# Calgary Portfolio Management Trust

## FQ1 2021 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.

Following an eventful year of reaching our 50/50 target weighting between Canadian and U.S. equities and 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 looking to attain a career in the capital markets upon graduation. Akash is currently working at Credit Suisse as an Investment Banking Summer Analyst. 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, 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. Breanna is currently working at Hugessen Consulting as a Summer Analyst. She is majoring in finance and completed a summer internship at AECOM in the project controls department during Summer 2019. Upon graduation, she would like to explore a career in consulting or equity research. 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 currently working 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. 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.

**ERIK SKORONSKI**
**Portfolio Manager**
**5th Year, Finance/Software Engineering**
Erik joined the CPMT in March 2019 as an Investment Analyst. He is excited to continue expanding his knowledge of capital markets, financial analysis, and portfolio management throughout his time in the program. Erik is working on a dual degree in Finance and Software Engineering and intends to pursue a career in financial technology upon graduation. Erik recently completed a Co-op at BMO Capital Markets in its Real Estate Investment Banking group. In his previous summer internships, Erik worked at Ayrshire Group in its Real Estate and Venture Capital teams as a Private Equity Summer Analyst. Outside of work and academia, Erik enjoys coding games, playing guitar, and hiking, and snowboarding.

**HAYLEY HICKS**
**Portfolio Manager**
**5th Year, Finance**

Hayley joined the CPMT in March 2019 as an Investment Analyst. She is excited to continue strengthening her knowledge in fundamental equity valuation and analysis across multiple market sectors and financial markets, and gain vital portfolio management experience during her time in the program. She also wishes to use her experiences and learnings to inspire others and give back to the program for future students. She is currently working towards her degree in Finance, and recently began preparing for the CFA Level 1 designation in December 2020 after completing a semester abroad at the Emlyon Business School based in the Saint-Etienne, France campus. Hayley completed a summer internship with Mackenzie Investments as an Inside Sales Assistant after previous finance internships at Suncor Energy and Leith Wheeler Investment Counsel. In addition to her passion for Finance, she is also a member of Women in Capital Markets, volunteering whenever possible, and volunteers with Metis Family Calgary Services. She enjoys playing volleyball, maintaining an active and healthy lifestyle, and learning the French culture and language as she works towards her bilingual certificate.

**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 is excited to expand her knowledge about portfolio management, valuation, and equity research. With a passion for financial and mathematical analysis, she is pursuing a dual degree in Finance and Math. In addition to the CPMT, Helena has competed in the Inter-Collegiate Business Competition (ICBC) on the Business Policy and Human Resources teams and was VP External of the student club, Women in Science and Engineering. Helena completed two summer internships at Plains Midstream Canada as a Futures and Derivatives Trading Intern and Acquisitions and Strategic Planning Intern. She is currently working at Plains Midstream again this summer as an intern in the Crude Assets group. Upon graduation, Helena intends to pursue a career in capital markets and obtain her CFA designation. 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 is looking forward to the continuous experiential learning opportunities in the program and is excited to further expand his knowledge in valuation, fundamental analysis, and portfolio management, specifically focusing on the energy sector. He is currently working towards completing his dual major degree focusing in Finance and Computer Science and plans to obtain his CFA designation after graduation. Jose intends to pursue a career in capital markets, somewhere he can leverage his technical knowledge in both finance and computer science. Jose is currently working at Bluesky Equities as a Summer Analyst. Last summer, he completed an internship at the Creative Destruction Lab as a Venture Analyst. In his free time, 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 2021

### 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 also competed in the JDC West Case Competition as a Finance Delegate. He recently completed an internship with the Fidelity Investments as an Inside Sales Advisor and is currently working to accomplish the Exam Probability this summer. Upon graduation, Abhishek would like to attain the CFA designation and explore a career in Equity Research or Capital Markets. In his spare time, Abhishek enjoys reading non-fiction books, hiking, playing & watching cricket, and solving puzzles.

### JACK MORGAN
**Investment Analyst**
**3rd Year, Finance**

Jack joined the CPMT in March 2020 as an Investment Analyst seeking to broaden and refine his skills and knowledge in capital markets. He is thankful to the Board of Trustees, alumni, and mentors who have made this opportunity possible, and is looking forward to the time and experience ahead with the CPMT. Jack is currently completing a summer employment term with Canadian Natural Resources as a Joint Venture Accountant and is pursuing a career in Capital Markets. In his free time Jack enjoys pick-up 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 is also looking forward to learning about capital markets and portfolio management from peers, mentors, and speakers. Upon graduation, she intends to pursue a career in capital markets. Outside of school and work, Katie volunteers regularly as a merchandiser at Dress for Success Calgary, a non-profit organization that empowers women to achieve economic independence by providing a network of support, professional attire, and development tools 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. Kian is currently working as a Summer Analyst at Landstar Development Corp. Upon graduation, he intends to pursue a career in capital markets, as well as obtain his CFA designation. In his spare time, Kian enjoys listening to music and playing soccer, basketball, and Jackpot.

**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, mentors, and alumni for their time and effort in supporting the program. He looks forward to gaining a greater understanding of capital markets, financial valuations, and portfolio management. At the moment, Sina is completing a summer internship as a Business Development Intern at the National Digital Asset Exchange (NDAX). Sina intends to pursue a career in capital markets and obtain his CFA designation after 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. Upon graduation, he wishes to obtain his CFA designation, and intends to pursue a career in capital markets. Stephen is currently completing an eight-month internship Canadian Natural Resources Ltd. and will join SAP for a four-month internship in the Fall. 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 playing Jackpot.

# 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 brief 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. The CPMT continues to research companies that we believe are defensive while fitting our mandate, and that will outperform amidst slowing global growth and rising trade tensions. We continue to monitor the U.S. and Canadian yield curves, credit spreads, the labor market, and corporate profits in light of our defensive sentiment 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 an increased importance on mandate fit and the ability to remain resilient and defensive 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, the potential for increases in COVID cases leading to a second wave of government induced shutdowns, and the U.S. 2020 presidential election, we see meaningful risks on the horizon that could impact consumer confidence and the overall sector. However, we are comfortable remaining 4.34% overweight with our current holdings due to the diversification and variety of offerings which cater to all income brackets, and the strong brand recognition and operational excellence the current names provide. Dollarama (TSX: DOL) was re-evaluated this quarter and has our increased attention in relation to mandate fit and its fulfillment of the original thesis.

## CONSUMER STAPLES

The CPMT is content remaining overweight by 1.46% in Consumer Staples due to positive historical performance of the sector during economic downturns. We have a favorable 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 1.23% underweight in Energy relative to the benchmark. Given the recent challenges in the energy sector following the crude oil price crash and demand destruction induced by COVID-19, the CPMT expects depressed crude pricing, lower production, and storage constraints to extend into next year. As such, we remain convicted on the Fund's decision in late 2018 to divest all E&P holdings and instead will maintain exposure to energy through companies with distinct competitive advantages and the ability to generate free cash flow throughout commodity price cycles. We will continue to seek companies with limited or diversified exposure to commodity prices and will monitor the mandate fit of our current energy holdings, Suncor Energy (TSX: SU) and Enbridge (TSX: ENB).

## FINANCIALS

The CPMT believes its financial holdings are well diversified and is comfortable remaining 2.96% underweight relative to our blended benchmark. The global economic downturn caused by COVID-19 is expected to continue to adversely affect banks' business with a significant increase in Provision for Credit Losses and decline in interest rate margins. The CPMT's outlook is a slow recovery for the banks and the fund will closely monitor current holdings JP Morgan Chase & Co. (NYSE: JPM) and Toronto-Dominion Bank (NYSE: TD) going forward. Brookfield Asset Management (TSX: BAM) is well positioned with growth in private markets. The digital payments industry will continue to grow with increasing e-commerce and consumer spending, thus the CPMT is optimistic on Mastercard (NYSE: MA) as a holding.

## HEALTH CARE

The CPMT is comfortable remaining 8.97% 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 need. 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, Knight Therapeutics (TSE: GUD), and Intuitive Surgical (NASDAQ: ISRG), offer the Fund strong diversification within the Healthcare space.

## INDUSTRIALS

The Industrials Sector performs best when there is economic expansion. The CPMT does not believe that these are the current global conditions. Worldwide, there has been a reduction of interest rates, a slowing of housing starts, reduced GDP growth. The CPMT currently holds Canadian National Railway (TSX: CNR), Cintas (NASDAQ: CTAS), and Waste Connections (TSX: WCN) within the sector. The CPMT is currently overweight in the Industrials sector and committed to obtaining the benchmark weighting while holding companies that will provide growth and attribute defensiveness to the portfolio. The CPMT will continue to evaluate held companies in the sector for potential sell or trimming.

## INFORMATION TECHNOLOGY

The Information Technology sector offers tremendous growth and diverse business models that makes it appealing for the CPMT to hold companies 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. We will continue to monitor the sector for names that can attribute similar growth and differentiation, but we are comfortable with our current position.

## MATERIALS

The CPMT is currently 4.4% underweight in Materials relative to the benchmark, with CCL Industries (TSX: CCL.B) as our lone holding in the sector. Given the widespread impacts of COVID-19, and subsequent government induced shutdowns, the CPMT is exploring U.S. specialty chemicals names that have shown resiliency through past recessionary periods, which we believe can add value to the fund and follow our defensive stance.

## REAL ESTATE

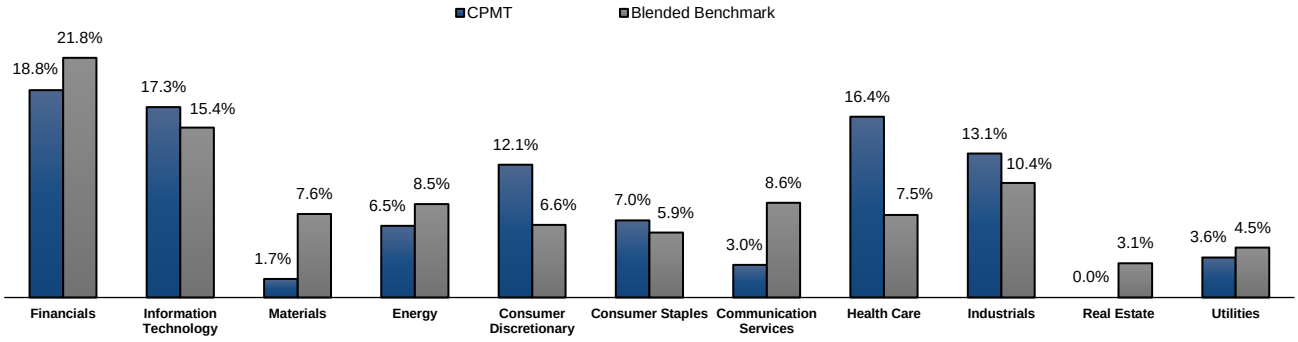
The CPMT remains uninvested in the North American Real Estate sector. Prior to the COVID-induced economic crisis, the CPMT believed that with historically low interest rates, the Federal Reserve could only logically raise target rates going forward, which would weigh on REIT valuations. However, the Federal Reserve's announcement that rates would remain at current lows for at least two years encourages the fund to enter a position in the space. Specifically, the fund believes that the repatriation of supply chains, coupled with an even greater focus on e-commerce will benefit the industrial real estate sector. Additionally, we expect to see opportunities in the multi-family residential space, as government aid programs are rolled out and the true effects of the pandemic lower valuations. We will continue to monitor these subsectors for companies with sound fundamentals that can benefit from a resurging market.

## TELECOMMUNICATIONS

The CPMT is currently underweight in the Communication Services sector, and we are focusing our efforts on finding companies within the sector that will fit our mandate. We currently hold TELUS (TSX: T) as our sole holding in the sector but are evaluating the strength of the U.S. telecommunications companies to get more exposure on the expansion of 5G. We will also be evaluating the media names within the sector to understand their business model in greater detail and find companies that may both meet our mandate and maintain defensiveness in a post-pandemic market. We believe that adding a quality name to bring our Telecommunications sector holdings in-line with our benchmark weight will benefit the portfolio.

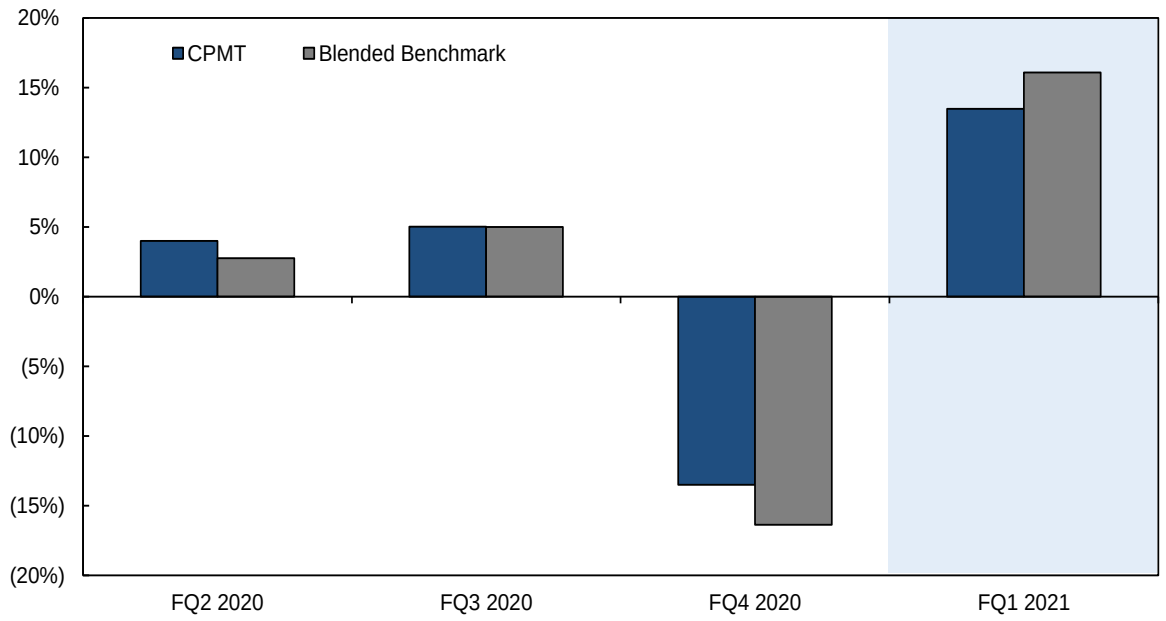
## UTILITIES

The CPMT is currently in line for Utilities relative to the benchmark. As the world begins to move towards green energy projects the CPMT was able to add NextEra Energy, one of the largest renewables' companies' in North America, to the portfolio in Q4 2020. Given the drastic cuts in interests rated by both the Federal Reserve and the Bank of Canada, utilities are expected to thrive in the current economic environment due to its high dividend yield and regulated cash flows. The CPMT remains comfortable with its current weighting, and during the FY may add to it given our defensive outlook.

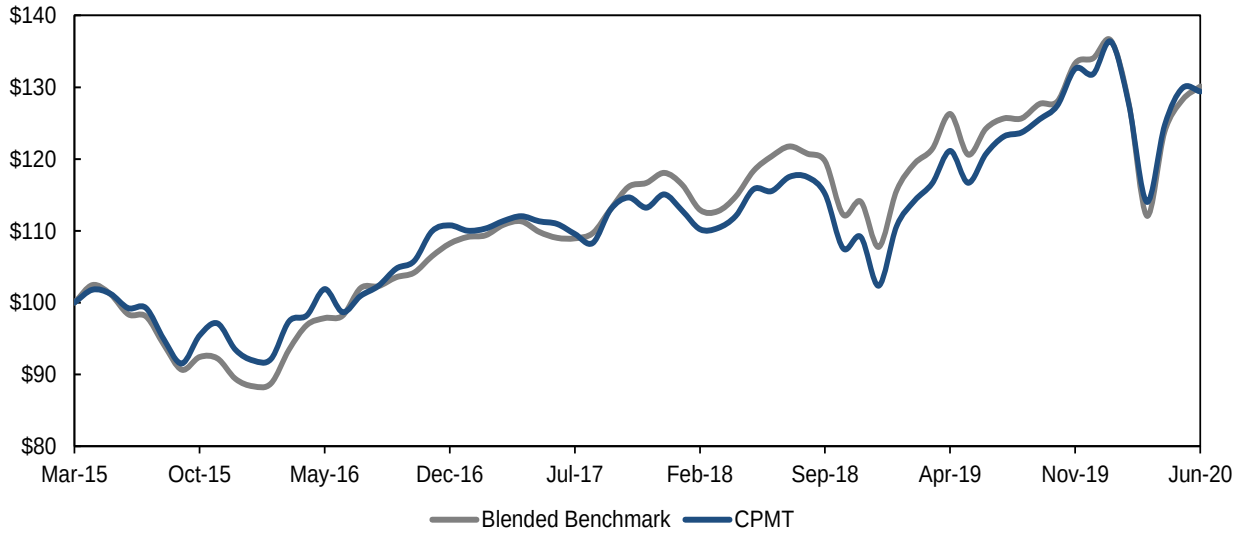


# Quarterly Snapshot - FQ1 2021

## CPMT and Benchmark Total Return (TTM)




## Value of $100 (since March 31, 2015)

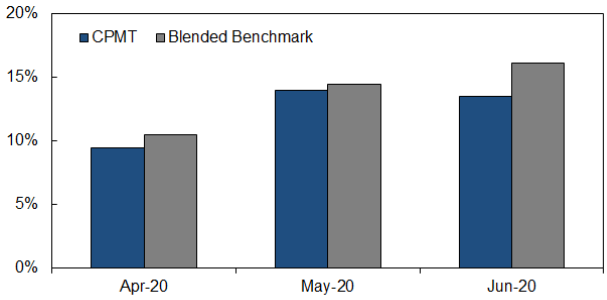



## Fund Universe

| | FQ1 | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|
| CPMT | 13.48% | 7.20% | 5.26% | 5.45% | 5.90% |
| Blended Benchmark | 16.07% | 4.73% | 6.07% | 5.75% | 7.01% |
| Blended Benchmark Difference | (2.60%) | 2.47% | (0.81%) | (0.30%) | (1.10%) |

# Quarter in Review

## QUARTERLY 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 13.48% over the quarter, 260 bps below the blended benchmark 16.07%. Our underperformance can be largely attributed to the Energy, Materials, and Consumer Discretionary sectors but was offset by outperformance in Industrials and Health Care. The Fund has now achieved its target 50/50 Canada/U.S. equity exposure following several months of carrying out due diligence on companies that we believe fit the CPMT mandate.

This quarter marks the beginning of a new fiscal year for the Fund. The past few months have been characterized by high levels of market volatility and significant economic uncertainty as populations, governments, and markets have all grappled with the tumultuous impacts of the COVID-19 pandemic. As a Fund, we have strived to maintain defensive positioning through ensuring we are holding resilient names with strong balance sheets and competent management teams. Early in Q1, the Fund had a large volume of internal pitches that resulted in multiple investment decisions to align our holdings with our portfolio strategy and outlook.

Firstly, we added Aritzia (TSX: ATZ) to our consumer discretionary holdings. ATZ's balance sheet flexibility, niche positioning in the fashion apparel market, and track-record of management execution on targets satisfies all of our mandate pillars. While the name is exposed to consumer retail demand which has been heavily impacted by the pandemic, this was largely priced in at the time of purchase, allowing us to enter the position at an attractive valuation.

The CPMT also initiated a position in Procter & Gamble (NYSE: PG). PG offers a defensive business model that was well positioned to outperform during the pandemic. Its dominant portfolio of household and personal care brands serves as a clear competitive advantage, while also providing a platform for strong organic growth moving forward.

To fund these trades, the CPMT trimmed positions in Abbot Laboratories (NYSE: ABT) and Amgen (NASDAQ: AMGN).

Lastly, the Fund made the decision to swap our position in Algonquin Power & Utilities (TSX: AQN) for NextEra Energy (NYSE: NEE). This shifted our utilities exposure to the U.S., while allowing us to hold a name with a leading position in the renewable energy and regulated utility industries.

Members of the Fund have been conducting CPMT work from home as we made the transition to working remotely with each other. While initially challenging, we have strived to maintain high levels of collaboration as a Fund, while continuing to produce high-quality content. We are looking forward to a productive upcoming quarter.

