# Galibier Opportunities Fund
# Quarterly Investment Review

# Q4 2019

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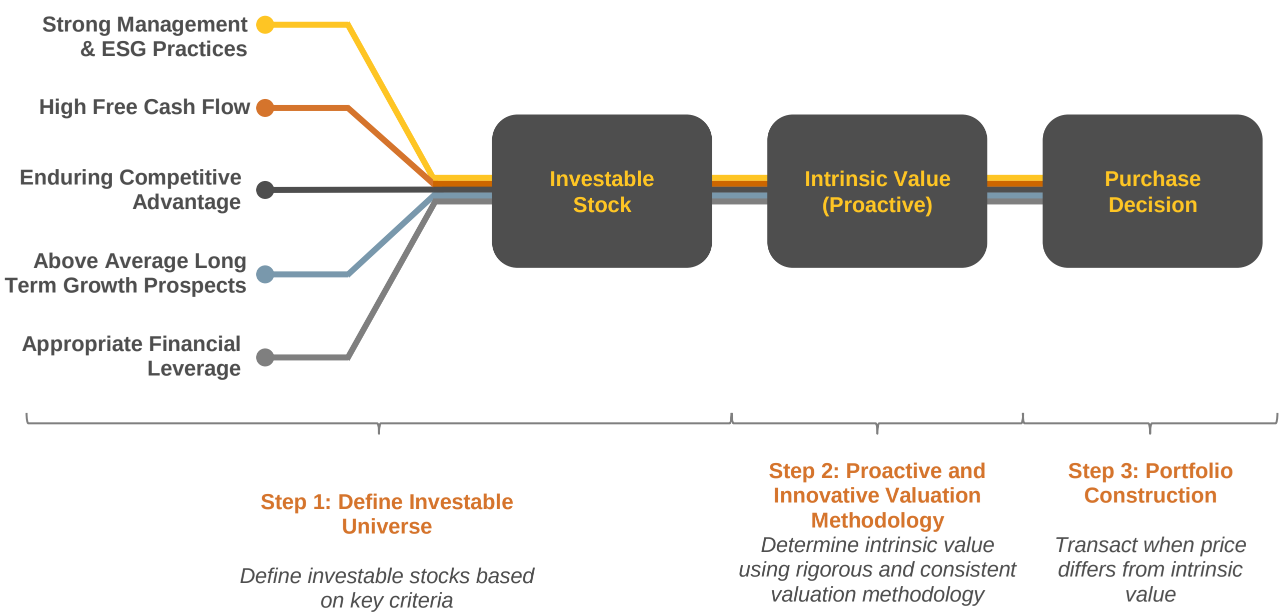
## Galibier Capital Management Ltd.

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 – *The Galibier Way*

*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: Dec 31/2019 | Since Oct31/14 (%) | 5 year (%) | 4 year (%) | 3 year (%) | 2 year (%) | 1 year (%) |
|---|---|---|---|---|---|---|
| **Galibier Opportunities Fund** | **10.6** | **10.6** | **16.6** | **14.6** | **13.4** | **30.6** |
| S&P/TSX Composite (total return) | 6.2 | 6.3 | 10.3 | 6.9 | 5.8 | 22.9 |

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.*
- viii. *Performance presentation consistent with recommendations from FCLTGlobal "Institutional Investment Mandates: Anchors for Long-term Performance" www.fcltglobal.org*

*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 Q4 2019, the Galibier Opportunities Fund generated a return of +8.7% versus the 3.2% return of the index. Since its inception on October 31, 2014, the fund has provided an annual return of +10.6% versus the S&P/TSX index which returned +6.2%.

### Opportunities Fund Largest Positions (Dec 31/2019)

| Long positions | | Weight (%) |
|---|---|---|
| 1. | AstraZeneca PLC ADR | 6.7 |
| 2. | Premium Brands Holdings Corp. | 6.0 |
| 3. | Anheuser-Busch Inbev NV ADR | 5.7 |
| 4. | NFI Group Inc. | 5.5 |
| 5. | Fluor Corp. | 5.3 |
| 6. | Booking Holdings Inc. | 5.2 |
| 7. | Maple Leaf Foods Inc. | 5.2 |
| 8. | AbbVie Inc. | 5.1 |
| 9. | Park Lawn Corp. | 5.1 |
| 10. | Ag Growth International Inc. | 4.8 |
| **Total** | | **54.6** |

### Best performers during the quarter[2]

#### SNC-Lavalin up +71%

Shares of SNC, a new holding in the fund, increased significantly during the quarter after being pressured by numerous company specific and political events throughout the past year. Shares reacted very positively to third quarter results which showed better execution by management as cost overruns were limited and revenue increased 11%. During the quarter, SNC was awarded 12 new contracts and increased backlog 9.7%, helping to demonstrate the recent political pressures have not damaged SNC's brand in the marketplace. Additionally, late in the quarter, shares reacted favourably to a settlement of the federal charges brought against the company arising from legacy activities in Libya between 2001 and 2011. We marginally reduced our position after these positive developments.

