



The INK Canadian Insider Index

V.I.P.'s find the value & price momentum stocks preferred by insiders

50 stocks equally weighted

Licensed by Horizons ETFs Management (Canada) Inc. for
Horizons Cdn Insider Index (TSX:HII)

Bloomberg: INKCINP Index and INKCINT Index

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December 2nd, 2016

Distinguishing Features

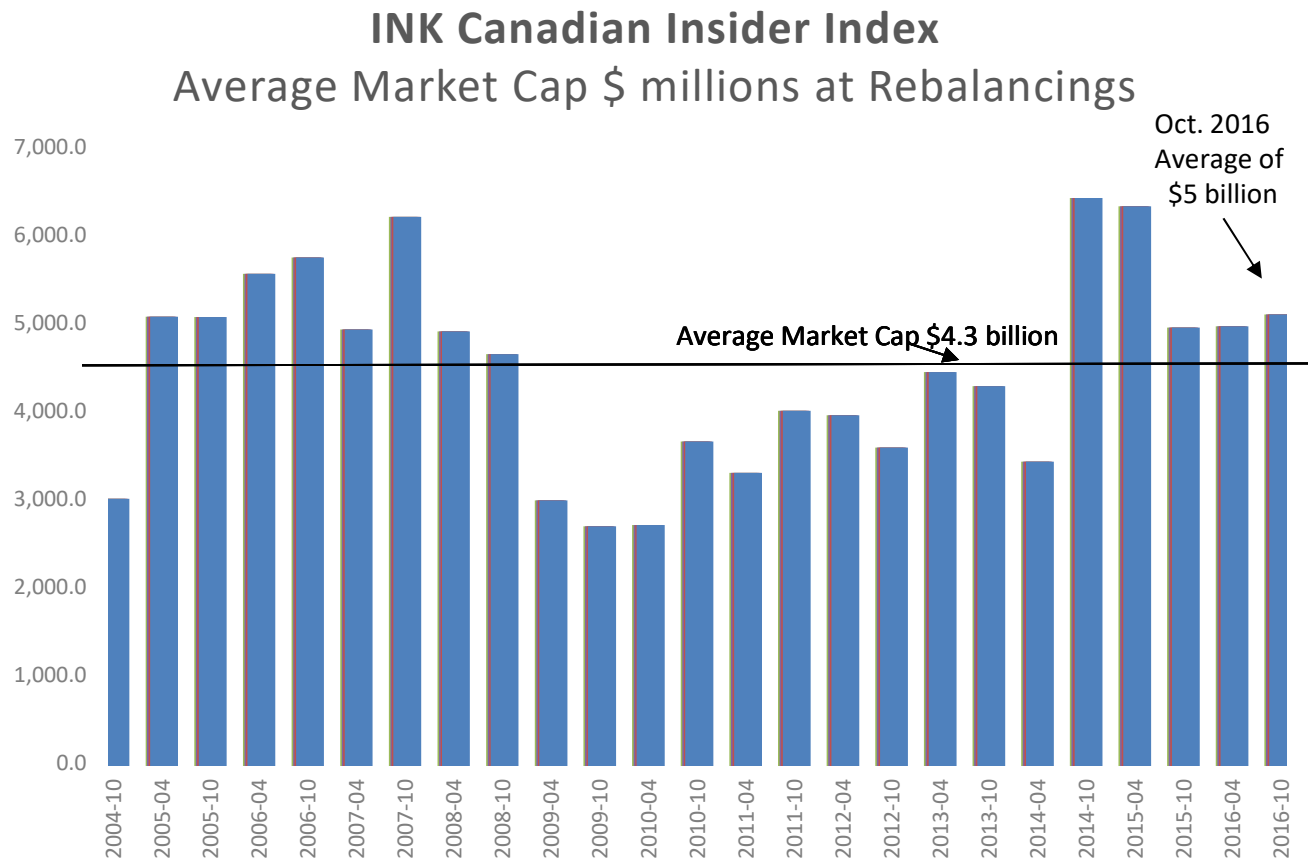
- Combines the power of insider signals with the benefits of an equally-weighted index
- INK Edge[®] V.I.P. index construction based on
 - Valuations
 - Insider commitment
 - Price momentum
- Mid-cap bias

Key Benefits

- Focuses on insider opportunity, not size
 - Identifying genuine value & price momentum (expected growth) stocks
- Style and size diversification
- Equal weighting avoids over concentration in any one name

Mid-cap Bias

- Insider commitment stronger in small firms, yields a mid-cap bias
- Median stock \$1,347.6 billion market cap
- Smallest stock \$261 million market cap, largest \$41.8 billion



