

Steadyhand

Q4
2018

“In weak markets investors should be raising their expectations for stock returns, not lowering them as is so often the case.”

- Tom Bradley, The National Post, December 3rd



Bradley's Brief



In hindsight, the modest returns of the first nine months of 2018 were wonderful compared to the last three months. After nine good years, the former was frustrating and slightly disappointing, but the latter has been downright jolting for everyone.

Hopefully the fourth quarter declines weren't totally unexpected. If you read any of the Steadyhand commentaries over the last year, you know that the most commonly-used word was 'caution'. I'm sure our subdued tone and bear market preparations sounded like a broken record.

Despite being prepared for tougher times we didn't shine in the downdraft. The Founders Fund's defensive positioning was helpful, but our Global and Small-Cap equity funds were hit particularly hard by the selloff. For the full year, our balanced portfolios retreated 4-6% and the Founders Fund had the first down year in its history.

With the fourth quarter behind us, however, we're now shifting from defence to offence. That means talking 'up' return expectations as opposed to talking them 'down' (the nature of investing is such that most of my life is at one end of the spectrum or the other, rarely in the middle). There's now a risk that people are too negative in the face of today's political and market turbulence.

To be clear, our more positive tone is in no way a prediction of when the stock market will turn around. Salman and I haven't a clue when that will happen. Our managers don't know. And neither do those making bold predictions in the media.

Certainly, the economic fundamentals and outlook for corporate profitability are worsening. Some of the market's tailwinds like near-zero interest rates and the rising use of debt are abating. Offsetting this, however, are more reasonable stock prices. Valuations have come down significantly, which combined with bearish investor sentiment (perversely, fear equates to less downside risk), means that at least some of the political

and economic concerns are baked into the cake.

Indeed, we're now comfortable saying that stock returns over the next five years will be attractive (6-8% per year). The challenge is navigating the bumps along the way. At Steadyhand we're doing a number of things to make sure we get to 2024 successfully.

First, we're pausing to read some Warren Buffett for inspiration and courage.

Second, we're dusting off our investment beliefs (which Salman and I reaffirm each year) to keep us grounded. Some of the more relevant ones include:

- The market is unpredictable and doesn't allow for precision.
- Time frame is an enduring inefficiency (opportunity).
- Company-by-company analysis is a better source of extra return than catching macro-economic trends.
- Valuation is the most reliable predictor of future returns.
- And always make decisions based on the overall portfolio.

Specific to the current landscape, we're making sure our largest exposures are in the less overheated, better valued areas of the capital markets (which include energy, healthcare, financial services and industrial companies).

This quarter I'm going to let Salman have the last word. In a recent post he said, *"the market declines, though anxiety stirring, also provide opportunities to buy top-tier companies that can outlast the near-term fears and come out stronger ... we have no doubt that the prospects for long-term stock returns today are far better than they were just a few weeks ago."*



Key Takeaways

Stocks

- Stocks had a poor year, with much of the weakness coming in the final quarter. The American market (S&P 500 Index) was among the best performers, yet it was still down 4.4% in U.S. dollars. Emerging markets were the hardest hit, with China falling nearly 25%.
- The Canadian market (S&P/TSX Composite Index) declined 8.9%. The energy sector was a notable area of weakness as the price of oil slid 25%.
- Currency movements had a notable impact on foreign stock returns. Specifically, the Canadian dollar depreciated against the U.S. dollar (-8%), Japanese Yen (-11%), Euro (-4%) and British Pound (-3%). This increased the value of foreign stocks in Canadian dollar terms.

Bonds

- The Canadian bond market (FTSE TMX Canada Universe Bond Index) provided a total return (interest and capital appreciation) of 1.4% for the year.
- Government bond yields ended the year where they started (the 10-year Government of Canada yield finished the year at 2.0%), while corporate yields were slightly higher. Yields were quite volatile in the year, however, rising steadily in the spring and summer before declining sharply in late fall.

Our Funds

- Our long-term funds all had a negative year. Our balanced clients' portfolios were down roughly 5%. Over the past 10 years, our balanced portfolios are up between 7% to 8% per year.
- The stock weighting in the Founders Fund was increased from 54% to 60%. This reflects our view that valuations have become more attractive and investors have become increasingly fearful.
- We encourage investors to attend our annual client presentation this February — **Where to From Here?** — where we'll discuss the current investing landscape. The event will be held in seven cities. Full details are available on our [website](#).

Our Advice to Clients

We recommend that your equity weighting be at your long-term target. This is a change from last quarter. In the Founders Fund, we've increased our exposure to stocks, bringing the weight back up to the fund's target of 60%. We feel valuations are attractive again. Our outlook for bonds remains subdued as current yields are unattractive. As a result, we recommend a below-average position in bonds, with cash as an alternative. In the Founders Fund, for example, 11% of the portfolio is currently held in cash.

For our thoughts on asset mix and the advice we're giving clients, visit the [Current Outlook](#) page on our website, or give us a call at 1.888.888.3147.

Market Returns

	3M	1Y
Canada	-10.1%	-8.9%
World	-8.9%	-1.2%

	3M	1Y
Bonds	1.8%	1.4%

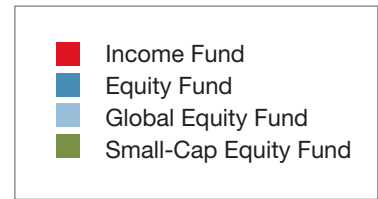
Fund Returns

	3M	1Y
Savings	0.4%	1.5%
Income	-1.0%	-1.3%
Founders	-6.3%	-4.9%
Equity	-7.4%	-3.9%
Global	-12.5%	-11.8%
Small-Cap	-20.2%	-14.6%

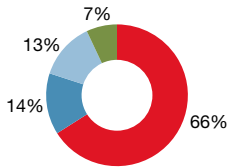


Steadyhand Portfolios (Hypothetical)*

Compound Annualized Returns, After-fee (as of December 31, 2018)



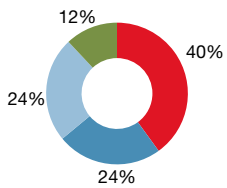
Balanced Income Portfolio (50/50)



Long-term asset mix:
 Fixed Income – 50%
 Cdn Equities – 30%
 U.S. Equities – 10%
 Overseas Equities – 10%

