Quarterly Investment Review

Q4 2013

Joseph Sirdevan, CFA
Graham Anderson, CA, CFA
Scott Connell, CFA
Investors

Results

December 31, 2013 marks the end of our first calendar year of managing money at Galibier. Over the past 15 months we have built two investment portfolios which now contain 22 names in Canada and 26 names in the U.S. The portfolios are concentrated in high conviction ideas and offer diversification across business sectors and market capitalization ranges. Each of the 48 investee companies in the portfolios demonstrate all of our five key criteria: an enduring competitive advantage, the potential for high free cash flow, strong management teams, above average growth and an appropriate financial structure.

The fourth quarter of 2013 again provided divergent returns in Canada and the U.S. with the Canadian market generating strong performance of +7.3% while the U.S. market had exceptional performance of +14.2% in C$. In Canada, the performance was broad based and led by the Industrial, Health Care and Financial sectors. In the U.S., the market was led higher by Industrials, Information Technology and Consumer Discretionary stocks.

For the year, performance in the U.S. market was a remarkable +41.3% in C$ while the TSX provided +13.0%.

Both of Galibier's portfolios exceeded their respective benchmarks in the quarter and for the year.

Summary of Results

Period ending: December 31, 2013	3 Months (%)	1 Year (%)
Galibier Canadian Equity Pool	**12.0**	**30.3**
S&P/TSX Comp. (total return)	7.3	13.0
Galibier U.S. Equity Pool	**15.4**	**42.3**
S&P500 (CAD, total return)	14.2	41.3
DEX Universe Bond Index	0.4	-1.2

Note:
Return figures are gross of fees and fund expenses.
See Disclaimer at the end of this document for information about the returns.
Source: Galibier Capital Management Ltd, Bloomberg.

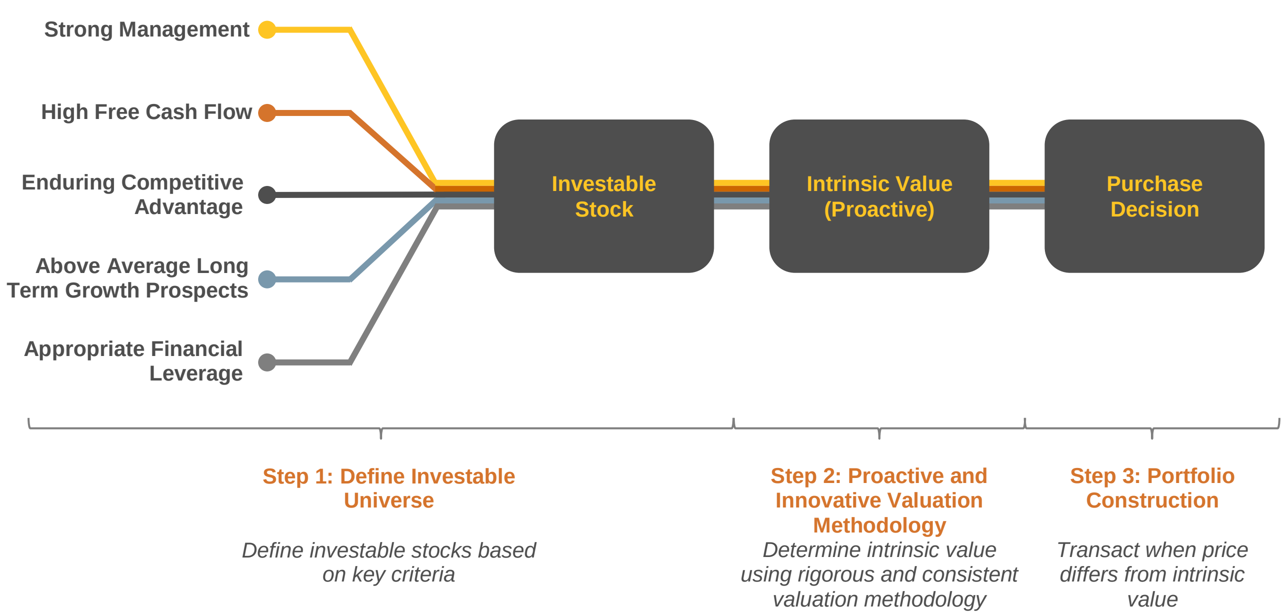
80 Richmond St. West | Suite 801 | Toronto | ON | M5H 2A4
416.867.1234
www.galibiercapital.com

Galibier Capital Management Ltd.