## TRANSACTION LOG

| COMPANY | OLD AUM | NEW AUM |
|---|---|---|
| ARITZIA | 0.0% | 4.0% |
| Algonquin Power & Utilities Corp. | 4.0% | 0.0% |
| NextEra Energy | 0.0% | 4.0% |
| P&G | 0.0% | 2.0% |

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

## NEW RECOMMENDATIONS

| | COMPANY | IMPLIED RETURN |
|---|---|---|
| OUTPERFORM | Concho Resources | 37.5 % |
| | Pioneer Natural Resources | 25.8 % |
| | Pembina Pipeline | 19.9 % |
| | Microsoft | 18.4 % |
| | Mastercard | 17.9 % |
| MARKET PERFORM | Abbott Laboratories | 10.9 % |
| | Apple | 10.5 % |
| | Amgen | 10.2 % |
| | PayPal Holdings | 9.6 % |
| | Dollarama | 9.0 % |

*Note: Reflects implied upside as of June 30, 2020`

# Abbott Laboratories

**Health Care**
**NYSE: ABT**
**Market Perform | Hold**

**June 30, 2020**

Stephen Nguyen, Investment Analyst
Hayley Hicks, Portfolio Manager

**Return on Investment**

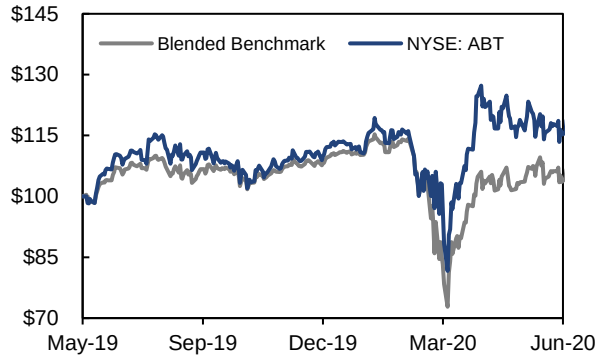
| | |
|---|---|
| Current Share Price | $91.43 |
| Target Price | $100.00 |
| Dividend Yield | 1.56% |
| Holding Period Return | 11% |
| Conviction Rating | 2 |

**Market Profile**

| | |
|---|---|
| 52-Week Range | $62.82 - $98.00 |
| Market Capitalization (US$mm) | $161,726 |
| Net Debt (US$mm) | $14,604.0 |
| Enterprise Value (US$mm) | $176,330 |
| Beta (5-Year Monthly) | 0.97 |

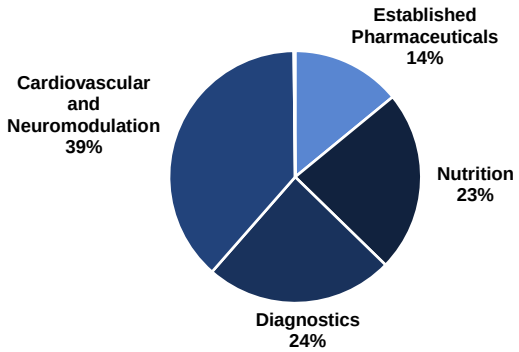
| Metrics | 2020E | 2021E | 2022E |
|---|---|---|---|
| Revenue (US$mm) | $31,035 | $36,071 | $38,297 |
| EBITDA (US$mm) | $7,355 | $8,928 | $9,479 |
| EPS (US$) | $2.75 | $3.76 | $4.13 |
| EV/EBITDA | 24.0x | 19.8x | 18.6x |

**Holding Period Performance (Indexed to $100)**




Source: S&P Capital IQ

**Figure 1: Segmented Revenue Breakdown**




Source: Company Filings

## Business Description

Abbott Laboratories (NYSE: ABT) is a health care company that engages in the discovery, development, production, and sale of a range of medical devices and health care products. The Company operates in four segments: Established Pharmaceuticals; Nutrition; Diagnostics; and Medical Devices. ABT's offerings within its Medical Devices segment can be further divided into Vascular Products, which includes a range of coronary, endovascular, vessel closure, and structural heart devices; Neuromodulation Products, which includes electrophysiology, rhythm management, and neuromodulation devices; and Diabetes Care Products. In 2017, the Company acquired St. Jude Medical, Inc., a company specialized in the development and manufacturing of medical devices. ABT operates in over 150 countries and has research and development facilities in the U.S., China, Colombia, India, Singapore, Spain, and the U.K.

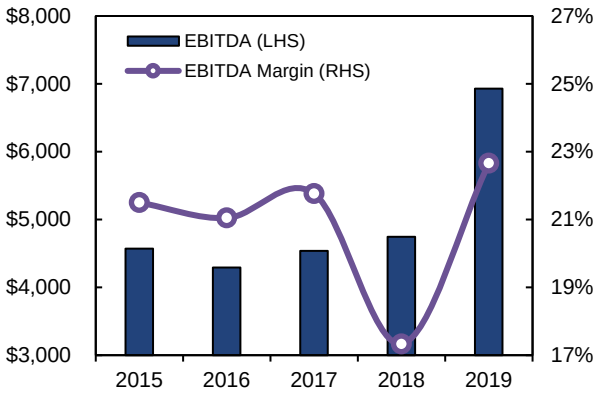
## Original Investment Thesis

The CPMT entered its ABT position in May 2019 due to the Company's history of consistent FCF growth, strong management track record, and increasing levels of insider ownership. ABT's competitive advantages from products such as the Freestyle Libre Glucose monitor and MitraClip led to our estimate of a ~14% five-year revenue CAGR in the Medical Devices segment. The CPMT's revised valuation of ABT in June 2019 estimated a ~9% five-year revenue CAGR. For the Company to maintain its ability to identify profitable growth sectors, we stated that we would like to see meaningful growth in newly approved products by the FDA. An area of concern was the Company's elevated levels of debts in recent years to finance acquisitions; however, the commitment from management to deleverage, along with ABT's access to US$5B in liquidity from existing agreements have helped to mitigate this issue.

## Outlook and Developments

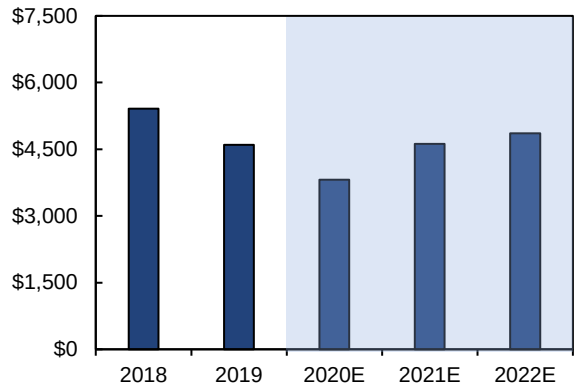
The biotechnology industry has been relatively insulated against the impacts of the COVID-19 pandemic, with the S&P Biotechnology Index outperforming the broader index by ~25% as of June 2020. Growth within the industry has been driven primarily by the interest in a potential vaccine for COVID-19. Regarding ABT, the Company outperformed market expectations. ABT's overall revenues grew ~4.3% on an organic basis in Q1 2020, with strong performance in Diabetes Care, Established Pharmaceuticals, and Molecular and Rapid Diagnostics. Although the Company's Medical Devices segment grew by ~2.9% in Q1 2020, we expect segment revenues to decline in Q2 2020 due to the postponement of elective procedures and reduced office visits. ABT's Nutrition segment grew ~7.3% YoY on an organic basis in Q1 2020 due to increased demand in late March in advance of shelter-in-place restrictions due to the pandemic; however, we expect growth to return to levels between 0% and 1.5% as a result of the Company's robust market share within the Nutrition segment. Q1 2020 sales were particularly affected in countries initially impacted by COVID-19, such as China. Although ABT has stated that it has seen signs of stabilization in Europe and Asia, the current situation in the U.S. poses challenges to companies across all industries; as such, ABT's (cont.)

**Figure 2: EBITDA (US$mm) & EBITDA Margin**



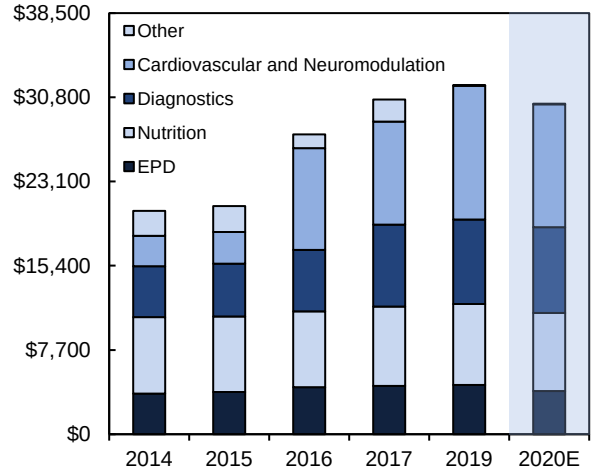

Source: Company Filings

**Figure 3: Free Cash Flow Estimates (US$mm)**




Source: Company Filings, CPMT Estimates

**Figure 4: Segment Revenue Contribution (US$mm)**




Source: Company Filings, CPMT Estimates

geographic diversification positions it well against other companies, with ~64% of its sales occurring outside of the U.S.

## Insulation Against COVID-19

Although we expect ABT's Medical Devices segment to be negatively impacted by the pandemic, the Company has outperformed the broader Medical Devices industry by ~6.5% since mid-February. Outperformance has been driven primarily by the consistent adoption of Freestyle Libre, which contributed to ~30% of organic growth in 2019 and saw ~60% sales growth in Q1 2020. As the Company expands the availability of Freestyle Libre to hospitalized patients with COVID-19, along with the expansion of reimbursement coverage for the product globally, the CPMT anticipates growth to remain within double-digit figures. The second version of Freestyle Libre, Libre 2, was approved by the FDA in June 2020 and is expected to launch later in the summer.

ABT has developed three tests in response to the coronavirus: ID Now Molecular Test, m2000 SARS-COVID-19 test, and IgG ARCHITECT serology/antibody test. In April 2020, the Company announced its plans to distribute four million tests in the U.S. and would increase production up to two million per month in June and beyond. COVID-19 diagnostic tests and serology tests are estimated to be priced at US$30 and US$5, respectively. The CPMT estimates the tests to increase 2020 revenues by more than US$1B.

## Mandate Fit

**Competitive Advantage:** ABT's extensive R&D activities have allowed the Company to continually identify potential growth sectors over recent years. Although we expect Nutrition and Established Pharmaceuticals to drive less segment value in the future, the Company's Medical Devices and Diagnostics segments, supported by the expansion of Freestyle Libre as well as the development of tests for COVID-19, provide ABT with a significant competitive advantage over its competitors.

**Strong Balance Sheet:** The Company ended Q1 2020 with ~US$3.7B in cash and short-term investments, and the Company has additional access to US$5B in liquidity. ABT has slowly been able to reduce its level of debt since our prior valuation, with Q1 2020 Net Debt/EBITDA at 2.2x in comparison to 2.3x in Q1 2019.

**Quality Management:** Robert Ford has been the CEO and Director of ABT since March 31, 2020. He has experience particularly in Medical Devices, working various positions in the Company's Diabetes Care unit for over 12 years. He took over the position from Miles White, who had served as the CEO since 1999 and continues to serve as the Company's Executive Chairman. Historically, the management team has placed an emphasis on a diversified business model and long-term growth platforms.

**Growing Free Cash Flow:** FCF has grown by ~9% over the past four years and we expect ABT to generate over US$13B in FCF over the next three years.

## Revised Valuation and Thesis

A five-year DCF valuation of ABT was conducted, applying a 5.8% WACC and a 50/50 blend of the Gordon Growth model (assuming a 2.3% terminal growth rate) and an EV/EBITDA exit multiple of 20x. We arrived at a target price of $100, implying a 11% holding period return. Expected revenue growth was adjusted to consider the impacts of COVID-19. However, long-term revenue growth remains consistent with prior valuations at ~9% CAGR. Given the satisfied mandate fit, the CPMT believes that ABT remains a strong holding.

# Amgen

**Health Care**
**NASDAQ: AMGN**
**Market Perform | Hold**

**June 30, 2020**

Hayley Hicks, Portfolio Manager
Stephen Nguyen, Investment Analyst

**Return on Investment**

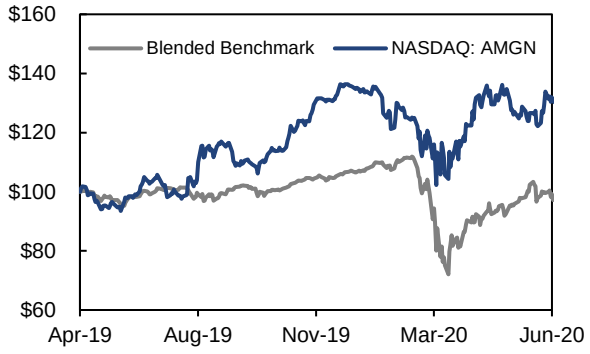
| | |
|---|---|
| Current Share Price | $235.86 |
| Target Price | $252.00 |
| Dividend Yield | 3.32% |
| Holding Period Return | 10% |
| Conviction Rating | 2 |

**Market Profile**

| | |
|---|---|
| 52-Week Range | $174.11 - $243.20 |
| Market Capitalization (US$mm) | $138,744 |
| Net Debt (US$mm) | $23,836 |
| Enterprise Value (US$mm) | $162,580 |
| Beta (5-Year Monthly) | 0.95 |

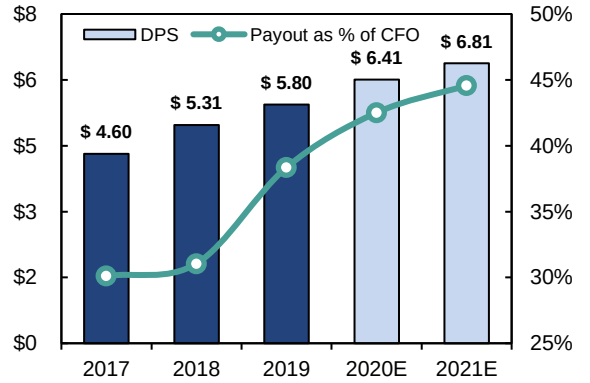
| Metrics | 2020E | 2021E | 2022E |
|---|---|---|---|
| Revenue (US$mm) | $23,098 | $23,181 | $23,234 |
| EBITDA (US$mm) | $10,163 | $10,200 | $10,279 |
| EPS | $9.35 | $9.36 | $9.20 |
| EV/EBITDA | 16.0x | 15.9x | 15.8x |

**Holding Period Trading Performance (Indexed to $100)**




Source: S&P Capital IQ

**Figure 1: LHS Dividends (US$/sh) & RHS Payout of CFO**




Source: Company Filings, CPMT Estimates

## Business Description

Amgen (NASDAQ: AMGN) is a biotechnology company focused on discovering, developing, manufacturing and delivering innovative human therapeutics in six core areas: Oncology, Cardiovascular, Inflammation, Bone Health, Neuroscience, and Nephrology/Dialysis. AMGN operates primarily in the U.S. (~74% of revenue), although the Company has increased its international footprint through a recent expansion in the Asia-Pacific region (~26% of revenue).

## Biotechnology Industry Overview

Biotechnology involves the development of new products that utilize cellular and biomolecular processes to treat debilitating and rare diseases. Typically, companies within the industry will focus on niche therapeutic areas and can achieve high revenue growth and margins through successful R&D investment. Slowed launches, long-term drug pricing shifts, and changing consumer behavior all present headwinds for biotech companies considering the COVID-19 pandemic; a particularly negative impact to the industry has been the suspension of near-term clinical trials and drug development. Additionally, the biotechnology space may see more alliances, partnerships, and/or M&A activity in order to service solutions as well as to raise and preserve capital.

## COVID-19 Response

AMGN is addressing urgent continuity of care issues by exploring novel solutions; these include alternate sites of care, mobile nurse injections, prescription fills at specialty and retail pharmacies, and home delivery of medicines and infusions. The Company communicated in Q1 2020 that research labs and sites in Shanghai, Europe, the U.S., and Iceland were beginning to return to activity levels prior to the pandemic.

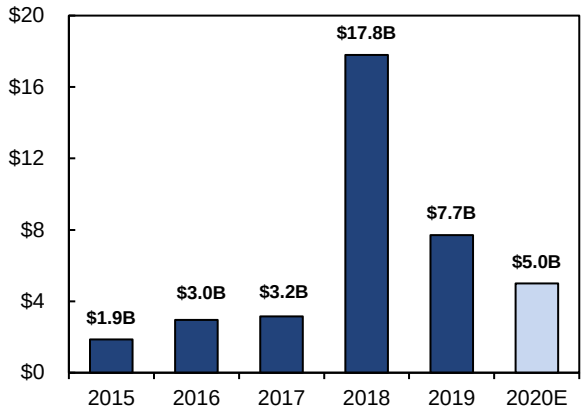
AMGN and Adaptive Biotechnologies (NASDAQ: ADPT) announced a strategic partnership to develop a therapeutic treatment for COVID-19. The collaboration brings together ADPT's proprietary immune medicine platform, which identifies virus-neutralizing antibodies, with AMGN's expertise in immunology and novel antibody therapy development. As firms hope to access new biotech innovations, more collaborations between various biotechnology companies have begun to emerge; examples include a US$50mm licensing deal between Eli Lilly and Sitryx, as well as a US$190mm deal between Roche and Arrakis Therapeutics to develop RNA-targeting small molecules.

## Pipeline

The Company expects that growth from its newer products, combined with products from its biosimilars portfolio, will outpace declines in its more mature legacy products. Currently, the Company has 10 drugs in its biosimilars portfolio, with seven of them publicly disclosed. AMGN's notable later-stage programs include: Tezepelumab, Omecamtiv, and AMG 510 (Sotorasib). All are expected to readout in the second half of 2020.

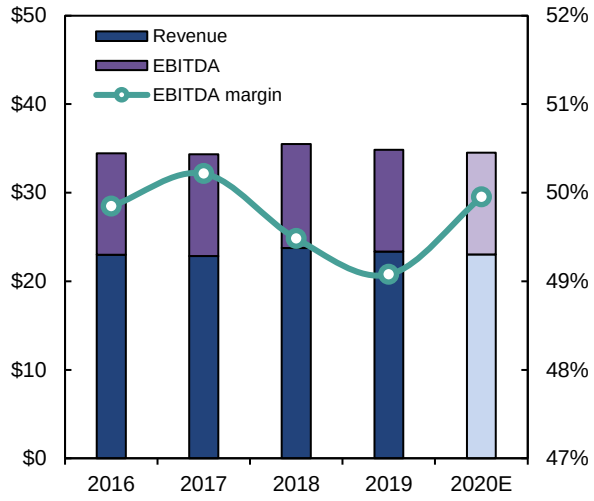
**Tezepelumab**: Tezepelumab is a treatment for asthma and functions by targeting TSLP, an epithelial cell that recruits inflammatory response in the event of tissue injury. Asthma can be broken (cont.)

**Figure 2: Share Repurchases (US$B)**



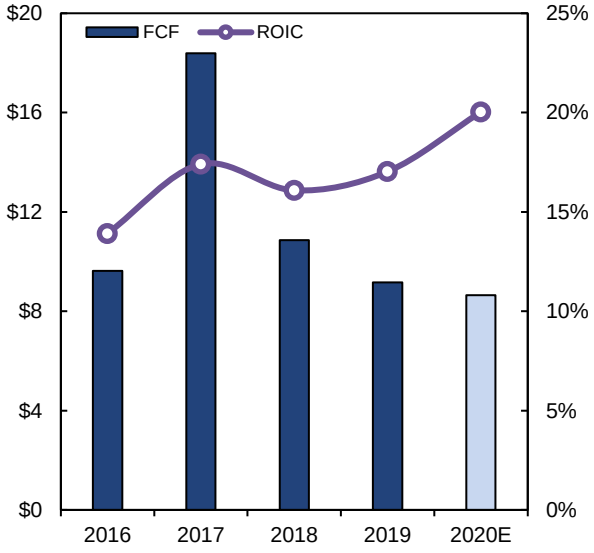

Source: Company Filings, Street Estimates

**Figure 3: EBITDA & Revenue (US$B)**




Source: Company Filings, CPMT Estimates

**Figure 4: LHS FCF (US$B) & RHS ROIC**




Source: Company Filings, CPMT Estimates, S&P Capital IQ

up into two categories: allergic asthma and eosinophil high asthma; the Company believes there is a large amount of unmet medical need in the latter due to the absence of approved biologics.

**Omecamtiv**: the drug treats heart failure by improving heart contractility, a common health complication associated with aging demographics. Omecamtiv is the first drug to act directly on the heart muscle cell to improve contractility.

**AMG 510**: the Company has developed an extensive biomarker program to understand the predicators of response and resistance at the molecular level, which is critical in unveiling the behaviour of tumors that are driven by the KRAS G12C mutation in colorectal cancer that AMG 510 treats.

Other early-stage products such as the BiTE programs - which target PSMA in prostate cancer, DLL3 in small cell lung cancer and, BCMA in multiple myeloma - as well as the launch of the AMG 890 Phase II trial, are expected to be strong catalysts for the Company's pipeline.

## Risks and Catalysts

AMGN's growth catalysts include: (1) its diversified commercial base and product mix shift - this is expected to mitigate concentration risk across multiple therapeutic areas and enable future market opportunities; (2) the Company's late-stage pipeline readouts in late-2020, which have the potential to drive commercial potential and increase R&D productivity; and (3) AMGN's capital allocation, FCF generation (US$8.5B in 2019), and deal capacity indicate the Company's financial flexibility to continue share repurchases (estimated US$5B over 2020) and dividend per share growth (~19% five-year CAGR), as well as increase M&A activity.

The CPMT is aware that AMGN is exposed to risks of (1) increased competition for novel and legacy biologics (especially in the event of legacy drug Enbrel's patent expiration in 2028), pricing pressures, and IP litigations (similar to the recent Enbrel IP appeal verdict); (2) the success of late-stage pipeline drugs being less than expected; and (3) operating margins compressing in the face of declining legacy business and new competition.

## Valuation and Investment Thesis

The CPMT valued AMGN using a five-year DCF analysis at a WACC of 4.1%. The target price of $243.00 was derived based on a 50/50 blend of the Gordon growth method, assuming a terminal growth rate of 1.00% and applying an EV/EBITDA exit multiple of 13.9x. Key assumptions made include pipeline readouts and sales growth, both of which were adjusted to reflect the impact of COVID-19; we anticipate the pandemic to primarily affect Q2 2020.

