EDISON

Canadian General Investments

Broad exposure to Canadian equities

Investment companies

Canadian General Investments (CGI) is a closed-end investment fund listed on both the TSX and LSE; it is registered as a Canadian investment corporation. CGI aims to outperform the benchmark S&P/TSX index by investing in an actively managed portfolio of primarily Canadian stocks. Given its diversified exposure to the Canadian equity market, CGI could be viewed as a 'one-stop shop' for investment in the country. It has a progressive dividend policy; emphasis has shifted to quarterly rather than year-end special dividends. The 2016 prospective yield is 3.6%. High share ownership by related parties ensures that management's and shareholders' interests are closely aligned – although it may also be a factor in the wider than average discount.

12 months ending	Share price (%)	NAV (%)	S&P/TSX Composite (%)	FTSE Canada (%)	FTSE World (%)	MSCI Canada (%)
31/08/12	(2.1)	2.5	(3.6)	(4.2)	8.4	(4.2)
31/08/13	4.1	9.2	9.3	10.0	25.0	9.9
31/08/14	42.4	35.7	27.1	27.0	25.1	27.6
31/08/15	(4.4)	(10.9)	(8.7)	(7.1)	16.2	(7.7)
31/08/16	2.0	5.8	8.7	6.7	6.2	7.2

Note: Twelve-month rolling discrete £-adjusted total return performance.

Investment strategy: Bottom-up stock selection

CGI is managed by Greg Eckel, who aims to outperform the benchmark via bottom-up selection of a broad portfolio of shares. The majority of holdings are Canadian stocks, but up to 20% of the portfolio may be held in US equities. Stocks are selected based on positive fundamentals, strong management teams and attractive valuations; sector weightings can vary significantly from the benchmark. Although investments are made for the medium and longer term, holdings are regularly reviewed to ensure that their individual exposures remain appropriate. Gross gearing of C$150m via a mixture of preference shares and bank debt is employed.

Market outlook: Broader market leadership

Canadian stocks have outperformed global equities in recent months but the market leadership has been narrow. Materials stocks have led the charge; primarily gold companies, where several share prices have registered triple-digit gains year-to-date. Energy stocks have also performed well in 2016, as the oil price has recovered from a depressed level. As investors reassess their equity exposure for the balance of the year, it is possible that market leadership will broaden.

Valuation: Scope for a narrower discount

CGI's current share price discount to net asset value of 31.3% is wider than the averages of the last one, three, five and 10 years. There is scope for the discount to narrow if CGI generates a sustained period of significant investment outperformance, or if there is a higher level of demand for Canadian equities. CGI has a progressive dividend policy, with a greater emphasis on regular quarterly rather than special final dividends. The prospective dividend yield for 2016 is 3.6%.

19 September 2016

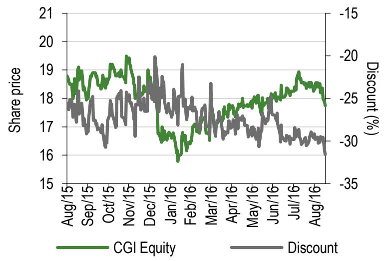
Price	**C$17.75**
Market cap	**C$370m**
AUM	**C$689m**

NAV*	C$25.85
Discount to NAV	31.3%
Yield**	3.6%
Yield***	4.3%

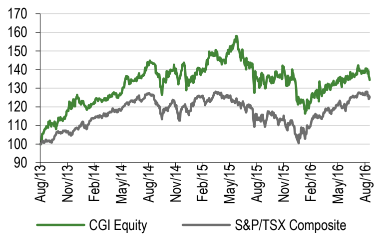
*Including income. **FY16e excluding special dividend. ***FY15 total, including special dividend.

Ordinary shares in issue	20.9m
Code	CGI
Primary exchange	TSX
Secondary exchange	LSE
AIC sector	North America

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	C$19.49	C$15.78
NAV** high/low	C$26.66	C$21.27

**Including income.

Gearing

Gross*	21.4%
Net*	20.0%

*As at 6 September 2016.

