June 2017

Quarterly
Newsletter

The Power of Pepsi

Looking past a social media catastrophe

oopsi

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Letter from the editor

This quarter saw advertising and its potential pitfalls playing a prominent role. Our cover article which provides an updated review of our long-term investment in Pepsico was inspired by their recent advertising debacle. In this case, it was fortunate that (spoiler alert) although the social media backlash was severe, both our view and that of the market ran counter to the twitter sentiment index. PepsiCo's stock actually increased by 3.24% during the three-month period ending June 30th; showing promising growth for a company in the consumer staples sector.

Advertising was not entirely inconsequential for our portfolios though. In fact, our portfolio returns during the last month were notably impacted by the BoCs surprise 'advertisement' of a pending interest rate hike. At the time of writing, the Canadian dollar has jumped more than five per cent since deputy governor Carolyn Wilkins first stated in a June 12th speech that recent growth had been "pretty impressive" and questioned whether "all of the considerable monetary policy stimulus presently in place is still required." A tone which was echoed shortly thereafter by Governor Stephen Poloz in an interview with the CBC. With these statements the status quo policy of forward guidance, which allows markets to adjust gradually in advance of rate changes, was effectively ditched. Having been given no prior hints that rate increases were on the immediate horizon, FOREX markets were caught flat-footed a month before the rate-hike could take effect (the BoC meets on July 12th). The reaction has not been gradual.

The spike in CAD/USD exchange rates had an unfavorable effect on both our bond and equity portfolios. On the bond side, when interest rates increase, the face value of bonds decrease. This means that in the short-run, rising interest rates are undesirable for existing bond holders since the market value of their portfolio declines (though expected interest payments are unaffected for these investors). On the equity side, the effect is felt through our USD traded holdings. Our fundamental research continues to identify a higher concentration of companies with strong growth prospects in the US (note that the S&P TSX actually fell -.94% in the first two quarters of 2017), but this higher equity growth is hampered by a higher Canadian dollar. As a result, although the US content in our Kaleo Full model grew by 14.8% year-to-date, in currency adjusted terms this equates to a market value return of approximately 9.7%. Over the same period, the return on our Canadian equity content was very similar at around 9.4%.

The take away: the abrupt change in interest rate expectations hurt short-run returns but there is little that should be done to account for this aside from continuing to monitor connected events and identifying companies that may be individually impacted by this fluctuation. Absent external factors, in the wake of a currency correction, the exchange rate will typically maintain its relative position for some time to come. In the mean-time, we can take some solace in the fact that Canadian bond yields are exhibiting upward momentum for the first time in 7 years.

Thank you for your continued trust in us,

Noah Clarke, MA Economics
Operations Manager

Kaleo & Qatalyst Portfolios: Past Performace

	YTD	1-Year	3-Year	5-Year	Inception
Kaleo A	9.2%	15.7%	13.8%	16.0%	14.2%
Kaleo B	8.6%	16.8%	14.5%	16.3%	13.9%
Kaleo Full	9.5%	17.6%	15.0%	17.3%	14.7%
Kaleo Benchmark	2.8%	14.9%	10.0%	14.5%	11.2%
Qatalyst	9.6%	25.9%	--	--	10.8%
Qatalyst Benchmark	5.7%	18.4%	--	--	9.6%

Note: All returns are reported as net of trading costs, but do not account for management expense fess. Returns for periods of a year or more are provided as annualized returns. Returns above are for the period ending June 30, 2017.

Kaleo

Kaleo consists of a portfolio of stocks that are selected using an investment approach that applies company-specific fundamental analysis, and strategic macroeconomic positoning. The model invests in a mix of Canadian and Global equities, with geographic weighting subject to change intermittently.

Our Kaleo Full model is composed of 43 stocks + 2 index ETFs. For clients with invested funds in the $250K to $1M range, we offer two subsets of this model (Kaleo A & Kaleo B) in order to reduce brokerage fees.

Returns since inception for each of our Kaleo models are similar by design.

We currently aim to hold a stock for three to five years years in our Kaleo models. This means that we have an average portfolio turnover of 25%.

