CPMT Monthly Update – May 2018

CPMT
Calgary Portfolio Management Trust

CFA Society Calgary

UNIVERSITY OF CALGARY

Calgary Portfolio Management Trust

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Portfolio Manager: *Ali Saleh*

Macroeconomic Snapshot

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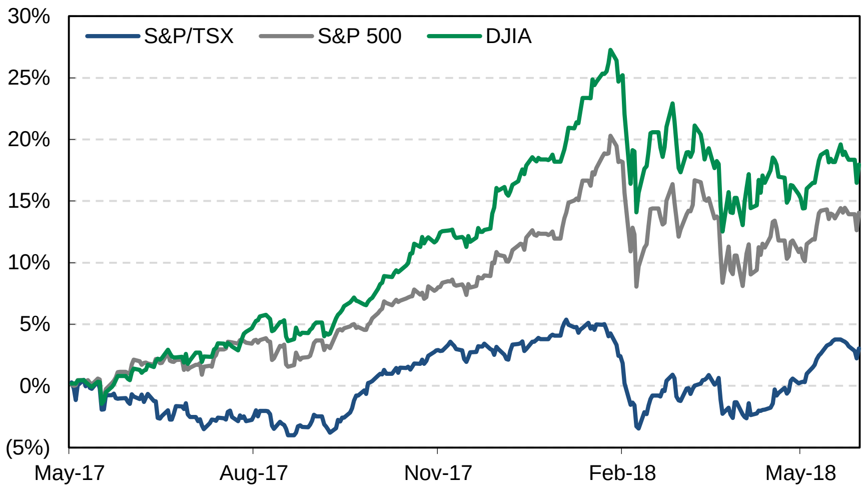
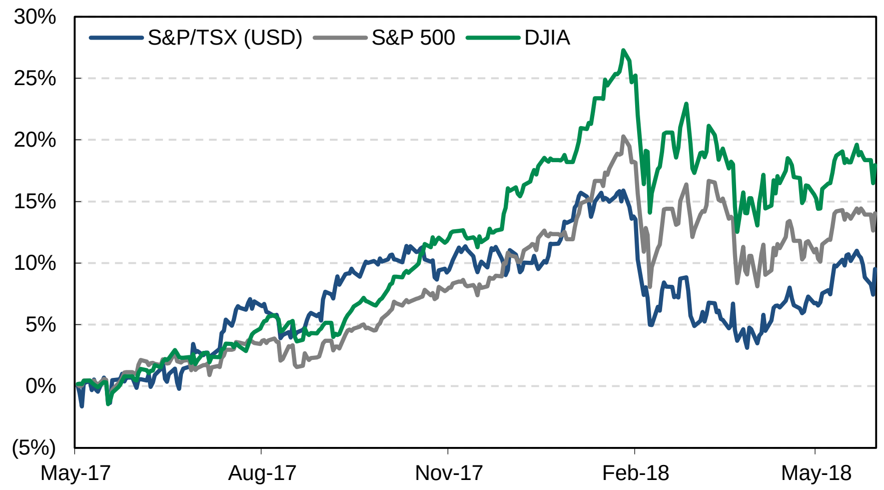
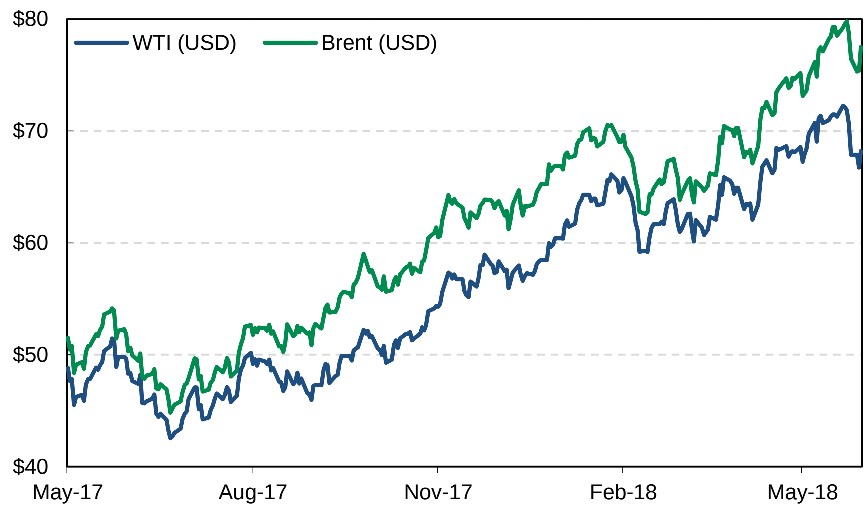


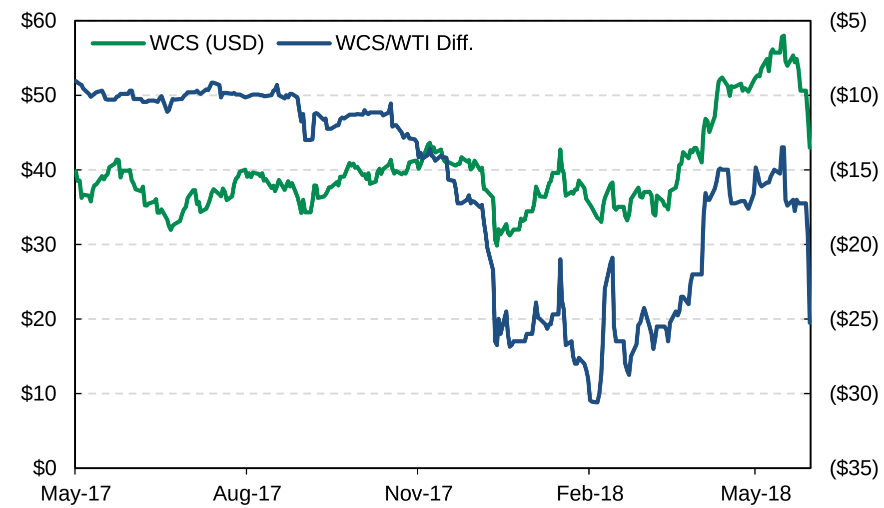
TSX Relative Performance



Crude Oil



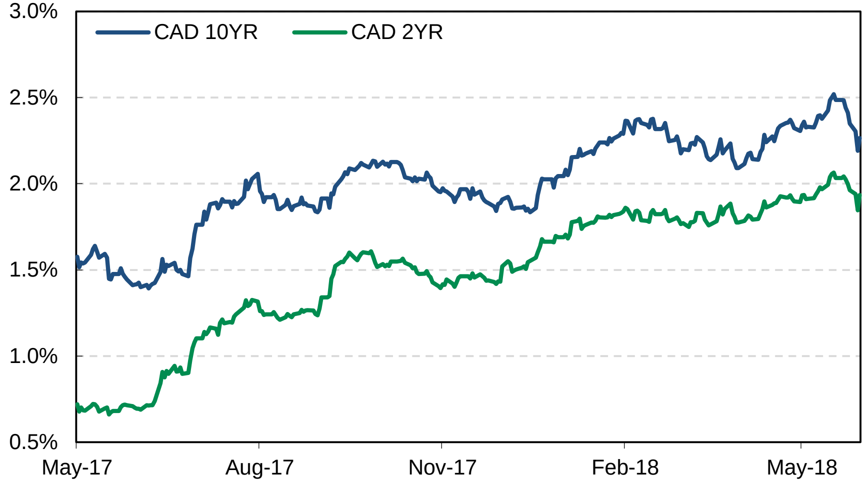
WCS Environment



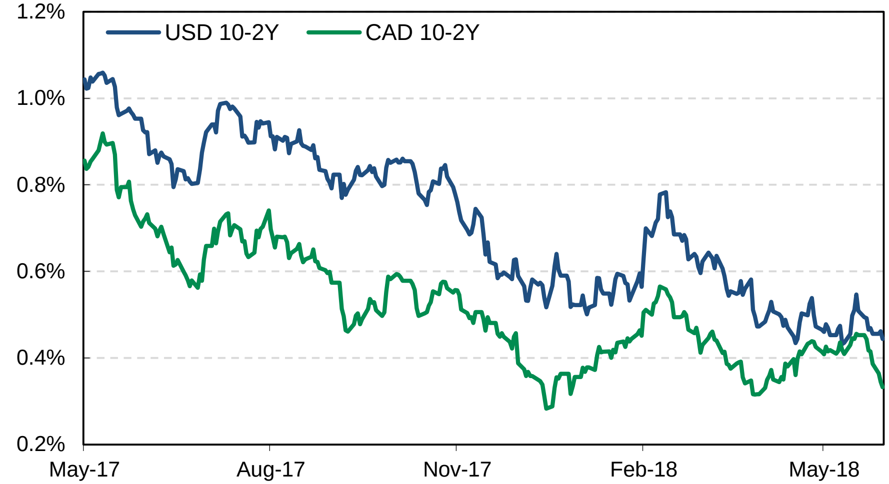
Source: Bloomberg, CPMT Estimates
Numbers as of close on May 30, 2018

