

How Cidel's Canadian Equity Team Compounds Intellectual Capital

cidel.com

By Michael Brown, Lead Portfolio Manager CPA, CA, CFA

Intellectual Capital is the lifeblood of any Investment Management company: how it acquires it and how it deploys it. Normally for these thought pieces we highlight important tenets of our investment process and turn the lens outward to a company, industry, or event to reinforce how we think about investing. This time around, we are turning the lens inward to focus on how we compound intellectual capital and why it is crucial to our success at Cidel. 'People and process' if you will. We think of Intellectual Capital arising from three distinct categories: Human, Structural and Relationship.

Human capital refers to the knowledge, skills, and expertise of the investment team members. At Cidel, we believe that a diverse set of curious, lifelong learners who are passionate about long-term investment success is crucial. Our team subscribes to a scientific mindset, meaning that our beliefs should be constantly tested and evaluated through critical thinking and evidence-based analysis. Our Canadian Equity team comprises the following professionals:

- Robert Spafford brings to the team his rural Manitoba 'down-to-earth' disposition combined with his hard-earned MBA from Toronto's Rotman School Management. His 25 years of equity investment experience is a testament to his thick skin and determination to succeed. You want Rob on your team.
- Michael Brown brings to team his small-town Ontario 'willingness to help' demeanor. His critical thinking mindset is built on a foundation formed from a Philosophy degree and a professional accounting designation. He asks the tough questions.
- Barry Da Silva brings a work ethic to investment research honed from the mindset a long-distance runner.

Patience and persistence. He knows how to get things done.

- Romit Fernandes brings both an engineering degree and an MBA. His voracious reading appetite and passion for learning about new companies is only slightly greater than his passion for F1. Need an idea tested? Romit can crunch the numbers.
- Robert Gibson brings experience which means perspective. Bob has seen 28 different bank CEOs and 6+ different credit cycles during his time covering the Financials. Need a financial history lesson? Bob's the resource.
- Leila Kulbayeva brings international experience in education and employment, with a Masters from Columbia University and research work experience in Kazakhstan and London (UK). Her ability to jump into a new sector and learn a new business is matched by her desire to jump on a plane and explore a new part of the world.

Everyone on the team is a CFA Charter holder.

As for Structural Capital, it refers to how we execute our investment philosophy. As you may be aware, most investment presentations describing a firm's process are both visually and intellectually appealing. "Of course, that is how investing success is achieved!". After reading more than a few, they all tend to look the same. Then why the difference in results amongst teams and firms? Execution. Execution at Cidel means that we have a guiding philosophy with specific investment tenets that form a repeatable and consistent way to analyze potential investments and monitor holdings. Our process is anchored by a shared database. Sounds basic but this detailed 'checklist approach' ensures that our investment tenets are met and documented:

May 2023

*Cidel is an operating name of Cidel Asset Management Inc.

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The information contained in this document has been compiled by Cidel Asset Management Inc. from sources believed to be reliable, but no representations or warranty, express or implied, are made by Cidel Asset Management Inc. as to its accuracy, completeness or correctness. The opinions expressed are as of the date of this publication and may change without notice and are provided in good faith, but without legal responsibility. Cidel Asset Management Inc., carrying on business as Cidel ("Cidel" is a registered trademark) is registered as a portfolio manager, investment fund manager and exempt market dealer in Ontario. Cidel is also registered as a portfolio manager and exempt market dealer in the provinces of Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Prince Edward Island and Saskatchewan. In Quebec, Cidel is registered as a portfolio manager, investment fund manager and exempt market dealer. This document may not be reproduced, distributed or published by any recipient hereof for any purpose.

How Cidel's Canadian Equity Team Compounds Intellectual Capital

cidel.com

- Opportunities are quantified
- Sustainability of the business model is considered
- Our ability to forecast is assessed
- Companies' ability to generate and deploy capital is analyzed
- Financial strength is examined
- Valuation ranges are determined

This knowledge management system fosters collaboration and there are many benefits to this database. The first, is the transparency of having a central and easily accessible system which ensures knowledge is shared. Everyone has the background materials ahead of regular team meetings where discussions, disagreements, and debates are held regularly with a 'truth-seeking' goal in mind. The second, is the ability to 'go back in time'; this can be instructive for diagnosing when an investment thesis did not work out, thereby allowing the team to learn from their mistakes. The third, is that when adding a new team member, the shared database becomes enormously valuable as a repository of the team's knowledge, helping them efficiently 'get-up-to-speed' and understand how the investment tenets are applied.