Analysts

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Edison profile page

Canadian General Investments is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

Canadian General Investments' investment objective is to provide better than average returns to investors by investing in a diversified portfolio of primarily Canadian equities. It aims to achieve this through prudent security selection, timely recognition of capital gains/losses and appropriate income-generating instruments.

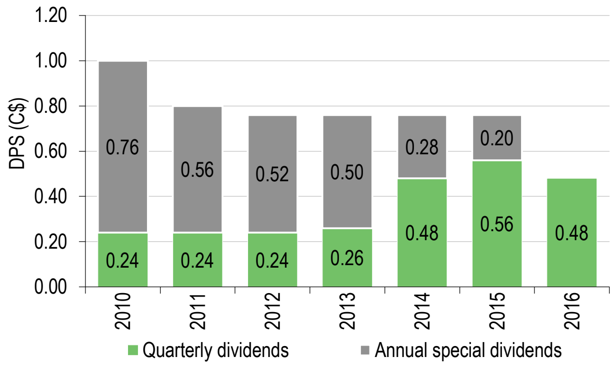
Recent developments

- 16 August 2016: Interim report for six months ending 30 June 2016. NAV total return of 2.4% versus 9.8% for the S&P/TSX Composite index.
- 21 July 2016: Announcement of quarterly dividends – C$0.16 per common share and C$0.23438 per Series 4 preference share.
- 10 June 2016: Redemption of C$75m Series 3 3.9% preference shares funded by C$75m three year 2.28% credit facility.

Forthcoming		Capital structure		Fund details	
AGM	April 2017	Ongoing charges	1.71% (see below)	Group	Morgan Meighen & Associates
Preliminary results	March 2017	Net gearing	20.0%	CEO	Jonathan A Morgan
Year end	31 December	Annual mgmt fee	1.0% of gross assets	Address	10 Toronto Street, Toronto, Ontario, Canada M5C 2B7
Dividend paid	Mar, Jun, Sep, Dec	Performance fee	None		
Launch date	January 1930	Trust life	Indefinite	Phone	+1 416 366 2931
Continuation vote	N/A	Loan facilities	C$150m (see page 7)	Website	www.mmainvestments.com

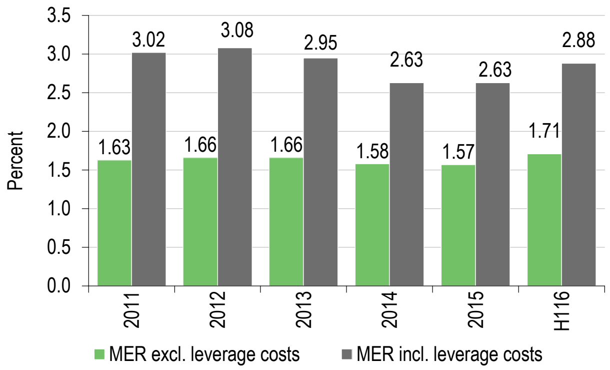
Dividend policy and history

CGI revised its dividend policy in 2014 and intends to pay steady to rising quarterly dividends with less emphasis on the special final dividend declared in December. 2016 to date – three dividends of 16c announced.

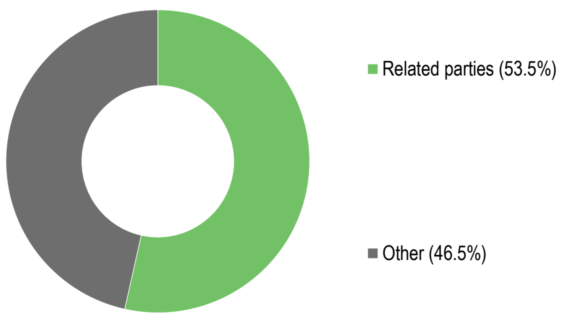


Management expense ratio (MER)

