Qube Quarterly

April 2018 Edition

Choppier Waters Ahead

A return of volatility in 2018.

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More often than not, I use this letter from the editor section to provide a brief update on current macroeconomic trends affecting our portfolios. This time around, a few paragraphs clearly would not cut it. Since the status quo changed with regards to market volatility, so too must the scope of discussion. Our cover article for this edition of the newsletter looks at some of the main causes behind this year's very noticeable jump in market volatility.

Fortunately, I have other exciting matters to discuss here. A number of new / returning staff have joined our team in the last month. Apurva Parashar, who holds an MBA from the University of Toronto's Schulich School of Business, has joined Qube from Aimco to take on the position of Investment Counsellor. She will play a pivotal role in championing our purpose to comprehensively serve all of your wealth management needs. Anya Tonkonogy is back - at long last - from maternity leave on a part-time basis. Hers will be the voice you hear on the other end of the line each quarter when we call to see if you have any questions about your statement or have interest in meeting to go over your financial plans. Lastly, Jordan Luong will be working at Qube during the next 4-months, taking part in our research program and supporting other ongoing initiatives at Qube. This will be Jordan's third and final UofA Business School Co-op placement (clearly he saved the best for last).

As our team grows, we are excited to build on the qualities you've come to expect from us, leveraging the exciting skillsets that each new team member brings with them.

As always, thank you for your continued trust in us,

Noah Clarke, MA Economics
Operations Manager

Kaleo & Qatalyst Portfolios: Past Performace

	YTD	2017	3-Year	5-Year	Inception
Kaleo A	0.6%	14.0%	8.3%	14.0%	13.4%
Kaleo Full	1.3%	17.4%	10.6%	16.1%	14.4%
Kaleo Benchmark	-1.2%	11.0%	7.8%	13.0%	11.0%
Qatalyst	1.7%	17.8%	--	--	11.5%
Qatalyst Benchmark	2.1%	13.8%	--	--	10.9%

Note: All returns are reported as net of trading costs, but do not account for management expense fees. Rates of return for periods of a year or more are reported in annualized terms. All rates reported above correspond to the period ending March 31, 2018.

Kaleo

Kaleo consists of a portfolio of stocks that are selected using an investment approach that applies company-specific fundamental analysis, and strategic macroeconomic positioning. The model invests in a mix of domestic and international equities, with geographic weighting subject to change intermittently.

Our Kaleo Full model is composed of 35 stocks + 5 index ETFs. For clients with invested funds in the $250K to $1M range, we offer a subset 22 stocks + 5 index ETFs subset of this model (Kaleo A) in order to reduce brokerage fees. Returns since inception for each of our Kaleo models are similar by design.

We currently aim to hold a stock for 3-5 years in our Kaleo models. This means that we have an average portfolio turnover of 25%.

We purposefully chose our benchmark to more accurately represent the broad geographic diversification of our holdings in Kaleo. Our benchmark for Kaleo is defined as 50% of the S&P 500 (in CAD$) and 50% of the S&P TSX.

Qatalyst

Qatalyst consists of a portfolio of stocks we believe to represent the best opportunity for positive returns within a 3-5 year investment horizon, regardless of short-term volatility. Companies are selected using an investment thesis that primarily includes the realization of a catalyst.

Qatalyst is a concentrated portfolio, oftentimes consisting of between 10 and 20 stocks. While we aim to offer diversification amongst various market and geographic sectors, it is not assured.

Due to the less conservative nature of the portfolio, clients are encouraged to also hold a mixture of fixed income investments, as well as our more diversified and less concentrated Kaleo model in order to moderate and match investor specific tolerance for risk.

The S&P 500 (currency adjusted) is applied as our benchmark for Qatalyst due to the higher relative concentration of US companies held in this model.

iA Fund Model: Past Performace

	Allocation	YTD	2017	3-Year	5-Year	10-Year
Fidelity NorthStar	10%	-0.7%	2.7%	2.4%	11.4%	6.3%
iA Dividend Growth	20%	-4.8%	6.4%	3.9%	6.2%	4.7%
Dynamic Global Dividend	30%	3.2%	20.4%	9.7%	14.1%	7.2%
BlackRock Int'l Equity	30%	0.4%	13.5%	3.1%	8.5%	2.5%
BlackRock US Equity	10%	1.3%	10.1%	7.8%	14.9%	8.4%
Equity Portfolio		0.4%	11.1%	5.6%	10.6%	5.1%
Bond Portfolio		-0.5%	0.9%	-0.5%	0.9%	2.4%

Note: All returns reported above for periods in excess of 1-year are reported as annualized returns. Composite returns represent past performance and should not to be treated as an indication of future results. All rates referenced above correspond to the period ending March 31, 2018.

iA Financial Group

Qube Investment Management has over 15 years experience in managing both Individual and Group Savings fund models.

In our search for a carrier that met our high expecations, we decided upon Industrial Alliance Financial Group, which leads the pack in providing accessible, user-friendly and cost-efficient investment and retirement tools to their plan members. Through iA, individual investors have access to best in class 3rd party funds and institutional portfolio managers that are typically unavailable to retail investors.

