Canadian General Investments

Canadian equity exposure

Investment trusts

Canadian General Investments (CGI) is an investment company, domiciled in Canada and listed on both the TSX and LSE, which invests in listed Canadian equities. It has been managed by Morgan Meighen and Associates (MMA) since 1956 and has a number of tax advantages conferred on it by its status as a Canadian investment corporation. MMA and CGI principals, Jonathan Morgan and Vanessa Morgan, exercise control over 52.51% of CGI's common shares, suggesting that managers' and shareholders' interests should be well aligned. CGI pays quarterly dividends of C$0.06 (yield: 1.5%) and an annual capital gains dividend from which it is entitled to a capital gains tax rebate, allowing CGI to provide a higher effective yield than would otherwise be possible (4.8% total yield).

12 months ending	Total share price return* (%)	Total NAV return* (%)	Total return S&P/TSX Composite* (%)	Total return FTSE Canada* (%)	Total return FTSE World* (%)
30/04/10	68.1	58.7	34.7	29.1	18.8
30/04/11	13.0	22.5	17.2	12.7	11.6
30/04/12	(11.3)	(5.1)	(9.4)	(9.4)	(1.2)
30/04/13	2.8	4.4	4.5	3.7	18.5

Note: *12-month rolling discrete performance.

Investment strategy: Listed Canadian equities

The investment process is bottom-up stock picking based on fundamental research by the managers. There is a top-down overlay in that the managers' macro outlook may guide the evolution of the portfolio, but does not target sector or geographic allocations, instead looking thematically for investment ideas. CGI follows a leveraged strategy with finance provided by 10-year preference shares. As at 26 April 2013, gross gearing and net gearing were 32.2% and 29.8% of net assets respectively. Overall, the managers aim to construct a portfolio that can broadly serve as a 'one-stop-shop' for Canada.

Outlook: Challenges ahead

The S&P/TSX composite historic P/E at 17.7x is broadly in line with its 10-year average of 18.5x, suggesting valuations are not stretched. Buoyed by a commodity boom and government stimulus and aided by a strong banking sector, Canada recovered quickly from the financial crisis. However, commodity markets have since declined and there are concerns that rising consumer debt levels may bring a halt to the consumer as the main driver of economic growth. As a positive, Canada's main trading partner is the US, from which there are tentative signs of a recovery.

Valuation: Discount above longer-term averages

CGI's discount has widened gradually over the last three years so that, while the current discount of 29.7% is in line with its one-year average of 28.8%, it is above its three- and five-year averages of 24.0% and 23.0% respectively. Compared to its Canadian equity peers, CGI's discount is appreciably above its peer group average of 5.9%. While this may in part reflect CGI's high level of gearing and concentration in the control of the company's shares, the discount appears high given the liquidity of CGI's underling assets and broad outperformance during the last four years.

8 May 2013

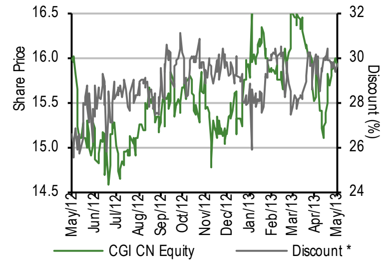
Price	**C$15.9**
Market cap	**C$332m**
AUM	**C$616m**

NAV*	C$22.62
Discount to NAV	29.7%
Yield**	1.5%
Yield***	4.8%

*As at 7 May 2013. ** Excluding special capital gains dividend of $0.52. *** Including special capital gains dividend of $0.52.

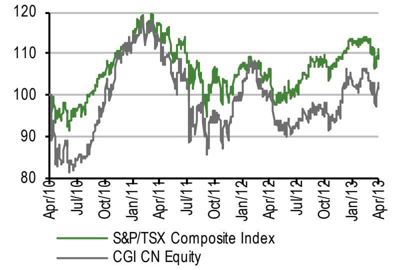
Ordinary shares in issue	20.9m
Code	CGI
Primary exchange	Toronto
Inv co. sector	Canadian equities

Share price/discount performance



* Positive values indicate a discount; negative values indicate a premium.

Three-year cumulative perf. graph



52-week high/low	C$16.50	C$14.58
NAV high/low	C$22.94	C$20.14

Gearing

Gross	32.2%
Net	29.8%

Analysts

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Edison profile page

Exhibit 1: Trust at a glance

Investment objective and fund background

CGI's investment objective is to provide better-than-average returns to investors by investing in a diversified portfolio of Canadian corporations. It aims to achieve this through prudent security selection, timely recognition of capital gains/losses and the selection of appropriate income-generating investments.

Recent developments

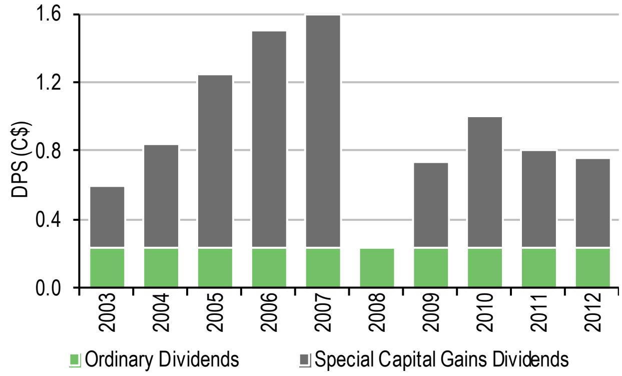
29 April 2013: Announcement that CGI's Series 2 preference shares will be redeemed on 29 May 2013 and that Series 4 Preference shares will be issued in replacement on 30 May 2013.