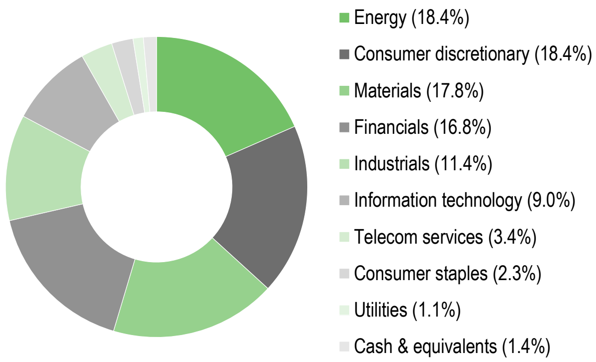
CGI pays a monthly management fee at 1.0% pa of gross assets. Leverage costs include preference share dividends, interest and financing charges.



Shareholder base (as at 31 August 2016)



Portfolio exposure by sector (as at 31 August 2016)



Top 10 holdings (as at 31 August 2016)

			Portfolio weight %	
Company	**Country**	**Sector**	**31 August 2016**	**31 August 2015***
Dollarama	Canada	Multiline retail	5.8	7.8
Franco-Nevada Corporation	Canada	Metals & mining	4.2	2.7
Bank of Montreal	Canada	Banks	3.5	2.9
CCL Industries	Canada	Speciality packaging	3.4	N/A
Canadian Pacific Railway	Canada	Road & rail	3.3	3.7
Open Text Corporation	Canada	Software & technology	3.3	N/A
Royal Bank of Canada	Canada	Banks	2.9	2.7
First Quantum Minerals	Canada	Metals & mining	2.6	N/A
Raging River Exploration	Canada	Oil & gas	2.6	N/A
Gildan Activewear	Canada	Apparel	2.6	2.8
Top 10			**34.2**	**35.8**

Source: Canadian General Investments, Edison Investment Research, Morningstar, Bloomberg. Note: *N/A where not in August 2015 top 10.

Market outlook: Potential for the market to broaden

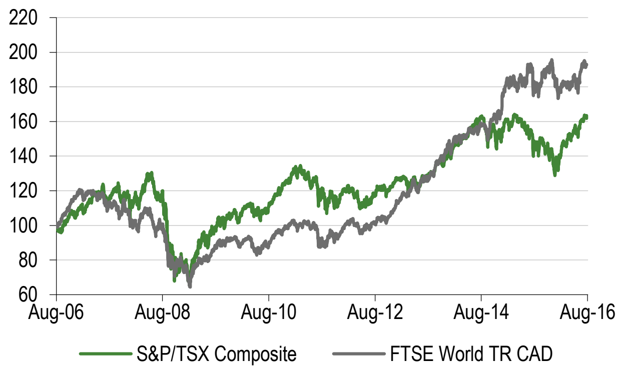
Exhibit 2 (left-hand side) shows the performance of the S&P/TSX Composite and FTSE World indices over the last 10 years. Canadian stocks have lagged global markets over this period, but there have been significant periods of outperformance such as following the global financial crisis, between mid-2013 and Q314 and since January 2016.

The recent period of Canadian stock price outperformance has been narrow. As shown in Exhibit 2 (right-hand side), materials is by far the best-performing sector year to date with a total return to the end of August of 46.8% versus the S&P/TSX Composite index performance of 14.5%. In a period of global stock market volatility, gold stocks have performed particularly well; within the index there are 51 materials stocks, of which 25 have more than doubled in price since the start of 2016. Energy, which was a significant underperforming sector in 2015, is now the second best performing sector year-to-date following a partial recovery in the oil price.

It would not be unreasonable to expect the performance of the Canadian stock market to be more broadly based in future, which may appeal to investors wishing to have exposure to a fund invested widely across sectors within the country, along with selected investments in the US, covering businesses that are generally not available in Canada.

