EDISON

Canadian General Investments

Canadian equities, increased quarterly dividend

Investment trusts

Canadian General Investments (CGI) is an investment company domiciled in Canada and dual-listed on TSX and LSE. It seeks to provide broad and diversified, actively managed, Canada-listed equity exposure. The investment objective is long-term growth and income. Regular dividends are paid quarterly and supplemented by ad hoc distributions of capital gains (as a tax advantage under CGI's investment corporation status). The final 2013 quarterly payment of C$0.08 per share (previously C$0.06) was the first increase since 2002 and given the historical trend, we would anticipate this is at a level the board will wish to sustain.

12 months ending	Total share price return* (%)	Total NAV return* (%)	Total return S&P/TSX Composite* (%)	Total return FTSE Canada* (%)	Total return FTSE World* (%)
30/09/10	18.0	23.0	11.6	6.5	3.3
30/09/11	(0.7)	(4.2)	(3.6)	(4.9)	(3.6)
30/09/12	4.7	18.4	9.2	7.7	15.2
30/09/13	14.2	8.3	7.1	7.8	24.7

Note: *12-month rolling discrete performance.

Investment strategy: Listed Canadian equities

CGI targets a broad and diversified exposure to Canadian equities. The investment process is bottom-up stock picking, based on fundamental research by the managers on a medium- to long-term view (average holding period c five years). A top-down overlay of the managers' macro outlook influences stock selection, but no sector or geographic allocations are specifically targeted. Thematic views and special situations form part of the stock selection process. Leverage is part of the strategy and as at 31 October 2013, gross gearing and net gearing were 29.3% and 27.6% of net assets respectively.

Outlook: Valuations elevated, but US supportive

Canada recovered quickly from the financial crisis in 2009, but the cooling of the commodity cycle has seen economic growth expectations tempered recently. More positively, this removes some of the risk that interest rates could soon start to increase; rising consumer debt levels had begun to cause some concern earlier in the year. Moreover, the US is Canada's largest trading partner (taking c 75% of all Canadian exports) and as it recovers it may take over from domestic demand as the main engine of growth. The equity market has risen to a level that is no longer cheap, but does not looked stretched in historical terms.

Valuation: Discount above longer-term averages

The current discount of 30.6% is wider than the three- and five-year averages (25.8% and 24.0% respectively), but towards the middle of the one-year range (between 25.9% and 33.3%). This is appreciably above the average discount for Canadian equity peers (19.0% – see page 8). In part it may reflect CGI's relatively high gearing and concentration in the control of the CGI's shares, but it appears high given the liquidity of CGI's assets and broad outperformance during the last four years.

21 November 2013

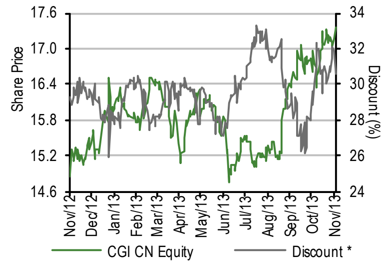
Price	**C$17.35**
Market cap	**C$363m**
AUM	**C$673m**

NAV*	C$25.00
Discount to NAV	30.6%
Yield**	1.5%
Yield***	4.5%

*As at 20 November 2013. **12 months trailing, excluding special capital gains dividend of $0.52. ***12 months trailing, including special capital gains dividend of $0.52.

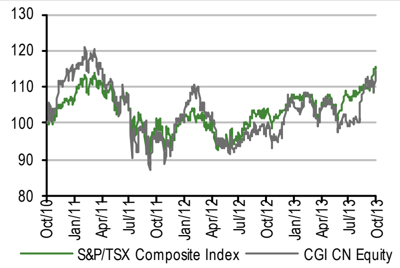
Ordinary shares in issue	20.9m
Code	CGI
Primary exchange	Toronto
Inv co. sector	Canadian equities

Share price/discount performance



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

Three-year cumulative perf. graph



52-week high/low	C$17.35	C$14.74
NAV high/low	C$25.19	C$20.75

Gearing

Gross	29.3%
Net	27.6%

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Edison profile page

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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

