Calgary Portfolio Management Trust

2021 Annual Report

UNIVERSITY OF CALGARY
HASKAYNE SCHOOL OF BUSINESS

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Dear Stakeholders,

The Calgary Portfolio Management Trust (CPMT) Class of 2021 would like to extend our gratitude to the Board of Trustees for its continued commitment to and engagement with the program. We would also like to sincerely thank the CFA Society of Calgary and the CPMT alumni for their commitment and support. Finally, we would like to thank all of our supporters in the Calgary business community for their vested interest in the program.

A vital component of the CPMT experience is the mentorship program, which provides students with invaluable support ranging from technical expertise to career guidance. The CPMT is grateful for all of the professionals who have made themselves available to students for the upcoming year. We have learned an enormous amount from our mentors and look forward to another year of collaborative mentorship.

Another important part of the CPMT is the speaker series program, where industry professionals take valuable time out of their days to speak with the Fund. The CPMT team is grateful to all of those professionals that have made the time to speak with us. The knowledge and relationships built through these engagements have greatly contributed to the ongoing improvement and success of the Fund.

After expanding our investment universe two years ago to include U.S. equities, the Fund currently sits at a 40/60 weighting between Canadian and U.S. equities. Following an eventful year of reshaping the portfolio in response to the COVID-19 induced market downturn, the Fund aims to carry the momentum and rigor of last year's work into the new fiscal year. The CPMT intends to remain focused and agile in the face of continued market volatility and macroeconomic uncertainty, retaining our commitment to a bottom-up approach of allocating funds to high-quality names that fit our investment mandate of: (1) high caliber management team, (2) sustainable competitive advantage, (3) strong balance sheet, and (4) growing free cash flow. We will continue to evaluate investment decisions in the context of portfolio strategy and our macroeconomic outlook.

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

Sincerely,

Akash Sekar, Portfolio Manager

Breanna Schollaardt, Portfolio Manager

Dhruv Jindal, Portfolio Manager

Erik Skoronski, Portfolio Manager

Hayley Hicks, Portfolio Manager

Helena Cherniak-Kennedy, Portfolio Manager

Jose Menjivar, Portfolio Manager

Willie Li, Portfolio Manager

Class of 2021

Biographies

CPMT CLASS OF 2021

AKASH SEKAR
Portfolio Manager
5th Year, Finance/Economics

Akash joined the CPMT in March 2019 as an Investment Analyst. He is excited to broaden and strengthen his knowledge of valuation, financial markets, and portfolio management during his time in the program. He is currently working towards a combined degree in Finance and Economics and is excited to graduate this June. This past summer, Akash worked at Credit Suisse as an Investment Banking Summer Analyst, where he will be returning full-time upon graduation. He has completed previous summer internships at Whitecap Resources as an Accounting Summer Student and Crescent Point Energy in its Corporate Planning group. In addition to his passion for finance, he enjoys playing and watching hockey, basketball, football, and golf.

BREANNA SCHOLLAARDT
Portfolio Manager
4th Year, Finance

Breanna joined the CPMT in March 2019. She is extremely grateful for the opportunity to learn from her peers, mentors and alumni and is hoping to develop and improve her financial modeling, equity research, and portfolio management skills. In Summer 2020, Breanna worked at Hugessen Consulting as a Summer Analyst and will be returning upon graduation. She is majoring in finance and completed a summer internship at AECOM in the project controls department during Summer 2019. In her spare time, Breanna enjoys yoga, dancing, photography, reading, and overall health and wellness.

DHRUV JINDAL
Portfolio Manager
4th Year, Finance/Data Science (Minor)

Dhruv joined the CPMT as an Investment Analyst in March 2019. He is grateful for gaining hands-on experience in valuation, financial modeling, and equity research through the CPMT program. Dhruv is excited to join Commonfund Capital as a Private Equity Intern in the Real Assets and Sustainability (RAS) Team this upcoming summer. Dhruv is currently working part time at Shell as an Operations Business Analyst Intern in the Trading & Supply department. He has completed past internships at Parex Resources as a Capital Markets and Corporate Planning Summer Student and at Suncor Energy as an Oil Sands Finance & Planning Student. In addition to the CPMT, Dhruv is also a member of the University of Calgary Trading Team and competed at the Rotman International Trading Competition (RITC) in February 2021. Upon graduation, he intends to obtain his CFA designation and pursue a career in capital markets or trading. In his spare time, Dhruv enjoys listening to music and podcasts and playing blitz chess games online.

ERIK SKORONSKI
Portfolio Manager
5th Year, Finance/Software Engineering

Erik joined the CPMT in March 2019 as an Investment Analyst. He is grateful for expanding his knowledge of capital markets, financial analysis, and portfolio management throughout his time in the program. Erik is working towards a dual degree in Finance and Software Engineering and intends to pursue a career in financial technology upon graduation. Erik will be joining at JAMH, a local tech startup, as a full stack developer co-op this upcoming summer. Previously, Erik worked at BMO Capital Markets in its Real Estate Investment Banking group and at Ayrshire Group as a Private Equity Summer Analyst. Outside of work and academia, Erik enjoys coding games, playing guitar, and snowboarding.

HAYLEY HICKS
Portfolio Manager
5th Year, Finance

Hayley joined the CPMT in March 2019. She is excited to continue strengthening her knowledge in fundamental equity valuation and analysis across multiple sectors and financial markets, and gain portfolio management experience during her time in the program. She wishes to use her experiences and learnings to inspire others and give back to the program for future students. Hayley is currently working towards her degree in Finance and will write the CFA Level 1 exam in August 2021. Hayley gained a breadth of knowledge and appreciation for the financial sector through her internships with Suncor Energy, Leith Wheeler Investment Counsel, and Mackenzie Investments. She also studied at the Emlyon Business School in Saint-Étienne, France. Upon graduation, Hayley will be joining Scotiabank's Private Investment Counsel in Vancouver. In addition to her passion for Finance, Hayley is also a member of Women in Capital Markets, and volunteers with Metis Family Calgary Services. She enjoys playing volleyball, maintaining an active and healthy lifestyle, and learning the French language.

HELENA CHERNIAK-KENNEDY
Portfolio Manager
4th Year, Finance/Mathematics

Helena joined the CPMT in March 2019. She would like to thank the Board of Trustees, faculty, speakers, and alumni for their generosity in supporting the program and furthering students' finance educations. Helena looks forward to expanding her knowledge about portfolio management, valuation, and equity research through the program. With a passion for financial and mathematical analysis, she is pursuing a dual degree in Finance and Math and intends to obtain her CFA designation following graduation. In addition to the CPMT, Helena is on the Finance team for the Inter-Collegiate Business Competition (ICBC), having previously competed on the Business Policy and Human Resources teams, and was VP External of the student club, Women in Science and Engineering. She will be joining Credit Suisse this summer as an Investment Banking Summer Analyst in the Energy and Infrastructure group in Calgary. Helena previously completed three summer internships at Plains Midstream Canada in its Futures and Derivatives Trading, Acquisitions and Strategic Planning, and Crude Assets groups. In her spare time, Helena enjoys playing piano, as well as golfing, playing tennis, and hiking.

JOSE MENJIVAR
Portfolio Manager
5th Year, Finance/Computer Science

Jose joined the CPMT in March of 2019 as an Investment Analyst. He looks forward to the continuous experiential learning opportunities in the program and is excited to continue expanding his knowledge in valuation, fundamental analysis, and portfolio management. He is currently working towards completing his dual major degree focusing on Finance and Computer Science and plans to obtain his CFA designation after graduation. Jose intends to pursue a career in capital markets and wants to leverage his education on both technology and business. He will be joining Barclays Capital this summer as an Investment Banking Summer Analyst in the Natural Resources group. Jose previously completed two summer internships, one at Bluesky Equities as a Summer Analyst, and another one at the Creative Destruction Lab as a Venture Analyst. Jose enjoys hiking, reading, playing guitar, and programming.

WILLIE LI
Portfolio Manager
5th Year, Finance/Software Engineering

Willie joined the CPMT in March 2019 as an Investment Analyst and would like to extend his thanks to the Board of Trustees, speakers, alumni, and other mentors for their continued support of the program. He is eager to apply his knowledge of capital markets while gaining hands-on experience in financial modeling, portfolio management, and equity research. Willie is currently working towards a dual degree in Finance and Software Engineering and is currently completing a 16-month internship at Shareworks by Morgan Stanley as a software developer. Upon graduation, he intends to pursue a career in quantitative analysis and obtain a master's in financial mathematics. Outside of work and academics, Willie enjoys reading, basketball, and derivative trading.

CPMT CLASS OF 2022

ABHISHEK SEWAK
Investment Analyst
4th Year, Finance/Actuarial Science

Abhishek joined the CPMT in March 2020 as an Investment Analyst, and is thankful to all the Board of Trustees, mentors, and alumni who continue to enrich the student experience in Finance. He is excited to gain insights into financial modeling, equity research and overall portfolio management skills. In addition to the program, Abhishek is involved with the Faculty of Science as a Social Media Ambassador and competed in the JDC West Case Competition as a Finance Delegate. He completed an internship with the Fidelity Investments as an Inside Sales Advisor and accomplished the Exam Probability through SOA last summer. He is currently working as an Investment Banking Co-op Analyst at CIBC World Markets. Upon graduation, Abhishek would like to attain the CFA designation and explore a career in Capital Markets. In his spare time, Abhishek enjoys reading non-fiction books, hiking, playing & watching cricket, and travelling.

JACK MORGAN
Investment Analyst
3rd Year, Finance

Jack joined the CPMT in March 2020 as an Investment Analyst seeking to broaden and develop his skills and knowledge in capital markets. He is thankful to the Board of Trustees, alumni, and mentors who have made this opportunity possible. Last summer Jack completed a summer internship with Canadian Natural Resources as a Joint Venture Accountant and will be returning to CNRL as a Finance Marketing Intern in May. Jack has been active on campus as a member of 7 different student clubs during his undergraduate and has recently been admitted to the BComm Honours Program. Jack is looking forward to expanding his skills as a Portfolio Manager over the next 12 months and is thankful for the experience the CPMT has provided him thus far. In his free time Jack enjoys hiking, skiing, basketball, playing guitar, and spending time with his family.

KATIE TU
Investment Analyst
3rd Year, Finance

Katie joined the CPMT in March 2020 as an Investment Analyst. She is grateful for the opportunity to develop her financial modelling and equity research skills through the program. She looks forward to learning about capital markets and portfolio management from peers, mentors, and speakers. This upcoming summer, she will be joining CIBC World Markets as an Investment Banking Summer Analyst in the Global Infrastructure and Power group. Outside of school and work, Katie volunteers as a merchandiser at Dress for Success Calgary, a non-profit organization that provides professional attire to help women succeed in the mainstream workplace. In her spare time, Katie enjoys listening to music, watching movies, exercising at the gym, and traveling.

KIAN SADEGHI
Investment Analyst
3rd Year, Finance

Kian joined the CPMT in March 2020 as an Investment Analyst. He is looking forward to expanding his knowledge in portfolio management, equity research, valuation, and financial markets throughout the program. In addition to the CPMT, he is a member of the University of Calgary Trading Team and competed at the Rotman International Trading Competition last February. This past summer, Kian worked as a Summer Analyst at Landstar Development Corp. This summer, Kian will be joining the McLean Family Office as a Summer Research Associate. Upon graduation, he intends to pursue a career in capital markets, as well as obtain his CFA designation. In his spare time, Kian enjoys playing soccer, basketball, and listening to music.

SINA HADJIAHMADI-ARDAKANI
Investment Analyst
3rd Year, Finance

Sina joined the CPMT in March 2020 as an Investment Analyst. He would like to thank the Board of Trustees, speakers, faculty, and mentors for supporting the program. He looks forward to gaining a greater understanding of capital markets, financial valuations, and portfolio management. After completing a previous internship as a Business Development Intern, Sina is now working as a Client Support Intern at the National Digital Asset Exchange. Sina intends to pursue a career in capital markets and obtain his CFA designation upon graduation. During his spare time, Sina enjoys playing hockey, chess, and listening to podcasts.

STEPHEN NGUYEN
Investment Analyst
3rd Year, Finance

Stephen joined the CPMT in March 2020 as an Investment Analyst. He is excited to increase his knowledge in valuation and financial markets during his time in the program. In 2020, Stephen completed internships at CNRL and SAP. Upon graduation, he will be joining Deloitte as a Business Analyst in their Technology Strategy Consulting group. He is currently a member of the Piano Faculty at the Mount Royal University Conservatory. Prior to his enrolment in the Finance program at the University of Calgary, Stephen completed a bachelor's degree in Piano Performance at McGill University. In his spare time, Stephen enjoys swimming, poker, and Formula One.

Speaker Series and Mentorship Program

The CPMT program continues to benefit from our Speaker Series events. Whether downtown, on campus or out of town visits, we thoroughly enjoyed the unique experience gained from speaking with the industry veterans. This has provided an invaluable opportunity for students to gain insight regarding potential career paths and current views of capital markets. In addition, our industry contacts have been actively involved in portfolio mentoring. We would like to thank the following individuals for their involvement and support of the CPMT.

2020 - 2021 CPMT Speaker Series	
Firm	**Organizer(s)**
adidas	Sean Porta
ARC Financial	Kieran Courtright / Colin Bergmann
Azimuth Capital Management	Adam Le Dain / Tayler Amatto / Tatiana Marciniak
Boston Consulting Group (BCG)	Abdulrahman Alnoaimi
BCI	Syed Ahmad
Birch Hill Equity Partners	Sean Makins
CIBC Capital Markets	Colton Borle / Ben Dimnik / Emma Loewen
Citigroup	Ali Saleh
Commonfund Capital	Dan Connell
Compass Rose Asset Management	Sonny Kushwaha
CPP Investments	Aaron Borchert / Chris Hanson
Credit Suisse	Doran Chernichen
Dartmouth Endowment	Scott Frew
Enbridge	Max Chan
Hugessen Consulting	Brian Lees / Taylor Hudzinski
Leith Wheeler Investment Counsel	Catherine Heath
Macquarie Group	Aarnoud van Weelderen
Mawer Investment Management	Crista Caughlin / Siying Li
Nutrien	Stephanie Peterson
Ontario Teachers' Pension Plan	Aaron Manz
Palisade Capital Management	James Anderson
Peters & Co.	Callum Moore
QV Investors	Ian Cooke
Raymond James	Chris Cox / George Huang / Patti Dolan
SAF Group	Wylie Johnston
Scotiabank	Jessica Hulsman
Sequeira Partners	Aroon Sequeira
Shell	Phil Wong
TD Securities	Allie Moran
The Marquee Group	Jamie Wilkie
TriWest Capital Partners	Brett Butler
Tudor, Pickering, Holt & Co.	Brodie Wilson / Erick Noh
Wells Fargo	Travis Chernichen

CPMT Student Mentorship		
ATB Financial	Jaclyn Perrot	Abhishek Sewak
Ayrshire Group	Ian Kennedy	Erik Skoronski
BCI	Syed Ahmad	Kian Sadeghi
BMO Global Asset Management	David Clarke	Stephen Nguyen
Centerbridge Partners, L.P.	Andrew C. Kim	Akash Sekar
CIBC Capital Markets	Emma Loewen	Katie Tu
CPP Investments	Bryton Hewitt	Jack Morgan
CPP Investments	Connor Luck	Jose Menjivar
Cumberland Investment Counsel	Derek VanGenderen	Sina Hadjiahmadi-Ardakani
Enbridge	Max Chan	Helena Cherniak-Kennedy
Fulcrum Capital	Timothy Clark	Erik Skoronski
Mawer Investment Management	Crista Caughlin	Hayley Hicks
Mawer Investment Management	Siying Li	Katie Tu
National Bank Financial	Dan Payne	Abhishek Sewak
Nutrien	Stephanie Peterson	Breanna Schollaardt
Palisade Capital Management	James Anderson	Stephen Nguyen
QV Investors	Ian Cooke	Kian Sadeghi
Refinitiv	Steven Donovan	Willie Li
Scotiabank	Jessica Hulsman	Dhruv Jindal
Thoma Bravo	Carl Chan	Dhruv Jindal

Portfolio Strategy and Sector Views

OVERVIEW

During FY2021, the CPMT aims to supplement pitches and the analysis of new companies with a holistic view of the portfolio. This page provides a summary of the CPMT's outlook on each sector which will help shape future capital allocation decisions. The CPMT investment philosophy is centered on intrinsic value combined with systematic investment selection. A systematic approach ensures discipline in purchase and sale decisions, maintains a focus on owning high-quality businesses, and reduces the probability of errors. The Portfolio Managers will seek investments that offer quality management, competitive advantages, strong balance sheets, and growing free cash flow, all while at an attractive valuation. We continue to monitor the U.S. and Canadian yield curves, credit spreads, the labor market, and corporate profits to measure the extent of the economic recovery and believe that our efforts will lead to outperformance over the next year. The COVID-19 pandemic, and its lasting economic impacts, will be a continual area of consideration for us as we evaluate potential names, placing increased importance on mandate fit and the ability to remain resilient in the current circumstances.

CONSUMER DISCRETIONARY

We view the Consumer Discretionary sector with cautious optimism when looking for names that fit our portfolio mandate and macroeconomic outlook. With the current economic environment and the increased spread of new COVID variants, we see meaningful risks on the horizon that could impact consumer confidence and the overall sector. However, we are comfortable remaining 1.1% overweight with our current holdings due to the diversification and variety of offerings that cater to all income brackets, and the strong brand recognition and operational excellence the current names provide. The addition of lululemon athletica (NASDAQ: LULU) to our holdings caters to consumers' desires for functional and dual-purpose work-from-home and workout wear. The Company also has an incredibly strong e-commerce platform and deep understanding of consumers, which we view as attractive given the current pressures on brick-and-mortar businesses.

CONSUMER STAPLES

The CPMT is content remaining overweight by 1.5% in Consumer Staples due to positive historical performance of the sector during economic downturns. We have a favourable view towards the sector given its defensive nature and historical outperformance during recessionary periods. The addition of Proctor and Gamble (NYSE: PG) in the last quarter of 2020, coupled with our holding of Costco (NASDAQ: COST) offer the Fund defensive sector holdings and strong diversification.

ENERGY

The CPMT is comfortably 0.8% overweight in Energy relative to the benchmark. Given the challenges in the energy sector in 2020 following the crude oil price crash and demand destruction induced by COVID-19, the CPMT expects a gradual recovery in crude oil pricing and production moving forward but sustained lower capital spending budgets. Although we expect oil demand to continue increasing in the near-term, the Fund acknowledges the increasing importance of renewable energy sources and an intensified focus on ESG. We aim to maintain exposure to energy through companies with distinct competitive advantages and the ability to generate free cash flow throughout commodity price cycles. Going forward, we will monitor the mandate fit of our current energy holdings, Canadian Natural Resources (TSX: CNQ) and Enbridge (TSX: ENB).

FINANCIALS

The CPMT believes its financial holdings are well diversified and is comfortable remaining 7.7% underweight relative to our blended benchmark. The banking sector has seen a significant recovery in 2021 and the CPMT has a positive outlook for banks as PCLs decrease from 2021 and interest rates rise. We will continue to monitor our current bank holdings JPMorgan Chase & Co. (NYSE: JPM) and Toronto-Dominion Bank (NYSE: TD) going forward. Brookfield Asset Management (TSX: BAM) is further well-positioned for growth in private markets.

HEALTH CARE

The CPMT is comfortable remaining 1.4% overweight in Health Care due to the sector's capability of achieving high revenue growth and margins through R&D investment, with historical outperformance amidst the COVID-19 pandemic. Both Amgen, Inc. (NASDAQ: AMGN) and Abbott Laboratories (NYSE: ABT) displayed resiliency and innovation, with strategic alliances to develop solutions to the current unmet medical needs. Given the historically low beta and cyclicality, and evolving medical solutions and services, the sector presents an opportunity to support growth in the medical community that is also defensive in recessionary periods. The CPMT believes the diversification achieved across AMGN, ABT, and Intuitive Surgical (NASDAQ: ISRG) offers the Fund strong diversification within the Health Care space.

INDUSTRIALS

The Industrials sector performs best when there is economic expansion. The CPMT believes that we are currently experiencing a global economic recovery. Worldwide, there has been a reduction of interest rates, a boom in housing starts, and steady GDP recovery. The Fund currently holds Canadian National Railway (TSX: CNR), Cintas (NASDAQ: CTAS), and Waste Connections (NYSE: WCN) within the sector. The CPMT is currently 2.8% overweight in the Industrials sector and is committed to attaining the benchmark weighting while holding companies that will provide growth to the portfolio. The CPMT will continue to evaluate sector holdings to assess their economic resiliency going forward.

INFORMATION TECHNOLOGY

The Information Technology sector offers tremendous growth and diverse business models and the CPMT is comfortable being 5.7% overweight in the sector. The COVID-19 pandemic has also exhibited a newfound defensiveness for infrastructure and software-as-a-service companies in the swift transition to distributed workforces. The additions of Microsoft and Apple (NASDAQ: MSFT, AAPL) to the Fund have diversified our existing holdings in the sector and have proven to be companies with a strong foothold in the cloud computing market. Similarly, the digital payments industry is growing with increasing e-commerce and consumer spending, and CPMT is convicted on Mastercard (NYSE: MA) and PayPal (NYSE: PYPL) as holdings.

MATERIALS

The CPMT is currently ~4% underweight in Materials relative to the benchmark. Given the reopening's of global economies and continued vaccine deployments, the CPMT is looking to explore cyclical names that can provide exposure to high-growing industries, torqued to economic reopening's. The fund currently holds CCL Industries (TSX CCL.B), and Linde Plc (NYSE: LIN), which give us exposure to industrial and manufacturing industries, which we expect to benefit greatly from reopening's. Moving forward, the Fund will look to add to its position in the Materials sector with an increased focus on sustainable operators with resilient cash flows.

REAL ESTATE

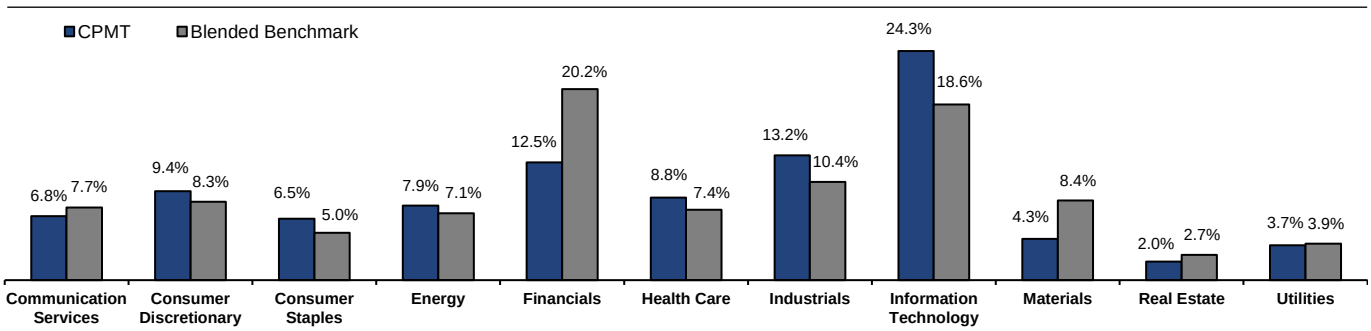
The CPMT entered a position in American Tower (NYSE: AMT) over FQ3 but currently remains underweight in the Real Estate sector. Over the year, we had the opportunity to investigate several names that we thought had compelling competitive advantages and fit our overarching theses in the space. These theses are: (1) Opportunities on the repatriation of supply chains, coupled with an even greater focus on e-commerce benefitting the industrial real estate sector, and (2) opportunities in technology-related infrastructure real estate, which is poised to benefit from current widespread digitization and increasing communication needs. We are comfortable remaining underweight in the space for the time being due to rising yields, which will inevitably weigh on REIT valuations. We will remain vigilant for quality names with attractive entry points that may fit our theses in the long term.

TELECOMMUNICATIONS

The CPMT is currently 0.9% underweight in the Communication Services sector. This quarter, Activision Blizzard (NYSE: ATVI) was added to the portfolio at a 2 conviction which brought our Telecommunications sector holdings closer in-line with the blended benchmark. TELUS (TSX: T) has been an incumbent in the sector, however, has underperformed the benchmark over the past few years. Thus, we will continue evaluating media names within the sector to understand their business model in greater detail and find companies that may both meet our mandate and provide growth in a post-pandemic market.

