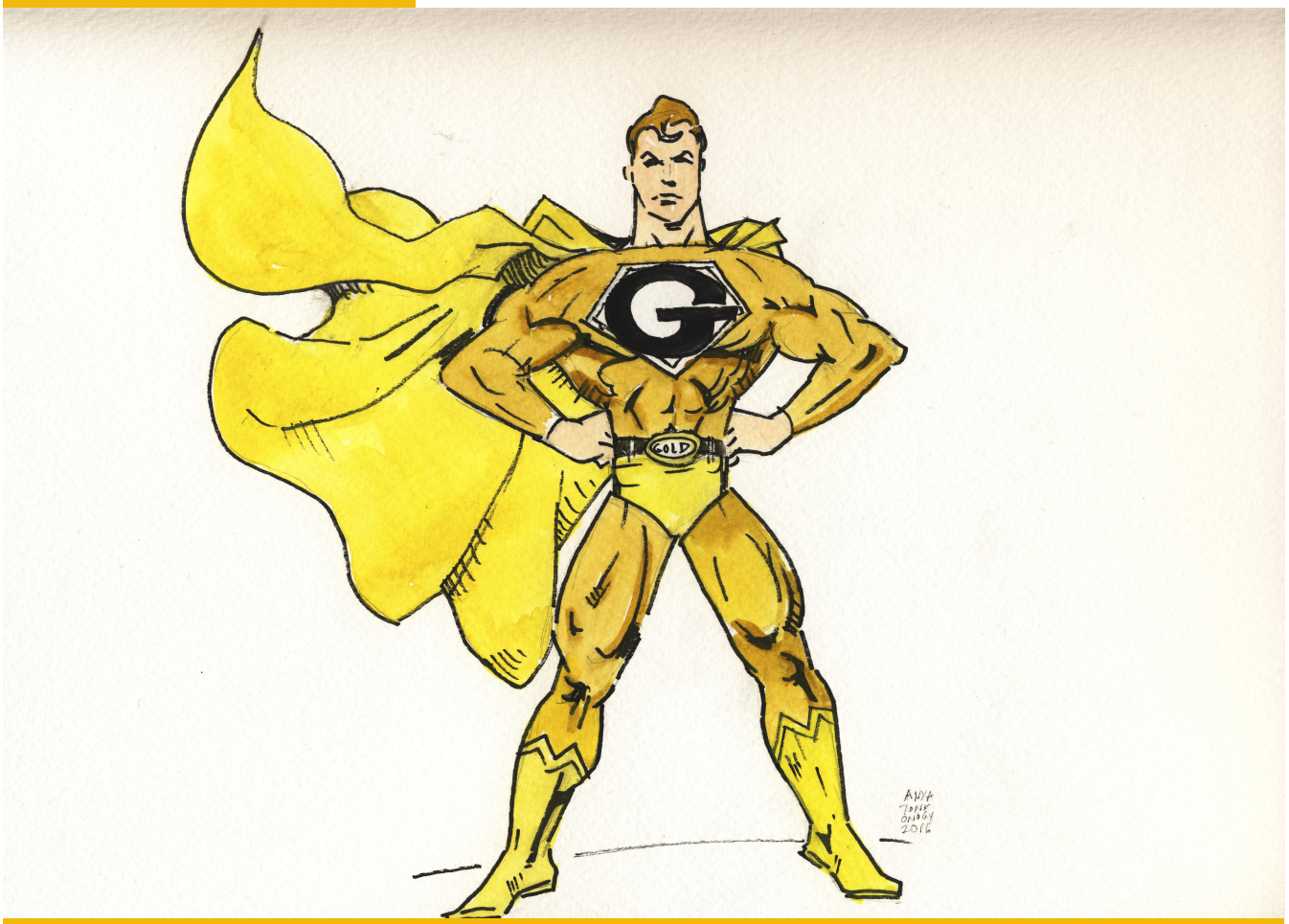
QUBE

Quarterly

Q3

OCTOBER 2016

# Gold: Are We Holding Out For A Hero?

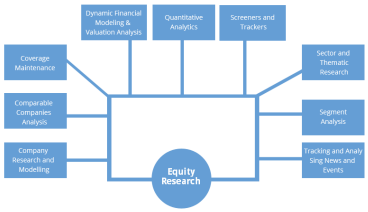



That which glitters may require a further look!

# Contents


***On the cover***

Since losing its status as a currency standard in the 70's, gold has intermittently been employed as a financial safeguard. We report on the extrinsic value of this debased metal; while paying close attention to current macroeconomic trends. *Pages 6-7*




***What's in a valuation?***

A clear, concise description of our research proces, and what it means for your portfolio. *Pages 10-11*

***Taking Stock***

Qube insights, and traffic lights. *Pages 12-17*

# Letter from the editor

**NEWS NEWS NEWS!**

You can often feel Fall approaching - there is a crispness in the air, the leaves start to change colour, and the sun seems to shine from a new golden angle.

The new Autumn sun has certainly been shining on Qube, as we've been experiencing positive changes and newness first hand. Effective September 1, 2016 QIM acquired a new book of business, and has expanded our operations to include new investment opportunities and challenges.

Our permanent team has also grown in numbers!

New staff have joined our QIM Team. Noah Clarke, Operations Manager, and Shone Virata, Service and Administration, along with Michael Schuh as a permanent part-time analyst. All the extra hands-on-deck mean that we are that much more equipped to serve you and your investment needs.

