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Cambridge Conference Call Summary

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Overview

- We have been pragmatic during the coronavirus crisis, re-thinking and testing existing assumptions and challenging one another. This will continue to be important as we consider how to reposition portfolios and as we gain clarity about how things will play out.

- There has been a significant liquidation of equities across the board, but this has provided an opportunity to deploy the cash in our portfolios to buy businesses that are more defensive and durable and, in some cases, interest-rate-sensitive. We have been able to add (or increase existing) positions in some companies at very attractive absolute levels.

- It is difficult to assess stocks' true valuations, so price-earnings ratios may not be a relevant measure in current market conditions. It appears we are witnessing the biggest impact on gross domestic product (GDP) and real economic activity in 70 years.

- Once investors are able to identify the winners and losers, a relative advantage between industries and companies will become clearer and a more normalized investment environment will return. Valuations have fallen to significant lows that we have not seen in years. While this does not mean the worst is over, we sense that the trading volumes are beginning to ease off. We will begin increasing our equity exposure once the markets stabilize.

- Cambridge Asset Allocation Fund has held up well as markets have fallen. We have been conservatively positioned for a number of years. We have had a 12% underweight position in equities and as a result have enjoyed some protection.

Canadian equities

- We have held approximately 10% in cash for some time and will be looking for incremental opportunities to deploy this cash.

- Stocks have all declined at the same time and there seem to be some dislocations between valuations and certain companies' investment fundamentals. This has given us the opportunity to buy into attractive business models with strong balance sheets at attractive prices.

- Some opportunities are in areas of the market that have been harder hit, specifically companies that might be impacted from a primary or secondary perspective, as compared to overall activity. We are researching these uncertainties so that we can act when we have enough future clarity.

- There are both economic and market considerations. We've seen a dramatic shift to a preference for liquidity in the market, even in the U.S. Treasury market, which already was the world's most liquid bond market.

Canadian dividend equities

- We entered 2020 thinking that the market was reasonably fairly valued and we held some cash. As coronavirus events were unfolding, we worked to follow our process of analyzing companies and seeking the best risk-reward opportunities in the market.

- We have been putting some of our cash to work, driven by a number of great buying opportunities in numerous areas. While select holdings performed as expected – and in some cases better than expected, such as health-related consumer staples positions in the U.S. market – some parts of the portfolio have cost us money. Energy holdings in particular have been very challenging.

- It is essential to be in regular contact with company management teams. In this very fluid situation, we want to remain informed in real time from the people that are running the businesses in which we are invested. We're also stress-testing our financial models; it is critical to understand revenue impacts, operating leverage, financial leverage and debt-maturity profiles. It is crucial that we understand to what degree a company's revenue may be at risk, how margin profiles are changing, the impact of various working capital dynamics on cash flow, and its capacity to repay debt.

- Selected quality financial companies have valuations that are very disconnected from investment fundamentals and thus carry a reasonable level of investment risk. There are some truly exceptional opportunities.

- In energy, many of our holdings are in pipelines and midstream oil-and-gas assets. The timeline for a recovery in oil prices is uncertain, so we are making adjustments to ensure that the companies we own have the cost structures and the financial profile to survive.

Small and mid-cap equities

- A portfolio's resilience should not come from cash, but rather from quality of its securities holdings. This has been the case in our small-cap mandates. We believe we have an advantage as portfolio managers by knowing what we paid for the businesses that we bought, understanding the value that we think that they hold, and then making sure that they survive the next one, three or five months. We need to ensure this value is recognized by the market when calmer heads prevail.

- While are seeing numerous opportunities, we are prudently prioritizing our time because we know we cannot get to everything. It is important to thoroughly understand each company and ensure we have allocated enough time and effort to prioritize the best businesses.

- We have had as much as 15% in cash, some of which we have deployed. We have taken the opportunity to liquidate positions that had become less attractive and rotated into some areas that have been harder hit.

- Large-cap stocks outperformed small and mid-caps last year, and they have managed better so far this year. This suggests it is probably an interesting time to be looking at small caps.

Global equities

- Our tendency to invest in companies with strong balance sheets and avoid those with high debt loads ensured we were in a better position to weather the coronavirus storm.

- We have seen some pressure on some of our holdings in major financials, but balance sheets are stable, unlike during the 2008 credit crisis, which is why we've maintained our position. An example is our holdings in stock exchanges, which have negligible or zero debt and in fact have seen their revenues boosted to near all-time highs due to recent extremely high trading volumes.

- We see this as an opportunity to pick the winners for the next decade. Already one-half of our 10% cash position has been invested, and the balance will also be deployed once prices hit our buy targets. We are getting there closer by the day, which is encouraging news.

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