Macroeconomic Snapshot

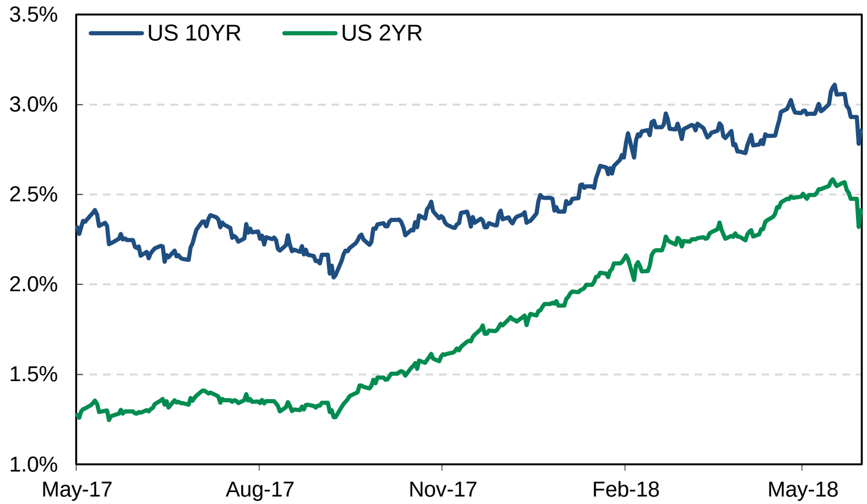
Canadian Yields



10-2 Year Spreads



United States Treasury Yields



CAD/USD Spot

Source: Bloomberg, CPMT Estimates
Numbers as of close on May 30, 2018

Energy Update

Portfolio Manager: *Wyatt Phillips*
Investment Analyst: *Scott McNichol*

Energy Sector Update

General Outlook

- Crude oil prices reached multi-year highs in May, with Brent and WTI rising above USD $80/bbl and USD $72/bbl respectively. Prices have declined slightly in the latter part of the month due to growing sentiment that Saudi Arabia and Russia will ease production cuts, which could add up to 1 mmbbls/d to the market. The move would reduce OPEC's over compliance with production cuts which has been amplified as of late by Venezuela's economic crisis
- The CPMT is keeping an eye on the change in marine fuel standards from the International Maritime Organization. Sulfur content in bunker fuel must drop from the current standard of 3.5% to 0.5% in 2020. As a result, most companies will switch to marine gasoil (MGO), very low sulfur fuel oil (VLSFO), or a blend of the two. Thus, demand for high sulfur fuel oil (HSFO) will drop significantly. Middle distillate demand will fill most of the void, as it is expected to increase by 3.2 mmbbls/d over the next three years, which is 88% higher than if the regulation were not to be implemented. This transition will drive crude demand higher, as middle distillate yields are highest when refined from ~35° API oil. If middle distillate crack spreads continue to get stronger as expected, refiners will use their remaining capacity to process additional light crude, pushing prices higher. We believe that this development will be positive for our light oil holdings (TSX: RRX and TSX: WCP) as well as Suncor (TSX: SU), as it upgrades most of its oilsands production to synthetic crude (~33° API) before it is sold

Geopolitical Factors: Iran and Venezuela

- U.S. President Donald Trump announced on May 8, 2018 that the U.S. would be pulling out of the Iran Nuclear Deal (JCPOA) and threatened to reimpose economic sanctions on the OPEC producer. However, details surrounding the potentially new sanctions will become much clearer over the next few months. Iran's oil production is ~4 mmbbls/d, approximately 4-5% of the world's oil production. Some estimates indicate that exports could decrease by 500 mbbls/d; however, other OPEC nations, notably Saudi Arabia, could easily make up the shortfall from Iran, as it has an estimated 2 mmbbls/d in spare capacity
- In Venezuela, new sanctions from the U.S. after the White House declared the recent Venezuelan presidential election a "sham" will make it more difficult to produce and export oil. Since Venezuela's production is predominantly heavy crude, U.S. Gulf Coast refiners will have to make up for the shortfall, which presents an opportunity for Canadian heavy oil. However, the difficulties that Canadian producers face in getting their product to market continue to persist. Venezuelan production has dropped by 200 mbbls/d this year to 1.4 mmbbls/d, which is one-third lower than production levels from two years ago. Moreover, production is currently 550 mbbls/d less than the cap that Venezuela is subject to under OPEC, and production could continue to drop by an additional 500 mbbls/d to under 1 mmbbls/d by the end of 2018

Source: Bloomberg, Thomson Reuters

CPMT Calgary Portfolio Management Trust

Company Specific Updates

Holdings

RRX

- Strategic review process aimed at maximizing shareholder value is still ongoing
- Strong Q1 results, healthy balance sheet at < 1.0x Net Debt/FFO

Whitecap Resources Inc

- Announced a 5% dividend increase
- Oil weighting (~80%) positions WCP to capitalize on improving oil prices
- Strong balance sheet and management

Seven Generations Energy Ltd

- Q1 total production below expectations, condensate volumes up slightly
- Management changes: David Holt brought in as new COO

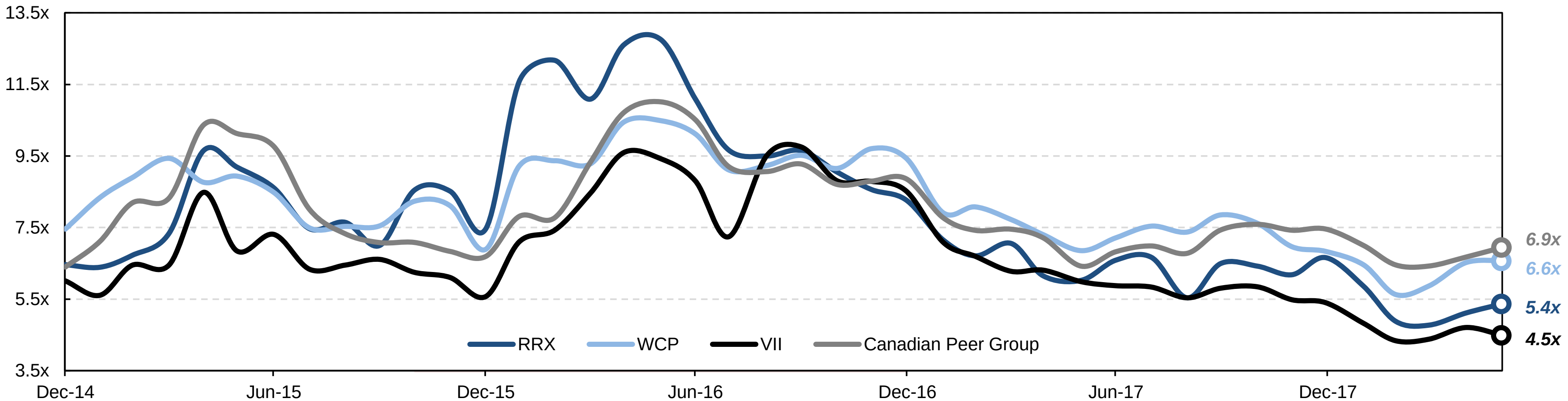
Suncor Energy

- Continued with share buybacks in Q1 ($389mm), more to come during the year
- Strong Q1 results, integrated model continues to protect SU from WCS differentials

Enbridge

- Asset sale targets for 2018 have been met
- Roll up of SVs will increase shareholder value
- Line 3 decision expected by the end of June

E&P 12-month Forward EV/EBITDA Multiples



Source: Bloomberg, Company Filings
Canadian Peer Group Used: TSX: TOG, TSX: KEL, TSX: BTE, TSX: VET, TSX: CJ

Financials Update

Portfolio Manager: *Ali Saleh*
Investment Analyst: *Liem-Lucas Nguyen*

Company Specific Updates

Brookfield Asset Management

- Brookfield Asset Management (TSX: BAM) kicked off its fiscal year with strong results, driven by a mixture of acquisitions, organic growth, and divestitures of some of its businesses. BAM's Q1 net income came in at $1.9B. Funds from operations came in at $1.2B
- BAM's fee-related earnings grew by ~110% from last year to $343mm. Furthermore, strategic acquisitions particularly in BAM's Private Equity and Infrastructure segments helped fuel its ~94% revenue growth YoY
- BAM saw its fee-bearing capital rise 12% YoY to $127B after strong fundraising in its flagship real estate fund. With fee-bearing capital growing at a five-year CAGR of 12% (during the five years ended March 31, 2018), the CPMT continues to consider BAM a strong name