The CPMT believes AMGN's original investment thesis as a differentiated biotech investment opportunity still holds given its stable revenues and growing FCF, strong returns on capital, and its ability to determine and address market opportunities. Amidst the COVID-19 pandemic, AMGN has displayed relative stability, continuing to deliver shareholder value through the issuance of dividends and its share buyback program. It has also been diligent in cost-conserving practices to mitigate systematic market risk placing downward pressure on margins. In 2019, the Company delivered 3% volume growth worldwide and 19% volume growth in the U.S. Management has demonstrated its commitment to expand globally through its recent ~20% stake in BeiGene, a biotechnology company based in China. Management estimates the Asia-Pacific region will account for ~25% of Amgen's overall growth over the next decade.

# Apple

**Information Technology**
**NASDAQ: AAPL**
**Market Perform | Hold**

**June 30, 2020**

Erik Skoronski, Portfolio Manager
Kian Sadeghi, Investment Analyst
Sina Hadjiahmadi-Ardakani, Investment Analyst

**Return on Investment**

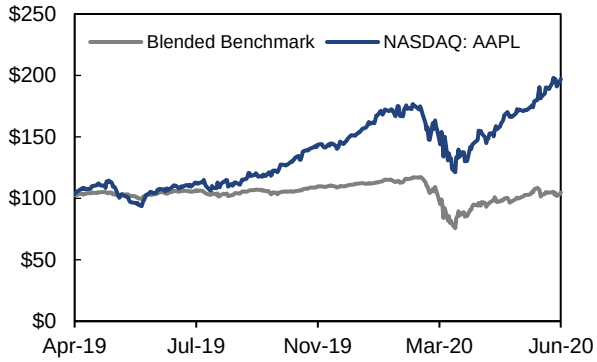
| | |
|---|---|
| Current Share Price | $364.80 |
| Target Price | $400.00 |
| Dividend Yield | 0.90% |
| Holding Period Return | 11% |
| Conviction Rating | 3 |

**Market Profile**

| | |
|---|---|
| 52-Week Range | $193.34 - $366.53 |
| Market Capitalization (US$B) | $1,591 |
| Net Debt (US$B) | $24.7 |
| Enterprise Value (US$B) | $1,615 |
| Beta (5-Year Monthly) | 1.19 |

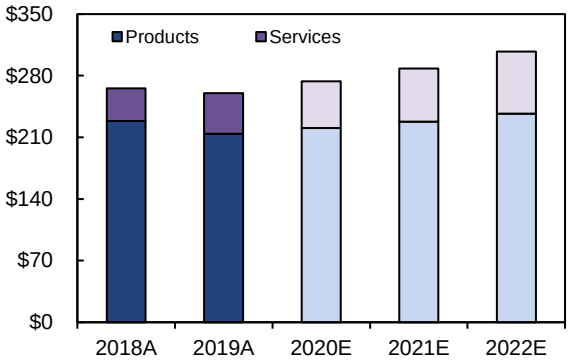
| Metrics | 2020E | 2021E | 2022E |
|---|---|---|---|
| Revenue (US$B) | $275 | $291 | $310 |
| EBITDA (US$B) | $83 | $91 | $97 |
| EPS (US$) | $14.08 | $15.09 | $16.08 |
| EV/EBITDA | 19.5x | 17.7x | 16.6x |

**Holding Period Trading Performance (Indexed to $100)**




Source: S&P Capital IQ

**Figure 1: Products & Services Revenue Mix (US$B)**




Source: Company Filings, CPMT Estimates

## Business Description

Apple Inc. (NASDAQ: AAPL) is an international technology company, based in Cupertino, California, that designs, manufactures and distributes mobile and media devices, personal computers, and a wide array of consumer electronics with related support services. AAPL's primary products and services include the iPhone, iPad, Mac, Apple Watch, Apple TV, Apple Pay, and a growing portfolio of consumer and professional software applications.

## Industry Overview

The hardware technology industry has seen strong competitive forces arise, as companies in emerging markets have shown meaningful innovation in the premium smartphone segment. Coupled with the improvement of elongated replacement cycles for such devices, the industry's outlook has shown much less upside potential in comparison to a decade ago. However, developments in software design continue to be a driver of promising growth throughout the sector. Moreover, the impact of COVID-19 on the traditional workflow of the global economy has accelerated the demand for cloud-based services. In addition to the emergence of strong competitive forces in the online entertainment and transaction processing spheres, the Software-as-a-Service segment maintains innovative potential in both developed and emerging markets.

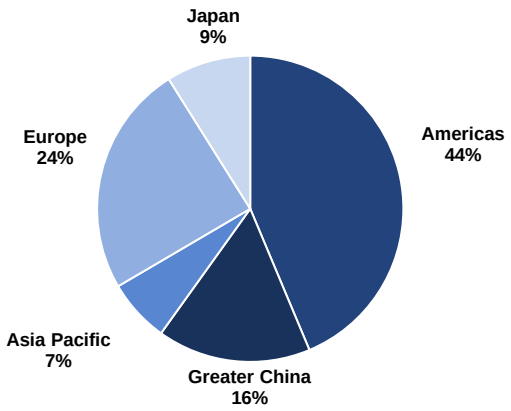
## Competitive Advantage

With global operations, AAPL's revenues are primarily driven by its Americas (44.9%) geographical segment, followed by an increasing presence in Europe (23.2%), Greater China (16.8%), Japan (8.3%), and the Rest of Asia Pacific (6.8%). Asian exposure has significantly increased over the last five years, with revenues from Greater China, Japan, and the Rest of Asia Pacific increasing by an average of 20.2%, 2.1%, and 15.9% YoY, respectively. AAPL's growing global exposure places it in an advantageous position as the Company prepares to battle Huawei for control of the Asian market.

Despite falling behind historic competitors, Samsung and LG, in the development of 5G-compatible devices, AAPL has been able to maintain its Product segment's revenue levels, exemplifying a higher than expected customer acceptance rate throughout the rollout of its latest devices. This success showcases the Company's strong brand recognition, as customers continue to purchase products and use services despite innovative shortcomings. Additionally, the Company experienced a 31% increase in revenue in the Services segment, coinciding with AAPL's strategic partnership with Goldman Sachs (NYSE: GS) to advance Apple Pay by providing a credit card.

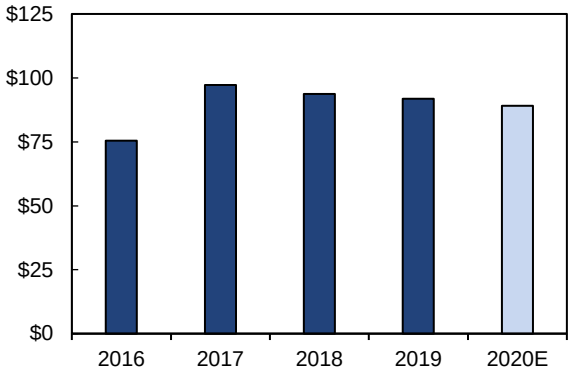
Moving forward, the Company announced that it will develop custom in-house chips for its Macs, which utilizes the ARM architecture, vertically integrating its supply chain. The transition from the current Intel chips is expected to be completed in two years. This decision aims to improve the Company's overall development efficiency by creating a common architecture for all AAPL products going forward.

**Figure 2: Geographic Revenue Segmentation**



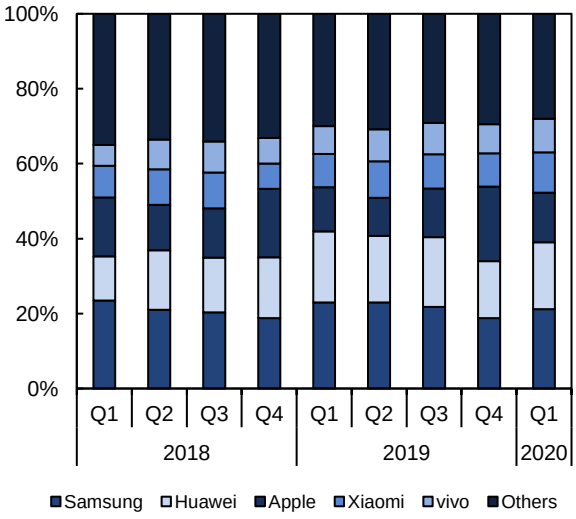

Source: Company Filings

**Figure 3: Cash & Cash Equivalents Over Time (US$B)**




Source: Company Filings, CPMT Estimates

**Figure 4: Global Smartphone Market Share**




Source: International Data Corporation (IDC)

Additionally, despite being the Services segment's smallest revenue driver (34%), the App Store has become one of AAPL's most versatile categories; it has provided US$32.8B of revenue (equivalent to 12.6% of annual revenues) through in-app purchases, subscriptions, and premium apps and games during the first six months of 2020, amounting to a 24.7% YoY increase from 2019. China, Japan, and the U.S. collectively account for approximately 75% of the App Store's revenue, as China leads the group with a total of US$16.4B in revenue.

## Management and Corporate Governance

U.S.-China trade war tensions have many negative implications for the technology sector, primarily resulting from tariffs on manufactured hardware transportation from either country. In response, AAPL's CEO, Tim Cook, has been able to mitigate these risks to the Company by forging strong relationships with high-level executives in both parties (notably U.S. President Donald Trump). By navigating such uncertainties with Cook's diplomatic approach, AAPL has been given exceptions on stringent tariffs placed on China-based production. The CPMT believes that such managerial foresight will serve as a key differentiator for the Company amongst its peers as U.S.-China trade war tensions continue to develop.

Furthermore, by maintaining compliance with regulatory bodies around the globe, AAPL's privacy and information practices support the CPMT's view that the Company remains committed to developing its technology with full integration of applicable regulations. Such factors reinforce the CPMT's confidence that management continues to maximize investors' confidence in the name, as AAPL continues to expand and innovate in new and developing fields with little to no existing regulatory infrastructure.

## Strong Balance Sheet

AAPL's balance sheet continues to maintain its strength, as the CPMT believes its debt maturities are manageable. Maturing debt can be spread out at ~US$10B annually, which the Company's expansive cash position can cover in coming years should it not be refinanced. AAPL currently holds ~US$40B in cash or ~US$94B with the inclusion of short-term investments. In conjunction with management's desire to reach a cash neutral position in the long-run, the CPMT believes that AAPL's financial health will maintain its strong track record, with consideration of current share repurchases and annual dividends.

## Investment Thesis and Risks

A five-year DCF with a WACC of 6.8% and 2.0% perpetual growth rate was used to arrive at AAPL's $400 target price. In accordance with the valuation, the CPMT believes that AAPL's investment thesis continues to hold, as the Company has made significant progress in expanding its services, sustainably transitioning from heavy reliance on product sales as a source of growth. Moreover, AAPL's successful entrance into streaming and transaction services demonstrate its strong innovate developments and global brand recognition, leading to a promising outlook for the Company going forward. Potential risks facing the Company include a greater-than-expected contraction in smartphone markets due to poor economic conditions and stronger shifts in consumers' demands. Furthermore, AAPL's presence in foreign markets, such as China and India, faces competitive pressure since local players are better situated to their domestic environments and could leverage that position by competing on pricing to gain market share.

# Concho Resources

**Energy**
**NYSE: CXO**
**Market Outperform | No Action**

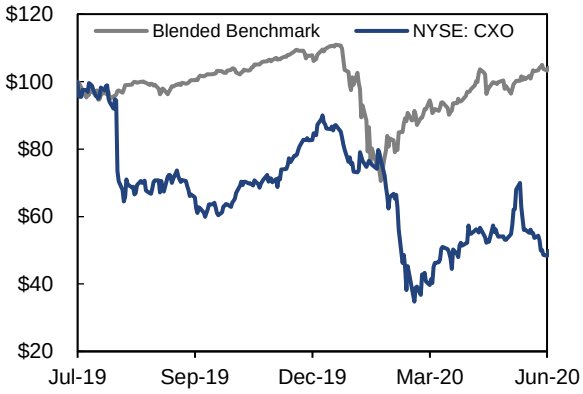
**June 30, 2020**
Abhishek Sewak, Investment Analyst

| Return on Investment | |
|---|---|
| Current Share Price | $51.50 |
| Target Price | $70.00 |
| Dividend Yield | 1.58% |
| Implied Return | 38% |
| Conviction Rating | N/A |

| Market Profile | |
|---|---|
| 52-Week Range | $33.13 - $104.88 |
| Market Capitalization (US$mm) | $9,870 |
| Net Debt (US$mm) | $3,637 |
| Enterprise Value (US$mm) | $13,684 |
| Beta (5-Year Monthly) | 1.84 |

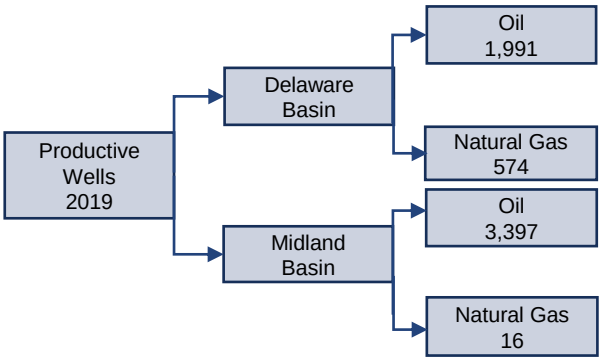
| Metrics | 2019A | 2020E | 2021E |
|---|---|---|---|
| Revenue (US$mm) | $4,592 | $3,520 | $3,390 |
| EBITDA (US$mm) | $2,881 | $2,464 | $2,271 |
| FCF (US$mm) | ($119) | $957 | $400 |
| EV/DACF | 6.4x | 5.8x | 5.9x |

**Historical Trading Performance (Indexed to $100)**




Source: S&P Capital IQ

**Figure 1: 2019 Operating Area Productive Wells**




Source: Company Filings

## Business Description

Concho Resources Inc. (NYSE: CXO) was founded in 2004 and is an independent oil and gas company that specializes in acquisition, development, and exploration of oil and natural gas properties in the U.S. CXO is headquartered in Midland, Texas and is well-known for its continuous exploration and expansion projects in the region with its latest and largest acquisition being RSP Permian in 2018.

## Industry Overview

The International Energy Agency (IEA) and Organization of the Petroleum Exporting Countries (OPEC) are estimating a demand destruction of 8-10 mmbbl/d in 2020. The magnitude of this decrease is less than initially anticipated at ~20-25 mmbbl/d compared to a previous estimate of 30 mmbbl/d. Although rig counts and frac spreads have declined by ~70% and 90%, respectively, oil prices have recovered above breakevens, with energy companies no longer facing the shut-in economics experienced following the price crash.

Significant demand declines in crude oil, jet fuel and natural gas on a global basis have caused major players to decrease their production, while inventories have experienced a 15-20% YoY increase. Major U.S. shale producers have cut spending programs and reduced drilling activity due to macro uncertainty regarding oil prices. Companies have experienced difficulties in continued operations due to a shortage of skilled labor and practical challenges due to social distancing.

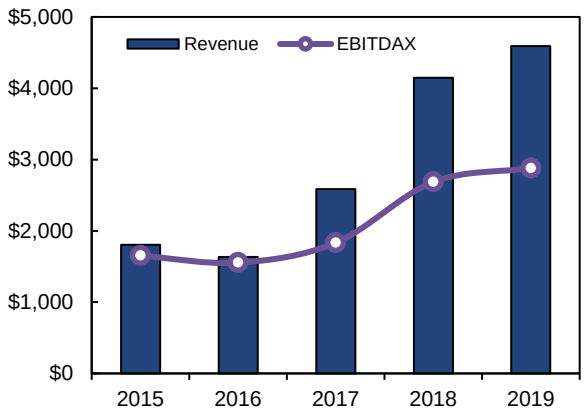
Moving forward, companies will need to focus on enhancing operational efficiency, cost reduction on a per barrel basis, and restructuring their capital allocation. Given the volatile nature of the industry and current supply and demand challenges, it is imperative for companies to consolidate and focus on core assets, ensure health and safety of their workforce, and increase liquidity.

## Operating Areas

**Delaware Basin:** CXO had estimated proved reserves of 556 mmboe (55% of total proved reserves) in this region for 2019. CXO participated in the drilling of 299 (net 148) wells and completed 294 (net 176) wells during 2019. The primary sites are comprised of the Avalon, Bone Spring, and Wolfcamp formations, ranging from 6,500 ft to 13,500 ft. The basin was responsible for production of 72 mmboe in 2019, out of which oil accounted for 44 mmbbl. CXO experienced a gain of US$143mm through a divestiture in January 2018. The Delaware Basin accounted for ~197 kbpd production 2019, up by 28% compared to 2018's output.

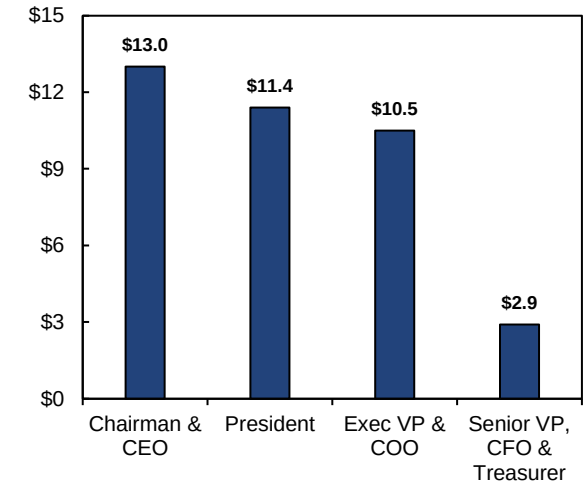
**Midland Basin:** CXO had estimated proved reserves of 446 mmboe (45% of total proved reserves) in this region for 2019. CXO participated in the drilling of 155 (net 109) wells and completed 185 (net 131) wells during 2019. The primary sites are comprised of the Spraberry and Wolfcamp formations, ranging from 7,500 ft to 11,500 ft. The basin was responsible for the production of 42 mmboe in 2019, out of which oil accounted for 29 mmbbl. An acquisition and divestiture made in February 2018 accounted for a net gain of $575mm through the Midland Basin. The Basin accounted for ~115 kbpd of production in 2019, up by ~40% compared to 2018's output.

**Figure 2: 5-Year Revenue & EBITDAX (US$mm)**



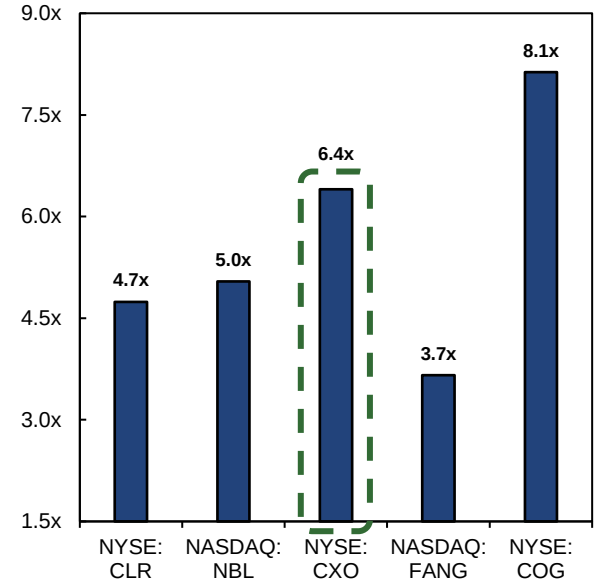

Source: Company Filings

**Figure 3: Total Direct NEO Compensation (US$mm)**




Source: Company Filings

**Figure 4: CXO EV/DACF vs. Peers**




Source: Thomson One

## Mandate Fit

**Quality Management:** Tim Leach has been leading the company since 2004 and holds extensive experience in the energy industry. CXO focuses on attracting and motivating key executive officers through continuous leadership development. The Board and leadership team believe in building a great team and investing in workers' safety and development to deliver best outcomes. CXO continues to support organizations through donations and community investments at the West Texas Food Bank and the Engineering Academy at Midland College, which showcases its support for nurturing a prosperous society.

**Competitive Advantage:** CXO operates in the heart of the Permian basin which provides a lower production cost compared to other U.S. major oil fields. CXO has constantly been investing in its midstream infrastructure to transport its output which has proven profitable in the past. In addition, the Company is aiming for an average production and G&A cost of less than US$9/boe in 2020. CXO has a historical record of acquiring and integrating companies successfully to expand reserves, streamline operations, and build a reliable supply chain system.

**Strong Balance Sheet:** As of December 2019, CXO had long-term debt of US$4B with no outstanding debt maturities until January 2025. The Company also reported cash and cash equivalents of ~US$70mm and no outstanding debt in its credit facility, resulting in available liquidity of ~US$2.1B. CXO's Midland-Cushing hedging program is aligned with WTI price swaps to protect field-level pricing.

**Growing Free Cash Flow:** CXO has reduced its 2020 capital spending program to US$1.6B (~46% YoY) and expects to generate significant FCF. CXO is also targeting US$100mm in operating & G&A cost reductions to boost its cash flow from operations. Through its reduced cost structure and competitive oil growth in the Permian Basin, CXO is estimated to generate FCF of ~US$350mm and ~US$750mm at US$50/bbl and US$60/bbl WTI oil prices, respectively.

