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GLOBAL EQUITY AND INTERNATIONAL FUND STRATEGIES

Third Quarter 2017

Global Macro Review

As North Korean missiles flew over the Japanese island of Hokkaido in late August and then another one in mid-September, with sirens blaring and warning the Japanese people to hide in their basements, the markets were confronted with a potential global crisis. We can only imagine what was going through the Japanese people's minds, perhaps fearing the nightmare of a nuclear attack on their soil again. Prime Minister Shinzo Abe capitalized on this fear with his strong stance against North Korea and his call for a snap election on October 22. Prior to North Korea's threats, Abe's standing in the polls was battered by scandal and his decision to call a snap election is aimed to take advantage of a recent uptick in ratings. A new twist is a new party, Party of Hope, created by the Governor of Tokyo Yuriko Koike, a former cabinet minister in Abe's government until she resigned to run for Tokyo's governorship. Koike may not actually run in the campaign, but her party and her platform of "Yurinomics" are considered a real challenge to Abe and his Liberal Democratic party. That said, there are more similarities than differences between these parties given their conservative stance and if Abe does win a strong mandate, he will undoubtedly bring up Japan's postwar pacifism for discussion.

It is evident sanctions alone against North Korea cannot solve the Korean crisis which today is an extension of what took place 67 years ago, when the US underestimated the role China would take in the Korean War. We should not forget that 2.5 million civilians and 1.2 million soldiers perished in this "Forgotten War". North Korea had China's support back in 1950 and has been able to survive all these years because of it. A policy of containment of North Korea is complex as it involves negotiations among many countries, namely the US, China, Japan, South Korea and of course North Korea. One can question whether we have really learned anything during the past two generations in terms of a pathway to a resolution. One thing is clear: having the US President behave like a high-school bully and calling a dangerous dictator Kim Jong-Un a "little Rocket Man" threatening to "totally destroy North Korea" at the UN General Assembly is not conducive to diplomacy and a peaceful solution.

Meanwhile, elections and referendums continue to dominate the headlines in Europe, overshadowing the positive economic news. Germany was the third major country to have its election this year and although Merkel will remain Chancellor for her fourth term, the outcome was not as jubilant as the one in France. This was mainly due to the 12.6% of the votes going to the Alternative for Germany (AfD), a party that capitalized on Germany's refugee crisis and will enter the parliament as the first substantial rightwing populist party since the second world war. Despite Merkel's weakened position, French President Macron is pressing ahead for reforms in the Eurozone and EU, where he is proposing a separate budget, finance ministry and a European monetary fund for the Eurozone.

Jean-Claude Juncker, European Commission President, made his third "State of the Union" speech to the European Parliament in mid-September at which time he noted that the Union was not in a good state last year and their very foundation was on shaky ground. And Europe had the choice of either coming together or retreating into their own corners with leaders like Merkel and Macron supporting the former while antagonists like LePen and Wilders potentially seeking the latter.

Now that Europe is in its fifth year of economic recovery, Juncker is looking for a stronger economic and monetary Union so it can become a stronger global actor and dedicate further efforts to defense matters. At times, economic progress was not evident, but the EU's growth has outstripped that of the US over the last two years which now stands above 2% for the Union as a whole and at 2.2% for the Euro area. The Eurozone's recovery was more rapid than first estimated taking most economists by surprise. The bloc's economy this past quarter has grown the fastest since early 2011. On an annualized basis, it grew by 2.6% in the second quarter and this surprising strength has fueled speculation the European Central Bank or ECB will start reducing its stimulus next year.

Spain and Germany were largely responsible for driving the Eurozone's modest growth between the start of the recovery in mid-2013 to the end of 2016 but a broadening of the recovery this year has contributed to its acceleration. Overall, Europe has benefited from the recovery in global trade, cheap energy prices and very low interest rates. One worrying factor, however is the low inflation rate which still remains below the central bank's target of 2% (other than briefly touching it late last year). Hence, there is confidence in Europe for a brighter future. However, the October 1st referendum in Catalonia has turned the constitutional union into disarray. Right now, it is contained within Spain, but it is undoubtedly going to involve the EU which may cause the fragility of the union to peek through again.

