Western Investment Club

ANNUAL REPORT

2017 / 2018

May 1st, 2018

westerninvestmentclub.ca

Our Mission: To build interest in capital markets among young investors at Western University and teach the fundamentals of investing.

THIS ANNUAL REPORT REPRESENTS A COLLECTIVE EFFORT FROM OUR TEAM TO PROVIDE FUND TRANSPARENCY

This annual report is dedicated to all the former members and alumni of the Western Investment Club. Without your hard work WIC would not be possible.

CONTENT

Produced by Harsh Naik & Simon Leung

See back for important disclosures

FUND MANAGERS' STATEMENT

Dear fellow members and alumni, as the 2017-2018 academic year wraps up, we are pleased to provide an update on the Club's progress. Since its inception in 1996, the fund has grown more than seven-fold. It has been yet another successful year as WIC continues to grow its influence on the finance community at Western University. We are very proud of what the analyst team has achieved this past year, the performance of the fund, as well as the development of our more than 700 general members.

As of April 30th, 2018, we are managing a fund of more than $209,000 in assets. Since April 30th, 2017, WIC's fund has appreciated 6.6% under the management of the team. Despite a year of ongoing political headwinds and increasingly frothy valuations, the team was able to make 9 new investments and unload 8 previously held positions.

Harsh Naik
Fund Manager

WIC's 2018 fiscal year has proven to be challenging given our value investing mandate. Traditional value stocks have been out of favour in comparison to growth stocks such as Amazon and Netflix. We are clearly in the boom part of the business cycle as evidenced by bloated valuations and overly optimistic investor sentiment. This boom has been driven by a humming American economy as well as the major corporate tax cut put in place by the Trump administration. There have however been some downward pressures on equities, primarily due to uncertainty surrounding regulation as well as the ongoing threat of a full-on trade war.

Simon Leung
Fund Manager

We maintain the belief that although patient investing can prove challenging, particularly in the midst of one of the longest bull markets in history, it can yield attractive returns once the the broader market is under pressure and the pendulum swings back in favour of value stocks. Given the lack of attractive risk-adjusted opportunities, we have unloaded several of our larger positions to free up more cash. Although it is generally suboptimal to hold cash, it provides us with the critical ability to take advantage of new opportunities as they arise. As we trot ahead in times where broader indices are reaching record-highs, we continue to remain focused on deploying capital diligently and maintaining a long-term investment horizon.

Although we are continuously testing our assumptions and diligently assessing risk, there are certain events we cannot control or predict. For that reason, we insist on investing in companies we believe have large margins of safety. As Seth Klarman said in his book Margin of Safety, "It is precisely because we do not and cannot know all the risks of an investment that we strive to invest at a discount. The bargain element helps to provide a cushion for when things go wrong". We continue to focus on maintaining discipline when deploying capital by only buying stocks which we feel are available at a deep discount in hopes of creating meaningful downside protection.

Aside from the fund itself, our club membership has continued to grow thanks to all of your support. This year, our club reached 700+ dedicated members, making us one of the largest clubs at Western University. We hope the club continues to strive to create a strong community of bright, passionate, and young investors at Western.

Thank you to the analyst team for their hard work, the researchers for their dedication, the alumni for their continued support, and Western's endowment for their generous donation. As Fund Managers, we are very proud of the performance of the fund as well as the growth of our members. We are certain that WIC's future remains bright.

Sincerely,

Harsh Naik & Simon Leung
Fund Managers, 2017 / 2018

OUR ORGANIZATION

Our fund was officially created in 1996 with the generous donation of $25,000 from Mr. Cameron S. Marshman, in honour of his wife. Since then, we have managed it with a value investing philosophy. Mr. Marshman's wish was to educate and foster the next generation of investors at Western University by giving them a chance to invest real capital. Today, that donation has grown more than 700%.

FUND STRATEGY

WIC employs a bottom-up fundamental investing approach to every investment. Each idea begins with a screening process to find stocks that are trading below their intrinsic value. Our analysts then conduct an extensive research procedure to understand and evaluate the company. The process can sometimes take months for a single idea. WIC attempts to truly understand a company's valuation as well as the key drivers of its future growth potential before executing a trade. We believe that by conducting an exhaustive research process, we minimize the risk of unforeseen challenges.

For over 35 years, WIC has applied a disciplined approach to portfolio construction. Since all of our investments are high conviction ideas, we do not use beta diversification in our portfolio. However, we try to allocate capital evenly across our groups to find the best ideas among each industry. Lastly, each of our investments maintains a significant margin of safety to provide downside protection.

FIRMS REPRESENTED

Goldman Sachs
SilverLake
Ares
Moelis & Company
Evercore
Houlihan Lokey
LGP
Credit Suisse
RBC
PJT
Morgan Stanley
Qatalyst Partners