Manulife Financial

- Manulife (TSX: MFC) reported better than expected Q1 earnings, representing an 18% increase in core earnings from last year. This growth was driven by strong investment gains, growth in Asia, Global Wealth and Asset Management, and lower U.S. tax rates
- MFC's core earnings in Asia grew by 25% YoY on a constant currency basis. Expansion in Asia allows MFC to diversify its revenue stream away from the increasingly competitive Canadian market and to capitalize on the continent's growing middle class
- Furthermore, Q1 marks MFC's first quarter under the newly implemented Life Insurance Capital Adequacy Test (LICAT) regime, which replaced the old Minimum Continuing Capital and Surplus Requirements guideline as the key life insurance capital test at the start of 2018. MFC reported its operating level LICAT ratio to be 129%, or 29% above the OSFI's supervisory target of 100%, indicating MFC's healthy capital adequacy
- MFC's financial leverage came in at 29.7%, a 60 bps decrease from Q4. With management focused on reducing its leverage to 25%, capital deployment to high growth segments such as Asia, and strengthening MFC's balance sheet, the CPMT will continue to monitor MFC's execution on these fronts

Source: Company Filings, Bloomberg, Capital IQ, CPMT Estimates

Company Specific Updates

The Bank of Nova Scotia

- On May 9, 2018, Scotiabank (TSX: BNS) announced it had reached an agreement to acquire a 51% controlling interest in the Peru-based lender, Banco Cencosud, for ~$130mm. Barring regulatory approval, the agreement would make BNS the second largest credit card issuer in Peru, further increasing its presence in Latin America
- Over the past decade, Peru has been one of the fastest growing economies in Latin America. The World Bank expects Peru's GDP growth to accelerate in 2018, given stronger private investment in response to the partial recovery of commodity prices. Additionally, in early 2018, Peru's central bank lowered its benchmark interest rate to 3.0% to stimulate economic growth. As Peru currently accounts for 11% of BNS' international loan book (which accounts for 33% of the bank's total lending), the CPMT considers the Peruvian economic climate to be conducive to further BNS expansion in Latin America
- BNS is focused on increasing its market share in the four so-called "Pacific Alliance" countries of Mexico, Chile, Peru, and Colombia. This, alongside a recent string of acquisitions in Latin America, supports the CPMT's original investment thesis outlining BNS' strong international exposure to Latin America
- During the month, BNS reported earnings of $2.2B, helped by overseas profits jumping 13%. Core Canadian banking net income rose 5% per cent to $1.0B
- Canadian mortgage balance during the quarter was $209.8B, compared to $202.4B in BNS' first quarter. BNS' earnings outside of Canada were driven by "momentum" and growing economies in the Pacific Alliance, with Mexico being the laggard given all the uncertainty surrounding the future of NAFTA
- The Bank reported a very strong Common Equity Tier 1 (CET1) ratio at 12% (11.3% last year, 11.2% last quarter)
- The Bank also announced plans to buy back upwards of 24mm shares, which equates to ~2% of its shares outstanding

Source: Company Filings, Bloomberg, The World Bank, CPMT Estimates

Company Specific Updates

Toronto-Dominion Bank

- The Toronto-Dominion Bank (TSX: TD) reported its Q2 earnings, comfortably beating analyst estimates. TD's excellent cost control (expenses were essentially unchanged YoY for the third consecutive quarter), alongside strong growth in all its business segments, resulted in TD reporting adjusted diluted EPS of $1.62, implying 21% growth YoY
- TD's operating ROE came in at 17.6%, the highest in nearly seven years. TD's low PCL ratio at quarter end was 36 bps, which may be attributed to a strengthening Canadian economy. Although the management does not expect the PCL ratio to repeat at such lows, it does anticipate for the ratio to land at the lower end of its 40-45 bps fiscal year target
- TD's CET1 ratio came in at 11.8%, highlighting its strong capital position
- The CPMT will continue to monitor TD's cost control performance (improving efficiency ratios); it continues to consider TD a strong name, expecting strong growth in the future

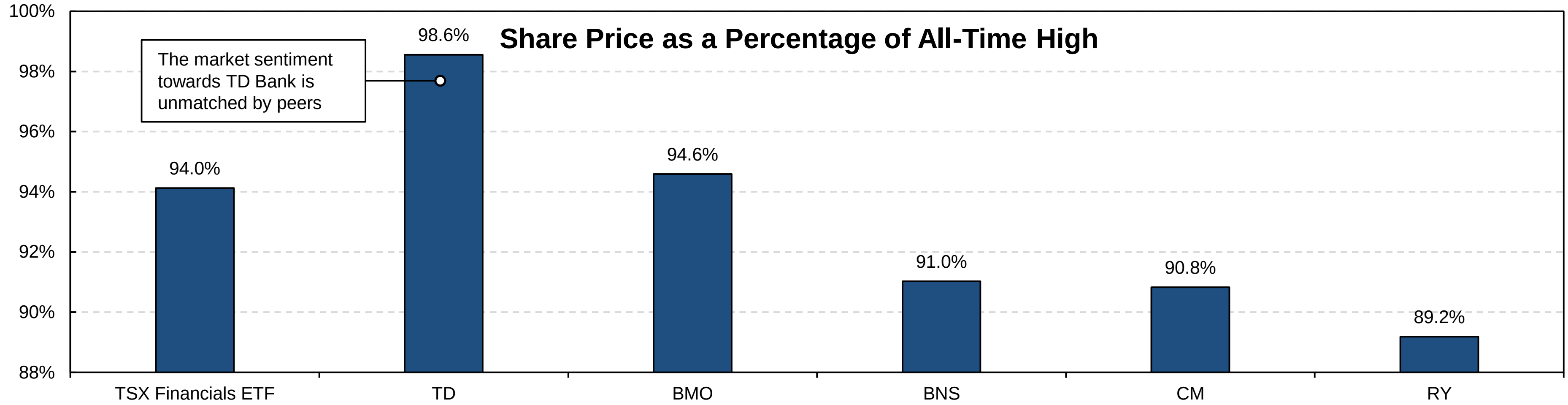
Royal Bank of Canada

- The Royal Bank of Canada (TSX: RY) reported net income growth of 9% YoY, surpassing consensus estimates. This was fueled by growth in all segments (Canadian retail banking 7% growth YoY), except in the Capital Markets segment. The CPMT is currently not worried about the lagging capital markets growth within the Canadian banks, given the weakness in the broader Canadian market, note that net income from the investment banking division was relatively flat and not materially down
- The Wealth Management division saw its net income increase 25% YoY, in support of the CPMT's investment thesis. Part of the growth in this segment was due to continued benefit from tax reform in the U.S., and thus, the CPMT will continue to monitor these numbers moving forward
- Other notable highlights from the quarter included RY's residential mortgage growth which, was 5% YoY despite the stricter mortgage rules. CET1 was not materially lower from the previous quarter at 10.9% (11.0% last quarter, 10.6% a year ago)

Source: Company Filings, Bloomberg, Capital IQ, CPMT Estimates

Final Commentary

Market Sentiment Towards the Canadian Banks



Commentary and Earnings Wrap Up

- With the top five Canadian banks reporting fiscal second quarter earnings, the CPMT has not seen any material negative impact to mortgage loan books or mortgage growth, despite tighter mortgage rules coming into effect at the beginning of the year. Our conviction with respect to our three bank holdings (TD, RY, and BNS) remains unchanged as we continue to see our investment thesis play out
- The market sentiment towards TD continues to be strong. We believe this is as a result of the Bank's continued growth in the U.S., helping it diversify from the high consumer debt levels and housing market in Canada, as well as the Bank's improving efficiency ratios. TD also benefits slightly more than other Canadian banks during market volatility due to their stake in TD Ameritrade (as well domestic trading through TD Waterhouse)
- BNS continues to grow internationally; the CPMT believes the Bank is capable of stronger earnings once Latin America acquisitions (and Jarislowsky Fraser) are digested
- RY is continuing to grow (helped by an its acquisition south of the border of City National) its Wealth Management division
- MFC, although not a bank, is poised to benefit from higher rates and the growing middle class in Asia

