

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, three 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 1% during the quarter.

Performance was driven by strong contributions from companies in the industrials and financials sectors. Industrials holding Middleby rose about 6% in the quarter as the shares ended the year well. The company recovered from an earnings report where it announced some near-term margin pressures. Financials holding Morningstar also performed well in the quarter. The investment research company saw its shares rise about 14% in the quarter as revenue growth accelerated into the high teens.

The largest detractors within the portfolio included consumer sector holding Byggmax and energy holding Tourmaline Oil. Byggmax, the Scandinavian retailer of building materials, announced a company-wide restructuring during the quarter. Its new CEO, who joined the company in early 2017, is taking action to simplify the business and implement a turnaround plan. Shares of Tourmaline Oil were impacted by weak natural gas prices and deteriorating sentiment toward Canadian producers. Shares of Byggmax and Tourmaline Oil were down about 20% and 10% respectively during the quarter. We continue to hold both companies and believe these short-term headwinds will subside and the market will realize the value in these businesses.

New holdings were also added to the portfolio during the quarter. We initiated a position in Canadian casino operator Great Canadian Gaming. The portfolio also added Winpak, a manufacturer and distributor of packaging materials, primarily in serving the food industry. We believe both companies were attractively priced relative to their strong fundamental outlook.

The cash position declined to about 13% at the end of the year, from nearly 15% at the start of the quarter. The portfolio finished the year with about 50% of equities held in Canada, 18% exposure to the U.S., 17% exposure to Europe and 3% to Asia-Pacific and South America. This positioning and the cash level held in the portfolio are an outcome of changes to the risk/reward ratios in the underlying companies that we cover.

FUND COMMENTARY (CONTINUED)

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	Since Inception (2/15/2011)
Cambridge Canadian Growth Companies Fund (Class F)	5.8	5.8	8.0	15.8	17.9

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