Calgary Portfolio Management Trust

FQ2 2020 Report

UNIVERSITY OF CALGARY
HASKAYNE SCHOOL OF BUSINESS

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Dear Stakeholders,

The Calgary Portfolio Management Trust (CPMT) Class of 2020 would like to extend our gratitude to the Board of Trustees for its continued commitment 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 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 a vast 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 day to speak with the Fund. The CPMT team is grateful to all of the 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 entering the U.S. market and a comprehensive reshaping of the portfolio, the CPMT continues to carry the momentum and rigor of last year's work into fiscal year 2020. The Fund currently sits at a 60/40 weighting between Canadian and U.S. equities, and we aim to reach our 50/50 target within the next several months. The CPMT plans to execute this transition prudently, only 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. Additionally, we 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 will strive to maintain our commitment to excellence.

Sincerely,

Ben Dimnik, Portfolio Manager

Brian Timmerman, Portfolio Manager

Colton Borle, Portfolio Manager

Faiz Dossa, Portfolio Manager

Lucas Peters, Portfolio Manager

Mahdis Sadeghi, Portfolio Manager

Nicole Livingston, Portfolio Manager

Scott McNichol, Portfolio Manager

Class of 2020

Biographies

CPMT CLASS OF 2020

BEN DIMNIK
Portfolio Manager
5th Year, Finance

Ben joined the CPMT in March 2018 as an Investment Analyst. Ben is looking forward to improving his portfolio management, financial modeling, and valuation skills. Over his Bachelor of Commerce, Ben has worked for Pivotal Capital as a Market Research Assistant and for RS Energy Group as a Research Associate Intern. This summer, Ben completed an internship at CIBC World Markets as a Corporate Banking Summer Analyst and will be returning full-time in winter. Upon graduation, he looks to obtain his CFA designation. In his spare time, Ben enjoys playing hockey, golf, and hiking in the mountains.

BRIAN TIMMERMAN
Portfolio Manager
4th Year, Finance

Brian joined the CPMT in March 2018. He would like to thank the Board of Trustees, speakers, and alumni for their continued support of the program. Brian hopes to continue gaining hands-on experience in intrinsic valuation, portfolio management, and equity research through the CPMT program. This upcoming summer, he will be joining Bank of America Merrill Lynch as an Investment Banking Summer Analyst. Previously, Brian worked as a Junior Investment Analyst at ARC Financial and as a Research Associate Intern at RS Energy Group. Outside of the CPMT, Brian is a member of the University of Calgary's Rotman International Trading Competition team. Upon graduation, he intends to pursue a career in capital markets, as well as obtain his CFA designation. In his spare time, Brian enjoys playing chess, hiking, skiing, and reading.

COLTON BORLE
Portfolio Manager
5th Year, Finance

As a Portfolio Manager, Colton is eager to continue learning about capital markets, valuation, and portfolio management from the extensive community of alumni, peers, and industry professionals that surround the CPMT. He is currently in the midst of an internship at CIBC World Markets in the Global Infrastructure and Power Investment Banking division as an Investment Banking Co-op Analyst. In the coming year, Colton is looking forward to taking a mentorship role with the Investment Analyst class and improving the program as much as he can for future years. Following graduation, Colton hopes to attain his CFA designation and pursue a career in capital markets. Colton enjoys soccer, podcasts, and hiking in his spare time.

FAIZAAN DOSSA
Portfolio Manager
5th Year, Finance

Faizaan is enjoying his role as a Portfolio Manager in the Industrials and Real Estate Sector. He is writing CFA Level 1 in December 2019 and is excited to further his capital markets competency over the year while sharing his experiences with his IAs. He is thankful for the opportunity that the CPMT provides and appreciates the continued support that the Board of Trustees, speakers, and alumni offer. In his spare time, Faizaan enjoys bodybuilding, time outdoors, and reading.

LUCAS PETERS
Portfolio Manager
5th Year, Finance
Lucas joined the CPMT in March 2018 as an Investment Analyst. Lucas is excited to expand his knowledge of capital markets, valuation, and portfolio management throughout his time in the program. This summer, Lucas completed a summer internship at J.P. Morgan as an Investment Banking Summer Analyst and will be returning full-time upon graduation. Last summer, he worked as a Private Equity Summer Analyst for Macritchie, after spending the fall semester on a Co-op term with Mackenzie Investments. In addition to his interest in finance, Lucas enjoys golfing and playing hockey.

MAHDIS SADEGHI
Portfolio Manager
5th Year, Finance
Mahdis joined the CPMT program in September 2017 as an Investment Analyst and would like to extend her thanks to the Board of Trustees, speakers, alumni, and mentors for their continued support. Mahdis is excited to gain hands-on experience in research, intrinsic valuation, and portfolio management throughout this academic year. Mahdis recently completed a summer internship with Citi as a Corporate Banking Summer Analyst. Her previous experience includes internships with RS Energy and the British Columbia Investment Management Corporation's Corporate Bond Fund. Upon graduation, she intends to pursue a career in capital markets and obtain her CFA designation. In addition to her interest in finance, Mahdis enjoys hiking and snowboarding.

NICOLE LIVINGSTON
Portfolio Manager
5th Year, Finance
Nicole joined the CPMT in March 2018 as an Investment Analyst. She would like to thank the Board of Trustees, speakers, and mentors for giving her the opportunity to develop professionally alongside talented peers. Nicole recently completed a summer internship in Securities Research with Kempen & Co. in Amsterdam. She aims to pursue a Masters in Quantitative Finance followed by a career in capital markets upon graduation. Outside of academia and work, Nicole loves to travel, learn languages, and physically challenge herself through competitive boxing and Brazilian jiu-jitsu.

SCOTT MCNICHOL
Portfolio Manager
5th Year, Finance/Chemical Engineering
Scott joined the CPMT in March 2018 as an Investment Analyst. He would like to thank the Board of Trustees, faculty, speakers, and alumni, for their guidance and program support. During his time in the program, he has thoroughly enjoyed the opportunity to expand his research, valuation, and portfolio management knowledge. Scott is in his final year working on a dual degree in Finance and Chemical Engineering and will be working as an Investment Banking Analyst at Credit Suisse upon graduation. This summer, Scott worked at Credit Suisse as an Investment Banking Summer Analyst, and prior to that, he worked as an Engineering Summer Student at Husky Energy and Sproule. Outside of work and school, Scott is an avid golfer and played competitively for several years.

CPMT CLASS OF 2021

AKASH SEKAR
Investment Analyst
4th 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 looking forward to joining Credit Suisse next summer as an Investment Banking Summer Analyst. Akash 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
Investment Analyst
3rd 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 a finance major and completed a summer internship at AECOM in the project controls department, where she currently works part-time. Upon graduation, she would like to explore a career in consulting or equity research. In her spare time, Breanna enjoys yoga, dancing, reading, and overall health and wellness.

DHRUV JINDAL
Investment Analyst
3rd Year, Finance/Data Science (Minor)
Dhruv joined the CPMT as an Investment Analyst in March 2019. He is looking forward to gaining hands-on experience in valuation, financial modeling, and equity research through the CPMT program. In addition to the CPMT, he is a member of the University of Calgary Trading Team and competed in the JDC West and Van Berkom JMSB Small Cap case competitions this past year. This past summer, Dhruv worked as a Capital Markets and Corporate Planning Summer Student at Parex Resources. He is currently working at Suncor Energy on an 8-month co-op term as an Oil Sands Finance Student. Upon graduation, he intends to pursue a career in capital markets, as well as obtain his CFA designation. In his spare time, Dhruv enjoys listening to music and podcasts.

ERIK SKORONSKI
Investment Analyst
4th Year, Finance/Software Engineering
Erik joined the CPMT in March 2019 as an Investment Analyst. He is excited to expand 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 capital markets upon graduation. He recently finished an internship at Ayrshire Group in their Real Estate and Venture Capital teams as a Private Equity Summer Analyst. Outside of work and academia, he enjoys contributing to fintech projects, listening to podcasts, snowboarding, and cycling.

HAYLEY HICKS
Investment Analyst
4th Year, Finance
Hayley joined the CPMT in March 2019 as an Investment Analyst. She is excited to strengthen her knowledge in fundamental equity valuation, strengthen her 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 wishes to obtain her CFA post-graduation while pursuing a career in the capital markets. 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 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
Investment Analyst
3rd Year, Finance/Mathematics
Helena joined the CPMT in March 2019 as an Investment Analyst. 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 further her knowledge about portfolio management, valuation, and equity research through the program. She is currently pursuing a combined degree, majoring in Finance and Math. Helena completed two summer internships at Plains Midstream Canada, where she worked as a Futures and Derivatives Trading Intern and Acquisitions and Strategic Planning Intern. Upon graduation, Helena intends to pursue a career in capital markets and obtain her CFA designation. In her spare time, Helena enjoys playing piano and clarinet, as well as golfing, playing tennis, and hiking.

JOSE MENJIVAR
Investment Analyst
4th 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. He recently completed a summer internship with the Creative Destruction Lab as a Venture Analyst. In his free time, Jose enjoys hiking, reading, playing guitar, and researching new technologies.

WILLIE LI
Investment Analyst
4th 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. Upon graduation, he intends to pursue a career in capital markets and obtain his CFA designation. Outside of work and academics, Willie enjoys reading, basketball, gymnastics, and financial software development.

Portfolio Strategy and Sector Views

OVERVIEW

During FY2020, 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 on 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 sheet, and growing free cash flow. The CPMT continues to research companies that we believe are defensive while fitting our mandate, and will outperform amidst slowing global growth and rising trade tensions. Moreover, we believe our views on optimal sector weightings will become increasingly important as the looming economic slowdown approaches and intra-stock correlations increase, which limit the effectiveness of security selection. 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.

CONSUMER DISCRETIONARY

We view the Consumer Discretionary sector with cautious optimism when looking for names that fit our portfolio mandate and macroeconomic outlook. With global growth slowing and central bank's policy shifting from normalization to stimulus, we see the threat of a looming recession as negative for the overall Consumer Discretionary sector. A recession will cause a slowing in consumer activity which will reduce the wholesale demand for discretionary items, which subsequently result in poor performance for the sector under those circumstances. That said, we are currently underweight our blended index by 4.4% currently and have Dollarama (TSX: DOL) as our lone sector holding, which we believe is well positioned to outperform in a recession environment.

CONSUMER STAPLES

We are comfortable being slightly overweight in Consumer Staples given the positive historical performance of the sector during economic downturns. We added Costco (NASDAQ: COST) to the Fund at the beginning of 2019, and it has returned ~36% thus far. This is an indication that COST is a high-quality name and investor sentiment is targeting defensive names. Prior to quarter end, we parted ways with our other sector holding Andrew Peller (TSX: ADW/A). After a revaluation of the name, we concluded that it was in the Fund's best interest to take our profits and seek a more traditional Consumer Staples company that will offer better performance given our outlook.

ENERGY

The CPMT aims to be underweight in Energy relative to the benchmark. Since the decision in late 2018 to divest all E&P holdings, the CPMT will maintain exposure to energy through companies with distinct competitive advantages and the ability to generate free cash flow throughout commodity price cycles. The CPMT believes the North American gas market will remain oversupplied in the near term and oil prices may stay near marginal economic levels due to prolific shale production growth from the U.S. As such, we continue to seek companies with limited or diversified exposure to commodity prices and will continue to evaluate the mandate fit of our current energy holdings.

FINANCIALS

At quarter end, the CPMT recognized the 7.8% overweight in Financials holdings. Subsequent to quarter end, we reduced our allocation in Financials by trimming Manulife (TSX/NYSE: MFC) by 1.2% AUM. Similarly, we will be evaluating the split between Canadian and U.S. names (currently 4/5 are Canadian) to determine whether to bring the split in line with the fund target of 50/50. Macroeconomic indicators and our overall market view will be used to determine an appropriate split as well.

HEALTH CARE

The CPMT is currently 3.5% overweight in Health Care relative to the benchmark. We are comfortable with our overweight position as the industry tends to display the competitive advantages and free cash flow generation we seek through our mandate. Additionally, the space is attractive due to its non-discretionary nature and the aging North American demographic. However, valuations within the sector remain elevated, and the CPMT will remain diligent in evaluating new potential investments in order to ensure price is reasonable when compared to intrinsic value.

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, and other pre-recessionary signs. The CPMT currently holds Canadian National Railway (TSX: CNR) and Waste Connections (TSX: WCN). The CPMT is currently 0.7% underweight in the Industrials sector after divesting our position in Toromont (TSX: TIH) prior to quarter end. The CPMT will continue to monitor the sector as well as macroeconomic events to ensure the fund will not underperform in the Industrial Sector.

INFORMATION TECHNOLOGY

The Information Technology sector offers tremendous growth and highly diverse business models that makes it appealing for the CPMT to search for companies that fit our mandate and that drive high returns through growth. Although we continually look for high growth names, we find that the market values growth at a vast premium which often does not align with our valuation objectives, which is why we are currently slightly underweight the sector. The CPMT has recently added Microsoft and Apple (NASDAQ: MSFT, AAPL) to the Fund under the justification that they have extreme differentiation and astounding power to leverage their market position into new areas of long-term significance (e.g. cloud). We will continue to monitor the sector for growth and differentiated names, but we are comfortable with our current position.

MATERIALS

The CPMT is currently 2.9% underweight in Materials relative to the benchmark, with CCL Industries (TSX: CCL.B) as our only holding in the sector. After quarter end, we trimmed the weighting of CCL Industries predicated on our revised thesis of slowing growth, increased leverage, and significant underperformance relative to peers. The Fund may explore names in the U.S. that can continue to add value to the Fund, and follow our defensive stance.

REAL ESTATE

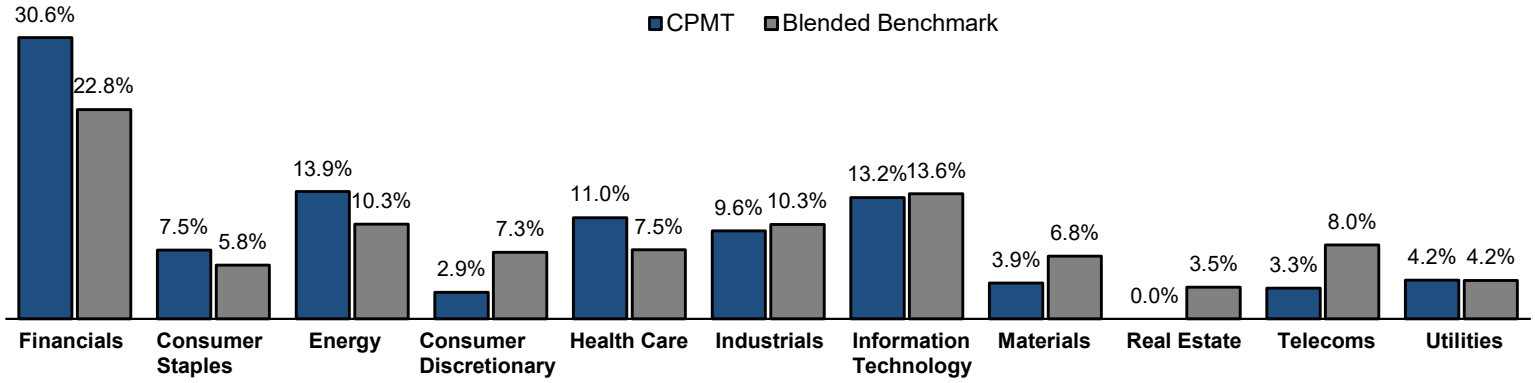
Although the CPMT does not currently hold any Real Estate securities, the CPMT will continue to research U.S. listed securities for opportunities to bring the sector weighting in line. The REIT industry remains a strong sector moving into the recent quarter and the Fund sees the industrial and healthcare REITs as industries with strong potential for attractive investment within the sector.

TELECOMMUNICATIONS

The CPMT is currently underweight 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 as our sole holding in the sector but will be evaluating the strength of the U.S. telecommunications companies as means to get more early exposure to the roll out of 5G.

UTILITIES

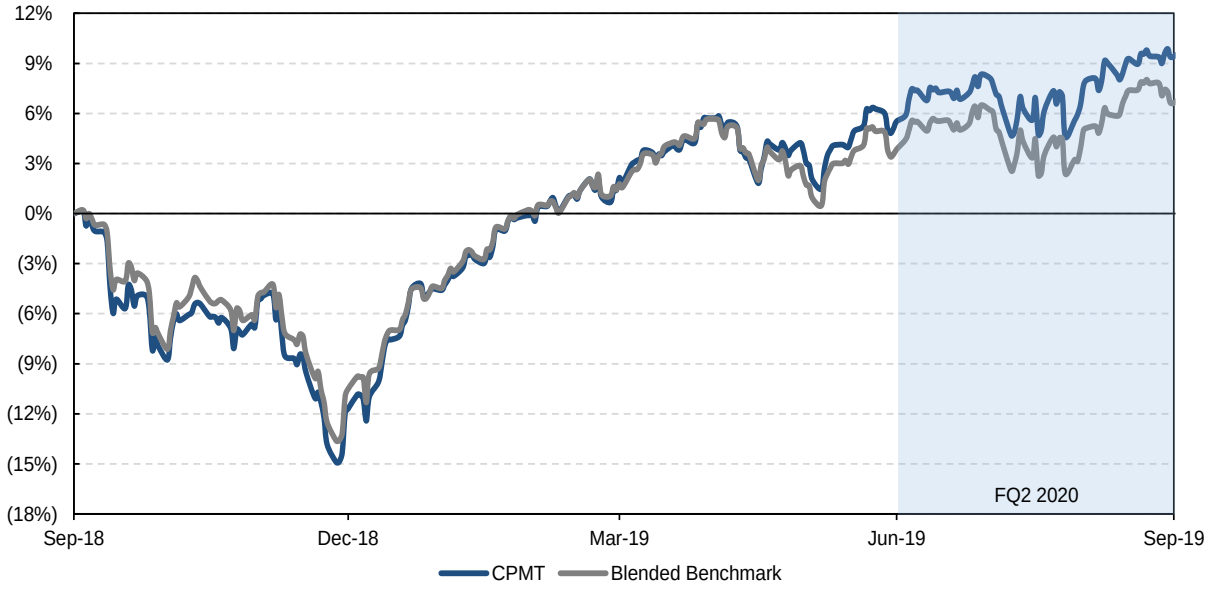
The CPMT is currently in line for Utilities weighting relative to the benchmark. The CPMT is comfortable with our current weighting and may even add to it given our defensive outlook. Similarly, as the world moves towards "green energy" projects, we may look to increase our weighting in Algonquin as it maintains as one of the market leaders in that aspect.



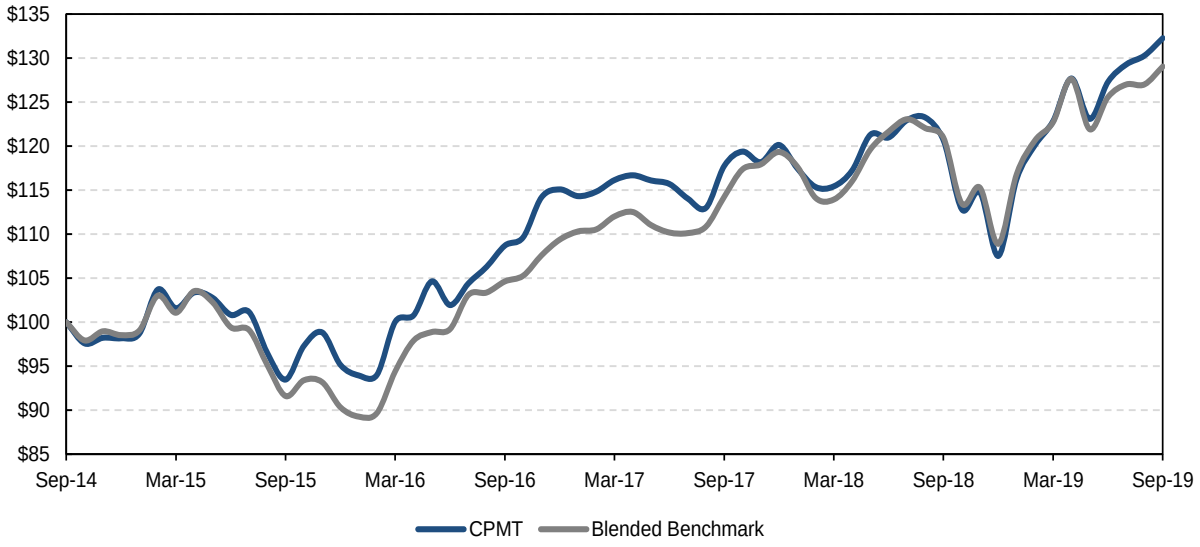
Note: Sector weightings as of October 25, 2019

Quarterly Snapshot - FQ2 2020

CPMT and Benchmark Total Return (TTM)



Value of $100 (since September 30, 2014)



Fund Universe

	FQ2	1 Year	3 Year	5 Year	10 Year
CPMT	3.63%	8.91%	4.86%	3.31%	5.07%
Blended Benchmark	2.66%	6.68%	7.24%	5.23%	6.93%
Blended Benchmark Difference	0.97%	2.23%	(2.37%)	(1.92%)	(1.86%)

Quarter in Review

QUARTERLY RETURN

NOTE TO STAKEHOLDERS

The Calgary Portfolio Management Trust (CPMT) Class of 2020 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. 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, which provides students invaluable support from technical expertise to career guidance.

