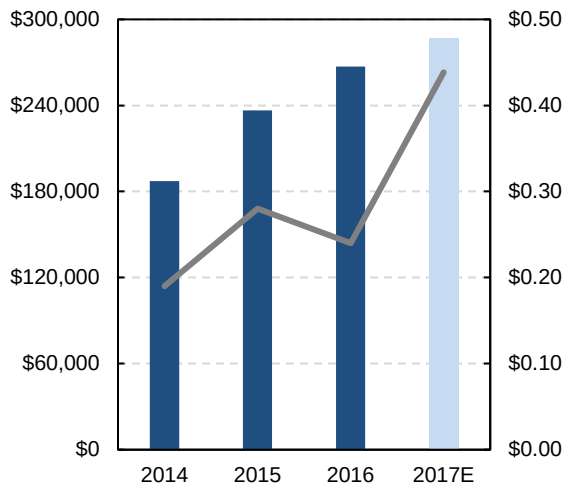
Management and Governance

DIRTT is an acronym for "Doing it Right This Time". This mantra is evident in the vision of its experienced management team, who have had success in similar endeavors. Co-Founder and CEO Mogens Smed has 40 years' experience in the manufacturing industry and a track record of success in the furniture and modular interiors industry. Smed's previous company, SMED International was sold for $300mm in 2000 to Haworth Inc. As seen in Exhibit I, displaying the success of a top-tier management team, cash flow per share has grown at a ~14% CAGR since 2014. DRT's executive team is comprised of experienced individuals from various backgrounds, including software, environmental design, and finance. The tone set by DRT's executive team is visible throughout the organization and promotes an entrepreneurial culture, client-centric focus, and genuine pride in its products.

Investment Thesis

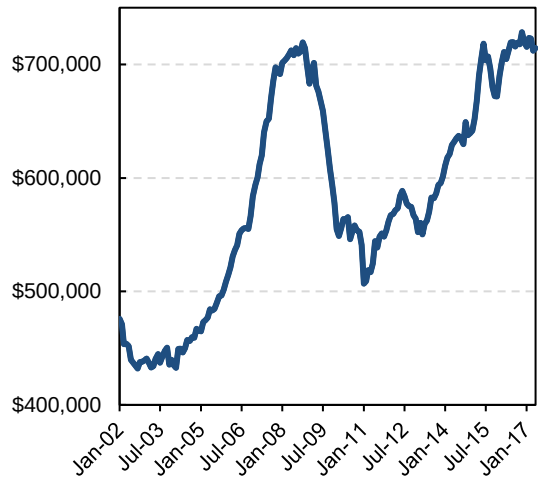
The investment thesis for DRT is threefold. First, the Company's growth strategy focuses on higher-margin, larger scale projects, with a weighted focus on hospitals in 2017. DRT continues to increase its presence in this space, growing its revenue over $30mm in the last eight years. Moreover, its project pipeline in the sector is attractive for the remainder of 2017, including over 60 secured projects, and is expected to expand into its top revenue generator. Second, its top-tier management team's experience and focus on innovation are evident as DRT's technology reduces labour costs by 40%, and cuts manufacturing lead times to 25% relative to its competitors. Additionally, management's foresight to diversify its revenue streams has proven critical with the downturn in the oil and gas industry. Lastly, DRT maintains a strong balance sheet, having no debt, and an inventory turnover ratio that has remained above 3x for the past 12 months. DRT has created a unique competitive advantage through innovative technology and manufacturing processes in the interior construction industry. A major hurdle DRT faces going forward is stimulating and retaining a customer base in these new segments. DRT's revenue is contractual, and an inability to secure consistent and large contracts will limit its growth prospects. If DRT is able to mitigate this, it is primed to deliver on its multi-year growth plan, supported by its established distribution network.

Exhibit I: Revenue Growth (000s) vs. Cash Flow per Share



Source: Bloomberg, CPMT Estimates

Exhibit II: Non Residential Construction Spending (mm)



Source: FRED

Catalysts for Growth

DRT's continued expansion in geographical and industry verticals is contingent on brand recognition. Continued diversification, specifically in the healthcare space, provides a significant growth opportunity for DRT. The Company has a number of projects in the pipeline, and with virtually no competition in the space, hospitals are primed to materially contribute to its top line for 2017. Furthermore, a rise in costs in the competitions markets will be beneficial for DRT. With the application of its proprietary technology, DRT can significantly reduce labor, waste, and lead times. An additional catalyst is DRT's distribution network; these partners are critical in winning new customers to drive its growth plan. Partner development is facilitated through 'DIRTT Connext', where partners are provided comprehensive training on DIRTT's strategies. This investment appears to be paying dividends, as 'DIRTT Movers', the middle-tier partners, have seen an increase in revenue of 28% YoY, with similar overall growth expected due to a 27% YoY rise in Connext participants. Continually, its growth profile is supplemented by a rebound in U.S construction spending, which reached a 10-year high in Q4 2016 and is projected to continue in the future, as seen in Exhibit II.

