Portfolio Report

JANUARY 30, 2015

Diversified Canadian Equity Portfolio for Large Endowment Fund

Bona Fide Investments

Daniel Lobo, P.Eng.
Portfolio Manager

Patrick Douville, FSA, FCIA, FSA
Portfolio Manager

Contents

"Our strong performance reinforces our confidence in the portfolio's ability to achieve the objectives of the Endowment Fund"

To Our Investors

Strategic Highlights

Since October 2014, our team has managed a Canadian equity portfolio for an Endowment Fund with a long-term outlook. Our goal is to help the fund meet its return objective while maintaining a moderate risk exposure.

The portfolio is well positioned to deliver on the investment objectives of the Endowment Fund. We are continuing to execute our investment strategy to achieve superior long term risk adjusted returns. Our bottom-up selection approach led us to invest in Canadian large capitalization equities meeting four fundamental qualities:

- Predictable and growing profitability
- Low exposure to risk factors outside of management control
- Provide a diversification benefits against our benchmark
- Attractively valued

We aim at maintaining a low portfolio turnover reflecting the long term nature of our investment strategy and the quality of the companies we select.

Performance Highlights

The portfolio delivered a strong performance over the period since inception four months ago. We have achieved our objective of producing a superior risk adjusted return by executing our investment strategy.

As of January 30, 2015 the fund has grown by over $1.4 million in the 4 months since inception. This performance represents a return of 14.22% which translates to an annualized return of 55.90%. For the same period, the benchmark returned 7.42% resulting in an active return of 6.80%. The portfolio outperformed while maintaining a below average market risk exposure.

Looking Ahead

We are confident in the continued portfolio performance for the long term horizon of the Endowment Fund. We will continue to execute on our investment principles and to monitor our holdings to ensure that the long term objectives of the portfolio are met.

Investment Strategy

Core Principles

Our investment approach is tailored around the investment objectives of the Endowment Fund and our Canadian Equity mandate. We are aiming at having a superior long term (5+ years) investment performance while maintaining a low to moderate risk exposure.

The portfolio is built using a bottom-up strategy to select securities that are expected to outperform in the long term while maintaining a low to moderate risk profile. It holds a moderate number of securities (around 30) to achieve an acceptable level of diversification.

We will not dispose of an investment unless there is a fundamental change in the strategy, the market or the valuation of the company. As long term investors, we feel that holding onto great businesses is the best way to deliver performance. While we are attentive to changes in the economic environment, we don’t believe that our investment decisions should be driven by short term market sentiment.

Stock Selection Process

Companies are selected according to four major themes in order to execute on the core principles expressed above. Each individual criterion was considered and investment decisions were made based on the overall assessment of each security. Refer to Appendix 1 for a complete breakdown of sector weighting vs the benchmark, and Asset allocation.

1. Predictable and growing profitability

We are looking for companies that will still be in business ten years from now and will be just as profitable. We begin by looking at historical earnings to predict future profitability. The companies we select are currently profitable and have been so for the recent past. Companies with a history of consistent profitability are most attractive as their future performance is more predictable.

Stable earnings are even more attractive when they have been growing at a steady pace. We use historical revenue and earnings growth to assess the potential growth of the business. We are not looking for explosive growth but we want to see that the companies we invest in will have steadily increasing profits with economic and demographic growth.

In addition to quantitative analysis, we also performed an assessment of the sector and the market forces each company is exposed to. We know that future profitability cannot be predicted only with historical data and we use our expertise to make qualitative judgment on each prospective investment. One objective of our qualitative analysis is to identify economic moats that guarantee long term profitability to companies with competitive advantages or monopolistic market structures. Economic moats are again a strong predictor of the long term performance that we aim to achieve with this theme.

2. Low exposure to risks outside of management control

We believe that low risk companies will outperform on a risk adjusted basis. In accordance with our previous theme, we think that low risk companies will have more predictable future earnings. To assess the risk each company, we look at the company's beta, its use of financial leverage and we make a qualitative judgment on the sector and the market forces it is exposed to.

