BEAM | Q217 & Q317 Performance Review

November 3, 2017

Strictly Private & Confidential — Not For Public Distribution

In Memory of Keith Beedie

In 2011, Ryan Beedie (left) and Keith Beedie (right) generously donated $22 million to the SFU business faculty, now known as the Beedie School of Business. Of this donation, $5 million was used to start the Beedie Endowment Asset Management fund. We want to thank Keith and the Beedie Family for their support. Keith's memory will live on through the students of SFU.

SFU

I. BEAM Overview	**Lindsey McDonald** Portfolio Manager
II. Balanced Portfolio	**Lindsey McDonald** Portfolio Manager
III. Equity Portfolio	**Ashley Koyanagi** Equity Analyst, Consumer Discretionary
IV. Fixed Income Portfolio	**Devin Stewart** Fixed Income Analyst, Corporate
V. Fund Initiatives	**Mark Sun** Portfolio Manager
Questions	
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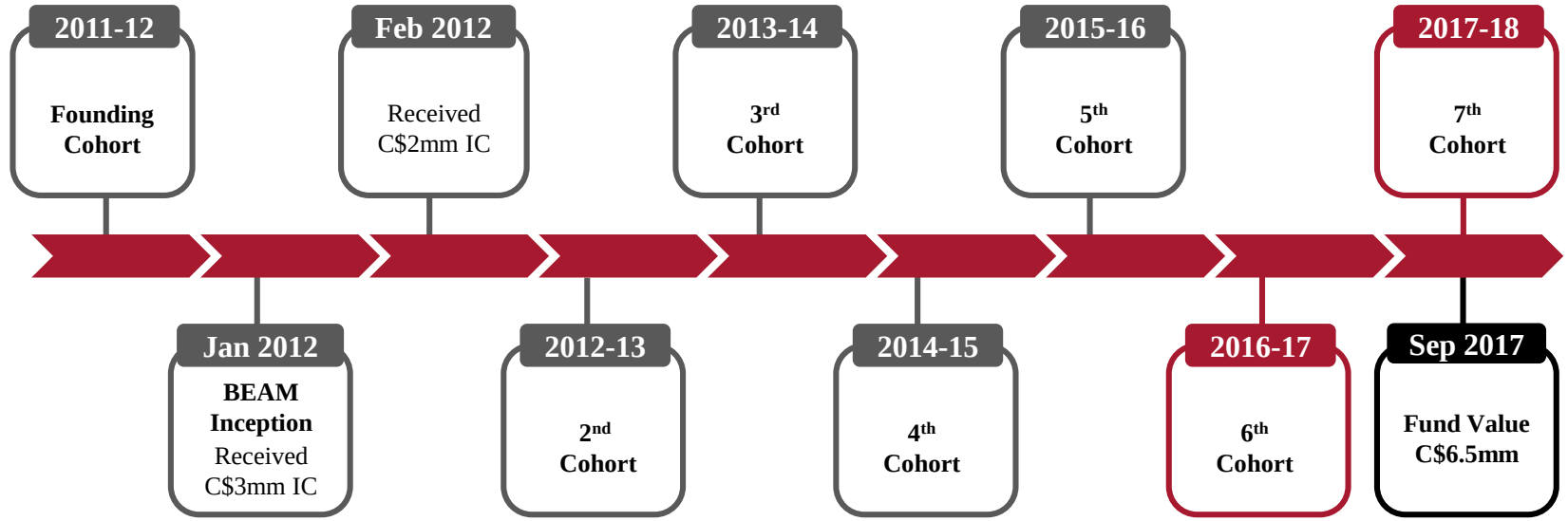
I. BEAM Overview

Lindsey McDonald | Portfolio Manager
lmmcdona@sfu.ca

BEAM's History

BEAM Overview

BEAM Timeline



- BEAM is unique in that management turns over every two years, as students graduate from the program and enter the work force.
- Since inception, Beedie Endowment Asset Management has had 5 cohorts and approximately 60 members graduate from the program.

Source: BEAM

BEAM's Objectives

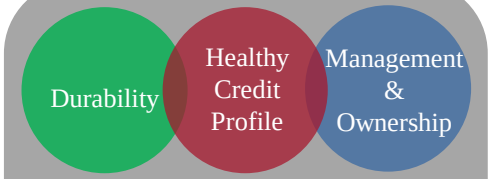
BEAM Overview

Objectives
1 To preserve inflation-adjusted invested capital.
2 To outperform the equity benchmark by 150 basis points and outperform the fixed income benchmark by 40 basis points on a rolling 4-year average.
3 To provide an educational experience to BEAM members.

Source: BEAM

What We do

BEAM Overview

	Philosophy	Security Selection	Portfolio Strategy
Equity	 ▪ Bottom-up approach ▪ Long-term value orientation ▪ Independence of thought	 ▪ Generate positive active returns by identifying mispricing of securities using fundamental valuation methods	 ▪ Sector-neutral ▪ Limited risk exposure to certain factors
Fixed Income	 ▪ Bottom-up approach ▪ Search for companies with attractive risk-adjusted yield ▪ Key rates & duration strategy based on fundamental economic research	 ▪ Identify companies and provinces with below average risk and above average yield in order to generate above average total return	 ▪ Limited bets on macroeconomic factors and interest rates ▪ Pickup yield through picking individual attractive companies

Source: BEAM

II. Balanced Portfolio

Lindsey McDonald | Portfolio Manager
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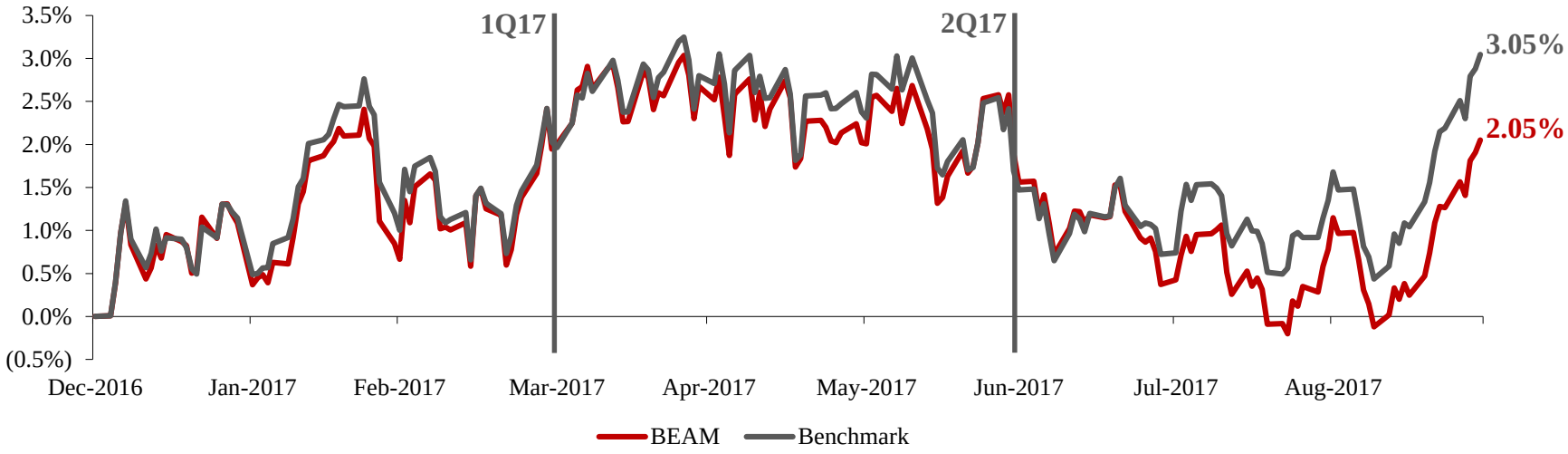
Asset Allocation & Performance

