

Manitou

Investment Management Ltd.

Defining Success

How a rock solid investment process is defined and measured.

2020 Edition



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Introduction

During the London Olympics, as medal winners were interviewed they were often asked why they thought they won. A common response was “I wasn’t thinking about winning, I was focused on the process”. Whether for Olympians or for investment managers, achieving success requires a focus on the process (the how and why). The outcome will take care of itself.

In the investment industry, there are times when events or circumstances operate for or against the manager. At these times the outperforming manager may not deserve the resulting criticism.

Having ‘good luck’ or ‘bad luck’ can influence an outcome, but luck cannot be controlled. What can be controlled is the process. A solid process substitutes skill for ‘good luck’ and includes controls to manage ‘risk’ and minimize the effect of bad luck. The overall intent is to increase the probability of success.

	Good Outcome	Bad Outcome
Good Process	Earned Success	Bad Break
Bad Process	Dumb Luck	Poetic Justice

(based on “Getting It Right the First Time” written by J. Edward Russo and Paul J.H. Schoemaker)

- **Ultimately, outcomes matter. Notwithstanding our industry disclaimer “past performance is no guarantee of future performance”, there are clues that support the repeatability of a track record. These are:**
 1. *A consistently applied investment approach and process,*
 2. *A track record of sufficient length that demonstrates the firm’s performance over a variety of market conditions, and*
 3. *Team stability, experience, depth and acumen.*

- **The purpose of this paper is not to delve into the specifics of how Manitou analyzes or selects companies. Instead, the intent is to:**
 - a) *Define what success means at Manitou and*
 - b) *Provide several tangible measures that demonstrate adherence to our stated process and appropriate periods of time.*



Process – The Roadmap to Success

We believe that process is the backbone of a successful long-term active investment management strategy. We are presenting what is, in effect, a 'quality assurance system'; one that can be used to monitor Manitou's success.

Manitou's process incorporates a blend of creativity, wisdom and discipline. We believe these qualities will lead to success in dynamic and sometimes irrational markets. The existence of the characteristics detailed in the table on page 4 serve as indicators that our process is in place and working to substitute skill for luck, increasing the probability of our ongoing success.

Before discussing the indicators, it is necessary to first define success.

Defining the Desired Outcome

We believe success is dependent on having a sound philosophy and a well-defined process executed by exceptional people. For purposes of clarity, there must be quantifiable definitions of success. It is our view that both absolute and relative 'bogeys' are appropriate, as is establishing a suitable time frame for measurement.

We view a rolling three year average as an optimal timeframe as it balances both short and longer term perspectives.

The following are the stated performance objectives for each of our equity mandates:

- An absolute return of CPI + 7%,
- Exceed return of the relevant benchmark,
- Perform in the first quartile of a universe of peers

Constructing a Portfolio to Achieve the Outcome

How a portfolio manager adds value and manages risk is largely specific to the manager. It is important to understand the types of companies a manager holds and how these are selected. A manager should be able to convey a clear understanding of what they do, how they do it and prove that they are in fact doing what they say they do. A manager should be able to state the characteristics of the companies they buy and the overall characteristics of the portfolio that will result from the application of their particular processes and approach.

Why?

In volatile financial markets, holdings with certain characteristics have historically behaved in broadly predictable ways. A skillful manager will remain focused on the process, mindful of the appropriate time horizon against which they are being measured and confident that the application of their investment discipline will result in the desired outcome.

Evidence of a solid stock selection process

A strong manager has a deep understanding of their individual holdings.

As managers of focused portfolios, we acquire a deep understanding of each company in which we invest, documenting our work in comprehensive research briefs.

We search for and only invest in high quality companies. Manitou defines a high quality company as one with a strong balance sheet and a high and sustainable return on equity. In addition, we look for disciplined management teams that have skill and integrity. Companies with these characteristics tend to outperform industry peers over the long term.

As an example, the characteristics of the Manitou Global Equity Fund together with comparative data for the index, are detailed below.