Beta gives us information on the undiversifiable risk exposure that each company has had in the past. We look for low beta securities as their profitability is generally less volatile. Limited use of financial leverage is also an indication and of low risk and reflects that profitability has been achieved through superior business activities as opposed to financial engineering.

Qualitative judgment in this theme generally revolves around the control that management has over the risks it is exposed to. We avoid companies whose profitability is too dependent on external factors is such as commodity prices or geopolitical concerns. We prefer commodity producers that have control over prices through long term contract or monopolistic market structures.

3. Diversification benefits

We believe that we can deliver superior risk adjusted performance by building a portfolio with diversified risk exposures. To this end, we look for companies with low correlation with our benchmark portfolio. Beta is again the metric that we mostly use to find low correlations combined with qualitative judgment. Securities with beta close to zero or even negative beta are particularly attractive as they offer great diversification potential to the overall portfolio. Such a diversified portfolio will maintain the overall risk to low or moderate while still maintaining equity market exposure and the corresponding return expectations.

4. Attractive valuation

Once we have identified securities that meet our other criterion, we then make sure the price we pay is not excessive. We look at price to earnings, price to free cash flow and price to book ratios. Generally, we look for ratios below 20, 12 and 2 respectively. We also make sure that the earnings and cash flows used in the calculation of the ratios are reflective of the expected performance of the company as abnormal quarterly performance can often produce misleading ratios.

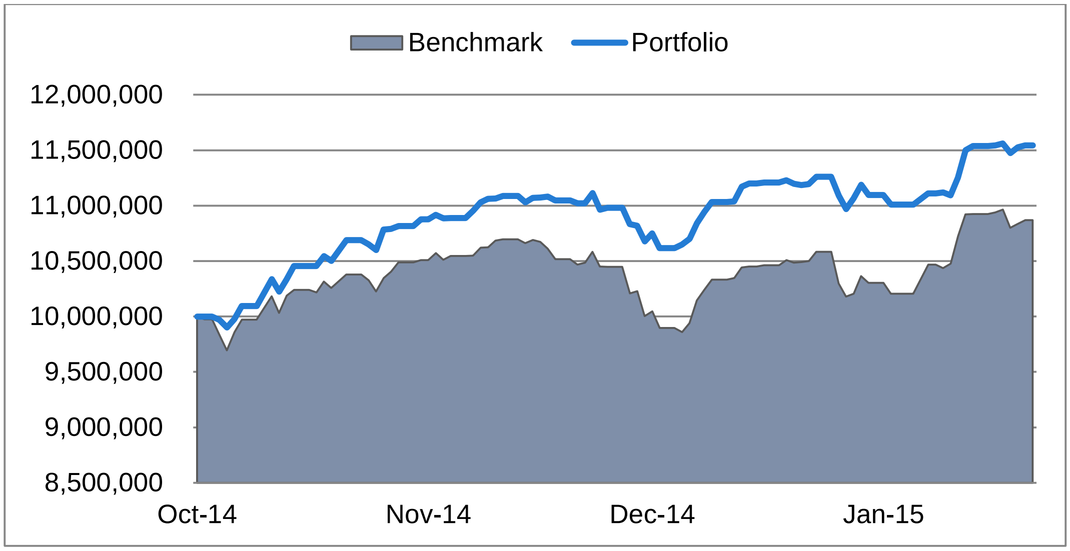
The goal of this valuation analysis is to understand how much we are paying for the future expected cash flows offered by a security. If the price is too high, we cannot expect a superior return as we do not rely on short term market movements to generate performance. Appendix 1 has the details of our current portfolio allocation.

"In four months, the portfolio generated approximately $680,000 over what a passive investment in the benchmark would have returned"

Performance Details

Overall performance for over the last for months has been strong. The portfolio returned 14.22% or 6.80% beyond our Canadian equity benchmark.

Figure 1 - Portfolio and Benchmark Value



On an annualized basis, this performance corresponds to a 55.90% rate of return. The portfolio beta over the same period was 0.66 and the Sharpe ratio was 3.5811 which indicate that we are meeting our objective of delivering a superior risk adjusted return. The diversification into low and negative beta securities was particularly effective in this regard for the period. Refer to Appendix 1 Figure 4 for a complete stock attribution performance breakdown.