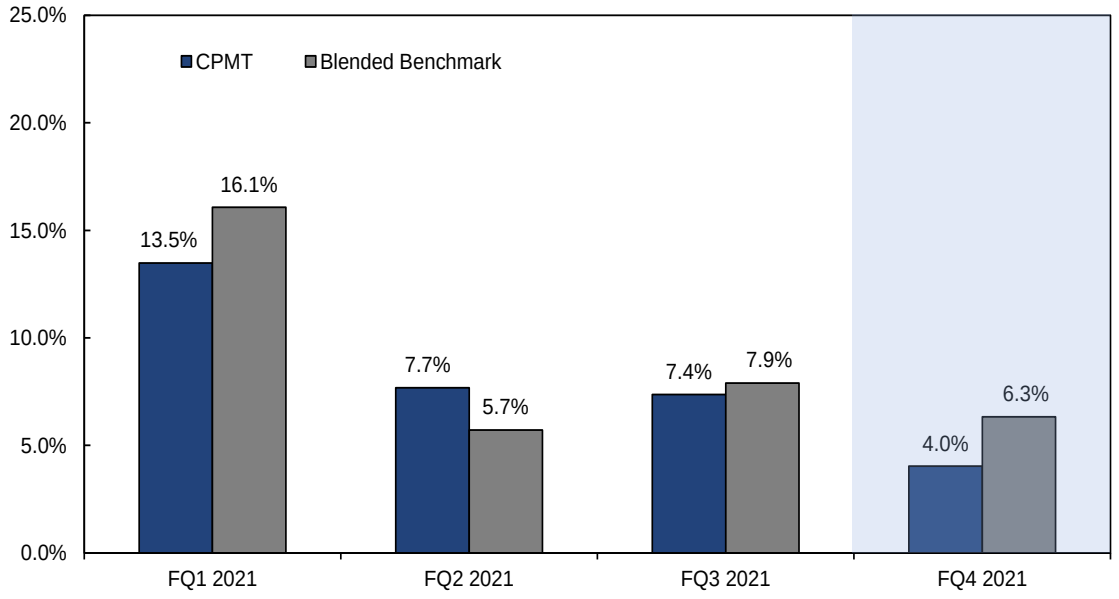
UTILITIES

The CPMT is currently 0.2% underweight relative to the benchmark. Capitalizing on the trend towards green energy projects the CPMT currently holds NextEra Energy, one of the largest renewable companies in North America. Given the drastic cuts in interest rates by both the Federal Reserve and the Bank of Canada, utilities are expected to thrive in the current economic environment due to their high dividend yield and regulated cash flows. The CPMT remains comfortable with its current weighting and will continue to monitor regulated North American utilities.

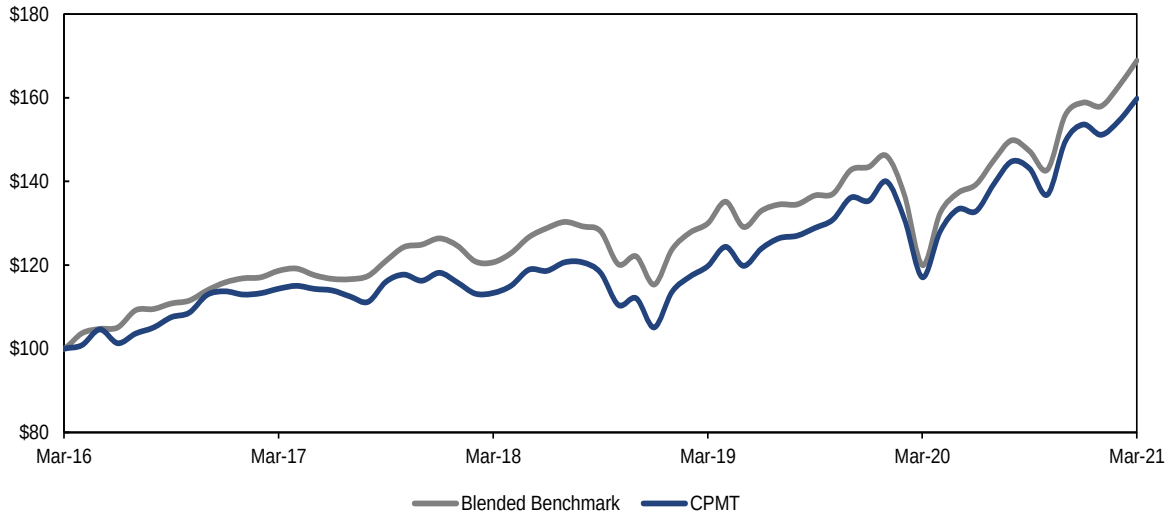


Quarterly Snapshot - FQ4 2021

CPMT and Benchmark Total Return (TTM)



Value of $100 (since March 31, 2016)

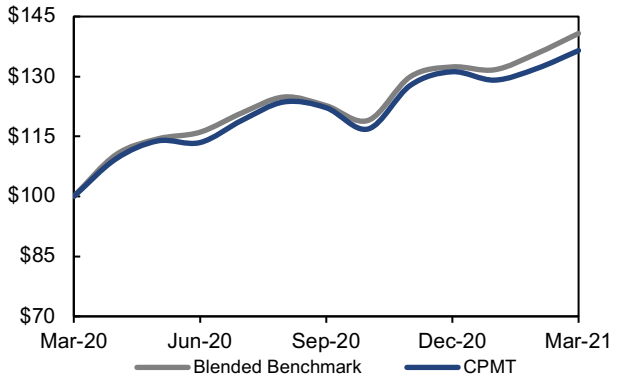


Fund Universe

	FQ4	1 Year	3 Year	5 Year	10 Year
CPMT	4.04%	36.49%	12.14%	9.83%	6.09%
Blended Benchmark	6.33%	40.78%	11.87%	11.05%	6.48%
Blended Benchmark Difference	(2.29%)	(4.30%)	0.27%	(1.22%)	(0.39%)

Year in Review

ANNUAL RETURN



NOTE TO STAKEHOLDERS

The CPMT Class of 2021 would like to extend our gratitude to the Board of Trustees, the CFA Society of Calgary, and CPMT alumni for their continued involvement and support of the program. We would like to thank all of our supporters in the Calgary business community for their vested interest in the program and those professionals who have volunteered their time to be a part of the mentorship program. This mentorship provides students with invaluable support, ranging from technical expertise to career guidance, and more.

Involvement in the CPMT program offers unique exposure to a challenging, rewarding, and scholastic environment, creating an unrivaled student experience. The goal of the Fund is to succeed long into the future and support student opportunities. This goal is driven by our commitment to research within the Fund as well as donating 4% of the 3-year trailing AUM annually in support of collaborative financial research.

OVER THE QUARTER

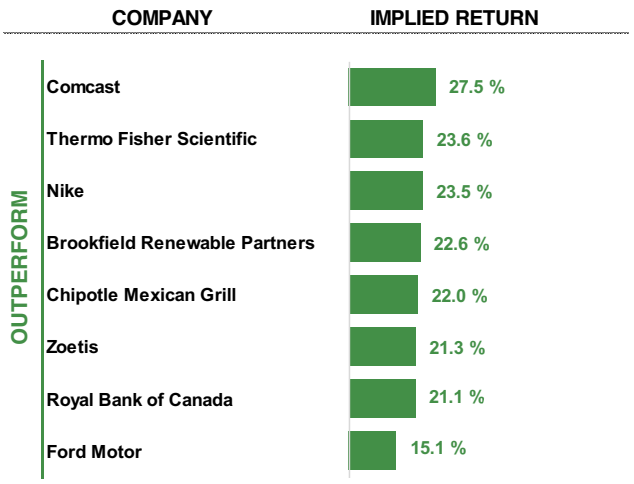
The Fund returned 4.04% over the quarter, 229 bps below the Blended Benchmark 6.33%. Our underperformance can be largely attributed to the Consumer Staples, Utilities, and Communication Services sectors but was offset by outperformance in Energy and Materials. The Fund currently has 40/60 Canada/U.S. equity exposure. We are comfortable being overweight U.S. names due to the quality and growth profiles of our U.S. holdings, but will continue to seek companies with a mandate fit in both Canada and the U.S.

Over FQ4, the Fund was active in reviewing our current portfolio holdings, while monitoring the shifting macroeconomic environment and COVID-19 economic recovery. The CPMT purchased one new name over the quarter, Activision Blizzard (NASDAQ: ATVI). The investment in ATVI was predicated on the Company's best-in-class intellectual property, supplemented by its promising content pipeline and focus on digital transactions, all of which are expected to drive future long-term top-line growth and margin expansion. In early April 2021, the Fund will be hearing a number of pitches from PMs and IAs during our Annual Pitch Day, through which we will continue to ensure the alignment of the portfolio with the CPMT investment mandate.

With a rapidly changing macroeconomic and pandemic backdrop over the past year, the CPMT has aimed to be nimble in making portfolio decisions, while maintaining commitment to our bottom-up investment approach. We are confident that holding names with clear competitive advantages, robust FCF generation, and resilient balance sheets will allow the Fund to outperform in the long run.

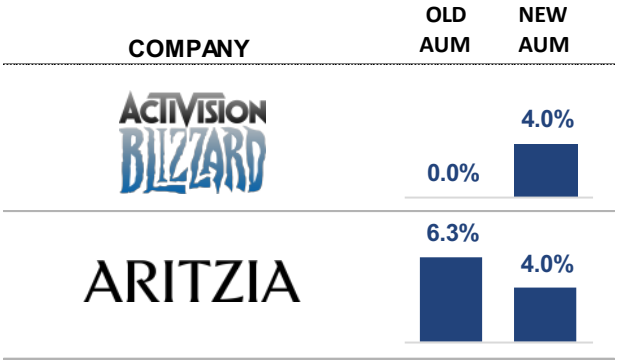
As the outgoing PM class prepares to leave the program, we shift our focus onto the Class of 2022 and reflect on another year of further development and successes of the program. Despite altering Fund operations in an unprecedented way to adapt to an entirely virtually environment during the COVID-19 pandemic, the Fund maintained high levels of collaboration and commitment to high-caliber equity research and fund analysis. Our members were also involved in multiple international case competitions, including the Inter-Collegiate Business Competition (ICBC) and the Rotman International Trading Competition (RITC). The Fund also hosted a number of Speaker Series over the quarter; using virtual platforms gave the Fund unprecedented opportunities to connect with CPMT alumni and finance professionals across Canada, the U.S., and Europe. In addition, the Fund updated the CPMT website to showcase a larger volume of members' research, including pitches, company reports, and sector updates. Lastly, we proudly welcomed Adrianna Dolata, Arnuv Mayank, Emily Chen, Eric Xiao, Gavin Stalwick, Karlen Slater, Noor Azeem, and Wesley Sherrard to the Class of 2023 and are very excited for the skillset each new Investment Analyst will bring to the program.

NEW RECOMMENDATIONS



*Note: Reflects implied upside as of March 31, 2021

TRANSACTION LOG



*Note: AUM is reflected as of the time of the transaction

Brookfield Renewable Partners

Calgary Portfolio Management Trust

Utilities
TSX: BEP.UN | NYSE: BEP
Market Outperform | Buy

Brookfield Renewable Partners

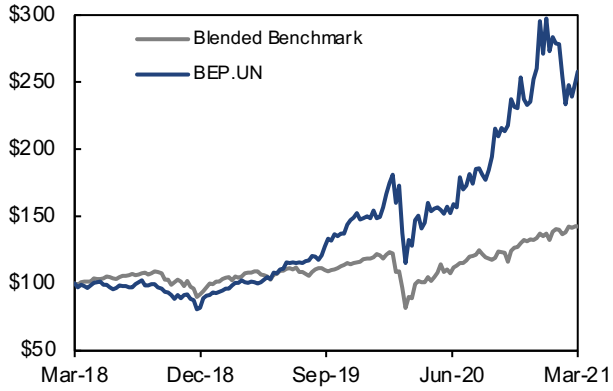
March 31, 2021
Dhruv Jindal, Portfolio Manager
Erik Skoronski, Portfolio Manager

Return on Investment	
Current Share Price	$42.65
Target Price	$51.00
Dividend Yield	3.05%
Holding Period Return	23%
Conviction Rating	2

Market Profile	
52-Week Range	$16.04 - $49.41
Market Capitalization (US$mm)	$27,552
Net Debt (US$mm)	$22,650
Enterprise Value (US$mm)	$50,202
Beta (5-Year Monthly)	0.70

Metrics	2020A	2021E	2022E
Generation (GWh)	26,052	31,632	32,282
Revenue (US$mm)	$2,047	$2,634	$2,785
EBTIDA (US$mm)	$1,614	$1,866	$1,947
EV/EBITDA	21.9x	26.9x	25.8x

Historical Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Investment Thesis Summary

- Favorable tailwinds with global decarbonization and electrification trends and increased institutional investment in renewables
- Robust hydro portfolio with perpetual assets, strong margins, and storage capacity to capture better pricing
- Best in class M&A and a highly-capable operator with significant development expertise

Business Description

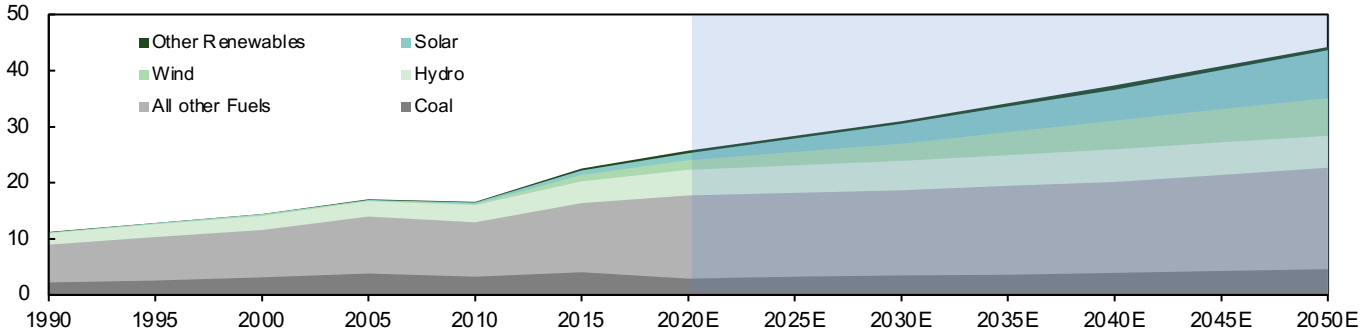
Brookfield Renewable Partners (NYSE: BEP), formerly Brookfield Energy Partners, operates one of the world's largest renewable energy platforms. BEP's portfolio consists of over 20,000 megawatts of capacity and 843 generating facilities in North America, South America, Europe, and Asia. BEP serves 24 energy markets in 14 countries. It is 48% owned by Brookfield Asset Management (TSX: BAM.A), which the CPMT currently holds at a 2 conviction.

Industry Overview

Shifting Economics: The economics and market of renewable energy have changed substantially in recent years. The Levelized Cost of Energy (LCOE) represents the cost per megawatt-hour (MWh) of building and operating an asset over an assumed life. This metric indicates the relative competitiveness of different generating technologies with key inputs including assumed utilization rate, useful life, capital costs, tax rates, and O&M costs. The LCOE for both wind and solar plants has considerably decreased, making them competitive with conventional energy on an unsubsidized basis. This economic development, in combination with a shifting ESG-focused institutional investor sentiment and favorable government policies, has created substantial tailwinds for the renewable energy market.

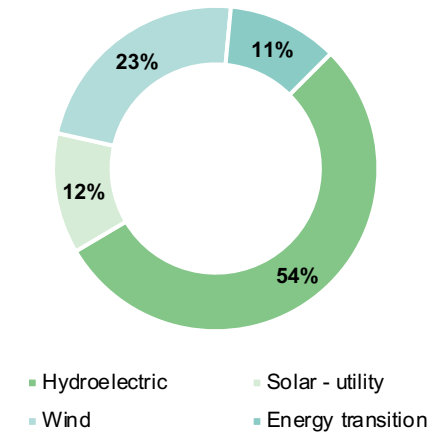
Energy Transition: Climate change has created a need for a shift in the way energy is generated. Multinational agreements, like the Paris Climate Agreement, and institutional investment mandates continue to shift to meet certain carbon or ESG standards. These changing mandates have created a higher demand for renewable energy investments and financing. The generation of different forms of renewable energy (Figure 1) is forecasted to grow considerably.

Figure 1: Global Energy Mix (Trillion MWh)



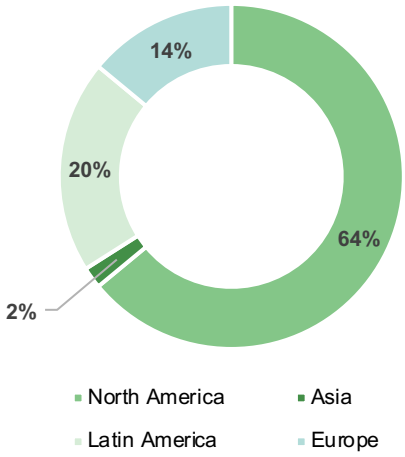
Source: U.S. Energy Information Administration

Figure 2: Generation Mix Breakdown



Source: Company Filings

Figure 3: Geographical Exposure



Source: Company Filings

Figure 4: Debt Rating vs Peers

Rating	BEP	NPI	AQN	INE	NEP
BBB+	✓				
BBB		✓			
BBB-			✓		
BB+				✓	
BB					✓

Source: S&P Capital IQ

Generation Segments: The main forms of renewable energy generation are: 1) wind; 2) solar; and 3) hydroelectric. Each technology is suited to generate during certain environmental conditions. For instance, solar can only produce in the daytime. This feature is called the capacity factor. Wind, solar, and hydroelectric produce at average capacity factors of 34.8%, 24.5%, and 39.1% respectively. The higher capacity factor of hydroelectric means it has historically sold at a premium multiple.

Industry Peers: BEP's peer group includes other renewable generation companies and renewable utility providers. For our analysis, we included Northland Power (TSX: NPI), Algonquin Power & Utilities (TSX: AQN), TransAlta Renewables (TSX: RNW), Innergex Renewable Energy (TSX: INE), and NextEra Energy Partners (TSX: NEP) as comparable companies. While there are many operators in the renewable energy and utility space, BEP is the world's largest pure-play renewable power company.

Company Strategy

BEP employs a unique long-term strategy that targets 12-15% returns to shareholders on invested capital and long-term recurring contract revenues. This is exemplified by its average power purchase agreement (PPA) term of 14 years, 84% of which is contracted. This includes over 600 high-quality counterparties that are primarily comprised of public power authorities and utilities. This diversification creates downside protection that is not available to most of its peers. These investments focus on complex or large-scale transactions with improved cash flows and de-risked investments through sustainable operating principles, allowing BEP to operate as a stable sponsor of its generation facilities. Recently, the Company's guidance for investment increased to a targeted annual equity deployment of US$800mm-US$1B. BEP also emphasizes a limited foreign exchange exposure with 75% of its in-place contracts fully hedged.

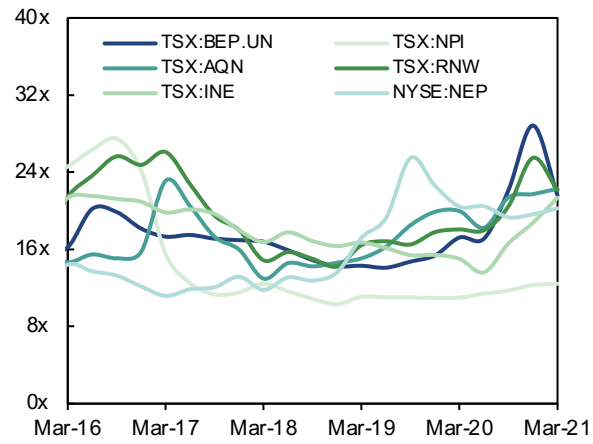
Mandate Fit

Quality Management: BEP is owned through a majority ownership stake (~48%) by Brookfield Asset Management (TSX: BAM.A), a high-quality asset manager and parent company of various Brookfield investment vehicles. BEP's board and executive team exhibit an excellent track record of relevant industry experience and are experts in their field. However, since some members of BEP's leadership maintain board seats in other Brookfield companies, this poses an agency risk for investors that should be considered.

Competitive Advantage: BEP has a strong competitive advantage in both its size and expertise. BEP offers stable, diversified, and high-quality cash flows through long-term contracts with a weighted average remaining term of 14 years. Additionally, BEP's hydro assets generally garner premium valuations on account of their perpetual nature, low maintenance and operating costs, and their ability to store power to capture better pricing. BEP's global scale, multi-technology capabilities, and strategic relationship with BAM.A allows the Company to maintain access to both small and large-scale M&A opportunities. With a 23,000 MW proprietary development pipeline and an increased focus on solar generation, BEP is poised for tremendous future growth.

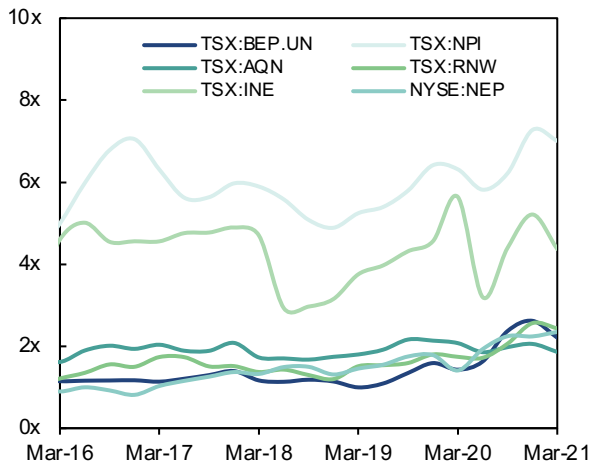
Strong Balance Sheet: Brookfield Renewable Partners has one of the strongest balance sheets in its peer group. It currently has the highest credit rating out of its peers with an investment-grade credit rating of BBB+ by S&P. As of its year-end, BEP had US$16.9B in long-term debt with an average duration of 14 years.

Figure 5: NTM EV/EBITDA Multiples vs Peers



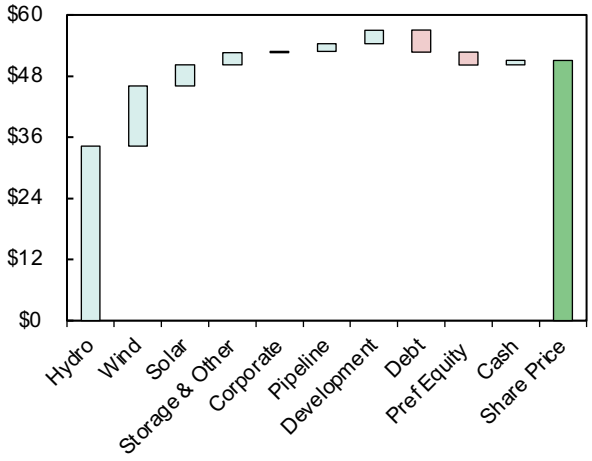
Source: S&P Capital IQ

Figure 6: P/BV Multiples vs Peers



Source: S&P Capital IQ

Figure 7: SOTP Valuation Waterfall



Source: CPMT Estimates

Also, 85% of its debt is non-recourse. This is paired with an interest coverage ratio of 2.0x, which is the lowest the Company has demonstrated in the last 4 years. Additionally, BEP has US$3.4B of available liquidity.

Growing Free Cash Flow: BEP has demonstrated excellent growth in both unlevered and levered free cash flow. Over the last five years, levered free cash flow has grown at a 33% CAGR. Since the Company's inception, BEP has had consistent distributions that have grown at a 6% CAGR over the last 20 years. This is in line with management's targeted growth average of 5% to 9% annually.

