Canadian General Investments

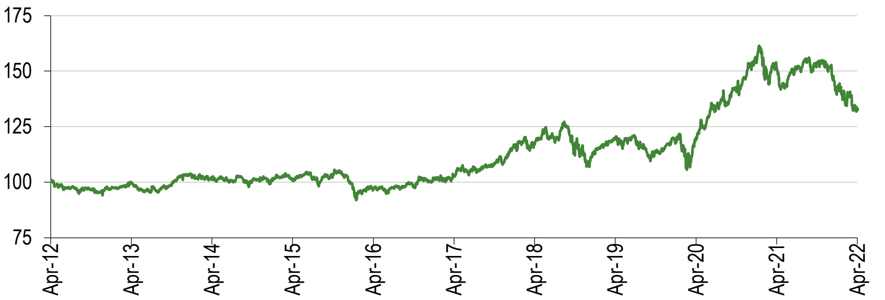
Keeping the faith during stock market volatility

Investment companies
North American equities

12 May 2022

Canadian General Investments (CGI) has been managed by Greg Eckel at Morgan Meighen & Associates (MMA) since 2009. Despite elevated levels of stock market volatility, he is maintaining his disciplined approach to stock selection, seeking high-quality companies that can be held for the long term. The manager believes the chance of a recession in Canada is 'slim to none in the near to medium term' as the economy is in 'good shape'. However, if changes to the portfolio are required, due to a sustained change in the investment backdrop, they will be undertaken in a measured way. CGI has a progressive dividend policy, paying regular quarterly dividends; the total distribution in FY21 was 4.8% higher year-on-year and the fund currently offers a 2.5% yield.

Short-term pullback, but long-term NAV outperformance versus benchmark



Source: Refinitiv, Edison Investment Research

The analyst's view

CGI provides investors with a diversified, carefully managed portfolio of businesses across the market cap spectrum. Most of the fund is invested in Canadian equities, but up to 25% may be held in the shares of US companies to take advantage of opportunities that are under-represented 'north of the border'. Eckel is not afraid to have sector weightings that are significantly different to those of the benchmark. CGI has a highly commendable long-term performance track record; data from MMA show that over the last 50 years to the end of 2021, the fund generated a share price total return of +12.1% pa, versus the benchmark's +9.6% pa total return. A C$100k investment, with dividends reinvested, would have grown to c C$30.2m over this period. Over the last decade, CGI has generated NAV and share price total returns of 11.7% and 13.2% per year respectively versus the benchmark's 8.6% annual total return.

Current discount narrower than historical averages

While CGI's shares trade at a wide discount, which may be due to the high level of family ownership and the inability to repurchase shares due to tax reasons, the current 25.6% discount is narrower than the range of 29.7–31.3% average discounts over the last one, three, five and 10 years. As a reminder, CGI has traded at a higher valuation in the past; it traded close to NAV in 2006, which was a during a commodity super-cycle.

Price		**C$35.80**
Market cap		**C$747m**
AUM		**C$1,178m**
NAV*		C$48.10
Discount to NAV		25.6%
*Including income. At 11 May 2022.		
Yield		2.5%
Ordinary shares in issue		20.9m
Code/ISIN		CGI/CA1358251074
Primary exchange		TSX
Secondary exchange		LSE
AIC sector		North America
52-week high/low	C$45.00	C$35.44
NAV* high/low	C$63.89	C$48.10
*Including income		
Gross gearing*		16.0%
Net gearing*		14.8%
*At 30 April 2022.		

Fund objective

Canadian General Investments' objective is to provide better-than-average returns to shareholders by investing in a diversified portfolio of primarily Canadian equities. It aims to achieve this through prudent security selection, timely recognition of capital gains/losses and appropriate use of income-generating instruments. CGI's performance is measured against the S&P/TSX Composite Index.

Bull points

- Diversified portfolio of North American equities.
- Very long-term record of outperformance versus the benchmark.
- Rising regular quarterly dividends.

Bear points

- Discount remains consistently wide.
- High level of family ownership.
- The relatively high level of gearing will amplify capital losses during a market sell-off.

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Market outlook: Volatility likely to continue

Global markets have had a volatile start to 2022 and Canadian stocks have not been immune from this. Factors contributing to the tough macroeconomic backdrop include inflationary pressures, tightening monetary policy and the war in Ukraine. Looking at the performance of Canadian stocks in 2022 to the end of April (Exhibit 1, left-hand side), the energy sector is once again leading the broader market by a considerable margin, supported by rising oil and gas prices. However, sentiment towards technology stocks has turned decidedly negative, as higher interest rates reduce the present value of their long-term future cash flows.

