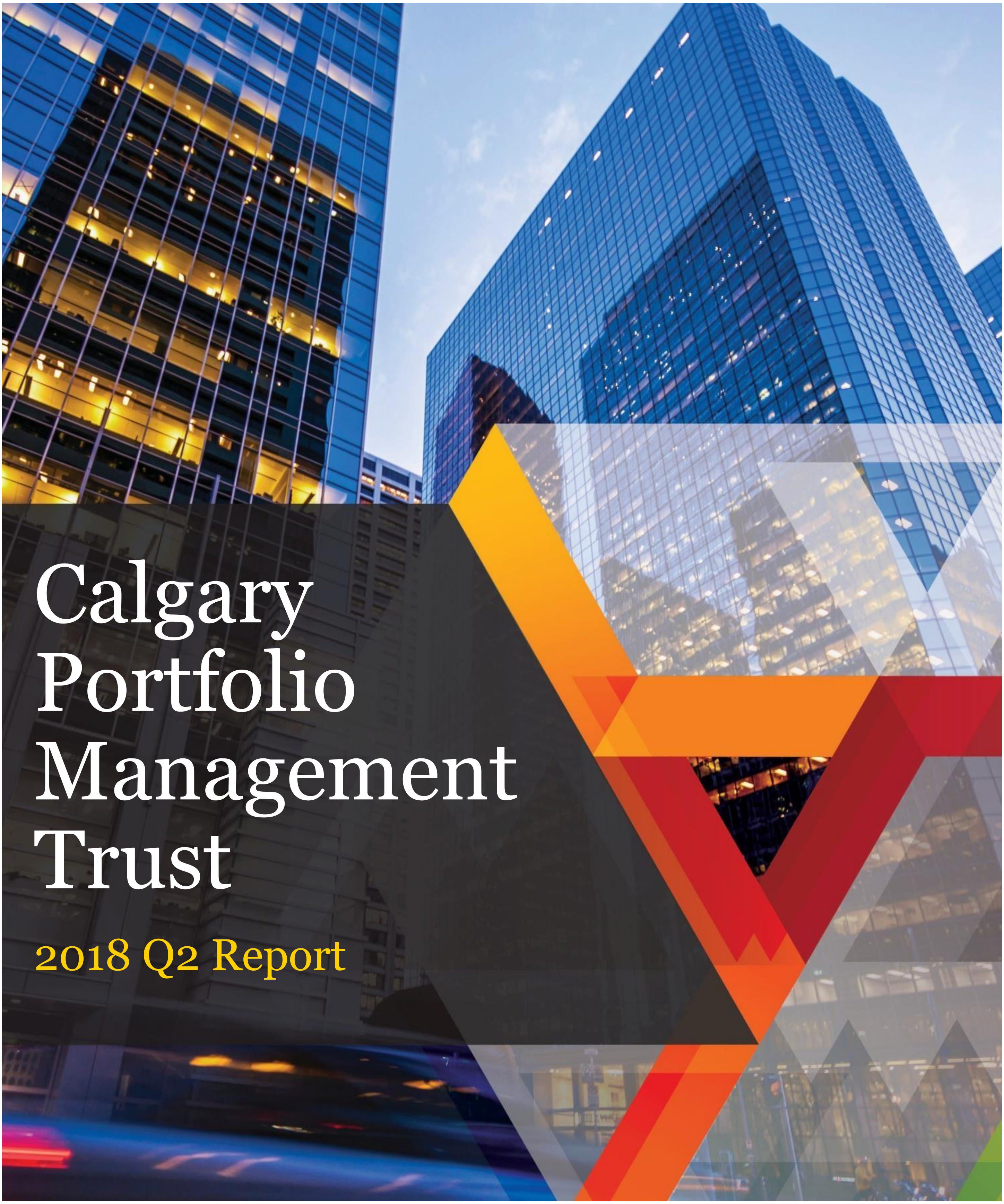

# Calgary Portfolio Management Trust

## 2018 Q2 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. Furthermore, we welcome Ari Pandes and James Anderson to the Board, both their academic and professional backgrounds make for exciting and valued additions. 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.

Recruitment for graduating Fund Managers and summer recruitment for Research Associates seems to land earlier each year. To date the process has gone exceptionally well, and this was due in no small part to those who held a speaker series, shared insights, experience, and invaluable advice.

As part of our fall recruitment, the CPMT recently welcomed four new Research Associates to the program: Ali Saleh (3rd year Finance), Andrew Gormley (3rd year Finance), Eeshwar Dutt (4th year Finance/Economics), and Mahdis Sadeghi (3rd year Finance). In addition, the Fund is currently experimenting with a restructuring of the Fund Analyst role, incorporating the duties into those carried out by Research Associates. It is our hope that the future Fund Managers and the fund as a whole will benefit from a more holistic understanding of portfolio management.

The Fund struggled to keep pace with the index over the past quarter, trailing by 1.86%. Industrials and consumer staples performed well, however, the majority of the negative attribution was from selection effect in the energy, information technology, and materials sectors. Upstream energy weighting, conviction changes in information technology, and underexposure to gold were both the drivers and key topics of discussion with respect to the performance and strategy development in the underperforming sectors. While it can be easy to get caught up in short-term performance, both positive and negative, the CPMT remains focused on longer-term outlooks when making decisions.

Involvement in the CPMT program offers invaluable exposure to a challenging and scholastic environment, creating an unrivaled student experience. We look forward to using the knowledge gained from members, speakers, mentors, and summer employment to continuously improve the Fund and bring those skills into our professional lives upon graduation. The goal for the Fund to succeed long into the future and support student opportunities is driven by our commitment to research within the Fund as well as donating 2.5% of 3-year trailing AUM to support collaborative financial research.

Sincerely,

**Daniel Cassino, Fund Manager**

**Kristin Gorkoff, Fund Manager**

Kristin Gokoff

**Jennifer LaBine, Fund Manager**

Jennifer LaBine

**Darren Luoma, Fund Manager**

Darren Luoma

**Chase MacDougall, Fund Manager**

**Mahad Nadeem, Fund Manager**

**Erick Noh, Fund Manager**

**Daniil Zhigatov, Fund Manager**

Dan Zhigatov

# Biographies

## CPMT CLASS OF 2018

### ABDULRAHMAN ALNOAIMI

**Fund Analyst**

**5th Year, Chemical Engineering and Economics**

Abdulrahman is in his fifth and final year of a double degree in Economics and Chemical Engineering, with a minor in Petroleum Engineering. He recently completed a 16-month internship at NOVA Chemicals as a Process Engineering Intern, where he focused on process modelling and data analytics. Since joining the CPMT in September 2016, Abdulrahman has developed a deeper understanding and appreciation of the 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. After returning from a summer internship at BMO Nesbitt Burns as an Investment Banking Summer Analyst, he is eager to pass on the skills and knowledge he developed over the course of the summer to the class of 2019. Outside of the 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 the financial markets, Chase enjoys participating in and spectating a variety of sports, including hockey, baseball, basketball, and squash. Following graduation, he is excited to be returning to BMO Nesbitt Burns as an Investment Banking Analyst.

### 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 skills in portfolio management and intrinsic valuation over the coming year as well as working with the new class of Research Associates. Daniel completed a summer at J.P. Morgan as an Investment Banking Analyst and will be returning full-time in July 2018. 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 finishing his last year of university, and returning to TransCanada as a full time Analyst in May of 2018. 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, portfolio management, as well as his critical thinking skills. Mentoring a Research Associate is a challenge that Erick is thrilled about. He looks to share his experiences and learnings from his time in the program in hopes to better the development of his Research Associate. In addition to this, Erick is excited to conduct more in-depth valuation and research during the remainder of his tenure as a CPMT member. Erick will be joining Tudor, Pickering, Holt & Co. as an Investment Banking Analyst after graduation. In addition to his interest in finance, Erick also enjoys going to the gym and playing hockey.

**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 her time in the program. 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. Upon graduation, Jennifer will be joining RBC Capital Markets as an Investment Banking Analyst, and plans to pursue the CFA designation in the coming years. Outside of this, 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. This past summer she worked 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 recently completed an eight-month Co-op term with Credit Union Central Alberta working in the treasury department. Upon graduation, Kristin intends to pursue a career in the capital markets and obtain her CFA designation. Outside of her academic pursuits, she enjoys hiking, classical music, travelling, and learning new languages.

**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 the CPMT has provided him. He accredits the CPMT program for helping him develop a tireless work ethic, attention to detail, and intellectual curiosity. He recently completed a summer internship 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 modelling. In the summer of 2017, A.J. worked 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.

### ALI SALEH

**Research Associate**

**3rd Year, Finance**

Ali joined the CPMT program in September 2017 as a Research Associate and would like to thank the Board of Trustees, speakers, and alumni for their dedication in developing and enhancing the program. He is looking forward to learning more about portfolio management, financial modelling, and valuation. Ali is excited to have the opportunity to use these skills to further grow the fund. Outside of the CPMT, Ali is also competing at the 2017 National Investment Banking Competition. Over the past summer, Ali worked as an accounting Co-op student at PCL. Upon graduation, he intends to pursue a career in capital markets and obtain his CFA designation. Apart from his interest in capital markets, Ali enjoys going to the gym, playing soccer, and track & field.

### 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. This upcoming summer, he is looking forward to joining Bank of America Merrill Lynch as an Investment Banking Summer Analyst. In his spare time, Alim enjoys participating in, and spectating various sports, particularly hockey and squash.

### ANDREW GORMLEY

**Research Associate**

**3rd Year, Finance**

Andrew joined the CPMT program in September 2017 as a Research Associate and would like to thank the Board of Trustees, speakers, and alumni for their dedication in developing the program. He is looking forward to learning more about portfolio management, equity research, and financial modelling. This past summer, Andrew worked as a business operations intern for Zume Pizza in Mountain View, California. Upon graduation, he will be pursuing a career in capital markets and looks to obtain his CFA designation. In addition to his interest in working in capital markets, Andrew enjoys playing basketball, hockey, and is an avid car and timepiece enthusiast.

### 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, and applying these techniques to further the growth of the Fund. In the coming year, Brodie hopes to expand his responsibilities as a Research Associate, and continue to provide support in security analysis and selection. Brodie will be joining Tudor, Pickering, Holt & Co. this summer as an Investment Banking Summer Analyst. In addition to his capital markets interests, Brodie enjoys playing hockey, golf, squash, and snowboarding.

### EESHWAR DUTT
### Research Associate
### 4th Year, Finance / Economics

Eeshwar joined the CPMT program as a Research Associate in September 2017 primarily to expand his knowledge of capital markets and explore what the industry has to offer. Eeshwar is currently pursuing a combined degree in finance and economics and is looking to pursue a CFA designation in the future. He is thankful for the continued support that the Board of Trustees, speakers, and alumni have offered to help afford the students of the CPMT this opportunity. In his free time Eeshwar enjoys hiking, sports, and cooking.

### 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.

### MAHDIS SADEGHI
### Research Associate
### 3rd Year, Finance

Mahdis joined the CPMT in September 2017 as a Research Associate and would like to thank the Board of Trustees, speakers and alumni for their continued support and mentorship. She is excited to apply her classroom knowledge of finance into portfolio management, valuation, and financial modelling and to also learn from her peers. Over the summer, Mahdis worked with ATB Financial on the Gig Pilot Project. Outside of the CPMT, Mahdis enjoys staying active in the mountains and in the gym. She is very excited for what is to come in the next two years of the program.

### MAXIM BOUIANOVA

**Research Associate**

**3rd Year, Finance**

Maxim joined the CPMT program in March 2017 as Research Associate. During his second year at Haskayne, Maxim was also a member of the Rotman International Trading Team and was an Analyst for the Haskayne Finance Club. He since has moved up to become the Executive Vice President and a Research Manager of the club. Over the summer, Maxim worked for Perron & Partners Wealth Management as an Equity Research Summer Analyst. Over the fall term, Maxim has joined bcIMC in Victoria as a Public Equities Co-op 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

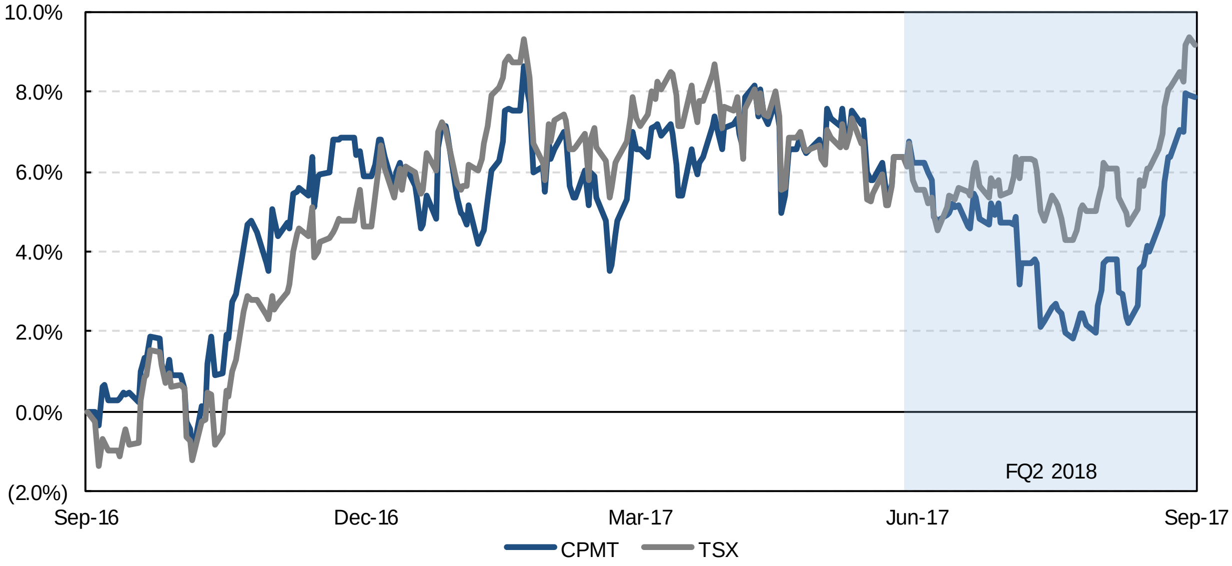
**Research Associate**

**3rd Year, Finance**

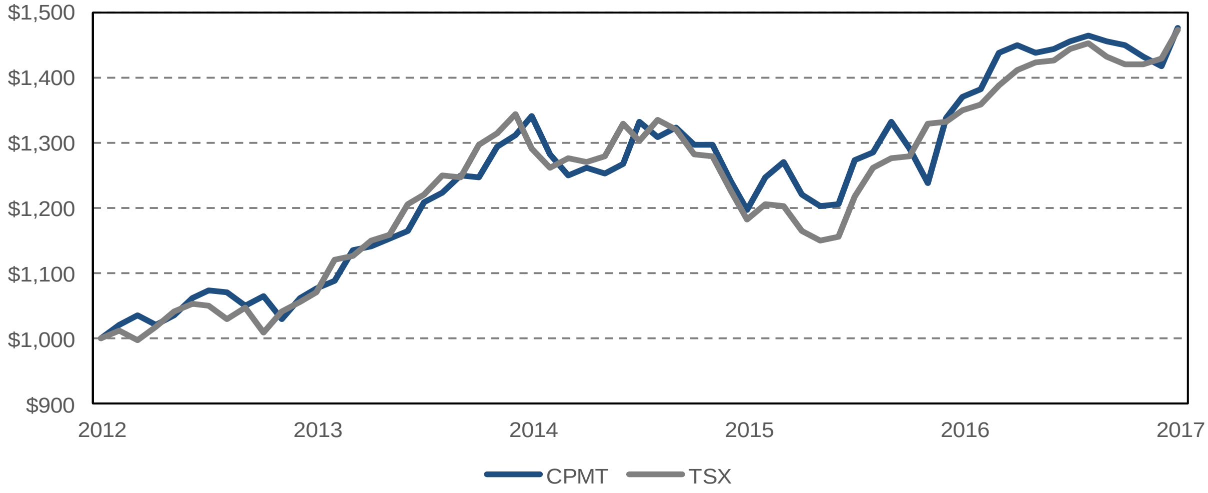
Wyatt joined the CPMT program in March 2017 as a Research Associate and would like to thank the Board, alumni, and speakers for their time and support since joining the program. Although a new member to the program, Wyatt appreciates the significant amount of learning experiences that CPMT has already 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 academia and his interest in capital markets, Wyatt enjoys playing soccer, is an avid skier, and enjoys discovering and expanding his collection of music.

# Performance Snapshot – FQ2 2018

## CPMT and TSX Composite Total Return (TTM)



## Value of $1000 (since September 2012)



## Canadian Equity Fund Universe

| | FQ2 | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|
| CPMT | 1.82% | 7.87% | 3.26% | 8.11% | 3.19% |
| TSX | 3.68% | 9.18% | 4.54% | 8.06% | 4.06% |
| Peer Group Average | 2.37% | 7. 00% | 3.67% | 7.89% | 2.91% |
| TSX Difference | (1.86%) | (1.31%) | (1.28%) | 0.05% | (0.87%) |

# Macroeconomic Update

Over FQ2 2018, the S&P/TSX Composite Total Return Index (“the index”) returned 3.7%. The top performing sectors over the period were the energy and consumer discretionary sectors. The worst performing sectors over the period were the healthcare and consumer staple sectors.

The CPMT outperformed in 4 of the 11 listed sectors. Performance was led by our holdings in consumer staples and industrials. The worst performing sector for the Fund was healthcare, which underperformed the index by 5.6%.

Gold returned 3.1% during the quarter, costing the CPMT portfolio alpha with the lack of exposure to the commodity. The rise in gold over the quarter is credited to geopolitical tensions between the U.S. and North Korea. The impact of Hurricanes Irma and Harvey on the economies of Florida, Texas, and the U.S. as a whole, also caused a push in lumber prices to 10-year weekly highs. Gold has since fallen due to the increasing likelihood of a rate hike by the U.S. Federal Reserve in December, while lumber has continued to see price support. U.S. protectionist sentiment and policy ramped up over the quarter with preliminary duties of 219% on Bombardier’s CSeries Jet. With widening trade relations between Canada and the U.S., U.S. exposure will be more of a consideration in the medium-term as domestic and foreign investors may seek more stable revenue bases in aerospace, defense, and consumer staples.

With regards to the interest rate environment in Canada, the Bank of Canada raised the target rate by 25 basis points to 1.00% in September. This increase followed a rate hike in July - from 50 to 75 basis points. The September rate hike was credited to unexpectedly strong economic growth in the second quarter, with annualized quarter over quarter growth of 4.5% blowing away expectations of 3.7%. The purpose of the rate hike was to curb potential inflation, with the target inflation rate remaining at 2.0%. On the heels of the announcement, the Canadian dollar jumped 2.0% to its strongest point since June of 2015, while the two-year yield also got a boost of 10 basis points rising to 1.45%, a five-year high. There are further rate hikes expected this year, especially if the Canadian economy continues to show increasing strength.

On the other side of the 49th parallel, the U.S. Federal Reserve (the “Fed”) currently has a target rate of 100 to 125 basis points. It is expected that the Fed will hike rates once again in December, with the market pricing in a ~91% chance of a hike of 25 basis points to a new target rate of 125 to 150 basis points.

In a rising interest rate environment, the financial sector typically performs well, while the utilities sector is negatively correlated with upward interest rate trajectories. We expect attribution from our financial holdings to ramp up beyond the 3.5% return this quarter, as performance was dragged down by Alaris Royalty Corp. With that in mind, the CPMT will look to further invest in financial names in the coming months while treading carefully in the utilities sector, which lost 1.9% over the quarter.

The CPMT remains convicted on the names it holds, but is not looking to increase exposure to Canadian natural gas plays in the near future due to the AECO volatility currently being experienced in the market. The volatility in AECO prices is mainly due to a lack of takeaway capacity caused by pipeline repairs and restrictions, leading to an increase in already large storage builds in Western Canada. Finally, as the regulatory environment in Canada becomes increasingly risky for energy infrastructure projects, we expect a focus shift to more U.S. acquisitions, and development in the underserved Mexican regions. Distribution and transmission opportunities in the U.S. and Mexico currently have more favourable regulatory environments, which hasn’t always been the case.

# Quarterly Sector Updates

## CONSUMER DISCRETIONARY & STAPLES

The S&P/TSX Consumer Discretionary Total Return Index gained 5.1% over FQ2 2018.

This sector heavily relies on trends in consumer discretionary income, influenced by factors such as national consumer debt, unemployment, and overall consumer sentiment. FQ2 2018 saw some of the lowest historical unemployment levels, with the unemployment rate falling to a seven-year low of 6.2%. This corresponded to a rising inflation rate of 1.4%. Additionally, consumer confidence continued its upward trend along with inflation and low unemployment. Over the quarter, household debt levels continued to rise, reaching 169.9% household debt-to-income. This is the highest that it has been since the 1990's. High household debt can be attributed to the historically low interest rate environment that Canada has been experiencing. Consumer confidence has increased since January 2017, back to its historical average of 55 index points. While this corresponds to rising inflation, it does not represent much change in the long-run. Canada had a stagnant FQ2 2018, as indicated by a relatively constant debt-service ratio. However, high household debt levels paired with a low interest rate environment and raising inflation rates are a cause for long-term concern for the consumer discretionary sector. These trends have the potential to result in lower consumer confidence in the long-run, and could result in dampened consumer discretionary sector earnings.

The consumer discretionary industry has seen some overarching trends that have permanently changed the landscape of the sector and the mentality of modern consumers. With online shopping revolutionizing the retail industry, consumers are continuously increasing their expectations of retailers, in terms of convenience and product variety. This phenomenon is known as the "Amazon Effect". As a result, investment into the research, development, and launching of online platforms is occupying significant portions of working capital for retailers. This may be an issue, because companies may be too late in developing digital platforms to retain market share that Amazon and other existing online giants have accumulated. In addition, companies will now be competing on the basis of distribution costs, which may not be a competitive advantage for many.

Another trend that the sector has been seeing is the decline of brick-and-mortar sales. Retail visits have been falling on average in Canada and the United States. The U.S. currently has 47 square feet of retail space per capita, and average sales per square foot is declining. This is largely due to the aforementioned Amazon Effect, and is making brick-and-mortar stores a less desirable investment. Overall, this trend may lead towards increased productivity, as retailers are pushed to scale physical space down and invest further into digital businesses to capture the shifting market.

In an effort to save on supply chain costs, consumer companies have been increasingly collaborative. It has been convenient and cost effective for companies to sell one another's products rather than keep products in-house. This adaptability, along with digitization, has been an important determinate of retail success.

Magna International Inc. (TSX: MG), the CPMT's top-performing stock in the sector, returned 10.9% over FQ2 2018, outperforming the consumer discretionary index by 5.8%. Because global auto sales have been slowing, Magna has been actively diversifying into innovative technologies and has stood out in the sector as a result. In FQ2 2018, Magna expanded its Chinese operations with plans to build a new engineering centre to develop mirror systems, as part of an action plan to bring autonomous driving technology to the market by 2021. A new plant in Slovenia to service its newer contracts, and its E-Powertrain joint venture in China further continue Magna's initiative to diversify. Magna's expansion this quarter has positioned the company as a strong pick within the sector. In comparison to Magna, Aritzia (TSX: ATZ) was our bottom-performing stock within the sector, falling 1.1% over FQ2 2018, underperforming the Consumer Discretionary index by 6.2%.

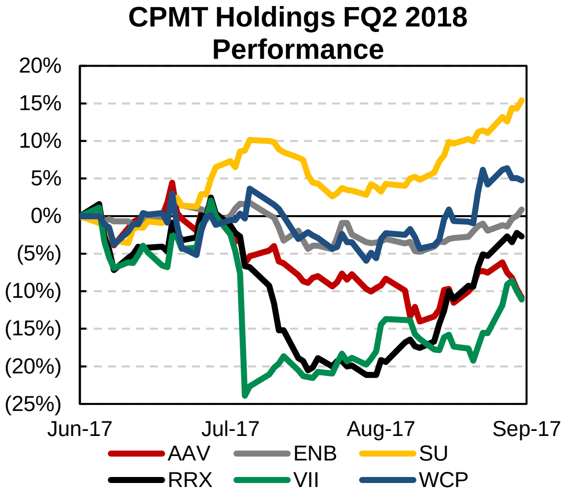
The consumer staples sector, though affected by the same economic factors as the consumer discretionary sector, is far less volatile due to inelastic demand and the non-substitutable nature of goods within this category. The sector returned 6.1% over FQ2 2018. Andrew Peller (TSX: ADW) was our top performer in this sector, returning 9.7% over FQ2 2018, outperforming the consumer staples index by 3.6%. Early into the quarter, the company announced its acquisition of three British Columbia wineries. Black Hills Estate Winery, one of the acquisitions, produces award-winning and ultra-prestigious wines and ranks as one of Canada's finest producers. These deals are set to close by the end of October. This acquisition will help Andrew Peller to further position itself as a top producer and retailer of Canadian wines, thereby allowing for a stronger, expanding market share. Premium wines demand a higher profit margin, so the company's expansion into this direction will result in higher profitability moving forward. Lassonde was the bottom performer, falling 0.9% over FQ2 2018, underperforming the consumer staples index by 7.0%.

## ENERGY

### *Crude Oil*

The S&P/TSX Energy Total Return Index rose 6.6% over FQ2 2018, compared with the CPMT energy holdings falling 0.5%. This striking difference can mostly be explained by more favourable market sentiment towards senior and integrateds relative to E&P names. WTI prices displayed relatively low volatility over the quarter compared to the previous quarter. Concurrently, this low volatility took place alongside an increase in the commodity price over FQ2 2018. Prices for the WTI commodity benchmark ranged from a low of USD $44.23 to a high of USD $52.22, closing at USD $51.67 and gaining 12.2% over the quarter.

