

# Steadyhand

**Q3**  
2020

---

“It’s tough to make predictions, especially about the future.”

— Yogi Berra



## Bradley's Brief



“Straying from your SAM [strategic asset mix] based on what’s happening on the political and economic scene is a mug’s game. You’ll get it right sometimes and feel brilliant, but there’ll assuredly be other times when you get your head handed to you.”

I’ve clipped this comment from a [recent post](#) because I know many of you are wondering how to prepare for the U.S. election and the second wave of COVID-19. The media is telling you to batten down the hatches and you’re less convinced that reacting to current events is a ‘mugs game’. My mission here is to explain why we’re being so stubborn on this point.

The first and most important reason is that the media and experts are often wrong. Nobody knows with any precision or consistency what will happen in the short term. There are many economic factors that come into play — inflation, interest rates, currencies, profit margins, availability of credit, technological innovation (and obsolescence), capital spending, demographics and pandemics — and they interact in unpredictable ways (for every action there’s a reaction). Often the issue getting the most attention will have little or no impact on stock prices (I think the U.S. election fits in this category).

But let’s assume you pick the right expert and have the future figured out. You then need to determine how the market will interpret the news. This too depends on a myriad of factors including how many people have the same view. Is it already baked into the cake?

You get the picture. Timing the market is impossible, which brings me back to SAM. As a reminder, your strategic asset mix is the long-term blend of cash, GICs, bonds, stocks and real estate that best fit your objectives, risk tolerance, income needs and personality. It’s the most important tool you have for finding the right balance between risk and return. And when preparing for an uncertain event, like the election, it’s the best place to hide.

As unsatisfying as this sounds, there is ample proof to suggest that sticking to your plan works. The long-term charts for balanced portfolios trend up and to the right, even with the inevitable dips along the way. In recent years, those dips have been spurred by turmoil in Washington, a European banking crisis, trade tensions involving China and Britain, COVID-19 and sometimes the market just needs to take a breather. The key point here is that the onset of each pullback, and the shape of the recovery, was unpredictable, while the long-term trend has been remarkably reliable. Investors who stayed on course have a record that few market timers can match.

So, what should you do about the election? We encourage you to check in on your portfolio (using the Q3 statement) and make sure it’s still in line with your SAM. Markets have been uneven in 2020 (as evidenced by our fund lineup) and some adjustments may be necessary. If you’re at or near your SAM, you’re good.

If you’re primarily invested in the Founders Fund, the adjustments have been made for you. For example, after the March meltdown, the fund moved back to its SAM by shifting money from the Savings Fund into the four equity funds. Since then, it’s been fully invested in stocks (62-66% of the fund). More recently, the market recovery has necessitated some rebalancing to keep the equities in the low 60’s.

We are living in challenging times but don’t let the hot air from south of the border blow you off course. Your time frame is much longer than any politician’s promise or commentator’s forecast.



## Key Takeaways

### Stocks

- Stocks climbed higher in the third quarter. Economic activity around the globe bounced back and investors continued to embrace risk. The U.S. market (S&P 500 Index) rose 9% while European, Asian and emerging markets also saw nice gains.
- The Canadian market (S&P/TSX Composite Index) gained 4.7%. Consumer, materials, utilities and industrials were the strongest performing sectors.
- The loonie appreciated against the U.S. dollar (+2%) but fell against the Euro (-2%) and British Pound (-2%). It was unchanged relative to the Japanese Yen. In aggregate, currency moves had a negligible impact on returns.

### Bonds

- Interest rates were little changed during the quarter. The 10-year Government bond yield finished at 0.57% (up slightly from 0.52% at the end of June). It ranged from an all-time low of 0.43% to 0.66%.
- Bonds had a positive quarter as the FTSE Canada Universe Bond Index gained 0.4%.
- Corporate bonds were the top performers as credit spreads (the difference in yield between corporate and government bonds) continued to tighten.

### Our Funds

- Our funds had a solid quarter, with the Equity Fund leading the way. Our balanced clients' portfolios were up roughly 4%. Over the past 10 years, our balanced returns were in the range of 6% to 7% per year.
- The stock weighting in the Founders Fund was kept slightly higher than normal, in the range of 62-64%, reflecting the potential we see in our equity holdings.
- In the context of our balanced portfolios, key transactions included the purchase of THOMSON REUTERS (Canada), METRO (Canada), and IBSTOCK (U.K.); and the sale of SUNCOR ENERGY (Canada), HALLIBURTON (U.S.) and WILLIAM HILL (U.K.).

## Our Advice to Clients

We recommend that your equity weighting be at your long-term target. In the Founders Fund, our stock weighting is 62%, which is slightly above the 60% target. We feel valuations remain attractive, particularly in sectors that haven't fully participated in the rally. If you bought equities in March, your stock weighting may be considerably higher now and some rebalancing may be necessary. Our outlook for bonds is subdued as yields are unattractive. We recommend a below-average position in the asset class, with cash as an alternative. In the Founders Fund, 13% 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	4.7%	0.0%
World	5.8%	10.5%

	3M	1Y
Bonds	0.4%	7.1%

### Fund Returns

	3M	1Y
Savings	0.1%	1.2%
Income	1.6%	3.1%
Founders	4.2%	3.4%
Builders	6.6%	1.1%
Equity	9.3%	12.3%
Global	4.5%	-9.7%
Small-Cap	8.2%	-3.7%
Global Small-Cap	3.7%	4.3%



## 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 funds.
- Tom Bradley, our Chief Investment Officer, manages the fund and Salman Ahmed is co-manager. They have considerable scope to adjust the portfolio although without extremes in valuation and investor sentiment, their bias is to stay near the target mix.

The fund was up 4.2% in the quarter. Since inception (Feb 2012), it has a cumulative return of 69%, which equates to an annualized return of 6.2%.

### Portfolio Specifics

- In the third quarter, stocks and bonds continued their strong recovery. Founders had a return of 4.2% (after fees) and is now up slightly year-to-date
- The fund has been fully invested in stocks (62-66% of assets) throughout the market recovery. More recently, however, the rebound has required that we do some rebalancing to keep stocks in the low 60's.
- The fund has a structural bias to foreign-based companies which provide better exposure to important industries like healthcare, technology, and consumer products.
- While the fund's asset mix is important, returns are primarily driven by the performance of the underlying funds. It bears repeating that through these funds, Founders holds a diverse set of stocks. Some are expected to benefit from the new economic order, while others are hindered by COVID-19 uncertainty. The former group, which includes technology, has done well due to higher growth expectations and expanding valuations. Conversely, stocks in the latter group continue to languish under low expectations and conservative valuations. Our fund lineup affords clients exposure to both categories. The Equity and Global Small-Cap Equity Funds are more tilted towards the lockdown winners while the Global Equity and Small-Cap Equity Funds have a bigger emphasis on high quality, leading companies in industries that have significant recovery potential.
- The biggest transactions during the quarter (in the underlying funds) involved new positions in THOMSON REUTERS (Canada), METRO (Canada) and IBSTOCK (UK), and the elimination of SUNCOR (Canada), HALLIBURTON (U.S.) and WILLIAM HILL (U.K.).