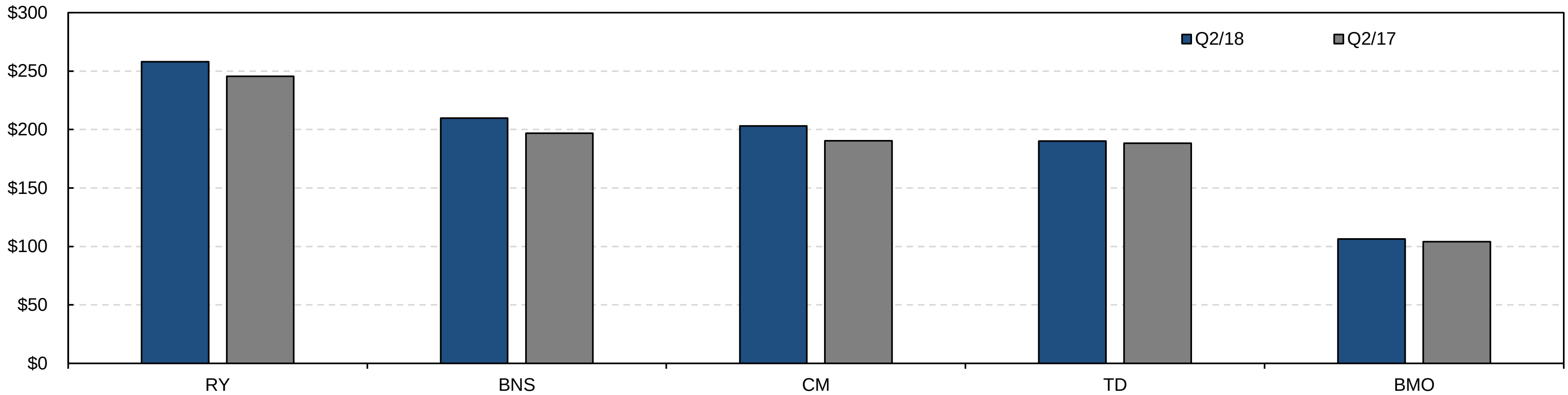
Source: Company Filings, Bloomberg (share prices as of close on May 30, 2018), CPMT Estimates
ETF Used: iShares S&P TSX Capped Financials Index (TSX: XFN)

Mortgage Check

Canadian Residential Mortgage Balances (in CAD Millions)

Bank	Q2/18	Q1/18	Q2/17	QoQ Δ	YoY Δ	CPMT
BMO	$ 106,363	$ 106,440	$ 104,082	(0.1%)	2.2%	×
BNS	$ 209,854	$ 208,317	$ 196,775	0.7%	6.6%	✓
CM	$ 203,000	$ 202,600	$ 190,400	0.2%	6.6%	×
RY	$ 257,974	$ 257,812	$ 245,554	0.1%	5.1%	✓
TD	$ 190,066	$ 190,218	$ 188,293	(0.1%)	0.9%	✓
High	$ 257,974	$ 257,812	$ 245,554	0.7%	6.6%	
Low	$ 106,363	$ 106,440	$ 104,082	(0.1%)	0.9%	
Average	$ 193,451	$ 193,077	$ 185,021	0.2%	4.3%	
Median	$ 203,000	$ 202,600	$ 190,400	0.1%	5.1%	
CPMT Average	$ 219,298	$ 218,782	$ 210,207	0.2%	4.2%	

Canadian Residential Mortgage Balances (in CAD Billions)



Source: Company Filings, CPMT Estimates
Mortgages are as of the end of Fiscal Q2 – April 30, 2018
Reflects insured and uninsured Canadian Mortgages – does not include Home Equity LOC, U.S. or international mortgages

Healthcare Update

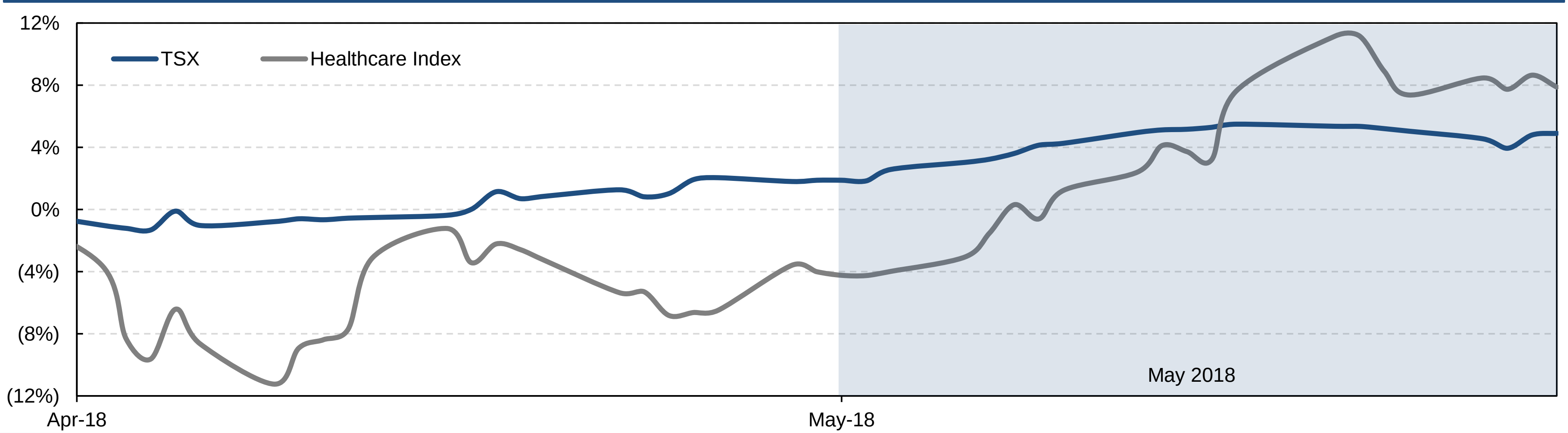
Portfolio Manager: *Andrew Gormley*
Investment Analyst: *Brian Timmerman*

Healthcare Sector Update

Sector Update

- During the month of May, the S&P/TSX Capped Health Care Index (TSX: TTHC), saw a total return of 12.4%
- The CPMT's sole healthcare holding, Knight Therapeutics (TSX: GUD), gained 1.5%
- Valeant Pharmaceuticals Inc (TSX: VRX) is changing its name to Bausch Health Companies Inc in order to distance itself from its controversial past when it lost over 70% of its market value in 2015
- The status of Bill C-45 for the legalization of recreational marijuana in Canada is currently at a second reading in the Senate. It remains unclear when the bill will be passed as the bill could be amended by senators which would cause further delays. Best estimates give a time frame from August to September for marijuana to be available for recreational use
- According to a new report released in May by the Canadian Institute for Health Information, the senior population (65 and over) is growing by an average of 3.9% per year, compared with only 0.6% growth for non-seniors. With 65.7% of seniors being prescribed five or more drug classes, and 26.5% being prescribed 10 or more drug classes, the aging demographic in Canada remains a tailwind for the sector

Healthcare Sector Return vs. TSX Return



Source: CIHI; Drug Use Among Seniors in Canada, 2016, Bloomberg

Knight Therapeutics Re-evaluation

Knight Therapeutics

- GUD reported its first quarter 2018 results on May 10, 2018
- Revenue increased 80% YoY, mainly attributed to the sale of *Impavido* and an increase in *Movantik* sales
- GUD continues to hold approximately ~$802mm in cash, cash equivalents, and marketable securities, which it hopes to use in acquiring product rights or conducting M&A under favorable circumstances
- Its product pipeline expanded and matured over the quarter, with *Probuphine* receiving regulatory approval and expected to launch by the end of 2018

Original Thesis

- The CPMT's original thesis was based primarily on GUD's management team replicating the success of Paladin Labs, which was one was one of Canada's most successful pharmaceutical companies
- GUD's competitive advantage consists of a unique product sourcing strategy where the Company finances other life science companies through its strategic loan book, while also investing in life science venture capital funds
- In addition, GUD has a strong balance sheet with no debt and is looking to acquire product rights in Canada and select international markets

Thesis Re-evaluation

- The CPMT is currently in the process of re-evaluating our original thesis on GUD
- Our main concerns lie with GUD's unique product sourcing strategy as its main competitive advantage. We are evaluating whether this strategy is effective and provides a moat in the current healthcare environment
- By digging into the roots of Paladin Labs' previous success, we hope to gain a better understanding of these strategies, and if they can be successfully replicated by GUD

