Galibier Capital Management Ltd.

# Galibier Opportunities Fund
# Quarterly Investment Review

# Q2 2017


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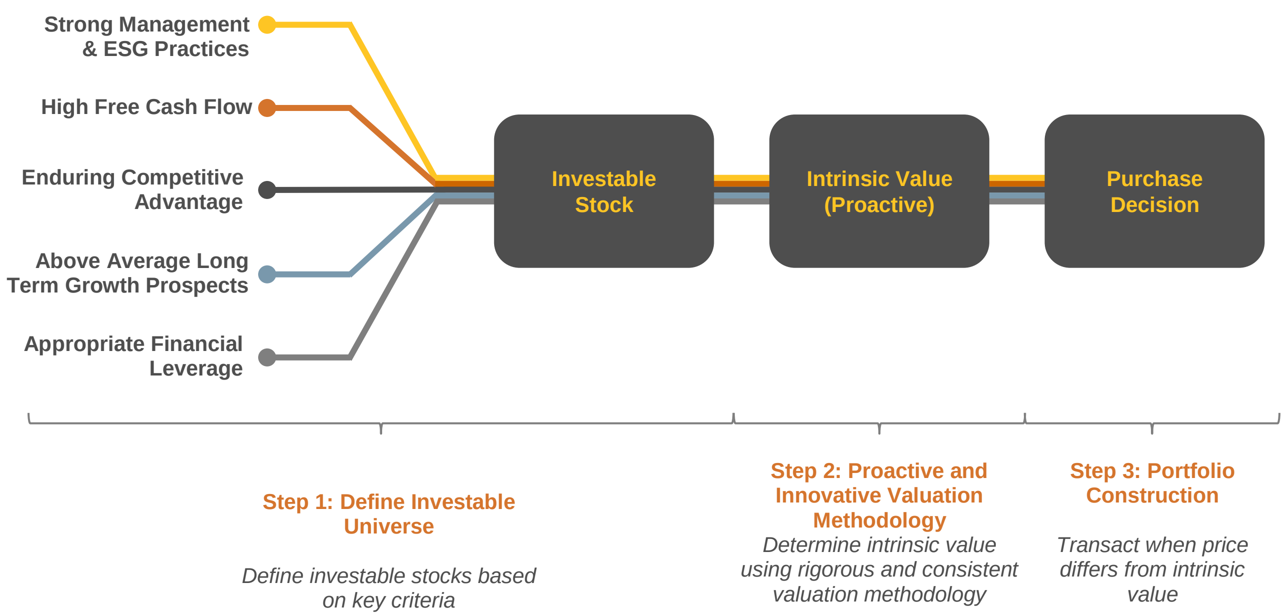
## Galibier Capital Management Ltd.

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
- Concentration is essential for generating alpha
- 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
- An essential element towards investment success is to have a contrarian mindset… ie. to be sanguine when others are discouraged and to be cautious when others are exuberant….

## Summary of Results

| Period ending: Jun 30/2017 | 3 months (%) | 1 year (%) | 2 year (%) | Since Inception (%) |
|---|---|---|---|---|
| **Galibier Opportunities Fund** | **2.2** | **24.7** | **6.3** | **7.0** |
| S&P/TSX Composite (total return) | -1.6 | 11.0 | **5.3** | 4.5 |

Notes:

i. Return figures are gross of fees.
ii. Return figures are annualized for periods greater than 1 year.
iii. The Funds' returns are not guaranteed, the values change frequently and past performance may not be repeated.
iv. Inception date of the fund is October 31, 2014.
v. Returns are presented only for periods during which Galibier has been registered as a portfolio manager.
vi. The investment objectives of the Galibier Opportunities Fund have not changed since the Funds' inception.
vii. All returns of the Galibier Opportunities Fund prior to November 30, 2014 are related to Galibier's proprietary accounts, as Galibier's employees were the sole investors in the Funds during this period of time. 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.

*See Note 1 and Disclaimer at the end of this document for information about the returns and benchmarks.*
*Source: Galibier Capital Management Ltd, Bloomberg.*

## Galibier Opportunities Fund

In Q2 2017, the Galibier Opportunities Fund's investment results were 2.2%. The one year return of the fund was 24.7%. Since its inception on October 31, 2014, the fund has provided a total return of 7.0% versus the S&P/TSX index which returned 4.5%.