Exhibit 2: Market performance and valuation

Indices' performance over last 10 years



S&P/TSX Composite index performance to end-August 2016

	Weight (%)	YTD total return (%)	2015 total return (%)	2017e P/E (x)
Financials	35.8	10.6	-21.0	11.8
Energy	20.0	22.0	-22.9	31.1
Materials	12.7	46.8	3.6	22.6
Industrials	9.0	16.7	-11.1	16.7
Consumer discretionary	6.2	7.7	-3.5	13.2
Telecoms	5.4	17.6	12.4	16.8
Consumer staples	4.4	13.5	-1.7	18.0
IT	2.9	4.5	-1.5	18.0
Utilities	2.8	17.4	15.6	19.6
Healthcare	0.9	-66.5	-15.6	5.1
Index	**100.0**	**14.5**	**-8.3**	**16.0**

Source: Thomson Datastream, Edison Investment Research, Bloomberg

Fund profile: Diversified portfolio, favourable tax status

CGI was established in 1930 and is North America's second-oldest closed-end fund. Since 1956, it has been managed by Morgan Meighen & Associates (MMA), which has more than C$1.6bn assets under management. CGI is listed on the Toronto Stock Exchange (since 1962) and the London Stock Exchange (since 1995) and invests over the medium to long term in a broad selection of primarily Canadian equities, aiming to generate a total return higher than the benchmark S&P/TSX Composite index. CGI is designated as an investment corporation under the Income Tax Act (Canada), which eliminates a layer of taxation as capital gains are only taxed at the shareholder level and enables CGI's capital gains to be paid as dividends to shareholders. However, to maintain investment corporation status, CGI is unable to repurchase its shares to help manage the share price discount to net asset value. In addition, not more than 25% of its gross revenue may be from interest income and at least 85% of gross revenue must be from Canadian sources. More than 50% of CGI's shares are held by related parties, which ensures that management's and shareholders' interests are aligned. The five-year average portfolio turnover is 18.6%; it is currently running in the low- to mid-20% range as a result of selected repositioning within the portfolio.

The fund manager: D Greg Eckel

The manager's view: More positive view on oil

The manager comments that the Canadian economy is far from homogenous. The west is a resource-based economy and has been affected by the low oil price and recent wildfires in Alberta. The Prairies are in a better position as the region is not so energy dependent and the agriculture environment is in reasonable shape. In Central Canada (Ontario and Quebec), although there has not been a pickup in exports, there has been an upturn in the financial, manufacturing and service industries.

Reflecting on the current oil price, the manager suggests that it appears well supported in the low $40s and that over the longer term the trend is likely to be for a higher rather than a lower oil price. CGI has been underweight energy since 2011, and in anticipation of an improving commodity price, the manager started to increase exposure early in 2016, acknowledging that stock prices move ahead of industry fundamentals. He believed that there would be shifts in the supply/demand balance for oil. The oil price has been weak due to the emergence of North American shale production, the magnitude of which means that this region has overtaken Saudi Arabia as the industry's swing producer. Iranian production has come back on stream and OPEC members have continued to pump oil, so the manager wonders how much more oil can possibly come on stream. In North America, there have been some supply cutbacks as a low oil price makes production uneconomic, plus there have been supply disruptions elsewhere, such as in Nigeria.

The manager suggests there could be a period of volatility in global stock markets. Investors have issues to consider in coming months, including the magnitude and timing of US interest rate rises and the US election. Typically, in September, portfolio managers reassess their positioning for the balance of the year. If there is a pullback in the market, the manager will likely use the opportunity to further increase CGI's energy exposure. He considers that at current levels the Canadian stock market is fairly valued; neither too expensive nor too cheap, and that investors have to accept that the environment is one of slow growth both in Canada and the US and around the world.