13 February 2013: Annual report for the year ended 31 December 2012 released.

Forthcoming		Capital structure		Fund details	
AGM	April 2013	Mgmt expense ratio*	1.66%	Group	Morgan Meighen & Associates
Preliminary results	February 2014	Net gearing	29.8%	CEO	Jonathan A. Morgan
Year end	31 December	Annual mgmt fee	1.0% of portfolio mkt value	Address	10 Toronto Street, Toronto,
Dividend paid	Quarterly	Performance fee	None		Ontario, Canada M5C 2B7
Launch date	1930	Corporation life	Indefinite	Phone	+1 416 366 2931
Continuation vote	None	Loan facilities	C$150m pref. shares	Website	www.mmainvestments.com

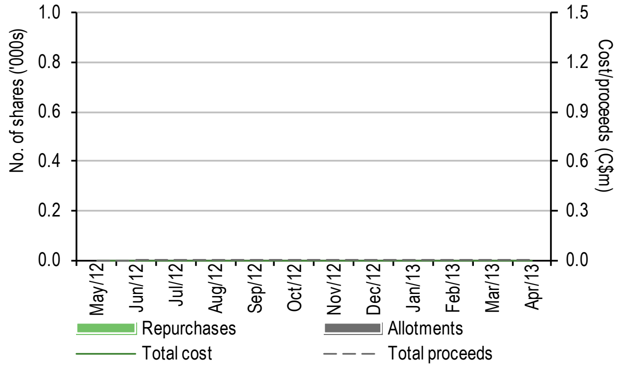
Dividend policy and history

A regular dividend of C$0.06 is paid quarterly plus an annual special 'capital gains' dividend, which reflect annual performance.

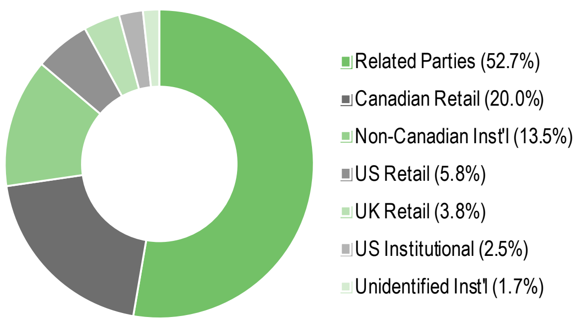


Share buyback policy and history

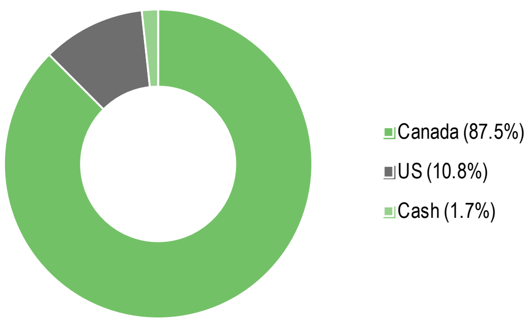
CGI does not repurchase shares as this would jeopardise its 'investment corporation' status, under Canadian law.



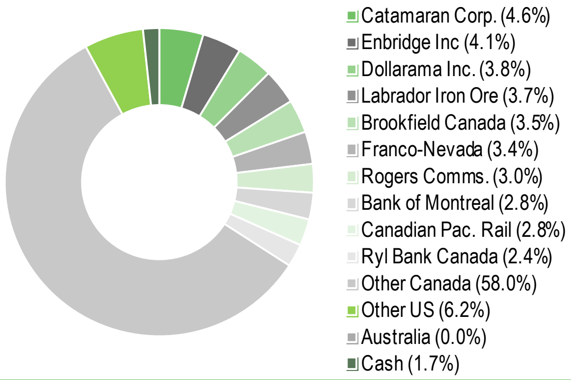
Shareholder base (as at 31 March 2013)



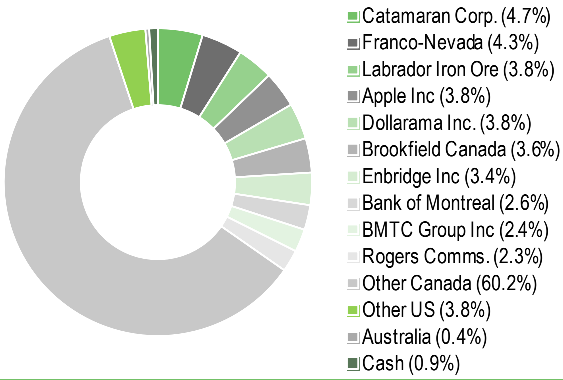
Distribution of portfolio (as at 31 March 2013)



Portfolio composition (as at 31 March 2013)



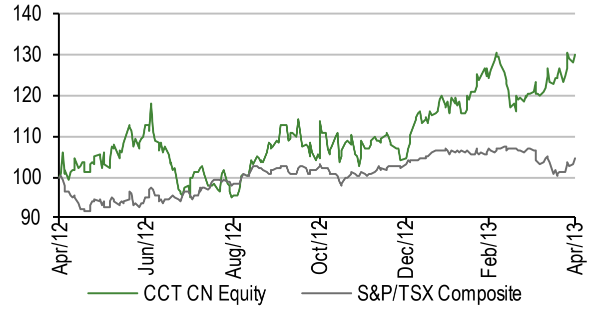
Portfolio composition (as at 30 September 2012)



Source: Canadian General Investments, Edison Investment Research. Note: *Management ratio excluding the dividends on the preference shares, and deferred financing charges. See Page 11 for further explanation.

Exhibit 2: Top five holdings at a glance

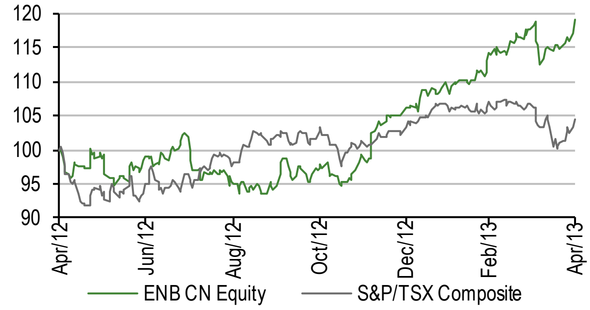
Catamaran Corporation	Code: CCT CN	Market cap: C$10,787m (£6,940m)



Div Yield (trail. 12 months)	N/A
Industry/Sector	Pharma/Pharmacy Services
Listing	Canada – TSX, NASDAQ – GS
Website	www.catamaranrx.com

Formed from the merger of SXC Health and catalyst Health Solutions in 2012, Catamaran Corporation (CCT) provides pharmacy benefit management services and healthcare IT services in the US. CGI has held its predecessor, SXC Health, since early-2009, and benefited from CCT's strong price appreciation since. The price performance (+60% in 2012) reflects the substantial growth of the company's operations. While the managers do not expect a repeat of 2012, they continue to hold CCT as they see further strong growth prospects.