Balanced Portfolio

	Equity	Fixed Income	Cash
2Q17	59.7%	35.5%	4.7%
3Q17	60.0%	34.1%	5.9%

Portfolio vs. Benchmark Total Return



Source: Bloomberg, BEAM

Compliance

Balanced Portfolio

	IPS Guidelines and Constraints	Current Compliance
General	▪ Asset Mix within IPS Range	✓
Equity	▪ Limits on equity security holdings	✓
	▪ Micro Cap, prohibited	✓
	▪ 7 Sectors, with 50% allocation relative to benchmark	✓
	▪ At least 25 stocks	✓
	▪ 15 largest stocks, at most 70% of equity value	✓
Fixed Income	▪ No more than 5% per issuer, excluding federal and provincials	✓
	▪ Allocation limits based on bond ratings	✓
	▪ Duration within ± 1 year of the DEX	✓

Source: Bloomberg, BEAM

III. Equity Portfolio

Ashley Koyanagi | Equity Analyst, Consumer Discretionary
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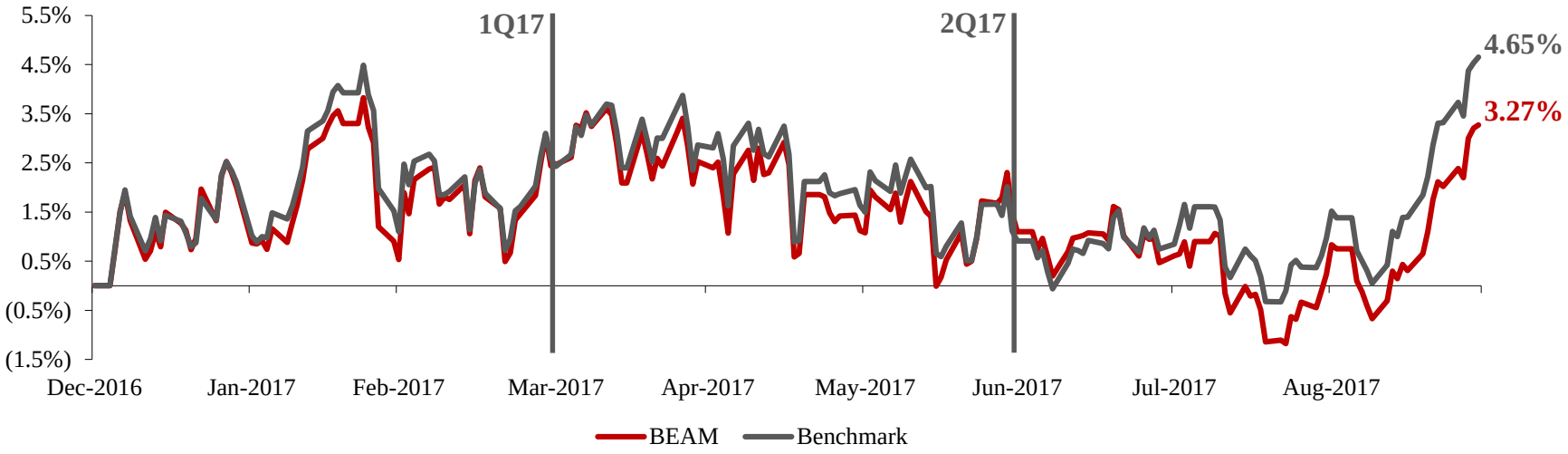
Return Analysis & Performance

Equity Portfolio

	Relative Return	Tracking Error*	Information Ratio
2Q17	0.15%	3.92%	0.08
3Q17	(1.56%)	8.24%	(0.38)

