

# Steadyhand

15 YEARS

## Q2 2022

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“Investors may not have thought of every risk, but the current list is pretty exhaustive: the war, inflation, rising interest rates, recession and let’s not forget the coronavirus. What this means is that investing today is less risky. Some, all or even more than all of the negative news has been reflected in stock prices. There are fewer things left to sideswipe the market.”

- Tom Bradley, The National Post, May 30<sup>th</sup>



## Bradley's Brief



The first half of 2022 was the worst 6-month period in history for balanced portfolios. Bonds and stocks were down significantly, which is unusual in bear markets.

The declines reflect an economy and market going through a massive transition. To better understand why this is happening, we need to first look at where it started.

Prior to this year, some important trends were far from normal. Central banks and governments were in perpetual stimulation mode (even when the economy was strong). Interest rates were near zero and borrowing was easy. Buy now, pay later became the modus operandi for many families and most governments.

Corporations had the wind at their back. In addition to cheap financing and energy, labour was plentiful and the cost of using the planet's ecosystem was free, or close to it. Business was run 'just in time' with little slack in the system.

Meanwhile, investors were focusing on innovation and technology. These 'asset light' businesses, which traded at valuations reminiscent of the tech boom in the late 90's, sucked capital away from companies providing the inputs needed to implement the technologies.

These trends were unsustainable but that didn't make calling the turn any easier. A change agent was needed, and we got two big ones — a pandemic hangover and a European war — which proved highly disruptive to such a tightly wound, highly geared economy.

The economic tailwinds have now turned to headwinds. Labour and many inputs are in short supply and financing isn't as cheap or accessible. Interest rates have reversed course as central bankers desperately try to catch up to spiraling inflation.

Global stock indices are down almost 20% year-to-date and many tech stocks are 70-80% below their highs.

So where does this leave us as we look forward? Transitions as major as this one take time to play out but a lot of adjustment has already occurred. And we shouldn't forget there are many positives mixed in with the waves of negativity. The outlook for employment is good, the ever-increasing use of technology will help moderate cost increases and the middle class in Asia is growing rapidly. And private equity firms have a huge cash pile to spend.

Earnings will likely come down and debt will be a problem, but the system is in a better place than during other slowdowns. The banks are well prepared, and the U.S. consumer is not over extended (as opposed to Canadians). Loan defaults are more likely to be on the books of private investors as opposed to depositors, which is good for the stability of the financial system.

And importantly, stock valuations have fallen back into normal ranges, and investor sentiment has turned decidedly bearish (a good contrarian indicator).

Going forward, we expect the market to be more discriminating than it has been so far. Markdowns on private assets are yet to come and some weak players won't survive, but well-financed, profitable companies, which is our focus, have a wonderful opportunity to get stronger. We've been slowly adding to these types of holdings, many at compelling valuations. I don't know when markets will bottom but know that I want to own a diverse collection of leading businesses when it does. We are endeavouring to do that on your behalf.



## Key Takeaways

### Stocks

- Persistently high inflation and incessant supply chain issues continued to weigh on stocks in the second quarter. U.S. and global markets turned in double-digit declines and are down close to 20% this year. Emerging markets fared somewhat better in the quarter, with Chinese stocks up 5%, but are down more than 15% in 2022.
- The Canadian market (S&P/TSX Composite Index) fell 13.2%. Mining stocks pulled back following a good start to the year, and the technology and healthcare industries were especially weak. The energy sector was the top performer, yet also declined.
- The loonie fell against the U.S. dollar (-3%), but rose against the Euro (+3%), British Pound (+5%), and Japanese Yen (+8%), which reduced the returns of foreign stocks.

### Bonds

- The Canadian bond market (FTSE Canada Universe Bond Index) had a return of -5.7% in the quarter as bond yields surged (when yields rise, prices fall).
- The 10-year Government of Canada bond yield rose from 2.4% to 3.2%, a level not seen in over a decade. The Bank of Canada also raised its key short-term lending rate twice, by 0.5% each time, bringing the rate to 1.5%.
- Long-term bonds saw the greatest declines, falling more than 10% in aggregate.

### Our Funds

- Our funds fared better than the markets for the most part, but all had a negative quarter (except the Savings Fund). Our balanced clients' portfolios were down 9% to 10%. Over the past 10 years, our balanced returns were 5% to 6% per year.
- The stock weighting in the Founders Fund was slightly increased and sits at 64%. We used some of the cash in the portfolio to add to both stocks and bonds.
- In the context of our balanced portfolios, key transactions included the purchase of MUNICH RE GROUP (Germany), ENGHOUSE SYSTEMS (Canada), and VISCOFAN (Spain); and the sale of TWITTER (U.S.), POINTS (Canada), and ZYNGA (U.S.).

## Our Advice to Clients

We recommend you be at or above your long-term target for stocks. In the Founders Fund, our stock weighting is 64%. We feel speculation has subsided and valuations are reasonable following the market declines this year. Our focus is on profitable, well-financed companies that we feel are in a good position to improve their market leadership. Our outlook for bonds remains subdued, despite the recent uptick in yields. We recommend a below-average position, with cash as an alternative. In the Founders Fund, 6% of the portfolio is currently in cash.

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

### Market Returns

	3M	1Y
Canada	-13.2%	-3.9%
World	-13.5%	-11.5%

	3M	1Y
Bonds	-5.7%	-11.4%

### Fund Returns

	3M	1Y
Savings	0.3%	0.3%
Income	-7.1%	-9.3%
Founders	-9.5%	-10.4%
Builders	-12.4%	-12.7%
Equity	-11.8%	-4.8%
Global	-11.2%	-17.1%
Small-Cap	-14.6%	-12.1%
Global Small-Cap	-14.9%	-21.9%



## 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 manages the fund along with Chief Investment Officer Salman Ahmed. 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.

### Portfolio Specifics

- The Founders Fund had a negative return of -9.5% in the second quarter. Stock and bond markets continued the downward trend that started in the first quarter. With both asset classes in decline, it was the worst six months in history for balanced investors.
- Throughout 2021, we trimmed positions in the equity funds in an attempt to lean against the speculative wind. This changed in the first quarter as stock prices dropped and the level of speculation in the market subsided. In the second quarter, we continued to use flows into the fund, as well as money from the cash reserve, to add to the Equity and Global Equity Funds.
- Founders has been under-committed to bonds for a number of years and remains so, but with yields now higher, the appeal of fixed income has improved relative to cash. We modestly increased our bond weighting in the quarter.
- The asset mix allocations were little changed in Q2 as the market declines largely offset the equity purchases. At quarter-end, stocks made up 64% of the fund and bonds were at 30%. The cash reserve has decreased from 14% at year-end to 6% today. The need for protection against rising rates and falling stock valuations has been reduced.
- It's important to note that the portfolio's asset mix is important, but returns are primarily driven by the performance of the underlying funds. Through these funds, Founders owns a mix of bonds and stocks across a wide range of industries, geographies, and currencies.
- Prominent transactions in the quarter (in the underlying funds) included the purchase of MUNICH RE GROUP (Germany), ENGHOUSE SYSTEMS (Canada), and VISCOFAN (Spain); and the sale of TWITTER (U.S.), POINTS (Canada), and Zynga (U.S.).