Valuation Metric* (Average)	Manitou Global Equity Fund [†]	S&P Global 1200 Index	Why?
Return on Equity (ROE)	23.4%	21.0%	High ROE indicates intelligent corporate capital allocation. Quality companies typically have sustainable ROE's (e.g. 12%+)
Debt/Capital	43.4%	45.3%	In slow growth or deflationary environments, debt should be minimal. A lower number is desirable because it supports investment in growth and increased dividends.
Median Price to Book (P/B)	3.4x	2.3x	A relatively low P/B ratio found in high ROE companies signal a healthy margin of safety.
Dividend Yield*	1.7%	2.2%	A generous dividend yield in combination with a conservative payout ratio is desirable.
Dividend Growth Rate (3 yr. CAGR§)*	7.6%	10.4%	Good measure of sustainable profitability and shareholder-friendly management. A higher percentage is desirable.
Price to Earnings (P/E)	21.6x	19.6x	A prime measure of inherent value vs. market value. A lower P/E is desirable.
Median Market Cap (\$B)	\$107.1	\$26.8	Manitou portfolios hold companies with diversified capitalizations. Returns are not being generated by 'higher risk' small cap companies. (see "capitalization and style").

Data Source: McGraw Hill (S&P 500, Capital IQ), as at December 31, 2019

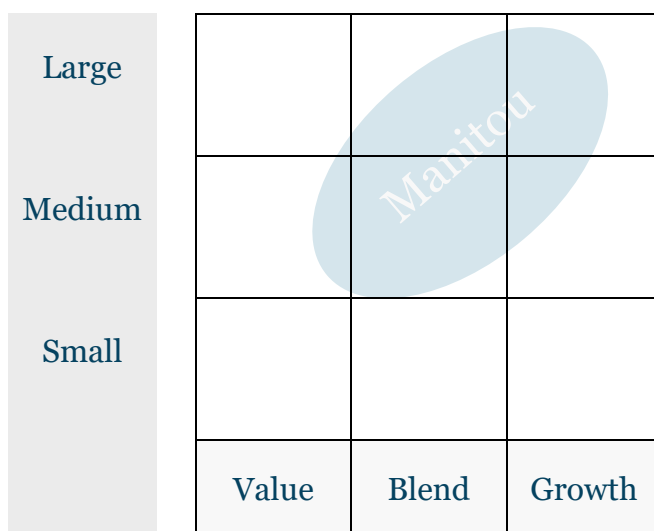
* Statistics presented are for the equity component of the portfolio and do not include cash.

§ CAGR = Compound Annual Growth Rate

[†] Supplemental information - Manitou Global Equity Fund is a representative portfolio of the Manitou Global Equity Composite.

Capitalization and Style

There are variances by mandate, but Manitou expects the capitalization and style profile of its equity mandates to generally reside within the shaded area below. This reflects a preference for investing in well-established 'quality' companies of various sizes trading below their intrinsic values.



See Appendix A for the actual capitalization and style characteristics of Manitou Equity Fund's portfolio since 2011.

Although markets move up and down with occasional irrational willfulness, it is the companies with the characteristics mentioned in this document that can most reliably ride out volatility and generate strong performance over the long term.

Active Share

Active Share is a measure of the proportion of stock holdings in a portfolio's composition that is different than the composition found in the index benchmark. The higher the active share, the higher the difference between that portfolio and the benchmark index.

This metric was introduced by Yale researchers Cremers and Petajisto¹ in 2009 and has quickly been adopted as a way to ensure investors are getting the active management they pay for. Cremers and Petajisto concluded there is a positive correlation between a manager's active share value and their performance against its benchmark.

Active Share is also useful in identifying "closest indexers", or managers who claim to be active but whose portfolios are very similar to the benchmark portfolio. Identifying closet indexers is extremely important because active management fees can be a significant hurdle to outperforming the index for anyone holding a portfolio similar to its benchmark.

For investors seeking active management, an active share of 80% and over is considered a strong measure. In 2019, the Manitou Global Equity Fund's active share number was 88.2. Its benchmark is the S&P Global 1200 Index.

