QUBE

Quarterly
Newsletter

Q4 January, 2017

Trump 2017?

Dealing with a new political era

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LETTER FROM THE EDITOR

A News Year!

To start off, I apologize for the above pun. I just couldn't resist. Hopefully I can make it up to you by refraining from making any comments on resolutions. That said, 2017 is now upon us and with the new-year comes some insight on developing opportunities for growth, as well as a necessary review of the year prior.

As some of you may already know, Anya Tonkonogy, who has for many years been a pillar of our client outreach program, went on maternity leave in December. I'm sure that those of you who had the pleasure to meet her will notice her absence, but we are confident that Shone Virata - as well as myself - will be able to maintain the level of service that you have become accustomed to in the past. Perhaps the most exciting aspect of this transition is that Shone, who has more than ten years of experience in client relations, will also be a key member of the investment research program at Qube. It is our hope that you will take every opportunity to pick her brain on our investment strategies.

We continue to hold steadfast to our beliefs that proper stewardship of your investments also means managing your portfolio risk by keeping in mind how the companies we invest in treat the world. Borrowing from Mark Twain, our view is that we must "plan for the future because that's where you're going to spend the rest of your life". Our article on Monster Beverage Corp highlights the ethical and financial benefits of this view.

This newsletter is a way for us to reach out to you and share our perspectives. In turn, we love to hear from you, and welcome any feedback or comments that you have.

Thank you for your continued trust in us,

Noah Clarke, MA Economics
Operations Manager

Qube Investment Management Inc.

is a registered portfolio management firm in the provinces of Alberta and British Columbia.

QUBE

We are proud to serve you from our headquarters in Edmonton.

KALEO PERFORMANCE

	2016	2015	2014	3-Year	Inception
Kaleo A	5.7%	11.9%	20.7%	17.1%	13.8%
Kaleo B	6.2%	16.1%	17.9%	17.6%	13.6%
Kaleo Full	6.0%	14.3%	22.0%	19.2%	14.3%
S&P 500	8.6%	21.0%	24.0%	17.7%	18.1%
S&P TSX	22.1%	-8.4%	10.9%	7.5%	5.4%
Kaleo Benchmark	15.4%	6.3%	17.5%	12.6%	11.7%

Note: All returns for periods of a year or more are reported as annualized returns. Reported returns are for the period ending December 31, 2016.

Kaleo is Qube's Stock Model, which is offered as follows:

Kaleo Full – currently a 43 stock + 2 index ETF model offered to clients with $1M+ positions

For clients with positions between $250,000 to $1M, we offer two subsets of the Kaleo Full model:

Kaleo A – currently a 24 stock + 2 index ETF model

Kaleo B – currently a 24 stock + 2 index ETF model

Our model portfolios were launched in January of 2011. They continue to report a lower risk metric (beta) and since inception have generated a superior return when compared to our performance benchmark of 50% of the TSX (CAN) & 50% of the S&P 500 (US) indexes.

We currently aim to hold a stock for 3-5 years in our Kaleo models. This means we have an average portfolio turnover of 25%. In other words, a quarter of our positions change each year on average. One goal with Kaleo is to generate income through dividends. An investor entering Kaleo at inception would have a dividend yield today of over 3.5%. Many of the companies in our portfolio increase their dividends each year, so an investor can therefore grow his or her dividend over time. An investor entering Kaleo today would see a starting dividend yield of about 2.07%.

In the management of our Kaleo model, we use both company specific / fundamental analysis and macroeconomics to determine our positions (what to buy/sell).

Our research universe refreshes each year and we currently track between 150 and 200 companies. To learn more about our investment philosophy, please see our investing brochure at www.qubeconsulting.ca

Also, please read our disclaimers on the last page of this newsletter.

IA FUND PERFORMANCE

	Allocation (%)	2016	2015	3-Year	5-Year	10-Year
IA Ecflx Canadian Equity Growth	15.00%	14.6%	-5.8%	5.4%	7.4%	4.2%
IA Ecflx Fidelity Northstar	45.00%	-3.3%	23.1%	10.1%	15.5%	4.9%
IA Ecflx Global Dividend	40.00%	-1.2%	21.0%	9.1%	11.5%	4.8%
Equity Portfolio		-0.4%	18.0%	13.4%	11.4%	3.5%
Bond Portfolio (IA Bond Fund)		0.2%	3.9%	4.0%	2.6%	3.27%

Note: All returns for periods of a year or more are reported as annualized returns. Reported returns are for the period ending December 31, 2016.

Qube Investment Management has over 15 years experience in managing Group Retirement Programs for companies in various industry sectors. We pride our-selves on being objective, impartial and committed to financial literacy for plan members as we educate employees on the benefits of saving for retirement.