Our limited exposure to commodity prices, especially energy and gold, has allowed the portfolio to outperform while avoiding some of the most volatile components of the benchmark. Overall, our best performers reflect the qualities we identified in our stock selection process and we expect achieve long term performance by staying consistent with that strategy. Please refer to Appendix 4 for sector based performance analysis.

Sample Investment Analysis

Agrium Inc. produces, retails, and distributes the crop nutrients, crop protection products, seeds, and agronomics primarily in North America, South America, Europe, and Australia. The company operates through Retail and Wholesale segments. Retail supplies crop protection products. It also provides product application, soil and leaf testing, crop scouting, seed treatment, cattle, livestock and wool marketing, insurance, and real estate, as well as offers plant nutrient and precision agriculture software packages. The Wholesale segment produces, markets, and distributes a range of nutrients, including nitrogen-based, potash, and phosphate-based crop nutrient products to agricultural and industrial customers. Agrium Inc. was founded in 1931 and is headquartered in Calgary, Canada.

Investment Thesis

Agrium Inc. has a history of consistent growing profitability. Its business is linked to agricultural commodity prices but they have a strong pricing power because of a unique structure of potash marketing. In addition, Agrium has a retail agricultural business which reduces its sensitivity to market prices when compared to competitors. They have a management team with a history of strong risk management and the industry is one that will be of increasing importance as populations increase in developing nations. Improvements in crop yields are needed to meet growing nutritional needs and Agrium is well positioned to continue to service those needs in the long term. We believe that this position will allow Agrium to produce long term predictable earnings growth.

Investing in Agrium also allows us to gain exposure to commodity producers and diversify our remaining portfolio which is underweighted in this sector. We feel that this diversification benefit along with the strong prospects for Agrium make it a moderate risk investment that fits well with our strategy.

Lastly, we were able to enter our position in Agrium at an attractive valuation level as the share’s low price earnings and cash flows is indicative of high future returns for shareholders.