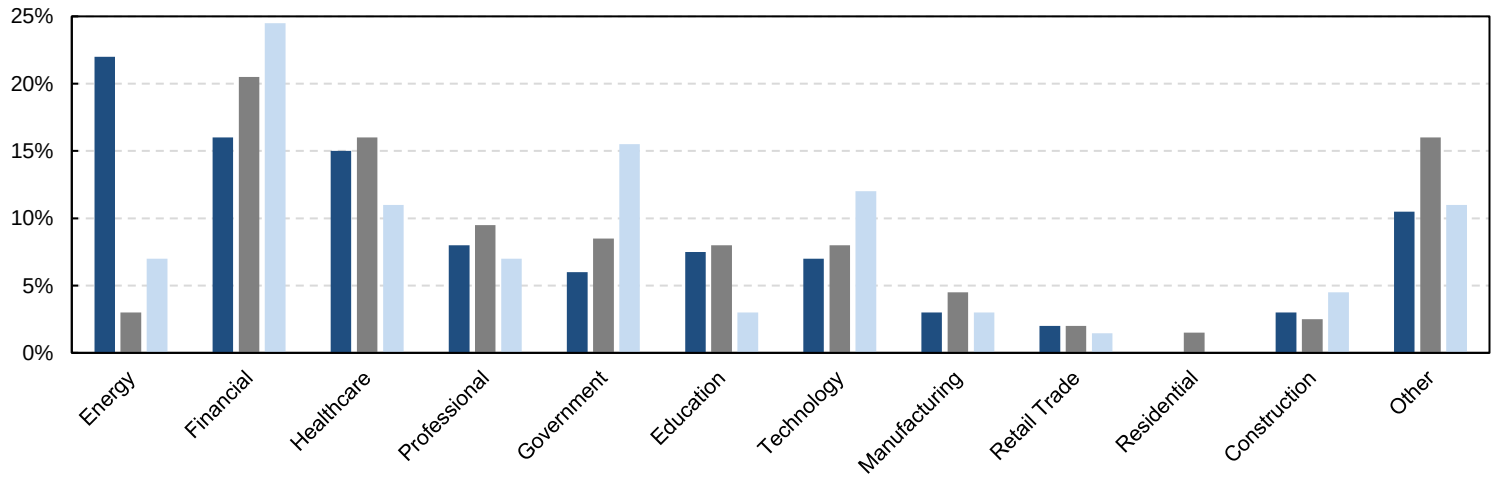
Valuation

To value DRT, we conducted a five-year discounted cash flow analysis with an exit EBITDA multiple of 10.9x to determine the terminal value. This yielded a target price of $7.75, implying a ~13% upside to the current trading price. DRT currently trades at 9.1x 2018E EV/EBITDA, compared to its peers at 10.9x. Given the nature of DRT's specialized industry, the CPMT used historical performance to forecast revenue, with a wedge of growth added to account for DRT's growth prospects and margin expansion. The CPMT believes this discount is primarily due to investors' previous concerns regarding the sustainability of its revenue, given the cyclical nature of its previous energy-driven revenue stream. DRT's diversification across industry sectors and its geographic expansion provide a more sustainable opportunity for growth.

Risks

DRT's risk mainly lies in macroeconomic factors. With ~82% of DRT's revenues generated outside Canada, and a portion of its raw materials priced in USD, it is sensitive to changes in U.S. economic activity and exchange rates. DRT does not hedge its currency exposure, so it remains vulnerable to flucuations of the currency in the regions it operates. Also, DRT's competitive advantage is produced through its intellectual property, including patents, trademarks, and know-how. Litigation may be necessary to protect this advantage, with the risk of larger organizations instituting similar technology decreasing DRT's market share. DRT is also relatively thinly traded, which may ultimately decrease market share due to a lack of liquidity.

Segmentmented Revenue Mix (2015 - 2017 Q1)



Franco-Nevada Corp

Basic Materials
TSX: FNV
Sell Recommendation

Franco-Nevada

June 30, 2017

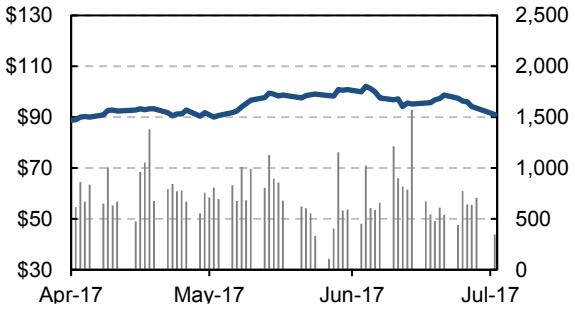
Darren Luoma, Fund Manager
Alim Suleman, Research Associate

Return on Investment	
Current Share Price	$93.57
Target Price	$93.03
Dividend Yield	1.21%
Holding Period Return	1%
Conviction Rating	1