As we grow, we continue to hold steadfast to our beliefs that proper stewardship of your investments also means managing your portfolio risk by keeping in mind how the companies we invest in treat the world – there is also an interesting case study on one of the companies that our ESG team reviewed. Some of the key areas discussed in this spotlight are how the company governs itself, how socially and environmentally responsible it is, and how engaged they are with their shareholders.

We are not just 'stock brokers' and we are not commission salespeople – everything we do and how we do it is motivated by what is most efficient for our client. This means we will not simply buy and sell and trade to appear busy. We go out of our way to ensure your savings are managed with maximum tax efficiency, therefore maximizing your after-tax returns.

This newsletter is a way for us to reach out to you and share our perspectives. In turn, we love to hear from you, and welcome any feedback or comments you may have.

Thank you for your continued trust in us,

Anya Tonkonogy, MA
Client Service and Business Development

***Qube Investment Management Inc. is a registered portfolio management firm in the provinces of Alberta and British Columbia.***

QUBE

***We are proud to serve you from our headquarters in Edmonton.***

# Kaleo Performance

| | Returns as of Sept. 30, 2016 | | | |
|---|---|---|---|---|
| | YTD | 2015 | 1-Year | 3-Year |
| Kaleo A | 5.7% | 11.9% | 14.9% | 17.1% |
| Kaleo B | 3.8% | 16.1% | 15.2% | 16.7% |
| Kaleo Full | 4.6% | 14.3% | 15.5% | 18.6% |
| S&P 500 | 2.2% | 21.0% | 13.5% | 20.5% |
| S&P TSX | 15.8% | -8.4% | 14.2% | 8.0% |
| 50% TSX / 50% S&P 500 (Kaleo Benchmark) | 9.0% | 6.3% | 13.8% | 14.2% |

**Kaleo is Qube's Stock Model, which is offered as follows:**

**Kaleo Full** – currently a 43 stock + 2 index ETF model offered to clients with $1M+ positions

For clients with positions between $250,000 to $1M, we offer two subsets of the Kaleo Full model:

**Kaleo A** – currently a 24 stock + 2 index ETF model

**Kaleo B** – currently a 24 stock + 2 index ETF model

Our model portfolios were launched in January of 2011. They continue to report a lower risk metric (beta) and generate a superior return when compared to our performance benchmark of 50% of the TSX (CAN) & 50% of the S&P 500 (US) indexes.

We currently aim to hold a stock for 3-5 years in our Kaleo models. This means we have an average portfolio turnover of 25%. In other words, a quarter of our positions change each year on average. One goal with Kaleo is to generate income through dividends. An investor entering Kaleo at inception would have a dividend yield today of over 3.5%. Many of the companies in our portfolio increase their dividends each year, so an investor can therefore grow his or her dividend over time. An investor entering Kaleo today would see a starting dividend yield of about 1.5%.

In the management of our Kaleo model, we use both company specific / fundamental analysis and macroeconomics to determine our positions (what to buy/sell).

Our research universe refreshes each year and we currently track between 150 and 200 companies. To learn more about our investment philosophy, please see our investing brochure at www.qubeconsulting.ca.

Also, please read our disclaimers on the last page of this newsletter.

# IA Fund Performace

| | Returns as of Sept. 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Allocation (%) | YTD | 1-Year | 3-Year | 5-Year | 10-Year |
| IA Ecflx Canadian Equity Growth | 15.0% | 9.6% | 5.0% | 7.2% | 5.1% | 4.7% |
| IA Ecflx Fidelity Northstar | 45.0% | -3.3% | -0.6% | 14.3% | 14.6% | 5.8% |
| IA Ecflx Global Dividend | 40.0% | -2.3% | 6.2% | 13.6% | 11.2% | - |
| Equity Portfolio | | -1.3% | 4.0% | 11.7% | 11.1% | 3.4% |
| Bond Portfolio | | 3.6% | 3.9% | 4.0% | 2.6% | - |
| Canadian Bond Index | | 4.1% | 4.7% | 5.0% | 3.6% | 4.2% |
| Global Index | | -1.2% | 4.7% | 14.0% | 14.9% | 5.1% |
| Canadian Index | | 13.2% | 7.4% | 6.9% | 4.7% | 3.9% |

Qube Investment Management has over 15 years experience in managing Group Retirement Programs for companies in various industry sectors. We pride ourselves on being objective, impartial and committed to financial literacy for plan members as we educate employees on the benefits of saving for retirement.

We have searched for and found a carrier that meets and exceeds Qube's standards. Industrial Alliance, based out of Quebec City, serves over three million Canadians and has over $71.5 billion in assets under management and administration. They are leading the pack in providing accessible, user-friendly cost-efficient retirement tools to their Plan Members. Our role at Qube Investment Management is to ensure that if an employer is offering a Group Retirement Program, the end-users, their Staff are truly benefiting from this program in a sustainable, fee-efficient way.

This means that we apply the same rigours standards of investement management to Group Plans, as we do to our individual portfolios.
In addition to our in-house Kaleo portfolio, we also manage a segregated fund model at Industrial Alliance (IA). Unlike our Kaleo model where we have sole discretion on its management, our model at Industrial Alliance uses the portfolio managers chosen by IA. This means that while we could choose which mutual funds comprise a client's portfolio, we would have no say in the specific holdings of each fund.
Our model at Industrial Alliance was initiated at the beginning of 2005 and eventually replaced our Manulife segregated fund model. The model has consistently added value for shareholders. This can be attributed to the diversified set of assets held by the portfolio as well as the more active style of management.