Appendix 1 - Portfolio Allocation

Sector Allocation

Figure 1 - Sector Weights

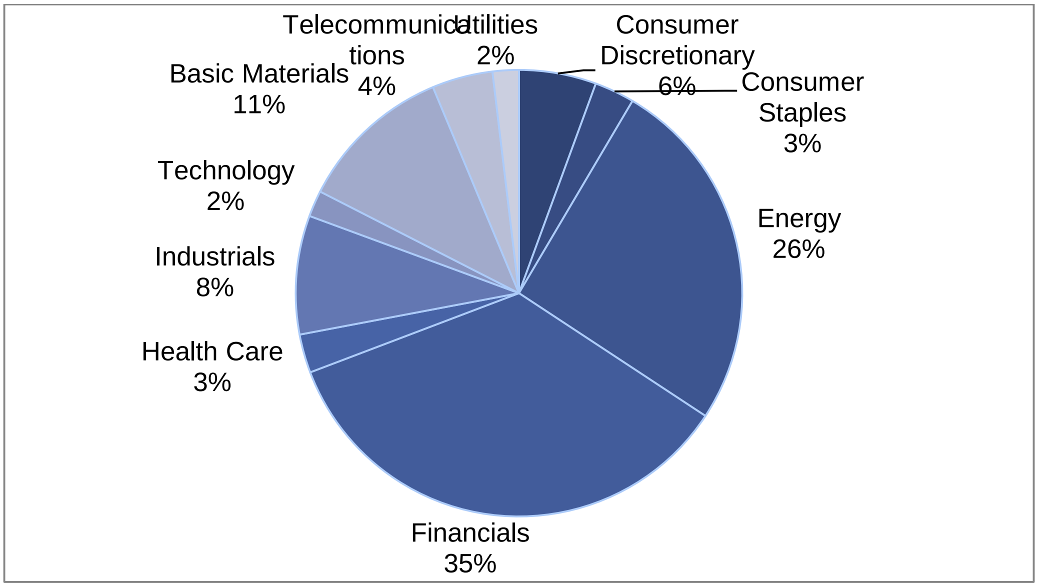