3M	YTD	1Y	2Y	3Y	5Y	10Y
-4.8%	-3.9%	-3.9%	1.3%	3.1%	3.9%	7.5%

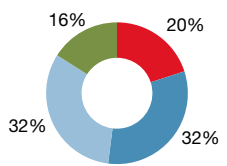
Balanced Equity Portfolio (70/30)



Long-term asset mix:
 Fixed Income – 30%
 Cdn Equities – 34%
 U.S. Equities – 18%
 Overseas Equities – 18%

3M	YTD	1Y	2Y	3Y	5Y	10Y
-7.6%	-5.9%	-5.9%	1.6%	3.5%	4.2%	7.9%

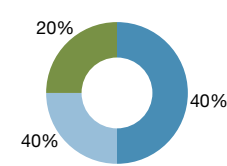
Growth Portfolio (85/15)



Long-term asset mix:
 Fixed Income – 15%
 Cdn Equities – 37%
 U.S. Equities – 24%
 Overseas Equities – 24%

3M	YTD	1Y	2Y	3Y	5Y	10Y
-9.8%	-7.5%	-7.5%	1.8%	3.7%	4.4%	8.3%

Aggressive Growth Portfolio (100/0)



Long-term asset mix:
 Fixed Income – 0%
 Cdn Equities – 40%
 U.S. Equities – 30%
 Overseas Equities – 30%

3M	YTD	1Y	2Y	3Y	5Y	10Y
-12.0%	-9.1%	-9.1%	1.9%	4.0%	4.6%	8.5%

Capital Market Performance (as of December 31, 2018)

	3M	YTD	1Y	2Y	3Y	5Y	10Y
Cash (FTSE TMX Canada 91 Day T-Bill Index)	0.5%	1.4%	1.4%	1.0%	0.8%	0.8%	0.8%
Cdn Bonds (FTSE TMX Canada Universe Bond Index)	1.8%	1.4%	1.4%	2.0%	1.9%	3.5%	4.2%
Cdn Stocks (S&P/TSX Composite Index)	-10.1%	-8.9%	-8.9%	-0.3%	6.4%	4.1%	7.9%
Cdn Small Cap Stocks (S&P/TSX SmallCap Index)	-14.4%	-18.2%	-18.2%	-8.3%	5.2%	-0.3%	6.6%
Global Stocks (Morningstar Developed Markets Index)	-8.9%	-1.2%	-1.2%	6.4%	5.6%	10.0%	11.1%

*The referenced portfolios are hypothetical portfolios comprised of Steadyhand funds. Each portfolio assumes that it is rebalanced on a quarterly basis to the target fund allocation. The indicated rates of return are the historical compound annualized returns (unaudited). See the back page of this report for performance disclaimers. For further details on the portfolios, visit steadyhand.com.



Founders Fund

Fund Overview

- The Founders Fund is a balanced fund with a target asset mix of 60% stocks and 40% fixed income. It gains this exposure from investing in Steadyhand's other 5 funds.
- Tom Bradley manages the fund and Salman Ahmed is co-manager. They have considerable scope to adjust the portfolio to reflect their views on valuations, corporate fundamentals and investor sentiment.

Looking Back

- The fund posted a loss of 4.9% in 2018, driven mainly by the performance of the equity funds which were all down on the year.
- The fund started the year with 54% in stocks, 6% below our long-term target. Our analysis led to the conclusion that equity markets had gotten ahead of themselves. Equity investors were being too optimistic about the profitability of companies and our managers weren't finding new investment opportunities. Though the fund wasn't immune to the volatility in the second half of 2018, the conservative positioning helped protect investors somewhat.
- Bond returns were modest in 2018, though bond prices rose sharply late in the year as stock markets started to slide. We have long been of the view that near-zero interest rates are unsustainable. Thus, the fund's fixed income allocation has been split between bonds (Income Fund) and cash & short-term notes (Savings Fund).

Looking Ahead

- Investors are reassessing growth prospects for the global economy and the resulting future profitability of companies. As a result of this and other factors, equity markets around the world have experienced sharp declines over the last three months.
- Watching portfolio values fall is unpleasant to say the least. That said, it also improves the outlook for future returns as stock prices today are far more reasonable than they were just a few months ago. We've increased the fund's allocation to stocks in line with its long-term target (60%) and the managers of our equity funds have found new investing ideas. Investors can expect the stock weighting to increase further if stock prices continue to fall.
- Bonds, however, have become less attractive. Yields decreased in the fourth quarter and there is less of an advantage in holding bonds compared to cash-like investments (Savings Fund). Yet, they still provide protection against stock market declines. During the recent fall in stock prices, government bonds increased in value. Bonds account for 29% of the Founders Fund, 6% less than its long-term target.

Note: Refer to pages 7-15 for details on the underlying funds.

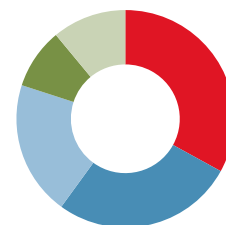
The fund declined 6.3% in the quarter. Since inception (Feb 2012), it has a cumulative return of 50%, which equates to an annualized return of 6.1%.

Fund Mix

Income	38%
Equity	23%
Global	23%
Small-Cap	9%
Savings	7%



Asset Mix



Foreign Stocks	33%
Canadian Stocks	27%
Gov't Bonds	20%
Corporate Bonds	9%
Cash & Short-term	11%

Fund size \$430,050,127



Founders Fund

Attributes

Top Stock Holdings (% of Fund)

TD Bank	1.9%
Franco-Nevada	1.5%
Visa	1.4%
Suncor Energy	1.4%
CN Rail	1.4%
CCL Industries	1.2%
CVS Health	1.0%
Novartis	1.0%
Nutrien	1.0%
CBOE Holdings	1.0%

Sector Allocation (Stocks)

Industrial Goods & Svc	22.8%
Financial Services	17.3%
Oil & Gas	11.4%
Healthcare	8.2%
Consumer Products	8.1%
Retailing	6.1%
Consumer Cyclical	5.4%
Comm. & Media	5.3%
Real Estate	5.0%
Basic Materials	4.1%
Technology	3.2%
Utilities & Pipelines	3.1%

