EDISON

Canadian General Investments

Outperformance down to stock selection

Investment companies

Canadian General Investments (CGI) enjoys favourable tax status as a Canadian investment corporation. Its portfolio of primarily Canadian equities is broadly diversified, suggesting that the company can be considered as a 'one-stop shop' for investment in Canada, where there are investment opportunities available across a range of sectors. As a result of positive fundamental stock selection, CGI's NAV total return has outperformed the benchmark S&P/TSX Composite Index over one, three and five years. The board has been shifting emphasis towards more regular interim rather than year-end special dividends; CGI's current dividend yield is 3.1%.

12 months ending	Share price (%)	NAV (%)	S&P/TSX Composite (%)	MSCI Canada (%)	FTSE World (%)
30/09/13	14.3	8.4	7.1	7.6	24.7
30/09/14	24.4	23.8	20.4	21.4	21.8
30/09/15	(4.7)	(6.8)	(8.4)	(8.0)	13.0
30/09/16	5.3	10.9	14.2	13.1	10.3
30/09/17	24.3	17.4	9.2	10.2	13.4

Source: Thomson Datastream. Note: All % on a total return basis in Canadian dollars.

Investment strategy: Active stock picking

CGI is managed by Greg Eckel, who aims to outperform the benchmark with a diversified portfolio of primarily Canadian equities. Stocks are selected on a bottom-up basis; the manager seeks companies with good fundamentals, strong management teams and reasonable valuations. The portfolio is actively managed, with sector weightings that can deviate meaningfully from the benchmark's. An example is the financial sector (which has the largest index weighting), where CGI has a significant underweight exposure to banks. The company has C$150m in structural gearing, split evenly between preference shares and bank debt; at end-September 2017, net gearing was 18.7%.

Market outlook: Relatively attractive valuations

While global equities have positively rerated on the back of improved corporate earnings, there are pockets of relative value available. Canadian equities are attractively valued versus US equities, trading at a 12.7% discount, which compares to the 10-year average of 2.6%. The IMF has recently increased its growth estimates for Canada for both 2017 and 2018 due to reduced drag from lower energy prices and accommodative fiscal and monetary policies.

Valuation: Potential for discount to narrow

CGI's current share price discount to net asset value of 26.6% is marginally narrower than the averages of the last one, three and five years (range of 28.0% to 29.7%). While the discount may partly reflect the high level of insider ownership, there is scope for it to narrow if there is higher investor demand for Canadian equities or if CGI continues to build on its positive track record (for tax reasons, the company is unable to repurchase shares to manage the discount). The board is placing greater emphasis on regular interim rather than special dividends. CGI currently has a dividend yield of 3.1%.

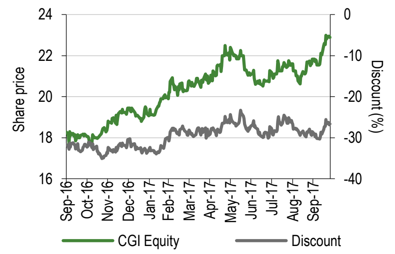
26 October 2017

Price	**C$22.89**
Market cap	**C$478m**
AUM	**C$800m**
NAV*	C$31.18
Discount to NAV	26.6%
Yield**	3.1%
Yield***	3.3%

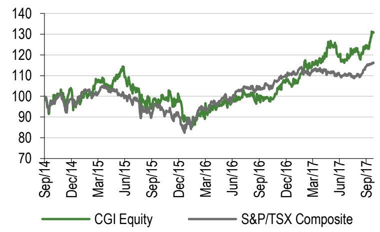
*Including income. As at 17 October 2017. **Excluding special dividend. ***Including potential special dividend.

Ordinary shares in issue	20.9m
Code	CGI
Primary exchange	LSE
AIC sector	North America
Benchmark	S&P/TSX Composite

Share price/discount performance



Three-year performance vs index



52-week high/low	C$23.00	C$17.79
NAV* high/low	C$31.38	C$25.87

*Including income.

Gearing

Gross*	19.1%
Net*	18.7%

*As at 30 September 2017.