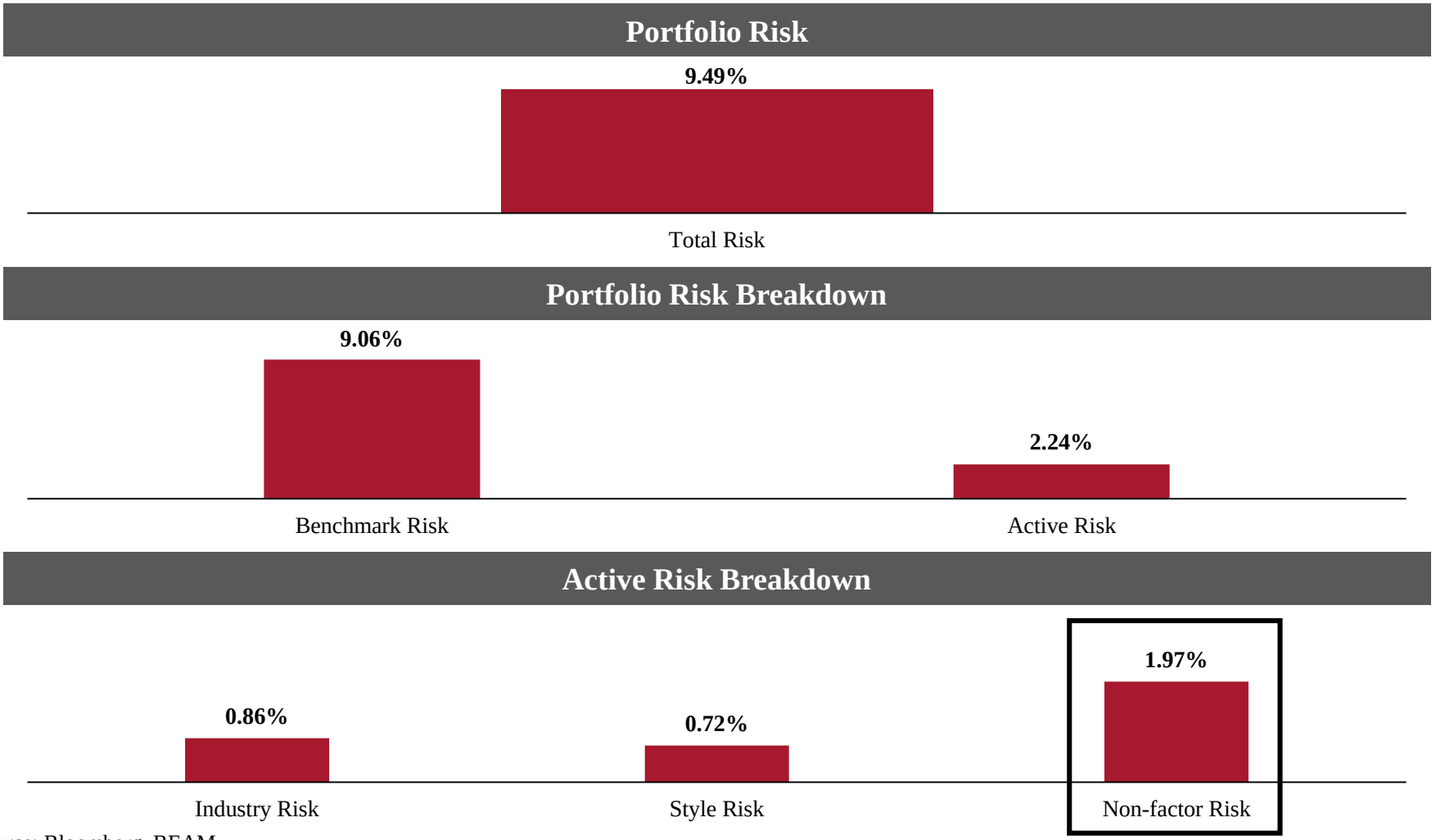
Portfolio vs. Benchmark Total Return



Source: Bloomberg, BEAM
*Annualized

Factor Risks & Exposures

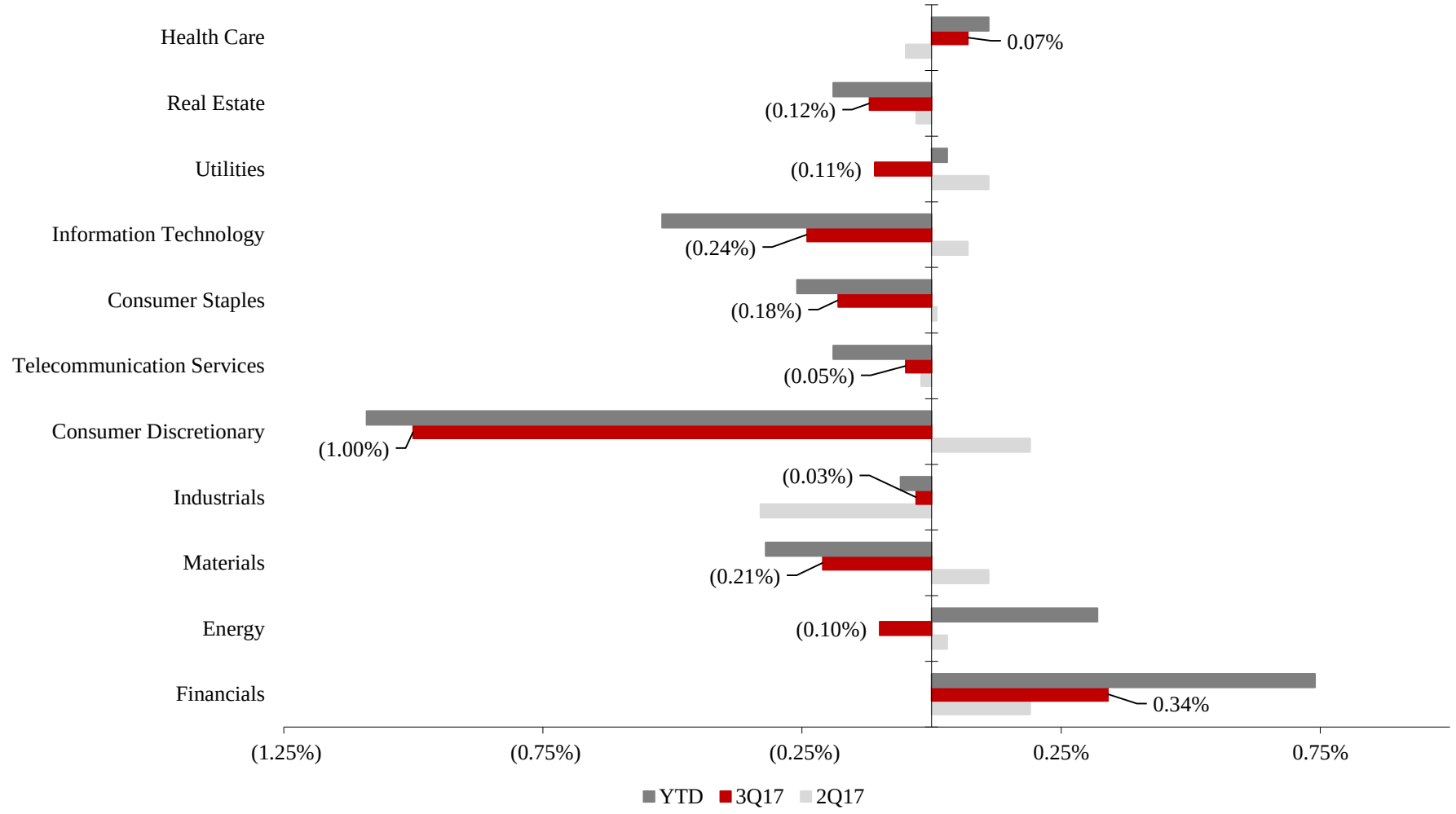
Equity Portfolio



Source: Bloomberg, BEAM

Selection

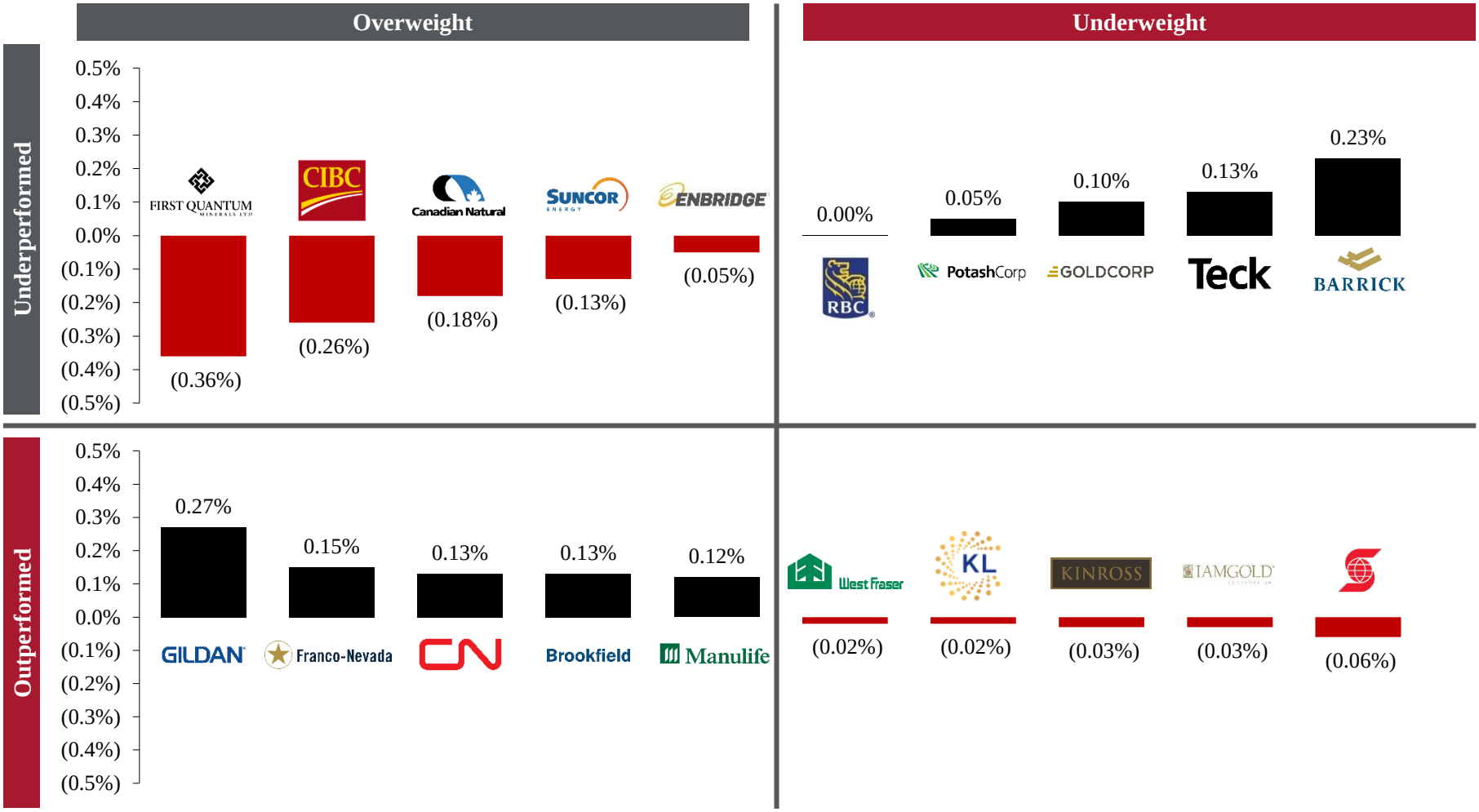
Equity Portfolio



Source: Bloomberg, BEAM

2Q17 CTR

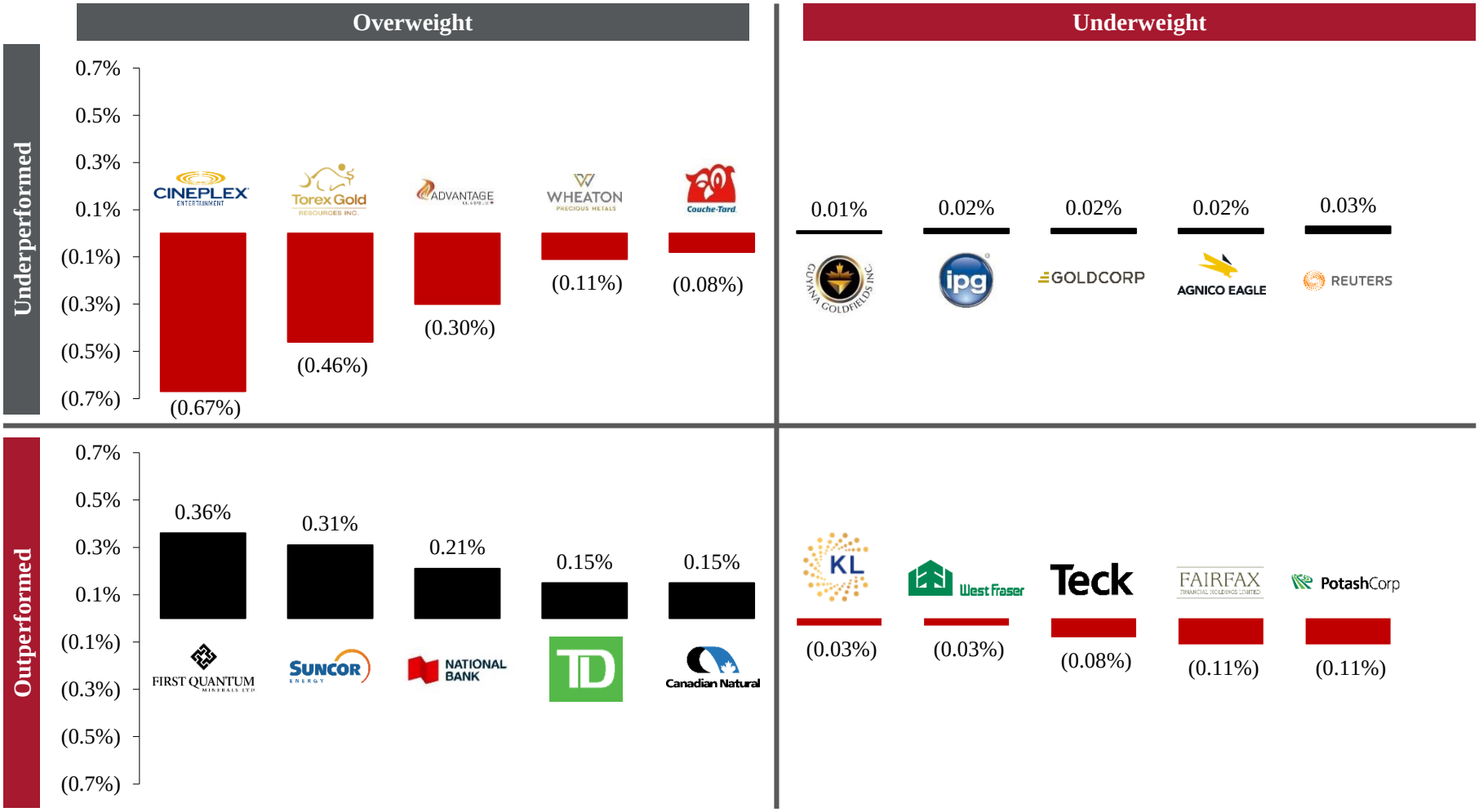
Equity Portfolio



Source: Bloomberg, BEAM

3Q17 CTR

Equity Portfolio



Source: Bloomberg, BEAM

Case Study - Cineplex

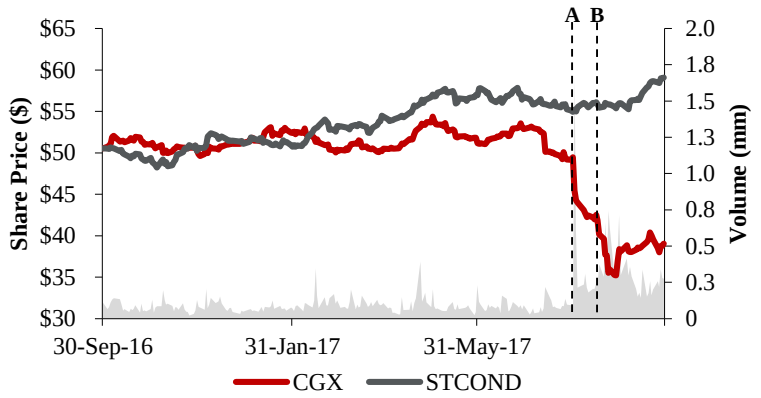
Equity Portfolio

Overview & Investment Thesis

Overview:
Cineplex is Canada's leading entertainment and media company. It operates in the film entertainment, amusement/gaming, and leisure/media spaces. Cineplex welcomes 75mm guests annually, across the country, through its portfolio of 164 theatres. Cineplex went public in 2003 and currently holds an 87% share of the Canadian film exhibitor market.

Investment Thesis:
- The recent weakness has been financial in nature, and we believe the business is still sound
- Strong dividend yield and good growth prospects (notably, The Rec Room)
