Market Commentary
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GLOBAL ASSET MANAGEMENT

Summary of a presentation by Stephen Groff, Principal and Portfolio Manager
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Current environment

- There is a lot of political noise, macro noise and a U.S. election that's very polarizing.
- Markets are volatile, with low to negative earnings growth and higher equity valuations.
- Monetary policy has boosted asset values but there are opportunities for bottom-up investors with a long-term view.
- Momentum – the focus on macroeconomic events has created a bit of a flywheel. Fund flows are driving asset prices, which are driving behaviour, which in turn is driving further fund flows. Money is being directed towards finding where the money is going, as opposed to finding what businesses are undervalued.
- A significant portion of recent asset price increases has been driven by multiple expansion. Some of the standouts are utilities, consumer staples and health care. Many of the names within these subsectors are being pushed higher by investors looking for bond alternatives.
- We view the market as very one-sided at the moment. The investing public has a consistent view on which parts of the world are growing, leading to crowding and some risk.

The Cambridge dividend suite

- The Cambridge dividend philosophy follows the same process used for every fund within the Cambridge lineup.
- Our portfolio managers invest in the funds we manage, aligning our interests with other fund investors. This, in combination with our focus on downside protection, a consistent process and active management, makes our dividend lineup a unique offering.
- We spend our time getting to know a company's business; we care less about the dividend. The business and its cash flow is what drives the total shareholder return and value creation.
- If you only focus on the yield, you're missing the driver behind the yield. If the yield is unsustainable, it doesn't matter what amount it may be.
- We spend a lot of time understanding what could hurt a business – that's how we minimize the probability of long-term capital loss.
- It's about total return, not just about the yield. It's about what clients will receive from a yield perspective and from capital appreciation over time. By finding quality companies that can compound value over time, you can get a better total return over the long term.
- Cambridge Global Dividend Fund, Cambridge U.S. Dividend Fund and Cambridge Canadian Dividend Fund all have high active share, with portfolios that are relatively concentrated yet diversified across industry sectors (see tables below).

Cambridge Canadian Dividend Fund characteristics July 2016	
Active Share	89%
Number of holdings	30
Dividend yield	2.4%
3-year dividend growth	6%
3-year change in shares	0%
Payout ratio	38%

Cambridge U.S. Dividend Fund characteristics July 2016	
Active Share	91%
Number of holdings	26
Dividend yield	2.0%
3-year dividend growth	17%
3-year change in shares	-1%
Payout ratio	31%

Cambridge Global Dividend Fund characteristics July 2016	
Active Share	95%
Number of holdings	35
Dividend yield	2.5%
3-year dividend growth	15%
3-year change in shares	0%
Payout ratio	37%

- Dividend yield is calculated as the market value weighted average of annualized current dividend / security price
- Adjustments to dividend growth and change in shares made to reflect M+A or one off items. Companies with under three years of history are excluded.
- Payout ratio is the current dividend / relevant industry metric (i.e. EPS/FCF/AFFO) estimate weighted by security.
- Number of holdings refers to common equity positions.

- The payout ratios of our holdings are quite conservative. They invest a lot of money back into their businesses, becoming stronger and more competitive, ultimately, growing the dividends.
- We prefer a growing dividend stream over a higher yield today that's flat, or even worse, going to get cut.

Market concentration

- The Canadian equity market is very concentrated, which can result in a lot more volatility and more momentum than you see in other parts of the world. Sector weightings of the S&P/TSX Composite Index changed considerably from 1999 to 2011 and today (see chart). If you buy an index, you think you're getting diversification but you're actually getting a lot of correlated bets. In 2016, nearly 40% of the TSX is in financials, which is heavily dominated by Canadian banks. We do not own any Canadian banks today.
- The active share of the Cambridge funds tend to be fairly high because we use a distinct, bottom-up approach.
- Eight of the top 10 holdings are the same across the TSX and the three largest dividend funds in the country. Investors in those funds will be better served owning an index fund because there is no value in paying an active management fee when you're effectively getting the index.

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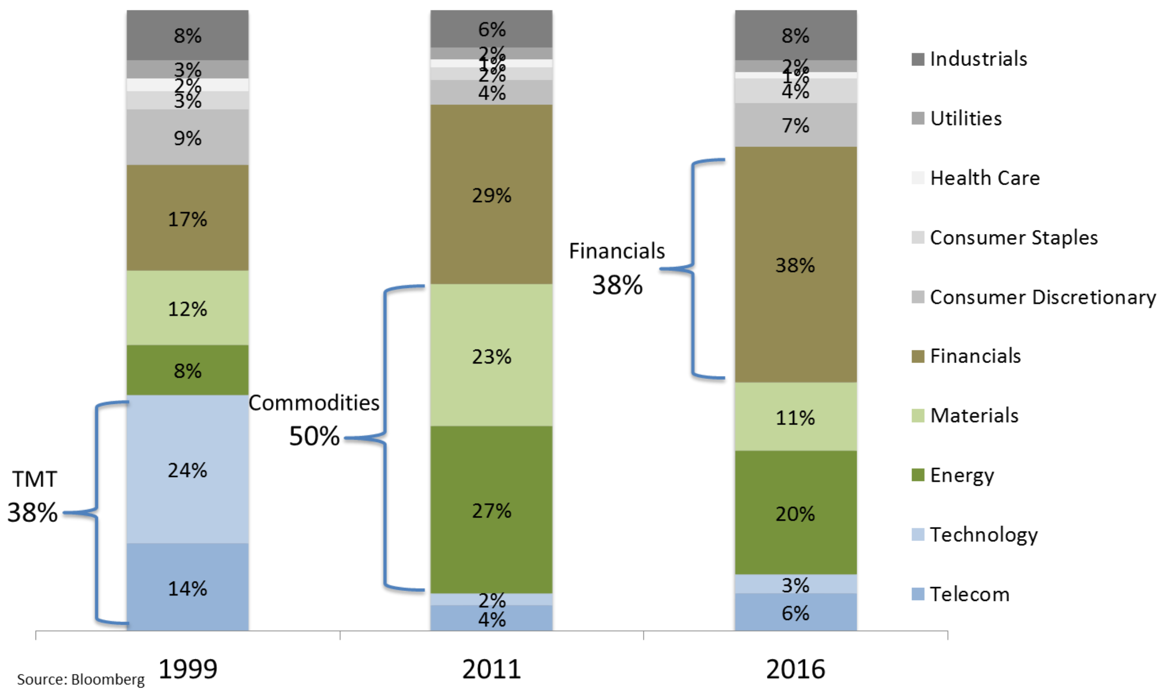

Source: Bloomberg

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