Canadian General Investments

Measured strategy to navigate turbulent markets

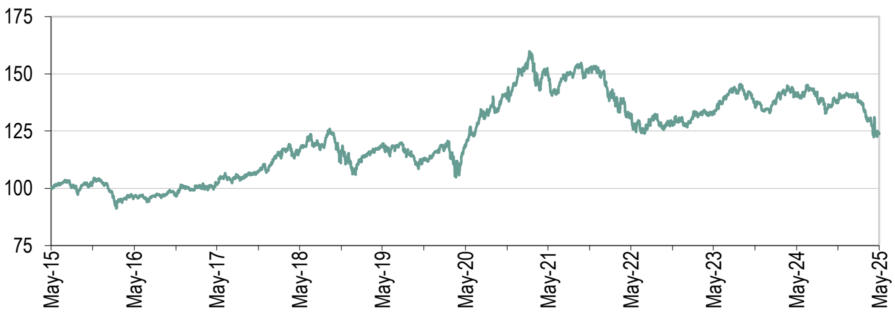
Investment companies
Canadian equities

8 May 2025

Canadian General Investments' (CGI's) long-serving manager, since 2009, Greg Eckel, says it is business as usual in the current tumultuous times. He comments that the investment approach of careful stock selection and prudent portfolio management has worked in the past, which is evidenced by the company's very long-term record of outperformance, and the manager is confident the strategy will continue to benefit CGI's shareholders. Eckel does, however, acknowledge that the widespread introduction of US tariffs brings a new chapter and that it is 'hard to play the game when there are no rules'. The manager suggests that once the dust settles, he is likely to adapt the portfolio to make the most of the different investment environment, as he believes the changes will be permanent.

Price		**C$34.90**
Market cap		**C$728m**
Total assets		**C$1,512m**
NAV		C$62.9
[1]At 7 May 2025.		
Discount to NAV		44.5%
Current yield		3.0%
Shares in issue		20.9m
Code/ISIN		CGI/CA1358251074
Primary exchange		TSX
AIC sector		North America
52-week high/low	C$42.1	C$31.0
NAV high/low	C$72.8	C$55.4
Net gearing		12.2%
[1]At 30 April 2025.		

NAV performance versus the benchmark over the last decade



Source: LSEG Data & Analytics, Edison Investment Research

Fund objective

Canadian General Investments' objective is to provide better-than-average returns to shareholders 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 use of income-generating instruments. CGI's performance is measured against the S&P/TSX Composite Index.

Bull points

- Diversified portfolio of North American equities.
- Very long-term record of outperformance versus the benchmark.
- Rising regular quarterly dividends.

Bear points

- Discount remains consistently wide.
- High level of family ownership.
- Gearing will amplify capital losses during a market sell-off.

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Why consider CGI?

This year is a stark reminder that North America is not just the United States, and there are interesting opportunities 'north of the border'. CGI offers a diversified exposure to Canada, with selected US investments, and has generated a very commendable long-term record of outperformance. Over the last 25 years CGI's share price has generated annual total returns of 9.6%, which is 2.4pp higher than the S&P/TSX Composite Index, and over the last 50 years, annual total returns of 12.1% are 1.8pp higher than the index.

While CGI's manager invests for the long term, and portfolio turnover is low, he is willing to increase activity, when deemed appropriate. In 2024, turnover was higher than average, which included taking significant profits in NVIDIA. While Eckel believes that this company still deserves a place in the portfolio, given how well the stock had performed he sold a meaningful part of CGI's holding at prices considerably higher than NVIDIA's current share price. The portfolio has a long-standing underweight position in financial stocks, which is broadly offset by higher exposure to the technology and industrial sectors.

This year sees a step-up in CGI's dividend growth rate, with 2025 on track for an C$0.08 per share increase, which is double the amount seen in the prior seven years. The company has now increased annual dividends for the last 11 years, earning it a place on the AIC's list of next-generation dividend heroes. While CGI has a persistently wide discount due to its limited (47.5%) free float and inability to repurchase shares for tax reasons, there is ample scope for a narrower discount to add to total returns when markets stabilise and investors are less risk averse.

CGI: One-stop shop for Canadian equities

CGI is the second-oldest closed-end fund in North America, providing investors with a diversified Canadian exposure, plus select US exposure to businesses that may not be available in Canada. Exhibit 1 shows CGI's long-term admirable outperformance versus its benchmark. It also illustrates the benefit of compounding and having a long-term approach.

Exhibit 1: CGI's long-term outperformance versus the Canadian market

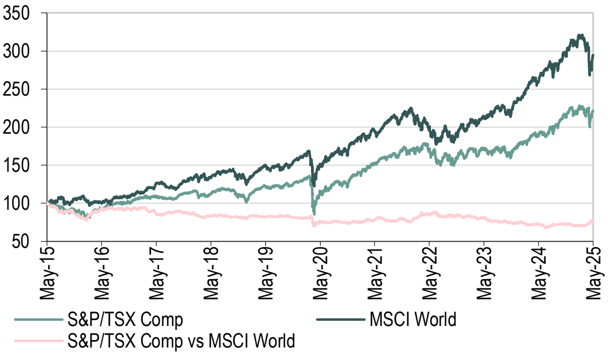
	Period (years)	Original investment (C$)	Annual total return (%)	Final investment (C$)
CGI	25	10,000	9.6	98,915
S&P/TSX Composite Index	25	10,000	7.2	56,868
CGI	50	10,000	12.1	3,021,904
S&P/TSX Composite Index	50	10,000	10.3	1,345,165

Source: CGI, Edison Investment Research. Note: To 31 December 2024. Dividends reinvested.