#### Fund Mix

Income	34%
Global	22%
Equity	20%
Small-Cap	7%
Global Small-Cap	6%
Cash	11%



#### Asset Mix



Foreign Stocks	35%
Canadian Stocks	27%
Gov't Bonds	13%
Corporate Bonds	12%
Cash & Short-term	13%

### Positioning

- The Founders is always seeking a balance between reward and risk. In March, we shifted towards offence by adding to stocks. In the second quarter, we maintained this position. In the third, we were more active in trimming stocks to keep the equity weighting near the 60% target.
- Like everyone, we have concerns about what the post-lockdown world will look like, but also recognize the positive impact near-zero interest rates can have on stock prices. Low rates help fuel our offence, which will come from parts of the market that have lagged and still offer meaningful upside. The fixed income investments will hold down the defense, although low rates point towards modest returns.

Fund size \$493,429,077



## Founders Fund

### Attributes

#### Top Stock Holdings (% of Fund)

CN Rail	1.8%
Franco-Nevada	1.7%
TD Bank	1.6%
Brookfield Renewable	1.4%
Keyence	1.4%
Zimmer Biomet	1.3%
Visa	1.3%
Telus	1.2%
Danaher	1.1%
Sika	1.1%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	24.8%
Financial Services	19.5%
Healthcare	11.5%
Technology	6.4%
Consumer Products	6.0%
Utilities & Pipelines	5.6%
Real Estate	5.6%
Basic Materials	5.5%
Comm. & Media	5.4%
Consumer Cyclical	4.6%
Oil & Gas	2.7%
Retailing	2.4%

#### Asset Mix

Long-term		Current
17%	Overseas Stocks	19%
17%	U.S. Stocks	16%
26%	Canadian Stocks	27%
35%	Bonds	25%
5%	Cash	13%

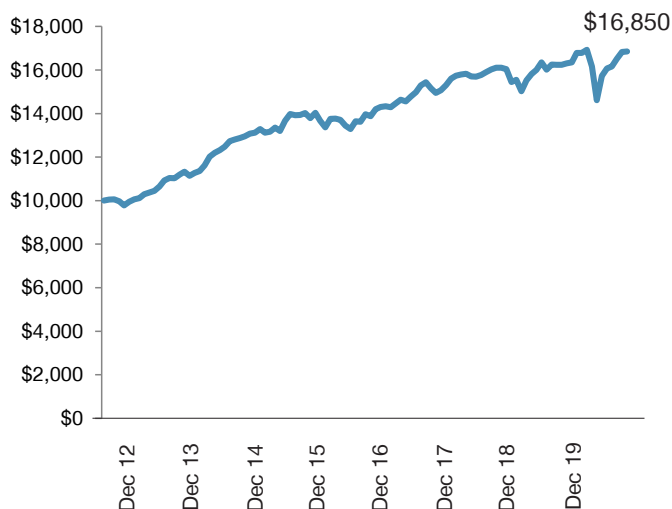
### Performance

#### Compound Annualized Returns (as of September 30, 2020)

	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep <sup>1</sup>
<b>Founders Fund (after-fee)</b>	<b>4.2%</b>	<b>0.4%</b>	<b>3.4%</b>	<b>2.5%</b>	<b>3.3%</b>	<b>4.7%</b>	<b>N/A</b>	<b>6.2%</b>
FTSE Canada Universe Bond Index	0.4%	8.0%	7.1%	8.4%	6.1%	4.3%	N/A	4.1%
S&P/TSX Composite Index	4.7%	-3.1%	0.0%	3.5%	4.3%	7.2%	N/A	6.2%
Morningstar Developed Mkts Index (\$Cdn)	5.8%	3.8%	10.5%	7.0%	9.5%	10.1%	N/A	13.1%

<sup>1</sup>Feb 17, 2012

#### Growth of \$10,000 Since Inception



#### Best and Worst Annualized Returns



## Builders Fund

### Fund Overview

- The Builders Fund is a fund-of-funds that invests mainly in Steadyhand’s four stand-alone equity funds — Equity Fund, Global Equity Fund, Small-Cap Equity Fund, and Global Small-Cap Equity Fund. It’s an all-stock portfolio designed for growth-oriented investors.
- The underlying fund mix is managed by Salman Ahmed, with Tom Bradley as co-manager, and is a reflection of their views on market valuations.

The fund was up 6.6% in the quarter. Since inception (Feb 2019), it has a cumulative return of 3%, which equates to an annualized return of 2.0%.

### Portfolio Specifics

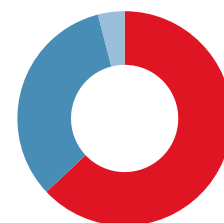
- Stock markets around the world continued their rebound in the third quarter after sharp declines earlier in the year. All our equity-focused funds experienced positive returns over the period.
- In keeping with its growth objective, the Builders Fund holds 15% of its assets in each of our two small-cap funds. Over the long run, these companies provide the opportunity for superior returns but can experience more pronounced fluctuations over short periods. This positioning hurt the fund early in the year but helped this period as the Small-Cap Equity Fund was one of our best performing funds.
- The Builders Fund has lagged year-to-date, but made up some lost ground in the third quarter. Despite the recovery in the last six months, small-cap stocks have underperformed their larger peers in 2020 and our Global Equity Fund’s contrarian nature has kept it away from the two best performing sectors — technology and precious metals.
- All our managers have been more active than usual as they respond to the evolving economic reality. They purchased several new holdings and added to existing positions. They also trimmed or sold certain stocks when their outlook changed. For example, this year our Equity Fund manager, Fiera Capital, has bought six new stocks and sold five. Meanwhile our Global Equity Fund manager, Velanne Asset Management, has bought nine new companies and eliminated 18.
- Builders continues to be diversified across industries and looks different than most Canadian portfolios. The largest sector weight, industrial goods & services, includes an assortment of companies including CN RAIL, KONECRANES (lifting equipment), SIKKA (specialty chemicals), and FINNING (Caterpillar dealer).
- Other important sectors are also diverse in their makeup. In financial services, the fund owns TD BANK, TOPDANMARK (insurance), ARTISAN PARTNERS (asset management), and EXPERIAN (credit ratings), among others. It’s a far cry from owning five Canadian banks and insurers.

#### Fund Mix

Equity	35%
Global	35%
Small-Cap	15%
Global Small-Cap	15%



#### Asset Mix



Foreign Stocks	63%
Canadian Stocks	33%
Cash & Short-term	4%

### Positioning

- Refer to pages 10-17 for details on the underlying funds.