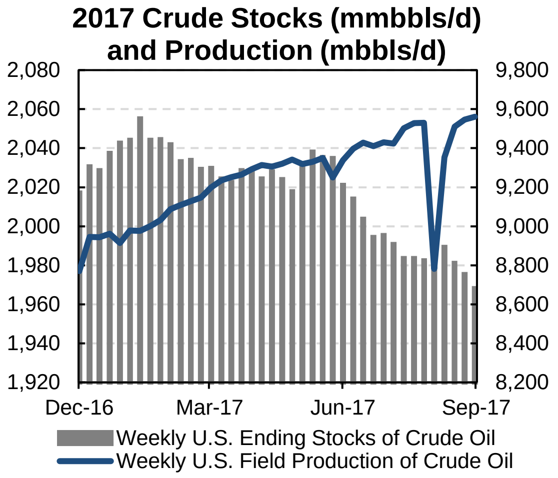
Strong oil prices in conjunction with market sentiment during the quarter were the primary drivers behind the returns exhibited by the CPMT's energy holdings relative to the index. The biggest movers of the index consisted of more senior and integrated players such as Suncor (TSX: SU), CNRL (TSX: CNQ), Cenovus (TSX: CVE), Encana (TSX: ECA) and Enbridge (TSX: ENB).


**CPMT Holdings FQ2 2018 Performance**

Source: Bloomberg

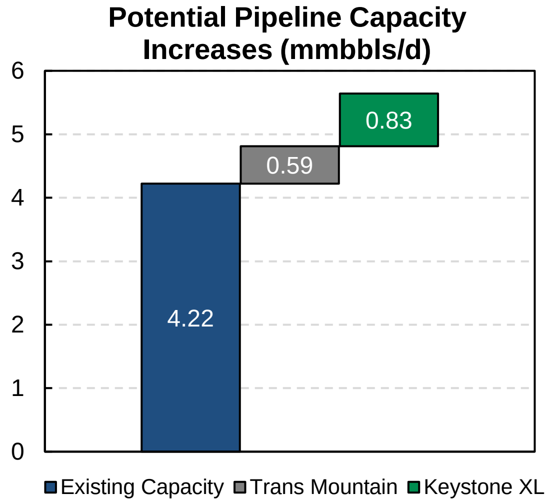
Comparatively, the smaller E&P names did not move quite as much relative to the big players given the overall positive commodity price effects on both groups. Perhaps the main factor influencing these companies' performances may be the overall market favor towards the larger-cap names. This sentiment is shown in the multiple expansion seen throughout the larger-cap players over the quarter, such as those listed above. A potential cause of this might be the reliability and stability of the larger balance sheets these companies possess, although no one specific causation can be determined. The largest beneficiaries of returns were those who had extreme multiple compression to begin the quarter, like Cenovus, whose share price returned 30.9% over the quarter. The CPMT benefited from the share price appreciation of Enbridge, Suncor, and Whitecap Resources (TSX: WCP). Unfortunately, the previously stated gains were offset by heavy losses in Raging River Exploration (TSX: RRX) and the Fund's more gas-weighted holdings such as Seven Generations Energy (TSX: VII) and Advantage Oil & Gas (TSX: AAV). The gas-weighted holdings will be further addressed in the natural gas section.

Appreciation in crude prices over the quarter from USD $46.04 to USD $51.67 can be attributed to many factors, but a few significant events in the energy sector provided the most obvious impacts. These events include OPEC's continued compliance with production cuts over the quarter and its forecast of an increase in future global demand, temporary shocks to U.S. eastern and gulf coast refinery capacity caused by Hurricanes Irma and Harvey, and decreases in U.S. crude stocks in conjunction with increased production over the period. More specifically, crude stocks fell from 1,174 mmbbls to 1,146 mmbbls (inclusive of the Strategic Petroleum Reserve), whereas production rose from 9,397 mbbls/d to 9,547 mbbls/d, representing a decrease of 1.6% and an increase of 2.4% respectively over FQ2 2018. The historical data for YTD 2017 shows that crude reserves have been falling despite production increases. This data may provide some support in speculation that overall demand is growing steadily.



Source: Energy Information Administration

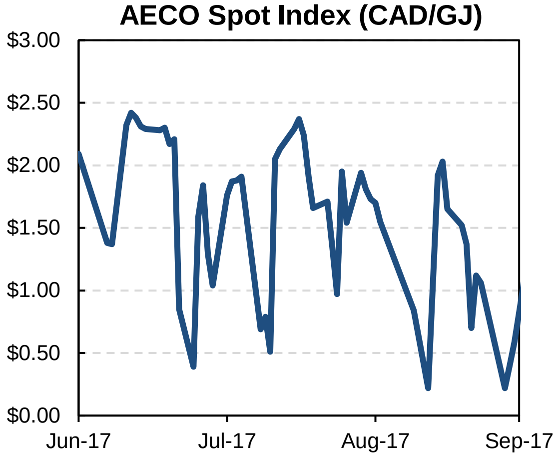
Looking forward to the upcoming quarter, the CPMT remains bullish on oil price recovery given the many pipeline projects that are currently in the process of approval. Although, given the geopolitical climate, the potential for these projects to come to fruition is far from certain. That being said, with all of the projects awaiting approval, we believe there is still potential upside for export capacity from Alberta upstream markets. The current projects include Kinder Morgan's Trans Mountain Pipeline with the potential to increase removal capacity by ~590,000 bbls/d, in addition to extending delivery to the west coast, and Trans Canada's Keystone XL which will initially increase cross-border capacity to the U.S. by ~700,000 bbls/d. In the event of these projects obtaining approval, Canadian oil producers would see an increase of ~1.4 mmbbls/d in removal capacity from Alberta, a 33.6% increase over current capacity. This increase would help diminish the WCS-WTI commodity spread, provide bottom line expansion for Canadian oil producers, and act as a catalyst for Canadian energy sector growth.



Source: Alberta Energy Regulator

### *Natural Gas*

Natural gas commodity prices did not see any material change throughout the quarter, with Henry Hub prices increasing by 1.9% over the period, closing at USD $3.01/mmbtu. In addition, AECO spot prices showed lots of volatility throughout the quarter ranging from a high of $2.42/GJ to a low of $0.22/GJ. The unpredictable price environment over FQ2 exposed natural gas producers to extreme price risk throughout the quarter. This natural gas commodity price environment has been a key determinant in the performance of the CPMT's gas heavy holding, AAV, which fell 12.1% over the quarter. Due to AAV being over 90% gas-weighted, this is no surprise that it has been sensitive to the markets impact on natural gas prices.



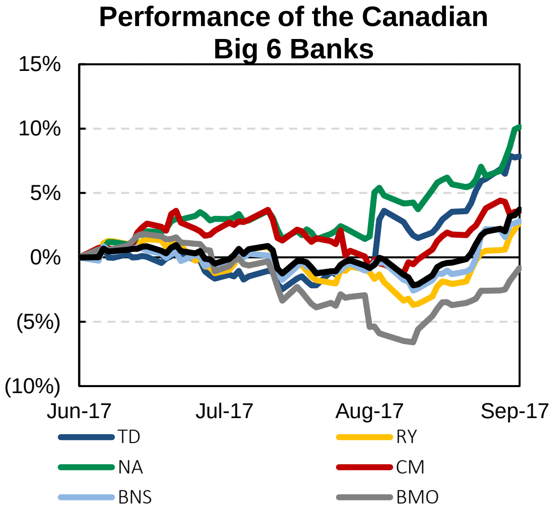
Source: Bloomberg

The Fund's worst performing energy holding over the quarter was Seven Generations Energy which slid 11.1%. This poor performance over FQ2 2018 can be attributed to an extremely unfavorable Q2 earnings release from the company, due to missed production guidance. Unfortunately, although the company did not experience significant fundamental changes, the market reacted starkly to the news, which resulted in the stock price dropping 24.1% in five trading days. The CPMT believes that although the company underperformed in the most recent quarter, Seven Generation's unique high condensate yield and support the Fund's original investment thesis. Given the importance of deliverability, the CPMT believes that management will likely be providing conservative estimates going forward in response to missing previous guidance and the subsequent multiple compression that followed. The management team's ability to meet production guidance going forward will be a key driver of how the capital markets perceive Seven Generations.

Looking forward, the CPMT believes Canadian natural gas is in a difficult place with the increase in natural gas production in the northeastern United States with access to Canadian markets, which is likely to displace Canadian molecules. This additional U.S. export capacity appears through pipeline projects such as South to North (SoNo), NEXUS, and Rover Gas Transmission aimed at carrying Marcellus shale gas to hubs connected with Ontario markets. Due to the economic environment and the future developments for natural gas transportation, the CPMT believes that future growth in the natural gas sector will be more challenged than that of crude oil.

## FINANCIALS

The S&P/TSX Financials Total Return Index gained 4.5% over FQ2 2018**.** This was driven by two interest rate hikes and relatively strong Canadian economic data.



Source: Bloomberg

The Bank of Canada (BoC) elected to raise the overnight rate twice over the last quarter. On July 12th, the bank raised the overnight rate from 0.50% to 0.75%. Prior to the hike, the Canadian dollar was strengthening, partially as a result of BoC Governor Stephen Poloz's hawkish tone. As such, the first hike came as no surprise. However, the BoC surprised the markets on September 6th when it raised rates another 25 bps to 1.00%. The financial sector rallied following the interest rate hike and was supported by strong economic data and the continuation of stability in oil prices. The two rate hikes over the quarter effectively reversed previous expansionary monetary policy and are the first rate hikes from the BoC in seven years. Rising short-term rates will relieve some pressure on interest margins for the Canadian banks.

Consumers will certainly feel this as the big six banks raised their prime rates twice by 25 bps over the quarter to end at 3.2%. The hikes also slowed growth in housing prices indirectly and allowed them to rise at a manageable pace for the first time in six years. Housing sales in Toronto fell during the last month of the quarter and average prices were down ~16% from their peak earlier this year in April. According to TD Bank, Ottawa is also considering tightening the requirements to qualify for mortgage loans which could depress housing demands by ~10%.

The Canadian economy added 10,900 jobs in July (vs 12,400 estimate), 22,200 jobs in August (vs 17,000 estimate) and 10,000 jobs in September (vs 14,500 estimate). Following the September jobs data, this now means that the Canadian labour market posted a 10th straight month of net job gains, which matches the economy's longest monthly streak since the 2008 financial crisis. During the quarter, the GDP report for Q2 was released and the Canadian economy exceeded all market expectations. Canada's GDP rose at an annualized 4.5% with markets pricing in a 3.7% increase. Canada's GDP recorded its best four consecutive quarters in over a decade, and re-established itself as the leader of the G7 nations.

The rise in rates and strong economic data helped the Canadian dollar strengthen ~4.1% against the U.S. dollar with the USD/CAD rate settling in at ~1.25.

In mid-August, CIBC (TSX: CM) terminated its relationship with Loblaws (TSX: L) and PC Financial. Over two million PC financial customers will be moved and integrated into CIBC's new online banking brand, Simplii. This move is seen as a response from CIBC to the continuing trend favoring digital banking, with expected completion by November 1st. At the time of the announcement, Tangerine, owned by the Bank of Nova Scotia (TSX: BNS) and PC Financial were Canada's largest online banks. With the re-branding of PC Financial, CIBC is looking to focus on being more competitive in this space in order to compete against Tangerine, which is Canada's 7th biggest deposit taker, and 6th biggest home loan provider.

During the Fed's September meeting, the U.S. Federal Reserve announced that it will begin to roll off its USD $4.5T balance sheet starting in October. This signals the first step in ending the U.S.'s quantitative easing and economic stimulus. It is focusing on unwinding the balance sheet with minimal impact on the economy by allowing $10B to roll-off initially, and increase that amount by $10B increments, until it reaches $50B starting October 2018.

With the overall global trend of rising interest rates and strong GDP, the financial sector should continue its strong performance to end the year. The CPMT will closely monitor the interest rate environment in Canada and the U.S., as well as the Fed's plan to unwind its balance sheet.

## HEALTHCARE

The S&P/TSX Total Healthcare Index fell 10.3% over FQ2 2018.

On the macroeconomic front, the effects of the strategic partnership between the Government of Alberta, BioAlberta, and Innovative Medicines Canada (touched on in FQ1 2018) have yet to be seen. This partnership was formed to identify opportunities to attract investment, promote research, and enhance the patient experience in the province by focusing on improving access to medicine and services. Although no material effects have presented themselves yet, it is anticipated that additional investment in Alberta's health sector will cut down wait times and decrease the need for patients to seek alternative medical care abroad. This investment also provides an opportunity for healthcare companies in Canada, including Prometic Life Sciences Inc. (TSX: PLI), to further expand into the Canadian market.

During FQ2, the FDA granted Prometic a "Rare Pediatric Disease Designation" to Ryplazimä, a plasminogen replacement therapy, for the treatment of patients with congenital plasminogen deficiency. The designation qualifies the company to receive a Priority

Review Voucher and if Ryplazimä is approved, it could be further reviewed or sold to a third party. The result of this is an incentive for PLI to continue developing therapies addressing unmet medical needs for children with rare diseases. It is not yet clear if this will have a material effect in PLI's growth going forward.

South of the border, the future of the U.S. healthcare system remains unclear as the process of repealing and replacing the Affordable Care Act (ACA) continues. The Senate held a vote near the end of FQ2 for the Republican backed American Healthcare Act of 2017 (AHCA) to repeal and replace the ACA – the vote was unsuccessful. As a result, the Republican Party has pushed the issue into 2018 or even later. According to the Congressional Budget Office (CBO), if the bill was successfully passed, the AHCA would have cut USD $834B from funding, causing 14mm Americans to be uninsured over the next decade. U.S. healthcare reform does not directly impact the CPMT's lone healthcare holding, Knight Therapeutics (TSX: GUD) as the company does not have material exposure to the U.S. market. The length of this process is a negative for American insurers as it does not allow them to realize the benefits through tax repeals included in the AHCA. More information surrounding this matter is necessary before potential benefits can be reaped.

Over the quarter, Knight Therapeutics fell by 15.9%. The company experienced significant volatility during the end of the period following the announcement of its Q2 results, which were below street estimates. By the end of the quarter, GUD had received dividends from Medison Biotech totalling $9.4mm and reported that its strategic lending portfolio had generated an annual ROIC of 15%. Knight's cash balance sits at ~$761mm. For products, Knight has three pending approvals and more than 20 other products in various stages of development. During Q2, the company invested in nine life science funds to gain preferred access to new drug rights. As a result, treatments for issues around diabetes and HPV-associated cancer have been added to Knight's pipeline.

Valeant Pharmaceuticals (TSX: VRX), a major player in the healthcare sector, fell ~20% over the quarter. Earlier this year, Valeant marginally chipped away at its debt through the sale of assets, while also bringing in more cash. In FQ2, the company stated that it is still confident it will reach the goal of paying down USD $5B of debt by 2018. On the flipside, Valeant continues to see declining revenue, which is driven by the shrinking sales of its diversified products in the U.S. and the loss of patents. Despite this, VRX believes it will be able to pay off its massive debt balance of USD ~$28.5B which begins maturing in 2018.

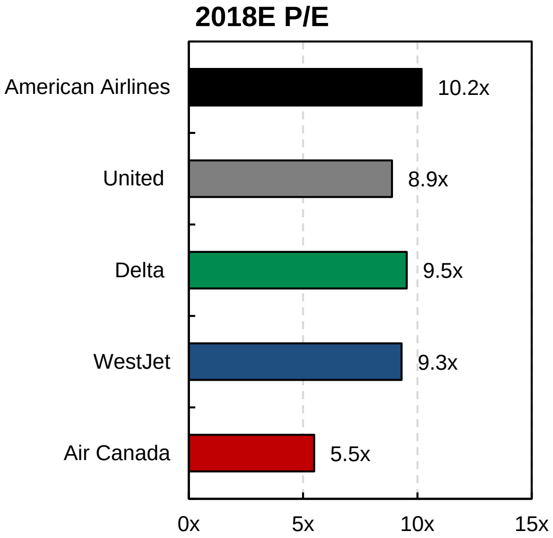
## INDUSTRIALS

The S&P/TSX Industrials Total Return Index gained 2.7% over FQ2 2018.

Canadian National Railway (TSX: CNR) and Canadian Pacific Railway (TSX: CP), the two largest names in the sector, fell 1.2% and gained 0.7% respectively. Since CNR and CP collectively account for roughly 50% of the sector, the performance of these two names largely influences its overall performance.

Over the quarter, both CNR and CP released their respective Q2 2017 financials with both companies reporting a significant increase in revenue and earnings compared to Q2 2016. CNR reported a 17% increase in revenue and a 20% increase in earnings, with CP reporting a 13% increase in revenue and a 46% increase in earnings. This substantial increase to both revenue and earnings can be attributed to increased commodity shipments, such as grain and fertilizer in addition to metals and minerals.

The highest performing name in the sector was Air Canada (TSX: AC), which increased ~51% over the quarter. This substantial increase in the company's stock price can be attributed to AC significantly exceeding analyst estimates, with Q2 2017 adjusted EPS reaching $0.78 compared to analyst expectations ranging from $0.20 to $0.56. Over the quarter AC also reported a 13.6% increase in traffic growth compared to Q2 2016 which was largely due to increased revenue from Atlantic and U.S. trans-border routes. Despite the significant in AC's stock price, the company is currently trading at a discount relative to its peers, indicating that there could potentially be even more upside in the name.



Source: Bloomberg

Within the CPMT's industrials holdings, the highest performing name was Toromont Industries Ltd (TSX: TIH). TIH was also the second highest performing name in the sector with a total return of 20.3% over the quarter. The increase in TIH's stock price occurred when TIH announced the acquisition of privately-owned Hewitt Equipment Ltd. This acquisition was viewed as extremely favourable by the market due to the potential for cost synergies based on Hewitt's 6.6% EBIT margin compared to TIH Equipment Group's 12.4% EBIT margin. Furthermore, the acquisition gives TIH a strategic entry into Quebec which will be experiencing increased infrastructure spending thanks to the Quebec Infrastructure Plan.

## INFORMATION TECHNOLOGY

The S&P/TSX Information Technology Total Return Index gained 3.2% over FQ2 2018. In comparison, the CPMT holdings, Constellation Software Inc. (TSX: CSU), CGI (TSX: GIB.A), and OpenText (TSX: OTEX) collectively fell 0.8%.

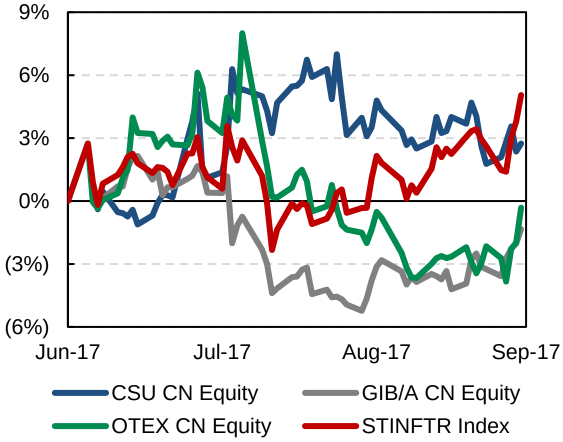
Two names at the forefront of our FQ1 2018 IT update, BlackBerry (TSX: BB) and Shopify (TSX: SHOP), continue to be active in the space. BlackBerry's stock trended down for the majority of the quarter until it reported its FQ2 earnings on September 28th; the stock jumped ~13.4% the following day. BB's strong performance was aided by a solid quarter from its Unified Endpoint Management business (UEM), which manages and secures wireless devices, apps, and content. UEM is expected to be a focal point for its continued growth by 2018, as demand for enhanced security continues to expand. BlackBerry also announced a partnership with Delphi Automotive PLC (NYSE: DLPH) to bring an autonomous driving solution to car manufacturers and mobility fleet operators by 2019. BlackBerry's QNX software will be used as the operating system for the autonomous technology with it being hand-selected due to its track record of being safe and secure, as intrusion and hacking attempts are a key risk for self-driving technology.

Elsewhere in the sector, Shopify continues to make news as it attempts to build out its e-commerce platform. Shopify established a second headquarters in Waterloo, Ontario, and expects to hire between 300 and 500 new employees to facilitate the development and growth of its Shopify "Plus" platform, which was launched in 2014. Shopify "Plus" aims to capture the same benefits as its original e-commerce platform, but will focus on accommodating the world's largest retailers. The platform currently houses only ~2,500 "Plus" customers, representing a small subset of the 500,000+ businesses it services. Shopify sees the expansion of its "Plus" team as the next logical step in the growth of the underlying business, but it will have to continue to differentiate itself against the largest players' existing platforms to gain support and adoption.

Looking at the CPMT's holdings, Constellation Software was the top performer, returning 0.4% over the period. We conducted a re-evaluation of CSU, taking an in-depth look at future growth prospects, and the sustainability of its growth-by-acquisition strategy. A more detailed analysis and conclusion of our outlook on Constellation Software can be found later in this report.

OpenText remained relatively flat over the quarter, in which the company announced it finalized the move to acquire Guidance Software (NASDAQ: GUID). Guidance Software develops solutions to aid in the collection and management of forensic evidence for preparation and use in legal cases. The total enterprise value of the deal was reported to be USD ~$222mm, funded through cash on hand and existing short-term debt facilities. The acquisition represents the fifth, and likely last acquisition by the company for the year. OTEX expects that Guidance Software's expertise in handling and sorting large amounts of data will help with its "Discovery" suite, which allows organizations to make quick decisions using big data..

**CPMT IT Performance vs. Sector Performance**



Source: Bloomberg

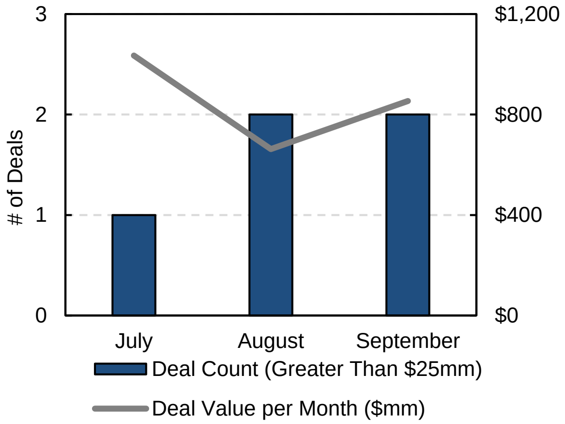
## MATERIALS

The S&P/TSX Materials Total Return Index was up 3.3% over FQ2 2018.

Gold increased over the quarter, returning 3.1%. There was a trifecta of factors that led to a peak gold price of ~USD $1,349/oz. during the quarter. The first was ongoing geopolitical tensions between the U.S. and North Korea. These tensions precipitated uncertainty leading wary investors to flock to gold as a safe haven asset. The second was the fear of the potential damage that would be caused by Hurricanes Irma and Harvey, slowing the economies of both Florida and Texas. Finally, in late August, the U.S. dollar hit its lowest point since January of 2015 due to the release of lack-luster economic data. At the time, the data decreased the likelihood of an interest rate hike in December to ~20%. Gold has since fallen from this peak, in part due to the increased likelihood of a U.S. rate hike in December. The market is pricing in a ~75% likelihood, compared to the ~20% just one month ago. Rising interest rates increase the opportunity cost of holding gold, as the bullion is non-yielding. Higher interest rates also increase the strength of the U.S. dollar, which is inversely correlated with the precious metal.

M&A activity in the Canadian basic materials space slowed in FQ2 2018, with only five deals amounting to ~$2.5B in value. Although deal volume was low, we did see one very large transaction in July, privately-held Washington Companies purchased Dominion Diamond Corp (NYSE: DDC) for ~$1B.

**FQ2 2018 Basic Materials M&A**



Source: Bloomberg

Dominion Diamond Corp is the world's third largest diamond producer. The acquiring company, Washington Companies, owns numerous subsidiaries in the rail, machinery, and mining industries. Although this acquisition will mark the entry of Washington Companies into the diamond space, the company does specialize in mining and understands the sector well. The strategic rationale is Washington Companies believes Dominion Diamond Corp will fit well with its long-term growth strategy. Having the potential for future development at the Ekati mine is a key piece of this deal given the tremendous opportunity for growth it represents.

CPMT holding CCL Industries (TSX: CCL.B) had a poor quarter, losing 7.8% over FQ2 2018. Although CCL's Q2 results were generally strong, with the company's sales increasing ~28% YoY, its stock took a dive upon earnings release due to missing EPS expectations of $0.68 by ~8%. Although CCL did miss expectations, the CPMT remains convicted on the name. We believe that the company will successfully integrate both the Innovia and Checkpoint segments. This integration is fundamental for both the long-term growth and the success of the company. Also, the CPMT still believes in the ability of CCL to continue to grow its dividend, which has increased for the past 14 years and is slated to increase for a 15th straight year based on the 15% increase announced in February.