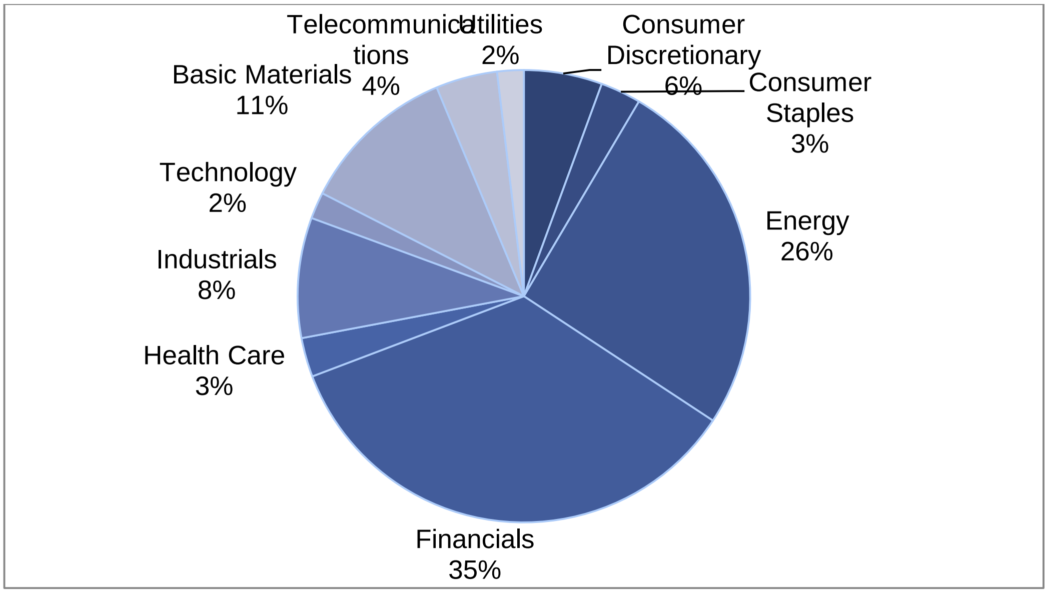
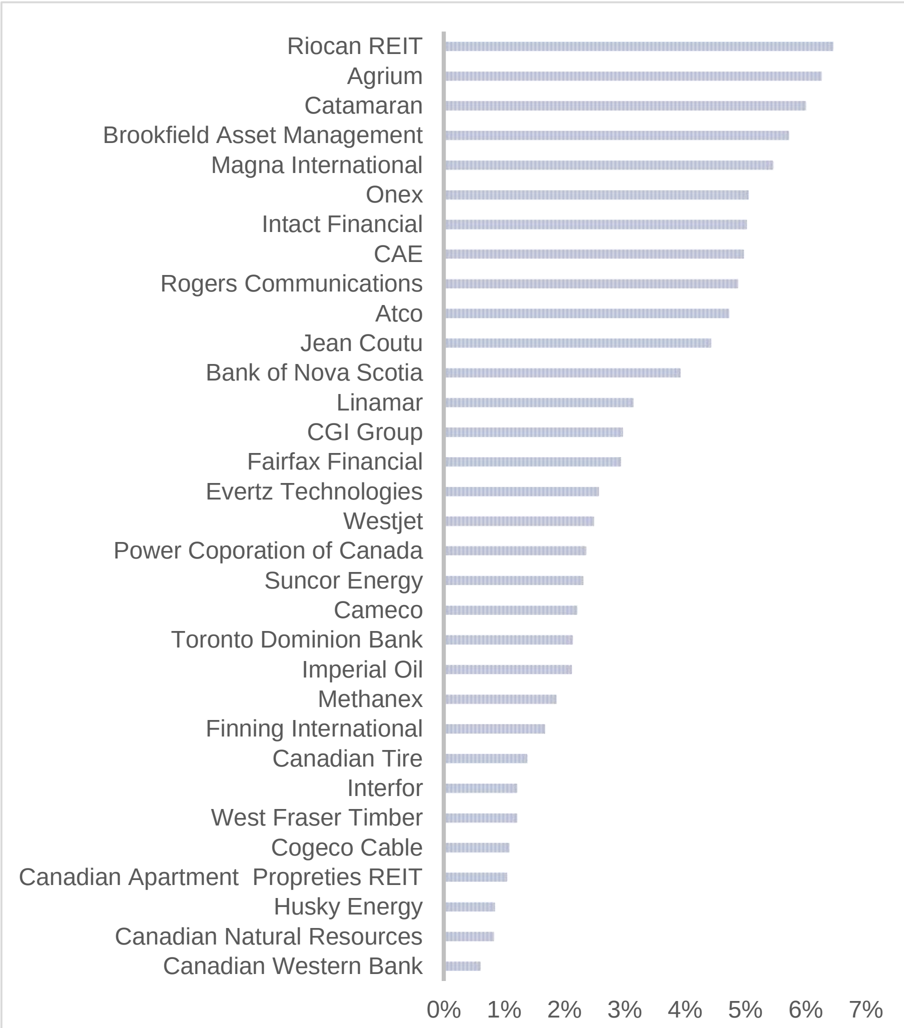