For Relationship Capital, we refer to our interactions with both clients (or potential clients) and the management teams of our existing or potential holdings. For clients, we aim to be transparent and consistent about our investment process and communicate results in a regular manner. It is important to note that the Portfolio Managers are fully invested alongside our clients, aligning our goals for long-term compounding of wealth. Often our most successful clients have the same mindset as us: own high-quality companies and let cash flows compound over a long period which means holding during the 'difficult' times of market draw-

downs. They realize the importance of not interrupting the power of long-term compounding.

When meeting with companies, we respect their time and prepare in advance. Our focus is on understanding, clarifying, and resolving any information about the company as it relates to our investment tenets. Thank you to all companies that we have sat across the table for a robust discussion, toured a plant or facility, or attended a well-planned 'Investor Day'. We appreciate every single opportunity to increase our understanding of your business. It is not all about the spreadsheets.

Compounding intellectual capital may sound nebulous, however think of this way: when all three elements described above are working together the output is vastly superior to the sum-of-the parts because success in each area feeds success in the other categories. This 'flywheel' phenomenon is the goal. It is a similar phenomenon to what occurs in our definition of a high-quality company: they generate a significant amount of capital (free cash flow) and redeploy it to generate even more capital. And so on. In summary, the investment team at Cidel compounds its intellectual capital by:

- empowering a diverse set of skilled professionals deploying a quality investment strategy (the Human Capital)
- supported by a structure that supports both collaboration and debate (the Structural Capital)
- is made possible with like-minded clients (the Relationship Capital) and
- a liberal democratic system with an open economy that promotes the raising and deploying of capital so that a few high-quality companies can emerge and thrive (the Relationship Capital).

May 2023

*Cidel is an operating name of Cidel Asset Management Inc.

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The information contained in this document has been compiled by Cidel Asset Management Inc. from sources believed to be reliable, but no representations or warranty, express or implied, are made by Cidel Asset Management Inc. as to its accuracy, completeness or correctness. The opinions expressed are as of the date of this publication and may change without notice and are provided in good faith, but without legal responsibility. Cidel Asset Management Inc., carrying on business as Cidel ("Cidel" is a registered trademark) is registered as a portfolio manager, investment fund manager and exempt market dealer in Ontario. Cidel is also registered as a portfolio manager and exempt market dealer in the provinces of Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Prince Edward Island and Saskatchewan. In Quebec, Cidel is registered as a portfolio manager, investment fund manager and exempt market dealer. This document may not be reproduced, distributed or published by any recipient hereof for any purpose.

How Cidel's Canadian Equity Team Compounds Intellectual Capital

cidel.com

In Summary:

Human Capital

- knowledge, skills, and expertise of the investment team members
- diverse set of curious, lifelong learners who are passionate about long-term investment success
- subscribes to a scientific mindset, meaning that our beliefs should be constantly tested and evaluated through critical thinking and evidence-based analysis

Structural Capital

- how we execute our investment philosophy
- execution is the differentiator in long-term success in investing
- Our guiding philosophy has specific investment tenets that form a repeatable and consistent way to analyze potential investments and monitor holdings

Relationship Capital

- interactions with clients (or potential clients) and the management teams of existing or potential holdings
- for clients, be transparent and consistent about our investment process own high-quality companies and let cash flows compound over a long period
- when meeting with companies our focus is on understanding, and resolving any information about the company as it relates to our investment tenets

The flywheel: when all three elements work together, the output is vastly superior to the sum-of-the parts, as success in one feeds success in the others

What is a 'quality' investment strategy?

Our investment process at Cidel focuses on companies with the resiliency to withstand and survive when the inevitable "unknown unknown" arrives. We assemble portfolios to generate wealth with companies we deem to be durable cash flow compounders. These companies have the following characteristics: attractive growth prospects based on a sustainable competitive advantage with a high degree of predictability. These business models produce recurring cash flows and high returns on capital and, when combined with solid balance sheets, form the basis of eligibility for the portfolio. Attractive valuation is the final gate. The wider the margin of safety the better to handle the "unknown unknowns". Of course, any quality strategy would be incomplete without a strategy to deploy and compound its intellectual capital.

May 2023

*Cidel is an operating name of Cidel Asset Management Inc.

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The information contained in this document has been compiled by Cidel Asset Management Inc. from sources believed to be reliable, but no representations or warranty, express or implied, are made by Cidel Asset Management Inc. as to its accuracy, completeness or correctness. The opinions expressed are as of the date of this publication and may change without notice and are provided in good faith, but without legal responsibility. Cidel Asset Management Inc., carrying on business as Cidel ("Cidel" is a registered trademark) is registered as a portfolio manager, investment fund manager and exempt market dealer in Ontario. Cidel is also registered as a portfolio manager and exempt market dealer in the provinces of Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Prince Edward Island and Saskatchewan. In Quebec, Cidel is registered as a portfolio manager, investment fund manager and exempt market dealer. This document may not be reproduced, distributed or published by any recipient hereof for any purpose.