## Valuation and Investment Thesis

CXO was valued at a target price of $70 based on a 70/30 combination of a NAV model, and an 11.7x multiple of EV/EBITDAX. A higher weighting was placed on the NAV model as we believe it better reflects CXO's ability to generate FCF, and lower per boe cost compared to its peers. CXO is well hedged to address commodity price volatility and has well-organized plans to reduce its capital expenditures. Although CXO has an attractive valuation, the CPMT recommends No Action due to rising uncertainty in the energy industry, declining demand for crude oil globally, and uncontrollable risks that may arise in the future.

## Risks

The lack of global demand and highly uncertain commodity prices pose a serious threat to the energy industry. Extra safety measures and social distancing rules coming for its workers are an additional area of concern. Ongoing trade disputes between the U.S. and China, rising geopolitical tensions regarding upcoming elections in the U.S., and potential increases in production by OPEC countries are all risks beyond producers' control. In addition, the increasing attention brought by public and private entities regarding climate change enhances risks for lawsuits.

# Dollarama

**Consumer Discretionary**
**TSX: DOL**
**Market Perform | Hold**

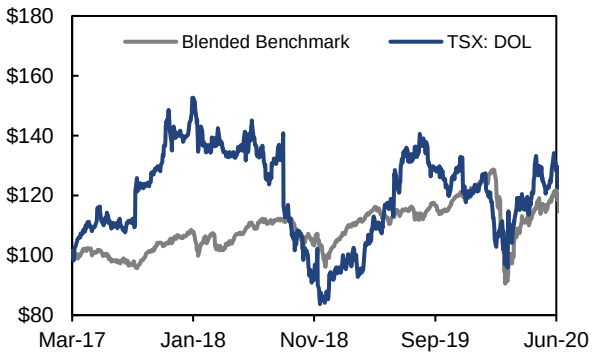
**June 30, 2020**
Breanna Schollaardt, Portfolio Manager

| Return on Investment | |
|---|---|
| Current Share Price | $45.12 |
| Target Price | $49.00 |
| Dividend Yield | 0.40% |
| Holding Period Return | 9% |
| Conviction Rating | 2 |

| Market Profile | |
|---|---|
| 52-Week Range | $34.70 - $52.12 |
| Market Capitalization ($mm) | $14,012 |
| Net Debt ($mm) | $1,779 |
| Enterprise Value ($mm) | $15,791 |
| Beta (5-Year Monthly) | 0.76 |

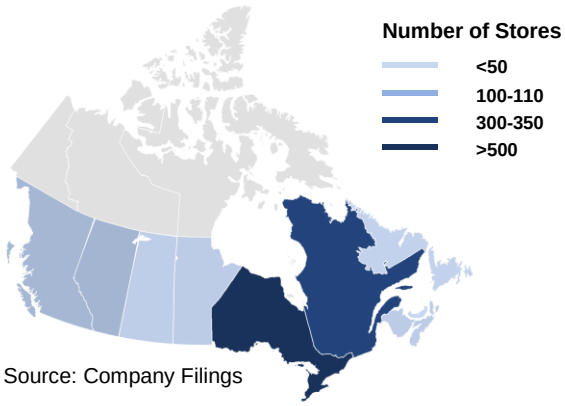
| Metrics | 2020A | 2021E | 2022E |
|---|---|---|---|
| Revenue ($mm) | $3,787 | $4,190 | $4,622 |
| EBITDA ($mm) | $1,110 | $1,040 | $1,142 |
| EPS | $1.78 | $1.51 | $1.70 |
| EV/EBITDA | 14.2x | 15.2x | 13.8x |

**Holding Period Trading Performance (Indexed to $100)**




Source: S&P Capital IQ

**Figure 1: Canadian Market Coverage**




Source: Company Filings

## Business Description

Dollarama (TSX: DOL) is the largest Canadian-based dollar store with a strong focus in Eastern Canada and 1,301 stores across the country. All stores are corporately owned and operated, mainly focused in high-traffic areas, such as strip malls and shopping centres throughout urban, mid-sized, and small-sized cities. Square footage per store averages 10,276ft$^2$, offering seasonal merchandise and broad consumer products. The average sales per new store totals ~$2.3mm with an average two-year payback period.

## Original Investment Thesis

The CPMT's original investment thesis was focused on the growth runway DOL offered, due to the low saturation of dollar stores in the Canadian market, and potential expansion into Latin American markets. DOL expanded into the Latin American region through its 50.1% acquisition of Dollar City, in the summer of 2019. The CPMT entered into a position in DOL in March 2017. The competitive advantages proposed were a wide penetrable market, strong brand recognition, and sturdy internal processing systems. Management had planned to open ~70 stores annually at the time; DOL was able to fulfill this plan, opening 65 stores in both FY 2018 and FY 2019 and 66 stores in FY 2020. The Fund also analyzed the ability for DOL to introduce higher price point products as they had been positively accepted by consumers in the past. DOL has not adjusted its price points and remains with merchandise priced at $1.00 - $4.00.

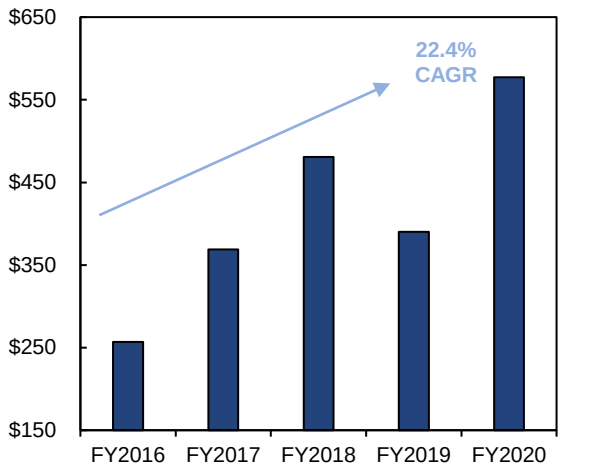
## Industry Overview

The Canadian dollar store market has remained fairly stable since 2017, with DOL holding a ~70% market share. DOL's main competitors include Dollar Tree Inc. (NADAQ: DLTR) and privately owned Great Canadian Dollar Store, Dollar Store with More, and Buck or Two. DLTR operates 15,370 stores across 48 states and five Canadian provinces, in comparison with DOL operating 1,301 stores across Canada. A key consideration of the original thesis was the Fund's belief that DOL had a substantial remaining portion of the market to gain. While DOL has consistently opened ~65 stores annually over the past three years, other competitors have increased market share as well.

## COVID-19 Response and Performance

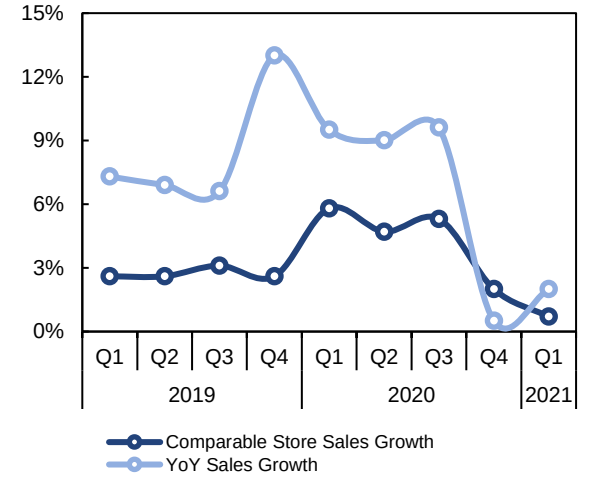
Another key consideration for the Fund when initially analyzing DOL was its ability to outperform in an economic downturn, due to consumers' decreased willingness to spend. The COVID pandemic tested this theory. Although DOL was declared an essential business, the Company still closed 104 stores. These stores were mostly in enclosed mall spaces and throughout the province of Québec. DOL noted FY 2021 was off to a record start followed by a sharp decline once self-isolation was recommended; however, sales for Q1 FY21 increased 2% YoY. The Company noted this increase in sales is attributable to the growth due to store openings in the past year, and moderate comparable store sales growth in stores that remained open, driven by increased sales of consumables, such as household and cleaning products, health and hygiene essentials, and food products. For Q4 FY 2020 YoY sales only (cont.)

**Figure 2: Free Cash Flow Growth ($mm)**



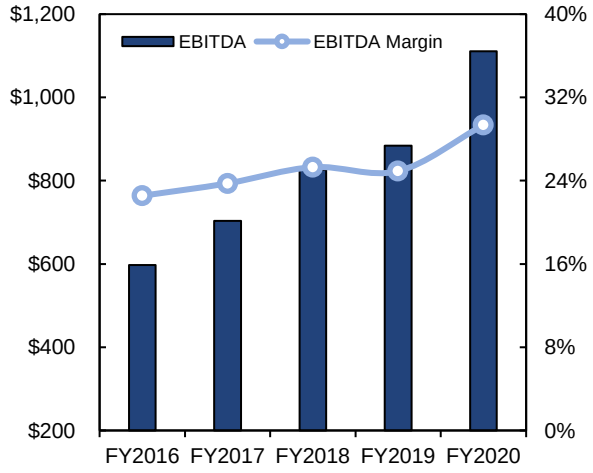

Source: S&P Capital IQ

**Figure 3: Comparable Store Sales vs. YoY Sales Growth**




Source: Company Filings

**Figure 4: EBITDA & EBITDA Margin ($mm)**




Source: Company Filings

increased by 0.5% in comparison with a 13% YoY sales increase for the same period the year before. As this quarter ended February 2020, it is difficult to determine if the lower YoY growth is due to the COVID-19 pandemic or other reasons. DOL does note that some suppliers had shut down production for multiple weeks in February 2020. DOL increased its store, distribution centre, and warehouse employee wages by 10% from March 23, 2020 to July 1, 2020. There has been some controversy surrounding essential businesses announcing the end of the COVID-19 pay premium for front-line employees; the CPMT will continue to monitor the concern surrounding this topic and any repercussions that DOL may face. The majority of Dollar City stores remained open throughout the past quarter with the maximum closures at ~40 stores in mid-March. While all but three stores were open by quarter end, DOL noted strict government regulations in all geographic areas of Dollar City stores. Another area the Fund will continue to monitor is the anticipated increase of costs in relation to operating throughout the COVID-19 pandemic and onwards.

## Revised Valuation

The revised valuation for DOL was achieved by using a 50/50 blend of a 10-year DCF Gordon Growth with a WACC of 5.90% at a 1.5% terminal growth rate, and an EV/EBITDA exit multiple of 11.4x. By using a base market outlook, the valuation returned a conservative target price of $49 offering a 9% holding period return. Expected comparable store sales growth was adjusted to consider the impact of COVID-19, and estimated store openings were slightly modified from original expectations.

## Revised Thesis

The Fund analyzed DOL's current performance and business operations to evaluate if the name still fulfills the mandate requirements.

**Quality Management:** Larry Rossy founded the first Dollarama store in 1992 in Québec and went on to serve as CEO until 2016 when his son and current CEO, Neil Rossy, took over. Neil Rossy has been with DOL since 2004 as a director and has extensive knowledge of the Company.

**Competitive Advantage:** As stated above, the original investment thesis considered a wide market for growth, strong brand recognition, and strong processing systems. DOL's current competitive advantages remain quite similar with a large area of the market available for DOL to still capture, while maintaining coverage of the vast majority of the market; however, DOL's market share has only slightly increased since the Fund entered into a position.

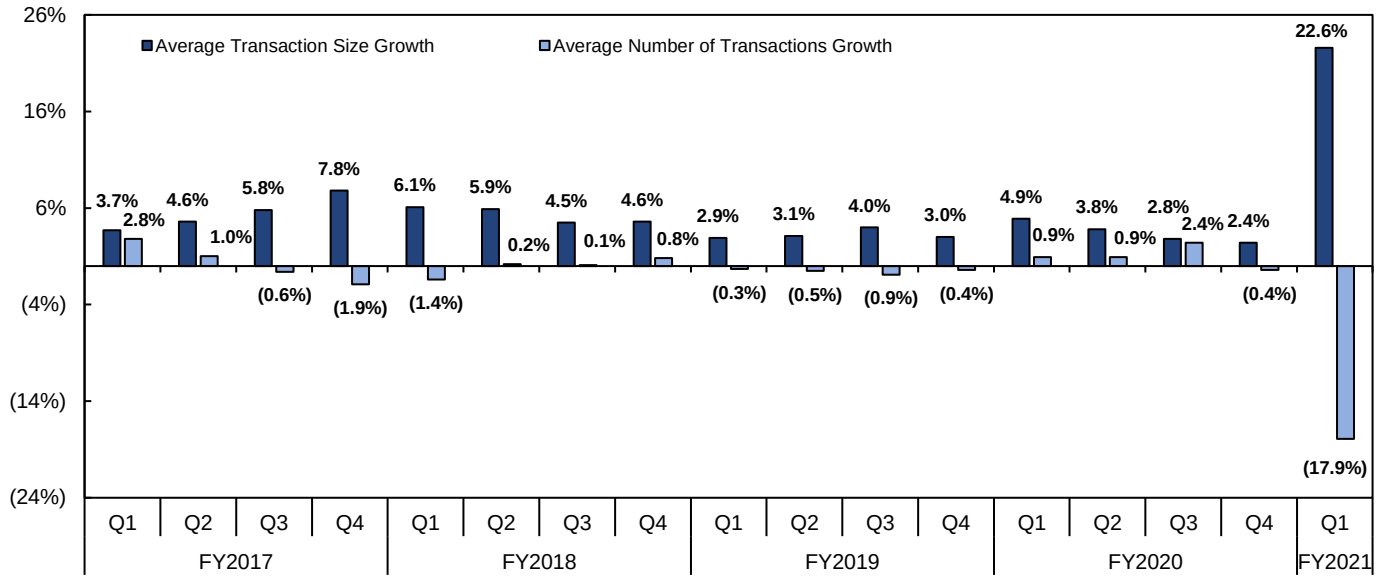
**Strong Balance Sheet:** DOL's ability to maintain its impressive EBITDA margins (25.6% for FY19 and 24.3% for FY20) and continue to open stores throughout the quarter, during the COVID-19 pandemic, is a noteworthy feat. As of March 30, DOL had $490mm drawn on its revolver and had a remaining $135mm on the revolving credit facility. The Company did not repurchase any shares throughout Q1 2021 to preserve liquidity.

**Growing Free Cash Flow:** DOL's FCF is strong, boasting a 22.8% CAGR over the past four years. Continual share repurchases and stable annual new store openings highlight the value DOL continues to offers to shareholders.

While DOL poses a defensive nature in the discretionary sector, the CPMT feels it has not fulfilled some key areas of the original investment thesis. DOL's market share has remained (cont.)

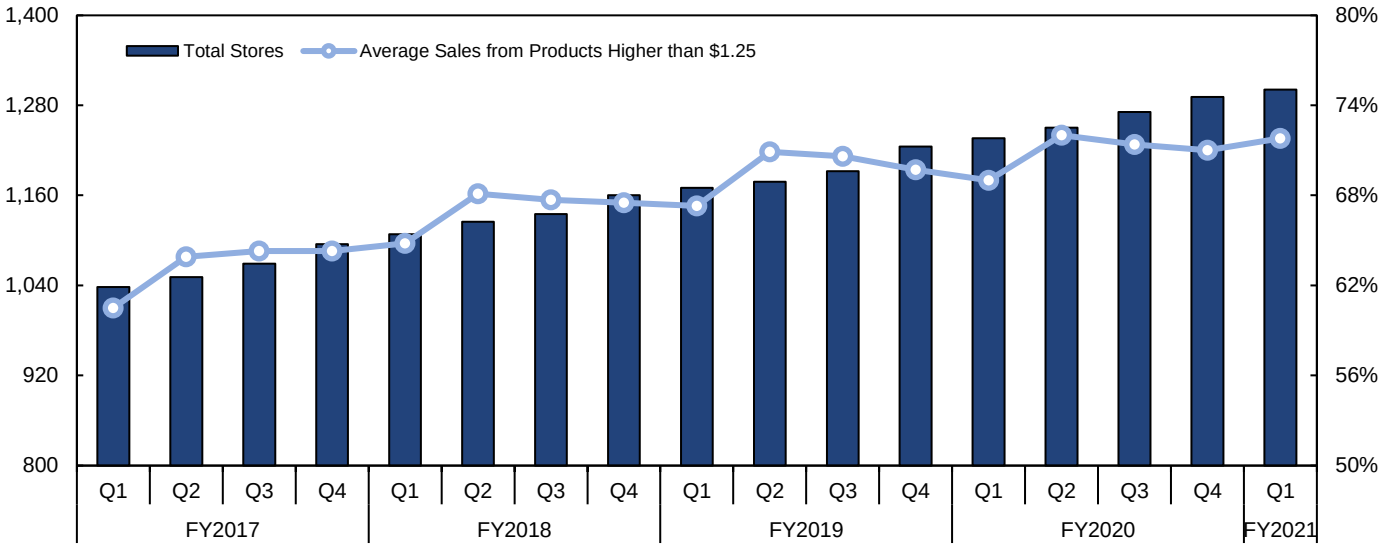
quite stagnant since the CPMT entered into a position in March 2017. Throughout the time the CPMT has held the name there have been multiple recalls of DOL's toys due to toxic chemicals, which poses another area of concern for the CPMT and an area to consistently monitor. DOL is able to fulfill most of the mandate requirements; however, its original competitive advantage has not followed through. The Fund is comfortable maintaining a position in DOL for the time being but is actively researching and analyzing potential Consumer Discretionary names to be added to our portfolio either in addition to or in place of DOL.

**Figure 5: Average Transaction Size Growth & Average Number of Transactions**




Source: Company Filings

**Figure 6: Total Stores & Average Transactions Above $1.25**




Source: Company Filings

# Mastercard

**Financials**
**NYSE: MA**
**Market Outperform | Hold**

**June 30, 2020**

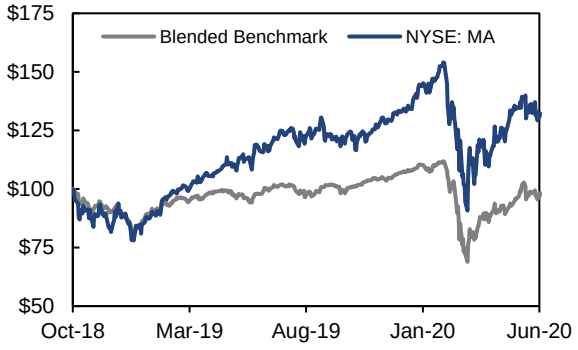
Sina Hadjiahmadi-Ardakani, Investment Analyst
Dhruv Jindal, Portfolio Manager
Kian Sadeghi, Investment Analyst

| Return on Investment | |
|---|---|
| Current Share Price | $295.70 |
| Target Price | $347.00 |
| Dividend Yield | 0.54% |
| Holding Period Return | 18% |
| Conviction Rating | 3 |

| Market Profile | |
|---|---|
| 52-Week Range | $203.30 - $344.56 |
| Market Capitalization (US$mm) | $296,950 |
| Net Debt (US$mm) | $1,195 |
| Enterprise Value (US$mm) | $298,145 |
| Beta (5-Year Monthly) | 1.06 |

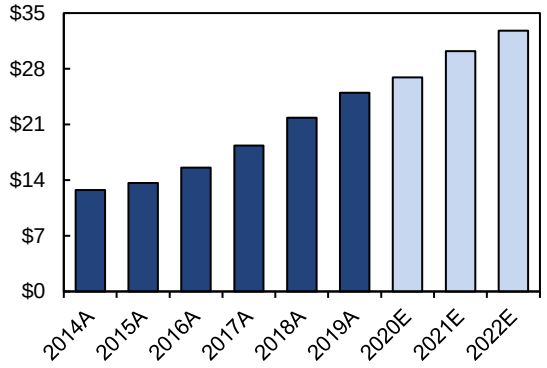
| Metrics | 2020E | 2021E | 2022E |
|---|---|---|---|
| Revenue (US$mm) | $26,910 | $30,207 | $32,771 |
| EBITDA (US$mm) | $10,861 | $11,384 | $12,495 |
| EPS | $8.30 | $8.87 | $9.96 |
| EV/EBITDA | 27.5x | 26.2x | 23.9x |

**Holding Period Trading Performance (Indexed to $100)**




Source: S&P Capital IQ

**Figure 1: Total Revenue (US$B)**




Source: Company Filings, CPMT Estimates

## Business Description

Mastercard Inc. (NYSE: MA) is a financial services company that utilizes technology to connect consumers, financial institutions, merchants, businesses, and governments globally though electronic forms of payments. MA has a range of payment solutions and services under various brands including Mastercard, Maestro, and Cirrus, that allows users to make payments. The Company also offers a variety of products including consumer debit, consumer credit, prepaid, and commercial programs. Additionally, MA offers cyber and intelligence products, consulting, information and analytics services, processing solutions, and loyalty programs. Furthermore, MA's operations facilitate transactions from account holders, merchants, businesses, financial institutions, and governments on its core network.

## Industry Overview

The payments industry continues to evolve as businesses and consumers shift away from using cash towards digital payment methods. The use of cash in in-store retail channels continues to trend downwards, while mobile wallets are increasingly experiencing surges in usage. Furthermore, e-commerce is gaining more popularity in comparison to brick-and-mortar retail, as mobile devices promote the adoption of digital shopping. This change is penetrating large industries that have historically been dominated by cash and cheque transactions, such as business-to-business payments. As a result, providers of payment services are continuously seeking greater market share. Therefore, as payments continue to become increasingly effortless with greater innovation, the data security and privacy of users is being threatened by new types of fraud.