CPMT holding Stella-Jones Inc. (TSX: SJ) had a terrific quarter, gaining 8.8%. SJ outperformed the street's Q2 earnings expectations by 13.6% on a per share basis. This led the stock to jump ~6% following its earnings release. The reason SJ outperformed expectations is mainly due to railway tie pricing and demand recovery compared to Q1 2017. The company also delivered sales growth of ~17% YoY in the utility poles category. The increase in utility pole sales is mainly due to organic growth in the southeastern U.S. Another reason SJ outperformed expectations is that SJ delivered on some projects earlier than expected, with deliveries going out in Q2 instead of Q3. Looking ahead, management expects higher YoY sales for the second half of the year. Management also continues to focus on the growth of its residential lumber segment, where the company expects to benefit from continued demand for new construction projects in North America. With regards to the lumber industry as a whole, the market received a boost from Hurricanes Harvey and Irma, as lumber will be needed to rebuild houses and other properties as Florida and Texas rebuild.

## REAL ESTATE

The S&P/TSX REIT Total Return Index fell 1.0% over FQ2 2018.

Sales activity was up between August and September in about half of all domestic markets, led mainly by Greater Vancouver and the Greater Toronto Area (GTA). Non-seasonal adjusted activity was down 11% in September 2017 compared that of 2016. Sales were down YoY in close to three quarters of local markets, led by the GTA and nearby housing markets. Andrew Peck, President of the Canadian Real Estate Association (CREA) expressed his belief that national sales appear to be stabilizing, while also stating that, "while encouraging, it's too early to tell if this is the beginning of a longer-term trend." The national result continues to be influenced heavily by trends in Toronto and Vancouver, but housing market conditions vary widely across Canada. The number of newly listed homes rebounded by almost ~5% in September following three consecutive monthly declines. An increase in the supply in the GTA was the driving factor in the national result.

The 16 housing measures introduced by the province of Ontario in April seemed to have their intended effect of cooling the market in Toronto, at least for the moment. The Teranet–National Bank National Composite House Price Index reading for September showed that prices had decreased 0.8% month-over-month. The retreat was due to a 2.7% drop of the index for the Toronto market, which is the country's largest.

According to the results of a survey released by Manulife earlier this year, ~24% of homeowners in Canada said they did not have enough funds to cover expenses on at least one occasion during the last year. Those surveyed would struggle to meet future interest obligations, resulting from marginal rising interest rates. These discoveries shed light on the population of debt-burdened Canadians that are stretched beyond their means likely due to poor spending habits, and the long standing low interest rate environment in Canada. In early September the Bank of

Canada raised its target policy rate 25 bps, to 1.00%. This rate-hike sparked all big six Canadian banks to increase their prime lending rates the full 25 bps to 3.2%.

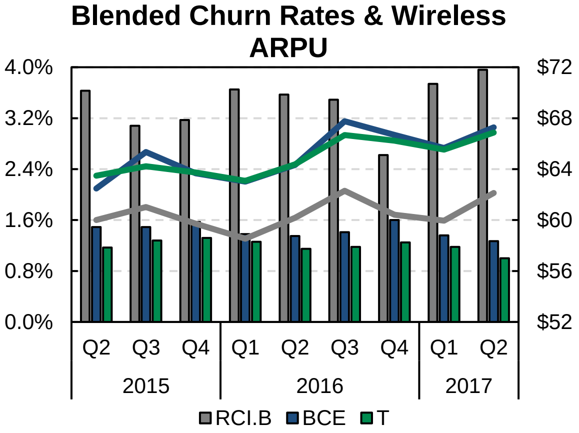
These rate hikes could place certain REITs under pressure. Due to the competitive nature of the market as interest rates begin to rise, REITs on a risk-adjusted basis, seem less desirable to hold. That said, historically, REITs have performed well in a rising interest rate environment. The reason being that REITs thrive under the same economic conditions that prompt the initial rate hike. The key factors driving REIT performance is the demand for residential, industrial, and office space. Based on the positive sector outlook and continued expansion in the residential and industrial segments, the CPMT looks to do due diligence on the best names in the space over the upcoming quarter.

## TELECOMMUNICATIONS SERVICES

The S&P/TSX Telecommunications Services Total Return Index gained 2.3% over FQ2 2018.

For FQ2 2017, the lone CPMT holding, Telus Corporation (TSX: T) underperformed the index, gaining only 1.4%. The telecommunications services space continues to see intensified competition, with the three major players, Telus, Bell Canada Enterprises (TSX: BCE), and Rogers Communications Inc. (TSX: RCI.B) continuing to compete in bringing the fastest, and most accessible network to its customers.

Over the period, Telus received top honors from PCMag, being named the fastest wireless network in the country, and it continues to push forward in revolutionizing its offerings. Telus was the first Canadian company to successfully complete tests of Licensed-Assisted Access (LAA) on indoor and outdoor live networks in Canada; the tests delivered extremely fast download speeds, at 970 Mbps and 966 Mbps for indoors and outdoors, respectively, providing further adaptation of the technology and its implementation into the network. The LAA allows the devices that operate within the licensed spectrum to operate without interference or crowding within the radio spectrum. This represents a significant advantage for Telus, being the first carrier to introduce LAA; the network will provide the greatest differentiation in high-traffic areas, including office buildings, arenas, and outdoor sites in both its speed and reliability. The company is expected to realize the benefits through the remainder of 2017, and continue to make improvements in 2018. Outside of its technological advancements, Telus continues to see growth across its business segments. Consolidated revenue grew ~3.9% YoY in Q2, driven by higher wireless and wireline data services, an increase in ARPU due to larger data plans, and continued operation execution illustrated through its postpaid churn rate and record low blended churn rate of 0.8% and 1%, respectively.

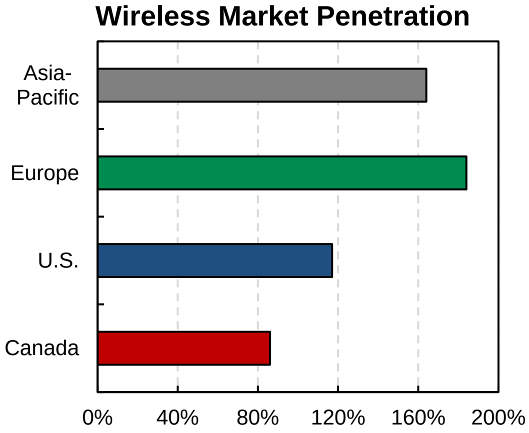

**Blended Churn Rates & Wireless ARPU**

Source: Bloomberg, Capital IQ

Looking at the overall telecommunications space, there appears to be further room for its constituents to grow, driven by a cultural shift of having more than one device that mirrors the U.S. At the CIBC Institutional Investor Conference in September, Rogers Communications' CEO, Joe Natale, was bullish in his statements regarding the wireless industry in Canada, and the impending opportunities for market penetration growth. Canada's wireless penetration (subscriptions over population) is currently ~86%, compared to the U.S., at 117%. Natale believes that Canadian penetration will expand to similar levels as the U.S. The growing market is being attributed to cultural movements, such as users having two active devices in their pockets becoming more prominent in Canada, and the longer life of smartphones creating a deeper secondary market. Currently, RCI.B is experiencing between 4% and 5% market penetration growth in Canada, and expects similar levels to continue as the overall market continues to expand.

## UTILITIES

The S&P/TSX Utilities Total Return Index fell 1.1% over FQ2 2018.



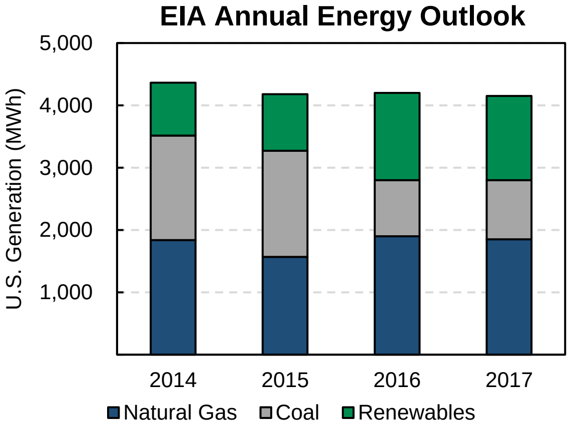
Source: Bloomberg, Telus Company Filings

Utilities, which has traditionally been a relatively quiet sector, continues to see an increase in activity driven by growth in renewable energy and the changing landscape of the Canadian space, which has cultivated an active M&A market. Among power and utilities M&A activity, Canadian players continue to seek opportunities to grow and diversify; four of the ten largest deals in Q2 involved Canadian companies, with a strong renewable focus continuing to be a central theme.

Partially responsible for the slight fall in the Index were the rate hikes conducted by the U.S. and Canadian central banks during the period. Following the BoC's announcement that it raised the targeted interest rate to 100 bps, the Index fell ~1.3%, which is consistent with expectations, as the space is often regarded as a yield alternative.

Also on the macroeconomic front, the U.S. Energy Information Administration (EIA) released its *International Energy Outlook 2017*; the report projected continued growth in renewable energy consumption, expanding 2.3% per annum through 2040, including ~5% growth in non-hydropower renewables over the period. The lone CPMT utilities holding, Algonquin Power & Utilities (TSX: AQN) will seek to capitalize on this market trend, as it shifts towards a 66% electricity mix in its Liberty Utilities subsidiary, whereas natural gas and water distribution will fall to 23% and 12% respectively. The uptick in renewables projection has also been a consistent trend in the EIA's annual outlook, which forecasts the energy mix in the U.S., and provides AQN the opportunity to further strengthen its contracted cash flow base.

Moreover, there have been a series of major U.S. and international companies taking initiatives to follow the renewable energy trend and diversify their business lines. General Motors (TSX: GMM.U) announced that it is working towards an all-electric future for its cars, following in the steps of other car manufacturers, including Volvo, Aston Martin, and Jaguar Land Rover. Additionally, Royal Dutch Shell (AMS: RDSA) is also taking further steps to enter the space, acquiring an electric car charging company, which will improve the quantity and accessibility of charging ports. Although there is a significant shift towards electric cars, the impact on overall energy consumption is negligible as electric cars will only comprise 4% of total electricity



Source: Energy Information Administration consumption in the year 2040, as estimated by the EIA.

Regarding the CPMT, AQN marginally underperformed the Index by ~0.4% over FQ2 2018. During the period, AQN announced its second quarter financial results, which were strong for the company, primarily driven by accretion from its Empire Electric acquisition in January, the addition of new generation stations, and an increase in U.S. wind generation. AQN also made two acquisitions over FQ2 2018; the company acquired the St. Lawrence Gas Company, a distribution business, for USD $70mm, and two water distribution systems in California for USD $11.5mm. These two transactions bolster AQN's already strong, stable cash flow base, with the gas distribution business and water utility service providing further support for its 10% dividend growth target going forward.

Outside of the CPMT's holdings, there was significant activity in the space as well. TransAlta Corp. (TSX: TA) announced that it received formal notice from the Balancing Pool for the termination of its PPAs for Sundance B and C. We view the termination of the PPAs positively as it expedites the collection of cash from the units, and exerts slight upwards pressure on power pricing and volatility, improving returns on the company's existing assets. An additional recurring theme in the industry has been the movement towards offshore wind projects; Northland Power (TSX: NPI) was the latest entrant after it successfully completed its Nordsee One wind project in the North Sea. These projects provide an attractive opportunity for companies to diversify their asset base, and build their contracted cash flows making offshore wind projects a developing theme in the acquisition market.

Calgary Portfolio Management Trust

# Aritzia Inc

**Consumer, Cyclical**
**TSX: ATZ**
**Sell Recommendation**

**October 20, 2017**

Jennifer LaBine, Fund Manager
A.J. Bangloy, Research Associate
Mahdis Sadeghi, Research Associate

### Return on Investment

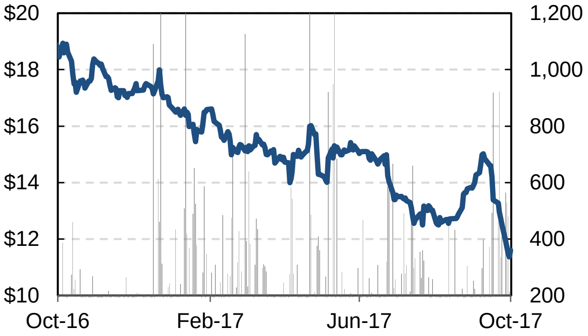
| | |
|---|---|
| Current Share Price | $11.60 |
| Target Price | $13.00 |
| Dividend Yield | 0% |
| Holding Period Return | 12% |
| Conviction Rating | N/A |

### Market Profile

| | |
|---|---|
| 52-Week Range | $10.94 - $18.75 |
| Shares Outstanding (mm) | 105 |
| Average 30-Day Vol (000s) | 361 |
| Market Capitalization (mm) | $1,362 |
| Net Debt (mm) | $1,941 |
| Enterprise Value (mm) | $3,303 |
| Beta (Estimate) [1] | 1.13 |

| Metrics | 2018E | 2019E | 2020E |
|---|---|---|---|
| Revenue (mm) | $821 | $985 | $1,152 |
| EBITDA (mm) | $123 | $151 | $181 |
| EBITDA Margin | 15.0% | 15.3% | 15.7% |
| EPS (Basic) | $0.47 | $0.60 | $0.74 |
| EV/EBITDA | 15.8x | 12.8x | 10.7x |
| P/E | 24.6x | 19.3x | 15.7x |

### Historical Trading Performance



Source: CPMT Estimates, Bloomberg

## Business Description

Aritzia (TSX: ATZ) is a designer and retailer of women's apparel, operating in the space "between quick fashion and affordable luxury." The Company currently has ten in-house brands, which account for more than 90% of its annual net revenue and are available exclusively in Aritzia stores and online through the Company's e-commerce platform. Currently, ATZ operates through 63 stores in Canada and 21 in the U.S., each averaging approximately 5,000 square feet and located primarily in shopping malls. The Company has been focusing on growth, primarily through the addition of new stores and the expansion and repositioning of existing stores. To allow for this, ATZ plans to either open two new stores and expand, or reposition three to four new stores through the remainder of fiscal year 2018. The CPMT's position in Aritzia has fallen ~20% since initiating in January of this year, thus prompting a re-evaluation of the Fund's position.

## Industry Overview

The apparel industry, especially that for women's fashion, is increasingly competitive with moderate barriers to entry. This industry is highly cyclical; thus it is affected significantly by economic drivers such as disposable income and debt encumberment. Keys to success in this industry include establishment of brand names, product offerings currently viewed as up-to-date and fashionable, and an attractive presentation of such products, both on and offline. Competition can be found both internally, against similar stores on the basis of brand imaging, quality and pricing, and externally, against department stores and discount retailers who appeal to the other needs of customers.

A fundamental shift is occurring within this industry, and is rapidly changing the basis on which companies compete. Greater accessibility allows customers to view product offerings and pricing across multiple retailers, and has given consumers incredible power to influence the success or failure of a retailer. Success through this avenue is likely a critical factor in the long-term success and growth of a business.

## Investment Thesis

The CPMT's original thesis was based upon four factors: 1) market positioning, 2) operational flexibility, 3) multiple growth platforms, and 4) real estate. ATZ's positioning as a retailer of "affordable luxury," as well as its operational flexibility (in terms of responding to changing fashion trends) remains intact. ATZ has the benefit of exclusive branding and in-house design, which allows the company to control brand image and product quality. Although ATZ appears to have significant room to run in the U.S., given its current low levels of penetration in this market, the Company's growth is expected to be driven primarily through increased physical locations and expansions/relocations of existing locations. The CPMT is pessimistic on the Company's ability to deliver strong growth through this strategy, given declining mall traffic and increased consumer expectations as a result of the "Amazon Effect." ATZ cites increased investment in its existing e-commerce platform, but has failed to demonstrate the tangible impact of such investments leading to the Fund's lack of confidence in ATZ's ability to grow through this channel as well. Finally, the Company has invested significantly in premium retail locations which continue to squeeze margins and tie up cash flows with lease obligation repayments. These mall locations also runs the risk of significant depreciation as mall vacancy increases and certain locations no longer provide strong comparable sales.

[1] Average of five-year monthly unlevered betas of ATZ's comparable companies, relevered to reflect ATZ's capital structure

### Exhibit I. Gordon Growth Valuation

| | |
|---|---|
| UFCF (mm) | $653,527 |
| Terminal Year UFCF (mm) | $227,027 |
| WACC % | *11.0%* |
| Terminal Growth Rate % | *2.0%* |
| PV of Terminal Value (000s): | $937,120 |
| EV (000s) | $1,590,647 |
| Less: Net Debt (000s) | $77,676 |
| Equity Value (000s) | $1,512,971 |
| Fully Diluted Shares Outstanding (000s) | 109,594 |
| **Implied Price** | **$13.81** |

### Exhibit II. Relative Valuation

| | |
|---|---|
| 2018 EPS Estimate | $0.47 |
| 2018E P/E Multiple | 19.6x |
| **Implied Share Price** | **$9.23** |
| 2018 EBITDA Estimate (000s) | $122,876 |
| 2018E EV/EBITDA Multiple | 12.2x |
| Implied EV (000s) | $1,504,429 |
| Less: Net Debt (000s) | $77,676 |
| Implied Equity Value (000s) | $1,426,753 |
| Fully Diluted Shares Outstanding | 109,594 |
| **Implied Share Price** | **$13.02** |
| **Relative Valuation Share Price** | **$11.13** |

### Exhibit III. Valuation Sensisitivities

**Blended Target Price**

Long Term Growth Rate %

| | | 1.0% | 1.5% | **2.0%** | 2.5% | 3.0% |
|---|---|---|---|---|---|---|
| WACC | 10.0% | $13.13 | $13.51 | $13.93 | $14.41 | $14.96 |
| | 10.5% | $12.79 | $13.13 | $13.51 | $13.93 | $14.41 |
| | **11.0%** | $12.49 | $12.79 | **$13.13** | $13.51 | $13.93 |
| | 11.5% | $12.22 | $12.49 | $12.79 | $13.13 | $13.51 |
| | 12.0% | $11.97 | $12.22 | $12.49 | $12.79 | $13.13 |

EV / EBITDA Multiple

| | | 7.0x | 9.5x | **12.2x** | 14.5x | 17.0x |
|---|---|---|---|---|---|---|
| WACC | 10.0% | $13.20 | $13.55 | $13.93 | $14.25 | $14.60 |
| | 10.5% | $12.77 | $13.12 | $13.50 | $13.82 | $14.17 |
| | **11.0%** | $12.40 | $12.75 | **$13.13** | $13.45 | $13.80 |
| | 11.5% | $12.06 | $12.41 | $12.79 | $13.11 | $13.46 |
| | 12.0% | $11.76 | $12.11 | $12.49 | $12.81 | $13.16 |

P / E Multiple

| | | 10.0x | 15.0x | **19.6x** | 25.0x | 30.0x |
|---|---|---|---|---|---|---|
| WACC | 10.0% | $13.37 | $13.66 | $13.93 | $14.25 | $14.55 |
| | 10.5% | $12.94 | $13.24 | $13.51 | $13.83 | $14.12 |
| | **11.0%** | $12.57 | $12.86 | **$13.13** | $13.45 | $13.75 |
| | 11.5% | $12.23 | $12.52 | $12.79 | $13.11 | $13.41 |
| | 12.0% | $11.93 | $12.22 | $12.49 | $12.81 | $13.10 |

## Valuation

We arrived at a target price of ~$13 per share using a blended valuation consisting of a discounted cash flow (DCF) analysis and a comparables analysis. For the DCF, top line revenue was the main driver, initially growing at 23% YoY and decreasing 3% each year (consistent with historical trends) until reaching 11% YoY in the final five years of the forecast period. COGS margin is declined throughout the forecast period to represent economies of scale. A weighted average cost of capital (WACC) of 11% was then applied to unlevered free cash flows; this is a 3% premium over the Company's intrinsic WACC, representing the risk of limited data available on the historical performance of the Company. A terminal value was calculated using a Gordon Growth model, using a 2% long-term growth rate indicative of inflation. This yields an intrinsic share price of $13.81.

A relative valuation was performed, applying a both an EV/EBITDA and P/E multiple of 12.2x and 19.6x to forward estimates of EBITDA and EPS respectively. The multiples used reflect the median of 2018 estimates of ATZ's peers. This relative valuation implies a share price of $11.13, which represents an equally-weighted blend of the two methods. The final valuation is weighted 75% to the DCF and 25% to the relative valuation, reflecting our confidence in the intrinsic valuation. The all-in implied share price is $13.14.

## Investment Risks

The CPMT's decision to sell Aritzia is underpinned by the following risks.

***Execution of Growth Plan / Changing Retail Landscape:*** The Company's growth plan is predicated heavily upon the addition of new stores and expansion to existing stores, focusing on the severely under-penetrated U.S. market. Given recent consumer trends away from brick-and-mortar business models, this strategy poses significant risks as Aritzia's customer base increases expectations for convenience, customizability and speed of service. Although Aritzia has an e-commerce platform, the company has not done enough to demonstrate that it is actively keeping up with this trend, leaving the CPMT with a lack of confidence in ATZ's ability to withstand this fundamental shift in the retail landscape.

***Changing Economic Landscape / Demographics:*** The level of discretionary spending in the economy is critical to the financial success of ATZ. Unexpected decreases in disposible income or increasing consumer debt levels have the potential to severely impair ATZ's profitability. Furthermore, the target demographic for Aritzia is women aged 20 to 45, and with this generation expanding and predicted to constitute the majority of the workforce and consumer spending by 2025, their financial success is a key determinant of ATZ's ability to grow.

***Fashion Risk / Brand Image:*** Aritzia's business model and future growth depend heavily on the Company's ability to maintain brand image and loyalty, determined primarily by its ability to respond to rapidly changing consumer demands and fashion trends. As Aritzia attempts to grow, both through physical locations and online, the risk that the Company loses its agility and image becomes increasingly probable, and the impact far greater.

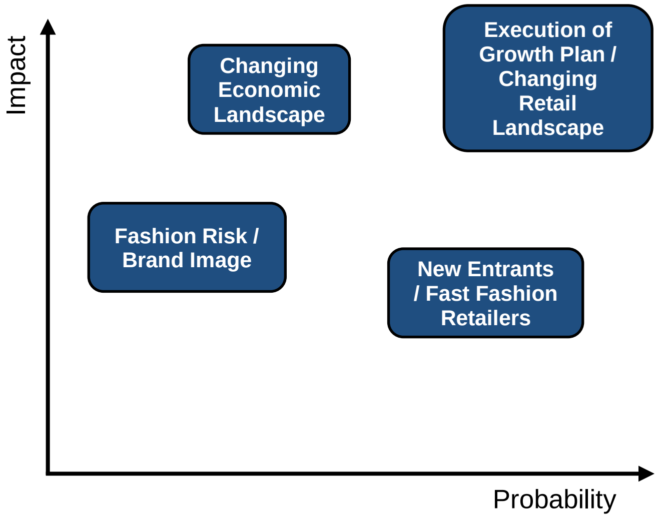
***New Entrants / Fast Fashion Retailers:*** The advent of e-commerce has removed some significant barriers to entry into the apparel industry. These retailers, and retailers typically considered as "fast fashion," will compete with ATZ on the basis of price, and will threaten to steal market share should ATZ be unable to remain competitive on this front.

Ultimately, the CPMT's decision to sell Aritzia is based on these risks and the Company's inability to deliver on its growth strategy. Further to this, we see little upside potential in value of this stock, given the Company's current growth

## Exhibit IV. Comparable Company Analysis

| Company | Ticker | Market Cap. (mm) | | 2018E P/E | 2018E EV/EBITDA |
|---|---|---|---|---|---|
| H&M | HMB | $ | 55,903 | 18.1x | 10.2x |
| Ted Baker | TED | $ | 1,837 | 19.6x | 12.2x |
| Lululemon Athletica | LULU | $ | 9,717 | 23.2x | 12.4x |
| Indetex (ZARA) | ITX | $ | 148,608 | 25.0x | 14.9x |
| Burlington Stores | BURL | $ | 7,559 | 18.9x | 9.7x |
| Mean | | $ | 44,725 | 20.9x | 11.9x |
| Median | | $ | 9,717 | 19.6x | 12.2x |
| ***Aritzia Inc.*** | ***ATZ*** | ***$*** | ***1,526*** | ***15.1x*** | ***8.4x*** |

## Exhibit V. Risk Diagram



# The Bank of Nova Scotia

**Financials**
**TSX: BNS**
**Update**

### October 20, 2017

Kristin Gorkoff, Fund Manager
Ali Saleh, Research Associate

### Return on Investment

| | |
|---|---|
| Current Share Price | $80.95 |
| Target Price | $89.00 |
| Dividend Yield | 3.66% |
| Holding Period Return | 14% |
| Conviction Rating | 3 |

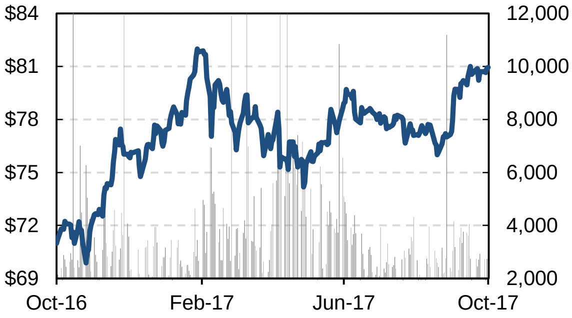
### Market Profile

| | |
|---|---|
| 52-Week Range | $69.20 - $83.85 |
| Shares Outstanding (mm) | 1,198 |
| Average 30-Day Vol (000s) | 2,863 |
| Market Capitalization (mm) | $97,001 |
| Beta (5-Year Monthly) | 0.87 |

### 2017 YTD Metrics

| | |
|---|---|
| Tier 1 Common Capital Ratio | 12.6% |
| Efficiency Ratio | 55.2% |
| Cash Operating EPS | $6.47 |
| Book Value Per Share | $44.55 |
| Price/Earnings | 12.5x |
| Price/Book Value Per Share | 1.8x |

### Historical Trading Performance



Source: CPMT Estimates, Bloomberg

### Key Bank Industry Terms

**Tier 1 Capital Ratio:** measures the bank's financial health by comparing a banking firm's core equity capital (common stock, disclosed reserves/retained earnings, preferred stock) against its total risk-weighted assets. The higher the ratio, the stronger the bank's capital position.