We purposefully chose our benchmark to more accurately represent the broad geographic diversification of our holdings in Kaleo. The Kaleo Benchmark reported in the table above is calculated as 50% of the S&P 500 (in CAD$) and 50% of the S&P TSX.

Qatalyst

Qatalyst consists of a portfolio of stocks we believe to represent the best opportunity for positive returns within a 3-5 year investment horizon, regardless of short-term volatility. Companies are selected using an investment thesis that primarily includes the realization of a catalyst.

Qatalyst is a concentrated portfolio, oftentimes consisting of between 10 and 20 stocks. While we aim to offer diversification amongst various market and geographic sectors, it is not assured.

Due to the less conservative nature of the portfolio, clients are encouraged to also hold a mixture of fixed income investments, as well as our more diversified and less concentrated Kaleo model in order to moderate and match investor specific tolerance for risk.

The S&P 500 (currency adjusted) is applied as our benchmark for Qatalyst due to the higher relative concentration of US companies held in this model.

iA Fund Model: Past Performace

	Allocation	YTD	1-Year	3-Year	5-Year	10-Year
Fidelity NorthStar	10%	1.6%	4.7%	8.4%	15.8%	5.2%
Fidelity True North	20%	0.3%	5.9%	3.8%	9.4%	3.3%
Dynamic Global Dividend	30%	13.3%	18.9%	14.1%	13.6%	5.7%
BlackRock US Equity	40%	4.3%	14.4%	13.7%	16.7%	6.0%
Equity Portfolio		5.6%	10.3%	9.0%	12.0%	4.7%
Bond Portfolio		1.6%	-1.0%	2.1%	1.6%	3.3%

Note: All returns for periods of a year or more are reported as annualized returns. Returns listed above are for the period ending June 30, 2017.

Qube Investment Management has over 15 years experience in managing both Individual and Group Savings fund models.

In our search for a carrier that met our high expecations, we decided upon Industrial Alliance Financial Group, which leads the pack in providing accessible, user-friendly and cost-efficient investment and retirement tools to their plan members. Through iA, individual investors recieve access to best in class 3rd party funds and institutional portfolio managers that are typically unavailable to retail investors.

Protected Interests Model

In addition to our in-house Kaleo portfolio, we also manage a segregated fund model at Industrial Alliance (iA). Unlike our Kaleo model where we have sole discretion when it comes to the selection of equity holdings, our model at iA invests in fund managers that are contracted by iA. That is to say that while we can choose which mutual funds make up a client's portfolio, we have no say in each fund's specific holdings at any given time.

Our 'Protected Interests' model was launched at the beginning of 2005. The model has consistently added value for shareholders: A fact which we attribute to the well diversified set of fund assets that we choose to hold, as well as the active style of investment managemenr that we provide.

With the range of investment options made available to us by Industrial Alliane, our team has created a globally diversified portfolio to help withstand the inherent volatility in the stock market. The table above reports the funds we currently hold in as well as the past performance of our fund model.

The Power of Pepsi

Kennedy Quigley

The new axiom: you can't judge a company by its ad campaign.

When Martin Luther King Jr's daughter, Bernice King, directly slams you over twitter, you know that you've made a big mistake. On the Forty-Ninth anniversary of MLK's assassination, PepsiCo dropped a multi-million-dollar ad, and within twenty-four hours the backlash began. Critics called the ad "tone deaf," accusing it of trivializing and monopolizing upon recent campaigns such as the Black Lives Matter Movement and the "Women's March." In their most recent commercial, calm and happy protesters march with non-specific signs, reading "peace" and "love." The crowd is attractive, diverse, and multi-cultural. At the ad's climax, supermodel Kendall Jenner offers Pepsi to a police officer. He accepts, implying that he has therein #joinedtheconversation.

The message: Pepsi's cold, fizzy drink brings people together.

Bernice King's response: "If only daddy would have known the power of #Pepsi."

Ouch. Millions of dollars down the drain.