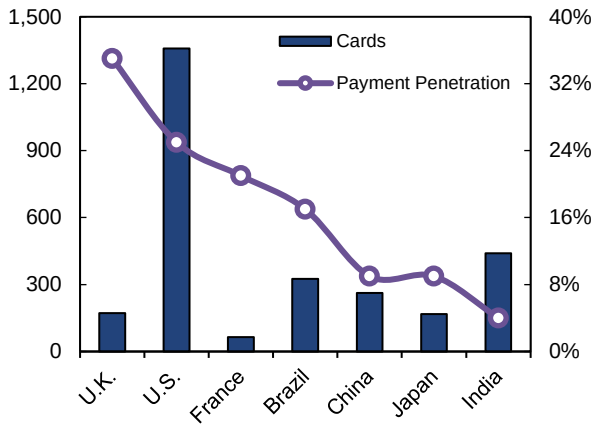
## Competitive Advantage

After completing a joint venture with NetsUnion Clearing Corporation, MA received the necessary approval from the People's Bank of China to begin formal preparations to set up a Chinese domestic bank card institute, allowing MA to enter the Chinese market. MA currently ranks as the world's third-largest global payment service in terms of purchase transactions, with US$108.4B, coming behind UnionPay (US$131.2B) and Visa (NYSE: V) (US$185.5B). The Company looks to improve upon its standing through its expansion into the worlds largest market.

## Management and Corporate Governance

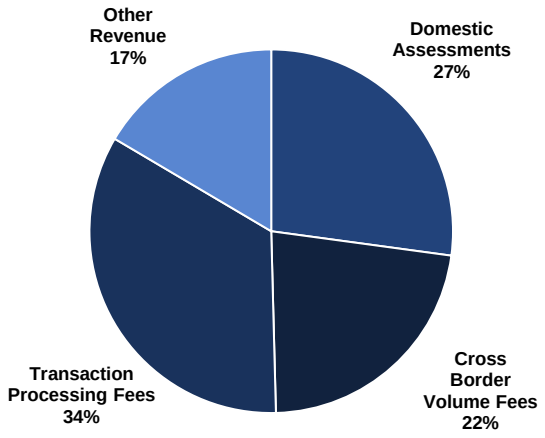
During FY 2020, MA will undergo a leadership change, as the current CEO, Ajay Banga, will transition to the role of executive chairman. Michael Miebach will take over, as he has been with MA for over a decade and is currently the Chief Product Officer of the Company. For over 10 years under Banga's management, MA experienced a 13% revenue CAGR. The CPMT is confident in the ability of MA's new management to continue such trends whilst maintaining the Company's successful culture and core values. Additionally, the CPMT believes that Miebach's strong knowledge of payment technologies, regulations, and digital innovation can propel the Company's operations into new fields and adapt to the economic uncertainties caused by COVID-19.

**Figure 2: LHS Cards (mm) vs. RHS Payment Penetration**



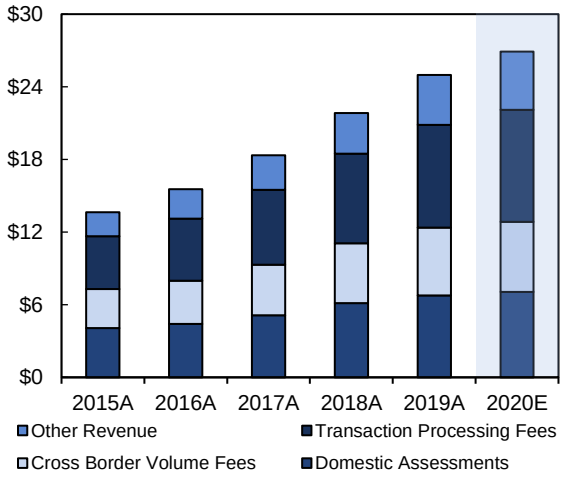

Source: Broker Research

**Figure 3: Q1 2020 Operating Segments Revenue**




Source: Company Filings

**Figure 4: Annual Revenue by Segments (US$B)**




Source: Company Filings

## Balance Sheet Strength

MA continues to maintain a strong balance sheet amid the COVID-19 pandemic. The Company currently holds US$10.2B in cash and issued an additional US$3.9B in debt, bringing total debt values to US$12.5B. MA maintains a Total Debt/LTM EBITDA ratio of 0.8x as of Q1 2020. The CPMT believes that MA is in a prime position to thrive throughout pandemic-related market struggles.

## Growth Opportunities

MA grows, diversifies, and builds its business through a combination of organic and inorganic strategic initiatives. MA's ability to grow is influenced by: (1) Personal Consumption Expenditure (PCE); (2) Driving cash and check transactions toward electronic forms of payment; and (3) Increasing market share in the payments space. In August 2019, MA announced its largest acquisition to date and acquired the majority of the Corporate Services business of Nets, a leading European PayTech company, for approximately US$3.2B. Nets' bill pay services hold a significant market share in Denmark and Norway. The acquisition enables MA to deploy a global modern bill pay platform, as well as open banking solutions that could help European financial institutions prepare for PSD2 (Revised Payment Services Directive).

Furthermore, the newly appointed CEO, Michael Miebach, aims for MA to expand into other segments in the payments industry, such as push payments and mobile wallets. The Company is optimistic about the business-to-business payments space, as simplifying the process offers tremendous opportunities. Moreover, MA has grown significant interest in voice commerce, believing that its enhancement will revolutionize the industry in a similar manner to Amazon's (NASDAQ: AMZN) Alexa devices. Most importantly, a significant driver of growth is expected to come from the Company's previously mentioned entrance into China, one of the world's largest consumer markets. The recent acceptance of MA's license application in the region is the Company's first step towards this objective, which is estimated to commence within two years.

## Risks

One of the greatest risks facing MA is the gradual entrance of global technology firms in the payment-services industry. For instance, the launch of Apple's Apple Pay service and Huawei's Huawei Pay service represent a growing list of notable names that were not present in the Company's industry a decade ago. With the e-commerce space continuously increasing in popularity and competition entering the environment, MA's market share will be tested going forward.

## Valuation and Investment Thesis

A 10-year DCF with a WACC of 6.30% was used to arrive at MA's $347 target price. A 50/50 blend of the Gordon growth model (assuming a perpetual growth rate of 2.5%) and a peer group median 25.0x EV/EBITDA exit multiple. The CPMT maintains its original investment thesis that MA will continue to have strong growth, guided by growing trends of moving away from the use of cash and e-commerce (especially considering their acceleration by COVID-19's impacts). Moreover, management's demonstrated ability to capitalize on developing subsectors within the industry continuously supports growth which has become evident through the Company's historic performance. As a result, the CPMT believes that management's sustained innovation will be a valuable component of MA's future success.

# Microsoft

**Information Technology**
**NASDAQ: MSFT**
**Market Outperform | Hold**

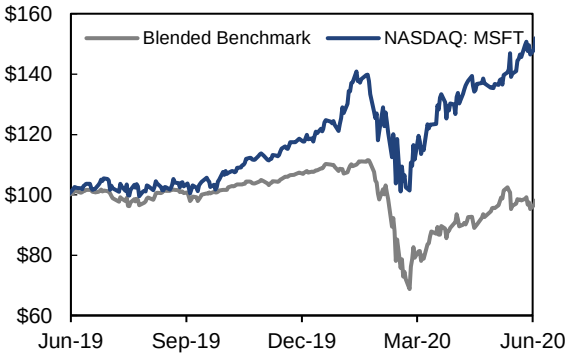

**June 30, 2020**
Kian Sadeghi, Investment Analyst
Erik Skoronski, Portfolio Manager
Sina Hadjiahmadi-Ardakani, Investment Analyst


| Return on Investment | |
|---|---|
| Current Share Price | $203.51 |
| Target Price | $239.00 |
| Dividend Yield | 1.00% |
| Holding Period Return | 18% |
| Conviction Rating | 3 |

| Market Profile | |
|---|---|
| 52-Week Range | $132.31 - $203.51 |
| Market Capitalization (US$B) | $1,543 |
| Net Debt (US$B) | ($54) |
| Enterprise Value (US$B) | $1,489 |
| Beta (5-Year Monthly) | 0.93 |

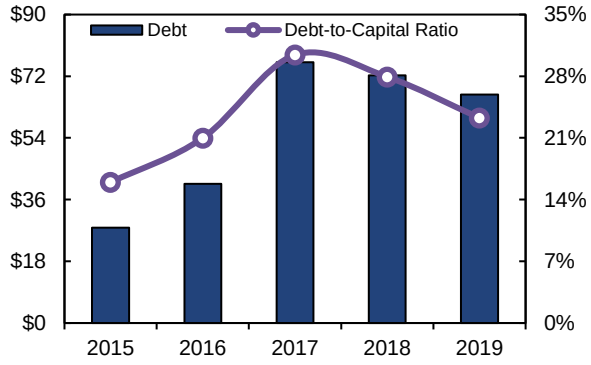
| Metrics | 2019A | 2020E | 2021E |
|---|---|---|---|
| Revenue (US$B) | $141 | $156 | $175 |
| EBITDA (US$B) | $55 | $63 | $65 |
| EPS | $5.07 | $5.53 | $5.70 |
| EV/EBITDA | 21.4x | 18.7x | 18.1x |

**Holding Period Trading Performance (Indexed to $100)**




Source: S&P Capital IQ

**Figure 1: LHS Debt (US$B) vs. RHS Debt-to-Capital Ratio**




Source: Company Filings

## Business Description

Microsoft Corp. (NASDAQ: MSFT) is a technology company that develops, licenses, and supports a variety of software products, devices, and services. MSFT operates under three business segments: (1) Productivity and Business Processes; (2) More Personal Computing; and (3) Intelligent Cloud. The Company designs, manufactures, and sells devices, such as personal computers, phones, tablets, gaming consoles, and related accessories, all of which are integrated with its cloud-based systems. Additionally, MSFT offers cloud-based solutions to consumers with its software, platforms, content, and consulting and support services.

## Balance Sheet Strength

MSFT's balance sheet is a continual point of strength for the Company. MSFT's advantageous debt structures and maturities allow it to maintain high-levels of activity. The Company holds a significant debt figure of US$62.9B while maintaining a debt-to-equity ratio of 54.9%. MSFT holds a negative net debt position of ~US$17.9B, while short-term debt totals to US$3.7B, corresponding to 2.72% of the Company's total cash position (US$137.6B).

MSFT continues to sustain this level stability, without experiencing adverse effects on its growth trends. Cash has grown by an average of 7.7% over the last five years, while equity has grown by 8.3% over the same period, including an increase of 17.8% over the last two years. Overall, debt has decreased by 6.2% over the last three years, whereas MSFT's debt-to-capital ratio has decreased by an average of 10% during the timeframe, indicating an overall reduction in the use of debt capital. The Company has been able to accomplish this while paying out 9.9% of total cash through dividends, including an average dividend of US$1.59 per share, over the course of the last five years, led by a payout of US$1.80 per share in 2019.

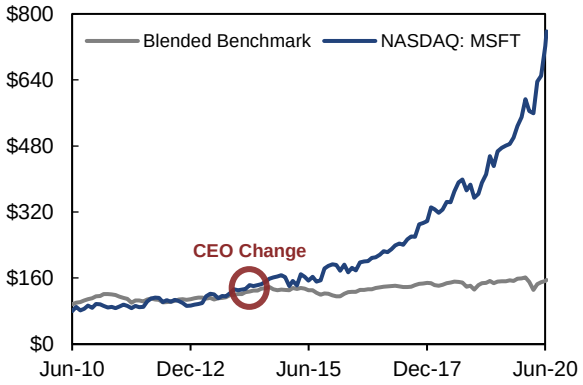
Overall, the continuous stability of MSFT's balance sheet demonstrates its financial strength and economic efficiency. The CPMT believes that there are minimal concerns regarding the Company's ability to fulfil existing debt obligations going forward.

## Competitive Advantage

One of MSFT's greatest advantage comes from its strong balance sheet and cash flow generation, enabling it to acquire more businesses. Notable acquisitions that highlight the Company's growing integration into most industries is demonstrated by its recent acquisition of ADRM Software and Metaswitch Network. ADRM Software provides large-scale industry data models, which will be combined with MSFT's Azure to allow users to create intelligent data lakes. This will enable users to compile data from multiple lines of business within any organization.

On the other hand, Metaswitch Network is a provider of virtualized networks that will give Azure's cloud system a software to run its virtualized communications and applications. Overall, the Company's integration of different technologies within the sector has enabled it to continuously enhance and create unique solutions to the technology industry's evolving needs.

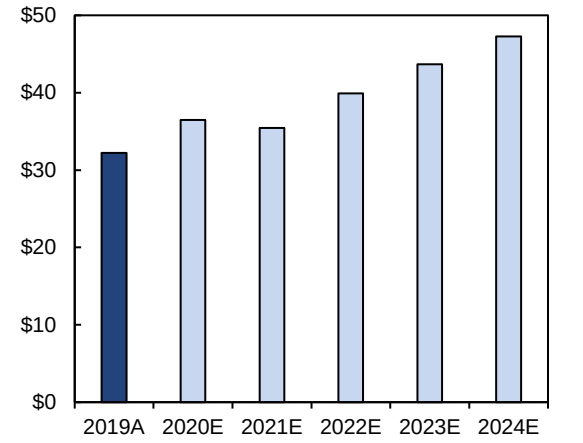
**Figure 2: Trading Performance Since CEO Change(1)**




*(1) Indexed to $100*

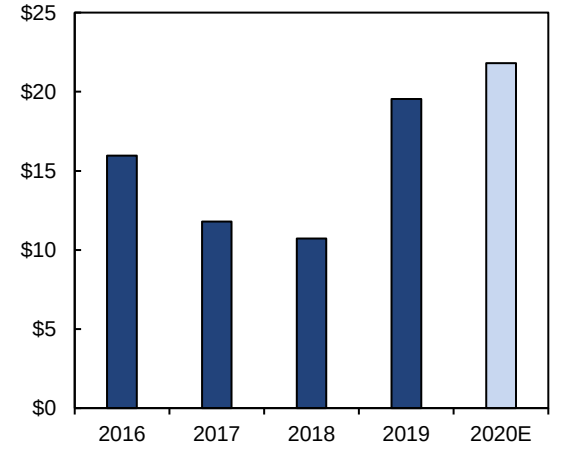
Source: S&P Capital IQ

**Figure 3: Free Cash Flow Generation (US$B)**




Source: Company Filings, CPMT Estimates

**Figure 4: Share Repurchases Over Time (US$B)**




Source: Company Filings

## Growth Opportunities

Beyond acquisitions for product developments, MSFT's ability to form strategic partnerships allows for tremendous growth opportunities. It is projected that the online gaming market is in its early stages of a long-term trend of robust growth due to the environment's rapid innovation and popularity. Accordingly, the Company recently announced that it will close Mixer's services (a gaming platform), as a result of partnering with Facebook Gaming. This move enables the Company to bring its xCloud to the Platform, enabling viewers to immediately play the games that others are streaming, with a few simple clicks. Moreover, MSFT's partnership expansion with Walgreens Boots Alliance (NASDAQ: WBA) will deliver personalized healthcare and improved retail experiences to its customers. WBA will use MSFT's Power Platform and Dynamics 365 Customer Insights to gain detailed views on its customers. The CPMT sees these developments in a favourable light, as the Company's expansion into many industries supports the secular growth trends of MSFT's services and products.

## Management Team

MSFT's management team is led by CEO Satya Nadella, who has held the position for over six years while serving in the Company for over two decades. Nadella's previous leadership roles in the Company's enterprise and consumer businesses have enabled him to progress MSFT's development with all users' needs in mind. During Nadella's time as the CEO, the Company has returned US$101.6B to shareholders in the form of share repurchases and US$82.9B in dividends. Alongside the stock's outperformance of over 400% when compared to the overall market, the CPMT maintains its original view that MSFT's quality management continues to create value for shareholders.

## Risks

Recent political tensions have raised many concerns around the sustainability of MSFT's contracts with all levels of governments in the U.S. For instance, the Senate is considering freezing 50% of the U.S. Army's funds for an Integrated Visual Augmentation Systems program (worth a total of US$901mm). US$641mm of this fund was awarded to MSFT for the development of HoloLens. Moreover, numerous American politicians have called for the removal of the Company from federal government contracts after its refusal to finalize the sale of its facial recognition software to U.S. police departments. This was a result of the Company's demand that there should exist clear laws governing the technology's use. Since MSFT's cloud contract with the pentagon alone is worth ~US$10B, the CPMT will monitor these developments and assess their sensitivity to the Company's valuation and future outlooks. Currently, the CPMT supports management's view that such tensions do not impose any material damages to MSFTs operations and outlook given their lack of action.

## Valuation and Investment Thesis

A five-year DCF with a WACC of 5.44% was used to arrive at MSFT's $239 target price. A 50/50 blend of the Gordon growth model (assuming a 2.0% perpetual growth rate) and a peer group median 28.2x EV/EBITDA exit multiple. In accordance with this financial valuation, the CPMT maintains its original thesis on the name, as the Company continues to meet the mandate, in addition to holding a high potential for growth. As the world continues to move towards digitalization in many aspects, MSFT's relationships, brand, and high-quality offerings are expected to continue to thrive.

# PayPal Holdings

**Information Technology**
**NASDAQ: PYPL**
**Market Perform | No Action**

**June 30, 2020**

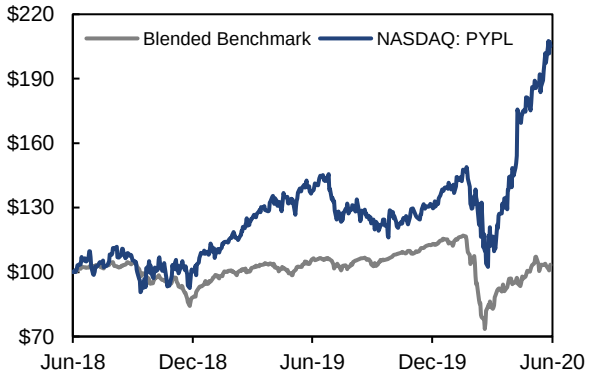
Helena Cherniak-Kennedy, Portfolio Manager
Katie Tu, Investment Analyst

| Return on Investment | |
|---|---|
| Current Share Price | $174.23 |
| Target Price | $191.00 |
| Dividend Yield | 0.00% |
| Holding Period Return | 10% |
| Conviction Rating | N/A |

| Market Profile | |
|---|---|
| 52-Week Range | $85.26 - $174.23 |
| Market Capitalization (US$mm) | $204,574 |
| Net Debt (US$mm) | ($2,219) |
| Minority Interest (US$mm) | $44 |
| Enterprise Value (US$mm) | $202,399 |
| Beta (5-Year Monthly) | 1.19 |

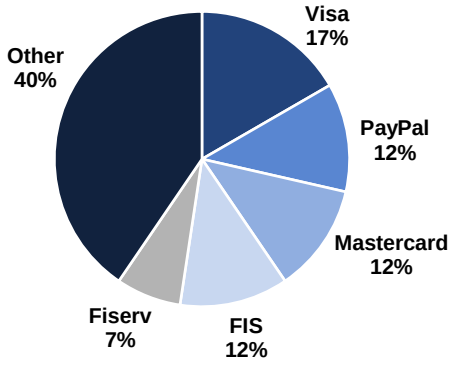
| Metrics | 2020E | 2021E | 2022E |
|---|---|---|---|
| Revenue (US$mm) | $20,451 | $23,513 | $26,994 |
| EBITDA (US$mm) | $5,032 | $6,134 | $7,033 |
| Total Debt/LTM EBITDA | 1.13x | 1.15x | 1.15x |
| EV/EBITDA | 40.2x | 33.0x | 28.8x |

**Historical Trading Performance (Indexed to $100)**




Source: S&P Capital IQ

**Figure 1: Credit Card Processing Market Share**




Source: CFRA

## Business Description

PayPal Holdings Inc. (NASDAQ: PYPL) is a leading digital payment solutions platform with a global two-sided network connecting consumers and merchants. PYPL's core proprietary Payments Platform includes: PayPal, PayPal Credit, Braintree, Venmo, Xoom, and iZettle. PYPL was incorporated in 2015 following its spin-off from eBay (NASDAQ: EBAY).

For consumers, PYPL offers: (1) digital wallets to facilitate secure digital and mobile payments to merchants through PayPal, Venmo, and PayPal Credit; (2) person-to-person (P2P) payment solutions through PayPal, Venmo, and Xoom; and (3) consumer credit products through PayPal Credit.

For merchants, PYPL facilitates simple, secure digital checkout solutions online, on mobile, and in-store with a technology-agnostic model that functions across all platforms and devices. PYPL's Braintree products serve as a merchant acquiring platform, while iZettle allows small businesses to accept in-store card payments. PYPL also provides merchants with credit products through its PayPal Working Capital and PayPal Business Loan products.

PYPL earns revenue: (1) from consumers through foreign currency exchange fees, instant transfer fees, and interest and fees associated with PayPal Credit products; and (2) from merchants through payment transaction and service fees.