**Efficiency Ratio:** is defined as operating expenses divided by revenue. The higher the efficiency ratio, the more the bank is earning versus what it is spending.

## Business Description

Scotiabank (TSX: BNS) is a Canadian financial services provider with operations in North America, Latin America, the Caribbean, Central America, and Asia-Pacific. The bank provides a broad range of client services through its retail banking, wealth management, insurance, and global capital markets divisions.

## Original Investment Thesis

The CPMT’s original thesis behind purchasing BNS was based on the bank's geographically diversified operations, its strong regulatory capital position, its diversified revenue-generating capabilities, as well as its dividend growth and payout ratio. A review of Scotiabank was undertaken given that the name had reached its initial target price and due to recent developments in the Canadian banking sector as a whole over the past year. The CPMT believes that the original thesis still holds.

## Catalysts and Growth

The rising interest rate environment and the Canadian economic recovery have been two sources of growth within the banking sector as a whole over the past year. Scotiabank has benefitted from this, and will continue to moving forward, given its large Canadian operations (as shown in Exhibit III).

A PricewaterhouseCoopers LLP survey of 20 global bank CEO's conducted at the beginning of 2017 indicated that 87% of those polled believed that technology would cause a major shift in the banking industry in the coming years. Over the past year, BNS has made significant progress in implementing its digital strategy throughout its organization, something that we believe will give the firm a significant advantage over its peers. The company has said that it plans to spend $1.3B on technological development over the next three years. This is a larger investment than any other Canadian bank. In January 2017, the firm opened its "Digital Factory" in Toronto, Ontario. The office is dedicated to the development of software and technological solutions that the bank has and will continue to provide to its customers, improving quality and efficiency. The bank has also opened four additional digital factories in its other key operating markets within Mexico and South America.

We continue to view BNS's operations in South America as a positive for continued retail segment growth. These markets continue to be largely untouched by its Canadian peers, leaving BNS with the opportunity to advance and diversify beyond the Canadian and American markets generally targeted by the other banks. Although these markets pose increased risk to the bank, given political and economic uncertainty, BNS' track record for managing these risks leaves us confident in its ability to continue being successful in these markets.

## Revised Valuation

We revised Scotiabank's valuation using a 75%/25% blend of relative valuation and dividend discount model, respectively. This resulted in a target price of $89.00 and implies upside in the name of approximately 14%. For the relative valuation, we used median peer group price-to-book-value and price-to-earnings multiples. The peer group included the five other major Canadian banks. This was subsequently applied to Scotiabank's estimated 2018 book value per share and earnings-per-share, respectively. The DDM assumed a dividend growth rate of 3.5% for 5 years, consistent with the average historical growth rate, followed by a long term growth rate of 1.5%.

## Revised Investment Thesis

Scotiabank continues to be a core holding within the CPMT portfolio. We believe that an anticipated increase in net interest income margins as a result of the rising interest rate environment in Canada and the United States as well as its digital strategy will continue to provide the firm with a strong competitive advantage over its peers. The CPMT remains constructive on the name and will continue to monitor it closely moving forward.

### Exhibit I. Revised Valuation

| Ticker | Current Price | P/E | EPS (FY 2018 EST) | Book Value Per Share | Calculated P/BV | Calculated P/E |
|---|---|---|---|---|---|---|
| **BNS** | **$80.95** | **11.9x** | **$6.96** | **$44.55** | **1.8x** | **11.6x** |
| **BMO** | $98.76 | 12.1x | $8.37 | $59.65 | 1.7x | 11.8x |
| **CM** | $112.58 | 10.4x | $11.01 | $64.35 | 1.7x | 10.2x |
| **NA** | $61.60 | 10.9x | $5.71 | $30.84 | 2.0x | 10.8x |
| **RY** | $101.23 | 13.0x | $7.93 | $44.97 | 2.3x | 12.8x |
| **TD** | $71.67 | 12.5x | $5.85 | $36.31 | 2.0x | 12.3x |
| **Median** | | | | | **2.0x** | **11.8x** |
| **Average** | | | | | **1.9x** | **11.6x** |

| Valuation Summary | |
|---|---|
| **Target P/E** | $82.07 |
| **Target P/BV** | $87.92 |
| **Relative Valuation Average**(1) | $85.00 |
| **DDM Target Price** | $100.05 |
| **Blended Target Price**(2) | **$89.00** |

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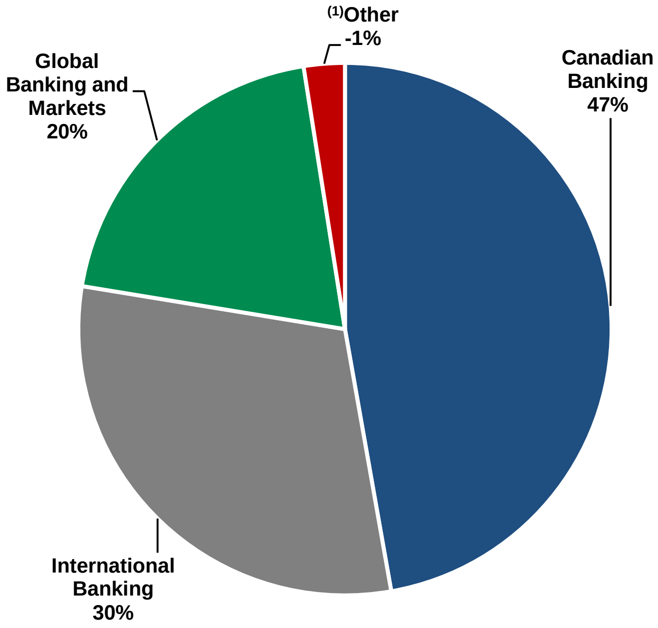
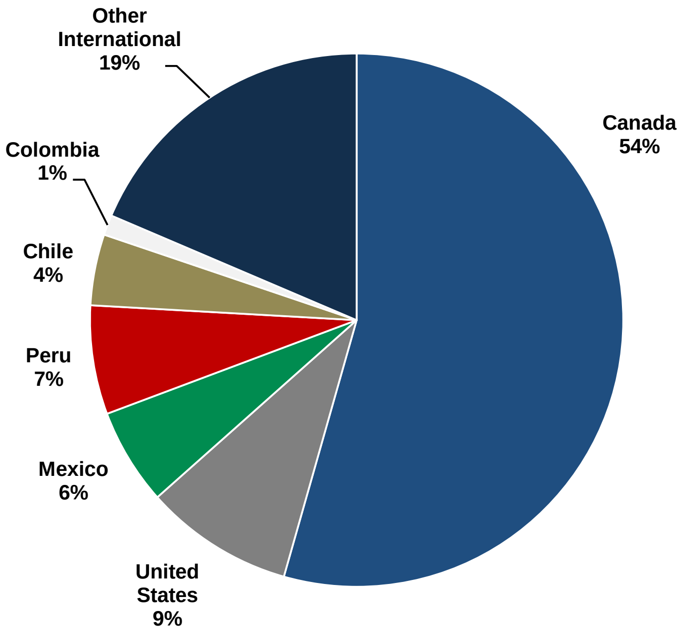
(1)The relative valuation average is comprised of a 50/50 blend of P/E and P/BV.

(2)The blended target price is comprised of 75/50 blend of of the relative valuation average target price and the DDM target price.

### Exhibit II. Net Income by Business Segment



### Exhibit III. Net Income by Geographic Region



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(1)Other net income includes all smaller operating segments and corporate adjustments

# Constellation Software Inc

**Information Technology**
**TSX: CSU**
**Hold Recommendation**

**October 20, 2017**

Chase MacDougall, Fund Manager
Daniil Zhigatov, Fund Manager
Lukas Sutherland, Research Associate
Wyatt Phillips, Research Associate

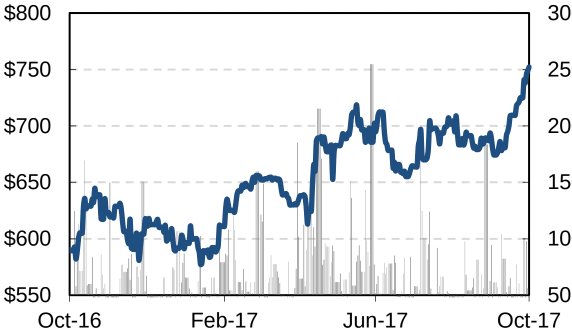
| Return on Investment | |
|---|---|
| Current Share Price | $752 |
| Target Price | $710 |
| Dividend Yield | 0.53% |
| Holding Period Return | (5%) |
| Conviction Rating | 1 |

| Market Profile | |
|---|---|
| 52-Week Range | $583.99 - $755.55 |
| Shares Outstanding (000s) | 21,192 |
| Average 30-Day Vol | 60,347 |
| Market Capitalization (mm) | $15,938 |
| Net Debt (mm) | ($84) |
| Minority Interest | $87 |
| Enterprise Value (mm) | $15,941 |
| Beta (5-Year Monthly) | -0.22 |

| Metrics | 2017E | 2018E | 2019E |
|---|---|---|---|
| Revenue (mm) | $3,024 | $3,441 | $3,871 |
| Revenue Growth Rate | 13.4% | 13.8% | 12.5% |
| EBITDA (mm) | $788 | $911 | $1,025 |
| EBITDA Margin | 26.1% | 26.5% | 26.5% |
| EV/EBITDA | 20.2x | 17.5x | 15.6x |

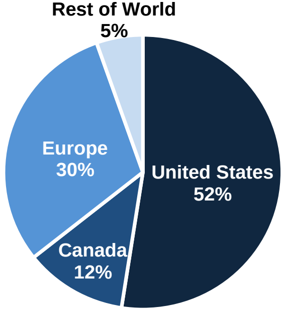
*Note: Converted at USDCAD of 1.25*

## Historical Trading Performance



Source: Bloomberg

## Geographic Revenue Segments (2016)



## Business Description

Founded in 1995, Constellation Software (TSX: CSU) builds, manages, and acquires vertical market software (VMS) businesses in both the private and public sectors. Constellation generates the majority of its revenue growth through the acquisition of small-cap businesses, which provide "mission critical software solutions" to customers. It operates through six operating groups and ~200 business units in close to 90 verticals, with over 12,000 full-time employees. Revenue is primarily sourced from the U.S., Canada, and Europe, which combined comprise ~95% of revenues.

## Original Investment Thesis

The CPMT's original investment thesis for Constellation Software was based on multiple tenets. CSU was viewed as having strong prospects for growing free cash flow with an ability to compound capital at impressive ROIC rates. Additionally, its management compensation structure effectively aligned management interests with shareholders, preventing the dilution of shareholders. Furthermore, the proven value generation provided by the management team and attractive valuation rendered it a desirable addition to the CPMT portfolio.

## Revised Thesis

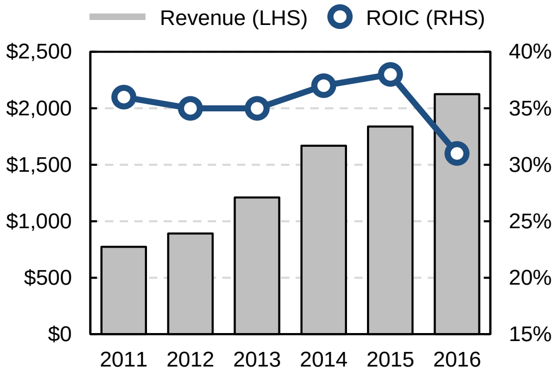
Given its method of growth by acquisition, and after observing companies essentially implode following execution of a similar business model, we decided to review CSU's successes and challenges to assess its ongoing suitability within the CPMT portfolio. The main goal was to develop a better understanding of the company's risk profile. Our analysis indicated that it remains beneficial to include CSU within our portfolio, given management's history of effective capital allocation, strong cash flow generation, low leverage, and philosophy towards preventing shareholder dilution. CSU's main challenge will be deploying increasing cash from operations while slowing the compression of ROIC. Despite this, the business appears to have a risk profile skewed to the upside, with low leverage mitigating the risk of an inability to deploy capital. Our valuation shows Constellation as being relatively fairly valued, with the opportunity to capture slight upside not fully priced in. We have issued a hold recommendation on the stock in light of this conclusion, maintaining a conviction rating of 1.

## Risks

The biggest challenge Constellation will face going forward is its ability to deploy the cash it generates from operations while slowing the reversion of its return on capital to the mean. There are many factors that come into play, including software valuations, the ability to attract and retain talent, ability to source and execute on transactions, and the ability to effectively manage an exponentially growing number of small businesses under its ownership.

The larger the company becomes, the more cash it will have to deploy in order to maintain the high historical revenue growth it has achieved. As cash to be deployed increases, the reliance on acquisitions to maintain high growth increases, which provides long-term pressure in regards to maintaining historical hurdle rates. As Constellation grows, it will need to acquire a perpetually increasing number of companies, which will increase the difficulty of executing on transactions. Management has highlighted the fact that an increasing number of PE firms operating in the software space have driven acquisition multiples up, and that this trend is likely to continue. The size of the acquired companies will also play a role in CSU's future, as the larger targets become, the more likely it is CSU will have to pay higher valuations, reducing the return on capital the investment can generate.

**Historical Financial Performance (US$ mm)**



**Sensitivity Analysis**

| | Annual Growth Rate | | | | |
|---|---|---|---|---|---|
| EV/Sales Acq. Multiple | 7.5% | 10.0% | **12.5%** | 15.0% | 17.5% |
| 1.00x | $590 | $666 | $754 | $855 | $972 |
| 1.25x | $581 | $651 | $733 | $827 | $935 |
| **1.50x** | $571 | $636 | **$712** | $799 | $899 |
| 1.75x | $562 | $621 | $690 | $770 | $862 |
| 2.00x | $552 | $606 | $669 | $742 | $826 |

| | Discount Rate (WACC) | | | | |
|---|---|---|---|---|---|
| Exit EBITDA Multiple | 9.4% | 8.9% | **8.4%** | 7.9% | 7.4% |
| 11.0x | $586 | $625 | $668 | $716 | $772 |
| 12.0x | $607 | $646 | $690 | $739 | $796 |
| **13.0x** | $627 | $667 | **$712** | $762 | $820 |
| 14.0x | $647 | $688 | $734 | $785 | $844 |
| 15.0x | $667 | $709 | $756 | $808 | $868 |

In light of these challenges, Constellation has taken multiple steps in order to facilitate the deployment of capital. As of Q1 2017, the size of the M&A team had been increased to ~60 members, approximately double the amount from 2016, and is expected to grow an additional 20% by year end. This will aid in CSU's ability to source and execute on a growing number of transactions.

Furthermore, CSU has increased the threshold for which acquisitions require board approval from $10mm to $20mm, which will enable it to deploy capital quicker than before. This increases the risk of reduced return on capital, as there will be more leeway given to operating mangers to execute on transactions. It is important to note that while controls are being curtailed, operating managers' incentive compensation is linked to ROIC, which will dissuade managers from pursuing acquisitions solely for the purpose of growth. Additionally, the ongoing review process and communication within the organization should prevent operating managers from losing sight of the overarching goal, which is to deploy as much of free cash as possible while simultaneously slowing the compression of return on invested capital.

There is evidence that management's actions to date have facilitated the ability to increase acquisitions, with at least 39 transactions executed YTD as of quarter end, compared to 40 total during 2016 and 31 during 2015.

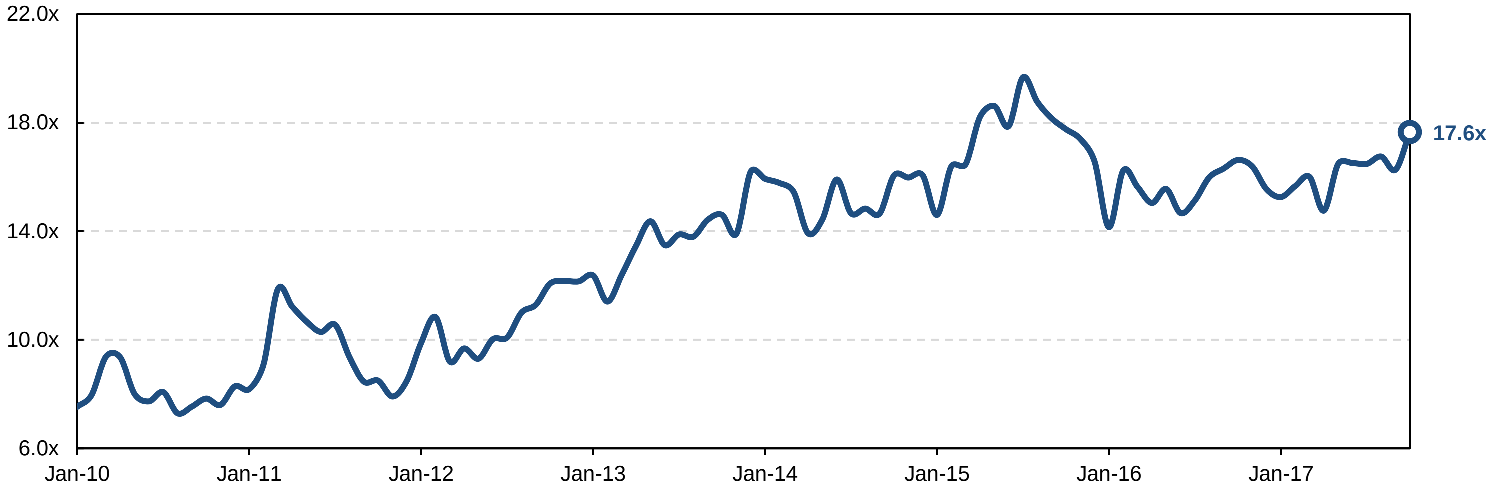
## Revised Valuation

Our valuation of Constellation Software is derived from a 10-year DCF analysis, with an equal-weighted perpetual growth model and exit multiple to calculate its terminal value. The base case analysis reaffirms our previous target price of $710, representing approximately 5% downside to the share price as at October 20th. Our upside scenario, which prices in close to ~20% revenue growth over the next five years, gives upside of ~30%, and our downside scenario, which assumes Constellation is unable to deploy any capital over the next ten years, leaves downside risk of ~40%. We believe the bear case is unlikely, which leaves a risk profile skewed to the upside. A sensitivity around assumptions can be found in the sidebar.

## Subsequent Actions

Subsequent to quarter end, the CPMT sold 12 shares in CSU for an average price of $717, bringing it in line with its conviction rating to 1.7% of the overall portfolio. This transaction will allow more flexibility around the position, allowing the CPMT to benefit from upside left in the stock, while enabling us to increase position sizing if an attractive opportunity presents itself.

**Consensus NTM EV/EBITDA Multiple**



Source: Bloomberg

Note: Priced as of October 20, 2017

# NamSys Inc

**Information Technology**

**TSX: CTZ**

**Buy Recommendation**

**October 20, 2017**

Darren Luoma, Fund Manager

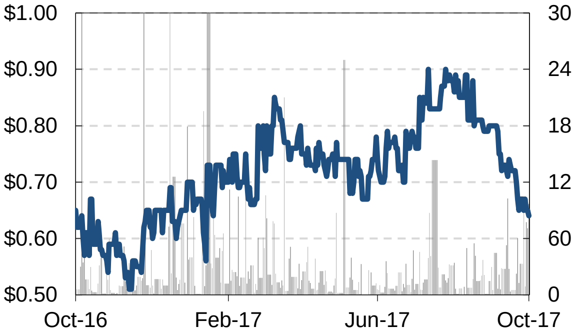
Alim Suleman, Research Associate

| Return on Investment | |
|---|---|
| Current Share Price | $0.64 |
| Target Price | $0.90 |
| Dividend Yield | 0.00% |
| Holding Period Return | 41% |
| Conviction Rating | 3 |

| Market Profile | |
|---|---|
| 52-Week Range | $0.50 - $0.90 |
| Shares Outstanding (mm) | 27 |
| Average 30-Day Vol (000s) | 33 |
| Market Capitalization (000s) | $17,463 |
| Net Debt (000s) | ($628) |
| Enterprise Value (000s) | $16,835 |
| Beta (5-Year Weekly) | 0.68 |

| Metrics | 2017E | 2018E | 2019E |
|---|---|---|---|
| Revenue (mm) | $3,169 | $3,430 | $3,713 |
| EBITDA (mm) | $1,441 | $1,560 | $1,689 |
| EBITDA Margin | 45% | 45% | 45% |
| EPS | $0.04 | $0.04 | $0.05 |
| P/E | 16.5x | 15.3x | 14.1x |

**Historical Trading Performance**



Source: CPMT Estimates, Bloomberg

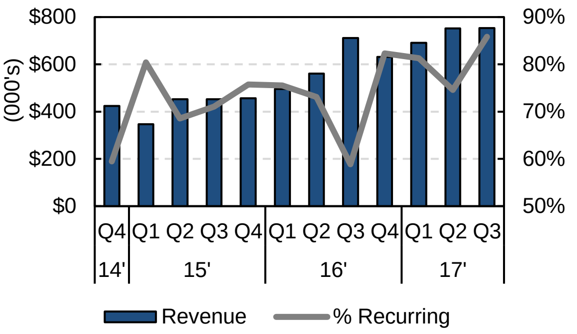
## Business Description

Namsys Inc (TSX-V: CTZ) develops systems for cash logistics and processing that serve financial institutions, retailers, currency carriers, casinos, transit operators, and government agencies. The software developed spans the cash and credit logistics cycle: electronic safe monitoring and daily credit, cash-in-transit-logistics, and cash vault processing. Cencotech Inc. was the parent company of CTZ prior to November 1st, 2016, when Cencotech Inc. amalgamated with its subsidiary CTZ, and continued to operate under the Namsys name. CTZ's operating strategy is three-fold. At the core of the business there is a shift from the standard software licensing model to software as a service (SaaS). Cognizant of the size of the company, management is leveraging partnerships with large customers, which in effect act as distributors to reliant businesses (when a bank uses CTZ's software, depositors such as casinos follow suit). Finally, the Company operates almost exclusively in the U.S., and is targeting banks to capitalize on the decision of the Federal Reserve to delegate currency processing to commercial banks.

## Industry Trends and Overview

Just as CTZ is focusing on the operational shift from the on-premises (legacy) to the SaaS model, so is the industry at large. There are several differences between legacy information systems and the SaaS model: infrastructure licensing and maintenance costs vs. a subscription, implementation time, and the integration/customization processes. With SaaS there are no infrastructure, licensing, or maintenance costs, only a monthly subscription. Historically there is a large upfront cost to a business when a new information system is selected. With SaaS there is only a subscription, and in effect, we see a shift from one time payments to recurring revenue. However, margins for SaaS are lower in general than its predecessors as a function of the increased cost of service. Industry average gross margins are in the order of 67% for large companies offering SaaS vs. 76% for those offering legacy systems. Though margins are slightly lower, cash flow visibility is much higher, and this shift is seen as generally positive. This situation puts pressure on companies to increase recurring revenue numbers. This metric is a litmus test for the success of transitioning to the SaaS operating model, with some vendors, Descartes and Solium, boasting 90% plus revenue from recurring subscriptions. The new revenue model has positives and negatives, but the real demand drivers for the shift to SaaS are implementation time and integration complexity. Until recently, it has taken companies millions of dollars and years of work to implement and integrate legacy software systems. Considerations like physical space, infrastructure, maintenance, and technological expertise were huge barriers. With SaaS, implementation is nearly on demand, and integration complexity is essentially a non-factor compared to legacy systems. All the infrastructure is hosted off site, maintained by the SaaS company, and there is no daunting upfront investment when considering a new system implementation. The benefits to businesses ordering these services are clear. CTZ operates in a very niche space, offering SaaS for cash management. The images that come to mind are armored trucks with Brink's or Garda stamped on the side. CTZ does not transport cash. The company develops systems to ensure no cash has been tampered with, tracks routes, and reconciles credit at the origin and destination. Why would a small company like CTZ have a chance to compete with these giants? Brink's offers closed-loop smart safe technology. This is akin to the legacy system of large upfront costs for licenses. CTZ is carving out a niche as a SaaS provider for smart safe, cash in transit, and cash vault processing.