Protected Interests Model

In contrast to the direct-stock-holding portfolios that we manage, for which we have sole discretion when it comes to the selection of equity holdings, our Seg-Fund models invest in fund managers contracted by iA. That is to say that while we choose which managed funds are included in our Protected Interest Model, we have no say in the specific holdings of these funds. As a result, our research must focus on evaluating each fund manager, based on their past performance, their investment strategy and their macro positioning.

Our 'Protected Interests' model was launched at the beginning of 2005. It has consistently added value for investors: A fact which we attribute to the well diversified set of fund assets that we choose to hold, as well as the active style of management that we provide.

Volatility in 2018

The dramatic spike in market volatility this year has understandably caused some unease, especially when viewed against the backdrop of last year's relative calm. Markets welcomed in the new year with sails unfurled, a strong wind at their back: 2017 saw double digit equity returns, and expectations were that robust and synchronized global growth, in conjunction with recovering corporate earnings – the foundation for last year's gains – would continue on into 2018. Moreover, The US Tax Cuts and Jobs Act, signed into law in December 2017, was widely cons-idered to be a windfall to corporations and markets alike. In the weeks leading up to January 26th, the MSCI World Index calmly rose by 5.27%, but this optimistic inertia disregarded the 'inflationary' storm clouds gathering on the US horizon. In keeping with our nautical theme, markets should have acted with caution, shortening the sail in response to foreseeable vulnerabilities.

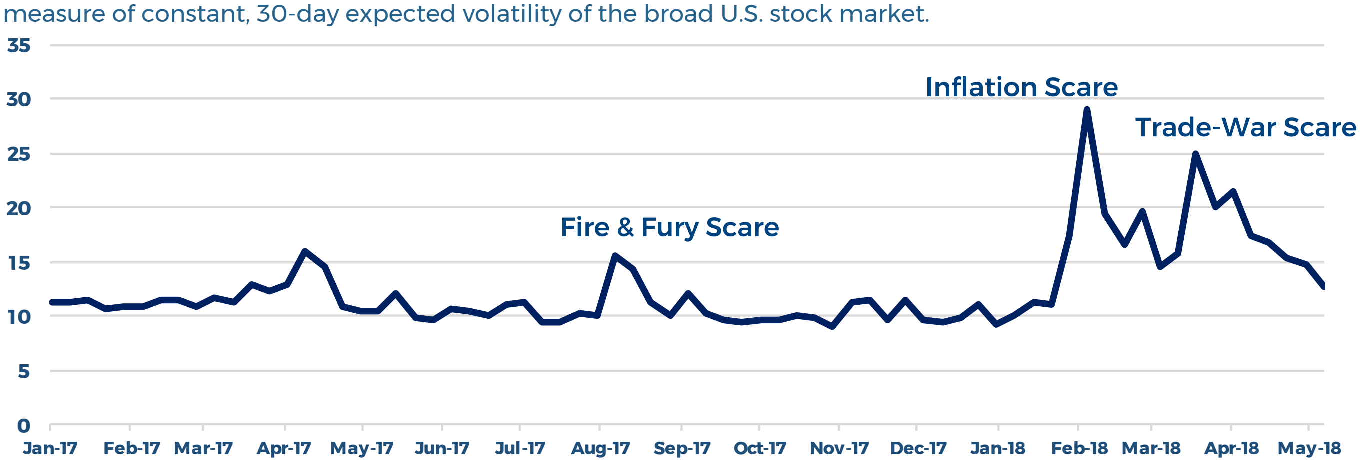
Macroeconomic indicators were already pointing to inflationary pressure in the US before tax reform was thrown into the equation. GDP growth had been strong, unemployment rates were at historically low levels and spare capacity was being put to use. The addition of a massive fiscal stimulus program so late in the growth cycle could supplement this strength and extend the cycle, but it could also fuel inflation and lead to market instability. US politicians and many market participants inevitably focused on the "full steam ahead" ethos of the former possibility, playing down the fact that this best case scenario assumed a lot: the corporate tax cuts were broad, but would need to spur growth in target areas.

In recent years, public companies have spent an increasing percentage of their profits on share buybacks, while the percentage of profits spent on investments have been falling. The perceived focus of public company executives on short-term stock prices at the expense of value-added long-term investments has been a real concern for researchers, investors and policymakers. And yet, in order to moderate the inflationary consequences of Trump's tax reform, companies would need to change course and ramp up business investment in response to the lower tax rates, thus raising productivity and potential output growth. To date they've been more inclined to use the 1.5 trillion-dollar tax cut for share buy-backs, funding mergers and acquisitions, and paying down existing debt rather than buying into productivity-enhancing investments. According to an analysis by Bloomberg, share buy-backs predictably hit record levels in the first quarter of 2018.

Unit labour costs in the US, which represent wages

Measuring Market Volatility: CBOE VIX Index

The VIX Index is used as a barometer for market uncertainty, providing market participants and observers with a measure of constant, 30-day expected volatility of the broad U.S. stock market.



