



Cambridge Canadian Dividend SMA Q3 2020 Commentary

Market Overview

- 2020 has been the year of extremes, from the most rapid economic contraction on record, to record stimulus measures and a massive equity rally, to valuation disconnects reaching near extreme levels in different sections in the market. The V-shaped recovery experienced in the second and third quarters has now begun to moderate with the expiration of some of the fiscal stimulus measures, rising unemployment, and uncertainty regarding the containment of the second wave of the COVID-19 outbreak. While the initial bounce in both the economy and markets was impressive, the sustainability of that recovery is questionable. Much of the current market enthusiasm stems from the additional stimulus measures already taken and the prospect for further stimulus and continued positive economic momentum in the months to come.
- In Canada, the market continued to rebound in the third quarter, driven by the industrials, materials and financials sectors. These industries benefited from the continued cyclical recovery as economies re-opened from a near stand-still early in the second quarter. While markets have cheered the unprecedented level of central bank intervention to support the global economy, the recovery has begun to slow coinciding with a resurgence in COVID-19 cases and slowing employment gains. We have continued to focus on durable businesses that are generating cash flows and can withstand a challenging and uncertain operating environment, while priced attractively relative to their future growth prospects.

Fund holdings

- **Tourmaline Oil Corp.** engages in the acquisition, exploration and development of primarily natural gas properties. The company has recovered off its lows in March and continued to rebound during the quarter. It announced strong quarterly results where cash flow beat expectations as the company demonstrated its ability to sell into premium markets and realize better pricing. It also came closer to realizing value in the spin out of Topaz, a gas focused royalty business which should go public before year end. With the share price appreciation, we have been trimming the position.



- **Empire Co. Ltd.** is a Canadian grocer with key businesses in food distribution, real estate, and corporate investment activities. The company has seen its fundamentals improve through the pandemic and successfully launched its delivery business “Voila” through the summer. Furthermore, the company has strong financial prospects and continues to reinvest in its business, and at a high rate of return, leading to an impressive earnings growth.
- **TFI International Inc.** is a Canadian transport and logistics company that provides services that are vital to the overall economy. The company is diversified across geographies and by business lines and is led by an experienced management team that has helped it manage through the current challenging environment. The company boasts a strong balance sheet which allows it to opportunistically allocate capital and it has recently acquired several transport and storage companies that are struggling through this period. The company also has the capacity to grow organically and take market share from stressed competitors. We believe TFI International is well positioned to benefit from the economic recovery as trucking volumes return and is an attractive risk-reward investment opportunity.
- **Imperial Brands PLC** operates in the tobacco industry. The company underperformed the strong rally in the quarter and announced that it expects a mid-single digit impact from COVID-19. This impact is muted relative to other businesses and we believe the company offers good value at around 5 times our 2021 earnings estimates. A new CEO has recently joined the company who has a strong history of value creation. This could be a catalyst to the shares in the coming quarters as the strategic plan for the business is refreshed.
- **Fairfax Financial Holdings Limited** is a Canadian financial holding company that engages in insurance and reinsurance, investment management, and insurance claims management. It operates a profitable property and casualty insurance business that is broadly diversified. Sentiment towards the business and industry is poor after reporting mixed results in its investment portfolio earlier in the year. Despite weak sentiment, Fairfax manages a conservative balance sheet and investment portfolio and is trading well below book value, providing us comfort in an uncertain environment. We continue to add to the position, and we believe they will benefit from improved industry pricing, which will support continued strong profitability.
- **Vermilion Energy Inc.** engages in the exploration and production of oil and gas with operations in Canada, the U.S. and Europe. Shares in the company rebounded in the



quarter as economies began to recover from the COVID-19 pandemic. As the operating environment has evolved, the company reacted by cutting the dividend and capital expenditure to preserve cash for balance sheet liquidity. We have eliminated the position from the portfolio as the risk-reward for the company deteriorated and in favour of better opportunities that are available.

Portfolio Activity

- Over the quarter, the SMA initiated a position in CGI Inc. Class A and eliminated a position in Vermilion Energy Inc.

Market Outlook

- The final quarter of 2020 is likely to be an interesting one. There are major variables (COVID-19 path, the U.S. election process and outcome, COVID-19 economic aftershock impact) to which the outcome remains unknowable at this time. We have found numerous investment opportunities which we believe are well positioned for any realistic scenario that is likely to play out over the coming years and are priced in ways which provide a very attractive risk-reward skew. That all being said, volatility in the coming months would not be unexpected and we fully intend to apply our investment philosophy and framework to take advantage of any dislocations that could arise.

Source: Cambridge Global Asset Management, as at September 30, 2020.

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