Market performance and valuation

Over the last decade, Canadian stocks have lagged the world market, as the US has performed very well and now represents more than 70% of the MSCI World Index. However, Canada has performed meaningfully better than the US during the stock market volatility this year. Compared with the US, Canada remains attractively valued, trading on around a 25% discount on a forward P/E multiple basis, while offering a superior dividend yield.

Exhibit 2: Performance of indices (C$ total return) last 10 years



Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 3: Valuation metrics of Datastream indices at 7 May 2025

	Last	High	Low	10Y average	Last as % of avg
Forward P/E (x)					
Canada	15.5	17.7	10.7	14.8	105
US	20.6	23.4	14.0	18.7	110
World	16.5	19.8	12.4	15.9	104
Dividend yield (%)					
Canada	2.7	4.7	2.4	2.9	93
US	1.4	2.7	1.2	1.8	77
World	2.2	3.4	1.8	2.3	93

Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 4: S&P/TSX Composite Index performance (% unless stated)

	4M25 TR (%)	2024 TR (%)	2023 TR (%)	2022 TR (%)	2021 TR (%)	2020 TR (%)	2019 TR (%)	Number of cos	Weight (%)
Materials	22.4	21.4	(1.3)	1.8	4.1	21.2	23.9	50	13.9
Utilities	7.6	13.8	0.2	(10.6)	11.7	15.3	37.5	15	4.1
Consumer staples	5.0	19.1	12.2	10.1	22.4	4.3	14.4	10	4.1
Consumer discretionary	1.6	11.9	11.0	(6.0)	18.5	17.1	15.3	10	3.3
Financials	0.4	30.1	13.9	(9.4)	36.6	1.7	21.4	25	32.5
Communication services	(0.3)	(21.1)	(3.9)	(2.6)	24.7	(3.7)	13.0	5	2.3
Real estate	(2.5)	5.6	7.1	(21.5)	37.5	(8.7)	22.7	19	1.8
Industrials	(3.0)	9.7	11.9	1.5	16.5	17.0	25.5	28	12.1
Energy	(3.8)	23.8	6.7	30.9	49.0	(26.6)	21.7	42	16.2
Information technology	(6.7)	38.0	69.2	(52.0)	18.5	80.7	64.9	10	9.4
Healthcare	(15.1)	8.2	18.3	(61.6)	(19.6)	(23.0)	(10.9)	4	0.3
S&P TSX Composite	**1.4**	**21.7**	**11.8**	**(5.8)**	**25.2**	**5.6**	**22.9**	**218**	**100.0**

Source: Bloomberg. Note: Total return performance in Canadian dollars at 30 April 2025.

Having a diversified portfolio has clear benefits for long-term investors in terms of generating less-volatile relative returns, which is illustrated by the sector performance within the Canadian market in recent years. Energy stocks performed very poorly in 2020, but energy was the best performing sector, by a meaningful margin, in both 2021 and 2022. More recently, technology stocks recovered from a very weak 2022 to lead the market in 2023 and 2024. However, the uncertainty surrounding the US president's trade policies has led to a significant stock market rotation in 2025, with the technology sector at the bottom of the pack, except for the insignificant healthcare names. Investors have gravitated towards gold stocks, which explains why the materials sector was by far the best performing sector in the first four months of this year.

As a reminder, while people tend to associate the Canadian market with financial, energy and material stocks, combined, these sectors make up around 63% of the market, leaving more than a third of the S&P/TSX Composite Index in the other eight sectors, which, combined, contain 47% of the index constituents.

The manager's view on the Canadian investment backdrop

Eckel explains that on 28 April 2025, Canadians voted in the federal election. It turned into a two-horse race between Mark Carney, the head of the Liberal Party, and Conservative Party head Pierre Poilievre, with the smaller parties losing ground and Poilievre losing his seat. This follows a major turnaround for the Liberals, which was recently a historic low 24 points behind in the polls. Carney became Canada's prime minister following Justin Trudeau's resignation in March 2025. He has gained votes due to his pledges, which include a middle-class tax cut and promises to stand up to President Trump regarding his imposition of tariffs and claims of making Canada the 51st US state. Carney does not have a political background but is seen as a competent candidate, with strong international relationships, given his background as head of both the Canadian and the UK central banks, which included steering Canada through the Global Financial Crisis.

The manager reports that following Trump's introduction of tariffs, there has been a widespread boycott of US goods such as in provincially owned liquor stores, and travel into the US has declined significantly. In terms of Canadian commodity exports, US tariffs on energy are lower than for other materials as the US needs energy, while Canada lacks sufficient export infrastructure and exporting companies tend to be tied into long-term contracts.

Eckel expresses his view that Canadians feel angry, bewildered and betrayed by the Trump situation. The US president signed the USMCA trading agreement, between the US, Canada and Mexico, during his first term in office, which now counts for nothing. The manager believes that Trump's actions signify that the forthcoming relationship between Canada and the US will have to be different from what it was before, and that this situation has been a real wake-up call for Canada. Eckel notes that sell-side analysts are suggesting that interest rates will be reduced modestly, but everyone is in a wait-and-see mode. He says that the risk of stagflation is being given a higher probability than it has been historically, and as the Canadian economy is definitely slowing, the Bank of Canada may risk higher inflation by reducing interest rates.