Equal Weight Benchmarks

- **Better benchmark for small investors:** treats all investable stocks equally
 - Unlike large institutions, small investors are not forced into big stocks
 - Equal weight tends to outperform market cap indices during periods of broad equity participation
 - Will lag during periods of narrow market leadership
- **Disciplined:** buy-low and sell-high to return to equal weight on rebalancing dates
- **Index re-balancings:** 3rd Friday in May and November

Semi-annual rebalance: sticks with winners

Semi-annual rebalancing lets the winners run: Teck Resources

Had we quarterly rebalanced on Aug 19th

Teck Resources	Semi-annual	Quarterly	Pickup
Aug. 19th Weight	2.90%	2.00%	
Excess Return*	50.37%	50.37%	
Contribution	1.46%	1.01%	0.45%

*From Aug. 19th to Nov. 18th

- Teck added value would have been almost 0.5% less had the index rebalanced quarterly on Aug 19th
- Semi-annual approach lets the losers fade

INK Philosophy

- *The best way to benchmark opportunity in the Canadian market is to track valuations, insider commitment and price momentum*
- *Meet the V.I.P.'s driving our approach...*

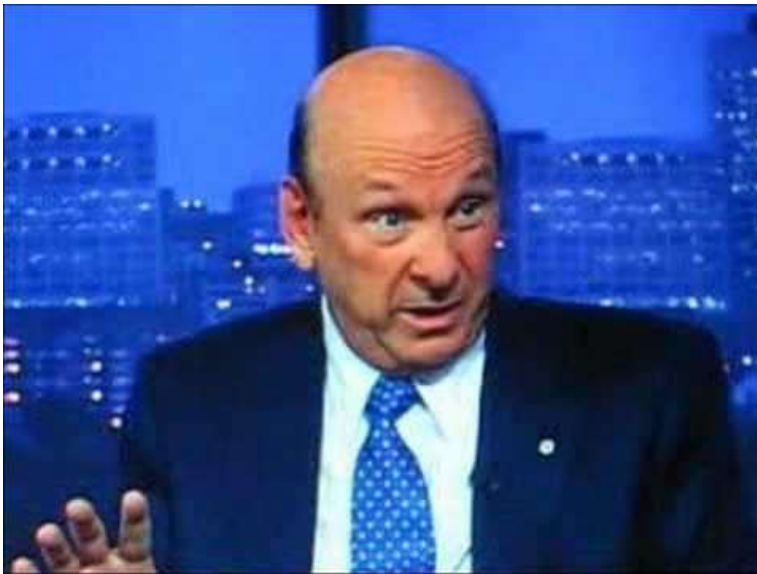
Valuations



"All intelligent investing is value investing - acquiring more than you are paying for. You must value the business in order to value the stock."

Charlie Munger

Insider Commitment



"When you're investing in stocks, your chances for success are greatly improved when you pick companies where officers and directors own a large amount of stock."

Seymour Schulich

Price Momentum



"It seems reasonable that high returns over the last year signal high expected cashflows"

Dissecting Anomalies,
Eugene F. Fama
and Kenneth R. French¹

¹ CRSP Working Paper No. 610, June 2007; depicted: Eugene Fama, "Father of Modern Finance"

INK Edge V.I.P.'s

Objective: capture value & growth stocks preferred by insiders

For each stock, INK determines the percentile rank for key factors within our three V.I.P. categories:

V Valuations	I Insider Commitment	P Price Momentum
<ul style="list-style-type: none">▪ Trailing 12-month P/E▪ Trailing 12-month price-to-book ratio▪ Trailing 12-month price-to-sales ratio▪ Trailing 12-month EV* to EBITDA**▪ Trailing 12-month price-to-cash flow or price-to-cash▪ Shareholder yield (trailing 12-month buyback yield + dividend yield)	<ul style="list-style-type: none">▪ Recent net insider buying dollar amounts; higher weight given to more recent purchases▪ Beneficial insider holdings of equity securities on market cap basis▪ Intensity: level of insider buying by senior executives	<ul style="list-style-type: none">▪ Over 3-month period▪ Over 6-month period▪ Over 12-month period

 **Generate a composite stock ranking by equally weighting each V.I.P category**

Leaders & Losers

Top/bottom Index stocks 9 months ending Sept. 30th*

Stock	Industry	Excess Return %
<i>Premium Brands Holdings Corporation</i>	<i>Food Processing</i>	48.13
First National Financial Corporation	Corporate Financial Services	28.84
<i>New Flyer Industries Inc.</i>	<i>Heavy Machinery & Vehicles</i>	25.54
Morguard Corporation	Real Estate Development & Operations	14.88
Pure Industrial Real Estate Trust	Commercial REITs	12.40
<i>The North West Company Inc.</i>	<i>Food Retail & Distribution</i>	-23.56
Martinrea International Inc.	Auto, Truck & Motorcycle Parts	-36.15
Empire Company Limited	Food Retail & Distribution	-37.66
Linamar Corporation	Auto, Truck & Motorcycle Parts	-40.39
<i>Canam Group Inc.</i>	<i>Steel</i>	-41.34