We have searched for and found a carrier that meets and exceeds Qube's standards. Industrial Alliance, based out of Quebec City, serves over three million Canadians and has over $71.5 billion in assets under management and administration. They are leading the pack in providing accessible, user-friendly cost-efficient retirement tools to their Plan Members. Our role at Qube Investment Management is to ensure that if an employer is offering a Group Retirement Program, their Staff are truly benefiting from this program in a sustainable, fee-efficient way.

This means that we apply the same rigourous standards of investement management to Group Plans, as we do to our individual portfolios.

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 on its management, our model at Industrial Alliance uses the portfolio managers chosen by IA. This means that while we could choose which mutual funds comprise a client's portfolio, we would have no say in the specific holdings of each fund.

Our model at Industrial Alliance was initiated at the beginning of 2005 and eventually replaced our Manulife segregated fund model. The model has consistently added value for shareholders. This can be attributed to the diversified set of assets held by the portfolio as well as the more active style of management.

Industrial Alliance offers a diverse range of mutual fund investment options for their Savings and Retirement clients. Using these options, Qube has created a globally diversified portfolio to help withstand the inherent volatility in the stock market. The table above highlights the funds we currently hold in our model, as well as the returns this portfolio has generated over time.

INVESTING IN THE "TRUMP ERA"

Ian Quigley, MBA and Noah Clarke, MA

It came and went. What seems to have been the most divisive and ugly political campaign in modern history has ended and a new era of American politics and policy has begun. The time for liberal hand wringing and mourning is over; it is time to get started calculating threats and opportunities for investing in 2017 and beyond. The electoral college has chosen America's 45th President as Donald Trump.

As an investment manager, environments characterized by disruption of the status quo generate investing opportunities. The challenge is that few understand what Trump plans to do (our cover art visually maps the frequency of words used by Trump in his twitter account during 2016). While much remains unclear for the year ahead, we maintain that exceptional gains can be made based on some emerging themes under review.

Before jumping in to our analysis of Trump and what his anticipated policies mean for domestic markets, it begs mentioning that a new political era in the United States may be less compelling than political and economic conditions elsewhere. While the US exhibits burgeoning GDP growth, France and Germany are showing signs of slowing economies and rising populist movements.

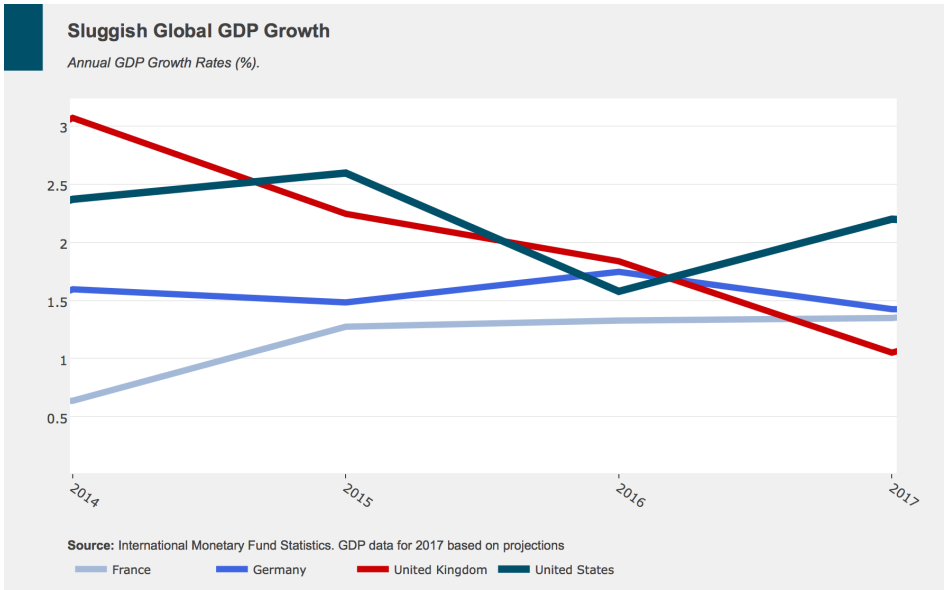
Economic and political conditions in the Eurozone certainly represent a risk for 2017, with both Germany and France holding general elections in the coming year. However, in contrast to the UK, support for the Eurozone in most member countries remains higher than support for the populist parties that want to do away with it. Nonetheless, these are key factors that warrant a close eye in the coming months.

US Dollar

After a major correction between January and May of 2016, the USD/CAD exchange rate remains well above parity. A Canadian investor cannot move into 2017 without some concern about currency impacts. The challenge is that little can be done, as hedging strategies are too costly beyond 90-day periods and domestic investments lack the quality that many expect from their retirement accounts.