The manager reports that we are in the early stages of the Q125 earnings season. Announced results are backward looking, and Canadian companies are eliminating guidance or just giving short-term forecasts. He notes that some economic activity was brought forward ahead of the introduction of US tariffs, which brings the risk of an inventory build that will have to be worked down. Eckel suggests that it will be difficult for businesses to gauge the real level of demand for Canadian goods and services, and then to try to adjust supply accordingly.

Current portfolio positioning

CGI's top 10 holdings made up 36.6% of the portfolio at the end of April 2025, which was a lower concentration compared with 37.8% a year before; eight positions were common to both periods. A notable change is the lower exposure to NVIDIA, where the manager took significant profits in 2024, which is looking shrewd in light of the pullback in US large-cap technology stocks this year.

Exhibit 5: Top 10 holdings at 30 April 2025

Company	Country	Industry	30-Apr-25	30-Apr-24
Franco-Nevada Corp	Canada	Gold mining	4.6	3.3
The Descartes Systems Group	Canada	Logistics software	3.9	3.5
Canadian Pacific Kansas City	Canada	Railroads	3.9	4.3
WSP Global	Canada	Business services	3.9	3.4
NVIDIA Corporation	US	Semiconductors	3.8	7.1
Mastercard	US	Financial transaction processing	3.7	3.1
Dollarama	Canada	Multiline retail	3.5	N/A
Apple	US	Technology	3.4	3.1
Constellation Software	Canada	Application software	3.0	N/A
West Fraser Timber	Canada	Forest products	2.9	3.0
Top 10 total			**36.6**	**37.8**

Source: CGI, Edison Investment Research. Note: N/A where not in April 2024 top 10.

Over the 12 months to the end of April 2025, sector changes were modest, with the largest being a 2.9pp lower weighting to energy and a 2.5pp higher allocation to materials. CGI retains its long-term underweight financial exposure (-18.0pp), while its IT overweight has reduced to 12.5pp.

Exhibit 6: Portfolio sector exposure versus benchmark (% unless stated)

Sector	Portfolio at 30 April 2025	Portfolio at 30 April 2024	Change (pp)	Benchmark at 30 April 2025	Active weight
Information technology	21.9	21.0	0.9	9.4	12.5
Industrials	21.2	23.2	(2.0)	12.1	9.1
Financials	14.5	13.2	1.3	32.5	(18.0)
Materials	13.6	11.1	2.5	13.9	(0.3)
Energy	11.4	14.3	(2.9)	16.2	(4.8)
Consumer discretionary	9.8	9.9	(0.1)	3.3	6.5
Real estate	4.2	3.9	0.3	1.8	2.4
Communication services	0.6	1.6	(1.0)	2.3	(1.7)
Healthcare	0.0	0.0	0.0	0.3	(0.3)
Consumer staples	0.0	0.0	0.0	4.1	(4.1)
Utilities	0.0	0.0	0.0	4.1	(4.1)
Cash & cash equivalents	2.8	1.8	1.0	0.0	2.8
Total	**100.0**	**100.0**		**100.0**	

Source: CGI, Edison Investment Research. Note: Numbers subject to rounding.

Recent portfolio activity

Eckel reports that he sold part of CGI's former largest position **NVIDIA** in the second half of 2024, at share prices considerably higher than the current level. Opportunely, he locked in around C$100m in profits in this stock last year, following part of CGI's investment objective regarding the timely recognition of gains and losses. While the manager acknowledges that the stock market rotation is logical, he believes that a space in the portfolio is warranted for NVIDIA, Apple and Amazon, which are three of the 'Magnificent 7' stocks. Eckel suggests that before the introduction of Trump's tariff policy, the US was seen as the only game in town, attracting major inflows, much of which flowed into the 'Magnificent 7' stocks. Things have changed in 2025, with these companies' share prices having come under significant pressure as investors redirect their investments into regions that have lagged, and that are now looking more attractively valued, such as the UK and Europe.

The manager has sold some lower-conviction positions, keeping the majority of proceeds in cash to reduce the level of net debt in a period of stock market volatility. **Ballard Power Systems** operates in the proton exchange membrane fuel cell products market. The investment thesis for this company changed and Eckel saw a lack of recovery potential in the company's share price. Wood products company **Interfor** and **SiteOne Landscape Supply** are both exposed to the subdued US housing market. **BRP** manufactures and sells power sports vehicles and marine products; its business could come under pressure from weak consumer spending and higher costs as the company has moved its manufacturing to Mexico, so could face greater tariffs as well as higher input costs. Long-standing position **Air Canada** has exited the portfolio as its post-COVID 19 recovery lagged those of the US carriers, the transatlantic route has become more competitive and Air Canada is facing higher capex requirements. The Canadian telecom market is tough, in part due to lower immigration, which is negatively affecting industry demand; the **Telus** holding was sold, although Rogers Communications remains in the portfolio for its wireless exposure, attractive dividend yield and reasonable valuation. So far in 2025, the only activity in the IT sector was a reduction in the **Shopify** position, as the platform may experience lower demand as rising prices lead to less consumer spending, and smaller retailers are facing increased competition from the major online players such as Amazon and Temu.