Fund size \$83,258,176



## Builders Fund

### Attributes

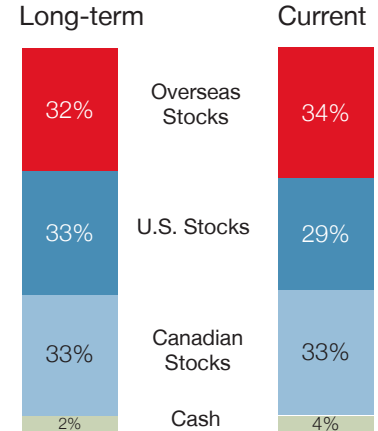
#### Top Stock Holdings (% of Fund)

Franco-Nevada	2.8%
Keyence	2.2%
Visa	2.1%
CN Rail	1.9%
Danaher	1.8%
Brookfield Renewable	1.8%
Sika	1.8%
Zimmer Biomet	1.8%
Ritchie Brothers	1.7%
CCL Industries	1.7%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	27.1%
Financial Services	18.4%
Healthcare	13.4%
Technology	7.7%
Basic Materials	6.8%
Consumer Products	6.4%
Consumer Cyclical	5.5%
Comm. & Media	4.2%
Utilities & Pipelines	3.8%
Oil & Gas	2.8%
Retailing	2.0%
Real Estate	1.9%

#### Asset Mix



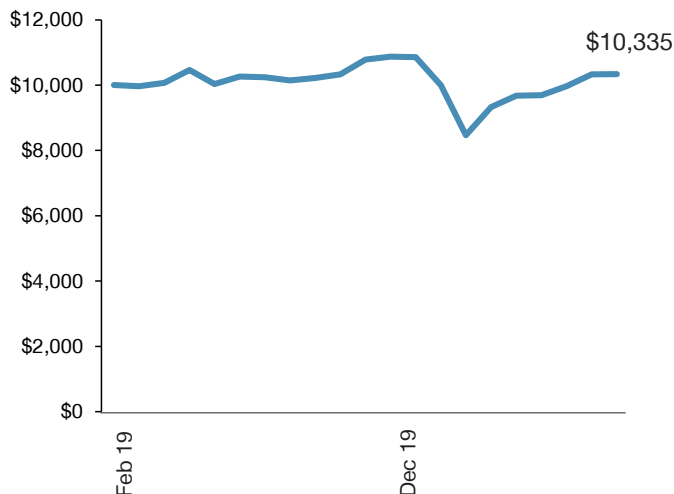
### Performance

#### Compound Annualized Returns (as of September 30, 2020)

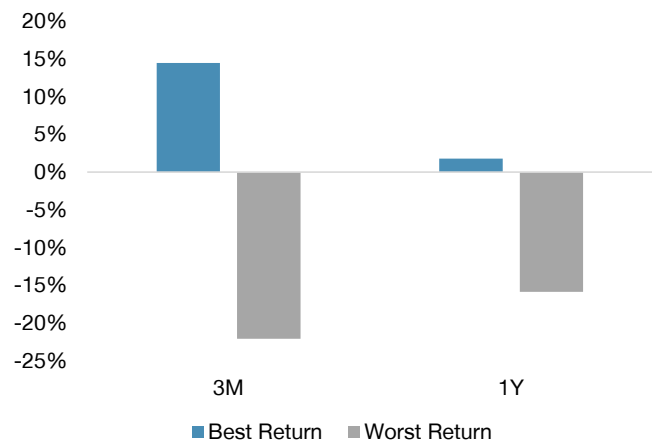
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep <sup>1</sup>
<b>Builders Fund (after-fee)</b>	<b>6.6%</b>	<b>-4.9%</b>	<b>1.1%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>2.0%</b>
Morningstar Developed Mkts Index (\$Cdn)	5.8%	3.8%	10.5%	N/A	N/A	N/A	N/A	8.9%
S&P/TSX Composite Index	4.7%	-3.1%	0.0%	N/A	N/A	N/A	N/A	4.5%

<sup>1</sup>Feb 15, 2019

#### Growth of \$10,000 Since Inception



#### Best and Worst Annualized Returns



## Income Fund

### Market Context

- The Canadian bond market gained 0.4% in the quarter (interest and capital appreciation).
- The 10-year Government of Canada bond yield ranged from 0.43% (an all-time low) to 0.66%. It finished the quarter at 0.57%.
- Canadian stocks gained 4.7%. Industrial and consumer stocks were areas of strength.

### Portfolio Specifics

- Bonds comprise 73% of the portfolio. The fund's holdings had a positive quarter, with corporate and high yield securities providing the best returns.
- Credit spreads (the difference in yield between corporate and government bonds) continued to compress, which benefited the fund's corporate bonds (33% of the portfolio). Investments continue to be focused on high-quality companies with stable earnings such as utilities, telecoms and banks. The portfolio's provincial government holdings (32%) also fared well in this environment.
- Sovereign bonds (Government of Canada) comprise a small portion of the portfolio (4%). The yields on these securities are not as attractive, and the manager (Connor, Clark & Lunn) believes policymakers will continue to heavily support the economy, which is a positive for riskier assets.
- These accommodative policies also mean that interest rates will continue to stay very low. The manager anticipates keeping the term to maturity of the fund longer through the crisis to benefit from the associated yield pick up.
- As always, there are risks to monitor. Presently, an uncertain outcome in the U.S. election and a widespread second wave of the virus top the list. Bond investments continue to have a bias towards highly liquid (easy to trade) securities and companies with strong balance sheets as a defensive measure.
- The fund's dividend stocks performed well and outpaced the broader market in the quarter. Our focus remains on more defensive, steady cash-generating companies such as consumer staples, financial services, telecoms and utilities. The manager is also adding to stocks that are poised to benefit from secular growth themes such as renewable energy (BROOKFIELD RENEWABLE PARTNERS, NORTHLAND POWER) and digitization of the economy (OPEN TEXT).
- The fund paid a distribution of \$0.045/unit at the end of September.

### Positioning

- The fund's bond strategy remains defensive, but the manager is seeing pockets of opportunity emerge in corporate bonds.
- Stocks make up 27% of the fund and remain an important source of diversification and yield. The manager has a current bias towards high-quality large cap stocks.

The fund was up 1.6% in the quarter. Since inception (Feb 2007), it has a cumulative return of 106%, which equates to an annualized return of 5.4%.

### Notable Stock Transactions

#### Buy

Summit Industrial REIT\*  
Minto Apartment REIT  
WSP Global  
Open Text  
Premium Brands Holdings

\*New holding

#### Trim/Sell

Riocan REIT<sup>1</sup>  
Enbridge  
Empire Company  
Manulife  
Shaw Communications

<sup>1</sup>Position eliminated

Fund size	\$85,371,785
Pre-fee Yield	2.4%
Avg Term to Matur.	11.2 yrs
Duration (Bonds)	8.5 yrs





## Income Fund

### Attributes

#### Top Holdings (% of Fund)

Ontario 2.60% (Jun/25)	4.2%
CC&L High Yield Bond Fd	3.5%
Quebec 2.75% (Sep/25)	3.4%
Quebec 1.90% (Sep/30)	3.3%
Royal Bank	2.2%
RBC B/A 0.24% (Nov/20)	2.2%
Ontario 4.70% (Jun/37)	2.1%
Canada 0.50% (Dec/50)	2.0%
Quebec 3.75% (Sep/24)	1.9%
BMO 2.85% (Mar/24)	1.8%

