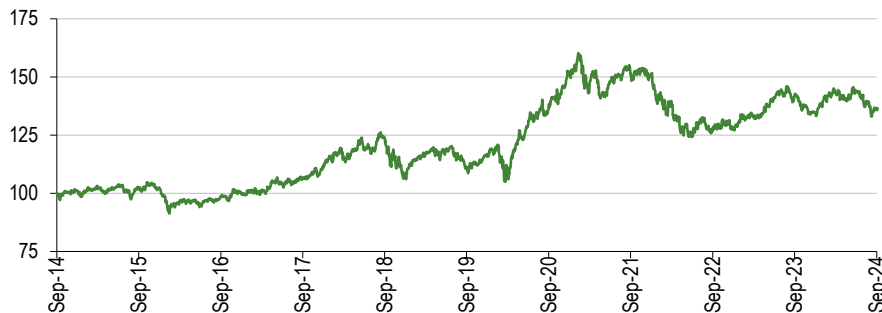


Canadian General Investments

Potential for Canadian outperformance

Canadian General Investments (CGI) is managed by Greg Eckel at Morgan Meighen & Associates (MMA). He believes that investors could be rewarded by an allocation to Canada, rather than automatically heading to the US, which tends to be the default option for North American exposure. The manager highlights the very commendable returns that CGI has achieved over the long term, with 1.4pp annual share price outperformance versus the Canadian market over the last 25 years, and an even greater 2.3pp annual outperformance over the last 50 years. Eckel is unconstrained by the sector weightings of the S&P/TSX Composite Index benchmark, evidenced by a very long-term underweight to financial stocks. CGI has recently confirmed that 2024 will mark the 11th consecutive year of higher dividends. The company's margin facility has recently been drawn down by a further C\$25m to C\$200m.

NAV outperformance versus the Canadian market over the last decade



Source: LSEG Data & Analytics, Edison Investment Research

Why consider CGI?

It is worth highlighting what CGI brings to the table. Firstly, it is a well-established, diverse, actively managed fund with a very long track record of outperformance. Up to 25% of the portfolio can be invested in the US. By the end of 2024, annual dividends will have increased for 11 consecutive years, and the company has ample capital gains for this trend to continue. The recent increased drawdown in CGI's margin facility indicates the manager's bullish outlook, while he is encouraged by Canada's Q324 outperformance versus the US in an environment of declining Canadian interest rates and broader stock market leadership.

Eckel employs a measured approach, investing for the long term and avoiding short-term stock market volatility. He seeks high-quality companies with positive fundamentals, reasonable valuations and competent management teams. Portfolio activity has picked up recently due to the deployment of CGI's increased leverage and a higher number of interesting opportunities; however, turnover remains relatively low, with an implied holding period of around eight years.

CGI has a persistently wide discount as it has a limited (47.5%) free float and is unable to undertake share repurchases as this would invalidate its favourable tax status. However, it should be noted that there are periods in its history when CGI traded close to NAV.

Investment companies North American equities

30 October 2024

Price C\$40.25
Market cap C\$840m
Total assets C\$1,620m

NAV* C\$68.06
Discount to NAV 40.9%

*Including income. At 28 October 2024.

Current yield 2.5%

Ordinary shares in issue 20.9m

Code/ISIN CGI/CA1358251074

Primary exchange TSX

Secondary exchange LSE

Financial year end 31 December

AIC sector North America

52-week high/low C\$41.23 C\$32.58

NAV* high/low C\$68.65 C\$50.60

*Including income

Gross gearing* 12.8%

Net gearing* 12.5%

*At 30 Sept 2024 (before the recent C\$25m margin increase).

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.
- Gearing will amplify capital losses during a market sell-off.

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Canadian General Investments is a research client of Edison Investment Research Limited

CGI: One-stop shop for Canadian equities

CGI is the second oldest closed-end fund in North America providing investors with a diversified Canadian exposure, plus select US exposure to businesses that may not be available in Canada. Exhibit 1 shows CGI's long-term admirable outperformance versus its benchmark. It also illustrates the benefit of compounding and having a long-term approach.

