

Canadian Small Cap Equity

Quarterly Commentary as of September 30, 2022

In the third quarter, stock market volatility remained elevated. Early in the summer, the decline in the inflation rate provided some strength to markets. However, central banks were quick to reaffirm their willingness to raise rates further and keep them high until inflation was permanently contained. The markets then resumed their downward trend and several indices experienced quarterly declines. Canadian small-cap stocks declined more than their large-cap counterparts due to lower oil prices and investor risk aversion.

Individual contributors to the portfolio's performance included the Boyd Group collision repair shop. This market leader has significant pricing power. This has allowed it to increase its profits. The company had been facing a labour problem since the pandemic and had been declining in recent quarters. In the last quarter, its title experienced a good progression.

We also benefited from our holding of Pet Valu, a leading chain of pet products and services retailers. COVID-19 has created a huge demand for pets. Pet Valu is benefiting from recurring demand for food and grooming services. Over the past 12 months, its sales have jumped 20%.

ATS Automation benefits from the labour shortage environment and the repatriation of production to North America. It benefits in particular from its recognized expertise in automation in the life sciences and transport electrification sectors. Its sales have reached record levels and its order backlog is strong. The stock rose accordingly.

Other highlights of the quarter include a transaction by Parkland Corp, which operates service stations under several brands, including Ultramar. During the quarter, it completed the acquisition of a Caribbean gasoline distributor in which it already had an interest. This transaction provides us with a significant growth opportunity, especially in the context of the re-start of tourism activities in this region of the world.

As the third quarter draws to a close, the economic outlook is relatively bleak. As we head into a recession in many countries around the world, we have to wonder about the realism of the earnings forecasts of many companies. In our stock selection process, we will be sensitive to this. We will also monitor companies' exposure to the European economy. The economy of this continent is weakened by the war raging in Ukraine.

In addition, several portfolio companies are seeking acquisitions. The recent decline in stock prices has created attractive opportunities for these companies. We could benefit from these developments.