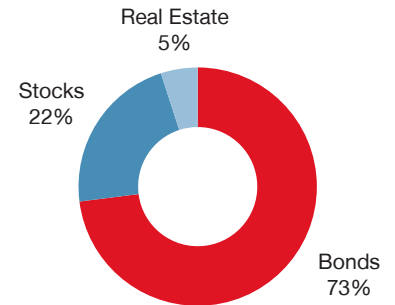
#### Issuer Allocation (Bonds)

Federal Government	7%
Provincial Government	47%
Corporate	46%

#### Rating Summary (Bonds)

AAA	9%
AA	46%
A	27%
BBB	15%
BB (or lower)	3%

#### Asset Mix



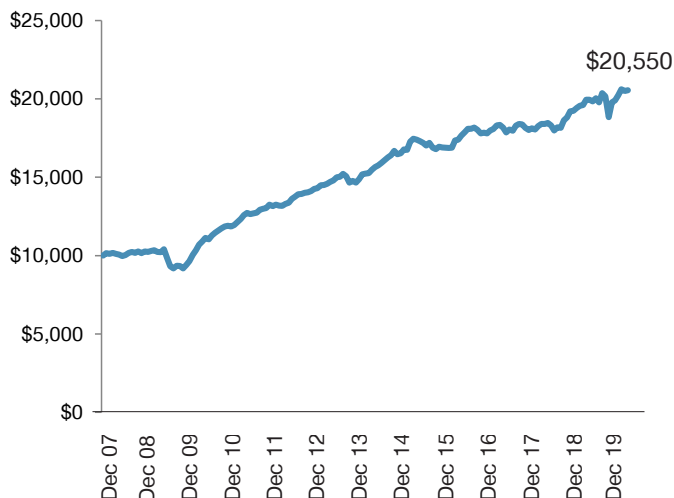
### Performance

#### Compound Annualized Returns (as of September 30, 2020)

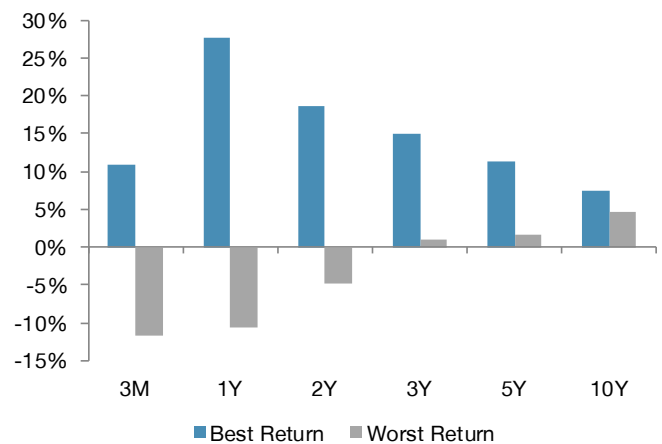
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep*
<b>Income Fund (after-fee)</b>	<b>1.6%</b>	<b>4.0%</b>	<b>3.1%</b>	<b>5.9%</b>	<b>4.6%</b>	<b>4.1%</b>	<b>5.0%</b>	<b>5.4%</b>
FTSE Canada Universe Bond Index	0.4%	8.0%	7.1%	8.4%	6.1%	4.3%	4.4%	4.9%
S&P/TSX Composite Index	4.7%	-3.1%	0.0%	3.5%	4.3%	7.2%	5.8%	4.6%

\*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) rose 4.7% in the third quarter, with industrial, materials, utilities and consumer stocks leading the way.
- Global stocks, as measured by the Morningstar Developed Markets Index, gained 5.8% in Canadian dollar terms.

### Portfolio Specifics

- The fund holds 24 stocks, of which 13 are headquartered in Canada, 6 in the U.S., and 5 overseas.
- The portfolio had a strong quarter and has performed well this year, with some holdings gaining significant ground as they're benefiting from a move to remote work and social distancing. For example, MICROSOFT has risen by a third this year as more companies are signing up to their cloud service. RITCHIE BROTHERS AUCTIONEERS (up over 40%) has been able to keep up with demand by moving its auctions online. And healthcare service provider DANAHER (also up more than 40%) has been involved in the fight against COVID-19.
- Not all holdings have benefited, of course. TD BANK has fallen 15% this year as it faces challenges in the form of near-zero interest rates and a highly indebted Canadian consumer. CAE, a leader in flight simulators, has seen its stock price decline by 40%. The manager (Fiera Capital) still sees the diversification value in owning "cyclical" stocks for when an economic recovery takes hold.
- SUNCOR ENERGY was sold in the quarter. The oil & gas producer's fortunes fluctuate with the state of the global economy. With little certainty around when things might return to normal and longer-term challenges around climate change, the manager elected to move on from the stock. MAGNA INTERNATIONAL (auto parts) was also sold following a sharp rebound from its March low.
- Sika (specialty chemicals), Keyence (manufacturing automation), and Experian (credit data) were trimmed after experiencing a strong rebound.
- The sales and trims were done to make room for two new positions. METRO operates grocery stores, primarily in Quebec and Ontario. Food retailing tends to be a defensive industry with limited competition in Canada. THOMSON REUTERS was also added to the portfolio. This Canadian company is a global leader in data and software for legal, accounting, tax and financial professionals.
- The fund currently has a cash position of 3%.

The fund was up 9.3% in the quarter. Since inception (Feb 2007), it has a cumulative return of 152%, which equates to an annualized return of 7.0%.

### Notable Transactions

#### Buy

Thomson Reuters\*  
 Metro\*  
 Philips  
 Alimentation Couche-Tard

\*New holding

#### Trim/Sell

Suncor Energy<sup>1</sup>  
 Magna International<sup>1</sup>  
 Sika  
 Experian  
 Keyence

<sup>1</sup>Position eliminated

### Positioning

- The fund is comprised of two dozen businesses operating in a diverse array of industries, from railroads to packaging to construction to software. The manager's 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.

Fund size	\$97,158,843
No. of stocks	24



## Equity Fund

### Attributes

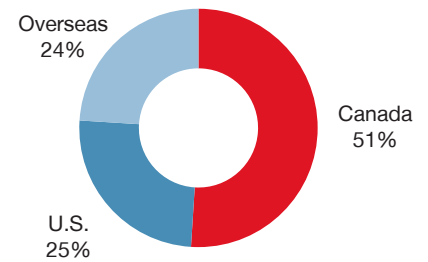
#### Top Stock Holdings

Franco-Nevada	7.8%
Keyence	6.1%
Visa	5.8%
CN Rail	5.4%
Danaher	5.1%
Brookfield Renewable	5.1%
Sika	5.0%
Ritchie Brothers	4.7%
Experian	4.7%
CCL Industries	4.7%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	26.9%
Financial Services	22.5%
Technology	13.0%
Healthcare	12.6%
Basic Materials	11.9%
Utilities & Pipelines	5.3%
Comm. & Media	4.1%
Oil & Gas	3.7%

