

PORTFOLIO MANAGERS



Greg Dean, CFA
Portfolio Manager

Greg Dean serves as a Principal and Portfolio Manager at Cambridge Global Asset Management. He is responsible for managing Cambridge's small and mid-cap equity funds, including Cambridge Growth Companies Corporate Class, Cambridge Canadian Growth Companies Fund and Cambridge Pure Canadian Equity Fund.



Stephen Groff, CFA
Principal and Portfolio Manager

Stephen Groff serves as a Principal and Portfolio Manager at Cambridge Global Asset Management. He is responsible for managing the Cambridge dividend equity mandates as well as co-managing Cambridge Canadian Equity Fund and Cambridge Pure Canadian Equity Fund.

PERFORMANCE

Performance	3 Month	1 Year	3 Year	5 Year	10 Year	Since inception
Cambridge Pure Canadian Equity Fund Class F	4.6%	16.0%	1.0%	3.9%	N/A	12.7%

Inception Date: February 14, 2011

PORTFOLIO COMMENTARY

At Cambridge, we are monitoring the economy as uncertainty exists going into 2020. Although declines are slowing, leading indicators continue to point to a weaker economy and any prolonged economic slowdown could be amplified by the high leverage levels in the global economy.

The Fund returned 4.6% for the three months ending December 31, 2019.

Over the quarter, Tourmaline Oil Corp. and Kelt Exploration Ltd. were among the top contributors. Tourmaline Oil Corp. is an intermediate crude oil and natural gas exploration and production company. It is a low-cost operator and able to generate significant free cash flow at current commodity prices. The company is making appropriate capital allocation decisions including cutting growth capital expenditure, initiating a dividend and paying down debt. It has also taken strategic steps to surface value in the company by spinning infrastructure assets into a separate entity with the intention to take the newly formed company public at a later date. Another contributor was Kelt Exploration, an oil and gas company focused on exploration, development, and production of crude oil and natural gas resources primarily in northwestern Alberta and northeastern British Columbia. After a challenging year in the energy industry, investor sentiment improved and high-quality operators like Kelt demonstrated the sustainability of their business model and delivered strong free cash flows.

Detractors over the quarter were PrairieSky Royalty Ltd. and Dollarama Inc. PrairieSky Royalty Ltd. is an energy exposed business in Canada with a sizable and diversified royalty asset base. The company earns a percentage of production on its land without associated operating and capital costs, which enables a high free cash flow margin that can be returned to shareholders or used to acquire assets. Another detractor was Dollarama, a Canadian dollar store retail chain. The company was a detractor to performance during the quarter as it announced slightly lower margins than expected during its quarterly earnings report. The company continues to grow revenues organically in the mid-single digits while continuing to target 60-70 store openings a year. Although the valuation multiples have expanded since early 2019, it is a high-quality business with a runway for continued growth.

Over the quarter, the portfolio eliminated positions in Great-West Lifeco and Walgreens and initiated positions in CI Financial Corp. and Gildan Activewear Inc.

Equity sector weight

	Q4 2019 (%)	Q3 2019 (%)	Change (+/-)
Communication services	2.2%	2.2%	0.0%
Consumer discretionary	22.8%	23.1%	-0.3%
Consumer staples	6.9%	6.9%	0.0%
Energy	20.2%	22.0%	-1.8%
Financials	9.1%	8.2%	0.9%
Health care	4.7%	2.9%	1.8%
Industrials	16.2%	14.6%	1.6%
Information technology	1.8%	5.1%	-3.3%
Materials	10.9%	9.2%	1.7%
Real estate	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%
Cash	5.2%	5.8%	-0.6%

Country weight

	Q4 2019 (%)	Q3 2019 (%)	Change (+/-)
Canada	81.7%	86.3%	-4.6%
United States	13.1%	7.9%	5.2%
Cash	5.2%	5.8%	-0.6%

Top 10 holdings

	Country	Sector	Weight
Great Canadian Gaming Corp.	Canada	Consumer discretionary	6.69%
PrairieSky Royalty Ltd.	Canada	Energy	6.22%
Spin Master Corp.	Canada	Consumer discretionary	6.15%
Brookfield Business Partners LP	Canada	Industrials	5.22%
TFI International Inc.	Canada	Industrials	5.10%
Westaim Corp.	Canada	Financials	4.71%
Winpak Ltd.	Canada	Materials	4.56%
Tourmaline Oil Corp	Canada	Energy	4.44%
TMX Group Ltd.	Canada	Financials	4.37%
Dollarama Inc.	Canada	Consumer discretionary	4.34%

Contributors and detractors

Contributors	Detractors
Kelt Exploration Ltd.	PrairieSky Royalty Ltd
Teekay Offshore Partners LP	Canada Goose Holdings Inc.
Tourmaline Oil Corp.	Dollarama Inc.

In Canada, we continue to closely monitor elevated debt levels for the average Canadian within the current low interest-rate environment, coupled with rising personal insolvencies. We are noting an increase in debt loads which are directed into areas that benefit shorter-term economic activity (such as housing and consumer spending) but are not drivers of lasting productivity improvement (such as non-residential capital investment). Improving productivity is the key to long-term prosperity. Globally, we expect the easing trade tensions to benefit companies which have had to increase prices to offset rising costs from higher tariffs.

Within our Canadian strategies, we are finding new opportunities both in traditional sectors (select industrials, consumer businesses, financials, etc.), as well as within the energy sector. Many of the businesses within the energy sector are exposed to end markets outside of Canada, and/or are well positioned for varying economic environments. With a combination of valuations not seen in decades, a number of businesses that generate strong free cash flow in reasonable scenarios and far improved capital allocation by a number of management teams, this has resulted in several excellent risk/ reward opportunities coming to fruition. We avoid low-quality companies and focus our time on management teams who are strong operators and understand the importance of intelligent capital allocation. As fundamental investors, our focus remains on identifying durable, high-quality businesses that can compound shareholder value through our disciplined bottom-up investment process.

Source: FactSet, as at December 31, 2019. Unless otherwise noted, all information is provided as at December 31, 2019.

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