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adjusted for productivity, were a key statistic linked to the short-run failure of this tax reform to spur fixed-investment. In the first quarter of this year they rose at an annual rate of 2.7 percent, more than double the rate recorded for the first quarter of 2017. This increase showed up in higher-than-expected wage growth results for February, inevitably boosting inflation worries. In realization that rising inflationary pressure in the US would ultimately need to be checked by way of the US Federal Reserve aggressively pushing interest rates higher, global markets tumbled. The MSCI World Index fell by 7.8% from its January peak to a low on February 8th, while the S&P 500 fell by 10.1% during the same period. Since then, elevated market volatility has been the norm. Indeed, during the ten-week period following February's correction, the S&P 500 recorded 23 one-day moves greater than 1%; up from a total count of 8 for all of 2017.

In this environment of rising interest rates, we do not expect to see returns as high as last year, and of course, one-month gains of more than 5% aren't warranted. At the same time, we also don't believe the US growth cycle is in imminent danger of being scuppered. In contrast to the end of recent business cycles, the current context is supported by a number of positive factors, including, consumers have been relatively thrifty (outside of Canada), house prices do not look excessive and global economic conditions remain favorable. What we do expect to see, and have seen, is a nervier market. Since the vulnerabilities of the US market were exposed in February, a shift in sentiment has clearly occurred. In the current climate, news that may have been ignored or at least downplayed in 2017, can now swing markets on a daily basis. Case in point: US President Donald Trump's tweets and off-the-cuff policy statements used to garner limited attention from market participants, but in 2018, these tweets have been potent.

When in June of last year, Trump tweeted about Amazon not paying taxes, the stock ended the day up by 1.4%. In comparison, on April 3rd of this year, an ill-informed tweet about Amazon "costing the US Post Office a massive amount of money" led to Amazon's stock dropping 5% and big-tech as a whole dropping 2.3%. Though his disdain for Amazon was clearly in view last year, perceived insecurities in other areas of the market have incited overblown responses to this type of posturing. Stocks did eventually rebound in recognition that the tweets directed at Amazon were unlikely to translate into actual policy, but the risk of modest news creating outsized swings in prices has not abated. Similar twitter tremors could continue to play out in the coming months, though in most cases the reactionary swings are of limited concern for investors.

Most cases, but not all. The implication underlying one tweet in particular could have a lasting impact on how we later review 2018: specifically, the insistence by Trump that "trade wars are good, and easy to win." Absent any black-swan event(s), the greatest headwind facing financial markets this year is the on-again, off-again, threat of a trade war between China and the United States. While the consensus has erred on the side of better trade deals being worked out, further retaliatory sparring could substantially lower global risk appetites, driving further volatility in the near-term.

Neither history nor the global economy look kindly on the spread of protectionist policies. In the case that the simmering trade fight does eventually boil over to a full-blown trade war, currently positive macroeconomic conditions would take a turn for the worst. Broadly defined tariffs would ultimately make goods more expensive for the domestic consumer, triggering further inflation in the short-term and stalling if not reversing the global economic expansion. We will have to pay close attention to ongoing diplomacy between the US and China; however, in the interim, our best course of action is to insure that our portfolios are defensively positioned and well diversified.

So long as it appropriately moderated, optimism in 2018 is still warranted. As frustrating as the market has been this year, the events of one-week, or even one-month, alone aren't cause for throwing anchor.

The Pick & Shovel Business

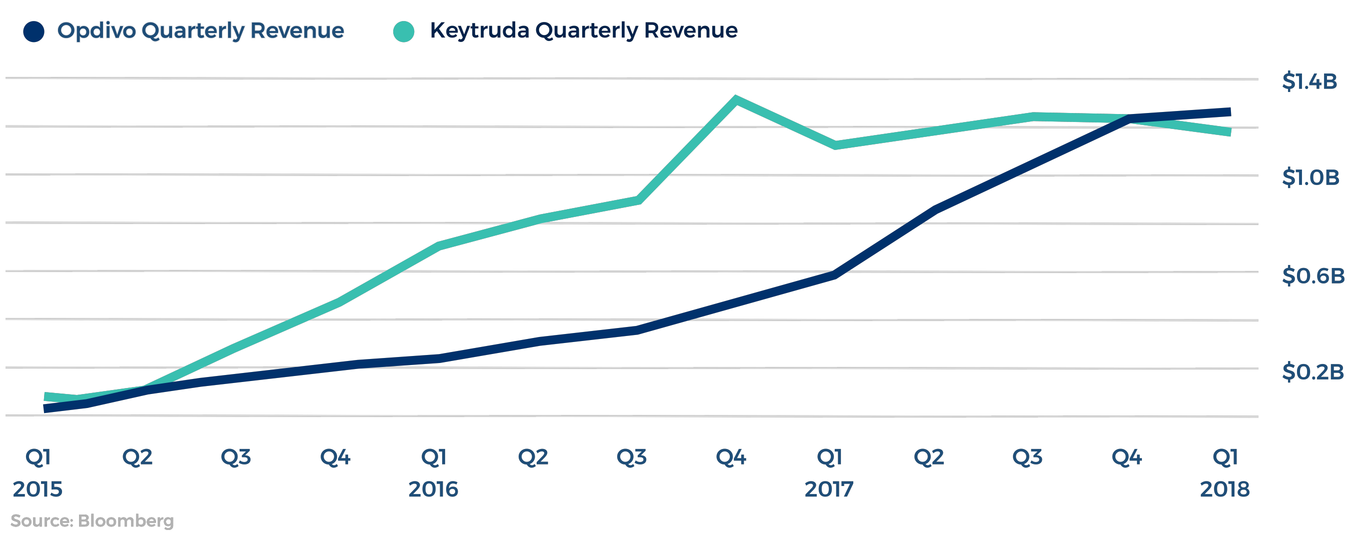
In recent years, a new class of medicines known as immunotherapies have dramatically changed the odds for some cancer patients, and garnered growing attention from both oncologists and researchers. These drugs effectively release brakes on the immune system, thereby adding to the bodies arsenal and increasing its ability to attack tumour cells. Two drugs in particular, Opdivo and Keytruda have been shown to extend some patients' lives by months or years longer than doctors would have otherwise expected.