In its April 2022 update of the World Economic Outlook, the International Monetary Fund (IMF) reduced its forecast for Canadian economic growth by 0.2% to 3.9% for 2022, while keeping its 2.8% growth forecast for 2023. Although this is less bullish than the Bank of Canada's latest 2022 outlook (see the following section), the Canadian economy looks relatively better positioned than other regions; in its April 2022 update, the IMF reduced its 2022 advanced economies growth forecasts by 0.6% to 3.3% and by 1.0% to 3.8% for emerging market and developing economies.

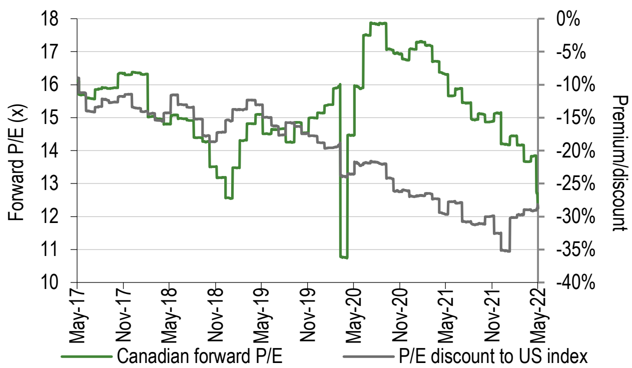
Canadian stocks remain relatively attractively valued – the Datastream Canada Index is trading on a 12.3x forward P/E multiple, which is a 28.7% discount to the Datastream US Index; this margin is considerably wider than the 20.3% average discount over the last five years and the 13.1% average discount over the last decade. With this in mind, global investors may benefit from an allocation to Canada, and it should be remembered that although the country is often associated with financial and energy stocks, the nine other sectors make up more than 50% of the weight of the bellwether S&P/TSX Composite Index and are represented by around 75% of the index constituents.

Exhibit 1: S&P/TSX Composite Index data and valuation

S&P/TSX Composite Index data (at 30 April 2022)

	Number of companies	Weight (%)	4M22 total return (%)	2021 total return (%)
Financials	28	31.2	(4.2)	36.6
Energy	34	17.6	32.3	49.0
Materials	52	13.3	14.4	4.1
Industrials	30	11.6	(4.4)	16.5
IT	16	5.7	(48.3)	18.5
Comm'n services	7	5.2	7.4	24.7
Utilities	16	4.8	3.6	11.7
Consumer staples	11	4.0	5.8	22.4
Cons. discretionary	14	3.3	(10.3)	18.5
Real estate	23	2.8	(10.5)	37.5
Healthcare	8	0.6	(24.7)	(19.6)
Index	**239**	**100**	**(1.3)**	**25.2**

Valuation of DS Canada index versus DS US index (last five years)



Source: Refinitiv, Bloomberg, Edison Investment Research. Note: Performance in Canadian dollar terms. Numbers subject to rounding. Valuation data at 11 May 2022.

The fund manager: Greg Eckel

The manager's view: Canada's economy is robust

Eckel reports that in its quarterly *Monetary Policy Report* (April 2022), the Bank of Canada increased its 2022 Canadian GDP forecast to about 4.25% (vs c 4.0% in January 2022). This is due to economic strength in Q122, which was helped by the commodity price upswing and excess demand, including from the United States. Canada's monetary policy, similar to other developed economies, is being tightened in response to rising inflation. In March 2022, Canadian CPI was 6.7%, which is a 30-year high and well above the Bank of Canada's targeted 2.0% level. There are several reasons for higher prices, including government spending because of the COVID-19 pandemic, supply chain disruptions and higher commodity prices due to Russia's invasion of

Ukraine, along with low interest rates that have helped fuel the Canadian housing market. The Canadian central bank's base rate was increased by 50bp in March this year and is the largest hike since 2000, while it forecasts a further 50bp increase in June 2022, so the front end of the government bond yield curve is rising. Quantitative tightening had been flagged by Canada's central bank and is now underway.

The manager explains the reopening of the Canadian economy following the global pandemic was slow, which is now providing a tailwind to economic growth. Earlier in 2022, there was a Canadian truckers protest in response to COVID-19 restrictions. The government only took this seriously when bridges were blocked, which restricted trade, and now there is an enquiry underway into whether the use of the Emergency Act was correct, rather than applying less-extreme laws.