ESG

The carbon reduction attributable to renewable energy makes BEP a global leader in ESG standards. This is exemplified by its addition to the TSX Renewable and Clean Tech Index. Additionally, BEP is a leader in partnering with institutions to help them decarbonize. The energy contracts they make with companies effectively "avoid" the carbon emissions that would be associated with other sources of power. For instance, the BEP provides 96% of JP Morgan's New York office electricity and has similar partnerships with multiple other large organizations. In total, the amount of carbon BEP helps avoid annually is equivalent to 12 million vehicles, 1 billion trees planted, or 2 times London, England's annual emissions. Socially, BEP maintains a social license to operate in its communities and continues to do this through partnerships and programs that give back directly to those communities.

Investment Risks

As an operator in a rapidly changing industry, an investment in BEP would carry inherent risks. BEP may not be able to replace expiring PPA agreements with similar terms and hydrology, wind, and irradiance could adversely affect the volume of electricity generated. BEP also assumes the risk associated with the creditworthiness of the counterparties in its long-term energy contracts. Moreover, since BAM maintains a majority ownership stake in the Company, this management structure poses an agency risk associated with BAM's management acting in the best interest of BEP shareholders. Finally, global market competitiveness and capital inflows to the renewable energy space may compress long-term returns for BEP and create a market that provides lower returns than seen today.

Valuation and Investment Thesis

The CPMT derived a target price of $51, which corresponds to an implied return of 23% when combined with BEP's dividend yield of 3.05%. Our target price is based on a sum-of-the-parts valuation to reflects BEP's diversified asset base (Figure 7). This price target implies a 22.6x weighted-average EV/2022E EBITDA multiple. This valuation is at a premium to its peer group, which we believe is warranted given Brookfield's competitive advantage highlighted by its large proportion of hydro generation, excellent track record as a capable operator, and development expertise. Furthermore, BEP is the only pure-play operator in North America with global access, has an investment-grade credit rating, and has access to M&A of all scale. Furthermore, its size advantage and management expertise make BEP one of the best names in our investment universe to take advantage of the energy transition. We believe the Company's demonstration of strong fundamental financial metrics and alignment with the CPMT's investment mandate makes it an excellent addition to the portfolio. We are recommending entering a position with Brookfield Renewable Partners at a 2 conviction.

Chipotle Mexican Grill

Consumer Discretionary
NYSE: CMG
Market Outperform | Buy

Calgary Portfolio Management Trust

CHIPOTLE MEXICAN GRILL

March 31, 2021

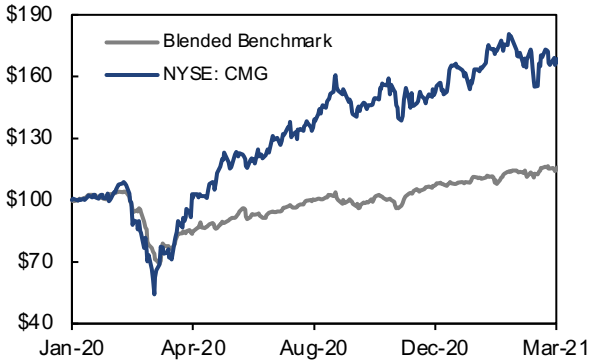
Stephen Nguyen, Investment Analyst

Return on Investment	
Current Share Price	$1,434.61
Target Price	$1,750.00
Dividend Yield	0.00%
Holding Period Return	22%
Conviction Rating	1

Market Profile	
52-Week Range	$415.00 - $1,564.91
Market Capitalization (US$mm)	$40,682
Net Debt (US$mm)	($608)
Enterprise Value (US$mm)	$40,074
Beta (5-Year Monthly)	1.37

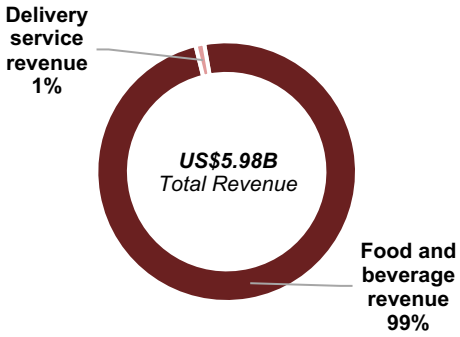
Metrics	2021E	2022E	2023E
Revenue (US$mm)	$7,235	$8,148	$8,468
EBITDA (US$mm)	$1,162	$1,520	$1,598
EPS	$23.57	$32.89	$34.86
EV/EBITDA	34.5x	26.4x	25.1x

Historical Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Figure 1: 2020 Revenues by Segment



Source: Company Filings

Investment Thesis Summary

- Well-positioned for top-line growth and margin expansion over the next several years due to a growing digital platform and under-penetration in the U.S. market
- Favourable capital structure allows the Company to focus capital allocation on unit growth and share repurchases
- Strong brand awareness and same-store initiatives allow for an attractive valuation relative to peers

Business Description

Chipotle Mexican Grill, Inc. (NYSE: CMG) is a fast-casual restaurant company specializing in burritos, burrito bowls, tacos, and salads. The Company operates the world's second-largest fast-casual chain with 2,724 restaurants across the U.S., Canada, the U.K., France, and Germany. Alongside its Chipotle restaurants, CMG operates a fast-casual pizza restaurant under the brand, Pizzeria Locale. The Company was founded in 1993 and is based in Denver, Colorado.

Industry Overview and Outlook

The quick-service restaurant industry is highly fragmented. As of 2020, the top four players – CMG, McDonald's (NYSE: MCD), Starbucks (NASDAQ: SBUX), and Yum! Brands Inc. (NYSE: YUM) – account for less than 10% of the total market share. Increasing demand for fast food and delivery offerings has led to the rise of smaller chains and fast-casual concepts such as Chick-fil-A and Shake Shack, Inc. (NYSE: SHAK). Industry concentration is expected to decline into 2025; this, combined with shifting consumer preferences and the economic impact of the COVID-19 pandemic, has led to operators emphasizing low prices to attract consumers.

The industry is forecasted to see significant growth over the next few years. The global quick-service market is expected to grow at a CAGR of 4.6% to ~US$932B over the next seven years. Several key trends have been identified for the industry:

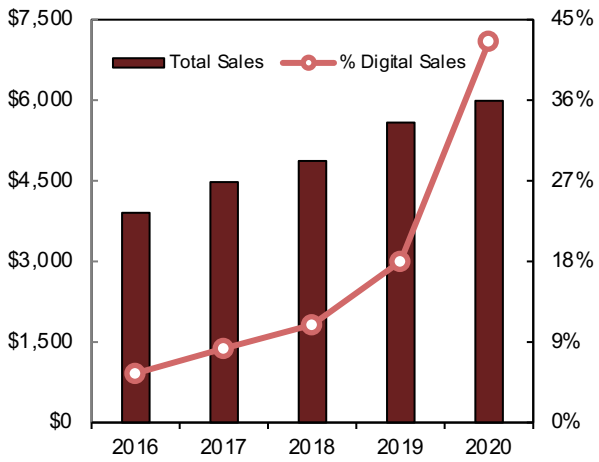
(1) Focus on Health: A rise in health concerns among consumers has increased demand for fast-casual restaurants – a mixture between casual dining and fast food that typically features longer wait times and more upscale offerings. As a result, quick-service operators are expected to introduce healthy menu items as well as continue to explore partnerships with plant-based food producers.

(2) Price-Based Competition: Cost controls will be a focus for operators due to higher costs from increasing food prices and wages. Competition on price and service between firms is expected to restrict revenue and profit growth going forward.

(3) Emphasis on Technology: The COVID-19 pandemic has accelerated innovations in online delivery services and mobile ordering systems. Companies will need to continue investing in these platforms to maintain customer satisfaction.

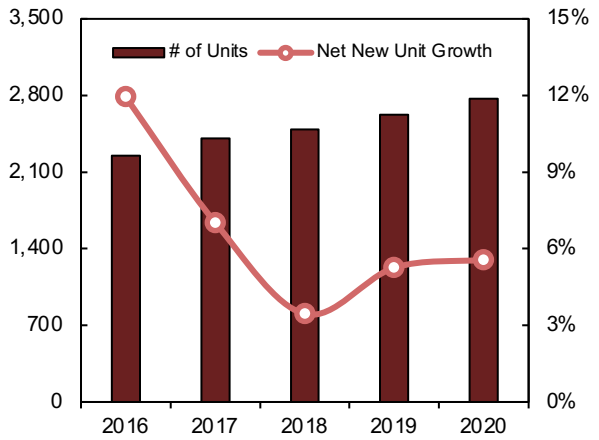
(4) Asset-Light Business Models: Industry operators have strategically shifted towards asset-light business models to grow. In recent years, major restaurant chains have pivoted from company-owned restaurants to franchised operations.

Figure 2: Digital Sales (US$mm) as a % of Total Sales



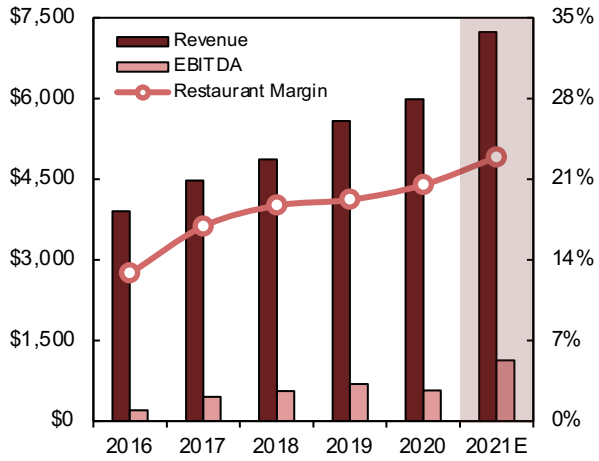
Source: Company Filings

Figure 3: Number of Restaurant Units



Source: Company Filings

Figure 4: Revenue (US$mm), EBITDA & Restaurant Margin



Source: Company Filings, CPMT Estimates

CMG's direct competitors in the quick-service Mexican category include Taco Bell (a subsidiary of YUM), Del Taco Restaurants Inc. (NASDAQ: TACO), and Qdoba Mexican Eats. Broader competitors in the fast-casual category include SHAK, Panera Bread Company, and Panda Express. Alongside competition in the fast-food and casual dining segments of the quick-service restaurant industry, the Company also competes with non-traditional operators, including convenience stores, grocery stores, cafes, meal kit delivery services, and dark/ghost kitchens.

Corporate Strategy and Growth

From 2015 to 2017, CMG faced negative publicity due to a series of foodborne illness outbreaks in its restaurants. As a result, Brian Niccol, a former executive at YUM, replaced founder Steve Ells as CEO in 2017. Niccol established several changes as a part of CMG's turnaround strategy. The Company has committed to using local and organic ingredients. Its menu features no added colours, flavours, or preservatives. The Company also strengthened its food safety initiatives. CMG requires mandatory certification for its managers and field leaders by ServSafe, a training and certificate program administered by the U.S. National Restaurant Association.

Leveraging digital capabilities has been a key driver of growth for CMG. Digital sales have increased by ~381% over the past two years. In 2020, the Company digitized most of its digital-make lines, expanded its partnerships with third-party delivery services, and increased its number of Chipotlanes – CMG's drive-thru format for digital order pickups. The introduction of digital-only menu items in 2019 has added to the adoption of the Company's digital platform.

CMG has maintained high levels of customer awareness through creative marketing campaigns, which have featured Chipotle merchandise for holiday-exclusive events and its Real Foodprint, a sustainability impact tracker for the Company's food ingredients. In 2020, the Company's loyalty program, Chipotle Rewards, added over 10mm new members for a total of 19.5mm enrolled members.

COVID-19 Impact

CMG's performance has been strong through the COVID-19 pandemic. The Company's total revenues grew by 11.6% YoY in 2020, fueled by the net opening of 146 restaurants and a restaurant-level margin expansion of 0.3% YoY.

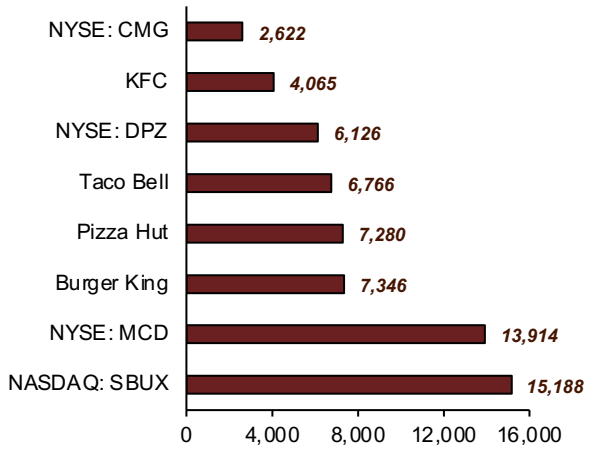
However, several disruptions have occurred to the Company's operations. CMG has delayed new restaurant construction and existing restaurant remodels that were scheduled to begin during the first half of 2021. The Company also had to close a small number of restaurants due to several of its workers contracting the coronavirus in November 2020. CMG's operating costs increased from 79.5% in 2019 to 82.6% of total revenue in 2020; the increase was driven primarily by increased delivery expenses, assistance and exclusion labour costs, and elevated beef prices.

Mandate Fit

Quality Management: Brian Niccol leads the Company as both CEO and Chairman of the Board of Directors. Niccol has considerable experience in the restaurant industry, serving as CEO of Taco Bell and holding various executive positions at Pizza Hut (a subsidiary of YUM). Since he joined CMG in March 2018, the Company's stock has increased by ~350%. The management team has extensive restaurant expertise and an underlying focus on innovation and improving customer outcomes.

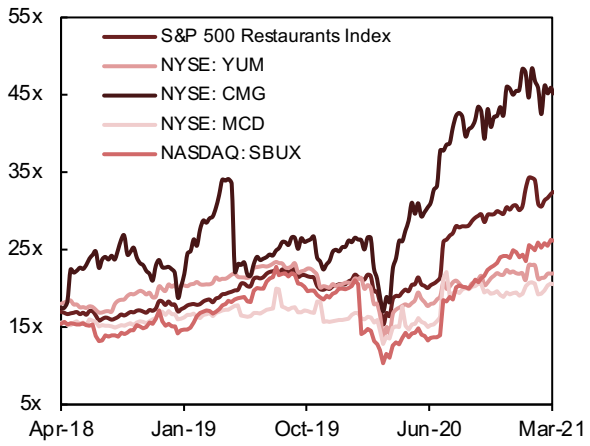
Competitive Advantage: CMG's digital platform continues to (cont.)

Figure 5: Number of U.S. Restaurant Units vs Peers



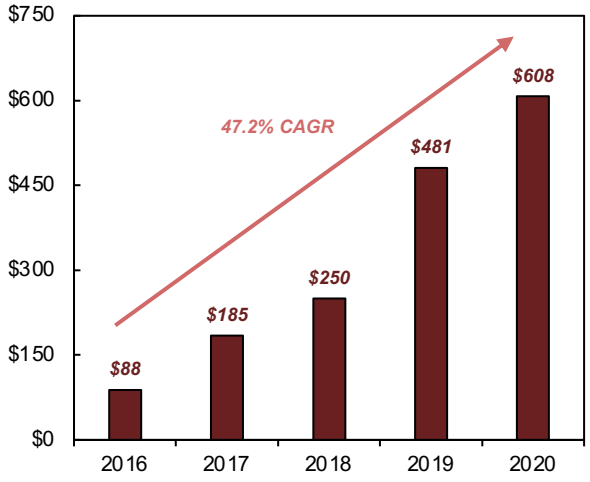
Source: Company Filings

Figure 6: LTM EV/EBITDA vs Peers



Source: S&P Capital IQ

Figure 7: Cash Balance (US$mm)



Source: Company Filings

be a competitive advantage for the Company. Unlike other operators that use third-party delivery aggregators to grow revenues at the cost of diluting restaurant margins, CMG's digital strategy is margin accretive; the Company's Chipotlanes utilize dedicated in-store production area for online orders that do not impact in-restaurant customers. Additionally, the release of new menu items as digital-only exclusives has allowed CMG to retain customer interest and expand its digital presence. For example, quesadillas, which have been the most requested menu item by customers, launched this month as a digital-only item.

The CPMT believes CMG's commitment to high-quality and responsibly sourced ingredients will continue to be a competitive advantage. However, this advantage may weaken as more competitors make claims related to a higher quality of ingredients.

Strong Balance Sheet: CMG uses no leverage in its capital structure and maintains a substantial cash balance (US$608mm as of Q4 2020). The Company allocates its cash primarily for capital expenditures related to new restaurant openings and existing restaurant remodels, as well as share repurchases; however, CMG's share buyback program was suspended in March 2020 due to the COVID-19 pandemic.

Growing Free Cash Flow: CMG generates sustainable growing FCF as a result of its competitive advantages and its continued ability to expand restaurant margins. FCF has grown at a CAGR of 26% over the past five years and the CPMT projects CMG to generate ~US$2B in FCF over the next three years.

ESG

Environment: CMG has created several initiatives to improve waste management at its restaurants. The Company set goals to reduce waste per restaurant and the amount of plastic in its cutlery by 30% and 25%, respectively, in 2021. CMG aims to fully measure and report its Scope 3 emissions by 2025.

Social: Since 2014, CMG has donated over US$69mm to local communities through fundraisers and raffles. As a part of the Chipotle Cultivate Foundation, the Company holds an accelerator program that invests in new ventures in the agriculture industry.

Governance: In 2021, CMG announced that 10% of annual incentives for company executives would be tied to achieving ESG goals. The leadership team will be evaluated on progress towards achieving goals outlined in the Company's sustainability report.

Investment Thesis and Valuation

The CPMT views CMG as a buy with a 1 conviction. We arrived at a target price of $1,750 per share for CMG based on a 50/50 blend of two methods: (1) DCF valuation assuming a WACC of 8.1% and a terminal growth rate of 3.0%; and (2) 25/25 blend of 32.5x and 53.2x EV/EBITDA and P/E multiples for 2022E, respectively. This implies a 22% holding period return.

CMG trades at a premium compared to its quick-service restaurant industry peers; the Company has a LTM EV/EBITDA ratio of 45.2x compared to a peer median (figure 6) of 32.5x. However, the CPMT believes that this premium is justified given the Company's industry-leading return on capital and margins and its high growth opportunities. CMG's under-penetration in several markets gives the Company significant room for expansion; management has discussed a long-term target of ~5,000 units, with plans to open 200 new units in 2021. The Company has also set a goal to expand its restaurant margin from 21% to 25% by the end of 2022.

Comcast

Communication Services
NASDAQ: CMCS.A
Market Outperform | Buy

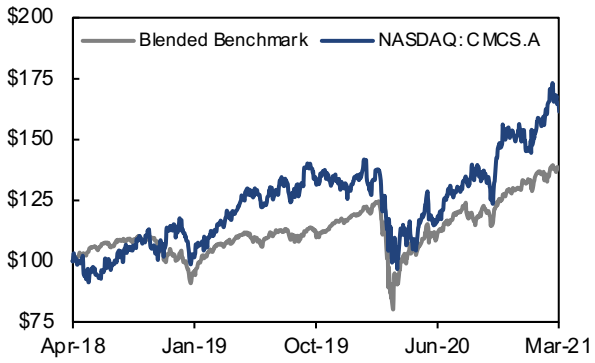
March 31, 2021
Helena Cherniak-Kennedy, Portfolio Manager
Breanna Schollaardt, Portfolio Manager
Akash Sekar, Portfolio Manager

Return on Investment	
Current Share Price	$54.11
Target Price	$68.00
Dividend Yield	1.83%
Implied Return	27%
Conviction Rating	2

Market Profile	
52-Week Range	$32.42 - $58.04
Market Capitalization (US$B)	$251
Net Debt (US$B)	$92
Minority Interest (US$B)	$3
Enterprise Value (US$B)	$346
Beta (5-Year Monthly)	1.04

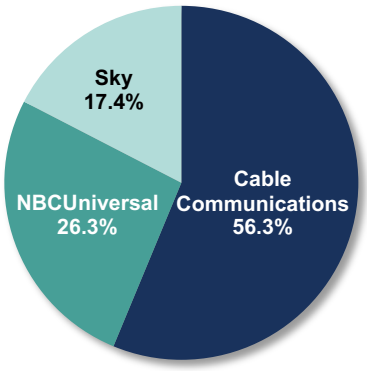
Metrics	2020A	2021E	2022E
Revenue (US$B)	$104	$110	$116
EBITDA (US$B)	$31	$35	$37
EPS (US$)	$2.30	$2.45	$3.19
EV/EBITDA	11.3x	10.0x	9.4x

Historical Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Figure 1: Revenue Segmentation



Source: Company Filings

Investment Thesis Summary

- Leading market position in cable and media entertainment, along with a strong intellectual property portfolio, provides diversified and complementary revenue streams
- Sustained broadband net additions in cable, coupled with recovery in the NBCU and Sky segments as vaccines are rolled out, will drive accelerated FCF generation over 2021
- Trading at a significant discount to media conglomerate peers, representing an attractive valuation that does not sufficiently price in CMCS's competitive advantages and runway for growth

Business Description

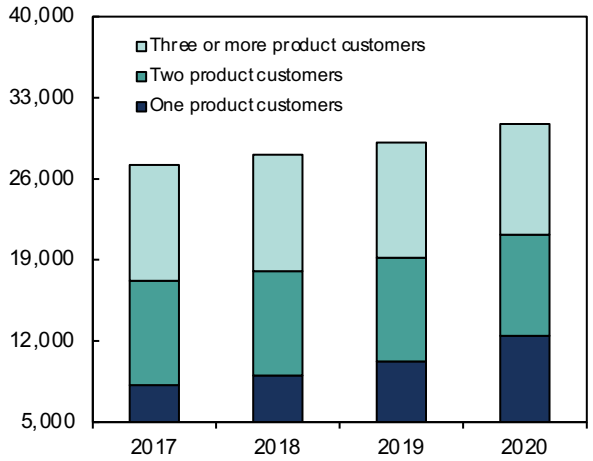
Comcast Corporation (NASDAQ: CMCS.A) is an international media and technology company. Its three main business segments are Comcast Cable, NBCUniversal, and Sky. The NBCUniversal (NBCU) segment can be further broken down into cable networks, broadcast TV, filmed entertainment, and theme parks. The Company also owns the Philadelphia Flyers and the Wells Fargo Center arenas. CMCS is newly focused on Peacock, its direct-to-consumer streaming service which officially launched throughout the U.S. in July 2020.

Industry and Segment Overview

Cable Providers: Cable Communications is CMCS's core segment, comprising 56.3% of revenue. Through this segment, CMCS provides high-speed internet, video, voice, wireless, and security and automation services in the U.S. under the Xfinity brand to 30.7mm residential customers and 2.4mm business customers. The cable provider industry is dominated by two players, with CMCS holding the largest market share at 21.7%, followed by Charter Communications (NASDAQ: CHTR) at 17.3%. A major challenge for cable companies has been the rise of streaming services, which have siphoned viewers away from traditional cable TV. Although cord-cutting among customers has resulted in video subscription losses, this is offset by high broadband net additions which are expected to sustain momentum. This has positively impacted cable companies, swinging the revenue mix towards higher-margin broadband customers. Going forward, positive revenue drivers within cable include greater bundling of TV and broadband with other services, such as streaming. Bundling products reduces subscriber turnover by offering a range of services at competitive prices.

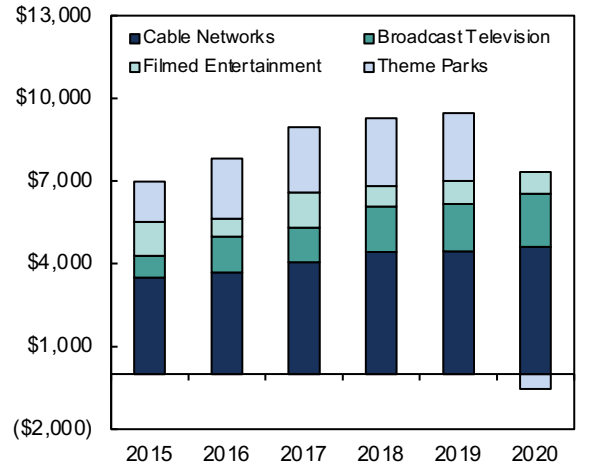
Cable Networks: Within the NBCU segment, CMCS's cable networks provide entertainment, news, and sports networks nationally and internationally. Within the cable networks industry, CMCS holds 11.4% market share, surpassed by AT&T (NYSE: T) at 19.7%, The Walt Disney Company (NYSE: DIS) at 16.6%, and ViacomCBS (NASDAQ: VIAC) at 12.1%. Revenue is generated through programming licensing and distribution, as well as from advertising fees. Declining cable TV subscriptions remain a headwind, which companies are required to offset by negotiating higher fees or introducing alternative revenue streams, such as streaming. Subscriber retention is directly based on the consumption of individual network channels, requiring cable networks to constantly cater channel content to shifting consumer preferences.