Industrial Alliance offers a diverse range of mutual fund investment options for their Savings and Retirement clients. Using these options, Qube has created a globally diversified portfolio to help withstand the inherent volatility in the stock market. The table above highlights the funds we currently hold in our model, as well as the returns this portfolio has generated over time.

# Gold: Debased Metal or Financial Safeguard?

*"Gold is a way of going long on fear, and it has been a pretty good way of going long on fear from time to time. But you really have to hope people become more afraid in a year or two years than they are now. And if they become more afraid you make money, if they become less afraid you lose money, but the gold itself doesn't produce anything." – Warren Buffett*

***Street Talk***

Since rebounding from its post-crisis floor in March of 2009, the S&P 500 has climbed 187%. At its present age of 91 months, this bull market is confirmed to be the second longest, surpassed only by the 1987-2000 bull market. And yet, while the Wall Street recovery has been remarkable, the Main Street recovery has been less impressive. Annual GDP growth in the US has averaged a muted 2% over this period; compared to an average of 4% for the decade preceding the year 2000. Given this divergence, is there reason to predict rising market fears in the near future? Possibly, but further context is required.

***History Continues to Develop***

Though a consensus among economists remains absent (we'll keep you updated), timely intervention on the part of the Federal Reserve - through the implementation of experimental Quantitative Easing (QE) policies - helped to stabilize financial markets in 2009 by inflating market confidence. The argument can be made though that QE was less effective in its intended purpose of raising real long-term economic growth prospects. In purchasing large quantities of financial assets from commercial banks and other institutions, the Federal Reserve aimed to directly inject additional liquidity into financial sectors, thereby lowering interest rates. Lower interest rates were then expected to lead to increased corporate investments and consumer borrowing - key levers for economic growth. Unfortunately, there has been limited success thus far at reaching the intended goal of robust economic growth; a prominent reason for this being that lower interest rates have not led to predicted increases in borrowing and spending.

The experiment has continued to be replicated by central bankers around the world, including the European Central Bank (ECB), the Bank of England and the Bank of Japan (BoJ), with similar results observed. The current global environment is now one of near-zero (sometimes negative) interest rates and tepid growth, notwithstanding the unprecedented amounts of money being injected into national financial systems by their respective central banks. Despite this, the ECB and BoJ are notable in that they continue to administer QE in ever greater doses (the Fed halted asset purchases in 2014), subscribing to the view that by doubling down after each loss, any future wins will effectively eliminate previous losses.

This process of doubling down - referred to as Martingale System in statistics – is in theory premised on the assumptions of an unlimited scope for asset purchases, and unlimited time. Central banks are unconstrained in their access to the former, being restricted only by the speed of printing machines (or perhaps more accurately, the time it takes to press a button), but time is finite. Prolonged periods of synthetically low interest rates can have an opposing effect on economic growth, as low bond yields (directly correlated with interest rates) tend to erode the business models of financial institutions that buttress economic growth. For example, commercial banks face falling net interest margins, and solvency issue risks increase for insurance companies and pension funds that have long dated and under-funded liabilities. Simply put, instead of being a risk free means of capital creation, doubling down could eventually lead to capital depletion.

***Time for a Hike?***

Last year, the Fed indicated plans to raise interest rates more than once in 2016, but policymakers have yet to follow through on this plan. At the time of writing this report, market participants remain split on the prospect of an impending December rate hike. The Fed's decision is not one to be taken lightly, as raising interest rates prematurely brings with it its own series of problems. If the majority of investment gains made over the course of the current bull market were due to underlying interest rates, then an untimely reversal would likely produce some claw-back of recent returns. Fed executives find themselves currently squeezed in-between a rock and a hard place. Raise interest rates too late, and future

economic returns are at risk. Raise them to soon, and we could witness a market downturn.