#### Geographic Profile (Stocks)



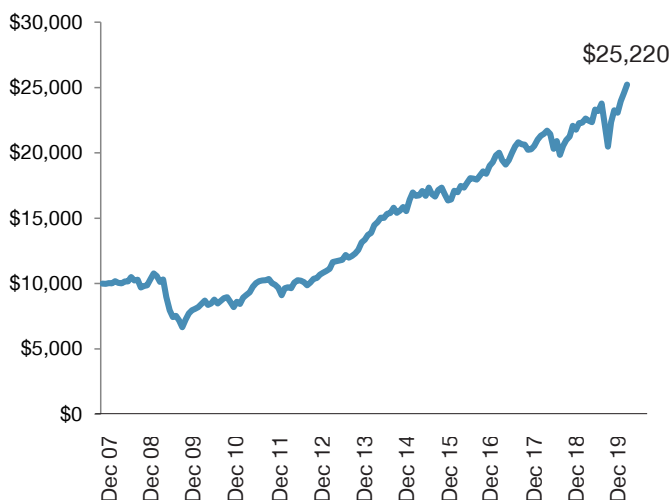
### Performance

#### Compound Annualized Returns (as of September 30, 2020)

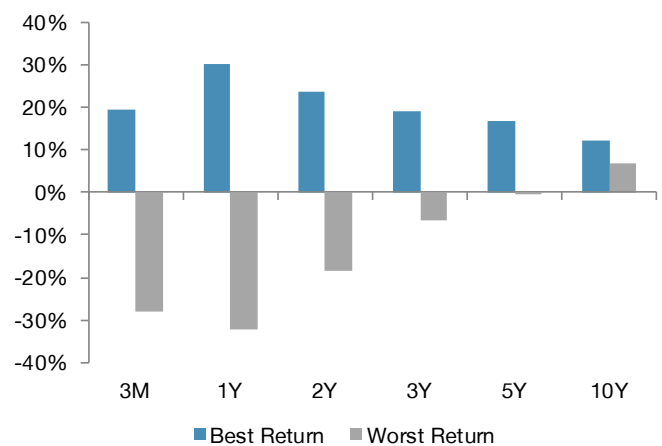
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep <sup>1</sup>
<b>Equity Fund (after-fee)</b>	<b>9.3%</b>	<b>8.7%</b>	<b>12.3%</b>	<b>8.4%</b>	<b>8.1%</b>	<b>8.7%</b>	<b>11.0%</b>	<b>7.0%</b>
S&P/TSX Composite Index	4.7%	-3.1%	0.0%	3.5%	4.3%	7.2%	5.8%	4.6%
Morningstar Developed Mkts Index (\$Cdn)	5.8%	3.8%	10.5%	7.0%	9.5%	10.1%	12.3%	6.9%

<sup>1</sup>Feb 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 up 5.8% in Canadian dollar terms in the third quarter.
- American stocks were an area of strength, rising nearly 9% (S&P 500 Index) in U.S. dollars. European, Asian and emerging markets also saw solid gains. The Canadian dollar was little changed against most currencies.

### Portfolio Specifics

- The fund holds 46 stocks, of which 19 are based in the U.S., 15 in Europe, 6 in the U.K., 4 in Asia, and 2 in Canada.
- Select holdings in the industrials and financial services industries saw significant gains in the quarter. KONECRANES, STELLA-JONES, BERKSHIRE HATHAWAY, and BURFORD CAPITAL all rose more than 20%. These gains were partially offset, however, by losses in the energy sector as CGG, SHELL and CENOVUS fell by more than 15%. Consumer stocks (MOWI, BAKKAFROST) also experienced declines.
- In spite of rising in Q3, the fund has lagged the broader market which has been led by technology and precious metals companies. The manager's (Velanne Asset Management) contrarian nature has kept it away from the hot areas of the market. Instead, it has found more compelling ideas in areas that have large recovery potential but are currently out-of-favour. These include industrials, media & entertainment, insurance, aerospace, aquaculture, and energy.
- Recent purchase IBSTOCK is a good example of Velanne's process. The company produces a simple product — bricks — but enjoys more than 30% margins and controls 35% market share in the U.K., its home country. Moreover, Ibstock is expected to benefit in the coming years as housing supply in the U.K. catches up with demand. The stock has come under pressure because of the possibility of another economic shutdown. But Velanne sees an opportunity to buy a company with high 5-year return potential in an environment that is more focused on the next one year.
- Velanne continued to use current conditions to improve the quality profile of its holdings without compromising upside. For example, energy services company HALLIBURTON was sold and proceeds were put toward SCHLUMBERGER and CGG.
- WILLIAM HILL was also sold after climbing more than 70%, and SEVEN & I was sold after it acquired a company Velanne felt was not in the best interest of shareholders.
- The fund currently has a cash position of 3%.

### Positioning

- The portfolio is invested in quality companies that generate large amounts of cash flow but are facing temporary headwinds and are trading below their true value.
- Current focus is on businesses that are being overlooked because of near-term uncertainty but are likely to do better as the economic environment improves.

The fund was up 4.5% in the quarter. Since inception (Feb 2007), it has a cumulative return of 18%, which equates to an annualized return of 1.2%.

### Notable Transactions

#### Buy

Ibstock\*  
Informa  
Cerved Group  
Schlumberger  
Elis

\*New holding

#### Trim/Sell

Halliburton<sup>1</sup>  
Seven & I Holdings<sup>1</sup>  
William Hill<sup>1</sup>  
Medtronic

<sup>1</sup>Position eliminated

Fund size	\$51,239,161
No. of stocks	46



## Global Equity Fund

### Attributes

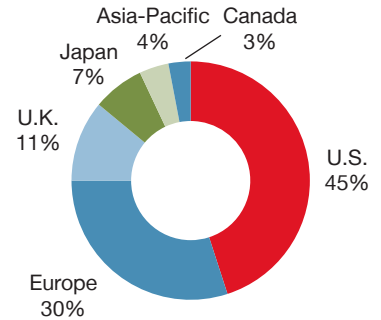
#### Top Stock Holdings

Zimmer Biomet	5.2%
Bayer	4.3%
Heiwa Real Estate	4.3%
Walt Disney Company	3.9%
Konecranes	3.5%
Vistra Energy	2.9%
Discovery, Inc.	2.9%
Mowi	2.9%
Alleghany	2.8%
Chugoku Marine Paints	2.8%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	22.3%
Financial Services	20.7%
Healthcare	17.0%
Consumer Products	9.6%
Comm. & Media	7.8%
Oil & Gas	4.7%
Real Estate	4.4%
Consumer Cyclical	4.1%
Utilities & Pipelines	3.0%
Basic Materials	2.3%
Technology	2.2%
Retailing	1.9%

#### Geographic Profile (Stocks)



### Performance

#### Compound Annualized Returns (as of September 30, 2020)

	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep <sup>1</sup>
<b>Global Equity Fund (after-fee)</b>	<b>4.5%</b>	<b>-16.6%</b>	<b>-9.7%</b>	<b>-10.0%</b>	<b>-5.3%</b>	<b>1.0%</b>	<b>5.0%</b>	<b>1.2%</b>
Morningstar Developed Mkts Index (\$Cdn)*	5.8%	3.8%	10.5%	7.0%	9.5%	10.1%	12.3%	6.9%

\*The fund has declined 19.0% since September 30, 2018, which is Velanne's starting date as portfolio advisor. The index is up 14.4% over the same period.