5 November 2013: Portfolio update released.

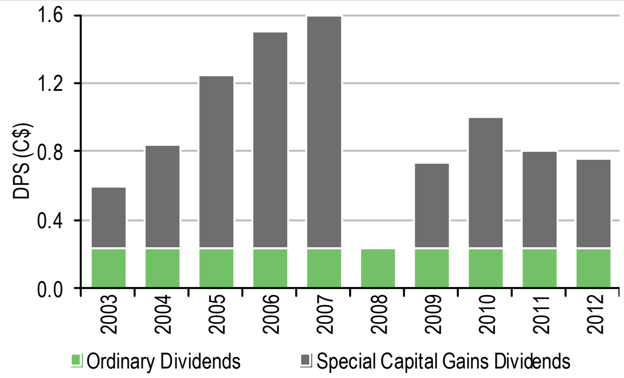
23 October 2013: Final quarterly dividend for CGI's ordinary shares declared at C$0.08 per share.

23 October 2013: Preference share dividends, payable on 15 December 2013, declared at C$0.24375 per share for series 3, and C$0.23438 per share for series 4.

Forthcoming		Capital structure		Fund details	
AGM	April 2014	MER*	1.66%	Group	Morgan Meighen & Associates
Preliminary results	February 2014	Net gearing	27.6%	CEO	Jonathan A. Morgan
Year end	31 December	Annual mgmt fee	1.0% of portfolio mkt value	Address	10 Toronto Street, Toronto, Ontario, Canada M5C 2B7
Dividend paid	Quarterly	Performance fee	None		
Launch date	1930	Trust life	Indefinite	Phone	+1 416 366 2931
Continuation Vote	None	Loan facilities	C$150m preference shares	Website	www.mmainvestments.com

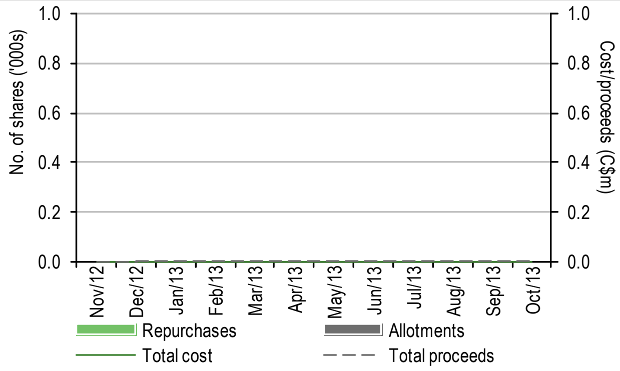
Dividend policy and history

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

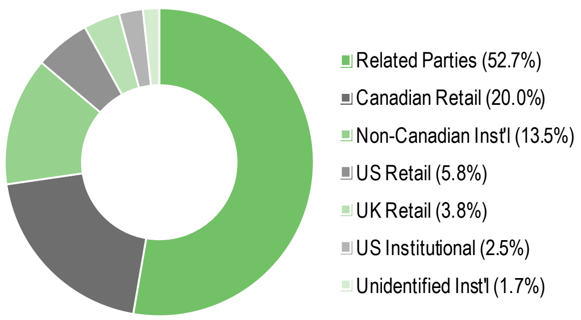


Share buyback policy and history

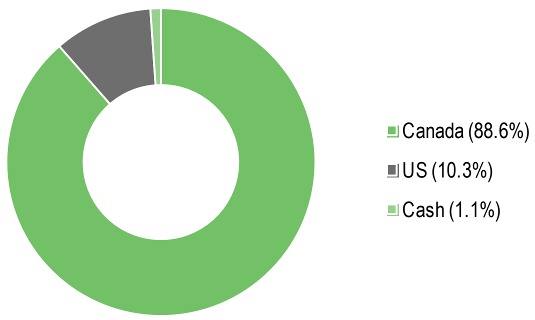
CGI does not repurchase shares as this would jeopardise its 'investment corporation' status, under Canadian law.