Asset allocation

Investment process: Broad exposure, bottom-up selection

CGI invests primarily on a bottom-up basis, while being mindful of the macroeconomic environment. The majority of the portfolio comprises Canadian equities. However, up to 20% may be invested in US stocks, to gain exposure to areas of investment unavailable in Canada such as major internet retailer Amazon, which has the valuable Amazon Web Service cloud computing operation. US is the only non-domestic exposure permitted. The manager invests for the medium to long term, focusing on companies with positive fundamentals and good management teams generating consistency of performance that can grow their businesses over the long term. He seeks businesses with strong franchises, preferably companies with market-leading positions or that have a unique product offering. Portfolio companies generally have strong cash flow, solid balance sheets and attractive valuations. The manager is prepared to follow good management teams as companies transition. For example, top 10 position Franco-Nevada's IPO was in 1983, before being taken over by Newmont Mining in 2002 and subsequently spun-off in 2007. Franco-Nevada has had a consistent management team throughout the changes in ownership and CGI invested in the latest IPO in 2007. CGI also invests in turnaround situations such as Canadian Pacific. Following shareholder activism and a change in the board, industry veteran Hunter Harrison was brought in as CEO. Canadian Pacific's operating ratio has gone from being the worst to the best in the North American railroad industry; CGI has fully participated in the company's turnaround. To enable payment of dividends, some higher-yielding stocks are held, including Bank of Montreal and oil/gas pipeline companies Enbridge and TransCanada. Despite the long-term nature of many of CGI's investments, portfolio positions are continually assessed to ensure that their current exposure remains appropriate.

Current portfolio positioning

At the end of August 2016, the top 10 positions represented 34.2% of the portfolio, a slight reduction from 35.8% in the prior year. Six positions were common to both periods including Dollarama, the largest holding. It is the dominant dollar store in Canada and is many times larger than its biggest competitor. The manager considers the company has a lot of earnings growth ahead of it; same store sales are robust, margins are high and benefits are accruing from investment in technology upgrades. This is an example of a very long-term holding in the CGI portfolio, which has generated returns of nearly 10 times the original investment.

CGI's bottom-up investment process can lead to large deviations in sector weighing versus the benchmark. Looking over the last 12 months, the largest increases in exposure are to materials, which is now overweight versus the benchmark, and energy, which remains modestly underweight the index. Within materials, the manager has added exposure to gold stocks such as Kinross Gold and Tahoe Resources and sector exposure includes positions in Methanex (chemicals), and CCL (packaging), which are not strictly resource stocks but are included in the materials sector. The largest reductions in sector exposure are financials and industrials. Consumer discretionary exposure remains one of the largest positive deviations versus the benchmark and includes top position Dollarama. Global growth is one of the manager's favoured investment themes; within the consumer discretionary sector large positions in Magna (auto parts) and Gildan (leisurewear) are viewed as beneficiaries of this trend. Illustrating the manager's underweighting in banks (which represent a significant percentage of the index); the financial sector is one of the largest negative deviations versus the benchmark.

Exhibit 3: Portfolio sector exposure vs benchmark (% unless stated)

	Portfolio end-August 2016	Portfolio end-August 2015	Change (pts)	Index weight	Active weight vs index (pts)	Trust weight/ index weight (x)
Energy	18.4	14.6	3.8	20.0	-1.6	0.9
Consumer discretionary	18.4	19.7	-1.3	6.2	12.2	3.0
Materials	17.8	11.6	6.2	12.7	5.1	1.4
Financials	16.8	22.4	-5.6	35.8	-19.0	0.5
Industrials	11.4	14.4	-3.0	9.0	2.4	1.3
Information technology	9.0	6.5	2.5	2.9	6.1	3.1
Telecom services	3.4	3.1	0.3	5.4	-2.0	0.6
Consumer staples	2.3	2.0	0.3	4.4	-2.1	0.5
Utilities	1.1	1.0	0.1	2.8	-1.7	0.4
Healthcare	0.0	1.8	-1.8	0.9	-0.9	0.0
Cash & equivalents	1.4	2.9	-1.5	0.0	1.4	N/A
	100.0	**100.0**		**100.0**		