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Edison profile page

Canadian General Investments is a research client of Edison Investment Research Limited

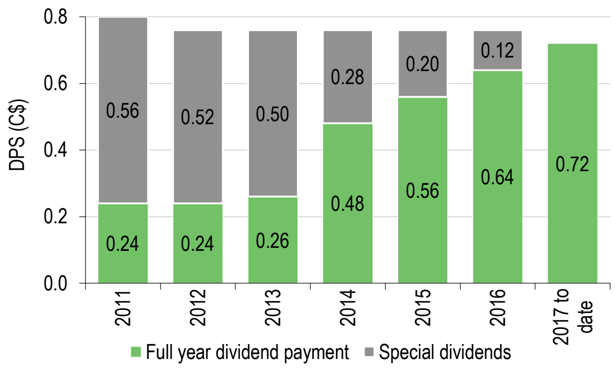
Exhibit 1: Company at a glance

Investment objective and fund background	Recent developments
Canadian General Investments' investment objective is to provide better than average returns to investors by investing in a diversified portfolio of primarily Canadian equities. It aims to achieve this through prudent security selection, timely recognition of capital gains/losses and appropriate income-generating instruments.	■ 18 October 2017: Announcement of quarterly dividends – C$0.18 per common share and C$0.23438 per Series 4 preference share. ■ 14 August 2017: Interim report for six months ending 30 June 2017. NAV total return of +4.6% versus +0.7% for the S&P/TSX Composite Index. ■ 27 July 2017: Announcement of quarterly dividends – C$0.18 per common share and C$0.23438 per Series 4 preference share. ■ 20 April 2017: Announcement of quarterly dividends – C$0.18 per common share and C$0.23438 per Series 4 preference share.

Forthcoming		Capital structure		Fund details	
AGM	April 2018	Ongoing charges	1.56% (see MER below)	Group	Morgan Meighen & Associates
Final results	March 2018	Net gearing	18.7%	CEO	Jonathan A Morgan
Year end	31 December	Annual mgmt fee	1.0% of gross assets	Address	10 Toronto Street, Toronto, Ontario, Canada M5C 2B7
Dividend paid	Mar, Jun, Sep, Dec	Performance fee	None		
Launch date	January 1930	Trust life	Indefinite	Phone	+1 416 366 2931
Continuation vote	No	Loan facilities	C$150m (see page 7)	Website	www.mmainvestments.com

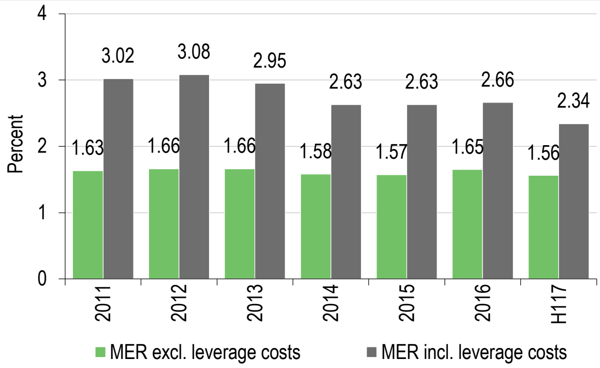
Dividend policy and history (financial years)

CGI revised its dividend policy in 2014 and intends to pay steady to rising quarterly dividends with less emphasis on the special final dividend declared in December.

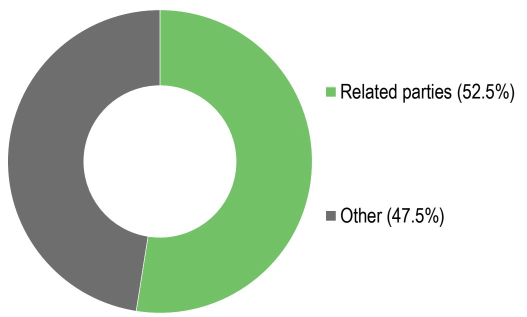


Management expense ratio (MER)

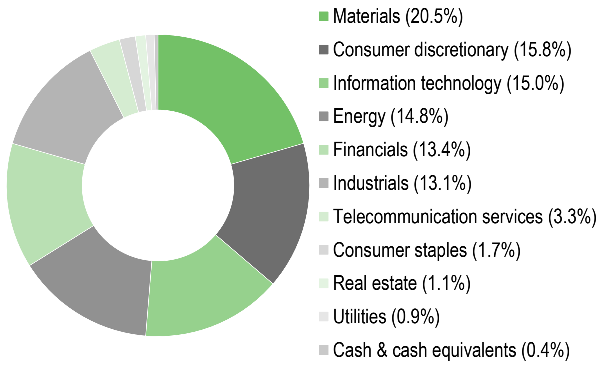
CGI pays a monthly management fee at 1.0% pa of gross assets. Leverage costs include preference share dividends, interest and financing charges.