#### AbbVie up +16%

Pharmaceutical company AbbVie continued to rebound after being oversold when it announced its intention to acquire Allergan. Additionally, our AbbVie investment thesis is that once the Allergan deal is finalized, the non-Humira portfolio can outgrow the patent cliff from Humira. Recently launched follow-ons to Humira, Skyrizi and Rinvoq, are exceeding company and street expectations as they have far exceeded Humira in efficacy, safety and ease of use. They have earned their spots as best in class treatments and should alone offset half of the Humira patent cliff. During the Q3 results, AbbVie raised its dividend 10%, highlighting its strong free cash flow and now yields more than 5%. After strong capital appreciation, we trimmed our position and redeployed the proceeds into other names.

### PARK LAWN UP +14%

Shares of Park Lawn (PLC), the funeral services company, were strong in the quarter which reflected the execution of its acquisition plan as well as organic growth opportunities as the company works toward achieving its 2022 goals. The management team has clearly laid out their plan for the next few years to capitalize on internal efficiencies, margin improvement and densification where appropriate. Complimenting this strategy with acquisitions will add new geographic markets and strengthen existing positions with attractive assets.

### MAPLE LEAF FOODS UP +12%

We experienced a positive return in Maple Leaf Foods after purchasing the stock mid quarter. The shares became attractively priced after selling off following the release of its quarterly results where marketing spend on the plant-based protein business was larger than expectations. We believe that Maple Leaf has a significant opportunity to improve margins in its meat protein business as they consolidate poultry facilities and benefit from mix shifts. They are also well positioned with strong brands on the plant-based protein side of the company and should benefit from growth in that market as well.

## Worst performers during the quarter[2]

### ANHEUSER-BUSCH DOWN -15%

Shares of Anheuser-Busch (BUD) underperformed during the quarter as the company reported disappointing overall volume growth, principally driven by ongoing market share losses in its U.S. domestic product portfolio. BUD was at a meaningful weight in our fund at the beginning of the year and performed well throughout 2019. We had been steady sellers as the valuation multiple expanded and the shares recovered after a weak 2018. At a current valuation of 18x free cash flow, we believe the shares continue to trade at a meaningful discount to intrinsic value and that investors continue to underappreciate the company's “premiumization” strategy and growth through product mix changes to higher price point products. As a result, we recently increased our position in BUD.

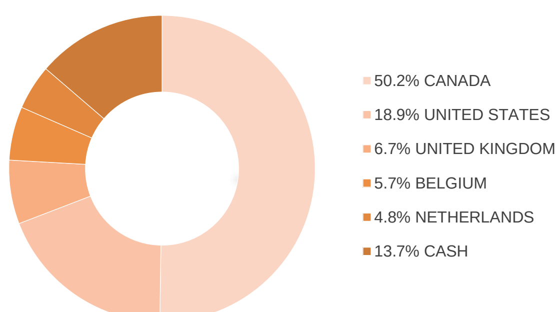
### ALCANNA DOWN -15%

Shares of Alcanna struggled in the quarter as cannabis companies continued to see share prices pressured. Aurora, a cannabis producer that owns 25% of Alcanna, was rumoured to be considering the exit of its stake to raise cash, which put additional pressure on Alcanna’s share price. As the company undergoes a turnaround in its liquor business (which represents ~85% of the company’s annual revenue) its quarterly results demonstrated continued success in bringing back store traffic and the beginning of margin improvement, which should lead to dramatically improved results into 2020.