Asset Mix

Long-term		Current
15%	Overseas Stocks	16%
15%	U.S. Stocks	17%
30%	Canadian Stocks	27%
35%	Bonds	29%
5%	Cash	11%

Performance

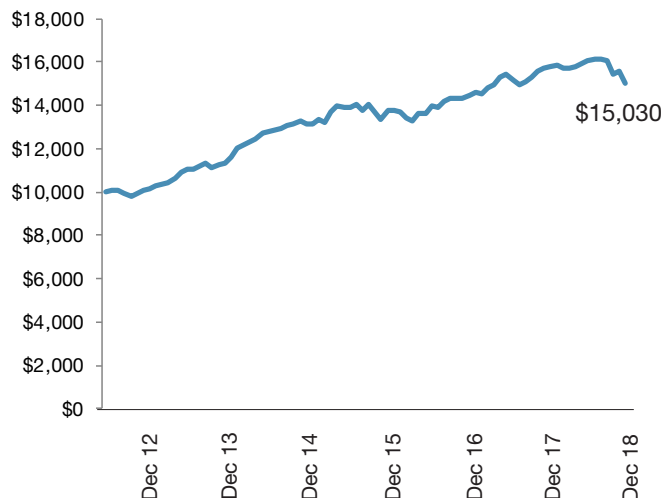
Compound Annualized Returns (as of December 31, 2018)

	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep ¹
Founders Fund (after-fee)	-6.3%	-4.9%	-4.9%	1.3%	3.1%	4.0%	N/A	6.1%
FTSE TMX Canada Universe Bond Index	1.8%	1.4%	1.4%	2.0%	1.9%	3.5%	N/A	2.9%
S&P/TSX Composite Index	-10.1%	-8.9%	-8.9%	-0.3%	6.4%	4.1%	N/A	5.2%
Morningstar Developed Markets Index*	-8.9%	-1.2%	-1.2%	6.4%	5.6%	10.0%	N/A	13.0%

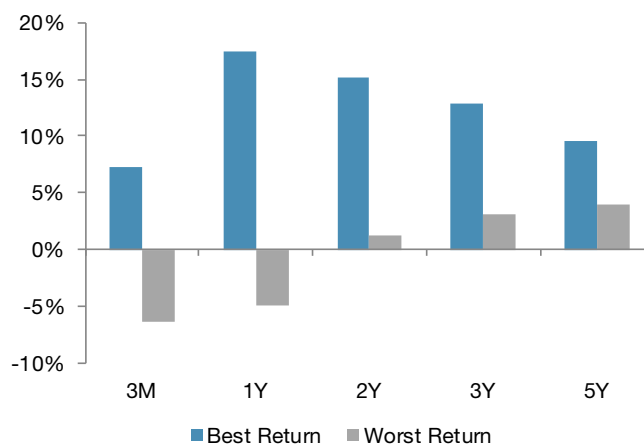
*We are now using the Morningstar Developed Markets Index as a reference for the global stock market, as it has become cost prohibitive to use the MSCI indexes.

¹Feb 17, 2012

Growth of \$10,000 Since Inception



Best and Worst Annualized Returns



Income Fund

Market Context

- The Canadian bond market gained 1.4% in 2018 (interest and capital appreciation).
- Government bond yields ended the year in line with where they started, while corporate yields were slightly higher. The 10-year Government of Canada yield finished the year at 2.0%, but this masks the volatility it experienced in 2018, peaking at 2.6% in October.
- The Canadian stock market declined 8.9%. Energy stocks were an area of weakness.

The fund was down 1.0% in the quarter. Since inception (Feb 2007), it has a cumulative return of 81%, which equates to an annualized return of 5.1%.

Portfolio Specifics

- The fund declined 1.3% in 2018. Its bond holdings provided modestly positive returns while the stock component weighed on performance.
- A big theme in the fund during the year was a reduction in its overall level of risk. This was achieved through: (1) a focus on higher quality corporate bonds, and (2) a shift towards more Government of Canada bonds.
- Corporate bonds play a reduced role in the fund, making up 20% of the portfolio. The yield advantage of owning these securities over safer government bonds has subsided. The manager, Connor, Clark & Lunn (CC&L), feels bondholders aren't being adequately compensated for the additional risks they're taking. This is especially true as interest rates start to rise and the risk of default increases. Instead of owning a large amount of corporates, the manager's focus is now on government-issued bonds.
- The move towards safety proved prescient in the second half of the year. Stock market volatility picked up as concerns arose around global economic growth. Investors shifted from stocks and corporate bonds to safer investments like government bonds. The result was a sharp fall in yields for federal-issued bonds (when bond yields fall, bond prices and returns increase).
- Stocks account for 23% of the fund. Sectors of focus include financial services, industrials, energy and utilities. This component of the fund declined in 2018, but not as significantly as the broad Canadian market. The fund isn't as exposed to commodity-driven sectors (energy and materials), which experienced a rocky year.
- The fund's equity strategy is focused on companies that are growing their dividend (as opposed to high dividend payers), as well as stocks that will benefit from continued growth in business and infrastructure spending.
- The fund paid distributions totaling \$0.28/unit in 2018.

Notable Stock Transactions

Buy

BCE*
Fortis*
Metro
First Capital Realty
*New holding

Trim/Sell

CAE¹
Brookfield A.M.¹
WSP Global
Nutrien

¹Position eliminated

Positioning

- The fund's bond strategy remains cautious. The focus is on higher-quality securities that also have good liquidity (i.e., they can easily be bought or sold).
- Stocks remain an important source of diversification and yield. The manager has a current bias towards larger cap, lower volatility stocks.