### Positioning

- Founders owns more stocks now than it did at the end of last year. This isn't because we know where the market is going in the short run, but rather because the expected 5-year returns have improved and there is less downside risk. There is a laundry list of things to worry about, which is precisely why there is less risk. The issues are in plain view and investors are extremely bearish (a good contrarian indicator).
- For more details on the underlying funds, please review pages 8-18.

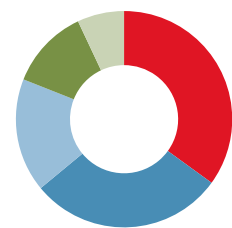
The fund was down 9.5% in the quarter. Since inception (Feb 2012), it has a cumulative return of 71%, which equates to an annualized return of 5.3%.

#### Fund Mix

Income	39%
Equity	22%
Global	22%
Small-Cap	7%
Global Small-Cap	6%
Cash	4%



#### Asset Mix



Foreign Stocks	35%
Canadian Stocks	29%
Gov't Bonds	18%
Corporate Bonds	12%
Cash & Short-term	6%

Fund size \$554,529,833



## Founders Fund

### Attributes

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

Microsoft	1.8%
TD Bank	1.8%
Danaher	1.8%
CN Rail	1.6%
Franco-Nevada	1.4%
Brookfield Renewable	1.3%
Visa	1.3%
Thomson Reuters	1.2%
Telus	1.0%
Toromont	1.0%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	28.1%
Financial Services	19.7%
Technology	10.4%
Healthcare	9.0%
Consumer Cyclical	6.7%
Basic Materials	4.9%
Consumer Products	4.9%
Utilities & Pipelines	4.7%
Comm. & Media	3.4%
Real Estate	3.0%
Retailing	2.7%
Oil & Gas	2.5%

#### Asset Mix

Long-term		Current
17%	Overseas Stocks	18%
17%	U.S. Stocks	17%
26%	Canadian Stocks	29%
35%	Bonds	30%
5%	Cash	6%

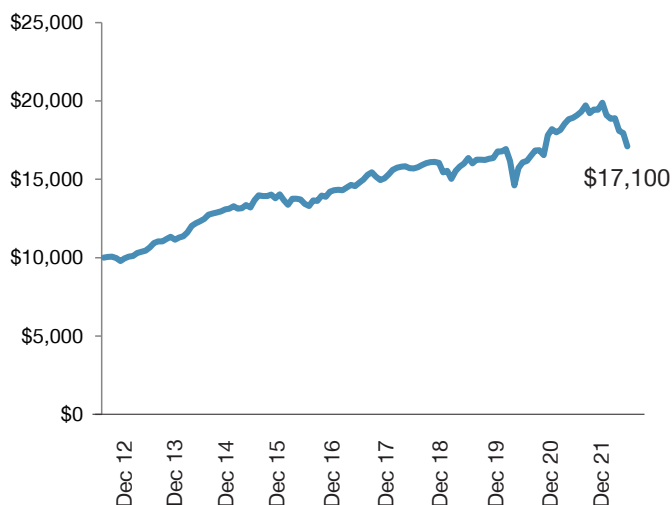
### Performance

#### Compound Annualized Returns (as of June 30, 2022)

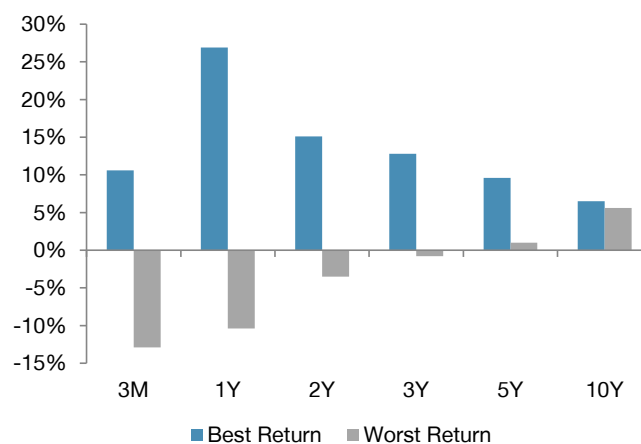
	3M	YTD	1Y	3Y	5Y	10Y	15Y	Incep <sup>1</sup>
<b>Founders Fund (after-fee)</b>	<b>-9.5%</b>	<b>-14.0%</b>	<b>-10.4%</b>	<b>1.7%</b>	<b>2.4%</b>	<b>5.6%</b>	<b>N/A</b>	<b>5.3%</b>
FTSE Canada Universe Bond Index	-5.7%	-12.2%	-11.4%	-2.3%	0.2%	1.7%	N/A	1.9%
Morningstar Developed Mkts Index (\$Cdn)	-13.5%	-18.9%	-11.5%	6.5%	7.6%	12.6%	N/A	12.0%
S&P/TSX Composite Index	-13.2%	-9.9%	-3.9%	8.0%	7.6%	8.2%	N/A	7.3%

<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 Chief Investment Officer Salman Ahmed, with Chair and co-founder Tom Bradley as co-manager.

The fund was down 12.4% in the quarter. Since inception (Feb 2019), it has a cumulative return of 9%, which equates to an annualized return of 2.7%.

### Portfolio Specifics

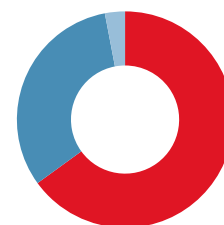
- Stock markets around the world experienced significant declines in the second quarter. The fund also lost ground, but held up modestly better.
- Investments are allocated roughly 1/3 towards companies based in Canada and 2/3 towards foreign businesses. The bias to foreign companies reflects a much broader opportunity set outside of Canada, particularly in important industries like healthcare, technology, and consumer products and services.
- The largest sector weight, industrial goods & services (31% of the portfolio), includes a diverse mix of companies such as FANUC (factory automation), REGAL REXNORD (manufacturer of motors, bearings, and gearing), RITCHIE BROS. AUCTIONEERS (heavy equipment auctioneer), and SAVARIA (home elevators and mobility products). Most stocks in the sector declined in the quarter despite continuing to produce good financial results.
- Financial services companies make up 17% of the fund. Large holdings are TD BANK, VISA, and BROOKFIELD ASSET MANAGEMENT. We also own a group of leading insurance companies, including RENAISSANCE RE, TOPDANMARK, AIA GROUP, and MUNICH RE GROUP.
- The technology sector is another important area of investment, comprising 11%. MICROSOFT is the largest weight in the Builders Fund and is held in both the Equity and Global Equity Funds. Other holdings in the industry include SAMSUNG ELECTRONICS (diversified technology), QUALCOMM (chips), NEMETSCHEK GROUP (software for architects and engineers), and TOTVS (management software). Tech stocks had a rough quarter in general and our holdings were not spared.
- The portfolio has some exposure to commodity stocks, including Franco-Nevada (gold), NUTRIEN (fertilizers), AG GROWTH INTERNATIONAL (fertilizer, seed, and grain handling), and TOTALENERGIES (oil & gas producer), but resource companies are not a prominent feature of the fund due to their inherent cyclical nature.