Knight Recent Trading Performance

Source: Company Filings, Bloomberg

Industrials Update

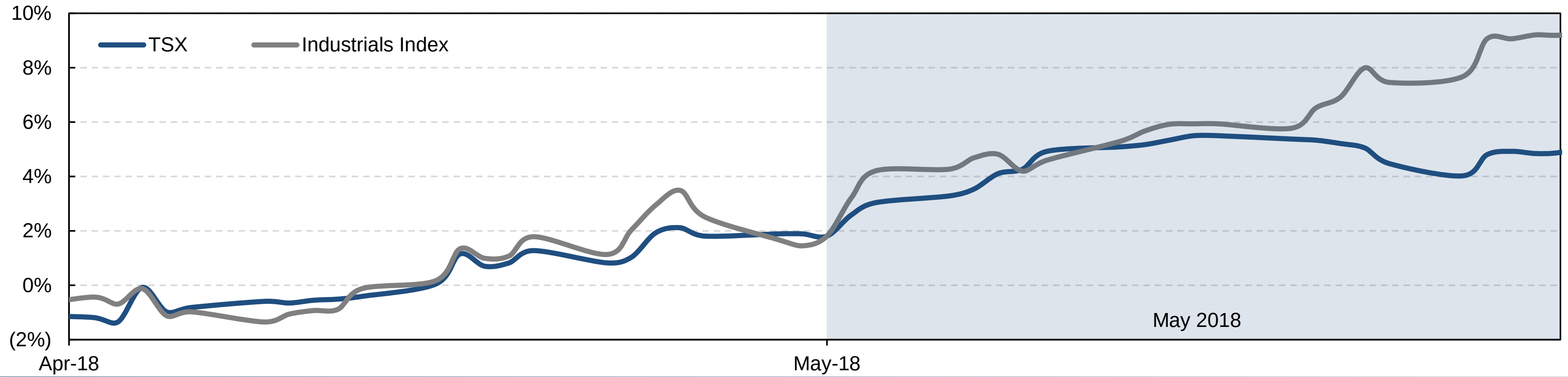
Portfolio Manager: *Eeshwar Dutt*
Investment Analyst: *Faiz Dossa*

Industrials Sector Update

Sector Overview

- During the month of May, the S&P/TSX Composite Industrials Total Return Index (TSX: STINDU) gained 7.7%
- The top performing name in the sector was Bombardier Inc (TSX: BBD) which saw a gain of 26.4% over the last month
  - BBD announced the addition of the Challenger 300 aircraft to its worldwide Mobile Response Team to provide additional parts and technicians
  - Bombardier is currently working on clean technology and sustainability with CanCham, a company based in Thailand
- The worst performing name in the sector was Aecon Group Inc (TSX: ARE) which saw a loss of 17.5% over the last month
  - ARE was to be acquired by CCCC International Holding Limited. However, the Governor in Council issued an order preventing this arrangement
  - This deal would have allowed ARE to compete with many large global construction companies actively working in Canada. The Company expects revenue growth improvement over the previous fiscal year. Management remains optimistic regarding their newly elected Board of Directors

Industrial Sector Return vs. TSX Return



Source: Bloomberg

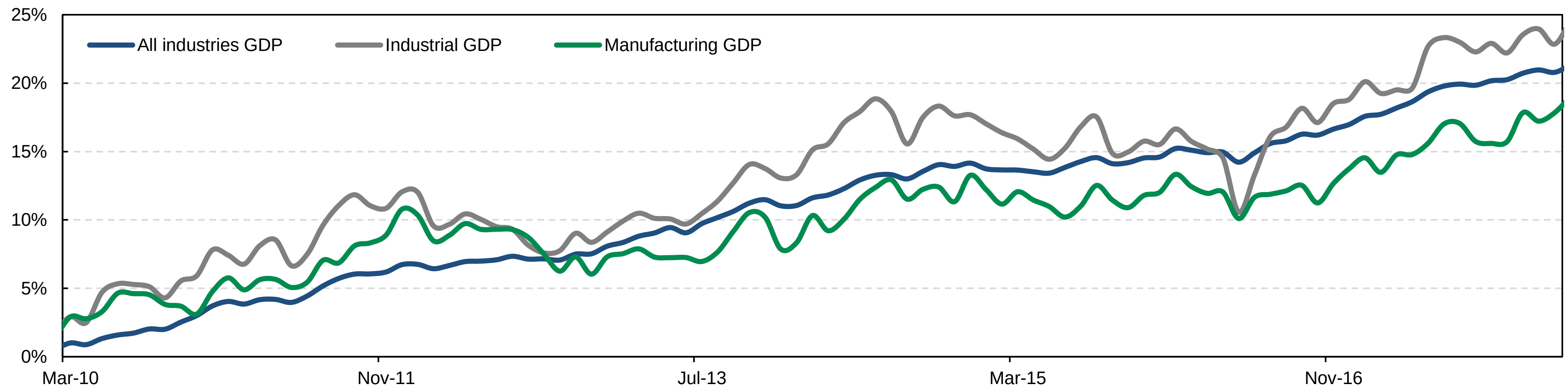
Industrials Sector Update

Calgary Portfolio Management Trust

Improvements in Canadian Manufacturing

- Reports released by TD Bank in May 2018 regarding Q1 displayed favorable performance for Canadian Manufacturers
  - Durable goods presented a 2.2% sales gain primarily due to aerospace. However, motor-vehicle and machinery sales decreased
  - Non-durable industries performance had an overall increase in sales of 0.4%
  - Inventories have been climbing month over month and reached a record high of $79.2B for the month of March
- Currency moves are proving beneficial for manufacturers who receive demand from the United States
  - Aerospace goods are priced in U.S. dollars which allowed Québec to be the largest contributor to Canada's manufacturing sales volume
  - U.S. demand remains strong for Canadian goods. There is incentive for firms to expand, resulting in growth from the sector throughout the year. As a result, unfulfilled orders were up in February by 1.5%. Expansion from firms will lower this value as well as increase sales volume for the sector

Canadian GDP Growth vs. Sector GDP Contribution



Source: CANSIM, TD Bank

Canadian National Railway Co

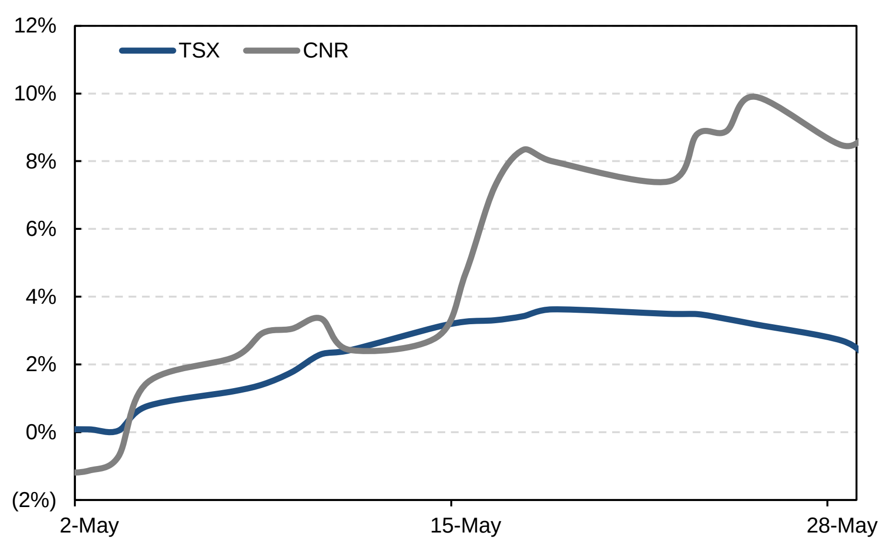
Company Update

- Due to a harsh winter, Q1 Revenue Ton Miles were down 5% YoY. On May 16th, Canadian National Railway (TSX: CNR) released a statement outlining improvement in April and May with 5% YoY and 14% YoY respectively
- CNR plans to invest $3.4B in CapEx. $1.6B will be allocated to infrastructure maintenance. CNR intends to purchase 350 new box cars this year and 200 locomotives over the next 3 years
- CapEx will primarily be in Western Canada with the expectation ports will be busy with frac sand, steel, aluminum, and grain

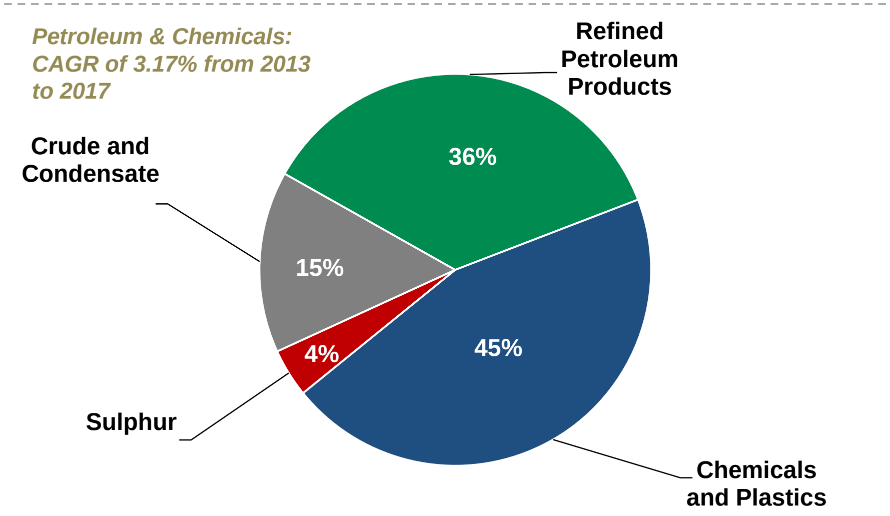
Commodity Commentary

- As pipeline projects come on, CNR may be forced to reduce rates for crude shipments in order to remain competitive as Oil & Gas producers in Canada move away from shipping to the U.S.
- Petroleum and Chemicals represent ~17% of CNR's revenue stream; refined petroleum products and crude account for approximately half of this revenue segment
- CNR has transitioned to greater quantities of grain in order to mitigate this risk. Discussions of take-or-pay contracts have also come up to further hedge this pricing risk