¹ K.J. Martijn Cremers and Anti Petajisto, "How Active Is Your Fund Manager? A new Measure That Predicts Performance", Working Paper, Yale School of

Evidence of a Solid Portfolio Construction Process

Be it the funding of a schedule of charitable payments, a retirement lifestyle or any absolute return objective, Manitou builds portfolios that align with clients' risk tolerance and ultimate objectives. The implementation of our process may result in a portfolio that deviates significantly from the index, particularly if specific companies or industry sectors of the market become overvalued. This is an anticipated part of our cycle of performance. Over a market cycle we expect our focus on high quality companies will lead to outperformance of our benchmarks.

Although individual stocks held are subject to their own unique cycles, through diversification we expect aggregate portfolio metrics to be consistent with our approach.

Below we set out four key metrics we review regularly to confirm our process is working:

Key Metrics Confirming Adherence to Manitou's Process

Upside/Downside Capture

Up / Down Capture ratio explains how an asset performs when the benchmarks is up or down respectively. If the up capture is greater than 1, it implies that an asset has performed better than the benchmark during periods when the benchmark has been up. Conversely, if the down capture is greater than 1, it implies that an asset has performed worse than the benchmark during periods when the benchmark was down.

	Up Capture		Down Capture	
	Manitou Global Equity Fund [†]	Global Equity Median	Manitou Global Equity Fund [†]	Global Equity Median
2019	0.98%	0.95%	0.86%	0.87%
2018	1.11%	1.01%	0.86%	0.93%
2017	1.23%	1.20%	1.08%	1.06%
2016	0.95%	0.92%	1.08%	1.04%
2015	1.16%	1.07%	0.68%	0.68%
2014	0.87%	0.87%	0.51%	0.63%
2013	1.15%	0.86%	0.55%	0.91%
2012	0.79%	0.80%	0.68%	0.94%
2011	1.10%	0.89%	0.99%	1.04%

[†]Supplemental information - Manitou Global Equity Fund is a representative portfolio of the Manitou Global Equity Composite.

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R-Squared

R Squared (R^2) represents the amount of movement in an asset's price that is explained by the movement in the market index. R Squared can range from 0 to 1 with an R Squared of 1 indicating that 100% of the movement in the asset price is explained by the market movement.

2019	R^2
Manitou Global Equity Fund [†]	85.3%
Global Equity Median	85.6%

[†]Supplemental information - Manitou Global Equity Fund is a representative portfolio of the Manitou Global Equity Composite.

Alpha

Alpha is a measure of the active return on an investment. It is calculated as the excess return of a fund over the return of a specified benchmark. A high positive Alpha is desired, indicating the fund has outperformed the benchmark.

2019	Alpha
Manitou Global Equity Composite	0.2%
Global Equity Median	0.2%

Information Ratio

Information ratio measures the amount of excess return of an asset over a benchmark divided by the standard deviation of the excess return. A high information ratio is desirable as it indicates the asset provides an average return higher than the benchmark while taking on a level of risk similar to the benchmark. A low information ratio indicates the asset's excess returns are low and possibly negative while the level of risk may be higher than that of the benchmark.

2019	Information Ratio
Manitou Global Equity Composite	8.4%
Global Equity Median	7.3%

'Soft' Factors That Can Impact a Manager's Results

In addition to having a repeatable and disciplined investment process, there are "soft" factors that can enhance or detract from the sustainability of returns experienced by our clients.

Size of assets under management is worth considering. This is especially relevant when investing in Canada, where the universe of investible companies has shrunk due to mergers and industry consolidation.

Is a manager able to take an optimal weight in a stock in which it holds a strong conviction? Or will a manager need to 'over-diversify' and dilute their ideas, for reasons of liquidity, with stocks of lesser potential? Related to this, the rate of growth of the asset base can materially influence future performance and the ability of a manager to stay true to their firm's stated investment approach. Rapid growth and the addition of multiple mandates, while a positive consequence of success, should be considered with caution as well.