#### Fund Mix

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



#### Asset Mix



Foreign Stocks	61%
Canadian Stocks	35%
Cash & Short-term	4%

### Positioning

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

Fund size \$137,883,582



## Builders Fund

### Attributes

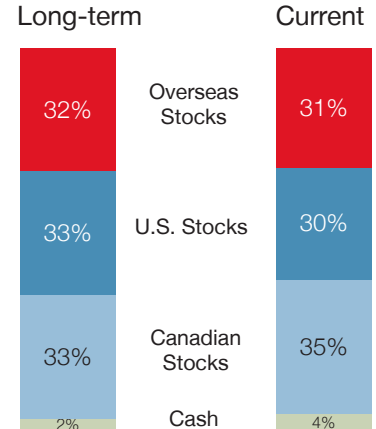
#### Top Stock Holdings (% of Fund)

Microsoft	2.9%
Danaher	2.8%
Franco-Nevada	2.3%
Visa	2.1%
Brookfield Renewable	2.0%
TD Bank	1.9%
CN Rail	1.9%
CME Group	1.5%
CCL Industries	1.5%
Ritchie Bros. Auctioneers	1.5%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	31.2%
Financial Services	17.1%
Technology	11.4%
Healthcare	10.2%
Consumer Cyclical	7.8%
Consumer Products	5.6%
Basic Materials	5.3%
Utilities & Pipelines	2.8%
Comm. & Media	2.6%
Retailing	2.6%
Oil & Gas	2.3%
Real Estate	1.1%

#### Asset Mix



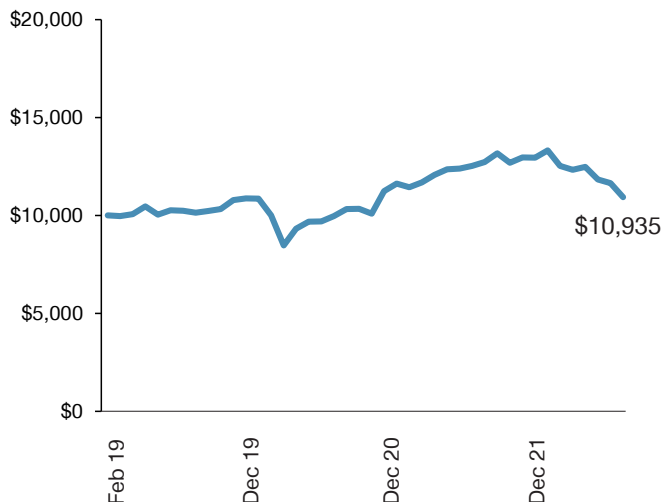
### Performance

#### Compound Annualized Returns (as of June 30, 2022)

	3M	YTD	1Y	3Y	5Y	10Y	15Y	Incep <sup>1</sup>
<b>Builders Fund (after-fee)</b>	<b>-12.4%</b>	<b>-17.9%</b>	<b>-12.7%</b>	<b>2.1%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>2.7%</b>
Morningstar Developed Mkts Index (\$Cdn)	-13.5%	-18.9%	-11.5%	6.5%	N/A	N/A	N/A	7.2%
S&P/TSX Composite Index	-13.2%	-9.9%	-3.9%	8.0%	N/A	N/A	N/A	8.6%

<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 fell 5.7% in the quarter (interest less capital depreciation).
- Bond yields continued to rise, with the 10-year Government of Canada yield climbing from 2.4% to 3.2%, a level not seen in over a decade.
- Canadian stocks fell 13.5%. Mining and technology companies were the hardest hit.

### Portfolio Specifics

- The Canadian bond market has suffered its worst ever start to a year as yields have moved significantly higher in reaction to surging inflation (when yields rise, prices fall). The Bank of Canada raised its key policy rate twice in the quarter (by 0.5% each time), to 1.5%. The U.S. Federal Reserve also implemented its biggest hike in nearly 30 years. The moves are being made to tackle swelling inflation, which has become the overriding focus of central banks. Bond yields rose across the maturity spectrum and the portfolio had a challenging quarter in this environment. There was no place to hide.
- Where bond yields go from here will be highly dependent on inflation. Further interest rate hikes are expected this year and the fund continues to be positioned defensively in this uncertain climate. Our manager, Connor, Clark & Lunn, has increased the fund's cash position (in the form of high-quality domestic bank paper) and modestly trimmed exposure to credit (corporate and provincial bonds). Investments in the corporate bond sector are focused on stable industries such as banking and telecoms, and we have reduced our exposure to less defensive utilities.
- While the impact of higher interest rates and bond yields has been detrimental to the fund in the short run, it is now generating a higher income stream and has a more attractive yield (3.8%), which is beneficial going forward.
- The equity portion of the portfolio (24%) had a challenging quarter amid the broad decline in stocks, yet held up better than the market. Our focus remains on stable cash generating businesses with strong balance sheets and a history of dividend growth. We added to leading companies like TELUS, GEORGE WESTON and BANK OF NOVA SCOTIA on price weakness. MAGNA INTERNATIONAL and GOEASY were sold as their profitability is more vulnerable in a higher interest rate environment.
- The global transition to cleaner energy remains strong, and is reflected in our investments in BROOKFIELD RENEWABLE PARTNERS, NORTHLAND POWER, and BORALEX.
- The fund paid a distribution of \$0.045/unit at the end of June.

### Positioning

- Our manager believes economic growth is set to slow, driven by restrictive monetary policy and high inflation. Our focus is on stable, defensive companies as a result.
- Stocks make up 24% of the fund and remain an important source of diversification.

The fund was down 7.1% in the quarter. Since inception (Feb 2007), it has a cumulative return of 95%, which equates to an annualized return of 4.4%.

### Notable Stock Transactions

#### Buy

Hydro One\*  
Crombie REIT\*  
Bank of Nova Scotia  
Telus  
George Weston

\*New holding

#### Trim/Sell

Magna International<sup>1</sup>  
Goeasy<sup>1</sup>  
Granite REIT<sup>1</sup>  
Great West Lifeco  
Element Fleet Management

<sup>1</sup>Position eliminated

Fund size	\$77,504,047
Pre-fee Yield	3.8%
Avg Term to Matur.	9.6 yrs
Duration (Bonds)	7.2 yrs





## Income Fund

### Attributes

#### Top Holdings (% of Fund)

Ontario 2.15% (Jun/31)	5.4%
CC&L High Yield Bond Fd	5.1%
Ontario 2.05% (Jun/30)	3.6%
Canada 2.00% (Dec/51)	3.5%
Royal Bank B/A (Sep/22)	2.9%
Canada 5.00% (Jun/37)	2.8%
TD Bank B/A (Sep/22)	2.6%
B.C. 2.20% (Jun/30)	2.2%
Canada 4.00% (Jun/41)	2.1%
Ontario 2.60% (Jun/27)	1.8%

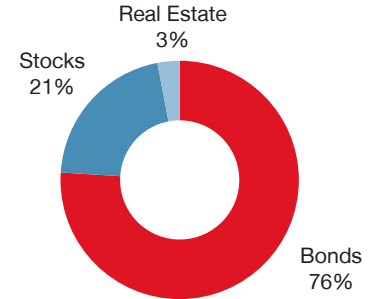
#### Issuer Allocation (Bonds)

