Caldwell Balanced Fund Update

June 2017

Contents:

Visit our website www.caldwellinvestment.com to watch our portfolio manager's most recent "Top Picks" on BNN's Market Call or to register for our upcoming luncheons with the portfolio management team.

Portfolio Additions

SunOpta (soy-t)

About the Company: SunOpta is a leading provider of organic and non-GMO consumer food and ingredients in North America. Customers include Kirkland (Costco's private label), McDonalds, Loblaw, Gerber, Cliff Bards, Frito Lay, Blue Diamond, Hain Celestial and Chobani. The business is a product of 30+ acquisitions since 1999 that were never effectively integrated, and recent operational missteps prompted the Board to conduct a strategic review of the business.

Investment Thesis: We expect the share price to move meaningfully higher on the following:

1) New Management: A new management team has been assembled that includes the appointment of a CEO who recently led a similar turnaround story at another food company. The CEO has brought in individuals who are motivated by opportunity and thrive on accountability and a high performance culture, and designed compensation packages that are aligned with targets set out in the company's new value creation plan.

2) Better Operations: The value creation plan involves a 40% profit improvement through cost initiatives alone. We like opportunities where there's an ability to grow the value of the business without needing a favourable external environment to do so.

3) Growing End Markets: U.S. organic food sales grew 8.4% in 2016, materially higher than the 0.6% growth in the overall food industry. The growth runway remains attractive as organic accounts for only 5% of total food sales despite growing consumer demand for healthier options.

4) Competitive Advantage in an Industry-Leading Supply Chain: The supply of organic farms is limited and maintaining the integrity of the organic ingredients supply chain is not easy. Over the last 30 years, SunOpta has built the largest organic sourcing platform in the world and now sources ingredients from 65 countries. It has direct, long-stnding relationships with organic farmers and often helps with the certification process (note that it takes 3 years for a farm to gain the organic certification).

[Note: SOY was also purchased in our Caldwell Canadian Value Momentum Fund ("CCVMF"). The stock was originally sourced for this mandate but subsequently hit the CCVMF's buy list].

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TFI International (tfii-t)

About the Company: TFII is a leading transportation company in North America, operating in the truckload, package & courier, less-than-truckload and logistics industries. It generates 53% of its revenue from Canada and another 46% from the U.S. The company has a strong track record of growing shareholder value, both organically and through strategic acquisitions and asset monetizations.

Investment Thesis: After rising nearly 30% following the announced acquisition of XPO's North American assets, a weaker-than-expected earnings report subsequently sent the stock back to pre-acquisition levels, wiping out all of its previous gains. Expectations at the time of the acquisition were for the trucking cycle to recover in late 2017; the expected recovery has now been delayed into 2018. Additionally, under-investment in the acquired company will lead to heightened expenses over the next few years so that deal economics are not as favorable as originally thought. Having said that, the trucking recovery seems like a timing issue and, even after adjusting for higher costs, the deal remains very favorable to TFII shareholders. We believe the shares got ahead of themselves and expectations are now reset. Industry participants are cautiously optimistic that the trucking cycle has seen its bottom and management at TFII have shown a great ability to generate cash from acquired companies. We expect shares to resume moving higher as trucking weakness subsides and as the company begins to unlock value from recently acquired assets.

Keysight Technologies (keys-us)

About the Company: Keysight is the world's largest electronic measurement company, providing hardware and software solutions that enable its customers to design, test and manufacture electronic products. They have market-leading, 20%+ market share in the Communications, Aerospace/Defense and Industrial Electronic verticals.

Investment Thesis: The company was spun out of Agilent Technologies in 2014 where it acted as a cash cow and received little growth capital. After several years of flat growth, KEYS seems well positioned to benefit from the following secular growth trends: i) 5G deployment: 5G is expected to be rolled out over the next few years as the rapid growth of connected devices and the increasing use of video streaming is driving demand for faster wireless systems. ii) Automotive/Power: the trend towards intelligent/connected cars, and power generation from renewable energy sources (battery power and wind power); iii) the move to software based testing and management. KEYS has mission-critical offerings with high barriers to entry and 50% recurring/repeat revenue. We believe KEYS' valuation discount to the broader market is unwarranted and expect shares to move higher as growth starts to accelerate.

Portfolio Deletions

Quintiles IMS (q-us)

Reason We Sold: We initiated the Q position in November 2016. The forward tev/ebit multiple at that time was 11.7x versus 15.6x today. While the 6 months we held the stock is a relatively short investment period for this strategy, Q is up 25.7% since our initial purchase versus 15% for the S&P500 and 5% for the TSX Index. Given the expansion in the multiple and that the stock is one of the more expensive names in the portfolio, and that there is a bit of uncertainty related to their change in how they report bookings, we have decided to sell the position and re-deploy cash into other opportunities.

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CCL Industries (ccl.b-t)

Reason We Sold: CCL has done a fantastic job of creating shareholder value through lean operations, extracting synergies from acquisitions, and improving its margin profile by shifting to higher-value add products. We initiated the CCL position in November 2012. The forward tev/ebit multiple at that time was 7.7x versus 18.2x today while EPS has grown from 0.57 to $2.24. This has been the strategy's most successful position with a 589% return since its initial purchase versus 70% for the S&P500 and 24% for the TSX Index. Given the expansion in the multiple, and that the stock is up nearly 45% since its announced acquisition of Innovia in December 2016, we think a lot of future value creation is already baked into the stock price. As such, we have decided to sell the position and re-deploy cash into other opportunities.

We appreciate your continued support.

Best Regards,

Portfolio Management Team

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