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

OVER THE QUARTER

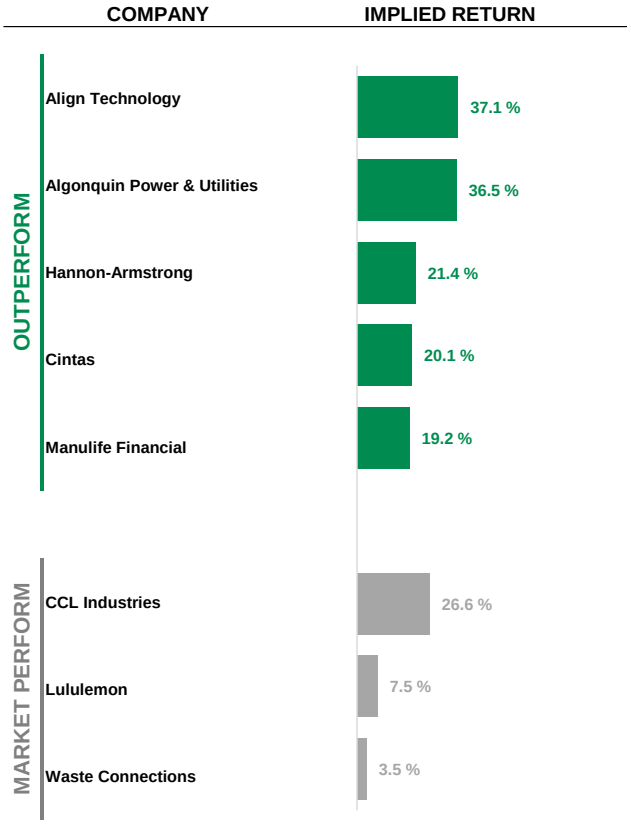
Although it wasn't an active quarter for the team, the Fund researched many names in the U.S. space in order to make progress toward our desired 50/50 weighting. As part of our research for the quarter, the team travelled to Camp Chief Hector in Kananaskis where we held our second annual Investment Analyst stock pitch day. As an outcome, The Fund uncovered three promising investments that we are currently evaluating in hopes to present in the next quarter.

To kick off our events this quarter, the team had the pleasure of hosting Jamie Wilkie from Marquee Group for a course on financial modeling at the University of Calgary. The Fund also held its Q1 social at National on 8th this summer and would like to thank everyone who came out. The Fund would also like to thank J.P. Morgan, TD Securities, Barclays, SAF Group, Scotiabank, and Credit Suisse for hosting Speaker Series.

SUBSEQUENT EVENTS

Following quarter-end on September 30, the Team divested a number of positions in our Canadian holdings (including Toromont and Andrew Peller) as well as trimming Manulife and CCL Industries in order to get closer to our desired U.S. weighting, which as of November 1 was 40%. The team allocated weight to the U.S. by purchasing an index (NYSE: IVV) rather than rushing to enter positions in names that we are not fully comfortable with or convicted on. The team feels it is more prudent to take the time necessary to find companies that fit the CPMT's investment mandate before taking action. We look forward to sharing an update with you on our transition to the U.S. in the next quarter.

NEW RECOMMENDATIONS



Algonquin Power & Utilities

Utilities
TSX | NYSE: AQN
Market Outperform | Hold

September 30, 2019

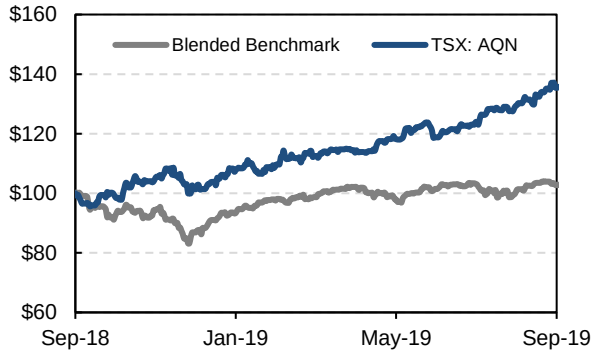
Lucas Peters, Portfolio Manager
Akash Sekar, Investment Analyst

Return on Investment	
Current Share Price	$18.14
Target Price	$24.00
Dividend Yield	4.15%
Holding Period Return	36%
Conviction Rating	2

Market Profile	
52-Week Range	$13.01 - $18.80
Market Capitalization (mm)	$9,425
Net Debt (mm)	$3,290
Enterprise Value (mm)	$12,715
Beta (5-Year Monthly)	0.43

Consensus Metrics	2019E	2020E	2021E
EBITDA (mm)	$831	$896	$1,001
EPS	$0.59	$0.64	$0.71
P/E	21.7x	18.6x	15.8x
EV/EBITDA	13.9x	13.7x	13.5x

Historical Trading Performance (Indexed to $100)



Source: Bloomberg

Business Description

Algonquin Power and Utilities (TSX, NYSE: AQN) operates a portfolio of regulated and non-regulated assets under three segments: Generation, Transmission, and Distribution. AQN acts as the parent company to Liberty Utilities Group and Liberty Power Group, in which it operates under. Liberty Utilities Group owns and operates its regulated electric, natural gas, water distribution and wastewater collection systems, as well as its transmission operations. It services ~770,000 customers located across the U.S. which is broken down to 339,000 natural gas connections, 266,000 electricity connections, and 165,000 wastewater connections. Liberty Power Group is primarily its non-regulated renewables division consisting of thermal electric generation and other renewable generation assets. The Power Group owns ~1,700 MW of net generating capacity with a weighted average PPA length of 13.5 years along with ~300 MW of development in its pipeline. Under Liberty Power Group, AQN holds a significant stake in European-based Yieldco Atlantica Yield (NASDAQ: AY) which manages contracted power generation, renewable energy, electric transmission, and water assets.

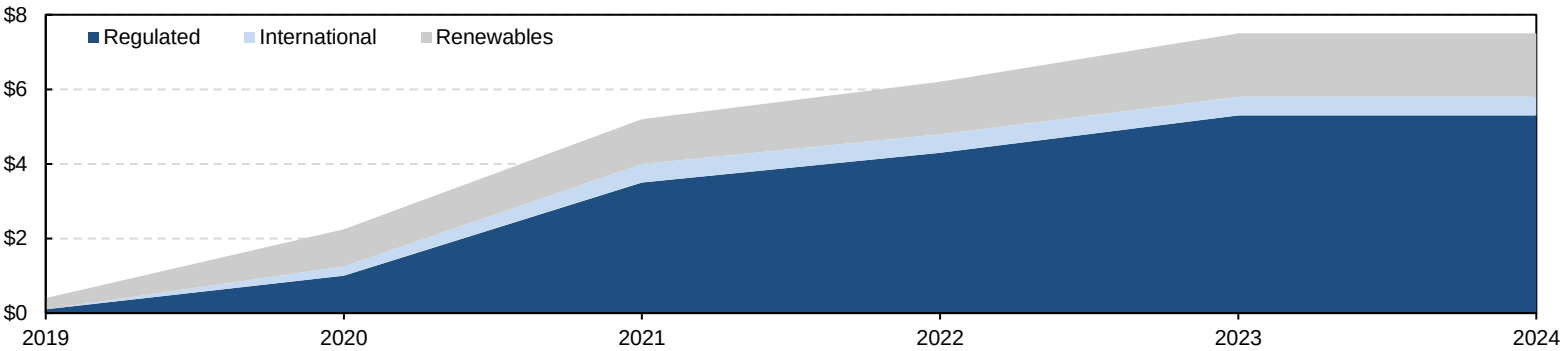
Growth Outlook

At its 2018 Investor Day, AQN outlined a US$7.5B capex program (Figure 1) centered around its growth initiatives and returning value to shareholders. The program is expected to drive rate base growth of 12% in its regulated business and generate a 9-13% CAGR on EPS into FY2023. As seen in Figure 1, the capital program includes a mixture of international investment (7%), regulated investment (70%), and renewables investment (23%). In its Q2 2019 release, AQN provided more clarity on its capital allocation; it received approval to acquire three wind projects in the Midwest, accounting for 600 MW of added generation. A 470 MW non-regulated wind project in a JV with Renewable Energy Services (Maverick Creek, TX) was also added that has ~80% of the offtake contracted with an average PPA duration of 13.6 years. For international investments, AQN acquired BELCO and also increased its investment in AY from 25% to 42%. AQN's projected funding for the development pipeline includes a diversified mix of sources including Debt (33%), FCF (40%), Hybrid Debt (7%), DRIP (4%), Tax Equity (7%), and Equity (9%). This access to low-cost capital should act as a factoring tailwind in helping AQN to grow inline with management guidance.

ESG / Investor Value Sustainability

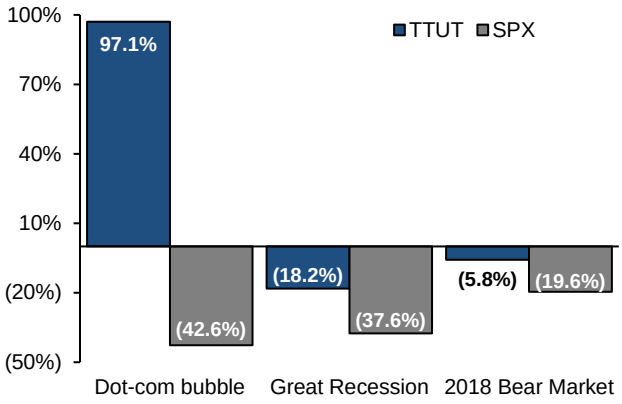
Environment Social Governance (ESG) has recently emerged as a legitimate attribute to consider in the valuation process. This summer registered record amounts of fund flows going to investment managers specializing in socially responsible investing. Specifically in Energy, a hot topic is the reduction of GHG emissions with a heavy focus on the replacement of legacy coal and gas generation plants.

Figure 1: Capital Investment Program



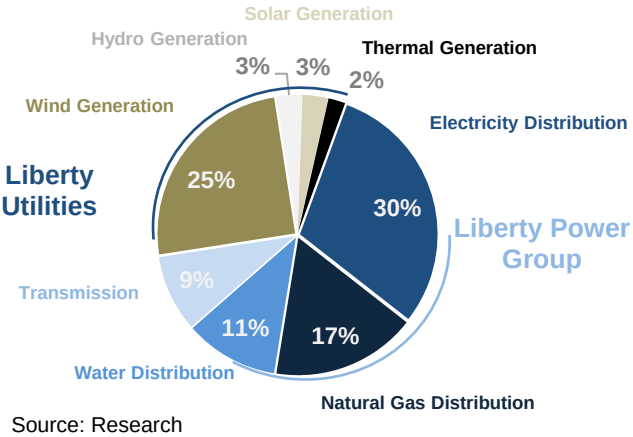
Source: Company Filings

Figure 2: Utility Index vs. S&P in Select Time Periods



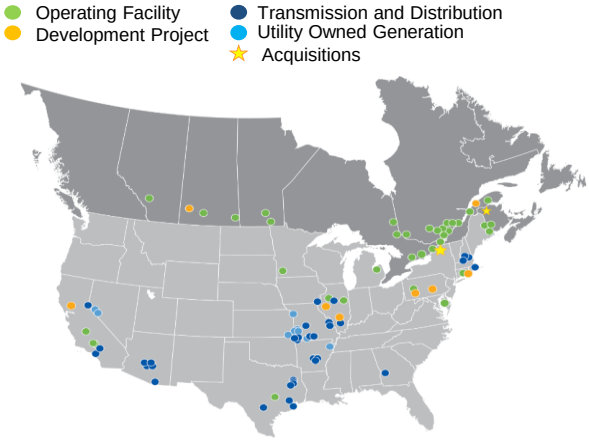
Source: Bloomberg

Figure 3: EBITDA Breakdown



Source: Research

Figure 4: Liberty Utilities and Power Asset Map



Source: Company Filings

AQN has taken measures such as its Greening the Fleet Strategy, to shift away from coal by increasing its investment in renewables. Greening the Fleet is set to retire coal plants and replace them with ~800 MW of renewable power generation which will allow AQN to improve its ESG score and also control costs by reducing the high variable cost associated with coal generation. To illustrate the importance of ESG in today's environment, we compared two bubble charts: one that plotted North American utility companies' EBITDA growth to its share price performance against another that showed its ESG score to share price performance. As illustrated in Figure 5, companies with a higher ESG score can better explain its robust share price growth as opposed to EBITDA. This further proves the notion that investors are taking into consideration companies' actions towards sustainability towards and ethical impact.

EBITDA Breakdown

AQN's two operating segments each offer a different contribution to its EBITDA. Liberty Utilities' generation and distribution operations provide a combination of stable earnings and rate-based growth opportunities that feature a 8-10% regulated ROE. Its Liberty Power Group segment typically enters into long-term PPA contracts averaging 13.5 years, providing long-term visibility to its cash flows. Management believes adjusted EBITDA will grow organically from ~$800mm in 2019 to ~$1,400mm in 2023.

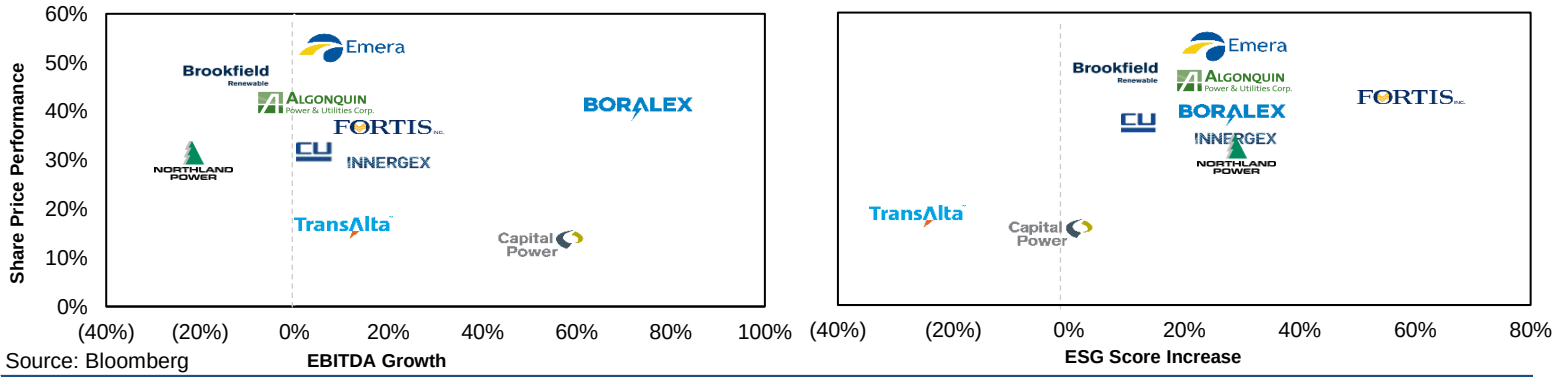
Time to Breakout? Utilities Sector Update

Given the dovish outlook from central banks, the utilities sector may be poised for an outperforming quarter. As global growth slows and risks of a trade war ensues, utility stocks appear to be a safe haven for consistent returns going forward. The regulated sector is safeguarded from trade wars and has the potential for significant fund flows as more emphasis is put on ESG. Analyzing historical bear markets (Figure 2), the utility sector outperformed during the Dot-com bubble, Great Recession, and the Bear Market of 2018. As the CPMT aims to position the portfolio towards defensive investments, the Fund is considering increasing its weighting in the sector.

Valuation & Thesis

The CPMT's original thesis was predicated on AQN's ability to continually implement accretive acquisitions while increasing renewable energy generation. Adhering to the original thesis, AQN has transformed itself into one of the best, well-balanced utility options in North America through its diversified portfolio of regulated and non-regulated utilities, international growth opportunities, and attractive dividend yield. AQN's regulated and contracted power generation assets provide it with stable cash flows that give it an attractive, low-risk business model. AQN has an optimistic growth target of 9-13% on EPS and 12-16% on EBITDA over the next five years. While other utility comparables of AQN's risk nature provide a low, single-digit growth rate (4-6%), AQN has shown over the years that it can produce at levels well above the norm as noted by its ~20% EPS growth and 10% dividend CAGR over the last half decade. Using a Sum-of-the-Parts analysis coupled with Comparable Companies Analysis, the CPMT arrived at a $24.00 target price for AQN.

Figure 5: LTM Share Price Performance vs. EBITDA Growth (LHS) and ESG Score Growth (RHS)



Source: Bloomberg

Align Technology

Health Care
NASDAQ: ALGN
Market Outperform | Buy

September 30, 2019

Brian Timmerman, Portfolio Manager
Jose Menjivar, Investment Analyst

Return on Investment

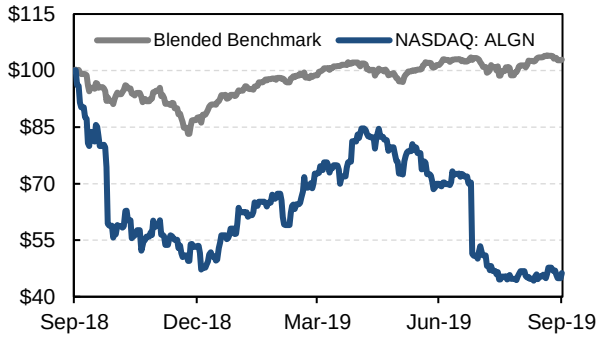
Current Share Price	$180.92
Target Price	$248.00
Dividend Yield	0.00%
Holding Period Return	37%
Company Quality (CQ) Score	3.3
Conviction Rating	2

Market Profile

52-Week Range	$169.84 - $339.95
Market Capitalization (US$mm)	$14,457
Net Debt (US$mm)	($744)
Enterprise Value (US$mm)	$13,712
Beta (5-Year Monthly)	2.01

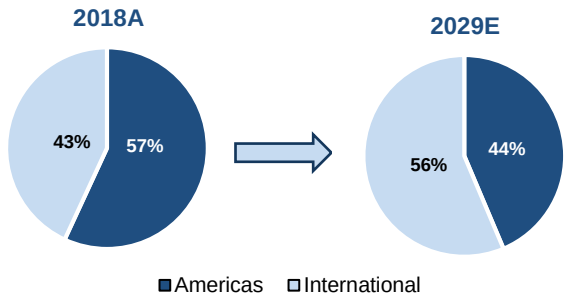
Metrics	2019E	2020E	2021E
Revenue (US$mm)	$2,399	$2,876	$3,467
EBITDA (US$mm)	$592	$649	$812
Case Shipments (000s)	1,509	1,822	2,180
EV/EBITDA	23.2x	21.1x	16.9x

One Year Trading Performance (Indexed to $100)



Source: Bloomberg

Figure 1: Revenue by Geography



Source: Company Filings, CPMT Estimates

Business Description

Align Technology (NASDAQ: ALGN) is a global orthodontic device company that engages in the design, manufacturing, and marketing of Invisalign Clear Aligners, iTero intraoral scanners, and general services for orthodontics, restorative, and aesthetic dentistry. The Company's products are intended for the treatment of malocclusion, the misalignment of teeth which affects ~60-75% of the population. The Company has two main operating segments: (1) Clear Aligners and (2) Scanners and Services. The Clear Aligner segment accounts for the majority of the Company's revenue. However, the Scanner segment has increased in contribution from ~6% of aligner revenues in FY2015 to ~17% in FY2018. ALGN sells its products directly to its customer base, which is comprised of orthodontists, general practitioner dentists, prosthodontists, periodontists, and oral surgeons. In order for these professionals to provide Invisalign treatment to their patients, they must initially complete a training course to ensure proper treatment methodologies and sound, standardized practices. The Invisalign system and associated components are sold in North America, Asia Pacific (APAC), Europe, Middle East and Africa (EMEA), and Latin America.

The iTero scanner family is used by dental professionals, laboratories, and service providers for dental procedures, and by practitioners for Invisalign Case submissions. The scanners allow the practitioner to create a 3D image of the patient's teeth with more precision than regular physical impressions and reduces the rate of restoration remakes so that patient products are recalled less often.

Competitive Landscape Analysis

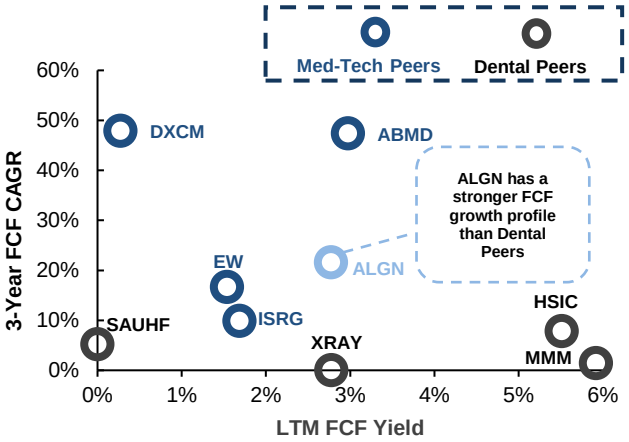
ALGN faces competition from companies supplying dentists with instruments for the treatment of malocclusion through traditional methods such as metal arch wires and brackets, other aligners, and scanning and imaging equipment. Some competitors include:

SmileDirectClub (NASDAQ: SDC): SDC is ALGN's most direct competitor due to its clear aligner offering and a substantial cash balance sourced from its IPO, which the Company will continue to use to gain market share. However, SDC has a direct-to-consumer sales technique where it uses "teledentistry", or the consultation of practitioners mainly through virtual means for advice on treatment, which allows SDC's aligners to be less costly. SDC, however, has not highlighted ALGN as a direct competitor due to its different total addressable markets (TAMs), with SDC focusing on less specialized, more superficial cases of malocclusion. SDC estimates a TAM of ~500mm people, while ALGN outlines a potential TAM of ~300mm people worldwide.