Exhibit 1: CGI's long-term outperformance versus S&P/TSX Composite Index

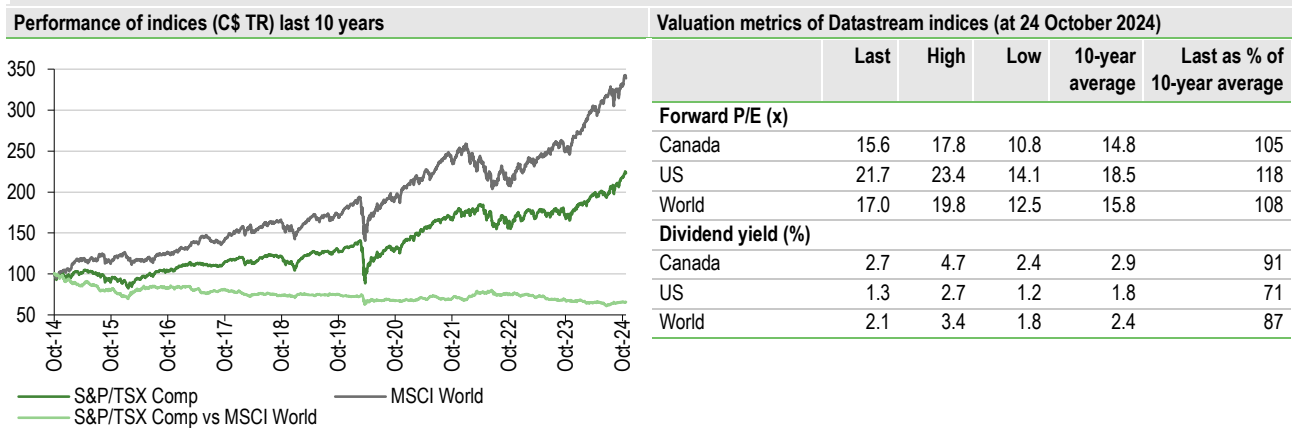
	Time period (years)	Original investment (C\$)	Annual total return (%)	Final investment (C\$)
CGI	25	10,000	8.9	84,275
S&P/TSX Composite Index	25	10,000	7.5	60,983
CGI	50	10,000	11.5	2,310,699
S&P/TSX Composite Index	50	10,000	9.2	814,952

Source: CGI, Edison Investment Research. Note: To 31 December 2023. Dividends reinvested.

Market performance and valuation

Canadian stocks have underperformed the world market over the last decade, largely due to the strength of the dominant US, which now makes up more than 70% of the MSCI World Index. Despite this, the Canadian market has delivered solid annual total returns of 8.1% over the last 10 years. Looking at the valuation of Datastream indices in Exhibit 2 (right-hand side), Canadian stocks remain attractively valued on a forward P/E basis versus the US and world markets and compared with their own history. The Canadian market also offers a superior dividend yield.

Exhibit 2: Market performance and valuation



Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 3: S&P/TSX Composite Index performance data (% unless stated)

Sector	9M24	2023	2022	2021	2020	2019	Number of cos	Weight
Materials	27.5	(1.3)	1.8	4.1	21.2	23.9	52	12.5
Financials	22.0	13.9	(9.4)	36.6	1.7	21.4	27	32.3
Real estate	17.9	7.1	(21.5)	37.5	(8.7)	22.7	20	2.2
Energy	16.2	6.7	30.9	49.0	(26.6)	21.7	41	16.7
Utilities	15.5	0.2	(10.6)	11.7	15.3	37.5	15	4.0
Consumer staples	14.8	12.2	10.1	22.4	4.3	14.4	11	4.1
Information technology	12.9	69.2	(52.0)	18.5	80.7	64.9	10	8.5
Healthcare	12.3	18.3	(61.6)	(19.6)	(23.0)	(10.9)	4	0.3
Consumer discretionary	11.0	11.0	(6.0)	18.5	17.1	15.3	11	3.4
Industrials	10.2	11.9	1.5	16.5	17.0	25.5	27	13.0
Communication services	(2.4)	(3.9)	(2.6)	24.7	(3.7)	13.0	5	3.1
S&P TSX Composite	17.2	11.8	(5.8)	25.2	5.6	22.9	223	100

Source: Bloomberg. Note: Performance in Canadian dollar terms. At 30 September 2024.

As shown in Exhibit 3, there are benefits from having a diversified portfolio given that Canadian market sector leadership tends to vary year-on-year. Although people tend to associate the Canadian market with financial, energy and material stocks, the remaining eight sectors make up around 40% of the S&P/TSX Composite Index and are represented by around 45% of the index constituents.

