



PENDRAGON

GLOBAL ALTERNATIVE INVESTING

Accredited Investors Only

Pendragon: Are Investors Asking the Right Questions?

June 2017

“Money Ball: The Art of Winning an Unfair Game” is a book by Michael Lewis that was made into a movie starring Brad Pitt. Pitt plays Billy Beane, the General Manager of the Oakland A’s, a major league baseball team, with a very small budget to compete against the likes of the New York Yankees and the Boston Red Sox. One day, Beane has an epiphany that the conventional wisdom of baseball was wrong. Using a system developed by Yale educated Peter Brand, the Oakland A’s went on to change the way players were evaluated and teams were built.

The system was based on a simple but profound thought - maybe the General Managers of professional baseball teams were asking the wrong questions. The art of the question, asking the right question, allows you to get to the root cause of the problem. This is a very important step in the investment process. Today, we can apply this rule to the current negotiations between the Eurogroup, the International Monetary Fund (“IMF”), the European Central Bank (“ECB”) and Greece.

Is Greece’s debt sustainable? We believe the answer is yes, if we use international accounting standards. No, if we use check book accounting.

We believe the question not being asked by many investors is “What is the net present value of Greece’s Net Debt to GDP, using International Public Sector Accounting Standards (“IPSAS”) or accrual accounting?” In a May 9, 2016 Bloomberg article, “The IMF Is Right About Greece”, Vincent Truglia, retired head of Moody’s Sovereign Risk Unit, states “I would argue strongly that Greece adopt IPSAS-based accounting, the gold-plate of recognized accounting standards to measure not only the Greek government’s debt, but should be used to determine budget decisions going forward”. If Greece did adopt IPSAS-based accounting standards, the reported net present value of net debt to GDP would be substantially below the 94% net debt to GDP that Canada has. Suffice to say, many investors have taken up the task.

The media and many in the official sector quote the future face value of debt as defined in the Maastricht Treaty which focuses on the contract value of debt due at maturity (cash accounting). The IPSAS is the public version of International Financial Reporting Standards (“IFRS”) that companies are required to follow. IPSAS is a full set of 32 accrual standards which countries such as Canada, the United States, New Zealand, France, and Sweden, to name a few, follow. The standards add transparency as well as introduce the concept of

the time value of money, a key consideration when one is making major policy changes or monitoring the sustainability of debt levels. Greece still follows the rules of cash accounting. If any of its debt has been restructured, the reduction of interest rates and the extension of maturity would not be taken into account. It’s the Greek government’s responsibility to report their finances in a manner that captures the true economic value. There are significant market consequences for this lack of strong financial management. As the Greek government looks towards the IMF, the Eurogroup, and the ECB to provide a vote of confidence, all that is really needed is the implementation of sound financial accounting standards and procedures. Then the Greek government could show the global financial markets the true state of the country’s finances.

For some reason we are again witnessing the fight to maintain the status quo. Vested interests refuse to acknowledge that they have all agreed to support international accounting standards to measure debt. This required a country to report their debt in a manner that represents a true and fair value view of economic reality. This has been missed by the World Bank, IMF, ECB, EU and the Rating Agencies. Why don’t they follow the standards that they set and agreed upon? I personally have no clue...However, these are the same institutions that missed the risk in the run up to the global financial crisis. This time it’s not different and cycles do repeat. The numbers presented in IPSAS would lower the cost of capital, attract foreign capital, and stimulate economic growth.

Speaking of economic growth, China has been investing in Greece and see it as part of its foundation is implementing its belt road initiative. From investing in ports, to promoting Chinese tourists to vacation in Greece, the economic integration between these two economies has yet to make the front pages of main stream media. To be sure, the smart money has noticed. We have positioned Pendragon to benefit from these two significant forces that will make Greece a very attractive destination for foreign capital.

Dr. James E. Thorne
Chief Capital Market Strategist
& Senior Portfolio Manager

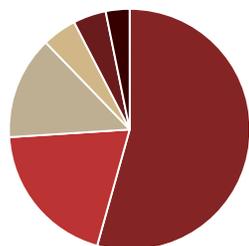
Pendragon Fund

As at June 30, 2017

Top Ten Holdings

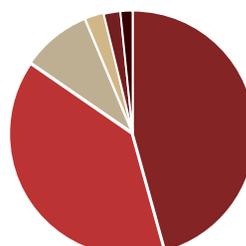
GLOBAL GREECE ETF	9.3%	ALPHA BANK	5.9%
CITIGROUP INC.	8.2%	FEDERAL NATIONAL MORTGAGE ASSOCIATION	5.3%
PIRAEUS BANK	6.5%	FANNIE MAE	5.0%
EUROBANK ERGASIS	6.4%	PNC FINANCIAL SERVICES	3.8%
NATIONAL BANK OF GREECE	6.1%	AMAZON INC.	2.8%

Sector Weights



Financials	54.3%
Miscellaneous Equity	19.6%
Cash and Cash Equivalents	13.8%
Telecommunications Services	4.6%
Information Technology	4.4%
Consumer Staples	3.2%

Geographic Weights



United States	45.7%
Greece	38.9%
Canada	9.1%
Spain	2.5%
Switzerland	2.2%
Germany	1.6%

Please contact us if you would like an updated holdings sheet.

Pendragon FundSERV Codes: CWF1400 | CWF1401

Inception Date	September 15, 2016	Manager	Caldwell Investment Management Ltd.
Subscriptions	Monthly	Eligibility	RRSP, RRIF, DPSP, DSP, RESP, TFSA
Liquidity	Monthly Redemption (5 business days notice)	Auditors	Deloitte LLP
Currency	CAD	Custodian	Caldwell Securities Ltd.
Minimum Investment	\$10,000 (Builders Class) \$25,000 (Investors Class)	Legal	McCarthy Tetrault LLP
		Administrator	SGGG Financial Services Inc.

Accredited Investors Only

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Caldwell Investment Management Ltd. 150 King Street W., Suite 1702, P.O. Box 47 | Toronto, ON M5H 1J9

General Inquiries: Tel: 416-593-1798 | 1-800-256-2441 | funds@caldwellinvestment.com

www.caldwellinvestment.com