Figure 2: Customer Relationship Mix



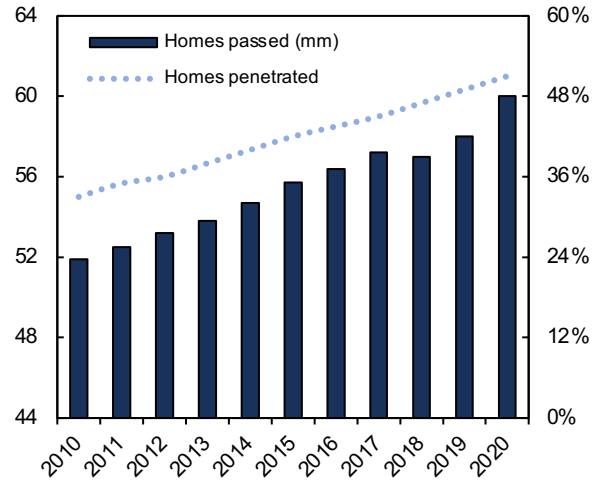
Source: Company Filings

Figure 3: NBC Universal EBITDA Mix (US$mm)



Source: Company Filings

Figure 4: Broadband Homes Passed & Penetration



Source: Company Filings, Street Research

Broadcast TV: CMCS's broadcast TV subsegment consists of NBC and Telemundo broadcast networks, local TV networks, NBC Universo national cable network, broadcast TV studio production operations, and multiple digital properties. CMSC holds the highest market share in this segment at 13.5%, with Fox Corporation (NASDAQ: FOX) and DIS trailing behind at 11.5% and 10.5%, respectively. The main determinant of demand for this segment is advertising expenditure which generates ~2/3 of industry revenue. Audience size also impacts demand for broadcast TV as the larger an audience size for a specific network, the higher the price the station can charge advertisers. Revenue volatility in this segment is moderately high, as success is mainly tied to the number of cable subscribers and advertisement spending. While the cable segment has been impacted by cord-cutting, broadcast TV is less impacted; however, this segment currently has high levels of consolidation. Another trend has been operators shifting to digital distribution.

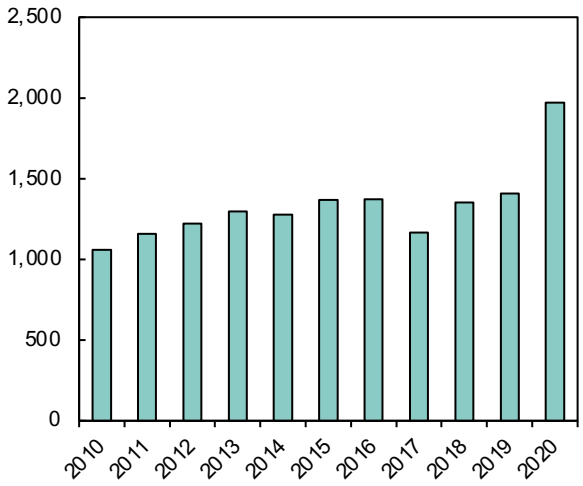
Amusement Parks: CMCS competes in this segment through its NBC Universal Studios theme parks in Orlando and California in the U.S. and in Osaka, Japan. The Company is currently working with a consortium of Chinese state-owned companies to develop a park in Beijing, China, and another theme park in Orlando. CMSC's main competitor in this segment is DIS, which holds 43.8% of the market, compared to CMSC at 21.5%. Other competitors include Cedar Fair LP (NYSE: FUN) (5.7%), SeaWorld Entertainment (NYSE: SEAS) (5.6%), and Six Flags Inc. (NYSE: SIX) (5.0%). Consumer spending directly affects this segment; therefore, the COVID-19 pandemic substantially impacted industry revenue growth, which declined by ~35.5% in 2020. Moving forward, theme parks are expected to see revenue growth due to consumers' pent-up demand for travel. Furthermore, operators will likely offer packages and discounts to spur demand as recovery from the pandemic increases.

Filmed Entertainment: Through its NBCU segment, CMCS produces and distributes content worldwide under the Universal Pictures, Illumination, DreamWorks Animation, and Focus Features names. NBCU has the third-largest market share at 9.1%, trailing DIS (Disney, Pixar, Marvel, LucasFilm, 21st Century Fox) at 32.5%, and AT&T (Warner Bros, Time Warner) at 12.2%. The industry is highly competitive, with a steady influx of new entrants, including digital players such as Netflix (NASDAQ: NFLX). COVID-19 has severely impacted filmed entertainment, changing consumption patterns from in-theater releases to digital releases amid movie theater closures. However, delayed blockbuster releases and a resurgence of demand are expected to drive box office ticket rebounds as vaccines are distributed. Industry revenue is expected to grow at a 6.2% CAGR over the next five years.

Mandate Fit

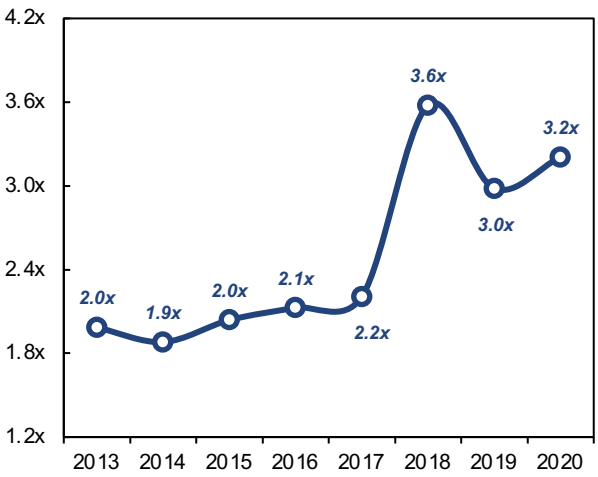
Quality Management: Brian Roberts has been in his current position as CEO since 2002, and Chairman since 2004. He joined CMCS in 1974 as an intern and has worked in a plethora of roles throughout the Company. His father, Ralph Roberts, was the founder of CMCS in 1963 following the purchase of American Cable Systems. At inception, CMCS had 1,200 subscribers compared to 33.1mm customers as of year-end 2020. Brian Roberts currently owns all outstanding Class B shares of the Company, which have 15 votes per share; however, the Class B stock only accounts for ~1/3 of the total voting power of all common stock. The Fund is content with the dual-class share system, as Roberts has extensive knowledge of the Company and has proven to act in the best interest of shareholders. As an example, CMCS's five-year TSR is 111.7%.

Figure 5: Broadband Net Additions (000s)



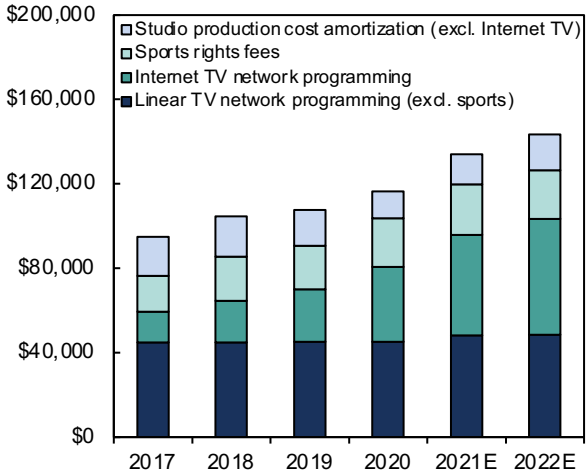
Source: Company Filings

Figure 6: Net Debt/EBITDA



Source: Company Filings, S&P Capital IQ

Figure 7: U.S. Media Content Spending (US$mm)



Source: Street Research

Competitive Advantage: A key advantage CMCS has is its broadband coverage across the U.S. The Company's fixed broadband service covers ~36% of the country, with its closest competitor CHTR at ~34%. There has been a switch to customers using Digital Subscriber Line (DSL) networks from cable networks. CMCS is much better equipped than many competitors in the industry that lack a well-developed broadband network.

Strong Balance Sheet: With a Net Debt/EBITDA ratio of 3.2x and $11.7B in cash as of FY2020, CMCS has maintained balance sheet health despite COVID-19 headwinds. While deleverage efforts following the $40B acquisition of Sky in 2018 slowed over 2020, CMCS is on track to use its cash balance and FCF generation to reduce leverage to the low 2x range. Fitch affirmed an A- credit rating for CMCS in October 2020 with a stable outlook, while S&P and Moody's have both given the Company investment-grade credit ratings of A- and A3, respectively.

Growing Free Cash Flow: CMCS has grown FCF at a 5% CAGR over the last five years. Going forward, the Company is expected to experience strong growth in cable, supported by broadband net additions, which increased by a record 1.97mm in 2020. CMCS has also expressed commitment to expand margins and lower capital intensity within its cable business which comprised 75% of EBITDA in 2020, further supporting robust FCF generation. While NBCU and Sky were severely impacted by COVID-19, with EBITDA declining 23% and 37%, respectively, recovery in these segments will be a major driver of accelerating FCF growth over 2021 and 2022.

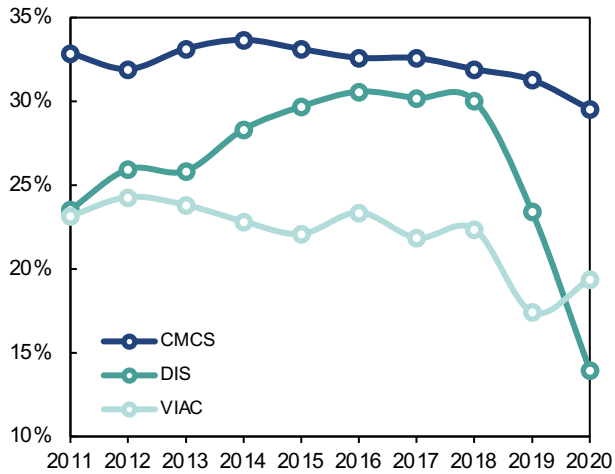
ESG Initiatives and Information

Environmental: CMCS has a long-term zero emissions goal for its operational fleet of vehicles. While this may seem insignificant, the Company has one of the largest fleets in the U.S. through its Xfinity vans, trucks, SUVs, and sedans, in addition to all the vehicles supporting theme parks, film and TV studios, and news teams. Zero waste is another initiative the Company is focused on. By conducting waste studies at different theme parks and areas of the business, CMCS has gained an understanding of where to focus its efforts; many edible leftovers are donated to local communities, and meal preparation waste is composted or sent to specialized facilities.

Social: The Company aims to support a culture of volunteerism and service. The Comcast Cares employee volunteerism program reaches over 1,000 non-profits and 23 countries. To help offset the immense impacts of the COVID-19 pandemic, CMCS aided new customers. Through offering two months of free Internet service to new customers, CMCS hoped to smooth the digital divide, especially for school-aged children who may not have had Internet access otherwise. The Internet Essentials program the Company launched in 2011 has aimed at levelling this digital divide by working with multiple non-profits to support hundreds of families and students.

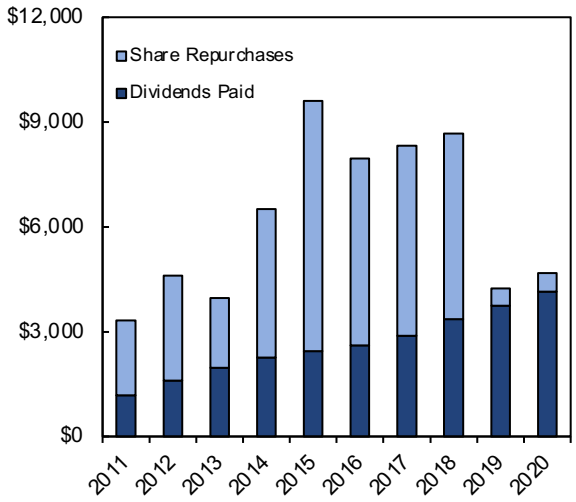
Governance: NEO compensation is well aligned with shareholder interests, with 72% of CEO compensation being performance-based. Annual bonuses are based on several financial metrics, including consolidated adj. EBITDA and FCF and operational metrics, such as customer experience and product churn. The Company has achieved 50% diversity on its Board, with 90% of directors being independent. CMCS has also been named on *Fortune* magazine's 'Best Workplaces for Diversity' and on HRC's 2020 'Best Place to Work for LGBTQ Equality'. As of April 1, 2020, some NEOs pledged their base salaries to charities supporting COVID-19 relief efforts.

Figure 8: EBITDA Margins vs Peers



Source: Company Filings, S&P Capital IQ

Figure 9: Capital Returned to Shareholders (US$mm)



Source: Company Filings

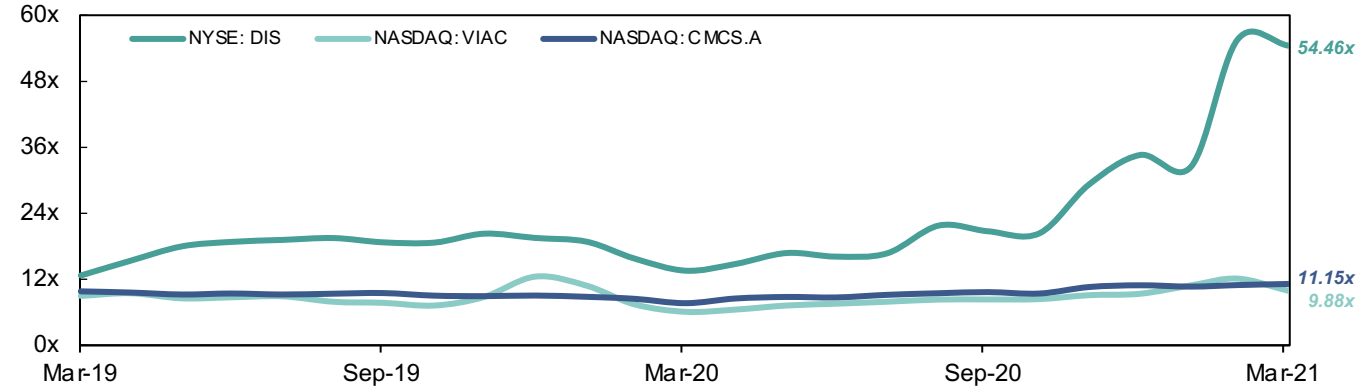
Valuation

The CPMT valued CMCS using a 50/50 blend of the Gordon Growth method (WACC of 7.2% and 2% terminal growth rate) and an EV/EBITDA exit multiple of 11.5x. This method returned an implied share price of $68.00, representing a 24% capital gain as of quarter-end. CMCS trades at ~11.2x on an LTM EV/EBITDA basis, which is ~9x below its media conglomerate peers, DIS and VIAC. CMCS should see COVID-19 headwinds begin to fade as vaccine deployments continue across the U.S., creating a tailwind for the filmed entertainment and theme parks subsegments, which saw large declines over the last year. Additionally, increased penetration of homes passed should provide a tailwind for broadband net additions, providing a catalyst for the Cable Communications segment in the long term.

Investment Thesis

As one of the largest video, high-speed data, and voice providers in the U.S., and one of the world's most prominent media and entertainment companies, CMCS is a market leader in the communications services sector and provides an attractive investment opportunity for the Fund. The Company is well-positioned to outperform over the next year, driven by economic recoveries and vaccine rollouts supporting the NBCU and Sky segments. As seen over 2020, CMCS's core cable business provides downside protection relative to other segments, resulting in a complementary portfolio of businesses. Going forward, broadband net additions will drive continued growth in Cable Communications, offsetting video subscription declines over the next three years. The Tokyo Olympics also poses a tailwind for CMCS in 2021, providing marketing catalysts for cable, Xfinity Flex, and Peacock. With a balance sheet that weathered the pandemic with relative ease, CMCS is well positioned to resume deleveraging efforts over 2021 and lower Net Debt/EBITDA from current levels of 3.2x to its target 2.0-2.5x while continuing to deploy excess FCF in the form of share buybacks. With CMCS trading ~9x below its media conglomerate peers on an EV/EBITDA basis, the Fund believes that CMCS's expected acceleration in growth is not being reflected in the market, providing an attractive entry point for the Fund. Pending further due diligence, the CPMT intends to enter a position in CMCS at a 2 conviction to strengthen our communications services portfolio.

Figure 10: CMCS LTM EV/EBITDA vs Peers



Source: S&P Capital IQ

Ford Motor

Consumer Discretionary
NYSE: F
Market Outperform | No Action

March 31, 2021

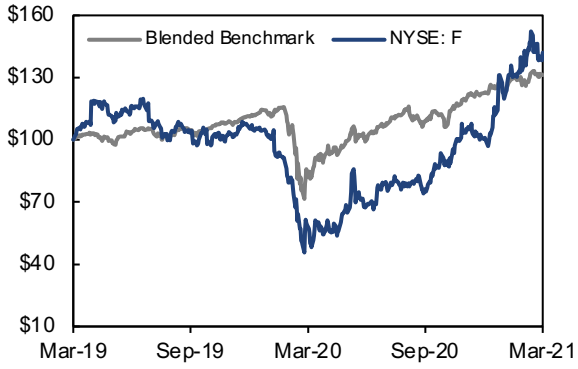
Sina Hadjiahmadi-Ardakani, Investment Analyst

Return on Investment	
Current Share Price	$12.25
Target Price	$13.50
Dividend Yield	4.90%
Holding Period Return	15%
Conviction Rating	N/A

Market Profile	
52-Week Range	$4.17 - $13.62
Market Capitalization (US$mm)	$49,159
Net Debt (US$mm)	($7,140)
Enterprise Value (US$mm)	$42,019
Beta (5-Year Monthly)	1.21

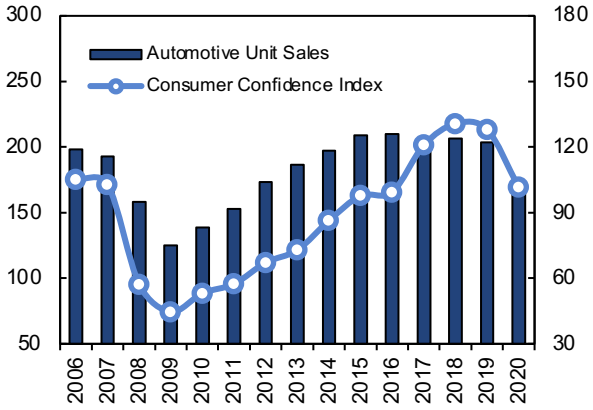
Metrics	2021E	2022E	2023E
Revenue (US$mm)	$143,146	$149,303	$155,818
EBITDA (US$mm)	$11,165	$12,541	$14,179
EPS (US$)	$1.21	$1.64	$1.78
EV/EBITDA	3.8x	3.4x	3.0x

Historical Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Figure 1: LHS U.S. Automotive Unit Sales (mm) & RHS CCI



Source: Refinitiv Eikon, U.S. Bureau of Economic Analysis

Investment Thesis Summary

- F is expected to outperform in the near-term with growing consumer confidence and low-interest rates serving as tailwinds
- The CPMT believes that management can execute on F's electric vehicles (EV) strategies and enhance its profitability
- The Fund recommends no action on the name due to concerns around the industry's high cyclicality

Business Description

Ford Motor Company (NYSE: F) designs, manufactures, markets, and services automotive vehicles (autos). F operates in three business segments: Automotive, Mobility, and Ford Credit. The Automotive segment covers the design, manufacturing, distribution, and servicing of the Company's vehicles. The Mobility segment is centered around developing F's autonomous vehicles (AV) and related businesses. Notably, F holds ownership in Argo AI, which develops autonomous driving systems, and Spin, a micro-mobility service provider. The Ford Credit segment includes the Company's vehicle-related financing and leasing activities, which are provided to and through auto dealers globally.

Industry Overview

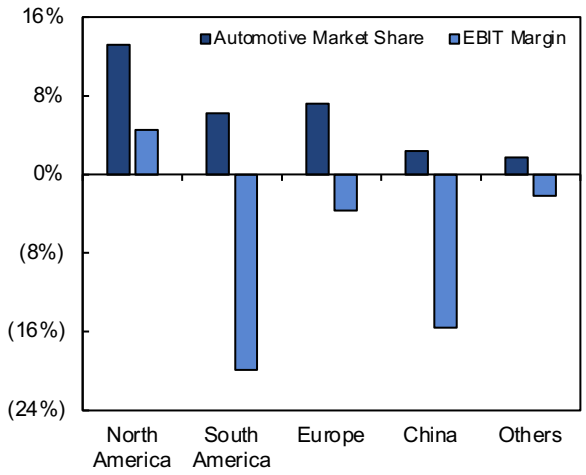
Historically, new auto sales have increased with rising employment and improving disposable income. Consumers are inclined to make expensive discretionary purchases when they feel secure about their financial position. Moreover, new auto purchases are typically financed with loans. Therefore, as economies improve, credit lending increases, propelling the demand for autos. With current interest rates at historical lows enabling lower borrowing costs, growth in new auto sales is expected to rise as consumer spending rebounds from the COVID-19 pandemic. Additionally, a depreciation in the U.S. dollar tends to support auto exports, resulting in top-line growth for North American manufacturers. Nonetheless, should central banks taper their monetary policy in coming years, interest rates will rise, along with the borrowing costs for auto financings. During such periods, durable goods spending tends to decline, placing downward pressures on new auto sales.

Furthermore, cutting production costs is a prevalent theme in the industry, as manufacturers push for more automation. However, costs for automakers will increase with mounting regulation on new vehicles' emission standards. This is also accelerated by consumers' environmentally-conscious demands. As a result, manufacturers have begun to increase expenditures on research and development for EVs and AVs.

Mandate Fit

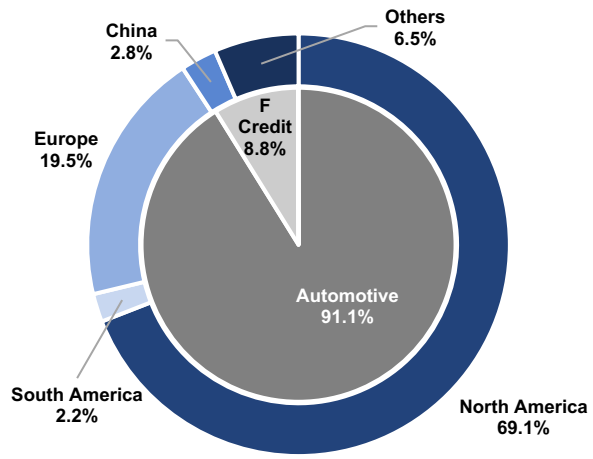
Management Team: F is led by President and CEO James "Jim" Farley, following Jim Hackett's recent retirement. Farley and his team are focused on accelerating the Company's transformation through restructuring F's operations to deliver sustainable profitability and FCFs. The CPMT is confident in Farley's leadership, considering his extensive experience in F's many business units. Farley also has a proven track record of increasing the Company's profitability in select automotive lines during his prior role as F's COO.

