PANMURE GORDON & CO

Founded 1876

23 November 2015
Investment Funds Research
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INVESTMENT FUNDS FLASH

CANADIAN GENERAL INVESTMENTS

Dividend migration continues

NOT RATED

(Remains Unchanged)

Rating Nature:	Relative
Target Price:	n/a

Key Data

Share price	C$18.80
Dil. NAV	C$25.80
Dil. discount	27.1%
Market cap	C$392.2
52-week range	C$22.0-17.8
52-week discount avg.	26.0%
Div. yield	4.7%
Sector	Investment Funds
Stock codes	CGI.TO / CGI CN
Gearing	22.5% LTV
Rating benchmark	S&P / TSX Comp TR Index
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Positioned as a conservatively managed one-stop shop for Canadian equities, Canadian General Investments (CGI) continues to deliver. The fund offers investors a yielding play on the continued economic success of the North American economy. NAV performance remains solid with the fund outperforming the wider Canadian market on a one, three and five year basis. Due to the unmanaged nature of its valuation, CGI is one of the few funds offering discount volatility.

The fund is part way through its migration to a progressive dividend policy and we expect the quarterly dividend (14c, annualised yield 3%) to continue to be marched up by 2c pa (i.e. 16c, 18c etc) at the expense of the final special dividend, for the next few years before migrating to a more gentle pace of growth.

- **Economy**. The Canadian economy isn't dominated by its natural resources but does benefit from them. China's slowing growth and the collapse in the oil price has only generated a mild recession (two quarters) with no net job losses. The management team highlighted that Canada is deeply integrated with the USA (which accounts for 75% of exports) and that the Loonie (C$) has resumed its traditional (positively correlated) relationship with the price of crude, boosting the country's international competitiveness.

  Expressing a view on the oil price, the team hazarded that it had probably bottomed out. However, in contrast to the IEA view (demand exceeds supply in late 2016) the team believes US shale production will be stronger than many anticipate and that the price of crude will be lower for longer – a view reflected in their sector exposures.

- **Politics.** Discussing the implication of the recent election, it was highlighted that the new government would be a slight negative for energy (anti-pipelines), that they planned to increase taxes on high earners (>C$200,000 income) and that they were planning for three years of deficits to finance new infrastructure investment. The team noted that the new government would be centrist in its positioning.

- **Sector exposures**. The TSX index's exposure to resources (energy and materials) has declined from 47.3% (30 Sept 2010) to 27.5% (Sept 2015). The fund is modestly overweight materials (10.3% versus 9.0%) and underweight energy (13.0% versus 18.5%). Discussing their overweight to materials, the team highlighted that it was focused on lumber, royalties and methanol rather than traditional materials (gold, zinc etc) exposure.

  Their energy underweight reflects a belief that energy prices will remain lower for longer than most expect and their finance exposure (22.7% versus 37.1%) represented a combination of diversification and better opportunities elsewhere. The team highlighted that their banking exposure was 7% versus 25% for the index and that their REIT exposure had been cut reflecting a view that interest rates will rise (eventually).

continued

- **Portfolio.** The strategy remains unchanged. Positions are initiated at c1-1.5%, the soft and hard stock exposure limits remain at 5% and 10%, respectively, and turnover remains low at 12.5%. CGI's US exposure (11% of the portfolio) remains reserved for stocks/themes that are either overvalued or not available within Canada.

  Discussing the fund's largest position (Dollarama, 8.7% of the portfolio), the manager signalled they were due to take profits on their exposure to this discount retailer but had been running the position to take advantage of expected good news flow. Commenting on the Canadian Equity market, the team highlighted that The Royal Bank of Canada (RBC) traditionally the Canadian equity market's largest security, gets displaced from time to time. Challengers have included Nortel (delisted), Blackberry (RIM) and, most recently, Valeant (VRX).