At Qube, we continue to believe that exchange rates, though important in terms of our macroeconomic research, act more as a distraction than a threat for the returns of Canadian investors. We suggest that currency risk is more appropriately viewed as a symptom of "short-termism", a condition that can lead to investment decisions that greatly increase real risk and/or returns. Granted, the USD/CAD exchange rate could see a downward adjustment in 2017 – though there is nothing imminent in this statement – and in the event that such a correction takes place, returns from USD denoted equities will be reduced over that period. However, once a currency corrects, it will typically hold its new relative position for several years. On the flip-side, a quality company is expected to provide a healthy return each year over the span of a defined investment horizon.

Let's look at the case of DIS (the Walt Disney Co.), which we have held in Kaleo since mid-2014. Note that the USD/CAD exchange rate has been above 1.30 (within a few points of the current rate) for the last two years, notwithstanding large rate swings that occurred in the first half of 2016. Now, there is no avoiding the fact that portfolio returns were negatively impacted by realized currency



risks in 2016 but our long run view remains valid. During the last two-year period the TSX has risen by roughly 2.5% per year, while DIS (in currency adjusted terms) has provided Canadian investors with a 10.5% annualized rate of return. If we extended the time-frame beyond the end of 2014, the gap in realized returns would only become more pronounced.

As a final point to consider, many companies trading in US dollars (take for instance Microsoft Corp.) are global in reach. Earnings are generated both in the US and internationally. Therefore, when the US dollar drops, foreign earnings become more valuable and vice-versa. Our portfolio generates just under half of its earnings in the US providing broad diversification on earnings with respect to currency risk. Additionally, we hold the vast majority of our bonds in Canadian dollars which greatly reduces US dollar exposure for our clients.

Interest Rates

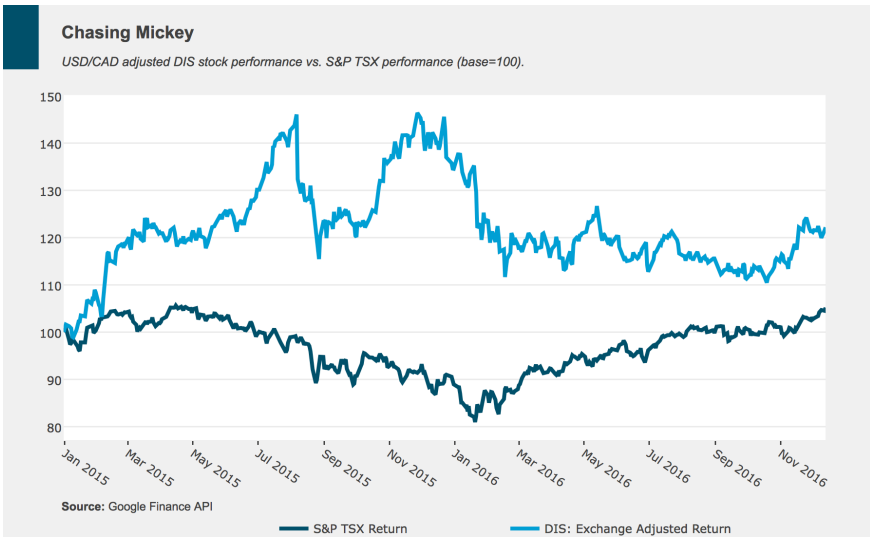
Rates have already bumped up in the US heading into 2017 and represent one of the trickiest factors to plan for in the year ahead. Aside from the US, most global economies cannot withstand rate hikes, but have demanded higher returns on US gov't debt in return for the financing risk of the new environment. Additionally, the Donald has signaled plans to increase infrastructure spending, the financing of which will likely come from the issuance of long-term bonds – thereby causing 10-year Treasury yields to rise. We divested of many interest rate sensitive holdings in 2016, but will continue to review holdings in sectors forecasted to be more affected by rising rates (for example, consumer staples and utilities), in order to minimize the impact of interest rates on our equity positions.

Globalization

There is no doubt that globalization has evoked countless benefits for global economies; however, it has also redistributed wealth between middle income workers in the Western world and low income workers in the developing world. In the recent US election as well as the Brexit referendum, we have witnessed a populist roar of disapproval for globalization. In his own words prior to being elected, Trump has pronounced himself to be a long-standing economic nationalist who believes free trade has inevitably hampered the American economy. The biggest trade deal in years for America, the Trans-Pacific Partnership (TPP), is dead and NAFTA might go under review. This new environment of tougher international trade dealings and protectionist poli-cies will favour corporations that lant towards US domestic production and operations. These will be smaller corporations than what we have traditionally held in our portfolio, but represent a theme worthy of study in 2017.