Italics indicates stock left Index in November

***Includes stocks that were in the Index continuously in 2016 until at least September 30th.**

Long-term Winning: Annualized to September 30, 2016 (price series)

	Live*	1-year	5-years	10-years	Inception**
Canadian Insider	6.54%	14.54%	9.50%	6.16%	7.68%
S&P/TSX Composite	-0.19%	10.66%	4.84%	2.27%	4.23%
Canadian Insider Excess	6.73%	3.88%	4.65%	3.89%	3.45%
Other Excess Returns vs:					
S&P/TSX 60 Capped Index	1.21%	5.11%	2.18%	2.66%	3.02%
S&P/TSX Completion Index	6.88%	-0.19%	5.58%	4.27%	4.01%
S&P/TSX Smallcap Index	1.89%	-17.83%	7.59%	6.65%	7.21%

*November 14, 2014 to September 30, 2016

**Annualized since December 31, 2004

- Outperformed during Obama-Bernanke-Yellen Years
- November 8th likely marked a major shift in the investing environment

Long-term Winning (price series)

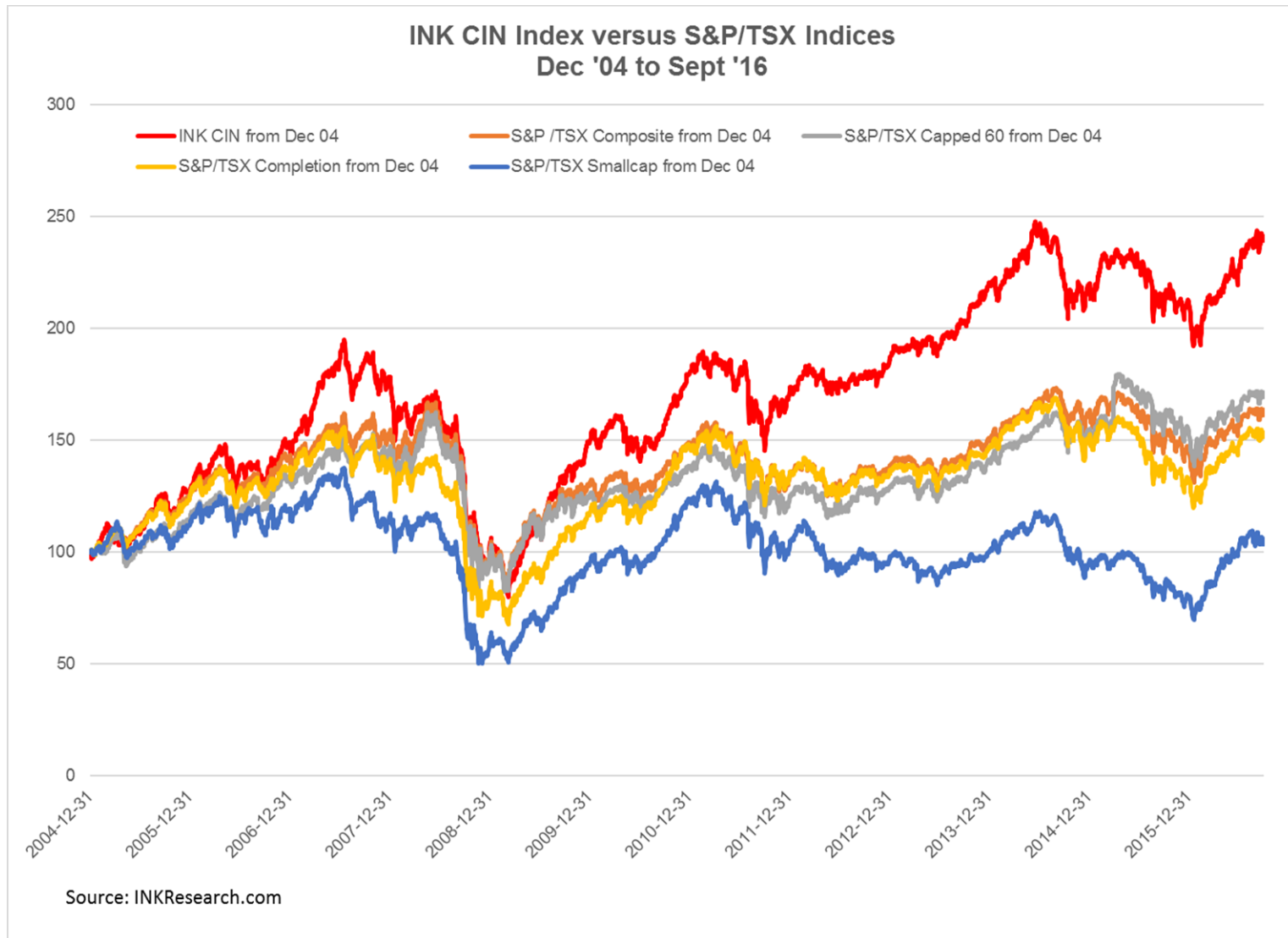
	Canadian Insider	S&P/TSX Composite	Excess
2005	27.17%	21.91%	5.26%
2006	17.08%	14.51%	2.57%
2007	19.80%	7.16%	12.63%
2008	-42.77%	-35.03%	-7.74%
2009	45.75%	30.69%	15.06%
2010	20.67%	14.45%	6.22%
2011	-5.22%	-11.07%	5.85%
2012	8.30%	4.00%	4.29%
2013	19.72%	9.55%	10.16%
2014	-0.47%	7.42%	-7.90%
2015	-4.04%	-11.09%	7.05%
YTD*	13.69%	13.19%	0.50%
Live**	12.74%	-0.36%	13.10%