CNR vs. TSX

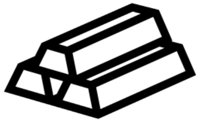


Commodity Revenue Breakdown



Source: Bloomberg, Company Filings

Materials Update



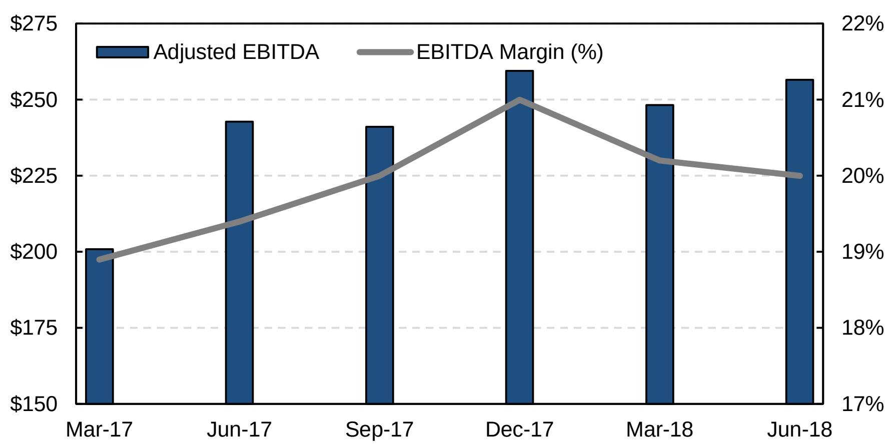
Portfolio Manager: *Wyatt Phillips*
Investment Analyst: *Lindsey Evelyn*

CCL Industries Inc

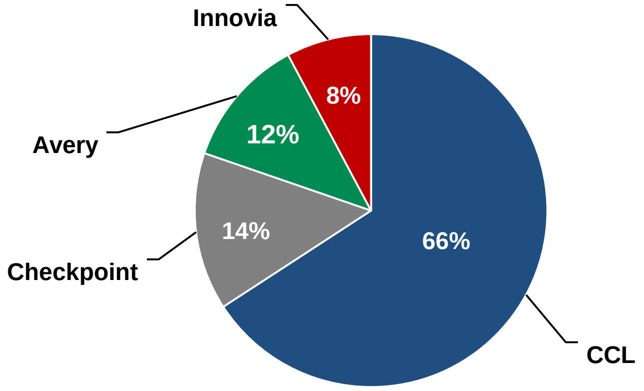
Q1 2018 Highlights

- CCL Industries (TSX: CCL) reported Q1 earnings on May 8, 2018 on four operating segments: Innovia, CCL, Checkpoint, and Avery
- The CCL Segment sales increased by 11.9%. The majority of this segment's growth occurred in Asia and Latin America
- Checkpoint sales are up 18.8% and operating income increased by 49%. CCL invested $11.6mm to enhance capacity and technology mainly in the Asia Pacific region. The CPMT considers this encouraging as CCL expands geographically and gains foreign market share
- CCL's Avery segment saw a larger than expected decline in sales in North America due to challenges in traditional office supply channels and a price increase early in 2018 that accelerated purchases in Q4 2017. We will continue to monitor the success of this business segment and evaluate CCL's response to changing consumer demands
- Innovia's performance improved sequentially over Q1 2017 and yielded $7.5mm in operating income compared to an operating loss of $1.3mm in 2017. Profitability was lower than expected due to high raw material costs (resin), a weak U.S. dollar, and a manufacturing interruption in the U.K. CCL's acquisition of Treofan is expected to close by June 2018, which is an encouraging strategic initiative and should yield a strong market presence for BOPP films in both North America and Europe

EBITDA (Millions)



Reported Revenue Segmentation



Source: Bloomberg, Company Filings

Real Estate Update

Portfolio Manager: *Andrew Gormley*
Investment Analyst: *Ben Dimnik*

Real Estate Sector Update

CPMT Calgary Portfolio Management Trust

Sector Description

- In Canada, the public Real Estate sector is mainly comprised of Real Estate Investment Trusts (REITs)
- A REIT is a company that owns, and in most cases operates income-producing real estate. REITs may be diversified, or they may focus on a specific sector such as residential, retail, industrial (i.e. warehouses), and healthcare, among others. Some firms have a geographic concentration as well
- The primary benefit of the REIT structure is that the entity does not pay corporate income taxes in exchange for distributing at least 90% of its taxable net income as dividends to shareholders. As a result, taxes only burden the shareholders and not the corporation

Sector Update

- **Flat Rates –** The spread between the 10-year Canada bonds and the overall national cap rate remained constant over Q1 2018. Cap rates in most property categories remained constant with the exception of the industrial sector which continued to decline
  - Compression of industrial cap rates suggests that property values are increasing relative to the cash flow they produce. As a result, prudent investors looking to acquire assets in this environment should proceed with caution
- **Optimistic Outlook** – Although housing starts decreased over the past month, an increase in building permits provided an optimistic forecast for growth in the Real Estate sector
  - Over the course of last month:
    - *Canadian home sales fell ~3% between March and April which brought the total number of sales to 36,297*
    - *Canadian building permits grew ~3% from last month*
    - *Canadian housing starts fell by ~5% from 225,200 to 214,000 permits*

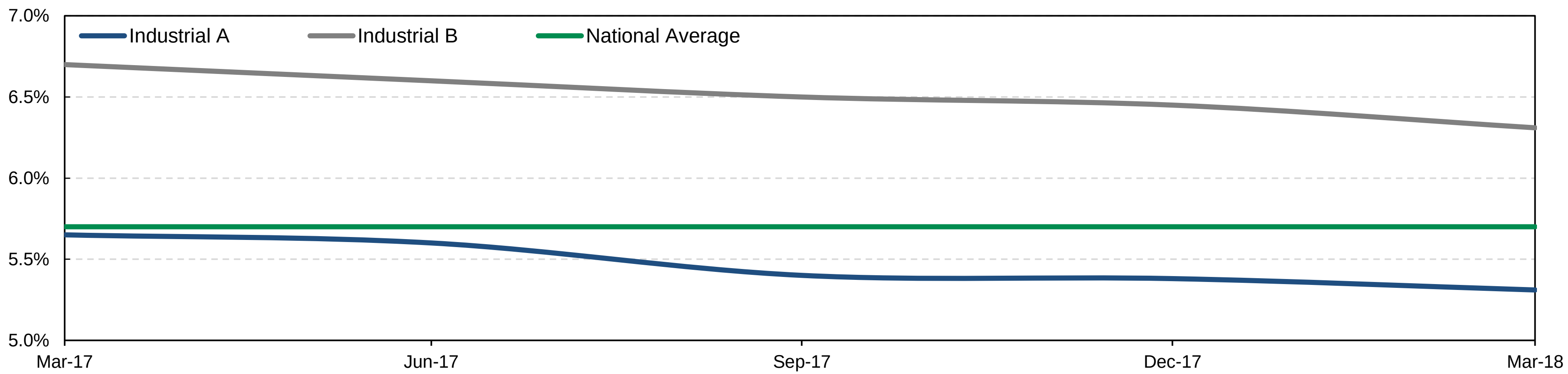
Source: CBRE Canada, Trading Economics

Real Estate Sector Update

Sector News

- Choice Properties Real Estate Investment Trust (TSX: CHP.UN) announced the acquisition of Canadian Real Estate Investment Trust (TSX: REF.UN) for $4.6B in the first quarter of 2018
  - This acquisition creates a new portfolio that includes 754 properties with ~69mm square feet of leasable space
  - By acquiring Canadian Real Estate Investment Trust, Choice Properties Real Estate Investment Trust formed the largest REIT in Canada with an enterprise value of ~$15B
- Blackstone announced the acquisition of Vancouver's Pure Industrial Real Estate Trust (TSX: AAR.UN.T, "PIRET") for $3.8B
  - Blackstone acquired all outstanding shares of PIRET for $8.10 per unit in an all cash transaction. This represents a $1.38, or 21% premium to market price per unit. Blackstone now owns a Vancouver portfolio of about 12 properties with ~3mm square feet in total
  - Blackstone's real estate arm continues to expand its portfolio by acquiring high-quality logistics assets in urban areas. Blackstone's acquisition of PIRET could be viewed as an indication that there is still value to be created from industrial assets in Vancouver, despite the low cap rate environment