The Environment

The Paris Climate Agreement marked a meaningful step taken by 125 ratifying countries – including Canada – towards climatic stewardship. And yet, where information can reliably be gleaned from his cabinet appointments and prior statements, it seems to be the case that Trump will disavow responsibility for the agreement in addition to previous environmental agreements, leaving the world to push on without America. In this new era of deregulation,



industries reliant on green subsidies must be reconsidered in the coming political cycle as well as those whose expansion has been driven by prior government regulations.

Geo-Political Threats & Energy

Clearly the geo-political landscape will undergo a transition in the year to come, and there are signs that Trump will not hesitate to drive military action should the opportunity arise. In Russia, Putin now crushes all opposition (like former tsars) and has pushed away from liberal values. China's Xi Jinping continues to pursue imperial ambitions in the South China Seas and promotes "Han nationalism". The Middle East continues to rock with instability and Recep Tayyip Erdogan, in Turkey, has turned away from the European Union and towards Islamic nationalism.

Normally this would cause one to look for corporations who rely on government funded defense and aerospace contracts, but then we have the Boeing example to warn us. Trump canceled a recent contract with them and has vowed to put all government contracts under review during his presidency. There is much to consider in terms of this "conflict friendly" environment and what it will mean for multinational corporations. Certainly, support for energy prices will be in place for years to come.

Taxation & Fiscal Intervention

Much has been promised on tax based stimulus – a favoured policy of the House and Senate dominating GOP. Promises for lower dividend and capital gains taxes combined with lower corporate taxes should, for a few years at least, inject sugar into corporate America, thereby leading to higher corporate profits. A unique opportunity rests with potential tax reform that Trump could hardly miss: allowing for the repatriation of offshore profits by multi-nationals who have been manipulating global operations to avoid US tax. This would be a serious stimulant for global companies.

Increased government spending on Mexican border walls, roads, tunnels and other infrastructure projects has also been promised, in combination with the dismantling of Obama-Care and revisions to the delivery of education. While tax cuts, coupled with this surge in spending, will likely bust America's budget in the long term, it should again act as an adrenaline boost for the US economy in the short-term.

Conclusions

Research themes at Qube must accommodate for the dawning "Trump Era". This is clear. We have started with a review of our current holdings, taking into consideration changing market conditions, but must also alter our research universe. Indeed, companies that were previously on the periphery may now represent investment opportunities. Of course, it goes without saying that we will continue to apply the same methods and investment strategies that have secured exceptional returns for our clients in the past.

Over time, populist and isolationist policies eventually discredit themselves, because their consequences are disastrous. Latin America, traditionally associated with anti-liberal policies, is once again shifting in a more liberal direction after tasting the disappointments that populism brings. With technology, globalization is inevitable and welcomed by young, educated voters. Outside America, India is poised to be a rising star in the emerging world, and Australia continues with decades of steady growth. While the bonds of the European Union loosen, the Association of South-East Asian Nations holds strong.

Until a new status quo emerges, we will reposition our investments to seize the new opportunities as they develop.

CHOOSING A TELECOM PROVIDER

Patrick Choi, CFA

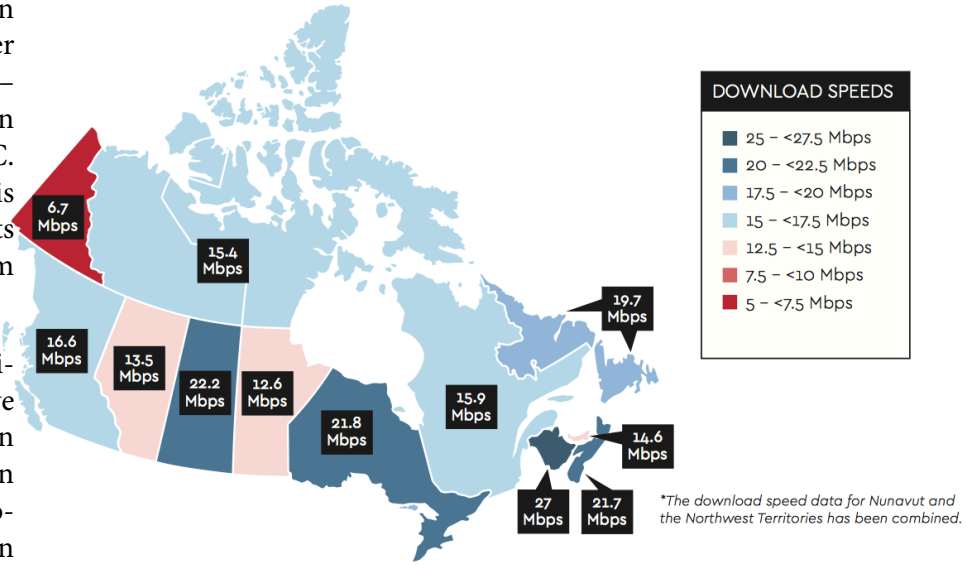
In their August 2016 report, the CRTC confirmed what most Canadian consumers suspected: Among all other G7 countries, Canadians pay more for our telecommunications services (with the exception of landline services for which Canada is ranked as one of the least expensive countries).