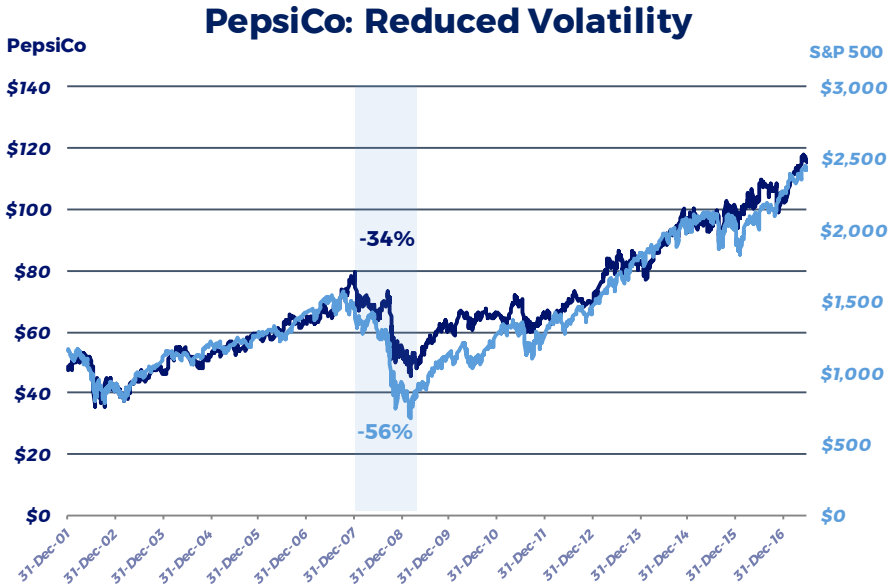
While Pepsi wished to "project a global message of unity, peace, and understanding," they admit that they greatly "missed the mark." This event was most unfortunate, as well as disappointing, which might lead one to question why Qube still wishes to hold the company in their portfolio.

Well, it seems that despite PepsiCo's recent blunder, the company is working to develop new strategies that will not only better serve their audience, but also the changing world around them. Further, they continue to grow in the current economic market, while having room for expansion. They are a company that Qube monitored over the last six years, and one, that they feel, should continue to be held in the portfolio. Let's see why.

In 2011, Qube purchased PepsiCo for $65.75 USD, which since then, has produced a total, cumulative return on investment of approximately 95% on a constant currency basis. If we include currency appreciation, the total, cumulative return jumps to approximately 163%, with the price per share at $112.85 as of June 30th, 2017. The research team classifies PepsiCo as a "value company," an asset worth investing in for its staid growth and low risk, and one that adds desired safety to the Kaleo portfolio.

Comparing stock market performance during the financial crisis of 2008, we can see that from peak to trough, the S&P 500 lost 56%, while PepsiCo only lost 34%, due to their busi-ness model (cheap, staple-like products with tremendous barriers to entry which include scale and brand recognition). Staid growth, combined with low risk, can make a worthwhile hold in the portfolio.

It bears mentioning that staid growth isn't necessarily a foregone conclusion though. The company is able to leverage their first-class distribu-tion network with top-tier brands in multiple categories. They report strong cash flow and have a solid balance sheet in place to satiate a growing level of global snack and beverage consumption. On top of this, they continue to grow both in terms of volume and revenue, with their products being sold in more than 200 countries around the world, though only 40% of this revenue is currently earned outside of the US.



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To evaluate Pepsico's relative performance, it is important that we look at their most obvious competitor; i.e., The Coca-Cola Company (TCCC). Herein Qube's research team has found some surprising results. Despite having a more ubiquitous brand, the Coco-Cola Company only makes two thirds as much revenue as PepsiCo. Yet, even with the wide divergence in revenues, TCCC makes almost as much profit. In other words, TCCC enjoys higher margins than PepsiCo. Qube's research team has a theory for why PepsiCo's margins are lower than Coke's, despite both companies doing very similar things. Ultimately, Coke has a much higher concentrate business than Pepsi, and concentrate is a high margin/low revenue product (squeeze more volume of soda into a plastic bag, and one can save money on aluminum and glass). CocaCola's concentrate business represents 40% of their net revenues, and while PepsiCo does not provide a breakdown of their concentrate business, we're able to reasonably assume with justification that TCCC's is much higher than PepsiCo by noting that the fountain taps at large franchise restaurants including McDonalds and Burger King are typically CocaCola products. As further evidence, when the research team compared gross profits for these two companies, they found that this difference almost perfectly aligned with differences in operating profits.