The manager's view on the Canadian investment backdrop

Canadian economic activity has been weaker than in the US in 2024, but there is optimism about the Canadian economy troughing in Q324 and accelerating in Q424. The unemployment rate has ticked down to 6.5%, inflation of 1.6% is below the targeted 2.0% level and the Bank of Canada has been reducing interest rates. At its latest meeting there was a 50bp cut, which was larger than the previous three 25bps reductions so, in aggregate, the Canadian base rate has come down from 5.00% to 3.75%. Eckel expects further rate cuts now that inflation is under control. The International Monetary Fund forecasts Canadian growth of 1.3% in 2024 and 2.4% in 2025, which is the highest for the G7 countries.

The manager believes that the current Canadian government is nearing its end, with more back-bench calls for prime minister Justin Trudeau to resign following nine years in office. Canadian immigration has come down from 500k pa to 400k pa in response to public opinion. However, there are concerns that the government has lost control, with a post-pandemic influx of immigrants adding to Canada's housing shortage.

Eckel reports that the Q324 earnings season is getting underway and, so far, results have been mixed. TFI International's numbers were weak due to a two-year recession in the North American trucking industry, but the stock rallied suggesting that the bad news was already priced in. Rogers Communications' earnings beat consensus earnings, but its revenues were light. Canadian National Railway has recovered from summer wildfires and labour issues but volumes remain sluggish. New holding Celestica's shares rallied by more than 18% after it beat consensus forecasts and raised guidance.

The manager says that the Canadian market was biding its time in H124, with a 6.1% total return compared with a 15.3% total return in the US. However, Q324 saw a change with Canada delivering a 10.5% total return versus 5.9% in the US. The Canadian market rallied due to the expectation of lower interest rates, which benefited the performance of interest rate sensitive stocks. Bank shares have performed better in anticipation of an increase in economic activity and there is less concern about loan losses. The reduction in interest rates should also be positive for the performance of the housing sector. In December 2024 there will be initiatives for first-time buyers, such as a higher level of insurance available, which will reduce the size of the required downpayment. With a broader stock market leadership, the manager believes this will bode well for the relative performance of Canadian stocks.

Current portfolio positioning

At the end of September 2024, CGI's top 10 positions made up 39.4% of the fund, which was a little lower than 41.3% 12 months before; nine positions were common to both periods. Within the top 10 stocks, three companies were US based, including the largest position in NVIDIA. Since the stock was added to the portfolio in 2016 until the end of H124, \$144m in profits in this stock were locked in and there were a further \$100m in unrealised gains. There is a soft limit of a maximum 5% of the portfolio in a single holding, above which Eckel must regularly discuss the position with the board, while there is a hard maximum limit of 10% in a single holding. The manager reports that he has not sold any more NVIDIA shares since the end of H124 but is likely to do so as this position is back up to 7.5% of the fund as the stock has performed well since the end of September 2024.

Exhibit 4: Top 10 holdings (at 30 September 2024)

Company	Country	Industry	Portfolio weight %	
			30 September 2024	30 September 2023*
NVIDIA Corporation	US	Semiconductors	7.0	6.9
Canadian Pacific Kansas City	Canada	Railroads	4.3	4.4
TFI International	Canada	Transport & logistics	4.2	4.7
Apple	US	Technology	3.9	3.7
WSP Global	Canada	Business services	3.7	3.4
The Descartes Systems Group	Canada	Logistics software	3.6	3.0
West Fraser Timber	Canada	Forest products	3.6	3.6
Franco-Nevada Corp	Canada	Gold mining	3.2	4.0
Mastercard	US	Financial transaction processing	3.1	3.2
Dollarama	Canada	Multiline retail	2.8	N/A
Top 10 (% of portfolio)			39.4	41.3

Source: CGI, Edison Investment Research. Note: *N/A where not in end-September 2023 top 10.

Exhibit 5 shows that there were modest changes in CGI's sector breakdown over the year to end-September 2024. The most notable was a 4.2pp higher allocation to financials; hence, CGI's underweight position has reduced to 18.7pp. The company's largest overweight positions were technology (+14.5pp) and industrials (+9.2pp).