Straumann Holding AG (SWX: STMN): STMN is a dental equipment and supplies manufacturer based in Basel, Switzerland. The Company produces and sells dental implants and implantable metal devices. STMN recently acquired ClearCorrect, a provider of clear aligners with a similar sales strategy to ALGN. ClearCorrect launched in European, Brazilian, and Asian markets this year with ease through leveraging STMN's established global distribution networks. ClearCorrect's Average Sales Price (ASP) is ~30-40% lower than ALGN's, which may cause pricing pressures for ALGN in the short term.

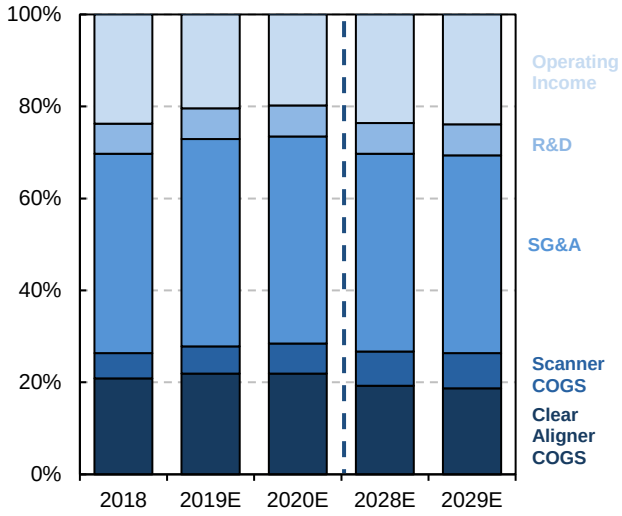
Envista Holdings (NYSE: NVST): After a recent $589mm IPO, NVST is in a better position to market Ormco's Spark Clear Aligners. Ormco has provided orthodontic professionals with wire brackets and digital treatment solutions for nearly 60 years, which now allows NVST to better access the clear aligner market through established connections.

Figure 2: Comparables Free Cash Flow Metrics



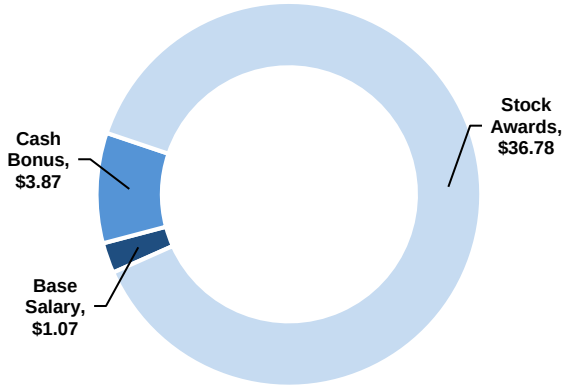
Source: Bloomberg, CPMT Estimates

Figure 3: Operating Cost Breakdown



Source: Company Filings, CPMT Estimates

Figure 4: CEO Compensation 2018 (US$mm)



Source: Bloomberg, Company Filings

Dentsply Sirona (NASDAQ: XRAY): XRAY is one of the world's largest manufacturers of professional consumable dental products, including supplies and small equipment used in dental offices for patient treatment. XRAY's Technologies and Equipment segment includes imaging equipment and Computer Aided Design systems, as well as related dental implant and scanning equipment. This segment makes up ~50% of XRAY's net sales, with approximate market penetration of ~18% in the U.S., where the Company is in direct competition with ALGN's Scanner segment.

On a smaller scale, private, less specialized aligner providers, such as Uniform Teeth, Candid, Propel Orthodontics, and SmileLove compete for localized North American markets. This is also true in heavily industrialized emerging markets, such as China, where local practitioners have been increasingly keen to purchase domestically-manufactured brands, such as Angel Aligners, a high-quality Chinese substitute of Invisalign.

Mandate Fit

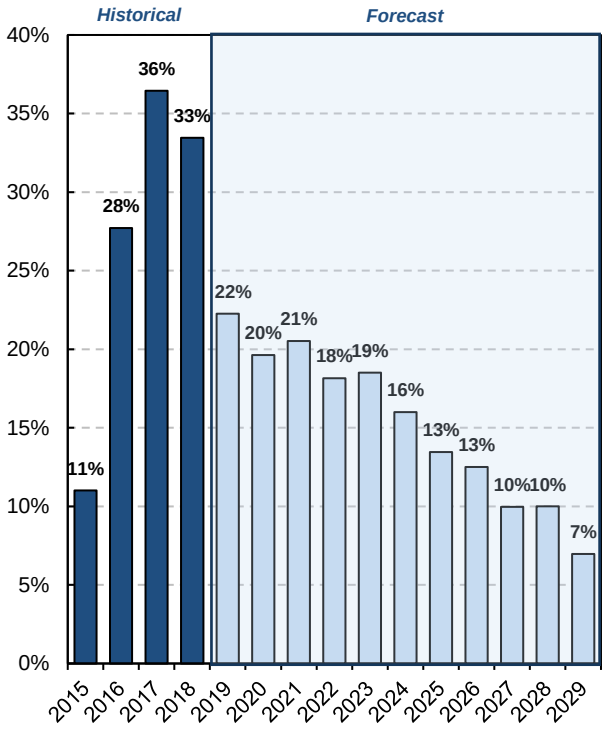
Strong Balance Sheet: ALGN is a cash-generative business, with 33% revenue growth YoY and no debt. The Company boasts high cash and short-term marketable securities balance of ~$720mm, as a result of its free cash flow generation ability. The Company has seen a 20% five-year cash CAGR since 2014. These high cash balances and strong retained earnings are expected to continue to fund increased market penetration, which is currently at 10%.

Competitive Advantage: ALGN was a first mover in the clear aligner market, getting regulatory approval to market its products in 1998. The Company successfully transformed the traditionally established wire bracket market. In a survey conducted by Evercore, 80% of teens requiring dental work expressed desire to use clear aligners, as opposed to wire brackets. Although ALGN faces competition from discount clear aligners, these do not have the specialized features that Invisalign and wire brackets have. The Company has considerable intellectual property, with 449 active U.S patents, 423 active foreign patents, and 486 pending global patent applications, which result from spending ~7% of total revenues on R&D consistently. Additionally, the Company has an extremely high ROIC, sitting above 40% historically, while dental and medical peer averages are 15% and 17%, respectively.

Quality Management: The Company's management has years of combined experience in the health care and technology markets. Joe Hogan has been the CEO since 2015, having previously served as the CEO of ABB Ltd, an electrical equipment and automation corporation, from 2008 to 2013. Additionally, Mr. Hogan served as the CEO of GE Healthcare Technologies from 2000 to 2008, having previously served on many leadership roles within the Company since 1986. ALGN's CFO, John F. Moric, has held his position since November 2016 and serves as the Company's Senior VP of Global Finance. Zelko Relic, the Company's CTO and Senior VP of Global R&D, has been with the Company since 2013, having previously held positions as VP of Engineering at Datalogic and Danaher Corporation. The CEO's compensation is 9% base salary, 13% annual cash incentive compensation, 21% Restricted Stock Units (RSUs), and 57% performance-based Market Stock Units (MSUs). General executive compensation, however, is comprised of 16% base salary, 10% cash incentives, 20% RSUs and 54% MSUs. Payouts for MSUs vary based on the relative performance of ALGN's stock compared to the Nasdaq composite index, evaluated every three years. The largely performance-based stock compensation incentivizes management alignment with long-term share performance.

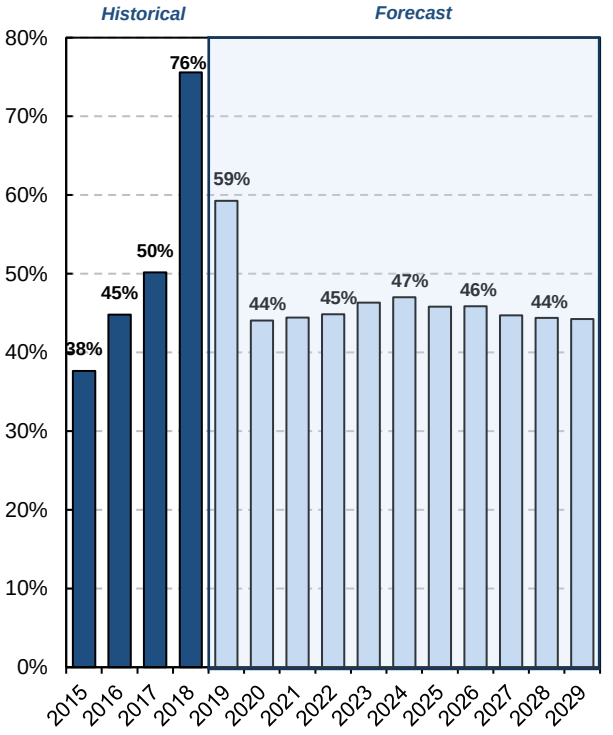
Growing Free Cash Flow: The Company has realized an 11-year FCF CAGR of 26%, showcasing its cash generating nature and ability to penetrate foreign markets.

Figure 5: Revenue Growth Projection



Source: Company Filings, CPMT Estimates

Figure 6: ROIC Projection



Source: Company Filings, CPMT Estimates

Value Drivers

ALGN competes in an attractive industry structure where it is able to earn returns far above its cost of capital. However, in recent years, there has been a number of competitive entrants to the market. To maintain its impressive historical growth and ROIC, ALGN will have to continue to focus on its TAM expansion and operational execution. By pursuing its core underpenetrated markets, which consist of emerging markets and the teen orthodontic segment, ALGN can further expand its TAM. With an expanding global economy and new demographics entering the middle class, there will be increased demand for services, such as orthodontics. Due to its size and operational experience, we expect ALGN to be a frontrunner in capitalizing on emerging market growth. Teen patients remain another underdeveloped segment for ALGN, as a large majority of its sales come from the adult segment, while the teen market remains ~75% of U.S. orthodontic patients. A third core value driver for ALGN as it continues to deal with persistent local and international competition will be its ability to unlock new clinical indications for its clear aligner products and expand outside of the reach of competitors.

Valuation

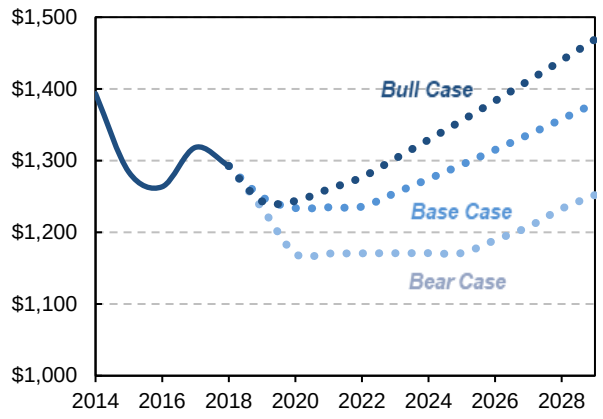
In estimating the intrinsic valuation of ALGN, the core drivers of value for the Company in our financial model were the revenue growth rate and associated returns on capital. Our forecast began with a bottom-up estimation of ALGN's top line broken down into both Americas and International sales growth. These geographic segments were further divided into a combination of ALGN's estimated future case shipments (which represents each individual ALGN case that has been administered to an orthodontist/general practitioner), and the cases' ASP. Through a forecast of these components, we arrived at a 10-year revenue forecast for both the Americas and International segments. Since ALGN remains a volume growth story, case shipments were forecasted based on historical growth using a mean reversion to the long-term growth rate. ASPs were forecasted to remain flat to decreasing in the near-term, with long-term growth corresponding to inflation. The aggregated forecast ultimately resulted in a 10-year revenue CAGR of 14.4%, which is reasonable in our view given historical growth rates and continued penetration of the international market.

To estimate operating performance, historical margins were applied with a tendency towards slight margin erosion over time to reflect entrance of new competitors. The reduction of SG&A remains a core value driver for ALGN, with SG&A currently at ~45% of annual revenues. Since ALGN requires a substantial sales and marketing force to drive revenue growth, we did not forecast a substantial decrease in this percentage as ALGN scales its revenues. Similarly, R&D expense and the cost of revenues were held relatively constant over the forecast period. Invested capital turnover and efficiency was estimated by applying historical trends while increasing the capital intensity of the business to reflect aggressive international growth.

In all growth and operational estimates, a Bull, Base, and Bear case was contemplated to account for the variance in potential outcomes. Ultimately, the valuation of ALGN remained highly sensitive to its forecasted revenue growth rate and implied ROIC. We chose a Base case that reflected our view on ALGN's current growth prospects and its ability to maintain ROIC at levels achieved in 2016 and 2017. The Bear case reflects continued intensified pressure on ALGN and a corresponding deterioration in its future growth and ROIC. Lastly, the Bull case was forecasted under the optimistic assumption that ALGN could continue to grow ROIC and revenue above expectations.

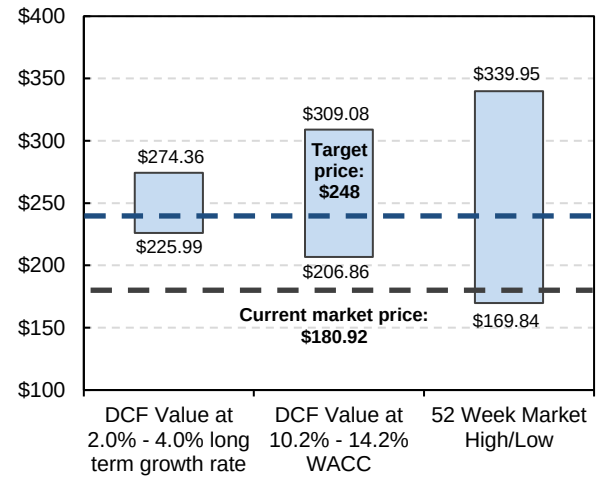
Our 10-year DCF with a 3% terminal growth rate resulted in a target price of $248, implying 37% upside. The model applied a 12% WACC due to ALGN's high Beta of 2.0.

Figure 7: Average Sales Price Forecast



Source: Company Filings, CPMT Estimates

Figure 8: Valuation Football Field



Source: Bloomberg, CPMT Estimates

Due to the difficulties in accurately assessing long-term growth rates and WACC, we ran sensitivities to account for different outcomes. We find our valuation falls within the middle point of ALGN's 52-week trading range, which has been quite volatile.

Investment Thesis and Recommendation

Given our view that ALGN's current market price provides an attractive entry opportunity and the Company's strong fundamentals fit the Fund's mandate, we recommend a buy for the Company. The massive global TAM for ALGN's products continues to drive exceptional revenue growth, while its penetration of the global market remains low. While ALGN has faced increased pricing pressure from competition in recent years, volume growth remains the core driver and the CPMT believes this will continue to support strong free cash flow generation. ALGN's outstanding IP and continued focus on R&D should drive further differentiation from newer competitors. Ultimately, the CPMT believes ALGN represents a growth-oriented Health Care company with strong upside potential. Should the CPMT gain further comfort with the name following internal due diligence, the Fund will enter a position.

Investment Risks

Despite ALGN presenting an attractive market opportunity at current prices, there exist a number of important risks which could affect our long-term thesis. Most importantly, as a growth-oriented company, ALGN faces the risk of a slowdown in global economic growth which would negatively affect its case shipments and ASP. Clear aligners remain a relatively discretionary product due to their high prices and the adult population being the primary market. Significant competition remains another threat to ALGN, as evidenced by the recent IPO's of SDC and NVST. While ALGN retains strong patent protection and differentiation in its products, it could struggle to compete in some markets against lower-cost competitors. Furthermore, ALGN faces valuation risk, as its shares have historically traded at a significant premium due to the Company's high growth and ROIC. Despite these risks, the CPMT believes that the current valuation represents an attractive entry point, with an upside-skewed valuation profile.

CCL Industries

Materials
TSX: CCL.B
Market Perform | Hold

September 30, 2019

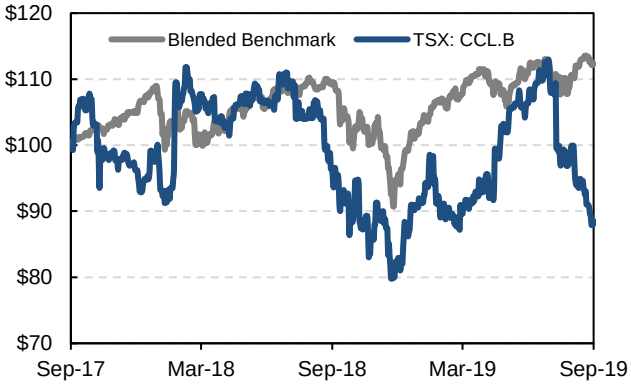
Akash Sekar, Investment Analyst
Lucas Peters, Portfolio Manager

Return on Investment	
Current Share Price	$53.44
Target Price	$67.00
Dividend Yield	1.24%
Holding Period Return	27%
Company Quality (CQ) Score	3.3
Conviction Rating	3

Market Profile	
52-Week Range	$47.30 - $68.49
Market Capitalization (mm)	$8,895
Net Debt (mm)	$1,903
Enterprise Value (mm)	$10,798
Beta (5-Year Monthly)	0.54

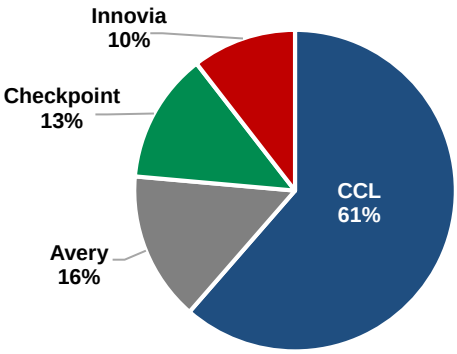
Metrics	2019E	2020E	2021E
Revenue (mm)	$5,418	$5,560	$5,690
EBITDA (mm)	$1,062	$1,068	$1,093
EPS	$2.82	$2.93	$3.01
EV/EBITDA	10.1x	10.0x	9.8x

Holding Period Trading Performance (Indexed to $100)



Source: Bloomberg

Figure 1: Segmented Revenue Breakdown



Source: Company Filings

Business Description

CCL Industries (TSX: CCL.B) is the world's largest converter of pressure sensitive and extruded film materials. The Company provides a wide range of decorative, instructional, secure, and functional applications across a variety of industries ranging from government institutions to the automotive industry. The Company has four major operating segments: CCL, Avery, Checkpoint, and Innovia. It also has operations in over 40 countries with over 165 production facilities worldwide. CCL is partly backward-integrated as it has capabilities in materials science that can be deployed as needed across the four segments.

Original Investment Thesis

The CPMT was confident in CCL's potential as it continued to be a best-in-class capital compounder and a market leader in a highly fragmented industry. The Fund also found value in the management team's ability to employ their acquisition plans and maintain a strong balance sheet. Effective integration of recent acquisitions has allowed CCL to diversify its product lines and continue to grow market share in the packaging and labels industry.

Packaging and Labels Industry Overview

Companies in the industry focus on packaging and labelling materials for retailers and original equipment manufacturers on a contract or outsource basis. Commercial activity is a key driver in generating service demand, and depends on high U.S. and Canadian economic growth. Increased consumer spending drives manufacturing and retail activity, further influencing the volume of goods that require packaging and labelling solutions. While a few large retailers rely on in-house packaging and labelling solutions, the majority of the manufacturing sector relies on companies such as CCL.

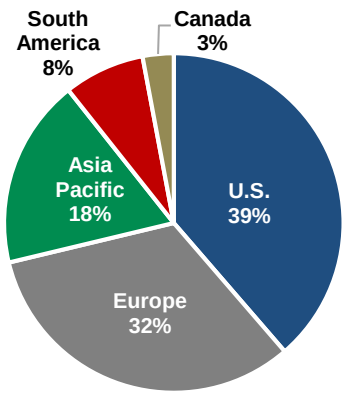
Segment Breakdown

CCL: The CCL segment contains five sub-segments: CCL Label, CCL Container, CCL Tube, CCL Design (electronics and automotive labels), and CCL Secure (polymer banknotes). It manufactures pressure sensitive and specialty extruded film materials used for decoration, instructional, functional, and security applications. These materials are primarily sold to customers worldwide in the consumer packaging, healthcare, electronic devices, and automotive markets, as well as to government institutions as an input for polymer banknotes.

Avery: Avery supplies labels, specialty converted media, and software solutions to enable digital printing in businesses and homes. This segment is combined with office products and sold through distributors and mass market retailers. Avery has three sub-lines: (1) Printable Media, which contains address, shipping and product labels, as well as business cards and name badges; (2) Organizational Products Group, which sells binders, sheet protectors, dividers, and writing instruments (mainly used for educational purposes); and (3) Direct-to-Consumer, which is similar to the printable media segment, but supports e-commerce platforms, allowing for customers to print at home.