***To Fight Fear, Act – Potentially***

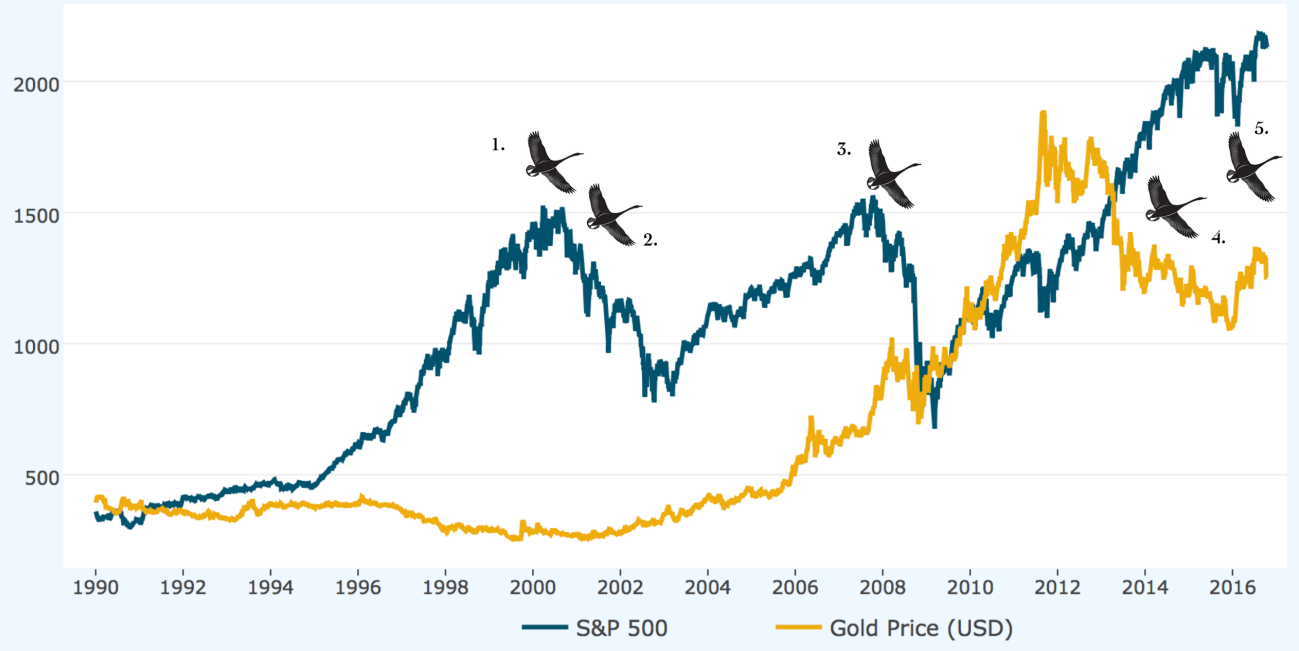
In this type of environment where risk is apparent, gold could perhaps be the ultimate diversifier in our portfolio. Historically, gold has acted as insurance against uncommon, but potentially extensive risks. Put another way, in adding gold related assets to your portfolio, it is not to make money, per se, but to buy protection against 'black swan' events that could depress the returns of other investments in your portfolio. We use the term 'black swan' to denote an event or occurrence that deviates beyond the realm of regular expectations, specifically because nothing in the past can convincingly point to its possibility. Prominent examples are depicted in the graph below.

Taking a brief reprieve from the underlying pessimism above, there is nothing to suggest that central banks can't properly time the raising of interest rates. It is a difficult balancing act to be sure, but the potential remains for an interest rate hike that does not have an adverse effect on either Main Street or Wall Street. In such a scenario, gold would be expected to underperform, while stocks (and possibly bonds) would sustain future investment returns. But the plausibility of such an event does not necessarily preclude an investment in gold. Like any insurance, we hope never to depend on it, but it is there when needed, with the added option to purchase more if necessary.

So, are we purchasing gold? Not yet, but we're ready to act. Some of our clients may note that this is not the first time that gold has garnered our attention. As before, we conclude that though the potential for systemic risk has been identified, it should not be considered as imminent. Having said this, we continue to monitor economic developments closely. In our prior research on gold it was found to form an optimal portfolio position ranging from 4% to 9% of the total portfolio value. Provided that our assessment of the market changes, we support an optimal allocation of up to 7% of total portfolio value.

**Contemporary Black Swan Events, Gold Prices and Financial Markets**

1. Dot Com Crash: Wave of panic selling is sparked by tech giants placing large sell orders. By end of year, trillions of dollars of investment capital 'vanish'.
2. 9/11/2001: The first trading week after 9/11 saw the greatest one week losses in NYSE history.
3. Global Financial Crisis: $10 trillion wiped out in the global equity markets.
4. Oil Crisis: Slump in oil prices wreak havoc with commodity-exporting countries, including exporters of manufactured goods.
5. BREXIT: On the 24th of June, markets woke up to the news of the British referendum to leave the EU. Increased uncertainty translated to falling prices.



# General Electric: Move In Ready

Founded by Thomas Edison nearly 124 years ago, General Electric (GE) is justifiably considered to be one of the treasures of American Industry. Today, GE is one of the world's most valuable, and well-known businesses, with a history of talented executives, many of whom have since garnered the position of CEO for other Fortune 500 companies including The Home Depot and 3M.

Despite this status, GE's stock performance has been disappointing over the most recent 15 year span. It remains one of the few companies yet to surpass its 2001 highs acheived in the midst of the tech bubble. In light of this fact, it may seem surprising that we are considering a purchase of this iconic, yet abased, company.

**The House That Jack (Welch) Built**
GE's current chairman and CEO is Jeff Immelt, who has been working in this capacity for 15 years. The company's laclustre performance during his charge has been all the more conspicuous with respect to the accomplished record of his predecessor, Jack Welch.

Jack Welch, is recognized as having been instrumental in growing the stock price of GE by 4,000 percent over the span of his 20-year tenure. In the same breath, he is bestowed with the charge of having created one of the world's largest conglomerates with varying, disparate businesses in a number of industries: media, insurance, healthcare, industrials, energy, private equity, real estate, consumer lending, commercial lending, and appliances, among several others.

We note that while the conglomerate model may have worked to boost company valuations in the past, it also brought with it highly opaque financial statements, which buried the revenues and profits of higher quality industrial businesses. Combined with increasingly onerous government regulations, we believe GE's ongoing plan to reduce the companies scope, by way of spinning off unrelated operating segments, could create shareholder value in the future.