Market Profile	
52-Week Range	$71.44 - $105.69
Shares Outstanding (mm)	179
Average 30-Day Vol (000s)	650
Market Capitalization (mm)	$16,714
Preferred Shares (mm)	$0
Net Debt (mm)	($253)
Enterprise Value (mm)	$16,461
Beta (5-Year Monthly)	1.12

Metrics	2017E	2018E	2019E
Revenue (mm)	$854	$906	$951
EBITDA (mm)	$664	$704	$740
Profit Margin	22.7%	24.6%	26.6%
EPS	$1.09	$1.24	$1.41
EV/EBITDA	24.8x	23.4x	22.3x
P/E (GAAP)	86.1x	75.2x	66.2x

Historical Trading Performance



Source: CPMT Estimates, Bloomberg

Business Description

Franco-Nevada (FNV) is a gold focused stream and royalty company. 70% of gold equivalent ounces (GEOs) delivered are from various stream arrangements, the remainder are from royalties or net-working interest arrangements. The Company's goal is to have 80% of revenue derived from precious metals: gold, silver, and platinum group metals (PGM). The current mix is overweight precious metals at 94% of revenue. FNV has 46 mineral assets throughout Canada, the U.S., Latin America, and the rest of the world. 51% of GEOs delivered are from Latin America, 19% from the U.S., 17% from Canada, and the remaining 13% are from the 'rest of the world' (mainly Africa).

Industry/Sector View

The materials sector responds to the price of gold and it is a large determinant of the sector's performance. There are several key sources of demand for gold: jewelry, industrial use, central banks/ETFs, and investment purposes. Gold for investment is ~45% of demand and causes the largest swings in value. The yellow metal is a ubiquitous haven investment, second only to the U.S. dollar. The relationship between gold and the greenback is counter current, and the perception of risk is the main price driver of the metal. Our current portfolio weighting suggests an oil price recovery, U.S. political stability is decreasing (along with its trading relationships), and equity valuations are full while flirting with all-time highs. Good news for gold. In the next three years, we see gold prices increasing as trade deals are renegotiated and market skepticism increases. We see investment in the materials sector, and gold, responding accordingly.

Mining vs. Streaming

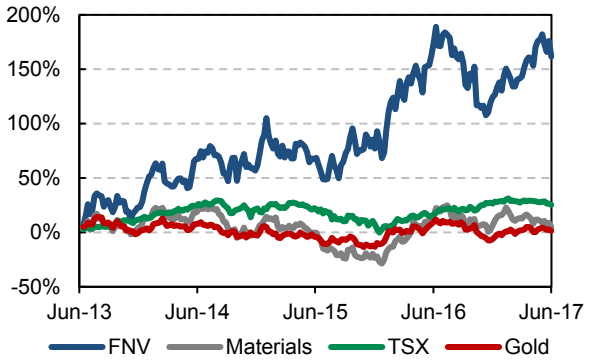
Mining companies extract minerals from the earth. The profits of these companies are derived from the difference between the price the company receives for the minerals, and the operating costs of producing those minerals. A miner's main risk comes from the 'perfect storm' of both increasing operating costs and decreasing commodity prices. This situation is a large contributing factor to the reputation of the mining industry's notorious 'ability to destroy capital'. In contrast, streamers fund mining companies, and in return receive a percent of mineral production at a predetermined price. For FNV this price is typically $400/Oz of gold. The streamer makes gains (or losses) on the difference between the purchase price and the spot price. Why would a miner do this? When equity issuances are too dilutive, marginal debt is too expensive, and there is a long time frame from inception of the mine, to production – with these circumstances there can be little choice but to turn to a streamer. Commodity volatility, and the imprudent debt management of miners keeps streamers in business. Streamers are not exposed to operating risks in the same way miners are, leverage provided by the stream arangements means they are more exposed to fluctuations in the commodity.

Investment Thesis

The materials sector is comprised mainly of mining companies, chief among them being gold miners. The Fund has no appreciable exposure to the commodity. This means during times of uncertainty when gold trades up, we miss the boat. Conversely, we do not take any hits when gold trades down. So, what is the problem? We give a little alpha here, and take a little there. With FNV, there is an opportunity to close the gap between the Fund and the Index, with the added benefit of downside protection from the operating cost shield offered by a streamer. FNV has the luxury of tailoring its commodity exposure, in this case mainly to gold, the type of expose we want.