Shareholder base (as at 31 March 2013)



Distribution of portfolio (as at 30 September 2013)



Top 10 holdings (as at 30 September 2013)

			Portfolio weight %		Active weight %
Company	**Country**	**Sector**	**30 September 2013**	**31 March 2013**	**30 September 2013**
Dollarama	Canada	Retail Staples/Mass Merchants	4.8	3.8	4.5
Catamaran Corporation	United States	Healthcare Facilities/Services	4.0	4.6	3.4
Enbridge	Canada	Midstream - Oil & Gas	3.4	4.1	1.4
Brookfield Canada Office Properties	Canada	Office REIT	3.2	3.5	2.6
Bank of Montreal	Canada	Financials/Banks	3.0	3.7	0.5
Element Financial	Canada	Financials/Commercial Finance	2.9	2.7	2.8
Labrador Iron Ore Royalty	Canada	Financials/Specialty Finance	2.8	4.8	2.7
Canadian Pacific Railway	Canada	Rail Freight Transportation	2.6	3.6	1.3
Royal Bank of Canada	Canada	Financials/Banks	2.6	3.1	(2.8)
Rogers Communications	Canada	Telecom/Telecom Carriers	2.5	3.9	1.2
Top 10			**31.8**	**34.1**	
Cash			**1.1**	**1.7**	

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.

Outlook: Challenges remain, valuations elevated

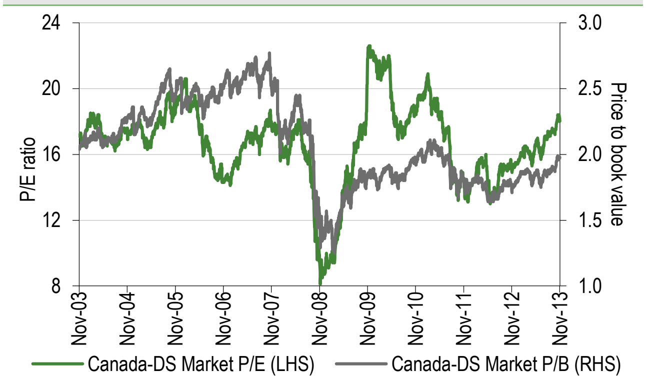
The Canadian economy has performed more strongly than G7 peers (including the US, home for c 80% of Canadian exports), both during the global recession and the subsequent recovery. A robust banking system and the boom in commodities prices lent support, and the government also engaged in stimulus spending. Relatively strong job creation and low interest rates have boosted consumer spending, the main driver of recent growth, to the point where household debt levels now exceed those of the UK and the US. The belief that this might lead to a precautionary rise in interest rates has recently receded, as commodities markets and Canadian economic growth expectations have slowed. In October, the Bank of Canada cut its estimate from GDP growth from 1.8% to 1.6% for 2013, with reductions in growth for 2014 and 2015.

The Canadian equity market is relatively rich in resource exposure, with the materials sector accounting for 12.1% of the S&P/TSX Composite (as at 30 September 2013) and the energy sector 25.4%. This increases the sensitivity to changes in global economic output generally, but, given its share of Canadian exports, the US economy is of special significance. Notwithstanding the short-term drag from US budgetary uncertainty, momentum in the US economy appears to be building.

In valuation terms, the market has risen to a level that is not obviously cheap, but does not yet look overly stretched. We show the historic trend in P/BV as well as P/E to try and account for the more cyclical nature of resource earnings. The market P/BV looks broadly consistent with the historical trend (see Exhibit 2).

Exhibit 2: Canadian equity market valuation metrics (10 years) S&P/TSX Composite total return (10 years)

Canada–DS Market P/E and price to book ratio (10 years)



S&P/TSX Composite total return (10 years)