Figure 2: FY2020 Market Share & EBIT Margin by Region



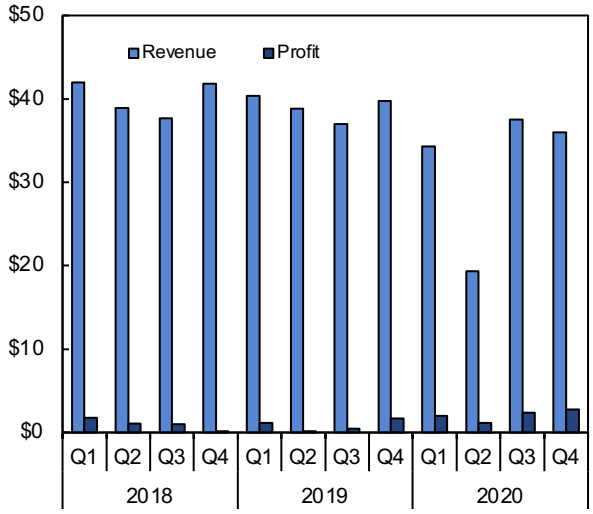
Source: Company Filings

Figure 3: 2020 Revenue Breakdown By Segment & Region



Source: Company Filings

Figure 4: Profit & Revenue (US$B)



Source: S&P Capital IQ

Competitive Advantage: F's competitive advantage stems from the financial redesign of its global business and the accelerating improvement of its products. While the broader industry has continued to see lower bottom-line returns, F's increased profitability has resulted from its lower structural costs. In its first phase of restructuring, the Company reduced annual European structural costs by US$1.1B and EBIT losses in South America by ceasing its Brazil manufacturing units. Moreover, F is investing aggressively in its EV and AV plans. The future returns of these segments are expected to further strengthen the Company's balance sheet and expand top-line growth. Overall, improving costs and incorporating more EVs into F's product cycle is changing the trajectory of the Company's long-term earnings power. The CPMT believes that these actions can unlock greater value for F and its shareholders.

Strong Balance Sheet: F has a strong balance sheet with current and quick ratios of 1.2x and 1.0x, respectively. The Company's interest coverage ratio has fallen from ~10x in the past five years to 3.2x in FY2020. However, management has been transparent in wanting to have a stronger balance sheet with discipline in capital allocation. Such moves should improve F's credit ratings as well.

Growing Free Cash Flow: F has grown FCFs at a CAGR of ~7% during the past five years. The Company targets an 8% overall EBIT margin (10% in North America and 6% in Europe, with other regions becoming profitable) to grow healthy future FCFs and improve its financial flexibility.

Electric Vehicle Transition

F has announced that it will invest at least US$22B in its electrification efforts through 2025. Specifically, management has stated that the Company is "all in and will not cede ground to anyone" in developing EVs for its pickup trucks, commercial vans, and SUVs. F also plans to invest US$7B in its AV pursuits. Thus far, the Company has successfully released its all-electric Mustang Mach-E, followed by its first E-Transit commercial van release (in late 2021) and an all-electric F-150 pickup truck (in mid-2022). F has also noted that electrification will be implemented in its Lincoln luxury line moving forward. As EVs grow within F's lineup, the Company is dedicated to manufacturing more capacity globally.

Risks

In addition to concerns around F's cyclicality, a prolonged shortage of semiconductor chips can constrain the Company's near-term financial performance. Also, emerging competition in the EV and AV markets can challenge F's future market positioning.

Investment Thesis and Valuation

A 50/50 blend of a five-year DCF, with a WACC of 8.6%, and an average EV/EBITDA multiple (6.1x) of F's main competitors, General Motors (NYSE: GM), Hyundai Motor (OTC: HYMTF), Volkswagen AG (OTC: VWAGY), Honda Motor (NYSE: HMC), and Nissan Motor (OTC: NSANY), was used to value F. The results yielded a target price of $13.50, which corresponds to an implied total return of 15.1%. The CPMT expects F to have a strong performance in the near term, with strong consumer spending and a weaker U.S. dollar serving as tailwinds. However, the CPMT will not take any action on the name during this time. The overall automotive industry is highly cyclical with low profits. This brings into question F's viability as a long-term holding that can withstand unfavourable economic conditions. The CPMT will continue to monitor the Company's restructuring initiatives and the broader industry's performance to see if the underlying story improves in the long-term.

Nike

Consumer Discretionary
NYSE: NKE
Market Outperform | Buy

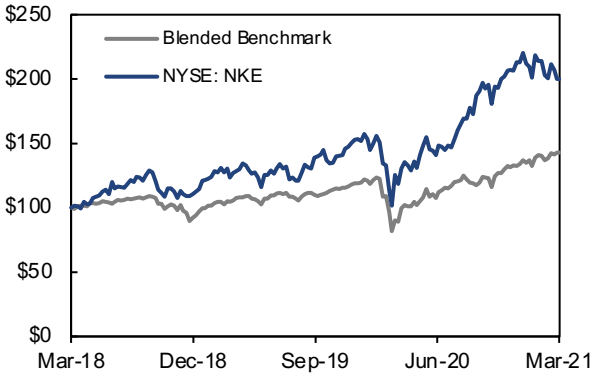
March 31, 2021
Kian Sadeghi, Investment Analyst

Return on Investment	
Current Share Price	$132.89
Target Price	$163.00
Dividend Yield	0.83%
Holding Period Return	23%
Conviction Rating	2

Market Profile	
52-Week Range	$78.86 - $147.05
Market Capitalization (US$mm)	$215,798
Net Debt (US$mm)	$268
Enterprise Value (US$mm)	$216,066
Beta (5-Year Monthly)	0.90

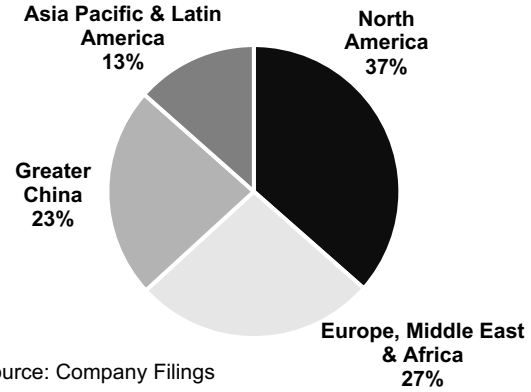
Metrics	2021E	2022E	2023E
Revenue (US$mm)	$41,787	$46,167	$50,088
EBITDA (US$mm)	$6,144	$7,508	$8,610
EPS (US$)	$2.89	$3.63	$4.26
EV/EBITDA	35.2x	28.8x	25.1x

Historical Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Figure 1: Geographic Revenue Mix (Q3 2021)



Source: Company Filings

Investment Thesis Summary

- NKE is a strong athletic apparel and sports equipment retailer due to its diverse product portfolio and large global reach
- Historically maintained a strong balance sheet which has allowed the Company flexibility in product innovation
- The CPMT views NKE as an attractive investment given the Company's product organization, digital penetration, and international gains

Business Description

Nike (NYSE: NKE) is an American company that designs, develops, and markets athletic footwear, apparel, equipment, accessories, and services. The Company was founded in 1964 as Blue Ribbon Sports and has grown into the world's leading athletic apparel and sports equipment retailer. With subsidiary companies, including Air Jordan and Converse, the Company maintains operations with over 44,000 employees in more than 120 countries. NKE's largest operating segments are Footwear, Apparel, and Equipment, while the largest geographical operating locations include North America, Europe, the Middle East & Africa, and Greater China based on a percentage of revenue. NKE mainly operates through brick-and-mortar stores, company-run wholesalers, and e-commerce.

Industry Overview

Nike operates in the Athletic Apparel, Footwear, and Equipment industries. Businesses in this industry purchase shoes from manufacturers and resell them to retailers with minimal or no further development/processing or will manufacture products in-house. Wholesalers in the industry undertake sales and administrative activities, such as establishing relationships with manufacturers and retailers. Additionally, manufacturers market finished products to wholesalers and retailers, who market to the end-user. NKE's main competitors within the industry include adidas (XTRA: ADS), Under Armour (NYSE: UAA), and Puma (XTRA: PUM), while lululemon athletica (NASDAQ: LULU) and VF Corp (NYSE: VFC) offer competition in other areas. Key catalysts in the industry include:

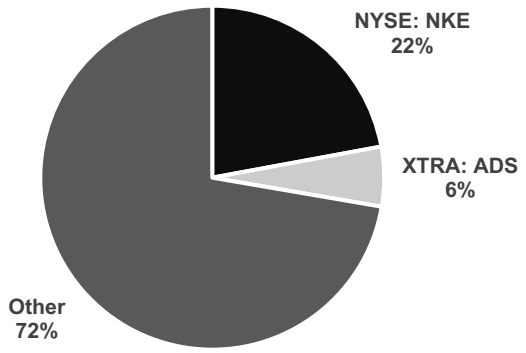
(1) Demand from retail stores: A key market for wholesalers is retail outlets. When retailers experience increased demand, footwear and apparel wholesalers benefit from a higher sales volume. Demand from retail stores is expected to increase in 2021

(2) E-commerce sales: As more consumers use online retails sites for purchasing items such as footwear, operators will have less demand from downstream markets. E-commerce sales are expected to increase in 2021.

(3) Per capita disposable income: Rising disposable income enables consumers to purchase more apparel, leading to increasing demand for goods. In 2021, per capita disposable income is expected to increase

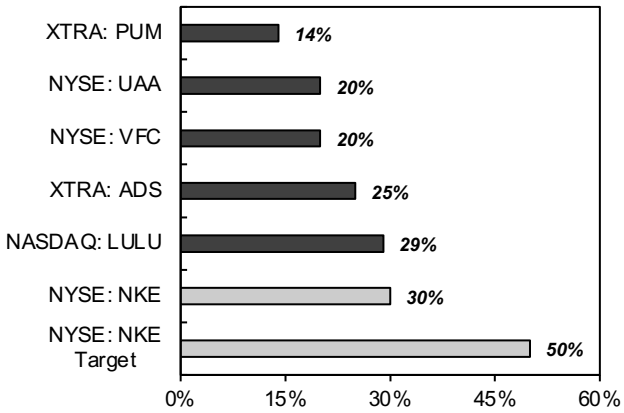
(4) Industry consolidation: No single operator has been able to occupy a commanding share of the market. The industry is highly fragmented with a mix of small and large participants. The top three players are expected to account for 30.7% of (cont.)

Figure 2: U.S. Athletic Footwear Market Share



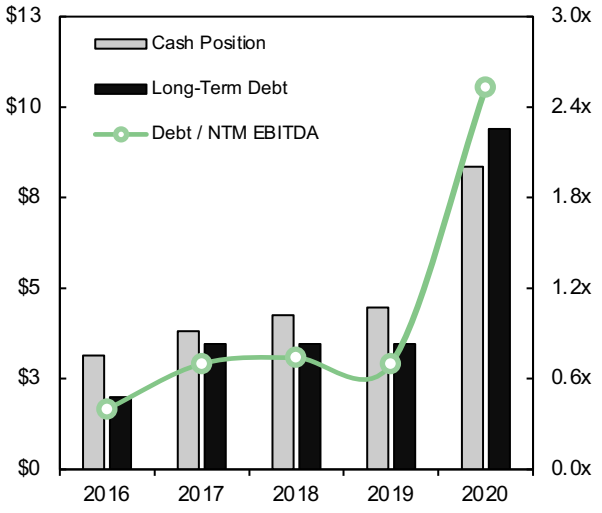
Source: S&P Capital IQ

Figure 3: E-Commerce Sales Mix



Source: Street Research

Figure 4: Cash & Debt Over Time (US$B)



Source: S&P Capital IQ

industry revenue in 2021. The industry's concentration has increased slightly as a result of a strong performance by ADS and NKE, the industry's two major players.

Company Strategy

NKE announced its *Consumer Direct Offense and Triple Double Strategy* in 2018, which aims to double the impact of innovation, increasing speed and agility to market and growing the Company's direct connections with consumers. The Company announced the digitally empowered second phase, *Consumer Direct Acceleration.* This strategic acceleration will focus on three specific areas:

Creating the marketplace of the future: through more premium, consistent, and seamless consumer experiences that more closely align with what consumers want and need. This strategy will lead with NIKE Digital and the Company's stores, as well as through select strategic partners who share NKE's marketplace vision.

Align its product creation and category organizations: developing a new consumer construct focused on Men's, Women's, and Kids'. This approach allows NKE to create a product that better meets individual consumer needs, including more specialization of our category approach while re-aligning and simplifying its offense to accelerate its largest growth opportunities. NKE will be reinvesting in its Women's and Kids' businesses while simplifying its operating model across the company to optimize efficiency.

Unify investments in technology: specifically, in data and analytics, demand sensing, insight gathering, inventory management, and other areas against an end-to-end technology foundation to accelerate NKE's digital transformation. The Company believes that this unified approach will accelerate growth and unlock more efficiency for its business while driving speed and responsiveness to serve consumers globally.

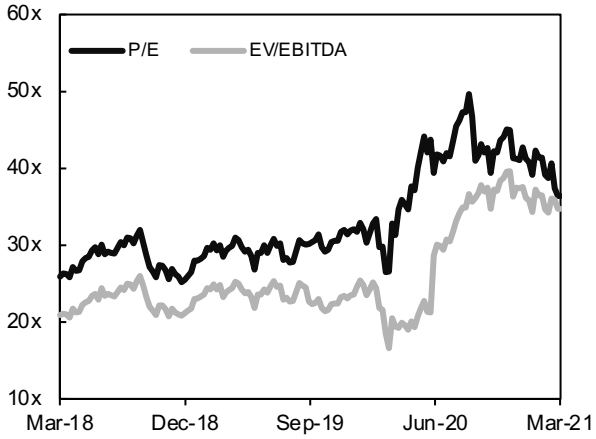
Mandate Fit

Quality Management Team: NKE's management team has been crucial in the Company's efforts to navigate the pandemic. John Donahoe joined NKE in 2014 as a member of the Board of Directors before succeeding Mark Parker as the CEO. Donahue has worked towards strengthening NKE's digital operations, as exemplified by the recently announced Consumer Direct Acceleration strategy, which focuses on direct, digital sales with plans to improve digital innovation consumer touchpoints. Over the past five years, NKE has returned over US$31B to shareholders through share repurchases and dividends. Historically, NKE has distributed more to shareholders than is generated from free cash flow, often with the support of its healthy cash position.

Strong Balance Sheet: Difficulties caused by the COVID-19 pandemic caused NKE to issue US$6B in unsecured notes in June 2020. Despite this, NKE maintains a strong balance sheet with a Net Debt to EBITDA of -0.05x, supported by its cash balance of ~US$8.5B. The Company boasts strong liquidity metrics with a current ratio and quick ratio of 2.78x and 1.82x, respectively. NKE maintains strong credit ratings from both S&P and Moody's with investment-grade metrics of AA- and A1, respectively.

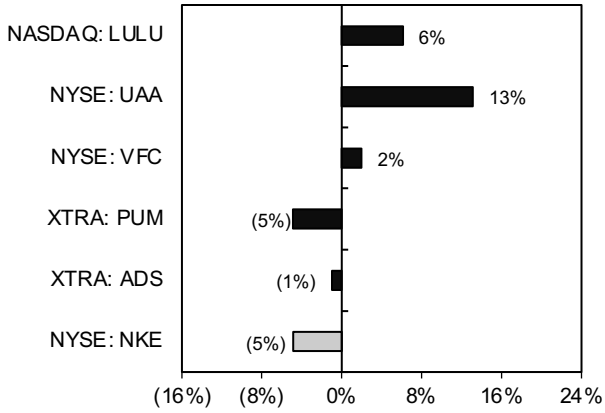
Growing Free Cash Flow: Before FY2020, NKE's FCF experienced a five-year CAGR of 5.2%. However, the pandemic caused a YoY decrease of 70%. Additionally, after maintaining an EBIT margin of ~12% in recent years, FY2020 saw a drop to 8.8%. This has been recovered throughout 2021 with an LTM EBIT margin of 10.9%, while FCF has reached pre-pandemic levels.

Figure 5: P/E & EV/EBITDA Over Time



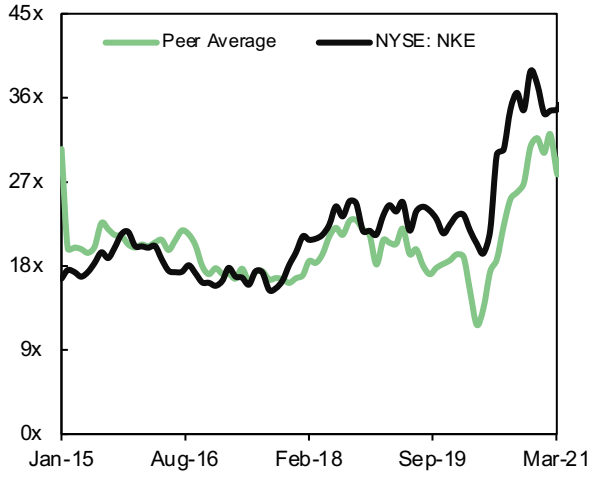
Source: Refinitiv Eikon

Figure 6: 2020 Store Growth vs Peers



Source: Company Filings

Figure 7: EV/EBITDA Over Time vs Peers



Source: Refinitiv Eikon

Competitive Advantage: The CPMT believes that NKE's competitive advantage stems from its diverse product portfolio, cutting-edge technology, marketing techniques, and strong market share. By providing innovative products across different sports, such as basketball, soccer, and football, the Company provides equipment for every type of athlete. Additionally, NKE maintains a strong e-commerce presence (30% of revenue) which it looks to strengthen as a part of its direct-to-consumer initiative.

ESG Initiatives

The Company has outlined strategic initiatives to embed sustainability across its operations in its Annual Impact Report. The strategy has outlined 34 targets focused on three areas of impact: (1) sustainability; (2) diversity and inclusion; and (3) community investments.

Environment: NKE set annual targets related to product, materials, carbon and energy, waste, water, and chemistry. Notable successes in 2020 include a 30% reduction in textile dyeing and finishing supplier freshwater per kilogram of material, switching to 100% renewable energy usage by owned or operated sites in the U.S. and Canada, and the diversion of 99.9% of the Company's manufacturing scraps from landfills.

Social: NKE and its subsidiary brands have committed a combined US$140mm over 10 years to support organizations focused on addressing racial inequality for Black Americans. The Company has also disbursed ~US$717mm and ~US$90mm to its community impact and trade finance programs; NKE's trade finance program is a partnership with the International Finance Corporation that incentivizes better supplier performance in participating factories. Historically, NKE has been subject to controversies regarding sweatshops over the years. Several universities, unified by the Worker Rights Consortium, organized a national hunger strike in protest of using Nike products for athletics. Feminist groups mobilized boycotts of Nike products after learning of the unfair conditions for the primarily female workers. In response to this, NKE instated a code of conduct for factories, called SHAPE – Safety, Health, Attitude, People, and Environment. A study conducted on a factory in Vietnam concluded that NKE had, "substituted less harmful chemicals in its production, installed local exhaust ventilation systems, and trained key personnel on occupational health and safety issues."

Governance: The Company announced in 2021 that it would be tying its executive compensation to ESG metrics. NKE stated that a particular focus will be placed on diversity and inclusion across the hiring process and company culture. In 2020, the CEO compensation mix included 10% in base pay and 90% in performance-based annual incentives and long-term incentives.

Investment Thesis

A target price of $163.00 was achieved through a 50/50 blend of two methods: (1) a DCF valuation assuming a WACC of 5.43% and a terminal growth rate of 2%; and (2) an exit multiple using a peer group median EV/EBITDA of 23x. NKE currently trades at a premium relative to peers, with an EV/EBITDA of 31x; however, the CPMT believes that this is justified given the Company's diverse product portfolio, global reach, and mandate fit. NKE's continued global expansion and the transition towards direct-to-consumer operations provide continued room for top-line growth and margin-expansion. The CPMT will consider adding NKE to the Fund's portfolio pending further due diligence.

Royal Bank of Canada

Financials
NYSE: RY | TSX: RY
Market Outperform | Buy

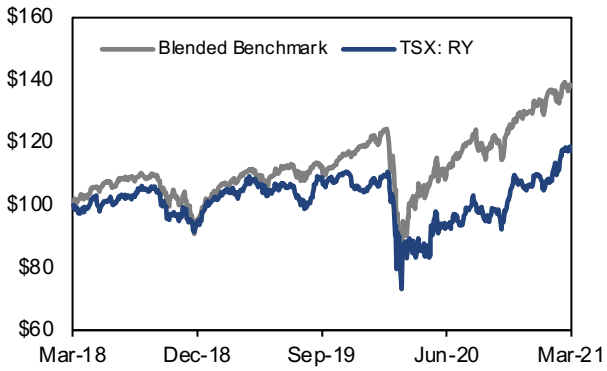
March 31, 2021
Jack Morgan, Investment Analyst

Return on Investment	
Current Share Price	$117.11
Target Price	$136.00
Dividend Yield	3.72%
Implied Return	20%
Conviction Rating	2

Market Profile	
52-Week Range	$80.72 - $117.97
Market Capitalization ($mm)	$166,907
Average 30-Day Vol (000s)	4,844
Shares Outstanding (mm)	1,424
Beta (5-Year Monthly)	0.80

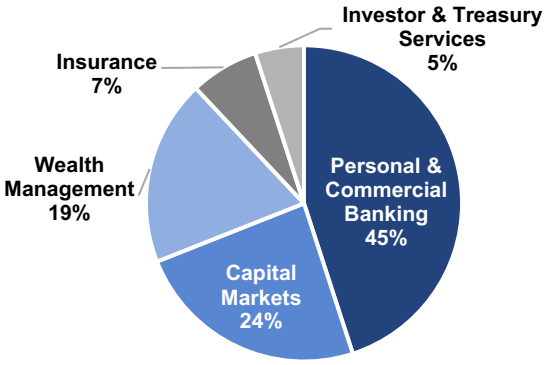
Metrics	2021E	2022E	2023E
Net Interest Income ($mm)	$21,990	$23,812	$25,771
Net Income ($mm)	$12,015	$13,153	$14,420
EPS	$7.95	$8.71	$9.55
P/B	1.8x	1.5x	1.3x

Historical Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Figure 1: Earnings by Segment



Source: Company Filings

Investment Thesis Summary

- Superior margins and dominant market share elevate RY as a market leader and attractive investment opportunity versus peers
- Strong emphasis on return to shareholders through consistent dividend payout and share repurchases
- A tenured management team with an impressive track record of growth and performance

Business Description

Royal Bank of Canada (TSX: RY) is a Canadian financial services provider with over 86,000 employees operating in 36 countries globally. RY operates in five major service segments: Personal & Commercial Banking, Capital Markets, Wealth Management, Insurance, and Investor & Treasury Services. RY is the largest Canadian bank and the ninth-largest in the world by market capitalization.

Industry Overview

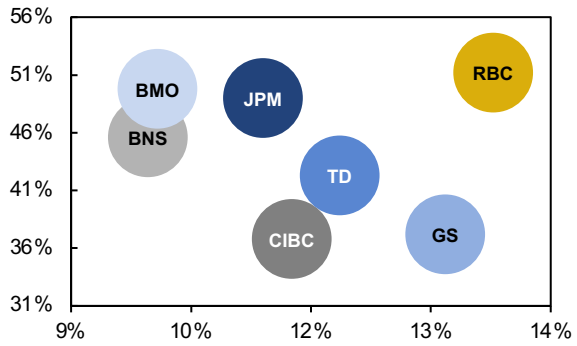
The Canadian banking industry is a highly condensed sector with a substantial level of domestic competition among the Big Five (TSX: RY, TD, CM, BNS, BMO). Due to the highly regulated nature of the industry, there is a relatively low threat of new entrants. In Canada, the financials sector contributes only 3.5% of GDP while American banking makes up nearly 8% of US total GDP. North American governments responded to the COVID-19 pandemic by dropping interest rates significantly, which has shifted bank profitability from interest-generated revenue to fee-based earnings and trading activities. Both Canadian and American federal interest rates are holding at 0.25% and are not likely to change until 2023 according to Bloomberg. Banks with well-diversified products and services tend to fare better during periods of low interest rates as it enables cross-selling optionality and increased customer retention.

Mandate Fit

Quality Management: RY has consistently been recognized as a top-tier bank largely due to its future-oriented and opportunistic management team. Management places significant emphasis on the importance of shareholder return via its 54% payout ratio and consistent funneling of excess capital into dividend hikes and share buybacks. Management compensation also aligns with shareholder interests as 88% of NEO target pay is performance based. President and CEO David McKay has been working at RY since 1983. He was appointed as the head of Canadian Banking in 2008 and CEO in 2014 and is known for his ability to effectively integrate, adapt, and evolve to rapidly-changing consumer demands.