### Recurring Revenue Growth



### Sensitivity Table

Annual Revenue Growth Rate

| WACC | 6.0% | 7.0% | **8.0%** | 9.0% | 10.0% |
|---|---|---|---|---|---|
| 13.0% | $0.87 | $0.93 | $1.01 | $1.14 | $1.38 |
| 13.5% | $0.85 | $0.90 | $0.97 | $1.07 | $1.25 |
| **14.0%** | $0.84 | $0.88 | **$0.94** | $1.02 | $1.16 |
| 14.5% | $0.82 | $0.86 | $0.91 | $0.98 | $1.09 |
| 15.0% | $0.81 | $0.84 | $0.89 | $0.95 | $1.04 |

### Comps Analysis

| | EBITDA Margin | Sales Growth | Return on Equity |
|---|---|---|---|
| **Average** | 8% | 14% | 10% |
| **Median** | 10% | 26% | 12% |
| **NAMSYS INC** | 45% | 40% | 66% |
| **TECSYS INC** | 14% | 1% | 17% |
| **KINAXIS INC** | 18% | 27% | 14% |
| **BENEFITFOCUS INC** | (8%) | 26% | - |
| **PARK CITY GROUP INC** | 23% | 35% | 9% |
| **CHANNELADVISOR CORP** | (5%) | 13% | (11%) |
| **MODEL N INC** | (25%) | 14% | (68%) |
| **USA TECHNOLOGIES INC** | 6% | 34% | (6%) |
| **BRISIO INNOVATIONS INC** | - | (62%) | 57% |

## Corporate Governance and Management

CTZ has a market capitalization of ~$20mm, with annual revenues of just under $3mm. The company satisfactorily addresses its limitations on executive compensation in its annual information forms. The sums paid to executives in the past do not raise any concerns considering the limited revenue stream of the company. There is a policy that in the event of a takeover that 15% of the consideration will be paid out to employees of the company. Though the company states it does not foresee this happening in the near future, the existence of the policy does indicate a takeover is a desirable exit strategy. Further, it is probable considering the industry it operates in. The largest institutional investor is Bank of Nova Scotia's 1832 Asset Management, with ~9% of shares outstanding. CTZ is targeting the push down of the Federal Reserve's cash management to commercial banks, therefore, investment from banks and a former Royal Bank of Canada executive on the board of directors is encouraging.

## Valuation

The company was valued using a five-year DCF with modest assumptions. Margins, although higher than industry averages, show an upward trend, so were modelled on conservative historic averages. In the Gordon Growth portion, 2% was used as the assumption, and the forward looking three year revenue is modelled on 8% topline growth. The real value is seen in the comparable company analysis. CTZ trades at a steep discount to its peers. This is expected considering the size of the company, nevertheless it has industry leading margins for a SaaS company (72% gross vs. 51%), no debt, and ROA/ROE well above the industry median (42% and 66% vs. 8% and 12%). We used a 15% WACC to represent the size premium, and our blended price is in the $0.80 – $1.00 range.

## Risks

An undeniable risk is the decreasing use of cash. Without cash there will be little need for cash management systems. Industry is hurdling toward SaaS for new systems, but this is not without risk to companies like CTZ. The SaaS model creates a situation where customers have less invested in the technology, lowering switching costs, and increasing churn. This risk is ubiquitous in the industry and not isolated to CTZ. Recurring revenues reported on September 25th were less than expected. This suggests that the company's strategy of relying on larger customers (banks) pushing the software on reliant customers may not be working. We expect marketing and selling costs to increase going forward. A further risk for the company down the line will be technology improvements. As competitors further develop their products and technology improves, the risk exists that CTZ will be joined by new competitors with superior technology in this niche market, causing CTZ to lose market share in an already narrow customer base.

## Investment Recommendation

CTZ began to switch away from the standard licensing arrangement four years ago. Since then, recurring revenue has ballooned from virtually zero to 81% today. With this, the company has tripled its topline over the same period. CTZ has first mover advantage in the space, offering a platform with low switching costs, and is open/flexible enough to be used on existing systems. Companies have two options when disrupting technology enters a space: the technology can be developed, or bought. With a 15% buyout incentive for employees, there is no doubt the company will be very open to takeout offers when larger companies in the space start shopping around. CTZ is pursuing a specialization strategy, and it has been paying off in terms of very healthy margins and return on capital invested. The company has no debt, and trades at reasonable multiples, 14x EV/EBITDA compared to nearly 50x, and 19x P/E compared to 54x for the industry. The relative size of the company is drastically depressing the multiples, despite superior returns, margins, and first mover advantage. In the event of a buyout or continuing operations, CTZ will return value to shareholders and we recommend a buy on the name.

Calgary Portfolio Management Trust

# Medical Facilities Corp

**Healthcare**
**TSX: DR**
**Hold Recommendation**

**October 20, 2017**

Erick Noh, Fund Manager
Brodie Wilson, Research Associate

### Return on Investment

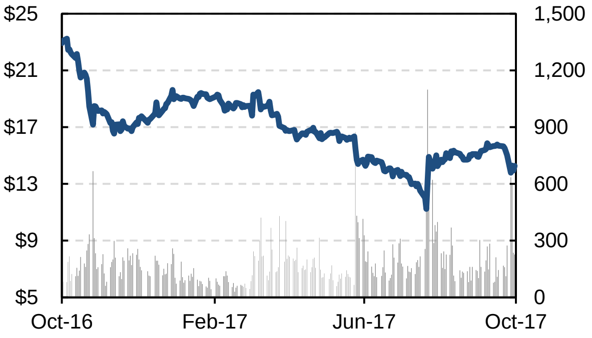
| | |
|---|---|
| Current Share Price | $14.55 |
| Target Price | $15.60 |
| Dividend Yield | 7.89% |
| Holding Period Return | 15% |
| Conviction Rating | N/A |

### Market Profile

| | |
|---|---|
| 52-Week Range | $11.13 - $22.37 |
| Shares Outstanding (mm) | 31 |
| Average 30-Day Vol (000s) | 207 |
| Market Capitalization (mm) | $450 |
| Net Debt (mm) | $131 |
| Minority Interest (mm) | $220 |
| Enterprise Value (mm) | $802 |
| Beta (5-Year Monthly) | 0.86 |

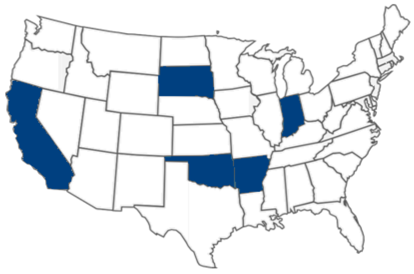
| Metrics | 2017E | 2018E | 2019E |
|---|---|---|---|
| Revenue (mm) | $447 | $467 | $489 |
| EBITDA (mm) | $106 | $111 | $116 |
| EBITDA Margin (%) | 24% | 24% | 24% |
| EPS | $0.63 | $0.73 | $0.83 |
| EV/EBITDA | 7.6x | 7.2x | 6.9x |
| P/E | 23.0x | 19.9x | 17.5x |
| Total Debt/EBITDA | 2.1x | 1.8x | 1.1x |

### Historical Trading Performance



Source: CPMT Estimates, Bloomberg

### Medical Facilities Corporation Facilities Map



Source: Company Reports

## Business Description

Medical Facilities Corporation (TSX: DR) is a Canadian healthcare company, with operations solely in the United States. It owns and operates controlling interests in five specialty surgical hospitals, one ambulatory surgical center (ASC), and one diversified healthcare services company. The specialty surgical hospitals focus on non-emergency (scheduled) procedures such as pain management, imaging, and diagnostics. In addition, the specialty surgical hospitals do not provide a full suite of services as a traditional hospital would, but instead, the specialty surgical hospitals perform niche procedures such as: orthopaedic, ear, nose and throat, and neurosurgery. The ASC is focused only on outpatient procedures. Outpatient procedures are procedures that do not require the patient to stay at the facility overnight, thus providing the patient with the flexibility to recover within the comfort of their own home. This also reduces the cost of housing the patient and caring for him or her overnight. Lastly, Integrated Medical Delivery, L.L.C., the diversified healthcare services company, provides administrative work in human resources, information technology, or accounting to specialty surgical centers such as those owned by DR. The company was founded in 2004 and is headquartered in Toronto, Canada.

## Competitive Advantages & Business Model

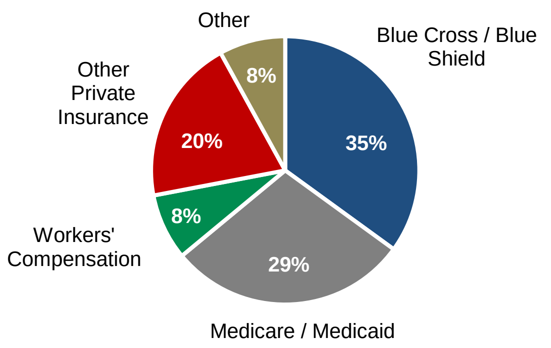
The guiding principles Medical Facilities Corporation builds its business around are providing the highest-quality treatment and care, while enhancing the facilities and amenities provided to the patient. This is achieved through sourcing the best physicians in the industry and allowing these physicians to buy into the facility they practice at. The physicians that practice at DR's facilities can take on more patients than traditional hospitals due to clinical protocols and procedures that aim to increase per physician productivity, thus maximizing the potential for individual compensation.

With regards to the patients, DR's facilities' procedures are designed to make clinical and administrative functions less cumbersome and more flexible, allowing the patient to feel more comfortable. The scheduling flexibility and less administrative work on the side of the patient permit the patient to focus on their personal issues. DR's facilities on average rank in the top quartile of all hospitals in the United States (as stated by CareChex's hospital rating system). This goes to show that its procedures to improve patient experiences are working and being recognized in rating systems.

The growth by acquisition story plays to the advantage of DR, not for the traditional reasons of rapid growth and taking out competitors, but it allows DR to purchase established facilities that can attract quality talent, which will in turn raise the reputation of the facilities, resulting in a positive feedback loop.

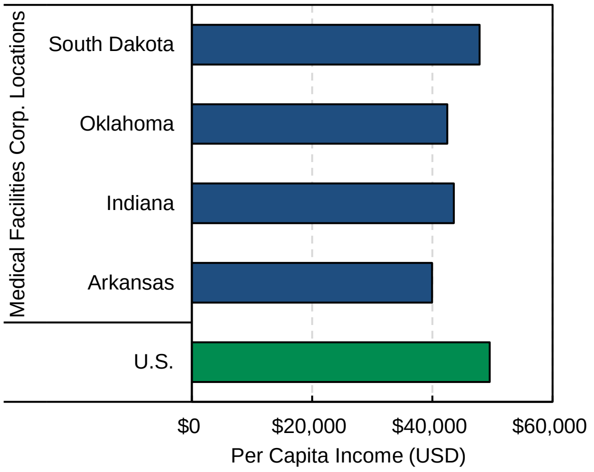
By concentrating on select procedures at its facilities, DR is able to streamline its operations and maximize efficiencies. Along the theme of focused operations, since DR avoids the challenging business model associated with emergency cases, it eludes losses from the accumulation of bad debt expenses, unlike traditional hospitals. DR's bad debt expense varies from one to three percent of net revenues, whereas some of its competitors who have emergency services, such as Community Health (NYSE: CYH) have bad debt expenses of ~14%.

**Exhibit I. Payor Mix Breakdown (2016A)**



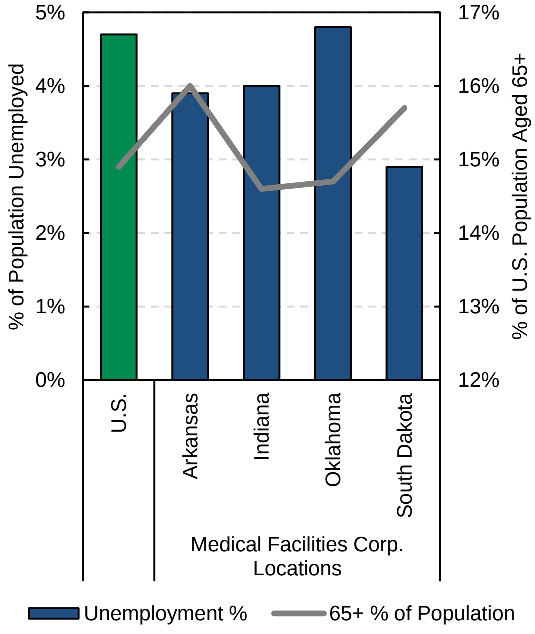
Source: Company Reports

**Exhibit II. Per Capita Income for DR Facility Locations**



Source: U.S. Department of Commerce

**Exhibit III. DR Facility Location Demographics**



Source: U.S. Census Bureau, U.S. Department of Labor, Company Filings

## Fee Structure & Payor Mix

Touching briefly on the fee structure of the business, DR charges on a fee-for-service basis, with two components to the fee. One part is the facility fee, which is paid to the facility itself and is a charge for the use of the equipment, nursing staff, and other support services. The other portion of the fee is the professional fee, which goes directly to the physician that performed the service for the patient and does not get reported on the income statement of Medical Facilities Corporation. The professional fee that is charged exhibits how a physician working for DR can dramatically increase his or her compensation if he or she serves more patients.

The payors that generate Medical Facilities Corporation's revenue are usually not the patients themselves, but rather insurance providers or workers' compensation plans (Exhibit I). A favourable mix of payors for DR would include a higher proportion of private health insurers. The reasoning for this is the government funded programs of Medicare and Medicaid will not pay the healthcare providers as much as the private health insurers. This is a result of laws that are passed by the federal government for mandatory rebates and payment caps.

DR operates in states that have lower per capita income than the consolidated United States (Exhibit II). This may negatively effect DR’s payor mix as wealthier patients are more likely to have private healthcare and not rely on government funded programs. The aforementioned is offset by the fact that the states DR operates in have older populations (Exhibit III), which may contribute to higher traffic in its facilities. People that reside in the +65 demographic also tend to be retired, contributing to the lower per capital income those states.

## Corporate Governance

The facilities themselves are managed by the management at the individual facility, but Medical Facilities Corporation still has control and oversight over the facility through contractual rights. DR management has direct control of distributions to the facility, material transactions, and capital budgeting matters.

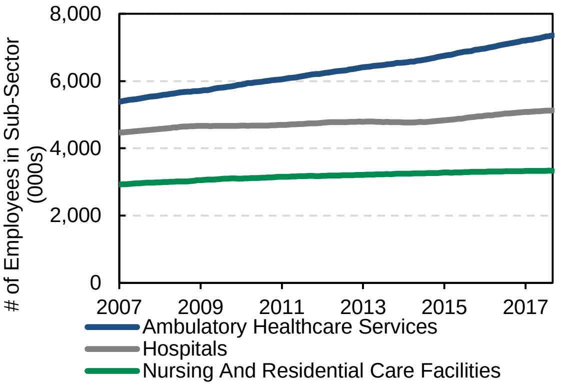
The percent of shares outstanding owned by insiders of DR is much lower than its peers. DR sits at 0.19% insider ownership. The low percentage of insider ownership can partially be explained by the ownership of insiders at the facility level and the fact that the management team currently sits at three members. Management compensation is broken down into the following categories: base salary, share-based awards, option-based awards, and non-equity incentive plans. The majority of the compensation for executives comes from option-based awards and the base salary. We would like to see more share-based awards to push management to be more aligned with the shareholders. Directors are portrayed to be aligned with the shareholders of the company through the issuance of cash-settled Deferred Share Units (DSUs). We find the anti-dilutive effect of the cash-settled DSUs appealing as a form of compensation to the board since the value of the DSUs is directly related to the share price of DR.

## Industry Overview

Since Medical Facilities Corporation only operates in the United States, we felt it would be prudent to examine the U.S. healthcare industry as a part of our macro analysis. Topical issues within the U.S. healthcare industry include: uncertainty of affordability for patients due to potential changes in government funded health programs, increasing popularity of the ASC business model (Exhibit IV), and an aging population coupled with increased healthcare spending (Exhibit V).

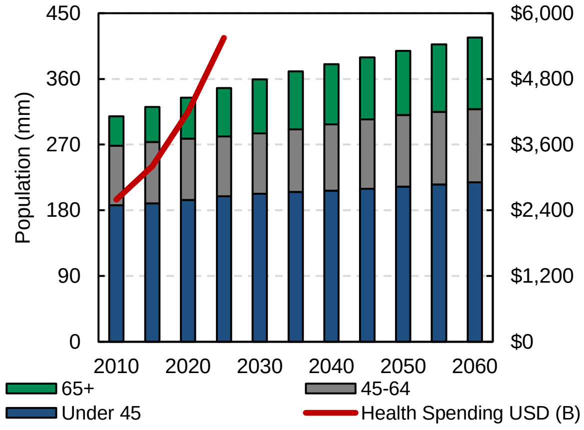
In mid-October, Trump signed an executive order that asked federal agencies to consider allowing small businesses to purchase healthcare from different states, which could allow for cheaper and less extensive plans for the healthy, thus possibly transferring higher premiums to individuals with existing illnesses, in order for the insurance companies to bring in the same amount of revenue.

**Exhibit IV. Job Growth in Ambulatory Services**



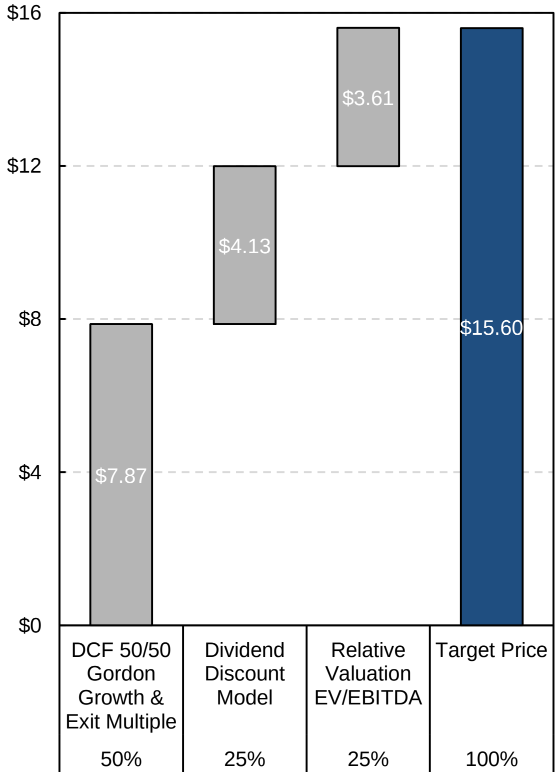
Source: U.S. Bureau of Labor Statistics

**Exhibit V. Total Health Spending in The U.S.**



Source: U.S. Census Bureau,
Centers for Medicare & Medicaid Services

**Exhibit VI. Valuation Waterfall**



The executive order also asked for the review of the short-term coverage policies. Trump wants to make short-term coverage more readily available, thus leading to less comprehensive coverage and lower rates, again possibly incentivizing the healthy to pick cheaper plans. These changes hurt healthcare providers since less people who may require hospital services will be able to afford large group coverage, thus hurting payor mixes. DR's stock price responded by falling ~9.5% during the three subsequent trading days. DR is positively positioned is in the ASC space, where only outpatient cases are served and margins are higher. According to the American Hospital Association, the percentage of outpatient revenues in the U.S. have grown from 28% in 1994 to 46% in 2014, which bodes well for DR since it already is established in the space. Lastly, the trend towards an aging population and increased healthcare spending will be the key macro drivers of revenue for DR moving forward, but will need to be combined with prudent cost-cutting in order to maintain cash flow health.

## Catalysts for Growth

Although high growth is not essential to DR's share price performance, we need to evaluate its growth plans moving forward in order to draw a proper conclusion. An avenue for growth for DR is its acquisition strategy of established, outpatient-focused facilities in states with favourable demographics. A shift towards ASC in the industry leads us to believe that an acquisition of the higher margin facilities would make sense for DR. Assessing the liquidity of DR, we see it has ~$48mm of liquidity which can secure a working interest in a facility (recent UMASH acquisition was ~$27mm). Management has also stated that the pipeline for acquisitions remains robust since the industry is calling for more consolidation due to pressures on revenues from an increasingly unfavourable payor mix. Organic growth through an increase in DR's service offerings is also possible and is actively being examined and executed by management.

## Capital Markets Perspective

Through understanding the business model and the competitive landscape in the U.S. healthcare industry, we feel that Medical Facilities Corporation is well-positioned with regards to its peers. It has a favourable asset mix that allows it to capitalize on trends in the healthcare space, namely not being involved with emergency services and having ASC exposure. These factors should give the market a reason to reward DR with a higher valuation because of the reduced exposure to potential bad debt expenses and the trend towards the higher margin outpatient cases.

Understanding the business model is a good start, but another important consideration we must make in order to prudently evaluate DR is the capital markets perspective on Medical Facilities Corporation. Due to the fact that DR has only U.S. operations, possesses a ~7% dividend yield, and has fallen from ~$24/share in October of 2016 to ~$11/share in August of 2017, we believe that the capital markets view DR as a play on U.S. healthcare through sustained dividends that has the potential to be a turn-around story. We are of the view that the large drop in share price for Medical Facilities Corporation can be attributed to diminishing EBITDA margins over the last few quarters.

In order for DR to gain favour with the investors, the company must show that it can: 1) Remain competitive in the U.S. healthcare space, 2) Maintain its dividend, 3) Execute on cost-cutting initiatives that will preserve or improve EBITDA margins.

## Valuation

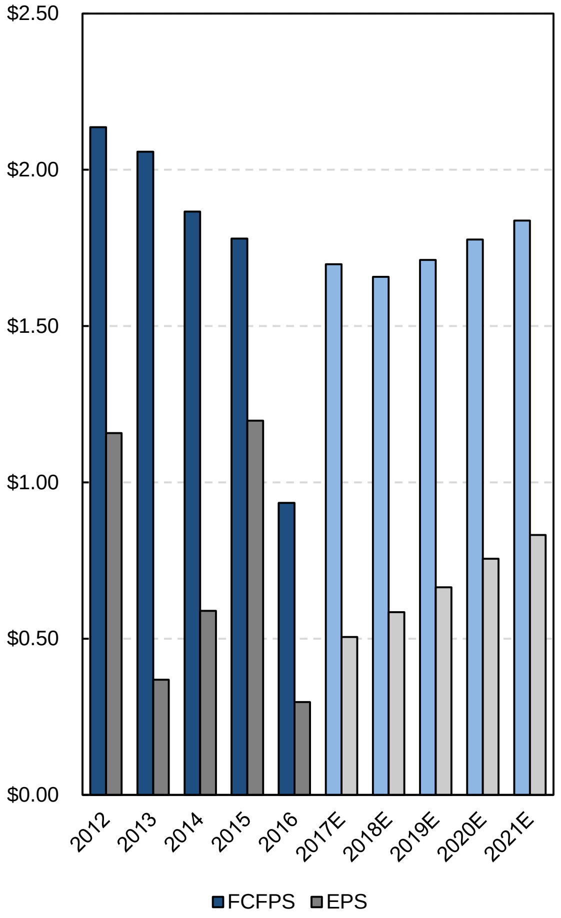
Our valuation of Medical Facilities Corporation included a five-year discounted cash flow analysis (DCF), a dividend discount model (DDM), and a relative valuation. We also assumed a flat USD/CAD rate of $1.25. For our DCF, we assumed moderate revenue growth based on historical revenue growth by facility and decreased annual EBITDA margins from 27% to 24% out to 2021. Both the Gordon Growth model and the exit multiple method were used with assumptions of 0% long-term growth and an 8x EBITDA multiple respectively. We then took a 50/50 blend of the exit multiple and Gordon Growth target prices to arrive at a target price of $15.78.

**Exhibit VII. Discounted Cash Flow Sensitivity Table**

| Exit EBITDA Multiple | WACC | | | | |
|---|---|---|---|---|---|
| | 6.26% | 6.76% | **7.26%** | 7.76% | 8.26% |
| 10.0x | $21.90 | $20.18 | $18.66 | $17.29 | $16.06 |
| 9.0x | $20.40 | $18.71 | $17.22 | $15.89 | $14.68 |
| **8.0x** | $18.90 | $17.24 | **$15.78** | $14.48 | $13.30 |
| 7.0x | $17.40 | $15.77 | $14.34 | $13.07 | $11.92 |
| 6.0x | $15.90 | $14.30 | $12.90 | $11.66 | $10.54 |

| LT Growth Rate | WACC | | | | |
|---|---|---|---|---|---|
| | 6.26% | 6.76% | **7.26%** | 7.76% | 8.26% |
| 1.0% | $21.72 | $19.59 | $17.76 | $16.16 | $14.75 |
| 0.5% | $20.19 | $18.32 | $16.70 | $15.26 | $13.98 |
| **0.0%** | $18.90 | $17.24 | **$15.78** | $14.48 | $13.30 |
| (0.5%) | $17.80 | $16.31 | $14.98 | $13.79 | $12.70 |
| (1.0%) | $16.85 | $15.50 | $14.28 | $13.17 | $12.16 |

**Exhibit VIII. Per Share Metrics**



Our DDM consisted of a five-year forecast period where we forecasted cash flows available for distribution. A historical average of the payout ratio was computed and applied against the cash flows available for distribution to end up with our dividend forecast for the relevant period. A 0% long-term growth rate was also applied to the DDM to determine our terminal value which yielded a target price of $16.50. We also conducted a relative valuation model, taking into account both Canadian and U.S. comparable companies and found the average 2018E EV/EBITDA multiple to be 8.6x; applying this multiple to DR's 2018 forecasted EBITDA, we find the target price to be $14.60. We decided to take a blend of the different valuation methods, weighting the DCF 50%, DDM 25% and the relative valuation 25%. Our final blended target price is $15.60 which implies ~15% upside, including an annual dividend.

## Risks

Operationally, there are three main risks that have the potential to impact Medical Facilities Corporation, 1) unemployment in the regions it operates, 2) the payor mix for the cases its centers perform, and, 3) the physicians of its facilities. First off, although the regions that the Company operates in have relatively low unemployment rates, an increase in unemployment can impact the number of cases that its centers receive. This is brought on due to changes in health coverage, and the likelihood of patients foregoing voluntary procedures. A fall in case volume, specifically complex cases will significantly impact revenues, and decrease margins. Second, an increase in the proportion of government-funded payees reduces revenue for DR, as these programs do not provide the same level of reimbursement as do private payors. Lastly, the physicians at its facilities are the main revenue driver for the Company, thus, it is imperative to attract and retain credible physicians, and to have them operating. Over the past year, DR encountered this risk when one of its surgeons at its UMASH center was on leave with an injury for a quarter, greatly impacting its case volume. Moreover, on a macroeconomic front, DR is primarily exposed to healthcare reform in the U.S., rising drug prices, and changes in foreign exchange rates. In terms of the latter, the Company generates its revenue in USD, but pays its dividends in CAD; DR uses foreign exchange forward contracts to mitigate this risk, but currently does not have any hedges in place.