Eckel reports that the Canadian economy is now 'pretty much open', although some venues still require the use of face masks. There is a hybrid working model in the country, with some employees returning to the office. However, from May 2002, employees of major financial businesses in large cities are expected to be in the office at least part time. The Canadian government is happy with the slow pace of economic reopening, as the link between COVID-19 infections and hospitalisations has now been broken. However, the manager comments that there has been a change in behavioural patterns, as people are generally unwilling to return to their full pre-pandemic activities. Nevertheless, Eckel notes that Toronto's downtown activity is recovering, and Canada has 'an extremely tight' rental housing market. There is an ongoing building boom, especially in residential property, and the value of the Canadian housing market continues to rise despite efforts to take the heat out of the sector, while there is a concern regarding housing affordability according to the manager. Eckel reports that although house prices have not fallen, the volume of transactions has slowed and suggests the Canadian housing market typically only collapses during a recession, which he does not expect in the near term.

The manager believes the Russian invasion of Ukraine and the resulting commodity price rises have refocused people's attention and there is now higher demand for Canadian commodities. The United States wants more Canadian oil, but in 2015 the US Federal government rejected the expansion of the Keystone Pipeline system, which would have facilitated additional Canadian exports. An increase in Canadian liquified natural gas capacity is slated for 2023, but this is in the west of the country rather than the east, which is where it is most wanted. There is also a lack of infrastructure in northern Canada to bring minerals that are used in the manufacture of electronic vehicles to the market.

Considering the trend towards deglobalisation, the manager has been introduced to the term 'friendshoring', whereby trade will become more collaborative between countries that share the same cultures and values; these arrangements will involve a measure of trust. There is a higher focus on North America, which has the benefit of the North American Free Trade Agreement integrated supply chains, which Eckel says bodes well for the performance of the Canadian economy. North America is viewed as a relative safe haven, as it does not have energy supply issues (unlike Europe for example) and apart from Alaska, is not in close proximity to Russia. A large amount of uranium is sourced from Kazakhstan but is processed in Russia; Canada has its own supplies of this element, which is widely used in the nuclear power industry.

The manager reports that recent company meetings have been 'subdued' and the number one topic is rising input costs, including labour. He notes that some portfolio companies have pricing power and some do not, but time will tell which do; the manager comments that, in general, some businesses that purport to have pricing power are unable to protect their margins in a rising cost environment. Eckel says portfolio company Dollarama has done well and should continue to do so if the economy slows and consumers trade down to offset inflationary pressures. CCL Industries is the world's largest label manufacturer, but has oil as an input for its substrate, while Canadian National Railway has a new management team and is in flux. The company has forecast 20%

earnings growth for 2022 and, despite missing its Q122 earnings estimates, is maintaining its full-year guidance. The manager believes there will be ‘earnings misses across the board’.

There has been a swing in estimate revisions in the financials sector. At the beginning of 2022, the belief was that banks would benefit from higher interest rates. However, as there has been increased concern about the risk of a recession, consensus estimates have declined. Recession risk has also hurt the performance of industrial stocks. IT stocks have declined, as rising interest rates have led to multiple contraction in this formerly highly valued sector. Eckel reports that at the end of March 2022, the 3.8% total return of the S&P/TSX Composite Index could have been solely attributed to the energy sector, adding that ‘in a narrow market, CGI finds it difficult to keep up’. The fund also performs relatively better in a market driven by company fundamentals, rather than by macroeconomic events, which has been in evidence in 2022.

Current portfolio positioning

At end-April 2022, CGI’s top 10 positions made up 36.3% of the fund, which was a modestly lower concentration than 37.8% a year earlier; seven positions were common to both periods.

Exhibit 2: Top 10 holdings (at 30 April 2022)

			Portfolio weight %	
Company	**Country**	**Industry**	**30 April 2022**	**30 April 2021***
First Quantum Minerals	Canada	Metals & mining	5.2	3.9
West Fraser Timber	Canada	Forest products	4.5	3.7
Franco-Nevada Corp	Canada	Gold mining	4.4	3.8
Canadian Pacific Railway	Canada	Railroads	4.3	4.0
Apple	US	Technology	3.3	N/A
NVIDIA Corporation	US	Semiconductors	3.1	3.5
Bank of Montreal	Canada	Banks	3.0	N/A
Mastercard	US	Financial transaction processing	2.9	2.8
TFI International	Canada	Transport & logistics	2.8	2.9
WSP Global	Canada	Business services	2.8	N/A
Top 10 (% of portfolio)			**36.3**	**37.8**

Source: Canadian General Investments, Edison Investment Research. Note *N/A where not in end-April 2021 top 10.