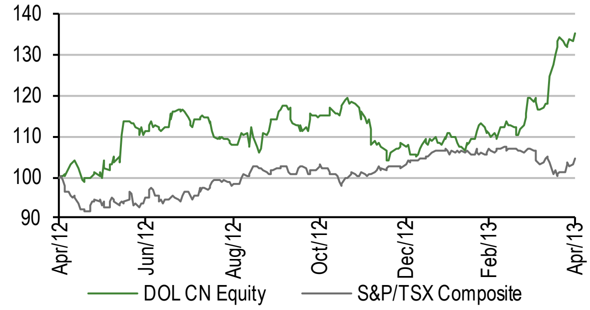
Enbridge Inc.	Code: ENB CN	Market cap: C$39,125m (£25,169m)



Div Yield (trail. 12 months)	2.65%
Industry/Sector	Energy/Pipelines
Listing	Canada – TSX, NYSE
Website	www.enbridge.com

Enbridge Inc (ENB) is a pipeline company focused on the distribution of crude, natural gas and other liquids in the US and Canada. It employs over 6,000 people and operates the world's longest crude oil and liquids pipeline system. ENB has long been a constituent of CGI's portfolio and the managers considers its dividend stream compelling. The managers have been reducing heavy oil companies, but continue to like selective oil services companies, particularly those that are able to benefit from price differentials between the US and Canada.

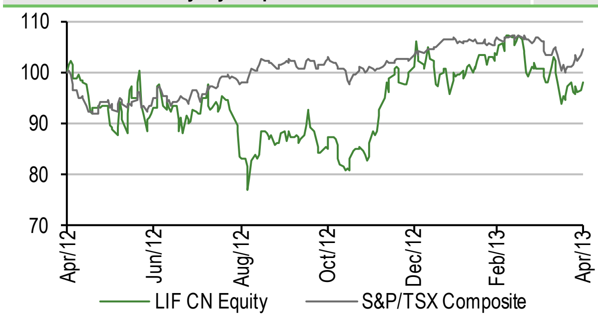
Dollarama	Code: DOL CN	Market cap: C$5,460m (£3,512m)



Div Yield (trail. 12 months)	0.75%
Industry/Sector	Consumer Cy/Retail/Retail-Discount
Listing	Canada – TSX, OTC – US
Website	www.dollarama.com

Dollarama (DOL) is the largest 'dollar store' operator in Canada. It has over 700 stores, which are spread across metropolitan areas, mid-sized cities and small towns. CGI has held DOL since the company's IPO in 2009. The managers consider that DOL has a very good distribution system, which gives it a strong competitive advantage. They are also positive about DOL's expansion programme and internal developments, such as adding a POS system, designed to improve efficiency by strengthening stock control and reducing shrinkage.

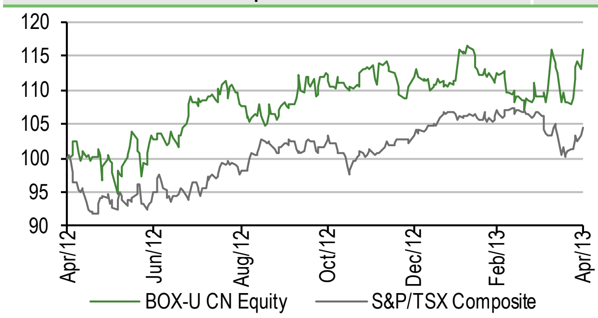
Labrador Iron Ore Royalty Corporation	Code: LIF CN	Market cap: C$2,050m (£1,319m)



Div Yield (trail. 12 months)	3.12%
Industry/Sector	Iron/Steel/Metals-Iron
Listing	Canada – TSX, OTC – US
Website	www.labradorironore.com

Labrador Iron Ore Royalty Corporation (LIF) has a 15.10% equity interest in Iron Ore Company of Canada (IOC), from which it receives a 7% gross overriding royalty and a 10 cent per tonne commission on all iron ore products produced, sold and shipped by IOC. LIF pays quarterly dividends and has been a constituent of CGI's portfolio for over a decade. The managers are cautious about resources and have taken profits when valuations have been fuller, but they expect the benefits of previous capital expenditure will allow increased distributions.

Brookfield Canada Office Properties	Code: BOX-U CN	Market cap: C$776m (£499m)



Div Yield (trail. 12 months)	3.94%
Industry/Sector	Fin./REITS/REITS-Office Property
Listing	Canada – TSX, NYSE
Website	www.brookfieldofficepropertiescanada.com

Brookfield Canada Office Properties (BOX) is a closed-ended, real estate investment trust. It has investments in 27 office properties totalling 20.7 million square feet across Toronto, Ottawa, Calgary and Vancouver. BOX is a core CGI holding. The managers consider that BOX has a high-quality portfolio of office properties that offer a stable income stream, debt is low relative to the size of BOX's asset base and that BOX is well positioned to grow its dividend. Free float is limited, but the managers would like to add to the position. Average capitalisation rates for grade A Commercial property are currently between 5.5% and 6.0% for downtown Toronto, Ottawa, Calgary and Vancouver (source: Colliers International).

Source: Canadian General Investments, Thomson Datastream, Edison Investment Research

Fund profile: Canadian equities, favourable tax status

Launched in 1930, CGI is Canadian domiciled investment company that invests in a portfolio of primarily medium- to large-cap Canadian equities. CGI has been managed by Morgan Meighen and Associates (MMA) since 1956, when MMA was created by CGI's then chairman, Colonel Maxwell Meighen. MMA follows a bottom-up investment strategy. Michael A Smedley, co-manager of CGI's portfolio, is executive vice president and chief investment officer of MMA. He has been involved in the management of CGI's portfolio since 1988 and was joined by D Greg Eckel as a co-manager in 2004. D Greg Eckel, senior vice-president of MMA, is now responsible for the day-to-day management of CGI's portfolio. CGI's benchmark is the S&P/TSX Composite Total Return Index (the main market index for the Toronto Stock Exchange).