Of course, the growing competition amongst pharmaceutical companies seeking to capitalize on these drugs has not been missed by market participants.

In 2014, Keytruda (Merch & Co.) and Opdivo (Bristol-Myers Squibb) won FDA approval for the treatment of melanoma. Since then, the two drugs have intermittently won and lost market share to each other on the back of new clinical trial results and FDA approvals. According to data from Bloomberg, in Q1 of 2015, Keytruda and Opdivo had combined sales of approximately $120M USD. At the start of this year, combined quarterly sales for these drugs had risen to approximately $2.5B USD; the result of a growing list of use cases for these two drugs which includes the treatment of bladder cancer, head and neck cancer, Hodgkin Lymphoma, and non-small cell lung cancer (NSCLC accounts for about 85 percent of all lung cancers — approximately 190,000 new cases every year).

The two drugs are very similar in mechanism of action. In a recent interview on this topic Dr. Cho Byoung-chul from the Yonsei Cancer Center of South Korea likened it to choosing between Coke or Pepsi. The primary difference between the two drugs – and the factor that has recently provided Keytruda with a competitive edge – relates to their respective clinical trial designs. As shown in the chart above, Opdivo had the early lead in terms of revenue, but Keytruda quickly caught up in 2017. Where Bristol-Myers Squibb went wrong and Merck went right, was in the choice of target populations for their respective clinical trials. The former chose to target a broad patient population in order to gain wide approval for Opdivo, while the latter confined its pool to patients that displayed high levels of a certain bio-marker believed to increase the efficacy of the drug. Keytruda's clinical trial results were consequently much stronger. The success of this strategy led to the FDA's 2016 approval of Keytruda for use alongside, or in substitute of, chemotherapy as a treatment for NSCLC, provided that patients would have passed the original screening process for the drug's clinical trials. Opdivo is currently only permitted as a back-up to chemotherapy ("second-line treatment").

Despite the explosive combined sales growth of these drugs, it has been a bumpy ride for investors of either company. The shares of Bristol Meyers or Merck can and have fluctuated, plus or minus 15% on any given day, depending on the news that has outcomes in favour of either. At this point in time, any attempt to single out a long-run winner between the two would be highly speculative. However, if we expand our lens, winners are apparent. Tucked away behind the scenes of this drama, one specific company has benefited from the rise in combined sales of these Keytruda and Opdivo, no matter the ups and downs of their relative market share. That company is



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Agilent Technologies, which provides the companion diagnostics test for these immunotherapy drugs.

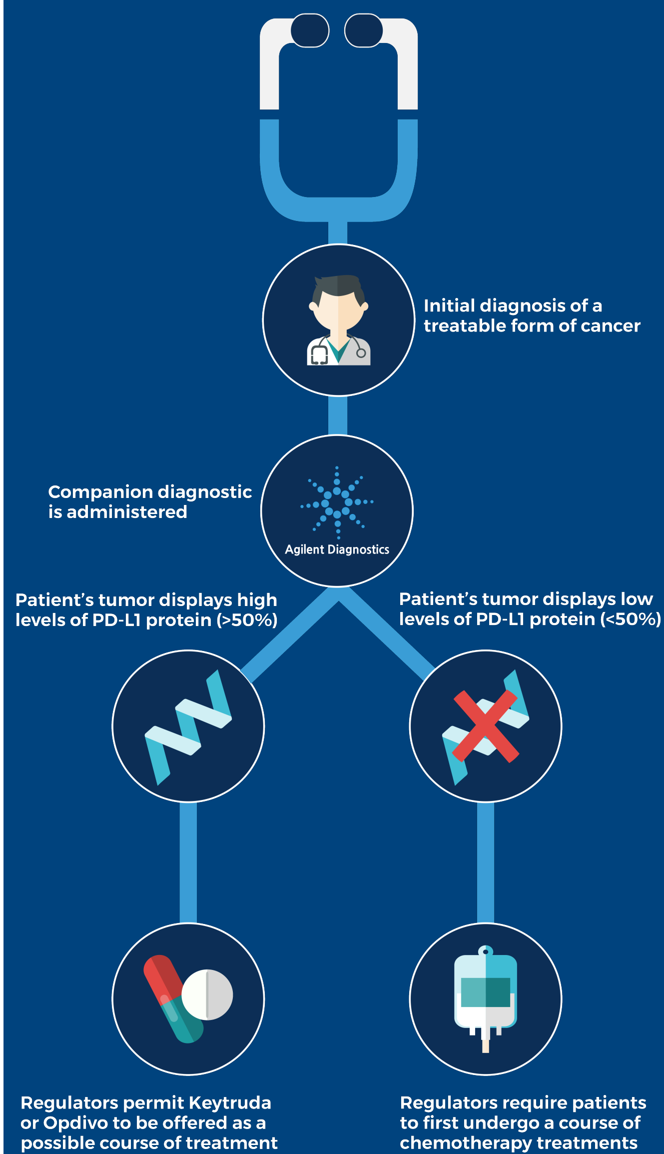
Both Keytruda and Opdivo work by rallying the patient's immune system against certain tumor cells by blocking the immune-suppressing PD-L1 pathway. Not all tumor cells express PD-L1, which is why the FDA and other regulators have outlined a number of restrictions for their application. First amongst these requirements is the condition that a companion diagnostic is used to determine whether or not the patient's tumor has high enough levels of PD-L1 (>50%). Agilent Technologies is the exclusive provider of the companion diagnostic used to assess these levels.