Industrial Cap Rates



Source: CBRE Canada, Trading Economics, CoStar

Telecommunication Services Update

Portfolio Manager: *Ali Saleh*
Investment Analyst: *Colton Borle*

Telecommunications Sector Overview

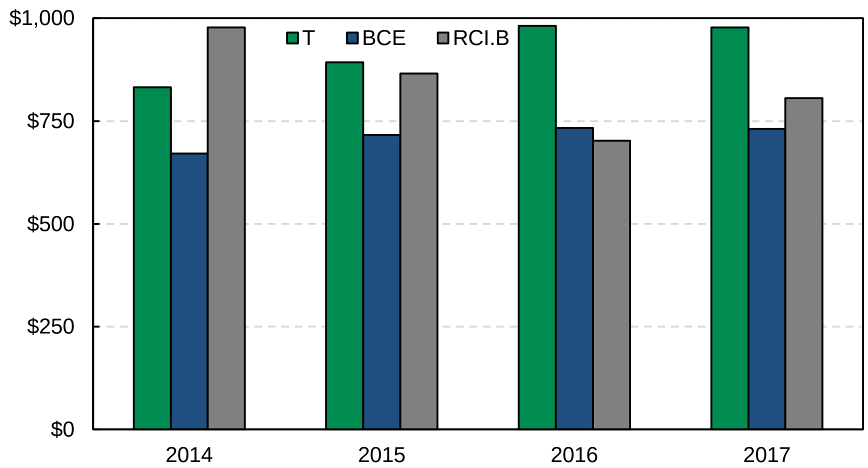
Telecommunications Sector Outlook

- TELUS (TSX: T) added fewer wireless subscribers when compared to its peers, but continues to focus on deploying its industry leading fibre-optic network to attract customers. It also raised its dividend by 6.6% to $0.525 per share in alignment with its 2017-2019 dividend growth program
- Bell Canada (TSX: BCE) has underperformed relative to peers in 2018 due to interest rate increases affecting its high leverage. BCE has committed to spending $4B annually for five years to improve broadband networks
- Rogers Communications Inc (TSX: RCI.B) had 95,000 wireless additions in Q1 which exceeded expectations, and is focusing on growing free cash flow for flexibility to support network growth

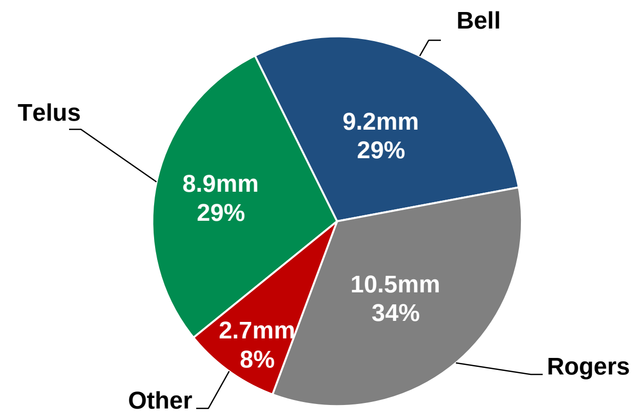
Opportunities for Sector Growth

- The three major telecommunication carriers have indicated that their future growth prospects are largely driven by consumer acquisition through the development of a 5G wireless network
- Telecommunications carriers are forced to continually better their networks in response to increasing consumer demand for wireless connectivity
- BCE, T, and RCI.B have all made sizeable investments in infrastructure to support the prospect of a 5G future which has outlined the future competitive landscape of the sector
- T continues to outspend its peers in the wireless segment to position itself for future growth opportunities

Wireless Segment CapEx (CAD mm)



Canadian Wireless Customer Segment



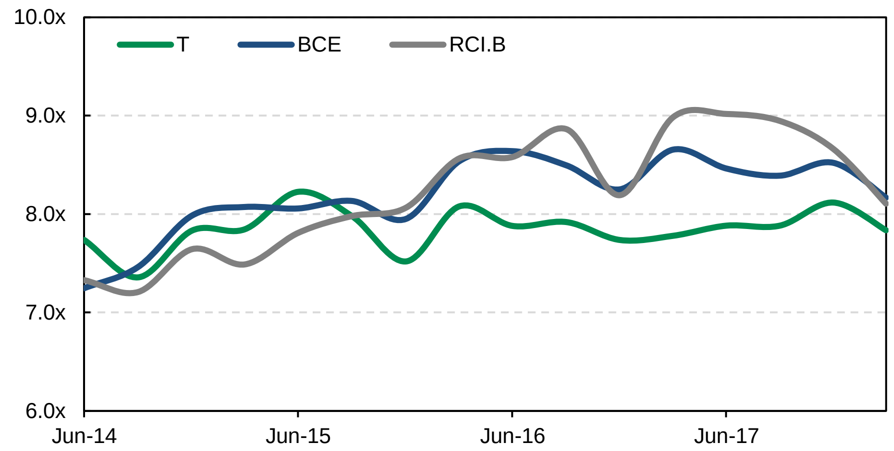
Source: Bloomberg

Telecommunications Sector Overview

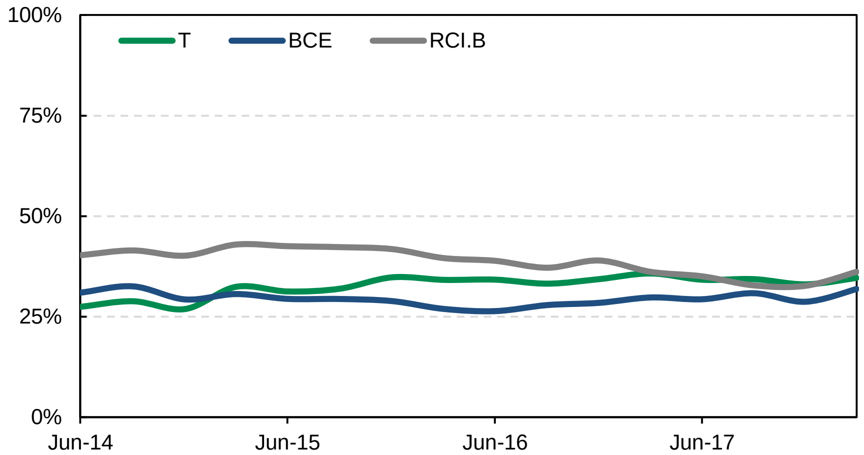
Sector Valuations

- RCI.B historically trades at a higher P/E multiple compared to its peers, but has recently dropped below T and BCE due to its aggressive de-levering program undertaken in Q1 2017
- The major telecommunication companies are currently trading at similar valuation multiples, but the CPMT expects this to change in the future as company-specific success in the 5G and wireless segment development becomes more clear
- All of the major telecommunication companies have recently experienced a dip in EV/EBITDA and trailing P/E due to industry wide uncertainty around wireless growth execution, increasing interest rate expectations, and regulatory uncertainty around NAFTA negotiations