- As the stock enters our target range, we will begin trimming our position

LTM Share Performance



Stock Drivers

1) Box Office

2) Disposable Income

3) Size of Under-19 Population

Revenue Mix

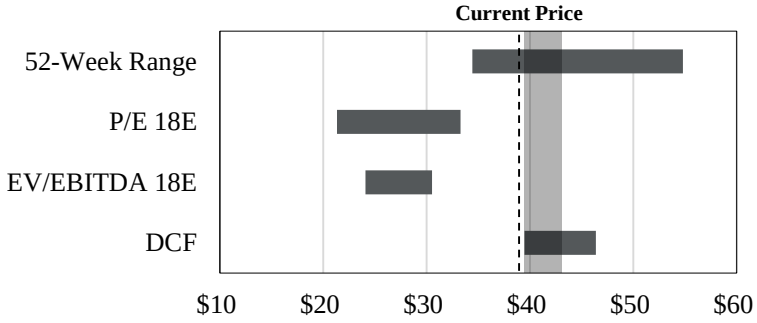
Annotations

A.	02/08/17	Cineplex reports 2Q17 earnings miss
B.	16/08/17	Management announces that 3Q17 is likely to be the worst box office grossing in history

Fundamental Statistics (LTM)

EV	**$3,017mm**	Revenue	$1,520mm
P/E 2018E	25.2x	EBITDA	$229mm
EV/EBITDA 2018E	9.9x	*EBITDA margin*	*15.1%*
P/CF 2018E	11.0x	Cash	$22mm
Total Debt/EV	**18.7%**	Total Debt	$565mm

Valuation



Source: Bloomberg, BEAM
MRQ = Most Recent Quarter

Case Study - Telus

Equity Portfolio

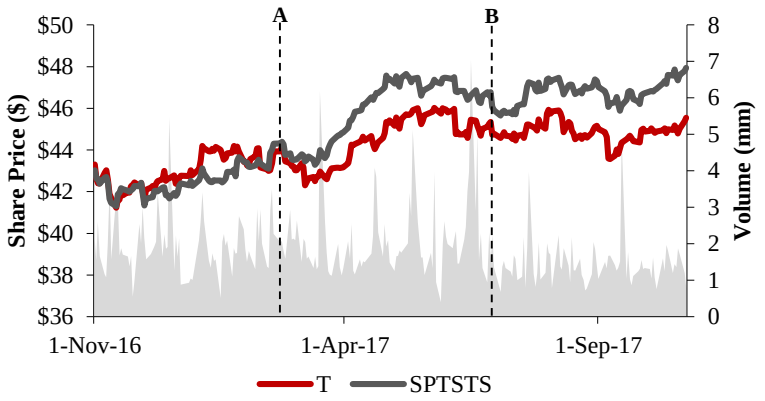
Overview & Investment Thesis

Overview:
Telus is one of Canada's largest telecommunications companies, offering wireless (prepaid and postpaid) and wireline (internet, telephony and access) services to customers across the country. Telus has ~48,000 employees and is headquartered in Vancouver. As of 2016, the company had 12.7mm subscriber connections and generated $12.7b in revenue.