2017 / 2018 TEAM

EXECUTIVE


Sam Tammen
Co-President


Simon Leung
Fund Manager


Justin Yeung
Co-President


Harsh Naik
Fund Manager

ALUMNI ADVISORS

Charles Korn
IND Advisor

Matthew Hall
NR Advisor

David Zhang
TMT Advisor

Kevin Zhou
FIG Advisor

Feroz Qayyum
CRG Advisor

Bowen Qian
REHG Advisor

ADVISORY BOARD

Kevin Zhou
Advisor

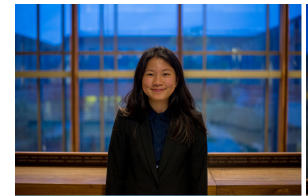
Matthew Ting
Advisor

Kevin Gryp
Advisor

Vinayak Modi
Advisor

Andrew Kim
Advisor

CONSUMER RETAIL


Morgan Zhou
Head Analyst


Hashu Rahim
Head Analyst


Noah Klein
Analyst


Fina Pang
Analyst


Saad Afroz
Junior Analyst

INDUSTRIALS


Lambros Tetoros
Head Analyst


Natalie Ngo
Analyst

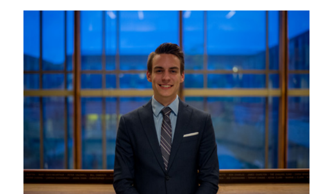

Maksym Kryworuchko
Analyst


Amir Khod
Junior Analyst

TECH, MEDIA & TELECOM


Basil Smith
Head Analyst

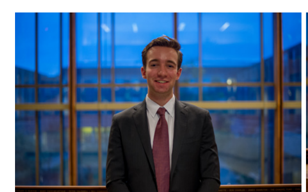

Adam Motani
Head Analyst

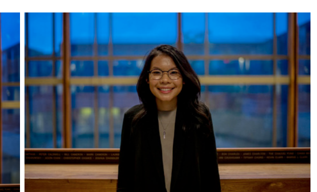

Braeden Price
Analyst

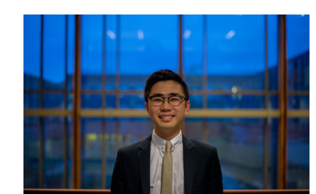

Sheldon O'Brien
Analyst


Andrew Tan
Junior Analyst

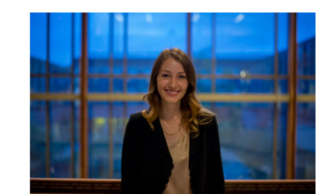
FINANCIAL INSTITUTIONS


Nicholas Mehta
Head Analyst

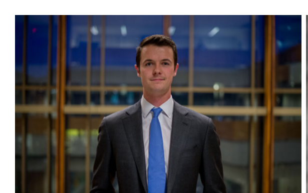

Aimee He
Head Analyst


Gary Ge
Analyst


Jimmy Zhou
Analyst

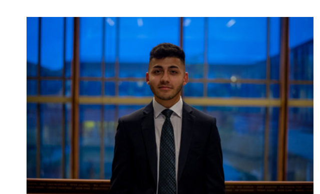

Emma Juskovic
Junior Analyst

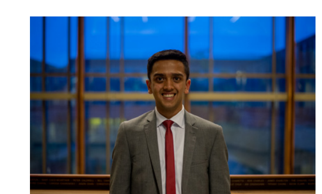
NATURAL RESOURCES


Elliott Foley
Head Analyst


Peter Shi
Head Analyst


Lucy Lu
Analyst


Adam Arif
Analyst


Teimur Siddiqui
Junior Analyst

REAL ESTATE, HEALTHCARE & GAMING


Scott Conyers
Head Analyst

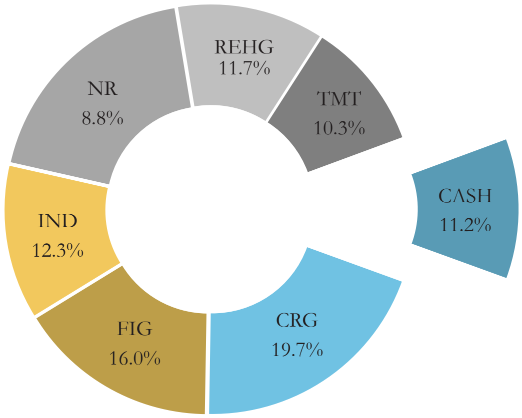

Jonathan Wong
Head Analyst


Esteban Lee
Analyst

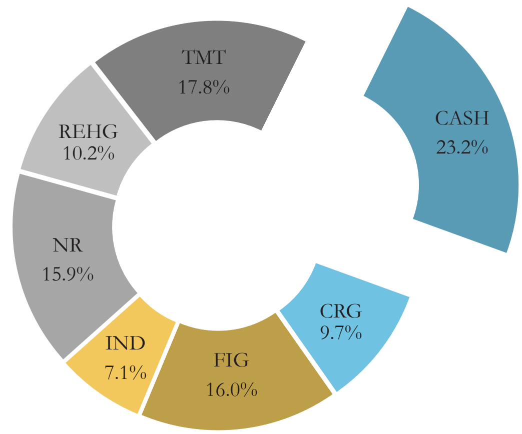

Edwina Liu
Analyst


Jack Henderson
Junior Analyst

PORTFOLIO
AT-A-GLANCE

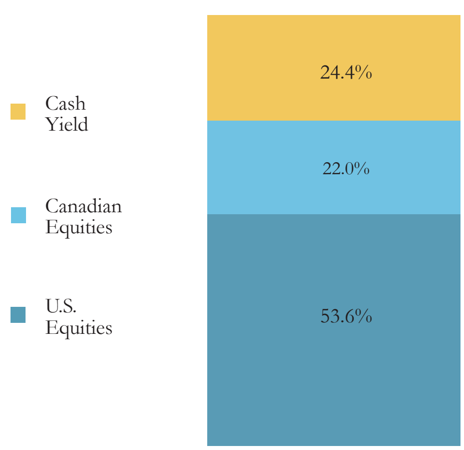


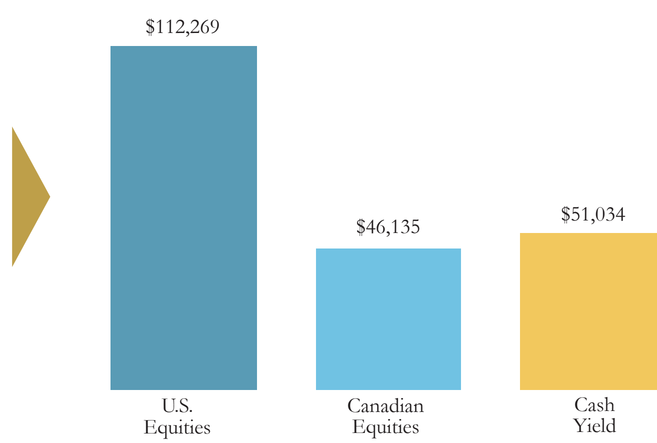
INDUSTRY ALLOCATION
APRIL 28TH, 2017



INDUSTRY ALLOCATION
MAY 1ST, 2018

Given heightened valuations across the broader market, we were focused on carefully selecting opportunities that presented an asymmetric risk-reward profile while also freeing up additional cash to take advantage of future opportunities as the market cools. As a result, we unloaded several of our positions, locking-in meaningful returns such as 81.6%, 47.7%, and 47.3% for Genworth, Forestar, and Orbotech, respectively. The TMT and NR groups saw the largest growth YoY with several positions such as Finisar, Pattern Energy, Teradyne, and Cenovus being added to the fund. In total, we conducted 9 buys and 8 sells this past year.