Shareholder base (as at 30 June 2017)



Portfolio exposure by sector (as at 30 September 2017)



Top 10 holdings (as at 30 September 2017)

Company	Country	Sector	Portfolio weight %	
			30 September 2017	30 September 2016*
Dollarama	Canada	Multiline retail	5.7	6.0
NVIDIA Corporation	US	Semiconductors	4.3	N/A
Franco-Nevada Corporation	Canada	Metals & mining	3.9	4.1
Air Canada	Canada	Airlines	3.8	N/A
Shopify	Canada	Internet services	3.4	N/A
Bank of Montreal	Canada	Banks	3.3	3.4
First Quantum Minerals	Canada	Metals & mining	3.2	2.8
Canadian Pacific Railway	Canada	Railroads	3.1	3.3
Royal Bank of Canada	Canada	Banks	3.0	2.8
CCL Industries	Canada	Speciality packaging	2.9	3.4
Top 10			**36.6**	**34.6**

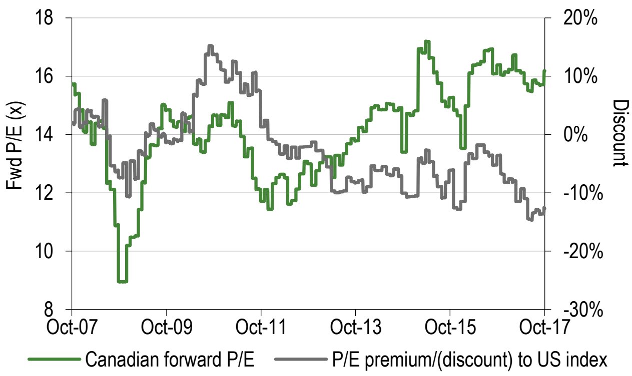
Source: Canadian General Investments, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in September 2016 top 10.

Market outlook: Canada is relatively attractively valued

Following a positive rerating of global equities, as investors have focused on a broad-based improvement in corporate earnings, forward earnings multiples are above 10-year averages in both developed and emerging markets. However, there are pockets of relative value. Exhibit 2 (LHS) shows the forward P/E of Canadian equities and the relative valuation versus US equities (using Datastream indices). While there are periods over the last 10 years when Canadian equities were more expensive than US equities, they are currently trading at a meaningful 12.7% discount. This is considerably wider than the 2.6% average discount over the last 10 years, and should be considered in the context of similar growth rates. In its October 2017 World Economic Outlook, the International Monetary Fund (IMF) revised its Canadian growth estimate for 2017 up by 0.5pp to 3.0% (US +0.1pp to 2.2%). Estimates for Canada and US economic growth in 2018 are broadly similar. Both were revised up by 0.2pp to 2.1% and 2.3%, respectively.

Exhibit 2: Valuation and S&P/TSX Composite index data

Valuation of DS Canada index versus DS US index



S&P/TSX Composite Index data (as at 30 September 2017)

	No of cos	Weight (%)	9M17 total return (%)	2016 total return (%)	2017e P/E (x)
Financials	27	34.4	7.2	24.1	12.9
Energy	50	20.4	(7.6)	35.5	28.0
Materials	56	11.5	2.5	41.2	23.7
Industrials	26	9.5	14.7	22.8	19.5
Cons. discretionary	22	5.4	17.4	10.7	16.7
Telecoms	3	4.8	10.1	14.7	17.5
Utilities	16	3.8	7.9	17.7	22.0
Cons. staples	11	3.6	1.5	7.5	18.3
IT	12	3.3	12.9	5.2	24.5
Real estate	21	2.9	4.9	5.9	14.1
Healthcare	6	0.6	(8.5)	(78.5)	9.6
Index	**250**	**100.0**	**4.4**	**21.1**	**17.5**