### Opportunities Fund Largest Positions (Jun 30/2017)

| Long positions | | Weight (%) |
|---|---|---|
| 1. | Ryanair Holdings PLC | 5.9 |
| 2. | Liquor Stores N.A. Ltd. | 5.8 |
| 3. | Nike Inc. | 5.5 |
| 4. | Exchange Income Corp. | 4.9 |
| 5. | Anheuser-Busch InBev NV | 4.8 |
| 6. | Dream Global REIT | 4.7 |
| 7. | Echo Global Logistics Inc. | 4.7 |
| 8. | MEG Energy Corp. | 4.6 |
| 9. | Cargojet Inc. | 4.6 |
| 10. | Biogen Inc. | 4.4 |
| **Total** | | **49.9** |

| Short positions | | Weight (%) |
|---|---|---|
| 1. | Ulta Beauty Inc. | (4.8) |
| **Total** | | **(4.8)** |

### Best performers during the quarter[2]

BRICK BREWING UP +34%

Brick Brewing had strong share price performance in the quarter as investors look forward to a number of tailwinds this summer season. Last year Brick had signed the license for Landshark, but it was only available in the Beer Store and in Ontario. This year, it is available in the LCBO as well as several additional provinces, with volumes showing impressive growth year over year. Brick is also benefitting from additional co-pack volumes in their Kitchener facility. We expect the tailwinds to continue with cost savings from the sale of Formosa in the third quarter and the continued roll out of beer in grocery stores over the course of 2017.

KERING UP +29%

The first half of 2017 has been very kind to Kering shareholders. Two of the luxury good company's key banners have been exhibiting very strong sales momentum – Gucci and Yves Saint Laurent. We expect continued good performance from these iconic banners and hopefully continued margin improvement at Puma which should more than offset lingering slowdown in global watch/timepiece sales. The stock has been very strong and Galibier has trimmed its position somewhat in response to this strength.

RYANAIR UP +26%

Similar to Kering, Ryanair has been operationally very strong. In particular, the company has a very solid backlog of bringing on more and more city pairs with its 'Ultra Low Cost Carrier' model. Ryanair offers a compelling value proposition to Europeans on the move. We see a number of years of strong revenue growth from Ryanair. As well, our meetings with management confirm that they are as passionate as ever about growing the business.

### DREAM GLOBAL REIT UP +16%

Dream Global REIT (DRG) had solid performance in the quarter as the company continues to make attractive acquisitions. This highlights the company's low cost of borrowing versus the expected returns available on new property acquisitions in Europe. DRG's new listing on the Frankfurt Stock Exchange has also helped to narrow the valuation gap between the German listed comparable companies and Dream Global REIT, as some European investors were previously unable or unwilling to buy Canadian listed equities. Finally, the high level of renewals by one of DRG's largest tenants (Deutsche Post) for the 2018 window gives stability to this longstanding relationship.

## Worst performers during the quarter[2]

### MEG ENERGY DOWN -45%

MEG Energy is a levered play on oil, with significant midstream and pipeline assets that would be a source of liquidity should oil prices stay at the current level. As well, its debt is termed out into the future so near term liquidity appears fine. MEG offers significant upside leverage to a recovery in oil price to the mid $50's.