- **Performance**. Over the last 5 years, CGI NAV (up 38%) has outperformed its benchmark by 14.5%pts or 2.3%pa and the relative outperformance has been maintained over shorter periods. The fund's 10 year track record remains weak (underperforming by 2%pts pa) reflecting the fund's significant underperformance in the last quarter of 2008. The current portfolio manager was appointed early 2009.

  Discussing performance, the team highlighted that their underweight exposure to banks/financials would, from time to time, cost performance. Currently, the markets' concerns about energy, real estate and growth prospects were benefiting the relative track record. Their strategic underweight of the financial sector reflects a combination of a desire to remain diversified and a belief that other exposure will, long term, deliver better returns.

- **Discount.** Unlike most closed end funds, CGI's discount is entirely unmanaged. Currently trading on a 27% discount, the fund is close to its two year average discount of 28.6% (range 22%-33%) and 6%pts wider than its decade average (22.7%, range 4-35%).

- **Dividend.** The fund continues its migration to quarterly dividends only. In 2015, the fund increased its quarterly dividend from C$12c to C$14c, a trend we expect to continue in 2016. Since the migration started in 2012, the fund's total dividend has remained static at C$0.76pa but with the final special declining from $0.56 to $0.28 in 2014, implying a year end special of 20c.

  Management signalled that once the special dividend had been eliminated, they expected total distributions paid annually by the fund to start increasing and highlighted that the entire process was being driven by a desire to ensure any declared quarterly dividend was sustainable. The fund's current quarterly dividend is consistent with a 3% dividend yield and combined with our year end expected special dividend (20c), implies a 4.1% yield.

Top 10 holdings

Holdings	Business	30-Sep
Dollarama	Discount retail	8.7
Canadian Pacific Railway	Railway	3.7
Enbridge	Pipeline	3.7
Element Financial	Lease finance	3.4
Bank of Montreal	Bank	3.0
Gildan Active wear	Family apparel	2.7
Franco-Nevada	Resource Royalty and Inv Co	2.7
Air Canada	Airline	2.7
Royal Bank of Canada	Bank	2.7
CCL Industries	Speciality packaging	2.6
Total		35.9

Source *Company data, 30 September*

continued

Sector allocation

Sector	CGI	Index	Over/Under
Financials	22.7	37.1	-14.4
Consumer discretionary	21.1	7.2	13.9
Industrials	14.5	8.3	6.2
Energy	13.0	18.5	-5.5
Materials	10.3	9.0	1.3
Information Technology	6.0	2.8	3.2
Telecoms	3.1	5.4	-2.3
Consumer staples	2.2	4.4	-2.2
Health Care	1.8	4.9	-3.1
Utilities	1.0	2.3	-1.3
Other	0.9	0.1	0.8
Cash	3.4	0.0	3.4
Total	100	100	n/a

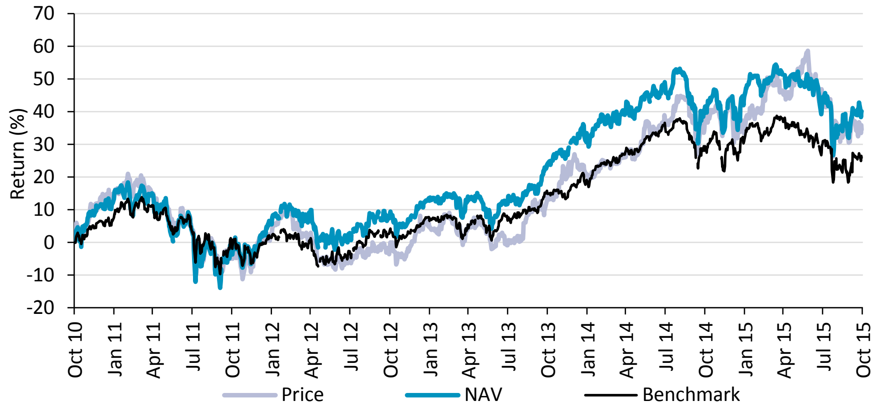
Source *Company data, 30 September*

Metrics

	p/e (x)	Forward (p/e)	Holdings	*Dividend yield (%)*
Portfolio	20.0	14.5	57	*1.90*
S&P/TSX Composite	19.4	15.5	242	*3.25*