There is just one new addition to the portfolio. **Wheaton Precious Metals** is the world's leading precious metals streaming company, with over 40 high-quality precious metals streams and early deposit agreements over mines, including in Mexico, Canada, Brazil, Chile and the United States. The company is 98% exposed to precious metals versus 80% at Franco-Nevada, while its shares are more liquid and less risky than those of a gold producer. There are three major global precious metals royalty and streaming companies: Wheaton Precious Metals, Franco-Nevada and US-listed Royal Gold. Wheaton Precious Metals has the highest growth in gold equivalent ounces of the three companies in the near- to medium-term and will likely be adding to its portfolio. It also has a very strong balance sheet.

Performance: Ahead of the market over the long term

In Exhibit 7, we show the majority of the funds in the AIC North America sector. There are currently just two Canadian funds; CGI with its total return mandate has generated higher total returns over the last three, five and 10 years than Middlefield Canadian Income's strategy. However, this company has announced plans to roll the fund into an actively managed ETF or to offer shareholders a cash alternative, which would leave CGI as the only Canadian fund in the sector.

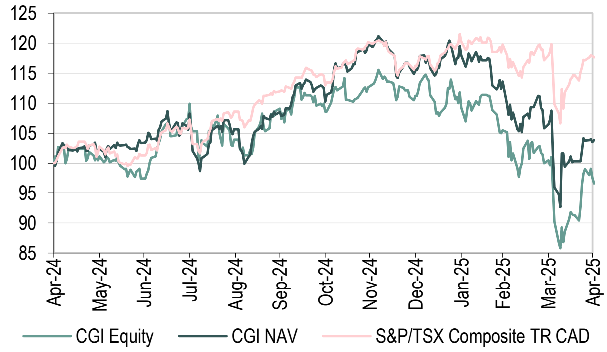
Considering the six peers, CGI has the second highest total return over five years and is ranked second out of five funds over the last decade.The company has the widest discount by far and the highest ongoing charge. CGI has the second highest level of gearing and a modestly above average dividend yield. It unsurprisingly ranks behind the three funds with an income focus.

Exhibit 7: AIC North America sector (excluding Pershing Square Holdings) at 7 May 2025 (£)*

% unless stated	Market cap (£m)	NAV TR 1Y	NAV TR 3Y	NAV TR 5Y	NAV TR 10Y	Discount	Ongoing charge	Performance fee	Net gearing	Dividend yield
Canadian General Investments	395.3	(6.1)	10.0	90.6	176.2	(44.5)	1.4	No	111	3.0
Baillie Gifford US Growth	649.6	9.7	22.5	45.4		(7.2)	0.7	No	104	0.0
BlackRock American Income	109.1	(4.4)	3.6	59.2	141.6	(5.1)	1.0	No	100	4.2
JPMorgan American	1,705.4	2.6	33.3	125.9	275.5	(3.5)	0.3	No	107	0.8
Middlefield Canadian Income	126.9	5.6	(6.7)	68.8	90.2	(6.1)	1.3	No	114	4.6
North American Income Trust	374.2	4.4	12.1	66.5	148.2	(8.9)	0.8	No	109	3.8
Average	**560.1**	**2.0**	**12.5**	**76.1**	**166.3**	**(12.5)**	**0.9**		**107**	**2.7**
Rank (out of 6 funds)	**3**	**6**	**4**	**2**	**2**	**6**	**1**		**2**	**4**

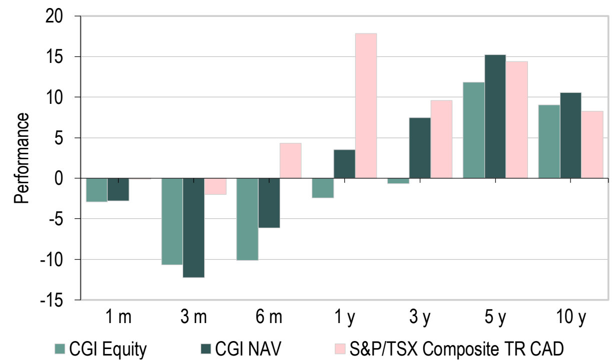
Source: Morningstar, Edison Investment Research. Note: *Performance to 6 May 2025. TR = total return.

Exhibit 8: Price, NAV and benchmark total return, one year annualised



Source: CGI, Edison Investment Research

Exhibit 9: Price, NAV and benchmark total return (%)



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

In FY24, CGI's NAV total return of +26.6% outpaced the benchmark's +21.6% total return, while its share price total return of +19.6% resulted in a wider discount over the period. The company benefited from its overweight technology exposure, with greater than 35% total returns generated by Apple, Celestica, Constellation Software, Shopify and The Descartes Systems Group. However, once again the standout performer was NVIDIA, which rallied by more than 170%, and has been in the portfolio since 2016. The manager has prudently taken profits in this stock every year since purchase in 2016, except for 2019; this includes c C$100m in 2024, which is around half of the total profits booked. Stocks detracting from CGI's performance included Interfor Corporation (now sold) as interest rates remained higher than expected, which continued to weigh on the US housing market. Telecom stocks were under pressure as this mature industry is facing lower growth and increased competition; CGI's retains a holding in Rogers Communications, but the Telus Corporation position was sold.