There is a close relationship between MMA and CGI. Three of CGI's board members hold prominent positions in MMA. Vanessa Morgan (chairman of CGI) is the president and CEO of MMA. Jonathan Morgan (president and CEO of CGI) is the executive vice president of MMA. Michael Smedley (member of CGI's board and co-manager of CGI's portfolio) is the executive vice president and CIO of Morgan Meighen & Associates. In addition, Jonathan Morgan and Vanessa Morgan directly or indirectly own, or exercise control, over 52.51% of the common shares of CGI. CGI's common shares have been listed on the Toronto Stock Exchange (TSX) since 1962 and the London Stock Exchange (LSE) since 1995.

CGI has made quarterly dividend payments without interruption for over 30 years, and since the beginning of the year ended 31 December 2002, has maintained the quarterly dividend at C$0.06. As CGI has "investment corporation" status in Canada, it is also able to pay dividends from capital gains and where it does so, CGI is able to reclaim a refund of the capital gains tax that has been paid (further details are provided below). Reflecting this, CGI usually pays a special capital gains dividend in December each year. The board determines the level of the special capital gains dividend, giving consideration to the current year's performance, the amount of refundable capital gains tax CGI has on hand, as well as a general desire to provide some degree of yield consistency over time. As a result, while CGI's underlying dividend remains constant, there is fluctuation in the special dividend, and thus total dividend payment as illustrated in Exhibit 1.

For non-Canadian investors, CGI also represents a play on the Canadian dollar.

Leveraged strategy and preference share redemption and issue

CGI has followed a leveraged strategy since issuing its first series of preference shares in 1998. There are no formal limitations imposed on CGI's leverage and the amount and type is entirely at the board's discretion. The Series 1 preference shares have been redeemed, but two further series (designated Series 2 and 3) have been issued and remain outstanding. These two issues total C$150m and both classes of preference share are listed on TSX (see page 11 for further details).

On 29 April 2013, CGI announced that it had given notice to holders of its C$75,000,000 4.65% Cumulative Redeemable Class A Preference Shares – Series 2, that it would redeem all the issued and outstanding Series 2 preference shares on 29 May 2013 for a price of C$25.00 per share plus all accrued and unpaid dividends (C$0.23887 – from the last-scheduled dividend payment date of 15 March 2013 up to but excluding the date of redemption). This redemption will initially be funded by a short-term bank loan.

CGI also announced on 29 April that it has entered into an agreement with a syndicate of investment dealers, led by Scotia Capital Inc, whereby the syndicate has agreed to purchase 3,000,000 3.75% Cumulative Redeemable Class A Preference shares – Series 4, for a gross consideration of C$75,000,000. The proceeds of the issue will be used to repay the short-term bank loan used to fund the Series 2 redemption share redemption. The syndicate has since placed the stock, the issue being 1.5x oversubscribed on the day of the announcement.

The company can redeem the Series 4 preference shares at C$26.00 after 14 June 2018 and before 15 June 2019, then at C$25.75 until 14 June 2020, at C$25.50 until 14 June 2021, at C$25.25 until 14 June 2022 and then at C$25.00 thereafter. Series 4 preference shareholders may require the company to redeem them at C$25 after 14 June 2023.

Investment corporation status

CGI manages its affairs to comply with the requirements of being an investment corporation as defined in the Income Tax Act (Canada). There are three key benefits derived from the status:

1. CGI is entitled to a refund of any capital gains tax paid by it on its realised capital gains where these are distributed to shareholders by way of dividends. The company must file an election with the Canada Revenue Agency with regard to this form of dividend, which is then regarded as a "capital gains dividend".
2. Generally, CGI is also entitled to tax relief on dividends it pays in respect of taxable preferred shares it has in issue, unless those dividends are paid to a "controlling corporation", or a "specified person" in relation to a "controlling corporation" as defined in the Income Tax Act (Canada).
3. In computing its taxable income, CGI is generally allowed to deduct all taxable dividends received on shares from Canadian Corporations. Dividends received on other shares are not deductible in computing taxable income.

There are restrictions on CGI's activities, which are required to maintain its status as an investment corporation. Primarily these are that:

1. No more than 25% of CGI's gross revenues may be from interest income.
2. At least 85% of CGI's gross revenues must be from Canadian sources.
3. A class of share must be listed on a designated stock exchange in Canada (this currently includes the TSX).
4. CGI cannot directly hold property investments.
5. CGI cannot repurchase its own shares.

CGI was 'grandfathered in' to its investment corporation status. However, investment corporation status is not designed for closely held companies such as CGI, so any loss of CGI's investment corporation status is likely to be permanent.

Outlook: Challenges ahead

The Canadian equity market, with its focus on mining and resources stocks (materials and energy accounted for 15.1% and 25.0% of the S&P/TSX Composite as at 31 March 2013), has been economically sensitive to changes in global economic output. Canada's main trading partner is the US (73% of exports in 2012, source: Statistics Canada), and it is therefore affected by events south of the border; it sells relatively little to faster-growing emerging markets. Spurred on by a commodities boom, and aided by a conservative banking system that managed to avoid many of the excesses of asset-backed securities, Canada recovered more quickly than any other member of the G7 group of large developed countries post 2007-08, and while the government has engaged in stimulus spending, the central bank has not needed to engage in quantitative easing. However, interest rates have been kept low for the last five years, and while this has had the desired effect of stimulating consumer spending, which has been the main source of growth, the ratio of household debt to annual disposable income has continued to edge higher (now in excess of 150%, source: Bank of Canada); after 11 consecutive years in which household expenditure has exceeded household income, household debt levels now exceed those of the UK and the US, which have undergone a deleveraging process during the last five years. The Bank of Canada has highlighted its concerns about whether consumers can continue to be a motor for growth. The government is looking to rein in deficits, which have expanded with stimulus spending, but are now constrained. Corporates are reluctant to spend given fiscal uncertainty in the US, as well as European difficulties. There is a also a concern that, if inflation picks up, rising interest rates may force some households into bankruptcy, while simultaneously deflating housing markets. However, while the domestic situation appears challenging, Canadian equity markets remain resource focused. As such, they are likely to be relatively pro-cyclical and should benefit when the outlook for the global economy, and the US in particular, improves.