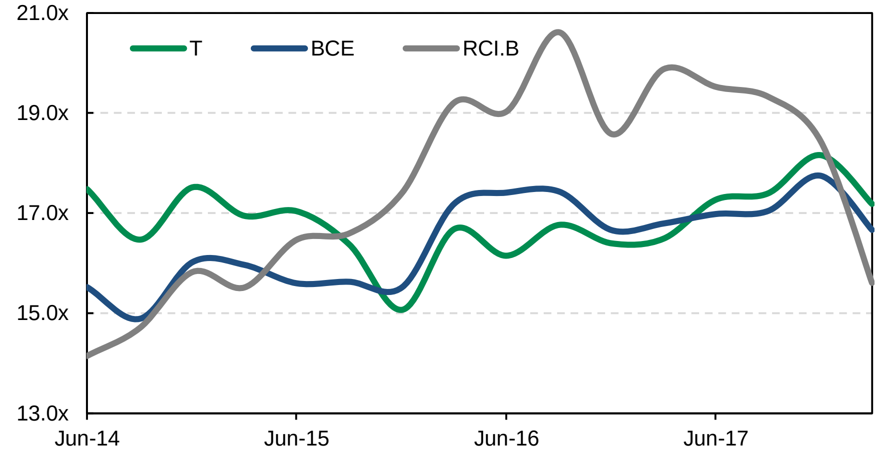
EV/EBITDA



Debt/EV



Trailing P/E



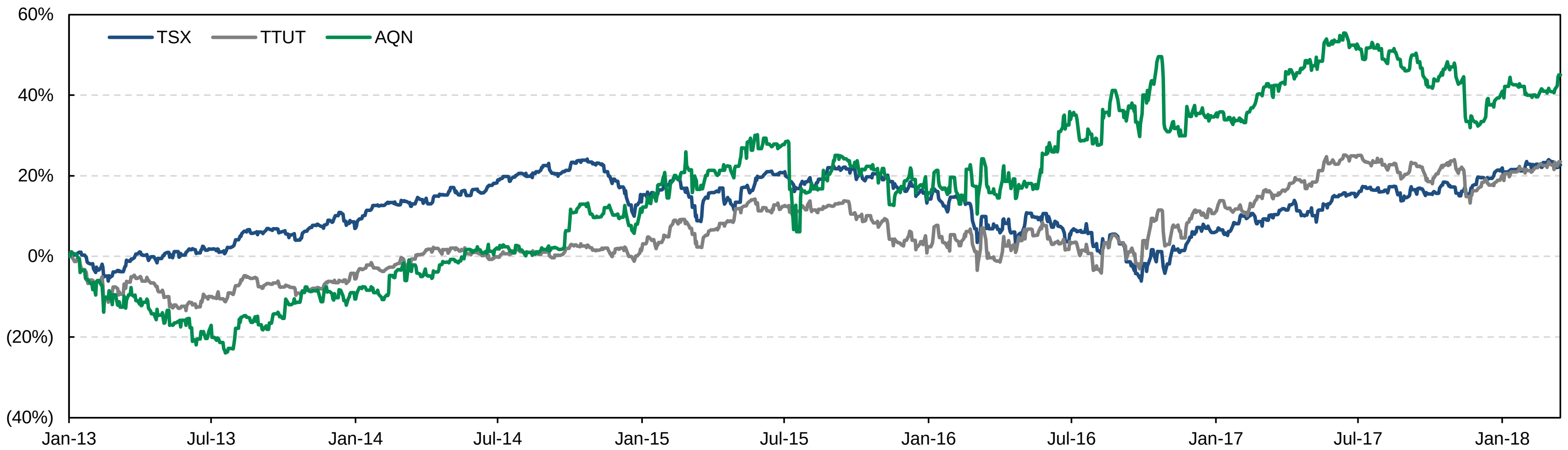
Source: Bloomberg

Utilities Update

Portfolio Manager: *Wyatt Phillips*
Investment Analyst: *Lucas Peters*

Utilities Sector Overview

TSX, TTUT, AQN 5-Year Returns



Sector Misconceptions

- Historically, market consensus has viewed Utilities as a less exciting play in relation to the market from a total return perspective
- When looking at total returns for the utilities index (TSX: TTUT) vs. the TSX, Utilities have offered near equivalent returns to the TSX over a 5-year period even before reflecting the benefits of high dividend yields and lower overall risk profile
- On average, Utilities have offered EPS growth between 5-8% and a dividend yield of ~5%, generating total adjusted returns of ~10-11%

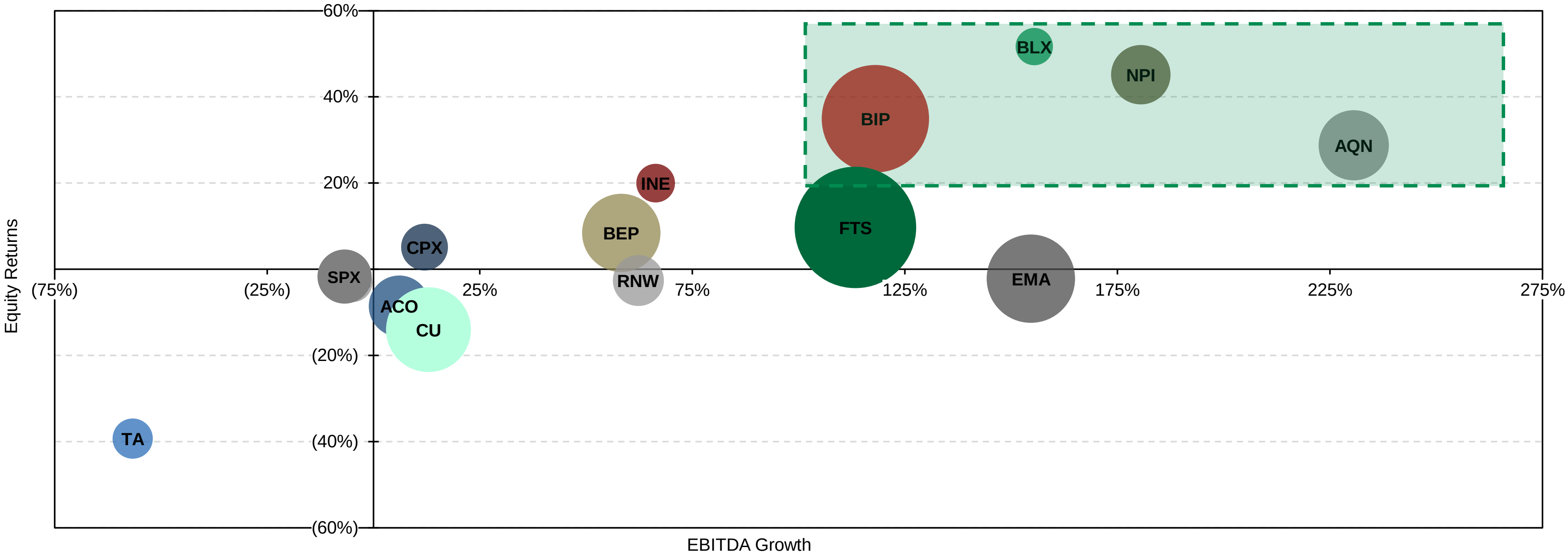
Sector Performance

- Utilities investors have enjoyed better than average returns over the past few years, supported by a low interest rate environment and a push for renewable energy
- Over the previous 5-year period, the TTUT returned ~26% while the TSX had a ~25% return
- When looking at the returns of Algonquin Power & Utilities (TSX: AQN) against the TSX and TTUT, AQN boasted a 55% return over that period, giving them a ~30% spread over both the TSX and TTUT Index

Source: Bloomberg, Credit Suisse

Utilities Sector Overview

Equity Returns vs. 3-Year EBITDA Growth



Renewable Energy Focus

- As we previously stated, the Utilities sector has offered investors strong and consistent long-term returns which has been especially true for companies who have been able to consistently and robustly grow their EBITDA
- A commonality amongst the top returning equities (Boralex, Brookfield, Northland Power, and Algonquin) has been the focus and investment they have placed in renewables infrastructure. Each company has a strong renewable profile which contributes to the influx of capital they have attracted from investors. The shift in focus to the growing renewables space can be further supported by the returns of Innergex Renewables (TSX: INE), who despite only having mid-range EBITDA growth, has seen top-end returns of ~20%

Source: Bloomberg

Utilities Sector Overview

Utilities Sector Overview

- Utilities climb in PJM after RTO auction prices rose to 140 MW-day starting in June 2021, which is an increase of 83% from the previous year
- Utility stocks saw a more volatile month as the 10-year Treasury yield reached its highest point since 2011
  - Jamie Dimon's announcement that interest rates may head towards 4% sparked a sell-off in Utility stocks that bottomed out at a 5% loss over the month last week
  - However, the abundance of geopolitical issues from North Korea's uncertain nuclear stance to Europe's outlook has sent the U.S. 10-year Treasury yield back towards 3%, leading Utilities to absorb the beneficial flows and nearly erasing the month's deficit
- M&A activity continued to rise in the month of May
  - The biggest announcement was by NextEra Energy Inc (NYSE: NEE) which has entered into a Stock Purchase Agreement to acquire Gulf Power and Florida City Gas from Southern Co in a $6.5B deal

Holdings Update

- The CPMT's lone Utilities holding, Algonquin Power & Utilities (TSX: AQN), released its Q1 results this month
  - AQN reported strong results from the impacts of a long, cold winter season as well as a strong renewable resource conditions
  - EBITDA was up 45% YoY, 15% increase in FFO on a YoY basis and dividend was increased 10%.
    - *30% of the EBITDA growth was due to the accelerated recognition of HLBV*
  - The 75 MW Great Bay Solar Facility in Maryland is now fully complete and contributing to operations
  - Algonquin reached a settlement in Missouri to reduce customer energy bills through the addition of 600 MW of new wind capacity
  - Evaluating a high voltage transmission line in Peru with revenue certainty provided by a 30-year concession agreement with a Peruvian government guarantee

Source: Bloomberg, Company Filings