Portfolio Review

Overall, the tone from the second quarter earnings season was similar to that of the first quarter. While global growth continues to improve, our companies' management teams continue to observe cautious demand from customers and remain disciplined with regards to making growth investments. Geographically, most companies saw improving growth trends in Europe, albeit off low levels, while growth in the US continues to be solid. Within emerging markets, growth trends were mixed in the second quarter with China seeing a solid rebound, India remaining bumpy due to transitory changes in government policies while Brazil remains mired in recession.

The Global Equity Portfolio saw a number of changes during the third quarter with several influences impacting the quarter. We can characterize these as follows:

1. Expanding and increasing our investments to further emphasize certain themes within the portfolio;
2. Adding to some of our companies with leading franchises;
3. Facing and reacting to the Amazon impact on given portfolio investments;
4. Acknowledging the impact of the cyclical nature of the market.

In our presentations over recent years, we highlighted our four dominant secular themes which have been rising global wealth, demographics, automation, and big data. There are sub-themes within these, such as electrification of automobiles which are also growth areas. TE Connectivity, a company we have been following for the past couple of years was added recently to the portfolio in this regard.

The global trend in falling birth rates and increasing life-spans will continue to impact economic growth in many developing countries. Related to this, the needs of the ageing population can be considered a growth area. For example, Becton Dickinson, an existing position, was increased as we felt our position was too small compared to the growth prospect it provided.

One of the significant tenets of our investing strategy is to buy leading global franchises at attractive prices. In this vein, we started positions in three leading companies: Diageo, Starbucks and Samsonite.

Founded in 1886, Diageo plc is based in the United Kingdom and produces, markets, and sells alcoholic beverages worldwide. The Company offers a collection of brands across spirits, beer, cider, and wine categories including Johnnie Walker, Crown Royal, J&B, Buchanan's and Windsor whiskies, Smirnoff, Cîroc and Ketel One

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vodkas, Captain Morgan, Baileys, Don Julio, Tanqueray, and Guinness.

Starbucks is a leading global brand that has a long-lasting, fairly stable moat as an operator, marketer and retailer of specialty coffee worldwide. While business conditions today in retail are more difficult than in the past, Starbucks' growth algorithm coupled with continued focus on cost and efficiency and thus its 90% conversion of their net income with free cash flow provides us confidence of its stable growth profile.

Samsonite, based in Hong Kong with a leadership position in the global luggage market is a company which we believe will benefit from the secular global growth in tourism, especially in Asia. Its acquisition of the Tumi brand adds to its existing growth of their Samsonite and American Tourister brands.

Amazon, the high profile e-commerce giant, has continued to disrupt and impact many lines of businesses, ranging from content, advertising, retail and brands. In particular, its rise in popularity among consumers has caused a major disruption on brick-and-mortar stores, leading to many of them closing. Our portfolio has generally been limited to the Amazon impact over the years. For example, our investment in TJX, has been positive with TJX showing continued growth in sales on a consistent basis due to their unique business model and we have been pleased with its contribution to the portfolio since inception in 2013. However, given the imbedded capital gains, we sold half the position in the quarter; but we continue to believe its business model has a place, even with the growth of Amazon. On the other hand, our holding in Walgreens was negatively impacted by the news that Amazon may adversely impact its pharmacy business. As a result, we sold this position with an attractive capital gain since inception in mid-2014 outperforming both the S&P500 and MSCI World indices during our holding period. Finally, a few comments Newell Brands. We first bought this position in early 2015 and have taken gains over the past two years. During the quarter, Newell Brands was impacted on two fronts, first by the hurricane and by bankruptcy announcement by Toy R Us, a casualty of Amazon. We believe both these events are transitory and their business model is intact and as a result, we increased our position to take advantage of the decline in the share price.