Importantly, PepsiCo doesn't merely compete on Cola sales. Across both food and beverage industries, PepsiCo has 22 iconic, billion-dollar brands. Based on their net revenue, they are the second largest food and beverage business in the world (next to Nestle). One key differentiator for Pepsico, relative to its direct competitors, including the Coca-Cola Company, is their impressive salty snack food business. Their Frito-Lay brand dominates the US' most popular snack category with a market share of 36.4%, and exhibits the highest profit margins among Pepsico's various product offerings. Now this is impressive in isolation, but that's just one of PepsiCo's non-beverage brand segments. In 2001, PepsiCo purchased Quaker for the Gatorade crown jewel. Though the main prize was the sports drink, Quaker's cereal food division also serves as a healthier complement to Pepsico's Frito Lay's snack division, which could serve as a potential buffer to shifting consumer trends, and represent a future growth catalyst for the company.

There are many reasons to be impressed with chairman and CEO, Indra Nooyi's plans to meet the growing global snack and beverage market. Having been at PepsiCo for 23 years, Indra has extensive experience in mergers and acquisitions. Today, she is working to transform the company's portfolio to match newly emerging consumer tastes. She is introducing new products like probiotic juices and altering the formula for current products, such as removing aspartame. She is separating PepsiCo brands into "Good for You" (Oatmeal), "Better for You" (Diet Pepsi) and "Fun for You" (Cheetos), with the overarching strategy being to create products that can appeal to everyone. Her goal is to put PepsiCo at the forefront of consumer minds, and by realigning products to fit new categories, she hopes to deliver new growth.

Additionally, Nooyi has made it a focus to meet social expectations. To that end, she has promoted PepsiCo's "Performance with Purpose" initiative in order to address pressing, world issues and put PepsiCo at the forefront of leadership and change. The company has spent time and money on water conservation, energy efficiency, waste management, women empowerment, and sustainable farming, among others.

All in all, Nooyi's success in transforming the company is most apparent in relation to PepsiCo's historical share price performance, especially when compared to their most direct competitor, TCCC. The research team at Qube believes that PepsiCo's strategy for the future makes sense, and considering Nooyi's success previously, there is no reason to believe she would not be able to execute this new strategy going forward.

The research team's conclusion: taken in aggregate, PepsiCo provides needed safety to the Kaleo portfolio, while at the same time allowing for the possibility of growth through good execution in fulfilling the growing (and changing) demands of the snack and beverage market. Staid growth, combined with low risk, still makes for a worthwhile hold in the portfolio.

A Case for Lear Corporation

Patrick Choi, CFA

The price you pay is one thing, the value that you get is another.

In a game of blackjack, players can maximize expected value by doubling down when the situation is favourable; that is, they should double down when dealt an 11, and the dealer shows a 5 or 6. Players who fail to take advant-age of this position drastically reduce their odds of ending the round with winnings in hand.

Of course, the decision to double down on an investment thesis is less amenable to basic strategy and mathematics. There are far too many variables at play. Investment decisions must be based on real facts and analysis rather than probability and speculation. It's much less exciting, but therein lies the fundamental difference between gambling and our investment process. As suggested by nobel prize winning economist Paul Samuelson, "investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas." Having performed our due diligence in the prior quarter (the dull part) we have identified value in the decision to double down on our auto sector exposure with a new investment in Lear Corporation (LEA).