After finalizing the spinoff of GE Capital and their Appliances segment in 2016-2017, General Electric intends to narrow their focus towards 5 of their industrial segments, and concentrate on growing their market share as the world's largest high-tech infrastructure company.

So what is a high-tech infrastructure company? Specifically, GE performs research, develops, and manufactures jet engines, nuclear reactors, gas turbines, PET/CT/MRI scanners, advanced locomotives, and other high-tech industrial components. Generally speaking, GE's products predominantly relate to providing electricity, transportation, aviation and healthcare; industries that can be denoted as key building blocks of economic growth around the world.

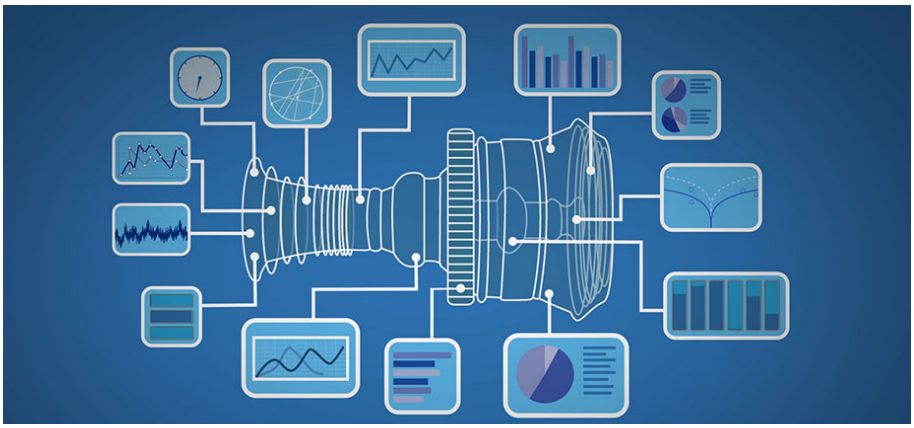
Unlike low-tech industrial products, which can be easily commoditized, GE's industrial offerings are complex, highly technical, and require advanced manufacturing and materials know-how to be successful.

Given this, from a business model perspective we believe that GE provides defensive characteristics with a reasonable path for growth going forward.

**To Expand a $200B House**
In order to continue growing a large business, one needs to find a sufficiently large opportunity. In the case of GE, we find that this opportunity is presented through the

Industrial Internet. According to Accenture, the Industrial Internet is expected to add $14 trillion to the global economy by 2030. This is a massive number, but if one thinks about the surface area potential for the Industrial Internet – aviation, transportation, power, healthcare, automotive, manufacturing, mining, oil, water, wind – and how much those sectors mean to the world economy, the number may not seem so farfetched.

The Industrial Internet refers to the integration of complex physical machinery with networked sensors and software. It draws together fields such as machine learning, big data, the Internet-of-Things, and machine-to-machine communication to acquire and store data from machines, analyze it (in real-time), and then use it to better run your operations (in real-time).



Out of all the industrial companies that we have analyzed – Honeywell, United Technologies, Eaton, 3M, among others – GE seems to be the only company taking this massive opportunity seriously. To date, GE has spent upwards of $1 billion on developing the Predix platform, in addition to resources invested for the purpose of hiring new software engineers, commercialization, and convincing large corporations like Intel and Microsoft to help them build it out.

Predix is a software platform, where one can develop software themselves or use other developer's software through the Predix platform. The way Predix works is similar to Android and the Google Store, except that it has been specifically designed from the ground up to account for the scale of data, as well as security concerns inherent with the Industrial Internet.

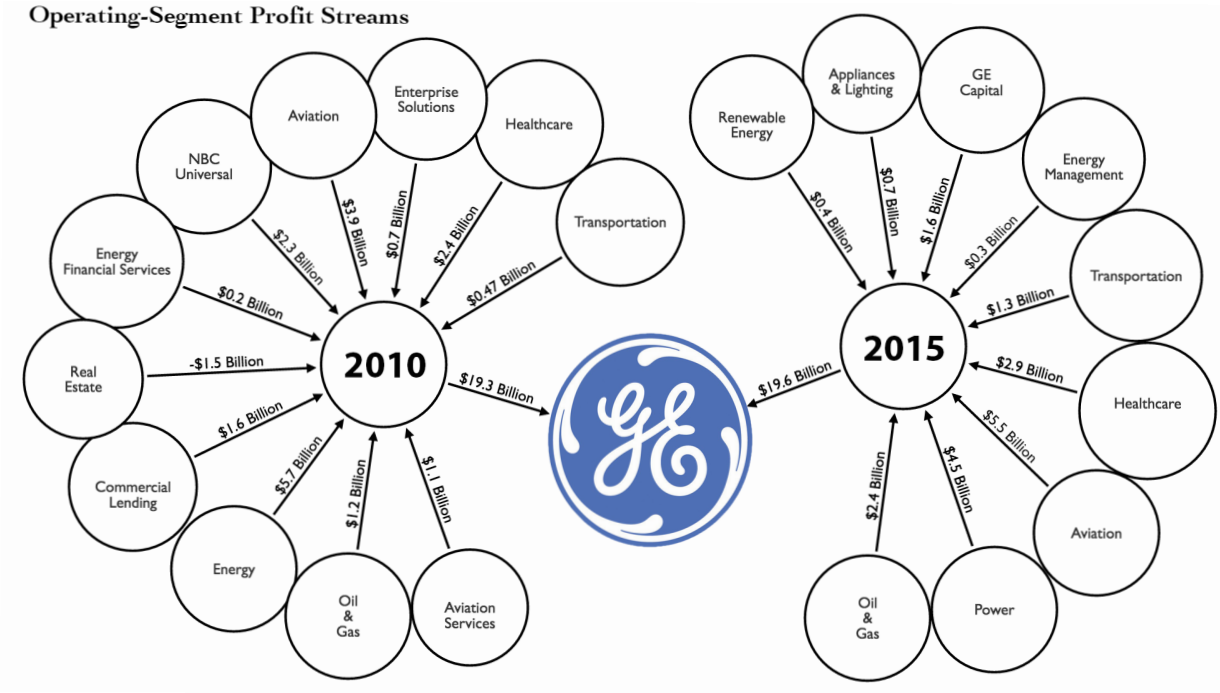
Today, Predix has 54 thousand partners, 12 thousand developers, and is increasingly being used to provide efficiency, safety, and productivity improvements across the globe. Some specific clients include Pitney Bowes, RasGas (2nd largest liquid natural gas producer in Qatar), the City of San Diego, and Emirate Airlines.