*To September 30, 2016

**Nov. 14, 2014 to Sept. 30, 2016 non annualized

- Canadian Insider outperformed in 9 of 11 calendar years

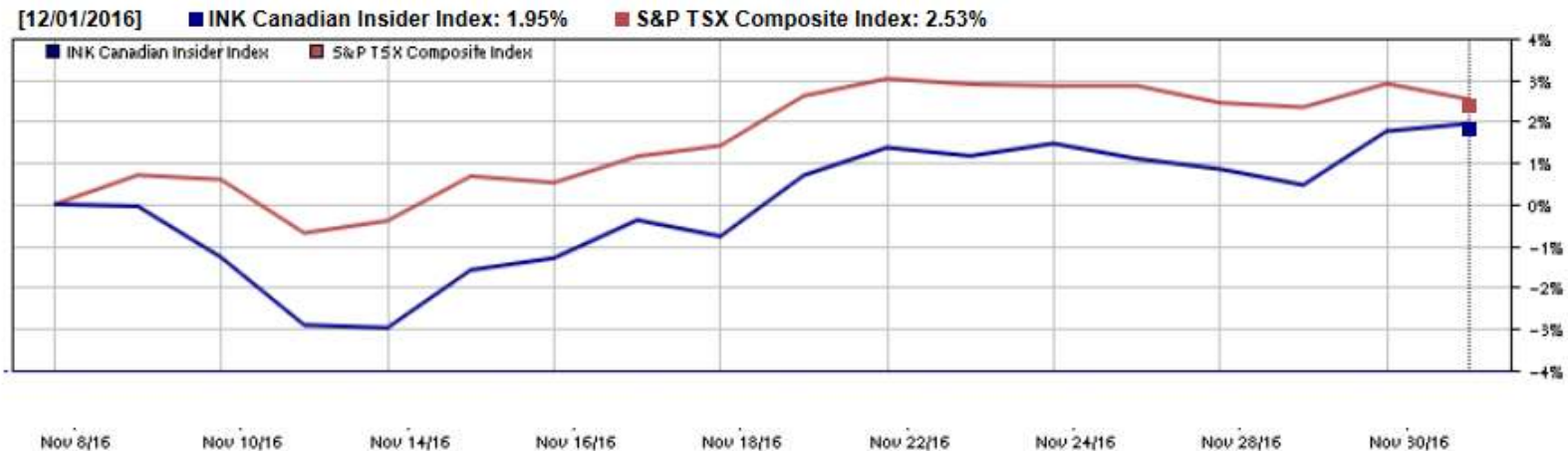
Beating S&P/TSX Indices(price series)



Results from Dec. 31 2004 to Sept. 30, 2016; live performance starts Nov. 14, 2014.

Setting up for the Trump years

INK Cdn Insider Index vs. S&P/TSX Composite since Nov. 8th



- Pro-growth trends already picking up pre-Trump (higher yields)
- Will it be real (gold negative), inflationary, stagflationary or bust?