Investment Thesis

- Good management team with a high dividend yield and share buybacks
- Lowest postpaid churn rate in industry
- The stock has exceeded our target range and we will begin to unwind the position

LTM Share Performance



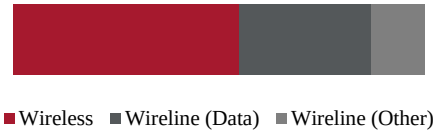
Stock Drivers

1) Net Additions

2) Churn Rate

3) Average Revenue per Subscriber

Revenue Mix



Annotations

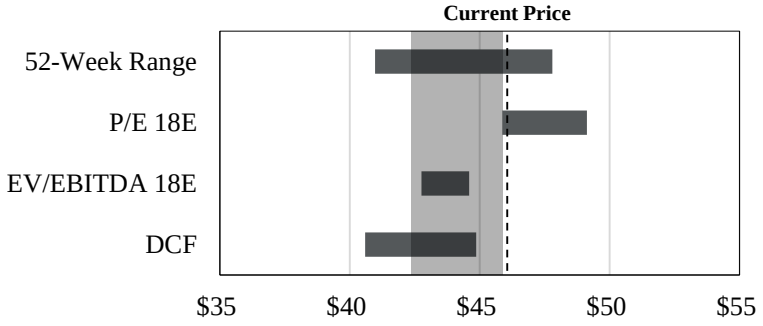
A. 15/02/17 — BCE wins regulatory approval for acquisition of Manitoba Telecom

B. 27/06/17 — Telus and Huawei complete successful pilot test of 5G network

Fundamental Statistics (MRQ)

EV	**$41,062mm**	Revenue	$12,957mm
P/E 2018E	19.5x	EBITDA	$4,098mm
EV/EBITDA 2018E	8.8x	*EBITDA margin*	*31.6%*
P/CF 2018E	6.6x	Cash	$371mm
Total Debt/EV	**33.2%**	Total Debt	$13,644mm

Valuation



Source: Bloomberg, BEAM
MRQ = Most Recent Quarter

Watch List

Equity Portfolio

Sell Radar	Buy Radar
Cameco	ARTIS REIT
CU Canadian Utilities	Aritzia
SmartREIT	BlackBerry
Torex Gold	Emera
TELUS	RITCHIE BROS. Auctioneers

IV. Fixed Income Portfolio

Devin Stewart | Fixed Income Analyst, Corporate
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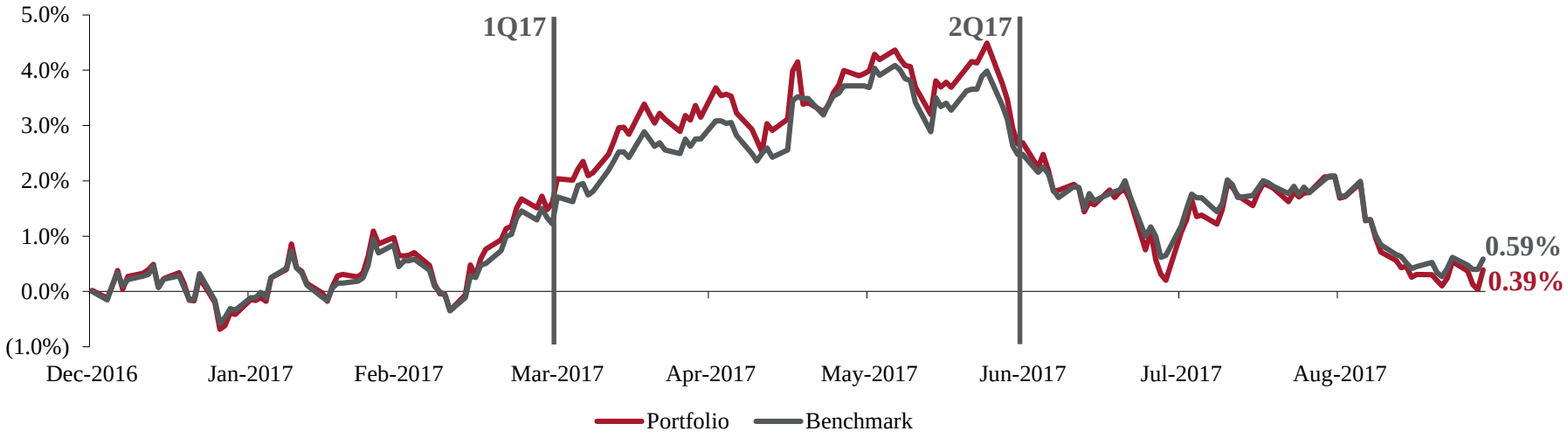
Return Analysis & Performance

Fixed Income Portfolio

	Relative Return	Tracking Error*	Information Ratio
2Q17	(0.19%)	0.52%	(0.73)
3Q17	(0.38%)	1.20%	(0.63)