**Purchasing a $200B House**

At current valuation levels, GE trades at a premium to its industrial competitors like Eaton and United Technologies; however, we believe this premium is justified if we take into account GE's more resilient business model, leading market share positions, and R&D scale advantage. Where we include the multi-trillion-dollar opportunity presented by the Industrial Internet, we conclude that a case can be made that General Electric is currently undervalued.

Quantitatively, we see the potential for solid and abnormal growth over the next two years. While our scenario represents a reasonable thesis, we want to stress that it is based on known facts at this point of time and by no means represents an investment guarantee. By plugging conservative assumptions into the scenarios highlighted above, we arrive at a target price per share (PPS) of $40 by 2018. This scenario includes earnings per share growth from buybacks, expected synergies derived from acquisitions, organic growth (including Predix), and margin improvements. We estimate that GE's earnings per share (EPS) will be in the $2.00 - $2.20 range by 2018 (currently $1.53). Applying a reasonable multiple to our expected EPS gives our investors a potential return of 38% over the coming two years.

In summary, we believe an investment in GE would give investors part ownership of a sustainable and defensive company, with substantial opportunity for growth going forward.



# What Goes Into The Kaleo Portfolio?

Patrick Choi

**The Qube Process**
Over the course of the past few months, we have been getting some questions on how our process works in terms of our investment research program. We would like to take this opportunity to briefly walk our clients through the steps we take to ensure your portfolios are being well managed.

**Bonds**
Unlike equities, fixed income securities are not traded on any standardized market exchange. In order to buy bonds, we must go through a broker, who themselves purchase the securities over-the-counter (usually with other financial institutions). Due to this unique mechanic, it is rare for any 2 clients to hold the same fixed income portfolio in terms of individual holdings. Factors such as inventory availability, and macro-economic and company specific events, may mean other bond issuers could provide a better risk and duration adjusted yield-to-maturity at any one point in time.

Having said that, all client bond portfolios are managed based upon our outlook of interest rates, economic growth and issuer financial health.

At the moment, our focus is on the threat of higher interest rates, and a stable, but slow global economic growth. As such, our clients' bond portfolio is currently biased towards lower duration, riskier issuers (still investment grade), and greater global diversification. So while individual holdings may be different for our clients, there is still one overarching theme connecting the portfolios together.

**Equities**
The other half of most clients' portfolio are in equities, which is where we spend most of our investment research budget. While a little more than half of a client's assets with us may be in equities, historically, as much as two-thirds of a portfolio's return could be attributed to this asset class.

Our equity investment research is divided into 3 phases plus a prologue. The prologue (filter) lies outside of our security selection process, but is important in our discussion because it defines our investment universe for the current research cycle. Of the roughly 5,000 companies publicly traded in the United States, and the 2,000 companies publicly traded in Canada, only 200 get selected to represent our investment research universe. Our filtering process looks at a series of characteristics like dividends, leverage and return on equity; this helps ensure that that the companies we perform research on already meet a minimum standard.