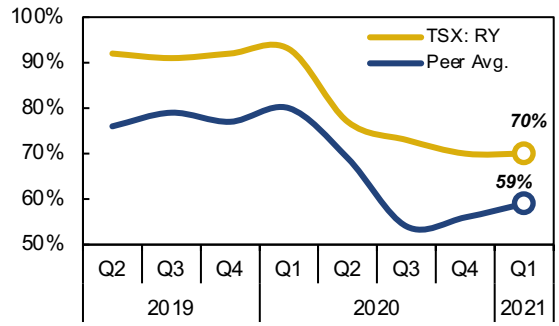
Growing Free Cash Flow: The Company has historically generated profitability metrics above average, currently holding best-in-class ROE and ROA at 13.4% and 70% respectively. RY's EBITDA margin also outpaces peers at 52.8%. While FCF growth is not typically indicative of bank profitability, the company holds an all-time high cash position of $149.6B, a 22.9% increase YoY. Profitability is likely to be driven by non-interest income generated from the Company's Capital Markets and Wealth Management segments as federal interest rates remain low, suppressing net interest margin.

Figure 2: EBITDA Margin (Y-axis) vs ROE (X-axis)



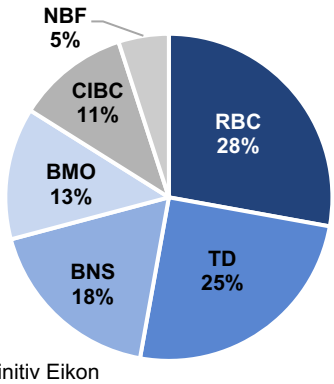
Source: Company Filings, Refinitiv Eikon

Figure 3: ROA vs Peers



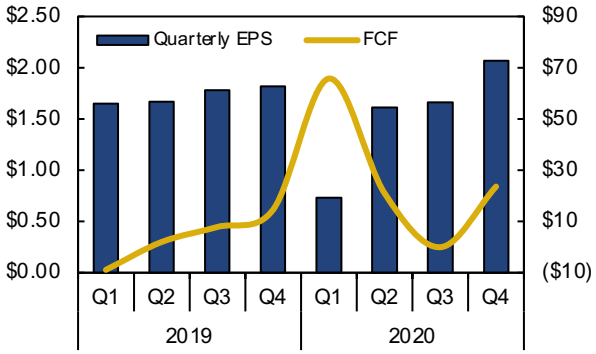
Source: S&P Capital IQ

Figure 4: Market Share vs Canadian Peer Group



Source: Refinitiv Eikon

Figure 5: EPS (LHS) vs FCF (US$B, RHS)



Source: Company Filings

Balance Sheet Strength: RY maintains secure financial health as an industry leader in CET1 ratio of 12.5%, a loans-to-assets ratio of 0.4x, and 67% of current debt comprised of low-risk liabilities. With an allowance ratio of 1.9x, the Company holds sufficient allowance for defaults and can withstand potential shocks to the balance sheet effectively. Credit ratings from Moody's and S&P remain stable at AA and AA- levels, allowing access to unsecured funding markets and enabling the Company's ability to cost-effectively engage in collateralized business activities.

Competitive Advantage: RY is the dominant force among Canadian banks and an internationally competitive player in the financial sector. RY is the largest Canadian bank by both revenue and assets under management at $47B and $843B, respectively. Its Canadian market share has increased by 4% over the last three years to 28%. RY has been recognized as the "North American Retail Bank of the Year" and plays a major role in the global economy as the first Canadian bank to be recognized as a Globally Systemically Important Bank (G-SIB). Quantitatively, the Company stands out among its peers when evaluating return and profitability metrics. Despite a challenging and volatile fiscal environment, RY has outperformed peers in terms of ROA over the last 12 months and recently recorded its highest quarterly EPS in over a decade, driven primarily by capital markets revenue.

Attractive Valuation: The target price of $136.00 was determined using a 50/50 blend of a Dividend Discount Model and Book Value comparable analysis. Key assumptions included a 2% terminal dividend growth and a 46% targeted payout ratio, in line with the historical averages. The average comparable P/BV was 1.5x and a comparable median P/E ratio of 14.5x was applied to derive the implied share price. RY currently trades in-line with peers, however the CPMT believes the name deserves a comfortable premium due to its competitive advantages and superior profitability.

Portfolio Fit

RY was previously purchased by the CPMT in April 2018 and held for nearly 11 months before being sold in March 2019. After a year of lackluster returns, the fund liquidated the position to fund our current holding of Mastercard (NYSE: MA). At the time, the mandate permitted investment in Canadian names only, however, has since expanded to include U.S. equities, allowing for the Fund to investigate international opportunities within the financial sector. As a result, the CPMT can weigh the Company against its peers more objectively. Given these restrictions have since been revised, the positive outlook on RY is a direct result of its operational performance and is no longer dependent on international exposure, although that is a benefit. As of March 31, the CPMT is underweight in the financials sector by ~9% and believes RY is a standout name worthy of increasing our financial sector allocation for.

Risks and Catalysts

Key risks moving forward include ongoing economic impacts caused by the unpredictability of COVID-19, rising concern surrounding inflation, as well as the substantial increase in federal North American debt as a result of the pandemic and stimulus efforts.

Potential catalysts include economic expansion as North America exits COVID-19 lockdown restrictions. Derivative benefits include increased retail lending and congruent interest income. Moreover, American exposure will benefit RY as the U.S. is expected to lead a more rapid recovery than Canada due to a more efficient distribution of vaccinations to vulnerable citizens.

Thermo Fisher Scientific

Calgary Portfolio Management Trust

Health Care
NYSE: TMO
Market Outperform | Buy

Thermo Fisher SCIENTIFIC

March 31, 2021

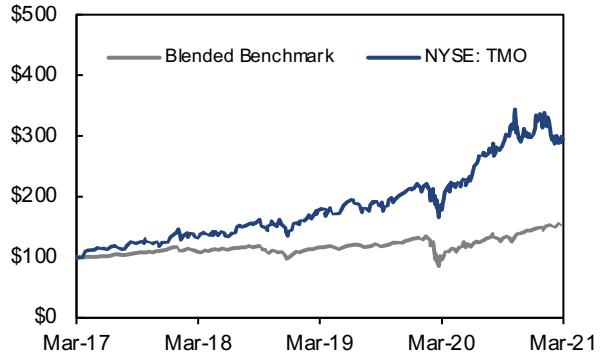
Katie Tu, Investment Analyst

Return on Investment	
Current Share Price	$456.38
Target Price	$563.00
Dividend Yield	0.20%
Holding Period Return	24%
Conviction Rating	2

Market Profile	
52-Week Range	$270.41 - $532.57
Market Capitalization (US$mm)	$179,719
Net Debt (US$mm)	$11,410
Enterprise Value (US$mm)	$191,129
Beta (5-Year Monthly)	0.79

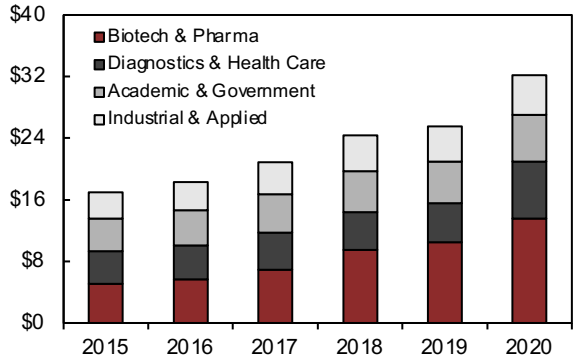
Metrics	2021E	2022E	2023E
Revenue (US$mm)	$35,134	$35,423	$37,178
EBITDA (US$mm)	$11,041	$11,075	$11,588
EPS (US$)	$20.40	$20.80	$22.20
EV/EBITDA	17.3x	17.3x	16.5x

Historical Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Figure 1: Segmented Revenue by End Market (US$B)



Source: Company Filings

Investment Thesis Summary

- Diversified and flexible nature of TMO's revenue mix and its industry-leading scope allows the Company to adapt to macroeconomic events faster and better than its peers
- Best-in-class product innovation and strong consolidating capabilities provide the ability to leverage ample organic and inorganic growth opportunities
- Attractive exposure to rapidly growing biopharma and emerging markets positions TMO well to outpace the growth of its peers

Business Description

Thermo Fisher Scientific (NYSE: TMO) is a global, diversified manufacturer and distributor of scientific instruments, consumables, and related services. TMO's product and service portfolio consists of various brands, including Thermo Scientific, Applied Biosystems, Invitrogen, Fisher Scientific, and Unity Lab Services. Its key end markets consist of biotech and pharmaceuticals (biopharma) companies, hospitals and clinical diagnostic labs, universities, research institutions, and government agencies. The Company is based in Waltham, Massachusetts and operates through four segments: (1) Analytical Instruments, (2) Life Science Solutions, (3) Specialty Diagnostics, and (4) Lab Products & Services.

TMO announced its acquisition of Novasep's viral vector manufacturing business for US$550mm in cash in January 2021, and completed its acquisition of Mesa Biotech, a private point-of-care molecular diagnostics firm, in February 2021.

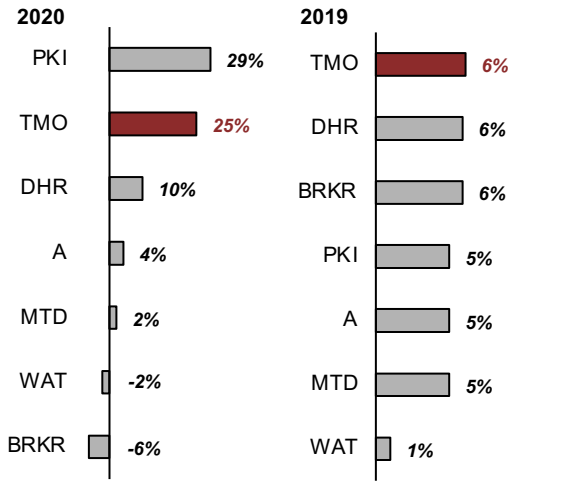
Industry Overview and Competitive Landscape

The U.S. life sciences industry provides researchers and scientists with analytical instruments, research consumables, laboratory software and equipment, and contract services necessary to accelerate scientific exploration. The industry is levered to changes in government spending and has a symbiotic relationship with the biopharma industry, as key drivers include National Institutes of Health (NIH) budgeting and biopharma R&D spending. Key drivers for the life sciences industry have been positive, resulting in a robust average annual revenue growth rate of 13% from 2016-2019. The industry is highly competitive and fragmented. Dominant operators such as TMO, Danaher Corporation (NYSE: DHR), and Agilent Technologies (NYSE:A), make up only a third of the total market. Industry players can gain a competitive advantage through scale, software-integrated instruments, vertical integration, and broad product and service offerings.

COVID-19 Response

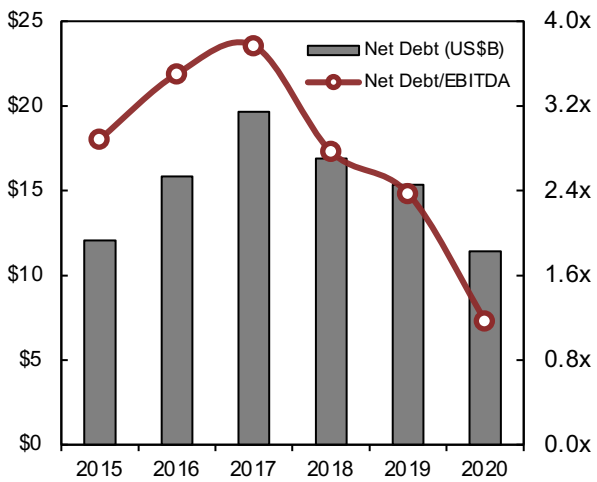
TMO's flexibility and scale allow it to respond to unforeseen events faster and better than its peers. In March 2020, TMO leveraged its industry-leading polymerase chain reaction (PCR) testing platform to develop and launch a test kit for the virus. Following regulatory approval, TMO ramped up capacity to produce >10mm PCR tests per week by May, achieved a ~4x increase in PCR instrument production in July, and increased capacity to 20mm tests per week by October. Notably, TMO was able to secure PPE supply during an industry shortage to maintain its customer's operations.

Figure 2: Organic Growth vs Peers



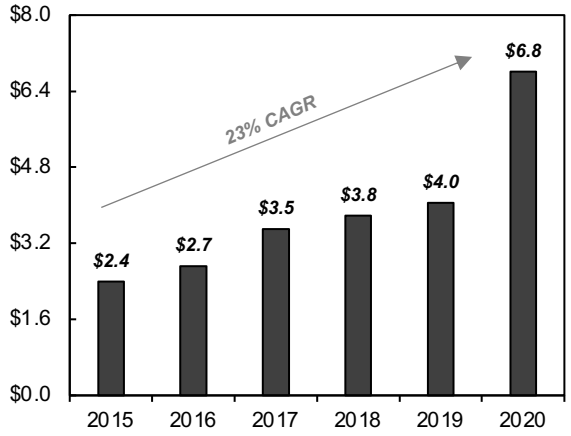
Source: Company Filings

Figure 3: Net Debt (US$B) & Net Debt/EBITDA



Source: Company Filings, S&P Capital IQ

Figure 4: Free Cash Flow (US$B)



Source: Company Filings, S&P Capital IQ

Following a U.S. government contract win to address an acute shortfall of sample collection materials. TMO responded quickly by building a new facility in Kansas in ~6 weeks to manufacture Viral Transport Media (VTM), and this process is being replicated in Scotland. The Company is currently involved in the majority of COVID-19 vaccine and therapy programs, working on 250+ related projects globally, with an expected US$1B+ impact over time.

Mandate Fit

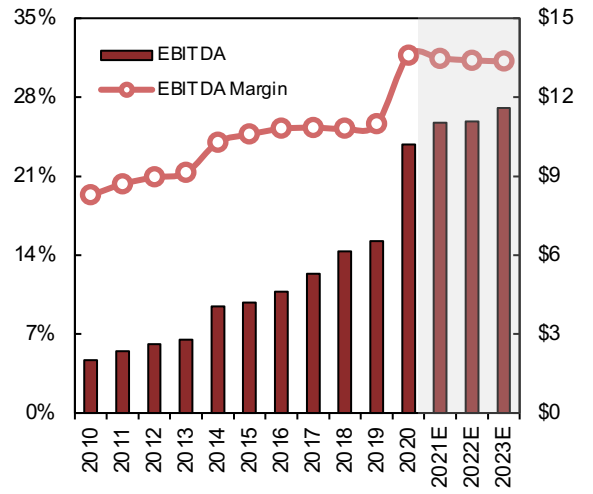
Quality Management: TMO's management team is led by President and CEO Marc Casper, who has held the position since October 2009. Under his leadership, TMO has been a leading consolidator in the life sciences industry, having deployed a total of US$39B to complete 68 M&A transactions over the past decade. Management employs a disciplined approach to M&A with a focus on expanding into new capabilities and technologies that align closely with the core portfolio to maximize cost and revenue synergies. This strategy has resulted in a strong track record of successful integration, as the Company has consistently achieved synergy goals within three years following acquisitions, and acquired businesses are growing more rapidly within TMO than their standalone trajectory. Given the fragmented nature of the life sciences industry, the CPMT believes that TMO is well positioned to find and capitalize on inorganic growth opportunities moving forward.

Competitive Advantage: TMO's ability to outpace the growth of its peers stems from the attractiveness of its end-market and geographic exposures. Over the past eight years, TMO has steadily increased its exposure to the biopharma market via organic investments and M&A, continuously bolstering its product and service portfolio to create a more comprehensive end-to-end solution across the R&D process. The biopharma market is particularly attractive due to rapid growth in R&D spending driven by private biopharma companies. Additionally, in 2019, R&D spending at S&P Global 1200's biopharma companies increased 9% YoY, bringing the three-year average annual growth rate for 2017-2019 to 7%. Moving forward, we expect the continuation of healthy biopharma R&D spending, underpinned by rising capital inflows via IPOs, venture capital, and partnerships with larger peers. TMO's one-of-a-kind contract development and manufacturing organization (CDMO) services, industry-leading biologics/bioprocessing portfolio, and strong commercial infrastructure position the Company well to capitalize on the growth of this segment.

With a significant infrastructure and manufacturing footprint in Singapore, India, China, and South Korea, TMO has the scale to leverage the rapid growth of emerging economies and develop and manufacture products tailored to local market needs. TMO is particularly well aligned with China's five-year plans and the government's sustained focus on life science research, public health, and health care. Beyond the public sector, TMO has invested in a new customer solutions center in Shanghai and expanded its pharma services and clinical trials capability in Suzhou, strategically positioning itself to serve the growing biopharma industry in China.

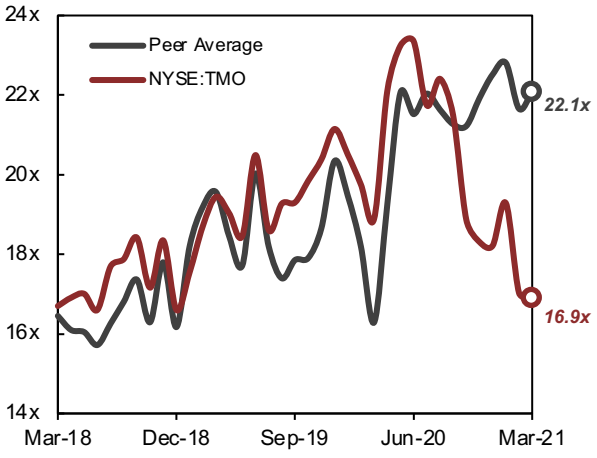
Strong Balance Sheet: Despite busy M&A activity, TMO has been able to capitalize on acquisitions quickly and efficiently, allowing the Company to reduce debt levels quickly should it choose to increase leverage to fund acquisitions. TMO currently has a strong debt profile that is in line with its peers, with Net Debt/EBITDA of 1.1x compared to the peer average of 1.4x (peer group consists of NASDAQ: BRKR and NYSE: A, DHR, MTD, PKI, WAT).

Figure 5: EBITDA (US$B) and EBITDA Margins



Source: Company Filings, CPMT Estimates

Figure 6: NTM EV/EBITDA vs Peers



Source: Company Filings, S&P Capital IQ

Growing Free Cash Flow: TMO has a strong free cash flow profile, with a free cash flow CAGR of 14% from 2015-2019 and 23% from 2015-2020. In addition to strong organic revenue growth, TMO's implementation of its Practical Process Improvement (PPI) Business System in 2011 has led to cost savings and improved speed and scale in multiple business areas, resulting in concrete improvements in operating margins and cash flows.

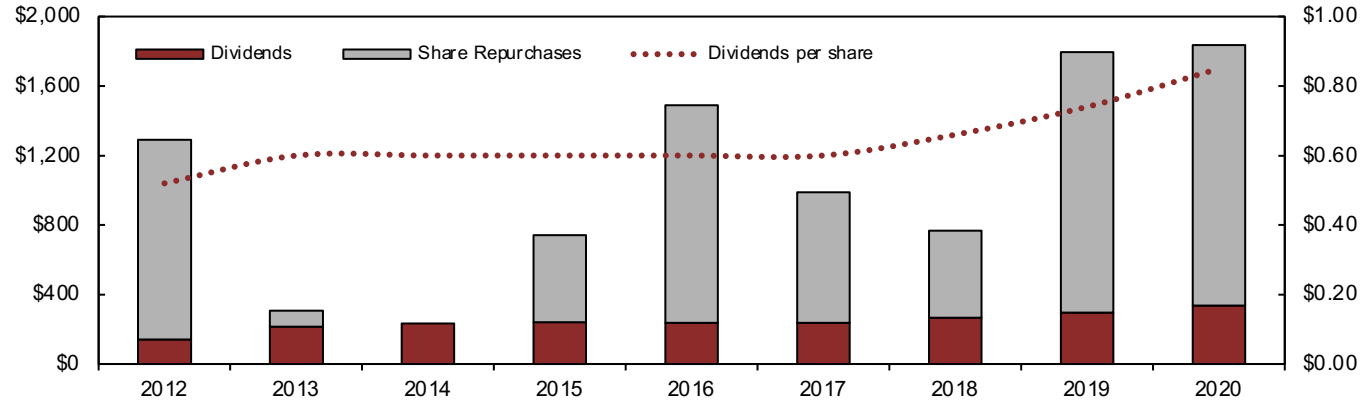
Valuation

The CPMT valued TMO through a five-year DCF model that consisted of a 50/50 blend of the Gordon growth method (assuming a 2.5% terminal growth rate) and an exit EV/EBITDA multiple of 20x. The target price of $563 was derived using a WACC of 6.01%, implying a total return of 24% (including a 0.2% dividend yield). We modeled EBITDA margins to expand from 26.9% in 2019 to 30.6% in 2025, as TMO benefits from cost savings from the PPI Business System and increases in realized volumes. TMO currently trades at a steep discount relative to its peers despite its superior growth profile and demonstrated resiliency. This discount can be attributed to recent investor sentiment turning negative towards names exposed to COVID-19 diagnostics. Despite the anticipated decrease in testing revenue, the CPMT believes that TMO can emerge stronger post-pandemic with management's plans to deploy COVID-related cash flows towards accretive M&A and strategic investments in high-growth markets. Additionally, the COVID-19 tailwind extends beyond diagnostics testing, as TMO's CDMO business enables it to capture vaccine/therapy manufacturing upside that should last into 2022 and beyond. As a result, we view TMO as an attractive name, with an upside underpinned by future multiple expansion.

Investment Thesis

The CPMT views TMO as a high-quality life sciences name given its attractive end-market and geographic mix and demonstrated ability to increase operational efficiency via its PPI Business System. The diversified nature of TMO's revenues provides a resilient business model that is not significantly reliant on a single-end market or operating segment. Additionally, the industry-leading scale and scope of TMO's business have allowed the Company to adjust to macroeconomic events faster and better than its competitors. We believe that TMO faces a long runway for growth, with strong abilities to capture inorganic growth opportunities in addition to overall long-term demand upside across its end-markets. Lastly, TMO's current valuation provides a very attractive entry point. As a result, the CPMT recommends a buy on TMO with a 2 conviction.

Figure 7: Dividends/Share Repurchases (US$mm) and Dividends per Share (US$)



Source: Company Filings

Zoetis

Health Care
NYSE: ZTS
Market Outperform | Buy

Calgary Portfolio Management Trust

zoetis

March 31, 2021

Hayley Hicks, Portfolio Manager
Jose Menjivar, Portfolio Manager

Return on Investment

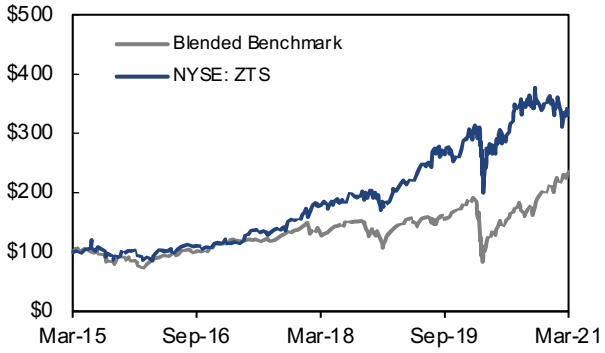
Current Share Price	$157.48
Target Price	$190.00
Dividend Yield	0.63%
Holding Period Return	21%
Conviction Rating	1

Market Profile

52-Week Range	$110.75 - $176.64
Market Capitalization (US$mm)	$74,829
Net Debt (US$mm)	$3,834
Enterprise Value (US$mm)	$78,667
Beta (5-Year Monthly)	0.63

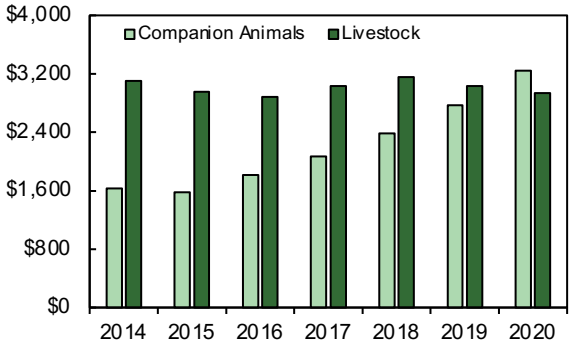
Metrics	2020A	2021E	2022E
Revenue (US$mm)	$6,675	$7,475	$7,926
EBITDA (US$mm)	$2,726	$3,135	$3,421
EPS (US$)	$3.85	$4.41	$4.90
EV/EBITDA	28.9x	25.1x	23.0x

Historical Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Figure 1: Segmented Revenue Over time (US$mm)



Source: Company Filings

Investment Thesis Summary

- The CPMT views ZTS as a best-in-class name in a growing industry supported by a re-opening economy. A growing societal emphasis on companion animals and food security encourage the fund on the Company's prospects
- ZTS's growing product pipeline in key growth segments along with strategic tuck-in acquisitions has supported impressive growth in the past five years, and the CPMT is encouraged by management's ability to expand margins continuously

Business Description

Zoetis (NYSE: ZTS) is a leading international animal health company in the discovery, development, manufacturing, and commercialization of animal health medicines and vaccines, with its core focus on livestock and companion animals. The Company has a portfolio of ~300 commercial product lines across eight core species categorized into two subsegments, **(1) Livestock**: cattle, swine, poultry, sheep and fish, and **(2) Companion Animals:** dogs, cats, and horses. The Company's portfolio products categorize into veterinary medicines, diagnostic products, anti-infectives, vaccines, parasiticides, medicated feed additives, dermatology products, and other pharmaceuticals. Its complementary business includes biodevices, genetic tests, and precision livestock farming. It also offers services such as dairy data management, e-learning, and professional consulting. ZTS' legacy livestock products include the Ceftiofur injectable line, Draxxin, Spectramast, Bovi-Shield line, Rispoval line, Suvaxyn/Fostera, Embrex devices, and Lutalyse. ZTS' legacy companion animal products include Clavamox/Synulox, Convenia, ProHeart, Revolution/Stronghold, Simparica Trio™, Apoquel, Cerenia, and Rimadyl.

