

## Pathfinder Core Equity

Spotlight: Microsoft Corporation (NASDAQ: MSFT) and the Canadian Navy

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We have written before in this note about Microsoft Corporation (NASDAQ:MSFT). The company has made major advancements since our initial investment in 2011, mostly related to its Azure cloud system and movement into a subscription based platform. The company reported impressive numbers last week growing cloud-based revenue to 30% of the total firm revenue. That segment continues to grow at double-digit rates with expanding margins. We also have exposure to Alphabet and IBM in the Core Equity portfolios which are executing along the same theme. We believe that this type of sales growth curve, along with the consulting that invariably follows, will drive cash flow for these firms as their clients continue to push into public and hybrid cloud applications. We like the fundamental aspects of these firms but also note that they are among the most popular stocks in the S&P500 and have driven a good portion of index returns this year. This causes us some concern about the sustainability of the theme in our portfolios. The portfolio positions themselves have grown larger because of price appreciation. One of the disciplines that we have in the Core portfolios is to lighten exposure as stocks become too popular (and ultimately too expensive). Clients should expect to see some selling or switch transactions referenced in this note over the coming weeks.

**Canadian Leaders at Sea (CLaS):** I had the most fortunate experience to sail with our Canadian Navy for three days of exercises at the beginning of October, as part of the Canadian Leaders as Sea program. CLaS is a program that places Canadian business executives alongside military personnel for leadership exchange. The opportunity for me to see how our military operates was invaluable. I sailed on the HMCS Calgary, a Halifax-class frigate, with a crew of 225. Due to the weather and a few other circumstances, I felt that I was able to get a true view of what the onboard experience is like for our sailors. Like most Canadians (I suspect), I did not have a real appreciation for how amazing these people are. I just cannot emphasize enough how impressed I was. Over my years in the investment business, I had the opportunity to study many organizations as part of our investment process, but the combination of people, machinery, weapons, threat and environment made this ship just about the most complex thing I have ever seen in person. I lived with and shadowed these officers and crew for three days. Without exception, I was impressed with their skill, management ability, dedication and care. Needless to say, I came away from the experience a true supporter of our military in general – and our Navy in particular. Please call me directly to discuss this. I will make time to talk to anyone about this experience.

Canadian Leaders at Sea (Rudd in red jacket)

October 31, 2016



Left to Right in uniforms: L.Cdr Stefanson, Cdr Saltel, L.Cdr Hopkins, CPO 1st Cl Paul Fenton

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Sources: Bloomberg, Pathfinder Asset Management Limited

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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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