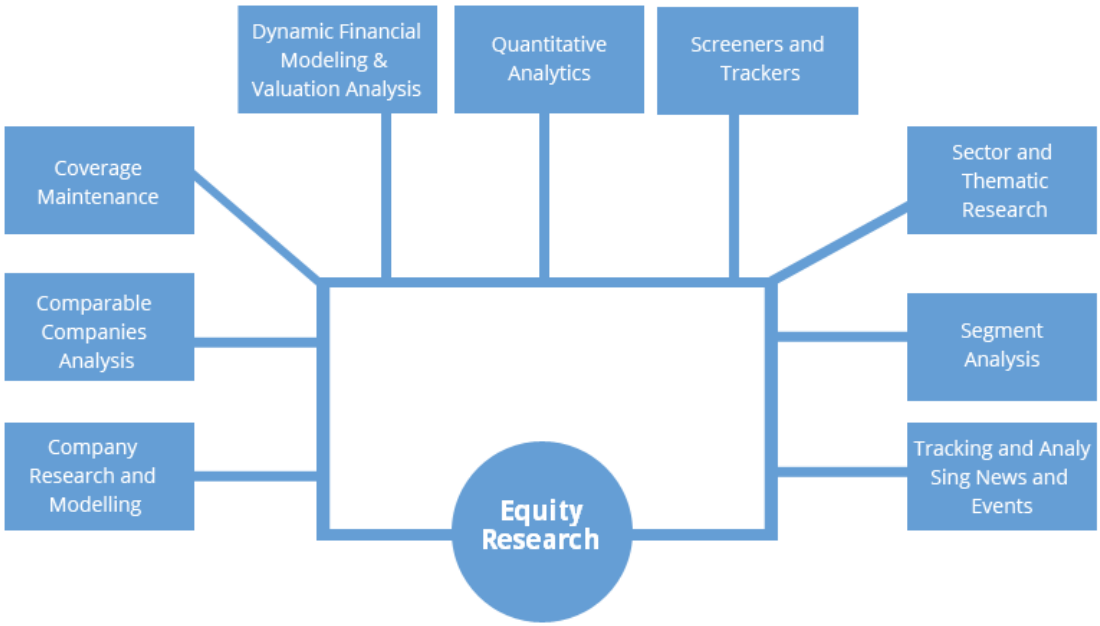
Once we have the 200 companies that will be in our universe, our research team performs company specific analysis sector by sector. In our phase 1, we spend approximately 1-2 hours on a quantitative study of the company. Here we look at sales growth, earnings growth, margins, leverage,

payout ratios, return on equity, dividend growth, free cash flow growth, and excess returns, among other metrics. In addition, our models also tell us market implied growth rates, which we can then use to compare with the company's historical numbers in order to get an idea of under or over valuation. The purpose of the phase 1 is to get a sense of the characteristics of the company's business model before delving more deeply into the company itself.

In our phase 2, we spend approximately 8-10 hours on a more qualitative study of the company. Here, we look in greater detail at the company's business strategy and model, their competitive advantages, the industry outlook, potential risks, valuations, and management performance, among other things. With only 10 hours to spend on a company, it would be impossible to perform a comprehensive analysis of the company; however, it should be adequate time for the analyst to present a logical reasoning on why they recommend a deeper look at this company.
Once the phase 2 is presented, and the investment research team is in general agreement, we move the company to a phase 3. In this phase, we'll spend however much time is needed (on average, approximately 30 hours) in order to fully understand and articulate the logic and reasoning behind recommending a purchase of this particular company. Usually this means fleshing out some of previous points, or filling in some of the holes in the phase 2. At the end of the phase 3, we must be able to understand and articulate why we are considering a purchase of this security, as well as the risk and reward associated with the purchase. The development of this thesis will also help in determining when we may sell a particular security in the future.

**Takeaway**
Every quarter, substantial time, effort and resources are being placed into our investment research program. We hope that the above summary helps to shed some light on how our investment management program works.

Qube's policy has always been about transparency, and we will continue to be transparent with our due-diligence process through ongoing conversations with our clients as well as in our quarterly newsletters. We appreciate and are humbled by the trust our clients have placed on us, and we look forward to continue serving you in the future.



Every quarter we highlight some of the 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. We'd like to give you some insight into our thought processes so you can understand why we hold or want to sell these companies.

## *Kaleo Full & Kaleo B Portfolio Holding*


**Church & Dwight**

In a world dominated by giants like Procter & Gamble ($235B Market Cap.), and Unilever ($135B Market Cap.), it is rare for such a small company, like Church & Dwight ($12B Market Cap.; Incorporated in 1847), to exist on the same stage. Usually, these companies would have already been bought out, or have long since ceased to exist due to better funded competitors.

Compared to its relatively obscure name, Church & Dwight actually owns many well known brands, most of which are ranked #1 in their respective categories. Their entire range of products are well diversified and includes items like gummy vitamins, baking soda, laundry detergent, and condoms.

For us, the attraction of Church & Dwight is its safe and defensive business model (460 quarters of uninterrupted dividends), consistent history of strong management execution (total, annual shareholder returns of 19.1% over the past decade), and lack of drama.

In a world where man-made risk continues to be abundant (e.g.: Wells Fargo, EpiPen, Daraprim, etc.), a "sleep-well-at-night" stock like Church & Dwight makes for a nice change. The market seems to agree with our assessment, and so it is very rare for this company to ever be on sale on any type of valuation metric. Perhaps this was what Warren Buffett meant when he said, "*It's far better to buy a wonderful company at a fair price, than a fair company at a wonderful price*".

*"2015 was a pivotal year for Citi. It was defined by the tangible progress we made in a sustained effort to transform and reshape Citi into a simpler, smaller, safer and stronger institution – more than it has been at any time since the financial crisis".*

-Michael Corbat, CEO (Citi's 2015 Annual Report)

## *Kaleo Full & Kaleo B Portfolio Holding*

**Citigroup**

Out of the 4 largest banks in the United States, Bank of America and Citigroup are probably still the 2 most reviled following the 2008 subprime mortgage crisis (Wells Fargo is catching up). This isn't surprising given that both Citigroup and Bank of America received the largest amounts of US taxpayer money ($45B each) from the very unpopular TARP (Troubled Asset Relief Program). Citigroup had the added distinction of nearly going out of business, resulting in its shares briefly trading below $1. When it comes to the term "Too Big To Fail", both Citigroup and Bank of America are probably the two institutions that come most readily to mind.