At Galibier we work hard to (1) derive a measure of intrinsic value for a universe of investable stocks and (2) transact when market prices offer opportunities. To paraphrase Warren Buffett “Price is what you pay. [Intrinsic] Value is what you get.” Thus, while we welcome price to earnings multiple expansions, what really drives increases in the future *value* of companies is higher future earnings. Our investment process seeks to identify and value future earnings power and balance sheet structure using reasonable expectations about future economic conditions and high discount rates.

Galibier Investment Philosophy and Process

Galibier follows a proactive and innovative valuation methodology



We Believe

- Companies have an intrinsic value that can be calculated
- Market prices do not always reflect intrinsic value
- Growth is a component of value
- At some price, almost all stocks offer a value proposition
- Risk is the permanent loss of capital, not benchmark underperformance
- Investment companies should be independent and investor led
- The success of investment companies should be measured by the success of its clients

Galibier Canadian Equity Pool

The S&P/TSX provided strong performance over the quarter with a total return of +7.3%. Galibier's investment result was stronger still with a total return of +12.0%. Over the 1-year period ending December 31/2013, Galibier's Canadian portfolio returned +30.3% versus the S&P/TSX +13.0%.

Canadian Equity Pool Top Holdings (December 31/2013)	
	Weight (%)
1. Bank of Nova Scotia	8.7
2. Cenovus Energy Inc	5.8
3. Air Canada	5.6
4. Manulife Financial Corp	5.2
5. Canadian Natural Resources Ltd	5.1
6. Genworth MI Canada	5.1
7. Genivar Inc	5.0
8. Evertz Technologies	4.7
9. Loyalist Group Ltd.	4.7
10. CGI Group Inc	4.4
Total	**54.3**

Best performers[1]

AIR CANADA UP +109%

Air Canada, which was added to the portfolio in the third quarter, has generated very strong investment performance. The stock was purchased after significant research effort which crystallized multiple sources of potential value creation at Air Canada. Since our purchase, investors have bid up the stock as a result of excellent quarterly results and demonstrated execution of its strategic plan to increase seat density and to upgrade its fleet which will positively impact its margin structure. Investors may also be realizing that, as interest rates increase, Air Canada's pension liability will be reduced markedly which has a dramatic impact on the valuation of the company.

GENWORTH UP +28%

Genworth put up a second consecutive quarter of strong performance (was up 19% in the 3rd quarter) as it continued to benefit from continued reasonable housing fundamentals in Canada as well as investors beginning to ascribe the accretive impact of a gradual increase in interest rates on Genworth's earnings power. In addition, regulatory changes at the CMHC (the industry's largest player) will likely level the playing field for private mortgage insurance companies and could lead to better pricing for the industry. Trading at a P/E of 10X with a yield of 3.8%, Genworth remains very attractively priced.

MANULIFE UP +24%

Interest in insurance companies such as Manulife increased over the quarter as the market anticipated the end of quantitative easing in the US. The Fed has commenced "tapering" of its bond buying program which will lead to a gradual increase in interest rates. Insurance companies will benefit from higher interest rates due to the positive impact on investment income of their portfolios. Manulife looks very attractively valued against its longer term earnings power in a period of increasing rates.

All three of these names remain in the portfolio as core holdings as they continue to offer compelling investment propositions based on Galibier's criteria.