FX as at 1.2644

Returns for FNV, Materials Sector, TSX, and Gold



Source: Bloomberg

WACC vs. Gold Spot Price

WACC	Gold Spot Price $1,000	$1,150	$1,250	$1,350	$1,500
6.0%	$59.30	$65.06	$68.91	$72.76	$78.54
5.5%	$68.31	$74.91	$79.31	$83.72	$90.34
5.0%	$80.33	$88.04	**$93.19**	$98.34	$106.07
4.5%	$97.18	$106.45	$112.64	$118.83	$128.13
4.0%	$122.48	$134.08	$141.83	$149.58	$161.23

Source: CPMT Estimates, Bloomberg

Comps Table

Company	Current P/E	EV/EBITDA	EV/EBITDA Premium
Average	56.6x	18.1x	-
Median	61.1x	17.8x	-
FNV	**72.4x**	**24.3x**	**37%**
SSL	71.4x	12.4x	-30%
RGLD	50.8x	19.7x	11%
WPM	31.8x	15.8x	-11%

Source: Bloomberg

Growth Analysis

Year	Top End Guidance (GEOs)	Top of 5 yr Guidance (GEOs)	Delivered (GEOs)	5 yr GEO Growth
2013	235,000	—	241,402	—
2014	265,000	325,000	293,415	60,000
2015	355,000	415,000	360,070	60,000
2016	445,000	520,000	464,383	75,000
2017E	500,000	540,000	496,467**E**	40,000

Source: Franco-Nevada Finacial Reports, CPMT Estimates

The Company also boasts an array of assets all over the world, reducing risk by the sheer number of projects and geographic spread. FNV is limited only by the market's appetite for the capital it offers. It provides some protection from the capital erosion miners are known for, but is by no means less volatile than a mining company. The weighting of such an investment, and its place in the portfolio, must be carefully considered. An appropriate situation to introduce FNV (or any streamer) would be when replacing a current investment with known high volatility, while being offset by a complementary investment in the sector not correlated to the price of gold. The aggregate result being long-term outperformance measured against the materials index, marked by periods of increased volatility. However, those periods would be dampened by the stability of the uncorrelated 'anchor' investment.

Risks

FNV faces two main risks, one long-term, and one immediate. The long-term risk is that the market for FNV's capital dries up. The streaming model works very well right now, but if miners no longer feel like giving up a portion of production to fund their projects, FNV will be forced to offer better deals and growth projections will be curtailed accordingly. The immediate risk is commodity price fluctuation. Its business model is dependent on cash flow generated from the stream price versus spot differential; if the spot price decreases it directly hits the bottom line. FNV's revenue is particularly sensitive to changes in the price of gold.

Valuation

The valuation was conducted based on a five-year DCF. A NAV model was built out to estimate the amount of growth factored into the price. This was then used as a check against company guidance offered for 2017, and through 2021. A comparable companies analysis was carried out, but not factored into the target price. It was however a crucial piece of the investment recommendation. The main driver for the DCF was historic return (in GEOs) for capital invested in streaming interests. This is where the first red flag was raised. Since 2013, FNV has 'sandbagged' its guidance and established a track record of consistent beats in terms of GEOs delivered and revenue. The market of course knows this, but for 2015 and 2016, FNV surpassed even 'the street's' lofty expectations, further inflating its premium. This is where the comparable companies analysis was illuminating. FNV started to command this premium in 2013 and has a five-year EV/EBITDA average premium of 30%, and a two-year average premium of 40%. Modelled at the upper end of one and five-year guidance the Company is valued fairly around the $93 mark. This is also the first year the Company has scaled back its five-year guidance. The reduction was 45% of 2016 guidance on GEOs. This is a strong signal the type of growth FNV has seen in the past is no longer sustainable as the Company matures. FNV is propped up by expectations and the market does not have a history of kindness when it comes to premium names missing these expectations.

Conclusion and Recommendation

The streaming business model fits the needs of the fund. We are able to get exposure to the commodities we want, without operating risks as an overhang on the investment. However, Franco-Nevada is not the streamer for us right now. Commodity price increases may give the stock some steam, but the premium many investors have wrestled with is unsustainable without further development opportunities. Long-term guidance has been significantly cut, and for the first time ever. This tells us management recognizes growth opportunities are becoming more limited and have targeted less precious metal exposure in favour of more oil & gas opportunities. Less growth will simply not sustain the types of multiples we are seeing. If some growth leaks from the stock we will be ready to make a move. In the meantime, we will continue to look at options for gold and other precious metal exposure, and do believe now is the time to do so.

MacDonald Dettwiler & Associates Ltd

Industrials
TSX: MDA
Update

June 30, 2017

Darren Luoma, Fund Manager
Alim Suleman, Research Associate

Return on Investment

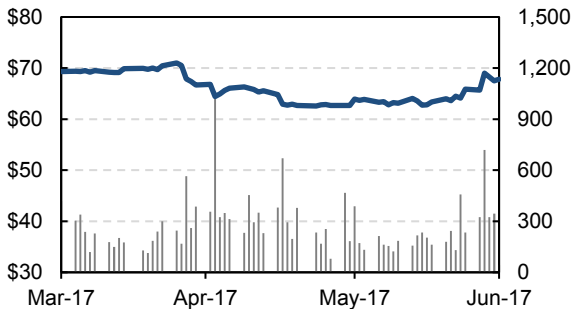
Current Share Price	$68.89
Target Price	$82.00
Dividend Yield	2.15%
Holding Period Return	21%
Conviction Rating	3

