

Canadian Equity

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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.

QUARTERLY COMMENTARY

MARKET UPDATE

After its strongest quarter in a decade (+17% in the second quarter), the S&P/TSX Composite ("TSX") finished the third quarter up 4.73%. After rallying for a fifth consecutive month in August following the mid-March lows, investors' concerns about rising or elevated levels of coronavirus infections, the uneven pace of economic recovery, political risks and continued tensions between Beijing and Washington weighed on equity markets in September.

The market's rise was widespread across sectors in Q3, with 9 out of 11 delivering positive returns. The strongest ones were Industrials (+13.62%), Utilities (+11.02%) and Consumer Staples (+9.08%).

The weakest sectors (and only 2 to post negative returns) were Health Care (-14.26%) and Energy (-8.07%).

For the YTD period ended September 30th, the TSX is still in negative territory, down 3.09%.

PERFORMANCE

The strategy outperformed its benchmark for the quarter. Our bottom-up security selection process provided added value in the majority of sectors we are invested in.

For the YTD period ended September 30th, the strategy is ahead of its benchmark. (+2.82% against -3.09% for the S&P/TSX Composite Index).

The rails (CNR and CP, up 18.54% and 17.6% respectively) and Metro (up 14.48%) were some of the strongest contributors in the quarter.

Rail network operators CN and CP are two of our largest holdings. They operate in an industry with high barriers to entry that offers a more affordable and environmentally friendly transportation service than trucking. They both have strong balance sheets, a demonstrated resiliency over time through good cost control and a proven track record of wealth redistribution to shareholders.

Metro is a longstanding portfolio holding that provides essential products to society, regardless of the economic environment. The best in class Canadian grocer has a well-established culture of efficiency, discipline and operational excellence and has a good track record of increasing earnings and free cash flow. We hope to continue to own it for a long time.

Our largest detractor in the quarter was CAE (-11.59%). The company provides training solutions based on simulation technology and integrated training services for civil aviation, defense and security, and healthcare customers. Despite exposure to the airline industry, we believe the company's high-quality products and services, strong reputation and high level of recurring revenue (as pilots need to stay trained) will support the durability of the business model.



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MAJOR TRANSACTIONS

We did not initiate or exit any positions during the third quarter of this year.

OUTLOOK

Your portfolio continues to be composed of high-quality businesses that can withstand tough times. Even after the market recovery, the portfolio 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.