President and CEO: Jonathan A. Morgan

The managers' view: Conservatively optimistic

The managers report is conservatively optimistic about the outlook for the Canadian economy and for Canadian equity markets in general. In valuation terms, the S&P/TSX Composite is trading at P/E of 17.7x, which is broadly in line with its 10-year average of 18.5x, and remains comfortably within the recent trading range during the last 12 months, as illustrated in Exhibit 3. This compares to a forecast P/E of 13.4x for 2013 (source: Bloomberg). Canada's banks are stable and remain well capitalised, having avoided the difficulties of asset-backed securities, and Canada came through the financial crisis well, avoiding the need for quantitative easing that has been used extensively across other developed economies. In the manager's opinion, Canada benefits, and will continue to benefit, from a 'safe haven' status (Canada is one of only 2 'AAA' issuers left). Its strong trading relationship with the US should also allow it to benefit from a US recovery and the managers have been adding exposure to the recovery in the US house-building industry. In Canada, property prices have risen, particularly in major cities, but the managers are positive about CGI's property exposure, which is diversified and achieved through fund investment. Importantly, the exposure is primarily to higher-quality commercial property, avoiding the pressures increasingly faced by Canadian consumers, and Canadian corporates continue to enjoy healthy profitability.

Exhibit 3: S&P/TSX Composite P/E over 10 years

Source: Thomson Datastream

Given the uncertain global economic outlook, as well as the development of unconventional oil and gas in the US, the managers have been reducing energy exposure, particularly to the heavier oil names, but favour companies positioned to benefit from pricing differentials between Canadian crude and WTI. These include Enbridge (pipelines) and the Canadian Pacific Railway. The managers have also been trimming back mining companies, but have been adding selectively to engineering names where they see good value. CGI has traditionally been underweight the large bank and insurance companies as, in the managers' view, they have complex structures, making them difficult to analyse and they can generally find more exciting investment opportunities in other sectors.

Asset allocation

Investment process: Bottom-up stock selection

As at the end of March, there were 1,559 issuers with listings on TSX and 2,243 listings on the TSX Venture Exchange. At present, c 75% of CGI's holdings have a market cap in excess of C$0.5bn.

The investment process is bottom-up stock picking based on fundamental research by the managers. There is a top-down overlay in that the managers' macro outlook may guide the evolution of the portfolio, but they do not target specific sectoral or geographic allocations, instead looking thematically for investment ideas. Overall, the managers aim to construct a portfolio that can broadly serve as a 'one-stop shop' for Canada.

The managers take a medium- to long-term view when evaluating stocks for inclusion in the portfolio. Portfolio turnover, measured as disposition proceeds during a year as a proportion of opening gross assets, was 13.1% for the year ended 31 December 2012 (2011: 22.3%, 2010: 29.5%). Average turnover during the last three years has been 21.6%, suggesting an average holding period of 4.6 years. However, the managers report that there is variation in terms of holding period within the portfolio. Six of the current top 10 holdings have been portfolio names for over a decade, albeit at a varying holding level. Small-cap names, by comparison, are more likely to be held for a much shorter period of time.

In terms of ideas generation, the managers draw on MMA's in-house expertise (MMA has eight in-house investment professionals), as well as their network of contacts in the broking community and ideas gleaned from conferences that members of the team attend. Having identified a theme and potential stocks, the team conducts further analysis, looking to identify companies that typically have:

- positive fundamentals: companies are operating in structural growth areas, which are disciplined in their use of capital and have proven business models;
- strong franchises: the managers like companies with dominant and protected market positions (preferably market leaders or companies with a unique product offering);
- cash generative: companies with good free cash flows to support shareholder returns;
- strong balance sheets, which do not pose a threat to shareholder returns; and
- attractive valuation: companies considered to be attractively valued, given their growth prospects and ability to generate free cash flow, with a focus on outcomes the market may not expect.

The managers review the analysis and make a final investment decision. They continue to assess stocks to ensure the level of holding remains appropriate.

Overview

As at 31 March 2013, CGI had 73 equity investments. The top 10 holdings accounted for 34.0% of gross assets, cash 1.7% and the remaining equity investments for 64.3% of gross assets. As shown in Exhibit 4, CGI's sector allocation has substantial differentials to those of the benchmark S&P/TSX Composite index, reflecting the actively managed nature of the trust. As shown in Exhibit 1, CGI is overwhelmingly focused on Canadian investments, with 87.5% in Canada and 10.8% in the US. This is consistent with the requirement that at least 85% of an investment corporation's gross revenues must be derived from Canadian sources.

Underweights and overweights

In terms of sectoral allocations, as illustrated in Exhibit 4, the Canadian equity market's largest allocations, as represented by the S&P/TSX Composite, are to financials (32.7%), energy (25.0%) and materials (15.1%). As such, the Canadian market is appreciably different to the global average, as represented by the FTSE All-World index, of which financials is still the largest at 22.5%, while energy and industrials account for 10.9% and 10.2% respectively. CGI's relative under and overweights should be considered in this context.

Exhibit 4: Sector allocations as at 31 March 2013

	Portfolio weight (%)	Benchmark weight (%)	Trust active weight (%)	Trust weight/ benchmark weight
Consumer discretionary	10.1	5.6	4.5	1.80
Industrials	10.1	6.3	3.8	1.60
Materials	18.7	15.1	3.6	1.24
Healthcare	4.6	2.0	2.6	2.30
Information Technology	4.1	1.6	2.5	2.56
Utilities	3.2	2.2	1.0	1.45
Telecommunication services	4.2	5.5	(1.3)	0.76
Consumer staples	0.7	4.0	(3.3)	0.18
Energy	21.0	25.0	(4.0)	0.84
Financials	21.6	32.7	(11.1)	0.66
Cash	1.7	0.0	1.7	N/A
	100.0	**100.0**	**0.0**	