WIC's portfolio is comprised of U.S. equities, Canadian equities, and a cash yield component. We face foreign exchange risks in the CAD / USD rate since much of our capital is invested in U.S. equities. Our cash is invested in a liquid savings account when it is not deployed for investments.

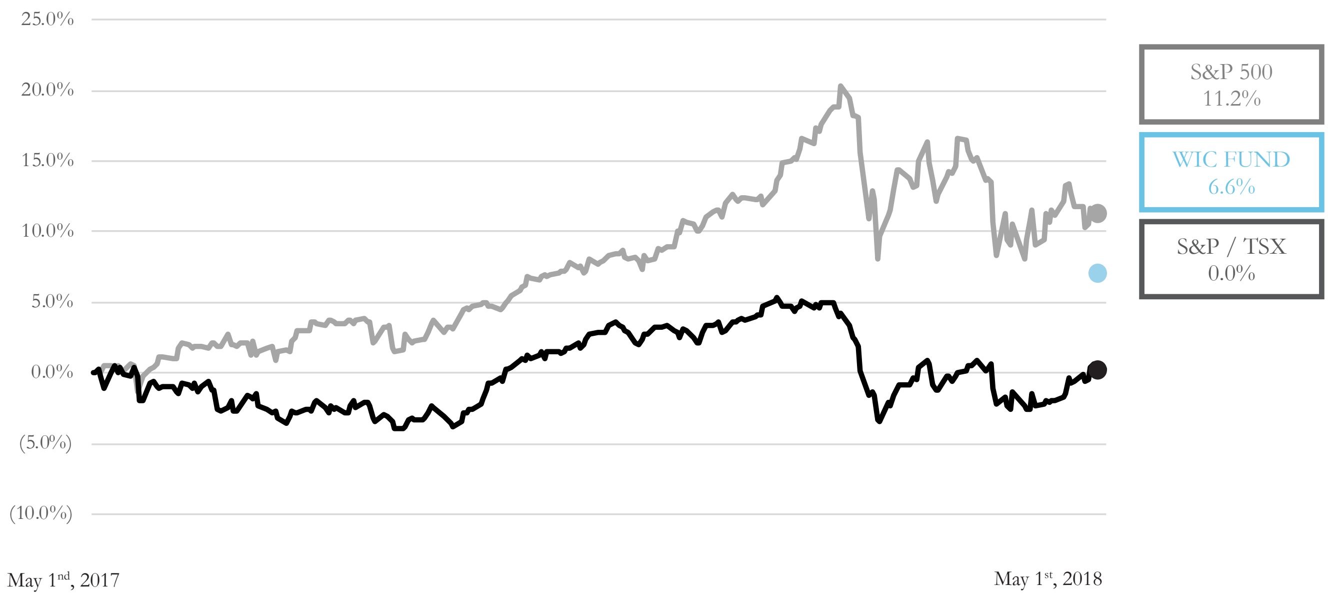
CURRENT HOLDINGS

Canadian Holdings	Symbol	Group	Entry Price
Cenovus Energy	CVE	NR	$13.07
Dream Global REIT	DRG.UN	REHG	8.63
Keg Royalties Income Fund	KEG.UN	CRG	10.79
Magellan Aerospace	MAL	IND	18.75
Power Financial	PWF	FIG	32.99
Seven Generations Energy	VII	NR	20.08
Suncor Energy	SU	NR	33.13
Transcanada	TRP	NR	43.58
Toronto-Dominion Bank	TD	FIG	55.82

U.S. Holdings	Symbol	Group	Entry Price
Aercap	AER	FIG	$70.92
Andeavor	ANDV	NR	55.15
American Express	AXP	FIG	109.54
Astronics	ATRO	IND	50.97
Astronics Class B	ATRO.B	IND	47.85
Banco Santander	SAN	FIG	8.54
Berkshire Hathaway	BRK.B	IND	135.23
Covanta	CVA	NR	19.82
Catalent	CTLT	REHG	36.19
Diversified Restaurant Holdings	SAUC	CRG	2.58
Finisar	FNSR	TMT	26.01
Federal Agricultural Mortgage	AGM	FIG	111.18
HCA Healthcare	HCA	REHG	120.88
Iron Mountain	IRM	REHG	56.50
QAD	QAD.A	TMT	27.71
Qualys	QLYS	TMT	48.85
Pattern Energy	PEGI	NR	31.06
Premier	PINC	REHG	44.54
Syntel	SYNT	TMT	63.10
Synchrony Financial	SYF	FIG	46.60
Seaworld Entertainment	SEAS	CRG	28.11
Trecora Resources	TREC	NR	16.02
Teradyne	TER	TMT	67.38
Teva Pharmaceutical	TEVA	REHG	46.41
Thor Industries	THO	CRG	191.68
Unico American	UNAM	FIG	11.98

WIC PRIDES ITSELF ON A RIGOROUS ANALYTICAL APPROACH TO EACH INVESTMENT DECISION

FUND
PERFORMANCE



Commentary

During our fiscal period, the U.S. S&P index posted an increase of 11.2% due to an American economy that has been humming in recent quarters on the back of various macroeconomic factors. Meanwhile, the Canadian S&P / TSX lagged U.S. returns, essentially remaining flat YoY. During this time, WIC's portfolio posted modest returns of 6.6%. Although lagging the broader S&P index, we believe that patience is required in times of prolonged bull markets to prevent "window-dressing" - short-term returns while taking on undue long-term risk.