In the past several months, our investment team has reviewed a number of companies that operate in a similar space to Agilent and the results are promising. Thermo-Fisher, a close competitor to Agilent, recently achieved FDA approval for its companion diagnostic that screens tumor samples against panels of biomarkers to identify patients who may respond to one of three competing different treatments for non-small cell lung cancer (NSCLC). Similar to the case above, this companion diagnostic is required to identify patients who may respond to specific drugs offered by Novartis, Pfizer and Astrazeneca. While we have always hesitated to hold individual pharmaceutical companies, due to their high volatility and unpredictability in FDA trials, a potential investment in Agilent, or one of its peers, could allow us to participate in the same upside without taking on too much risk. As Mark Twain once said, "During the gold rush it's a good time to be in the pick and shovel business".

Problem is, while both companies (Agilent and Thermo Fisher) have promising investment theses, adding both to our portfolio would not make sense from a value-add point of view. The next step in our analysis required us to identify which company demonstrated the strongest long-term investment thesis.

Agilent (A) Vs. Thermo Fisher (TMO):
Agilent and Thermo Fisher both operate in the life sciences, diagnostics and applied chemical markets by providing instruments, software, services, and consumables for the laboratory workflow. In short, the two companies provide essential equipment and services to many end markets including food testing, specialty diagnostics, forensics, academia research, and pharmaceutical research. Their products include consumables like diagnostic test kits, reagents, and

Immunotherapy Companion Diagnostic
Dako PD-L1 IHC 22C3 PharmaDX Test



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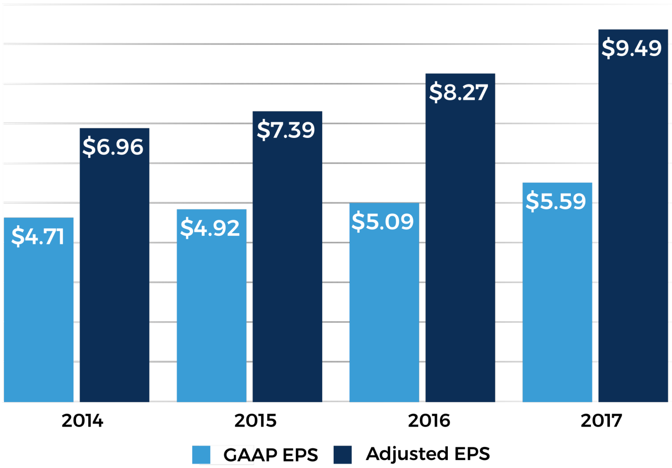
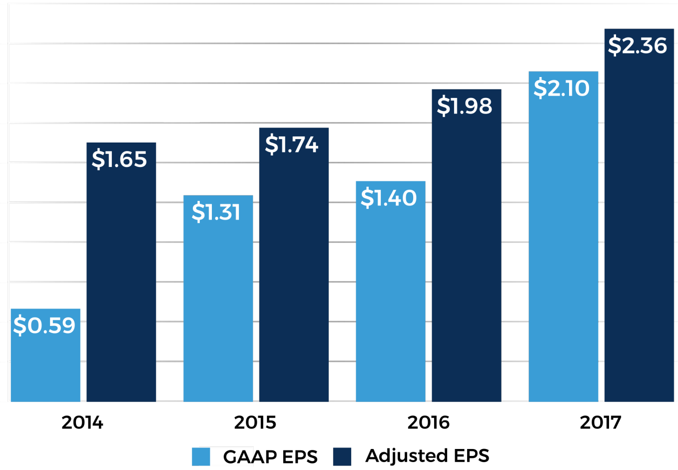
Thermo Fisher
GAAP to Non-GAAP Differential



Agilent
GAAP to Non-GAAP Differential



glassware, as well as long-lived equipment like mass spectrometers, as well as gas and liquid chromatographs.

Both Agilent and Thermo Fisher are relatively large companies with respective market capitalizations of $22B USD and $86B USD. While Thermo Fisher is 4 times the size of Agilent from a market cap standpoint, Agilent can still boast of holding the #1 or #2 position in the markets they compete; in part due to its laser focused product offerings. For example, Agilent focuses on a few specific areas such as pathology in their diagnostics group, while Thermo Fisher competes more broadly by providing solutions for Immuno Diagnostics, clinical diagnostics, microbiology, and transplant diagnostics, in addition to pathology.

