

Portfolio Management Team: Marc Lecavalier and an analyst

STRATEGY OVERVIEW

This strategy employs a fundamental bottom-up investment approach to constructing portfolios which focuses on identifying the leaders of tomorrow and long-term strategic investment themes or trends that are expected to exert a positive influence on small-cap equity securities. Small Cap companies demonstrating balance sheet strength and offering growth opportunities available at a reasonable price are selected across all sectors to diversify our sources of added value while paying special attention to the preservation of capital. This approach aims to generate consistent added value at a risk that is below that of the market.

QUARTERLY COMMENTARY

Canadian small-cap stocks rebounded strongly in the fourth quarter. With inflation gradually declining and central banks limiting policy rate hikes, investor optimism has returned. In addition, the decision by Chinese authorities to lift COVID-19-related isolation measures benefited Canadian small-cap energy and materials stocks. However, in mid-December, the U.S. Federal Reserve Chairman indicated that the period of rate hikes could be extended. These comments dampened investor sentiment.

Several of the portfolio's holdings posted better-than-expected quarterly financial results. Examples include insurance company Trisura, robotics company ATS Automation, the Boyd Group body shop network and pet retailer Pet Valu. The financial strength of the companies in the portfolio allows us to benefit from mergers and acquisitions. In this regard, IAA, a used vehicle online sales company, was the target of a purchase offer from a competitor. So we disposed of our shares. In addition, mattress retailer Sleep Country announced the acquisition of online mattress distributor Silk & Snow.

Several names were added to the portfolio during the fourth quarter. Quebec-based Logistec, known for its marine transportation and environmental services divisions. This leading terminal operator operates in 54 ports and 80 terminals in North America.

We also added Shawcor, one of the world's largest suppliers of pipe coatings. They also have expertise in the field of water and fuel tanks.

We also acquired an interest in Uni-Select, a distributor of auto parts. Since Brian McManus took over the company 18 months ago, Uni-Select's management has implemented a growth-oriented strategy. Improved financial management allowed profits to return. Finally, rising vehicle prices are encouraging owners to keep their vehicles longer for the benefit of this parts distributor.

Finally, Winmark used store franchisor was also acquired. Winmark's network consists of 1300 stores, primarily located in the United States. They operate under five banners according to their specialty: sports goods, musical instruments, women's wear, children's wear and teenagers' wear.

The near-term trend in equity markets is difficult to predict. It is highly dependent on inflation and the severity of the recession that is coming. However, we are confident in the quality of the companies held in the portfolio. Their balance sheets are strong and their valuations are attractive. This puts them in an excellent position to be acquired by competitors or to make acquisitions to ensure their future growth.