Lear Corp. is a Fortune 500 company engaged in the design, manufacture, and supply of automotive seats, electrical distribution systems, and electronic modules, as well as related sub-systems, components, and software. Lear Corporation has two main operating segments: Seating and Electrical. Their seating segment is involved in all aspects of the manufacturing process including design, engineering, material manufacturing, just-in-time assembly and the delivery of complete seating systems. The company's electrical segment offers a portfolio of manufactured products that range from high tech offerings such as control modules and connectivity systems to low-tech offerings such as wire harnesses and in-car terminals. Founded in 1917, Lear Corp is presently a first tier supplier to a globally diversified portfolio of automakers. A portfolio that includes many recognizable brands such as Ford, GM, BMW, Porsche, Fiat Chrysler, Hyundai Motor Company, Jaguar Land- Rover, Peugeot S.A., Renault, Nissan, and the Volkswagen Group.

Due to the close relationship between the auto supplier and the automaker, we consider our investments in Lear and GM to be linked. If there is a downturn in the auto markets, similar to what happened in 2009, then we expect a poor return on our investment for these 2 securities. Having said that, a number of factors support our belief that a new investment in Lear could provide promising returns.

Our proposed purchase of Lear Corporation is based on 5 core theses:

1) Inexpensive Valuations:
Like most public, auto related companies, Lear exhibits one of the lowest valuation multiples within the S&P 500. On a Price-to-Earnings basis, Lear trades at a 10x trailing multiple, while the market trades at a near 26x multiple. To be sure, a P/E ratio is only one number, and no one number can provide the basis for a solid investment decision. But it can offer a compelling starting point when the ratio is currently lower/cheaper than our analysis suggests it should be. Further supporting factors are certainly required.

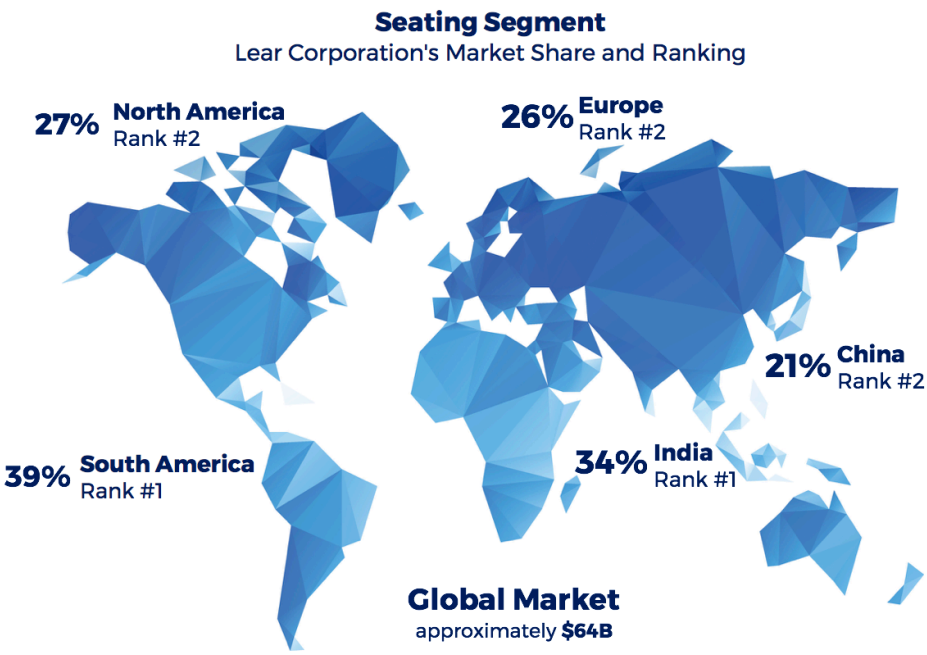
2) Barriers to Entry:
There are significant barriers to entry in the automotive seating market (which represents approximately 77% of Lear's annual revenue). In the last ten years, the industry has been consolidating due to increasing demand from car manufacturers for what is referred to as a just-in-time and just-in-sequence logistics model. As a result, Lear and its closest competitor, Adient, now own more than half of the automotive seating market.