Federal Government	18%
Provincial Government	38%
Corporate	44%

#### Rating Summary (Bonds)

AAA	27%
AA	33%
A	18%
BBB	18%
BB (or lower)	4%

#### Asset Mix



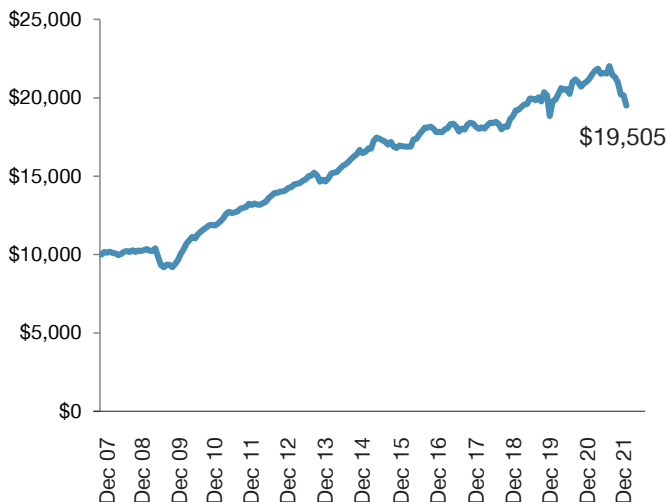
### Performance

#### Compound Annualized Returns (as of June 30, 2022)

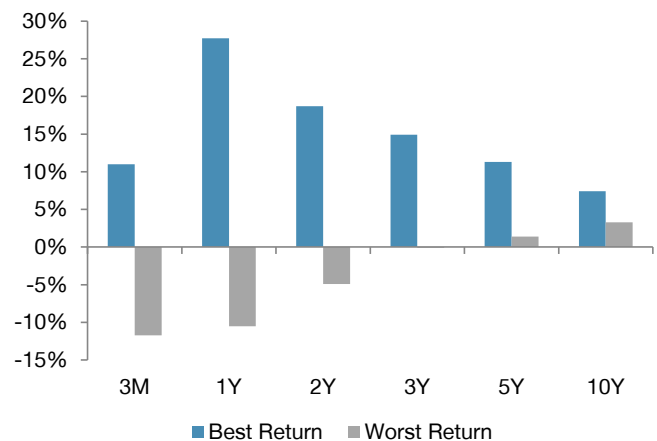
	3M	YTD	1Y	3Y	5Y	10Y	15Y	Incep*
<b>Income Fund (after-fee)</b>	<b>-7.1%</b>	<b>-11.5%</b>	<b>-9.3%</b>	<b>-0.1%</b>	<b>1.4%</b>	<b>3.3%</b>	<b>4.5%</b>	<b>4.4%</b>
FTSE Canada Universe Bond Index	-5.7%	-12.2%	-11.4%	-2.3%	0.2%	1.7%	3.4%	3.3%
S&P/TSX Composite Index	-13.2%	-9.9%	-3.9%	8.0%	7.6%	8.2%	5.1%	5.5%

\*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 13.2% in the second quarter. The technology, mining, and healthcare sectors were especially weak.
- Global stocks, as measured by the Morningstar Developed Markets Index, declined 13.5% in Canadian dollar terms.

### Portfolio Specifics

- The fund holds 24 stocks, of which 12 are headquartered in Canada, 7 in the U.S., and 5 overseas.
- The portfolio fell in the period but declined less than the markets in aggregate.
- The biggest detractors to performance were Sika and Keyence, both of which declined by more than 25% (in \$CAD terms). Sika fell despite delivering on its business targets. The Swiss concrete and specialty chemicals maker continues to grow as demand for its products remains strong. With Osaka-based Keyence, investors worried about the impact a recession might have on the company's core business, factory automation. The stock's decline was exacerbated by the steady depreciation of the Yen, which has lost 15% so far this year.
- Canadian holdings held up better in aggregate. Of note, heavy machinery auctioneer Ritchie Bros. Auctioneers had a good quarter, rising nearly 15%. The company benefited from the rise in oil prices. Oil and gas companies are in need of more equipment as they expand facilities to meet demand. Ritchie's revenues grow when the prices of the machines it auctions increase, limiting the impact of inflation.
- CCL Industries also rose in the period as the packaging company was able to sustain its profitability by passing on price increases to customers. It also announced a share buyback which signaled that the firm's executives think the stock is cheap.
- Although there were no new purchases or complete sales in Q2, our manager, Fiera Capital, added to many positions and trimmed stronger performers. Additional shares were purchased in Brookfield Renewable Partners, CNH Industrial, and Sika, among others. Thomson Reuters, Telus, Nutrien, and Ritchie were trimmed.
- Fiera has been focusing on balancing the portfolio in the event of a more challenging economic environment. Companies like Visa and Ritchie Bros. see revenues increase with inflation as they charge a percentage of the overall sticker price; 70% of Brookfield Renewable's contracts adjust with inflation; and Franco-Nevada (gold) and Telus (telecom) are businesses that may hold up better in a recession.

The fund was down 11.8% in the quarter. Since inception (Feb 2007), it has a cumulative return of 167%, which equates to an annualized return of 6.6%.

### Notable Transactions

#### Buy

Brookfield Renewable  
Sika  
CBRE  
CNH Industrial  
CCL Industries

\*New holding

#### Trim/Sell

Ritchie Bros. Auctioneers  
Thomson Reuters  
Telus  
Nutrien

### Positioning

- The fund is comprised of a concentrated group of businesses operating in a diverse array of industries, from information services to renewable energy to packaging. Our manager's focus is on best-in-class companies that generate strong cash flows, have good growth prospects, and are well financed.

Fund size	\$95,970,442
No. of stocks	24



## Equity Fund

### Attributes

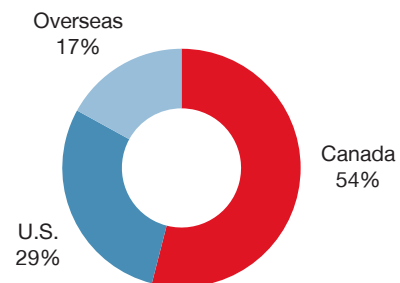
#### Top Stock Holdings

Franco-Nevada	6.4%
Visa	5.9%
Brookfield Renewable	5.5%
TD Bank	5.4%
CN Rail	5.3%
Danaher	5.2%
CME Group	4.3%
CCL Industries	4.3%
Microsoft	4.2%
Ritchie Bros. Auctioneers	4.2%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	31.4%
Financial Services	26.6%
Basic Materials	9.8%
Healthcare	8.5%
Technology	8.0%
Utilities & Pipelines	5.6%
Retailing	4.1%
Comm. & Media	3.8%
Real Estate	2.2%