Source: Canadian General Investments, Edison Investment Research

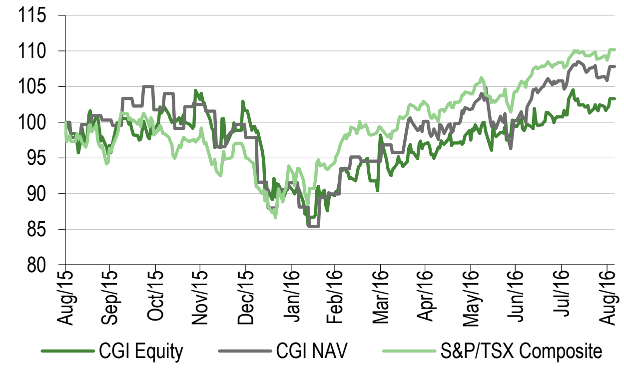
Currently 13% of CGI's portfolio is invested in US companies including AutoZone, which has been a strong performer for the fund. Unlike in the US, in Canada there is no strong player in the automotive aftermarket sector. The manager considers AutoZone a very strong operator that is consolidating a fragmented market both in the do-it-yourself (DIY) segment but also in the do-it-for-me (DIFM) segment, where the company has been less developed than the industry, which offers a lot of potential future growth opportunities. The manager highlights a recent purchase of shares in US-listed NVIDIA, a semiconductor company that focuses on the production of graphic chips; it followed a meeting with company management earlier in 2016. NVIDIA is viewed as being well positioned in growth areas of the market such as gaming, virtual reality and autonomous vehicles and has less commodity exposure than competitors such as Intel and Advanced Micro Devices. The company generates high margins and has a strong balance sheet.

Performance: Outperformance over the medium term

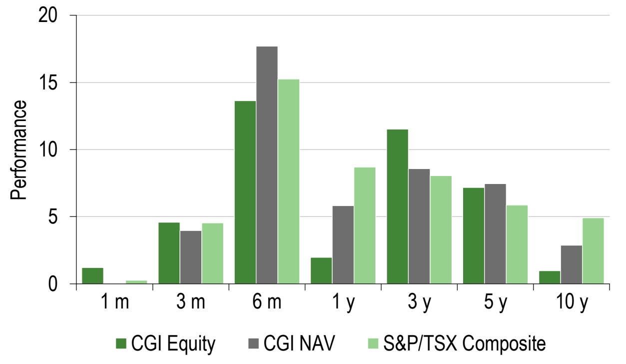
Year-to date, the Canadian stock market has had a meaningful rally, led by previously beaten-down resource stocks. In an environment where the stock market leadership is narrow, CGI's diversified portfolio may underperform the market. Year-to-date ending 31 August 2016, CGI's NAV total return of 8.1% underperformed the benchmark's total return of 14.4%. However, in the last six months, CGI's NAV has outperformed the benchmark by 2.1pp. It has also outperformed over three and five years. Underperformance versus the World index is primarily due to the strong performance in recent years of the US market, which now represents more than 50% of the index.