Fund size	\$81,126,408
Pre-fee Yield	3.2%
Avg Term to Matur.	10.5 yrs
Duration (Bonds)	7.6 yrs



Income Fund

Attributes

Top Holdings (% of Fund)

Canada 2.75% (Dec/48)	4.9%
Canada 5.00% (Jun/37)	4.6%
Canada 1.75% (Mar/23)	4.5%
Canada 2.00% (Sep/23)	4.3%
CHT 2.35% (Jun/23)	3.7%
Ontario 3.50% (Jun/24)	3.6%
Ontario 2.80% (Jun/48)	2.6%
CHT 2.55% (Dec/23)	2.3%
Ontario 2.85% (Jun/23)	2.1%
CC&L High Yield Bond Fd	1.9%

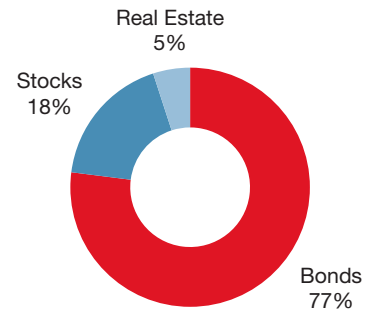
Issuer Allocation (Bonds)

Federal Government	40%
Provincial Government	27%
Corporate	33%

Rating Summary (Bonds)

AAA	43%
AA	40%
A	7%
BBB	9%
BB (or lower)	1%

Asset Mix



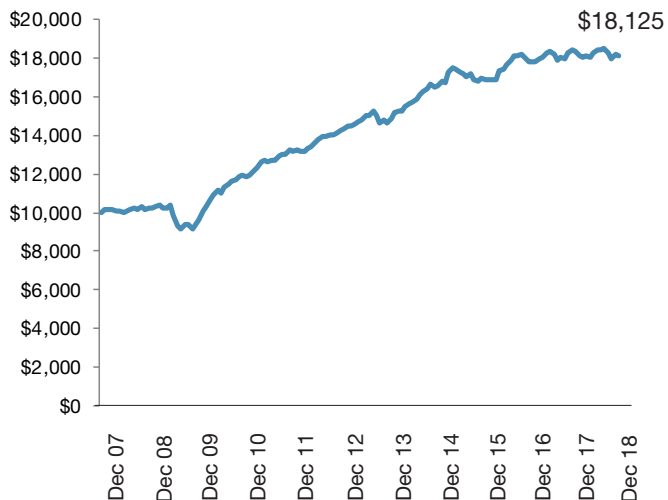
Performance

Compound Annualized Returns (as of December 31, 2018)

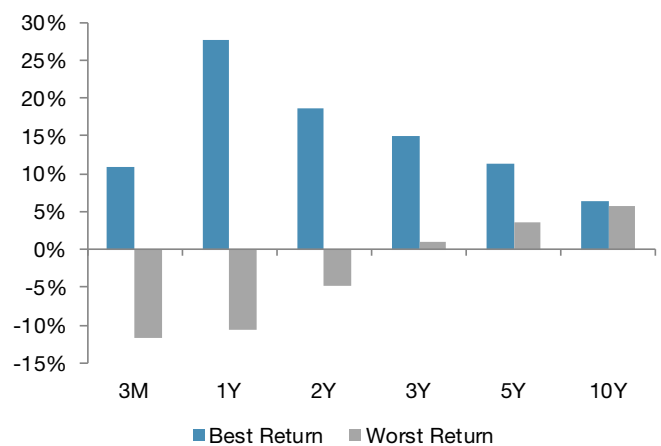
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep*
Income Fund (after-fee)	-1.0%	-1.3%	-1.3%	0.8%	2.4%	3.5%	6.8%	5.1%
FTSE TMX Canada Universe Bond Index	1.8%	1.4%	1.4%	2.0%	1.9%	3.5%	4.2%	4.4%
S&P/TSX Composite Index	-10.1%	-8.9%	-8.9%	-0.3%	6.4%	4.1%	7.9%	3.8%

*Feb 13, 2007

Growth of \$10,000 Since Inception



Best and Worst Annualized Returns



Equity Fund

Market Context

- The Canadian stock market (S&P/TSX Composite Index) fell 8.9% in 2018. Resource stocks were a notable area of weakness as the price of oil dropped to its lowest level in almost three years.
- Global stocks, as measured by the Morningstar Developed Markets Index, declined 1.2% in Canadian dollar terms.

Portfolio Specifics

- The fund holds 24 stocks, of which 12 are headquartered in Canada, 5 in the U.S., 6 overseas and 1 in Mexico.
- The fund declined 3.9% in 2018. The portfolio held up well in a down year, all things considered. A few holdings even turned in solid gains, including RITCHIE BROS. AUCTIONEERS, EXPERIAN, STARBUCKS, VISA and CAE.
- It was a tough year, however, for the fund's energy holdings, notably SUNCOR ENERGY and PRAIRIESKY ROYALTY, as the price of oil fell 25%. Of note, the fund has much less exposure to energy-related companies (12% of the portfolio) than the Canadian index, which helped performance.
- As the market pulled back in the fourth quarter, the manager (Fiera Capital) started to see some compelling opportunities. Two European stocks were purchased, SIKA and CHR. HANSEN. Sika is a Swiss specialty chemical maker with a focus on the construction industry. It has an impressive record of innovation and stands to benefit from the growth of megacities. Chr. Hansen is a Danish bioscience company that develops enzymes for the food, pharmaceutical and agricultural industries.
- MARATHON PETROLEUM was also purchased late in the year. Marathon is the largest petroleum refiner in the U.S. (following an acquisition in October). The company generates tremendous cash flow and operates an attractive gas station chain (Speedway). Fiera also likes Marathon because they believe it's well positioned to benefit from new standards for cleaner marine fuel coming into play in 2020.
- ECOLAB and UNILEVER were sold. Both are fantastic businesses, but reached full value in Fiera's view. MAXAR TECHNOLOGIES was also sold, but under less favourable circumstances — Fiera lost faith in the company's management.
- The fund currently has a cash position of 6%.

Positioning

- The fund is comprised of two dozen businesses operating in a diverse array of industries, from railroads to packaging to construction to enzyme production. Focus is on best-in-class companies that generate strong cash flows, have good growth prospects, are well financed and have proven leaders at the helm.

The fund was down 7.4% in the quarter. Since inception (Feb 2007), it has a cumulative return of 99%, which equates to an annualized return of 5.9%.