Source: Canadian General Investments, Bloomberg, Edison Investment Research

Exhibit 5: Geographic allocations as at 31 March 2013

	Portfolio weight (%)	Benchmark weight (%)	Trust active weight (%)	Trust weight/ benchmark weight
US	10.8	3.1	7.7	3.48
Colombia	0.0	0.5	(0.5)	0.00
Canada	87.5	96.4	(8.9)	0.91
Cash	1.7	0.0	1.7	N/A
	100.0	**100.0**	**0.0**	

Source: Canadian General Investments, Bloomberg, Edison Investment Research

CGI's largest active underweight is to financials at c 66% of the benchmark allocation. However, while CGI is underweight financials, when compared to the S&P/TSX, this allocation puts CGI broadly in line with the global average (FTSE All-World Index financials allocation is 32.7%) and reflects the managers' longer-term view that the large bank and insurance companies have complex structures, making them difficult to analyse, and that they can generally find more exciting investment opportunities in other sectors. The second-largest active underweight is energy, a sector the managers have been reducing, by moving out of heavy oil and energy companies that require financing given the more challenging operating environment. The consumer staples underweight, while a relatively small active underweight, represents an allocation c 18% that of the benchmark. This allocation reflects the managers' view that for many companies in the sector, growth prospects are currently limited.

CGI's largest active overweight is consumer discretionary, which reflects the managers' view that current low interest rates make it less costly for consumers to finance discretionary spending. The managers have been adding to investments that provide exposure to the recovery in the US housing market. Industrials, with an allocation c 1.6x that of the benchmark, is a sector the managers have been adding to, particularly engineering companies, where the managers consider there is the opportunity to buy selective quality companies at attractive valuations. CGI is overweight materials, but the portfolio has been selectively repositioned within this allocation, with gold and mining companies reduced and replaced with forestry companies, with a view to increasing exposure to a recovery in the US housing market and growing Chinese demand.

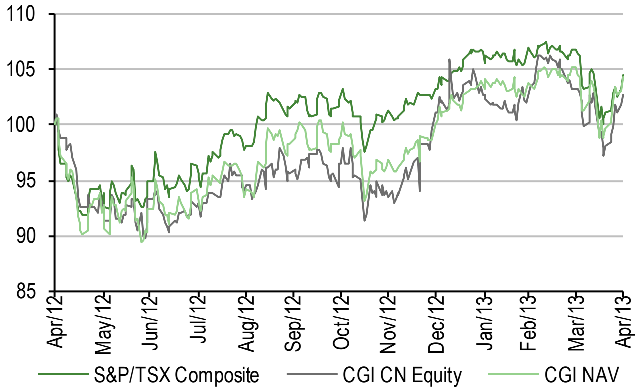
Current portfolio positioning

Overall, the managers have given CGI a more defensive allocation than its benchmark by underweighting more cyclical and overweighting more defensive sectors. CGI maintains a low cash balance, as illustrated in Exhibit 4.

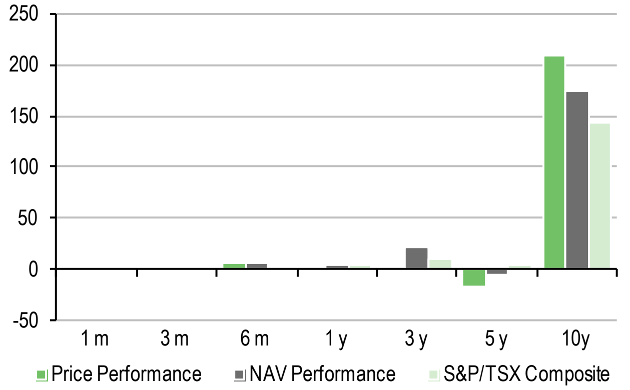
Performance: Outperformance over 10 years

Exhibit 6: Investment trust performance

Price, NAV and benchmark total return perf, one year rebased



Price, NAV and benchmark total return performance (%)



Source: Canadian General Investments, Morningstar, Edison Investment Research

Exhibit 7: Share price and NAV total return performance (sterling adjusted), relative to benchmarks to 30 April 2013

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to S&P/TSX Composite Index	1.7	1.9	4.3	(1.8)	(8.0)	(20.0)	65.2
NAV relative to S&P/TSX Composite Index	1.2	2.7	3.6	(0.2)	10.3	(9.5)	31.0
Price relative to FTSE Canada Index	2.0	2.5	4.5	(1.0)	(2.8)	(13.1)	67.1
NAV relative to FTSE Canada Index	1.5	3.3	3.9	0.6	15.4	(2.6)	32.9
Price rel. to FTSE World Index	(2.4)	(5.3)	(8.4)	(15.7)	(27.5)	(28.3)	137.7
NAV rel. to FTSE World Index	(2.9)	(4.6)	(9.1)	(14.1)	(9.3)	(17.7)	103.4

Source: Canadian General Investments, Morningstar, Edison Investment Research

Exhibit 8: CGI NAV total return index / S&P/TSX total return index, over 10 years, rebased to 100

Source: Canadian General Investments, Morningstar, Edison Investment Research

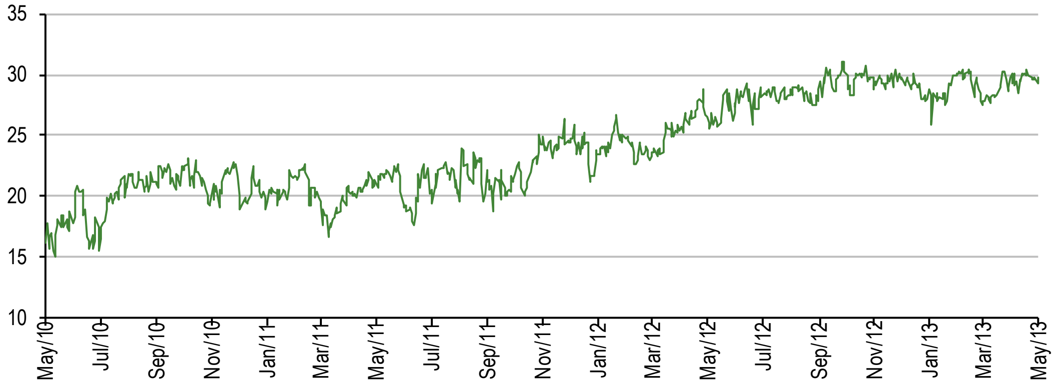
As illustrated in Exhibits 6 and 7, and in particular Exhibit 8, CGI provided a strong run of outperformance between 2003 and mid-2007, such that CGI has provided decent outperformance in terms of NAV total return over the 10-year horizon. From mid-2007, CGI entered a period of difficult performance. This continued through 2008 and into the financial crisis and saw CGI effectively give back all its NAV outperformance over the previous six years.