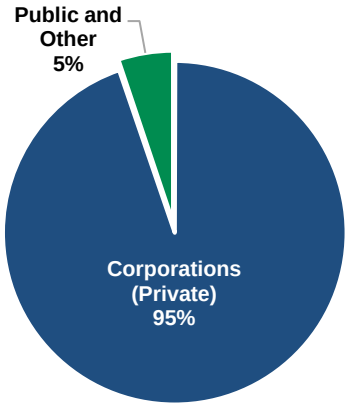
Checkpoint: Checkpoint is a manufacturer of technology loss-prevention, inventory management, and labelling solutions. This includes radio frequency and RFID technology that is sold to the retail and apparel industry. It contains three main sub-lines: (1) Merchandise Availability Solutions, (e.g. consists of electronic article surveillance systems, hardware, software, and labels for loss prevention and inventory control systems); (2) Apparel Labeling Solutions, which contains apparel (cont'd)

Figure 2: Geographic Revenue Breakdown



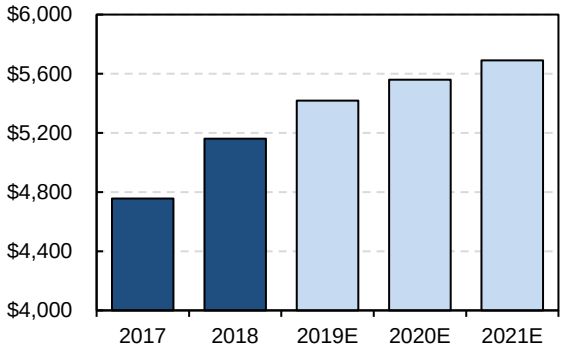
Source: Capital IQ

Figure 3: Class A Share Ownership



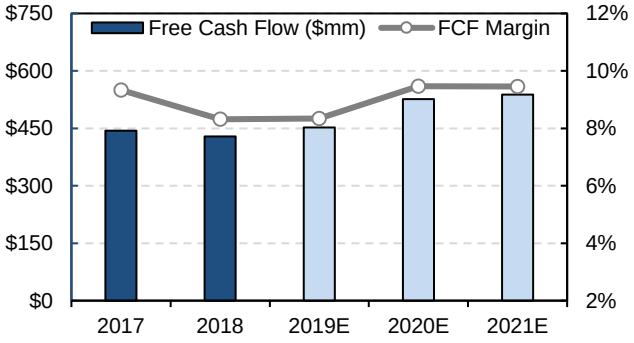
Source: Capital IQ

Figure 4: Annual Sales ($mm)



Source: Company Filings, CPMT Estimates

Figure 5: Free Cash Flow (LHS) and FCF Margin (RHS)



Source: Company Filings, CPMT Estimates

labels and RFID tags; and (3) Meto, which are hand-held pricing tools and labels that are used for brick-and-mortar stores and in-store displays.

Innovia: Innovia supplies high-performance, multi-layer, and surface engineered bi-axially oriented polypropylene (BOPP) films. These are sold to customers in the pressure sensitive labels, flexible packaging, and consumer packaging worldwide. A small percentage of volume from this segment is sold internally to the CCL Secure and CCL Label sub-segments.

Corporate Governance

CCL boasts a talented management team, consisting of President and CEO, Geoffrey T. Martin, who has been with the Company since 2008. Martin has a proven track record in M&A transactions, which adds value to a company constantly searching for accretive tuck-ins to bolster the business. Many other NEOs also have been with the corporation for a number of years and have extensive experience in the industry. CCL operates under a dual-class share system, in which the Company currently has 11.8mm Class A Shares outstanding. For CCL, a Class A share has 1 vote (per share) while a Class B share contains no voting rights. Out of the Class A shares outstanding, ~95% are owned by a private Ontario company which is partially owned by Donald G. Lang (Executive Chairman) and Stuart W. Lang (Director). Since the majority of voting shares are owned by the Lang family, this raises a red-flag, as the Lang family has a significant holding over the Company's decision-making process, resulting in reduced public shareholder control over business decisions.

Recent Acquisitions

Over the last 12 months, CCL has been prudent in its growth-by-acquisition initiative, acquiring over six companies to expand its reach worldwide. During FY19, CCL has been continuously growing its segments, especially Avery's direct-to-consumer line, through multiple tuck-in acquisitions, some of which are highlighted below:

(1) January 2019: acquired Easy2Name Ltd. (based in the U.K.) for $2.5mm, expanding the direct-to-consumer line by offering durable and personalized labels for kids in the U.K. market.

(2) January 2019: acquired Olympic Holding B.V. (based in the Netherlands) for $13.6mm. This enables the CCL segment to have access to a patented process to produce high-bond, acrylic foam tapes without use of solvents that can be used in the automotive, electronics and construction industries.

(3) April 2019: acquired Hinsitsu Screen (based in Vietnam) for $12.9mm. This gives the CCL Segment access to a leading supplier of durable and tamper evident labels as well as graphic overlays for the electronics industry in Vietnam.

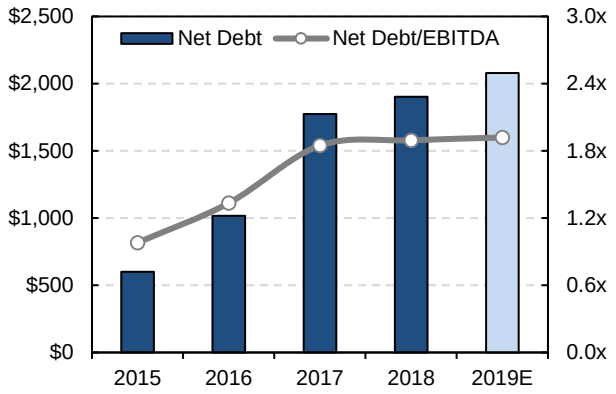
(4) May 2019: acquired Colle A Moi Inc. (based in Quebec) for $3.0mm, allowing the Avery direct-to-consumer line to offer online print capabilities for personalized labels.

(5) June 2019: acquired Say it Personally (based in U.K.) for $0.4mm, giving CCL the capability to offer durable, personalized garment tags for the U.K. market.

Catalysts for Growth

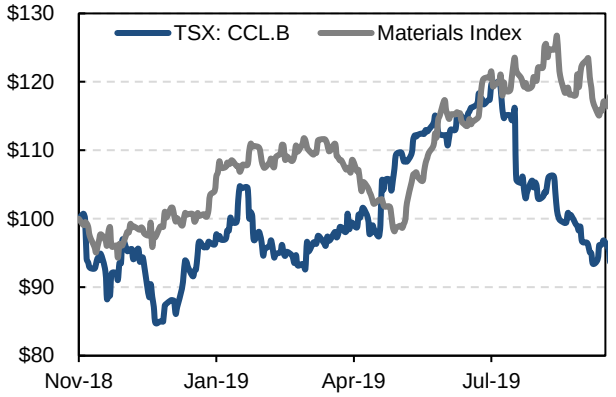
After poor results in Q2 2019, the CCL segment looks to get back on track and outpace a poor Q3 2018. With demand in aerosol slugs and containers expected to stay stable despite uncertain global environments, CCL should be able to achieve strong organic growth in its core segments. As more government institutions adopt polymer banknotes, CCL Secure can capitalize on this opportunity. Avery will be poised for a strong Q3 2019 due to back-to-school season in North America as well as further integration and expansion of its direct-to-consumer line (cont'd)

Figure 6: Leverage ($mm)



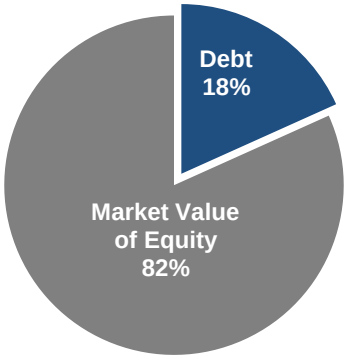
Source: Bloomberg, Company Filings

Figure 7: Performance vs. Materials Index



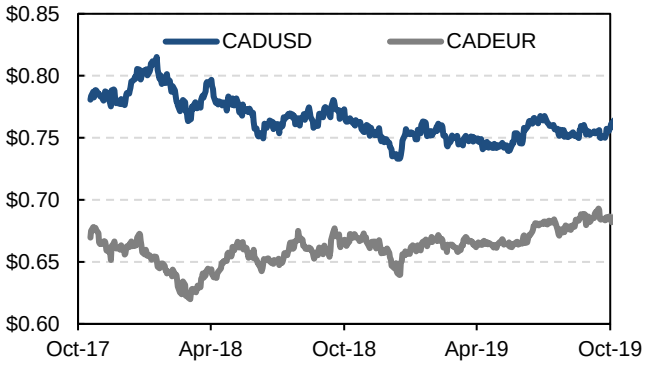
Source: Bloomberg

Figure 8: Capital Structure



Source: Bloomberg

Figure 9: Key FX Rates



Source: Bloomberg

which management believes will grow in the double-digits YoY. Checkpoint has the ability to further expand its RFID technology as more retailers use the technology within their Omni-channels for inventory management and control systems. With the new BOPP plant coming online in 2H19, Innovia is poised for strong performance as it successfully integrates its Treofan assets into the organization. Future tuck-in acquisitions by the Company will also add to sales growth, as management has made it a point to set aside cash for any accretive acquisitions that may come up in the near future.

Major Risks

With manufacturing plants across the world and Canada only accounting for 3% of sales, CCL has large exposure to FX risk, as all non-Canadian results are translated back to CAD for reporting purposes. An increase in the Canadian dollar would be detrimental to the Company, as it would reduce CCL's CAD revenues and operating income. Furthermore, with the majority of its sales stemming from regions that have greater political and economic risk, the Company has a large torque to business disruptions in "troubled" regions. CCL also faces pricing pressure risk from large retail chains through consolidation of competitors in the Packaging and Label industry. It also faces the risk of in-house manufacturing from its main customers which will eliminate the need for CCL's services. Specific to the Innovia segment, the BOPP films are sensitive to rising polypropylene costs. An increase in prices would hinder the Company's performance if CCL cannot successfully pass the costs on to its customers, which in turn would compress margins.

Revised Thesis

CCL has continued to follow a prudent acquisition plan; however, the Company has increased leverage significantly over the last 5 years, as its Net Debt/EBITDA has increased from 0.5x to 1.9x. As a result of increasing debt and acquisitions, CCL has been able to promote stable growth in its core business segments and bolster segments such as Avery and Innovia. The acquisitions have also helped CCL expand its operations worldwide, giving it the potential to further penetrate emerging markets. CCL missed expectations in Q2 2019 due to reduced demand in the aerosol cans industry, which resulted in lower sales for its core CCL segment. Despite this, we believe that CCL is still well positioned for the future. Historically, CCL and Innovia perform better in Q1 and Q2, while Avery and Checkpoint perform well in Q3 and Q4, as retail activity picks up during the holiday season. Avery has room to expand through its growing direct-to-consumer line, which management expects to grow in the double-digits as the segment expands into new markets. Avery has also benefitted from the U.S-China trade war, as more customers are sourcing binders locally, rather than from manufacturing hubs like China, which adds value to the organization in a time of economic uncertainty. The CCL segment is expected to experience high growth from CCL Design, as the automotive and electronics industries continue to switch to adhesive components for labelling solutions. Checkpoint also has the ability to grow over the next decade as more retailers move to RFID systems for inventory tracking and management. Innovia has upside through the BOPP plant that is expected to come online in 2H19, as stable polypropylene prices will further contribute to its growth. Additionally, management can continue its prudent acquisition plan and look for accretive tuck-ins to bolster the business to maintain its leading market share in the industry. As the CPMT continues to review its current holdings, we will closely monitor CCL over the next few quarters to determine whether it remains a suitable holding for the Fund.

Cintas

Industrials
NASDAQ: CTAS
Market Outperform | Buy

September 30, 2019

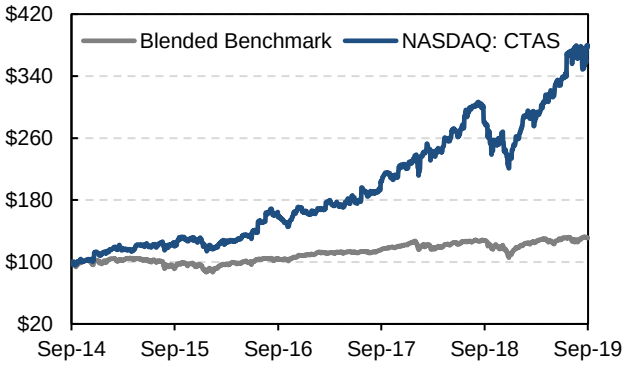
Scott McNichol, Portfolio Manager
Helena Cherniak-Kennedy, Investment Analyst

Return on Investment	
Current Share Price	$268.10
Target Price	$320.00
Dividend Yield	0.76%
Holding Period Return	20%
Company Quality (CQ) Score	3.6
Conviction Rating	2

Market Profile	
52-Week Range	$155.98 - $270.36
Market Capitalization (US$mm)	$27,888
Net Debt (US$mm)	$2,770
Enterprise Value (US$mm)	$30,657
Beta (5-Year Monthly)	0.98

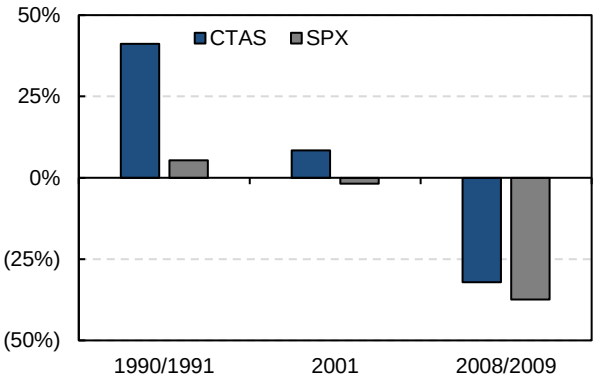
Metrics	2019A	2020E	2021E
Revenue (US$mm)	$6,892	$7,317	$7,767
Operating Income (US$mm)	$1,148	$1,238	$1,461
EBITDA (US$mm)	$1,508	$1,594	$1,830
Total Debt/EBITDA	1.90x	1.80x	1.57x
EV/EBITDA	20.3x	19.2x	16.8x

Historical Trading Performance (Indexed to $100)



Source: Bloomberg

Figure 1: Performance in the Last Three Recessions



Source: Bloomberg

Business Description

Cintas (NASDAQ: CTAS) is a leading uniform rental company that provides a number of commercial products and services to its customers, such as floor care, restroom supplies, doormats, first aid and safety products, fire extinguishers and testing, and safety training. CTAS provides its products and services to over one million businesses, primarily in North America, with additional services in Latin America, Europe, and Asia. CTAS's core segment is its Uniform Rental and Facility Services business, which is the top uniform supplier in the U.S. with over five million people wearing its uniforms every day. Founded in 1968, CTAS has grown sales and net income in 48 of the past 50 years, and has increased its annual dividend for 35 consecutive years.

Investment Thesis

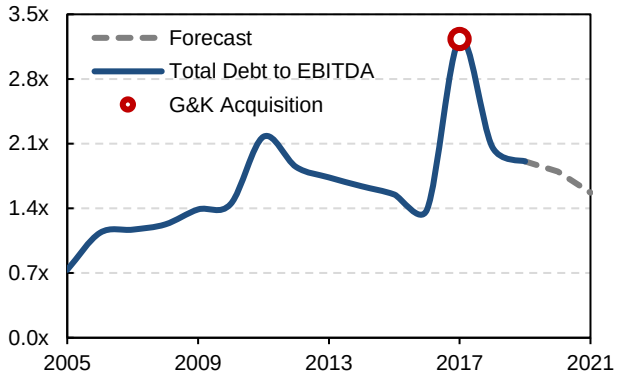
The CPMT views CTAS as an opportunity to add a top tier name for several reasons: **(1) steady and growing free cash flow** (14.4% CAGR since 2012) with a track record of returning capital to shareholders ($3.5B in total share repurchases and $1.1B in total dividends since 2012), **(2) a strong balance sheet** at 1.9x Total Debt/LTM EBITDA, **(3) quality management** with exceptional operating performance (beat consensus EPS estimates in 8 of the last 8 quarters) and high levels of insider ownership (the CEO holds 15% of outstanding shares and insiders account for ~19%), and **(4) CTAS's competitive advantage**, where it is the market share leader (21%) amongst its peers (NYSE: ARMK, UNF) at 8% and 6%, respectively. The market is largely untapped, and CTAS has a significant opportunity to increase its market penetration (the Company estimates its current penetration is less than 20% of its potential customer base). The CPMT believes that CTAS provides a compelling combination of growth and defensiveness given: (1) its competitive positioning and operating excellence, and (2) the nature of its core business: renting and servicing of uniforms and other garments, mats, mops, restroom cleaning services and supplies, and carpet and tile cleaning.

Although CTAS's core business is tied to uniform rentals and thus is sometimes viewed as representing a proxy for job growth, this correlation has weakened over the last 7 years, and the CPMT strongly believes that the Company is positioned to outperform in the next economic downturn. In the three most recent recessionary timeframes (7/31/1990 – 3/31/1991, 3/31/2001 – 11/30/2001, and 12/31/2007 – 6/30/2009), CTAS outperformed the S&P 500 Index in all three periods by 36%, 10%, and 5%, respectively (Figure 1). The CPMT recommends a buy on the stock with a target price of $320 based on our valuation discussed below.

Valuation

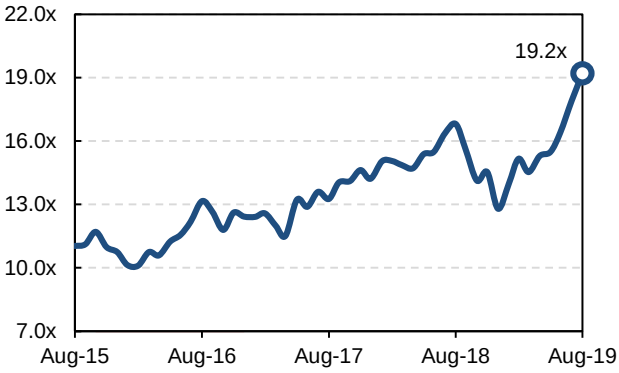
While the CPMT believes that the Company meets all of the criteria of our mandate, our main focus with CTAS is determining: (1) whether the premium the stock has relative to its peers is reasonable (CTAS's LTM EV/EBITDA multiple is 20.3x versus UNF at 10.1x and ARMK at 11.5x), (2) whether this premium is sustainable in the long-term, and (3) if CTAS's current market valuation represents a discount to intrinsic value. We valued CTAS based on a 5-year DCF with its terminal value based on an equal blend of Gordon Growth (6.75% WACC and 2.25% terminal growth rate) and an exit multiple of 18.0x EV/EBITDA. The CPMT believes that our target price is conservative, as it is in line with management guidance for revenue in 2020, and management has consistently shown the ability to beat its own guidance as well as street estimates. Our valuation excludes additional assumptions based on potential future (cont'd)

Figure 2: CTAS Leverage



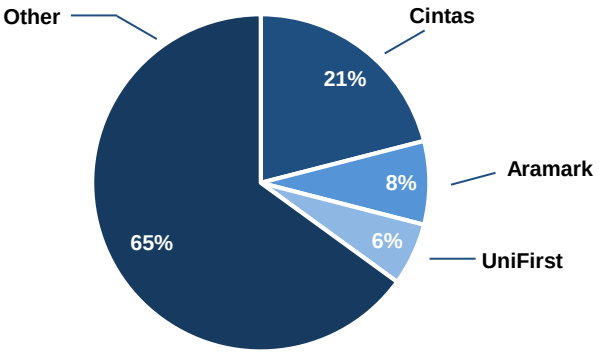
Source: Bloomberg, CPMT Estimates

Figure 3: CTAS EV/NTM EBITDA



Source: Bloomberg, CPMT Estimates

Figure 4: Uniform Services Market Share



Source: Street Research

acquisitions and transaction multiples and includes margin assumptions in line with historical results. Given that CTAS's Total Debt/LTM EBITDA is at 1.9x and the CPMT is confident that it could support leverage up to 3.5x, CTAS has considerable opportunity to pursue accretive acquisitions in the future that can provide additional upside to the stock. Management has shown the ability to successfully execute accretive acquisitions, evident by its most recent acquisition of G&K Services Inc in August 2016 for US$2.2B. The market viewed the deal positively, with CTAS trading up 5.19% on the day of the announcement, and the CPMT is confident that management has the discipline to pursue inorganic growth opportunities without overpayment. CTAS took on debt for the acquisition, bringing its Total Debt/LTM EBITDA to 3.2x (Figure 2), and management subsequently demonstrated its ability to quickly de-lever, bringing the Company back to 1.9x within 2 years. Risks to our target price represent rising input costs and any changes in CTAS's management team.

Management Team

CTAS's CEO and Chairman, Scott D. Farmer, has been with the Company for 38 years and has delivered excellent operational results during his tenure. He holds 15% of the Company's outstanding common shares, with a market value of ~US$4.2B. Under Farmer's leadership, CTAS has consistently beaten street estimates for EPS and operating income in each of the last five years. We believe this to be a product of conservative guidance and operational expertise. Farmer has also met or exceeded EPS and revenue growth targets linked to his compensation in each of the last three years.