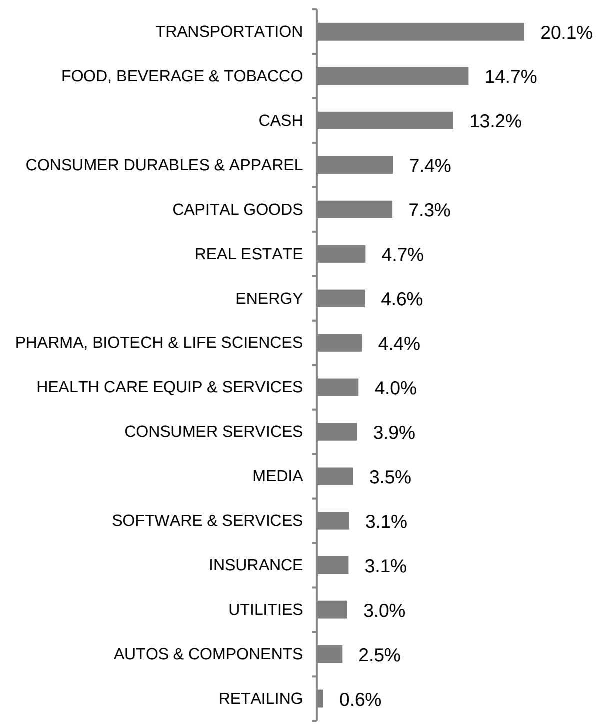
### EXCHANGE INCOME DOWN -14%

Exchange Income (EIF) had weak share price movement following the release of its first quarter results. EIF's regional airlines fly into a number of remote, Northern communities and Q1 had significantly more challenging weather than the previous year, with double the number of flights cancelled. The company took advantage of the downtime to do additional MRO (maintenance, repair and overhaul), which created incremental costs in the first quarter. We believe that EIF has a number of growth initiatives including potential acquisition opportunities and the delivery of its new surveillance plane.

### ECHO GLOBAL LOGISTICS DOWN -9%

Echo Global Logistics had another weak quarter of performance as freight market pricing remained depressed. The company completed the technology integration of its most recent acquisition, Command Transportation, in Q4 of 2016 and we are optimistic that results will start to reflect the combined power of this business. Regulatory tailwinds relating to electronic log devices should take some additional capacity out of the freight market later this year, which should lead to an improved pricing environment.

**Industry Split (Jun 30/2017)**




## Buys & Sells

Two new positions were added to the fund in the quarter: Anheuser-Busch Inbev NV ADR and short Ulta Beauty Inc.

In addition, we added to several names including Cargojet Inc., Echo Global Logistics Inc., Liquor Stores N.A. Ltd., MEG Energy Corp. and Nike Inc.

We reduced our positions in Brick Brewing Company Ltd., Gildan Activewear Inc., Kering, Martinrea International Inc. and New Flyer Industries Inc.

Three positions were eliminated during the quarter: Computer Modelling Group Ltd., Las Vegas Sands Corp. and Polaris Industries Inc.

**New Buys:**

### Anheuser-Busch InBev NV ADR

Anheuser Busch (BUD), the world's largest brewer, is in the process of integrating a number of recent large acquisitions, most notably SAB Miller which was purchased recently. The company's earnings trajectory looks favourable as it exploits its massive market share in Brazil, Argentina and Canada through its Ambev subsidiary which it owns 62%. As well, wholly owned Budweiser owns dominant market shares in U.S.A. (48%), Belgium (57%) and Ukraine (36%). African growth is thought to be quite significant as SAB Miller benefits from BUD's innovative management practices under the 3G Group which has turned around Kraft/Heinz among others. BUD generates enormous and growing free cash flow which, in the short run, will be used for debt reduction which will ultimately lead to higher equity price realization.

**New Shorts:**

### Ulta Beauty Inc.

We shorted Ulta primarily on valuation. The company is trading at a mid-30's P/E multiple which seems high versus its growth rate and long term earnings power. ULTA operates approximately 980 stores in 48 states selling cosmetics, hair care and skin care products. We believe that the market is too optimistic on the company's growth opportunities and that the company may reach saturation before too long. Other risks to Ulta include the threat of Amazon increasing its exposure to the cosmetics business and large global cosmetics and hair care companies increasing their direct to consumer segments.

Notes:

1. *When evaluating the performance of any investment, it is important to compare it against an appropriate benchmark in order to make an informed assessment of the account's performance based on its investment strategy. For the Galibier Opportunities Fund, Galibier utilizes the S&P/TSX Composite index for this purpose as it is a broad market index, one of the most well-known indices and is most likely to resemble the investment strategy of the fund. It is important to note that benchmarks do not include operating charges and transaction charges as well as other expenses related to the account's investments, which may affect its performance.*

2. *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, with the British Columbia Securities Commission as a Portfolio Manager, with the Nova Scotia Securities Commission as a Portfolio Manager, with the Autorité des Marchés Financiers in Quebec as a Portfolio Manager and Investment Fund Manager and with the Alberta 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, the Galibier Global Equity Pool and the Galibier Opportunities Fund (the "Funds") 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.