Notable Transactions

Buy

Sika*
Chr. Hansen*
Marathon Petroleum*
Pason Systems
*New holding

Trim/Sell

Ecolab¹
Unilever¹
Maxar Technologies¹
¹Position eliminated

Fund size	\$103,720,450
No. of stocks	24



Equity Fund

Attributes

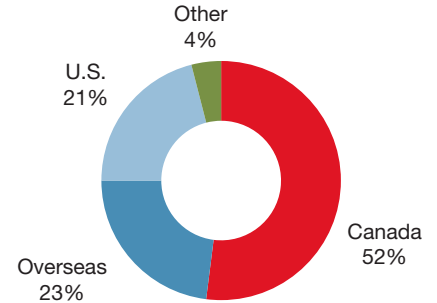
Top Stock Holdings

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CCL Industries	4.9%
CVS Health	4.2%
Novartis	4.1%
CBOE Holdings	4.1%
Experian	4.0%
CN Rail	3.9%

Sector Allocation (Stocks)

Industrial Goods & Svc	27.3%
Financial Services	20.6%
Oil & Gas	11.7%
Retailing	11.0%
Basic Materials	10.7%
Technology	6.7%
Healthcare	4.4%
Consumer Products	4.0%
Consumer Cyclical	3.6%

Geographic Profile (Stocks)



Performance

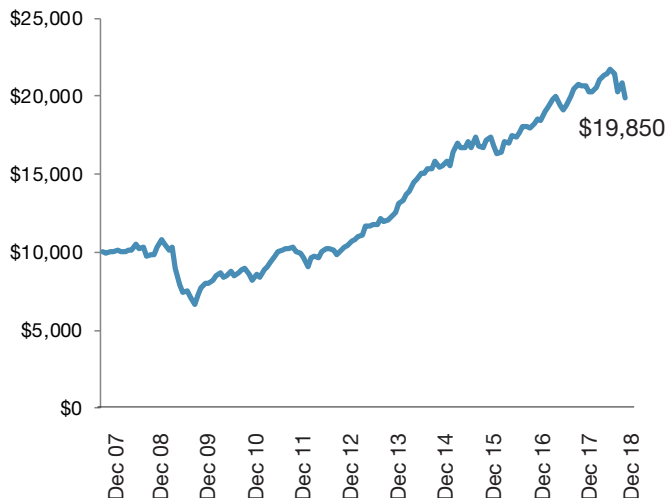
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S&P/TSX Composite Index	-10.1%	-8.9%	-8.9%	-0.3%	6.4%	4.1%	7.9%	3.8%
Morningstar Developed Markets Index*	-8.9%	-1.2%	-1.2%	6.4%	5.6%	10.0%	11.1%	5.6%

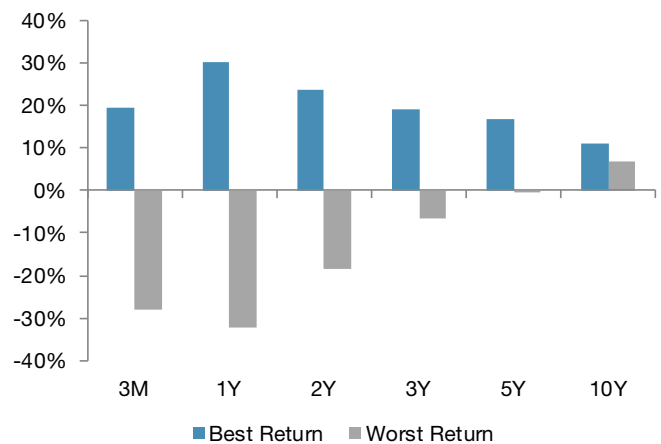
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¹Feb 13, 2007

Growth of \$10,000 Since Inception



Best and Worst Annualized Returns



Global Equity Fund

Market Context

- Global stocks, as measured by the Morningstar Developed Markets Index, were down 1.2% in Canadian dollar terms in 2018.
- Japanese, European and emerging markets experienced negative returns in the year, many greater than 10%, while the broad U.S. market (S&P 500 Index) posted a modest loss. The loonie was weaker against most major currencies, however, which propped up the returns of global markets in Canadian dollar terms.

The fund was down 12.5% in the quarter. Since inception (Feb 2007), it has a cumulative return of 28%, which equates to an annualized return of 2.1%.

Portfolio Specifics

- In August, we named Velanne Asset Management advisor of the fund, replacing Edinburgh Partners. Velanne is led by Anne Gudefin, who has built an excellent track record managing global equity portfolios since 2003.
- The fund holds 52 stocks, of which 21 are based in Europe (including the U.K.), 20 in the U.S., nine in Asia, and two in Canada.
- The fund declined 11.8% in 2018. Overall, it was a difficult year for the portfolio. In particular, its holdings in the energy sector were hit hard and its British investments struggled.
- While some of the reasons for the decline in energy prices appear warranted, the negative sentiment towards many companies in the sector doesn't reconcile with their profitability and competitive positions. The manager sees increased value in this area as prices continue to slide. Velanne purchased CENOVUS, CGG, and NATIONAL OILWELL VARCO, and added to existing positions in ENCAN and SHELL. Energy holdings now account for 15% of the portfolio.
- TRIBUNE MEDIA was also added to the fund, although soon after the company announced a sale to Nexstar for a nice premium. Entertainment companies are an important part of the portfolio. Other holdings include 21ST CENTURY FOX, DISCOVERY and DISNEY.
- Two drug companies were sold, PFIZER and MERCK, as they reached the manager's estimate of fair value. Healthcare stocks remain a large part of the fund (19%). Holdings include pharmaceuticals (e.g. ALLERGAN, SHIRE), device manufacturers (e.g. MEDTRONIC, ZIMMER BIOMET), and hospital operators (e.g. MEDICLINIC).
- The fund currently has a cash position of 10%.

Positioning

- The manager focuses on quality companies that produce large amounts of cash flow but are facing temporary headwinds and are trading below their true value.
- Velanne assigns a high value to good corporate governance and transparency, which keeps them away from large banks, auto manufacturers and many emerging markets.