Worst Performers[1]

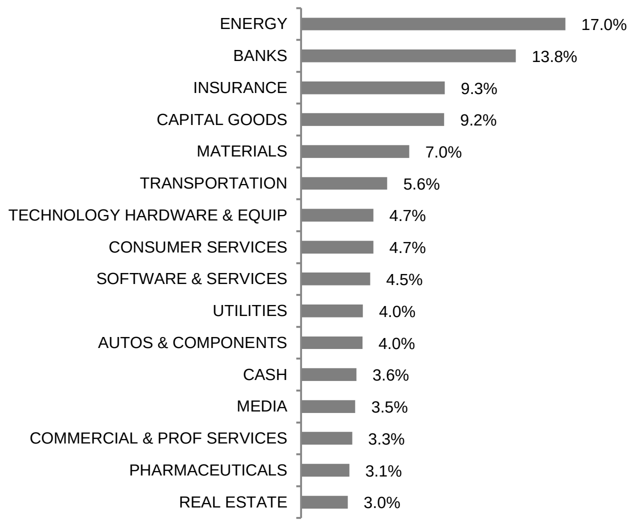
MARTINREA DOWN -26%

Martinrea International declined significantly during the quarter as accusations of misconduct were brought against the management team by a disgruntled former employee. While the seriousness of the accusations are not to be quickly dismissed, the fundamentals of the company, its competitive advantage in aluminum casting & forming and improving operations provide compelling value. The company continues to win new mandates from existing customers (large auto OEMs) and is working to improve profitability at its Hopkinsville, Kentucky facility, which has struggled to satisfy demand for the past few quarters. Going forward, the company should benefit from higher volumes for existing programs, new program wins and improved levels of profitability. After evaluating all the events in the quarter, and in light of the significant sell off, we added to our position during the quarter.

KINROSS DOWN -13%

The entire gold sector was dragged down by a significant decline in gold bullion price over the quarter. In addition, Kinross, which was long thought to be a takeover candidate, was impacted as potential suitors no longer had the currency to purchase the company. Kinross has continued to execute well despite the difficult gold price environment.

Canadian Equity Pool Industry Split (December 31/2013)



Buys & Sells

In the Canadian Equity Pool, new positions were established during the quarter in Northland Power, Dundee International REIT and Goldcorp.

Northland Power

Northland Power Inc. (Northland) is a leading independent power producer in Canada. The company produces 1,329 MW of thermal, wind, hydro and solar power sold through long-term power purchase agreements. Their assets generate a steady stream of cash flows, which are then paid through to shareholders at an attractive yield of 7%. The development portfolio includes a number of robust projects that are expected to add another 2,500 MW of capacity over the next several years. Management has a strong track record of constructing new power assets on time and on budget, which makes them a credible bidder and preferred partner on future projects. Management also owns a significant stake in the company aligning them closely with other shareholders.

Dundee International REIT

Dundee International is a Real Estate Investment Trust (REIT) focused on properties outside of Canada. They currently have close to 300 properties, all located in Germany, with more than 15 million square feet. Dundee International enjoys the advantage of access to the Canadian capital markets and the real estate expertise of Dundee, while securing low cost local funding in the German market. They have teams on the ground in Germany with in-depth knowledge of the real estate markets on a building-by-building basis. Acquisitions have diversified their tenant base and they continue to see attractive opportunities. We receive a 10% yield on our cost base and there exists the potential for significant capital appreciation if the discount from net asset value closes.

Goldcorp

Goldcorp Inc. (Goldcorp) is a gold producer engaged in the operation, exploration, development and acquisition of precious metal properties in Canada, the United States, Mexico and Central and South America. Goldcorp's competitive advantage stems from its low and declining production cost position. By 2015 we expect Goldcorp's cash costs to be among the lowest in the gold industry. The company is very well managed and was purchased at a significant discount to the company's net asset value. Goldcorp is well financed and can weather a prolonged period of low gold prices. It offers an attractive dividend yield of approximately 2.8%

During the quarter, the Canadian Equity Pool also added to its positions in MacDonald Dettwiler and Martinrea. The Pool trimmed its holdings in Air Canada as the share price increased and eliminated its position in Kinross in favour of Goldcorp.

As a result of purchases in both new and existing names, the cash position of the Pool has been reduced slightly to 3.6% despite steady inflows over the quarter. As well, the Pool has become more diversified by industry with new exposure to the real estate sector (Dundee International) and Utility sector (Northland Power).

