cardinal UPDATE

DECEMBER 2017

DIVIDEND INCREASES

National Bank of Canada	3.4%
Sun Life Financial Inc.	4.6%
Telus Corp.	2.5%
AmerisourceBergen Corp.	4.1%
Siemens AG	2.8%

(During the period November 1 to November 30, 2017)

RESEARCH PROCESS IN FOCUS: ENBRIDGE

Enbridge (ENB) shares have underperformed this year. The shares have declined by 12%, while the TSX is up 5%. Shares were as low as $44, but have shown recent strength at $49.50/sh after some company announcements including a 10% dividend increase for 2018. We continue to see excellent value in ENB in its ability to support and raise its dividend, which is yielding over 5%. Our confidence is driven by our assessment of three perceived issues as well as our evaluation of the strength of ENB's business model.

Year to date, ENB's earnings per share are down 20%. ENB completed the acquisition of Spectra at the end of February. While this seems minor, Spectra generates a disproportionate amount of its earnings in the first two months of the year. Secondly, Enbridge spent much of the year integrating Spectra, which was a significant weight on the organization. Next year, not only will these costs not be repeated, ENB should begin to realize ~80% of the $540m in cost synergies of the transaction. Finally, this year we also saw some weakness in volumes on the Mainline due to an oil sands outage. We expect Mainline volumes to be at record levels in 2018 and 2018 eps to be substantially higher than 2017.

The second area of concern is the company's plan to fund $22B in growth projects. It is one thing to rely on the market to help fund your growth; it is another thing to rely on it to keep the lights on. Enbridge is a case of the former. We believe the company has a comprehensive plan to fund growth to 2020 and improve its balance sheet through a modest amount of equity, new hybrid securities, and $3B in asset sales. The growing dividend is well covered by free cash flow even though outside funding is needed for the growth plan.

The third area of concern is the Line 3 Replacement regulatory approval, a major piece of ENB's growth backlog. The replacement will be an upgrade to a larger pipe, which will extend the life of the pipeline as well as restore capacity on the line to 760 kbpd (+375 kbpd). It is only awaiting approval from the Minnesota Public Utility Board, which is due in Q2 2018. While we believe there is merit to the project in terms of improved safety alone, regulatory decisions are hard to predict. However, if ENB is denied its permits, the company has the right to dig up and replace the Minnesota portion of the line piece by piece in its normal course of maintenance. This will be more disruptive and costly, but ultimately we see the likelihood of the project not going forward as very low, and it will be a profitable expansion.

As we move into 2018, current issues will pass, and we believe the focus will return to the strength of ENB's business. The company's core assets move 30% of the oil and now 20% of the gas in North America. It is the biggest hydrocarbon toll road on the continent fueling both consistent cash flows and continued growth opportunities. A business we like for the long-term.

COMPANY FOCUS:

SIMON PROPERTY GROUP

Simon Property Group ("Simon") is the world's largest retail real estate investment trust ("REIT") with ownership of properties including the Premium Outlets and Mills branded centers, and iconic shopping centers such as The Forum Shops at Caesars.

The recent industry-wide retail malaise has ignored the ability of high-quality real estate operators like Simon to maintain high occupancy levels and increase rental rates on renewal – in turn, this has led to Simon delivering annualized five-year earnings and dividend growth rates of 7% and 10%, respectively. The market's indiscriminate selloff of the retail industry has led to an opportunity to invest in Simon at an attractive entry point, with current valuation at levels 23% below the five-year median. Lastly, Simon's best-in-class balance sheet helps to defend against the impact of rising interest rates on the valuation of the equity, while maintaining the ability to fund ongoing and future investment opportunities.

In essence, Simon affords all the qualities we look for in a Cardinal holding, and presents us an opportunity to participate in the eventual recovery in the retail space without having to choose specific winners and losers, and all while still maintaining a margin of safety.

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