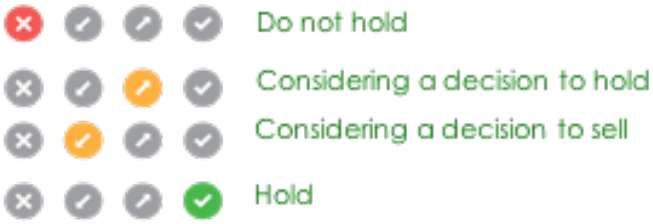
There are two underlying points contributing to our thesis on the purchase of Citigroup. The first is that Citigroup has been transforming itself over the years in order to become, in Michael Corbat's own words "simpler, smaller, safer, and stronger." In the last 3 years, they've reduced headcount by 28,000, shed assets by over $130 billion, and divested of 1/3 of their legal entities. As a result of all this restructuring, Citigroup reported in 2015 its biggest full-year earnings since 2006. We believe Citigroup can continue this momentum going forward through less legal headwinds, less regulatory capital required through continued compliance with CCAR (Comprehensive Capital Analysis & Review), and the implementation of more strategic growth initiatives like their partnership with Costco.

The second point to our thesis deals with valuations. At current prices, Citigroup trades at a Price to Tangible Book Ratio of $0.76. This means that investors of Citigroup only need to pay $0.76 to obtain $1 of net assets. Theoretically, this means Citigroup is worth more liquidated than operating as a business: an absurd notion, considering the value of its brand name and business expertise. We believe this gap in value is mainly due to investor sentiment, and can be closed over time as Citigroup continues to pass their yearly regulatory exams and is allowed to payout more of their earnings as dividends or share buybacks. This should bring investor confidence back into Citigroup, helping to drive future returns for the stock.

# Qube Insights: Equity Research Snapshots

Our equity research is guided by a proven value-based approach pioneered by Benjamin Graham.

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".




| | INDUSTRY | Current Status |
|---|---|---|
| **Apple** | Technology | |
| **Facebook** | Technology | |
| **Alphabet** | Technology | |
| **Paychex** | Technology | |
| **Salesforce** | Technology | |
| **Skyworks Solutions** | Technology | |
| **Flextronics** | Technology | |
| **Teradata** | Technology | |
| **Ingram Micro** | Technology | |
| **Check Point Software** | Technology | |
| **Accenture** | Technology | |
| **Microsoft** | Technology | |
| **PayPal** | Technology | |
| **Visa** | Technology | |

| | INDUSTRY | Current Status |
|---|---|---|
| **Yahoo!** | Technology | |
| **Kinaxis** | Technology | |
| **Enghouse Systems** | Technology | |
| **Sierra Wireless** | Technology | |
| **The Descartes Systems Group** | Technology | |
| **Bombardier** | Industrials | |
| **Stantec** | Industrials | |
| **General Electric** | Industrials | |
| **Morneau Shepell** | Industrials | |
| **Exchange Income Group** | Industrials | |
| **NetApp** | Technology | |
| **EMC** | Technology | |
| **IBM** | Technology | |
| **HP Enterprise** | Technology | |
| **Autodesk** | Technology | |
| **Applied Materials** | Technology | |
| **CGI Group** | Technology | |
| **Synopsys** | Technology | |
| **Brocade Communications** | Technology | |

# Qube Equity Research Snapshots

| | INDUSTRY | Current Status |
|---|---|---|
| **American Airlines** | Industrials | |
| **Deere** | Industrials | |
| **Xylem** | Industrials | |
| **Signet Jewelers** | Consumer Discretionary | |
| **Hanesbrands** | Consumer Discretionary | |
| **LKQ Corp.** | Consumer Discretionary | |
| **Gentex** | Consumer Discretionary | |
| **Polaris Industries** | Consumer Discretionary | |
| **Chipotle Mexican Grill** | Consumer Discretionary | |
| **Amazon** | Consumer Discretionary | |
| **Hilton Worldwide Holdings** | Consumer Discretionary | |
| **Nike** | Consumer Discretionary | |
| **Walt Disney** | Consumer Discretionary | |
| **Diageo** | Consumer Discretionary | |
| **Luxottica** | Consumer Discretionary | |
| **Magna** | Consumer Discretionary | |
| **Dorel Industries** | Consumer Discretionary | |
| **Domtar** | Consumer Discretionary | |
| **Richelieu Hardware** | Consumer Discretionary | |

# Qube Equity Research Snapshots

| | INDUSTRY | Current Status |
|---|---|---|
| **Exco Technologies** | Consumer Discretionary | |
| **Cineplex** | Consumer Discretionary | |
| **Uni-Select** | Consumer Discretionary | |
| **Intertape Polymer** | Consumer Discretionary | |
| **BRP Inc.** | Consumer Discretionary | |
| **Linamar Corp.** | Consumer Discretionary | |
| **General Electric** | Industrials | |
| **Honeywell** | Industrials | |
| **Union Pacific** | Industrials | |
| **Cisco** | Technology | |
| **Teradyne** | Technology | |
| **Cognizant Technology** | Technology | |
| **DH Corp** | Technology | |
| **Constellation Software** | Technology | |
| **Shopify** | Technology | |
| **CA, Inc.** | Technology | |
| **Electronic Arts** | Technology | |
| **Activision Blizzard** | Technology | |
| **Ball Corp** | Materials | |

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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

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