



NOVEMBER
2017

cardinal UPDATE

DIVIDEND INCREASES

Fortis Inc./Canada	6.3%
Omnicom Group	9.1%
VF Corporation	9.5%

(During the period October 1 to October 31, 2017)

RESEARCH PROCESS IN FOCUS: IDEA GENERATION

In our regular correspondence, we tend to discuss why we bought, sold, or continue to hold stocks in the portfolio. This month, we thought it would be interesting to describe the process in how we actually come up with these ideas.

The first step is identifying the stocks we wish to research further. There is no magic formula here and we believe that the wider you cast your net, the more fish you'll catch. Thus, we read a wide assortment of company financial reports and we also read broadly: newspapers, magazines, books, and trade journals. While researching companies we already own we get other ideas from conversations with industry experts, management teams, and their competitors. We also employ technology to screen thousands of stocks, identifying statistically inexpensive looking companies. Finally, we tap the rich vein of experience Tim, Evan, Terry, and Sheila have from the decades of combined experience.

This is the easy part. The hard part is the work to understand the strengths and weaknesses of the businesses. It is in assessing the company's management and financial position to pinpoint any risks to investors. It is in estimating the true intrinsic value of the company and comparing it to the market price. And it is in assessing whether the company has the ability to pay and grow its dividend. If there is a magic formula, this is it. It is what the investment team works on each and every day. Let's walk through a few examples from each of our analysts:

Intact Financial has always been on our radar given its leading position in Canadian P&C insurance. Robert has regularly met with the company management for years at conferences in his research of Canadian financials. Over this time he grew to appreciate Intact's dominant market position, its scale advantage over peers, and its acquisition capabilities.

Magna is an excellent example of not having to reinvent the wheel. Oftentimes the best new ideas are not new at all. Upon reassessment with fresh eyes, Andrea was able to identify an excellent opportunity to repurchase Magna. The stock was trading at a deep discount to U.S. peers on NAFTA concerns. The process of engaging in discussions with the company, analysis of the auto producers, and application of common sense to the NAFTA concerns, led to a conclusion that the market was ignoring Magna's growing global market share.

AmerisourceBergen is an example of researching a statistically cheap stock. Due to near concerns in the drug distribution industry, the company traded at less than 13x earnings. David rolled up his sleeves and dug into the industry. He uncovered that Amerisource is one of the three companies that control 90% of the industry, has long-term contracts with its customers, and the ability to grow alongside prescription volume growth. The low P/E did not jive with these strong business fundamentals.

400 - 1780 Wellington Avenue
Winnipeg, Manitoba R3H 1B3

Phone: (204) 783-0716
Fax: (204) 783-0725
Toll Free: (800) 310-4664

www.cardinal.ca

COMPANY FOCUS: INTACT FINANCIAL

A year following our initial purchase of Intact Financial, we are happy with the share price performance (up approximately 12%) and take this as an opportunity to review the thesis.

First, the company's scale (with a 17% market share position) has allowed it to maintain underwriting profitability in spite of challenging weather events. While weather can negatively impact near-term results, it helps to improve pricing conditions for insurers, which Intact should benefit from.

Second, the company acquired a specialty insurer in the U.S., OneBeacon, which closed at the end of the third quarter. We are optimistic on the acquisition as we believe there are a number of meaningful opportunities for Intact to increase profitability from the entity through its expertise in underwriting, investment management, and expense synergies. Additionally, we believe Intact will continue to be a consolidator in its home market, which will help to drive further growth.

Third, the company increased the dividend by 10%, which is in-line with our expectations and the company's history of a strong dividend policy.

All-in-all, we believe that our thesis in the name is largely intact (pun intended) to deliver continued strong returns.

Unless otherwise noted, the source of all data in this Update is Bloomberg and Cardinal. This Update is prepared for general informational purposes only. Statements about future performance may not be realized and past performance is not a guarantee of future performance. Cardinal does not guarantee the accuracy or completeness of the information contained herein, nor does Cardinal assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. The information and opinions contained herein are subject to change without notice.

© 2017, Cardinal Capital Management, Inc.
ALL RIGHTS RESERVED. NO USE, TRANSMISSION OR REPRODUCTION WITHOUT PERMISSION.



CARDINAL CAPITAL
MANAGEMENT, INC.