Exhibit 4: Investment trust performance to 31 August 2016

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

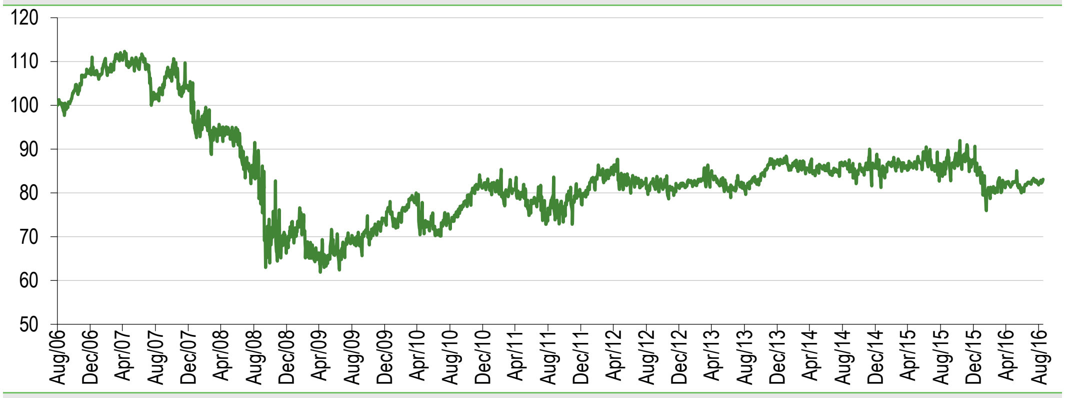
Exhibit 5: Share price and NAV total return performance, relative to index (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to S&P/TSX Composite	0.9	0.0	(1.4)	(6.2)	9.9	6.4	(31.9)
NAV relative to S&P/TSX Composite	(0.2)	(0.6)	2.1	(2.6)	1.5	7.8	(17.9)
Price relative to FTSE Canada	0.1	0.4	(0.2)	(4.4)	10.2	6.5	(31.0)
NAV relative to FTSE Canada	(1.0)	(0.2)	3.4	(0.8)	1.7	8.0	(16.8)
Price relative to FTSE World	0.4	0.5	3.4	(4.0)	(10.2)	(32.5)	(43.4)
NAV relative to FTSE World	(0.8)	(0.1)	7.1	(0.4)	(17.1)	(31.5)	(31.7)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-August 2016, in C$ terms. Geometric calculation.

Exhibit 6 shows CGI's NAV total return relative performance versus the benchmark over 10 years. Over five years CGI has outperformed by c 8%% (Exhibit 5). The 10-year performance record has been affected by a period of underperformance between mid-2007 and mid-2009, primarily due to an overweight position in smaller stocks and as a consequence of gearing in an extreme market downturn.

Exhibit 6: NAV performance relative to benchmark over 10 years



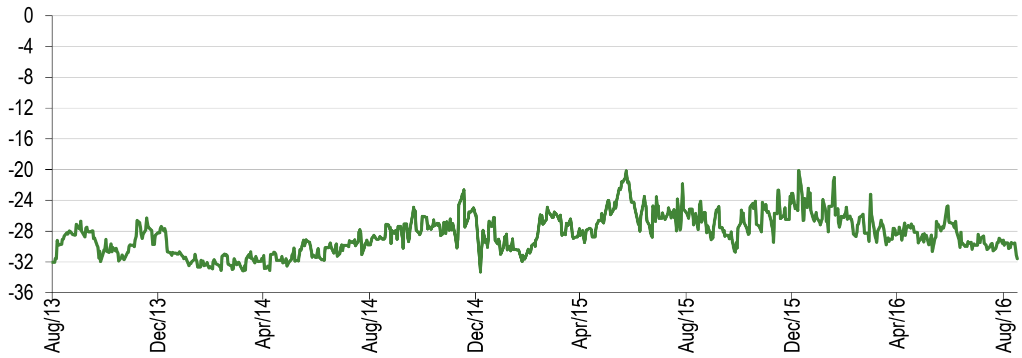
Source: Thomson Datastream, Edison Investment Research

Discount: Wide discount remains

CGI's shares are currently trading at a discount of 31.3%. This is near the top end of the 12-month range (discounts of 20.1% to 31.6%) and wider than the averages of the last one, three and five years (27.3%, 28.3% and 27.9% respectively). Contributing factors to the wide discount may include the large controlling shareholders, which could have an impact on liquidity and investor perceptions and the fact that Canada has been out of favour with global investors for some time.

A sustained period of relative outperformance by CGI or increased demand for Canadian equities could lead to a narrowing of the discount. Also, CGI's more transparent dividend policy, where there is less emphasis on the special final dividend, could find favour with investors. Due to its investment corporation status, CGI is unable to repurchase shares without losing its tax benefits.