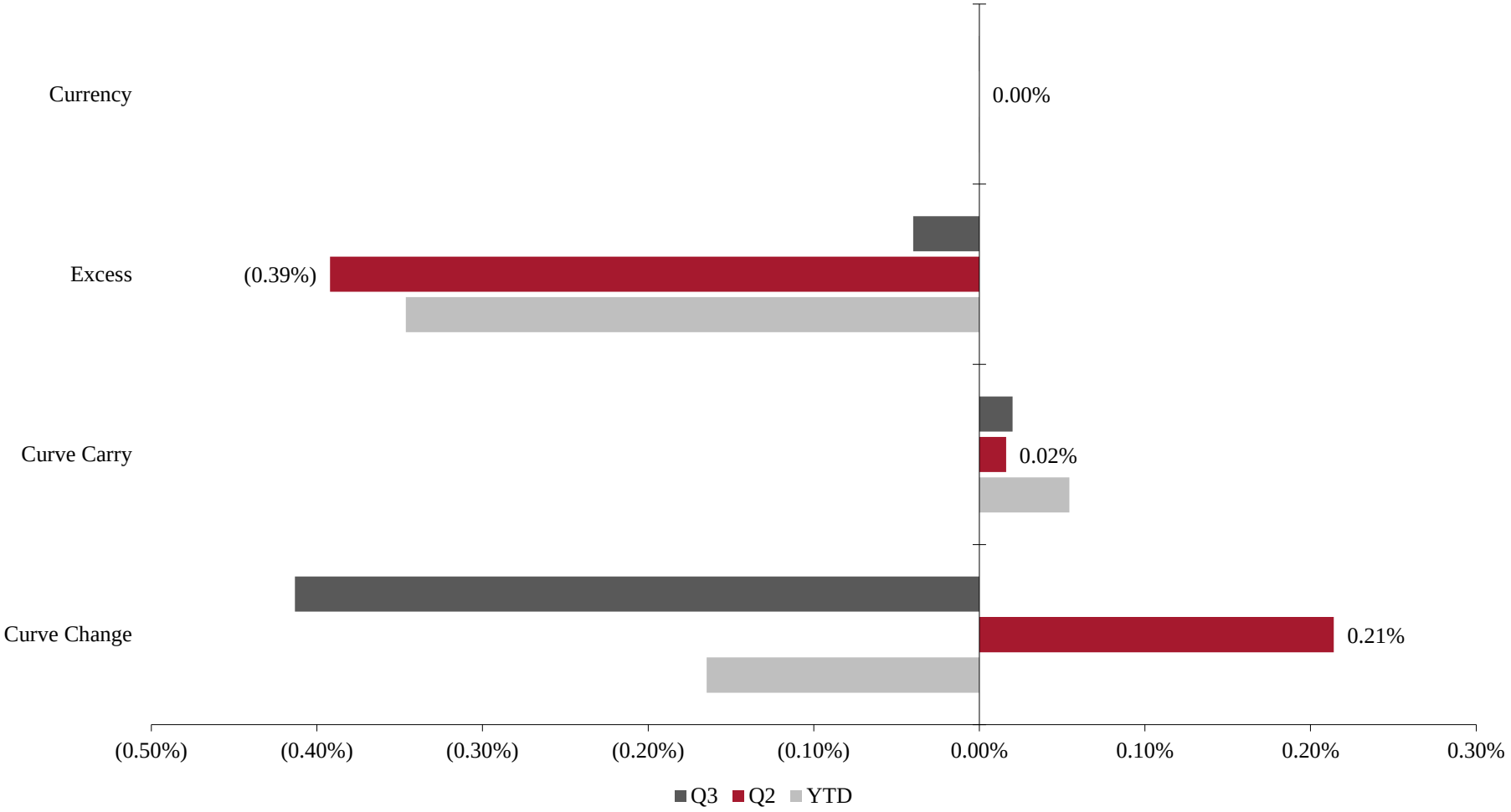
Portfolio vs. Benchmark Total Return



Source: Bloomberg, BEAM
*Annualized

Active Return Attribution

Fixed Income Portfolio

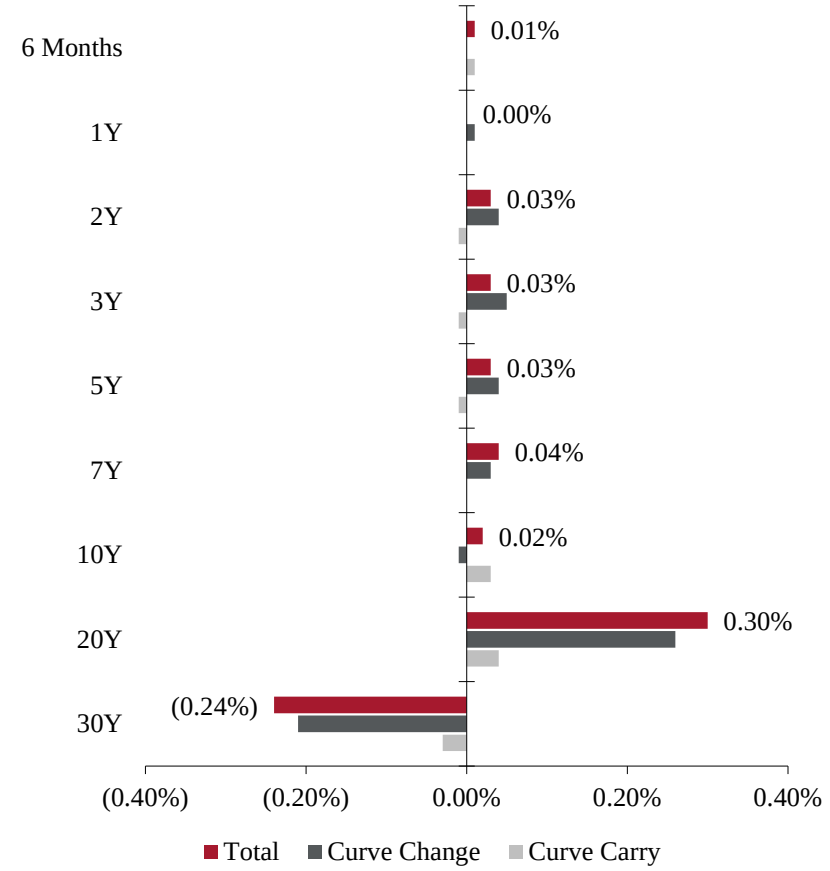


Source: Bloomberg, BEAM
*Attribution excludes effect of cash

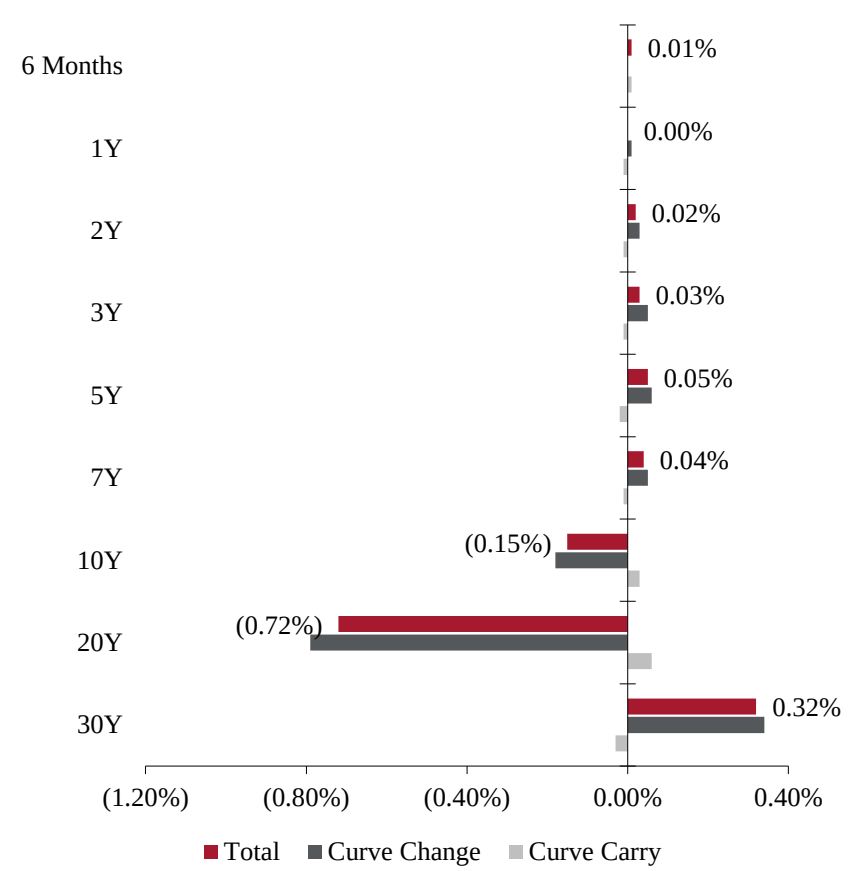
Active Curve Return

Fixed Income Portfolio

2Q17



3Q17

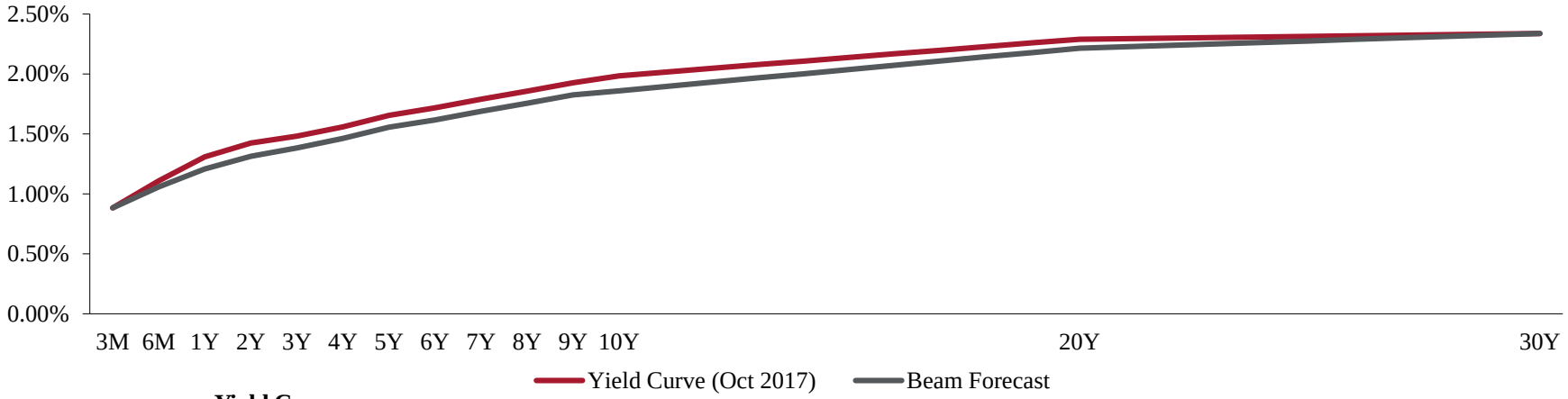


Source: Bloomberg, BEAM

Strategy

Fixed Income Portfolio

Yield Curve Projection



Date	Yield Curve (Oct 2017)	Beam Forecast	Difference
3M	0.884	0.884	0.0000
6M	1.11	1.06	0.0500
1Y	1.3085	1.2085	0.1000
2Y	1.4244	1.3144	0.1100
3Y	1.4828	1.3828	0.1000
4Y	1.5587	1.4629	0.0958
5Y	1.6554	1.5554	0.1000
6Y	1.7169	1.6169	0.1000
7Y	1.7898	1.6898	0.1000
8Y	1.8558	1.7554	0.1004
9Y	1.9272	1.8259	0.1013
10Y	1.9854	1.8604	0.1250
20Y	2.2903	2.2153	0.0750
30Y	2.3371	2.3371	0.0000