Perhaps directly as a result of the public's response to higher prices, all three of Canada's national carriers – Rogers, Telus Corp., and BCE Inc.'s Bell Canada – have made improved customer service a priority in recent years, rather than lower rates. Indeed, it would seem that customer service presents a key means of competition between the three. Although total annual complaints submitted to Canada's public advocate (the CRTC) remain steady, we note that Rogers posted a significant drop in the number of times its customers take their complaints to the CRTC. TELUS too has seen success in this regard, as its customer service plan has resulted in consistently fewer CRTC complaints, and industry–leading low rates of churn (customer turnover) for the B.C. based company. Nevertheless, as is to be expected, most complaints directed at Canadian telecom companies are centered on price.

For years, the big telecommunications companies in Canada have defended their pricing practices on the grounds that expenses in Canada are higher due to geography. Though the status quo can breed complacency, this defense has had little success, especially in consideration of the fact that Canadian carriers are among the most profitable in the world (verified by the Bank of America Merrill Lynch Global Wireless Matrix).

In addition, Canada has a functioning "black market" for wireless plans as a result of inter-provincial disparities. On a popular online classifieds site, we found a person named John offering to set up interested clients with unlimited nationwide calling and 5 Gb of data on Koodo for $48/month – the same rate that Koodo charges clients in Saskatchewan or Manitoba. For an identical plan in Alberta, the cost would be 87.5% higher. This "black market" practice was first flagged by Peter Nowak, a former CBC journalist, who remarked in his blog, "You know wireless pricing in Canada is messed up when there's a black market emerging to provide people with better deals". If the large land mass explanation for higher prices in Canada relative to the majority of our G7 peers was a valid one, then Canadian carriers should not be posting profits of the magnitude referenced above, or in a similar vein, should not be drastically reducing rates for two of the least densely populated provinces in Canada. As a side note, a recent study by the Canadian Internet Registration Authority found that Saskat-chewan also benefits from higher average download speeds relative to other Canadian provinces, further weakening the land-mass argument.

Admittedly, preceding parts of this article could easily be misinterpreted as a rant about prices, but the intent here is to outline the benefits granted to Canadian telecom companies, including high profit margins and a utility-like status. Indeed, these



characteristics, along with high barriers to entry, unregulated prices, and a growing importance in wireless mobility and broadband internet, are key factors that influence our decision to continue investing in Canadian telecommunications.

Sell BCE / Buy TELUS

TELUS is Canada's third largest and fastest growing, publicly traded telecommunications company in Canada. Like BCE, TELUS' primary business line relates to the provision of wireless services (Mobility) and wireline (Phone/Internet/TV) services to customers (with greater emphasis placed on Mobility at TELUS).

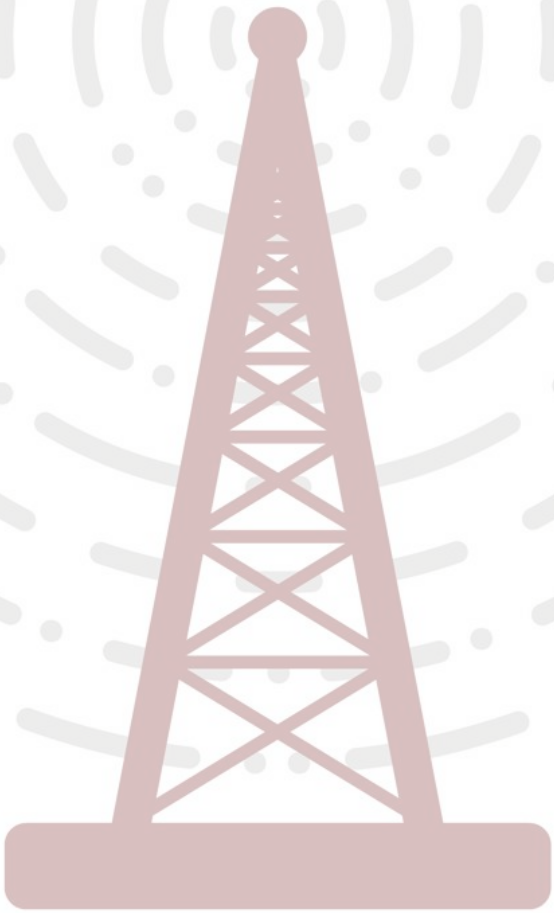
Our base thesis underlying the consideration to sell BCE for TELUS is simple: The business model of TELUS is more congruous, and we observe that their operations are far more concentrated in what we determine to be growth segments, relative to the BCE conglomerate.