Competitive Landscape

With its diverse array of business offerings, CTAS competes with a variety of peers in uniform services and the industrial services space. The Company's two most direct competitors are UNF and ARMK, both of which focus on providing uniform and facility services, with ARMK also offering food services. Together with CTAS, these three companies dominate the U.S. uniform and facility services market, with CTAS having the largest market cap of US$28B, which is more than twice the size of its next biggest competitor. CTAS's size has allowed it to realize economies of scale and cost synergies, which have contributed to high margins for the Company when compared to peers. CTAS's 2019 EBITDA margin was 22%, compared to 18% and 10% for UNF and ARMK, respectively.

Despite a mature business model, CTAS has the strongest growth and market penetration among peers, with a 5-year revenue CAGR of 10% and a 5-year EBITDA CAGR of 14%, versus the low single-digit growth seen by UNF and ARMK. This is evidence of CTAS's strong competitive advantages, combined with discretionary inorganic growth. Furthermore, CTAS has proven its ability to deploy capital effectively, generating the highest ROIC/WACC of its peer group at 2.6x, despite lower capital intensity than both UNF and ARMK (CTAS's capital expenditures averaged 23.8% of EBITDA over the last five years versus 33.5% for UNF and 44.5% for ARMK). Overall, CTAS has historically been the leader in its industry and is well-positioned to maintain its strong market presence going forward.

Next Steps

The CPMT recommends a buy on CTAS, and pending further due diligence, we are planning to initiate at a 2 conviction; however, we are willing to increase our conviction within the next six months if CTAS outpaces our organic growth expectations and retains its premium to peers. We believe CTAS suits our ongoing effort to position the portfolio defensively given its outperformance during the last three recessions and nature of its business model.

Hannon Armstrong

Real Estate
NYSE: HASI
Market Outperform | Buy

September 30, 2019

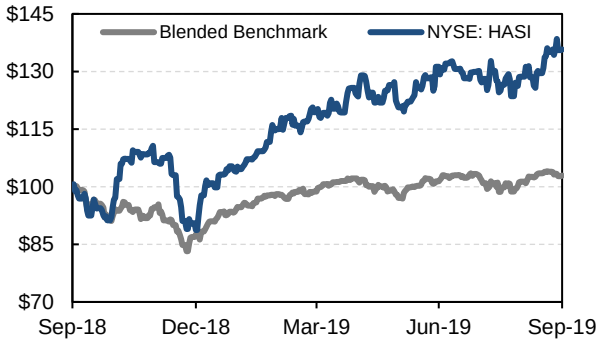
Nicole Livingston, Portfolio Manager
Hayley Hicks, Investment Analyst

Return on Investment	
Current Share Price (US$)	$29.15
Target Price (US$)	$34.00
Dividend Yield	4.80%
Holding Period Return	21%
Company Quality (CQ) Score	3.7
Conviction Rating	2

Market Profile	
52-Week Range	$18.83 - $29.98
Market Capitalization (US$ mm)	$1,915
Net Debt (US$ mm)	$1,220
Enterprise Value (US$ mm)	$3,135
Beta (5-Year Monthly)	0.73

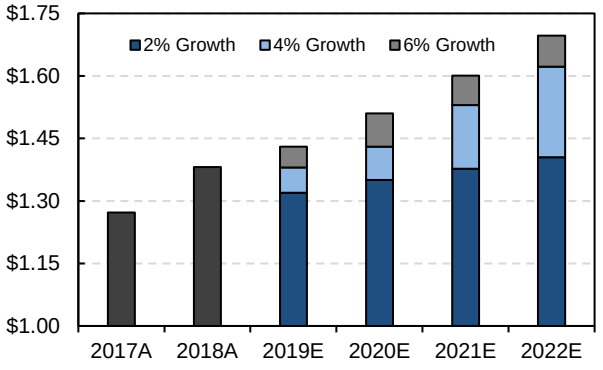
Metrics	2019E	2020E	2021E
Revenue (US$ mm)	$149	$159	$180
EBITDA (US$ mm)	$120	$128	$138
Core EPS (US$)	$1.37	$1.43	$1.53
EV/EBITDA	27.1x	25.9x	23.4x

Trading Performance (Indexed to $100)



Source: Bloomberg

Figure 1: Core Earnings Per Share Growth (US$)



Source: Company Filings, CPMT Estimates

Business Description

Hannon Armstrong Sustainable Infrastructure Capital (NYSE: HASI) is a capital and service provider focused on green energy projects in three asset classes: Behind the Meter (50%), Grid Connected (44%), and Sustainable Infrastructure (6%). Structured as a REIT, HASI targets a portfolio of 55-75% debt-related securitization investments, and 25-45% land and direct equity investments. HASI maintains proprietary partnerships with leading vendors (e.g. Johnson Controls, Honeywell, First Solar, and SunPower), with long-term contracts yielding predictable cash flows. HASI's customers have strong credit ratings and are predominantly government (22%), commercial (32%), and other (46%) (Figure 3).

Industry Overview

Demand for clean energy has grown ~67% from 2000 to 2016 to make up ~16% of total energy demand in the U.S. and 28% globally (C2ES). In order to meet Copenhagen Accord targets, U.S. carbon consumption needs to decline at a rate of 3% per year. While carbon-based energy will not disappear, the CPMT believes that renewable energy will not replace carbon but will serve to top off new demand until such time that technology for storing renewable energy is developed (Figure 4). YieldCos evolved out of this market shift, operating developed wind and solar projects at the upstream level. HASI operates downstream by funding efficiency upgrades and land investment.

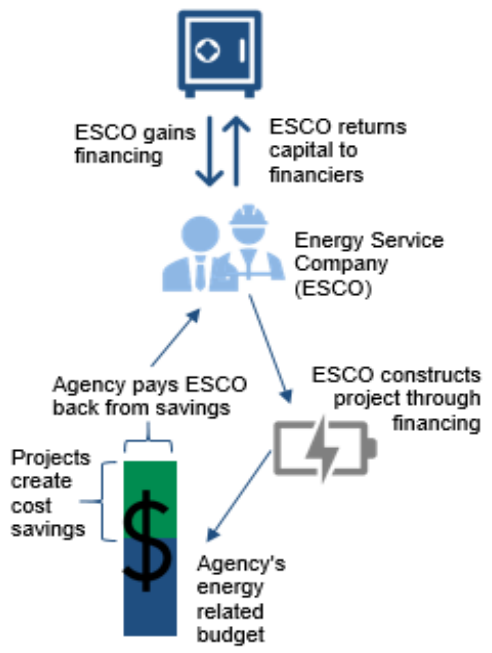
Valuation

A blended valuation consisting of equal parts net asset value (NAV), discounted cash flow (DCF), and EV/EBITDA resulted in a price target of $34 per share. Free cash flows were forecasted five-years, with a terminal growth rate of 1.5% applied, and a calculated weighted average cost of capital at 5.3%. Core EPS CAGR over the forecasted period follows management's mid-range forecast at 4% (guidance of 2-6%) while revenues only grow at 8.8% in the base case scenario. EBITDA margin has grown from 59.2% (2014) to 87.7% (2018), though a more conservative 76.9% is applied in the model. The bear case output implies a $27 share price with downside risk of (5%), while the bull case supports a price target of $37 per share and holding period return of 31%.

Investment Thesis and Outlook

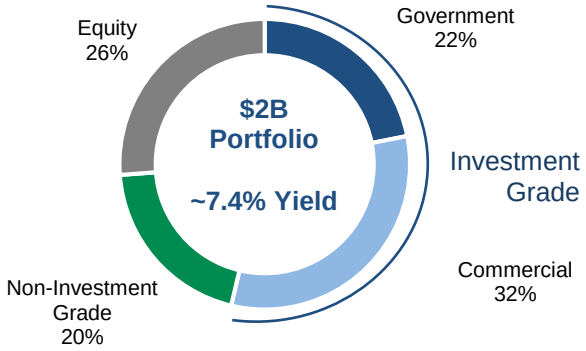
HASI offers a unique avenue to gain exposure to the growing renewable energy industry, with a risk adjusted profile unique to the alternative YieldCo investment. The investment pillars are therefore focused on **(1) growth above peers**; **(2) attractive yields**; and **(3) defensiveness**. The key to the Company's business model is the ability to execute attractive risk - reward projects at a reasonable funding cost. HASI's portfolio currently yields ~7.4% with debt cost of 4.6%, earning a spread of 2.8%. HASI trades relatively in line with comparable peers but offers stronger growth supported FCF yield (+4% vs peers) and room for expansion from EBITDA growth (+12% vs peers). A flexible business model balancing real estate and securitization allows for protection from flattening or inverted yield curves as weight is shifted to securitization which produces higher returns, while steepening yield curve environments drive value from higher investment in real assets. HASI was able to access the capital markets during the downturn in energy and YieldCos (2H15/1H16), providing confidence to investors. Management, led by CEO Jeffrey Eckel, has over 30-years of investment experience in renewables and energy efficiency.

Figure 2: Capital and Service Business Model



Source: CPMT Elaboration

Figure 3: Portfolio Obligators and Credit Quality



Source: Company Filings

Competitive Landscape

The increased focus on energy efficiencies and decarbonization is driving growth in YieldCos, however these types of investments carry project related risk, intense price-based competition, and commodity price exposure resulting in large variances in earnings. Comparably, HASI operates downstream with predictable cash flows that are too small for large banking institutions but too specific of expertise required for other financial groups. HASI is a one-of-a-kind operator with 4.8% dividend yield and no clear competitors, however it can be benchmarked against YieldCos (5.2%), REITs (4.2%), and Utilities (2.9%). HASI trades relatively in line with these industries at 27x EV/EBITDA (vs. peers at 26x) but has greater earnings yield (3.1% vs. peer at 0.5%), and FCF yield (3.9% vs. peer at 0.8%), supported by a five-year EBITDA CAGR of 45.5% (YoY 29.0% vs. peer at 17.4%). Seniority and security level is similar to utilities but industry and upside growth closer to YieldCos making HASI's yield with room for expansion very attractive on a risk-adjusted basis.

Growth and Catalysts

The energy industry is being defined by the "three D's": decentralization, digitalization, and decarbonization, offering long term prospects to YieldCos and HASI. Green projects have been growing in the U.S. even without supportive public policy. The industry has grown 67% from 2000 to 2016 in the U.S., with an additional $100B forecasted to be invested in energy efficiencies and renewables over the next five years, without including supportive policies like those in the rest of the developed world (C2ES, HASI). At current investment rate, HASI is set to control ~5-10% of this future market. Clean energy growth in the U.S. market has come primarily from solar (45% of HASI's portfolio), which is expected to grow from 7% in 2015 to 36% of U.S. energy by 2050 (EIA). Behind the meter continues to drive growth for HASI at 79% of its ~$2.5B 12-month pipeline.

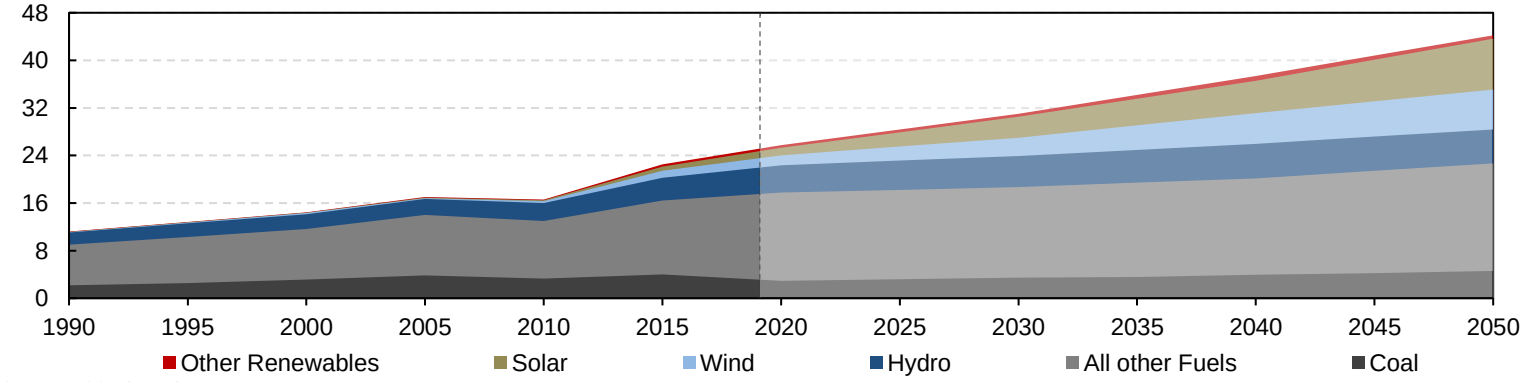
Risks and Defensiveness

High Debt: REIT's are characterized by high debt, however HASI has interest coverage of 1.6x, and debt to market equity of only 0.6x of which fixed rate is ~80% as a defensive response to the uncertain rate environment. Debt risk would occur from a decline in liquidity or revocation of REIT status under taxation code.

Rate Movements: Shifting portfolio weight from real estate to securitization during times of flattening or inverted curves allows HASI to gain upside from rising rates, while focus on real estate when rates lower allows flexibility compared to other REITs. Rate related risk would come from declining portfolio yield or increased unhedged interest rates.

Industry Decline: A decline in underlying market operations caused by backward moving trends away from clean energy would affect HASI's profitability and may result in a devaluation of the Company's portfolio.

Figure 4: Global Energy Mix Progression (Trillion MWh)



Source: C2ES, U.S. EIA

Lululemon Athletica

Consumer Discretionary
NASDAQ: LULU
Market Perform | No Action

September 30, 2019

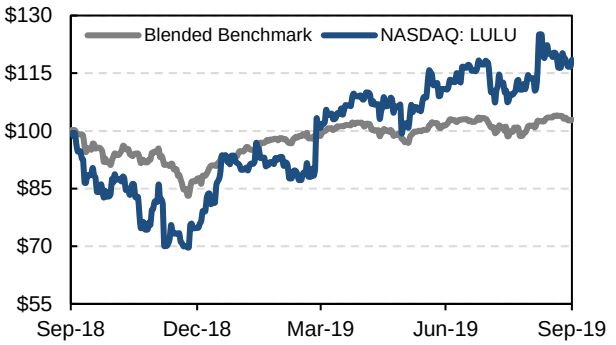
Ben Dimnik, Portfolio Manager
Breanna Schollaardt, Investment Analyst
Erik Skoronski, Investment Analyst

Return on Investment	
Current Share Price	$192.53
Target Price	$207.00
Dividend Yield	0.00%
Holding Period Return	8%
Company Quality (CQ) Score	3.4

Market Profile	
52-Week Range	$110.71 - $209.02
Market Capitalization (US$mm)	$24,713
Net Debt (US$mm)	($991)
Enterprise Value (US$mm)	$23,723
Beta (5-Year Monthly)	1.12

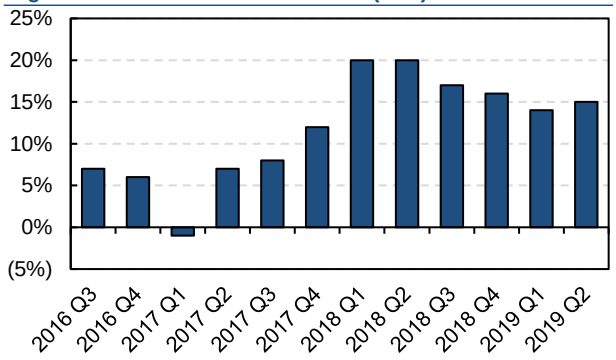
Metrics	2019E	2020E	2021E
Revenue (US$mm)	$3,683	$4,081	$4,477
EBITDA (US$mm)	$1,237	$1,480	$1,726
EPS	$4.92	$6.12	$7.40
EV/EBITDA	19.2x	16.0x	13.7x

Trading Performance (Indexed to $100)



Source: Bloomberg

Figure 1: Same Store Sales Growth (YoY)



Source: Bloomberg

Business Description

Lululemon Athletica Inc. (NASDAQ: LULU) is a Canadian based company that designs, distributes, and retails athletic and athleisure apparel in 14 countries. LULU was founded in 1998 by Dennis "Chip" Wilson, and opened its first standalone store in Kitsilano, Vancouver in 2000. LULU's original focus was women's attire, targeting yoga apparel and accessories. The brand has quickly adapted to market demand through expanding product lines to offer functional fitness gear for men, women, and young girls through ivivva division. LULU operates through two segments: (1) direct-to-consumer through its strong e-commerce platform, and (2) company operated stores.

Valuation

The CPMT's valuation consisted of a 40/60 blended Gordon Growth (8.15% WACC and 1.5% terminal growth rate) and EBITDA exit multiple (19.9x), to arrive at a target price of $207, implying a holding period return of 8.0%. For this valuation, a higher weighting was attributed to the exit multiple to eliminate LULU's premium valuation, bringing it more in line with peers (NYSE: ADS, NKE, PUM, UAA, VFC).

Current Investment Thesis and Outlook

Due to LULU's growth opportunities, and strong brand recognition, the CPMT believes LULU is a promising name to consider. The Company is focusing on a "Power of Three" growth pillars, consisting of product innovation, omni-guest experience, and market expansion. These strategic growth pillars further reinforce LULU's mandate fit within the Fund in the following ways:

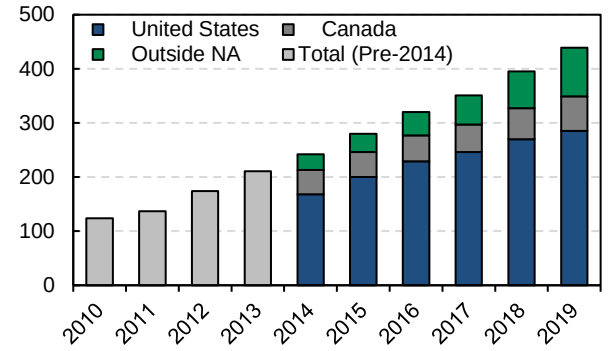
Strong Balance Sheet: LULU's balance sheet illustrates a strong ROIC with an increase of 7.5% YoY to 34.0% for FY2018. This indicates efficient and effective use of investor capital and assets to continue segment growth. The Company currently has ~$990mm in cash which it uses to invest heavily in R&D.

Quality Management: Calvin McDonald joined LULU as CEO in 2018. He came to the Company with extensive experience in the Consumer Discretionary sector as former CEO of Sephora's (OTC: LVMUY) American division. Under his guidance, LULU continues to achieve sustained growth as management focuses on rehabilitating the Company's image from the founding CEO. Wilson recently released a "tell all" book of his time at the Company, which addresses details of certain board members and the negative sentiment surrounding his comments on the Company's size offerings based on certain body types.

Growing Free Cash Flow: Since LULU's IPO in 2007, its FCF has grown at a 34.6% CAGR. In the last five-years, FCF has grown at a 12.4% CAGR. The Company has consistently reported increasing revenue, net income, EBITDA margins, and FCF growth.

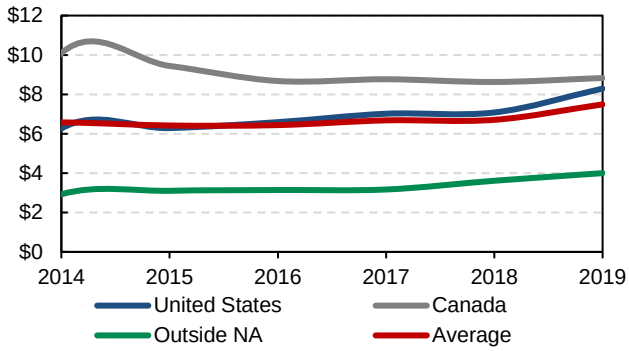
Competitive Advantages: (1) Effective marketing has resulted in strong brand recognition. LULU has become a household name through its annual events, such as the Sea Wheeze Half Marathon in Vancouver, the Sweatlife Festival in London, and recognition of International Women's Day. LULU's brand exudes health and wellness and continues to give back to the community. This attracts customers, while promoting brand loyalty. LULU also has a Sweat Collective program, which gived athletic instructors a discount on clothing in exchange for feedback and suggestions for current pieces or new additions.

Figure 2: Total Stores



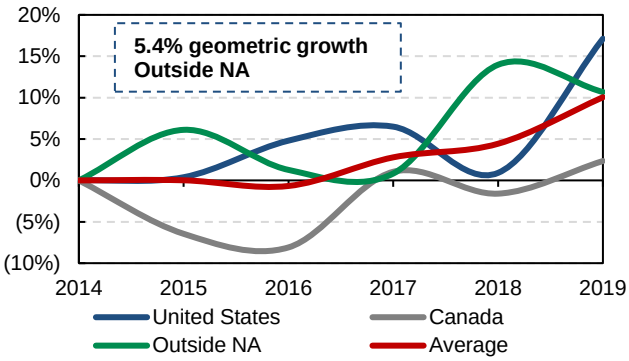
Source: Bloomberg

Figure 3: Annual Revenue Per Store (US$mm)



Source: Bloomberg

Figure 4: Revenue Growth Per Store (YoY)



Source: Bloomberg

(2) Through continually developing products and fabrics, LULU has acquired 45 registered industrial designs in Canada and 48 design patents in the U.S., as well as multiple trademarks on popular product and fabric names.