Exhibit 3 shows CGI’s sector exposure. Over the 12 months to end-April 2022, the largest changes were a lower technology weighting (-8.4%) and higher allocations to energy (+4.6pp) and materials stocks (+4.4pp) stocks. These changes were due to share price performance and portfolio transactions. CGI retains a longstanding large underweight exposure to financials stocks (-20.3pp) and an overweight position to the technology sector (+12.7pp).

Exhibit 3: Portfolio sector exposure versus benchmark (% unless stated)

	Portfolio end April 2022	Portfolio end April 2021	Change (pp)	Index weight	Active weight vs index (pp)	Fund weight/ index weight (x)
Materials	21.4	17.0	4.4	13.3	8.1	1.6
Industrials	19.3	21.9	(2.6)	11.6	7.7	1.7
Information technology	18.4	26.8	(8.4)	5.7	12.7	3.3
Consumer discretionary	11.1	12.1	(1.0)	3.3	7.8	3.4
Financials	10.9	9.9	1.0	31.2	(20.3)	0.3
Energy	9.3	4.7	4.6	17.6	(8.3)	0.5
Real estate	4.8	3.5	1.3	2.8	2.0	1.7
Communication services	2.5	2.0	0.5	5.2	(2.7)	0.5
Healthcare	1.1	1.1	0.0	0.6	0.5	1.9
Consumer staples	0.0	0.0	0.0	4.0	(4.0)	0.0
Utilities	0.0	0.0	0.0	4.8	(4.8)	0.0
Cash and cash equivalents	1.2	1.0	0.2	0.0	1.2	N/A
	100.0	**100.0**		**100.0**		

Source: Canadian General Investments, Edison Investment Research. Note: Numbers subject to rounding.

Eckel reports that at the end of 2021 he reduced the former largest position, Shopify, from c 8% to c 5% of the fund, and in early 2022, further reduced the size of this position and took some profits in

US technology stocks Amazon.com and NVIDIA Corporation. This was the correct decision, as these three stocks are down 73.3%, 38.2% and 44.8% respectively over the year to date. The manager says he will continue to remain overweight technology stocks, although the focus is on high quality rather than speculative names. He had been adding to CGI's energy exposure, but will wait for a better entry point following the latest oil price spike as a result of the Russian invasion of Ukraine.

There have been no new positions or complete disposals in the fund since our last CGI review published in November 2021. Eckel says portfolio turnover is running at an annualised rate of c 7%, which is broadly in line with the five-year average. He participated in the October 2021 Neighbourly Pharmacy secondary offering, the proceeds of which were used to strengthen the company's balance sheet and allow it to continue to make accretive acquisitions. The manager has reduced CGI's Cargojet position, as its business model has changed. It has a 90% share of the Canadian domestic overnight cargo market, and its business has benefited during the pandemic, but this tailwind is waning. Cargojet has changed its strategy by increasing its capex to expand into international markets. The company had a poor quarterly earnings release, so the manager is awaiting a better exit point for the remaining holding.

Performance: Very long-term outperformance record

Exhibit 4: Five-year discrete performance data

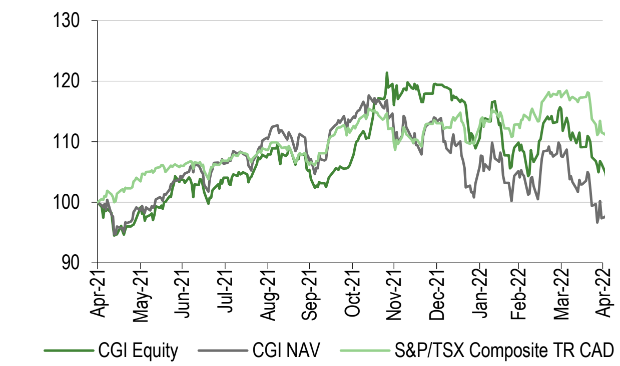
12 months ending	Share price (%)	NAV (%)	S&P/TSX Composite (%)	MSCI Canada (%)	MSCI World (%)
30/04/18	16.7	17.6	3.1	3.7	6.7
30/04/19	13.1	12.1	9.6	9.7	12.4
30/04/20	(6.8)	(7.8)	(7.9)	(9.1)	(0.3)
30/04/21	67.8	68.1	33.3	32.1	29.3
30/04/22	6.3	(2.6)	11.6	11.6	0.7

Source: Refinitiv. Note: All % on a total return basis in Canadian dollars.

