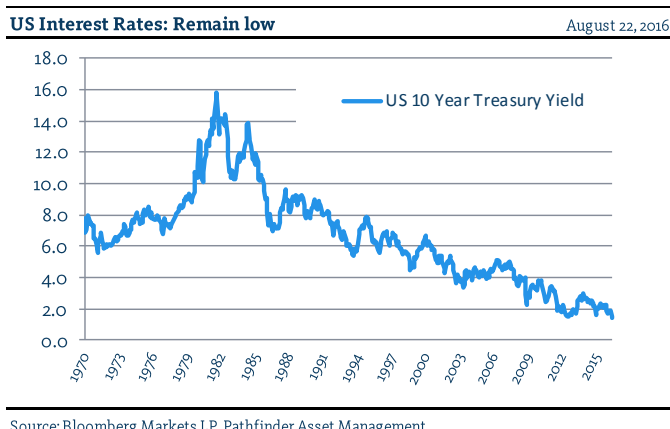


Pathfinder Investment Outlook

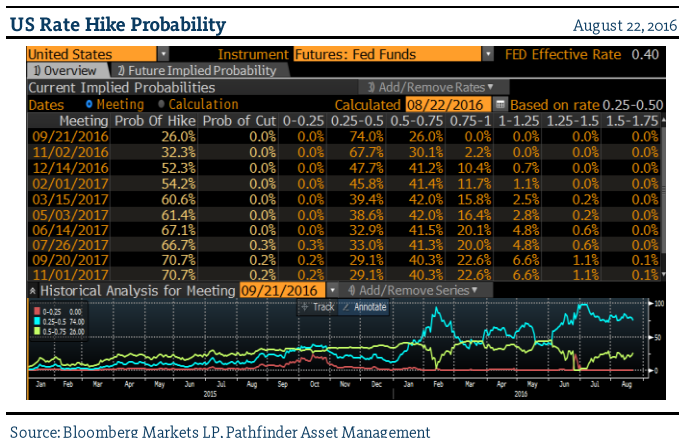
For the week ending August 19th, 2016

Recap & Macro Outlook: Interest Rate Expectations

There has been much discussion this past week in the financial press about interest rates. Rates are important to finance for a number of reasons. From a valuation perspective, high interest rates decrease cash flow and make it harder to borrow; they also decrease the value of future cash flow generated by a business. On a pure sentiment perspective, high interest rates push investor capital out of equities and into fixed income, where a similar level of return with less risk could potentially be available. As you can see from the chart to the right, interest rates have changed significantly over the years, so investors pay attention to central bank activities, as they are so influential.



During our weekly investment committee meeting, we reviewed the data to the right which shows the probability of an interest rate rise in the US (which has decreased). The information is calculated from futures contracts which take positions on the potential direction and movement of the Federal Open Market Committee's target rate of interest (FOMC Target Rate). The discussion in the press has been about the language of the minutes in the most recent FOMC meeting, recent speeches made by FOMC members and the markets interpretation of the latest employment and inflation data points. The



debate now surrounds weak data and the potential for rates to continue to remain low, while FOMC speeches take a more upbeat tone. It is hard to tell in the short-term but it is becoming more obvious that the economy is not expanding as quick as the Fed, or anyone else for that matter, would like.

Michael Rudd, CFA | Portfolio Manager

Pathfinder Equity, High Income & Core Plus Fund

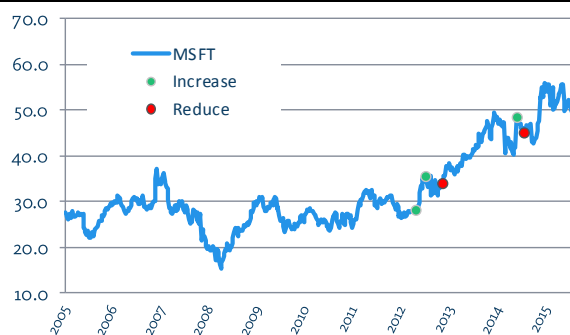
Microsoft Corporation (NASDAQ: MSFT)

Spotlight: Our Visit to Redmond

This past week, we drove down to Redmond, Washington, just outside of Seattle, to visit with Microsoft Corp (NASDAQ:MSFT). The campus was impressive and the meetings were very informative. We were able to meet with people who worked in two divisions: the newly structured Productivity Division (Office and Office 365) and the Intelligent Cloud Division (Azure and Data Centers) along with an investor relations person. MSFT is one of our larger holdings across all mandates and we have owned it since 2012.

Microsoft Corp: Pathfinder Investment History

August 22, 2016



Source: Bloomberg Markets LP, Pathfinder Asset Management

The Productivity Division discussion focused around pushing the Office Tools platform (i.e. Word, Excel, PowerPoint, Skype) out to as many people as possible in the new subscription format. This has caused revenue to slow somewhat because, in the past, the full software suite was sold as a one-off purchase but the monthly subscription format will take 3 years or so to generate the same top line revenue as the single sale. However, the economics and stability over the long-term are much better, especially for patient investors. The subscription model allows for more flexible licence agreements, which permits greater monetization of premium products as well as an expanding “sticky” customer ecosystem.

The Intelligent Cloud Division evolution is harder to visualize but very exciting in terms of growth and function. Expanding on the Productivity discussion above, seamlessly linking the end user relationship, noted above, into private/public/hybrid Cloud has become a critical component of IT resource deployment for essentially all companies. The infrastructure that has been developed to manage the needs of very large global companies can be scaled and leveraged to provide similar services for small businesses. Therefore, the addressable market is huge and has material growth. As the cost of providing the computing power along with data storage decreases and spreads to more users, the evolution of usage will become common place for companies.

The one item that causes us to have some concern, and which was not really addressed well at the meeting, was the lack of throughput on cellphone growth which is critical to expanding the ecosystem. This is something we are watching, but at this point, it would unlikely detract from our long-term positioning across all mandates which is noted in the chart above.

Michael Rudd, CFA | Portfolio Manager



Pathfinder Asset Management Ltd. | Equally Invested™

1320-885 W. Georgia Street, Vancouver, BC V6C 3E8

E info@paml.ca | T 604 682 7312 | www.paml.ca

Sources: Bloomberg, Pathfinder Asset Management Limited

Disclosure

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*All returns are time weighted and net of investment management fees. Returns from the Pathfinder Partners' Fund and Partners' Real Return Plus Fund are presented based on the masters series of each fund. The Pathfinder Core: Equity Portfolio and The Pathfinder Core: High Income Portfolio are live accounts. These are actual accounts owned by the Pathfinder CEO (Equity) and client (High Income) which contain no legacy positions, cash flows or other Pathfinder investment mandates or products. Monthly inception dates for each fund and portfolio are as follows: Pathfinder Core: Equity Portfolio (January 2011), Pathfinder Core: High Income Portfolio (October 2012) Partners' Fund (April 2011), Partners' Real Return Plus Fund (April, 2013), and Partners' Core Plus Fund (November 2014).

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