Our 2017-2018 academic year was in the midst of the first full year of the Donald Trump administration. As promised, large corporate tax cuts were implemented, boosting company bottom lines and consequently valuations. This was partly counteracted by Trump's "America First" agenda which has led to a back-and-forth on import tarrifs. The American economy, in which most of WIC's holdings primarily operate, has performed very well over the past year, posting record-low unemployment levels and an inflation level in line with the Fed target. Overall, this has trickled down to increased consumer spending and heightened investor confidence. WIC continues to stay cautious and remain disciplined amidst a now 10-year old bull market.

CONSUMER RETAIL GROUP
INDUSTRY REVIEW

Opening Statement

2017-2018 was characterized by the continued struggle of traditional retailers to adapt to mounting market share losses to online competitors. However, both online and traditional retailers recognize the importance of pursuing an Omnichannel strategy. 2017-2018 also saw the continued emergence of the Chinese middle class as the world's largest consumer group.

Key Industry Trends

Rise of the Omnichannel

Despite favourable macroeconomic tailwinds, 2017 saw a slew of closures and bankruptcies including iconic brands Toys R Us, Payless, and BCBG. Store-based retailers struggled under the weight of costly store networks, heavy price competition from online channels, and debt-laden financing structures. These struggles have been coupled with an onslaught of web upstarts and consumer expectations for a developed omnichannel. Large retailers have responded by bridging the gap between offline and online, creating a cohesive loop. Traditional retailers like Walmart and Nordstrom have invested heavily into online distribution infrastructure. Others such as Nike, Hudson's Bay Company, and Ulta Beauty have focused on creating unique storefronts that emphasize experience rather than sales-per-square foot, aiming to drive online sales via in-store visitors. Amazon acquired Whole Foods and opened its first physical Amazon Go store, demonstrating that both traditional and digital retailers are pursuing an omnichannel strategy.

China Drives Demand Growth

The 2017 Singles' Day in China produced the highest volume of one-day retail spending in history. The November 11th event yielded more than $25 billion in consumer spending in China, compared to $14.5 billion for the combined sales of Black Friday and Cyber Monday in the U.S. This incredible one-day volume underscores the importance of the ever-growing Chinese middle class to global retail demand. The Chinese middle-class population is expected to reach between 700 and 800 million people by 2030, which would represent a meteoric 10% CAGR since 2010. If these projections materialize, the Chinese middle class will be nearly three times the size of its U.S. counterpart. Chinese consumers already lead the world in mobile transactions, with more mobile transactions completed in 2017 than in the U.S., Brazil, and Indonesia combined. The vast majority of these transactions were performed using the country's leading mobile payment platforms - Alipay and WeChat Pay. Consumer surveys show that Chinese consumers are not only more likely than their global peers to shop online, but their purchase decisions are more influenced by social media. The global retail landscape will increasingly be dominated by the mobile-integrated and social media driven Chinese consumer.

CONSUMER RETAIL GROUP
SELECT INVESTMENTS

Thor Industries (NYSE:THO)

WIC purchased 11 shares of Thor Industries for $137 in November 2017. Thor is the world's largest manufacturer of recreational vehicles with operations primarily in the United States and Canada. As the market leader in its operating segments, Thor was well-positioned to benefit from positive industry tailwinds, highlighted by a 95% increase in backlog YoY. Given its scale, the CRG team believed that Thor demonstrated local economies of scale in the North American market that afforded the company a significant economic moat, at an attractively low valuation. Following WIC's purchase of Thor, the company announced record quarterly earnings in line with the CRG team's thesis. The stock reached an all-time high of $157 per share. Since then, the stock has declined approximately 30% due to an analyst report questioning whether Thor's inventory levels and earnings growth are sustainable. The CRG team believes that at current valuations Thor presents an even more attractive buying opportunity.

Jamba Juice (NASDAQ:JMBA)

Jamba Juice was pitched by the CRG team in January 2017, however, the pitch was not approved via ballot by WIC members. Jamba is a healthy and active lifestyle consumer food franchise selling specialty food and beverages such as smoothies and energy bowls with over 800 stores in the United States. At the time of the pitch, Jamba was being punished for neglecting to report earnings for several quarters. The reporting misstep was due to the relocation of the company's headquarters to Texas. Despite this, the CRG team believed that the company possessed a strong balance sheet and attractive unit economics. As such, given a clear catalyst and dislocation in the stock price, the team felt Jamba provided for a unique buying opportunity in a recovering and stable business. Although not owned in the CRG portfolio, Jamba recently filed their 10-K and 10-Q filings on 02/12/18, resulting in an approximately 22% jump in its stock price.

Whole Foods Market (NYSE:WFM)

In August 2017, Amazon purchased Whole Foods Market for $42 per share, representing a 30% premium to the company's stock price prior to the deal's announcement. WIC invested in Whole Foods Market in 2015 following a mispricing investigation by the New York Department of Consumer Affairs. At the time Whole Foods' valuation had dropped by two full EBITDA multiples to $30 a share, despite little change in the company's operating metrics and profitability. The Consumer Retail team believed that the company possessed a unique customer experience and sourcing advantages that yielded the company greater profit margins than competitors. Although the Amazon acquisition corroborated this thesis, the deal demonstrates that catalysts may not be immediately apparent. However, for companies with a sustainable competitive advantage and a meaningful margin of safety like Whole Foods, a catalyst will often materialize.

FINANCIAL INSTITUTIONS GROUP
INDUSTRY REVIEW

Opening Statement

Over 2017-2018, rising interest rates and lower taxes have given bank stocks a significant boost. Investors have rewarded financial institutions with increased valuations, but now expect to maintain this performance across key operational metrics. The insurance industry has seen pressure from natural disasters, which has opened significant avenues of opportunity for reinsurers.