Notable Transactions

Buy

Tribune Media*
CGG*
Cenovus Energy*
Bayer
AIA Group

*New holding

Trim/Sell

Capio Group¹
Ahold Delhaize¹
Commscope Holding Co.¹
Pfizer¹
Merck & Co.¹

¹Position eliminated

Fund size	\$81,102,375
No. of stocks	52



Global Equity Fund

Attributes

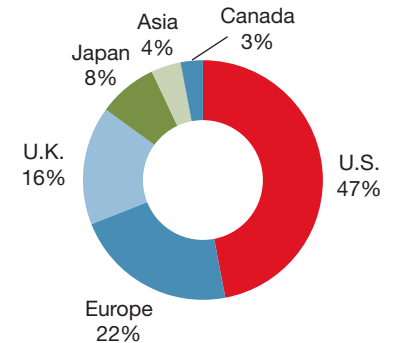
Top Stock Holdings

21 st Century Fox	3.9%
Alleghany Corporation	3.5%
Zimmer Biomet	3.2%
Shire	3.2%
Mowi	3.1%
Discovery, Inc.	3.1%
Medtronic	3.0%
Konecranes	2.8%
Chugoku Marine Paints	2.6%
Walt Disney Company	2.4%

Sector Allocation (Stocks)

Healthcare	18.7%
Financial Services	17.0%
Oil & Gas	15.3%
Consumer Products	14.0%
Comm. & Media	11.6%
Industrial Goods & Svc	9.1%
Consumer Cyclical	4.8%
Retailing	2.8%
Real Estate	2.5%
Technology	2.2%
Utilities & Pipelines	2.0%

Geographic Profile (Stocks)



Performance

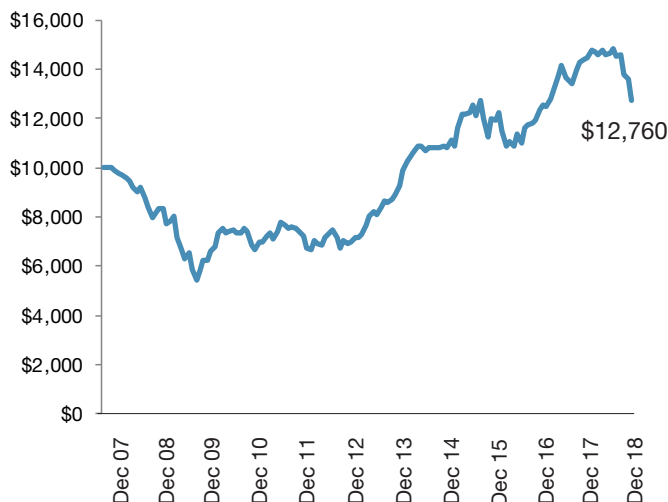
Compound Annualized Returns (as of December 31, 2018)

	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep ¹
Global Equity Fund (after-fee)	-12.5%	-11.8%	-11.8%	0.8%	1.4%	4.1%	6.9%	2.1%
Morningstar Developed Markets Index*	-8.9%	-1.2%	-1.2%	6.4%	5.6%	10.0%	11.1%	5.6%

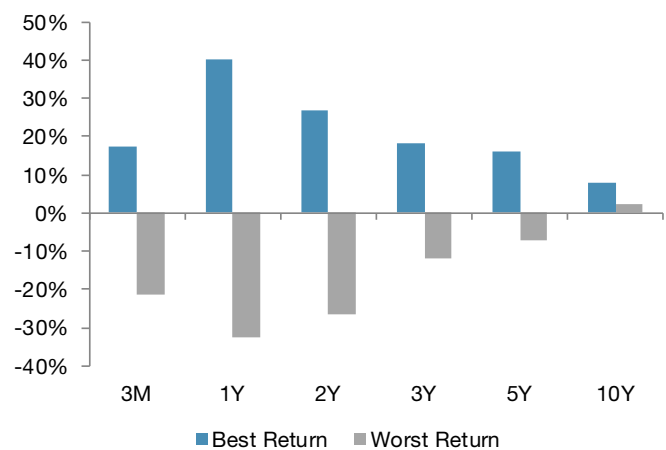
*We are now using the Morningstar Developed Markets Index as a reference for the global stock market, as it has become cost prohibitive to use the MSCI indexes.

¹Feb 13, 2007

Growth of \$10,000 Since Inception



Best and Worst Annualized Returns



Small-Cap Equity Fund

Market Context

- The Canadian small-cap market (S&P/TSX SmallCap Index) declined 18.2% in 2018. Energy and commodity-related stocks in particular had a tough year.
- U.S. small-caps declined 3.2% (Russell 2000 Index) in Canadian dollar terms.

Portfolio Specifics

- The fund consists of 23 companies, ranging from very small (e.g. BRICK BREWING) to medium-sized businesses (e.g. OSHKOSH CORP.). While the majority of holdings are Canadian, there are four U.S. stocks which make up 20% of the portfolio.
- The fund had a challenging year, declining 14.6%. Performance was strong in the first three quarters, where the fund was up 7%, but it fell 20% in the fourth quarter, which was one of the worst periods for small-cap stocks in quite some time.
- A handful of stocks can be singled out as particularly poor performers in 2018: DHX MEDIA, MAXAR TECHNOLOGIES, ALCANNA, STERICYCLE and NFI GROUP. DHX and Maxar were sold as the manager, Galibier Capital Management, lost confidence in the firms' management teams. Additional shares were purchased in the other three stocks, as they continue to have attractive competitive advantages and compelling valuations.
- Galibier was an active buyer during the broad market sell-off late in the year. The fundamentals of many of the businesses they own haven't changed, yet prices were down sharply. The manager viewed this as a rare opportunity to add to positions in excellent companies such as PARK LAWN, SPIN MASTER, OSHKOSH, WABCO HOLDINGS, PREMIUM BRANDS HOLDINGS and AG GROWTH.
- There were a few positive stories to report. PARKLAND FUEL, a fuel and petroleum retailing company, had a good year (despite slipping in the fourth quarter) as its acquisition strategy and expansion into the U.S. are playing out well. CARGOJET also had a strong year as demand for its services (overnight air cargo) remains high.
- Investments in the resource sector remain minimal, as the manager believes few companies in the space have enduring, sustainable competitive advantages and are beholden to volatile commodity prices. CARDINAL ENERGY is the one oil stock owned in the fund. Galibier likes Cardinal's disciplined growth plan and focus on light oil.
- The fund currently has a cash position of 1%.
- The fund has gained 7.4% since September 30, 2016, which is Galibier's starting date as portfolio advisor. The index is down -13.3% over the same period.

The fund was down 20.2% in the quarter. Since inception (Feb 2007), it has a cumulative return of 89%, which equates to an annualized return of 5.5%.