Outlook

- Bank of Canada has remained more dovish than the market expects
- Even with all 3 of the Bank of Canada's inflation rate indicators remaining stubbornly below the 2% target rate, the market is still pricing in large interest rate hikes.
- Household debt, especially mortgage debt, continues to increase.
- The Federal reserve is beginning to look more hawkish, especially with the potential replacements of Janet Yellen on the horizon

➢ **Barbell strategy targeting 4 and 10+ tenors, with an overweight on duration and yield**

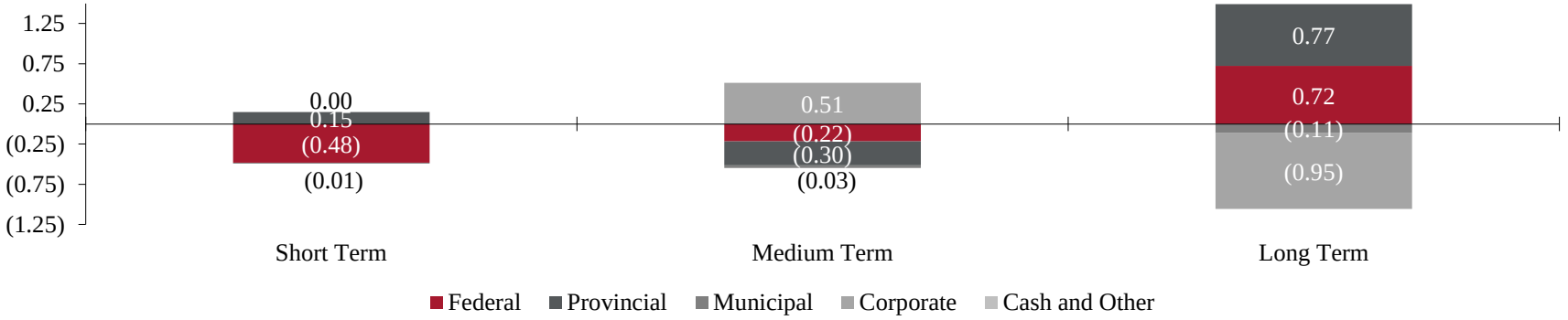
➢ **Actively monitor the Federal Reserve and Bank of Canada for changes in tone**

Portfolio Composition

Fixed Income Portfolio

Active Weighting								
Sector	**Market Value**				**Contribution to Duration**			
	Short term (1-5 years)	Medium term (6 - 10 years)	Long term (10 + years)	Total	Short Term (1-5 years)	Medium Term (6 - 10 years)	Long Term (10 + years)	Total
Federal	-20.74%	-3.91%	7.71%	-16.94%	-0.48	-0.22	0.72	**0.02**
Provincial	8.21%	-4.98%	7.51%	10.74%	0.15	-0.30	0.77	**0.62**
Municipal	-0.57%	-0.50%	-0.77%	-1.84%	-0.01	-0.03	-0.11	**-0.16**
Corporate	-0.31%	7.12%	-7.55%	-0.75%	0.00	0.51	-0.95	**-0.43**
Cash and Other	8.79%	0.00%	0.00%	8.79%	0.00	0.00	0.00	**0.00**
Total	**-4.63%**	**-2.27%**	**6.89%**	**0.00%**	**-0.34**	**-0.04**	**0.43**	**0.06**

Contribution to Duration Comparison



Source: Bloomberg, BEAM, Blackrock

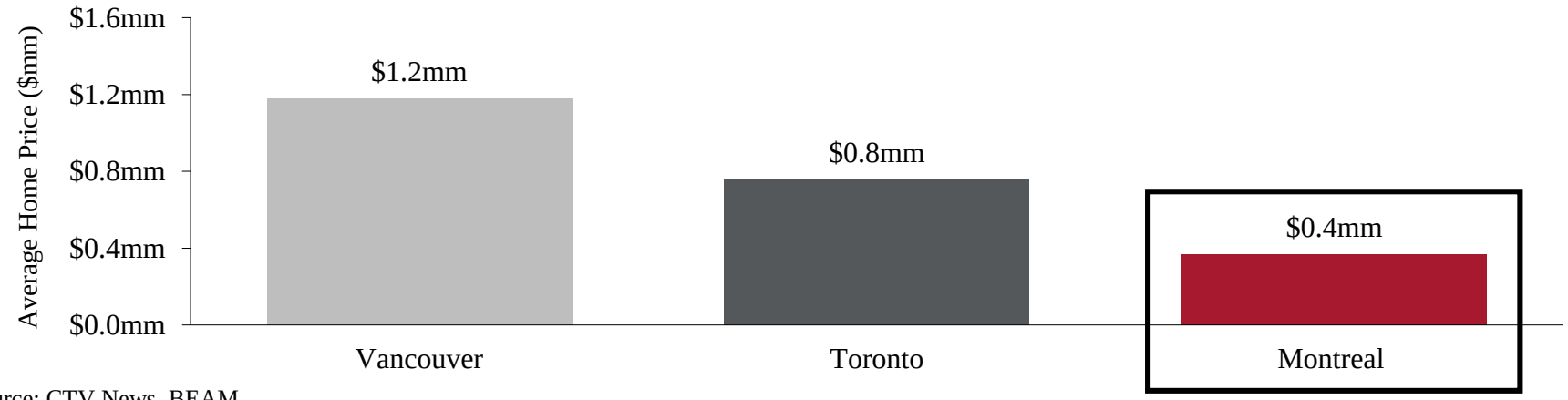
Case Study - National Bank 2022

Fixed Income Portfolio

Investment Thesis

- Gain yield compared to the larger Canadian banks by buying the smallest of the big six Canadian Banks
- Increase exposure to corporate sector through a high quality and liquid bond
- Buy into a growing company with strong credit metrics and a management team who is committed to maintaining credit ratings
- Recent market sentiments due to Canadian Banks being downgraded has created buying opportunities for undervalued bank debt
- National Bank's increased diversification in low capex industries will improve the bondholders position

Exposure to Less Volatile Housing Markets



Source: CTV News, BEAM

I. Fund Initiatives

Mark Sun | Portfolio Manager
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Cohort Integration

Fund Initiatives

Training & Education

- Splitting of BUS 395 into two, three credit courses
- Focused on increasing the efficiency of BEAM investment decisions
- Moving away from pitch-based presentations towards ordinal ranking of coverage lists

BUS 318

Management of Equity & Fixed Income Investments

Publishable research

Focusing on:

Industry/sector analysis

Credit analysis

Company valuation

BUS 493

Portfolio Management

Focusing on:

Portfolio management

Risk management

Performance measurement

Ethics

Source: Beedie School of Business, BEAM

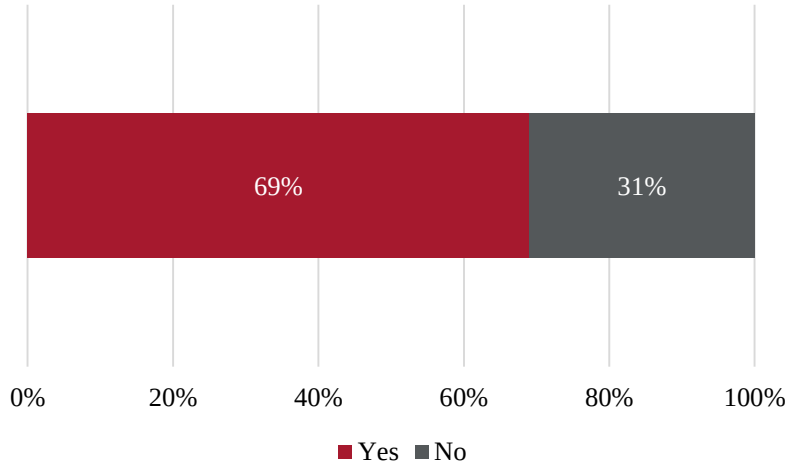
Engagement & Recruitment

Fund Initiatives

Engagement Survey Results

- Focusing on member engagement
- Additional meetings on Tuesday evening at Segal campus starting in January 2018
- More autonomy for sector groups with regards to security selection to reduce transaction delays
- Moving away from the consensus on every trade and increasing accountability and speed
- Shorter more focused meetings on Friday
- More access to PM's for additional help with alternating "Office hours" on Fridays