The significant moat surrounding Lear's automotive seating business, as well as the motivation underlying industry consolidation, is best explained with an example. A typical auto-assembly plant manufactures 500-1000 vehicles a day. If the plant has a lead time of just one day for the seats, the amount of inventory space needed for the storage of these seats would be enormous; therefore, success in this industry depends on vertical integration and a tight control over supply. Oftentimes, we see

that automotive seating manufacturers will elect to locate their manufacturing facilities adjacent to auto assembly plants in order to ensure just-in-time delivery. With this system in place, Lear suggests that they are capable of supplying most auto-makers with their requested seats within an hour of receiving notification.

3) Opportunities for Growth:
We believe that Lear has many opportunities to grow their automotive seating and electrical systems market. On the automotive seating segment side, the most promising sign is a healthy demand for increased seating content (bells and whistles). This is driven, in part, by the trend towards larger vehicles like SUVs and greater consumer willingness to spend more for these higher priced features. Clearly higher prices benefit the company's bottom line. On the E-Systems side, the increasing prevalence of electrical and autonomous vehicles should provide substantial growth for Lear's business, due to what we expect will be elevated demand for high power electrical systems and connectivity capabilities.

4) Best Overall Investment:
As part of our research scope, we undertook a similar analysis on Lear's closest competitor: Adient PLC, which also manufactures automotive seating and individual components. We found that Lear exhibits the best overall potential as an investment due to a combination of positive and improving business fundamentals, as well as low valuations. Although Adient PLC trades at a lower valuation to Lear, we concluded that it lacks Lear's consistent, fundamental progress.



5) Muted Headwinds:
Similar to our investment thesis for General Motors, 'Peak Auto' as well as potential trade and tax reforms have been identified as risks for Lear Corp. However, having reviewed past peak and trough auto cycles, we believe that the market is pricing in a far more negative outlook than is supported by prior results. If auto sales peak (as is expected in the coming years), this won't necessarily be followed by a severe drop in auto sales. New auto sales could simply plateau at their peak, similar to what happened between 2000 and 2008. Regarding reform risks, it is important to note that there are potential upsides attached to Trump's proposed reforms. At the end of the day, the percieved benefits to Lear could actually outweigh the negatives.

In Conclusion:
It is our opinion that Lear, at current valuation levels, could represent a solid investment so long as one is able to look past the fears of "Peak Auto", and the potential for tax and trade based headwinds. If Lear is able to continue growing their top and bottom lines as they have in the past, then their current, trailing, PE multiple of 10x could in fact turn out to be cheap when compared to much higher multiples exhibited by the broader market. At the very least, we believe that the risk and reward is such that it is worth doubling down on our investment.

Qube Insights: Kaleo Holdings

Every quarter we highlight some of our Kaleo portfolio holdings and share with you our investment thesis (why we hold the stock). We also provide examples of news and activities we're seeing in the market that support or contradict that thesis.

Kaleo Full & Kaleo A Portfolio Holding

A long, long time ago, there once was a company called Research in Motion. In this bygone era, more than 70 million people from around the world enjoyed the security and technical achievements of such devices as the BlackBerry Pearl, BlackBerry Curve and the BlackBerry Bold.

But one day, calamity struck in the form of another fruit. Slow at first, the other fruit grew increasingly more threatening as the once mighty leader continued to stumble in their defense. As with all things in this world, the old eventually gives way to the new, and the "CrackBerry" handsets were ultimately replaced…While the legend stops here, and its history will continue to be studied for years hereafter, the story continues.

It is now November 2013, and BlackBerry's situation was dire. Both active subscriber count and revenues were falling off a cliff, and the company continued to burn through their rapidly dwindling cash pile. The company was about to either go under, or suffer through an ignominious takeover.

Fast forward to the present, and we see BlackBerry still in business as a separate entity. Things could not have been any different from just 3 ½ years prior. BlackBerry is no longer hemorrhaging cash, earnings have stabilized, and the balance sheet is fortified with $1.5 billion in liquid, tangible assets net of debt. There is no longer any fear for BlackBerry as a going concern.