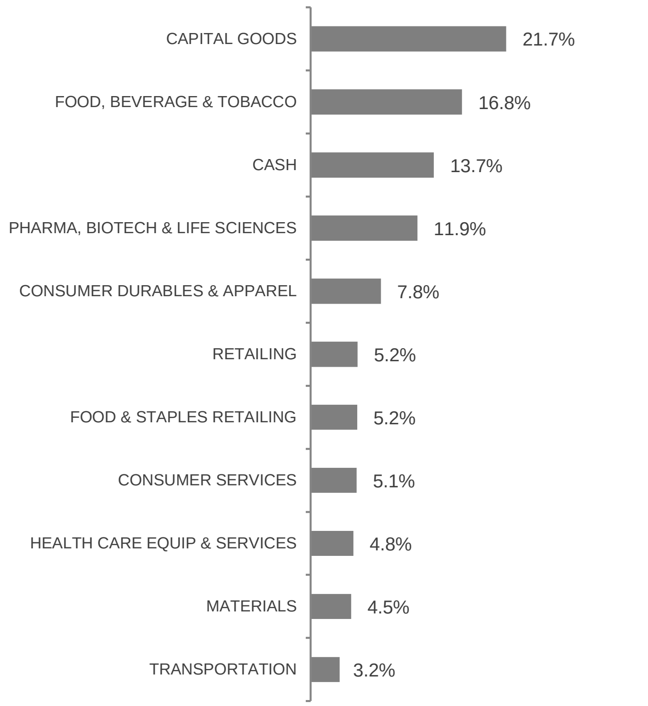
### NFI GROUP DOWN -4%

Shares of NFI Group have continued to face pressure over concerns about delayed deliveries and overall market weakness. Earlier this year, NFI had some production issues at its KMG parts facility, which caused a production backlog as it waited for delayed parts. This led to an increase in work in progress inventory and a decline in deliveries. While the KMG facility is now up and running again, the inventory is slowly being worked down and not expected to fully clear until the first quarter of 2020. NFI held an investor event in November where it showcased several members of its senior management team and its recent acquisition of British based Alexander Dennis Limited. We believe the company has an opportunity to leverage this new international footprint and should see much improved performance in 2020 once the residual inventory issues have been cleared.

**Geographic Split (Dec 31/2019)**



**Industry Split (Dec 31/2019)**




## Buys & Sells

During the quarter, we added four new positions to the portfolio:  SNC-Lavalin Group, Gildan Activewear, Fluor and Maple Leaf Foods.

In addition, we added to several positions including Anheuser-Busch Inbev ADR, Premium Brands Holdings, Koninklijke Philips NV ADR, Booking Holdings, Finning International and NFI Group.

We reduced our positions in several names including AbbVie, Walgreens Boots Alliance, Interfor and Alcanna.

Six positions were eliminated during the quarter: Stericycle, Ryanair Holdings PLC ADR, Oshkosh, Middleby, iA Financial and Henry Schein.

## New Buys:

### SNC-Lavalin Group Inc.

SNC-Lavalin is an engineering company with a specialty in transportation, buildings, design, planning and the nuclear industry. The company and stock were under significant pressure during the past year due to execution issues in its commodities segment, the mis-pricing of some fixed price contracts and a government investigation into past misconduct. This caused the shares to decline significantly below our view of intrinsic value to a level that ascribed little value to the engineering division. Additionally, steps by management to exit fixed priced construction work reduces the risk to shareholders from further cost overruns on projects. After working to verify the brand of SNC was not damaged in its industry by recent events, as this is a key aspect of its competitive advantage, Galibier initiated a position in the company.

### Gldan Activewear Inc.

Gildan Activewear (GIL), the low cost manufacturer and marketer of active wear products, including T-shirts, fleece tops and bottoms, and sport shirts was added to the portfolio after a significant decline in its share price. Lower than expected revenue growth and reduced guidance for the year had sent shares in GIL down 30% resulting in a significantly lower valuation. GIL's competitive advantage lies in its vertically integrated, low-cost production capabilities and ability to innovate a commodity product. The company should benefit from global retailers increasing shelf space for private label brands as a way to differentiate their product offerings. Many will look to Gildan to produce the product. Recent investments in capacity will allow revenue to increase significantly while capital expenditures decline. With an undercapitalized balance sheet, we expect the company will continue to return excess capital to shareholders through increased dividends and share buybacks.

### Fluor Corp.

Fluor is a global engineering and construction firm that specializes in larger, more-complex construction and development projects for major industrials, miners and utilities. Shares of this global leader came under pressure as costs for several projects came in above original estimates causing significant losses for the company. This created an attractive entry point as the stock fell below Galibier's view of Intrinsic Value. With several companies exiting the fixed price contract market, the competitive intensity in the industry should ease allowing for higher profits in the future. Additionally, the company is retrenching to the key sectors they know well and have a history in including mining, oil & gas and LNG which should further lower the potential for future cost issues. With no debt and the prospect of raising up to $1 billion from asset sales, the company is well positioned to grow its backlog and profits.

## Maple Leaf Foods Inc.

Maple Leaf Foods (MFI) is one of the largest protein manufacturers in Canada. We purchased shares of MFI in the 4th quarter following the release of disappointing quarterly results. Maple Leaf has a significant opportunity within its meat protein business to expand margins over the next few years as it consolidates its poultry operations. MFI is also the leader in RWA (raised without antibiotics) meat, and as RWA gains market share, that will drive higher margins. Maple Leaf entered the plant-based protein market through an acquisition a few years ago and is now well positioned to participate in the growth of that space through its Lightlife and Field Roast brands.

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. Galibier utilizes broad market indexes such as the S&P/TSX Composite index, the MSCI World Index and the S&P 500 index for this purpose as they are the most well-known indices and are most likely to resemble the investment strategy of the accounts. 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).*