Exhibit 10: Share price and NAV total return performance, relative to indices (%)

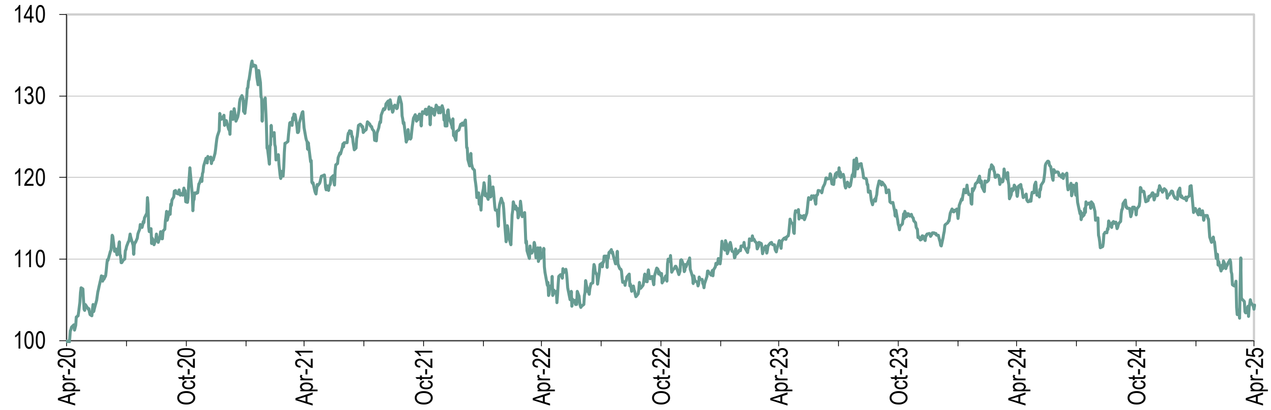
	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Price relative to S&P/TSX Composite	(2.8)	(8.9)	(13.9)	(17.2)	(25.5)	(10.6)	7.5
NAV relative to S&P/TSX Composite	(2.7)	(10.5)	(10.0)	(12.2)	(5.7)	3.8	23.6
Price relative to MSCI Canada	(3.1)	(8.9)	(14.8)	(18.1)	(27.8)	(12.6)	6.3
NAV relative to MSCI Canada	(3.0)	(10.5)	(11.0)	(13.1)	(8.5)	1.5	22.3
Price relative to MSCI World	0.2	(2.3)	(10.4)	(13.9)	(34.8)	(10.6)	(18.9)
NAV relative to MSCI World	0.4	(4.0)	(6.3)	(8.6)	(17.4)	3.9	(6.8)

Source: LSEG Data & Analytics, Edison Investment Research. Note: Data to end April 2025. Geometric calculation.

Eckel reports that it has been a difficult start to the year in terms of performance. Stocks that have detracted include: the holdings in three of the 'Magnificent 7' stocks, NVIDIA, Apple and Amazon, which have come under selling pressure following outsized returns in 2024; West Fraser Timber, which is exposed to the US housing sector; and Shopify, where there are concerns about lower discretionary spending. On the other side of the ledger, the Franco-Nevada share price has been strong, although the company has less leverage to higher gold prices than other industry players, such as gold producers, and low-end retailer Dollarama has benefited as consumers trade down in a weaker economic environment.

Relative performance weakness in 2025 following two very strong years in 2023 and 2024 has negatively affected CGI's record as its NAV now lags the Canadian stock market over the last one and three years. While this is disappointing, it is important to retain perspective and remember the company's outperformance over the last 25 and 50 years. In our experience, a record of this quality and duration is unique.

Exhibit 11: NAV total return performance relative to the benchmark over five years



Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 12: Five-year discrete performance

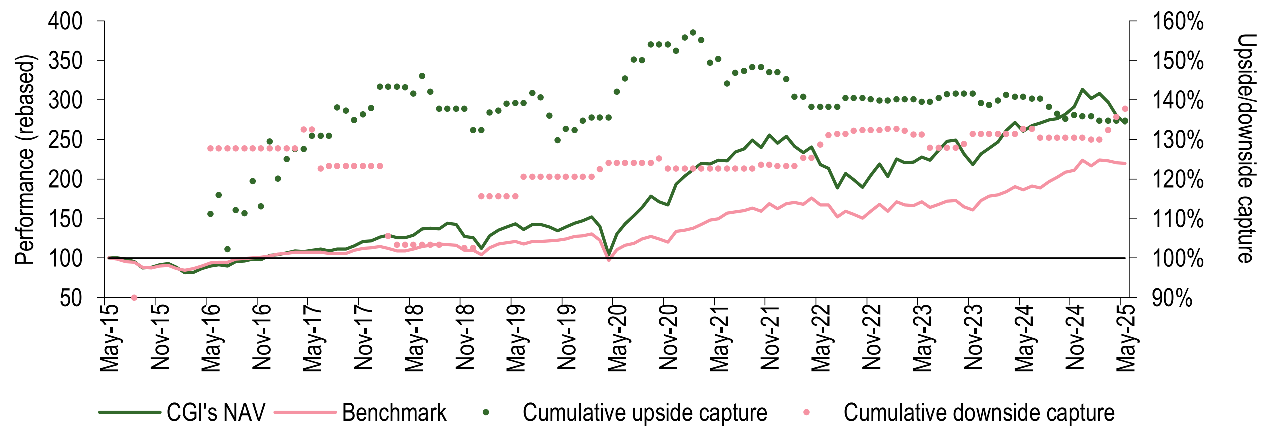
12 months ending	Share price (%)	NAV (%)	S&P/TSX Composite (%)	MSCI Canada (%)	MSCI World (%)
30/04/21	67.8	68.1	33.3	32.1	29.3
30/04/22	6.3	(2.6)	11.6	11.6	0.7
30/04/23	(11.7)	4.0	2.7	3.3	10.1
30/04/24	13.8	15.3	8.7	10.2	20.5
30/04/25	(2.4)	3.5	17.8	19.1	13.3