Exhibit 5: Portfolio sector exposure versus benchmark (% unless stated)

	Portfolio end Sep 2024	Portfolio end Sep 2023	Change (pp)	Index weight	Active weight vs index (pp)	Fund weight/index weight (x)
Information technology	23.0	22.6	0.4	8.5	14.5	2.7
Industrials	22.2	22.3	(0.1)	13.0	9.2	1.7
Financials	13.6	9.4	4.2	32.3	(18.7)	0.4
Materials	13.1	15.7	(2.6)	12.5	0.6	1.0
Energy	11.9	11.9	0.0	16.7	(4.8)	0.7
Consumer discretionary	10.0	11.2	(1.2)	3.4	6.6	2.9
Real estate	4.4	4.4	0.0	2.2	2.2	2.0
Communication services	1.5	1.7	(0.2)	3.1	(1.6)	0.5
Healthcare	0.0	0.5	(0.5)	0.3	(0.3)	0.0
Consumer staples	0.0	0.0	0.0	4.1	(4.1)	0.0
Utilities	0.0	0.0	0.0	4.0	(4.0)	0.0
Cash and cash equivalents	0.3	0.6	(0.3)	0.0	0.3	N/A
	100.0	100.0		100.0		

Source: CGI, Edison Investment Research. Note: Numbers subject to rounding.

Recent portfolio activity

Eckel reports that, in recent months, portfolio activity has been higher than average, with turnover now running at an annual rate of around 13% versus a c 7% five-year average. New positions were partially funded by an increase in CGI's margin facility (see the Gearing section below).

There is a new position in **Athabasca Oil** to partially replace the Enerplus holding, which was acquired in June 2024. Athabasca is a mid-tier energy company, with daily production of c 35k boe (98% liquids) and mid- to high-single digit growth. Its asset base of thermal oil sands has around 100 years of reserves and a low decline rate. Athabasca also has a 70% joint-venture ownership in a private company Duvernay Energy to increase efficiencies. Overall, Athabasca provides good leverage to a rising oil price. Recent expansion of the Trans Mountain pipeline should help to reduce the price differentials between Canadian and US oil prices and lower costs as pipeline distribution of oil is much cheaper than by road or rail.

Capstone Copper, an intermediate-sized copper producer, has four producing mines: one in the US, one in Mexico and two in Chile, plus another ongoing new project in Chile. The company was formed by the 2022 merger of Capstone Mining and Mantos Copper to increase scale. Production growth is forecast at 160k tonnes in 2024 to 265k tonnes in 2025 and maybe 400k tonnes by 2026. The manager believes that Capstone has the best growth profile of any copper producer; decent liquidity should attract other investors and the company could be a potential takeover candidate.

Eckel initiated a position in **Celestica**, which is an electronic manufacturing service. Originally part of IBM, Celestica's initial public offering (IPO) was in 1990 and, traditionally, the company had very low margins. It is now viewed as a beneficiary of the growth in AI (of which there are few companies in Canada) as it provides products used in data centres. Celestica is a global business operating in 60 countries with 25k employees. Customers historically used a middleman for access to its engineering and design services. However, they are now dealing directly with the company and customers are committing capital to the business to guarantee supply. Celestica is expected to grow its revenues and earnings by 20% in 2024, and has increased earnings guidance three times this year. Its margins have risen from 5% to a mid-teens level.

MDA Space is a pure play on the space economy, designing and manufacturing satellite systems and space robotics. It also provides intelligence data to governments, such as for analysis of climate change. There has been an explosion in space activity due to increased demand, including from the communications industry where companies are offering wireless coverage in rural areas and virtual private networks, while there has been a 90% reduction in launch costs over time. Revenues are forecast at C\$1bn in 2024e and could increase by 30% for the next three to five years as MDA has a C\$5bn backlog. The manager considers that this is a well-run company that has developed a strong patent portfolio over its 55-year history.

Eckel bought a position in US-based **FTAI Aviation**, which is a niche player supplying high-quality CFM56 engines, modules and material. This engine is very popular and is used in narrowbody planes; 33k were manufactured, of which 22k are still in use. FTAI is the default cheaper alternative to the aircraft OEMs for servicing and maintenance of these engines. The manager thinks that the company's strong growth is sustainable.

Neighbourly Pharmacy, whose IPO was in 2021, had not been performing well; it was acquired by a private equity buyer. US-based, **SiteOne Landscape Supply** is being used as a source of funds, while in Canada the holdings in **Telus** and **Air Canada** have been reduced; Air Canada's post-pandemic recovery has been weaker than expected.