Source: Thomson Datastream, Bloomberg, Edison Investment Research

Exhibit 2 (RHS) shows the broad range of investment opportunities available in Canada, highlighting the breakdown, performance and valuation of the S&P/TSX Composite Index. While there is a large weighting in both the financial and energy sectors, numerically only 31% of index constituents are represented in these two sectors, with 69% in the other nine sectors. In 2016, stock market leadership was particularly narrow, led by the materials and energy sectors. In the first nine months of 2017, market leadership was broader, led by consumer discretionary, industrials, technology and telecom companies. The outlook for earnings growth for the S&P/TSX Composite index is positive; Bloomberg shows estimates of 14.2% and 9.6% for 2017 and 2018 respectively. For investors considering exposure to Canada, a broadly diversified fund with a good performance track record may hold some appeal.

Fund profile: Diversified Canadian equity exposure

Established in 1930, CGI is North America's second-oldest closed-end fund. Since 1956, it has been managed by Morgan Meighen & Associates (MMA), which has c C$1.8bn assets under management. CGI is listed on the Toronto Stock Exchange (since 1962) and the London Stock Exchange (since 1995). Portfolio manager Greg Eckel invests over the medium to long term in a broad selection of primarily Canadian equities, aiming to outperform the total return of the benchmark S&P/TSX Composite Index. CGI is designated as an investment corporation under the Income Tax Act (Canada), which eliminates a layer of taxation as capital gains are only taxed at the shareholder level, and enables CGI's capital gains to be paid as dividends to shareholders. However, to maintain its favourable tax status, CGI is unable to repurchase its shares to help manage the share price discount to net asset value. In addition, not more than 25% of its gross revenue may be from interest income, and at least 85% of gross revenue must be from Canadian sources. More than 50% of CGI's shares are held by related parties, which ensures that management's and shareholders' interests are aligned, although this may also contribute to CGI's wide discount to NAV. Following a period of repositioning in early 2016, which resulted in higher-than-average activity in the portfolio, turnover has declined to c 10%. This compares to the average of the last five years of c 18%. Gearing of C$150m is made up of C$75m Series 4, 3.75% preference shares and C$75m bank debt; at end-September 2017, net gearing was 18.7%. CGI has followed a levered strategy since its first issue of preference shares in 1998.

The fund manager: D Greg Eckel

The manager's view: Opportunities for active managers

Eckel notes that Canadian equities are advancing at a slower pace in 2017 compared to the above-average total returns generated in 2016. However, he says that there are still opportunities for active stock pickers to find attractive investments. He comments that there are no overriding macro themes emerging from company meetings, and he is making portfolio decisions on the micro level. The manager says that positive earnings results are being rewarded by the stock market, and stresses the importance of avoiding underperforming companies. Eckel highlights the energy sector, which is suffering the worst performance year-to-date within the market, following a very strong total return in 2016.

The manager remains positive on the outlook for Canadian equities in general and highlights that there are both near- and longer-term potential positive catalysts within CGI's portfolio. These include positive results from apparel manufacturer Canada Goose, as it enters its two seasonally strongest quarters, and longer-term potential from StorageVault Canada. The company operates the largest self-storage facilities in Canada, in what is a very fragmented market. Its stock price has been under pressure due to liquidity concerns and a recent stock issuance. However, the manager believes the company's long-term outlook is good, as it should be able to benefit from both organic and acquired growth. Another support for the stock market going forward could be a resurgence in mergers and acquisitions (M&A); so far in 2017, this has not been a significant feature. In January 2017, portfolio company Brookfield Canada Office Properties received a takeover bid from its parent Brookfield Property Partners, at a final premium of c 25%. However, the manager says that so far this year, announced deals have been one-offs, rather than a broader investment theme.