Source: LSEG Data & Analytics, Edison Investment Research. Note: All % on a total return basis in Canadian dollars.

CGI's upside/downside capture

In Exhibit 13 we show CGI's upside/downside capture analysis over the last 10 years. Its upside capture rate of 135% suggests the company is likely to outperform its benchmark by a meaningful 35% in months when Canadian shares rise. CGI's downside capture rate of 138% means that the company is likely to underperform its benchmark in months when the Canadian market is weak, but to a moderately greater degree. It is unsurprising that CGI does not move in line with its benchmark given the manager's unconstrained investment approach and the fund's relatively high level of gearing.

Exhibit 13: CGI's upside/downside capture



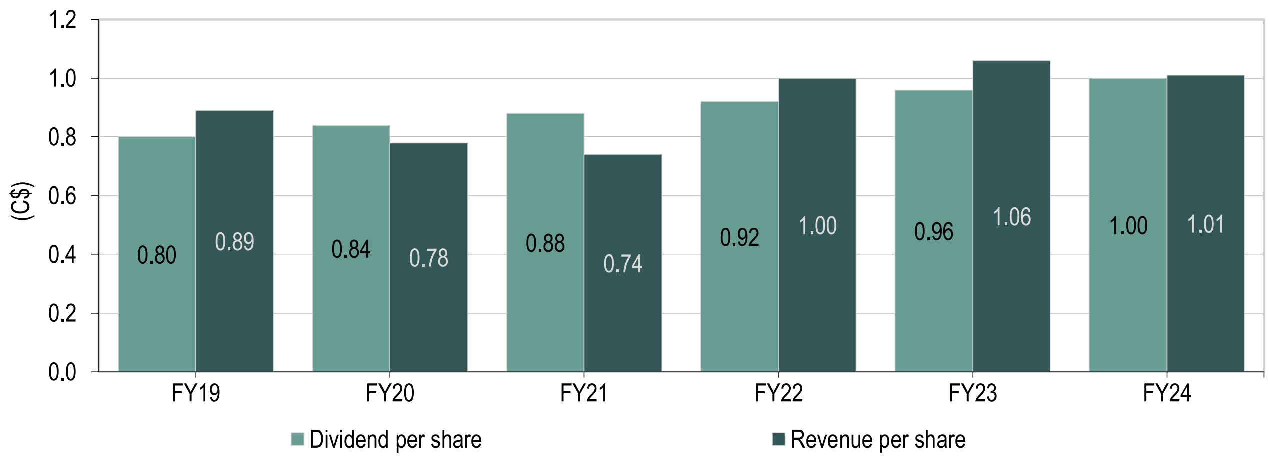
Source: LSEG Data & Analytics, Edison Investment Research
Cumulative upside/downside capture calculated as the geometric average NAV TR of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside indicates that the fund's TR was in line with the reference index's during months with positive/negative returns. Data points for the initial 12 months have been omitted in the exhibit due to the limited number of observations used to calculate the cumulative upside/downside capture ratios.

Dividends: Step-up in dividend growth

Prior to FY18, CGI paid special dividends in addition to regular quarterly dividends, which are distributed in March, June, September and December. Dividends may be paid out of income (taxes of 33% paid on income are recoverable) or realised capital gains (taxes paid or payable of around 20% on realised capital gains are also recoverable). Starting in FY18, the company grew its quarterly dividends by C$0.01 per share year-on-year, for a C$0.04 annual increase. In FY24, four regular dividends of C$0.25 per share were paid; they were fully covered by income and there were no capital gains dividends paid. However, FY25 has seen a step-up in dividend growth; so far, two regular quarterly dividends of C$0.27 per share (C$0.02 higher year-on-year) have been declared. If this is continued, it would result in an annual payment of C$1.08 per share, which is 8.0% higher than C$1.00 per share in FY24, when the dividend was increased by 4.2%.

Eckel reports that CGI has a significant level of unrealised capital gains (C$0.8bn). The company has an 11-year record of consecutive higher dividends, which means that CGI qualifies as one of the AIC's next-generation dividend heroes (funds with 10 years but less than 20 years of consecutive higher annual dividends).