Source: Thomson Datastream

Fund profile: Canadian equities, favourable tax status

CGI is a Canada-domiciled investment company that invests in a portfolio of primarily medium- to large-cap Canadian equities. It has a long history dating back to 1930 and has been listed on the Toronto Stock Exchange (TSX) since 1962 and the London Stock Exchange (LSE) since 1995. CGI's benchmark is the S&P/TSX Composite Total Return Index. Its historical status as an investment corporation (as defined in Canada's Income Tax Act) is not available to newly created investment vehicles; it confers a number of tax advantages (including tax relief on capital gains distributed as dividends) as well as some constraints on investment policy and an inability to repurchase shares. Please see our outlook note published on 8 May 2013 for a full explanation. The investment strategy employs leverage in the form of two series of preference shares outstanding (both listed on the TSX totalling C$150m, with an average cost of 3.83%). At 30 September, gearing was 29.3% gross and 27.6% net, as a proportion of net assets. CGI has been managed by Morgan Meighen and Associates (MMA) since 1956, when MMA was created by CGI's then chairman. The portfolio manager, D Greg Eckel, senior VP of MMA, has managed CGI's portfolio since 2004. There is a close relationship between MMA and CGI (see our outlook note for further explanation). Three of CGI's board members hold prominent positions in MMA and MMA principals, Jonathan and Vanessa Morgan, exercise control over 52.51% of CGI's common shares.

The manager: D Greg Eckel

The managers' view: Conservatively optimistic

The manager remains optimistic about the long-term outlook for the Canadian economy and for Canadian equity markets in general. He sees the recovery of the US economy as being supportive and has sought exposure to companies that should benefit from recovery. However, with US recovery comes the eventual tapering of quantitative easing and the potential for market volatility. For now, he feels Canada will continue to benefit from a 'safe haven' status (being one of only 2 'AAA' issuers left). The Canadian equity markets recent rally means that equities look fairly valued in general. The current historical P/E of 18.2x is above its 10-year average of 16.7x. As a stock picker, the manager believes he can still find attractively priced stocks, sometimes international businesses at a discount to US peers. Looking further out, a more general global economic recovery may well be supportive of the more cyclical, resource-oriented part of the Canadian equity market. Even at its recent slower pace, the large Chinese economy is still providing a considerable annual increment to global resource demand. As global demand returns, it seems likely that resource exposure will increase; the manager continues to monitor companies in this area, but for now remains selective, focusing on cash generation.

Asset allocation

Investment process: Bottom-up stock selection

The investment process is bottom-up stock picking based on fundamental research. The manager does not target specific sectoral allocations, instead looking for investment ideas thematically, while taking a medium- to long-term view. Portfolio turnover was 13.1% for the year ended 31 December 2012 (2011: 22.3%). However, the manager reports that there is variation in terms of holding period. In terms of ideas generation, the managers draw on MMA's in-house expertise (MMA has eight in-house investment professionals), their network of contacts in the broking community and ideas gleaned from conferences. Having identified a theme and potential stocks, the team conducts further analysis, looking to identify companies that typically have:

- positive fundamentals – companies operating in structural growth areas that 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 that do not pose a threat to shareholder returns; and
- attractive valuation – companies considered to be attractively valued, given their growth prospects and free cash flow generation, with a focus on outcomes the market may not expect.

Overview

As at 30 September 2013, CGI had 73 equity investments. The top 10 holdings accounted for 31.8% of gross assets, cash 1.1% and the remaining equity investments for 67.1% of gross assets. As shown in Exhibit 3, 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 88.6% in

Canada and 10.3% 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.

Exhibit 3: Sector allocations as at 30 September 2013

	Portfolio weight (%)	Benchmark weight (%)	Trust active weight (%)	Trust weight/ benchmark weight
Consumer discretionary	14.7	6.1	8.6	2.41
Information Technology	5.8	1.6	4.2	3.60
Industrials	10.4	6.7	3.7	1.56
Materials	13.9	12.1	1.8	1.15
Healthcare	4.1	2.6	1.5	1.57
Utilities	2.8	2.1	0.7	1.32
Telecommunication services	3.7	4.9	(1.2)	0.75
Consumer staples	1.5	4.3	(2.8)	0.35
Energy	19.5	25.4	(5.9)	0.77
Financials	22.5	34.2	(11.7)	0.66
Cash	1.1	0.0	1.1	N/A
	100.0	**100.0**	**0.0**	