Setting up for the Trump years



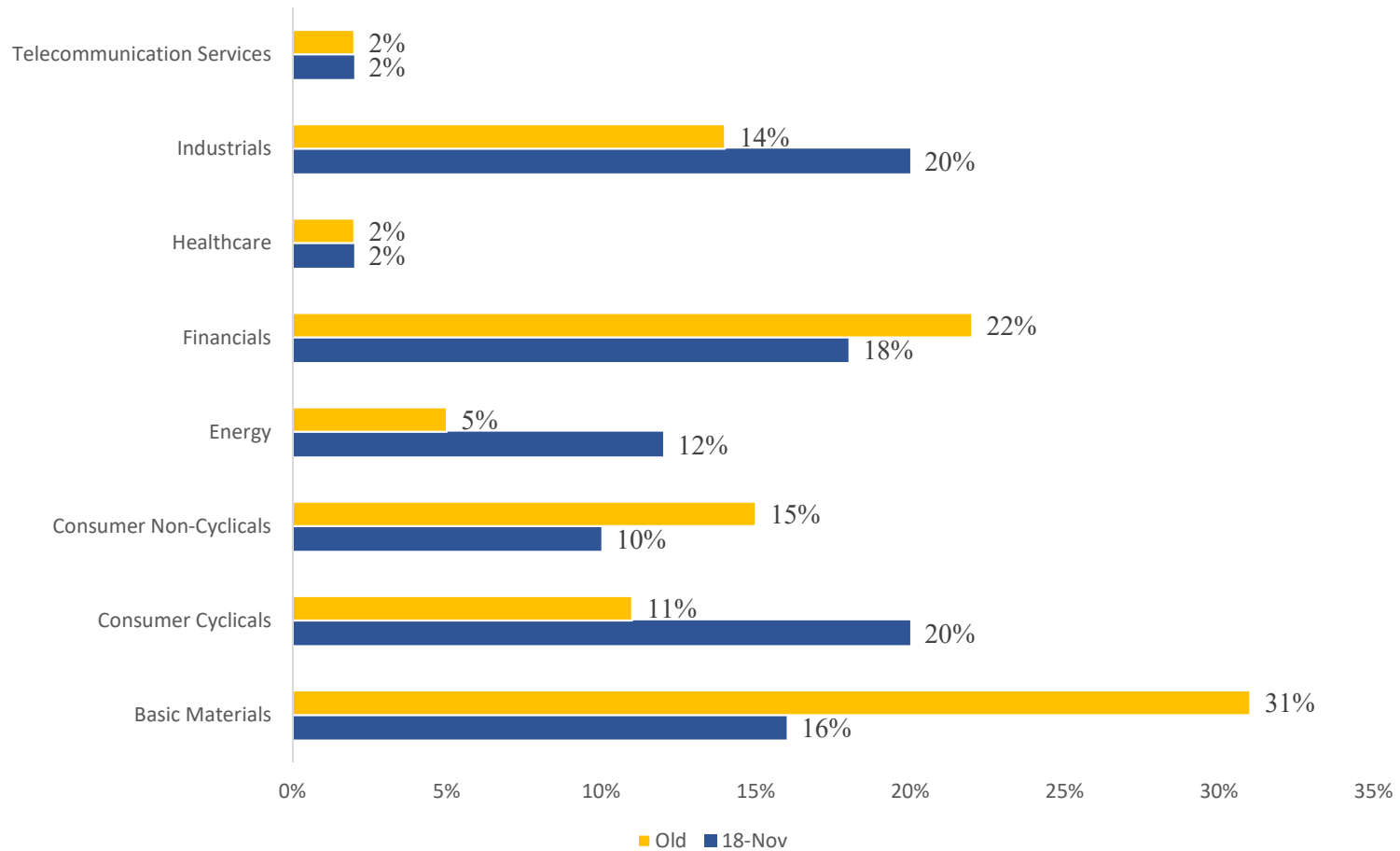
Gold down
(but not out)