Market Profile

52-Week Range	$61.80 - $90.24
Shares Outstanding (mm)	36
Average 30-Day Vol (000s)	251
Market Capitalization (mm)	$2,510
Preferred Shares (mm)	0
Net Debt (mm)	$812
Enterprise Value (mm)	$3,321
Beta (5-Year Monthly)	0.78

Metrics	2017E	2018E	2019E
Revenue (mm)	$2,138	$2,215	$2,295
EBITDA (mm)	$337	$348	$359
EBITDA Margin	15.8%	15.7%	15.6%
EPS	$3.81	$4.04	$4.27
EV/EBITDA	9.8x	9.5x	9.3x
P/E	18.1x	17.1x	16.1x

Historical Trading Performance



Source: CPMT Estimates, Bloomberg

Business Description

MacDonald Dettwiler and Associates (TSX: MDA) is a communications and information company specializing in satellite development and technology. The company provides operational solutions to customers with high repeat business potential including the Canadian government, Boeing, and SiriusXM. MDA has two operating sectors; Communications and Surveillance & Intelligence. Communications provides 70% of the company's revenue and 58% of operating EBITDA, Surveillance & Intelligence provides the remaining 30%, and 42%, respectively. MDA operates globally with 56% of revenue originating in North America (Canada and the U.S.). The 2012 acquisition of Space Systems/Loral (SSL) greatly expanded both the Company's communication satellite capabilities and its valuable U.S. footprint. In early 2017, MDA announced it would be acquiring DigitalGlobe Inc., further cementing its place as a world leader in satellite communications.

Why Revaluate the Investment?

In October 2014, MDA was trading in the mid $80's, in June 2015 it peaked around $100 and has been in decline ever since. From 2014 until now, 3 FM's have independently executed valuations on the company and all arrived at similar conclusions. The DCFs all yielded intrinsic values in the high $80's to low $90's. Once the comparable company analysis was factored in, all target prices were in the $90's, but have been adjusted per the residing FM's discretion. MDA has not seen these high $80's to low $90's price levels since 2015. Poor price performance is no reason to sell a company, but it does mean that further analysis is needed to ensure the underlying assumptions and investment thesis still have a reasonable chance to play out in the market.

The steps taken in this revaluation are as follows. First, explain why the stock has not performed as expected. Second, examine the effectiveness of management, the Company's strategic direction, and examine our investment thesis with new information impounded taking into account the current market conditions. Third, and most importantly, weigh the positive and negative aspects of the Company based on the examination. Finally, recommend a course of action.

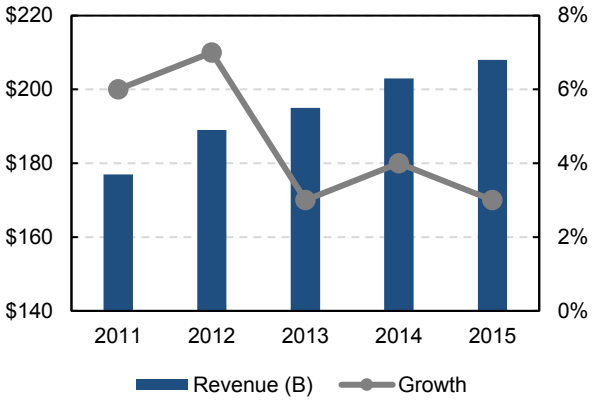
The main reason MDA has not performed as expected is a combination of optimistic valuation assumptions, which drive our own expectations, and MDA's failure to live up to consensus estimates of revenue growth, net income, and earnings. Simply put, MDA has not lived up to the CPMT's modest growth and earnings estimates, or 'The Street's'. On the surface, it appears very reasonable to factor in growth somewhere between 3% and 6%. In late 2014 and the first half of 2015, the Company was trading at prices that suggested this growth range. Even now, this assumption is plausible – which will be expanded on later. In 2014, the company completed a landmark acquisition and drove topline growth of 15%. Shortly after that, the growth rate ground to a halt. Growth was a meager 0.9% in 2015 and (2.5%) in 2016. In that two-year period, the Company had miss after miss in expected revenue, and is now trading at a price suggesting growth in the 1%-2% range. The question is, do we believe MDA's strategic direction will bolster sales and bring the company out of this slump, or have we been stuck in the sticky mess of a value trap and the sunk cost fallacy?