From a geographical standpoint, both Agilent and Thermo Fisher are global companies with a substantial portion of their revenues coming from outside of North America. For Agilent and Thermo Fisher, 65% and 48% of their revenues respectively come from outside North America. A deep dive into their respective financial statements reveals decent operating margins at around low-to-mid double digits, and a Sustainable Growth Rate (maximum rate of growth) in the high single digits. These are strong metrics when considering the relatively stable aspect of the product offerings by both these companies.

To decide on the two companies, we focused on one core difference, which has been their acquisition activity and its subsequent effect on their financial statements. Since 2014, Agilent and Thermo Fisher have both engaged in multiple acquisitions due to the fragmented nature of their markets. For Thermo Fisher, over $27B USD worth of acquisitions occurred in the 3-year period, which is approximately 90 times more than Agilent's acquisition activity.

Based on our financial analysis, the issue is not with the amount of acquisitions per se, but with its subsequent impact to their financial statements. As a result of these acquisitions, Thermo Fisher's GAAP VS. Non-GAAP differential has widened substantially (getting worse every year) when compared with Agilent's. In our opinion, any prolonged, and substantial moves away from GAAP is a cause for concern because it introduces increasing amounts of management bias and subjectivity.

It is often said that accounting is the language of business, and GAAP is its dialect. The further Thermo Fisher moves away from speaking the same language, the harder it becomes to analyze the true earnings power of the company and compare its performance relative to a standard industry benchmark or its peers.

In summary, both Agilent and Thermo Fisher have similar business segments, end markets, geographical compositions, and financial metrics, with one major difference being in the clarity and cleanliness of their financial reporting due to the differences in acquisition strategy. While we do not believe there is any foul play at work (i.e.: cooking the books), given that these two companies are so similar in every other respect, we prefer to invest in the company with the cleaner financials. As a result, we have made the decision to earmark Agilent as a candidate for our Kaleo portfolios.

2018 Budget Update

The 2018 budget came in like a lamb, not the lion we feared from pre-budget consultation. Changes to personal finance and investment taxation were far less noteworthy than originally threatened with the Canadian small business remaining the target for change. Largely at issue are corporations holding real estate, stocks and bonds (passive investments) intended not for reinvestment within the corporation, but for the benefit of its shareholders.

Changes to the Small Business Environment

Moving forward on the plan to change the small business tax regime, this budget began what could be considered a phase-out of the preferential treatment small businesses get in Canada. It is worth noting that the USA does not have a similar "small business environment" and many G20 countries are also phasing out tax advantages to small corporations. Here are the changes in summary:

Federal Tax Rates. The Federal small business tax rate is going down to 10% in 2018 and 9% in 2019 leading to combined Federal/Alberta Small Business (SBD) income tax rates of 12% and 11% respectively. They were 14% leading into 2018.

Passive Income Rules. Starting in January 2019, corporations earning $50,000 or greater passive income will see a reduction in their Small Business Deduction ($5 for every $1 of passive income). This means at $150,000 of passive income, the SBD will be lost. Passive income generally includes rental income and/or income from an investment portfolio (interest, dividends and/or capital gains). This means that a corporate investment portfolio starting at approximately $2,000,000 could begin to reduce or eliminate the SBD. Mathematical modeling still indicates that corporate held investment portfolios are preferential in the stewardship of corporate surplus even when using the higher general income tax rates. Therefore, the new passive income rules should not change the planning for most small business owners in reference to their investment management.

Refundable Dividend Tax on Hand (RDTOH). RDTOH is a refundable tax intended to encourage the extraction of passive investments from a corporation in the form of a declared dividend. Starting in 2019, RDTOH balances need to be tracked and matched against the General Rate Income (GRIP) or Low Rate Income (LRIP) they were generated from. Any RDTOH on the balance sheet heading into 2019 will be broken into GRIP or LRIP pools using a formula supplied by CRA. This was also introduced to offset creative tax planning done with RDTOH in previous years and should not change the investment plans for most small business owners.

Tax On Split Income (TOSI). Effective January 2018, TOSI rules have been introduced and are best understood as an extension of the "Kiddie Tax" rules already in place. These are severe for many family businesses. Here, income paid to a spouse (or other family member) will be re-characterized at the highest marginal rate without access to personal tax credits unless the spouse or family member is "exempt" from TOSI. This will effectively end the use of a family trust for income splitting (but leaves them intact for splitting capital gains) as family trusts are not exempt from TOSI. Income received in the form of dividends, interest and/or shareholder benefits is subject to TOSI. Exempt from TOSI are those employed on a regular, continuous and substantial basis (20 hours per week) and those over age 65. Remuneration subject to TOSI must be justified as reasonable (similar to salary), but the definition of reasonable is left for case by case analysis by CRA.

Trust Reporting Requirements. To combat what was considered aggressive tax planning, what are referred to as "express trusts" will be required to file an information return (T3) annually with CRA starting in 2021. These include EPSP, Spousal, Alter-Ego and Family Trusts with an associated penalty for failure to file. The information return will include identification of the trustees, beneficiaries and settlors. Exempt from these new requirements are Graduated Rate Estate Trusts (GRE) and trusts that have been in existence for less than three months or hold less than $50,000 in assets throughout the year.