Key Industry Trends

Banks Outperform

Since the November 2016 election that put Donald Trump in the White House, bank stocks have outperformed the broader market. With the KBW Bank Index up almost 50%, valuations have run up, driven by lower taxes, greater lending profits, and increased trading revenues. The lower tax rate may be directly observed in banks' bottom lines and has led to the highest return on equity banks have seen in years. Rising interest rates have increased banks' net interest margins, boosting industry profitability. However, analysts are expecting rate hikes from the Federal Reserve to lead to a squeeze on the industry's net interest margins, as banks must increase the interest paid to depositors to keep assets from flowing elsewhere. The prospect of higher rates has also contributed to asset price volatility, which has been a boon for equity trading desks. Market volatility has kept bond trading revenues flat, however. Investment banking activity was down recently, as companies are less likely to issue bonds amidst the market volatility.

Investors Ratchet Expectations

With the run up in valuations, investors are now looking for new earnings drivers to justify the higher prices. For example, in 2018, investors are expecting faster industry loan growth. While loan volumes continue to increase, growth is still not as fast as what it was a few years ago. Bank executives attribute this to the fact that the tax overhaul is still in its early stages. Changes in the U.S. tax code were expected to free up some pent-up demand from businesses, leading to increased capital expenditures and greater demand for loans. However, accelerated loan growth has yet to happen for several reasons, including increasing fears of a U.S.-China trade war.

Reinsurance Gains on Natural Disasters

For the insurance market, Hurricanes Harvey, Irma, and Maria and the 2017 California wildfire season have proved to be a boon for reinsurance companies. These catastrophes have allowed industry players to increase rates and improve terms on reinsurance - insurance purchased by insurance companies to manage risk and maintain solvency. U.S. tax overhaul also means that large insurers may face heavy taxes on reinsurance premiums sent to offshore affiliates. U.S. insurers successfully lobbied to end tax inversion by competitors who would move their headquarters to low or no-tax jurisdictions such as Bermuda to avoid paying higher taxes. These two trends have consequently led to higher insurance rates across the market.

FINANCIAL INSTITUTIONS GROUP
SELECT INVESTMENTS

AerCap (NYSE:AER)

Aercap has beat EPS and Revenue consensus estimates in the two quarters since WIC's investment in October 2017, and is continuing its strong operating performance with regard to portfolio yields, fleet utilization rates, and secondary sale values. As one of the only aircraft lessors of significant scale, Aercap can capitalize on increasing downstream demand while maintaining a strong order book with OEMs – underlined by the $17 billion of fleet investment through 2020. AER is currently trading at 7.4x 2018 P/E and 0.8x 2018 P/BV, resulting from concerns surrounding book values despite a superior track record of gains on sales in comparison to peers.

Farmer Mac (NYSE: AGM)

WIC invested in Farmer Mac in February 2018. In line with management goals, Farmer Mac announced a 61% quarterly dividend increase in 4Q17. This positive news comes on the back of a strong fiscal year 2017 performance including a $1.6 billion increase in net business volume and an 11% net income growth. Acting as a secondary market for rural real estate, AGM's high-quality, low-risk business model protects them against fluctuations in commodity prices and U.S. farm income. Coupled with increases in public sentiment surrounding agricultural mortgage-backed securities, AGM should see further share price appreciation and close the valuation gap with agricultural banks.

Genworth Canada (TSE: MIC)

Genworth was a tenured WIC holding which generated 80%+ returns for the fund. As Canada's largest private residential mortgage insurer, Genworth grew rapidly following the Canadian government's decision to limit the expansion of the public insurer, the Canadian Mortgage and Housing Corporation (CHMC), by capping its balance sheet. This unique opportunity has passed, with CMHC's current insurance-in-force well below the $600 billion cap which will result in increased competition. In tandem with the poor performance of its parent company, Genworth Financial, and the overhanging risk of a significant sell-off, Genworth's share price has minimal room for future appreciation. WIC sold all shares of Genworth Canada in March 2018.

INDUSTRIALS
INDUSTRY REVIEW

Opening Statement

The Industrial portfolio was most affected by the looming U.S. / China trade war. Many of the basic materials on which tariffs are being placed are key raw inputs to industrial companies. Thus the trade war has had a direct impact on increased COGS and lower profit, resulting in an industry-wide downturn.

Key Industry Trends

Trade Wars

As is observed in the news, the United States has contributed to significant political tensions across the globe. A protectionist government has placed tariffs on imported aluminum and steel which has led to retaliatory tariffs by governments affected by such tariffs. Tariffs are placed to protect industries and increase the number of jobs available, however, they often boomerang and hurt other industries more than they help the intended industry. Some economists believe these tariffs could result in a loss of 150,000 jobs in the United States.

There will be a 25% tariff on steel and 10% tariff on aluminum imported into the United States with the goal of reviving the dying steel industry in America. However, with every winner there is a loser, and in this case the losers are industrial companies who rely on aluminum and steel to manufacturer their products. The tariffs will cause an increase in the price of these materials in the U.S. which will likely increase the cost of goods sold for industrial manufacturers and hurt profitability for the industry as a whole. These negative impacts on large manufacturers could lead to large layoffs or companies exiting the industry due to unsatisfactory margins and an inability to reduce costs.

China has since retaliated by issuing tariffs on U.S. made products and services which could lead to a global trade war. This global uncertainty may also lead to companies investing less in research and development or in large capital expenditures because they are not aware of the impacts these new policies or future retaliatory policies will have on their business. Portfolio companies in the aerospace and aviation industry such as Magellan (TSE: MAL) and past holding Bombardier (TSE: BBD) could both see large increases to their costs of goods sold if the U.S. tariffs increase global aluminum and steel prices because they are key materials in the production of airplanes and airplane parts.