In addition to traditional wireless and wireline segments, BCE notably owns The Source Electronics Inc., media assets including the CTV and BNN networks, Virgin Radio (104.9 FM), and substantial equity interests in the various sports franchises that encompass Maple Leafs Entertainment Ltd., as well as the Montreal Canadiens. Similar to the thesis on General Electric presented in our last quarterly newsletter, we suggest that numerous differentiated business segments may detract from future value. In the case of BCE, we are specifically concerned that extraneous assets will distract from executing and growing operations that we have identified as primary growth opportunities for the telecommunications sector; namely, mobile and broadband services. Moreover, there is nothing novel in the assertion that television networks and radio stations are currently in secular decline.

Why Now?

Over the last 18 months the stock market performance of TELUS has fallen short of the equity gains witnessed by BCE (by 12%). As a result, the price-to-earnings ratio for TELUS is now below that of BCE. In our prior reviews of the telecommunications industry, TELUS had traded at relatively higher multiples. This departure from trend represents a chance for us to exchange a slower growing, potentially riskier telecom company, for a faster growing and uniquely discounted company.

In summary, we believe that the Canadian telecommunications sector will continue to be increasingly profitable due to lack of competition, its status as a utility-like service, unregulated pricing, and high barriers to entry. Where the decoupling of stock market performance between BCE and TELUS presents a value-based opportunity to exchange one for the other, we are inclined to take advantage of the upside potential.



A MONSTROUS ESG REVIEW

Noah Clarke, MA and Brenda Wilbur

In recent years, a burgeoning number of public companies have identified sustainability issues as strategically important for their future earnings. A trend that is correlated with more and more investors committing to (or at least paying lip-service to) the integration of ESG data in their valuation processes. But, playing the role of devil's adovacte for the moment, do environmental, social, and governance (ESG) sustainability investments lead to exceptional future financial performance? This is a compelling question for companies and investment management firms – most importantly Qube.

In a recent study published by Mozaffar Khan and George Serafeim at Harvard Business School, they point to new supporting evidence for there being an alpha (or future abnormal stock returns) imparted by sustainable investments. But all is not equal. Their findings suggest that certain ESG factors may be material (value relevant) for one sector, but not for other sectors. Take for instance the case of Monster Beverage Corporation (MNST); a Kaleo holding that recently recieved an updated ESG review.

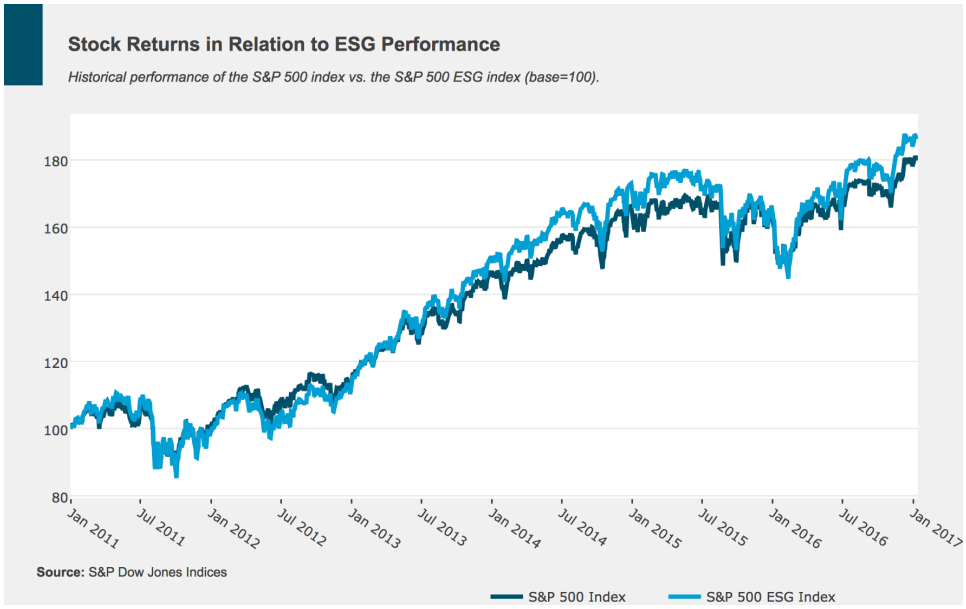
MNST markets a consumption-good classified specifically as a non-alcoholic beverage. For companies operating in this sector, Water Management, Fair Disclosure and Labelling, Corporate Governance and Supply Chain Management issues (this list is not exhaustive), are found to be material issues. In contrast, issues that are found to be less material for the future financial performance of MNST would include GHG Emissions, Political Influence, Human Rights, and Community Relations. Of course, the same can not be said for companies in other sectors such as manufacturing or technology. It is therefore concerning that in our recent review of MNST, they were found to be weakest in regards to the material issues listed above.