#### Geographic Profile (Stocks)



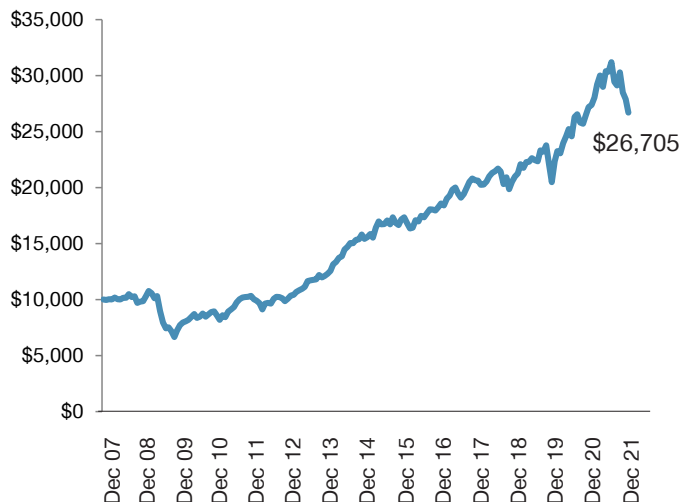
### Performance

#### Compound Annualized Returns (as of June 30, 2022)

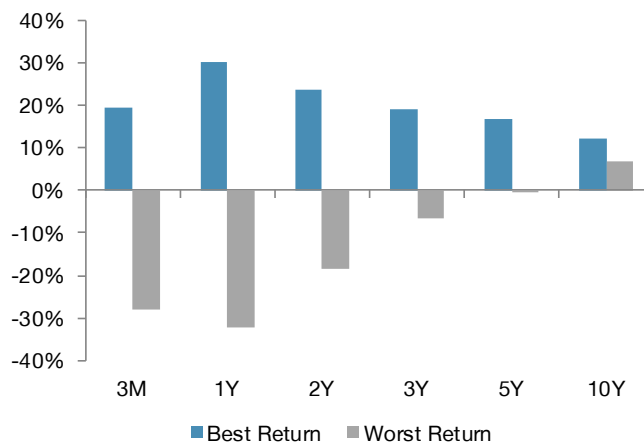
	3M	YTD	1Y	3Y	5Y	10Y	15Y	Incep <sup>1</sup>
<b>Equity Fund (after-fee)</b>	<b>-11.8%</b>	<b>-14.4%</b>	<b>-4.8%</b>	<b>6.2%</b>	<b>6.6%</b>	<b>10.3%</b>	<b>6.7%</b>	<b>6.6%</b>
S&P/TSX Composite Index	-13.2%	-9.9%	-3.9%	8.0%	7.6%	8.2%	5.1%	5.5%
Morningstar Developed Mkts Index (\$Cdn)	-13.5%	-18.9%	-11.5%	6.5%	7.6%	12.6%	7.2%	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 down 13.5% (in Canadian dollars) in the quarter.
- The Canadian dollar depreciated against the U.S. dollar (-3%), but rose against the Euro (+3%), British Pound (+5%), and Japanese Yen (+8%), which dampened the returns of overseas stocks in Canadian dollar terms.

### Portfolio Specifics

- The fund owns 48 stocks, of which 19 are domiciled in the U.S., 11 in Europe, 9 in Japan, 3 in Asia Pacific, 3 in the U.K., and 3 in Canada. Companies range in size from mega-cap MICROSOFT to small-cap FIRSTCASH HOLDINGS.
- Fast-growing technology companies were generally hit hard in the second quarter. Our investments in the sector include PAYPAL HOLDINGS (digital payments), MICROCHIP TECHNOLOGY (chip manufacturer), NEMETSCHEK (software for architects and engineers), and ADOBE (software for creators), which were down 20-40%.
- Investors were quick to penalize companies with reduced near-term earnings guidance, regardless of their longer-term prospects. Cruise ship operator CARNIVAL, uranium producer CAMECO, financial services provider ERSTE GROUP, and building materials supplier MARTIN MARIETTA fall into this camp and saw significant declines.
- Companies operating in more defensive industries, such as healthcare, consumer staples, and telecoms, held up better amid the market selloff. Our investments in GLAXOSMITHKLINE (pharmaceuticals), HEINEKEN (beer), KDDI (telecom operator), AMGEN (biotech), COCA-COLA (beverages), and OTSUKA HOLDINGS (pharmaceuticals) all gained ground. Otsuka, which benefited from positive phase III trial results from an Alzheimer's drug that reduces agitation, was our top performer (up 14%).
- TOTALENERGIES, our lone energy holding, rose 10%. Our manager, Aristotle Capital, likes the oil giant because it has a growing focus on renewable energy. Total plans to allocate 25% of its investments to renewables over the next few years.
- Persistent inflation remains a concern. To help insulate the portfolio from the impact of rising costs, we own several businesses that are able to increase their pricing without losing customers. These include MICROSOFT, PROCTER & GAMBLE, LVMH, ALCON, KDDI, Adobe, and Amgen.
- We purchased MUNICH RE, a leading provider of reinsurance, and sold TWITTER. Additional shares in many existing holdings were also purchased at attractive prices, including SAMSUNG, KUBOTA, and Cameco.

### Positioning

- Our manager looks for quality businesses with competitive advantages, pricing power, and proven executives. Investments are spread across industries, both fast-growing and steady-eddy, in companies that have a strong market position.

The fund was down 11.2% in the quarter. Since inception (Feb 2007), it has a cumulative return of 26%, which equates to an annualized return of 1.5%.

### Notable Transactions

#### Buy

Munich Re Group\*  
Kubota  
Samsung Electronics  
Cameco  
GlaxoSmithKline

\*New holding

#### Trim/Sell

Twitter<sup>1</sup>  
Danaher

<sup>1</sup>Position eliminated

Fund size	\$48,879,506
No. of stocks	48



## Global Equity Fund

### Attributes

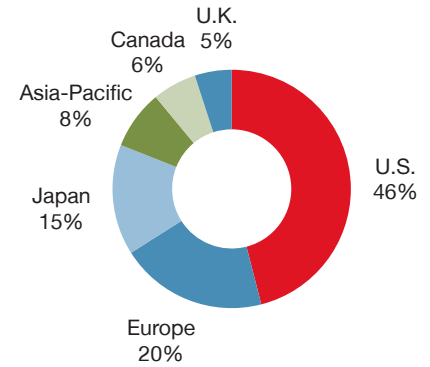
#### Top Stock Holdings

Microsoft	4.1%
Lennar	2.9%
Danaher	2.8%
Microchip Technology	2.8%
Martin Marietta	2.7%
TotalEnergies	2.7%
Sony Group	2.7%
Samsung Electronics	2.6%
GlaxoSmithKline	2.6%
Adobe	2.6%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	25.1%
Technology	19.9%
Healthcare	14.6%
Consumer Cyclical	12.4%
Financial Services	12.4%
Consumer Products	6.1%
Oil & Gas	2.8%
Retailing	2.6%
Basic Materials	2.1%
Comm. & Media	2.0%