Performance: Very favourable over the long term

CGI is one of seven companies in the AIC North America sector (Exhibit 6) and one of just two Canadian specialists. Comparing CGI to the whole sector, its NAV total returns are above average over the last five and 10 years. It had the largest discount in the sector, where no funds were trading at a premium. CGI has the second-largest ongoing charges and level of gearing. Its dividend yield is modestly the mean, ranking fourth and only surpassed by the three funds in the sector with an income bias.

Exhibit 6: AIC North America sector at 24 October 2024 (£)*

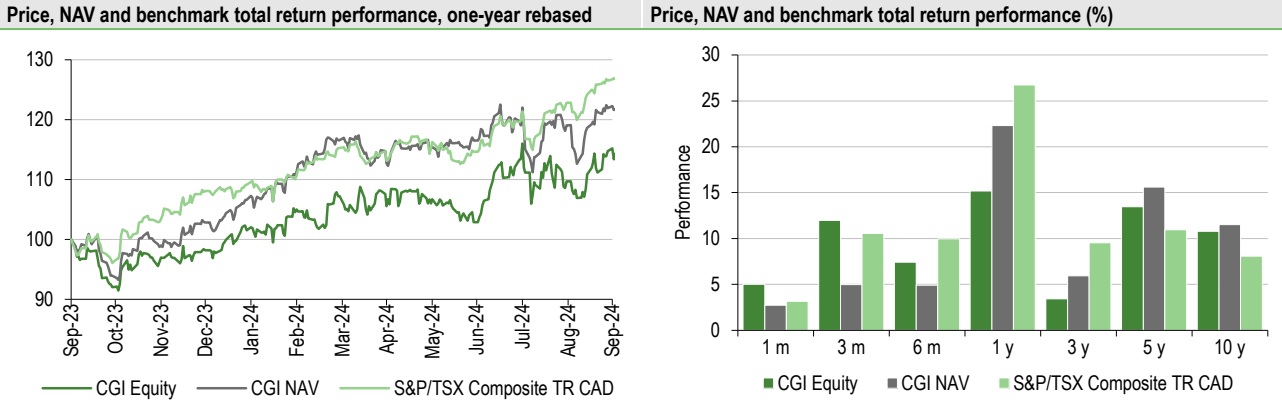
% unless stated	Market cap (£m)	NAV TR one year	NAV TR three year	NAV TR five year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Canadian General Investments	473.4	22.4	9.5	104.5	219.2	(39.8)	1.4	No	110	2.5
Baillie Gifford US Growth	620.6	29.4	(30.9)	87.3		(9.4)	0.7	No	105	0.0
BlackRock Sustainable Amer Inc	137.3	18.8	18.8	48.8	180.1	(12.7)	1.0	No	100	4.2
JPMorgan American	1,842.1	36.4	49.3	130.6	354.8	(2.8)	0.4	No	104	0.8
Middlefield Canadian Income	127.2	25.0	12.2	50.0	103.0	(11.4)	1.3	No	113	4.4
North American Income Trust	415.2	26.2	29.6	49.0	183.9	(10.6)	0.9	No	108	3.6
Pershing Square Holdings	6,581.4	14.1	39.4	184.4	265.8	(32.6)	1.6	Yes	103	1.3
Simple average (seven funds)	1,456.7	24.6	18.3	93.5	217.8	(17.0)	1.0		106	2.4
Fund rank in sector	4	5	6	3	3	7	2		2	4

Source: Morningstar, Edison Investment Research. Note: *Performance to 23 October 2024 based on ex-par NAV. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Middlefield Canadian Income (MCT) is the only other Canadian fund in the AIC North America sector. However, the companies follow different strategies, with MCT's income focus understandingly generating a higher dividend yield. Both companies can invest in US equities, but

MCT currently has a zero allocation to these stocks. CGI has superior NAV total returns over the last five and 10 years. Its discount is much wider than MCT's, which is perhaps due to its limited free float, and CGI has a slightly higher fee structure.

Exhibit 7: Investment company performance to 30 September 2024



Source: LSEG Data & Analytics, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

In H124, CGI's NAV total return of +13.3% outpaced the benchmark's +6.1% total return, while its share price total return of just +4.8% resulted in a wider discount over the period.