Warming up
to natural gas

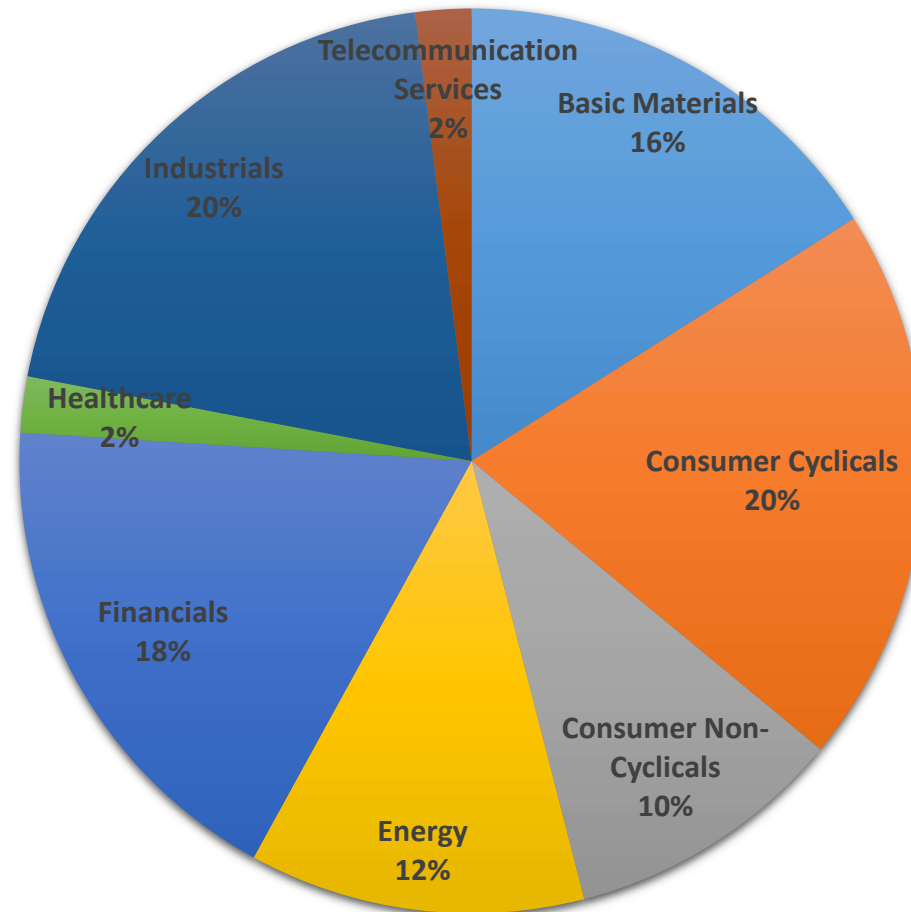
More exposure to AB/SK

INK Cdn Insider Index Sector Allocation



Fall 2016: Betting on old #Cdnecon

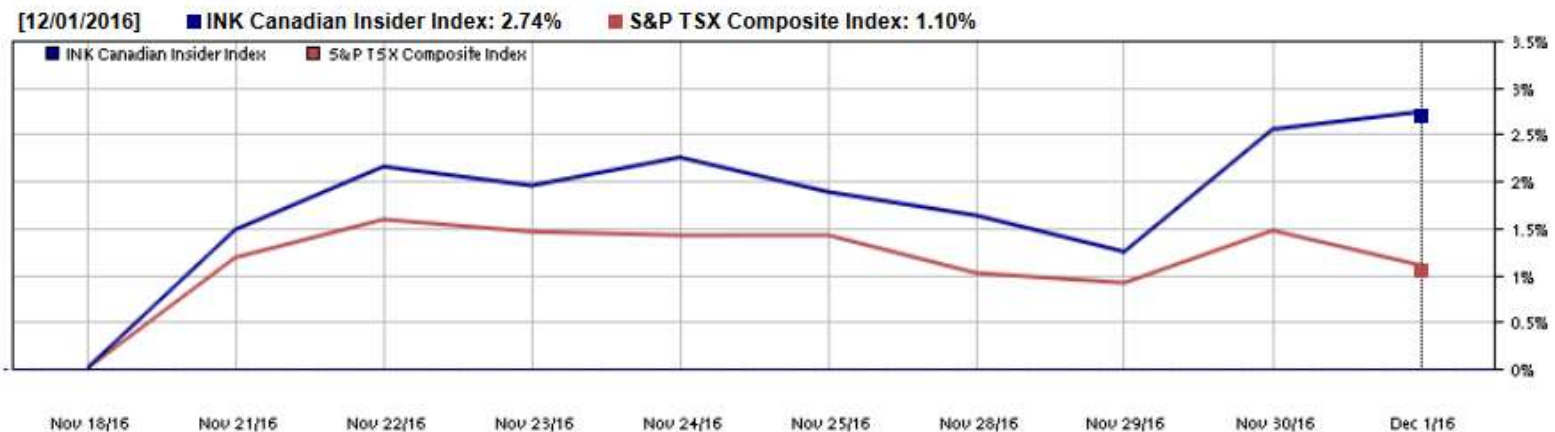
November 18 2016 INK Cdn Insider Index Rebalance



- No Tech, Utilities or Banks

Positive performance since rebalance

INK Cdn Insider Index vs. **S&P/TSX Composite** since Nov. 18th



- Pro-growth trends already picking up pre-Trump (higher yields)
- Will it be real (gold negative), inflationary, stagflationary or bust?

INK Edge V.I.P. Rankings

Stocks are assigned one of 5 category rankings



Sunny (top 10%)



Mostly sunny (next 20%)



Mixed (middle 40%)























Cloudy (next 70%-90%)























Rainy (bottom 10%)





















November 2016 Adds

	Overall	Valuations	Insider Commitment	Price Momentum
Ag Growth	 SUNNY	 MIXED	 MOSTLY SUNNY	 MOSTLY SUNNY
Air Canada	 SUNNY	 MOSTLY SUNNY	 MIXED	 SUNNY
AutoCanada	 SUNNY	 MOSTLY SUNNY	 SUNNY	 MIXED
Badger Daylighting	 SUNNY	 SUNNY	 MOSTLY SUNNY	 SUNNY
CanWel Building	 SUNNY	 MOSTLY SUNNY	 SUNNY	 MOSTLY SUNNY