## Thesis / Conclusion

Although the business model of Medical Facilities Corporation is sound, the CPMT has decided not to invest in Medical Facilities Corporation for the following reasons: 1) EBITDA margin compression, 2) foreign exchange risk to dividends, 3) low management alignment with shareholders, 4) challenging macro environment.

As previously mentioned, DR's EBITDA margins have seen significant pressure recently and we are of the view that the increasing drug costs will continue to add pressure on its EBITDA margins, which will negatively impact cash flow generation in the long-term. Also, if the Canadian Dollar creeps closer to par with the U.S. dollar, DR will have complications with regards to its payout ratio. It will be able to service its dividend, but the payout ratio will increase close to ~100% if CAD is par with USD, therefore reducing cash available for re-investment in the business and stunting growth. In addition, insider ownership of 0.19% is much too low for the CPMT to believe that management is aligned with shareholders. Lastly, we are of the view that the U.S. healthcare providers industry will face macro headwinds as a result of healthcare reform and the industry will be forced to succumb to increased rebates and payment caps from government-funded payors.

Calgary Portfolio Management Trust

# Norbord Inc

**Materials**
**TSX: OSB**
**Sell Recommendation**

**October 20, 2017**

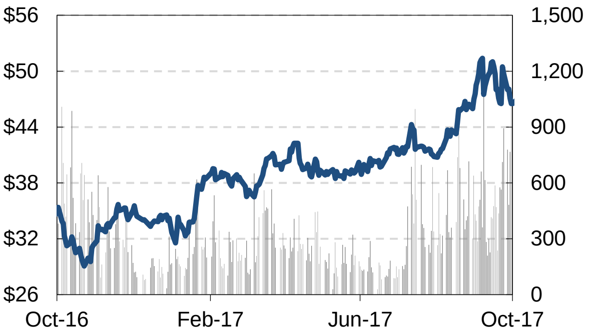
Darren Luoma, Fund Manager
Alim Suleman, Research Associate

| **Return on Investment** | |
|---|---|
| Current Share Price | $46.52 |
| Target Price | $46.00 |
| Dividend Yield | 4.80% |
| Holding Period Return | 4% |
| Conviction Rating | N/A |

| **Market Profile** | |
|---|---|
| 52-Week Range | $28.91 - $51.76 |
| Shares Outstanding (mm) | 86 |
| Average 30-Day Vol (000s) | 827 |
| Market Capitalization (mm) | $4,019 |
| Net Debt (mm) | $585 |
| Enterprise Value (mm) | $4,604 |
| Beta (5-Year Monthly) | 1.18 |

| **Metrics** | **2017E** | **2018E** | **2019E** |
|---|---|---|---|
| Revenue (mm) | $2,516 | $2,751 | $2,553 |
| EBITDA (mm) | $638 | $656 | $658 |
| EBITDA Margin | 25% | 24% | 26% |
| EPS | $4.37 | $4.71 | $4.24 |
| P/E | 10.6x | 9.9x | 11.0x |

**Historical Trading Performance**



Source: CPMT Estimates, Bloomberg

## Business Description

Norbord Inc. (TSX: OSB) is a manufacturer of three wood-based panel products: oriented strand board, particleboard, and medium-density fibreboard. These products represent a capacity mix of 90%, 6%, and 4% respectively for OSB. Oriented strand board is an alternative to plywood for structural uses in flooring, roofing, wall sheathing, and webstock in mainly residential, but increasingly commercial construction. OSB's revenues are spread across North America (76%), Europe (21%), and Asia (3%). The company is dual listed and reports in U.S. Dollars. In 2015, OSB closed the acquisition of Ainsworth Lumber, adding 40% to strand board capacity and cementing its place as the leading provider of the product in the North American market at 27% market share.

## Industry Overview

The essential raw inputs for OSB's panels are wood fibre, resin, and the energy required for manufacturing. The driving supply side forces are then: lumber prices, oil prices, and to a lesser extent, energy prices. The principle determinants of demand for the panels are: U.S. housing starts, interest rates, and increasingly commercial construction.

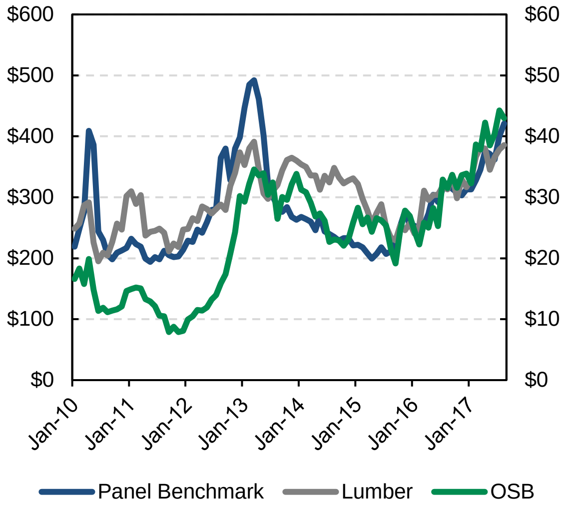
B.C. wildfires, and the U.S.-Canada lumber trade dispute have fueled action on the supply side of the equation this quarter. The 2017 fire season is one of the worst on record, with a reported 1,289 fires burning over 1.2mm hectares of woodland. OSB holds a large amount of logging rights in the province, and much of its claim in the Williams Lake region was burned. However, the damage was less than initially expected, as much of the woodland was infested with the Mountain Pine Beetle and low yield. The U.S.-Canada lumber trade dispute was thrust center-stage as NAFTA negotiations were reopened. The duties are two-fold, an anti-dumping duty, averaging around 6.5%, and a countervailing duty, averaging around 20%. As of August 25th, the countervailing duty is on a 'gap period' and is not being collected for the next 3-4 months, and a decision on the newest iteration of the duty will be made no later than November 14th. In the interim, NAFTA squabbles will continue, and Canadian harvesters will enjoy increased profitability.

The largest determinant of demand for strand board is U.S. housing starts, with an estimated 67.5% of OSB's revenue originating in the U.S. The 10-year pre-crash average for U.S. housing starts (1997-2007) is 169,000, and starts for 2016 rang in at 117,000. Using the average growth rate from 2008-2016, 5%, which is more conservative than consensus, it will take seven years until we see similar levels. With the impact of rising interest rates on housing affordability, this recovery could stretch out over 8-10 years. This medium-term growth is good news for building material suppliers. Further, the demand created by Hurricanes Harvey and Irma provide a short-term cushion to panel prices from rebuilding and repair efforts. Forecasts for benchmark composite strand board prices have been revised for 2017 and 2018 from $330/msf and $300/msf, to $425/msf and $350/msf respectively.

## Corporate Governance and Ownership

Brookfield Asset Management owns 49% of OSB, and purchased $332mm worth of shares in April of this year. Naturally, two of the eight board members are from Brookfield; a managing partner, and director (Peter Gordon, and Jack Cockwell). Of the remaining members, only two had no major ties to OSB prior to their directorships. Four members have directorships over 10 years, and considering the composition, this board is heavily entrenched.

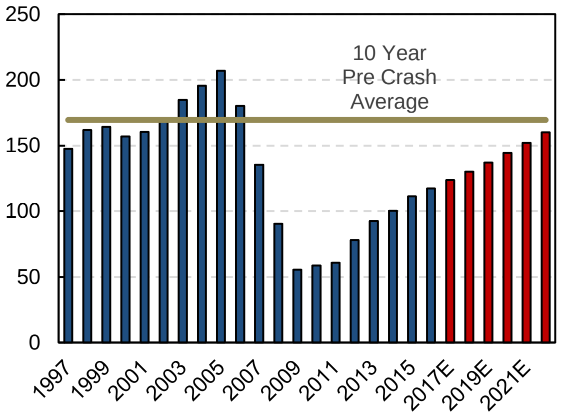
**Benchmark Panel, Lumber, and OSB Prices**



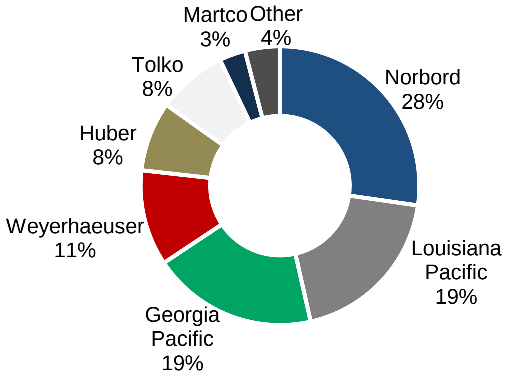
**Correlation of Panels, Lumber, and OSB**

| | Panels | Lumber | OSB |
|---|---|---|---|
| **Panels** | 1.000 | 0.612 | 0.603 |
| **Lumber** | 0.612 | 1.000 | 0.797 |
| **OSB** | 0.603 | 0.797 | 1.000 |

**US Housing Starts History and Projections (000s)**



**North American Oriented Strand Board Industry**



Based on ownership and acquisition activity, this is expected, and based on the particular type of competition in the industry, an advantage. There is nearly no product differentiation when it comes to wood based panels, leaving only cost and product specialization as competitive arenas. We see the composition of the board as being well situated to further consolidation efforts in the space, push product specialization, and make margin improvements a priority, thus lowering the effective cost. The board is not positioned to respond to disruptive changes in the space, though, this is a low risk for the industry. There are few companies that have used a variable dividend policy as liberally as OSB. From a quarterly dividend of $0.60/share in 2013, to a low of $0.07/share in 2015, and now $0.50 in Q3 2017; the payout spans the gambit and is the default tool to return value to shareholders. The advantage is that the company will curtail dividends to make large strategic acquisitions (Ainsworth in 2015), but this is not the stock for investors seeking stable income.

## Valuation

The U.S. housing recovery will last an estimated eight years, as such, an eight-year DCF was used to value the company. The benchmark composite panel price forecast was based on research consensus using a mix of bearish and bullish estimates, ending up just below the average. Capital expenditures were modeled according to one-year guidance, and historic averages thereafter. The DCF ends up having a front-end weight of ~55% and a terminal value of ~45% using 2% as the Gordon growth assumption. We found it prudent to use the eight-year period to properly adjust for the volatile nature of North American benchmark panel prices and not skew the terminal value one way or another. There were eight comparable companies included together representing a good mix of both lumber, and building material suppliers. One comparable company worth noting is Louisiana-Pacific (LPX). LPX is almost a clone of OSB in terms of product mix, size, and target market. OSB has better EBITDA and operating margins, higher ROE and ROA, but lower P/E and EV/EBITDA multiples. This apparent value is explained by OSB's less favourable debt situation, and lower cash holdings.

## Operations & Company Strategy

OSB has historically run lean on inventory and had increased turnover in comparison to competitors. Something investors may like to see, until liquidity concerns begin being cited as operational risks. This has been addressed in recent MD&As. The strategy now is to increase inventory to better meet increasing demand, and address analysts' liquidity concerns. This is seen in inventory levels, and inventory turnover as numbers are more in line with competitors' averages of 7.5x inventory turnover, down from 11.2x two years ago. This is important because OSB has not historically held much cash, leaving themselves exposed if there were ever a capital markets access limiting event. Though OSB has a higher dividend, better margins, and higher ROIC; it still trades at a discount. One explanation is debt. The company is not afraid to take on debt, and cut dividends to make large acquisitions. As a result, it unequivocally holds more debt than its peers, but its credit is not rated any lower. It has higher debt/EBITDA, higher debt/capital, and lower interest coverage. But with a debt rating of BB from Standard and Poor's, it is right in line with the average rating of the companies in the space. The combination of strategic debt use, and low cash balances is encouraging as an investor given the historically high ROIC, and very telling when it comes to the company's strategy.

There is virtually no differentiation in the wood based panels space, making it impossible to gain an edge barking up that tree. OSB is setting itself apart by producing at the lowest cost, and specializing in the product. The company mantra is "In control of our controllables", and boasts a "Margin Improvement Program" (MIP) with reported efficiency gains since 2004. But how well does the program hold up to scrutiny, and is there any real incentive to continue this program?

## Sensitivities for DCF

North American Growth

| | | 3.0% | 3.5% | **4.0%** | 4.5% | 5.0% |
|---|---|---|---|---|---|---|
| WACC | 9.0% | $48.75 | $51.03 | $53.39 | $55.82 | $58.33 |
| | 9.5% | $45.25 | $47.35 | $49.50 | $51.73 | $54.03 |
| | **10.0%** | $42.19 | $44.12 | **$46.11** | $48.16 | $50.28 |
| | 10.5% | $39.49 | $41.28 | $43.12 | $45.01 | $46.97 |
| | 11.0% | $37.09 | $38.75 | $40.46 | $42.22 | $44.04 |

European Growth

| | | 1.0% | 1.5% | **2.0%** | 2.5% | 3.0% |
|---|---|---|---|---|---|---|
| WACC | 9.0% | $52.32 | $52.84 | $53.39 | $53.94 | $54.52 |
| | 9.5% | $48.52 | $49.01 | $49.50 | $50.02 | $50.54 |
| | **10.0%** | $45.20 | $45.65 | **$46.11** | $46.58 | $47.07 |
| | 10.5% | $42.28 | $42.69 | $43.12 | $43.55 | $44.00 |
| | 11.0% | $39.68 | $40.06 | $40.46 | $40.86 | $41.28 |

OSB Benchmark Price

| | | 375 | 400 | **425** | 450 | 475 |
|---|---|---|---|---|---|---|
| WACC | 9.0% | $35.79 | $44.56 | $53.39 | $62.26 | $71.16 |
| | 9.5% | $33.13 | $41.29 | $49.50 | $57.76 | $66.05 |
| | **10.0%** | $30.79 | $38.43 | **$46.11** | $53.83 | $61.58 |
| | 10.5% | $28.73 | $35.90 | $43.12 | $50.36 | $57.64 |
| | 11.0% | $26.90 | $33.66 | $40.46 | $47.28 | $54.14 |

## OSB Manufacturing Asset Map

The company does have superior operating margins, but the true test of the MIP is the result of the Ainsworth acquisition. As OSB integrated Ainsworth, and realized synergies, the effect of the MIP became clear. There are 2 points in time, both pre and post-acquisition, to serve as evidence, 2012, and 2017. Market conditions in the lumber space were very similar, and the acquisition occurred in the middle of the period. This gives a good look at any synergies from margin improvements, with all else being held relatively equal. We see that EBITDA, gross, and net profit margins have increased an impressive 106%, 38%, and 95% over the period. The acquisition added ~40% panel capacity. Both margin improvements, and economies of scale were realized. With low cost being one of the two strategies, management is evaluated on margin improvements every year. When executive bonuses depend on a metric, there is incentive to perform based on that metric. This secures the MIP's place as a cornerstone policy in the company, and crucial to keep in the forefront to continue leading the industry as a low-cost producer.

## Risks

The company is heavily reliant on the U.S. market, and U.S. housing growth. With at least one more interest rate increases expected for the year, housing curtailment is a possibility. Industry leading margins, and product specialization are the key competitive advantages OSB is pushing on. Operations are exceptionally important, and margins should be monitored. However, operations are replicable, and in our view, not a competitive advantage. Product specialization, and being the leading supplier is a game of costs is a competitive advantage, but very much a double-edged sword. When strand board composite prices are high, and competition is tight, OSB has a significant advantage. But when the pendulum swings the other way, the company has nothing to fall back on.

## Investment Recommendation

We expect OSB to perform well over the next 6-10 years while U.S. housing starts recover to more normal levels. Demand is secured in the short term by rebuilding efforts in the wake of natural disasters, bolstered by supply restrictions caused by forest fires. Though recent benchmark panel prices have shot up from short term supply restrictions, there is ample idle capacity in both OSB, and other panel providers. This suggests that once capacity begins to come online, prices will return to more normal levels. From a comparable company perspective, OSB has superior ROE, ROA, and margins, evidence that management's 'Margin Improvement Program' is adding value through tightened operations. The company is taking advantage of the 32% room for growth in the industrial and commercial space (based on replacement estimates). In addition, Europe represents an incredible expansion opportunity for the company, and is the definitive catalyst. The company is well on its way with a new mill expansion in Inverness, Scotland, doubling its capacity in the region to 720mmsf. OSB is a fantastic company on paper, it has steady growing free cash flow, prudent use of debt and maintenance thereof, and a management team that focuses on leveraging its key advantages. But the recommendation is a sell. The stock price recently breached $51, and in our estimation the assumptions driving this are very aggressive. We are currently modeling 4% growth in North America, 2% in Europe, and have $425/msf benchmark pricing. This gives a target price around $46. When current EV/EBITDA multiples are factored in the target price adjusts upwards to $52, but current multiples are highly inflated compared to historic averages. When more normal multiples are used, the target price for an EBITDA exit matches DCF assumptions. OSB is the dominant player in the space, and we believe will continue to log roll the competition, but the market appears to be trading up on sentiment, rather than fundamentals. We will be patient, and wait for more realistic growth and price assumptions.

# BioSyent Inc

**Healthcare**
**TSX: RX**
**Hold Recommendation**

**October 20, 2017**

Daniel Cassino, Fund Manager
Andrew Gormley, Research Associate

### Return on Investment

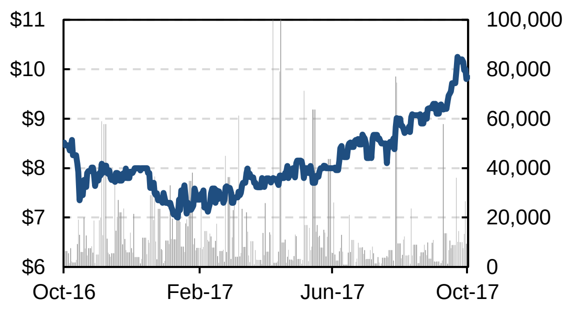
| | |
|---|---|
| Current Share Price | $9.84 |
| Target Price | $13.00 |
| Dividend Yield | 0.00% |
| Holding Period Return | 32% |
| Conviction Rating | 0 |

### Market Profile

| | |
|---|---|
| 52-Week Range | $6.90 - $11.00 |
| Shares Outstanding (000s) | 14,479 |
| Average 30-Day Vol | 12,414 |
| Market Capitalization (mm) | $142 |
| Net Debt (mm) | ($14) |
| Enterprise Value (mm) | $128 |
| Beta (5-Year Monthly) | 2.03 |

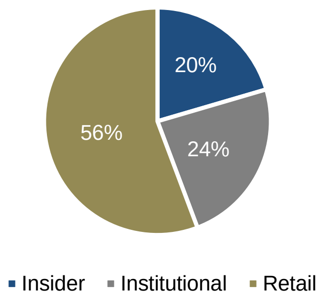
| Metrics | 2017E | 2018E | 2019E |
|---|---|---|---|
| Revenue (mm) | $21 | $27 | $32 |
| Revenue Growth Rate | 26% | 17% | 17% |
| EBITDA (mm) | $9 | $12 | $14 |
| EBITDA Margin | 40% | 44% | 44% |
| EV/EBITDA | 15.1x | 10.8x | 9.2x |
| Deployed Capital (mm) | $0.74 | $0.91 | $1.22 |

### Historical Trading Performance



Source: Bloomberg

### Top 20 Shareholders Ownership Summary



## Business Description

BioSyent Inc. (TSX-V: RX) is a specialty pharmaceutical company that in-licenses and acquires various pharmaceutical and healthcare products within Canada and internationally. RX was incorporated in 1947 under the name Hedley Technologies Ltd., which is the company's legacy business that manufactures and markets *Protect-It*, a food-safe grain insecticide used to prevent insect infestations in stored grains – the legacy segment accounted for 7% of 2016 revenue. RX's main pharmaceutical business includes: an oral hematinic treatment of iron deficiency anemia; an iron supplement to help the body form red blood cells, a vaginal suppository for the healing of the vaginal mucosa, a rectal suppository, pre-filled syringes that are used for injectable medications in hospitals, and *Cysview* for the detection and management of papillary non-muscle invasive bladder cancer. RX is considered a specialty pharmaceutical company as it focuses on small scale drugs with sub $20mm in peak annual revenue.

## Corporate Governance

René C. Goehrum leads the management team as Chairman of the Board, President, and CEO. He has been the CEO since 1999 and a Director since 1996. The CFO, Alfred D'Souza, has been with RX since 2007 and has over 25 years of experience in accounting, finance and operations management. Mr. Navid Ashrafi, M.D., Director of Medical and Regulatory Affairs since 2015 has over 10 years of international experience within the pharmaceutical business and practiced medicine for over 11 years prior to joining the pharmaceutical industry. The company's management team has an average tenure of over 20 years of relevant experience within large pharmaceutical companies and similar businesses. Management's compensation structure comprises of 50% cash and 50% stock options. The CEO, Mr. Goehrum, and CFO, Alfred D'Souza, respectively own 15.5% and 10.9% of total outstanding common shares with the remaining executives owning controlling interest in the low to mid-single digits. The heavy inside ownership and compensation structure demonstrates the alignment of management and shareholders.

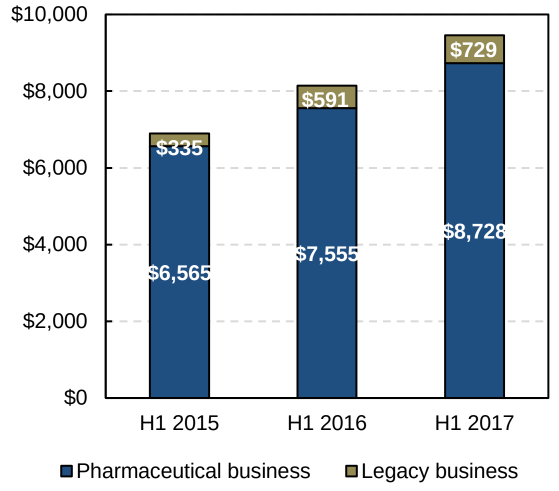
## Catalysts

***Small-scale:*** RX has a focus on small-scale products which generate less than $20mm in peak annual revenue. This strategy is especially attractive given the diversity of the small-scale products in its portfolio. In addition, the small-scale decreases the possibility of pharma-giants aiming to copy and improve the drugs/products that don't currently have a patent. Although the niche of the product possesses a risk to the downside of products losing users, RX focuses on later-stage drugs that have proven to improve the lives of patients.

***Balance sheet strength:*** RX has an exceptional balance sheet with no debt and ~$14mm in cash on hand. Its balance sheet is a significant catalyst as RX is able to acquire drugs with the cash on hand rather than having to tap into the capital markets – potentially diluting shareholders.

***Growth in Legacy & Pharmaceutical segments:*** RX has seen significant growth in both its Legacy and Pharmaceutical products over the previous 3 years with CAGR's of 30% and 10% respectively. RX's ability to grow their existing products reduces the reliance on the approval of new products, which is seen in many growth-oriented pharma names, ultimately reducing the downside risk.

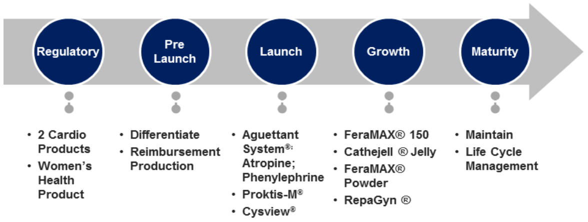
**Revenue Segments**



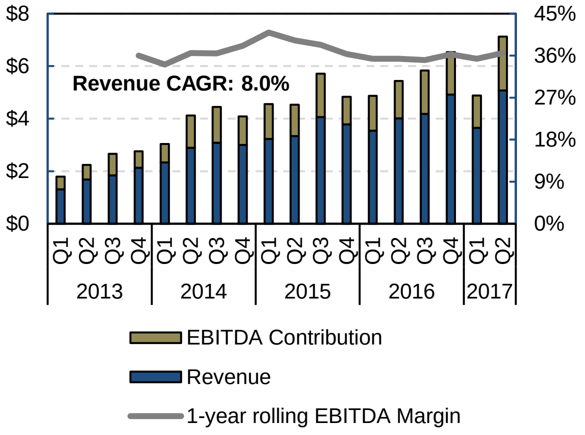
**Upside Sensitivity**

| | WACC | | | | |
|---|---|---|---|---|---|
| Terminal Growth | 10.56% | 11.56% | **12.56%** | 13.56% | 14.56% |
| 1.0% | 32% | 30% | 27% | 25% | 23% |
| 1.5% | 34% | 31% | 28% | 26% | 24% |
| **2.0%** | 36% | 33% | **30%** | 27% | 25% |
| 2.5% | 39% | 35% | 31% | 29% | 26% |
| 3.0% | 41% | 37% | 33% | 30% | 28% |

**Product Cycle**



**Revenue Growth (mm)**



## Valuation

The valuation was conducted using a blended five-year DCF and exit EBITDA multiple of 13.9x with a 60% and 40% respective weighting, yielding a target price of $12.77 and implying an upside of ~30%.To compute the target price, a WACC of 12.6% was used along with a five-year monthly Beta of 2.03.