Exhibit 14: Dividend and revenue history since FY19



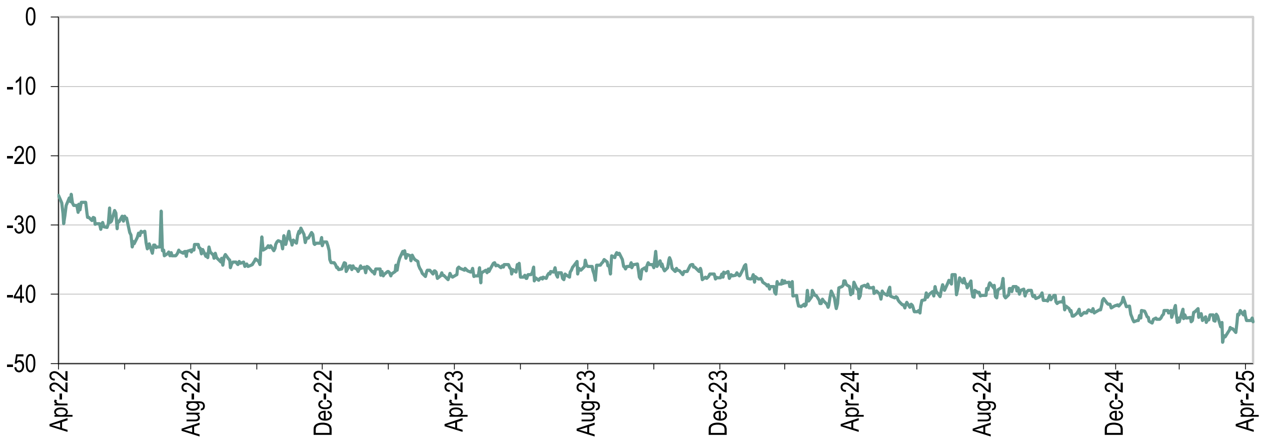
Source: Bloomberg, Edison Investment Research

Valuation: Wider discount in line with industry trend

There have been brief periods when CGI traded at a premium to NAV, but this has not occurred since 1998, although its shares moved close to NAV in 2006 during a commodity super cycle. The company typically trades at a wide discount as it is unable to repurchase shares to help manage its discount as this would invalidate CGI's favourable Canadian investment corporation tax status.

Investor risk aversion is higher than average due to an uncertain macroeconomic environment, which has resulted in wider investment company discounts. CGI's current 44.5% discount is wider than the 41.3%, 37.4%, 35.1% and 32.1% average discounts over the last one, three, five and 10 years, respectively.

Exhibit 15: Share price discount to cum-income NAV over three years (%)



Source: LSEG Data & Analytics, Edison Investment Research

Fund profile: North American equity specialist

CGI was established in 1930 and is North America's second-oldest closed-end fund. It has been listed on the Toronto Stock Exchange since 1962 and on the London Stock Exchange since 1995. MMA took over management of CGI in 1956; the firm has c C$3.2bn of assets under management for both private and institutional clients. Eckel has managed CGI's portfolio since 2009, aiming to generate a better-than-average total return from a diversified portfolio of North American equities via prudent stock selection and timely recognition of capital gains and losses. While most of the fund is invested in Canadian companies, up to 25% may be held in US-listed businesses. The manager has an unconstrained approach, within the remit that a maximum 35% of the portfolio may be held in a single sector, and he invests without reference to the sector weightings of its benchmark, meaning CGI's performance may differ meaningfully from that of the S&P/TSX Composite Index. Eckel has a medium- to long-term view, so some of the fund's holdings have been in the portfolio for many years. The company is designated as an investment corporation under the Income Tax Act (Canada). This eliminates a layer of taxation, as realised capital gains paid as dividends to shareholders are only taxed at the shareholder level. However, to maintain this favourable tax status, CGI is unable to repurchase its shares to help manage the share price discount to NAV. A maximum 25% of its gross revenue may come from interest income and at least 85% of gross revenue must be from Canadian sources.

Investment process: Bottom-up stock selection

Eckel's stock selection process is primarily bottom up, although he does take the macroeconomic environment into account. The manager aims to generate an above-average total return for investors, seeking reasonably valued companies with favourable fundamentals and strong management teams; he also takes firms' economic, social and governance credentials into account. While most of CGI's portfolio is invested in Canadian companies, up to 25% of the fund may be held in US equities, which are primarily in niche operations or business areas that are under-represented in the Canadian market. The broad equity exposures at the end of April 2025 were 80% Canada and 20% US.

There are currently around 60 holdings in the portfolio with a bias to large- and mid-sized stocks. Some of these are higher yielding, such as the Canadian banks, helping to support CGI's own dividend payments. Eckel has a long-term focus – in FY24, portfolio turnover was 13.7%, which was a five-year high and compared to the 7.9% average over the period. However, this still implies a very long holding period of around 12.5 years. Positions are reassessed regularly to ensure they are sized correctly, and investment cases are still valid. The manager has a history of successively backing good management teams that may move companies due to mergers and acquisitions.

Gearing: Margin borrowing facility

CGI has employed a leveraged strategy since its first issue of preference shares in 1998. Since then, to the end of March 2025, its total return has averaged 6.6% per year above its cost of debt. For economic reasons, since the C$75m 3.75% cumulative Series 4 preference shares redemption in June 2023, CGI's leverage is via its margin facility rather than preference shares.