November 2016 Adds (cont'd)

	Overall	Valuations	Insider Commitment	Price Momentum
Encana	 SUNNY	 MIXED	 MOSTLY SUNNY	 SUNNY
Enerflex	 SUNNY	 SUNNY	 MOSTLY SUNNY	 MOSTLY SUNNY
Gamehost	 SUNNY	 MOSTLY SUNNY	 SUNNY	 MIXED
goeasy	 SUNNY	 MIXED	 SUNNY	 SUNNY
MTY Food Group	 SUNNY	 MIXED	 SUNNY	 SUNNY



















November 2016 Adds(cont'd)

	Overall	Valuations	Insider Commitment	Price Momentum
Paramount Resources	 SUNNY	 CLOUDY	 SUNNY	 SUNNY
Rogers Sugar	 SUNNY	 MOSTLY SUNNY	 MOSTLY SUNNY	 MOSTLY SUNNY
Saputo	 SUNNY	 MOSTLY SUNNY	 MOSTLY SUNNY	 MOSTLY SUNNY
TMX Group	 SUNNY	 MOSTLY SUNNY	 MOSTLY SUNNY	 MOSTLY SUNNY
Trilogy Energy	 SUNNY	 MIXED	 SUNNY	 SUNNY





















November 2016 Adds (cont'd)

	Overall	Valuations	Insider Commitment	Price Momentum
West Fraser Timber	 SUNNY	 SUNNY	 MOSTLY SUNNY	 MIXED
Westshore Terminals	 SUNNY	 MIXED	 MOSTLY SUNNY	 SUNNY





















November 2016 Drops

	Overall	Valuations	Insider Commitment	Price Momentum
Alimentation Couche-Tard	 MIXED	 MIXED	 MIXED	 MOSTLY SUNNY
Brookfield Business	N/A	 MIXED	 MOSTLY SUNNY	N/A
Canam Group	 MIXED	 MOSTLY SUNNY	 MIXED	 RAINY
Chemtrade	 MIXED	 SUNNY	 MIXED	 MIXED
Clearwater Seafoods	 MIXED	 MIXED	 MOSTLY SUNNY	 MIXED













November 2016 Drops (cont'd)

	Overall	Valuations	Insider Commitment	Price Momentum
Cott	 MIXED	 MIXED	 CLOUDY	 MIXED
Equitable Group	 MIXED	 MOSTLY SUNNY	 MOSTLY SUNNY	 CLOUDY
Intact Financial	 MIXED	 MOSTLY SUNNY	 MIXED	 MIXED
Morguard REIT	 MIXED	 MOSTLY SUNNY	 MIXED	 MIXED
Nevsun	 MIXED	 MOSTLY SUNNY	 MOSTLY SUNNY	 CLOUDY

November 2016 Drops (cont'd)

	Overall	Valuations	Insider Commitment	Price Momentum
New Flyer	 MIXED	 MOSTLY SUNNY	 RAINY	 MOSTLY SUNNY
Newmarket Gold	 MIXED	 MIXED	 RAINY	 MOSTLY SUNNY
Premium Brands	 MIXED	 MIXED	 MIXED	 MOSTLY SUNNY
Silver Standard	 MIXED	 MIXED	 CLOUDY	 MIXED
The North West Co.	 MIXED	 MOSTLY SUNNY	 MOSTLY SUNNY	 CLOUDY

November 2016 Drops (cont'd)

	Overall	Valuations	Insider Commitment	Price Momentum
Uni-Sélect	 MIXED	 MOSTLY SUNNY	 CLOUDY	 CLOUDY
Yamana Gold	 MIXED	 MIXED	 MIXED	 CLOUDY
ZCL Composites	 MIXED	 MIXED	 RAINY	 SUNNY

Value & Growth Characteristics

November 11, 2016

Factor	S&P/TSX Composite	INK CIN	INK CIN vs S&P/TSX Composite
Price to Trailing Earnings	19.9x	16.8x	Lower
Price to Forward Earnings	15.6x	12.2x	Lower
Price to Book Value	1.8x	1.4x	Lower
Price to Trailing Sales	1.7x	0.8x	Lower
Price to Trailing Cash Flow	8.6x	6.6x	Lower
Yield on Expected Dividends	2.88%	3.03%	Lower
Quarterly Earnings Momentum	0.7%	-2.1%*	<i>Lower*</i>

Source: Morningstar

*Untrimmed average for the INK CIN is 5.1%

Betting on revival

- Insiders stay upbeat on growth
- Natural gas stocks preferred over oil & gold
- Opportunities in the old economy:
 - Manufacturing (Autos & Aerospace)
 - Retail with Western Canada exposure

Thank you !