Votes for Additional Meetings



Campus Presence & Talent

- Currently in the process of assessing our marketing and branding options with Beedie
- Hosting additional presentations to classes and clubs
- Increasing engagement efforts towards the female finance students of SFU
- Creating a marketing campaign to increase the number of 2018-19 analyst applicants
- Partnering with professors and teaching staff to attract top talent

Source: BEAM, Survey Monkey

Accountability

Fund Initiatives

Record Retention

- Common model, presentation, and publication templates
- Mandatory to post all BEAM-related work to OneDrive and Slack
- Use and improve on previous analysts' work to reduce the learning curve
- Currently revamping the way we store and organize historical transactional data from the custodian

GIPS Compliance

- In the process of gathering and transferring historical portfolio records to Bloomberg
- Goal is for BEAM to be GIPS compliant with performance and transactions on record since inception

Performance Updates

- Send monthly reports to the SFU treasury outlining performance and attribution at the balanced and asset-class level starting in January 2018

Source: BEAM, Global Investment Performance Standards

slack

Fund Initiatives

Friday, August 11th

11:14 AM

BAM Q2 Earnings Update

- Revenue of $9.45B up 58% YoY beat expectations by $4.18B
- EPS of $1.01 beat expectations by $0.45
- Net Income of $958M up 64% YOY
  - Fair value gains from opportunistic real estate portfolio included in this measure
- FFO of $1.026B up 61% YOY
  - Excluding the significant disposition gain of the sale of 245 Park Avenue, FFO increased 9% YoY.
- Fee bearing capital increased to $117B with net inflows of $15B for the LTM
  - Fee related earnings up 21% YoY to $353M due to higher capitalization and distributions in listed partnerships and an additional first performance fee from BBU of $25M.
  - Carried interest of $477M for the LTM
- Total liquidity of $24.9B at Q2 end. Included in this is core liquidity of $7.4B and third party uncalled commitments of $17.5B

Seemingly good quarter for BAM, high net inflows and growth in fee bearing capital are positive signs moving forward. Lots of talk on the call of raising a new opportunistic real estate fund as the current fund is 80% invested. Management also said the goal was to have $10-20B of opportunistic funds for each of their four major businesses, no timeline was provided for this goal.

8 replies Last reply 3 months ago

Tuesday, October 24th

1:33 PM

CNR 3Q17 Financial results highlights

Third quarter 2017 compared to third quarter 2016

- Net income decreased by one per cent to C$958 million, while diluted EPS increased by two per cent to C$1.27.
- Adjusted net income increased by two per cent to C$989 million, with adjusted diluted EPS increasing by five per cent to C$1.31. (1)
- Operating income increased by four per cent to C$1,459 million.
- Revenues increased by seven per cent to C$3,221 million.
- Revenue ton-miles (RTMs) increased by 10 per cent and carloadings increased by 11 per cent.
- Operating expenses increased by 10 per cent to C$1,762 million.
- Operating ratio of 54.7 per cent, an increase of 1.4 points.
- Free cash flow (1) for the first nine months of 2017 was C$2,321 million, compared with C$1,743 million for the year-earlier period.

CNR missed by $0.01. Additionally operating ratio increased (bad). CP reported last week and managed to decrease op. ratio (good). Stock up slightly over the day

Thursday, October 26th

9:10 AM

Teck Resources' adjusted profit more than quadrupled to $621 million in the third quarter. It's also warning full-year coal production will be near the low end of its range, while costs will be near the high end. Stock down over 6%

Barrick swung to a loss in the third quarter amid lower production and a US$172-million tax provision for its recently announced agreement with Tanzania. All-in sustaining costs rose in the period, and the company said it has exceeded its full-year debt reduction target. Stock down 6%

Agnico Eagle, meanwhile, is raising its quarterly dividend by a penny after posting record quarterly production, driving down costs and boosting its full-year output target. Stock up 5%

Goldcorp is sticking with its full-year production and cost forecasts even after third-quarter output fell and all-in sustaining costs rose. Stock up 4%

9:33 AM

PotashCorp reported Q3/17 adjusted EPS of $0.09, below consensus of $0.12. Mgmt lowered phosphate and nitrogen guidance and noted that AGU merger on track to close by year end. POT/AGU down a little over 2%

Thursday, October 26th

9:34 AM

Shaw Q4 and year-end highlights:

25k net adds in FY 17, vs. 170k loss in 2016.

41k, 103k wireless adds in Q4 and FY17 respectively.

$4.88B revenue is up 8.1% for the year. 6.8% decrease in Q4 operating income. Good growth in wireless, bought spectrum to increase Freedom customers' access to LTE.

They missed a lot on Q4 operating income but they met FY revised guidance. Stock fell as much as 2.4% but recovered already.

Source: BEAM, Slack

Questions

VI. Appendix

Appendix

Transactions Fixed Income

Date	Action	Name (Ticker)	Quantity of Par Values	Fill Price	Transaction Value
4/11/2017	Sell	NATIONAL BANK OF CANADA VAR RT 11-APR-2022 MTN	82,000.00	100.00	82,000.00
5/24/2017	Sell	AIMIA INC 5.600% 17-MAY-2019	59,000.00	79.74	47,155.22
6/13/2017	Buy	GOVERNMENT OF CANADA 5.750% 01-JUN-2033	71,000.00	153.17	(108,917.97)
6/13/2017	Buy	GOVERNMENT OF CANADA 01-JUN-2021 STRIP	90,559.00	95.48	(86,462.11)
6/13/2017	Buy	PROV OF SASKATCHEWAN 5.800% 05-SEPT-2033	58,000.00	139.76	(82,010.09)
6/13/2017	Buy	PROV OF MANITOBA 4.400% 05-MAR-2042	97,000.00	122.63	(120,159.56)
6/13/2017	Sell	GOVERNMENT OF CANADA 5.750% 01-JUN-2029 SER WL43	56,000.00	142.97	80,197.55
6/13/2017	Sell	PROV OF SASKATCHEWAN 5.750% 05-MAR-2029 SER SB	62,000.00	131.69	82,652.63
6/13/2017	Sell	GOVERNMENT OF CANADA 01-JUN-2025 STRIP GEN INT	98,565.00	87.72	86,462.60
6/13/2017	Sell	PROV OF MANITOBA 4.400% 05-SEP-2025 MTN	86,000.00	115.95	100,780.68
9/28/2017	Buy	ISHARES PREMIUM MONEY MKT FD UNIT	5,500.00	50.01	(275,225.00)

Appendix

Transactions Equity

Date	Action	Name (Ticker)	Quantity of Shares	Fill Price	Transaction Value
6/23/2017	Sell	TRISURA GROUP LTD	20.00	21.60	282.00
9/28/2017	Buy	CANADIAN NATURAL RESOURCES LTD	500.00	42.55	(21,427.00)
9/28/2017	Buy	ENBRIDGE INC	200.00	51.66	(10,482.00)
9/28/2017	Buy	NATIONAL BANK OF CANADA 1.957% 30-JUN-2022	80,000.00	98.54	(79,303.26)
9/28/2017	Buy	ISHARES S&P/TSX CAPPED MATERIALS INDEX ETF	800.00	13.08	(10,614.00)
9/28/2017	Buy	ADVANTAGE OIL & GAS LTD	2,000.00	7.97	(16,090.00)
9/28/2017	Buy	CINEPLEX INC	300.00	38.97	(11,841.00)
9/28/2017	Sell	ALIMENTATION COUCHE-TARD INC	250.00	58.16	14,390.00
9/28/2017	Sell	CGI GROUP INC CL A SUB-VTG	450.00	64.17	28,724.50
9/28/2017	Sell	ISHARES S&P/TSX CAPPED FINANCIALS INDEX ETF	1,000.00	36.73	36,580.00