#### Geographic Profile (Stocks)



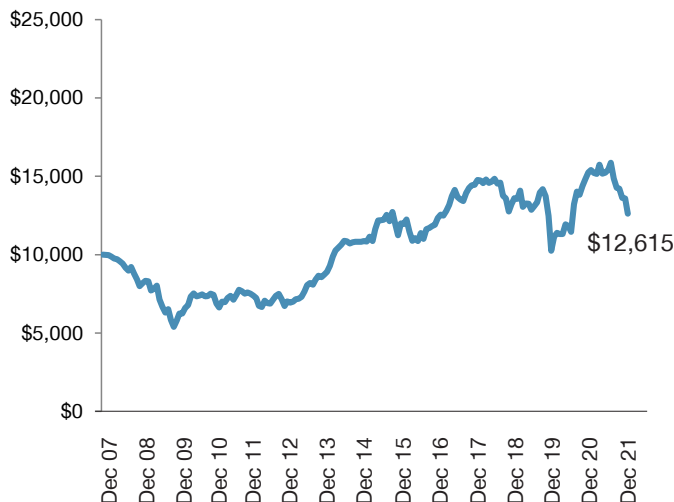
### Performance

#### Compound Annualized Returns (as of June 30, 2022)

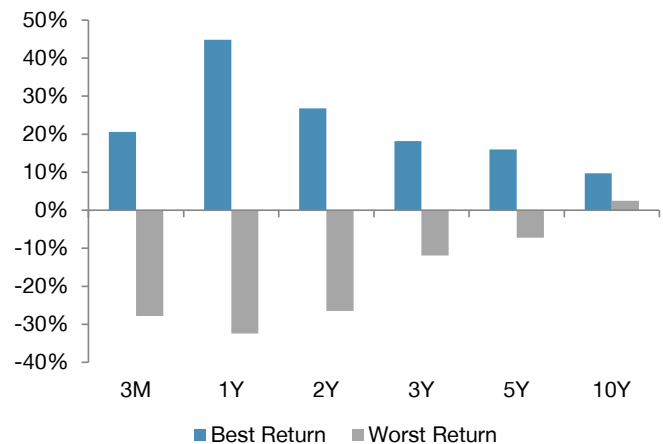
	3M	YTD	1Y	3Y	5Y	10Y	15Y	Incep <sup>1</sup>
<b>Global Equity Fund (after-fee)</b>	<b>-11.2%</b>	<b>-20.5%</b>	<b>-17.1%</b>	<b>-1.7%</b>	<b>-1.6%</b>	<b>6.0%</b>	<b>1.8%</b>	<b>1.5%</b>
Morningstar Developed Mkts Index (\$Cdn)*	-13.5%	-18.9%	-11.5%	6.5%	7.6%	12.6%	7.2%	6.9%

<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) fell 20.8% in the quarter. U.S. small-caps (Russell 2000 Index) lost 14.9% in Canadian dollar terms.
- While declines were broad based, mining and tech stocks were hit particularly hard.

### Portfolio Specifics

- The fund consists of 26 companies, ranging from very small (HAMMOND POWER) to medium-sized businesses (SPIN MASTER). While the majority of holdings are Canadian, there are three U.S. stocks which make up 12% of the portfolio.
- In a rough quarter for stocks, the fund held up better than the market but declined nonetheless. Our manager, Galibier Capital, feels many investors are obsessing over near-term economic numbers, which is presenting good longer-run opportunities.
- Base metals retreated in Q2 on signs of subsiding demand. HUSBAY MINERALS (copper and zinc miner) and TOREX GOLD RESOURCES, our two investments in the sector, were among the portfolio's worst performers. AG GROWTH INTERNATIONAL (fertilizer, seed, and grain handling) also saw a sizable decline. We bought additional shares in Husbay and Torex based on a solid medium-term outlook for these businesses. Husbay in particular has attractive fundamentals given its focus on copper, a key component in electric vehicles.
- Our investments in the oil & gas sector were a bright spot. MEG ENERGY gained ground and ATHABASCA OIL was up significantly before we sold it in June. Overall, commodity-related stocks make up roughly 20% of the fund, which remains modest in relation to their weight in the index (nearly 50%).
- FINNING, SNC-LAVALIN, and FLUOR were notable detractors to performance. This trio were strong performers during the reopening phase of the economic recovery, with their focus on heavy equipment (Finning) and infrastructure (SNC, Fluor), but gave up some of these gains more recently. They remain attractive businesses.
- POINTS was a good story. The company, a leader in travel rewards programs, received a takeover offer from a private equity firm and we sold our shares. WINPAK (packaging solutions) also had a good quarter.
- One new stock was added to the fund, ENGHOUSE SYSTEMS. The company develops software solutions for remote work, including call centers. Enghouse is a profitable, well-run business, yet its stock has fallen 40% this year, marking an attractive buy opportunity. Galibier also added to several holdings that experienced unwarranted declines in its view, including SAVARIA, HENRY SCHEIN, SNC, and OSHKOSH.

The fund was down 14.6% in the quarter. Since inception (Feb 2007), it has a cumulative return of 137%, which equates to an annualized return of 5.8%.

### Notable Transactions

#### Buy

Enghouse Systems\*  
Husbay Minerals  
Savaria  
Oshkosh  
Torex Gold Resources

\*New holding

#### Trim/Sell

Athabasca Oil<sup>1</sup>  
Points<sup>1</sup>  
Winpak  
MEG Energy

<sup>1</sup>Position eliminated

### Positioning

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

Fund size	\$42,047,578
No. of stocks	26



## Small-Cap Equity Fund

### Attributes

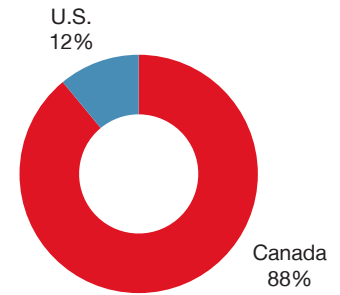
#### Top Stock Holdings

Spin Master	5.6%
Park Lawn	5.3%
Northland Power	5.1%
MEG Energy	4.8%
Maple Leaf Foods	4.8%
Oshkosh	4.7%
SNC-Lavalin Group	4.5%
Henry Schein	4.1%
Sleep Country Canada	4.0%
Savaria	4.0%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	44.9%
Consumer Cyclical	15.1%
Consumer Products	12.1%
Oil & Gas	8.9%
Basic Materials	6.8%
Utilities & Pipelines	5.2%
Healthcare	4.1%
Technology	2.9%