INDUSTRIALS
SELECT INVESTMENTS

Covanta (NYSE:CVA)

The Industrials team saw potential in the stable but growing Energy-from-Waste (EfW) industry because of positive social tailwinds, high barriers to entry, a dominant market position, and their contractual revenue model. Moreover, a mispricing in the stock arose from a market overreaction to a fire at their Fairfax property and delays at the Dublin facility. Covanta's core operations lie in transforming waste into energy, though the company also generates revenue through the sale of recycled metals. Covanta controls over 44% of the U.S. market EfW market, and with recent steps in expanding internationally, they are on track to become a dominant global player. Further, renewable energy investments are growing at a 6% CAGR in the U.S., providing a great opportunity to leverage industry growth and solidify Covanta's dominant position.

Enerflex (TSE:EFX)

The industrials group purchased Enerflex at $9.50 because of their turn-around plan which would increase EBITDA margins and recurring revenues. The company grew its EBITDA margins from the lows of 4% to 10%, which led to share price appreciation of 43%. After realizing the original investment thesis, the industrials team felt there was little remaining upside to be realized. Finally, Enerflex recently attempted to grow inorganically, which it hasn't been successful at in the past. Given this early signalling, we believed it was the appropriate time to sell WIC's stake in the company, allowing the club to realize the 43% gain and deploy the capital elsewhere. Since the sale, Enerflex has experienced heavy stock price volatility. They reached a 52-week low of $13.74 and have since returned to around $16.62.

Bristow (NYSE:BRS)

Bristow was added to the Industrials portfolio last year based on the belief that their leading position in the niche petroleum aviation industry will allow them to dominate the industry and maintain strong barriers to entry. Bristow operates as a helicopter transportation company primarily focused on shuttling personnel to and from offshore oil and gas platforms. Despite their dominant market position, shifts in the industry have caused an unfavourable environment for Bristow. Furthermore, growth and operating performance has declined with the oversupply of helicopters, causing the company to underperform based on its own invented metrics. With an expected drop in long-term revenues from their offshore oil segment and negative upside after a liquidation value analysis, Bristow was sold at $15.78. Since the sale, Bristow has also experienced stock price volatility. The price declined to $12.52 (21%) before jumping back to $15.20, representing a 4% decline since the sale.

NATURAL RESOURCES
INDUSTRY REVIEW

Opening Statement

The Natural Resources sector has been characterized by increased M&A volumes over 2017-2018, coupled with strong price growth in both oil & gas and metal commodities. The North American energy mix has not seen significant change, with a continued move towards reliance on natural gas and renewable power sources.

Key Industry Trends

Coal Resurgence Underwhelming

Despite rhetoric by the Trump administration, the long-standing trends of changing fuel mixes, falling power prices, and demand for renewables have continued across North America. The Energy Information Administration estimates that no additional coal-fired power capacity will be added to U.S. markets and that instead, current capacity will stay operational for longer than previously estimated with total U.S. output hovering about 15 quadrillion BTUs until the year 2050. Moreover, the resurgence of coal depends more on the price of natural gas, which currently comprises 34% of total U.S. electricity generation, than regulation. Due to its low cost and flexible generation capabilities, natural gas will continue to increase its share of power output and set the prices in wholesale power markets. Finally, renewable energy will continue to grow due to falling prices leading to increasing grid parity and robust customer demand. Wind and solar generation continue to lead the growth in renewables generation; since 2009, the levelized cost of energy (LCOE) for a wind plant has fallen 66%, while the solar LCOE fell 85%.

Oil Booms while WTI / Brent Spread Persists

The price of West Texas Intermediate (WTI) rose steadily from the low $40 range in August 2017 to the high $60 range in May 2018 due to strong compliance to the OPEC supply cut agreement, rising demand from emerging markets, the escalation of conflicts in Syria and Yemen, and the decaying Venezuelan oil industry. U.S. production has posed a considerable threat to further price appreciation throughout the year with national production expected to surpass Saudi Arabia to become the world's largest producer at over 11 million barrels per day. Rising U.S. production has been a significant factor behind the increasing rift between WTI and Brent spot prices. WTI traded at an average $6 discount to Brent for the majority of the year. Increasing U.S. inventories and lack of refining capacity forced WTI downwards while Brent was pushed upwards by the Forties pipeline closure in the North Sea. This differential has now subsided to $3 as the Forties is back online and midstream and downstream bottlenecks are being relieved in the U.S.

Cobalt Shines in Metals & Mining Sector

The metals and mining industry was characterized by increased M&A transaction volume and favourable commodity prices in 2017-2018. Especially notable was the surge in cobalt, which saw a nearly 300% price appreciation in 2017. Cobalt is a key input in batteries used for electric vehicles, and as many large automotive suppliers look to increase production of EVs, sourcing cobalt will become a major focus. This focus is especially warranted given that 60% of current supply comes from the politically-unstable Democratic Republic of the Congo.

NATURAL RESOURCES
SELECT INVESTMENTS

Pattern Energy (NASDAQ:PEGI)

In fiscal 2017, compared to 2016, PEGI's total gigawatt hours sold was up 14%; revenue was up 16%; and cash available for distribution (CAFD) was up 10%. Despite increased revenue and CAFD, Q1 2018 dividend remained at $0.42 per Class A common share, unchanged from the previous quarter. As a dividend growth stock, this news alongside unexpected curtailments from one-time transmission repairs in Arizona and Texas, has kept PEGI below fair valuation since the NR team's initial pitch in November 2017. PEGI continues to focus on growth, increasing its portfolio to 2.9 gigawatts (4 gigawatts in operating capacity), with its acquisitions of Broadview, Meikle, and Japanese portfolio. Close to late April 2018, PEGI will complete a 147 MW project in Québec, making Pattern the largest wind power producer in Canada. Management plans to continue to invest in accretive transactions and to grow capacity organically.