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A firm's ownership structure plays another key role in sustaining a consistent client experience. In most instances, a large equity interest held by the key operators of the business is a positive, promoting stability of the team and a focus on long term performance. In comparison, being a division within a larger financial institution often leads to asset growth gaining priority over generating sustainable long term returns.

We believe that the ideal balance of these soft factors, creates a firm with a solid professional research/portfolio management group and the capacity to add assets in a measured fashion that will not force a change in investment approach.

Manitou's 'all cap' investment approach and research depth are scalable, enabling us to add to positions or initiate new ones in a meaningful weight, without concern for liquidity. Research and portfolio management personnel work collegially, aligned with a common process and purpose. Manitou's approach to growing its team has been one of acquiring experienced talent at the top of their game as well as new thoughtful, creative, energetic professionals nearer the beginning of their careers, thus allowing the seasoned pros to train our new talent in the Manitou way, paving the way for continuity and creating potential future leaders of the firm.

Employee ownership is encouraged and widely distributed across the firm. Compensation has been carefully structured to respect both individual and team contributions, with the investment success of the client being the ultimate objective.

Overall, Manitou's status as an independent manager allows for sustainable new business growth that does not challenge equity selection, portfolio construction, systems, quality of client service or any input into its solid investment process.

Conclusion

As stated in the Introduction, the objective of this paper was to define success at Manitou and discuss the role that process plays in obtaining it. In doing so, we sketched a portrait of the characteristics and qualities one can expect from a portfolio managed by Manitou.

Our process is continuous. Manitou performs regular reviews to ensure we are on track to achieving the goals of our clients. This provides us with useful data to measure our performance relative to our portfolio benchmarks and our peers.

The Olympic champion and competent investment manager know that winning is the result of putting all the pieces in place. Favourable outcomes are difficult at the best of times and are especially difficult in the current environment. At Manitou we feel it is more important than ever to have a rock solid investment approach, the resources to conduct independent research and the discipline to focus on a process – elements that are within our control. By rigorously implementing, continuously monitoring and remaining true to these factors we increase the probability of achieving our definition success.



Appendix A

Manitou Global Equity Fund[†]

		Value	Blend	Growth
2019	Large			
	Medium			
	Small			
		Value	Blend	Growth
2018	Large			
	Medium			
	Small			
		Value	Blend	Growth
2017	Large			
	Medium			
	Small			
		Value	Blend	Growth
2016	Large			
	Medium			
	Small			
		Value	Blend	Growth
2015	Large			
	Medium			
	Small			
		Value	Blend	Growth
2014	Large			
	Medium			
	Small			
		Value	Blend	Growth
2013	Large			
	Medium			
	Small			
		Value	Blend	Growth
2012	Large			
	Medium			
	Small			

[†]Supplemental information - Manitou Global Equity Fund is a representative portfolio of the Manitou Global Equity Composite

Disclosure

Compliance Statement

Manitou Investment Management Ltd. (“Manitou” or the “Firm”) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Manitou has been independently verified for the periods January 1, 2000 – December 31, 2019.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Manitou Global Equity Composite has been examined for the periods January 1, 2000 – December 31, 2019. The verification and performance examination reports are available upon request.

Definition of the Firm

Manitou is an independent, owner-operated investment management firm founded in 1999. Manitou is registered with Canadian Provincial Security Commissions as follows: in Ontario as a portfolio manager, investment fund manager and exempt market dealer, in Alberta, Manitoba and Nova Scotia as a portfolio manager, and in British Columbia as a portfolio manager and exempt market dealer. Manitou manages equity and fixed income mandates for institutional, private clients and sub-advisory clients.

Basis of Presentation

The composite performance results are presented in Canadian Dollars and have been calculated using time-weighted total rates of return. Dividends, interest income and capital gains are net of any applicable withholding taxes and have been reinvested. Account portfolios are valued daily at fair market value on a trade date basis, and market values include accrued income for fixed income securities.