During this time of financial change, BlackBerry has also morphed their business model from selling handsets to selling software. Today, BlackBerry technology and software is in over 60 million cars worldwide, and helps secure all 7 of the G7 Governments.

BlackBerry's expertise is undoubtedly in security. Going forward, their plan of attack will be to focus their products and services on all things security related. This includes security in the autonomous car through QNX, in the "Enterprise of Things" through BES, and in the transportation and logistics sector through Radar.

The world will increasingly become more digitized. Banks will transmit your financial information online, doctors will send you your medical records over the cloud, and cars will eventually drive themselves. In this world, there will be a great demand for both privacy and security, and we believe BlackBerry will be there to reap the benefits.

Kaleo Full & Kaleo B Portfolio Holding

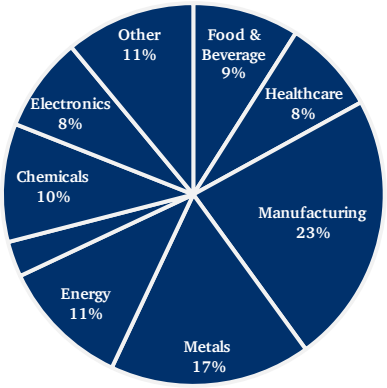
The Materials sector represents one of the most challenging segments of the market for us to analyze. Many of the companies in this pool are price-taking, commodity producers (such as those in mining, forestry, and agriculture), which have business models that run counter to the factors we look for in a typical investment: stable earnings, competitive advantages, and barriers to entry. Due to these differences, a successful investment in this sector has less to do with picking the right company, and more to do with correctly timing the underlying commodity's boom and bust cycle. In our constant search for viable investments, we sometimes come across companies that break these norms. Praxair is one such company.

Praxair is currently the 3rd largest industrial gas company in the world. As the description suggests, Praxair's primary product are gases (such as oxygen, nitrogen, argon, helium, hydrogen, carbon dioxide, etc.), which are used in a wide range of industrial applications from Medicine to Electronics.

Due to the nature of this business, there are many fundamental differences between Praxair and the typical Materials company described above.

1) Gross margins for Praxair are much higher than what you would expect from a mining, forestry or agricultural company. This isn't surprising seeing as the cost of your most essential raw material is zero (air is free).
2) The large infrastructure requirements to become a major player in the industrial gas segment has meant consolidation, and increased pricing power for the remaining players. At the current moment, there are 4 major players in this space, which together represent approximately 70% of the global market.
3) Praxair's earnings are more resilient to the boom and bust cycle of a typical commodity play due to the oligopolistic competition, and the diverse end-markets for Praxair's products.

Revenues By End Market



Going forward, the industrial gas industry is expected to consolidate even further with a merger between Linde and Praxair. With the closing of this transaction, between the 2nd and 3rd largest player in the market respectively, the combined entity would become the #1 player in the market. We believe that the promise of improved efficiencies from this transaction, combined with Praxair's unique business, should translate into healthy shareholder returns for investors going forward.

Qube Insights: Equity Research Snapshots

Balancing traditional research techniques with modern portfolio science allows our team to find companies that demonstrate and maintain solid investing fundamentas. We typically look for consistent and proven earning combined with long-standing stable dividend policies. Share prices need to be justified based on a combination of current earnings growth potential. Quality financial statements, coherent management and an operational business plans need to be in place before we rank a company 'green'.

✓				Currently Held in Kaleo
	↗			Considering a Decision to Hold
		↙		Considering a Decision to Sell
			✗	Do Not Hold

Company	Industry	Current Status			
Starbucks Corporation	CONSUMER DISCRETIONARY		↗		
Lear Corporation	CONSUMER DISCRETIONARY	✓			
Adient	CONSUMER DISCRETIONARY		↗		
Wal-Mart Stores, Inc.	CONSUMER STAPLES				✗
Pepsico, Inc.	CONSUMER STAPLES	✓			
Tyson Foods, Inc.	CONSUMER STAPLES				✗
Conagra Brands, Inc.	CONSUMER STAPLES				✗
Colgate	CONSUMER STAPLES			↙	
American International Group	FINANCIALS		↗		
Illinois Tool Works Inc.	INDUSTRIALS		↗		
Stanley Black & Decker, Inc.	INDUSTRIALS		↗		
Expeditors International	INDUSTRIALS		↗		
Acuity Brands, Inc.	INDUSTRIALS		↗		
Huntington Ingalls Industries	INDUSTRIALS				✗
Kansas City Southern	INDUSTRIALS				✗
Xylem Inc.	INDUSTRIALS		↗		
3M	INDUSTRIALS	✓			