Cenovus Energy Inc. (TSE:CVE)

WIC invested in Cenovus Energy in January 2018. At the time, Cenovus was struggling with the widening spread between Western Canada Select (WCS) and WTI caused by damage to heavy crude transportation infrastructure. Despite this, Cenovus reported significantly improved annual results. Cash from operations increased 255% to $1.3B and increased proved reserves by 95%, all while deleveraging its balance sheet by 31% since Q2 2017. The company has revamped its management by hiring Alex Pourbaix from TransCanada as CEO and Jonathan McKenzie as CFO from Husky Energy. Both have emphasized their commitment to continued improvements in operational efficiency and cost cutting that Cenovus requires to maximize asset value. Cenovus has already lowered their Christina Lake oil sands production cost by 30% YoY on a flowing barrel basis, and plans similar initiatives at remaining fields.

Andeavor (NYSE:ANDV)

WIC's holding in Andeavor highlights the significant consolidation in the industry since 2013. WIC initially invested in Northern Tier Energy in 2013. Northern Tier was then acquired by Western Refining, who were in turn acquired by Andeavor in 2017. Andeavor is a Texas-based oil refinement and transportation company with a market capitalization of approximately $17.1 billion. After completing the acquisition of Western Refining and Western Refining Logistics, Andeavor has begun to realize some of the estimated $425 million in cost synergies from the combination of the companies. In addition, Andeavor has invested $225 million into the light oil rich Permian Basin, and is expecting the area to be a key driver of growth in the next few years. The NR team estimates that unrealized gains on the original investment amount to almost 140%, and prospects for Andeavor remain positive.

REAL ESTATE, HEALTHCARE, & GAMING
INDUSTRY REVIEW

Opening Statement

Political and broader federal actions have greatly impacted REHG in the past year, particularly within our most exposed sector - healthcare. The Trump administration's agenda has created significant uncertainty in terms of the future of healthcare in the United States, despite strong performance and fruitful technological adoption within the sector.

Key Industry Trends

Uncertainty Surrounding Healthcare Reform

Donald Trump's push for the repeal and reform of the Affordable Care Act (ACA) fuelled volatility within the healthcare sector this year. In July, the Republicans failed to garner enough votes to pass new legislation. Regardless, Trump took many steps to weaken the ACA, including slashing its marketing budget by 90% and shortening the open enrollment period by half. Because of this political uncertainty, the healthcare sector continues to trade at a discount to the broader market, despite expectations of revenue and earnings growth to outpace the S&P 500.

Pricing Pressures Faced by Generic Producers

Over the past few years, the U.S. generic pharmaceutical industry has become an increasingly difficult field, particularly for large generic drug producers. Competition in the U.S. has been boosted by strong growth in drug factories in India - the largest exporter of generic drugs - and the U.S. Food and Drug Administration has also been approving generics at record pace, contributing to the increased competition. The increase in approvals is a consequence of the drug price-hiking controversies in the past four to five years. While lowering the cost of generics benefits the patient, drug-makers have been bleeding market value at an alarming rate. Across the industry, the market capitalizations of top players such as Teva Pharmaceutical, Mylan, and Dr. Reddy's Laboratories lost billions of dollars in 2017 alone, with Teva losing half its value and Mylan losing $4 billion of value. Additionally, more and more consolidation among group-purchasing organizations is occurring, providing these organizations with more negotiating power and adding pricing pressure to generic drug-makers.

Increased Technology Exposure in Healthcare

The healthcare industry saw increased integration of technology at the end of 2017 and into 2018. As companies continue to gain access to inexpensive cash, face pricing pressures, and look to enhance their competitive positions, turning to the integration of technology is a logical step. With these incentives in mind, the industry is shifting to improve the customer experience of healthcare products and services. This shift is aided by new approaches to product experience and technology that have the capability of transforming the space. Some major trends include data analytics, use of smart technology and artificial intelligence within hospitals, and the use of wearables for personal health tracking. Stakeholders are also pursuing new cost reduction measures and investing in numerous technologies to experience these reductions, increase access, and improve the patient experience. Such technologies are driving less expensive, more efficient, and more accessible care.

Real Estate Outlook

North American companies continue to face a rising interest rate environment. The Bank of Canada raised interest rates in July, September, and January from 0.5 to 1.25 percent on a booming job market, strengthening business investment, and an expanding global economy. Analysts believe that the Bank of Canada will raise interest rates at least once more in 2018, aiming to strike a balance between a stronger economy and sources of uncertainty from recent political developments, such as the renegotiation of NAFTA, and new housing regulations. The U.S. Federal Reserve has also continued to raise rates, with more increases expected in 2018 under its new chairman, Jerome Powell. The prospect of increasing rates has triggered pressure in the REIT sector. However, rising rates could indicate economic growth that will trickle into higher demand for commercial real estate and higher occupancy rates.

REAL ESTATE, HEALTHCARE, & GAMING
SELECT INVESTMENTS

Teva Pharmaceutical (NYSE:TEVA)

Teva Pharmaceutical, a WIC legacy holding, is the world's largest generic drug producer. Major revenue and earnings misses in early August 2017 resulted in the company losing more than 40% of its market value. Teva has been struggling to manage its approximately $32 billion of debt coming from its $44 billion acquisition of Actavis in 2016, which has contributed to Teva's poor stock performance. Kare Schultz became the new CEO of Teva in September 2017, and immediately proposed a drastic restructuring plan that the Board approved in the face of Teva's continued performance slide, including a 25% shrinking of the company's workforce. Investors reacted very positively to this move, sending the stock up by 80% from its November levels. With a strong restructuring plan focused on cleaning up Teva's balance sheet led by a new CEO, and a recent stake in Teva purchased by Warren Buffett's Berkshire Hathaway, the REHG team is optimistic about the company's future and maintains a hold position.