As shown on the left, the target price was not very sensitive to the changes in WACC. The WACC used for BioSyent is calculated strictly with CAPM as they do not hold any debt. Although RX has traded relatively stable over the past few years, its small size, lack of liquidity, and inherent business risk justifies the WACC used. There was no size premium used as the CPMT felt this was captured in the Beta. We used a base case quarterly revenue growth from 2018 going forward of 4% as RX has seen significant volatility in the growth of their top line ranging anywhere from 5% to 48% QoQ. The slightly lower growth rate is based on the fact that revenue growth is reliant on RX's ability to realize growth in its "launch/growth" stage products and is also slightly below peer average at 7% QoQ. EBITDA margins were slightly expanded from 40% to 44% in 2019 and stay consistent at the 44% level for the remaining two years of the DCF.

## Risks

As BioSyent is a relatively small company with a market cap of $150mm it has significant liquidity risk as the daily volume is in the range of ~7,900–8,000 shares per day. In addition, being in the specialized healthcare industry presents regulatory risk as up and coming drugs require FDA approval which can increase the difficulty, costs associated with getting products to market, and maintaining regulatory approval for marketing new and existing products. The third fundamental risk to RX is product risk, where competitors both domestically and internationally have the ability to recreate and improve existing products that BioSyent offers (assuming no patent). RX currently has three patented products among its eight, which poses external risks (including its legacy insecticide product). RX has three new products in the pipeline which each have limited disclosure. This is concerning given that a portion of future growth rides on the approval of two cardio products and a women's health product. Furthermore, the product cycle shown in on the left. demonstrates the positioning of products in the market and which stage they are in, for the three products, *Aguettant*, *Proktis*, and *Cysview*. Although these three are currently in the market, their success and not having a patent on *Proktis* opens up the risk of being copied by a competitor.

## Portfolio Fit

RX and current CPMT holding Knight Therapeutics (TSX: GUD) are similar in nature as they both acquire and in-license drugs. That said, GUD makes nearly all of its money from its strategic loans segment where it charges ~15% interest on its loans. Knight and BioSyent both have a significant cash position which account for 61% and 10% of their market cap respectively. Both have no debt, and never have, which is highly likely to remain the same going forward. Overall, the majority of Knight's value per share is its cash position which represents $5.33/share, whereas RX's cash position represents only $0.97/share. Business operations aside, this demonstrates the limited downside with GUD. At this point in time, the CPMT feels as though GUD is a better portfolio fit given its downside risk, overall risk profile, and less volatile track record.

## Decision

As of now, the CPMT is not convicted on adding a position in RX as it has run up ~30% YTD, and has traded up significantly relative to its historical EV/EBITDA multiple and P/E multiple. RX's limited disclosure with regards to the pipeline products leaves the CPMT uncomfortable with its potential growth and ability to carry this out going forward. Although RX is relatively stable given its size and diversified product portfolio, the portfolio fit is the major reason that the Fund will refrain from investing in this name at this time. The CPMT is placing a hold recommendation on the name, but will diligently follow its performance for the upcoming quarters.

Calgary Portfolio Management Trust

# Toromont Industries Ltd

**Industrials**
**TSX: TIH**
**Update**

TOROMONT

**October 20, 2017**

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

### Return on Investment

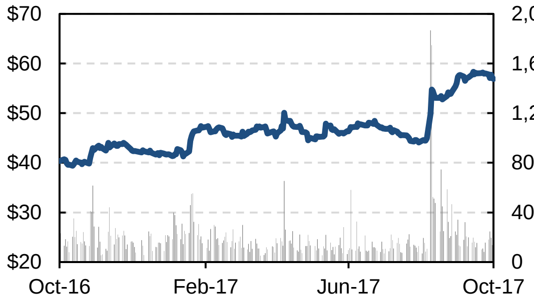
| | |
|---|---|
| Current Share Price | $56.89 |
| Target Price | $71.00 |
| Dividend Yield | 1.34% |
| Holding Period Return | 26% |
| Conviction Rating | 2 |

### Market Profile

| | |
|---|---|
| 52-Week Range | $38.79 - $58.45 |
| Shares Outstanding (mm) | 78 |
| Average 30-Day Vol (000s) | 167 |
| Market Capitalization (mm) | $4,466 |
| Net Debt (mm) | $31 |
| Enterprise Value (mm) | $4,496 |
| Beta (5-Year Monthly) | 0.96 |

| Metrics | 2017E | 2018E | 2019E |
|---|---|---|---|
| Revenue (mm) | $2,221 | $3,081 | $3,235 |
| EBIT (mm) | $162 | $277 | $291 |
| Net Income | $155 | $210 | $220 |
| EPS | $1.97 | $2.67 | $2.81 |
| P/E | 28.8x | 21.3x | 20.3x |

### Historical Trading Performance



Source: CPMT Estimates, Bloomberg

## Business Description

Toromont Industries Ltd (TSX: TIH) is a diversified machinery dealer and installer that operates out of the Equipment Group and CIMCO platforms. The Equipment Group consists of Caterpillar dealerships which sell, rent, and service a wide variety of Caterpillar's products and comprises ~85% of Toromont's revenue. Toromont currently has ~100 stores located in Ontario, Manitoba, Newfoundland & Labrador and Nunavut. Separately, CIMCO is engaged in the design, engineering, fabrication and installation of industrial and recreational refrigeration systems in the United States and Canada. With a 100-year history of operations, CIMCO serves clients across various markets such as food and beverages, recreation and mining.

## Hewitt Acquistion

During the quarter, Toromont announced the acquisition of Hewitt Equipment Ltd. in exchange for consideration of $917.7mm cash plus the issuance of 2.25mm common shares of Toromont. The total consideration for the transaction was approximately $1.02B.

Hewitt Equipment Ltd. is an authorized Caterpillar equipment dealer in the province of Quebec and has a strong presence in the Maritimes. This compliments Toromont's existing operations as their primary geographic focus is in Ontario, Nunavut and Manitoba. The acquisition therefore positions Toromont to expand into Quebec and further into the Maritimes.

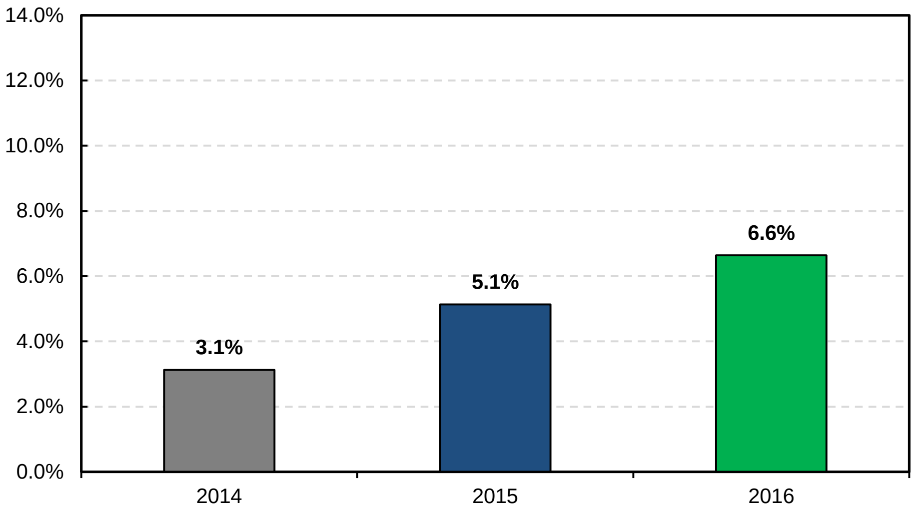
TIH's expansion into Quebec coincides with the Government of Quebec's announced increase of $2.4B in spending from last year's Quebec Infrastructure Plan. The Government of Quebec has committed $91.1B to date, which will be spent over the next 10 years on different infrastructure projects including the building of new roads, hospitals and educational facilities.

In addition to the strategic rationale, Hewitt's margins have increased over the past few years, expanding from 3% to over 6.5% (Exhibit I). Toromont's margins have consistently been around 12% (Exhibit II). This is a testament of Toromont's operational efficiencies as Toromont's average operating profit per store is $2mm compared to Hewitt's $1.5mm, despite Hewitt obtaining an average of $6.4mm more in revenue per store than Toromont. Currently, Toromont has 100 stores and the acquisition is expected to add 45 more stores. However, it is also expected that Hewitt's stores will effectively double the revenue of the Equipment Group due to Hewitt's larger revenue per store. This demonstrates a great opportunity for Toromont to realize operational cost synergies as the existing margins of Hewitt are half of the Equipment Group's margins at Toromont. While management has pointed out that historical margins should not be viewed as guidance of future performance they have not provided any pro forma margins of Hewitt's stores either.

The current average number of employees per store at Hewitt is 46 whereas Toromont averages only 36 employees per store. The CPMT believes that Hewitt's operating profile is characterized by these type of inefficiencies which can be improved upon. This further suggests that the potential to realize cost synergies exists. Hewitt's effective doubling of margins during the previous 3 years despite the negligible growth in revenue, as well as access to the expertise of Toromont's management team provides enough reasons for the CPMT to be optimistic about the realization of cost synergies by Toromont.

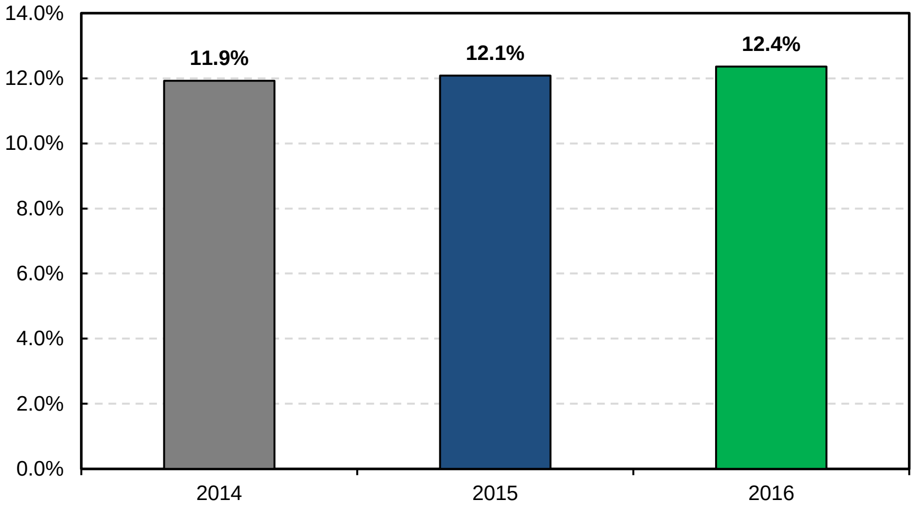
In conclusion, the CPMT remains upbeat about Toromont Industries Ltd. as it presents a strong balance sheet, potential to grow its cash flows, and establishment in the Eastern Canadian market for Caterpillar dealers.

**Exhibit I. Hewitt EBIT Margins**



Source: Company Filings

**Exhibit II. Toromont Equipment Group EBIT Margins**

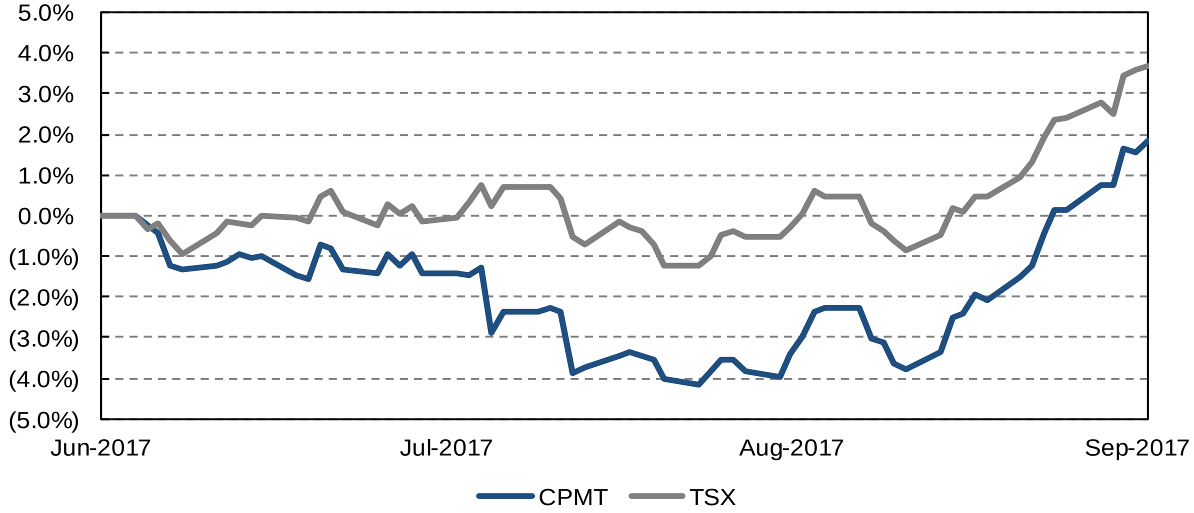


Source: Company Filings

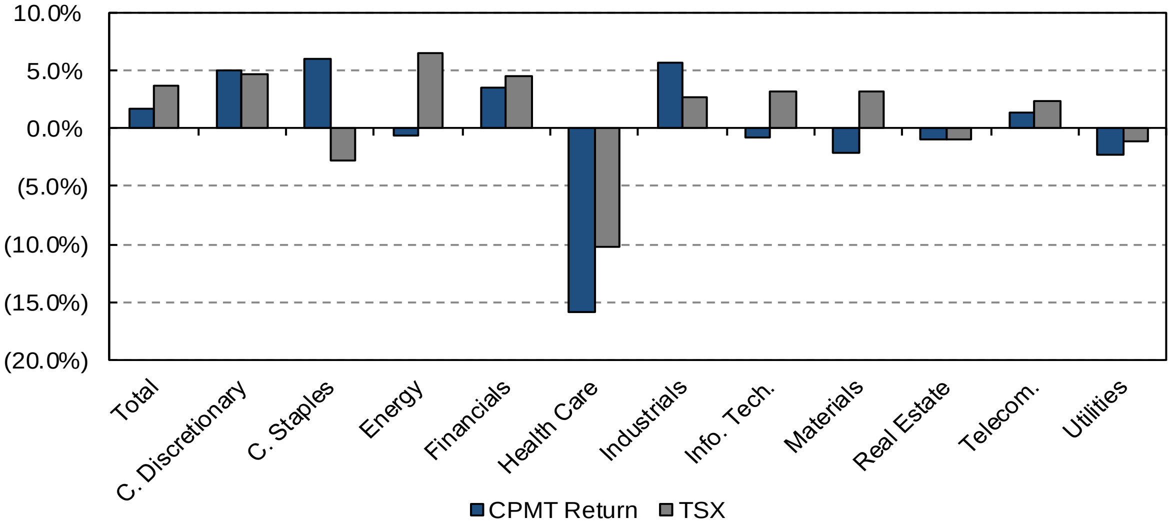
# Compliance and Performance

## QUARTERLY PERFORMANCE

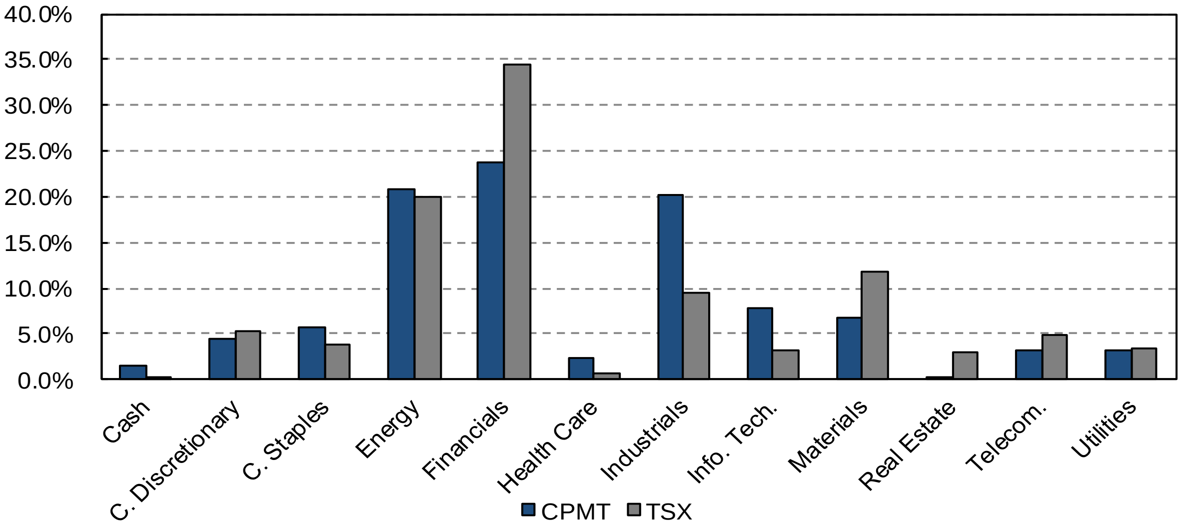
### The CPMT and the TSX Composite Total Return



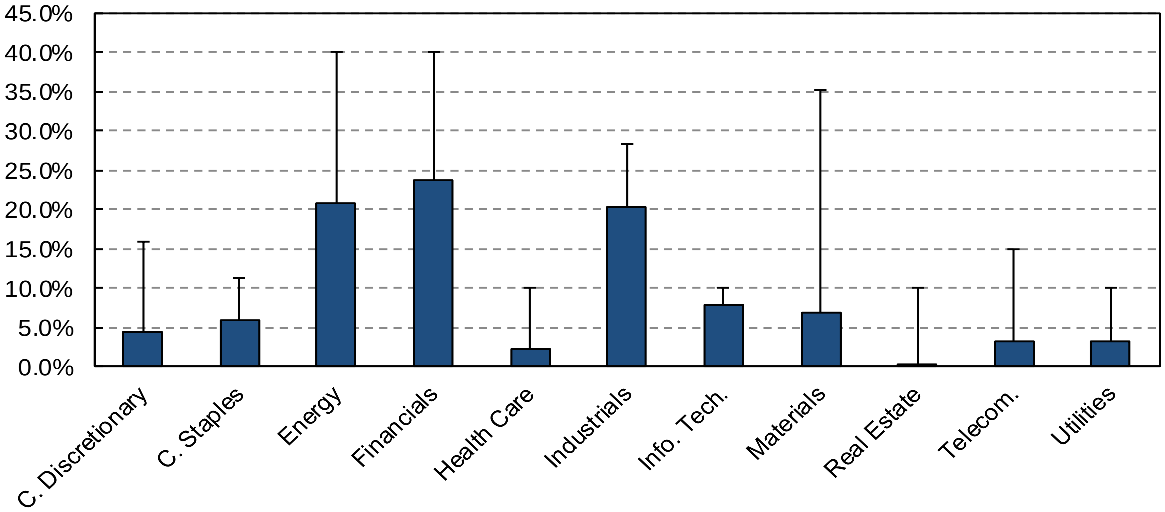
### The CPMT and The TSX Sector Returns



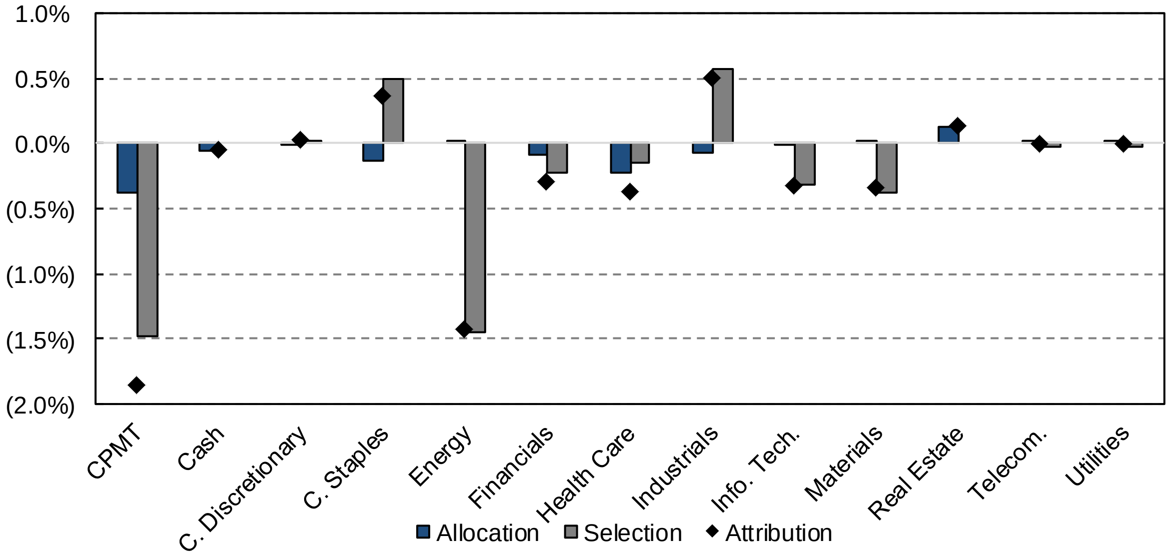
## The CPMT Aggregate Asset Breakdown



## The CPMT Sector Weights as Compared to Maximum



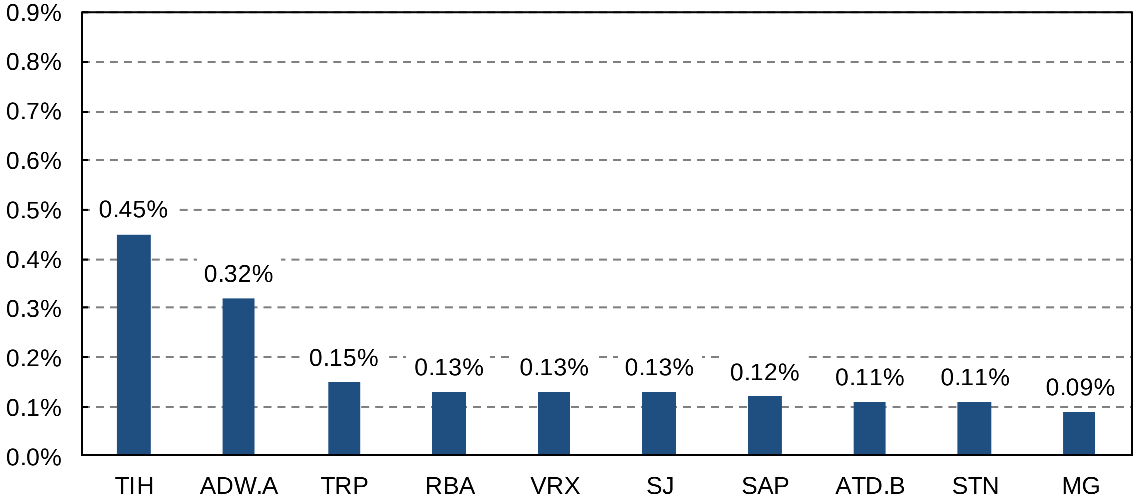
## Attribution Analysis



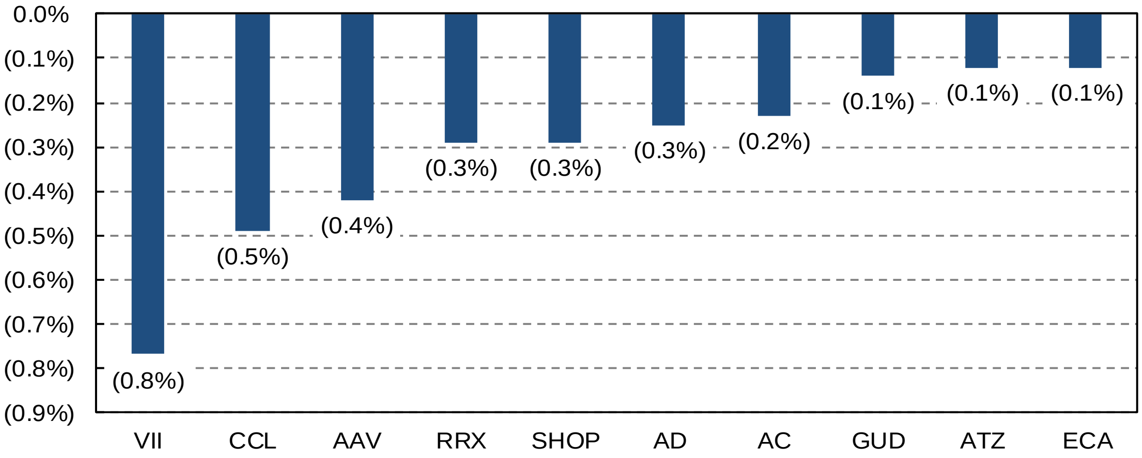
## The CPMT Attribution Analysis

| FQ2 2018 | Attribution | Allocation | Selection |
|---|---|---|---|
| **CPMT** | (1.86%) | (0.38%) | (1.48%) |
| **Cash** | (0.06%) | (0.06%) | 0.00% |
| **C. Discretionary** | 0.02% | (0.01%) | 0.03% |
| **C. Staples** | 0.36% | (0.12%) | 0.49% |
| **Energy** | (1.43%) | 0.02% | (1.45%) |
| **Financials** | (0.31%) | (0.09%) | (0.22%) |
| **Health Care** | (0.38%) | (0.23%) | (0.15%) |
| **Industrials** | 0.50% | (0.08%) | 0.58% |
| **Info. Tech.** | (0.33%) | (0.01%) | (0.32%) |
| **Materials** | (0.35%) | 0.03% | (0.37%) |
| **Real Estate** | 0.12% | 0.12% | 0.00% |
| **Telecom.** | (0.01%) | 0.02% | (0.03%) |
| **Utilities** | (0.01%) | 0.02% | (0.03%) |
| **1 Year** | | | |
| **CPMT** | (1.31%) | 0.41% | (1.72%) |
| **Cash** | (0.07%) | (0.07%) | 0.00% |
| **C. Discretionary** | (0.48%) | 0.00% | (0.48%) |
| **C. Staples** | 0.24% | 0.00% | 0.24% |
| **Energy** | (1.91%) | (0.50%) | (1.41%) |
| **Financials** | (0.51%) | (0.90%) | 0.40% |
| **Health Care** | (0.12%) | (0.31%) | 0.19% |
| **Industrials** | (0.10%) | 1.21% | (1.31%) |
| **Info. Tech.** | (0.33%) | 0.14% | (0.47%) |
| **Materials** | 1.67% | 0.71% | 0.96% |
| **Real Estate** | 0.11% | 0.11% | 0.00% |
| **Telecom.** | 0.07% | 0.03% | 0.04% |
| **Utilities** | 0.13% | 0.00% | 0.13% |