The manager reports that CGI's underperformance from mid-2007 to the onset of the financial crisis can largely be attributed to two key factors: 1) CGI was overweight small caps, relative to the benchmark, and these underperformed the broader market during this period; and 2) Potash companies, of which CGI was underweight, performed very strongly during the period, driving much of the index's performance. In fact, potash drove the index higher during a period when the market, excluding potash companies, was actually falling.

CGI has pursued a leveraged strategy since first issuing its Series 1 preference shares in 1998 and, at the beginning of 2008, had a substantial component of gearing in its capital structure (as at 31 December 2012, the preference shares provided gross gearing of 31.5% of net assets). The Series 1 preference shares were redeemed on 6 October 2008, after the Lehman's collapse had become public and markets had begun a substantial fall. As such, CGI found it had to sell assets into a depressed and very illiquid market (the managers consider that active trading was only possible in c 30 stocks during this period) at prices where the managers considered stocks to be highly undervalued, which effectively locked in underperformance as markets subsequently rallied. This period of underperformance is most visible over the five-year period. The trend since early-2009 has been one of outperformance, albeit with some volatility, providing moderate outperformance over three years and mild underperformance during the last 12 months. Measured over the last 10 years, CGI's beta (price) with respect to the S&P/TSX Composite Index is 0.83.

Discount: Gradual widening during the last three years

Exhibit 9: Discount over three years



Source: Thomson Datastream, Edison Investment Research. Note: Positive values indicate a discount; negative values indicate a premium.

CGI is authorised to issue an unlimited number of common shares, but cannot undertake their repurchase without contravening the requirements of its investment company status. As such, CGI could issue common shares if there was a desire to moderate a premium. However, the use of share repurchases, as a means of managing a discount, is not an option if CGI wishes to continue to benefit from the tax refund on its capital gains dividends. As a consequence, CGI has not been active in the market for its own shares (see Exhibit 1) and there has been no change in the issued share capital of the common shares since 2007, when shares were issued to satisfy a warrant conversion. Exhibit 9 shows the discount over the last three years and illustrates that there has been a mild expansion in the discount during the period. During the last 12 months, CGI has traded at an average discount of 28.8% and within a range of 25.5% and 31.1%. The current discount of 29.7% is in line with its one-year average of 28.8%, but above its three- and five-year averages of 24.0% and 23.0% respectively. To put the current discount in context, it is worth noting that CGI's discount reached its 10-year high of 35.0% in December 2008 in the wake of the financial crisis. This was obviously an extreme event and the discount closed substantially during the relief rally of Q109 such that CGI traded at an average discount during 2009 of 21.7%, albeit with considerable volatility. While c 6% below its 10-year high, the current discount of 29.7% appears to be towards the top end of its recent trading range, perhaps reflecting global economic uncertainties, and it does not seem unreasonable that it could narrow again if the outlook improves.

Capital structure: Conventional, with preference shares

CGI has a conventional investment company structure with one class of common share in issue (with dual Toronto and LSE listings). There are currently 20,861,141 common shares outstanding and there has been no change in the issued share capital of the common shares since July 2007, when some previously issued CGI warrants had their final conversion. The company is authorised to issue preference shares in series, and since issuing its first series in 1998, the company has followed a leveraged strategy. There are no formal limitations imposed on CGI's leverage and the amount and type is entirely at the board's discretion. The Series 1 preference shares have been redeemed, but two further series have been issued and remain outstanding.

Three million Series 2 preference shares of par value C$25 (total issue size C$75m) were issued on 3 November 2003 with a rate of 4.65%. The company was able redeem the Series 2 preference shares at C$25.25 before 14 March 2013 and has subsequently been able to redeem them at C$25. After 15 March 2014, Series 2 preference shareholders can require the company to redeem them at C$25. The closing price of the Series 2 preference shares was $25.55 as at 24 April 2013.

Three million Series 3 preference shares, of par value C$25 (total issue size C$75m) were issued on 3 March 2006 with a rate of 3.90%. The company can redeem the Series 3 preference shares at C$25.75 until 14 June 2013, then at C$25.50 until 14 June 2014, then at C$25.25 until 14 June 2015 and then at C$25.00 thereafter. Series 3 preference shareholders may require the company to redeem them at C$25 after 14 June 2016. The closing price of the Series 3 preference shares was $25.74 as at 24 April 2013.

In total, the two preference share classes provide leverage of C$150m in par value terms and, as at 26 April 2013, CGI had gross gearing of 32.2% and net gearing of 29.8%.

Preference share redemption and new issuance

On 29 April 2013, CGI announced that it had given notice to holders of its C$75,000,000 4.65% Cumulative Redeemable Class A Preference Shares – Series 2, that it would redeem all the issued and outstanding Series 2 preference shares on 29 May 2013 for a price of C$25.00 per share plus all accrued and unpaid dividends (C$0.23887 – from the last-scheduled dividend payment date of 15 March 2013 up to but excluding the date of redemption). This redemption will initially be funded by a short-term bank loan.

CGI also announced on 29 April, that it has entered into an agreement with a syndicate of investment dealers, led by Scotia Capital Inc, whereby the syndicate has agreed to purchase 3,000,000 3.75% Cumulative Redeemable Class A Preference shares – Series 4, for a gross consideration of C$75,000,000. The proceeds of the issue will be used to repay the short-term bank loan used to fund the Series 2 redemption share redemption.

The company can redeem the Series 4 preference shares at C$26.00 after 14 June 2018 and before 15 June 2019, then at C$25.75 until 14 June 2020, at C$25.50 until 14 June 2021, at C$25.25 until 14 June 2022 and then at C$25.00 thereafter. Series 4 preference shareholders may require the company to redeem them at C$25 after 14 June 2023.