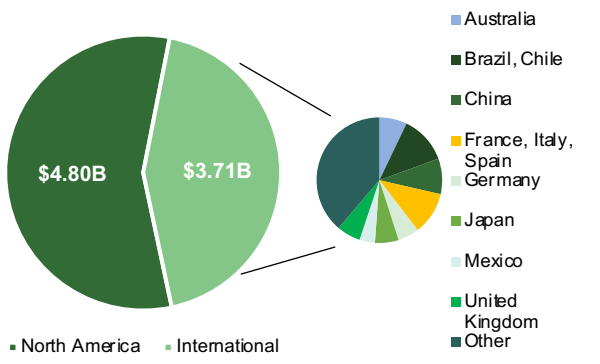
Industry Overview

According to Vetnosis, the animal medicines and vaccines sector is estimated to represent a global market of ~US$40B in 2021. Additionally, the global animal health market is forecasted to reach US$70B by 2026. Key industry drivers include: (1) government initiatives to encourage the growth of veterinary products and treatments, further supporting food security measures, (2) increased companion animal ownership and spending on medicines for pets to live longer, healthier lives, (3) increased demand for animal protein, challenged by limited new farmland and water, (4) technological advancements, and (5) supporting regulations that improve animal health and prevent animal disease outbreaks protecting the food supply and economy.

Animal health products are classified according to four primary segments: (1) **Vaccines:** live attenuated vaccines, DNA vaccines, recombinant vaccines, and inactivated vaccines; (2) **Pharmaceuticals:** parasiticides, anti-infectives, and analgesics; (3) **Feed Additives:** nutritional and medicinal; and (4) **Diagnostics:** instruments and consumables.

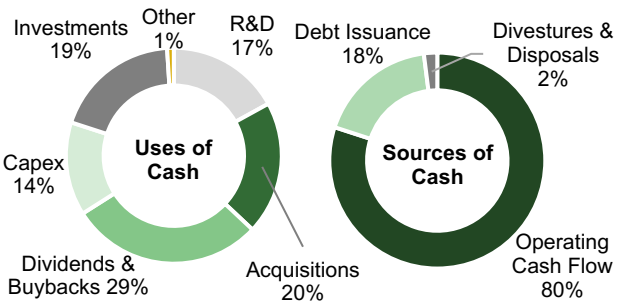
Leading distribution channels for animal health products include retail, e-commerce, and hospital pharmacy. End users for animal health products provide reference laboratories, point of care/in-house testing, and veterinary hospitals and clinics.

Figure 2: FY2020 International Revenue Breakdown (US$$)



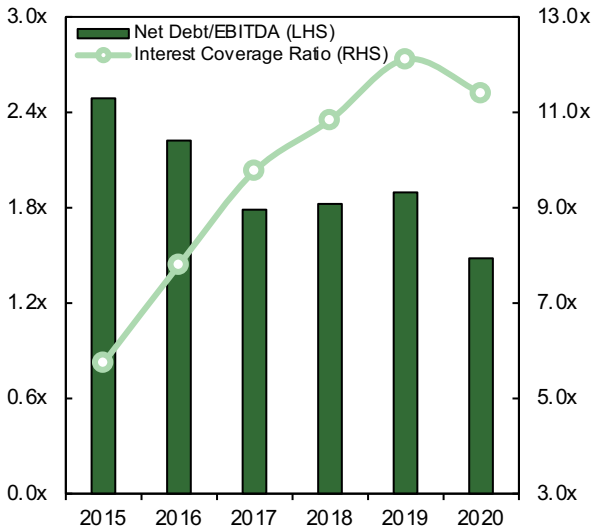
Source: Company Filings

Figure 3: Last Fiscal 5-Year Capital Deployment



Source: Company Filings

Figure 4: Interest Coverage & Net Debt/EBITDA



Source: Company Filings

Operational Overview

ZTS's operations center around its 'continuum of care model' to predict, prevent, detect, and treat diseases of companion and farm animals through its portfolio of medications, vaccines, technologies, methodologies, and consulting services to customers and clinics.

Companion Animals: the Companion Animal segments include medicines, vaccines, and portfolio services to dogs, cats, and horses. Zoetis' one-of-a-kind, unique companion animal health products include Simparica Trio™, a triple combination treatment for fleas and ticks, heartworm disease, and gastrointestinal parasites, as well as CORE EQ Innovator™, the first and only marketed vaccine for horses to contain all core equine disease antigens in one vaccine. Simparica, Simparica Trio™, Revolution Plus, and ProHeart 12 helped drive operational YoY sales growth of 25% in Companion Animal, rising 21% in the U.S.

Farm Animals: ZTS's Farm Animal product portfolio services the beef cattle, dairy cattle, fish, pig, sheep, and poultry industry. In FQ4, reductions in poultry and cattle attributed a 5% operational decline, partially offset by growth in swine and aquaculture. Key drivers for this segment will be continued growth in China swine as producers rebuild their herds and ongoing strength in emerging markets such as Brazil, partially offset by U.S. Draxxin competition (~$300 million livestock antibiotic) leading to loss of exclusivity in February.

Diagnostics: ZTS's Diagnostics portfolio consists of more than 90 instruments and tests for vets to monitor health and detect disease. ZTS' legacy diagnostic instruments include VETSCAN®, StableLab, Zoetis Reference Laboratories, AlphaTRAK logoPet, and immunodiagnostic test kits WITNESS, ProFLOK, and SERELISA. ZTS posted ~20% YoY growth in its diagnostics portfolio, supported by its launch of VETSCAN® Imagyst, an AI-Based microscope, and cloud-based diagnostic platform to tap into the ~$500mm fecal diagnostics market growing 7% annually over the next five years. ZTS referenced vital contributions in FQ4 from its 2020 reference lab acquisitions, including Phoenix Central Lab, ZNLabs, and Ethos Diagnostic Science, which contributed ~8% (US$6mm) to overall diagnostics growth.

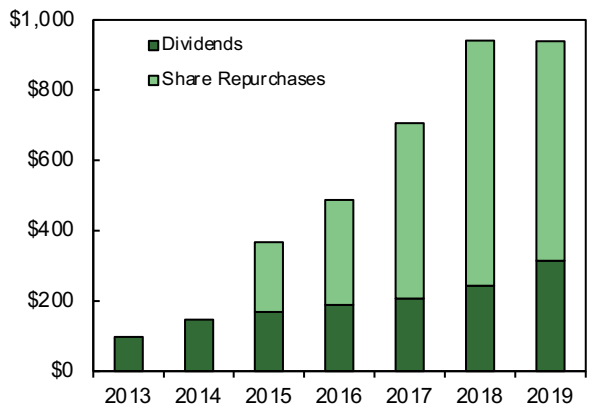
Genetics: ZTS has one of the broadest portfolios of animal genetics products and support services in the industry, which provide accurate genetic predictions that increase producers' optimization of profitability and yield. Zoetis leverages the insights from a global network of research and development labs and strategic alliances to offer DNA-marker innovations such as HD 50K for Angus, CLARIFIDE® for Nelore, CLARIFIDE® for Dairy, and Sheep 50K.

Precision Livestock Farming: Precision livestock farming tools are digital platforms, technologies, and on-farm data that aid in creating transparency for consumers interested in how food-processing animals are raised. ZTS's precision livestock tools include the SMARTBOW®, an advanced ear-tag monitoring system that tracks the location, rumination, and heat of the cattle, as well as signs of stress and subclinical disease. Performance Livestock Analytics, a cloud-based platform, allows producers to connect and share data with their veterinarian, nutritionist, or other trusted advisors for better data-driven cattle management.

Mandate Fit

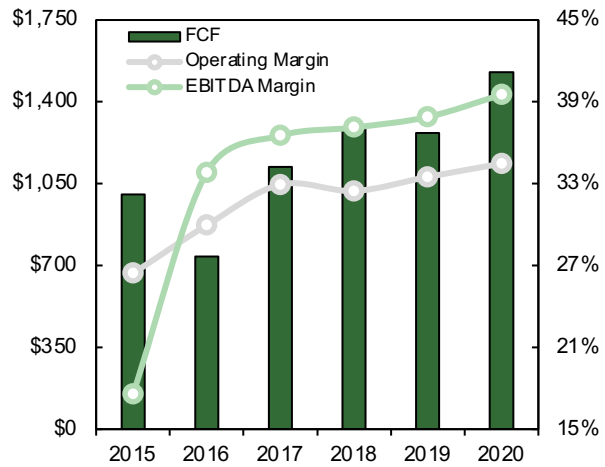
Quality Management: As of January 2020, ZTS has been led by CEO and Director Kristin Peck. Ms. Peck served as Executive VP for Pfizer's Executive Leadership Team for Pfizer's Animal Health and Nutrition businesses. In 2013, Peck assisted ZTS through (cont.)

Figure 5: Capital Returned to Shareholders (US$mm)



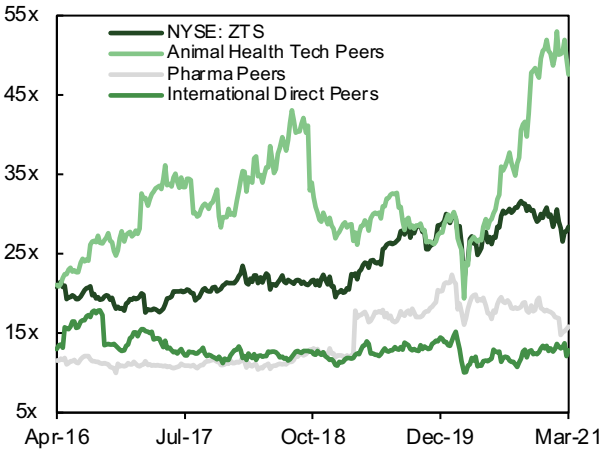
Source: Company Filings

Figure 6: FCF (US$mm) (LHS) & Margins (RHS)



Source: Company Filings

Figure 7: LTM EV/EBITDA vs Peer Groups



Source: Refinitiv Eikon
Animal Health Tech Peers: NASDAQ: IDXX, CVET
Pharma Peers: NYSE: LLY, MRK, BMY
International Peers: EPA: VETO, VIRP, NASDAQ: PAHC

its IPO. She has been a driving force of change in multiple teams, such as Global Manufacturing and Supply, Global Diagnostics, Global Poultry, and New Product Marketing and Global Market Research. The current management team has focused on growth in innovation and acquisitions, successfully acquiring Abbott's animal health assets, KL Products, Inc., PHARMAQ, Scandinavian Micro Biodevices, Nexvet, SmartBow, ZNLabs, and Abaxis to date. Management has returned US$3.687B in capital to shareholders from 2013-2019 through share repurchases and dividends.

Competitive Advantages: (1) Breadth of portfolio products and expertise across the entire continuum of animal care; in FY2019, ZTS's top 10 products and product lines accounted for 41% of total revenue, with the top five accounting for 29%. (2) Sustained innovation momentum and portfolio expansion; ZTS's U.S. companion animal segment grew 30% YoY in 2020 due to the mix of the Simparica Trio™ launch and dermatology growth, translating to outperformance against peers. With Revolution, ProHeart 12, and Simparica Trio™, ZTS capitalizes on the sizeable $4-5B parasiticide market. (3) ZTS' main competitors are large pharmaceutical companies with animal health subsidiaries and international, small-cap animal health biotechnology companies, rendering ZTS a pure-play leader within the industry. (4) Best-in-class products that are first to market, such as the Core EQ Innovator™, the first and only vaccine for horses to contain all five core equine disease antigens; Cytopoint®, the first canine monoclonal antibody to help reduce the clinical signs of atopic dermatitis in dogs; and Apoquel®, the first Janus kinase inhibitor for use in veterinary medicine.

Strong Balance Sheet: ZTS's recent FQ4 20202 report highlights building cash reserves, operational efficiency initiatives, and strong working capital management. The company has cash reserves of US$3.6B, net debt to EBITDA of 1.3x, and a strong interest coverage ratio of 11.4x. Additionally, ZTS's sustained dividend suggests upward pressure, as its dividend payout of ~23% is below the peer median at ~44%. ZTS's total dividend coverage of 10.48x implies that dividends are wholly paid from operating and investing cash flows net of any debt repayments, suggesting high dividend quality. The CPMT believes ZTS's balance sheet strengths signal ample ability to invest in internal growth and inorganic growth initiatives, including tuck-in deals in tangential areas – genetics and data analytics.

Growing Free Cash Flow: ZTS has shown resilience throughout the pandemic, achieving 9% operational revenue growth and 10% income growth in 2020. We are encouraged by management's ability to expand margins over time. Expanding margins and a 6-year FCF CAGR of 7.2% showcases the Company's strong cash-generating capacity.

Valuation and Investment Thesis

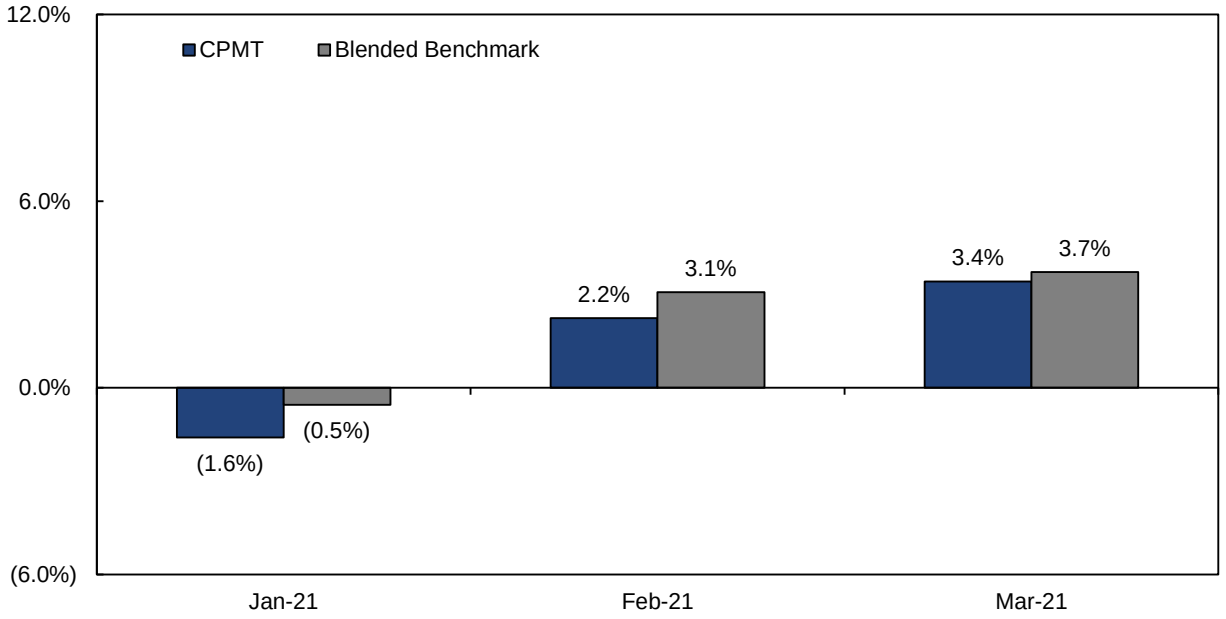
ZTS was valued using a five-year DCF with a WACC of 7.14% and an EV/LTM EBITDA exit multiple of 23x arriving at a price target of $190. This assumes mid-single-digit revenue growth and conservative further margin expansion for the forecasted period. The CPMT believes ZTS represents an opportunity to capitalize on a stabilizing companion animal market, strengthened by the human-pet bond enforced over the pandemic. Additionally, the CPMT believes that ZTS' ability to capitalize on key market trends exposure with strong R&D (Diagnostics, Genetics) will provide long-term value.

Catalysts include (1) upcoming pipeline opportunities, (2) core product growth, and (3) and improving livestock fundamentals. **Risks** include (1) high competition and (2) extended pandemic effects.

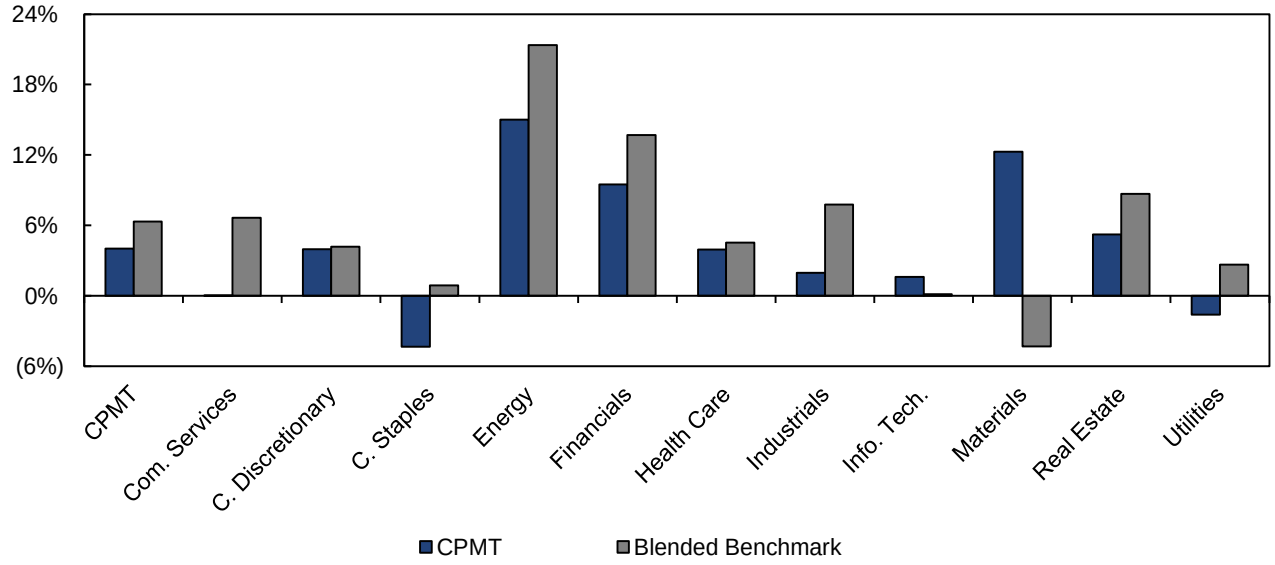
Compliance and Performance

QUARTERLY PERFORMANCE

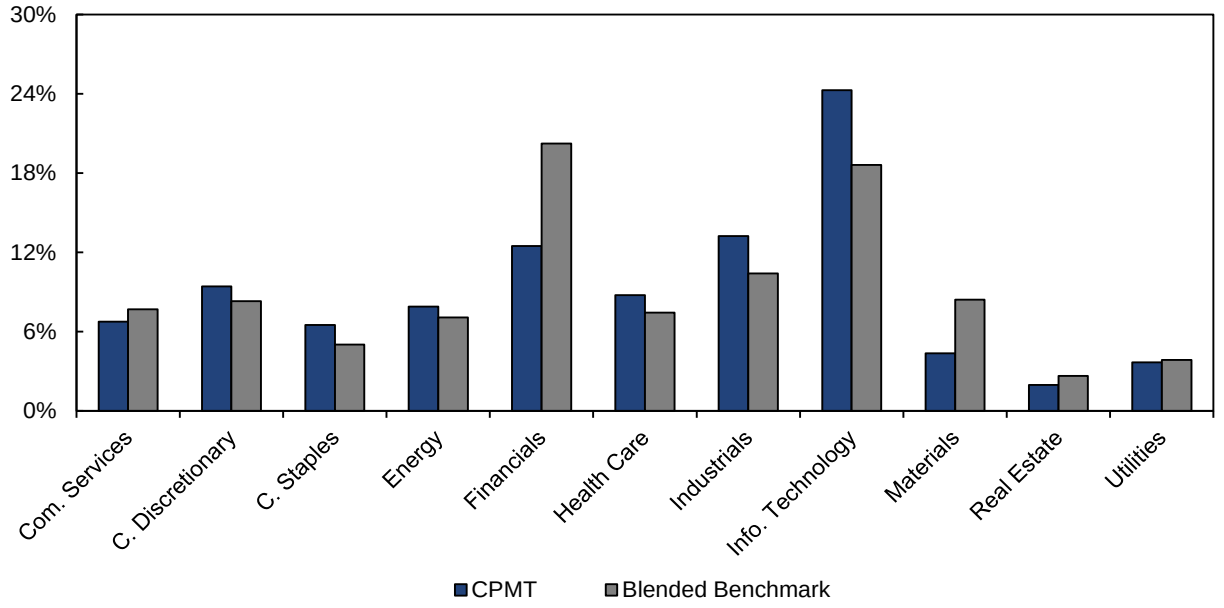
CPMT and Blended Benchmark Monthly Returns



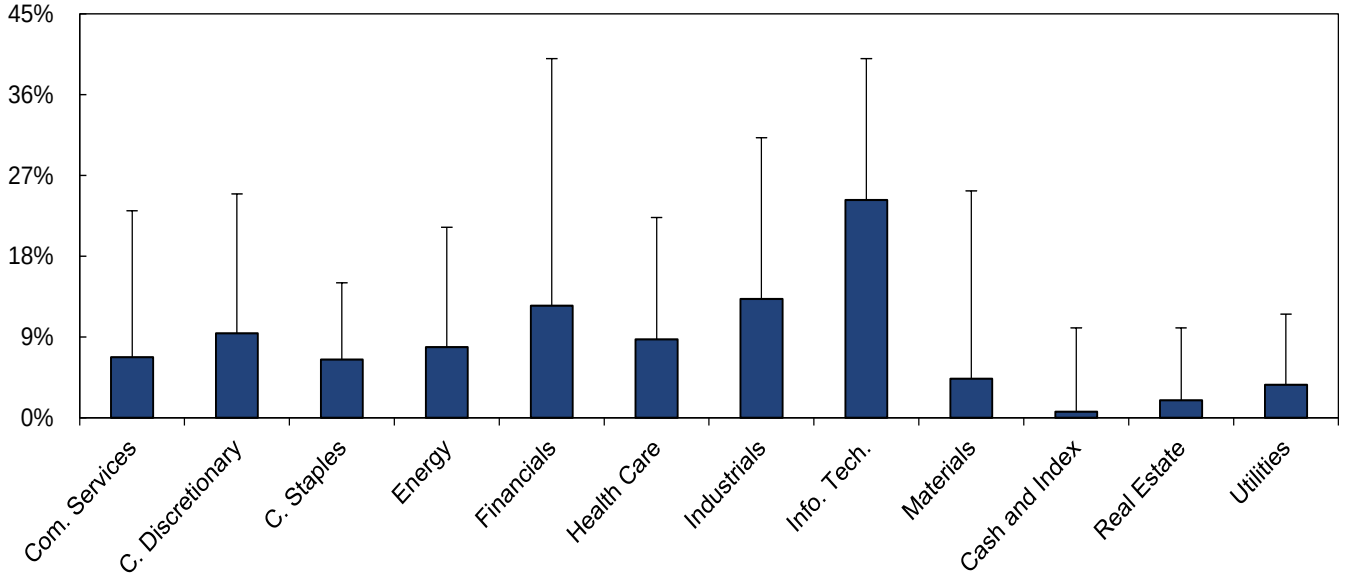
CPMT and Blended Benchmark Quarterly Sector Returns