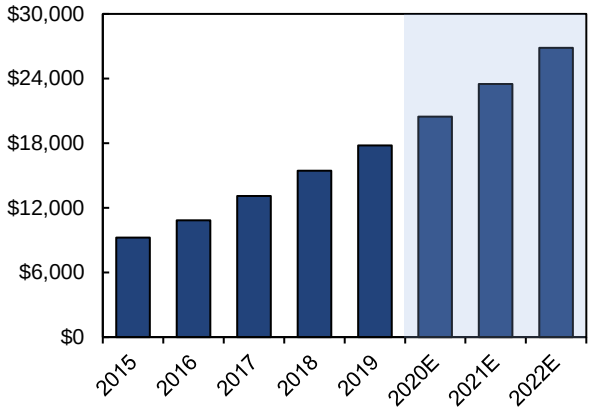
Acquisitions have served as an important growth channel for PYPL alongside organic growth. In December 2019, PYPL acquired a controlling equity interest in Guofubao Information Technology Co. (GoPay), allowing PYPL to provide online payment services in China. Most recently, in January 2020, PYPL acquired Honey Science Corporation for US$4B in cash.

## Industry Overview and Competitive Landscape

The credit card processing and money transferring industry is driven by two main factors: e-commerce sales and consumer spending. The popularity of electronic payment methods is expected to increase due to growth in online retail and e-commerce. Additionally, consumer spending will likely increase as a result of easily accessible markets and payment methods, thereby increasing transaction volumes. Lastly, the mobile commerce (m-commerce) market has expanded rapidly in the last five years due to the increase in smartphone applications; its continued growth is an important driver for the industry as the increased convenience of transactions raises transaction volumes.

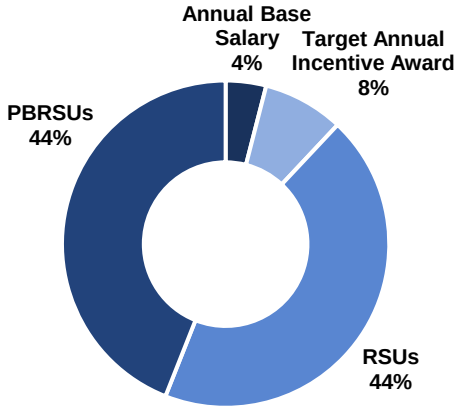
Major industry competitors include Visa (NYSE: V) and Mastercard (NYSE: MA). Additionally, Square (NYSE: SQ), a relatively new competitor, has seen growth due to widespread adoption of its systems by small businesses. Key factors that influence the competitive positioning of industry players include: (1) unit prices of transactions; (2) accuracy and quality of transaction processing; (3) reputation and brand recognition; and (4) customer and operations support and relations. Although the credit card processing and money transferring industry is currently fragmented, PYPL is well positioned to claim greater market share moving forward due to its large customer base and substantial transaction volumes.

**Figure 2: Revenue Growth (US$mm)**



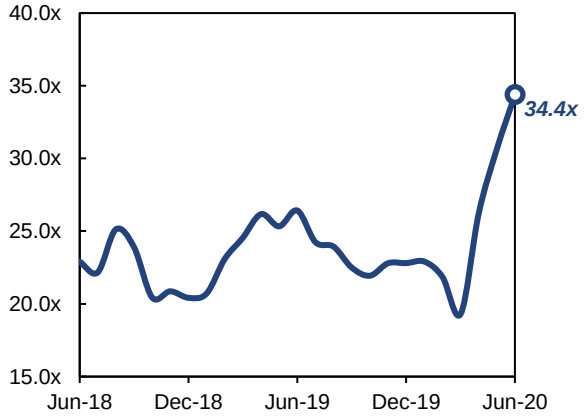

Source: Company Filings, CPMT Estimates

**Figure 3: CEO Compensation (2019)**




Source: Company Filings

**Figure 4: PYPL NTM EV/EBITDA**




Source: S&P Capital IQ

## Growth Profile and Financial Health

Since its spin-off from EBAY in 2015, PYPL has seen rapid and consistent growth, both in number of consumer and merchant accounts, as well as in earnings. As of 2019, PYPL had 305mm active accounts, of which 281mm were consumer accounts and 24mm were merchant accounts. This represents a 14.3% CAGR over 2015 levels. Similarly, total payment volume (TPV) grew from US$282B in 2015 to US$712B in 2019. This growth has further accelerated in 2020 as e-commerce has gained prevalence in response to COVID-19. In April 2020 alone, new account activations reached 7.4mm, compared to 10mm organic activations during the entirety of Q1 2020. The CPMT believes that strong e-commerce and m-commerce will remain a tailwind for PYPL throughout the remainder of 2020 and that there is a strong runway for growth given the massive size of PYPL's total addressable market (TAM) globally.

Financially, this has translated into a 21% free cash flow CAGR for PYPL from 2014-2019, while revenue has nearly doubled over the same period, growing from US$9.3B to US$17.7B. While PYPL has a lower margin business model than its credit card peers (24% adjusted EBITDA margin versus 60% and 69% for MA and V, respectively), it nonetheless has strong cash generation abilities, bolstered by low capital intensity. Together with managerial discipline in capital allocation, this has allowed PYPL to fund numerous acquisitions to accelerate growth without unduly compromising balance sheet health. With a massive cash and short-term investment position of US$10.2B, PYPL has negative net debt of US$2.2B, translating into a Total Debt/LTM EBITDA ratio of only 1.8x as of Q1 2020. This balance sheet strength places PYPL in a resilient position in the face of continued macroeconomic uncertainty expected for the remainder of 2020.

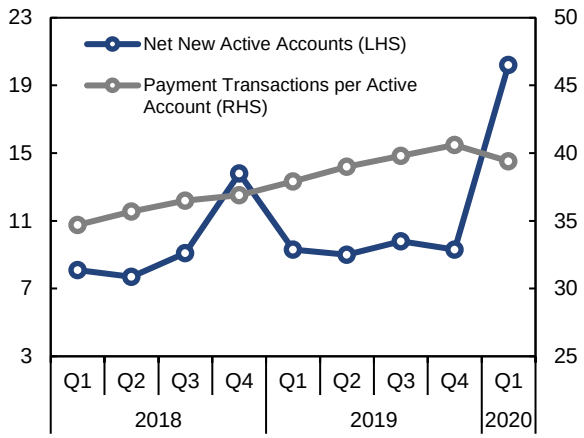
## Management

PYPL's President and CEO, Daniel Schulman, joined the Company in September 2014 to lead its separation from eBay into its next phase as an independent business. He has extensive experience in payments and mobile technology, having previously held leadership positions at American Express, Virgin Mobile USA, and AT&T. Additionally, executive compensation is closely aligned with the creation of long-term value for shareholders. In 2019, CEO compensation was composed of 88% long-term incentives (in the form of restricted stock units) and was 52% performance based.

## Valuation

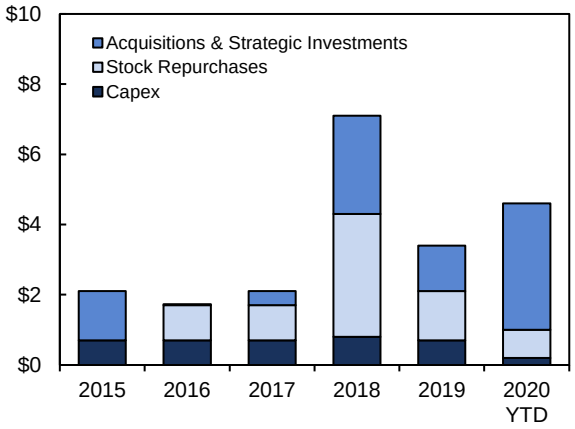
PYPL was valued using a 10-year DCF with a WACC of 7.22%. A 10-year time horizon was chosen to more accurately forecast PYPL's growth trajectory as it is currently in a high-growth stage. The target price of $191 was derived through a 50/50 blend of (1) the Gordon growth method (assuming a terminal growth rate of 2.75%) and (2) applying an EV/EBITDA exit multiple of 25.0x. PYPL has historically traded at a premium relative to its credit card peers (NYSE: AXP, MA, V), which we believe is justified given PYPL's technology-oriented platform, strong brand recognition, and growth runway. PYPL's trading multiples have expanded rapidly since April 2020, reaching 34.4x NTM EV/EBITDA in June 2020. This can be partially attributed to high levels of consumer e-commerce adoption and engagement due to COVID-19. While the growth estimates used in determining our target price were conservative, the CPMT nonetheless believes that PYPL's currently inflated valuation leaves limited room to realize significant upside.

**Figure 5: Account Growth (mm) & Transactions**




Source: Company Filings

**Figure 6: Capital Allocation (US$B)**




Source: Company Filings

## COVID-19 Impact and Catalysts

The COVID-19 pandemic has accelerated the secular shift towards digital payments as a result of changes in consumer purchasing behaviours due to social distancing measures and public health concerns. PYPL is well positioned to withstand the impacts of the pandemic due to the diversity of its customer base across products and geographic locations. Some portions of PYPL's business, such as travel and events revenue, were materially impacted by the pandemic. However, TPV increased by ~22% YoY in April 2020, reflecting the shift to digital payments in other parts of the business (e.g., the widespread adoption of e-commerce and new categories such as groceries). Furthermore, a significant portion of its travel and events exposure resides within Braintree, which has lower gross margins compared to PYPL's core business; therefore, poorer performance in this segment has less of an impact on the Company's long-term bottom line performance.

PYPL continues to invest in contactless payments through QR codes in-store. The current physical POS initiative is more focused than past attempts at physical retail penetration due to material demand from merchants driven by the COVID-19 pandemic. Despite the trend towards e-commerce, physical sales still account for ~84% of retail sales in the U.S. The adoption of QR codes provides future upside potential as it would open a new revenue stream for PYPL.

## Key Risks

As a global company, PYPL is inherently exposed to FX risk due to significant revenues (~46% of total revenue in FY 2018) and costs denominated in foreign currencies. Furthermore, PYPL is exposed to risks of increased competition for online checkout market share. Competitive threats include the development of Payment Request API by World Wide Web Consortium, the Secure Remote Commerce initiative, and large technology companies that have made developments in payments (e.g., Amazon, Apple, and Google). Lastly, any transaction cost pressures relating to the "Choice" initiative (PYPL's partnership with networks and major banks to allow consumers to easily opt to pay with any method they choose) could lead to increased funding costs for PYPL.

## Investment Recommendation

PYPL is well positioned to take advantage of the shift towards digital and mobile payments. With a high level of brand recognition and global, cross-border capabilities, PYPL has an extensive TAM and we expect it to capture increased market share moving forward. Furthermore, PYPL's under-levered balance sheet relative to peers provides it with the capital allocation flexibility to pursue both organic and inorganic growth opportunities. However, the CPMT has concerns surrounding PYPL's valuation as it currently trades at an inflated multiple of 34x NTM EV/EBITDA versus its pre-COVID-19 two-year average multiple of 23x. Our analysis of PYPL's intrinsic value also indicates limited room for share price appreciation. As a result, the CPMT currently recommends no action, but will continue to monitor the name moving forward.

# Pembina Pipeline

**Energy**
**TSX: PPL | NYSE: PBA**
**Market Outperform | No Action**

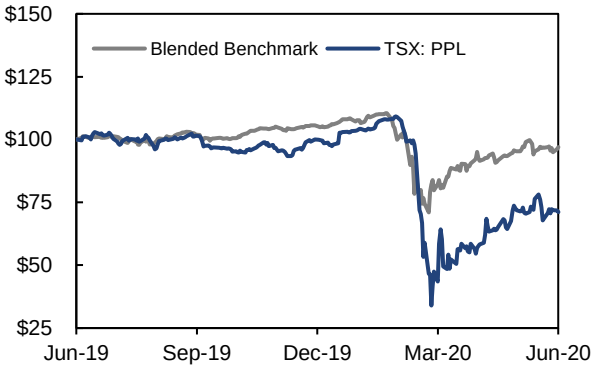
**June 30, 2020**
Jack Morgan, Investment Analyst

| Return on Investment | |
|---|---|
| Current Share Price | $33.94 |
| Target Price | $38.00 |
| Dividend Yield | 7.90% |
| Implied Return | 20% |
| Conviction Rating | N/A |

| Market Profile | |
|---|---|
| 52-Week Range | $15.27 - $53.79 |
| Market Capitalization ($mm) | $18,819 |
| Net Debt ($mm) | $11,351 |
| Enterprise Value ($mm) | $30,170 |
| Beta (5-Year Monthly) | 1.80 |

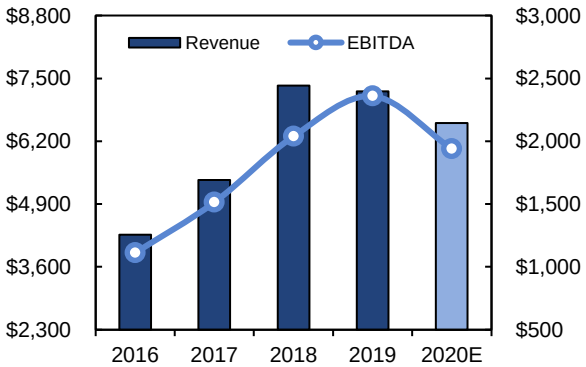
| Metrics | 2019A | 2020E | 2021E |
|---|---|---|---|
| Revenue ($mm) | $7,230 | $6,574 | $6,903 |
| EBITDA ($mm) | $2,360 | $1,940 | $2,133 |
| EPS | $2.66 | $2.13 | $2.59 |
| EV/EBITDA | 12.8x | 13.7x | 13.4x |

**Historical Trading Performance (Indexed to $100)**




Source: S&P Capital IQ

**Figure 1: LHS Revenue & RHS EBITDA ($mm)**




Source: Company Filings, CPMT Estimates

## Business Description

Pembina Pipeline Corporation (TSX: PPL, NYSE: PBA) is a Midstream energy transportation firm founded in 1954 known for its vast integrated system of pipeline infrastructure, in addition to gas gathering and processing facilities. Headquartered in Calgary, AB, the Company exports and delivers crude, natural gas, and NGLs primarily produced in Western Canada and various states throughout the Midwest U.S. PPL operates in three reporting segments: (1) Pipelines, (2) Marketing & New Ventures, and (3) Facilities. PPL leases capacity and volume within its pipelines and facilities, serving as transportation real estate to both upstream producers and downstream refineries. PPL's pipeline systems have a capacity of 3.1mmboe/d, ground storage of 11mmbbls, and rail terminal capacity of 145mboe/d.

PPL is venturing into the polyester industry with the development of a PDH/PP plant which will convert propane into polypropylene; a recyclable, high-value polymer used in a wide variety of finished products. PPL's expansive, integrated infrastructure and asset diversity allows for a full spectrum of services and revenue streams along the hydrocarbon value chain.

## Industry Overview

WTI crude posted record growth since historical lows in April 2020 caused by the COVID-19 pandemic. The supply/demand imbalance has caused heavy losses throughout the energy industry, and the sector has struggled to rebound to a comfortable position in the face of burgeoning fear of a potential second wave. Oil prices are expected to decline on the heels of rising COVID-19 cases and other fuel concerns surrounding lockdown measures. The IEA forecasts 2020 energy demand to fall by 6%, potentially the steepest percentage decline in 70 years.

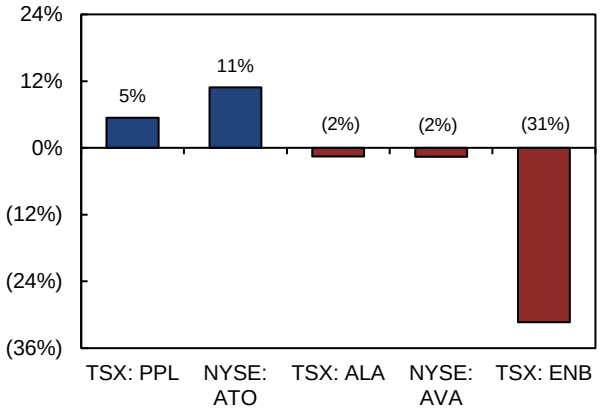
Increased consumption during the summer has been a positive indicator for Western Canadian energy, but expansion has once again been stunted by fears amidst COVID-19. Hostile circumstances have forced many petroleum firms to aggressively cut expenses and production in order to stave off deficits and remain solvent, renewable energy is the only energy source expected to grow in 2020.

## Mandate Fit

**Balance Sheet**: PPL maintains a respectable balance sheet with long term assets topping $34.1B and relatively minimal short-term liabilities of $1.5B. PPL holds substantial leverage with a Debt-to-Equity ratio sitting at 61.8% and a 4.8x Debt/EBITDA. Higher levels of debt are not uncommon in the Midstream sector, and PPL sits relatively comfortable to its peers (Figure 4). Additionally, PPL's debt is well covered by operating cash flow as EBIT has a 5.8x coverage spread on interest payments.

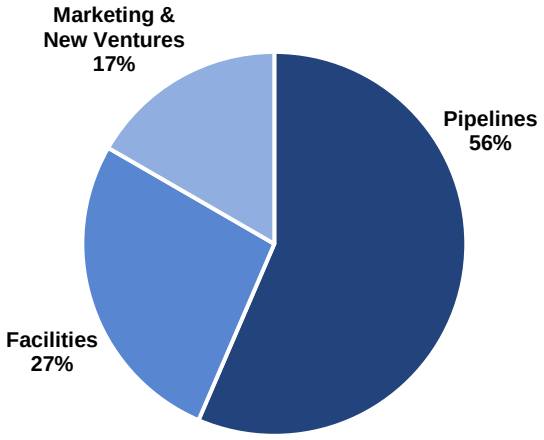
**Growing Free Cash Flows**: PPL's FCF is driven primarily by the Pipelines division, a segment expected to remain the most resilient throughout industry turmoil. Over the past five years PPL has been able to achieve a 32.2% Net Income CAGR and has announced capex cuts of up to $1.1B over the next year. Continued prudence is expected to improve free cash flow given lower volumes stemming from production cuts.

**Figure 2: Q1 2020 YoY EBITDA Growth Peer Comparison**



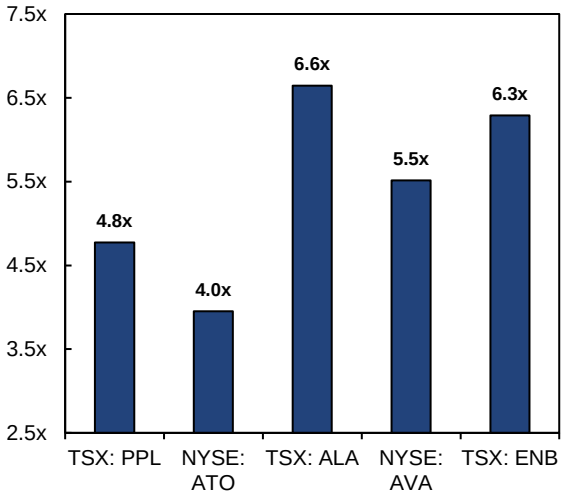

Source: S&P Capital IQ

**Figure 3: Operating Segment Contribution to EBITDA**




Source: Company Filings

**Figure 4: Debt/EBITDA Peer Comparison**




Source: S&P Capital IQ

**Competitive Advantage**: PPL holds a valuable set of long-term contracts with a wide variety of hydrocarbon producers and distributors, allocating flow and usage of PPL's pipeline system volumes. Lease contracts account for ~56% of adjusted EBITDA and are the primary revenue source resulting from PPL's integrated systems (Figure 3). These contracts provide predictable cash flows as they are not exposed to commodity price volatility. This provides PPL with earnings resilience in the face of turbulent oil pricing negatively affecting the industry. While PPL did see earnings decline 12.9% in Q1 2020 YoY, this was marginal to the losses of some competitors exceeding 170%.

**Attractive Valuation**: PPL maintains a desirable position amidst the pandemic-induced market dynamics. With vigilant quality management, healthy earnings, and resilient revenue streams, PPL is positioned to outperform the energy sector. A target price of $38.00 was determined by applying an EV/EBITDA peer average multiple of 12.8x applied to 2021 expected EBITDA. EBITDA was forecasted by segment and considered the effects of COVID-19 on crude markets. Peers (Fig. 2) were selected by capital structure similarity and operating segment congruence.

**Quality Management**: PPL's management team has been able to consistently create value for shareholders and maintain its high dividend yield. As of December 2019, PPL scored an Institutional Shareholder Services (ISS) governance quality score of 1, the lowest scaled risk rating. The four ISS governance pillars of Audit, Board, Shareholder Rights, and Compensation scored 1, 2, 3, and 1 respectively, passing with flying colours across the board. PPL's management continues to focus on reliable long-term returns and places value in new venture opportunities as well as current asset expansion, proven by ongoing projects such as the acquisition of Kinder Morgan Canada in 2019.

## Risks

The clear and present systemic risk to the sector at large is the worldwide potential for a second wave of COVID-19 and further damage to crude pricing and market demand. PPL holds exposure to idiosyncratic risk as it is highly levered in a tumultuous environment. If PPL cannot manage to meet earnings estimates, this debt could pose a serious threat to PPL's long-term viability. However, PPL has remained staunchly risk-averse by acting to limit unnecessary capex. The deferral of a $2.7B investment in its integrated PDH/PP project was announced to boost resiliency during the downturn; nonetheless, the plant is still being developed through its joint venture entity, CKPC.

## Investment Thesis and Outlook

The CPMT believes PPL has built a strong foundation in integrated pipeline systems and facilities tied to long-term contracts and reliable revenue streams. After several years of impressive revenue and earnings growth, PPL was heavily penalized by the market during the industry downturn and still has not recovered to its fair value despite much of its revenue deriving from segments not subject to commodity price volatility. Current market environment provides an attractive entry opportunity on a unique and resilient name. With a growth-oriented management team, defensive revenue, and stakes in diverse venture projects, PPL is poised for a healthy return. At this time, the CPMT maintains a No Action recommendation on the name due to current demand volatility and stated risks; withal, the CPMT will continue to monitor PPL's position hereafter.