Composite Description

Effective December 31, 2017 the Manitou Equity Composite changed its name to Manitou Global Equity Composite. The investment objective of the Manitou Global Equity Composite is to provide investors with long-term capital appreciation consistent with safety of principal. The Manitou Global Equity Composite invests, in a concentrated manner, primarily in high quality equity securities of global publicly traded companies. The composite creation date is May 2016.

Benchmark

From inception to December 31, 2017 the benchmark of the Manitou Equity composite was a blend of the 50% S&P/TSX Composite and 50% S&P 500 Index. Equal weights of the two benchmarks were maintained each month. Effective January 1, 2018 the Manitou Global Equity composite benchmark changed to S&P Global 1200 Index. The change was made to better align the benchmark with the composite’s more global exposure.

The S&P/TSX Composite Index consists of constituents traded on the TSX. The index covers 71% of market capitalization for Canadian equities and includes companies from sectors such as consumer discretionary, consumer staples, energy, financials, industrials, information technology, and materials.

The S&P 500 Index consists of 500 constituents traded on stock exchanges in the U.S. market. The index constituents are traded on the NYSE and the NASDAQ S&P 500 index focuses on the large-cap companies with over 80% coverage of U.S. equities. The index primarily includes companies from financial, healthcare, consumer discretionary, industrials, consumer staples, and energy sectors.

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The S&P Global 1200 provides efficient exposure to the global equity market. Capturing approximately 70% of global market capitalization, it is constructed as a composite of 7 headline indices, many of which are accepted leaders in their regions. These include the S&P 500® (US), S&P Europe 350, S&P TOPIX 150 (Japan), S&P/TSX 60 (Canada), S&P/ASX All Australian 50, S&P Asia 50 and S&P Latin America 40.

Benchmark returns are all total returns.

Additional Information

The firm's policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. To receive a complete list and description of composites and/or a presentation for any composite that adheres to the GIPS® standards please contact GIPS@manitouinvestment.com

Past performance is not an indicator of future results.

Supplemental Information

The Manitou Global Equity Fund is a member of the Manitou Global Equity Composite for GIPS. The Manitou Global Equity Fund is defined as the representative portfolio for composites for non-performance related analytics.

Pooled Fund operating expenses including fees for legal, administrative, audit, valuation and custodian services are charged to the Pooled Funds. Security trading commissions are included in the cost of the securities. Returns are calculated on a time weighted basis and annualized for periods greater than one year.

Prices for securities held within the Manitou Pooled Funds and segregated portfolios change frequently, and income or dividends paid by these securities can change at any time.

Client returns may vary from the performance of the pooled funds or account portfolios presented herein, due to cash flow timing and client-specific constraints.

Fundata Canada Global Equity Category - the funds included in this category are selected and maintained by Fundata Canada. Fundata Canada Inc. is an independent, leading provider to Canadian fund companies, financial professionals and investors of investment research, analysis and marketing tools for stocks, ETFs and mutual funds.

Manitou funds and mandates may invest in holdings as set out in the Offering Memorandum, and will not necessarily invest in any securities listed on any of the aforementioned indices. The percentage mix between asset classes and sectors may differ from that of the benchmark based on Manitou's experience, skill and outlook, subject to any client-driven constraints.

The index information contained in this document has been obtained from sources deemed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such.



Disclaimer

This presentation is neither an offer to sell nor a solicitation of an offer to buy any securities in any fund managed by us. Any offering is made only pursuant to the relevant offering memorandum together with the relevant subscription agreement, both of which should be read in their entirety. No offer to sell securities will be made prior to receipt of these documents by the offeree, and no offer to purchase securities will be accepted prior to completion of all appropriate documentation. Past performance of a fund or other security is no guarantee as to its performance in the future. This presentation is not an advertisement, and it is not intended for public use or distribution.

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What's in a Name?

In traditional Ojibwa culture every person acquires a guardian 'manitou', or helping spirit. The powers of the manitou are drawn upon for protection, identity and success.

For us, the name Manitou represents strength, integrity, stewardship and the foundation upon which we build successful, long-lasting relationships.