The "Trump trade" made a comeback in September and it reminds of us what took place last December when investors had hopes for a boost from the policies promised during the election. However, after the White House failed to repeal and replace Obamacare as promised, the Republicans are hanging on to to the hope they will be able to pass a tax bill. This has reinvigorated the market, although there is no guarantee that this bet will pay off. With our portfolio having a lower level of exposure to cyclicals and financials, our portfolio did not participate to the same extent on the reflation trade. Although our 10% level of cash detracted from our performance, our bank holding in JP Morgan ended the quarter at a record close of $95.51 per share.

Certain investments in both the Global Equity Portfolio and the International Fund have been long standing positions which have contributed strongly to our returns over the years; however this quarter, Fresenius SE, Essilor, and British American Tobacco (BAT) detracted from performance. In Fresenius SE and Essilor's respective cases, their recent earnings report were slightly disappointing which we believe are transitory in nature. BAT on the other hand was adversely impacted by the Federal Drug Administration's (FDA) regulatory shift to reduce nicotine levels in cigarettes; while this is certainly a negative development for the shares, we believe the market has overreacted and that stock was unduly punished.

C$%	Q3/17	Year to Date
Global Equity Portfolio Performance as at September 30, 2017 (Gross)		
Global Equity Portfolio	-1.35%	5.77%
MSCI World TR	0.75%	7.68%
Value-Add	-2.10%	-1.91%

Similar to the BAT situation, our holding in Philip Morris was also negatively impacted as we believe the sell-off was overdone. Given cash of 11.6% in the International

Fund, we took the opportunity to increase our position in Philip Morris. Although Philip Morris trades its shares in New York, all their revenue is generated outside the US and is thus not subject to the FDA. The other new investments in the Fund during the quarter were Diageo and TE Connectivity similar to those in the Global Equity Portfolio.

C$%	Q3/17	Year to Date
International Fund Performance as at September 30, 2017 (Gross)		
International Fund	0.46%	12.08%
MSCI EAFE TR	1.29%	11.34%
Value-Add	-0.83%	0.74%

Outlook

Generally speaking, positive economic data is pointing to a healthy global economy. Europe's growth has continued to improve which provides a positive backdrop for strong earnings growth, a positive for our portfolios. Japan's market is also showing greater resilience with their unemployment rate of 2.8% remaining the lowest rate in 23 years. While the work-age population is shrinking, a higher labor-participation among senior citizens over the age of 65 are filling the gap from Japan's ageing population. For now, both Europe and Japan have monetary support from their central banks. One region where the outlook is not as clear is the UK, where the Brexit negotiations dominate the news and the lack of leadership from Prime Minister May brings some uncertainty to the UK market. Despite this, our UK investments derive much of their revenues globally and the export-driven sales is aided from a weaker pound.

The MSCI World benchmark is expecting earnings to be U$119.45 for the next twelve months for a valuation of 16.7x forward P/E, which is higher than the ten-year average of 13.8x. Similarly, S&P500's forward 12-month P/E of 17.9x exceeds their ten-year average of 14.4x and is more expensive the MSCI World. The key valuation metrics for the Global Equity Portfolio and the International Fund are shown below. Furthermore, both the International Fund and the Global Equity Portfolio have higher return on equity metrics than their benchmark market indices while having lower beta metrics, making these portfolios less volatile overall than the market.

	CPWM Global	MSCI World
P/E Forward 12 months (F 12m) multiple	19.2x	16.5x
Net Debt / F12m EBITDA multiple	-0.21	0.73
Net Debt / F12m EBITDA (ex-Financials) multiple	0.14	0.41
Return on Equity (adj. %)	23.7%	22.0%
Dividend Yield (%)	1.9%	2.4%

	CPWM Int'l	MSCI EAFE
P/E Forward 12 months (F 12m) multiple	19.0x	14.9x
Net Debt / F12m EBITDA multiple	2.63	2.72
Net Debt / F12m EBITDA (ex-Financials) multiple	1.27	1.55
Return on Equity (adj. %)	23.2%	15.6%
Dividend Yield (%)	2.2%	3.1%

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