Source: Canadian General Investments, Bloomberg, Edison Investment Research

Exhibit 4: Geographic allocations as at 30 September 2013

	Portfolio weight (%)	Benchmark weight (%)	Trust active weight (%)	Trust weight/ benchmark weight
US	10.3	5.1	5.2	2.03
Colombia	0.0	0.4	(0.4)	0.00
Canada	88.6	94.5	(5.9)	0.94
Cash	1.1	0.0	1.1	N/A
	100.0	**100.0**	**0.0**	

Source: Canadian General Investments, Bloomberg, Edison Investment Research

Current portfolio positioning

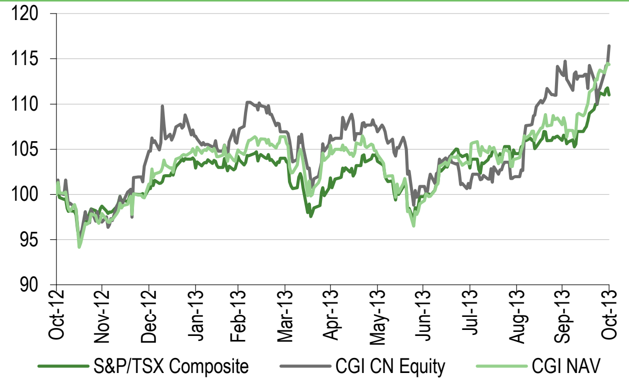
While CGI's portfolio is not managed from a top-down perspective, the comparisons against the benchmark provided in Exhibits 3 and 4 give a useful illustration of CGI's absolute and relative allocations. CGI's largest active underweight remains financials at c 66% of the benchmark allocation, which reflects the managers' longer-term view that the large bank and insurance companies are difficult to analyse and that there are more exciting investment opportunities in other sectors. The second-largest active underweight is energy, a sector the managers have continued to reduce by moving out of heavy oil and energy companies, although the manager favours companies positioned to benefit from pricing differentials between Canadian crude and WTI. The materials overweight has been reduced during the last six months to a more neutral allocation (+3.6% active weight as at 31 March 2013, +1.8% as at 30 September 2013), and within this CGI remains underweight gold, fertilisers and diversified metals and mining (collectively 2.0% of CGI vs. 10.5% of the benchmark as at the end of October), but overweight steel, commodity chemicals and paper and forestry products (8.9% of CGI vs 0.9% of the benchmark) giving greater sensitivity to economic recovery. The consumer staples underweight reflects the managers' view that growth prospects are currently limited for many of these companies. 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. Industrials, with an allocation c 1.6x that of the benchmark, remains overweight engineering companies, where the managers consider there is the opportunity to buy selective quality companies at attractive valuations.

Performance: Outperformance over 10 years

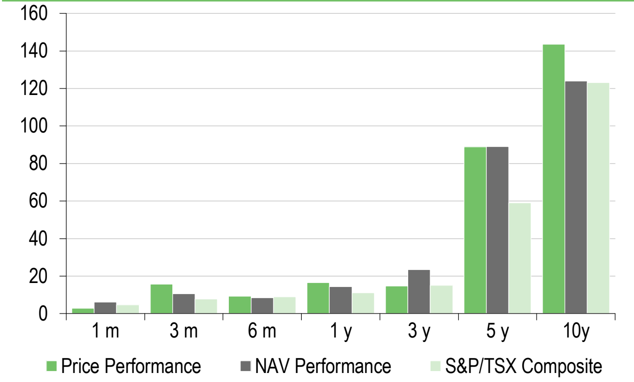
As illustrated in Exhibits 5 and 6, and in particular Exhibit 7, CGI provided a strong run of outperformance between 2003 and mid-2007, but from mid-2007 until the onset of the financial crisis, CGI entered a period of difficult performance, which the manager reports was largely as a result of being overweight small caps, which underperformed the broader market, and being underweight potash companies, which performed very strongly. Performance during the crisis was also very difficult. CGI's Series 1 preference shares were redeemed on 6 October 2008 after the Lehman's collapse had become public and CGI had to sell assets into a depressed and very illiquid market, which effectively locked in underperformance as markets subsequently rallied. This is most visible over the 10-year period. The trend since early 2009 has been one of outperformance, albeit with some volatility, providing moderate NAV outperformance over one, three and five years.