## Top 10 Selection Effects

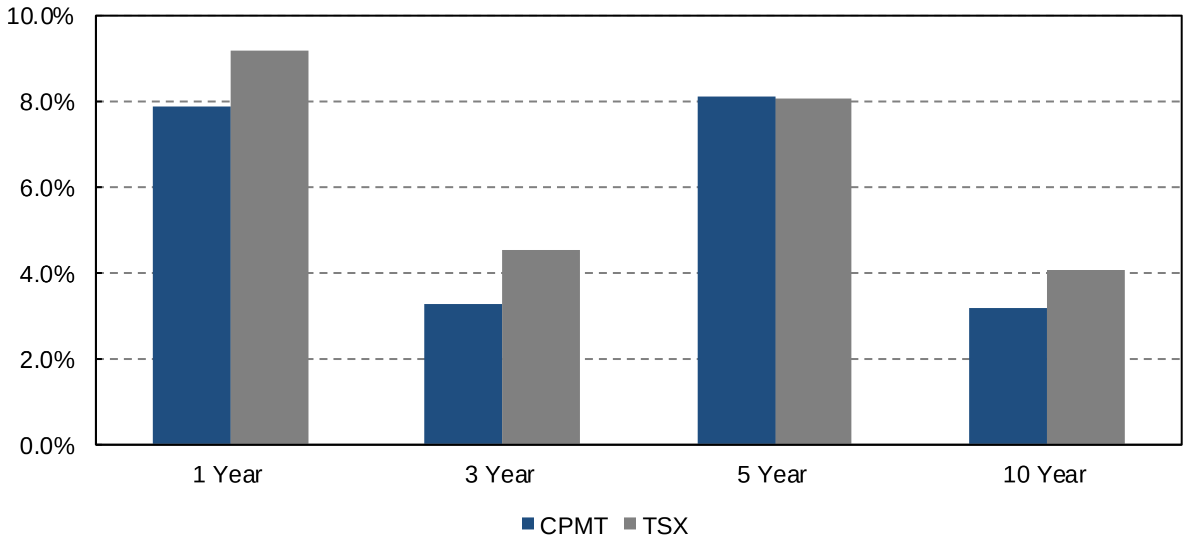


## Bottom 10 Selection Effects

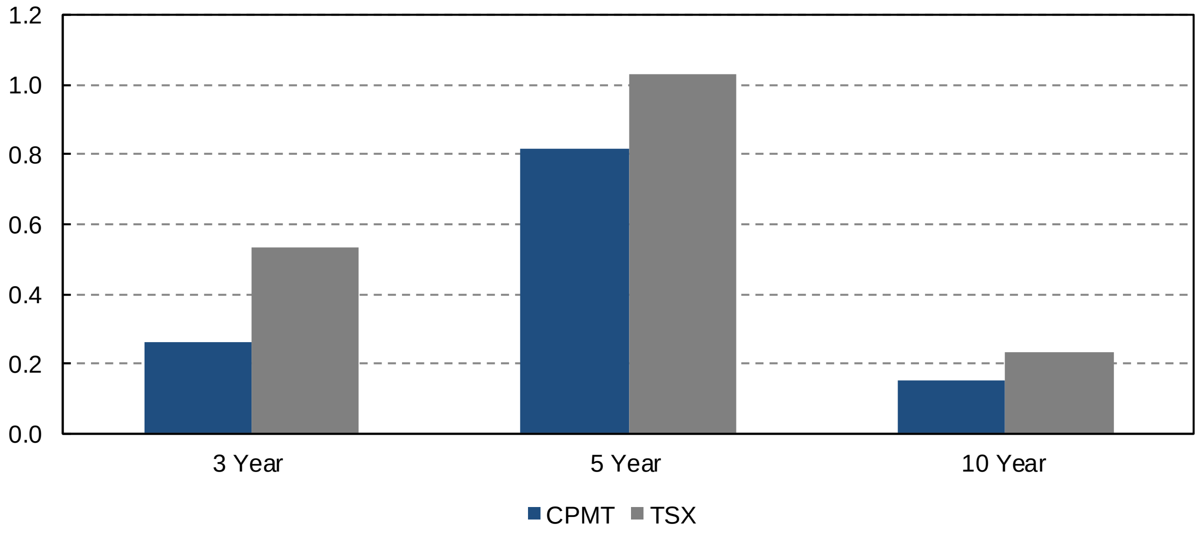


## LONG TERM PERFORMANCE

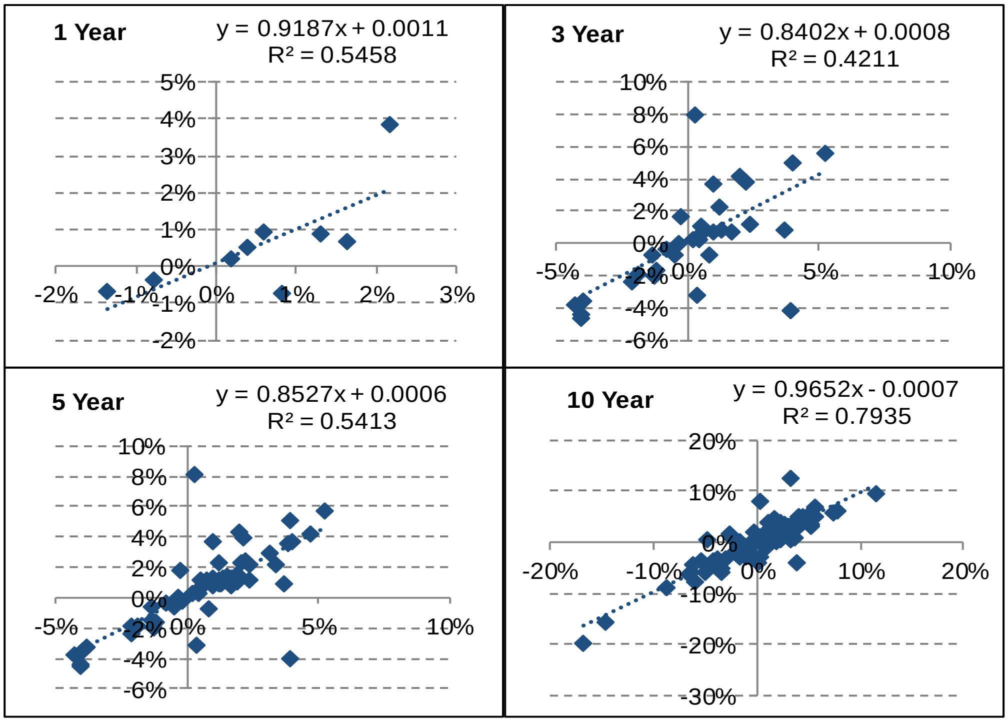
### The CPMT and the TSX Composite Index Total Return (Annualized)



### The CPMT and TSX Composite Index Sharpe Ratios



## The CPMT and TSX Single Linear Regressions



## The CPMT Long Term Performance Targets

| **Absolute Returns (annualized)** | | **1 Year** | | **3 Year** | | **5 year** | | **10 Year** |
|---|---|---|---|---|---|---|---|---|
| CPMT [1] | ✓ | 7.87% | ✗ | 3.26% | ✓ | 8.11% | ✗ | 3.19% |
| **Relative Returns (bps)** | | | | | | | | |
| S&P/TSX Composite [2] | ✗ | (131) | ✗ | (128) | ✗ | 5 | ✗ | (87) |
| Peer Group [3] | ✓ | 87 | ✗ | (41) | ✓ | 22 | ✓ | 28 |
| **Risk Adjusted Returns (bps)** | | | | | | | | |
| S&P/TSX Composite [4] | ✗ | 11 | ✗ | 8 | ✗ | 6 | ✗ | (7) |

1. Performance target of 7.0% annual returns.
2. Performance target to exceed the S&P/TSX Composite Total Return Index by 100 bps.
3. Performance target to exceed the 50th percentile of peer group.
4. Performance target to exceed the S&P/TSX Composite Total Return Index by 100 bps on a risk adjusted basis.

## The CPMT Long Term Performance Details

| | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|
| **Annualized Return** | | | | |
| CPMT | 7.87% | 3.26% | 8.11% | 3.19% |
| TSX | 9.18% | 4.54% | 8.06% | 4.06% |
| **Annualized Volatility** | | | | |
| CPMT | 6.24% | 10.38% | 8.99% | 14.58% |
| TSX | 4.21% | 7.92% | 7.64% | 13.41% |
| **Sharpe** | | | | |
| CPMT | [redacted] | 0.26 | 0.82 | 0.15 |
| TSX | [redacted] | 0.53 | 1.03 | 0.23 |

# APPENDICES

## *Appendix 1: CFA Code of Ethics*

The following is the CFA Code of Ethics to be complied with at all times by Fund Managers:

- To act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- To place the integrity of the investment profession and the interests of clients above personal interests.
- To use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- To practice and encourage others to practice in a professional and ethical manner that will reflect credit on ourselves and the profession.
- To promote the integrity and viability of the global capital markets for the ultimate benefit of society.
- To maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

## *Appendix 2: Account Activity*

### CPMT Transactions Log

| Equity | Date of Sale | Action | Shares | Purchase Price | Sale Price | Capital Gain | Return |
|---|---|---|---|---|---|---|---|

No Transactions Completed in FQ2

### Dividend Summary

| July | | | |
|---|---|---|---|
| Equity | Date | Rate | Credit |
| T | 4-Jul-17 | 0.493 | $167.45 |
| TIH | 4-Jul-17 | 0.190 | $57.00 |
| CSU | 6-Jul-17 | 1.323 | $31.76 |
| ADW.A | 7-Jul-17 | 0.045 | $49.50 |
| STN | 13-Jul-17 | 0.125 | $61.25 |
| AQN | 14-Jul-17 | 0.117 | $162.35 |
| AD | 17-Jul-17 | 0.135 | $54.00 |
| WCP | 17-Jul-17 | 0.023 | $26.80 |
| BNS | 27-Jul-17 | 0.760 | $297.92 |
| TD | 31-Jul-17 | 0.600 | $240.00 |
| **Total** | | | **$1,148.03** |

| August | | | |
|---|---|---|---|
| Equity | Date | Rate | Credit |
| RCH | 3-Aug-17 | 0.057 | $20.41 |
| AD | 15-Aug-17 | 0.135 | $26.80 |
| WCP | 15-Aug-17 | 0.023 | $54.00 |
| **Total** | | | **$101.21** |

| September | | | |
|---|---|---|---|
| Equity | Date | Rate | Credit |
| ENB | 1-Sep-17 | 0.610 | $305.00 |
| AD | 15-Sep-17 | 0.135 | $54.00 |
| LAS.A | 15-Sep-17 | 0.610 | $12.20 |
| MG | 15-Sep-17 | 0.275 | $60.01 |
| RBA | 15-Sep-17 | 0.170 | $103.05 |
| SAP | 15-Sep-17 | 0.160 | $40.00 |
| WCP | 15-Sep-17 | 0.023 | $26.80 |
| MFC | 19-Sep-17 | 0.205 | $225.50 |
| OTEX | 22-Sep-17 | 0.164 | $32.71 |
| SJ | 22-Sep-17 | 0.110 | $27.50 |
| SU | 25-Sep-17 | 0.320 | $128.00 |
| BAM.A | 29-Sep-17 | 0.171 | $63.96 |
| CCL.B | 29-Sep-17 | 0.115 | $39.10 |
| CNR | 29-Sep-17 | 0.413 | $123.75 |
| MDA | 29-Sep-17 | 0.370 | $35.15 |
| XIC | 29-Sep-17 | 0.179 | $103.82 |
| **Total** | | | **$1,380.55** |

## *Appendix 3: Conviction Matrix and Asset Weighting*

### The CPMT Conviction-Weighting Matrix

| Class | Conviction | | |
|---|---|---|---|
| | 1 | 2 | 3 |
| Small Cap ($100M - $1B) | 1.00% | 2.00% | 3.00% |
| Mid Cap ($1B - $10B) | 1.50% | 3.00% | 4.50% |
| Large Cap (>$10B) | 2.00% | 5.00% | 6.00% |

### The CPMT Current Holdings vs. Target Weight

| **Financials** | Conviction | Market Cap | Current Weight | Target Weight | Difference |
|---|---|---|---|---|---|
| Alaris Royalty Corp. | 3 | Small | 1.85% | 2.57% | 0.71% |
| Bank of Nova Scotia | 3 | Large | 6.15% | 5.13% | (1.01%) |
| Brookfield Asset Management | 2 | Large | 3.83% | 3.42% | (0.41%) |
| Trisura Group Ltd. | [redacted] | Small | 0.01% | 1.71% | 1.70% |
| Manulife | 3 | Large | 5.38% | 5.13% | (0.24%) |
| Toronto Dominion | 3 | Large | 5.24% | 5.13% | (0.11%) |
| **Information Technology** | | | | | |
| CGI Group | | Large | 2.80% | 1.71% | (1.09%) |
| Constellation Software | 1 | Large | 3.27% | 1.71% | (1.56%) |
| Open Text Corp. | 2 | Large | 1.65% | 3.42% | 1.78% |
| **Materials** | | | | | |
| Stella Jones | 2 | Mid | 2.22% | 2.57% | 0.34% |
| CCL Industries | 3 | Large | 4.48% | 5.13% | 0.65% |
| **Energy** | | | | | |
| Enbridge | 3 | Large | 5.19% | 5.13% | (0.06%) |
| Whitecap | 2 | Mid | 2.14% | 2.57% | 0.43% |
| Raging River | 2 | Mid | 3.29% | 2.57% | (0.72%) |
| Advantage Oil & Gas Ltd | 2 | Mid | 2.47% | 2.57% | 0.10% |
| Seven Generations | 3 | Mid | 4.69% | 2.57% | (2.12%) |
| Suncor | 2 | Large | 3.05% | 3.42% | 0.38% |
| **Consumer Discretionary** | | | | | |
| Aritzia Inc | 1 | Mid | 2.26% | 2.57% | 0.30% |
| Magna | 1 | Large | 2.17% | 1.71% | (0.46%) |
| **Consumer Staples** | | | | | |
| Saputo | 1 | Large | 2.07% | 1.71% | (0.36%) |
| Andrew Peller | 2 | Small | 2.42% | 1.71% | (0.71%) |
| Lassonde | 1 | Mid | 0.99% | 1.28% | 0.30% |
| **Telecommunications** | | | | | |
| Telus | 2 | Large | 3.06% | 3.42% | 0.36% |
| **Healthcare** | | | | | |
| Knight Therapeutics | 2 | Mid | 2.48% | 2.57% | 0.08% |
| **Industrials** | | | | | |
| Stantec | 3 | Mid | 3.22% | 3.85% | 0.63% |
| Richelieu Hardware | 2 | Mid | 2.17% | 2.57% | 0.39% |
| Toromont | 3 | Mid | 2.88% | 3.85% | 0.97% |
| Ritchie Bros Auctioneers | 3 | Mid | 3.75% | 3.85% | 0.10% |
| Macdonald, Dettwiler and Associates | 2 | Mid | 1.29% | 2.57% | 1.28% |
| Canadian National Railway | 3 | Large | 6.34% | 5.13% | (1.20%) |
| **Utilities** | | | | | |
| Algonquin | 2 | Mid | 3.02% | 2.57% | (0.45%) |

## *Appendix 4: Target Prices*

### Updated Target Prices

| Financials | End Price | Original Target Price | Current Target Price |
|---|---|---|---|
| Alaris Royalty Corp. | $20.57 | $25.00 | $25.00 |
| Bank of Nova Scotia | $80.20 | $80.00 | $86.00 |
| Brookfield Asset Management | $51.52 | $52.00 | $56.00 |
| Trisura Group Ltd. | $26.60 | | |
| Manulife | $25.31 | $26.00 | $29.00 |
| Toronto Dominion | $70.25 | $68.00 | $75.00 |
| **Information Technology** | | | |
| CGI Group | $64.70 | $72.00 | |
| Constellation Software | $680.74 | $710.00 | $710.00 |
| Open Text Corp. | $40.26 | $52.00 | $50.00 |
| **Materials** | | | |
| Stella Jones | $48.02 | $46.00 | $52.00 |
| CCL Industries | $60.38 | $75.00 | $75.00 |
| **Energy** | | | |
| Enbridge | $52.12 | $63.00 | $63.00 |
| Whitecap | $9.70 | $14.00 | $12.50 |
| Raging River | $7.87 | $13.00 | $10.00 |
| Advantage Oil & Gas Ltd | $7.82 | $11.50 | $8.50 |
| Seven Generations | $19.74 | $35.00 | $25.00 |
| Suncor | $43.73 | $47.00 | $47.00 |
| **Consumer Discretionary** | | | |
| Aritzia Inc | $14.85 | $21.00 | $21.00 |
| Magna | $66.59 | $70.00 | $70.00 |
| **Consumer Staples** | | | |
| Saputo | $43.19 | $52.00 | $52.00 |
| Andrew Peller | $12.01 | $14.00 | $14.00 |
| Lassonde | $243.27 | $280.00 | $280.00 |
| **Telecommunications** | | | |
| Telus | $44.88 | $50.00 | $55.00 |
| **Healthcare** | | | |
| Knight Therapeutics | $8.65 | $11.00 | $11.00 |
| **Industrials** | | | |
| Stantec | $34.63 | $37.00 | $40.00 |
| Richelieu Hardware | $31.38 | $38.00 | $38.00 |
| Toromont | $57.22 | $54.00 | $71.00 |
| Ritchie Bros Auctioneers | $39.45 | $50.00 | $47.00 |
| Macdonald, Dettwiler and Associates | $70.98 | $82.00 | $82.00 |
| Canadian National Railway | $103.38 | $117.50 | $115.00 |
| **Utilities** | | | |
| Algonquin | $13.19 | $15.00 | $15.00 |

## *Appendix 5: Detailed Holding Summary*

### The CPMT Holdings Summary

| | Conviction | Shares | Target Price | 3/31/2017 *or at purchase | 6/30/2017 *or at sale | Ending Balance | Price Return to Date | %AUM |
|---|---|---|---|---|---|---|---|---|
| **Financials** | | | | | | | | |
| Alaris Royalty Corp. | 3 | 400 | $25 | $23 | $21 | $8,228 | (10.68%) | 1.6% |
| Bank of Nova Scotia | 3 | 392 | $80 | $78 | $80 | $31,438 | 2.81% | 6.2% |
| Brookfield Asset Management | 2 | 375 | $52 | $51 | $52 | $19,320 | 1.30% | 3.8% |
| Trisura Group Ltd. | 1 | 2 | | $21 | $27 | $53 | 26.18% | 0.0% |
| Manulife | 3 | 1100 | $26 | $24 | $25 | $27,841 | 4.11% | 5.5% |
| Toronto Dominion | 3 | 400 | $68 | $65 | $70 | $28,100 | 7.83% | 5.6% |
| **Total** | | | | **$111,665** | **$114,981** | **$114,981** | **3.53%** | **22.7%** |
| **S&P/TSX Financials** | | | | | | | 4.51% | |
| **Information Technology** | | | | | | | | |
| CGI Group | 1 | 210 | $72 | $66 | $65 | $13,587 | (2.35%) | 2.7% |
| Constellation Software | 1 | 24 | $710 | $678 | $681 | $16,338 | 0.35% | 3.2% |
| Open Text Corp. | 2 | 200 | $52 | $41 | $40 | $8,052 | (1.64%) | 1.6% |
| **Total** | | | | **$38,381** | **$37,977** | **$37,977** | **(0.84%)** | **7.5%** |
| **S&P/TSX Information Technology** | | | | | | | 3.24% | |
| **Materials** | | | | | | | | |
| Stella Jones | 2 | 250 | $46 | $44 | $48 | $12,005 | 8.50% | 2.4% |
| CCL Industries | 3 | 340 | $75 | $66 | $60 | $20,529 | (7.97%) | 4.1% |
| **Total** | | | | **$33,372** | **$32,534** | **$32,534** | **(2.05%)** | **6.4%** |
| **S&P/TSX Materials** | | | | | | | 3.25% | |
| **Energy** | | | | | | | | |
| Enbridge | 3 | 500 | $63 | $52 | $52 | $26,060 | 0.89% | 5.2% |
| Whitecap | 2 | 1150 | $14 | $9 | $10 | $11,155 | 4.75% | 2.2% |
| Raging River | 2 | 2020 | $13 | $8 | $8 | $15,897 | (2.72%) | 3.1% |
| Advantage Oil & Gas Ltd | 2 | 1400 | $12 | $9 | $8 | $10,948 | (10.83%) | 2.2% |
| Seven Generations | 2 | 1050 | $35 | $22 | $20 | $20,727 | (11.12%) | 4.1% |
| Suncor | 2 | 400 | $47 | $38 | $44 | $17,492 | 15.41% | 3.5% |
| **Total** | | | | **$103,575** | **$102,279** | **$102,279** | **(0.53%)** | **20.2%** |
| **S&P/TSX Energy** | | | | | | | 6.60% | |
| **Consumer Discretionary** | | | | | | | | |
| Aritzia Inc | 2 | 750 | $21 | $15 | $15 | $11,138 | (1.13%) | 2.2% |
| Magna | 1 | 180 | $70 | $60 | $67 | $11,986 | 10.85% | 2.4% |
| **Total** | | | | **$22,078** | **$23,124** | **$23,124** | **5.05%** | **4.6%** |
| **S&P/TSX Consumer Discretionary** | | | | | | | 4.67% | |
| **Consumer Staples** | | | | | | | | |
| Saputo | 1 | 250 | $52 | $41 | $43 | $10,798 | 4.70% | 2.1% |
| Andrew Peller | 2 | 1100 | $14 | $11 | $12 | $13,211 | 9.68% | 2.6% |
| Lassonde | 1 | 20 | $280 | $245 | $243 | $4,865 | (0.90%) | 1.0% |
| **Total** | | | | **$27,267** | **$28,874** | **$28,874** | **6.10%** | **5.7%** |
| **S&P/TSX Consumer Staples** | | | | | | | (2.73%) | |
| **Telecommunications** | | | | | | | | |
| Telus | 2 | 340 | $50 | $45 | $45 | $15,259 | 0.25% | 3.0% |
| **Total** | | | | **$15,222** | **$15,259** | **$15,259** | **1.42%** | **3.0%** |
| **S&P/TSX Telecommunications** | | | | | | | (1.01%) | |

## Appendix 5: Detailed Holding Summary (Continued)

| | Conviction | Shares | Target Price | 3/31/2017 *or at purchase | 6/30/2017 *or at sale | Ending Balance | Price Return to Date | %AUM |
|---|---|---|---|---|---|---|---|---|
| **Healthcare** | | | | | | | | |
| Knight Therapeutics | 2 | 1200 | $11 | $10 | $9 | $10,380 | (15.94%) | 2.1% |
| **Total** | | | | **$12,348** | **$10,380** | **$10,380** | **(15.89%)** | **2.1%** |
| **S&P/TSX Healthcare** | | | | | | | (10.32%) | |
| **Industrials** | | | | | | | | |
| Stantec | 3 | 490 | $37 | $33 | $35 | $16,969 | 6.06% | 3.4% |
| Richelieu Hardware | 2 | 360 | $38 | $30 | $31 | $11,297 | 4.43% | 2.2% |
| Toromont | 3 | 300 | $54 | $48 | $57 | $17,166 | 19.86% | 3.4% |
| Ritchie Bros Auctioneers | 3 | 500 | $50 | $37 | $39 | $19,725 | 5.88% | 3.9% |
| Macdonald, Dettwiler and Associates | 2 | 95 | $82 | $67 | $71 | $6,743 | 5.19% | 1.3% |
| Canadian National Railway | 3 | 300 | $118 | $105 | $103 | $31,014 | (1.63%) | 6.1% |
| **Total** | | | | **$97,706** | **$102,914** | **$102,914** | **5.68%** | **20.3%** |
| **S&P/TSX Industrials** | | | | | | | 2.68% | |
| **Utilities** | | | | | | | | |
| Algonquin | 2 | 1100 | $15 | $14 | $13 | $14,509 | (3.37%) | 2.9% |
| **Total** | | | | **$15,015** | **$14,509** | **$14,509** | **(2.27%)** | **2.9%** |
| **S&P/TSX Utilities** | | | | | | | (1.13%) | |
| **ETF** | | | | | | | | |
| iShares Core S&P/TSX Index ETF | | 580 | | $24 | $25 | $14,349 | 2.95% | 2.8% |
| **Total** | | | | | | **$14,349** | | **2.8%** |
| Cash | | | | $6,721 | $9,351 | | | 1.8% |
| Calgary Portfolio Management Trust | | | | $497,463 | $505,943 | | 1.82% | 100.0% |
| S&P/TSX Composite Total Return Index | | | | 49,864.48 | 51,701.68 | | 3.68% | |
| **Simple Alpha CPMT** | | | | | | | **(1.86%)** | |