<sup>1</sup>Feb 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) gained 6.6% in the quarter. U.S. small-caps (Russell 2000 Index) rose 2.7% in Canadian dollar terms.
- Consumer and industrial stocks were areas of strength while energy stocks lagged.

### Portfolio Specifics

- The fund consists of 26 companies, ranging from very small (WATERLOO BREWING) to medium-sized businesses (CARGOJET). While the majority of holdings are Canadian, there are three U.S. stocks which make up 11% of the portfolio.
- The fund had a strong quarter as many stocks continued to rebound from oversold levels reached in the early days of the pandemic. Companies with exposure to the work from home phenomenon, which has led to an increase in spending related to enhancing life at home, benefited in particular.
- Three holdings help illustrate this in different ways. SLEEP COUNTRY CANADA's results have been strong as people are seemingly placing a high value on a good night's sleep. SPIN MASTER, which makes toys and games, has benefited from an increase in toy spending as more parents try to juggle working from home and keeping their kids entertained. And INTERTAPE POLYMER, which makes tapes and adhesives for packages, had a better-than-expected quarter as demand for its products has been robust.
- CARGOJET has also been a key beneficiary of the uptick in online shopping. The company, which specializes in overnight air cargo services, also saw its results boosted by charter services focused on bringing PPE and medical supplies to various government agencies. The stock is up 85% this year.
- Another holding worth highlighting is INTERFOR, one of the world's largest lumber producers. Low supply and inventory coupled with strong demand (driven by home improvements and construction) drove the price of lumber significantly higher in the summer, leading to a healthy gain in the stock.
- One stock was sold in the quarter, MIDDLEBY CORP., which makes commercial ovens for restaurants. The manager, Galibier Capital, believes the future is highly uncertain for this industry and sold the stock (following a decent recovery in price). Several positions were trimmed based on strong performance, including Cargojet, Interfor, Sleep Country, Spin Master and NORTHLAND POWER.
- No new companies were added to the fund but additional shares were purchased in OSHKOSH, SNC-LAVALIN, and TOREX GOLD RESOURCES, which trailed the market.
- The fund currently has a cash position of 3%.

The fund was up 8.2% in the quarter. Since inception (Feb 2007), it has a cumulative return of 102%, which equates to an annualized return of 5.3%.

### Notable Transactions

#### Buy

Oshkosh Corp.  
SNC-Lavalin  
Torex Gold Resources

#### Trim/Sell

Middleby Corp.<sup>1</sup>  
Cargojet  
Interfor  
Spin Master  
Northland Power

<sup>1</sup>Position eliminated

### Positioning

- The portfolio has a unique composition, with key areas of investment being capital goods, transportation, food & beverage, and engineering services. This is in contrast to the small-cap market's heavy focus on resource companies.

Fund size	\$41,484,915
No. of stocks	26



## Small-Cap Equity Fund

### Attributes

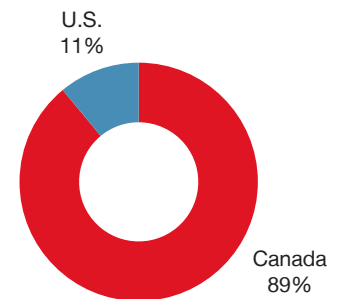
#### Top Stock Holdings

Northland Power	5.9%
Maple Leaf Foods	5.6%
Oshkosh Corp.	5.2%
Badger Daylighting	5.1%
Spin Master	5.0%
Waterloo Brewing	4.8%
Premium Brands Hldgs.	4.7%
Ag Growth International	4.7%
Park Lawn	4.5%
Sleep Country Canada	4.4%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	45.3%
Consumer Cyclical	16.5%
Consumer Products	15.5%
Basic Materials	8.0%
Utilities & Pipelines	6.0%
Oil & Gas	5.2%
Healthcare	3.5%

#### Geographic Profile (Stocks)



### Performance

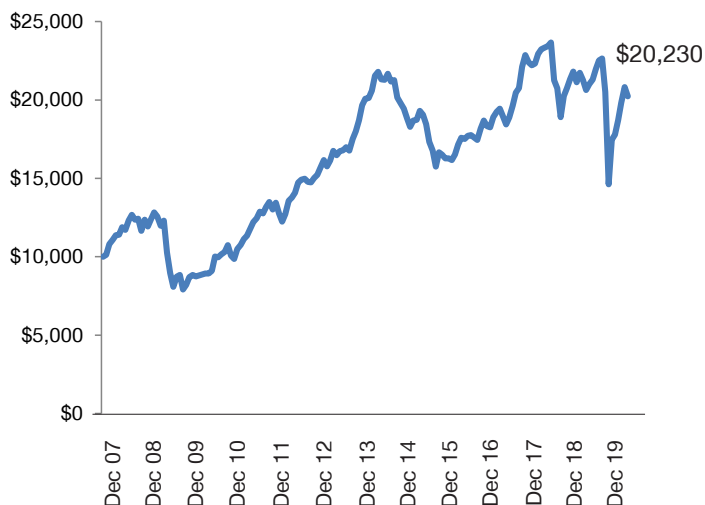
#### Compound Annualized Returns (as of September 30, 2020)

	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep <sup>1</sup>
<b>Small-Cap Equity Fund (after-fee)*</b>	<b>8.2%</b>	<b>-10.2%</b>	<b>-3.7%</b>	<b>-7.5%</b>	<b>1.0%</b>	<b>5.1%</b>	<b>6.2%</b>	<b>5.3%</b>
S&P/TSX SmallCap Index	6.6%	-8.6%	-2.9%	-4.8%	-3.2%	4.5%	0.8%	0.7%
Russell 2000 Index (\$Cdn)	2.7%	-6.2%	1.1%	-2.9%	4.1%	7.9%	12.7%	7.2%

\*The fund has gained 14.9% since September 30, 2016, which is Galibier's starting date as portfolio advisor. The Canadian index is down 8.2% over the same period.

<sup>1</sup>Feb 13, 2007

#### Growth of \$10,000 Since Inception



#### Best and Worst Annualized Returns



## Global Small-Cap Equity Fund

### Market Context

- The global small-cap market (S&P Global SmallCap Index) rose 5.5% in the third quarter in Canadian dollar terms.
- Consumer discretionary, materials, and industrial companies were strong performers while energy, utilities and financial services lagged.