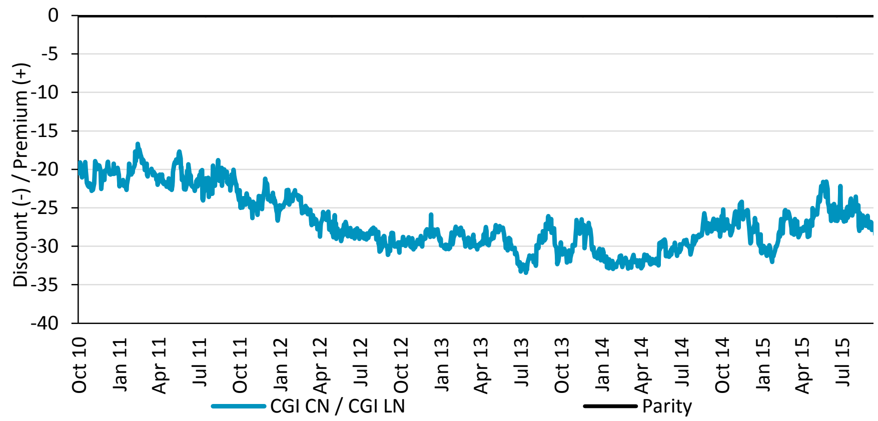
Source *Company data / Bloomberg as of 30 September*

5 year NAV, share price and index performance – rebased (GBp)



Source *Panmure Gordon, Company data and Bloomberg as of 31 October 2015*

5 year discount



Source *Panmure Gordon, Company data and Bloomberg as of 31 October 2015*

continued

Cumulative performance data (GBp)

	YTD	1m	3m	6m	1 Yr	2 Yr	3 Yr	5 Yr
NAV (%)	*(2.3)*	*4.3*	*(2.9)*	*(6.3)*	*(1.0)*	*13.4*	*29.6*	*40.2*
Benchmark (%)	*(3.4)*	*3.9*	*(3.9)*	*(8.0)*	*(2.8)*	*9.5*	*21.5*	*25.9*
Relative (%)	*1.0*	*0.4*	*1.0*	*1.7*	*1.8*	*3.9*	*8.2*	*14.3*
Share price (%)	*(5.3)*	*1.3*	*(6.2)*	*(7.6)*	*(3.7)*	*17.3*	*36.6*	*34.5*

Source *Company data / Bloomberg as of 31 October 2015*

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23 November 2015

Distribution of investment ratings for equity research (as of 12 Oct 15)			Rating: GUIDELINE (return targets may be modified by risk or liquidity issues)	
Overall Global Distribution (Banking Client*)			**Buy**	Total return of >10% in next 12 months
Buy	**Hold**	**Sell**	**Hold**	Total return >-10% and <+10% in next 12 months
71% (41%)	22% (4%)	7% (0%)	**Sell**	Total return <-10% in next 12 months

* Indicates the percentage of each category in the overall distribution that were banking and/or corporate broking clients

Investment Funds Research Rating Tariff				**Infrastructure Investment funds**		
Relative Return (12 month outlook*)				Absolute Return (12 month outlook)		
Buy	**Hold**	**Sell**		**Buy**	**Hold**	**Sell**
>3%	-3 to +3%	<-3%		>7% total shareholder return	3% to 7% total shareholder return	<3% total shareholder return
Note *Measured on a total shareholder return basis						
Distribution of investment ratings for Investment funds (as of 17 Sep 14)				**Other Investment Funds**		
Overall Global Distribution				Absolute Return (12 month outlook)		
Buy	**Hold**	**Sell**	**Not rated**	**Buy**	**Hold**	**Sell**
42%	13%	2%	43%	>10% total shareholder return	5% to 10% total shareholder return	<5% total shareholder return
				Note Corporate Investment Fund stocks are not rated		

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