R500T
Canadian Equity

Portfolio Management Team
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Strategy Overview

We focus on owning high-quality businesses trading at attractive valuations, with a significant focus on capital preservation. We want to own good businesses that have demonstrated an ability to build intrinsic value over time for our investors. We have found that this approach has outperformed over time, and with lower risk.

Market Update

In the second quarter of 2023 volatility took over as the rally that had marked the beginning of the year was somewhat dampened by continuing concerns around a potential recession. With inflation slowing and an uptick in M&A activity, technology companies continued their rise while more defensive areas of the market struggled. The strongest performing sectors were Information Technology (16.6%) and Consumer Discretionary (6.4%), with Materials (-6.9%) and Real Estate (-2.9%) the biggest laggards.

Performance

In the second quarter of 2023, the strategy had an absolute return of 3.23%, whereas the S&P/TSX Composite Index had a return of 1.10%.

Among the leading contributors to performance over the quarter were Dollarama and TMX Group. Dollarama is a provider of general merchandise through their network of discount retail stores located throughout Canada. The company has a culture of efficiency led by an experienced management team with the founding family still retaining a minority ownership stake. Their stores continue to be a trusted destination for consumers and their basic needs and the company has shown resiliency in managing inflationary and supply chain pressures while continue to open new stores and focus on optimizing their product offering. TMX Group Ltd is an integrated exchange group that operates markets for multiple asset classes. The Company, through the stock exchanges it operates, provides liquid markets for a broad range of issuers, provides access to capital for companies in the early stages of growth, and also the trading and clearing of natural gas and electricity contracts. TMX benefits from significant competitive advantages due to its scale and financial/cultural link to the broader economy. The management team is customer focused and in recent years has made significant technological investments and expanded into data analytics along with the core exchange business.

Significant detractors over the quarter were CCL Industries and Toromont. As one of the largest global label manufacturers, CCL Industries profits from an extensive network of facilities serving Consumers Packaged Goods worldwide. It has built a strong operating culture, focused on costs and providing autonomy to business units to achieve their goals. The company has displayed discipline in capital allocation and holds a good track record of growing earnings per share over time. The stock was down during the quarter as it continues to be affected by volatility related to questions around future demand growth for consumer goods. Toromont Industries sells, rents and services Caterpillar construction equipment and power systems in eastern Canada. The company benefits from their operational strength and strong and expansive network of dealerships. Despite strong demand trends and positive reception to the appointment of a new CEO, the stock was slight down in the quarter.

Major Transactions

During the quarter we did not add any new positions and we exited our position in Brookfield Asset Management. Brookfield Corporation (Ticker BN) is a Canadian multinational company that is one of the world's largest alternative investment management companies, with over US$725 billion of assets under management . It focuses on direct control investments in real estate, renewable power, infrastructure, credit and private equity. The company operates via a number of subsidiaries through which it maintains varying levels of ownership. In Q4 2022 the company spun off the primary asset management division Brookfield Asset Management (Ticker BAM) which it continues to maintain 75% ownership of. After undertaking a due diligence process to properly understand the structure and dynamics of the new separated entity, we decided to exit the position primarily for valuation reasons. We still maintain a position in the parent entity, Brookfield Corporation.

Outlook

The portfolio continues to be composed of high-quality businesses that can withstand tough times and is currently trading at an attractive discount to its intrinsic value. Both of these should position the portfolio well for long-term compounding of returns.