Qube Insights: Kaleo Holdings

Every quarter we highlight some of our Kaleo portfolio holdings and share with you our investment thesis (why we hold the stock). We also provide examples of news and activities we're seeing in the market that support or contradict that thesis.

Kaleo A & Kaleo Full

Utilities are generally very simple companies. They are usually the sole provider of an essential service to the public, with selling prices that are heavily regulated by the government. As such, when these companies are traded on the stock market, we should expect lower than market average returns, which is commensurate with the lower than market average risk. Utility holdings should be thought of as mitigators of risk in the portfolio, rather than as a source of growth.

When compared to the above assessment of Utilities, a company like NextEra is an anomaly. Over the past 5 years, NextEra's cumulative return in the stock market has been 110%. Over this same period, the S&P 500 only returned 65%, while a basket of US Utilities (IDU) returned 24%. NextEra's 4,500 basis point outperformance above the S&P 500 is certainly atypical, and so too is the manner in which they achieved it.

NextEra is currently the 3rd largest electric utility in the United States, serving approximately 10 million people, across nearly half of Florida. In addition to providing regulated services to end customers, they also own and operate 47 GW of electric generating capacity. For reference, this is enough to power approximately 14 million homes after accounting for transmission loss and variability in energy usage. On the surface, NextEra's business model doesn't seem all that different from any other power utility company.

It is only after we dig deeper that we start to see a few interesting factors, which help differentiate NextEra from it's competitors. For one, NextEra is the 3rd largest capital investor in American infrastructure. The billions poured from prior years resulted in NextEra also being the world's largest generator of renewable energy from wind and solar. In addition, NextEra's prior investments have also made their electric grid the most advanced in the United states, with better responsiveness, reliability and efficiency.

We can see the real world impact from these investments through two historical examples: 1) In September of 2017, after Hurricane Irma left the service area, NextEra broke the record for fastest restoration (10 days) of the largest number of people (4.4 million) by any one utility in US history; and 2) NextEra's typical residential customer bill is among the lowest in the nation due to their lower cost for providing power (more efficient grid, plus zero input costs from renewable energy). It is no wonder NextEra was ranked No.1 among electric and gas utilities, on Fortune's 2018 list of the "Most Admired Companies", for the 11th time in 12 years.

Considering NextEra's stellar history, and their intention to invest an additional $40-44B through to 2020, we believe there is still room for further returns in the future.

Qube Insights: Kaleo Holdings

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Kaleo A & Kaleo Full

Mondelez has had a storied history in our portfolio. It started off as just a standard purchase of your typical, blue-chip company (i.e.: a company that is financially sound, with a reputation for operating profitability in both good times and bad), but, after a series of acquisitions and diverstitures, quickly morphed into a company whose current thesis for holding the stock no longer corresponds with the original.

Mondelez was purchased at inception, in January of 2011. Back then, the company was known as Kraft Foods, and had multiple, billion dollar brands spanning the beverage, cheese, dairy, snack, confectionary and convenience foods category. On October of 2012, Kraft Foods was split into 2 publicly traded companies: Mondelez International, which specialized in snacks; and Kraft Foods Group, which specialized in grocery items. Shortly after the split, we decided to sell the slower growing, and more North American focused Kraft Foods Group, for the faster growing, and more internationally diversified Mondelez.

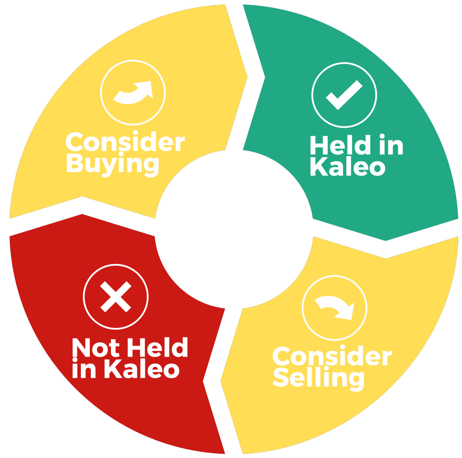
In 2015, Mondelez further transformed themselves by divesting their coffee business (primarily Maxwell House and Tassimo), through that segment's merger with Douwe Egberts (currently company name is Jacob Douwe Egberts). Today, Mondelez derives almost 75% of their revenues from outside North America, with most of those sales coming from Biscuits (ex: Oreo, belVita, Chips Ahoy!, Ritz, Wheat Thins), which has a 30% global market share; Chocolate (ex: Cadbury, Côte d'Or, Toblerone), which has a 65% global market share; and Gum & Candy (ex: Dentyne, Halls, Trident), which has a 15% global market share. In addition, Mondelez also holds significant ownership positions in Jacob Douwe Egberts and Keurig Green Mountain, at a 26% and 24% stake respectively.