MDA Revenue vs. Consensus Estimates

Quarter	Reported	Estimate	Difference
Q4 16	502.9mm	514.1mm	(2.18%)
Q3 16	495.9mm	533.8mm	(7.11%)
Q2 16	502.5mm	546.2mm	(8.00%)
Q1 16	562.4mm	540.0mm	4.15%
Q4 15	544.3mm	530.2mm	2.67%
Q3 15	515.4mm	533.3mm	(3.36%)
Q2 15	523.7mm	564.3mm	(7.19%)
Q1 15	533.9mm	554.0mm	(3.63%)

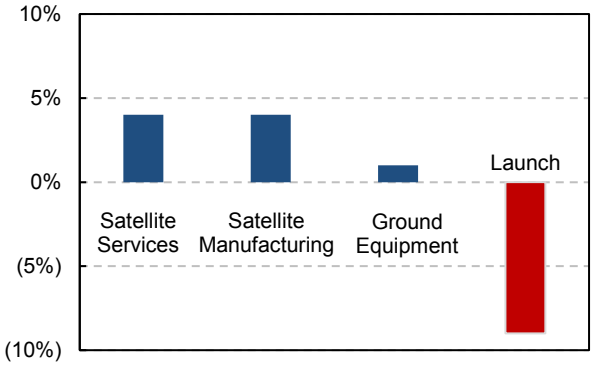
Source: Bloomberg

Satellite Industry Revenue and Growth



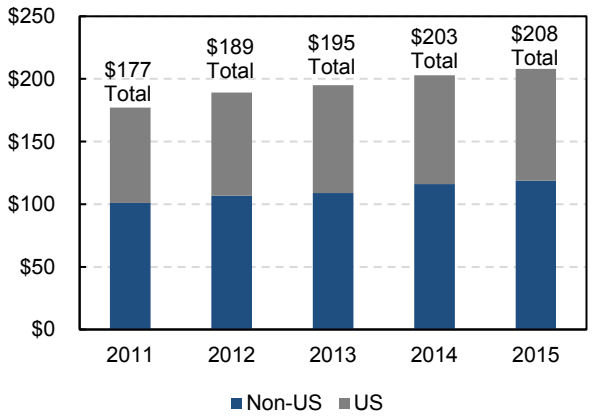
Source: Satellite Industry Association

Satellite Industry 1-Year Segment Growth



Source: Satellite Industry Association

Non-US & US Portions of Satellite Industry Revenue



Source: Satellite Industry Association

Investment Thesis and Catalysts

MDA is, without doubt, a leader in satellite communications and global surveillance. Management (recent changes considered) has a strong history of acquiring strategic assets, and expanding technological capabilities in this competitive market. MDA acquired the satellite giant SSL in 2014, and entered a deal for the geospatial imaging company DigitalGlobe in early 2017. From a technical perspective, the Company has superior operations, unrivaled experience, and industry leading intellectual capital. The Company also has an order backlog of $2.4B offering a sense of cash flow stability, and 14% of revenues come from Canadian government contracts. The remaining portion of revenue, while not under government contracts, comes from large commercial clients including Boeing, Lockheed Martin, SiriusXM, and Mitsubishi. Despite the recent performance of the stock, the Company operates in a moated business with a high quality commercial and government customer base. These points are wonderful, but this cash flow stability only ensures the company will continue to exist as is – we want to see growth. In the fall of 2016, MDA completed a company restructuring, positioned itself in the U.S., and is primed to execute its 'U.S. Government Access Plan'. This is the make or break catalyst for the Company, and will give it access to the incredibly lucrative U.S. government contract market. The Company merely needs to remain security compliant, and it will soon be able to bid on those sought-after contracts. Winning those contracts is another consideration.

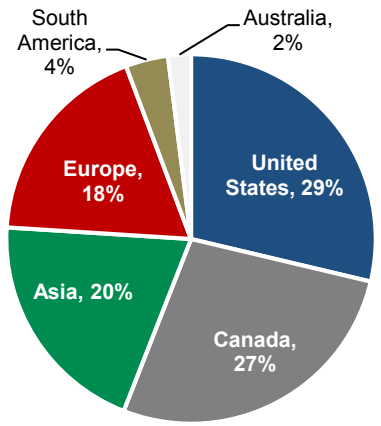
Industry Overview

The satellite industry is a $208B industry worldwide, with the majority of revenue, 43%, originating in the U.S. In the last year; satellite services, satellite manufacturing, and ground equipment all saw increases, while only launch services saw a decrease. These numbers are all good news for the satellite business because lower launch costs will boost sales in other segments as the technology becomes more affordable. Over the last three years, the industry has grown by 3%, 4%, and 3%, moderately outpacing inflation. There are around 1,380 operational satellites, 37% being used for communications, 21% for military purposes, and 14% for earth observation. MDA operates mainly in the communications segment, but also provides services for observation and military functions. The fastest growing contributors to the communications segment are mobile satellite services, though earth observation is the fastest increasing segment in the industry as a whole. MDA is heavily exposed to both segments. Of all the satellites launched in the past year, 60% were from the U.S. and 25% were from Europe, further highlighting the importance of the U.S. market in the satellite industry.