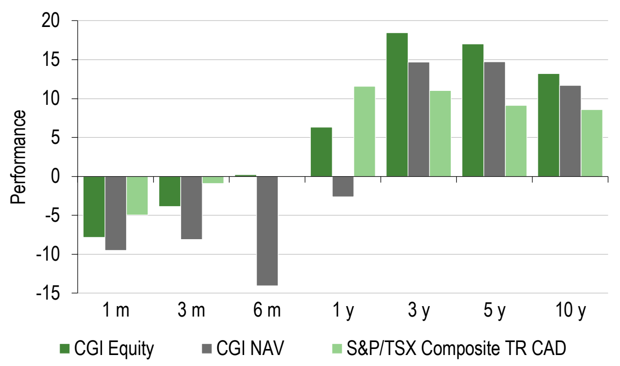
CGI has a very long-term record of outperformance; data from MMA show that over the 25 years to the end of December 2021, the fund generated a total return of +10.5% annually versus the benchmark's +7.9% annual total return (with dividends reinvested, a C$100k investment would have grown to c C$1.2m). Over the 50 years to the end of 2021, the fund generated a total return of +12.1% per year, versus the benchmark's +9.6% annual total return (with dividends reinvested, a C$100k investment would have grown to c C$30.2m).

Exhibit 5: Investment company performance to 30 April 2022

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

In FY21 (ending 31 December), CGI's NAV and share price total returns were +24.6% and +29.4% respectively, compared with the benchmark's +25.1% total return. The modest NAV underperformance is commendable, given the benchmark's two largest sectors, financials and energy, were two of the three outperforming areas in 2021, and both sectors are under-represented in CGI's portfolio. Stocks that contributed positively to CGI's relative performance in FY21 included non-bank financials company goeasy, which rose by more than 70%, and Brookfield Asset Management (+44%). Within materials, positive performers included First Quantum Minerals (+33%) and West Fraser Timber Co (+49%), while the shares of US graphics-chip manufacturer NVIDIA Corporation and transport and logistics company TFI International more than doubled. Detractors to CGI's relative performance in FY21 included its holdings in energy-transition themed stocks, which had a broad global pullback. Within the fund, Ballard Power Systems declined by 47%, Westport Fuel Systems by 56% and Xebec Adsorption by 71%.

Exhibit 6: Share price and NAV total return performance, relative to indices (%)

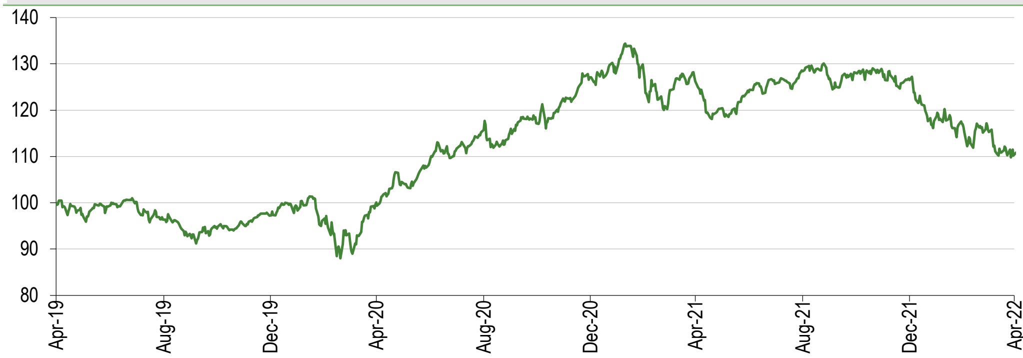
	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to S&P/TSX Composite	(3.0)	(3.0)	0.2	(4.7)	21.3	41.8	51.7
NAV relative to S&P/TSX Composite	(4.8)	(7.2)	(14.1)	(12.7)	10.2	28.5	32.3
Price relative to MSCI Canada	(2.9)	(2.3)	0.3	(4.7)	23.9	43.8	52.3
NAV relative to MSCI Canada	(4.7)	(6.6)	(14.0)	(12.8)	12.5	30.3	32.8
Price relative to MSCI World	(1.8)	4.0	9.3	5.6	28.1	40.9	(2.8)
NAV relative to MSCI World	(3.6)	(0.5)	(6.2)	(3.3)	16.3	27.7	(15.2)

Source: Refinitiv, Edison Investment Research. Note: Data to end-April 2022. Geometric calculation.