# Pioneer Natural Resources

**Energy**
**NYSE: PXD**
**Market Outperform | No Action**

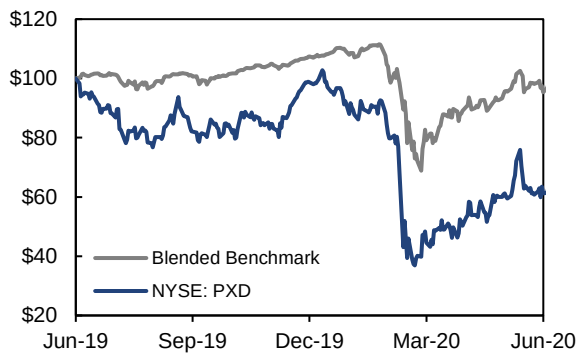
**June 30, 2020**
Jose Menjivar, Portfolio Manager

| Return on Investment | |
|---|---|
| Current Share Price | $97.70 |
| Target Price | $121.00 |
| Dividend Yield | 1.98% |
| Holding Period Return | 26% |
| Conviction Rating | N/A |

| Market Profile | |
|---|---|
| 52-Week Range (US$) | $48.62 - $159.01 |
| Market Capitalization (US$mm) | $15,324 |
| Net Debt (US$mm) | $1,353 |
| Enterprise Value (US$mm) | $16,677 |
| Beta (5-Year Monthly) | 1.79 |

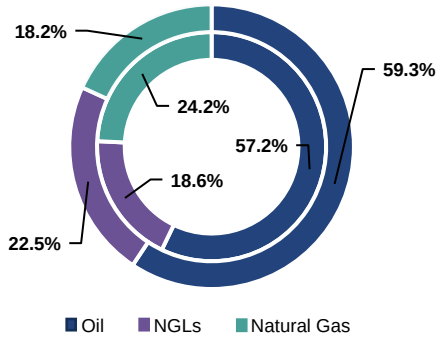
| Metrics | 2020E | 2021E | 2022E |
|---|---|---|---|
| Revenue (US$mm) | $7,357 | $7,388 | $9,173 |
| EBITDAX (US$mm) | $2,432 | $2,664 | $3,344 |
| EPS | $1.24 | $1.51 | $1.89 |
| EV/EBITDAX | 6.9x | 6.3x | 5.0x |

**Historical Trading Performance (Indexed to $100)**




Source: S&P Capital IQ

**Figure 1: Production Mix, 2016 (Inside), Q1 2020 (Outside)**




Source: Company Filings

## Business Description

Pioneer Natural Resources (NYSE: PXD) is an upstream energy company that explores for, develops, and produces oil, NGLs, and natural gas. Headquartered in Irving, Texas, the Company employs 2,323 people and focuses on the development of vast land assets in the Permian Basin. With ~680 thousand net acres, PXD is the largest acreage holder in the Spraberry/Wolfcamp (Spraberry) field, which is the largest continuous oil field in the U.S. according to the U.S. Geological Survey. The Company's average daily production as of the end of Q1 2020 was 375 mboe, consisting of 59% oil, 23% NGLs, and 18% natural gas. The Company has grown production at a 13.8% 6-year CAGR, which is expected to slow down during the next 12-16 months because of slowing world fossil fuel demand attributed to the COVID-19 pandemic-induced crisis.

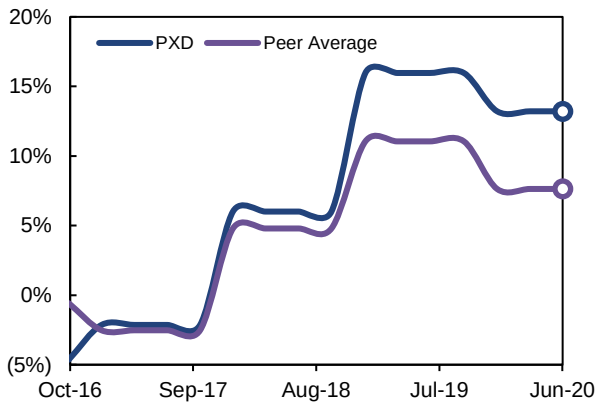
## Industry Overview

The energy industry has been greatly impacted during the COVID-19 pandemic. The U.S. entered a severe economic recession in February, even prior to widespread pandemic-related lockdowns. The oil price shock in 2014 attributed to supply and demand imbalances and strong U.S. shale production left many upstream companies with weak balance sheets (largely due to asset impairment charges in light of the changing macroeconomic environment) and needing to reorganize their cost structures for a world with a sub-$70 oil barrel. Regionally, Canadian producers have faced widened price differentials due to constrained pipeline takeaway capacity and a general difficulty to approve substantial infrastructure projects. In the U.S., aggressive shale production in the Permian and improving hydraulic fracking and drilling technologies have contributed to drastic increases in world oil supply. This combination, coupled with increasing capital market disdain against oil sands production, has weakened the Canadian energy industry disproportionately. When the COVID-19 pandemic commenced, the demand-side shock was exacerbated with an oil price war between Russia and Saudi Arabia, which contributed to price declines that led WTI to hover in the $15 - $30 range for nearly two months (March to May 2020). The Energy Information Administration (EIA) has provided only limited clarity on what expected oil demand will be in the coming months. There is significant uncertainly regarding the economic reopening, as COVID-19 cases have shown resurgence, and the Volatility Index (VIX) continues to be in the ~30 vs a pre-COVID average of 20. As E&Ps resume production after strict shut-ins, storage levels have continued to climb in the U.S., nearing historical highs. Limited storage capacity and a second COVID wave threaten further price volatility, as a short-term demand recovery remains uncertain.

## Capital Discipline and Cost Reductions

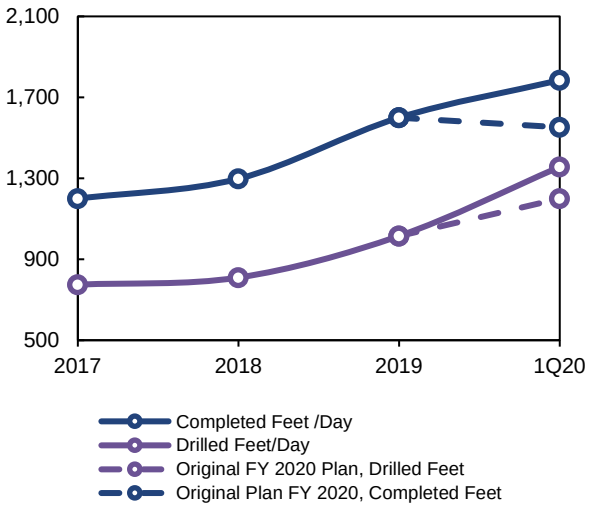
PXD has a history of streamlining its production and focusing on exploiting possible production, transportation, and governance efficiencies. In 2015, PXD also produced oil and gas in the Eagle Ford Shale Field (Eagle Ford) and the Raton Basin in New Mexico, which accounted for 24% and 10% of production, respectively, with the remaining production in the Spraberry. By 2017, PXD had strategically switched ~85% of total production to (cont.)

**Figure 2: Return on Total Capital vs. Peers**



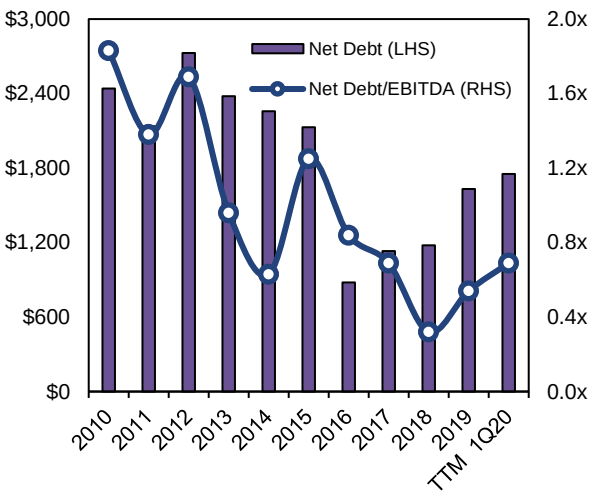

Source: CPMT Estimates

**Figure 3: Drilling & Completions (ft/d)**




Source: Company Filings

**Figure 4: Net Debt (US$mm) & Net Debt/EBITDA**




Source: S&P Capital IQ

the Spraberry, where it had historically realized better pricing. On average, the Company saw ~US$4/bbl oil price differential improvement to the Eagle Ford and a ~US$1/Mcf natural gas price differential improvement to the Raton Basin from 2015 to 2017. Additionally, PXD saw notable declines in production costs due to higher transportation charges from these outside plays (~US$5/boe differential improvements) after concentrating its production at the Permian. It is important to note that even after significant divestitures, the Company was able to increase its total production by 8% in 2019 due to its successful horizontal drilling program.

Management's commitment to cost control can also be observed through the implementation of a corporate restructuring program in 1H19 with the purpose of aligning PXD's cost structure with the needs of a Permian Basin-focused company. PXD implemented separation programs and reduced its staff by a third from 2019 to 2020. Currently, nearly half of staff is employed in field operations or vertical integration activities, versus only a third prior to restructuring. Efficiency initiatives have paid off, since G&A expenses have decreased significantly, from $4.39/boe in 2015 to $1.65/boe in Q1 2020 (US$327mm to US$216mm, annualized).

Moreover, PXD continues to show prudence in its operations as evidenced by the company's 100% FY 2020 oil hedge. The CPMT believes that a combination of high liquids storage levels coupled with high uncertainty will continue to weigh on commodity prices and sees these hedges as an advantage. Importantly, the Company continues to focus on drilling efficiencies as evidenced by improving drilling speeds and curtailment of higher cost vertical well drilling.

## COVID-19 Response

In response to the pandemic, recession and oil demand shock, the Company outlined a detailed set of actions to take as mitigation for reduced revenues for the rest of 2020. PXD reduced its capital budget from ~US$3.3B to ~US$1.5B and cut daily production targets from ~368 to ~350 mboe/d, keeping production relatively flat for the year. Importantly, PXD recently retired US$725mm of bonds at a weighted average yield of 3.74% and engaged in a US$1.15B convertible bond offer, lowering its interest burden by ~US$24mm. The CPMT believes that PXD's actions exhibit great care for shareholder returns and are focused on protecting the Company's cash flow producing capacity.

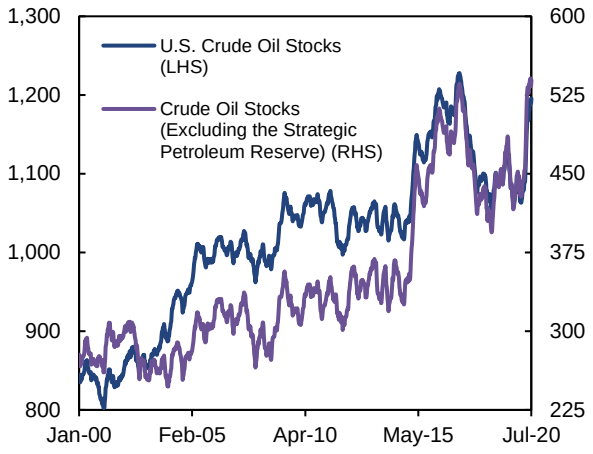
## Portfolio Fit

**Quality Management:** Management has demonstrated its ability to maintain a robust balance sheet through commodity cycles, complete a successful cost reduction strategy and maintain liquidity. Additionally, Mr. Scott Douglas, PXD's CEO, has a ~US$55mm stake in the company, the highest amongst North American E&P executives as a percentage of total company value.

**Competitive Advantage:** Although it is hard to find compelling competitive advantages for E&P companies since they are price-takers, PXD's average Permian acquisition cost per acre of only ~$500 (vs. peer average of ~$30,000) gives it access to a low cost, high quality asset base with 100% pipeline takeaway capacity.

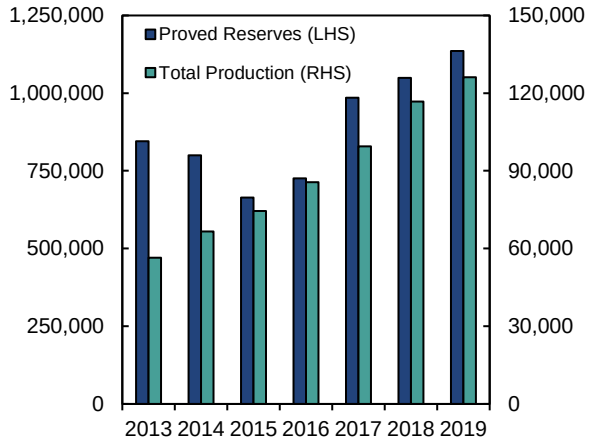
**Strong Balance Sheet:** PXD presents one of the least levered balance sheets among its peer group. PXD's 0.6x 2020E Net Debt/EBITDA is considerably stronger than the peer average 4.2x. With a current ratio of 1.0x, an EBITDA Interest Coverage Ratio of 29x, and US$1.6B of available liquidity through an unsecured credit facility, the Company should have no liquidity or funding issues in the short to medium term.

**Figure 5: Crude Inventories (mmbbl)**




Source: Energy Information Administration (EIA)

**Figure 6: Proved Reserves vs. Production (Mboe)**




Source: Company Filings

**Growing Free Cash Flow:** PXD's free cash flow, although still slightly negative (not surprising in such a capital-intensive industry) has grown from -US$1.15B in 2015 to -US$100mm in 2019.

**Attractive Valuation:** At strip pricing, PXD seems to be trading at relatively low valuations to peers on an CY EV/EBITDA and EV/DACF basis (8.2x versus peer median 10.1x, 7.7x vs 8.9x, respectively). Additionally, PXD is expected to generate a more attractive FCF yield than peers (4% vs 1%) in FY2020. Peers used include: EOG Resources (NYSE: EOG), Diamondback Resources (NASDAQ: FANG), Concho Resources (NYSE: CXO), Continental Resources (NYSE: CLR), Apache Corporation (NASDAQ: APA), and Marathon Oil (NYSE: MRO).

## Investment Thesis and Risks

Because of PXD's remarkable capital and cost discipline, its quality assets, ample liquidity, large reserves, and egress capacity, the Company could be viewed as a potentially compelling investment opportunity. PXD's low cost reserve base and its drilling and completion efficiencies have allowed it to consistently maintain a reserve replacement ratio >1.

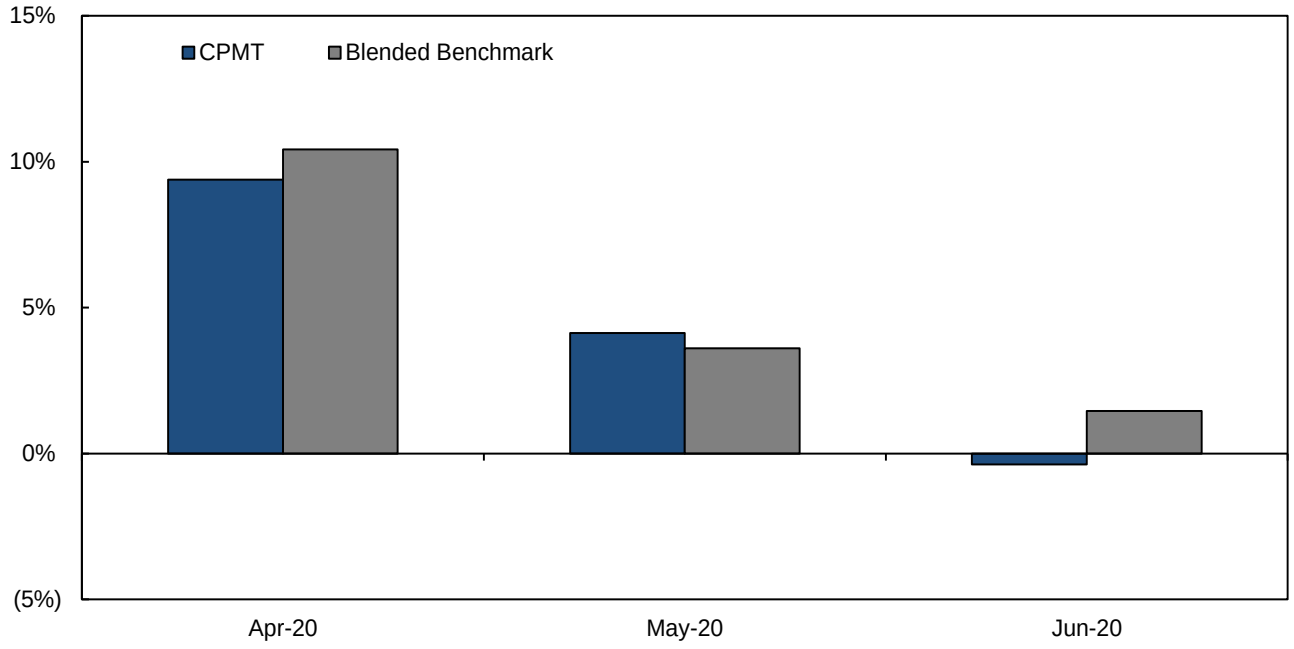
PXD was valued based on a 1P NAV to achieve a target price of $121. This implies an upside of ~26%, a reasonable outlook for a well-positioned, well-hedged upstream name that has been significantly battered by the energy sell-off earlier in the year. However, the CPMT currently holds Suncor and Enbridge (TSX, NYSE: SU, ENB) as we are attracted to the flexibility that an integrated production model provides, as well as the yield stability of infrastructure. The CPMT is encouraged by PXD's openness to abandon high production targets in the mid teens as it is our view that oversupply could continue to be an issue going forward.

The Company noted that 2Q20 would be one of the toughest quarters in the history of the energy industry. Due to PXD's strong reputation among Permian upstream peers, the Company may experience an outsized sell-off if results are below consensus estimates. Moreover, we see little benefit to PXD's 100% contracted pipeline takeaway capacity due to the large egress availability in the Permian. This could become a detractor when take or pay contracts must be fulfilled and it is uneconomic to continue producing or PXD must incur losses in the sale of purchased oil and gas. These factors, in addition to a highly uncertain commodity price environment caused by a lack of demand growth visibility in the short term and high storage levels have guided a No Action recommendation on the name. The CPMT will remain observant of PXD's drivers and will consider entering a position should demand/supply fundamentals improve.