Asset allocation

Investment process: Seeking long-term winners

CGI primarily invests on a bottom-up basis, while taking the macro environment into account. The manager is able to draw on the resources of MMA's seven other investment professionals. At end-September 2017, c 85% of the portfolio was invested in Canadian equities, with c 15% in US equities (up to 20% is permitted, which gives Eckel flexibility to invest in businesses that are not listed in Canada, such as e-commerce behemoth Amazon). Investments are made with a medium- to long-term view; the manager seeks companies with strong fundamentals and long-term growth potential, that are trading on reasonable valuations. The quality of a company's management team is a key consideration, and the manager has a history of following good management teams as company structures change as a result of M&A. Some higher-yielding stocks are held to enable dividends to be paid; these include top 10 holdings Bank of Montreal and Royal Bank of Canada, which both have a 3.6% dividend yield. CGI's portfolio underwent a period of adjustment in early

2016, when commodity exposure was increased, and the manager says that he is very comfortable with the current structure of the fund. As a result, portfolio activity is lower than the historical average. Despite the fact that many of CGI's investments have multi-year holding periods, positions are continually assessed to ensure their existing exposure remains appropriate. There is a bias to mid and large-cap stocks (median market cap of c C$5bn), and less than 10% of the portfolio has a market cap below C$1bn.

Current portfolio positioning

At end-September 2017, CGI's top 10 positions comprised 36.6% of the portfolio; this was a modest increase in concentration versus 34.6% at end-September 2016. CGI currently has 54 holdings (typical range of 50-65). Looking at sector exposure in Exhibit 3, over the last 12 months the largest changes are increases in technology (+5.8pp), materials (+2.3pp) and industrials (+2.2pp), while the largest decreases are in energy (-4.6pp) and consumer discretionary (-2.6pp). The manager's unconstrained, active approach is illustrated by some large sector deviations versus the benchmark. These include financials, where CGI has a much lower weighting in banks than the index (8% versus 24%), as Eckel believes that there are better growth opportunities available elsewhere. The underweight position in energy reflects the manager's caution surrounding natural gas prices, due to higher levels of US production. The manager's preference for technology stocks, such as top 10 positions in NVIDIA and Shopify, is shown by CGI's 15% exposure, which is c 5x larger than the technology sector's weight in the index.

Exhibit 3: Portfolio sector exposure vs benchmark (% unless stated)

	Portfolio end-September 2017	Portfolio end-September 2016	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Materials	20.5	18.2	2.3	11.5	9.0	1.8
Consumer discretionary	15.8	18.4	(2.6)	5.4	10.4	2.9
Information technology	15.0	9.2	5.8	3.3	11.7	4.6
Energy	14.8	19.4	(4.6)	20.4	(5.6)	0.7
Financials	13.4	14.0	(0.6)	34.4	(21.0)	0.4
Industrials	13.1	10.9	2.2	9.5	3.6	1.4
Telecommunication services	3.3	3.3	0.0	4.8	(1.5)	0.7
Consumer staples	1.7	2.2	(0.5)	3.6	(1.9)	0.5
Real estate	1.1	2.4	(1.3)	2.9	(1.8)	0.4
Utilities	0.9	1.1	(0.2)	3.8	(2.9)	0.2
Healthcare	0.0	0.0	0.0	0.6	(0.6)	0.0
Cash & cash equivalents	0.4	0.9	(0.5)	0.0	0.4	N/A
	100.0	**100.0**		**100.0**		

Source: Trust name, Edison Investment Research. Note: Numbers subject to rounding.

Air Canada has been in CGI's portfolio for the last few years. Due to significant share price appreciation (the stock has roughly doubled year-to-date), it is now one of the top 10 holdings. The company has turned itself around; measures include cutting costs, introducing new planes and developing better relationships with its workforce. Air Canada has also been a beneficiary of a lower oil price. It has both domestic and international operations and there has been increased demand from US passengers using Toronto and Vancouver as hub airports for long-haul routes. The airline industry remains competitive, partly because of increased capacity from low-cost carriers (LCCs). However, Air Canada has its own LCC called Rouge, which is used for leisure destinations. Despite Air Canada's strong share price gains, the manager believes that there will be further upside, so he will continue to hold the position.