While CGI has given back some of its NAV outperformance versus the benchmark over the last six months, which has negatively affected its one-year record, the fund is comfortably ahead of the S&P/TSX Composite Index over the last three, five and 10 years (Exhibit 6). The primary reason for CGI's underperformance over the last six months is its portfolio positioning – its largest overweight sector versus the benchmark is technology, which has declined sharply and it has a meaningful underweight exposure to the energy sector, which has appreciated over the period. However, the fund's overweight materials exposure has been beneficial to its relative performance.

On a stock-specific basis, positive contributors to CGI's relative performance in recent months include First Quantum Minerals, Rogers Communications (which has benefited from the reopening of the Canadian economy and is attempting to merge its assets with those of Shaw Communications pending regulatory approval), Teck Resources (which is increasing its copper mining capacity and looking to reduce its exposure to coal assets) and Tourmaline Oil. Negative contributors include companies with a high US exposure due to recession risk 'south of the border', such as auto repair business Boyd Group Services, First Service International (real estate services) and trucking company TFI International. Neighbourly Pharmacy's share price has also been weak; the manager says it is a relatively small company with illiquid shares that have derated. He considers this a disappointment, as the firm has been adhering to its successful business model. Eckel has confidence in all four of these companies' strategies and expects their share prices to rebound.

Exhibit 7: NAV total return performance relative to benchmark over three years



Source: Refinitiv, Edison Investment Research

Peer group comparison

Exhibit 8: Selected peer group at 11 May 2022 (C$)*

% unless stated	Market cap (C$m)	NAV TR one year	NAV TR three year	NAV TR five year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Canadian General Investments	746.8	(7.3)	44.6	81.9	193.3	(25.6)	1.4	No	115	2.5
Middlefield Canadian Income	208.5	15.1	39.0	46.2	138.1	(8.2)	1.2	No	118	3.8
Average	**477.6**	**3.9**	**41.8**	**64.1**	**165.7**	**(16.9)**	**1.3**		**116**	**3.2**
Fund rank in sector	**1**	**2**	**1**	**1**	**1**	**2**	**1**		**2**	**2**

Source: Morningstar, Edison Investment Research. Note: *Performance to 10 May 2022 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

There are two funds in the AIC North America sector with significant Canadian exposure and CGI is significantly larger than its peer. The two companies follow different investment mandates. CGI has a total-return focus, while Middlefield Canadian Income, as its name suggests, has an income bias, although both funds have an allocation to US equities.

CGI's NAV total return has lagged that of its peer over the last 12 months, but the company has performed relatively better over the longer time periods shown; particularly over the last five and 10 years. It has a lower level of gearing and CGI's discount is considerably wider, perhaps reflecting its limited free float. It has a higher fee structure and a lower dividend yield, which is unsurprising given its total-return rather than income focus.

Dividends: Regular quarterly payments

Regular quarterly dividends are paid in March, June, September and December (no special dividends have been paid since FY17). In FY21, the C$0.88 annual dividend was made up of two regular taxable dividends and two capital gains dividends (each quarterly payment was C$0.22 per share); it was 4.8% higher than in FY20 (C$0.84). So far in FY22, two regular taxable dividends of C$0.23 per share have been declared (+4.5% y-o-y). Based on CGI's historical dividend payments, investors can assume the other two quarterly payments for FY22 will also be C$0.23 per share.

Eckel believes the strategy of gradually increasing CGI's annual dividend can continue, given the company has more than C$700m in unrealised capital gains; only seven out of CGI's 57 holdings have unrealised losses. Based on its current share price, CGI offers a 2.5% dividend yield.