Dream Global REIT (TSE:DRG.UN)

Dream Global owns and manages a portfolio of diversified and growth-oriented commercial properties in top European markets. In 2017, Dream Global saw increases in Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO"), driven largely by investments in the Netherlands, Belgium, and Germany, with Diluted FFO per unit growing roughly 19% year-over-year. With forecasts for German GDP growth to be at or slightly above the multi-year high of 2017, and robust growth rates in other large markets, the company's economic prospects remain promising for 2018. Vacancy rates in the company's major markets have reached a record low of around 5%, and are expected to continue their decline. The company also experienced growth in occupancy for core and acquired properties, with occupancy increasing 50 basis points to 91% and 97% respectively in 2017. 2017 acquisitions totalled $319 million, with a weighted average pre-acquisition occupancy rate of 99%.

Iron Mountain (NYSE:IRM)

IRM is REHG's newest portfolio addition. Although share prices have decreased 24% since entry in late 2017, this drop was largely caused by a December stock and debt issuance to fund IRM's major $1.3B acquisition of IO Data Centers. This negative reaction was coupled with an EPS miss in FY2017. However, many key characteristics indicate that IRM continues to be a strong long-term play. Firstly, IRM's push into higher-margin data centers is a key initiative that should accelerate its growth profile. In addition, IRM's ability to adjust rent on an annual basis and reduced exposure to real estate value fluctuations will help it fare the current macroeconomic environment better than most REITs. As a result, WIC is confident in IRM's continued strong internal growth, particularly in emerging markets and storage segments, a favorable 2018 outlook, and the maintenance and growth of a compelling 7.3% dividend yield.

TECHNOLOGY, MEDIA & TELECOM.
INDUSTRY REVIEW

Opening Statement

2017 was a phenomenal year for investors in the technology sector. Titans such as Amazon, Alphabet, Facebook and Netflix generated returns surpassing 50% for the year, validating many investors' optimism for continued growth in technology. However, as equity valuations continue to soar for high-tech ventures, an increasing number of challenges began to emerge in late 2017 and early 2018.

Key Industry Trends

Digital Privacy Concerns

Digital privacy concerns and online activity tracking regulations became a hot topic with the introduction of Europe's General Data Protection Regulation (GDPR), a law that made digital advertising and retargeting increasingly difficult. Combined with enhanced scrutiny on Facebook's data privacy practices following its involvement in the Cambridge Analytica scandal, a new regulatory landscape for internet companies is likely to emerge in the coming years. Perhaps the first glimpse of this new regulatory era was the repeal of net neutrality in late 2017. With the ability to monetize internet access as a product instead of a public utility, internet service providers could create an entirely new competitive dynamic within the internet ecosystem.

Technological Integration

The internet's continued disruption of brick-and-mortar retail was another predominant theme of 2017. Amazon's $13.7 billion acquisition of Whole Foods placed Amazon's online dominance into the physical world, forcing the market to reconsider the future of traditional retail. This new reality highlighted the necessity of technological integration across all sectors, spurring growth in a variety of businesses, from semiconductors to marketing software vendors.

Rampant M&A Within Media Space

Although the technology space has shown fantastic growth throughout the last twelve months, the media sector has been home to some of the largest mergers and acquisitions. As over-the-counter products and streaming services continue to disrupt traditional cable television, large incumbents such as Disney and Comcast have had to rethink their strategies. For the most part, this has meant consolidation throughout the media sector. Disney's content withdrawal from Netflix and its December 2017 announcement that it intends to acquire 21st Century Fox marked the first real strategic retaliation from an incumbent against streaming giant Netflix. Despite the loss of content partners and consolidation amongst its competitors, Netflix continues to be a Wall Street darling, representing the face of millennial media consumption.

TECHNOLOGY, MEDIA & TELECOM.

SELECT INVESTMENTS

Qualys (NASDAQ:QLYS)

Recently, Qualys has performed exceptionally well, generating approximately 125% in unrealized gains for the fund. Since the original pitch, the company has rebounded from undue punishment stemming from revenue misses and has been boosted by a variety of secular trends, and overall strength in the tech space from the past year. More specifically, the company has experienced its strongest revenue growth in years (in part due to Cloud Agent growth) and has become more active in the M&A space.

Syntel (NASDAQ:SYNT)

One of WIC's oldest TMT holdings, Syntel has performed well over the past year. Originally purchased for its large cash position and healthy margins, the market had punished the company for a lack of growth and poor cash allocation. In 2016, Syntel issued a special dividend of $15/share to shareholders. Since then, Syntel's strong free cash flow generation has begun replenishing its cash position, resulting in an enterprise value recovery from its 2016 lows. Its most recent quarter beat consensus estimates by nearly 20%, forcing bears to evacuate and the broader market to reconsider its perspective on the company. Looking ahead, Syntel's future is optimistic.

Finisar (NASDAQ:FNSR)

WIC shares of Finisar in late 2017 at a price of $19.5 USD, operating on a belief that Finisar would be a major supplier of lasers for Apple's new iPhone X. This thesis proved to be true as Apple awarded Finisar $390 million from its Advanced Manufacturing Fund. Despite the realization of select thesis points, including the validation of VSCEL technology highlighted by Apple's investment, other issues have clouded out the positives. Shares initially popped after the Apple announcement, but the 21% gain was short-lived due a notable earnings miss and industry-wide margin concerns. Finisar's shares were further hampered on the announcement that two of their largest competitors, Occlaro and Lumentum, would merge. Currently, shares sit at $16.3 USD, representing a loss of 21%.

Teradyne (NYSE:TER)

Teradyne is the most recent TMT addition to the WIC portfolio. Teradyne shares were purchased on the belief that the company's movement into collaborative robotics would spur enhanced growth for the company, and that Teradyne's core business of automated testing equipment would enjoy slow, stable growth for the coming years. Since then, worries about a U.S. trade war with China have punished shares due to Teradyne's heavy exposure to Chinese semiconductor manufacturers. Only a month has passed since Teradyne was added to WIC's portfolio, and it remains to be seen if these concerns are valid, or if Teradyne's push into collaborative robotics will offset these temporary headwinds.

STAY IN TOUCH

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