Positive contributors during the period included: NVIDIA (share price +152%); Dollarama (+31%); goeasy (+26%); Waste Connections (+22%); Descartes Systems Group (+19%); and WSP Global (+15%). Positions that detracted from CGI's performance included lumber firms Interfor (-30%) and West Fraser Timber (-13%) as the US housing market has been negatively affected by stubbornly high interest rates. This also hurt the performance of other interest rate sensitive stocks such as Bank of Montreal (-10%) and Toronto-Dominion Bank (-10%), along with real estate companies Colliers International Group (-9%) and StorageVault Canada (-11%).

Exhibit 8: 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	1.8	1.3	(2.3)	(9.1)	(15.8)	11.8	28.1
NAV relative to S&P/TSX Composite	(0.4)	(5.0)	(4.6)	(3.5)	(9.5)	22.9	36.6
Price relative to MSCI Canada	2.0	1.1	(2.2)	(9.8)	(17.6)	11.0	27.4
NAV relative to MSCI Canada	(0.2)	(5.2)	(4.5)	(4.2)	(11.5)	21.9	35.9
Price relative to MSCI World	2.8	6.5	(1.7)	(13.3)	(21.2)	(2.6)	(16.2)
NAV relative to MSCI World	0.6	(0.1)	(4.0)	(8.0)	(15.4)	7.0	(10.6)

Source: LSEG Data & Analytics, Edison Investment Research. Note: Data to end September 2024. Geometric calculation.

Exhibit 9: NAV total return performance relative to benchmark over five years



Source: LSEG Data & Analytics, Edison Investment Research

Commenting on CGI's Q324 performance, in contrast to H124, lumber stocks performed very strongly with West Fraser Timber being one of the largest positive contributors. Other stocks that performed well included the Canadian banks, Colliers International Group, very longstanding

holding Dollarama, FirstService, Shopify and WSP Global. Detractors to CGI's performance included NVIDIA, which has been by far the largest positive performance contributor year-to-date, TFI International, some of CGI's energy names including Canadian Natural Resources, Parex Resources and Precision Drilling, while Uranium stocks have been in the doldrums over the summer during a period of oil price weakness.

Exhibit 10: Five-year discrete performance data

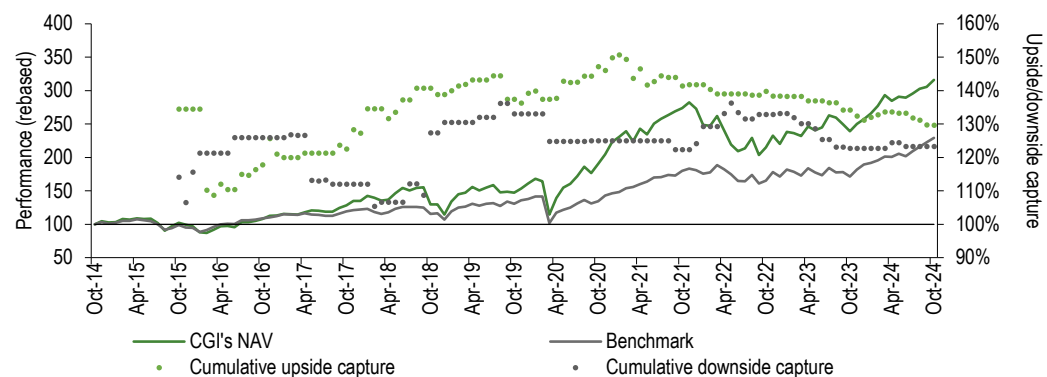
12 months ending	Share price (%)	NAV (%)	S&P/TSX Composite (%)	MSCI Canada (%)	MSCI World (%)
30/09/20	12.7	23.5	(0.0)	(1.4)	12.0
30/09/21	50.8	40.7	28.0	27.9	22.7
30/09/22	(22.0)	(20.5)	(5.4)	(5.0)	(12.4)
30/09/23	23.1	22.2	9.5	10.7	20.6
30/09/24	15.2	22.3	26.7	27.6	32.9

Source: LSEG Data & Analytics. Note: All % on a total return basis in Canadian dollars.

CGI's upside/downside capture

In Exhibit 11 we show CGI's upside/downside capture analysis over the last 10 years. Its upside capture rate of 130% suggests that the company is likely to outperform its benchmark by a meaningful 30% in months when Canadian shares rise. CGI's downside capture rate of 123% means that the company is likely to underperform its benchmark in months when the Canadian market is weak, but to a moderately lesser degree. It is unsurprising that CGI does not move in line with its benchmark given the manager's unconstrained investment approach and the fund's relatively high level of gearing.