Valuation

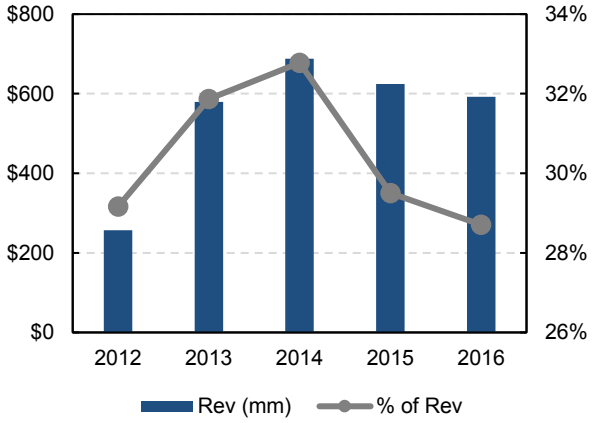
MDA was valued using a blended approach, 25% DCF, and 75% comparable companies. The comparable analysis breaks down into a three-way split, weighting for the 5-year EBITDA exit, 1-year EBITDA exit, and 1-year P/E valuation. This unconventional blend of valuation metrics was chosen to reflect the uncertainty surrounding the success of the company's U.S. access plan. The DCF is highly sensitive to the growth rate of the Company, which, depending on the success of MDA's strategic initiatives, could range between 0% and 6%. As more information becomes available and the success or failure of the 'U.S. Government Access Plan' becomes apparent, the DCF will be weighted more heavily. A selection of satellite companies, communications companies, and space development companies including Orbital Sciences, ViaSat Inc, and Magellan Aerospace were included. This ensures the array of manufacturing and functional capabilities of MDA is captured in a roughly representative weighting. It is worth noting that the methods used in this iteration are different from those employed previously, yet yielded a similar result.

MDA Geographic Revenue Distribution



Source: CPMT Estimates

MDA US Revenue and US Revenue as % Total



Source: CPMT Estimates

Comps Table

Company	EV/EBITDA	P/E	Sales Growth %
Average	11.4	21.8	5.5%
Median	12.3	16.6	5.4%
MDA	8.7	13.1	(2.5%)
ORB	-	-	(5.0%)
OTEX	12.3	16.6	(1.5%)
MENT	12.2	21.0	8.6%
CSU	16.1	22.0	15.6%
VRNT	12.4	14.6	(5.1%)
VSAT	12.3	64.4	2.5%
CAMP	12.4	15.0	25.1%
HRX	9.0	17.0	11.5%
MAL	7.2	12.7	5.5%
NII	-	-	5.4%

Source: CPMT Estimates, Bloomberg

Corporate Governance

The Board of Directors is balanced with both industry and business professionals. The Audit Committee, Governance & Nominating Committee, and Human Resources & Compensation Committee all have members with relevant education and experience to execute their respective roles. Executive compensation raises no red flags in terms of determination of short-term or long-term incentives. As insurance, there is a 'double trigger' change in control agreement that stipulates both a change in control and termination without cause must occur to trigger the agreement. The triggered agreement itself is quite standard. The share ownership guidelines of the named executive officers are a little too low at 3x base salary for the CEO and only 1.5x for the Executive Vice President. All other executive officers are merely 'encouraged' to hold 1x their base salaries in common stock. In April 2016, Howard L Lance replaced Daniel Friedman as CEO. Howard Lance has a history of communications and capital market experience with Blackstone Group and Harris Corp. CEO shuffles often accompany poor stock performance as an attempt to restore shareholder confidence. If Howard Lance can land a respectable U.S. contract before September 2017 he will prove himself, if not, it may be time for another shuffle. John Celli has been the President of SSL since 2012 and came to MDA with the SSL acquisition. Anil Wiraseka is the CFO and has been with the Company for 25 years. The operational success of this management team is undisputable, however their ability to grow the business is under serious scrutiny by investors. They have failed to live up to growth expectations with regards to U.S. expansion, and the DigitalGlobe acquisition may be an attempt to buy U.S. revenue in lieu of the failure to land contracts. To their credit, earth observation, the arena DigitalGlobe dominates, is the fastest growing segment of the satellite industry.

Blast Off! Or a Delayed Launch?

In this section, we will unpack the pitch with respect to catalysts, company direction, and industry metrics to reform an investment strategy.

Revenue stability versus revenue growth is a key distinction that needs to be made and carefully tweezed apart in the case of MDA. With a company of this size, operating in a highly technical industry, the 5% growth rates historically credited to the Company lead investors to see tremendous value. The reality is over the past two years the Company has stagnated in terms of topline growth. The satellite industry does not have insurmountable barriers to entry, but it is highly moated. MDA in particular has a large contract backlog, and operates as often as possible with fixed contracts. This offers reasonable revenue line of sight, despite the somewhat cyclical nature inherent to satellite purchases. This is great news as an investor, because the business MDA does have, is likely to stay. This does not mean that MDA is guaranteed to grow, or produce shareholder value. In our analysis, we see MDA trading at price levels that imply no, to very little growth. We can easily see MDA operating very stably like this into perpetuity, thus the price is unlikely to depreciate much more. We see MDA at, or around, the bottom.