Figure 2 - Benchmark Sector Weights



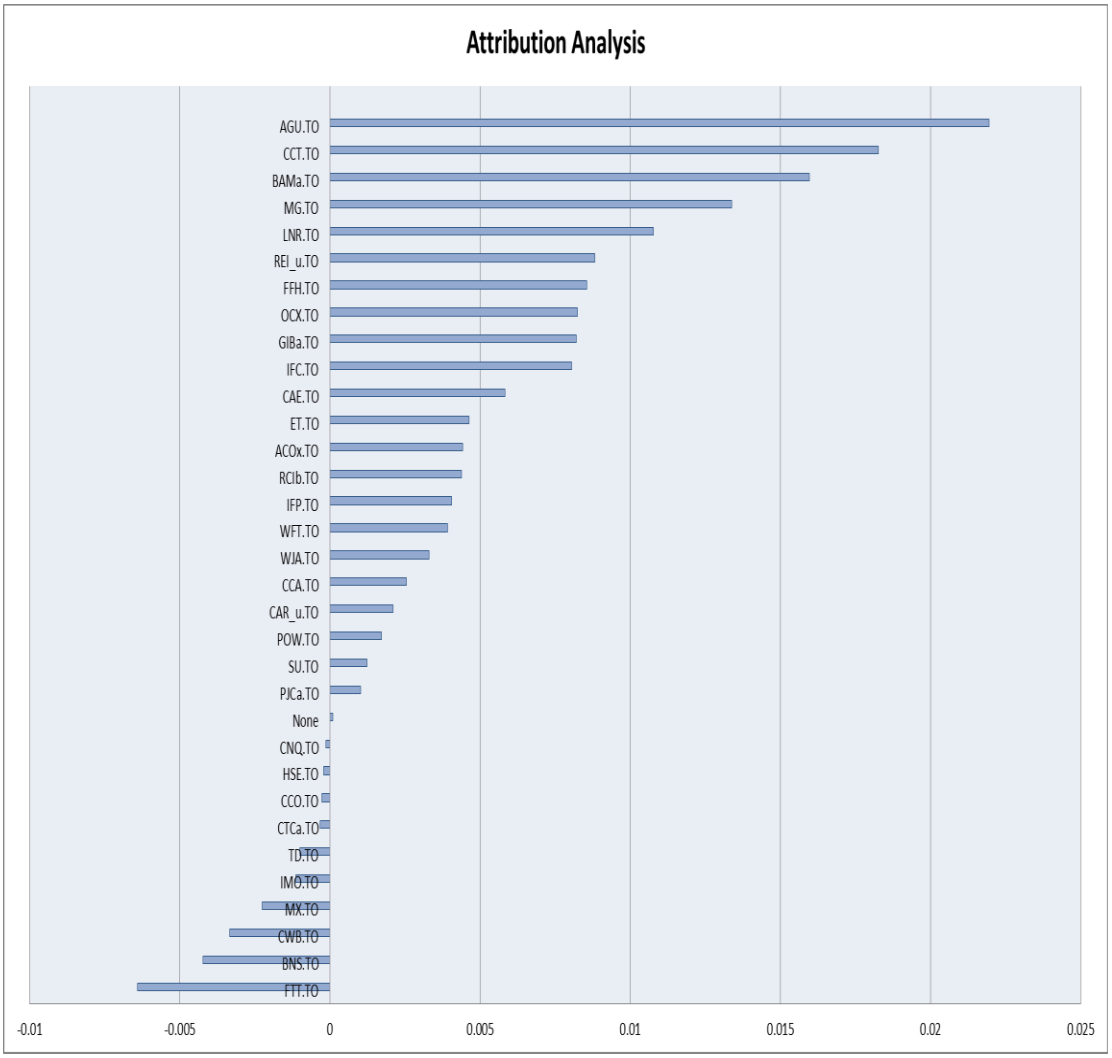
Appendix 1 - Portfolio Allocation

Figure 3 – Individual Position Weights



Appendix 1 - Portfolio Allocation

Figure 4 – Attribution of Performance



Appendix 2 - Constraints

Operational Constraints

The following thresholds were strictly enforced in the portfolio:

- No short selling, buying on margin, bonds, options, futures, commodities, or ETFs
- A requirement of holding between 15 and 40 stocks
- Only Canadian stocks with 1 billion+ market cap
- Maximum 10% weight for any stock
- Maximum 40% weight for any industry with a minimum of 5 industries

High transaction costs ($0.10 per share per trade) were in place in order to encourage long term investing as opposed to short term trading.

Appendix 3 - Agrium Fundamentals

Valuation Multiples based on Current Capitalization					
For the Fiscal Period Ending	12 months Dec-31-2013A	LTM 12 months Sep-30-2014A	12 months Dec-31-2014E	12 months Dec-31-2015E	12 months Dec-31-2016E
TEV/Total Revenue	1.2x	1.2x	1.19x	1.14x	1.09x
TEV/EBITDA	9.1x	11.8x	11.02x	8.64x	7.81x
TEV/EBIT	11.8x	17.3x	-	-	-
P/Diluted EPS Before Extr	14.7x	18.5x	19.11x	14.09x	11.99x
P/BV	2.3x	2.2x	-	-	-
Price/Tang BV	3.7x	3.7x	-	-	-

Agrium Inc. (TSX:AGU) > Financials > Key Stats

currency, except per share **Currency:** Trading Currency **Conversion:** Today's Spot Rate
Order: Latest on Right **Units:** S&P Capital IQ (Default)
Decimals: Capital IQ (Default)

Key Financials[1]					
For the Fiscal Period Ending	12 months Dec-31-2010A	12 months Dec-31-2011A	12 months Dec-31-2012A	12 months Dec-31-2013A	LTM[2] 12 months Sep-30-2014A
Currency	*CAD*	*CAD*	*CAD*	*CAD*	*CAD*
Total Revenue	13,633.9	19,633.0	20,336.1	19,959.1	20,564.5
Growth Over Prior Year	*17.7%*	*44.0%*	*3.6%*	*(1.9%)*	*3.2%*
Gross Profit	3,360.6	5,499.0	5,467.3	4,788.3	4,518.0
Margin %	*24.6%*	*28.0%*	*26.9%*	*24.0%*	*22.0%*
EBITDA	1,684.1	3,237.5	3,108.0	2,498.9	2,096.6
Margin %	*12.4%*	*16.5%*	*15.3%*	*12.5%*	*10.2%*
EBIT	1,260.2	2,753.9	2,583.9	1,899.8	1,407.4
Margin %	*9.2%*	*14.0%*	*12.7%*	*9.5%*	*6.8%*
Earnings from Cont. Ops.	926.4	1,913.8	1,924.0	1,370.6	1,063.5
Margin %	*6.8%*	*9.7%*	*9.5%*	*6.9%*	*5.2%*
Net Income	904.9	1,739.9	1,896.0	1,347.8	968.3
Margin %	*6.6%*	*8.9%*	*9.3%*	*6.8%*	*4.7%*
Diluted EPS Excl. Extra Ite	5.86	12.08	12.27	9.25	7.33
Growth Over Prior Year	*98.3%*	*106.0%*	*1.6%*	*(24.6%)*	*(35.9%)*

