

CALEDON

CAPITAL MANAGEMENT

As summer 2014 is nearing its end, Caledon Capital would like to take this opportunity to provide an update on the Firm and some of its exciting recent developments

2014 has already been a busy year for Caledon. The Firm has continued to expand its client base and now represents institutional investors with plan assets exceeding \$50 billion. Caledon has also increased both its investment and back-office teams in order to continue to provide high-quality advisory and portfolio management services to its clients.

Caledon Turns 7

Recent Investment Activity

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Caledon Turns 7

In 2014, Caledon celebrated seven years of providing customized private markets investment solutions to institutional investors. Since inception, Caledon has grown to a team of 20 people including 13 experienced private markets investment professionals and a five person back-office team to fully support the needs of its clients.

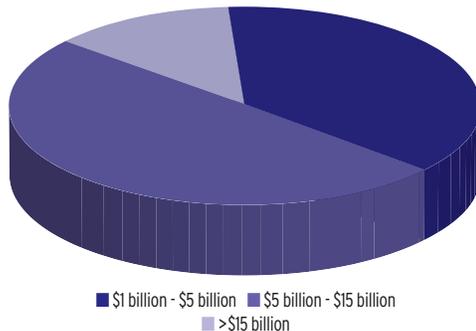
Recent Investment Activity

Caledon has had an active year closing on over \$700 million of infrastructure and private equity direct investments and fund commitments to date.

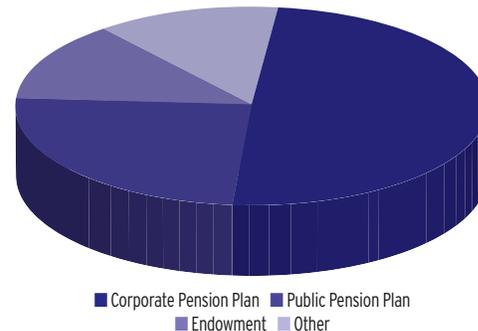
Client Updates

- Caledon is currently working with several institutional investors to provide private equity and/or infrastructure portfolio management and investment advisory services, and oversees more than \$5 billion of assets on behalf of these clients.
- Caledon has established co-investment programs to build diversified portfolios of global infrastructure direct investments for several of its clients including its first U.S. client, the \$11 billion New Mexico Educational Retirement Board.

Caledon Clients
By Total Plan Size



Caledon Clients
By Investor Type



Caledon's Advisory Committee

The Caledon Advisory Committee is an important element of Caledon's governance and internal controls and is comprised of highly-qualified and experienced former senior pension plan, and private equity and infrastructure investment industry executives with private markets and governance experience. The Advisory Committee was recently expanded with the addition of Colleen Sidford. The Advisory Committee now consists of the following members:

Patrick Madigan - Former Managing Director at Macquarie North America and Managing Director at RBC Dominion Securities (1982-2004), focused on infrastructure, including advising on the acquisition and divestment of North American utility and power projects. Patrick is now investing proprietary capital in infrastructure projects predominantly in Canada.

Dean Metcalf - Former fiduciary and senior private equity investment professional at the Ontario Teachers' Pension Plan ("OTPP") (1993-2010). Dean helped establish the direct and fund private equity portfolio for OTPP, which through his senior role reached \$8 billion in global holdings by the time he left the plan. He played a leading role in some of the largest and highest profile Canadian private equity investments.

Colleen Sidford - Colleen has over 20 years of experience and was formerly the CIO of Ontario Power Generation (OPG) (2011-2013) where she was responsible for managing the investments of the OPG Pension Fund and the Nuclear Funds (AUM of ~\$25 billion) including alternative asset classes such as infrastructure, agriculture and real estate. Prior to this, Colleen held the position of Vice President and Treasurer at OPG (2005-2011).



We've Expanded Our Team

The Caledon team has recently grown significantly adding six investment and back-office professionals:

Aaron Vale (Assistant Vice President) - Aaron joined Caledon in January 2014 after helping structure and raise a Latin American infrastructure and energy fund. Prior to that, Aaron was a member of Macquarie Bank in a variety of roles including working as part of its investment team where he evaluated more than 200 energy opportunities. Aaron was also part of the team in Mexico City that launched the Macquarie Mexico Infrastructure Fund.

Adam Wylychenko (Senior Associate) - Adam joined Caledon in May 2013 from CIBC World Markets where he was a member of their Power & Utilities Investment Banking team. Adam also has significant corporate strategy and M&A experience, in addition to a background in entrepreneurship.

Ali Lodi (Portfolio Associate) - Ali joined Caledon in May 2014. Previously, Ali worked at OPTrust where he was a Senior Analyst in the Private Equity and Infrastructure Group. Ali has experience creating investment pacing plans, conducting

due diligence on fund and co-investment opportunities and assessing portfolio returns and performance.

Jordan Thomson (Analyst) - Jordan joined Caledon in September 2013 from Bank of America Merrill Lynch where he was an Analyst on the Global Investment Banking team. Jordan has experience in M&A, fixed income and equity, as well as various industries, including retail, metals and mining and technology, media and telecommunications

Lito Martinez (Senior Financial Analyst) - Lito joined Caledon in November 2013 from the Canada Pension Plan Investment Board where he gained significant experience in private equity fund valuation. Prior to this, Lito worked at OMERS Private Equity as a financial analyst.