Appendix

Power of Insider Signals

- Professor H. Nejat Seyhun landmark study in 1998 found using 20 years of U.S. data:
 - Stocks with net insider buys outperformed the market 4.5%
 - Small firm CEOs had the strongest outperformance (by nearly 8%)
 - Insider trades appeared to reinforce short-term momentum growth and long-term mean reversion value signals
 - INK's early work with Canadian data was consistent with Seyhun's findings
- Numerous follow-up studies demonstrating evidence of insider signals including:
 - Lakonishok, J. and F. Lee, 2001
 - Scott, J. and P. Xu., 2004
 - David Veenman, 2012
- INK Research believes Canadian insider signals are as strong or stronger than U.S. insider signals

INK Edge V.I.P Index Construction

- Rules-based
- Equal-weight approach throughout process
- Three steps:
 1. Rank all TSX stocks meeting minimum criteria using INK Edge V.I.P. process
 2. Apply eligibility rules
 3. Final cut-off: eligible top-ranked stocks

1. INK Edge V.I.P. Rankings

Initial ranking selection pool universe includes TSX stocks with:

- Minimum market cap \$25 million
- Minimum monthly trade volume \$25,000
- Minimum price 20 cents
- SEDI® filings
- No officer or director insider reporting exemption
- Sufficient fundamental stock data (Morningstar® universe coverage)

2. Apply Index Eligibility Rules

Eligibility criteria for Index Constituent stocks

- To be eligible to be included in the Index the stock must:
 - have an INK selection pool V.I.P. ranking (step 1)
 - meet minimum market capitalization and float criteria
 - meet minimum trading value criteria
 - be an eligible security

2. Apply Index Eligibility Rules

Minimum market capitalization, float & trading:

- At time of inclusion:
- \$250 million market cap
- \$100 million float
- Average monthly trading value of \$2 million over the past year and in the past month
- Share price must be \$3.00 or more
- No more than 10 non-trading days in past 6-months unless temporarily halted for dissemination of news

2. Apply Index Eligibility Rules

Eligible securities:

- Equity type securities such as
 - Common shares, ordinary shares, and trust units
 - If there is more than one class of equity security that meets the criteria, the Index will first include the security with the most active monthly trading volume
 - Additional classes of equities may also be considered based on liquidity considerations
- Preferred shares, warrants, options and similar derivatives as well as fixed income securities including convertible debentures are not eligible
- The security must trade on the TSX

3. Top 50 Cut-off & Weight

Constituent selection: the 50 highest INK Edge V.I.P ranked eligible securities

- Must be either a sunny or mostly sunny stock as determined by the V.I.P. composite ranking process
- Buffer rule to reduce turnover:
 - Stocks which are already Constituents of the Index that are within the top 30% of the Selection Pool ranked in the INK Edge V.I.P composite ranking process will remain in the Index at rebalancing as long as they continue to meet market cap, float and trading rules.
- Liquidity considerations: Index Construction Team may include:
 - More than 50 stocks (typically due to multiple share classes of an issuer)
 - A stock that falls within the top 50% of all stocks ranked (if illiquid stocks dominate rankings)

3. Top 50 Cut-off & Weight

Semi-Annual Rebalance

- Each May and November, rebalance to equal weight
- Automatic profit-taking in outperformers
- Re-allocate exposure to underperformers
- Stocks no longer having sunny or mostly sunny rankings are dropped
- Rules-based: no emotions!

Identifying Genuine Value

Linamar (LNR) April 2013



- Overall composite rank: **mostly sunny**
- Strong insider rankings validated low valuations
- Subsequent 6-month return: 47%

Avoid Value Traps

Colabor Group (GCL) April 2013



- Overall composite rank: **mixed** (misses cut-off)
- Strong value ranking not confirmed by insiders
- Subsequent 6-month return: -31%

Identifying Genuine Growth

Canfor (CFP) October 2012

Value ranking



CLOUDY

+

Insider ranking



MOSTLY SUNNY

+

Price ranking



SUNNY

- Overall composite rank: **mostly sunny**
- Strong insider rankings validated price momentum
- Subsequent 6-month return: 48%

Avoid over-bought Growth

Allied Nevada Gold (ANV) October 2012

Value ranking



RAINY

+

Insider ranking



MIXED

+

Price ranking



MOSTLY SUNNY

- Overall composite rank: **mixed** (misses cut-off)
- Strong price momentum not confirmed by insiders
- Subsequent 6-month return: -71%

Disclaimer

The inception date of the Index was November 14, 2014. All information presented prior to the index inception date is back-tested. Historical returns for INK Indexes prior to the live production date are calculated using the same INK methodology that was in place at live inception date. Back-test performance calculations may not be complete due to lack of data sources, corporate actions and the availability and reliability of data for specific securities.

Past performance is not an indication of future results. Live application of the methodology used to construct the Index may not result in performance commensurate with back-test returns.

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