Exhibit 7: Share price premium/discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

CGI has 20.9m ordinary shares in issue. Gearing of C$150m is split between C$75m Series 4, 3.75% preference shares and $75m bank debt. The bank debt facility was entered into in June 2016 ahead of the redemption of C$75m Series 3, 3.90% preference shares. An interest rate of 2.28% on the new debt lowers CGI's average cost of debt from 3.825% to 3.015%, saving C$1.215m in annual gearing costs. At 6 September 2016, gross gearing was 21.4% or 20.0% net of 1.4% cash.

CGI pays an annual management fee of 1% of the market value of its investments net of cash, portfolio accounts receivable and portfolio accounts payable. No performance fee is payable. For H116, the annualised management expense ratio was 2.88% including leverage costs and 1.71% excluding leverage costs, which is more comparable with the ongoing charge figure used in the UK.

Dividend policy and record

Since 2014, there has been more emphasis on regular quarterly dividends rather than a final special dividend. FY15 was the fourth consecutive year where the total annual dividend paid was C$0.76. However, the special and total quarterly dividends of C$0.20 and C$0.56 respectively compares to a special dividend of C$0.52 and C$0.24 in total quarterly dividends in 2012.

Based on the estimated quarterly dividends for 2016, the current dividend yield is 3.6%, which compares to the yield of 3.0% based on 2015 quarterly dividends.

Peer group comparison

Exhibit 8 shows CGI versus a group of selected closed-ended peers with market caps higher than c £100m, which have been chosen for their exposure to Canadian equities. However, the peers are not directly comparable as the majority of the trusts shown have income mandates. CGI's NAV total return has outperformed the peer group average over three years. In terms of risk-adjusted returns as measured by the Sharpe ratio, CGI is below average over one year and above over three years. It has the widest discount in the group. In line with its mandate for total return rather than income, CGI ranks fifth out of seven funds in terms of dividend yield.

Exhibit 8: Selected peer group at 16 September 2016 (£ adjusted)

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	NAV TR 10 Year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Canadian General Investments	214.2	22.5	17.8	29.2	67.7	0.3	0.0	(31.3)	1.6	No	118	3.6
Blue Ribbon Income Fund	124.0	34.8	4.0	15.6		0.9	(0.3)	(2.0)	1.8	No	100	8.2
Canoe EIT Income	595.6	28.4	17.7	19.0	82.2	0.7	0.0	(11.7)	1.4	No	106	11.3
Economic Investment Trust	312.2	22.5	27.5	70.1	66.0	0.2	0.2	(27.8)	0.4	No	100	0.6
Middlefield Canadian Income	99.8	25.5	14.9	36.8	106.8	0.5	0.0	(10.0)	0.8	No	121	5.4
Mint Income Fund	112.0	18.0	(14.6)	(9.7)	56.8	0.1	(0.8)	(3.2)	2.3	No	119	8.8
United Corporations	661.3	25.8	39.0	82.3	115.4	0.5	0.4	(24.8)	0.5	No	100	0.9
Simple average	**302.7**	**25.4**	**15.2**	**34.8**	**82.5**	**0.5**	**(0.1)**	**(15.8)**	**1.3**		**109**	**5.5**
Trust rank in sector	**4**	**5**	**3**	**4**	**4**	**5**	**3**	**7**	**3**		**3**	**5**

Source: Morningstar, Edison Investment Research. Note: TR=total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

There are seven members on the board of CGI, four of whom are independent of the investment manager. The non-independent directors are Vanessa Morgan (chairman of CGI and president and CEO of MMA), Jonathan Morgan (president and CEO of CGI and executive vice president of MMA) and Michael Smedley (executive vice president and CIO of MMA). The independent directors are James Billett, Michelle Lally, Neil Raymond and Richard O'C Whittall. Michelle Lally is the newest member of the board; she was appointed in 2015, prior to which there had been no change in the composition of the board since 2005. The average tenure of all seven board members is approximately 14 years.