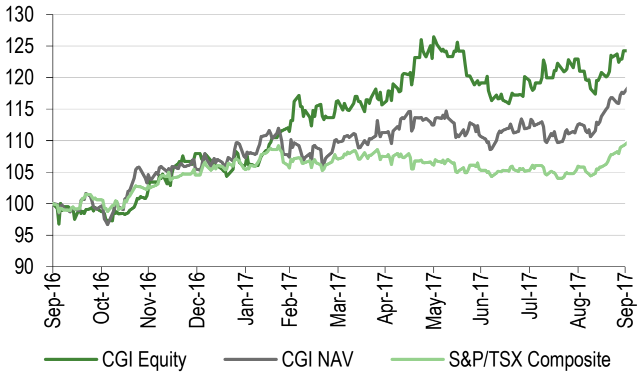
CGI has increased its exposure to base metals via a relatively new position in Teck Resources. The company is the world's second-largest seaborne exporter of metallurgical coal. It is also a significant copper producer in the Americas, the world's third largest producer of zinc and, within the energy patch, is developing Canadian oil sands mining projects. Teck is a large-cap, liquid stock and CGI's purchase reflects a change in market sentiment towards commodities; base metal prices are rising and metallurgical coal prices are stabilising.

Performance: Benefiting from stock selection

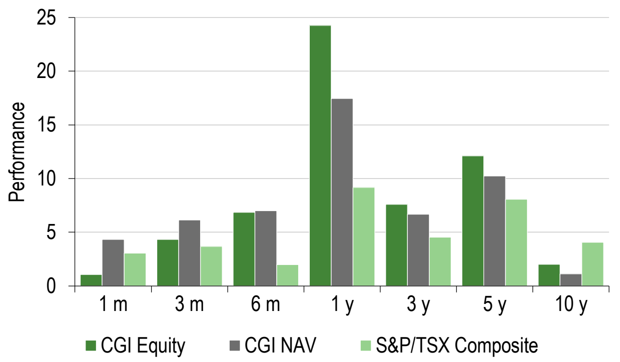
Exhibit 4 shows CGI's absolute performance. Over the last 12 months, its NAV and share price total returns of 17.4% and 24.3%, respectively, are meaningfully ahead of the benchmark 9.2% total return. Stocks contributing to the performance include Shopify, an e-commerce platform, whose share price has more than doubled over the past year despite a near-term c 20% correction as a result of a short-selling report by Citron Research. The manager believes that the arguments stated in the report are without merit, and expects Shopify's share price to recover. Other positive contributors include semiconductor company NVIDIA, whose share price is up by more than 200% in the last year; it is well positioned to benefit from secular growth in industries such as driverless vehicles and online gaming. Rogers Communications' share price has rallied by c 30% in the last 12 months, benefiting from rational industry pricing and ongoing organic growth in the Canadian wireless market. Rogers Communications' new CEO is focusing on reducing costs, which should lead to an improvement in margins.

Exhibit 4: Investment company performance in Canadian dollars to 30 September 2017

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Exhibit 5: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to S&P/TSX Composite	(1.9)	0.6	4.8	13.8	9.1	20.2	(18.1)
NAV relative to S&P/TSX Composite	1.2	2.4	4.9	7.6	6.3	10.5	(24.9)
Price relative to MSCI Canada	(2.4)	0.2	4.5	12.8	8.8	18.3	(17.8)
NAV relative to MSCI Canada	0.8	1.9	4.7	6.6	6.0	8.8	(24.6)
Price relative to FTSE World	(0.8)	3.1	3.9	9.5	(11.9)	(17.6)	(38.6)
NAV relative to FTSE World	2.4	4.9	4.0	3.5	(14.1)	(24.2)	(43.6)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-September 2017 in C$ terms. Geometric calculation.

Exhibit 6: NAV total return performance relative to benchmark over three years

Source: Thomson Datastream, Edison Investment Research

CGI's relative performance is shown in Exhibit 5, its strong performance over one year means that it is now ahead of the benchmark in both NAV and share price terms over one, three and five years. The trust's 10-year record was affected by the level of gearing and small-cap exposure in a period of extreme market weakness during the global financial crisis. As shown in Exhibit 6, CGI's relative performance has been in a solid uptrend since early 2016. The manager says that this is as a result of successful individual stock picking, and there are currently no overriding macro themes within the Canadian stock market.