Canadian Equity Pool Dynamics (December 31/2013)

Measure	Canadian Pool	S&P/TSX Comp
FY1 P/E	13.8x	14.4x
Dividend Yield	2.6%	2.9%

Source: *Galibier Capital Management Ltd, Bloomberg*

Galibier U.S. Equity Pool

The S&P500's performance in the quarter was +14.2% in Canadian dollar terms. Galibier's investment results were somewhat stronger at +15.4% for the quarter. For the year, the market was up +41.3% in C$ and Galibier's investment result was +42.3%.

US Equity Pool Top Holdings (December 31 /2013)	Weight (%)
1. Express Scripts Holding Co	5.3
2. VISA Inc.	5.2
3. Sanofi SA (ADR)	4.9
4. JPMorgan Chase & Co	4.9
5. Mondelez International Inc	4.8
6. Cognizant Technology Solutions	4.6
7. Qualcomm Inc.	4.4
8. HollyFrontier Corp	4.3
9. Oracle Corp.	4.3
10. Iconix Brand Group, Inc.	4.2
Total	**46.9**

Best performers[1]

Cognizant up +27%

Cognizant Technology rallied during the quarter as investor concerns regarding the potential negative impact of immigration reform by the U.S. government subsided. Cognizant is well positioned to benefit from increased spending on I.T. services by large enterprise customers. Customers require Cognizant's help in migrating their current I.T. systems to a more efficient form and to garner additional insights to accelerate growth.

Holly Frontier up +24%

Holly Frontier, which was purchased in the third quarter, has been a strong performer for the fund. This is due to declining input costs for crude oil feedstock leading to widening spreads between downstream product and feedstock costs. The company has an excellent balance sheet (net net working capital of $7.60 per share) with a history of paying special dividends so investors are likely starting to factor another significant special dividend being announced.

Iconix Brand Group up +24%

Iconix Brand Group performed strongly in the quarter. The company delivered 30% earnings per share growth in its fiscal 3rd quarter and issued guidance that positively surprised the market. Iconix's unique "capital light" and high ROE business model should perform well in the current competitive retail marketplace as retailers discount prices in order to move inventory. Iconix is more levered on retail volumes, rather than price, as it garners a royalty on units sold.

All three of these names remain in the portfolio as core holdings as they continue to offer compelling investment propositions based on Galibier's criteria.

Worst Performers[1]

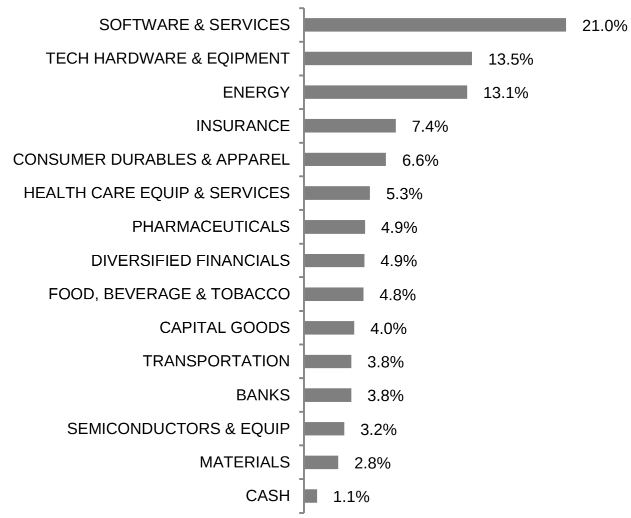
Cisco systems down -0.3%

Cisco's results for the quarter were disappointing. For the quarter, revenue growth was only +1.8% year over year, much below the company's target of 5-7%. Even more troubling was the guidance for the next quarter which predicted significantly lowered sequential revenues (down 10%). On a positive note, Cisco's focus on cost reduction has led to widening margins and, as a result, earnings have not deteriorated as much as revenue. We are monitoring the story closely. Eventually service providers will need to upgrade their routers and in the meantime Cisco is well positioned in data centres and in internet infrastructure products. The company is very well financed, has significant excess cash to fund dividends and buybacks and offers a significant yield of 3.1%.