Qube Insights: Equity Research Snapshots

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✓	●	●	●	Currently Held in Kaleo
●	↗	●	●	Considering a Decision to Hold
●	●	↙	●	Considering a Decision to Sell
●	●	●	✗	Do Not Hold

Company	Industry	Current Status			
Praxair	MATERIALS	✓	●	●	●
The Sherwin-Williams Company	MATERIALS	●	●	●	✗
POSCO	MATERIALS	✓	●	●	●
Martin Marietta Materials, Inc.	MATERIALS	●	●	●	✗
CEMEX	MATERIALS	●	↗	●	●
Alphabet Inc.	TECHNOLOGY	●	●	●	✗
Facebook, Inc.	TECHNOLOGY	●	↗	●	●
VMware, Inc.	TECHNOLOGY	●	↗	●	●
Intuit Inc.	TECHNOLOGY	●	●	●	✗
Skyworks Solutions, Inc.	TECHNOLOGY	●	●	●	✗
Sierra Wireless Inc	TECHNOLOGY	●	●	●	✗

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The content of this report is for general information purposes only and not intended to provide specific personalized advice, including, without limitation, investment, financial, accounting or tax advice. Please contact Qube Investment Management Inc. to discuss your particular circumstances.

Commissions, management fees and expenses may be associated with investment accounts. Please read the simplified prospectus (if applicable), or investment management agreement before investing. Many investments are not guaranteed and are not covered by the Canada Deposit Insurance Corporation or by any other government issuer. There can be no assurances that an investment will be able to maintain its net asset value or that the full amount of the investment will be returned to you. Values change frequently and past performance may not be repeated.

Qube Investment Management Inc. is a registered portfolio management firm in the Provinces of Alberta and British Columbia and was registered as a portfolio management firm on June 25, 2012. Any return period cited before this date was prior to QIM being registered as a portfolio management firm. Inception was Jan 1, 2011 and all returns are for a modeled portfolio initiated at $500,000. Your actual returns may vary according to your individual portfolio. The modeled returns are calculated inclusive of dividends, adjusted to the Canadian currency, and are determined via the IRR (Internal Rate of Return) method. The gain/loss shown are simple (non-compounded) returns for periods up to one year. If the time since inception date is more than one year, then the return shown is an annualized return. For comparison purposes, the Kaleo model(s) are reported as gross returns before investment management fees. Individual investor level returns will differ as the fees agreed to in your Investment Management Agreement (IMA) are subtracted from the gross return.

At any one point in time, the composition of the Kaleo model may change. Currently, the focus for our models (Kaleo A, B and Full) is to invest in a globally diversified portfolio of liquid stocks with a minimum market capitalization of $1 billion. Our diversification strategy is to have similar industry weightings between our Kaleo models A, B and Full, which in turn will have similar weightings to the S&P 500. Our investment mandate is to not have any one industry sector or sub-group exceed 2.0 times the percentage weighting assigned to that group by the S&P 500 index unless the sector or sub-group composes less than 5% of the total index. Please refer to your Investment Policy Statement (IPS) for more details.

Index comparisons are based on the total return index provided by Standard & Poor's for both the S&P/TSX and the S&P 500. All index returns are inclusive of dividends, adjusted to the Canadian currency, and, similar to the modeled portfolio, determined via the IRR method. Please note that, as total return indices are not actual portfolios, these returns do not include the cost of management and/or trading fees.

Past performance is not indicative of future results and there is no assurance that our model portfolio will achieve its objectives or avoid significant losses

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