#### Geographic Profile (Stocks)



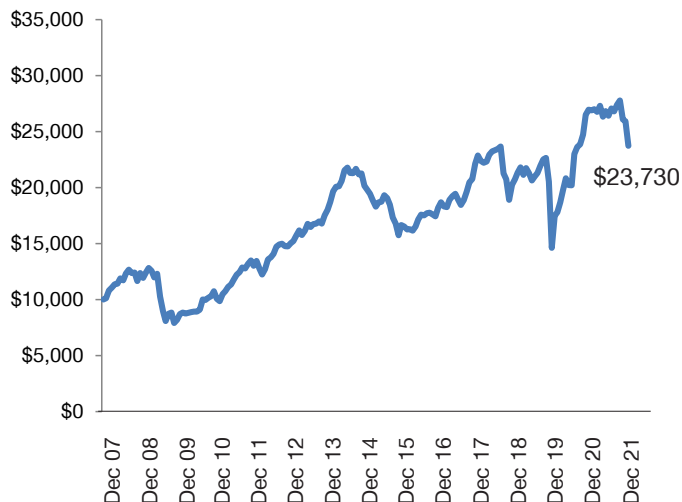
### Performance

#### Compound Annualized Returns (as of June 30, 2022)

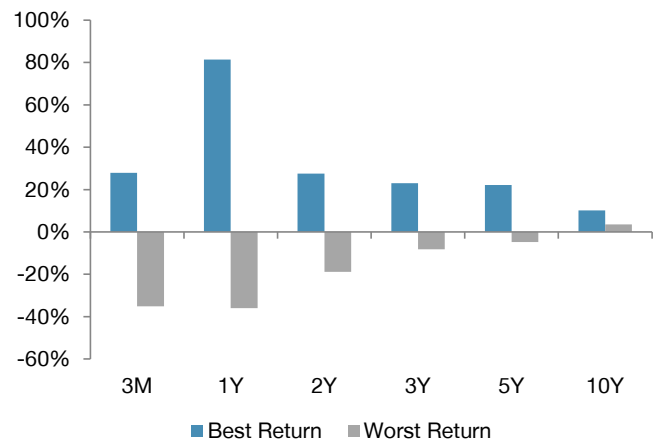
	3M	YTD	1Y	3Y	5Y	10Y	15Y	Incep <sup>1</sup>
<b>Small-Cap Equity Fund (after-fee)*</b>	<b>-14.6%</b>	<b>-12.3%</b>	<b>-12.1%</b>	<b>3.0%</b>	<b>4.6%</b>	<b>4.9%</b>	<b>5.0%</b>	<b>5.8%</b>
S&P/TSX SmallCap Index	-20.8%	-14.2%	-13.8%	6.9%	3.4%	4.3%	1.6%	2.2%
Russell 2000 Index (\$Cdn)	-14.9%	-22.7%	-23.1%	2.4%	3.7%	10.5%	6.2%	7.4%

<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) declined 14.0% in the first quarter in Canadian dollar terms.
- All sectors turned in negative returns in the period. Mining, technology, healthcare, and consumer discretionary stocks were among the worst performers.

### Portfolio Specifics

- The portfolio is currently invested in 44 companies. Fifteen are based in the U.S., 12 in Europe, 9 in the U.K., 3 in Japan, 3 in Australia, 1 in Brazil, and 1 in India.
- Areas of significant investment faced headwinds, notably companies in the industrial (36% of the portfolio), financial services (23%), and healthcare (10%) sectors.
- Industrial goods & services companies have faced pressure from the rise in commodity prices and constrained supply chains. While the declines in the industry have been widespread, the degree to which each company is impacted has varied. For example, FIRST ADVANTAGE, a leader in employment reference checks, doesn't face the same pressures from high oil prices as other industrial companies. On the contrary, its services have been in demand and both revenues and profits have increased over the last year. Despite the improving profitability, the stock price fell 35% over the quarter. KION GROUP (warehouse automation equipment) and ROTORK (industrial flow control equipment) also saw sharp declines despite solid underlying fundamentals.
- The broad declines have presented new opportunities across sectors. Our manager, TimesSquare Capital, added VISCOFAN, DOWNER EDI, TATE & LYLE and WNS to the portfolio. The companies have little in common, which goes to show the breadth of opportunities TimesSquare is finding. Viscofan is a Spanish maker of sausage skins; Downer is among the leading Australian infrastructure construction consultants; Tate & Lyle produces ingredients used in food manufacturing; and Mumbai-headquartered WNS specializes in data analysis.
- TimesSquare has found an increasing number of ideas in the U.K. over the last 12 months. British companies now make up 20% of the fund (up from 12% a year ago). Holdings include home repair provider HOME SERVE, investment firm ST. JAMES'S PLACE, online auto marketplace AUTO TRADER, telecom testing company SPIRENT COMMUNICATIONS, and specialist media company FUTURE.
- Two holdings were sold in the quarter. ZYNGA, the maker of popular mobile games like *Words with Friends* and *Farmville*, was acquired by Take-Two Interactive and we sold our position. ITT was also sold to make way for more attractive opportunities.

### Positioning

- The fund invests in businesses with a clear competitive edge, a record of consistent top line (revenue) and bottom line (earnings) growth, and management that has experience, clear goals and integrity.

The fund was down 14.9% in the quarter. Since inception (Feb 2019), it has a cumulative return of 6%, which equates to an annualized return of 1.7%.

### Notable Transactions

#### Buy

Viscofan\*  
Tate & Lyle\*  
Downer EDI\*  
WNS\*  
Kobe Bussan  
\*New holding

#### Trim/Sell

ITT<sup>1</sup>  
Zynga<sup>1</sup>  
Kadokawa  
Nordnet  
National Vision Holdings  
<sup>1</sup>Position eliminated

Fund size	\$9,200,083
No. of stocks	44



## Global Small-Cap Equity Fund

### Attributes

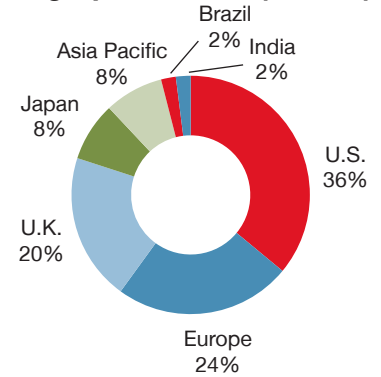
#### Top Stock Holdings

RenaissanceRe	4.1%
Steadfast Group	3.9%
PJT Partners	3.5%
Chemed	3.5%
Kobe Bussan	3.4%
St. James's Place	3.1%
Topdanmark	3.0%
Kion Group	3.0%
Huhtamaki	3.0%
EMCOR Group	2.9%

#### Sector Allocation (Stocks)

Industrial Goods & Svc	35.5%
Financial Services	22.5%
Consumer Products	11.5%
Healthcare	10.1%
Consumer Cyclical	8.8%
Technology	6.0%
Comm. & Media	3.6%
Real Estate	2.0%

#### Geographic Profile (Stocks)



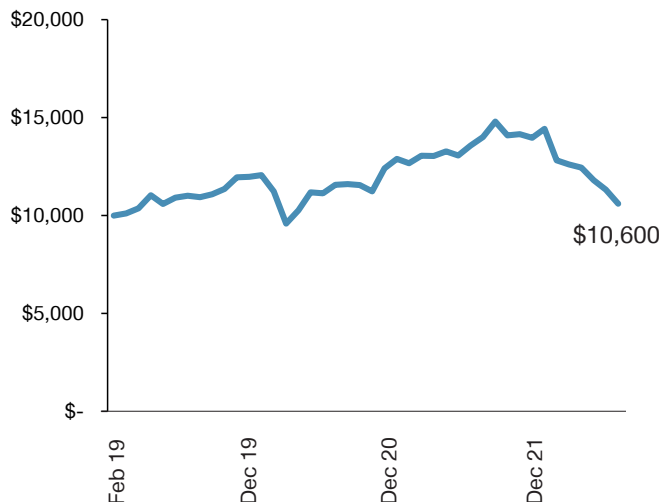
### Performance

#### Compound Annualized Returns (as of June 30, 2022)

	3M	YTD	1Y	3Y	5Y	10Y	15Y	Incep <sup>1</sup>
<b>Global Small-Cap Equity Fund (after-fee)</b>	<b>-14.9%</b>	<b>-26.6%</b>	<b>-21.9%</b>	<b>-1.0%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>1.7%</b>
S&P Global SmallCap Index (\$Cdn)	-14.0%	-20.6%	-19.1%	3.2%	N/A	N/A	N/A	3.4%

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

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



#### Best and Worst Annualized Returns



## Savings Fund

### Market Context

- Inflation remained elevated in the second quarter, reaching multi-decade highs, as strong demand for goods was coupled with supply chain issues (intensified by the war in Ukraine) and covid-driven shutdowns in China.
- The Bank of Canada raised its key lending rate by 0.5% in both April and June, bringing the rate to 1.5%. The U.S. Federal Reserve also increased its target rate on two occasions, by 0.5% and 0.75%, respectively, with the latter representing the biggest hike since 1994. Both central banks suggested they will continue to act forcefully if needed in order to bring inflation down.
- While higher interest rates have led to a sharp decline in bond prices, they have been welcomed by savers, who are now receiving a better yield on their cash.