Since divesting off their grocery business, Mondelez's underlying operations has continued to improve as evidenced by their 600 basis point margin expansion from 10.3% in 2013, to 16.3% in 2017. During these years, they improved profitability by reducing their number of manufacturing plants and suppliers, while simultaneously doubling their revenue per SKU (stock keeping unit). We believe Mondelez is just starting to reap the benefits from their significant capital invesmtent from prior years, and can continue to improve their underlying profitability going forward.

In addition to the above, we continue to hold Mondelez because of the following four reasons: 1) secular growth potential in snacks; 2) discounted valuation when compared to peers; 3) diversification away from North America; and 4) well-established brand names, with significant mind and market share in each competing category.

Qube Insights: Equity Research Snapshots

Equity Research Traffic Lights



Company	Sector	Current Status			
Canadian Tire Corp Ltd	Consumer Discretionary				✗
Garmin Ltd.	Consumer Discretionary				✗
Indigo Books & Music Inc	Consumer Discretionary				✗
Lennar Corporation	Consumer Discretionary				✗
Park Lawn Corp	Consumer Discretionary		↷		
Service Corporation Intl	Consumer Discretionary		↷		
Spin Master Corp	Consumer Discretionary		↷		
George Weston Ltd	Consumer Staples				✗
Baxter	Healthcare	✓			
Medtronic	Healthcare			↷	
Becton Dickinson	Healthcare	✓			
Thermo Fisher Scientific	Healthcare		↷		
Badger Daylighting Ltd	Industrials				✗
Bird Construction Inc	Industrials				✗
DIRTT Environmental Solutions	Industrials				✗
TFI International Inc	Industrials				✗

Qube Insights: Equity Research Snapshots

Balancing traditional research techniques with modern portfolio science allows our team to find companies that demonstrate and maintain solid investing fundamentals. We look for less volatile and proven earnings combined with long-standing stable dividend policies. Share prices need to be justified on a combination of current earnings and reasonable earnings growth possibilities. Quality financial statements, coherent management and an operational business plan need to be in place before we rank a company “green”.

Company	Sector	Current Status
WSP Global Inc	Industrials	
BlackBerry	Information Technology	
Evertz Technologies Ltd	Information Technology	
EXFO Inc	Information Technology	
Orbotech	Information Technology	
Pure Technologies Ltd	Information Technology	
Applied Materials	Information Technology	
Canfor Corp	Materials	
Canfor Pulp Products Inc	Materials	
Interfor Corp	Materials	
Granite REIT	Real Estate	
DREAM Unlimited Corp	Real Estate	
Tricon Capital Group Inc	Real Estate	
Rogers Communications Inc	Telecommunication	
Telus	Telecommunication	
VimpelCom Ltd.	Telecommunication	
CPFL Energia S.A.	Utilities	
Hydro One Ltd	Utilities	

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The content of this report is for general information purposes only and not intended to provide specific personalized advice, including, without limitation, investment, financial, accounting or tax advice. Please contact Qube Investment Management Inc. to discuss your particular circumstances.

Commissions, management fees and expenses may be associated with investment accounts. Please read the simplified prospectus (if applicable), or investment management agreement before investing. Many investments are not guaranteed and are not covered by the Canada Deposit Insurance Corporation or by any other government issuer. There can be no assurances that an investment will be able to maintain its net asset value or that the full amount of the investment will be returned to you. Values change frequently and past performance may not be repeated.

Qube Investment Management Inc. is a registered portfolio management firm in the Provinces of Alberta and British Columbia and was registered as a portfolio management firm on June 25, 2012. Any return period cited before this date was prior to QIM being

registered as a portfolio management firm. Inception was Jan 1, 2011 and all returns are for a modeled portfolio initiated at $500,000. Your actual returns may vary according to your individual portfolio. The modeled returns are calculated inclusive of dividends, adjusted to the Canadian currency, and are determined via the IRR (Internal Rate of Return) method. The gain/loss shown are simple (non-compounded) returns for periods up to one year. If the time since inception date is more than one year, then the return shown is an annualized return. For comparison purposes, the Kaleo model(s) are reported as gross returns before investment management fees. Individual investor level returns will differ as the fees agreed to in your Investment Management Agreement (IMA) are subtracted from the gross return.

At any one point in time, the composition of the Kaleo model may change. Currently, the focus for our models (Kaleo A, B and Full) is to invest in a globally diversified portfolio of liquid stocks with a minimum market capitalization of $1 billion. Our diversification strategy is to have similar industry weightings between our Kaleo models A, B and Full, which in turn will have similar weightings to the S&P 500. Our investment mandate is to not have any one industry sector or sub-group exceed 2.0 times the percentage weighting assigned to that group by the S&P 500 index unless the sector or sub-group composes less than 5% of the total index. Please refer to your Investment Policy Statement (IPS) for more details.

Index comparisons are based on the total return index provided by Standard & Poor's for both the S&P/TSX and the S&P 500. All index returns are inclusive of dividends, adjusted to the Canadian currency, and, similar to the modeled portfolio, determined via the IRR method. Please note that, as total return indices are not actual portfolios, these returns do not include the cost of management and/or trading fees.

Past performance is not indicative of future results and there is no assurance that our model portfolio will achieve its objectives or avoid significant losses

Qube Investment Management Inc.
200 & 300 Kendall Building
9414 -91 street
Edmonton, AB T6C 3P4
780.463.2688