Exhibit 5: Investment company performance to 31 October 2013

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



Price, NAV and benchmark total return performance (%)



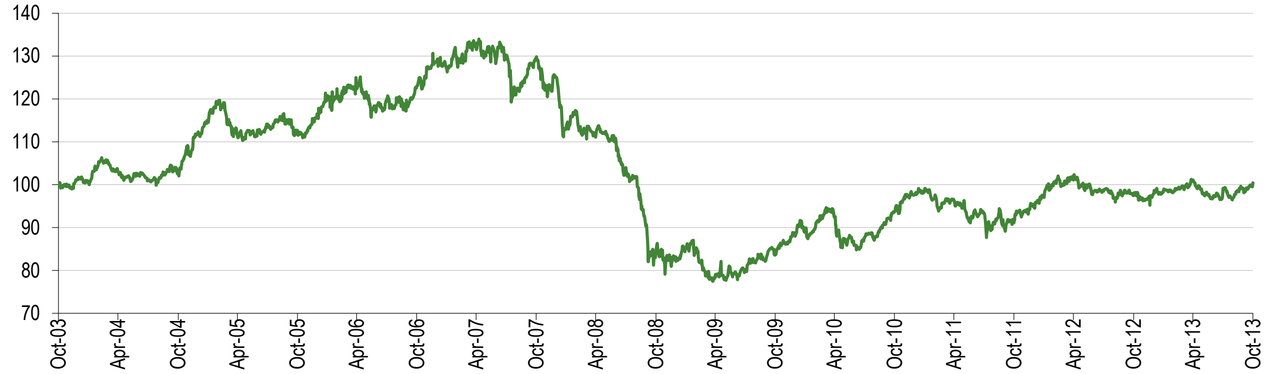
Source: Canadian General Investments, Morningstar, Edison Investment Research

Exhibit 6: Share price and NAV total return performance, difference vs benchmarks (% points), to 31 October 2013

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price versus S&P/TSX Composite Index	(1.9)	7.8	0.3	5.4	(0.3)	30.0	20.5
NAV versus S&P/TSX Composite Index	1.5	2.8	(0.5)	3.4	8.5	30.0	0.9
Price versus FTSE Canada Index	(2.2)	7.6	(0.5)	4.7	1.2	41.3	19.9
NAV versus FTSE Canada Index	1.2	2.5	(1.3)	2.7	10.0	41.3	0.3
Price versus FTSE World Index	(2.7)	6.9	(4.1)	(14.0)	(27.5)	22.8	67.8
NAV versus FTSE World Index	0.7	1.9	(4.9)	(16.0)	(18.7)	22.9	48.3

Source: Canadian General Investments, Morningstar, Edison Investment Research

Exhibit 7: CGI NAV total return index/S&P/TSX total return index over 10 years, rebased to 100