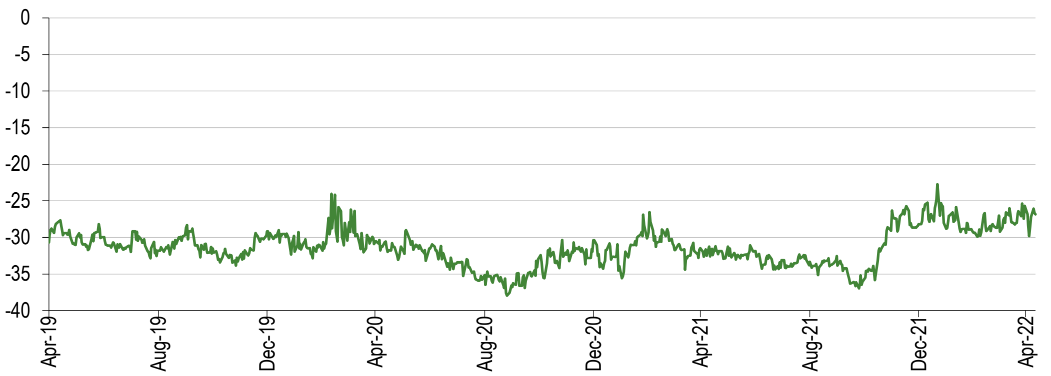
Exhibit 9: Dividend history since FY16

Source: Bloomberg, Edison Investment Research

Valuation: Narrower discount since late 2021

CGI's shares are currently trading at a 25.6% discount to NAV, which is towards the narrower end of the 22.7–37.0% range of discounts over the last 12 months. It is narrower than the 30.8%, 31.3%, 30.5% and 29.7% average discounts over the last one, three, five and 10 years, respectively. Commenting on CGI's narrower discount in 2022, Eckel suggests there is no particular reason for this, other than at times its share price runs ahead of its NAV, while at other times it lags.

Exhibit 10: Share price discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

The board is unable to repurchase shares to help manage the discount as this would invalidate the company's favourable Canadian investment corporation tax status. There have been brief periods when CGI's shares traded at a premium to NAV; the last time was in 1998, while they traded very close to par in 2006, a period when CGI outperformed its benchmark and there was a commodities super-cycle and rising oil price.

Fund profile: North American equity specialist

CGI was established in 1930 and is North America's second-oldest closed-end fund. It has been listed on the Toronto Stock Exchange since 1962 and on the London Stock Exchange since 1995. MMA took over management of CGI in 1956; the firm has c C$3.0bn of assets under management for both private and institutional clients. Greg Eckel has managed CGI's portfolio since 2009, aiming to generate a better-than-average total return from a diversified portfolio of North American equities via prudent stock selection and timely recognition of capital gains and losses. While most of the fund is invested in Canadian companies, up to 25% (20.3% at end-March 2022) may be held in US-listed businesses. The manager has an unconstrained approach, within the remit that a maximum 35% of the portfolio may be held in a single sector and he invests without reference to the sector weightings of its benchmark, meaning CGI's performance may differ from that of the S&P/TSX Composite Index. Eckel has a medium- to long-term view, so some of the fund's holdings have been in the portfolio for many years.

The company is designated as an investment corporation under the Income Tax Act (Canada). This eliminates a layer of taxation, as capital gains are only taxed at the shareholder level, allowing them to be paid as dividends to shareholders. However, to maintain this favourable tax status, CGI is unable to repurchase its shares to help manage the share price discount to NAV. A maximum 25% of its gross revenue may come from interest income and at least 85% of gross revenue must be from Canadian sources.

Investment process: Bottom-up stock selection

Eckel's stock selection process is primarily bottom up, although he does take the macroeconomic environment into account. The manager aims to generate an above-average total return for investors, seeking reasonably valued companies with favourable fundamentals and strong management teams; he also takes firms' economic social and governance credentials into account. While most of CGI's portfolio is invested in Canadian companies, up to 25% of the fund may be held in US equities, which are primarily in niche operations or business areas that are under-represented in the Canadian market. The broad exposures at the end of March 2022 were 78.7% Canada, 20.3% US and 1.0% cash/equivalents.

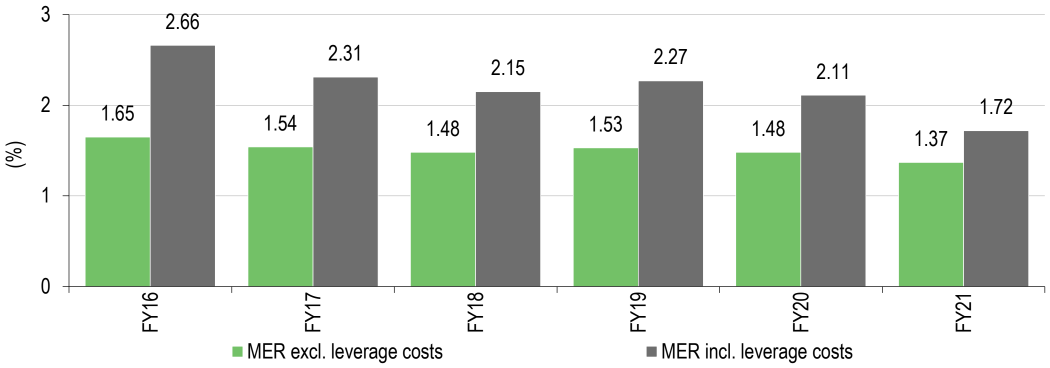
There are 57 holdings in the portfolio with a bias to large- and mid-sized stocks. Some of these are higher yielding, such as the Canadian banks, helping to support CGI's own dividend payments. Eckel has a long-term focus; over the last five financial years, portfolio turnover has averaged c 7.4% pa (range of 2.3–10.4%), which implies a c 13.5-year average holding period. However, positions are reassessed regularly to ensure they are sized correctly and investment cases are still valid. The manager has a history of successively backing good management teams that may move companies due to mergers and acquisitions.