Notable Transactions

Buy

Park Lawn
NFI Group
Spin Master
Stericycle
Premium Brands Holdings

Trim/Sell

Maxar Technologies¹
Exchange Income
Parkland Fuel

¹Position eliminated

Positioning

- The portfolio has a unique composition, with key areas of investment being capital goods, transportation, and commercial & professional services (these companies all fall under the broad Industrial Goods & Services sector). Food & beverage companies are also a notable component of the fund. This is in contrast to the small-cap market and its heavy focus on resource companies.

Fund size	\$55,050,704
No. of stocks	23



Small-Cap Equity Fund

Attributes

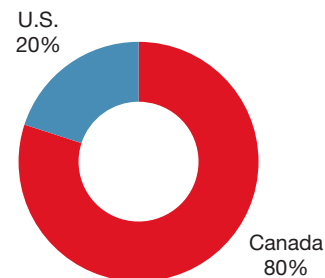
Top Stock Holdings

WABCO Holdings	6.2%
Premium Brands	5.8%
Winpak	5.5%
Park Lawn	5.5%
NFI Group	5.2%
Oshkosh Corp.	5.1%
Ag Growth	5.1%
The Middleby Corp.	4.8%
Intertape Polymer	4.7%
Stantec	4.6%

Sector Allocation (Stocks)

Industrial Goods & Svc	58.2%
Consumer Cyclical	17.1%
Consumer Products	9.3%
Oil & Gas	5.3%
Real Estate	3.7%
Utilities & Pipelines	3.5%
Retailing	2.9%

Geographic Profile (Stocks)



Performance

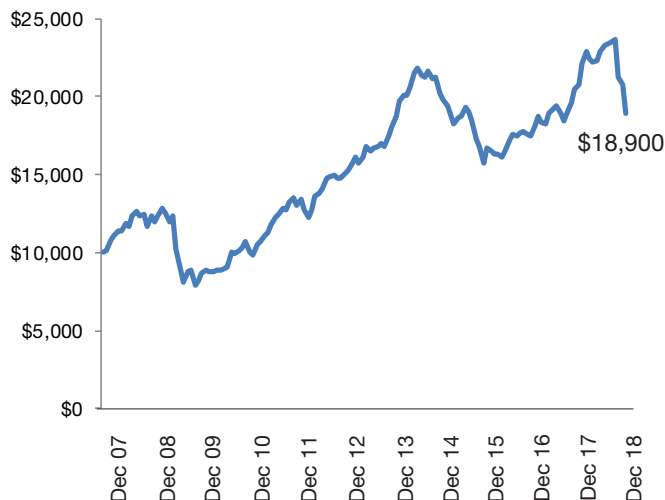
Compound Annualized Returns (as of December 31, 2018)

	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep ¹
Small-Cap Equity Fund (after-fee)*	-20.2%	-14.6%	-14.6%	0.6%	5.1%	-1.2%	8.0%	5.5%
S&P/TSX SmallCap Index	-14.4%	-18.2%	-18.2%	-8.3%	5.2%	-0.3%	6.6%	0.2%
Russell 2000 Index (\$Cdn)	-15.9%	-3.2%	-3.2%	1.8%	6.8%	9.7%	13.2%	7.2%

*The fund has gained 7.4% since September 30, 2016, which is Galibier's starting date as portfolio advisor. The Canadian index is down -13.3% over the same period.

¹Feb 13, 2007

Growth of \$10,000 Since Inception



Best and Worst Annualized Returns



Savings Fund

Market Context

- The Bank of Canada (BoC) raised its key lending rate three times in 2018 (in January, July and October), by 0.25% each time. The rate now stands at 1.75%.
- Global economic growth moderated in the latter half of the year, as the impact of U.S.-led trade conflicts weighed on global demand. The American economy remains strong, nonetheless. The Canadian economy stalled in the third and fourth quarters as rising interest rates curbed spending by households and businesses.
- Overall, the BoC feels that higher interest rates are still warranted to keep inflation near its target. The pace of increases, however, will depend on a number of factors.

Positioning

- The manager’s (Connor, Clark & Lunn) preference for corporate paper added value for the portfolio in 2018. Bank paper, floating rate notes and short-dated bonds comprise 68% of the fund.
- Investments in T-Bills remain focused on provincial securities (32% of the fund).
- The pre-fee yield of the fund at the end of December was 2.0%.

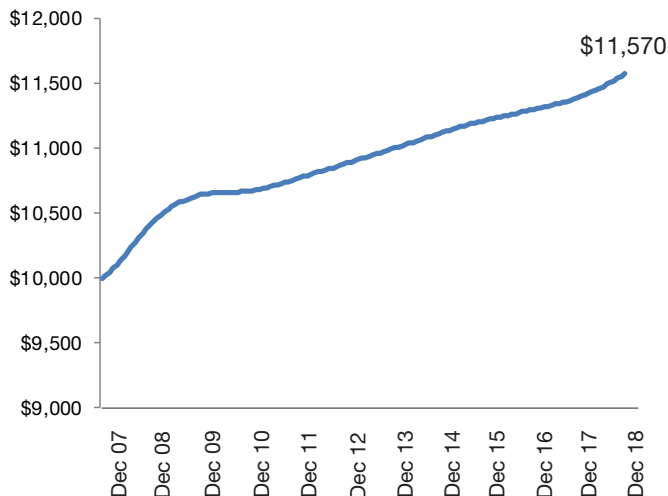
Performance

Compound Annualized Returns (as of December 31, 2018)

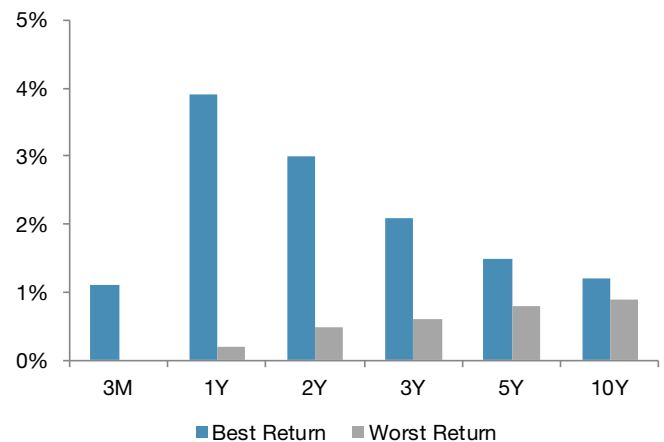
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep*
Savings Fund (after-fee)	0.4%	1.5%	1.5%	1.2%	1.0%	1.0%	0.9%	1.2%
FTSE TMX Canada 91 Day T-Bill Index	0.5%	1.4%	1.4%	1.0%	0.8%	0.8%	0.8%	1.3%

*Feb 13, 2007

Growth of \$10,000 Since Inception



Best and Worst Annualized Returns



Stock Snapshot



Overview

Sika manufactures products for bonding, sealing, damping and reinforcing structures used primarily in construction and automobile manufacturing.