Risks to Consider

LULU has a broad manufacturing base with only 12% of product offerings coming out of China, which could be at risk considering the possibility of additional trade tariffs. However, due to LULU's strategic diversification of its manufacturing base, this would materially not affect the Company. In FY2017, LULU closed 48 of its 55 ivivva stores. This was due to a restructuring of the ivivva brand which has led LULU to incorporate ivivva into its e-commerce platform. This slightly hindered the opening of new international stores for the Company, from 406 in FY2016 to 404 in FY2017, resulting in net revenues for the year decreasing by $31.6 million. Operating profit from Q3 to Q4 of 2017 increased 4% including costs related to the restructuring. More recently, gross profits and net income have reported continual growth QoQ.

Plans for Growth

The Company has significant growth potential in each segment. The apparel segment has shown promising results, with revenues increasing 33% and 35% over the latest two quarters. Over the same two periods, direct-to-consumer revenue has grown 33% and 30%, representing 26.1% of net revenue in FY2018, compared to 21.8% in FY2017, and 19.3% in FY2016. International expansion is another key area of interest. In FY2010, the Company had 124 stores in Canada and the U.S. As of FY2018, LULU operated over 440 stores across 14 countries including: China, Sweden, Japan, and Australia. Growth in China, especially, is estimated to create strong returns for LULU. For the upcoming FY, the Company is accelerating store growth in the U.S. and Asia, with a strategy of increasing new store square footage. In addition, LULU is piloting a loyalty program in select locations, which costs $140 annually and entitles customers to several benefits, including access to specialty products and events, as well as 12 sweat and yoga classes (one per month) held at local studios and taught by LULU ambassadors. The program was successfully welcomed in Edmonton and doubled the sales of LULU's top selling women's Align Pants. The Company began testing the program in Edmonton, Alberta before rolling out to Austin, Texas, with an iminent launch planned for Chicago, Illinois. A larger rollout of the program is expected to come by 2020. The Company has also expanded into the self-care industry with products "designed by athletes, for athletes". This product line will be sold through e-commerce sites and retail stores, such as Sephora online. The partnership with Sephora is anticipated to aid LULU with reaching a larger number of shoppers due to Sephora's large presence in the personal care space.

Figure 5: Company Metrics

Fiscal Year	Revenue	YoY Change
2015	US$2.06B	14.60%
2016	US$2.34B	13.60%
2017	US$2.65B	13.20%
2018	US$3.28B	23.70%

Source: Company Filings

Stores Internationally

FY2015	FY2016	FY2017	FY2018
363	406	404	440

Growth Drivers (Q2 2019)

Men's Revenue	Direct-to-Consumer Revenue	International Revenue
+35%	+31%	+34%

Manulife Financial

Financials
TSX: MFC
Market Perform | Hold

Calgary Portfolio Management Trust

Manulife

September 30, 2019

Mahdis Sadeghi, Portfolio Manager
Dhruv Jindal, Investment Analyst

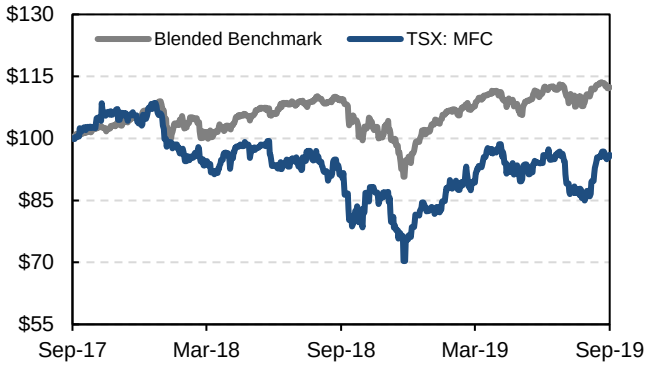
Return on Investment	
Current Share Price	$24.30
Target Price	$28.00
Dividend Yield	4.03%
Holding Period Return	19%
Company Quality (CQ) Score	3.5
Conviction Rating	2

Market Profile	
52-Week Range	$17.80 - $25.18
Market Capitalization (mm)	$47,341
Net Debt, Pref Equity, Min. Interest (mm)	$21,940
Enterprise Value (mm)	$69,281
Beta (5-Year Monthly)	1.30

Metrics (SOE)	2019E	2020E	2021E
EPIF (mm)	$4,047	$4,407	$4,814
Impact of New Business (mm)	$921	$915	$962
Experience Gains (mm)	$449	$478	$478
Core Net Income (mm)	$5,736	$6,102	$6,701

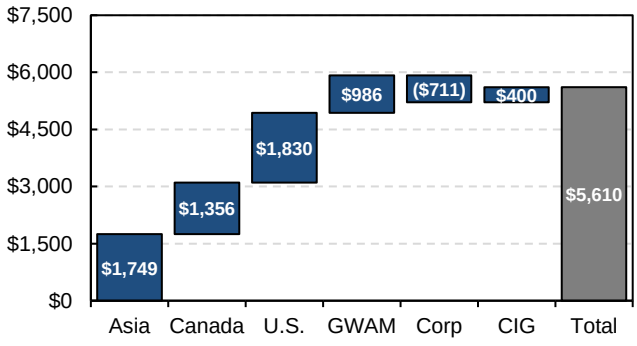
Source: Street Estimates

Trading Performance (Indexed to $100)



Source: Bloomberg

Figure 1: Core Earnings Waterfall (mm)



Source: Company Filings

Business Description

Manulife Financial Corporation (TSX: MFC) is the largest insurer in Canada based on assets under management (AUM) and is a leading global provider of financial protection and wealth management products and services. MFC has operations in Canada, the U.S., and Asia. Products include life and health insurance, long-term care protection, pension and annuity products, mutual funds, and institutional asset management. In Q2 2019, core earnings by geography were as follows: 32% in the U.S., 31% in Asia, 21% in Canada, and 16% in the Global Wealth and Asset Management segment.

Industry Overview

In Canada, the three dominant insurance companies, Great-West LifeCam (TSX: GWO), Sun Life Financial (TSX: SLF), and MFC, account for 94% of total Canadian life insurance assets. The insurance industry has seen de-mutualization and consolidation since the 1990s and companies have grown to offer a wider range of products with greater geographical exposure. Consequently, exposure to macro risks, such as interest rates, equity, and credit market risks, have increased.

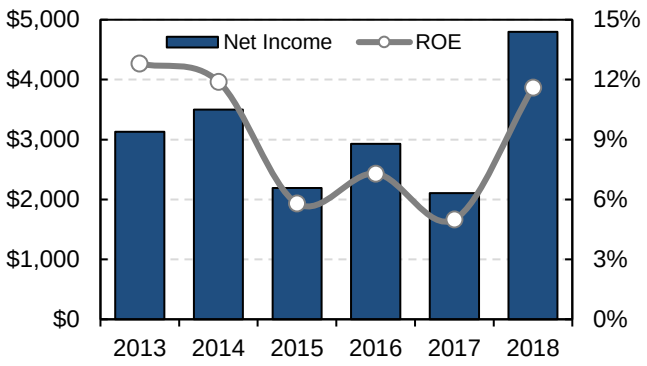
Workings of a LifeCo

The realization of profits from a sale is a lengthy process. Subsequent to the sale of an insurance policy, a LifeCo matches the policyholder liability with a similar duration asset. Actuarial reserves are established to reflect the present value of future cash outflows to customers, taxes, and operating expenses, net of expected cash inflows from premiums and investments. A “provision for adverse deviation” (PfAD) is further set aside to reflect uncertainty around investment returns, lapse, and mortality assumptions. Over time, as premiums are received and investment income is earned, the PfAD is gradually released into earnings as the risk of misestimating the various assumptions is reduced.

Products: Products can be divided into four categories: (1) individual life and health insurance, (2) individual wealth, (3) group life and health insurance, and (4) group retirement. Capital requirements for the various products offered by LifeCos depend on the inherent risks in the products, with risk arising from the guarantees offered and the duration of the products. In recent years, LifeCos had to re-price and redesign many of these products to reflect equity market and interest rate movements, morbidity experience, and policyholder behavior. Furthermore, wealth-oriented products have seen increased growth in comparison to protection-focused products over the past 10 years.

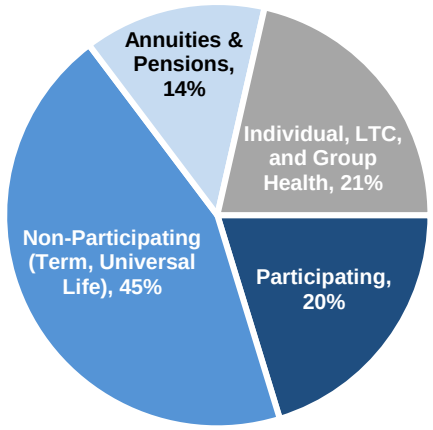
Individual Life and Health: Core products include term, whole life, universal, and participating life insurance. Term insurance is a form of temporary life insurance where a fixed amount is payable provided that death occurs within a specified period. Whole life insurance is a form of permanent insurance where the policy remains in force until the policyholder dies or the policy is cancelled and includes a savings component that accumulates a cash value over time in a tax-friendly manner. Universal life is a form of permanent life insurance similar to whole life where policyholders can vary the amount and timing of premium payments. Participating life insurance is also permanent insurance and it gives policyholders a share in the surplus earnings attributed to the business. The profitability of individual life insurance is heavily dependent on assumptions for mortality, lapse rates, and interest rates. The growth of individual insurance products in North America has been modest in the past 20 years.

Figure 2: Historic Net Income and ROE (mm)



Source: Company Filings

Figure 3: Gross Insurance Contract Liabilites



Source: Company Filings

Figure 4: Impact of Policy Related Assumptions

Policy Related Assumptions	Decrease in Net Income ($mm)
2% adverse change in future mortaility rates	$500
5% adverse change in future morbidity rates	$4,800
10% adverse change in future termination rates	$2,200
5% increase in future expense levels	$600

Source: Company Filings

Figure 5: MFC 2018 PfAD

Provision for Adverse Deviation (PfAD)	2018 ($mm)
Insurance risks (mortality/morbidity)	$19,021
Policyholder behavior (lapses)	$5,776
Expenses	$1,573
Investment risks (non-credit)	$25,955
Investment risks (credit)	$941
Segregated funds guarantees	$2,184

Source: Company Filings

Individual Wealth: Core products include fixed and variable annuities. A fixed annuity is a product in which the contract holder is credited with a periodic fixed rate of interest payments. Variable annuities (segregated funds) offer holders upside related to appreciation in equity markets, but also downside protection varying based on guarantees offered. The profitability of variable annuities is heavily influenced by the direction of equity markets.

Group Insurance: Core products include group life, health, and administrative services only (ASO). Group insurance is usually issued to an employer for the benefit of employees. ASO contracts are an arrangement under which an insurance carrier will administer a health benefit plan and settle claims but not guarantee payments because the plan is uninsured. The products offered within group insurance are dictated by the availability of socialized healthcare.

Group Retirement and Group Pensions: Core products include bundled plans, unbundled plans, mutual funds, and long-term care (LTC). Within bundled plans, the insurer provides all services as part of the arrangement, including managing the underlying fund offerings, record keeping and administration, and employee enrolment. Within unbundled plans, third parties handle one or more of the plan's components. LTC insurance provides financial protection for persons with a chronic illness, disability, or cognitive impairment, such as Alzheimer's disease. MFC has meaningful exposure through its U.S. subsidiary. Given the long-term nature of the policies, the reinvestment risk is high compared to most products.

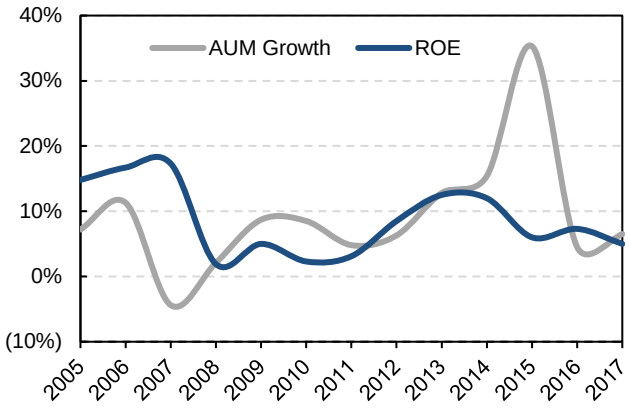
Balance Sheet

MFC's balance sheet liabilities are dominated by actuarial reserves. The main assumptions in actuarial liabilities are in mortality, morbidity, lapse rates, operating expenses for servicing in-force policies, asset returns, and asset defaults. The largest components of actuarial reserves are individual insurance products given the long duration of the product. Small changes in actuarial liabilities can have a large impact on earnings. Long-term Debt/Capital decreased from 17.9x in 2017 to 16.8x in 2018, demonstrating MFC's deleveraging efforts. MFC fits the CPMT mandate as Long-Term Debt/Capital has been decreasing and PfADs have not fluctuated significantly.

Risks and Earnings Sensitivity to Macro Factors

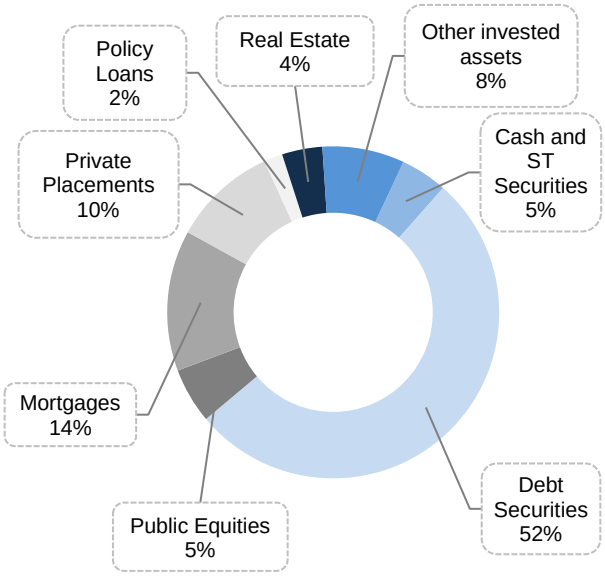
MFC has material exposure to five principal risk categories: strategic risk, market risk, credit risk, product risk, and operational risk. Strategic risk is mitigated by extensive management and board oversight. Market risk, a result of market volatility, is mitigated with equity risk hedging, interest rate hedging, and FX hedging. Liquidity risk, a part of market risk, is hedged by MFC's fundamentally diverse geographic reach. The Company's risk management strategy is to hold a diverse bond portfolio and to conduct periodic credit and counterparty reviews. A credit risk exposure metric that the Company tracks is Net Impaired Assets as a percentage of Total Invested Assets. The metric has remained consistent at 0.05% in both 2018 and 2017. Product risk, the risk of loss due to a product not achieving its expected outcome, is tracked extensively by internal pricing officers. Operational risk, the risk of loss from failed internal processes or external events, is mitigated as well by a robust internal enterprise risk management framework. Overall, the CPMT is comfortable with the level of risk management activity that MFC undergoes.

Figure 6: AUM and ROE growth



Source: Company Filings

Figure 7: MFC Asset Mix



Source: Company Filings

Valuation

A peer average P/E of 9.0x was used for the valuation to arrive at a $28.00 target price, implying a 17% return. Source of Earnings was used to forecast net income. SOE consists of 4 different parts:

Expected Profit on In-Force Business (EPIF): Reflects the expected pre-tax earnings from a company's in-force insurance and annuity book of business, as well as fee income. Expected profit is largely determined by the level of funds managed/administered for fee-based assets, in addition to the release of PfADs.

Impact of New Businesses: The impact is usually negative for longer-duration individual insurance products, representing acquisition costs such as underwriting expenses and commissions and the cost of establishing actuarial reserves when a new sale is made.

Experienced Gains/Losses: Experienced gains/losses represent the difference between expected profit on in-force and realized profit. It is the difference between actuarial assumptions and actuals during the period.

Assumption Changes and Management Actions: These represent actuarial assumption changes or other management actions. Assumptions that underpin actuarial reserves are updated regularily to reflect emerging experience.

LifeCo valuations have improved from trough levels during the financial crisis, but remain below Canadian Bank valuations. Lifecos are still influenced by negative risk sentiments in the marketplace, which has recently pressured valuations and increased betas across the industry. MFC has a relatively high beta at 1.3 versus a peer average of ~1.0. Furthermore, MFC has strong capital adequacy with Life Insurance Capital Adequacy Test (LICAT) ratios standing at 144% and trades at a discount to peers with FY 2019 P/E 7.4x versus a peer average of 9.0x, and P/BV of 1.0x versus 1.3x peer average.

Portfolio Fit and Current Investment Thesis

While MFC has an attractive valuation with geographically diverse operations and interesting growth prospects in Asia, the Company has significant vulnerabilities to macroeconomic factors including declining interest rates, volatile equity markets, and currency exposure risk.The CPMT maintains its hold rating on Manulife; however, this is a name that the Fund may look to trim in the future. This is due to its higher beta and inferior growth potential compared to other Fund Financials holdings. A trim would bring the CPMT's Financials exposure further to an in-line sector weighting.

Figure 8: Comparables Company Analysis

	Market Data			Evaluation Metrics					2019E Valuation		
	Price	Market Cap	LICAT	LTM EPS	FY1 EPS	BVPS	Div. Yield	ROE	LTM P/E	FY P/E	P/BV
Life Insurance Company	*($/sh)*	*($mm)*	*(%)*	*($/sh)*	*($/sh)*	*($/sh)*	*(%)*	*(%)*	*(x)*	*(x)*	*(x)*
Great-West Lifeco Inc	$31.05	$28,816	136%	$2.18	$3.20	$20.86	5.3%	12.5%	14.3x	9.7x	1.5x
Sun Life Financial Inc	$58.47	$34,558	144%	$3.91	$5.47	$36.26	3.6%	11.2%	15.0x	10.7x	1.6x
iA Financial Corp Inc	$61.29	$6,517	122%	$5.92	$6.44	$47.86	2.9%	12.6%	10.4x	9.5x	1.3x
Power Financial Corp	$30.75	$20,421	135%	$2.81	$3.56	$25.87	5.9%	11.1%	10.9x	8.6x	1.2x
Manulife Financial Corp	$24.33	$47,399	144%	$2.88	$3.14	$22.85	4.1%	13.2%	8.4x	7.7x	1.1x
Average	**$41.18**	**$27,542**	**136.2%**	**$3.54**	**$4.36**	**$30.74**	**4.4%**	**12.1%**	**11.8x**	**9.3x**	**1.3x**
Median	**$31.05**	**$28,816**	**136.0%**	**$2.88**	**$3.56**	**$25.87**	**4.1%**	**12.5%**	**10.9x**	**9.5x**	**1.3x**

Source: Bloomberg

Waste Connections

Industrials
NYSE | TSX: WCN
Market Perform | Hold

Calgary Portfolio Management Trust

WASTE CONNECTIONS

September 30, 2019

Faizaan Dossa, Portfolio Manager
Hayley Hicks, Investment Analyst

Return on Investment

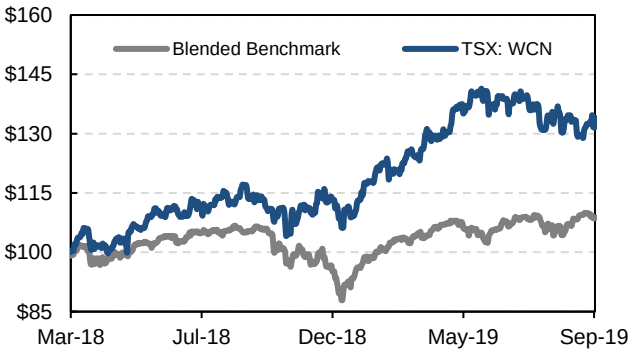
Current Share Price	$121.71
Target Price	$125.00
Dividend Yield	0.80%
Holding Period Return	4%
Company Quality (CQ) Score	3.2
Conviction Rating	2

Market Profile

52-Week Range	$96.16 - $168.44
Market Capitalization (mm)	$32,092
Net Debt (mm)	$4,088
Enterprise Value (mm)	$36,180
Beta (Adjusted 5-Year Monthly)	0.45

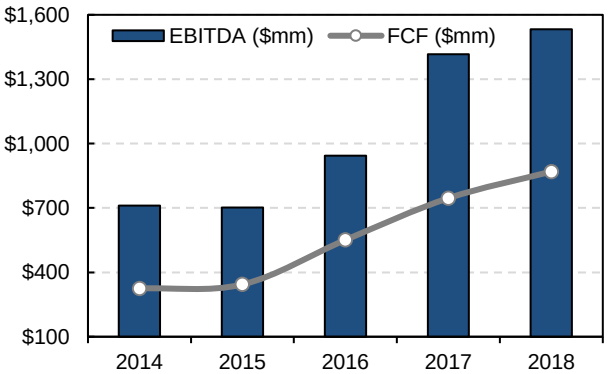
Metrics	2019E	2020E	2021E
Revenue (mm)	$5,375	$5,912	$6,271
EBITDA (mm)	$2,014	$2,218	$2,437
EPS	$2.32	$2.60	$2.91
EV/EBITDA	18.0x	16.3x	14.8x

Holding Period Trading Performance (Indexed to $100)



Source: Bloomberg

Figure 1: EBITDA and FCF Growth



Source: Bloomberg, Company Filings

Business Description

Waste Connections (TSX: WCN) is an integrated solid waste services company that provides non-hazardous waste collection, transfer, disposal, and recycling services in the U.S. and Canada. The Company is a leading provider of non-hazardous oilfield waste treatment, recovery, and disposal services in several active natural resource producing areas in the U.S. (Permian, Bakken, and Eagle Ford). WCN serves more than six million residential, commercial, industrial, and E&P customers in 41 states in the U.S. and six provinces in Canada. The Company also provides intermodal services for the movement of cargo and solid waste containers in the Pacific Northwest.

