

## 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, six 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 environment, the portfolio ended the quarter slightly lower.

Performance was driven by strong contribution from companies in the industrials and consumer sectors. Industrials holding Brookfield Business Partners was a strong contributor as shares rose about 17% in the quarter. The company announced a strong quarter that saw its construction backlog rise 21% year-over-year as they continue to target a 15%-20% return on new investments. B&M European Value Retail was also a strong performer, with shares rising over 11% during the quarter. The U.K.-based retailer continued to demonstrate strong underlying fundamentals as store traffic trends remained robust and it continued to expand by opening new locations. Both holdings remained within the portfolio at year-end.

Looking at detractors within the portfolio, holdings in the energy and materials sectors contributed negatively to performance. Within energy, Tourmaline Oil was impacted by weak natural gas prices and deteriorating sentiment toward Canadian producers, pushing the shares lower by about 10% during the quarter. We continue to own the company and believe these short-term headwinds will subside and the market will realize the value in this business. Within materials, Klondex Mines had a challenging period. Its shares ended about 28% lower during the quarter after the company announced higher costs related to ramping production at a new mine.

New holdings were also added to the portfolio during the quarter. We initiated a position in Winpak, a manufacturer and distributor of packaging materials, primarily in serving the food industry. We also added Empire, a grocer in the midst of turnaround efforts which are progressing well. We believe both companies were attractively priced relative to their strong fundamental outlooks.

The cash position increased to about 21% at the end of the year, from about 17% at the start of the quarter. The portfolio finished the year with about 69% exposure to Canada, 5% exposure to Europe and 5% exposure to the United States. This positioning and the cash levels 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 Pure Canadian Equity Fund (Class F)	0.7	0.7	5.8	15.3	16.3

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