Resource Management

MNST is cited as having not bothered to respond to the CDP's 2016 Water Report, while concurrently scoring 1/100 in a Water Risk Management report produced by the heavy-weights of the sustainable world (CERES, UNPRI and Calvert Investments). In addition, no environmental reporting is evident in any public documentation – no strategies on transport, manufacturing, packaging, waste, water, or climate change. Now the argument could be made that they are riding the coattails of Coca-Cola's top-ranking sustainability, since Coke does handle the majority of Monster's distribution in North America and will soon be handling a large portion of the global market, but Coke only owns 16.7% of the company, leaving 83.3% firmly in Monster's hands.

Fair Disclosure and Labelling

MNST does not list the amount of caffeine in their products because in their own words "there is no legal or commercial business requirement to do so, and also because our [sic] products are completely safe, and the actual numbers are not meaningful to most consumers". Actually, since changing their labels from "Supplement Facts" to "Nutrition Facts" in 2013 – MNST is no



longer required to tell federal regulators about reports potentially linking its products to deaths and injuries – as this is only required for supplements, not foods.

Looking forward, this may increase their risk exposure to new government policies. Possible policy options that we view as having a high relative probability of being inacted include prohibiting sales of energy drinks to youth under 18, requiring warning labels on their product packages, and enhanced regulation of marketing practices deemed to be unfair or dececptive (supplemental vs. nutrional facts).

Going Forward

So what's the plan moving forward? Investment decisions are rarely clear cut. MNST has generated significant excess returns historically. Having adjusted for $2-billion worth of share buy backs in 2016, market expectations are for growth of roughly 8% in 2017. Indeed, MNST is likely to continue to deliver growth to shareholders over the medium term as a result of its dominant market position within the energy drink business. Additionally, waiting for the more ESG friendly Coca-Cola Co. (the CDP has consistently ranked Coca-Cola Corp. as a top performer in terms of Water Sustainability) to acquire the rest of the business remains a valid strategy both in terms of future sustainability performance and also financial performance. Coca-Cola Co. has under-performed in 2016 and the company may shift its focus to acquisitions as a means to increase revenues. However, as MNST continues to out-perform, the cost of acquisition will increase, which may make it a less desirable target.

Ultimately, in the long-run there are valid reasons to divest from MNST, which is to say that we are looking for opportunities to switch out of this company and into a company with less long-term risk exposure.

QUBE INSIGHTS: KALEO HOLDINGS

Patrick Choi, CFA

Every quarter we highlight some of the 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. We'd like to give you some insight into our thought processes so you can understand why we hold or want to sell these companies.

Kaleo Full & Kaleo A Portfolio Holding

Much of the focus in recent years, for healthcare stocks, has been on the highly volatile, and perhaps more exciting, biotech and big pharma subsector. What often gets missed in the background are the less volatile companies, for instance, such as those who manufacture medical devices like infusion pumps, catheters, pacemakers, and defibrillators. We believe that each of these subsectors are equally important in the saving of lives, and they each have their place in our Kaleo portfolio. The only difference between these subsectors is in their areas of specialization: biotech is mainly a biological field, pharma uses both chemistry and biology, and medical devices combines physics with biology.

Medtronic is the world's largest standalone medical device company. They are headquartered in Dublin, Ireland, operate in more than 140 different countries, employ over 85,000 people and have more than 53,000 patents. With these resources, Med-tronic develops and manufactures devices and therapies to treat more than 30 chronic diseases, including heart failure (defibrillator), Parkinson's disease (deep brain stimulation devices), chronic pain (synthetic bone graft technology), and diabetes (insulin pump).

People from all across the world are aging. According to the UN Department of Economic and Social Affairs, there are currently 901 million people aged 60 years or over in 2015, an increase of 48% over the 607 million older persons globally in 2000. By 2030, the number of people in the world aged 60 years or over is projected to grow to 1.4 billion, and by 2050, it is projected to more than double its size in 2015, reaching 2.1 billion people. We believe the growing and aging population will drive higher disease prevalence and the need for associated medical devices going forward. In addition to the aging demographics, the medical device industry also faces favorable tailwinds from rising income levels and availability of insurance, improving medical infrastructure from government and private investment, and increasing consumer demand for higher quality care.