### Portfolio Specifics

- The fund is managed by New York-based TimesSquare Capital Management, which specializes in small-cap investing. The portfolio is expected to hold between 40-50 stocks around the globe. It's currently invested in 39 companies. Fifteen are based in the U.S., 11 in Europe, 5 in Japan, 4 in the U.K., 3 in Australia, and 1 in Asia.
- Many holdings saw solid price gains in the quarter. The top contributors to performance included a diverse range of businesses: NORDIC ENTERTAINMENT GROUP (the Nordic region's leading entertainment provider), TELEPERFORMANCE (a leader in call centers and outsourced customer experience solutions), CHARLES RIVER LABORATORIES (provides lab services for the discovery and manufacture of drugs), and AMPLIFON (the world's largest hearing aid retailer).
- Technology and internet-related stocks have been the market darlings throughout the pandemic, but these companies, many of which are in the red financially, have been labeled as overhyped by many observers. While the fund has exposure to the sector (investments include ZYNGA, GARTNER, and recent addition HUYA), our focus is on profitable companies — an important qualifier in our investment process.
- Three stocks were purchased, all of which exemplify the manager's broad scope when looking for opportunities. HUYA is a Chinese leader in streaming video games. It has a dominant market share in a fast-growing industry. IPH LIMITED is an Australian firm that offers a range of intellectual property (IP) services such as patent and trademark registrations for companies introducing products into Australia and Southeast Asia. REXNORD is a Milwaukee-based leader in motion control solutions (for the aerospace industry and others) and has a growing water management division.
- Two stocks were sold based on heightened uncertainty to their business models stemming from COVID-19: CUSHMAN & WAKEFIELD (real estate services) faces a difficult landscape for commercial leasing; while ABC-MART (Japanese shoe retailer) will likely see further pressure from a decline in retail foot traffic. APOLLO GLOBAL MANAGEMENT (an alternative investment manager) was sold following a run of strong performance. J2 GLOBAL (internet services) was also eliminated.
- The fund currently has a cash position of 7%.

The fund was up 3.7% in the quarter. Since inception (Feb 2019), it has a cumulative return of 16%, which equates to an annualized return of 9.3%.

### Notable Transactions

#### Buy

Huya\*  
IPH Limited\*  
Rexnord\*  
Nippon Shinyaku  
Clean Harbors

\*New holding

#### Trim/Sell

Cushman & Wakefield<sup>1</sup>  
ABC-Mart<sup>1</sup>  
Apollo Global Management<sup>1</sup>  
J2 Global<sup>1</sup>

<sup>1</sup>Position eliminated

### Positioning

- The fund invests in businesses with a clear competitive edge, a record of consistent earnings growth, and management that has clear goals and a record of success.

Fund size	\$7,340,214
No. of stocks	39





## Global Small-Cap Equity Fund

### Attributes

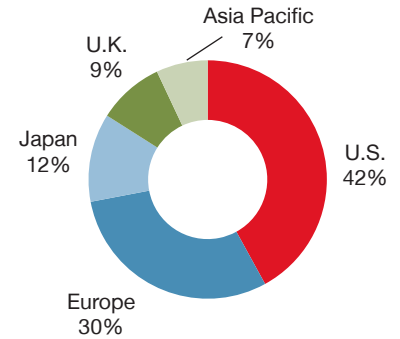
#### Top Stock Holdings

Teleperformance	5.2%
RenaissanceRe	4.5%
Charles River Labs	4.0%
FinecoBank	3.9%
St. James's Place	3.8%
Kobe Bussan	3.6%
Zynga	3.5%
Nordic Entertainment	3.1%
RPM International	3.1%
Topdanmark	2.9%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	26.1%
Financial Services	21.7%
Healthcare	16.7%
Technology	13.4%
Consumer Cyclical	11.5%
Consumer Products	5.4%
Real Estate	2.9%
Oil & Gas	2.3%

#### Geographic Profile (Stocks)



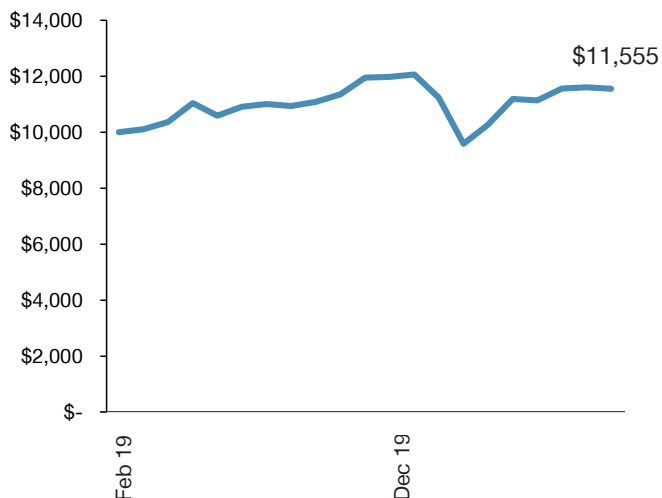
### Performance

#### Compound Annualized Returns (as of September 30, 2020)

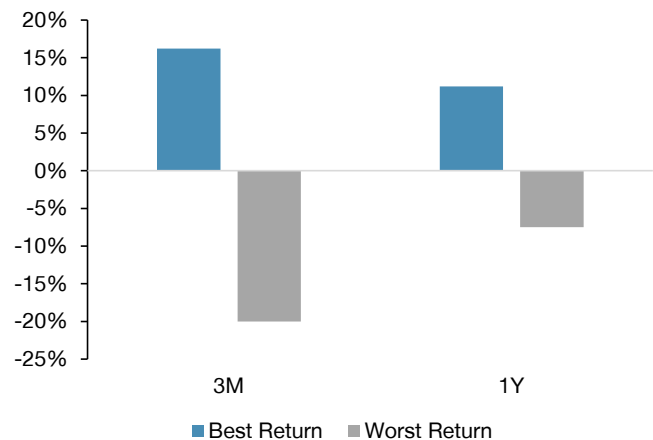
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep <sup>1</sup>
<b>Global Small-Cap Equity Fund (after-fee)</b>	<b>3.7%</b>	<b>-3.5%</b>	<b>4.3%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>9.3%</b>
S&P Global SmallCap Index (\$Cdn)	5.5%	-3.1%	3.9%	N/A	N/A	N/A	N/A	3.3%

<sup>1</sup>Feb 15, 2019

#### Growth of \$10,000 Since Inception



#### Best and Worst Annualized Returns



## Savings Fund

### Market Context

- The Bank of Canada left its key lending rate unchanged in the quarter, at 0.25%.
- Economies around the world bounced back in the third quarter as containment measures continued to be lifted. Consumer spending rebounded nicely and employment numbers were encouraging.
- The Bank of Canada expects this reopening phase to be followed by an uneven recuperation phase that will be highly dependent on the path of COVID-19 and heavily reliant on fiscal and monetary support.
- Short-term policy rates will likely remain at extremely low levels.

### Positioning

- The manager (Connor, Clark & Lunn) maintained its preference for corporate paper in the quarter. These securities, which include bank paper, floating rate notes and short-dated bonds, comprise 70% of the fund.
- Investments in T-Bills remain focused on provincial securities (30% of the fund).
- The pre-fee yield of the fund at the end of September was 0.3%.