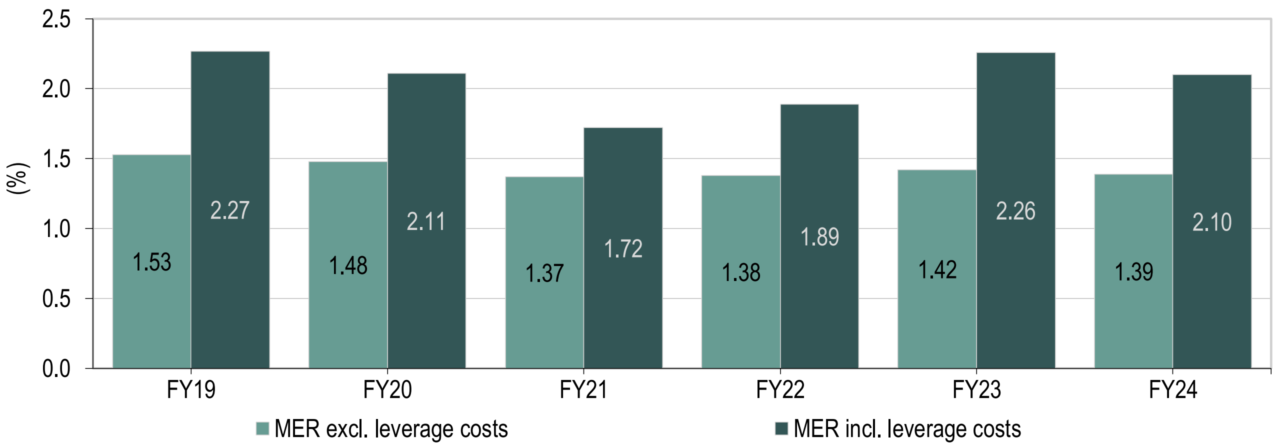
The company has a prime brokerage services agreement with a Canadian chartered bank at a rate of the Canadian Overnight Repo Rate Average plus 0.42% per annum. CGI is required to pledge securities as collateral for margin borrowings. During FY24, borrowings ranged between C$175m and C$200m, ending the year at C$200m. Leveraged added to CGI's performance in FY24 as equity markets rose. However, the manager is being prudent given the choppy markets, so has a cash balance, which built up due to not reinvesting the majority of recent sale proceeds, and reduced leverage from 15.5% (gross) to 12.2% (net) at the end of April 2025.

Fees and charges

MMA is paid a management fee that is calculated and paid monthly at 1.0% per year of the market value of CGI's investments, adjusted for cash, portfolio accounts receivable and portfolio accounts payable; no performance fee is payable.

In FY24, the annualised management expense ratio (MER) including leverage costs was 2.10%, which was 16bp lower than 2.26% in FY23. Excluding leverage costs, which makes the MER more comparable with the ongoing charge figure used in the UK, in FY24 it was 1.39%, which was 3bp lower year-on-year.

Exhibit 16: Management expense ratio since FY19

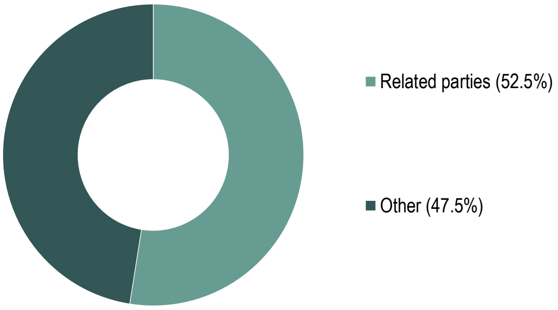


Source: CGI, Edison Investment Research. Note: Leverage costs include preference dividends, interest and financing charges.

Capital structure

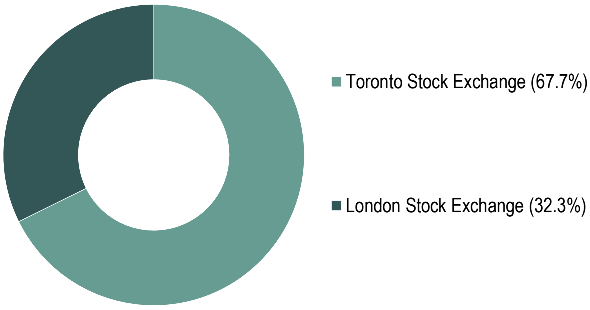
CGI has 20.9m ordinary shares in issue, 52.5% of which are directly or indirectly owned by two of the company's directors, Jonathan Morgan and Vanessa Morgan. Hence, CGI has a free float of 9.9m shares (47.5% of the total) with these holders split broadly 35:65 between Canada and international. Over the last 12 months, the company had an average daily trading volume of c 8.9k shares on the Toronto Stock Exchange and c 4.3k shares on the London Stock Exchange. Volumes have increased following a greater focus on marketing the fund via articles in the financial press and podcasts.

Exhibit 17: Major shareholders



Source: CGI. Note: At 30 April 2025.

Exhibit 18: Average daily volumes



Source: Bloomberg. Note: 12 months to 7 May 2025.

The board

CGI's board has seven directors; three non-independent and four independent directors, who collectively have an average tenure of around 10 years.

Vanessa Morgan is chair of CGI and president and CEO of MMA; she joined CGI's board in 1997. Jonathan Morgan, president and CEO of CGI and executive vice-president and COO of MMA, joined the board in 2001. Clive Robinson is head of MMA's private wealth management business; he joined the board in 2024.

The four independent directors and their years of appointment are Michelle Lally (2015), Marcia Lewis Brown (2020), Sanjay Nakra (2023) and Michael Walke (2023).

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