Exhibit 11: CGI's upside/downside capture



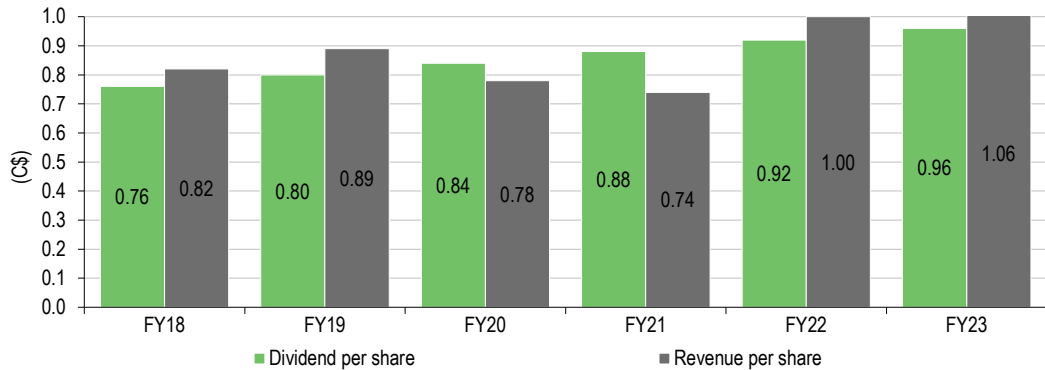
Source: LSEG Data & Analytics, Edison Investment Research. Note: Cumulative upside/downside capture calculated as the geometric average NAV TR of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside indicates that the fund's TR was in line with the reference index's during months with positive/negative returns. Data points for the initial 12 months have been omitted in the exhibit due to the limited number of observations used to calculate the cumulative upside/downside capture ratios.

Dividends: Trend of C\$0.04 annual increases

CGI pays regular quarterly dividends in March, June, September and December. The company historically also distributed special dividends, but none have been paid since FY17. In FY23, the annual dividend of C\$0.96 per share (three regular taxable dividends of C\$0.24 per share and one capital gains dividend of C\$0.24 per share) was 2.1% higher than C\$0.92 per share in FY22 (four regular taxable dividends of C\$0.23 per share). Over the last five years, CGI's dividend has compounded at an annual rate of 4.8%. The manager considers that given the company's high level of unrealised capital gains (c C\$0.9bn), the strategy of rising annual dividends is sustainable. For FY24, four quarterly regular taxable dividends of C\$0.25 per share have been declared, each are 1c higher year-on-year.

The company's soon to be 11-year record of consecutive higher dividends means that CGI qualifies as one of the AIC's next-generation dividend heroes (funds with 10 years but less than 20 years of consecutive higher annual dividends).

Exhibit 12: Dividend history since FY18



Source: Bloomberg, Edison Investment Research

Valuation: Wider discount in line with industry trend

Investor risk aversion remains elevated, which has resulted in widespread wider discounts within the closed-end fund sector. CGI has the added consideration that it is unable to repurchase shares to help manage its discount as this would invalidate the company's favourable Canadian investment corporation tax status. The current 40.9% discount is wider than the 38.7%, 35.0%, 33.8% and 31.3% average discounts over the last one, three, five and 10 years, respectively.

Exhibit 13: Share price discount to NAV (including income) over three years (%)



Source: LSEG Data & Analytics, Edison Investment Research

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 a 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. 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% 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 meaningfully 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 September 2024 were 75% Canada and 25% US.

There are currently around 60 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 – in FY23, portfolio turnover was 7.4%, which was modestly higher than the 6.8% five-year average (range of 2.1% in FY22 to 10.1% in FY20), which implies a c 14-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: Margin borrowing facility

CGI has employed a leveraged strategy since its first issue of preference shares in 1998. Since then, to the end of September 2024, its total return has averaged 6.8% per year above its cost of debt. Its C\$75m 3.75% cumulative Series 4 preference shares were redeemed in June 2023 and for economic reasons, CGI increased the amount borrowed under its margin facility rather than issue new preference shares.

The company has a prime brokerage services agreement with a Canadian chartered bank at a rate of the Canadian Overnight Repo Rate Average plus 0.42% per annum. CGI is required to pledge securities as collateral for margin borrowings. During H124, borrowings were C\$175m versus C\$75.0 to C\$175m in 2023; this leverage added to CGI's NAV total return in a rising market.