IBM up +5%

Over the quarter, IBM announced another quarter with lower than expected revenue growth. Looking ahead, the company has a large pipeline of software development in high growth areas such as data analytics. Margins should also begin to widen out due to improving business mix as well as significant cost reductions. While the company's goal of $20 in earnings per share in 2015 may not be realized until 2016 or 2017, the current price vs future earnings power suggests the potential significant upside for the stock price. IBM's current dividend yield is reasonable at 2.0%.

US Equity Pool Industry Split (December 31/2013)



Buys & Sells

During the third quarter the U.S. Pool established new positions in two names, Ultratech and Booz Allen Hamilton.

Ultratech

Ultratech, Inc. provides highly specialized equipment used in the semiconductor manufacturing process. Specifically, the company has key technology and patents in the photolithography, inspection and packaging segments. Ultratech should benefit from continued growth in demand for computing capacity and speed. The 50-year trend of increasing semiconductor performance has been accomplished through packing more transistors into a smaller chip area, which increases the speed at which transistors can switch. In order to perpetuate this trend the industry is moving to a new transistor architecture (FinFet) that will increase demand for Ultratech's laser products – a key component in the chip manufacturing process. Additionally, in the packaging segment, the move to thinner devices is beneficial for demand for the "bump" packaging technology that Ultratech provides (for example, the current iPhone 5S is 35% thinner than the original version). The company is currently experiencing a push out of orders as the industry works to implement the FinFet process and this caused the stock to sell off significantly over the past year. With $12 per share of net working capital the company can easily withstand the current lull in orders. Its competitive advantage and the increased need for its products will benefit the company and shareholders going forward.

Booz Allen Hamilton

Booz Allen Hamilton is celebrating their 100th year in 2014 and is a leading provider of management consulting, technology and engineering services largely to the U.S. government. Despite a slowdown in U.S. government spending due to sequestration, we believe Booz Allen is well positioned in growing areas like cyber security and other mission critical elements of the U.S. government's activities which makes them much more immune to government budget cuts. They also have significant opportunities to grow in commercial and international markets. In addition to paying a 2% recurring yield, management has declared $9 per share in special dividends in the last two years.

Over the course of the fourth quarter the U.S. Equity Pool added to its position in Express Scripts and IBM and reduced its ownership in Trimble Navigation Ltd. The position in Tiffany & Company was sold as its share price appreciated over 50% since our purchase and was trading well above Galibier's view of its intrinsic value.

The cash position of the fund is at 1.1% as of December 31, 2013.

U.S. Equity Pool Dynamics (December 31/2013)

Measure	U.S. Pool	S&P500
FY1 P/E	15.8x	15.2x
Dividend Yield	1.7%	1.9%

Source: *Galibier Capital Management Ltd, Bloomberg*

Notes:

1. *Performance % represents the return to the pool during the most recent quarter and includes the impact of market price changes, buys, sells, and dividends (if any).*

Disclaimer

Galibier Capital Management Ltd. ("Galibier") is registered with the Ontario Securities Commission as a Portfolio Manager and Investment Fund Manager and with the British Columbia Securities Commission as a Portfolio Manager. This summary does not constitute an offer to sell or buy any securities. All information and opinions as well as any figures indicated herein are subject to change without notice.

The Galibier Canadian Equity Pool and the Galibier U.S. Equity Pool are available to accredited investors as that term is defined under Canadian securities legislation. An investment in the funds will involve significant risks due, among other things, to the nature of the funds' investments.

All return figures for the funds are gross of fees and fund expenses. Indicated rates of return are historical returns, including changes in security value and reinvestment of all distributions and does not take into account any applicable income taxes payable by any security holder that would have reduced returns.

The funds' returns are not guaranteed, the values change frequently and past performance may not be repeated.

All returns prior to June 6, 2013 are related to Galibier's proprietary accounts, as Galibier's employees were the sole investors in the Galibier Canadian Equity Pool and the Galibier U.S. Equity Pool (the "Funds") during this period of time. Returns are presented only for periods during which Galibier has been registered as a portfolio manager. The investment strategies of the Funds have not changed since the Funds' inception. Canadian securities administrators have expressed concerns regarding marketing returns for proprietary accounts as firms can employ different strategies and take greater risks when managing its own investments without a fiduciary duty to third party investors.