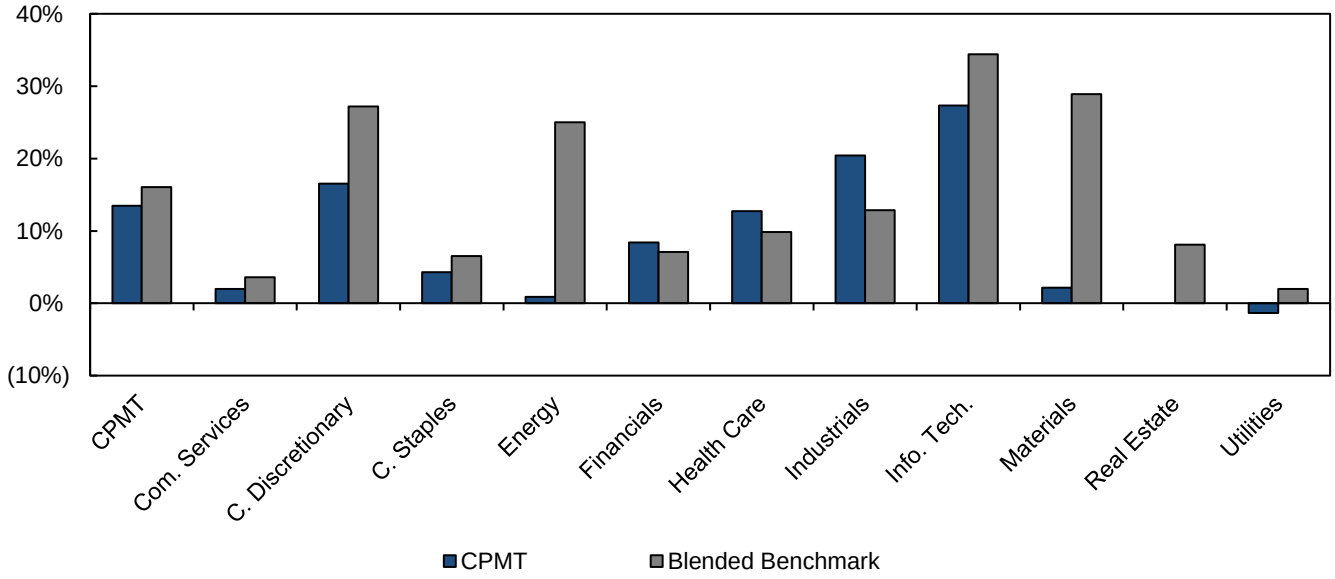
# Compliance and Performance

## QUARTERLY PERFORMANCE

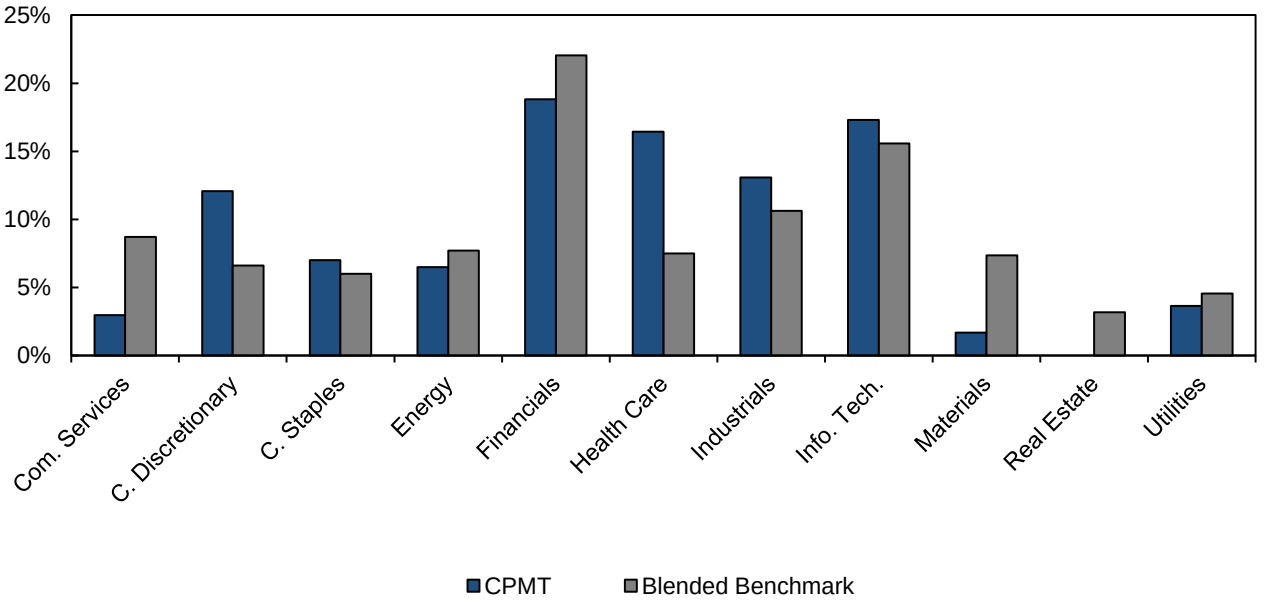
### CPMT and Blended Benchmark Monthly Returns



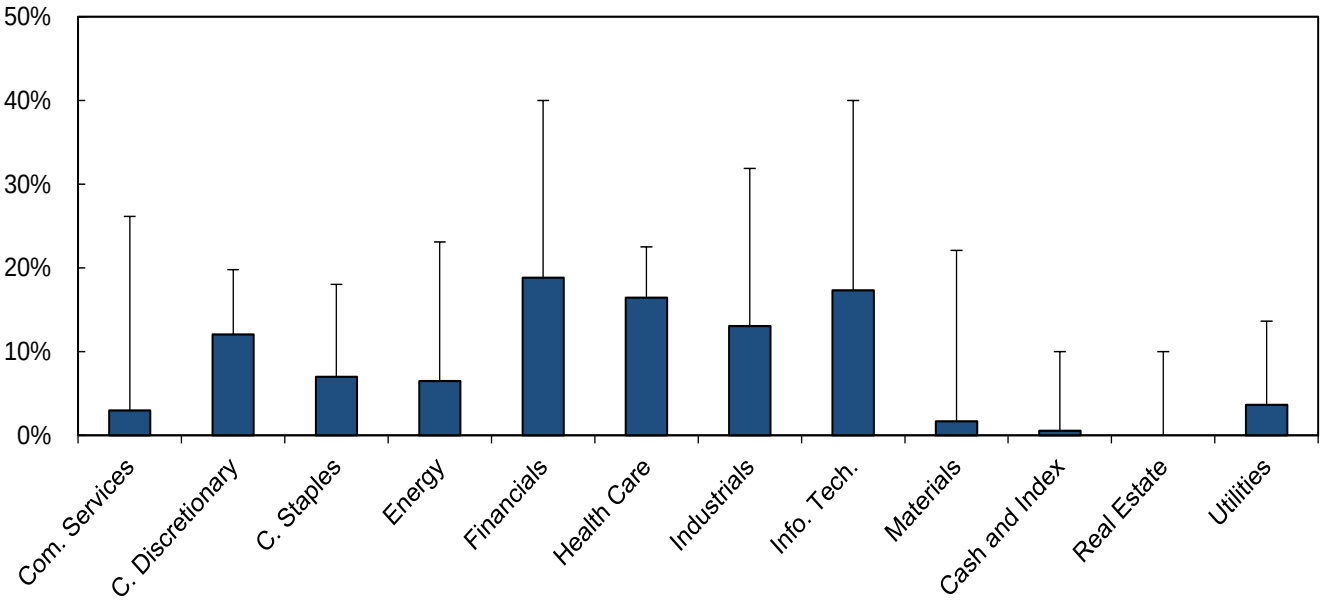

### CPMT and Blended Benchmark Sector Returns



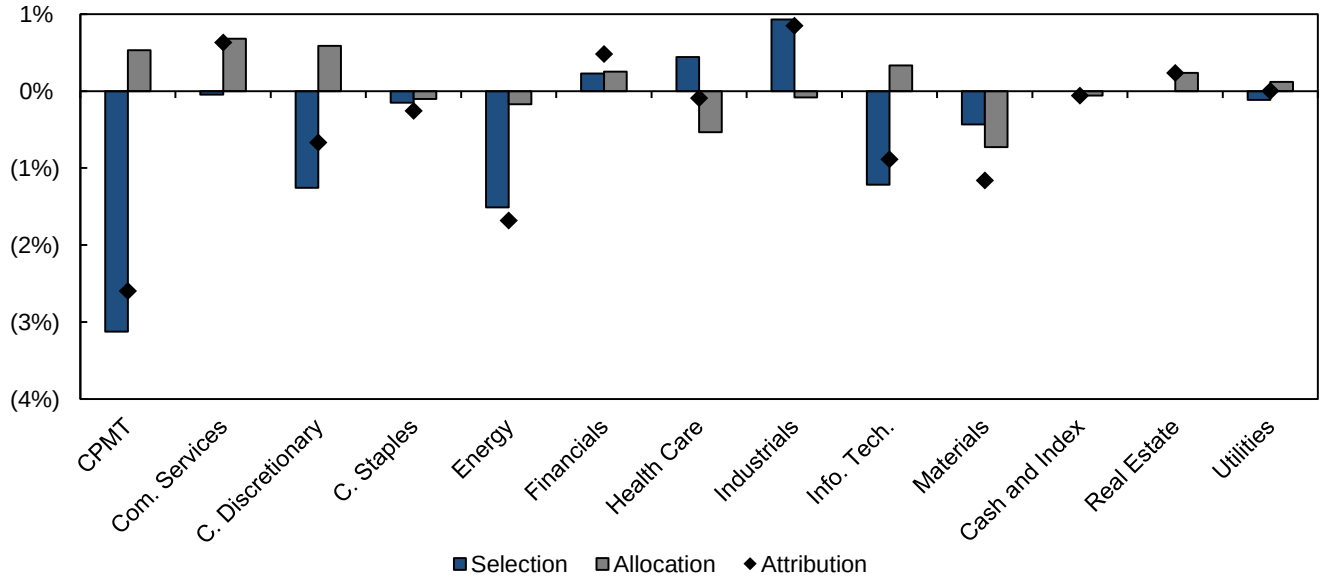
## CPMT and Blended Benchmark Asset Breakdown




## CPMT Sector Weights vs Maximum Weight



## Attribution Analysis (Quarterly)




### CPMT Attribution Analysis

| FQ1 2021 | Attribution | Allocation | Selection |
|---|---|---|---|
| **CPMT** | (2.60%) | 0.53% | (3.13%) |
| **Communication Services** | 0.63% | 0.68% | (0.05%) |
| **Consumer Discretionary** | (0.67%) | 0.59% | (1.26%) |
| **Consumer Staples** | (0.25%) | (0.10%) | (0.15%) |
| **Energy** | (1.68%) | (0.17%) | (1.51%) |
| **Financials** | 0.48% | 0.25% | 0.23% |
| **Health Care** | (0.09%) | (0.54%) | 0.44% |
| **Industrials** | 0.85% | (0.08%) | 0.93% |
| **Information Technology** | (0.88%) | 0.33% | (1.22%) |
| **Materials** | (1.16%) | (0.73%) | (0.43%) |
| **Other** | (0.06%) | (0.06%) | 0.00% |
| **Real Estate** | 0.24% | 0.24% | 0.00% |
| **Utilities** | 0.00% | 0.12% | (0.12%) |

| 1 Year | Attribution | Allocation | Selection |
|---|---|---|---|
| **CPMT** | 2.47% | (1.54%) | 4.01% |
| **Communication Services** | (0.20%) | 0.37% | (0.56%) |
| **Consumer Discretionary** | (0.20%) | (0.17%) | (0.02%) |
| **Consumer Staples** | 0.47% | 0.17% | 0.30% |
| **Energy** | 0.18% | (0.06%) | 0.24% |
| **Financials** | 1.00% | (0.08%) | 1.08% |
| **Health Care** | 1.40% | (1.21%) | 2.61% |
| **Industrials** | 1.85% | 0.27% | 1.58% |
| **Information Technology** | (0.70%) | (0.72%) | 0.02% |
| **Materials** | (1.43%) | (0.10%) | (1.34%) |
| **Other** | 0.51% | 0.51% | (0.00%) |
| **Real Estate** | (0.71%) | (0.61%) | (0.11%) |
| **Utilities** | 0.49% | 0.07% | 0.42% |

## 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*

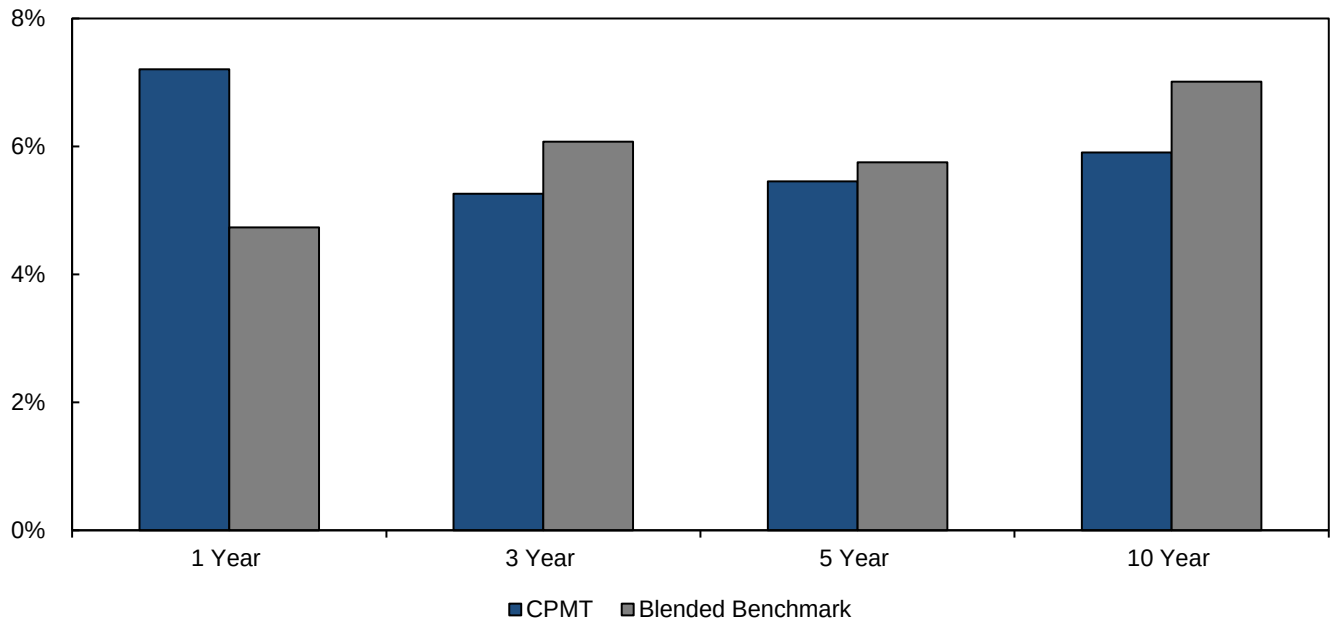
### CPMT Transactions Log

| FQ1 | Date | Action | Shares | Purchase Price | Sale Price | Currency | Capital Gain | 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 | 56.03% |
| NEE | 22-Apr-20 | Buy | 58 | $243.91 | | | | |
| PG | 27-Apr-20 | Buy | 60 | $117.59 | | | | |
| **Total** | | | | | | | $9,514.53 | 44.99% |

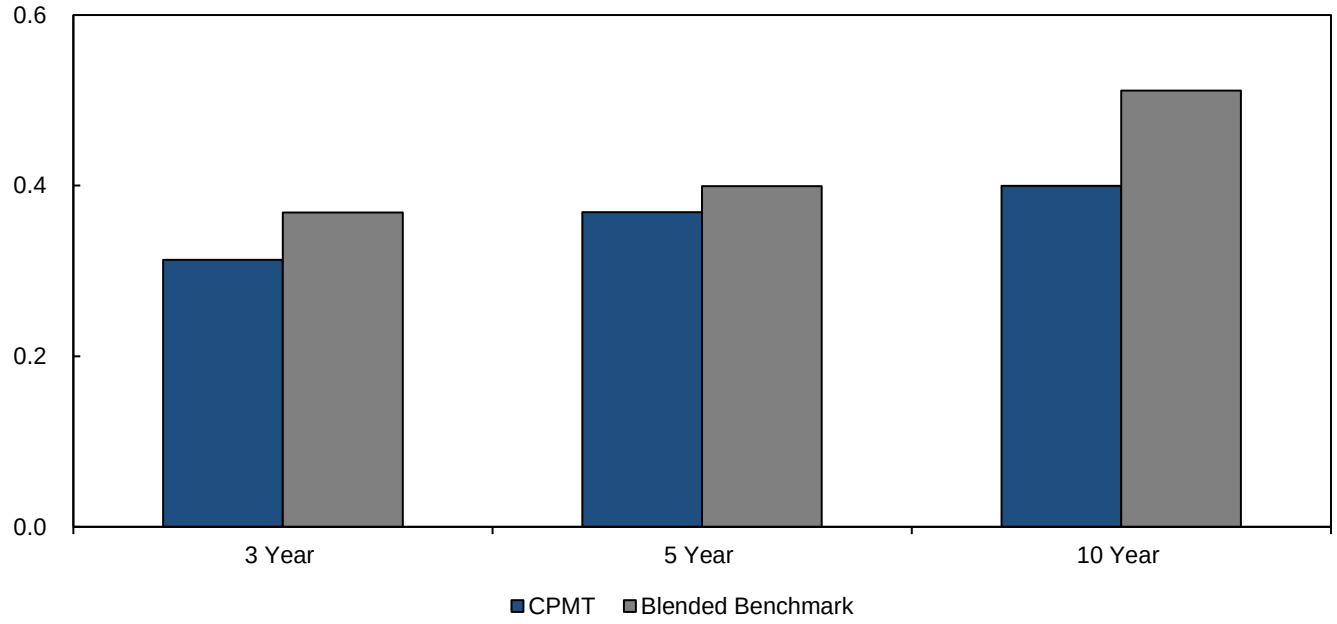
# Compliance and Performance

**LONG TERM PERFORMANCE**

## CPMT and Blended Benchmark Total Return (Annualized)




## CPMT and Blended Benchmark Composite Index Sharpe Ratios



## The CPMT Long Term Performance Targets

| Absolute Returns (annualized) | | 1 Year | | 3 Year | | 5 Year | | 10 Year |
|---|---|---|---|---|---|---|---|---|
| CPMT [1] | ✓ | 7.20% | ✗ | 5.26% | ✗ | 5.45% | ✗ | 5.90% |
| **Relative Returns (bps)** | | | | | | | | |
| Blended Benchmark [2] | ✓ | 247 | ✗ | (81) | ✗ | (30) | ✗ | (110) |
| **Risk Adjusted Returns (bps)** | | | | | | | | |
| Blended Benchmark [3] | ✓ | 255 | ✗ | (60) | ✗ | (7) | ✗ | (84) |

(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

| Annualized Return | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|
| CPMT | 7.20% | 5.26% | 5.45% | 5.90% |
| Blended Benchmark | 4.73% | 6.07% | 5.75% | 7.01% |
| **Annualized Volatility** | | | | |
| CPMT | 17.02% | 13.52% | 11.85% | 11.04% |
| Blended Benchmark | 18.34% | 13.66% | 11.60% | 10.58% |
| **Sharpe** | | | | |
| CPMT | 0.42 | 0.31 | 0.37 | 0.40 |
| Blended Benchmark | 0.28 | 0.37 | 0.40 | 0.51 |

## *Account Activity Continued*

### 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** |

| CPMT Holdings - June 30, 2020 | 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 | 4.80% | 4.00% | 0.80% | $95.00 | ▼ | $60.00 | $44.60 | 7.43% | 6.97% |
| JPMorgan Chase & Co. | Large | 2 | 3.31% | 4.00% | (0.69%) | $146.00 | ▼ | $115.00 | $94.06 | 4.48% | (26.60%) |
| Mastercard | Large | 3 | 6.09% | 6.00% | 0.09% | $359.00 | ▼ | $347.00 | $295.60 | 22.41% | 11.78% |
| Toronto Dominion | Large | 3 | 4.63% | 6.00% | (1.37%) | $75.00 | ▼ | $65.00 | $60.59 | 1.27% | (20.82%) |
| **Information Technology** | | | | | | | | | | | |
| Apple Inc | Large | 3 | 6.85% | 6.00% | 0.85% | $312.00 | ▲ | $400.00 | $364.80 | 43.46% | 84.32% |
| Constellation Software | Large | 2 | 4.10% | 4.00% | 0.10% | $1,320.00 | ▬ | $1,320.00 | $1,532.89 | 19.85% | 24.20% |
| Microsoft Corp. | Large | 2 | 6.36% | 4.00% | 2.36% | $200.00 | ▲ | $239.00 | $203.51 | 29.04% | 51.92% |
| **Materials** | | | | | | | | | | | |
| CCL Industries | Mid | 1 | 1.68% | 2.00% | (0.32%) | $67.00 | ▼ | $52.00 | $43.88 | 2.55% | (31.67%) |
| **Energy** | | | | | | | | | | | |
| Enbridge | Large | 3 | 4.74% | 6.00% | (1.26%) | $55.00 | ▼ | $52.00 | $41.28 | 0.73% | (12.73%) |
| Suncor | Large | 2 | 1.75% | 4.00% | (2.25%) | $45.00 | ▼ | $30.00 | $22.89 | 1.91% | (43.97%) |
| **Consumer Discretionary** | | | | | | | | | | | |
| Aritzia | Large | 2 | 5.09% | 4.00% | 1.09% | $24.00 | ▬ | $24.00 | $19.01 | 15.68% | (1.98%) |
| Dollarama | Large | 2 | 3.79% | 4.00% | (0.21%) | $51.00 | ▼ | $49.00 | $45.16 | 15.68% | (1.98%) |
| Ross Stores, Inc. | Large | 2 | 3.18% | 4.00% | (0.82%) | $135.00 | ▬ | $135.00 | $85.24 | (1.99%) | (21.25%) |
| **Consumer Staples** | | | | | | | | | | | |
| Proctor & Gamble | Large | 1 | 1.87% | 2.00% | (0.13%) | $132.00 | ▬ | $132.00 | $119.57 | 1.55% | 1.55% |
| Costco | Large | 3 | 5.14% | 6.00% | (0.86%) | $315.00 | ▲ | $330.00 | $285.13 | 6.34% | 14.74% |
| **Telecommunications** | | | | | | | | | | | |
| Telus | Large | 2 | 2.96% | 4.00% | (1.04%) | $57.00 | ▬ | $57.00 | $22.25 | 2.34% | (5.95%) |
| **Healthcare** | | | | | | | | | | | |
| Abbott Laboratories | Large | 2 | 3.53% | 4.00% | (0.47%) | $93.00 | ▲ | $100.00 | $91.43 | 15.87% | 8.72% |
| Amgen | Large | 2 | 3.69% | 4.00% | (0.31%) | $250.00 | ▲ | $252.00 | $235.86 | 16.34% | 27.99% |
| Intuitive Surgical, Inc. | Large | 2 | 5.05% | 4.00% | 1.05% | $650.00 | ▬ | $650.00 | $569.83 | 15.07% | 35.51% |
| Knight Therapeutics | Mid | 2 | 4.16% | 4.00% | 0.16% | $9.00 | ▬ | $9.00 | $7.02 | 13.23% | (9.07%) |
| **Industrials** | | | | | | | | | | | |
| Canadian National Railway | Large | 3 | 5.74% | 6.00% | (0.26%) | $130.00 | ▬ | $130.00 | $120.11 | 9.16% | (0.90%) |
| Cintas Corp. | Large | 2 | 4.17% | 4.00% | 0.17% | $320.00 | ▬ | $320.00 | $266.36 | 53.77% | 1.42% |
| Waste Connection Inc. | Large | 2 | 3.16% | 4.00% | (0.84%) | $125.00 | ▬ | $125.00 | $93.79 | 16.47% | 1.67% |
| **Utilities** | | | | | | | | | | | |
| Nextera Energy | Mid | 2 | 3.63% | 4.00% | (0.37%) | $282.00 | ▬ | $282.00 | $240.17 | (1.60%) | (1.60%) |