

ACTIVE INSIGHT

Our investment process focuses on identifying value-creating businesses with durable competitive advantages. These advantages allow the companies to generate excess returns within their industries, in turn allowing them to reinvest in their business or distribute capital to shareholders above and beyond their peers. After identifying a value-creating business, the weight we hold in the fund is driven by the risk/reward that we see, because a great company can be a bad stock if purchased at the wrong price.

Over the last year, seven new companies have entered the top 10 holdings within the portfolio. These holdings have made it into the top 10 through our disciplined fundamental investment process and by rebalancing the portfolio into the most attractive risk/reward opportunities.

FUND COMMENTARY

Global financial markets extended their rally during the fourth quarter, capping a strong year. The synchronized global economic expansion gained momentum as the economic outlook improved throughout the year. In this healthy environment, the portfolio was up about 5% during the quarter.

Performance was driven by strong contribution from companies in the industrials and consumer discretionary sectors. Within industrials, engineering and construction firm Fluor contributed positively with shares advancing about 23% during the quarter. After a challenging first half of 2017, the company announced improved execution on challenging contracts that beat low expectations. Within consumer discretionary, Dollar Tree performed well as shares in the company advanced nearly 30% during the quarter. The company continued to make progress on the integration of Family Dollar and delivered strong same-store sales that beat expectations.

Although the portfolio delivered a positive return, it lagged the S&P 500 Index, largely due to holdings in the information technology sectors, as well as the portfolio's cash position. Within technology, Symantec was an absolute and relative detractor, with the shares declining about 14% during the quarter. The weakness followed its quarterly earnings release where it announced lower-than-expected revenue growth and margins within its enterprise segment. Despite these short-term results, Symantec remains a holding within the portfolio as the longer-term thesis of stabilization in its core businesses and the potential for additional capital allocation through mergers and acquisitions remains intact. Cash positions were also a headwind to relative performance.

Cash positions rose during the quarter to about 23% at the end of the year, up from about 16%. The portfolio's positioning and the cash levels are an outcome of changes to the risk/reward ratios in the underlying companies that we cover.

As we look forward, we remain focused on identifying attractive risk/reward opportunities in value-creating businesses. Market sentiment has improved significantly over the last year and valuations have expanded accordingly. We are comfortable taking on less risk than the market when risk appetite is high and opportunities are harder to find – a description that fits today's environment.

PERFORMANCE

Returns as of December 31, 2017 (in %)	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (7/17/2000)
Cambridge American Equity Fund (Class F)	4.1	4.1	8.4	17.0	6.8	0.9

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2 Queen Street East, Twentieth Floor, Toronto, Ontario M5C 3G7 | www.ci.com

Head Office / Toronto
416-364-1145
1-800-268-9374

Calgary
403-205-4396
1-800-776-9027

Montreal
514-875-0090
1-800-268-1602

Vancouver
604-681-3346
1-800-665-6994

Client Services
English: 1-800-563-5181
French: 1-800-668-3528