Original Investment Thesis

The CPMT believed WCN was a promising holding with the following elements driving the Fund's original investment thesis: (1) opportunity to target secondary, rural, and natural resource markets, (2) decentralized management as an effective structure to meet and exceed customer needs by region, (3) operational excellence and streamlined vertical integration of collection and disposal services, and (4) steady pricing and volume growth by broadening beyond collections and disposals.

Revised Valuation

A five-year DCF and comparable analysis were conducted to value WCN, accounting for changes in market outlook and new service offerings. The valuation was based on a 50/50 weighted DCF (7% WACC and terminal growth of 2%) and comparable analysis (EV/EBITDA multiple of 16.2x), providing a target price of $125, implying a 3% holding period return. The companies used in the comparable analysis are Advanced Disposal Services (NYSE: ADSW), Covanta Holding Corp (NYSE: CVA), Clean Harbor Inc. (NYSE: CLH), Heritage-Crystal Clean Inc. (NASDAQ: HCCI), Republic Services Inc. (NYSE: RSG), and Waste Management Inc. (NYSE: WM). The CPMT believes WCN offers a diverse range of services and market channels that allows it to remain defensive and profitable.

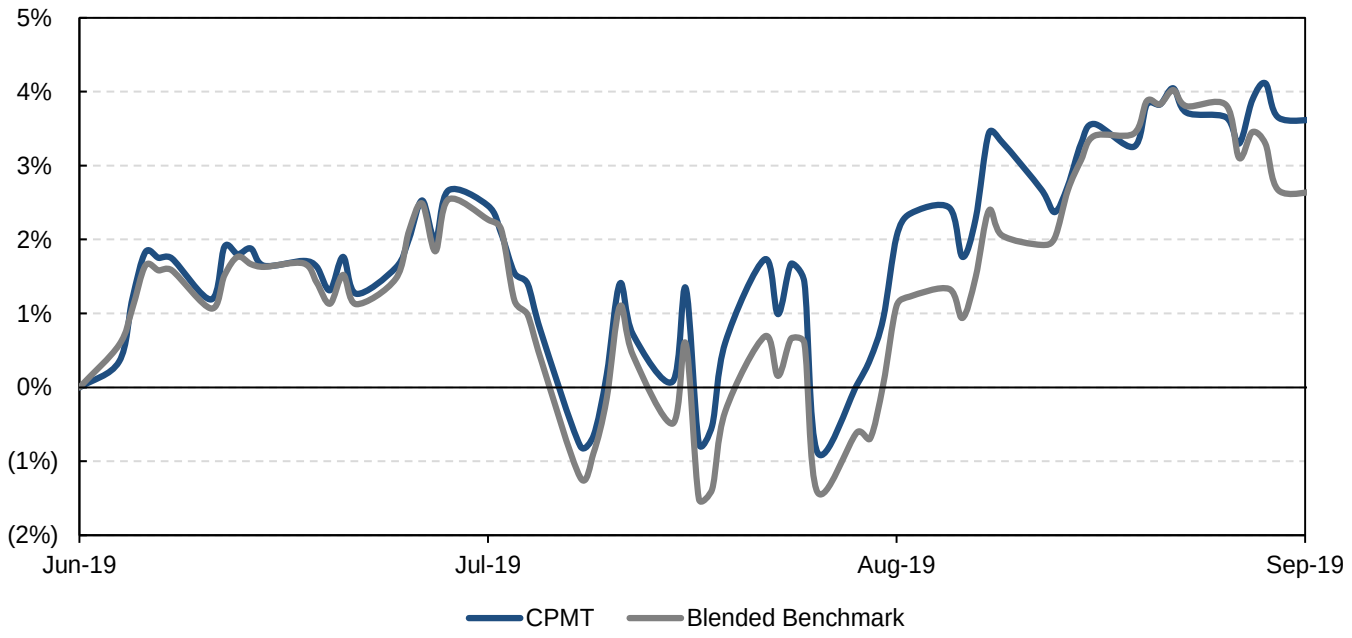
Current Investment Thesis and Outlook

The Company's managerial excellence and steady increase in shareholder value is a key component of the CPMT's original thesis. This can be shown through the Company's 19 strategic acquisitions since 2004 that allowed it to expand operations across North America as well as strengthen and diversify its servicing pipeline, all of which attributed to its average FCF growth of 28% and net income CAGR of 27% since 2014. WCN provided strong performance over the quarter despite bad weather, specifically the hurricanes across Florida and the U.S., and fluctuating commodity prices that heightened market volatility. The Company faced challenging headwinds in its recycling segment in B.C. given recent news reports that scrutinized WCN for improper recycling disposal practices. As well, the Company experienced major residential waste collection delays in the County of Simcoe, Ontario in which it had fixed-rate contracts with the municipal government. Under such contracts, WCN is responsible for cost overruns and service allocations to third-party contractors. These delays resulted from local skilled labor shortages and a recent change in municipal legislation that compressed collection schedules from five days to four days. The CPMT will focus on management's proactive plans into the coming quarter to satisfy its operational and contractual obligations, which includes the deployment of its 2019 incremental capex on awarded contracts of $35mm, as well as its FCF growth, organic revenue growth, pace of strategic acquisitions, and maintenance of leading market share.

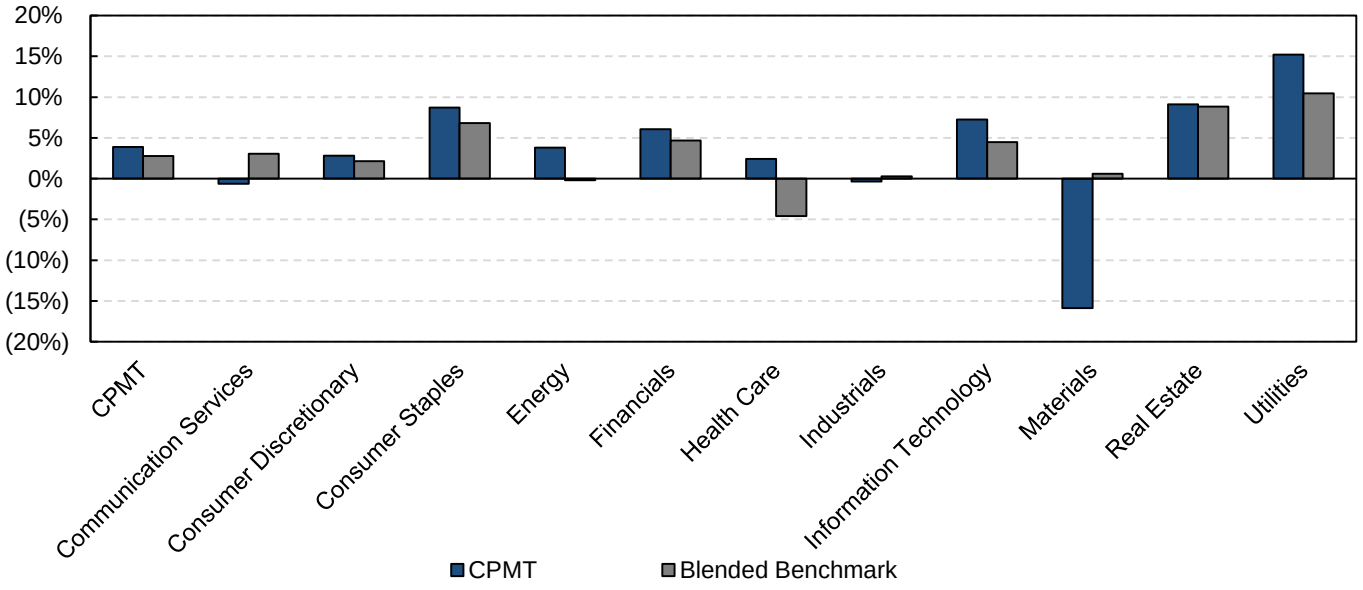
Compliance and Performance

QUARTERLY PERFORMANCE

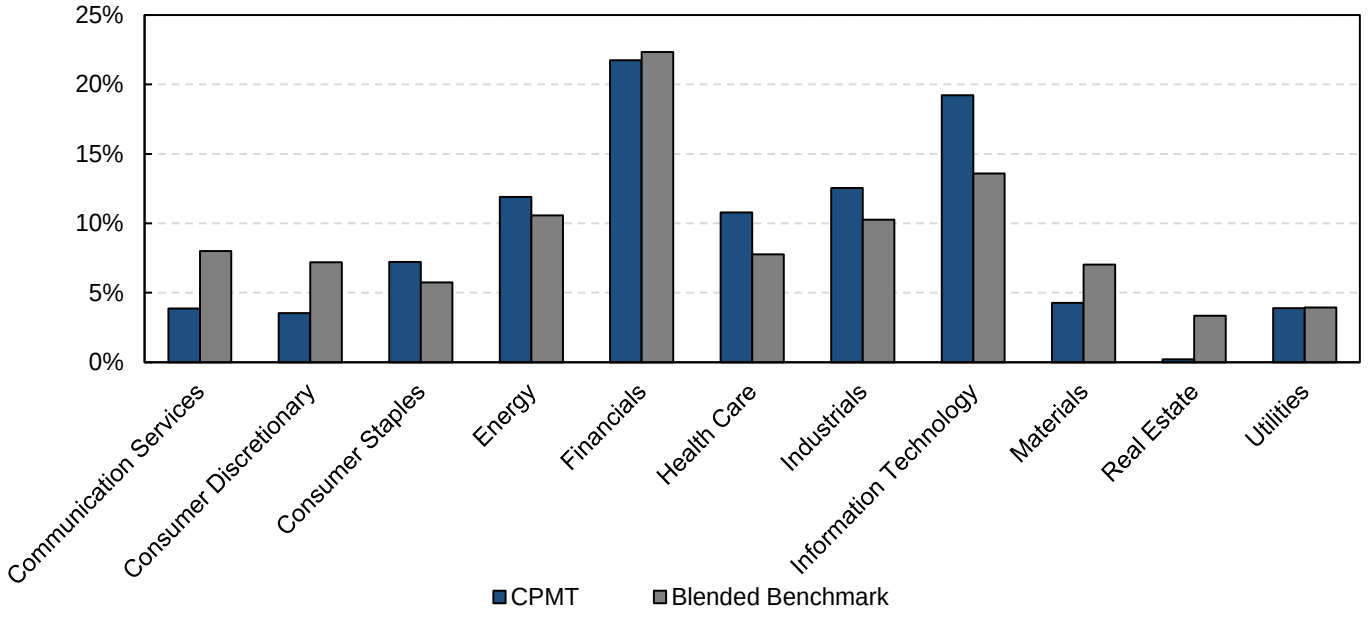
CPMT and Blended Benchmark Total Return



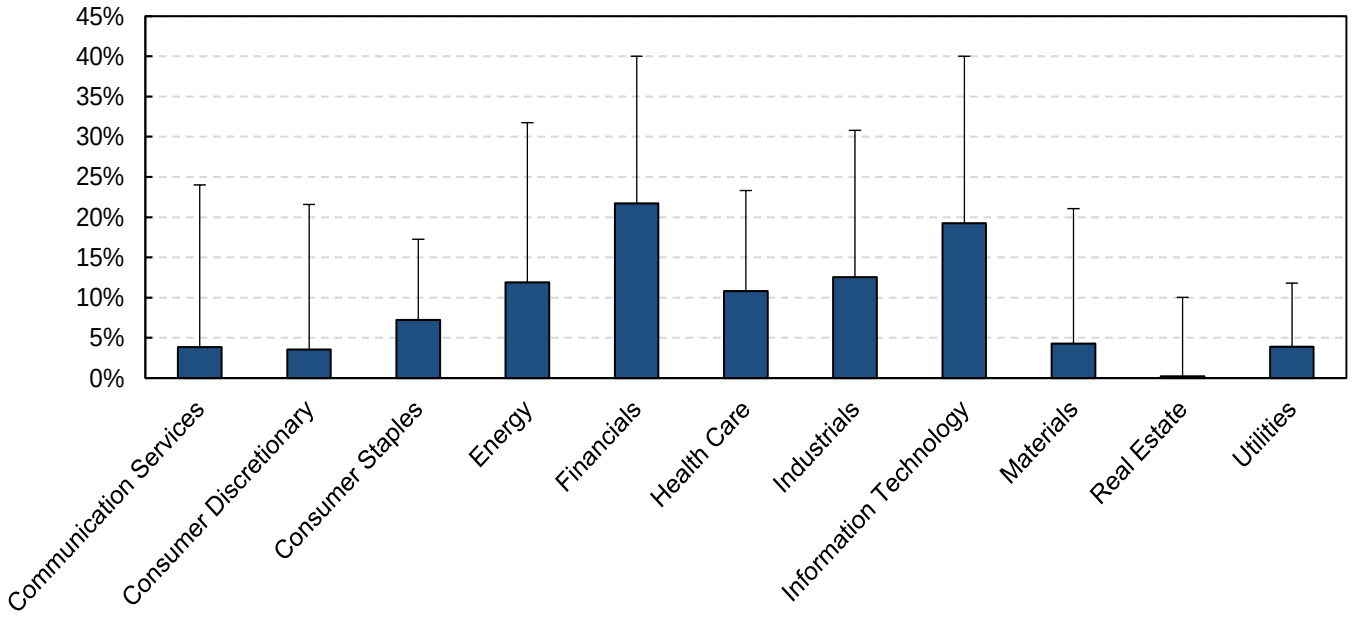
CPMT and Blended Benchmark Sector Returns



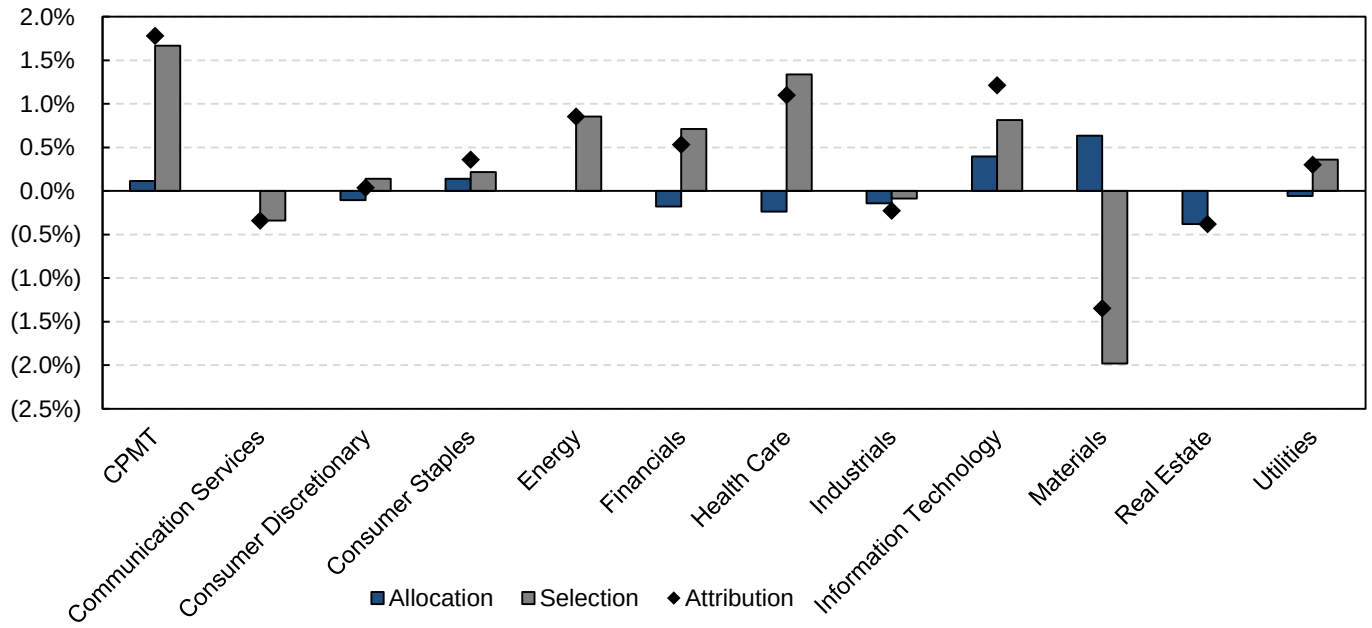
CPMT and Blended Benchmark Asset Breakdown



CPMT Sector Weights vs Maximum Weight



Attribution Analysis (Quarterly)

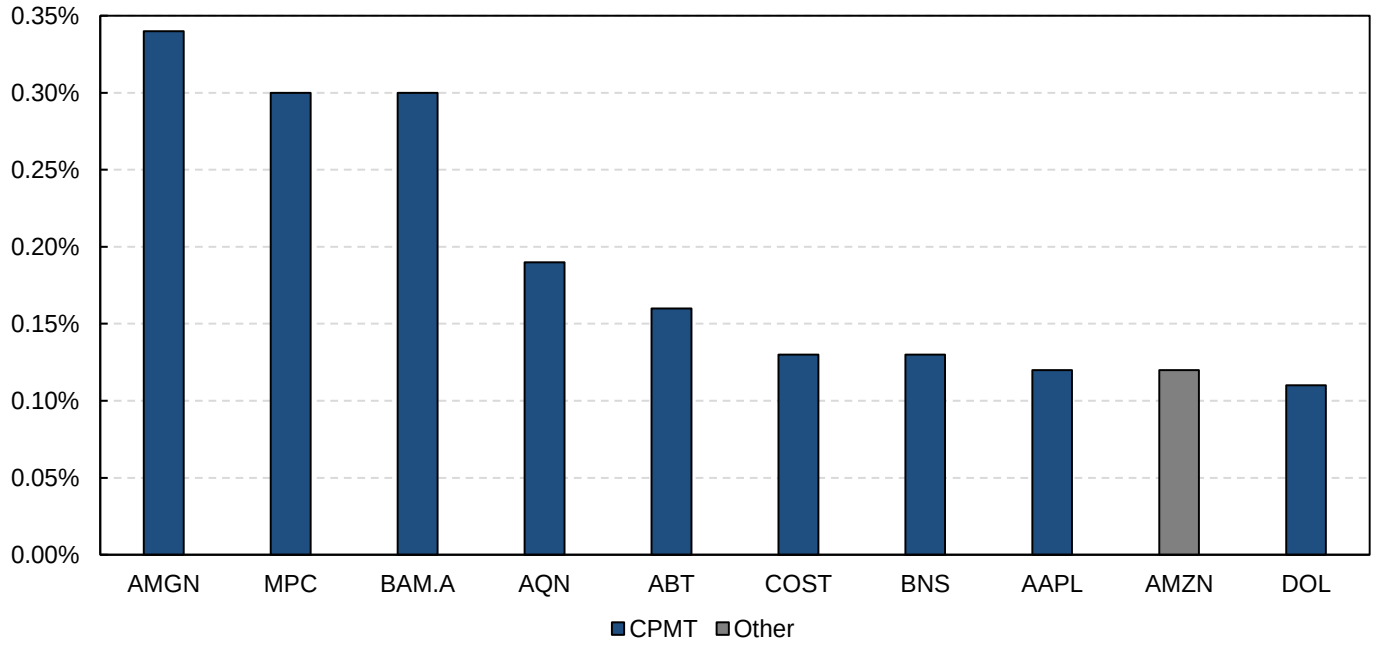


CPMT Attribution Analysis

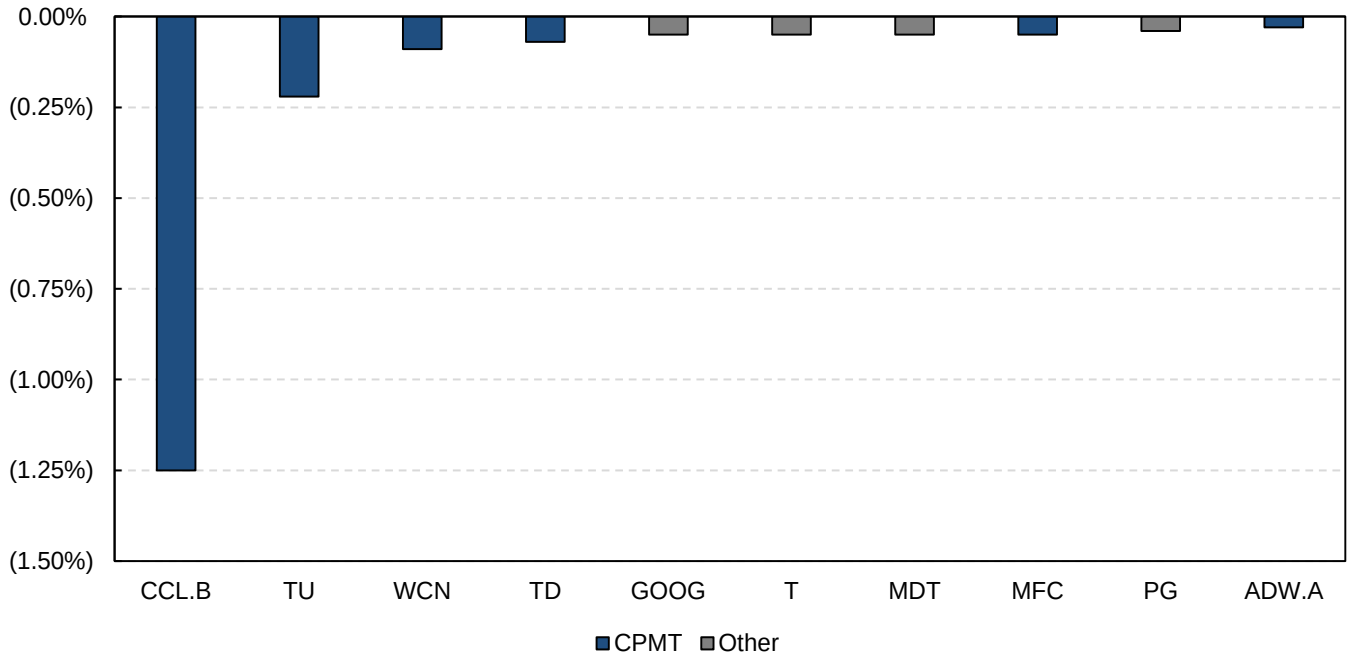
FQ2 2020	Attribution	Allocation	Selection
CPMT	1.78%	0.11%	1.67%
Cash	(0.02%)	(0.02%)	0.00%
Communication Services	(0.34%)	0.00%	(0.34%)
Consumer Discretionary	0.04%	(0.10%)	0.14%
Consumer Staples	0.36%	0.14%	0.22%
Energy	0.85%	0.00%	0.85%
Financials	0.53%	(0.18%)	0.71%
Health Care	1.10%	(0.24%)	1.34%
Industrials	(0.23%)	(0.14%)	(0.09%)
Information Technology	1.21%	0.40%	0.82%
Materials	(1.35%)	0.64%	(1.98%)
Real Estate	(0.38%)	(0.38%)	0.00%
Utilities	0.30%	(0.06%)	0.36%