We feel that our continued investment in Medtronic gives us exposure to these long-term favorable tailwinds, and we expect this company to be one of our core holdings for the forseeable future.

Patrick Choi, CFA

Kaleo Full & Kaleo B Portfolio

"By 2030, 2-billion people who don't have a bank account today will be storing money and making payments with their phones. And by then, mobile money providers will be offering the full range of financial services, from interest-bearing savings accounts to credit to insurance."

***Bill and Melinda Gates Foundation, 2015 Annual** Letter*

If you have ever purchased anything online (eBay, Amazon, BestBuy, Cineplex, etc.), then there is a high probability that you have used PayPal as the method of payment for your transaction. For many of the 192 million PayPal customers, PayPal represents the "go-to" source for sending payments on the web – a title earned through 15 years of building trust with internet shoppers. In 2015 alone, PayPal processed nearly 5-billion transactions, at a rate of 30 transactions per account, which represents a 13% growth rate on a trailing twelve month basis. This means that PayPal is not only adding new customers, but people are also using PayPal more frequently than ever before, which is an important indication of their growing relevance in our day-to-day lives.

We see several growth opportunities for PayPal going forward.

1) For the first time ever, a UPS annual survey said that consumers bought more of their products online than in physical stores. The actual statistic came in at 51%. PayPal is currently the leader in the e-commerce payment processing space. We believe PayPal's goodwill with their customers, and scale of service, will continue to pave the way for their success in this growing segment of retail.

2) Mobile payments and money transfers (including mobile money transfers between friends and family) have yet to truly take off; however, most estimates have pegged growth in this space at a CAGR (Compounded Annual Growth Rate) of 30-40% through to 2020. We believe PayPal's investments in Xoom, Venmo and in-house R&D like "One Touch" will continue to drive mobile adoption in PayPal's products and services.

3) PayPal has the opportunity to not only address the $2.5 trillion market in online and mobile finance, but also to expand into the $25 trillion market associated with general commerce, both online and offline. One such opportunity highlighted by PayPal CEO, Dan Schulman, is in loan origination. With PayPal's intimate data on merchant transactions, this new segment of their business could potentially grow into a large and successful business.

QUBE INSIGHTS: EQUITY RESEARCH SNAPHOTS

Balancing traditional research techniques with modern portfolio science allows our team to find companies that demonstrate and maintain solid investing fundamentals. We look for less volatile and proven earnings combined with long-standing stable dividend policies. Share prices need to be justified on a combination of current earnings and reasonable earnings growth possibilities. Quality financial statements, coherent management and an operational business plan 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

	INDUSTRY	Current Status
Pepsi	Consumer Staples	
Mondelez	Consumer Staples	
Monster Beverage	Consumer Staples	
Colgate Palmolive	Consumer Staples	
Medtronic	Healthcare	
Baxter	Healthcare	
Becton Dickinson	Healthcare	
Telus	Telecommunications	
Cogeco Communications	Telecommunications	
Rogers	Telecommunications	
Shaw	Telecommunications	
BCE	Telecommunications	

QUBE INSIGHTS: EQUITY RESEARCH SNAPHOTS

	INDUSTRY	Current Status
Westrock	Materials	
Ecolab	Materials	
Olin Corp.	Materials	
LyondellBasell	Materials	
Huntsman	Materials	
DuPont	Materials	
Praxair	Materials	
Terra Nitrogen	Materials	
Agnico Eagle Mines	Materials	
Kinross Gold	Materials	
Goldcorp	Materials	
Franco Nevada	Materials	
Lucara Diamond	Materials	
Silver Wheaton	Materials	
Canfor Pulp Products	Materials	
First Quantum Minerals	Materials	
West Fraser Timber	Materials	
Dominion Diamond Corp.	Materials	
Pan American Silver	Materials	

QUBE INSIGHTS: EQUITY RESEARCH SNAPHOTS

	INDUSTRY	Current Status
Tahoe Resources	Materials	
Turquoise Hill Resources	Materials	
Detour Gold	Materials	
OceanaGold	Materials	
Packaging Corp of America	Materials	
Eversource Energy	Utilities	
Sempra Energy	Utilities	
NextEra Energy	Utilities	
Covanta	Utilities	
Capital Power	Utilities	
Canadian Utilities	Utilities	
TransAlta Renewables	Utilities	
Innergex Renewable Energy	Utilities	
Costco	Consumer Staples	
Church & Dwight	Consumer Staples	
Molson Coors	Consumer Staples	
Diageo	Consumer Staples	
AB InBev	Consumer Staples	
Craft Brew Alliance	Consumer Staples	

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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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Qube Investment Management Inc.
200 & 300 Kendall Building
9414 -91 street
Edmonton, AB T6C 3P4
780.463.2688
www.qubeconsulting.ca