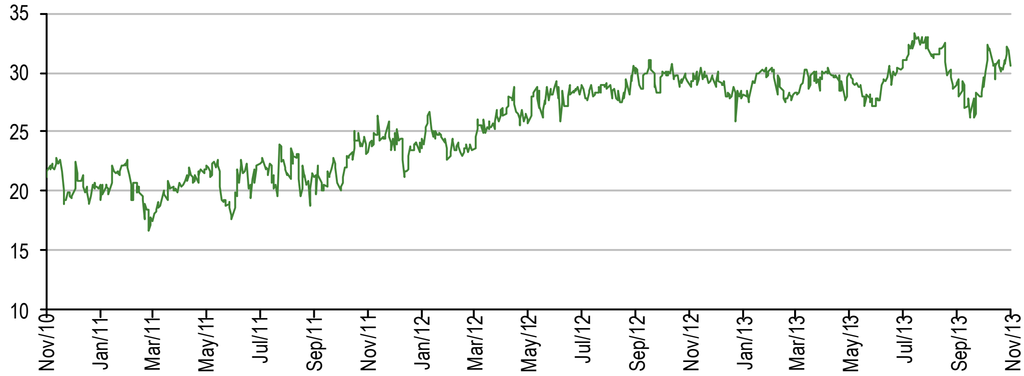


Source: Canadian General Investments, Morningstar, Edison Investment Research

Discount: Widened during the last three years

Exhibit 8 shows how the share price discount to NAV has widened over the past three years. Over the past 12 months, CGI has traded at an average discount of 29.5% and within a range of 25.9% and 33.3%. As a tax-privileged investment corporation, CGI is unable to undertake share repurchases to influence the discount in the short term. However, we see a number of reasons why the discount could narrow over time. These include continuation of the long-term investment record, the dual listing (opening the shares to a wider investor base), the managers' commitment to investor communication and the recent move to increase regular dividend distributions.

Exhibit 8: Discount over three years



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

Capital structure: Conventional, with preference shares

CGI has a conventional investment company structure with one class of common share in issue. There are no formal limitations imposed on CGI's leverage and the amount and type is entirely at the board's discretion. Two series of preference share, designated Series 3 and Series 4, remain outstanding (see our outlook note for further details). In total, the two preference share classes provide leverage of C$150m in par value terms, and as at 31 October 2013, CGI had gross gearing of 29.3% and net gearing of 27.6%. MMA receives a fee of 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 performance fee and 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 MMA principals Jonathan and Vanessa Morgan continue to control over 50% of the common share votes, any such termination is likely to require their consent. 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. CGI has an indefinite life and there is no specific mechanism to wind up the company.

Dividend policy: C$0.08 quarterly, special cap gains

CGI makes quarterly dividend payments on 15 March, 15 June, 15 September and 15 December each year. CGI has paid quarterly dividends without interruption for over 30 years, and since the beginning of 2002 has maintained the quarterly dividend at C$0.06. However, for the fourth quarter of the current financial year, CGI has increased the regularly quarterly dividend to C$0.08 per share and although there has been no guidance as yet, it seems reasonable that having increased the quarterly dividend, the board will want to maintain it at this level. CGI's investment corporation status permits it to pay dividends from capital gains, and where it does so, it is able to reclaim a refund of the capital gains tax that has been paid. Reflecting this, CGI usually pays a special capital gains dividend in December at a level determined by the board, giving consideration to performance, the amount of refundable capital gains tax it has and the desire to provide some degree of yield consistency over time. 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 9: Canadian equities peer group, as at 15 November 2013

Company	Share price total return on C$100 One year	Three years	Five years	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
Sector average	**129.7**	**132.8**	**209.4**	**1.0**	**(19.0)**	**108.2**	**(9.6)**	**4.6**	**0.1**	**1.4**
Canadian General Investments	**122.0**	**110.5**	**210.0**	**1.7**	**(31.9)**	**113.0**	**1.6**	**1.5**	**0.8**	**0.9**
Central Fund of Canada	65.9	80.8	137.9	2.7	(5.7)	97.0	0.0	9.8	0.9	(0.4)
Economic Investment Trust	167.4	152.3	186.3	0.4	(22.4)	107.0	0.0	0.7		2.8
Enervest Diversified Income	107.6	111.1	230.7	1.3	(14.1)	118.0	(13.8)	10.0	(0.2)	(0.3)
Middlefield Canadian Income	107.4	150.6	280.5	1.6	(4.9)	86.0	(6.5)	4.9	0.4	0.0
Mint Income Fund	107.1	121.6	202.9	1.6	(4.1)	104.0	(12.9)	6.0	(0.0)	0.0
United Corporations	150.6	158.6	191.0	0.5	(23.7)	102.0	0.0	1.1		3.5

Source: Morningstar

Exhibit 9 provides a closed-ended peer group comparison for CGI. All invest in Canadian equities, although there is variation in investment focus. In terms of share price total return, CGI ranks third over one and five years and sixth over three years. At 31.9%, CGI's discount is appreciably above the sector average of 19.0%. In addition, the yield figure for CGI in Exhibit 9 reflects only the base quarterly. If the annual special capital gains dividend is also included, CGI's yield rises to 4.5%.

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 14 years.

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