As with most technologically tilted companies, competition is an ever-looming threat. MDA is facing increasing competition in the Communications segment. Competition forces MDA to invest huge amounts of capital in research and development. This, paired with MDA's fondness of fixed contracts (which we like for stability, but dislike for provisions created by cost overruns) means that MDA must operate with the highest standards possible, and the Company does. Management has not successfully grown the Company in the past two years, but this management team, and the teams previous, have kept company standards industry leading for the last 50 years. Noteworthy is the fact that the previously cited segment (Communications) is low margin (15% EBITDA) compared to Surveillance & Intelligence (24% EBITDA). Increasing competition in a lower margin segment may lead to compression.

Revenue Growth vs WACC Assumptions

Revenue Growth \ WACC Assumption	7.0%	6.5%	6.0%	5.5%	5.0%
1.6%	$67.62	$70.29	$73.50	$77.44	$82.50
2.6%	$71.04	$73.96	$77.47	$81.80	$87.37
3.6%	$74.59	$77.77	**$81.61**	$86.35	$92.45
4.6%	$78.27	$81.73	$85.90	$91.08	$97.76
5.6%	$82.09	$85.85	$90.38	$96.01	$103.29

Source: CPMT Estimates

Revenue Growth vs EBITDA Exit

Revenue Growth \ EBITDA Exit Multiple	10.3	11.3	12.3	13.3	14.3
1.6%	$67.78	$71.62	$75.58	$79.31	$83.15
2.6%	$71.72	$75.68	$79.74	$83.58	$87.54
3.6%	$75.83	$79.90	**$81.61**	$88.04	$92.10
4.6%	$80.11	$84.30	$88.60	$92.67	$96.86
5.6%	$84.57	$88.88	$93.31	$97.49	$101.80

Source: CPMT Estimates

WACC Assumption vs EBITDA Exit

WACC Assumption \ EBITDA Exit Multiple	10.3	11.3	12.3	13.3	14.3
7.0%	$66.57	$70.48	$74.39	$78.30	$82.21
6.5%	$69.63	$73.60	$77.57	$81.54	$85.51
6.0%	$73.33	$77.37	**$81.61**	$85.43	$89.46
5.5%	$77.95	$82.04	$86.14	$90.23	$94.33
5.0%	$83.92	$88.08	$92.24	$96.40	$100.56

Source: CPMT Estimates

Thor 7 Satellite

Source: www.sslmda.com

Pursuant to this competition, margin compression has been cited as a concern for MDA. The Communications segment has the lower margins of MDA's two operating segments, but it is also the segment in the satellite industry as a whole experiencing the most growth at 10% versus the industry 3%. The fear is that as MDA expands and acquires more businesses in order to compete (like SSL in 2014 who was heavier in communications than MDA) that margins would compress accordingly. This has not been the case, and the Company has been able to keep the segment mix stable at 70% Communications and 30% Surveillance & Intelligence levels. The Company's EBITDA margins have actually increased, though this is due to an increasing capitalization of certain research and development costs. The truly worrisome part about the Communications segment is the dependence on internet, TV, and mobile services for growth. Satellite TV is in decline and this portion will die out relatively quickly. On the other hand, it is true that internet use will only increase, but satellite is the worst option for service in any of the above categories. Satellite will only win the battle for internet use when fiber is not available. Fiber cannot be used in remote locations, or when security is of the utmost importance. Military applications spring to mind, thus highlighting the importance of MDA's U.S. Government Access Plan.

In the fall of 2016, the Company shuffled the corporate structure, and is now incorporated in the U.S. This was a shrewd move in terms of timing. The U.S. government's fiscal year runs from October 1 to September 30. The majority of the U.S. contracts are awarded in late summer to early fall, as pressure to spend remainders by the close of the fiscal year ramps up. The final step in eligibility was taken in February 2017. MDA entered into a Security Control Agreement, in which it must remain compliant, and if so, it qualifies to bid for U.S. government contracts. This is the root of the true catalyst for the Company, and what will make the difference between stagnation and success. If the Company is able to secure contracts and grow the topline, we will start to see some value creation. If not, the Company will wallow in mediocrity for at least another year.

Conclusion and Investment Strategy

MDA operates in a highly moated business, has industry leading technological capability, and a sharp eye for strategic acquisition targets. As such, cash flows are secure, repeat business is highly likely, and growth in line with inflation can be reasonably assumed. Our analysis suggests we are at a price bottom and that the price is not likely to dip too far below the $65 mark (very close to the current price). This would be the worst time to exit the investment considering the large potential. It would be prudent to wait out this contract cycle (end of September), at which point one of two situations could play out. The U.S. Access Plan is a failure this year, growth remains flat, but the price is the same and we do not suffer further losses. Or, the plan is a success and MDA will begin its march back up to the $90 price range. The potential for appreciation outweighs the potential for loss in this case, a conditional hold is recommended.