Discount: In the middle of the 12-month range

CGI's shares currently trade on a 26.6% discount, which is broadly in the middle of the 12-month range of 23.3% to 35.1%. It compares to the averages of the last one, three, five and 10 years of 29.7%, 28.0%, 28.8% and 25.0%, respectively.

CGI's discount remains persistently wide, which may be due to investor perceptions regarding the relatively high level of gearing or the large insider ownership structure. There is scope for the discount to narrow if CGI continues to build on its strong investment track record, or if there is higher investor demand for Canadian equities. The board is unable to repurchase any of CGI's shares, as this would invalidate its favourable tax status as a Canadian investment corporation.

Exhibit 7: Share price premium/discount to NAV (including income) over three years (%)

Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

CGI has 20.9m ordinary shares in issue and gearing of C$150m split equally between C$75m Series 4, 3.75% preference shares and C$75m bank debt. The bank debt facility was entered into in June 2016 ahead of the redemption of C$75m Series 3, 3.90% preference shares. It has an interest rate of 2.28%, lowering CGI's average cost of debt from 3.825% to 3.015%, which saves C$1.215m in annual interest costs. At end-September 2017, gross gearing was 19.1%, or 18.7% net of cash.

MMA is paid an annual management fee of 1.0% of the market value of CGI's investments, net of cash, portfolio accounts receivable and portfolio accounts payable. There is no performance fee. For H117, the annualised management expense ratio was 2.34% including leverage costs and 1.56% excluding leverage costs, which is more comparable with the ongoing charge figure used in the UK. These fees are lower than both H116 (2.86% and 1.71% excluding leverage costs) and FY16 (2.66% and 1.65% excluding leverage costs).

Dividend policy and record

As shown in Exhibit 1, since 2014, there has been more of an emphasis on regular quarterly dividends and less on special dividends. The manager is hopeful that annual dividends can increase over time, having been maintained at C$0.76 for the last five financial years. So far in FY17, CGI has paid four interim dividends of C$0.18, which is 12.5% higher than the corresponding interim dividends of C$0.16 paid in FY16. If the annual dividend is maintained again in FY17, this would imply a year-end special dividend of C$0.04, which equates to a yield of 3.3%.

Peer group comparison

Exhibit 8 compares the two funds in the AIC North American sector that have significant Canadian exposure. Although they have different remits, we believe that a comparison has some relevance. CGI's NAV total return is first over one, three and five years, while its 10-year record was affected by the effects of gearing and meaningful exposure to small-cap stocks during the global financial crisis. CGI has a wide discount, offering the potential to narrow if there is broader investor interest in Canada or if the trust continues to build on its positive investment track record. Its ongoing charge is higher than average, while its gearing is broadly in line. Including its potential special dividend, CGI has a yield of 3.3%.

Exhibit 8: Selected peer group as at 23 October 2017 (C$)*

% unless stated	Market cap	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Canadian General Investments	478.8	18.8	30.0	64.2	29.0	(26.3)	1.6	No	119	3.1**
Middlefield Canadian Income	182.0	3.6	20.6	51.1	104.0	(13.1)	1.0	No	120	5.0
Average	**330.4**	**11.2**	**25.3**	**57.7**	**66.5**	**(19.7)**	**1.3**		**120**	**4.0**
Trust rank in sector	**1**	**1**	**1**	**1**	**2**	**2**	**1**		**2**	**2**

Source: Morningstar, Edison Investment Research. Note: *Performance data to 20 October 2016. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets. **Excludes special dividend.

The board

CGI has seven directors on its board, four of whom are independent of the investment manager. Chairman Vanessa Morgan was appointed in 1997; she is president and CEO of MMA. Jonathan Morgan was appointed in 2001; he is CEO of CGI and vice president of MMA. Michael Smedley was appointed in 1989; he is executive vice president and CIO of MMA. The four independent directors are: Neil Raymond (appointed in 2002), Richard Whittall (appointed in 2004), James Billett (appointed in 2005) and Michelle Lally (appointed in 2015). The average tenure of all seven board members is approximately 15 years.

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