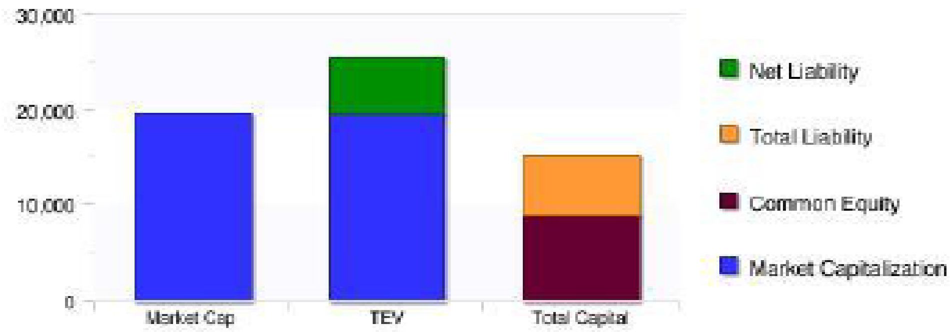
[1]All results are taken from the most recently filed statement for each period. When there has been more than one, earlier filings can be viewed on the individual statement pages.
[2]Growth rates for the LTM period are calculated against the LTM period ending 12 months before.
[3]All forward period figures are consensus mean estimates provided by the brokers and may not be on a comparable basis as financials.
†Growth rates for forward periods are calculated against prior period estimates or actual pro forma results as disclosed on the Estimates Consensus page.

Latest Capitalization (Millions of CAD)	
Currency	*CAD*
Share Price as of Jan-30-20	135.57
Shares Out.	143.7

Appendix 3 - Agrium Fundamentals

Market Capitalization**	**19,483.7**
- Cash & Short Term Investı	347.7
+ Total Debt	6,282.0
+ Pref. Equity	-
+ Total Minority Interest	2.5
= Total Enterprise Value (T	**25,420.6**
Book Value of Common Equ	8,780.9
+ Pref. Equity	-
+ Total Minority Interest	2.5
+ Total Debt	6,282.0
= Total Capital	**15,065.5**

**For companies that have multiple share classes that publicly trade, we are incorporating the different prices to calculate our company level market capitalization. Please click



Total Liability includes Total Debt, Minority Interest and Pref. Equity.
Net Liability includes Total Liability, net of Cash and Short Term Investments.
TEV includes Market Cap and Net Liability.
Total Capital includes Common Equity and Total Liability.

Appendix 4 - Sector Analysis

Currently there has been a lot of change to the economic forecast of Canada. The fall in oil prices has already had an immediate impact, and the repercussions of this are still unknown. The global economy is at a crossroads that could see the escape of the aftermath of the 2008-2009 financial crisis, or a return back into a slowdown. Personal and public debt loads are high, while the recovery in job markets and income levels has been low and income disparities within countries are widening. There are still looming threats to Canada's economy. Some of these are the carbon bubble, pipeline opposition, political changes, sinking commodity prices, pending interest rate increases, debt loads, and global instability.

BASIC MATERIALS

The basic materials sector in this fund includes companies involved in a diverse range of products, from uranium, timber, chemical manufacturing, and agricultural production. The changes in the value of the Canadian dollar indicate that the exports from these companies may increase as the dollar remains low. Many of the materials produced are dependent on worldwide industrial activity, and they could be poised to be successful given worldwide growth. Russian companies produce competing products, and given the loss of these suppliers Canadian companies could fill the void.