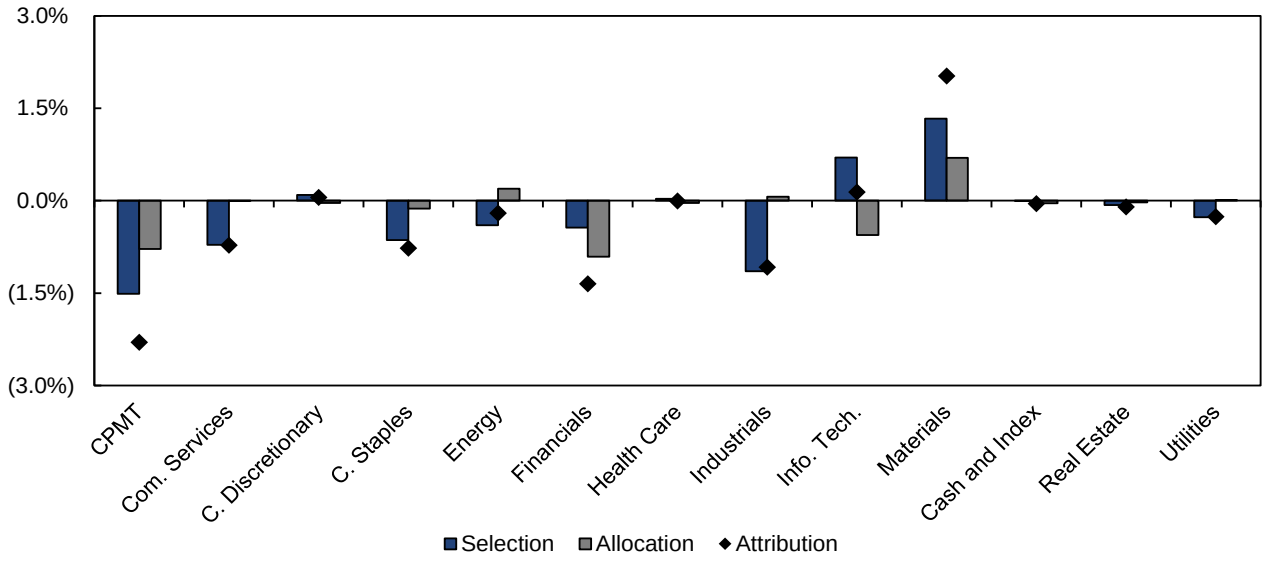
CPMT and Blended Benchmark Sector Weightings



CPMT Sector Weights vs Maximum Weight



Attribution Analysis (FQ4 2021)



CPMT Attribution Analysis

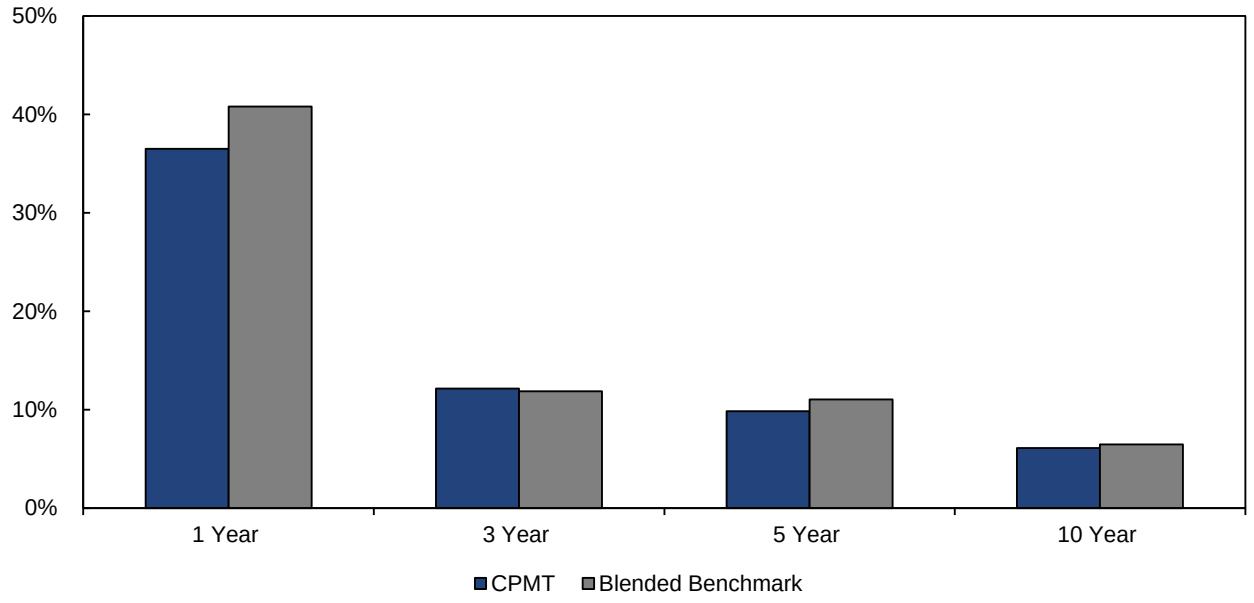
FQ4 2021	Attribution	Allocation	Selection
CPMT	(2.29%)	(0.78%)	(1.51%)
Communication Services	(0.72%)	(0.00%)	(0.71%)
Consumer Discretionary	0.06%	(0.04%)	0.09%
Consumer Staples	(0.77%)	(0.13%)	(0.64%)
Energy	(0.20%)	0.20%	(0.40%)
Financials	(1.35%)	(0.91%)	(0.44%)
Health Care	(0.00%)	(0.04%)	0.03%
Industrials	(1.08%)	0.07%	(1.14%)
Information Technology	0.14%	(0.56%)	0.70%
Materials	2.03%	0.69%	1.33%
Other	(0.04%)	(0.04%)	(0.00%)
Real Estate	(0.10%)	(0.03%)	(0.07%)
Utilities	(0.26%)	0.01%	(0.27%)

1 Year	Attribution	Allocation	Selection
CPMT	(4.30%)	(0.23%)	(4.06%)
Communication Services	1.88%	2.85%	(0.97%)
Consumer Discretionary	3.02%	2.37%	0.65%
Consumer Staples	(0.31%)	(0.70%)	0.39%
Energy	(4.46%)	0.71%	(5.17%)
Financials	(0.77%)	(1.76%)	0.99%
Health Care	(0.34%)	(3.26%)	2.92%
Industrials	(1.70%)	0.61%	(2.31%)
Information Technology	(2.48%)	(0.56%)	(1.92%)
Materials	0.52%	(1.00%)	1.52%
Other	(0.86%)	(0.86%)	(0.00%)
Real Estate	0.43%	1.04%	(0.61%)
Utilities	0.77%	0.33%	0.44%

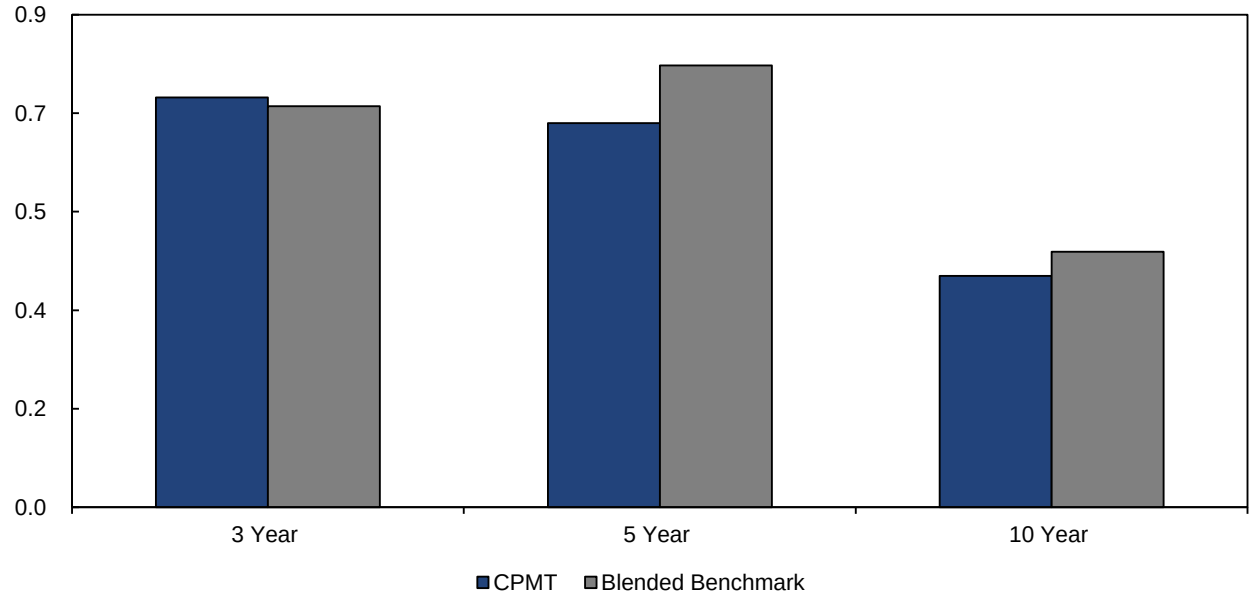
Compliance and Performance

LONG-TERM PERFORMANCE

CPMT and Blended Benchmark Total Return (Annualized)



CPMT and Blended Benchmark Composite Index Sharpe Ratios



The CPMT Long-Term Performance Targets

		1 Year		3 Year		5 Year		10 Year
Absolute Returns (annualized)								
CPMT [1]	✓	36.49%	✓	12.14%	✓	9.83%	✗	6.09%
Relative Returns (bps)								
Blended Benchmark [2]	✗	(430)	✗	27	✗	(122)	✗	(39)
Risk Adjusted Returns (bps)								
Blended Benchmark [3]	✗	(416)	✗	47	✗	(75)	✗	(20)

(1) Performance target of 7.0% annual returns.

(2) Performance target to exceed the Blended TSX & S&P 500 Benchmark by 100 bps.

(3) Performance target to exceed the Blended TSX & S&P 500 Benchmark by 100 bps on a risk adjusted basis.

CPMT Long-Term Performance Details

	1 Year	3 Year	5 Year	10 Year
Annualized Return				
CPMT	36.49%	12.14%	9.83%	6.09%
Blended Benchmark	40.78%	11.87%	11.05%	6.48%
Annualized Volatility				
CPMT	13.80%	14.77%	12.21%	11.31%
Blended Benchmark	13.04%	14.78%	11.97%	10.93%
Sharpe				
CPMT	2.29	0.75	0.70	0.42
Blended Benchmark	2.66	0.73	0.81	0.47

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 (2020-2021)

FQ1 2021	Date	Action	Shares	Purchase Price	Sale Price	Currency	Capital Gain (CAD)	Return
ATZ	22-Apr-20	Buy	700	$14.20				
ATZ	22-Apr-20	Buy	700	$14.13				
ABT	22-Apr-20	Sell	32	$77.88	$96.34	CAD	$590.72	23.70%
AMGN	22-Apr-20	Sell	24	$192.09	$236.00	CAD	$1,053.86	22.86%
AQN	22-Apr-20	Sell	1100	$12.77	$19.92	CAD	$7,869.95	55.99%
NEE	22-Apr-20	Buy	58	$243.91				
PG	27-Apr-20	Buy	60	$117.59				
Total							$9,514.53	44.96%

FQ2 2021	Date	Action	Shares	Purchase Price	Sale Price	Currency	Capital Gain (CAD)	Return
APPL	10-Aug-20	Sell	44	$62.33	$112.28	USD	$1,677.93	80.13%
APPL	4-Sep-20	Sell	33	$62.33	$130.83	USD	$1,720.32	109.90%
APPL	24-Sep-20	Buy	15	$107.87		USD		
Total							$3,398.25	92.89%

FQ3 2021	Date	Action	Shares	Purchase Price	Sale Price	Currency	Capital Gain (CAD)	Return
ISRG	27-Oct-20	Sell	11	$420.23	$721.69	USD	$2,510.64	71.74%
JPM	6-Nov-20	Buy	44	$103.02		USD		
CNQ	6-Nov-20	Buy	525	$21.49		CAD		
SU	6-Nov-20	Sell	400	$28.73	$15.29	CAD	($4,107.80)	(46.77%)
TD	6-Nov-20	Sell	200	$58.01	$59.34	CAD	$203.31	2.29%
ISRG	9-Nov-20	Sell	11	$420.23	$774.20	USD	$2,989.98	84.23%
IVV	16-Nov-20	Buy	25	$361.40		USD		
IVV	17-Nov-20	Buy	51	$362.94		USD		
DOL	17-Nov-20	Sell	439	$40.15	$49.82	CAD	$3,245.57	24.08%
AMT	23-Nov-20	Buy	39	$230.11		CAD		
IVV	24-Nov-20	Buy	8	$364.26		USD		
LULU	24-Nov-20	Buy	26	$347.85		CAD		
PYPL	30-Nov-20	Buy	43	$214.44		USD		
GUD	30-Nov-20	Sell	3100	$8.00	$5.50	USD	($5,958.94)	(31.21%)
LIN	1-Dec-20	Buy	35	$259.18		USD		
IVV	1-Dec-20	Sell	25	$364.26	$368.57	USD	$82.96	1.18%
Total							($1,034.28)	(1.53%)

FQ4 2021	Date	Action	Shares	Purchase Price	Sale Price	Currency	Capital Gain (CAD)	Return
ATZ	3-Feb-21	Sell	550	$14.17	$27.23	CAD	$5,438.45	92.17%
IVV	22-Mar-21	Sell	48	$362.61	$395.62	USD	$1,199.76	9.10%
ATVI	22-Mar-21	Buy	200	$92.35		USD		
Total							$2,973.52	34.79%

Appendix 2: Account Activity

Dividend Summary

April, 2020			
Equity	**Date**	**DPS**	**Credit (CAD)**
TD	30-Apr-20	$0.79	$316.00
JPM	30-Apr-20	$0.90	$121.50
Total			**$437.50**

May, 2020			
Equity	**Date**	**DPS**	**Credit (CAD)**
DOL	08-May-20	$0.04	$19.32
MA	08-May-20	$0.56	$39.03
MA	08-May-20	$0.40	$3.60
AAPL	14-May-20	$0.82	$59.04
ABT	15-May-20	$0.50	$90.58
COST	15-May-20	$0.70	$45.50
WCN	19-May-20	$0.26	$33.75
Total			**$290.82**

June, 2020			
Equity	**Date**	**DPS**	**Credit (CAD)**
ENB	01-Jun-20	$0.81	$486.00
AMGN	08-Jun-20	$1.60	$96.00
MSFT	11-Jun-20	$0.51	$61.20
NEE	15-Jun-20	$1.40	$81.20
SU	25-Jun-20	$0.21	$84.00
CNR	30-Jun-20	$0.58	$143.75
CCL.B	30-Jun-20	$0.18	$36.00
BAM.A	30-Jun-20	$0.16	$91.44
Total			**$1,079.59**

July, 2020			
Equity	**Date**	**DPS**	**Credit (CAD)**
T	02-Jul-20	$0.29	$198.05
CSU	10-Jul-20	$1.36	$19.02
JPM	31-Jul-20	$0.90	$121.50
TD	31-Jul-20	$0.79	$316.00
Total			**$654.57**

August, 2020			
Equity	**Date**	**DPS**	**Credit (CAD)**
MA	07-Aug-20	$0.51	$40.67
DOL	07-Aug-20	$0.04	$19.32
APPL	13-Aug-20	$0.82	$59.04
COST	14-Aug-20	$0.70	$45.50
ABT	17-Aug-20	$0.48	$70.32
PG	17-Aug-20	$0.79	$47.44
WCN	18-Aug-20	$0.25	$32.16
Total			**$314.45**

September, 2020			
Equity	**Date**	**DPS**	**Credit (CAD)**
ENB	01-Sep-20	$0.78	$468.00
AMGN	08-Sep-20	$1.60	$96.00
MFST	10-Sep-20	$0.51	$61.20
NEE	15-Sep-20	$1.40	$81.20
SU	25-Sep-20	$0.21	$84.00
BAM.A	30-Sep-20	$0.16	$88.80
CCL.B	30-Sep-20	$0.18	$36.00
CNR	30-Sep-20	$0.58	$143.75
Total			**$1,058.95**

Account Activity Continued

Dividend Summary

October, 2020			
Equity	**Date**	**DPS**	**Credit (CAD)**
T	01-Oct-20	$0.29	$198.05
CSU	09-Oct-20	$1.32	$18.46
Total			**$216.51**

November, 2020			
Equity	**Date**	**DPS**	**Credit (CAD)**
TD	02-Nov-20	$0.79	$316.00
JPM	02-Nov-20	$0.90	$121.50
DOL	06-Nov-20	$0.04	$19.32
MA	09-Nov-20	$0.52	$36.36
MA	09-Nov-20	$0.40	$3.60
AAPL	12-Nov-20	$0.19	$43.33
COST	13-Nov-20	$0.70	$45.50
ABT	16-Nov-20	$0.47	$69.70
PG	16-Nov-20	$0.79	$47.44
WCN	25-Nov-20	$0.27	$34.69
Total			**$737.44**

December, 2020			
Equity	**Date**	**DPS**	**Credit (CAD)**
ENB	01-Dec-20	$0.81	$486.00
CTAS	04-Dec-20	$3.51	$210.60
AMGN	08-Dec-20	$1.60	$96.00
MSFT	10-Dec-20	$0.56	$67.20
COST	11-Dec-20	$10.00	$650.00
NEE	15-Dec-20	$0.35	$81.20
IVV	18-Dec-20	$1.61	$95.00
LIN	21-Dec-20	$0.96	$33.71
CCL.B	29-Dec-20	$0.18	$36.00
CNR	30-Dec-20	$0.58	$143.75
BAM.A	31-Dec-20	$0.15	$85.77
Total			**$1,985.23**

January, 2021			
Equity	**Date**	**DPS**	**Credit (CAD)**
T	04-Jan-21	$0.31	$211.62
CNQ	05-Jan-21	$0.43	$223.13
CSU	11-Jan-21	$1.28	$17.89
Total			**$452.64**

February, 2021			
Equity	**Date**	**DPS**	**Credit (CAD)**
JPM	01-Feb-21	$1.15	$164.74
TD	01-Feb-21	$0.79	$158.00
AMT	02-Feb-21	$1.55	$60.41
MA	09-Feb-21	$0.56	$5.06
MA	09-Feb-21	$0.56	$39.06
AAPL	11-Feb-21	$0.20	$46.17
PG	16-Feb-21	$1.00	$60.16
ABT	16-Feb-21	$0.57	$84.19
COST	10-Feb-21	$0.44	$57.79
Total			**$675.58**

March, 2021			
Equity	**Date**	**DPS**	**Credit (CAD)**
ENB	01-Mar-21	$0.84	$501.00
AMGN	08-Mar-21	$2.24	$134.11
MSFT	11-Mar-21	$0.71	$85.32
NEE	15-Mar-21	$0.49	$113.44
CTAS	15-Mar-21	$0.95	$57.15
NEE	08-Mar-21	$0.35	$81.20
WCN	17-Mar-21	$0.26	$33.66
LIN	22-Mar-21	$1.35	$47.12
ROST	31-Mar-21	$0.36	$51.74
IVV	31-Mar-21	$1.66	$18.31
CNR	31-Mar-21	$0.62	$153.75
CCL.B	31-Mar-21	$0.21	$42.00
BAM.A	31-Mar-21	$0.16	$91.07
Total			**$1,409.87**

CPMT Holdings - March 31, 2021	Market Cap	Conviction	Position Size			Target Price			Stock Price	Total Return	
Financials			Current	Target	Difference	Prior		Current	End of Period	QTD	TTM
Brookfield Asset Management	Large	2	5.18%	4.00%	1.18%	$63.00	▬	$63.00	$55.90	6.23%	34.41%
JPMorgan Chase & Co.	Large	2	3.59%	4.00%	(0.41%)	$140.00	▲	$158.00	$152.23	19.80%	69.09%
Toronto Dominion	Large	1	2.70%	2.00%	0.70%	$73.00	▲	$82.00	$81.96	13.96%	36.99%
Information Technology											
Apple Inc	Large	3	4.55%	6.00%	(1.45%)	$140.00	▲	$148.00	$122.15	(7.94%)	92.15%
Constellation Software	Large	2	4.05%	4.00%	0.05%	$1,726.00	▲	$1,800.00	$1,755.04	6.18%	37.22%
Mastercard	Large	3	4.64%	6.00%	(1.36%)	$350.00	▲	$385.00	$356.05	(0.25%)	47.40%
Microsoft Corp.	Large	2	4.67%	4.00%	0.67%	$230.00	▲	$270.00	$235.77	6.00%	49.50%
PayPal Holdings	Large	1	1.72%	2.00%	(0.28%)	$239.00	▬	$239.00	$242.84	3.69%	13.25%
Topicus.com	Mid	N/A	0.35%	N/A	N/A	N/A		N/A	$82.54	30.39%	30.39%
Materials											
CCL Industries	Mid	1	2.29%	2.00%	0.29%	$68.00	▬	$68.00	$69.52	20.30%	62.47%
Linde PLC	Large	1	1.62%	2.00%	(0.38%)	$282.00	▬	$282.00	$280.14	6.31%	10.53%
Energy											
Canadian Natural Resources Ltd.	Large	1	3.36%	2.00%	1.36%	$31.00	▲	$36.00	$38.85	27.00%	80.78%
Enbridge	Large	2	4.53%	4.00%	0.53%	$52.00	▼	$49.00	$45.78	12.45%	11.71%
Consumer Discretionary											
Aritzia	Mid	2	4.09%	4.00%	0.09%	$27.00	▲	$33.00	$29.20	13.22%	105.92%
lululemon athletica	Large	1	1.32%	2.00%	(0.68%)	$379.00	▬	$379.00	$306.71	(11.87%)	(11.83%)
Ross Stores, Inc.	Large	2	2.83%	4.00%	(1.17%)	$135.00	▼	$126.00	$119.91	(2.36%)	37.88%
Consumer Staples											
Proctor & Gamble	Large	1	1.34%	2.00%	(0.66%)	$145.00	▬	$145.00	$135.43	(2.67%)	15.02%
Costco	Large	3	3.78%	6.00%	(2.22%)	$380.00	▬	$380.00	$352.48	(6.45%)	23.62%
Telecommunications											
Activision Blizzard	Large	2	3.07%	4.00%	(0.93%)	$117.00	▬	$117.00	$93.00	0.70%	0.70%
Telus	Large	2	2.81%	4.00%	(1.19%)	$25.00	▬	$25.00	$25.03	(0.71%)	12.49%
Healthcare											
Abbott Laboratories	Large	2	2.46%	4.00%	(1.54%)	$115.00	▲	$123.00	$119.84	8.22%	51.87%
Amgen	Large	2	2.93%	4.00%	(1.07%)	$260.00	▬	$260.00	$248.81	9.45%	22.73%
Intuitive Surgical, Inc.	Large	1	1.46%	2.00%	(0.54%)	$820.00	▬	$820.00	$738.94	(9.68%)	49.22%
Industrials											
Canadian National Railway	Large	3	6.01%	6.00%	0.01%	$154.00	▬	$154.00	$145.84	4.22%	32.55%
Cintas Corp.	Large	2	3.38%	4.00%	(0.62%)	$370.00	▬	$370.00	$341.31	(3.44%)	97.04%
Waste Connection Inc.	Large	2	2.91%	4.00%	(1.09%)	$140.00	▬	$140.00	$135.77	4.02%	24.33%
Real Estate											
American Tower Corp.	Large	1	1.54%	2.00%	(0.46%)	$295.00	▬	$295.00	$239.06	6.50%	3.89%
Utilities											
NextEra Energy	Large	2	2.89%	4.00%	(1.11%)	$90.00	▬	$90.00	$75.61	(2.00%)	23.91%