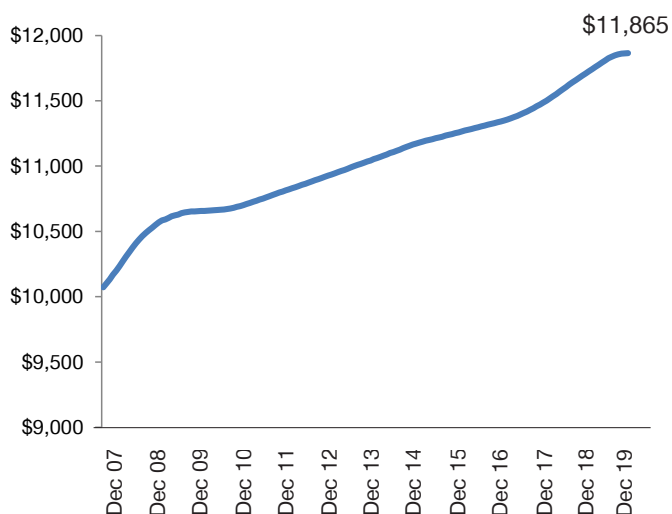
## Performance

### Compound Annualized Returns (as of September 30, 2020)

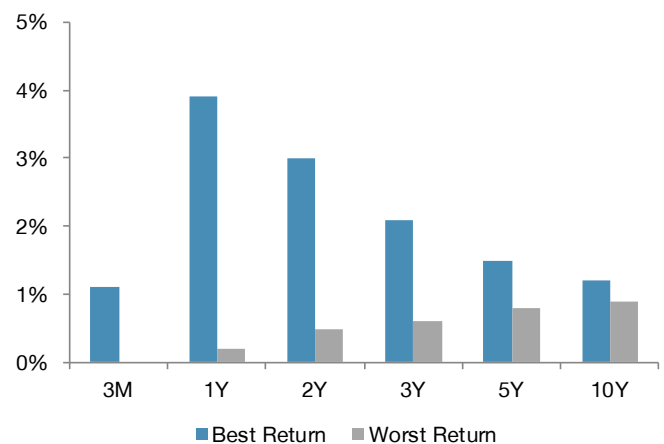
	3M	YTD	1Y	2Y	3Y	5Y	10Y	Incep*
<b>Savings Fund (after-fee)</b>	<b>0.1%</b>	<b>0.8%</b>	<b>1.2%</b>	<b>1.5%</b>	<b>1.4%</b>	<b>1.1%</b>	<b>1.1%</b>	<b>1.3%</b>
FTSE Canada 91 Day T-Bill Index	0.1%	0.8%	1.3%	1.5%	1.4%	1.0%	1.0%	1.3%

\*Feb 13, 2007

### Growth of \$10,000 Since Inception



### Best and Worst Annualized Returns



## Signs that investors are paying far too much attention to short-term noise

Special to the National Post, by Tom Bradley, August 29, 2020

In Malcolm Gladwell's latest book, *Talking to Strangers*, he writes about the concept of alcohol myopia. It's a theory that alcohol causes drinkers to focus on their immediate environment. As Wikipedia puts it, intoxicated individuals act rashly, choose overly simple solutions to complex problems and act without considering the consequences.

What does this have to do with investing? Well, right now it feels like we're experiencing market myopia. Investors are focused on today, leaving the future for later. I'm not so much referring to the strength of the stock market, but rather all the stuff that's going on around it. Here are some signs that investors are getting intoxicated.

### Extrapolating current demand

Companies that did well during the lockdown are generally expected to keep growing and profiting in the post-pandemic world, including home improvement stocks such as Home Depot, Lowe's and Best Buy, athleisure stocks like Lululemon and Nike, and, of course, technology stocks.

In some cases, the success of these stocks is blinding investors to the challenge those companies will face next year when they're expected to beat this year's one-time demand surge. Customers may have bought enough home office equipment and spandex to keep them going for a while, and be culling their list of streaming services as well. Indeed, spending may rotate into areas where there's pent-up demand such as travel, weddings, and even debt reduction.

### Worrying about profits later

One of the features of this market cycle has been the emergence of what I call the "non-profit" sector: companies that are growing rapidly, but don't have a clear path to profitability. Some of today's tech giants weren't overly profitable in their early days either (e.g. Facebook and Alphabet), but the next generation (Uber, Zoom, Slack and Wayfair) appear to be different. They are mature companies and are losing money in a favourable business environment.

### Chasing yield

The bonds of cyclical and highly indebted companies got hammered during the March meltdown as holders worried about getting their money back. Since then, however, most of the lost ground has been made up, even though the economic outlook is no more certain. Investors are moving up the risk scale to feed their insatiable appetite for yield,

because high-quality corporate and government bonds are yielding next to nothing. Investors are getting a little more yield with a lot more risk.

Distressed debt managers tell me borrowers are still paying interest, yet I can't help but think this reflects today's highly subsidized economy, not the less-stimulated, surprise-laden one that lies ahead.

### Stock splits, price targets and blank cheques

There are other signs that we're in silly season. In recent weeks, Tesla and Apple were sharply up on news that they were splitting their stocks. The splits made the shares more accessible to smaller investors, but didn't create one dollar of additional value.

Meanwhile, these two popular stocks have made analysts' price targets a joke. I heard a Tesla analyst say that he went out on a limb early this year by raising his target to US\$650. Recently, he upped it to US\$2,200. Analysts covering Apple are doing the same thing: raising targets with little or no change to earnings forecasts.

The hottest trend in the U.S. market for IPOs are blank cheque companies. These special purpose acquisition companies (SPACs) don't own any assets, but promise to make savvy acquisitions with the funds raised. The SPAC space is risky to begin with, but things have been taken up a notch with less seasoned promoters and more speculative acquisitions (e.g. driverless vehicles). Everyone is getting into the game including Billy Beane, the baseball genius of Moneyball fame, and Paul Ryan, the former Speaker of the House of Representatives. Can LeBron James be far behind?

### Crowded trades and fat pitches

Veteran investors like me struggle when investing becomes part of pop culture. We can't be sure how or when the hysteria will end. We just know it will.

It's frustrating and hard to keep up, but not discouraging. I still believe the most enduring inefficiency in the stock market is time frame. There will always be rewards for looking beyond the near-term noise to the opportunities and risks further out. The myopic market has put the spotlight on a select number of popular trades, which leaves plenty of other areas to explore. There are fat pitches out there, to use Warren Buffett's analogy, they just haven't gone viral yet.

# Steadyhand



## Eating our own cooking

One of our key business principles is co-investment — the practice of investing alongside our clients.

We've [updated our numbers](#) for 2020 and can report that on average, our team has **94%** of our financial assets invested in our funds. Now that's home cooking!

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The performance data provided for the Steadyhand Savings Fund assumes reinvestment of distributions only and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The indicated rates of return for the funds other than the Savings Fund are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual fund securities are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the funds will be able to maintain their net asset value per security at a constant amount or that the full amount of your investment in the funds will be returned to you. Past performance may not be repeated.

Morningstar Developed Markets Index: ©2020 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Steadyhand Investment Management Ltd. is the manager of the Steadyhand funds. Steadyhand Investment Funds Inc. (SIFI) is the principal distributor of the funds.

Published on October 7, 2020, by Steadyhand Investment Funds Inc.

**steadyhand.com**

1.888.888.3147

1747 West 3rd Avenue

Vancouver, BC V6J 1K7