COMMUNICATIONS

The communication sector includes companies involved in telecommunications equipment and services, television and radio broadcasting, motion picture/video production, and publishing. Wireline services, such as telephone land lines and dial up internet services, are in decline. More and more Canadian households are abandoning landlines. The number of residential phone lines dropped by 6%, from 12 million in 2012 to 11.2 million in 2013. Alternatively, the development and adoption of new telecommunications devices, products and services is accelerating in Canada. Overall, little competition exists in the telecommunications market because of the large fixed costs associated with setting up the extensive required network. Our portfolio only contains Rogers in the communications subgroup. Rogers launched sports, streaming-TV and wireless roaming initiatives. This has spurred customers to buy more services, increasing the average customer bill. This has cost them subscribers. However, Rogers' media unit revenue jumped 20%. With the multitude of moats Rogers has in a limited communications market strong operational decisions will drive growth.

Appendix 4 - Sector Analysis

CONSUMER, GOODS

In this sector, Linamar and Jean Coutu group make up the holdings in the Portfolio. They represent different types of products. In light of recent economic conditions consumers place a value on getting the most for their expenses. Online shopping is going to increase in importance as consumers can search for the best value without having to visit retailers. With increased competition in this field, economic advantages are hard to maintain. Our group valued the pharmaceutical advantages of Jean Coutu. Also, as a specialist in transmission and automotive equipment Linamar should do well as the automotive industry seems to have rebounded.

CONSUMER, SERVICES

In this sector, wholesale distributors, airline services, and network service providers are being considered. The decrease in oil prices has served as a boon to the airline industry, and as Westjet has been a strong player in this field it was able to benefit significantly from the decreased costs. We anticipate low growth in this field, as performance will be dependent on the consumer activities in Canada. Performance will be tied to economic growth which is not evident at this point.

ENERGY

The oil and gas sector has been thrown into a massive change with the decrease in the cost of oil worldwide. In spite of this increase production levels have been maintained by OPEC nations, and it doesn’t appear like they will climb back up any time soon. In this lean time the industry is expected to make moves towards operational improvements and efficiency increases. New investment in additional sources is expected to drop off. In light of these changes it will be a good time to look for value in acquiring assets at depressed costs. Even though costs worldwide are presently low, there is no doubt that there will be a point in time when economic growth can stimulate an increase in prices. Our group will be looking to acquire more assets at reduced cost in the long term future.

FINANCIALS

In our analysis, the financial sector includes banks, insurance, and asset management companies. The Canadian Financial sector has been a strong driver of economic growth in Canada, and we expect this to continue. Many analysts had predicted that the interest rates would rise this coming year, and so the decision by the Bank of Canada to cut its target overnight lending rate has had quite an effect in this industry. The rates can be expected to remain low for the next while, and Canadian banks will have to adjust their rates accordingly. Additionally, our portfolio is also significantly invested in asset management companies. The decrease in interest rates may act to further bolster the Canadian commercial real estate industry. In the short term these companies can be anticipated to perform well.

INDUSTRIAL

Canadian companies within the industrial sector have a competitive advantage over their global counterparts when it comes to minimal geopolitical risk, and a reliable and flexible supply chain. The industrial sector includes companies involved in manufacturing, infrastructure, transport and commercial services. To continue to remain competitive, the industrial market will have to respond to pressures from emerging markets, and an uncertain Canadian economy.

TECHNOLOGY

In technology, the general themes are Big Data, Cloud Platforms, Smartphones, Semiconductors, and IT Services. Research relevant to this fund is primarily focused on IT Consulting services, and video and infrastructure equipment as they represent the highest growth subsectors as well as largest stock exposures in this portfolio. There are not many Canadian companies in this field, and we believe those selected will continue to maintain their technological advantages.

UTILITIES

The utilities sector includes companies involved in electrical generation and service utilities, as well as gas transportation companies. With improved technologies, and energy efficiency demand growth in the utilities sector is not expected to be significantly higher than the past years. Additionally a slow Canadian economy has not provided significant demand increases in this industry. Our holding in this sector is ATCO, and the continued stability of the sector projects to provide a risk mitigated return potential. However, the growth may not be as high as other sectors.