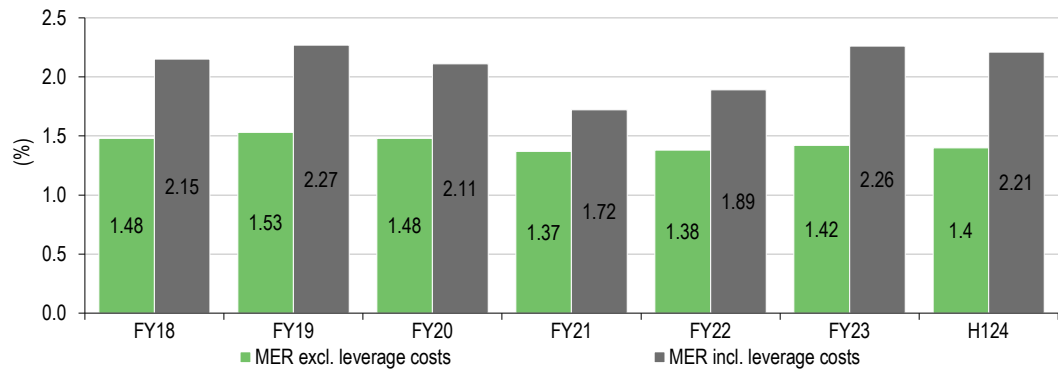
Recently, CGI has drawn down a further C\$25m, so its total leverage is now C\$200m.

Fees and 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 H124, the annualised management expense ratio (MER) including leverage costs was 2.21%, which was 4bp lower than in FY23. Excluding leverage costs, which makes the MER more comparable with the ongoing charge figure used in the UK, in H124 it was 1.40%, which was 2bp lower than 1.42% in FY23.

Exhibit 14: Management expense ratio since FY18

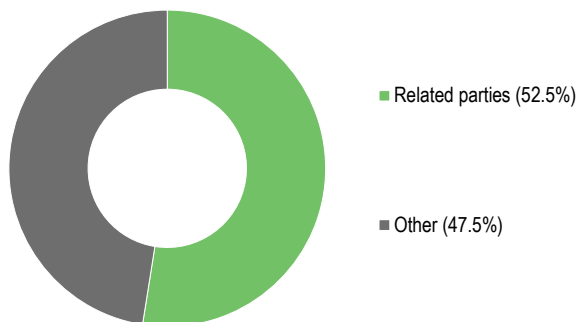


Source: CGI, Edison Investment Research. Note: Leverage costs include preference share dividends, interest and financing charges.

Capital structure

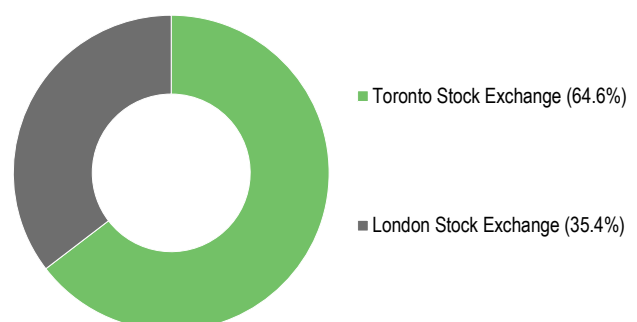
CGI has 20.9m ordinary shares in issue, 52.5% of which are directly or indirectly owned by two of the company's directors, Jonathan Morgan and Vanessa Morgan. Hence, CGI has a free float of 9.9m shares (47.5% of the total) with these holders split broadly 35:65 between Canada and international. Over the last 12 months, the company had an average daily trading volume of c 8.4k shares on the Toronto Stock Exchange and c 4.6k shares on the London Stock Exchange. Volumes have increased following a greater focus on marketing the fund via articles in the financial press and podcasts.

Exhibit 15: Major shareholders



Source: CGI. Note: At 30 September 2024.

Exhibit 16: Average daily volumes



Source: Bloomberg. Note: 12 months to 24 October 2024.

The board

CGI's board has seven directors; three non-independent and four independent directors, who collectively have an average tenure of around nine 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. Clive Robinson is head of MMA's private wealth management business; he joined the board in 2024.

The four independent directors and their years of appointment are Michelle Lally (2015), Marcia Lewis Brown (2020), Sanjay Nakra (2023) and Michael Walke (2023).

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