Maggie Bai (Financial Analyst) - Maggie joined Caledon in July 2013 from State Street where she was a Senior Investment Accountant. Maggie has experience in hedge fund and mutual fund valuation and financial reporting and also worked in portfolio administration for the private equity and infrastructure programs at the Canada Pension Plan Investment Board.

Caledon Headquarters Has Expanded, Again

Caledon acquired additional office space in 2012 to support the growth of its team. This new space is now fully utilized and Caledon will again be acquiring additional space in Q4 2014.

Infrastructure Investing: The View from Canada

Caledon recently released a white paper entitled "Infrastructure Investing: The View from Canada" at the Institutional Investing in Infrastructure (I3) Conference hosted by Institutional Real Estate Inc. in Toronto on June 10 - 11, 2014. A copy of the white paper can be easily accessed on Caledon's website.

Caledon in the News and Recent Conferences

Caledon regularly presents at industry events and conferences and often has the opportunity to contribute to various articles and publications. Samples of Caledon's articles and publications can be found below:

- **Caledon the Latest Canadian to the Infrastructure Party**
(The Australian Financial Review, April 2014)
- **Lower Fees, Better Terms Drive Pension Plan Infrastructure Interest**
(Institutional Investor, January 2014)
- **How Small Institutions Tap Private Equity** (video interview)
(Privcap, August 2013)

- **Caledon Capital is Ready for its Closeup**
(PEHub Canada, April 2013)
- **CPPIB Infrastructure Expert Joins Caledon**
(Infrastructure Investor, December 2012)
- **Another OMERS Veteran Joins Caledon Capital Management**
(Buyouts News, October 2012)
- **Caledon: Direct Investing Growing in Popularity**
(Infrastructure Investor, March 2012)
- **Mandate broadened, New Mexico Can Now Go Direct**
(Infrastructure Investor, May 2012)
- **Opportunities and Challenges in Turbulent Times**
(CFA Society Toronto, September 2012)



Market Update

Shift Toward Alternatives

With the current market environment being characterized by low growth and volatile public markets, institutional investors are increasingly allocating capital to alternative asset classes such as private equity and infrastructure. Pension plans have an actuarial requirement to fund pensions and, with many pensions currently under funded, they are looking for alternatives to traditional asset classes like public equity and fixed income to drive returns.

In a recent survey of 113 investors surveyed by Collier Capital, 37% of respondents indicated they planned on increasing their allocation to private equity over the next 12 months while only 14% planned to decrease their allocation¹. Similar sentiment is displayed by investors looking to access the infrastructure market where Preqin found that 35% of investors, the largest proportion of survey respondents, plan to commit between \$100 million and \$499 million to infrastructure in 2014, with 13% of investors planning to commit a considerable \$500 million or more².

Alternative asset classes like private equity and infrastructure are becoming more favoured by institutional investors because of their inherent qualities and their complementary and diversifying characteristics to traditional

asset classes. In particular, infrastructure is generally regarded as inflation-sensitive, which is of significant importance to pension plans as they look to assets that positively correlate with inflation. Further, like infrastructure, private equity provides diversification benefits to an overall investment program. Private equity, over the long-term, has outperformed public markets with 20-year private equity returns to March 31, 2014 at 16.41% versus 8.45% in the S&P 500. This result is even more dramatic when comparing the top quartile private equity funds that returned 46.91% for the same period³.

Access to these markets, as we know, is easier said than done. In a survey of 56 Canadian public and private pension plans conducted by RBC Investor Series, it was found that the largest barrier limiting the ability of institutional investors to invest more in alternatives is the prohibitive nature with plans not having sufficient scale, followed by a lack of expertise⁴. In order to access these alternative markets, investors have several options including building an in-house team, investing through a fund-of-funds program or using a general consultant, or engaging the services of a specialist portfolio manager like Caledon.

Increased Investor Appetite for Separate Accounts

Over the last several years, investors have begun to stray from the more traditional route of making alternative investments through funds in favour of a more individualized, separately managed account approach. This type of model provides the investor with a greater degree of customization and control over their portfolio in terms of strategy, diversification, exposure, involvement and pricing.

As examples, large investors like Texas Teachers Retirement Association, New Jersey State Investment Council and California State Teachers' Retirement System have recently committed significant amounts to separately managed accounts.

Historically, these types of vehicles were only available to the largest investors that could make commitments of \$500 million or more, but recently, this trend has shifted to include investors on a much smaller scale. According

to a Preqin survey of institutional investors, over 50% of respondents indicated that separate account commitments will become a permanent part of their investment strategy while only 23% of these investors have implemented this strategy to date⁵. This differential highlights that although many investors wish to create a specialized investment vehicle to match their unique investment objectives, they have so far been unable to do so. Caledon's strategy is to address these objectives by building customized accounts for small and medium sized institutions.

¹ Collier Capital: Global Private Equity Barometer (Winter 2013/2014)

² Preqin: Quarterly Update, Infrastructure (Q1 2014)

³ Thomson Reuters US Private Equity Performance Index: Annualized Investment Horizon Returns (period ending 3/31/14)

⁴ RBC Investor Services: Navigating Low Growth (September 2012)

⁵ Preqin: Private Investor Interviews (December 2013)

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141 Adelaide Street West, Suite 330, Toronto, Ontario, Canada M5H 3L5 • Tel: 416-861-0700 Fax: 416-861-0770 • info@caledoncapital.com

Caledon is registered in Ontario with the Ontario Securities Commission as a Portfolio Manager and is registered in the United States as a Registered Investment Advisor with the Securities and Exchange Commission.

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