

Canadian Small Cap Equity

Quarterly commentary to June 30, 2023

During the second quarter of 2023, the economic outlook remained uncertain. Despite this, corporate financial results have generally exceeded expectations. In the U.S., the large-cap and ultra-large-cap equity markets posted positive returns. Canadian small cap equities were negatively impacted by the uncertain economic environment. Investors favoured larger companies.

In the second quarter, the portfolio's sector allocation contributed to performance. In particular, underweight positions in the energy and materials sectors declined significantly. In addition, the quality of stock selection and active portfolio management also contributed to quarterly performance.

Our strong knowledge of the market and the businesses we own has contributed to our opportunistic management of the portfolio. In this regard, a number of setbacks allowed us to acquire shares of securities already held at a discount. So we took advantage of their rebound. This is particularly true of Shawcor, Trisura Group and Quincaillerie Richelieu, whose prices have rebounded after several months of exaggerated weakness due to uncertain economic conditions.

During the quarter, two new names were added to the portfolio: Neogen Corporation and Interfor. Neogen is an American company supplying tests and products to detect hazardous substances in food. It relies on both organic growth and an acquisition strategy. Interfor is a leader in the lumber industry. The acquisition of this stock at this stage of the economic cycle is strategic. We believe that housing starts could rebound in the coming year. Interfor's ownership will enable us to take advantage of this.

We sold Wesdome Gold Mines, Premium Brands Holding and Altus Group. Wesdome's results were disappointing and its outlook less attractive. In addition, Premium Brands' level of leverage has caused us to be cautious. Rising interest rates affect leveraged companies and limit their flexibility. Their growth prospects are affected. Altus is engaged in commercial real estate. This sector could be severely affected by changing work habits and reducing the need for office space.

The period of uncertainty and the lack of trend in the stock market should continue for a few more months. We will therefore remain cautious and on the lookout for opportunities. As a result, we will maintain a portion of the portfolio in cash to take advantage of opportunities presented by market volatility. Positive themes such as immigration growth, electrification and increased infrastructure spending will drive stock selection. We will also continue to focus on strong companies with growth-by-acquisition strategies. The current environment of high interest rates and capital scarcity favours these companies with low debt and well capitalized.