The fund was up 0.3% in the quarter. Since inception (Feb 2007), it has a cumulative return of 19%, which equates to an annualized return of 1.1%.

### Positioning

- Corporate paper makes up 58% of the portfolio, while T-Bills comprise 42%.
- Some longer-term T-Bills were added to the portfolio to enhance its yield.
- The pre-fee yield of the fund at the end of June was 2.3%.

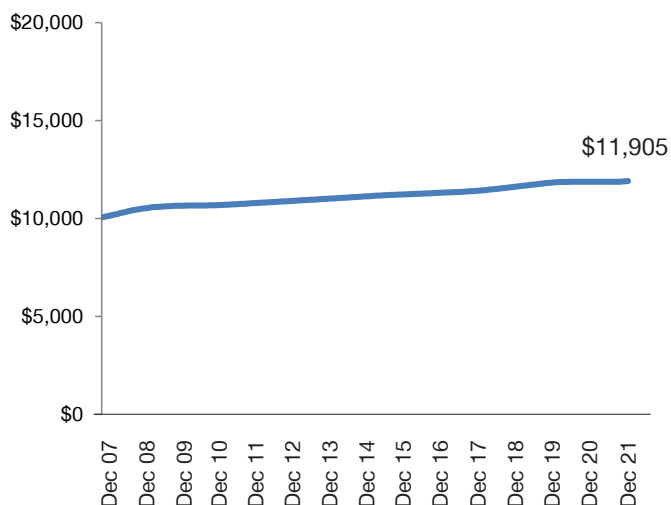
## Performance

### Compound Annualized Returns (as of June 30, 2022)

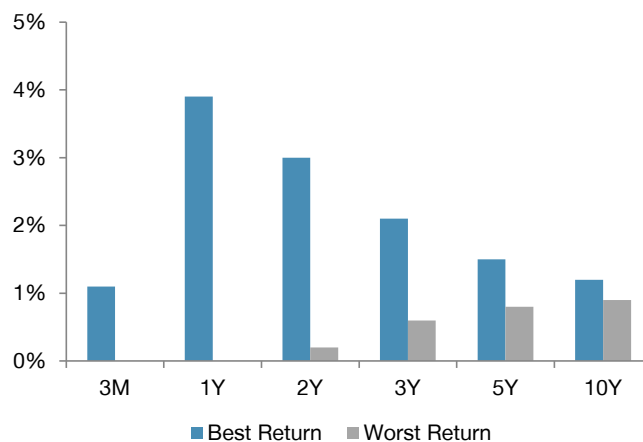
	3M	YTD	1Y	3Y	5Y	10Y	15Y	Incep*
<b>Savings Fund (after-fee)</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.7%</b>	<b>1.0%</b>	<b>0.9%</b>	<b>1.1%</b>	<b>1.1%</b>
FTSE Canada 91 Day T-Bill Index	0.1%	0.3%	0.4%	0.7%	0.9%	0.8%	1.1%	1.2%

\*Feb 13, 2007

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



### Best and Worst Annualized Returns



## It's hard to go against the market, but good investors live for times like these Special to the National Post, by Tom Bradley, May 30, 2022

I often write about how the stock market overreacts to both good and bad news. The market is an excellent valuer of businesses over the long term, but, at times, it can get carried away with the sentiment of the day.

To better understand why and how this happens, let's look at the current situation. Stocks are in decline and there's been plenty of piling on, or what I call procyclical behaviour.

### Everyone is an economist

In bear markets, economists get a lot of press, and the rest of us try to be like them. We look to the big picture to make sense of what's going on.

Unfortunately, there are problems with this approach, including that we aren't qualified and the connection between the economy and stock market is sloppy at best. Getting the macro picture right doesn't mean we'll time the market correctly.

There's definitely an increase of news and opinions to feed the armchair quarterback, but, unfortunately, the quality of information decreases. Highly trained professionals are too often reacting on the fly to a market in transition and a rapidly changing playbook.

We're all looking for clarity, but it's not the time to get entrenched on one view. The late investment manager Peter Bernstein said it best, "In calmer moments, investors recognize their inability to know what the future holds. In moments of extreme panic or enthusiasm, however, they become remarkably bold in their predictions."

### How low can it go?

As investors search for answers, they face a wall of numbers: the market has x per cent more downside; stocks will bottom when x happens; and, this is how it played out in a similar bear market in 19xx.

Just as it's a time to be wary of grand pronouncements about the economy and market, numbers must be interpreted with care. A number gives a forecast credibility, but if it's based on guesses, then it should be treated accordingly.

Indeed, some projections run counter to how the market works.

For example, a common approach to valuing stocks takes a reduced estimate of the S&P 500 index's earnings and multiplies it by a historical price-to-earnings multiple. This scenario is possible, but it's a worst-case one. Investors are more likely to

use a higher-than-average multiple when earnings are depressed. Why? Because earnings have nowhere to go but up.

We can't predict when stocks will bottom, but we know one thing: it will happen well before the war and economic slowdown are declared over. By waiting for certainty, you may avoid a few mistimed purchases, but miss out on a bulk of the market's recovery.

### Roll up the carpets

In bull markets, risks get swept under the carpet. They're put aside because things are going well. In bear markets, the carpets get rolled up and all the dirt is in plain view.

Carl Richards, the New York Times' Sketch Guy and a Certified Financial Planner, defined risk as what's left over when you think you've thought of everything. Investors may not have thought of every risk, but the current list is pretty exhaustive: the war, inflation, rising interest rates, too much debt, recession and let's not forget the coronavirus.

What this means is that investing today is less risky. Some, all or even more than all of the negative news has been reflected in stock prices. There are fewer things left to sideswipe the market. It also means it's time to focus on finding the positives, many of which — you guessed it — have been swept under the carpet.

### Beware of pro-cyclical behaviour

As weak markets grind on, expectations for future returns drop. There are reasons why this may be the case, but the opposite is usually true. Remember, returns are highly correlated to price. What you pay for a stock is an important determinant of your return.

Based on price, today is a better time to invest than any time in the past few years. The challenge is that we won't know until later if it was the best time, which feeds into my recommendation: take baby steps.

It's psychologically hard to take advantage of a weak market. To go against the procyclical cues, you might start by rebalancing your portfolio back to its long-term mix. It's likely out of line now given the recent declines. If you're sitting on a pile of cash, plan to invest it in stages, with each one moving you closer to your target mix.

Nobody knows how this will play out, but it's gone far enough that it's time to think about shifting to offence from defence. Market overreaction is what good investors live for.



# Steadyhand



## Summer Reading

Looking for a good book this summer? Behold our annual [Summer Reading](#) recommendations.

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