1 Year	Attribution	Allocation	Selection
CPMT	1.82%	0.06%	1.76%
Cash	(0.05%)	(0.05%)	0.00%
Communication Services	(0.35%)	0.04%	(0.39%)
Consumer Discretionary	0.33%	(0.21%)	0.54%
Consumer Staples	0.26%	0.17%	0.09%
Energy	0.27%	0.08%	0.19%
Financials	0.54%	0.02%	0.52%
Health Care	0.61%	(0.15%)	0.76%
Industrials	(0.09%)	(0.07%)	(0.02%)
Information Technology	1.17%	0.47%	0.70%
Materials	(0.87%)	0.08%	(0.95%)
Real Estate	(0.19%)	(0.26%)	0.07%
Utilities	0.19%	(0.05%)	0.24%

Top 10 Selection Effects



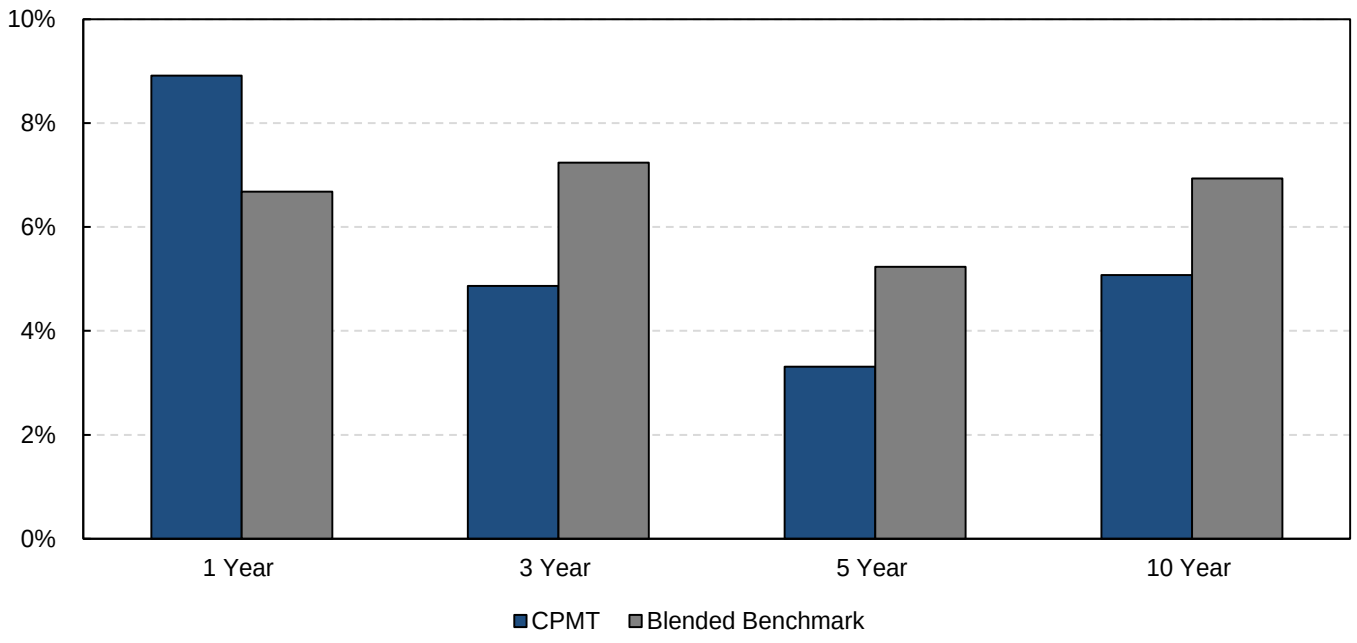
Bottom 10 Selection Effects



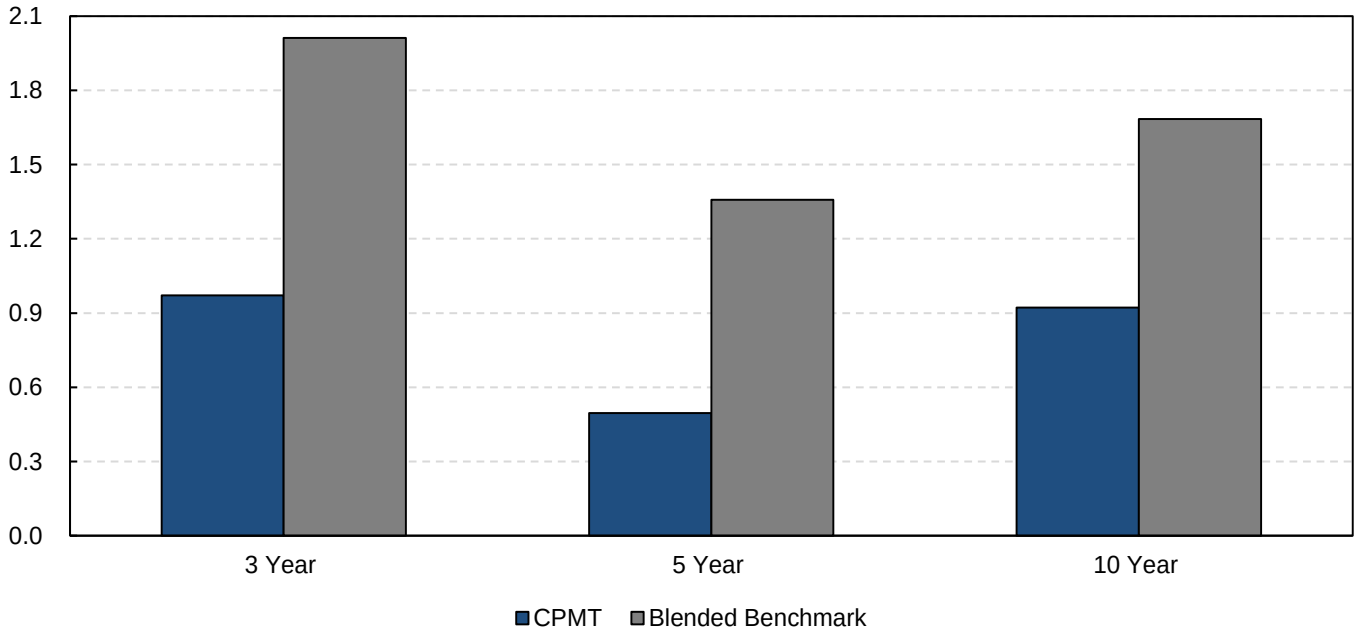
Compliance and Performance

LONG TERM PERFORMANCE

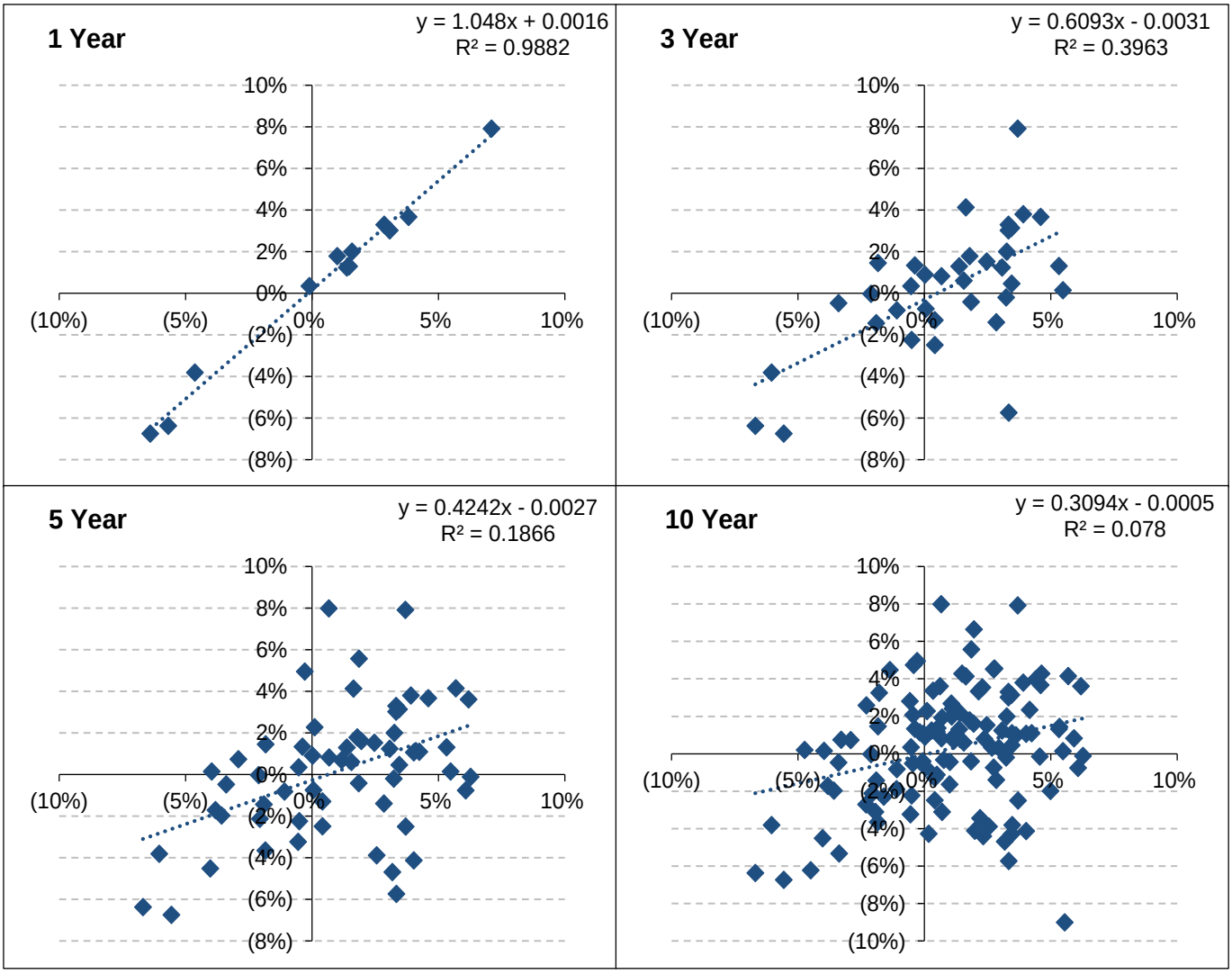
CPMT and Blended Benchmark Total Return (Annualized)



CPMT and Blended Benchmark Composite Index Sharpe Ratios



CPMT and Blended Benchmark Single Linear Regressions on Monthly Returns



The CPMT Long Term Performance Targets

		1 Year		3 Year		5 Year		10 Year
Absolute Returns (annualized)								
CPMT [1]	✓	8.91%	✗	4.86%	✗	3.31%	✗	5.07%
Relative Returns (bps)								
Blended Benchmark [2]	✓	223	✗	(237)	✗	(192)	✗	(186)
Risk Adjusted Returns (bps)								
Blended Benchmark [3]	✗	16	✗	(31)	✗	(27)	✗	(5)

(1) Performance target of 7.0% annual returns.

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

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

CPMT Long Term Performance Details

	1 Year	3 Year	5 Year	10 Year
Annualized Return				
CPMT	8.91%	4.86%	3.31%	5.07%
Blended Benchmark	6.68%	7.24%	5.23%	6.93%
Annualized Volatility				
CPMT	14.85%	10.25%	10.90%	10.87%
Blended Benchmark	14.09%	10.60%	11.11%	9.81%
Sharpe				
CPMT		0.97	0.50	0.92
Blended Benchmark		2.01	1.36	1.68

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 of Sale	Action	Shares	Purchase Price	Sale Price	Currency	Capital Gain (CAD)	Return
GIB.A	2-Apr-18	Sale	90	$47.72	$ 97.74	CAD	$4,501.80	104.82%
IVV	2-Apr-18	Sale	77	$376.50	$ 287.80	USD	($9,149.56)	(23.56%)
MSFT	2-Apr-18	Buy	120	$119.20				
AMGN	2-Apr-18	Buy	75	$192.09				
MPC	10-Apr-18	Buy	230	$63.46				
AAPL	10-Apr-18	Buy	75	$199.69				
TIH	10-Apr-18	Sale	70	$33.96	$ 68.92	USD	$3,278.39	102.94%
IXC	10-Apr-18	Sale	360	$33.85	$ 34.57	USD	$348.68	2.14%
IVV	10-Apr-18	Sale	45	$376.50	$ 289.71	USD	($5,231.95)	(23.05%)
AMGN	24-Apr-19	Buy	9	$179.09				
IVV	24-Apr-19	Sale	6	$376.50	$294.55	USD	($658.70)	(21.77%)
Total							($6,911.33)	(7.82%)

There were no transactions for FQ2.

Appendix 2: Account Activity

Dividend Summary

April, 2019			
Equity	**Date**	**DPS**	**Credit (CAD)**
T	1-Apr-2019	0.545	$185.30
TIH	3-Apr-2019	0.270	$81.00
CSU	5-Apr-2019	28.018	$336.22
ADW.A	5-Apr-2019	0.051	$30.78
AQN	15-Apr-2019	0.170	$187.14
BNS	26-Apr-2019	0.870	$319.29
TD	30-Apr-2019	0.740	$296.00
Total			**$1,435.73**

May, 2019			
Equity	**Date**	**DPS**	**Credit (CAD)**
MA	9-May-2019	0.773	$51.71
DOL	10-May-2019	0.044	$13.20
ABT	15-May-2019	0.429	$77.20
AAPL	16-May-2019	0.770	$78.06
WCN	22-May-2019	0.215	$28.01
COST	24-May-2019	0.650	$61.50
Total			**$309.68**

June, 2019			
Equity	**Date**	**DPS**	**Credit (CAD)**
ENB	3-Jun-2019	0.738	$442.80
AMGN	7-Jun-2019	1.450	$159.52
MPC	10-Jun-2019	0.530	$159.65
MSFT	13-Jun-2019	0.460	$72.29
MFC	19-Jun-2019	0.250	$275.00
IVV	21-Jun-2019	2.335	$191.49
SU	25-Jun-2019	0.420	$168.00
CNR	28-Jun-2019	0.538	$134.38
CCL.B	28-Jun-2019	0.170	$57.80
BAM.A	28-Jun-2019	0.214	$80.31
Total			**$1,741.23**

July, 2019			
Equity	**Date**	**DPS**	**Credit (CAD)**
T	2-Jul-2019	0.563	$191.25
TIH	3-Jul-2019	0.270	$62.10
ADW.A	5-Jul-2019	0.054	$32.28
CSU	8-Jul-2019	1.338	$16.06
AQN	15-Jul-2019	0.183	$201.22
BNS	29-Jul-2019	0.870	$319.29
TD	31-Jul-2019	0.740	$296.00
Total			**$1,118.20**

August, 2019			
Equity	**Date**	**DPS**	**Credit (CAD)**
DOL	9-Aug-2019	0.044	$13.20
MA	9-Aug-2019	0.409	$50.15
ABT	15-Aug-2019	0.424	$76.36
AAPL	15-Aug-2019	0.770	$76.89
WCN	26-Aug-2019	0.212	$27.53
Total			**$244.13**

September, 2019			
Equity	**Date**	**DPS**	**Credit (CAD)**
ENB	3-Sep-2019	0.738	$442.80
AMGN	6-Sep-2019	1.450	$161.32
MPC	10-Sep-2019	0.530	$161.45
MSFT	12-Sep-2019	0.460	$73.11
COST	13-Sep-2019	0.650	$60.26
MFC	19-Sep-2019	0.250	$275.00
SU	25-Sep-2019	0.420	$168.00
BAM.A	30-Sep-2019	0.212	$79.49
CCL.B	30-Sep-2019	0.170	$57.80
CNR	30-Sep-2019	0.538	$134.38
IVV	30-Sep-2019	1.955	$160.29
Total			**$1,773.90**

CPMT Holdings - Sept 30, 2019	Market Cap	Conviction	Position Size			Target Price			Stock Price	Total Return	
Financials			Current	Target	Difference	Prior		Current	End of Period	QTD	TTM
Bank of Nova Scotia	Large	3	5.30%	6.00%	(0.70%)	$80.00	▬	$80.00	$75.25	8.26%	3.77%
Brookfield Asset Management	Large	2	5.06%	4.00%	1.06%	$56.00	▬	$56.00	$70.35	12.64%	24.03%
Manulife	Large	3	5.93%	6.00%	(0.07%)	$29.00	▼	$28.00	$77.25	1.93%	2.24%
Mastercard	Large	3	5.13%	6.00%	(0.87%)	$270.00	▬	$270.00	$24.30	3.25%	10.02%
Toronto Dominion	Large	3	6.35%	6.00%	0.35%	$75.00	▬	$75.00	$271.57	4.14%	26.80%
Information Technology											
Apple Inc	Large	2	4.27%	4.00%	0.27%	$218.00	▬	$218.00	$223.97	15.09%	11.72%
Constellation Software	Large	2	3.05%	4.00%	(0.95%)	$1,320.00	▬	$1,320.00	$1,323.15	7.31%	43.37%
Microsoft Corp.	Large	2	4.24%	4.00%	0.24%	$161.00	▬	$161.00	$139.03	5.51%	16.52%
Materials											
CCL Industries	Mid	3	3.49%	6.00%	(2.51%)	$70.00	▼	$67.00	$53.44	(16.54%)	(7.18%)
Energy											
Enbridge	Large	3	5.35%	6.00%	(0.65%)	$48.00	▬	$48.00	$46.50	(0.03%)	18.79%
Marathon Petroleum Corp	Large	2	3.55%	4.00%	(0.45%)	$70.00	▬	$70.00	$60.75	11.39%	(3.08%)
Suncor	Large	2	3.21%	4.00%	(0.79%)	$41.00	▬	$41.00	$41.79	3.42%	(13.08%)
Consumer Discretionary											
Dollarama	Large	2	2.73%	4.00%	(1.27%)	$51.00	▬	$51.00	$47.43	3.04%	17.06%
Consumer Staples											
Costco	Large	2	5.12%	4.00%	1.12%	$289.00	▬	$289.00	$288.11	10.70%	34.02%
Andrew Peller	Small	2	1.63%	4.00%	(2.37%)	$18.00	▬	$18.00	$14.14	3.30%	(12.54%)
Telecommunications											
Telus	Large	2	3.08%	4.00%	(0.92%)	$52.00	▬	$52.00	$47.15	(1.47%)	3.67%
Healthcare											
Abbott Laboratories	Large	2	3.83%	4.00%	(0.17%)	$93.00	▬	$93.00	$83.67	1.18%	6.38%
Knight Therapeutics	Mid	1	1.71%	2.00%	(0.29%)	$9.00	▼	$8.50	$7.43	(3.76%)	(9.61%)
Amgen	Large	2	4.13%	4.00%	0.13%	$214.00	▬	$214.00	$193.51	7.16%	1.33%
Industrials											
Toromont	Mid	2	2.82%	4.00%	(1.18%)	$64.00	▬	$64.00	$64.00	3.55%	(2.52%)
Canadian National Railway	Large	3	5.70%	6.00%	(0.30%)	$130.00	▬	$130.00	$118.96	(1.42%)	4.46%
Waste Connection Inc.	Large	2	3.04%	4.00%	(0.96%)	$146.00	▼	$125.00	$92.00	(2.31%)	4.90%
Utilities											
Algonquin	Mid	2	3.83%	4.00%	(0.17%)	$15.00	▲	$24.00	$18.14	15.48%	42.18%