The company dates back over 100 years and is based in Switzerland. It employs more than 18,000 people in 100 countries.

Sika's business is divided into two units: (1) the Construction business, which accounts for nearly 80% of sales and includes concrete mixtures, mortars, roofing and waterproofing; and (2) the Industry business, which includes bonding, sealing and glazing solutions for the automotive, home appliance and renewable energy industries, among others.

The stock is held in our Equity Fund and has a weight of 3.5%.

Investment Case

Sika benefits from the urbanization trend occurring around the globe. Governments are having to invest in large-scale infrastructure projects to accommodate the needs of populations moving into urban centers and the growth of the middle class in emerging economies.

Currently, the company has less than 10% share in its market but is increasing its share in an industry expected to grow from \$70 Billion to \$80 Billion by 2020. Sika's growth has come from rising demand for its innovative products — it has been granted 217 patents since 2015 — and it plans to open 30 new plants by 2020 to deal with the growth. Indeed, innovation is a key attraction of Sika. The company has discovered ways to extend the life of cement before it's poured (allowing

increased travel time), and has designed faster-curing adhesives for the auto glass industry.

It is also growing through acquisition. The industry is highly fragmented with the largest 10 companies accounting for a market share of just 40%. Sika has already made 18 purchases across four regions in the last two years. The acquisitions are expected to help with the scale that's required in large projects.

Risks to Outlook

Infrastructure spending is driven by governments, which means Sika's business can be impacted by policy changes. The company is also getting through some difficult litigation stemming from the founder's family selling its 17% stake in the business. Any hangover from the acrimonious affair may cause it to lose business to peers.

An interesting fact: Combined, the Bill and Melinda Gates Foundation and Cascade Investment, which manages the Gates private portfolio, own 6% of the company.

Sika AG: Price History



Source: Reuters



Outlook 2019: Are the dog days over?

Special to the National Post, by Tom Bradley, December 29, 2018

One of my favourite guitar licks is the opening twenty seconds of [Long Cool Woman in a Black Dress](#) by the Hollies. It's truly magical. Unfortunately, I find the rest of the song to be a letdown.

2018 was a Long Cool Woman year. In January, the world economy was growing in harmony. We were coming off a year when stocks were up and volatility was non-existent. Credit was plentiful, Bitcoin was the future, a new cannabis industry was emerging and generally, investors were gaining confidence. But like the song, it was all downhill from there.

As we launch into 2019, we're at the other end of the spectrum. Markets are gyrating again and mostly in a downward direction. Debt markets are nervous, with default premiums widening and fewer bidders at the table. And investors' willingness to speculate has diminished. To use Warren Buffett's measure, we moved from greed to fear.

I realize that none of this sounds very good, but for an investor, they're all reasons for optimism.

Good markets are rooted in nervousness, not euphoria. Stocks have more upside when their prices are on sale. And strong companies gain ground when capital is tight and competitors are faltering.

Personally, I'm more positive than I've been in a few years. Our fund managers are finding stocks to buy again and from current levels, returns should be good over the next five years. I say five years because nobody knows where markets are going in the short term. Stocks could turn around tomorrow or put us through the grinder for another year or two.

But while I don't believe in forecasting the market, I'm willing to offer my lucky 13 things that will definitely maybe happen in 2019.

1. Energy stocks will do better than they did in 2018. The gloomy outlook for oil and gas prices, as well as pipeline limitations, appears to be factored into the stocks and more importantly, they can't do much worse.

2. In general, areas that are starved for capital will garner more attention. In cyclical industries like oil services, refining, mining and fertilizer, pricing starts to recover after periods of underinvestment.

3. Conversely, cracks will start to show in some of the

industries and asset classes that have had capital pouring into them including shared office space, private loans, private equity and Canadian cannabis.

4. Speaking of cannabis, pot stocks will start to sort themselves out in 2019 based on revenues and profits as opposed to hype and promises.

5. The existential search for how to value Bitcoin, however, will go unrequited.

6. Trade won't be as bad as we thought. Globalization will muddle through despite President Trump's efforts to the contrary.

7. The expression 'debt fatigue' will enter the lexicon as consumers, corporations and governments are forced to stop their borrowing binge.

8. On that note, investors will wake up to the fact that Canadian banks' most profitable customers are maxed out. Consumers are up to their eyeballs in debt.

9. Tighter credit markets will slow the consolidation trend in most industries although the Canadian banks will take further steps to owning everything.

10. If markets stay weak, we'll also see a slowdown in share buybacks. Corporations tend to buy aggressively in good times and pull in their horns when their stock prices drop. In other words, they 'buy high' and 'hesitate when low'.

11. The Consumer Price Index will trend higher on wage pressures. Meanwhile, economists will continue to describe inflation as 'benign'.

12. The securities commissions will lead the charge with investor-friendly initiatives while the wealth management industry will fight tooth and nail to protect the status quo.

13. And the disruption hotspot in 2019 will be transportation. Alphabet's (Google) launch of a driverless car sharing service in Phoenix will wake people up to the fact that the future is not decades away, it's arrived.

Like every year, 2019 will be a mix of good and bad, but I'm not looking for it to be another Long Cool Woman. I'm hoping for a tune that starts slow and soars to the finish. Perhaps Florence + The Machine's [Dog Days Are Over](#).



Steadyhand

WHERE TO FROM HERE?

Annual Client Presentation

Be sure to join the Steadyhand team at our annual client presentation, *Where to From Here?*, this February! The event will be held in seven cities this year. Visit our [website](#) for event dates and venues.

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Published on January 8, 2019, by Steadyhand Investment Funds Inc.

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