Fees

CGI has a management agreement with MMA for the provision of investment management, which includes other administrative and company secretarial services. The management fee is calculated as 1.0% per year of the market value of CGI's portfolio, calculated and paid monthly in arrears, adjusted for cash balances and portfolio accounts receivable and payable. There is no adjustment to exclude investments in the securities of any other company or entity also managed by MMA. There is no performance fee. The management agreement can be terminated at 180 days' notice by either party. However, for CGI to terminate the management agreement, a resolution must first be passed by a minimum two-thirds' majority of common shareholders, with two or more persons present, or by a proxy representing a minimum of 50% of common shares. Under such circumstances MMA is entitled to a termination payment to 75% of the fees paid, or payable to, the manager for the most recently completed financial year. A practical consideration is that, while CEO Jonathan Morgan and Chairman Vanessa Morgan (both principals of MMA) continue to control over 50% of the common share votes, any such termination is likely to require their consent. It is worth noting that the company's officers (Jonathan Morgan, Vanessa Morgan and Michael Smedley) are remunerated by MMA in their capacity as directors and/or officers of MMA and receive no compensation from CGI. The remaining non-executive directors are remunerated directly by CGI.

Canadian funds traditionally quoted a management expense ratio (MER) that expresses total expenses (excluding commission and other transactions, but including leverage costs such as the preference share dividends and deferred financing charges) as a proportion of average net assets during the year. The MER was 3.08% for the year ended 31 December 2012 (3.02% for the year ended 31 December 2011). Excluding the dividends on the preference shares and deferred financing charges, the MER was 1.66% for 2012 and 1.63% for 2011.

Life

CGI has an indefinite life and there is no specific mechanism to wind up the company.

Dividend policy: C$0.06 quarterly, special cap gains

CGI's dividend policy is to make quarterly dividend payments on 15 March, 15 June, 15 September and 15 December of each year. CGI has made these quarterly dividend payments without interruption for over 30 years, and since the beginning of the year ended 31 December 2002, has maintained the quarterly dividend at C$0.06. As CGI has investment corporation status in Canada, it is also able to pay dividends from capital gains, and where it does so, CGI is able to reclaim a refund of the capital gains tax that has been paid.

By avoiding this second layer of taxation, CGI is able to provide a higher effective yield than would otherwise be possible in the absence of its investment corporation status. However, CGI must comply with a number of legislative restrictions to maintain this status (see page 4 for further explanation) and while these are not unduly onerous, loss of this status would be likely to lead to a reduction in CGI's dividend paying capacity. Reflecting this, CGI usually pays a special capital gains dividend in December each year. The board determines the level of the special capital gains dividend, giving consideration to the current year's performance, the amount of refundable capital gains tax CGI has on hand, as well as the general desire to provide some degree of yield consistency over time. As a result, while CGI's underlying dividend remains constant, there is fluctuation in the special dividend, and thus total dividend payment as illustrated in Exhibit 1. A special capital gains dividend of C$0.52 was paid on 28 December 2012 (2011: C$0.56) and so the total dividend payment for 2012 was C$0.76 (2011: C$0.80). As at 31 December 2012, CGI had C$225m of unrealised capital gains (C$10.78 per share), which suggests it has substantial scope to continue paying the capital gains dividend.

Peer group comparison

Exhibit 10 provides a closed-ended peer group comparison for CGI. However, it should be noted that while all invest in Canadian equities, there is variation in investment focus. For example, Central Fund of Canada's primary focus is commodities, Enervest Diversified Income is focused on natural resources, while Mint Income Fund is focused towards higher-yielding equities. In this group, CGI ranks sixth over one and three years and seventh over five years, when considering share price total return. At 29.9%, CGI's discount is appreciably above the sector average of 5.9%, although this may in part reflect the high level of structural gearing, which gives CGI the highest net gearing by a considerable margin. In addition, the yield figure for CGI in Exhibit 8 reflects only the base dividend of C$0.06 per quarter and excludes the annual capital gains special dividend. If the annual special capital gains dividend is also included, CGI's yield rises to 4.8%.

Exhibit 10: Canadian equities peer group, as at 30 April 2013

Company	Share price total return on C$100			Ongoing charges (%)	(Disc)/ prem.	Net gearing (100=no gearing)	5-year dividend growth (%)	Dividend yield	Sharpe ratio NAV one year	Sharpe ratio price one year
	One year	Three years	Five years							
Sector average	**89.7**	**113.3**	**117.7**	**0.6**	**(5.9)**	**102.9**	**(0.2)**	**1.6**	**0.0**	**0.1**
Canadian General Investments	**102.8**	**103.1**	**83.7**	**1.5**	**(28.2)**	**129.0**	**0.0**	**1.5**	**0.6**	**0.2**
Central Fund of Canada	82.3	113.3	143.2	0.3	1.5	99.0	3.3	0.1	(0.2)	(0.2)
Economic Investment Trust	124.7	112.1	85.9	0.3	(31.4)	102.0	0.0	0.9	1.4	1.1
Enervest Diversified Income	94.6	110.5	119.3	1.4	(11.3)	117.0	(15.3)	8.9	0.2	0.2
Middlefield Canadian Income	117.5	172.8	154.9	1.0	1.7	100.0	(6.5)	4.5	0.8	0.9
Mint Income Fund	105.0	131.0	129.9	1.9	(2.8)	91.0	(12.9)	6.0	(0.0)	0.0
United Corporations	117.1	118.6	99.9	0.5	(32.0)	102.0	0.0	1.4	0.0	1.6

Source: Morningstar

The board

The board comprises seven members, four of which are independent of the investment manager. The non-independent directors are Vanessa Morgan (chairman of CGI and president and CEO of MMA), Jonathan Morgan (president and CEO of CGI and executive vice president of MMA) and Michael Smedley (executive vice president and CIO of Morgan Meighen & Associates). The independent directors are James Billett, James Cook, R. Neil Raymond and Richard O'C Whittall. The average length of board member service is 13 years.

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