Market Commentary

CI Digital Roadshow

TETREM CAPITAL MANAGEMENT

Summary of a presentation by Daniel Bubis, President and Chief Investment Officer, Tetrem Capital Management
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- Tetrem is a team of nine investment professionals with about 100 years of collective investment experience. The team manages over $6 billion across Canadian and U.S. equity portfolios for CI. Tetrem's value investment process is driven by bottom-up fundamental research.
- We follow a contrarian value style. We look for out-of-favour companies that have a margin of safety, where fundamentals are improving, but expectations are low. We see downside risk in stocks that have gone up dramatically.
- Equities are at about fair value overall, but if you can achieve a bit of earnings growth along with dividends that are growing, then you will outperform the bond market, which is offering negligible returns. We look for companies that can support and grow their dividends, and that will return capital to shareholders through buybacks and support share prices through M&A.
- We recently refreshed our investment process to put greater emphasis on high-quality companies with an economic moat and consistent earnings. We added greater weight to dividend-paying companies in the portfolios, and to improving fundamentals to avoid value traps.
- This resulted in a reduced number of holdings in CI Canadian Investment Fund, CI Canadian Dividend Fund, United Canadian Equity Value Pool and United US Equity Alpha Corporate Class, and greater concentration in our higher-conviction ideas. Although it has been a difficult market for value-oriented strategies, we are seeing lower volatility and improved alpha in our portfolios.

Examples of Tetrem holdings

- We like the Canadian banks and have a substantial investment in them. We found a good opportunity to invest earlier this year when they were undervalued. They are blue-chip companies with strong capital ratios and good economic moats. The risks are around housing and consumer debt levels, but they have shown their resiliency through the recent

energy sector weakness, and have had above-average earnings growth and dividend yields. Relative to their international peers, we see little downside.

- Canadian Natural Resources is a well-managed, low-cost energy producer. It has long-life assets and is investing in its operations. Even without oil prices going up, the company has the potential to significantly increase free cash flow, which we believe will be reinvested in the business and used for share buybacks and dividend increases in future years.
- Air Canada is trading at an attractive valuation, about 3x earnings. It has improved its operations by expanding into international markets, paying down debt and restructuring its labour force, among other things. We expect the share price to increase over the next year as these changes are recognized and as the company begins to generate more free cash flow.
- We also like Union Pacific, which is the largest railroad in the U.S. The stock price fell with the recent commodity-related slowdown, but we expect volumes to improve and drive margins higher. The company has a lot of pricing power and a strong economic moat.
- Department stores are being challenged by online shopping sites but we like Macy's, which has a strong online presence and is taking steps to rationalize its business. The company is closing many of its underperforming stores, which should support sales in the remaining locations. It is a good example of an out-of-favour company where expectations are low. The company has a valuable real estate portfolio that is underappreciated by the market but which adds a margin of safety for investors. While we wait for its fundamentals to improve, the company pays a dividend yield of about 4%.