Gearing: Preference shares and margin borrowing

CGI has employed a leveraged strategy since its first issue of preference shares in 1998. Since then, its total return has averaged 7.08% per year above its cost of debt. The company has a C$100m margin borrowing facility via a prime brokerage services agreement with a Canadian chartered bank, at a one-month Canadian dollar offer interest rate plus 0.6% per year. CGI also has C$75m of 3.75% cumulative Series 4 preference shares, which are redeemable, at par, on or after 15 June 2023. The weighted average cost of its C$175m debt is c 2.7% and at end-April 2022, CGI's net gearing was 14.8%.

Fees and charges

Exhibit 11: Management expense ratio since FY16



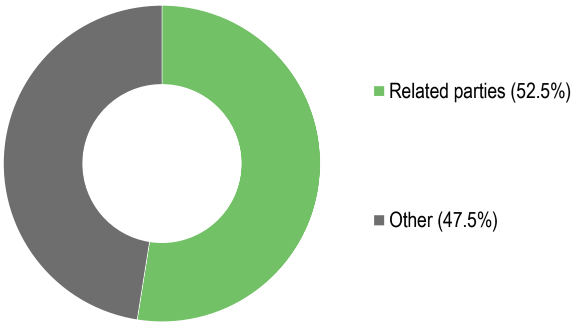
Source: Bloomberg, Edison Investment Research. Note: Leverage costs include preference share dividends, interest and financing charges.

MMA is paid a management fee that is calculated and paid monthly at 1.0% per year of the market value of CGI's investments, adjusted for cash, portfolio accounts receivable and portfolio accounts payable; no performance fee is payable. In FY21, the annualised management expense ratio (MER) including leverage costs was 1.72%, which was 39bp lower than 2.11% in FY20. Excluding leverage costs, which make the MER more comparable with the ongoing charge figure used in the UK, in FY21 it was 1.37%, which was 11bp lower than 1.48% in FY20.

Capital structure

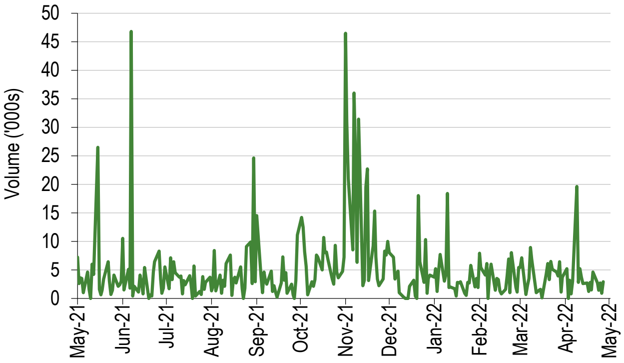
CGI has 20.9m ordinary shares in issue, 52.5% of which are directly or indirectly owned by two of the company's directors, Jonathan Morgan and Vanessa Morgan. Hence, CGI has a free float of 9.9m shares (47.5% of the total) with these holders located in Canada (c 50%), UK (c 30%), Europe ex-UK (c 10%) and other (c 10%). The company has an average daily trading volume of c 5.2k shares on the Toronto Stock Exchange.

Exhibit 12: Major shareholders



Source: Bloomberg at 30 April 2022

Exhibit 13: Average daily volume



Source: Refinitiv. Note: 12 months to 11 May 2022.

The board

CGI's board has three non-independent and four independent directors, who collectively have an average tenure of c 18 years. Vanessa Morgan is chair of CGI and president and CEO of MMA; she joined CGI's board in 1997. Jonathan Morgan, president and CEO of CGI and executive vice-president and COO of MMA, joined the board in 2001. Michael Smedley is CGI's longest-serving director, having been appointed in 1989; he is executive vice-president and CIO of MMA. The four independent directors and their years of appointment are Neil Raymond (2002), James Billett (2005), Michelle Lally (2015) and Marcia Lewis Brown (2020).

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